

Markets in Focus

Q1 2026

CONSTRUCTION

Economic Overview &
Market Update



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FINAL SUMMARY

EXECUTIVE SUMMARY

To provide a comprehensive view of the construction economy, current conditions are reviewed through current spending, labor conditions, and material costs, followed by indicators that offer insight into future trends. Forward-looking measures include backlog, construction starts, and ConstructConnect's Project Stress Index. Total construction spending is broken down into key segments, recognizing that not all contractors benefit equally across categories.

Spending patterns in various sectors continue to shape contractor activity. While overall year-over-year spending is relatively flat, individual categories display varying trends both on an annual basis and across rolling twelve month periods.



CONSTRUCTION ECONOMY CURRENT STATE

RESIDENTIAL CONSTRUCTION SPENDING

Residential construction spending has softened over the past five months, driven primarily by continued weakness in new single-family construction. While multifamily activity has been more stable, overall residential momentum remains constrained by elevated inventory levels and slower absorption rates.

- + Total residential put-in-place spending declined 1.2% year-over-year, reflecting sustained pressure across private residential markets.
- + **Single-family construction** experienced the sharpest contraction (-6.1% year-over-year), as completed homes remain on the market longer and builders focus on reducing existing inventory rather than initiating new projects.
- + **Multifamily construction** has been comparatively resilient, declining only 2.8% year-over-year, with select regional markets continuing to support new development.
- + **Public residential spending** increased year-over-year and has remained relatively stable month-to-month, providing a modest offset to private sector softness.

PUT-IN-PLACE SPENDING RATE In millions

Put-in-Place	Oct 2024	Oct 2025	% Change
Total Residential	937,550	926,474	-1.2%
New Single Family	427,368	401,451	-6.1%
New Multifamily	117,620	114,304	-2.8%
Public	12,584	11,184	12.5

Source: Data compiled from the US Census Bureau. Value of Construction Put in Place in the United States, Seasonally Adjusted Annual Rate. Data as of October 2025. Release date January 21, 2026.¹

WHAT THIS MEANS FOR YOU

- + Near term residential construction activity is likely to remain muted until excess single-family inventory is absorbed and financing conditions improve.
- + Multifamily projects in select regions may continue to offer pockets of opportunity, particularly where housing shortages persist.
- + Public residential investment provides relative stability but is insufficient to offset broader private sector declines.

NONRESIDENTIAL CONSTRUCTION SPENDING

Nonresidential construction spending has remained largely flat, reflecting uneven performance across subsectors. While infrastructure-related categories continue to provide support, manufacturing and select commercial segments have softened, limiting overall growth. Total nonresidential spending put-in-place declined 1.0% year-over-year as of October 2025.

Manufacturing construction, which previously led growth, has declined consistently over the past five months and is down 9.6% year-over-year, signaling the end of a peak investment cycle. Infrastructure related categories, including power, transportation, sewage and waste disposal, and water supply, continue to show year-over-year growth, supported by public funding. Religious construction spending increased 14.5% year-over-year, standing out as a notable but relatively small contributor.



VALUE OF CONSTRUCTION PUT IN PLACE IN THE UNITED STATES, SEASONALLY ADJUSTED ANNUAL RATE

Millions of dollars. Details may not add to totals due to rounding.

Type of Construction	Oct 2025 ^p	Sep 2025 ^{p+}	Aug 2025 ^r	Jul 2025 ^r	Jun 2025	Oct 2024	Percent Change Oct 2025 from –	
							Sep 2025	Oct 2024
Total Construction	2,175,239	2,164,348	2,177,240	2,168,482	2,160,743	2,197,116	0.5	-1.0
Residential	926,474	915,025	928,293	919,504	913,515	937,550	1.3	-1.2
Nonresidential	1,248,766	1,249,323	1,248,947	1,246,937	1,247,227	1,259,566	0.0	-0.9
Lodging	24,367	24,353	24,342	1,248,978	23,950	24,632	0.1	-1.1
Office	105,819	106,214	106,061	24,225	105,834	106,783	-0.4	-0.9
Commercial	121,725	121,657	122,106	107,377	121,591	124,609	0.1	-2.3
Health Care	69,067	69,218	69,621	121,133	69,259	69,386	-0.2	-0.5
Educational	140,970	139,650	138,254	69,490	136,678	143,108	0.9	-1.5
Religious	5,206	5,143	4,971	137,141	4,717	4,545	1.2	14.5
Public Safety	19,489	19,713	19,881	4,838	19,491	19,432	-1.1	0.3
Amusement and Recreation	43,784	43,605	43,370	19,832	43,222	42,143	0.4	3.9
Transportation	69,337	69,252	68,915	44,644	68,249	66,707	0.1	3.9
Communication	29,699	29,845	29,744	69,837	29,581	29,621	-0.5	0.3
Power	157,708	157,591	157,216	29,560	156,944	152,652	0.1	3.3
Highway and Street	142,581	142,602	143,320	156,562	144,350	144,199	0.0	-1.1
Sewage and Waste Disposal	54,828	54,843	53,437	143,283	52,366	47,340	0.0	15.8
Water Supply	37,006	36,447	35,840	52,554	34,273	35,243	1.5	5.0
Conservation and Development	13,042	12,860	12,725	12,736	12,373	12,237	1.4	6.6
Manufacturing	214,137	216,331	219,144	220,679	224,351	236,928	-1.0	-9.6

p=preliminary; r=revised

Source: US Consensus Bureau. Value of Construction Put in Place in the United States, Seasonally Adjusted Annual Rate. Data as of October 2025. Release date January 21, 2026 ²

WHAT THIS MEANS FOR YOU

- + Contractors and insurers face increased exposure concentration in fewer, higher-value segments, particularly in infrastructure and power.
- + Data centers and other mega projects will continue to be a growing focus with questions remaining on long term sustainability.

DATA CENTERS

Data centers remain a significant driver of nonresidential construction activity, particularly in terms of project starts, backlog, and overall exposure concentration. While total put-in-place spending attributed to data center has remained relatively flat in recent months, this reflects the timing of capital deployment rather than a weakening of underlying demand.

Data center activity, classified within the office sector, has totaled \$105.8 billion in October 2025 and has declined modestly year-over-year. However, this aggregate view masks the outsized influence of data center projects within the nonresidential pipeline. Current spending levels largely reflect capital allocations and construction activity initiated earlier in the investment cycle, while the recent surge in large-scale data center starts is still working its way into reported spending figures.

This dynamic helps explain the apparent disconnect between flat near-term spending and the strong momentum observes across construction starts, backlog, and specialty trade activity. Data centers continue to dominate large dollar project starts, with three of ConstructConnect's top ten projects in December 2025 tied to data center development.³

WHAT THIS MEANS FOR YOU

- + Data center projects remain capital-intensive, with elevated exposure to **equipment risk, electrical hazards, and water damage**, thereby increasing the potential for loss severity.
- + Supply chain constraints for specialized electrical and power distribution equipment heighten the importance of documentation, coordination, and quality control.
- + Phased construction, prefabrication, and delayed equipment delivery require proactive review of **builders' risk limits, sublimits, and policy terms**.
- + Weather-related exposures and extended build timelines increase the likelihood of claims tied to delays and incomplete installation.

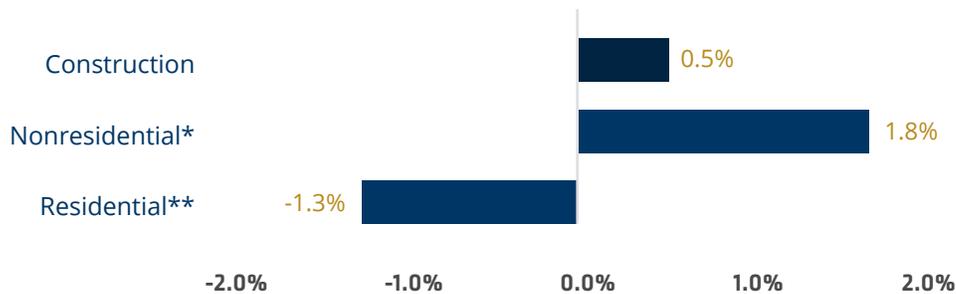


EMPLOYMENT

Construction employment growth remains modest, with gains concentrated in nonresidential segments. Long term labor availability challenges persist, driven by workforce attrition and skill-specific shortages.

Long term projections indicate approximately 7% employment growth by 2034, largely driven by replacement needs as workers exit the labor force. Skilled trades, including brickmasons, blockmasons, stonemasons, and tile and marble setters, are projected to decline by approximately 10%, tightening labor availability. Electrical contractor employment is expected to remain flat despite rising demand for data centers and power infrastructure.

CONSTRUCTION EMPLOYMENT GROWTH: JANUARY 2025 VS. JANUARY 2026



*Includes Nonresidential Building, Nonresidential STC, and Heavy and Civil Engineering

**Includes Residential Building and Residential

Source: Adapted from U.S. Census Bureau of Labor Statistics via ABC.org. Data as of February 11, 2026.⁴

WHAT THIS MEANS FOR YOU

- + Flat electrical labor growth presents heightened exposure for power-intensive construction, reinforcing the importance of schedule and subcontractor risk management.
- + Immigration and deportations actions will continue to poorly impact construction labor shortages.

A WORD ON IMMIGRATION REFORM AND WAGE THEFT

IMMIGRATION REFORM

Immigration audits, raids, and investigations carry distinct employer risks, including fines, penalties, criminal exposure, operational disruption, and reputational harm. Defense costs may arise in all scenarios. Employment practices liability (EPL) coverage varies and should be reviewed to assess potential applicability.

WAGE THEFT

Unpaid wage claims filed by subcontractor employees may name the general contractor. EPL coverage is typically focused on the primary general contractor rather than subcontractors, and insurers continue to apply heightened scrutiny to these exposures.

MATERIAL PRICES

Construction material prices remain elevated, driven by tariffs and supply chain friction, though contractor pricing behavior suggests limited near-term pass-through to bids. According to AGC, 70% of contractors report being impacted by tariffs, yet only 40% have responded by raising bid prices.⁵ Approximately 45% of firms report no significant supply chain disruptions; reported issues are primarily concentrated in electrical components and power distribution equipment.⁵

Inputs to construction increased 2.8% year-over-year in December 2025, with nonresidential and industrial inputs showing the strongest gains. Copper wire and cable experienced the largest twelve-month price increase (22.3%), aligning with reported electrical supply constraints.

PRODUCER PRICE INDEX DECEMBER 2025

	1-Month % Change	12-Month % Change	Change since Feb. 2020
INPUTS TO INDUSTRIES			
Inputs to construction	-0.6%	2.8%	42.4%
Inputs to multifamily construction	-0.3%	2.8%	43.0%
Inputs to nonresidential construction	-0.7%	3.2%	43.5%
Inputs to commercial construction	-0.3%	4.4%	46.1%
Inputs to healthcare construction	-0.3%	4.2%	45.6%
Inputs to industrial construction	-0.5%	4.0%	41.4%
Inputs to other nonresidential construction	-0.7%	3.0%	42.8%
Inputs to maintenance and repair construction	-0.7%	2.5%	40.0%

Source: Adapted from Associated Builders and Contractors.⁶

WHAT THIS MEANS FOR YOU

- + Electrical material volatility elevates exposure for data centers, power, and infrastructure projects.
- + Material costs will continue to impact lead times and could grow to greater concern if tariff continue.
- + Persistent cost uncertainty reinforces the need for contingency planning, escalation clauses, and careful review of builders' risk and delay-related coverage.

CONSTRUCTION ECONOMY FUTURE STATE

BACKLOG

Construction backlog remains stable at approximately **eight months**, signaling continued work under contract despite uneven market momentum. However, backlog strength is increasingly concentrated among large contractors, driven primarily by data center activity.⁷

Overall backlog levels indicate a steady pipeline, though sentiment suggests declining sales expectations over the next two quarters. Contractors with annual revenue exceeding **\$100 million** report the strongest backlog, reflecting disproportionate participation in large data center projects. Smaller contractors experienced a notable backlog decline during 2025, underscoring growing segmentation across the industry.

Regional backlog remains strongest in the South, while the West shows the greatest variability and lowest average backlog over the past two years.

CONSTRUCTION BACKLOG INDICATOR

	Jan 2025	Dec 2025	Jan 2025	1-Month Net Change	12-Month Net Change
Total	8.0	8.2	8.4	-0.2	-0.4

Source: Data adapted from Associated Builders and Contractors Construction Backlog Indicator. Data from January 2025 to January 2026.⁸

WHAT THIS MEANS FOR YOU

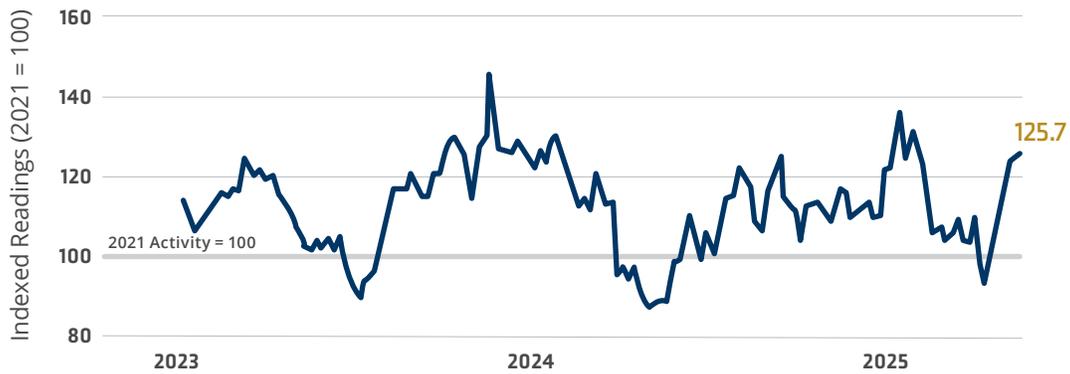
- + Large, phased projects elevate exposure to **contractual complexity**, particularly when owners engage subcontractors directly. (General liability and builders' risk key considerations)
- + Extended project timelines heighten the importance of aligning **general liability, builders' risk, and umbrella coverage** with evolving project scope.
- + Rising cancellations and delays reinforce the need to assess backlog alongside the **Project Stress Index** to anticipate coverage and claims volatility.

CONSTRUCTCONNECT'S PROJECT STRESS INDEX

Project stress levels have increased, reflecting rising uncertainty across construction planning and execution. Elevated levels of on-hold and abandoned projects signal growing pressure on project pipelines despite stable backlog levels. According to AGC, 63% of contractors report that at least one project has been postponed, scaled back, or canceled within the past six months.⁹

PROJECT STRESS INDEX COMPOSITE

A seasonally adjusted, equal weight measure of delayed, on hold, and abandoned projects



Source: ConstructConnect. Project Stress Index.¹⁰

WHAT THIS MEANS FOR YOU

- + Elevated project stress increases the likelihood of coverage gaps, scope changes, and claims tied to delays or cancellations.
- + Higher abandonment risk heightens exposure for builders' risk, professional liability, and contractual disputes.
- + Monitoring project stress alongside backlog provides a more complete view of pipeline quality, not just volume.

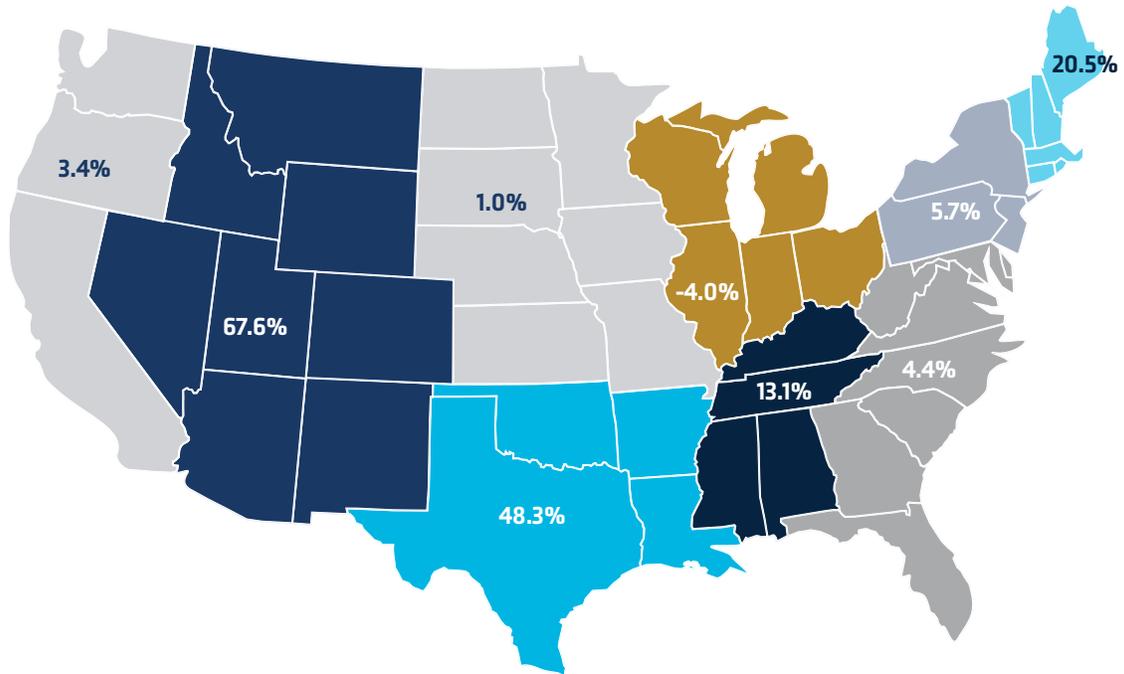


CONSTRUCTION STARTS

Nonresidential construction starts remain uneven, with growth concentrated in large dollar projects, particularly data centers and select infrastructure categories. Starts for January 2026 reached \$80.3 billion. This marked the highest January on record. Regional performance varies widely, reflecting localized investment cycles and mega project activity. Data centers account for the largest share of nonresidential starts and dominate the largest dollar-value projects.

TOTAL NONRESIDENTIAL YEAR-TO-DATE START BY CENSUS DIVISIONS

Year-to-Date change compared to the same period one year ago, %



Source: ConstructConnect, U.S. Year-to-date regional starts, Nonresidential Construction.¹¹

Year-to-date, the Mountain region has significantly outpaced other regions, driven largely by mega projects in Arizona. Arizona recorded a substantial year-over-year increase in starts, reflecting a combination of data center development, infrastructure expansion, and available undeveloped land. Starts in the West South Central region, heavily influenced by Texas, lagged relative to the Mountain region's growth.



INSURANCE MARKET CONDITIONS & COVERAGE TRENDS

Insurance market conditions remain mixed across construction-related lines, with pricing stabilization in some areas offset by continued claims pressure and underwriting discipline in others. Rates across nine property and casualty lines indicated softened market conditions.¹² Coverage will remain contingent by risk profile.

General liability – Coverage remains stable, but market conditions have not meaningfully softened and continue to be challenging. Underwriters are applying increased scrutiny in plaintiff-friendly jurisdictions. Insurers continue to deploy targeted exclusions and are reducing exposure to insureds engaged in litigation financing.

Workers' compensation – Pricing remains favorable, and the line remains profitable, supporting a competitive market in 2026. However, caution is warranted as claim frequency has declined while severity trends higher.

Automobile – Commercial auto loss ratios continue to deteriorate and market conditions continued to result in premium increases. Underwriters are placing heightened emphasis on safety programs, telematics, driver training, and loss performance.

Umbrella – The line remains challenged as nuclear verdicts and social inflation drive larger settlements. Pricing and capacity remain sensitive to class of business, fleet exposure, jurisdiction, and claims history, with upward pressure continuing from underlying auto losses.

WHAT THIS MEANS FOR YOU

- + Large, multi-year projects require careful coordination of primary and excess coverage to ensure continuity.
- + Elevated severity trends reinforce the need for disciplined risk selection, contract review, and limit adequacy.
- + Diverging line-level performance highlights the importance of portfolio-level risk management rather than single-line optimization.



IN SUMMARY

The construction sector conditions reflect adjustment rather than acceleration. Residential construction remains constrained by elevated inventory and subdued single-family demand, while nonresidential activity has flattened due to uneven performance across segments. Infrastructure, power, and publicly funded projects continue to provide stability, but overall growth is increasingly concentrated in fewer, higher-value projects.

Large-scale data center development continues to dominate nonresidential starts and backlog, particularly for larger contractors. While these projects support pipeline stability, they introduce heightened complexity tied to electrical systems, specialized equipment, phased construction, and extended timelines. These factors increase execution risk and reinforce the importance of early coordination across project planning, contracts, and insurance placement.

Insurance market conditions remain mixed across construction-related lines. While some pricing stabilization has emerged, underwriting discipline and claims pressure persist—particularly in liability-driven lines. Coverage availability, pricing, and capacity continue to vary based on risk profile, jurisdiction, fleet exposure, and claims history. For large, multi-year projects, careful coordination across general liability, builders' risk, automobile, and umbrella programs remain critical to maintaining continuity as exposures evolve.

The current environment favors proactive planning and informed risk management. Contractors that engage early on project risk, contract structure, and insurance strategy—and that align coverage, limits, and risk controls with project complexity—will be better positioned to manage uncertainty and navigate ongoing volatility throughout the year.

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