

## The Road Ahead: Forecasting Construction Spending in 2026

*What's in store for spending on construction in 2026? Economists sift through the good, the bad, and the ugly signals for the new year.*

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If you looked at your investment portfolio in 2025, chances are you had a reason to smile. At the time this story went to print, the S&P 500 had recently recorded another all-time high—its 35th of the year. While the year included plenty of cause for celebration on Wall Street, it doesn't feel like much of a party elsewhere.

“Coming into the year, the economy was adding jobs briskly, the labor force was growing and consumer spending looked strong,” [Anirban Basu](#), [Associated Builders and Contractors](#)' chief economist, tells *Construction Executive*. “Today, we have much slower job growth, and spending growth is disproportionately driven by high-income households.”

[Eric Gaus](#), chief economist at [Dodge Construction Network](#), says the data shows a continuing struggle to get parties to invest and actually break ground on new projects. That makes him “increasingly pessimistic” about the next 12 months, pointing to more headwinds than tailwinds for contractors. “The longer the uncertainty hangs over the economy, the longer people are slow rolling, and everything backs up,” Gaus says. When will that uncertainty lift? Will the upheaval of tariffs finally calm down? Where are the biggest opportunities waiting right now? What lessons should leaders take away from the last year? Three leading economists weigh in on what’s in store for the next 12 months and how to prepare for the road ahead.

### **AI: The Engine of the 2026 Economy**

While the future impacts of AI are uncertain, one thing is clear: Its processing needs will play a critical role in the construction industry’s success in 2026. [UBS](#) estimates that global AI spending will jump to 0 million in 2026—up from 5 million in 2025. Some of that investment will include ongoing hyperscale projects such as [Meta’s four-million-square-foot data center](#) in Louisiana and [Tract’s 1,500-acre mega campus](#) in central Texas, but smaller data centers will also play a big role in fueling construction. Data from [ABI Research](#) forecasts an uptick of more than 350 colocation data centers in North America by 2030. Firms with expertise in data center construction are feeling pretty good right now. Basu points to a [recent survey](#) of ABC members showed that those associated with data centers had an average backlog of 12 months—four months longer than firms that are not involved in building those massive facilities.

“The Microsofts, Googles and Metas of the world have incredible amounts of free cash, and they can pour that into data center construction if they would like,” he says. “That’s a bit of a concern, because what happens if those companies investing tens of billions of dollars in data centers don’t return the rates on investments that they expect to return?”

Basu highlights the potential for a bubble due to AI-related companies including chip manufacturers that have enjoyed soaring valuations in recent years—valuations that have played a role in all those record highs on Wall Street. Additionally, he points to the

possibility that some firms may determine that they are overspending and failing to deliver the return they expected. Gaus expects some clear winners to eventually emerge—but some losers to struggle along the way.

“We’re talking about investment into really a new technology—sort of a whole new world,” Gaus says. “Whenever that happens, you usually get lots of different players and many of them fail. Will there be a fallout at some point? Probably. Given how much money it takes to actually make these large language models as good as they are, there are probably going to be some big companies that are not going to succeed.”

Still, while Gaus acknowledges that some of the dollar amounts in AI are “eye-watering,” he doesn’t have big concerns about a bubble. He points to a relatively small amount of leverage behind the deals, and more importantly, he says that the technology appears to be truly positioned to achieve its full potential. “The fundamentals of what AI is capable of seem to be just fine,” he says.

Even for construction companies that aren’t involved in the building surge in data centers, those fundamentals may prove to be a key ingredient in fueling the next chapter of success. “We might be on the cusp of a productivity boom,” Basu says. “Because of AI, we might see a dramatic increase in output from workers, which would lead to more rapid economic growth. Large language models are improving seemingly by the day, and we’re seeing more use cases emerge among American businesses.”

### **What’s Old Becomes New Again**

2026 isn’t simply about a brand-new digital technology that seems likely to reshape the world. The construction industry is also poised to benefit from a need to reimagine possibilities for old physical buildings. Kermit Baker, chief economist at the American Institute of Architects, told Construction Executive that reconstruction is a bright area for the industry. AIA recently surveyed its members for a forecast on estimates for reconstruction project activity over the next few years, and the vast majority either expect it to remain flat or increase in the future. “We have a lot of older building stock,” Baker says. “Something needs to be done to retrofit that, and it will present some good opportunities moving forward. Buildings will need to get repurposed for different uses.”



For example, some [abandoned malls](#) have already been put to work to help address the housing shortage in the country. By the end of 2024, more than 190 malls had unveiled plans to incorporate housing into their vacant spaces, according to Forbes, and that number continued to rise in 2025. In Indianapolis, for example, developers unveiled plans for a 10-year, two-phased \$600-million reimagining of the nearly empty [Circle Center Mall](#). The property, which stretches over two-and-half downtown blocks, will include 400,000 square feet of retail and restaurant space, 100,000 square feet of office space and 300 residential units.

The locations where people used to shop aren't the only pieces of real estate primed for reconstruction; some of the places where they used to work are becoming a big driver of activity. Gaus says that offices are beginning to turn the corner. It was clear that these environments wouldn't return to normal after the shakeup of the pandemic, but designing and rebuilding could not happen overnight. "A lot of it comes down to waiting for lease agreements to expire so that owners can actually do something with those spaces," Gaus says. "You have to wait for long-term tenants to vacate to begin new projects."

As more of those leases reach their expiration dates, there is a significant uptick in positivity for renovation projects. Approximately 12.8 million square feet of office space has been converted in 2025, according to [research from CBRE](#), and by 2027, the number of office conversions will soar: There are plans for 225 conversion projects, a sizable increase from the 68 projects planned for this year. Multifamily housing is the most common new use, but there are other adaptations available that can accommodate the needs of a changing society. "Do we really need these strip mall buildings, or could we convert them to drop-in healthcare centers?" Baker adds. "Those kinds of questions will play a much larger role in how the industry evolves."

### **Feeling the Impact of Fewer People**

All three economists agreed on one critical question that will have an outsized influence in 2026: What will the efforts to deport undocumented immigrants do to the ability to find the labor needed to complete projects?

“The threat of an ICE raid is having a chilling effect on the labor market,” Gaus says. “Most construction executives don’t see the problem firsthand because they may be subcontracting out that work. They may be a couple of layers removed.”

While executives of some firms may not be immediately confronted with the challenge of finding laborers, Basu says the trickle-down financial consequences will create challenges in combatting the rising costs that have created big challenges in the past five years. “In many of our communities, a majority of roofers, drywallers and painters are immigrants,” Basu says. “Some of them are undocumented. We’ve seen raids on construction jobsites, and often after those raids, workers don’t come back. That’s inflationary.”

According to numbers from the [Department of Homeland Security](#), more than two million immigrants had either voluntarily left the country or been deported through the first 10 months of 2025. By the end of the year, it’s likely that more immigrants will depart the U.S. than those who will arrive—a reversal that will play a role in slowing population growth and have lingering long-term impacts.

“This is a structural change that’s happening much quicker than we expected,” Gaus says. “Our perception of how the world works has to change. What we consider to be a good growth number is going to be different. Population growth has typically been over 2%, which is part of the reason why GDP growth needs to be over 2%. If that growth is now zero or even negative, you have to re-anchor your expectations.”

Baker agrees and highlights that lower birth rates will accelerate the shift. “I don’t think we’re talking about 3-5% real growth in our economy over an annual basis in the next five years,” Baker says. “I think we’re talking more in the 1-2% growth range. With less growth in the economy, there’s less of a need for new facilities.”

### **Challenges in Congress**

At the time of writing this story, lawmakers in Washington, D.C., were on pace to set a new record—albeit one not worthy of any gold medals: the longest government shutdown in history. The Congressional Budget Office issued a report for a potential loss of somewhere between \$7 billion and \$14 billion that would reduce GDP by up to

2% in the closing quarter. In addition to a lack of government spending, Basu and other economists are suffering from a lack of data into the job market to help develop a more meaningful picture of the state of the country.

Shutting the government down is never helpful, but Basu points out that the fall was a particularly bad time as the Federal Reserve worked to develop its policy and retailers aimed to get a sense of the holiday shopping season. He pointed out that most Americans didn't have much faith in Congress before the shutdown, but added that a government that isn't functioning well spells trouble for just about everything related to building. "When the country is not governed well by Congress, that hurts construction ultimately, because it hurts American dynamism," Basu says.

The long-term inability to find agreeable terms to keep the government open were top of mind for what Gaus believes will be a critical task for construction leaders: preparing for the next recession. "I don't know when it's going to happen, but it's going to happen," he says.

When it does, Gaus points out that the federal government will not be in a position to do much about it due to the fiscal situation of the country. Plus, he has serious question marks around the current political landscape to accomplish that kind of support. "Even if they could do something, it's unlikely to be as much as we would need," Gaus says. "And that's if they can actually get it through Congress."

### **Tuning Out the Noise**

Despite plenty of warning signs about the economy, Baker says that [AIA's data](#) shows a typical project backlog of a little over six months—keeping in line with levels from the past three years "There's a sense that there is interest out there," Baker says. "There is an expectation that investors, owners and developers are waiting for the right mix to pull the trigger."

[ABC's data](#) shows a similar steady trajectory with an average project backlog of 8.5 months in September 2025—identical to one year earlier. Over that year, confidence levels for sales, profit margins and staffing all increased. That rosy outlook may be rooted in the fact that contractors have demonstrated an ability to weather the storm.



“Most firms learned pretty robust lessons from the financial crisis and the pandemic that have put them in very, very good financial positions,” Gaus says. “That’s allowed them to navigate the uncertainty. They’re following the British adage of ‘Keep calm, and soldier on.’”

Regardless of what that battle will look like in 2026, Baker echoes that need for calm and recommends avoiding attempts to be overly nimble in the face of change. He believes that the builders and designers who worked to make sourcing adjustments and anticipate pricing based on tariff announcements over the past year wound up creating a lot of stress for themselves. Then, after all that stress, new announcements upended plans yet again. “The smartest takeaway from 2025 is to simply forge ahead,” Baker says. “Tune out as much noise as possible, and stick to your long-term plan.”

SEE ALSO: [ANIRBAN BASU ON STATE OF 2025 Q3 CONSTRUCTION ECONOMY](#)