DAMPENED EXPECTATIONS:
THE 2026 CONSTRUCTION HIRING AND BUSINESS OUTLOOK

The Associated General Contractors of America works to ensure the continued success of the commercial construction industry by advocating for federal, state and local measures that support the industry; providing opportunities for firms to learn about ways to become more accomplished; and connecting them with the resources and individuals they need to be successful businesses and corporate citizens. Over 28,000 firms, including more than 7,000 of America's leading general contractors, more than 9,000 specialty-contracting firms and 12,000 service providers and suppliers belong to the association through its nationwide network of 87 chapters. Visit the AGC Web site at www.agc.org.

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SUMMARY

AGC of America and Sage conduct an annual survey of commercial construction firms to gather insights into their expectations for the coming year. The survey covers firms' expectations for the various market segments, their personnel plans and workforce challenges, confidence in backlog and bidding opportunities, the impact materials costs are having on their operations and other key factors shaping their outlook. The results help inform our work as an association by providing a clear sense of what our members anticipate in the year ahead.

The results for the 2026 Construction Hiring & Business Outlook Survey show far more mixed expectations than last year. While there are pockets of optimism in select private-sector markets, overall sentiment has dampened notably. Last year's survey revealed only two segments, out of 17 possible markets, where contractors expected a decline in the available dollar value of work. This year's survey shows five segments posting negative readings, all of which are in the private sector.

One reason for their lowered expectations is that contractors are increasingly worried about the broader economy, the possibility of a recession, and the outlook for materials costs amid ongoing uncertainty around tariffs and trade policy. At the same time, many firms remain concerned about persistent labor shortages and also report plans to boost investments in artificial intelligence to improve efficiency.

The construction of data centers, power facilities, and healthcare projects, including hospitals will drive much of the private-sector market in 2026, according to the results of this year's Outlook. Water/sewer, manufacturing, transportation facilities and bridge and highway construction are also expected to contribute to demand, though firms report more modest expectations than a year ago. Expectations for warehouse, federal, multifamily residential, and public building construction have also weakened but remain slightly positive on net. By contrast, outlooks for lodging and both K-12 and higher education have turned negative after experiencing positive outlooks a year ago. In addition, the expectations for retail and private office construction have turned even more negative than in the 2025 Outlook.

Despite the broader decline in sentiment, nearly two-fifths (39 percent) of firms say their current backlog is larger than it was at this time last year, while 30 percent report their backlog is smaller. Likewise, a majority (63 percent) expects to increase their headcount in 2026, although this share is down from 69 percent in the 2025 Outlook. Conversely, 15 percent of firms expect to reduce headcount, up from 10 percent a year ago.

Among firms that plan to hire, more than 80 percent say it is difficult to find qualified hourly craft or salaried workers. In addition to persistent labor shortages, firms are increasingly concerned that increasing immigration enforcement may further impact jobsites and constrain the supply of available workers. Nevertheless, there was little change in the share of firms that expect it will remain hard or become harder to hire either hourly craft or salaried workers.

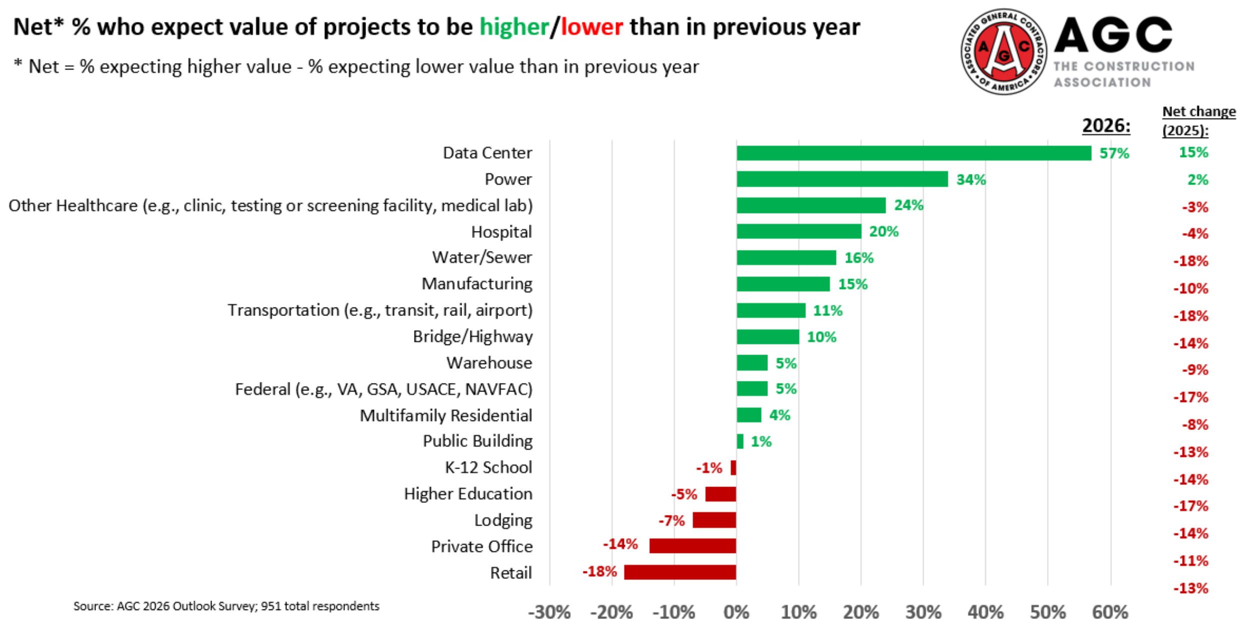
Over three-fifths (63 percent) of respondents say a project has been postponed, scaled back, or canceled within the past six months. Nearly two in five firms (37 percent) cite reduced funding or uncertainty about receiving funding (federal, state, or private) as a contributing factor. In addition, one-third (34 percent) identify funding as unavailable or too expensive.

These concerns likely reflect broader uncertainty surrounding the economy, tariffs, and financing conditions rather than any single policy issue. Overall, the possibility of an economic slowdown or recession ranks as the most significant concern for 2026.

In short, while 2026 will present some meaningful opportunities for contractors, the commercial construction industry is also facing significant headwinds. How firms navigate economic uncertainty, ongoing labor shortages, and shifting policy conditions will help determine what the year ultimately brings for the commercial construction industry.

CONTRACTORS' OPTIMISM ABOUT DEMAND FOR PROJECTS HAS LARGELY FADED FROM A YEAR AGO

Contractors have a more conservative view about prospects for projects available to bid on in 2026. Their expectations remain positive for most project types but optimism is less widespread than a year ago for all but two out of 17 categories.



The balance of views regarding different project categories can be summed up in the net reading—the percentage of respondents who expect the available dollar value of projects to expand compared to the percentage who expect it to shrink. As seen in the above chart, this year the net reading is positive for 12 of the 17 categories of construction included in the survey.

The highest net reading, 57 percent, is for data centers. This category also saw the largest increase in optimism from a year ago, when the net reading was 42 percent, and it was the only segment to post a double-digit gain. Contractors remain very bullish about power projects as well, which recorded a net reading of 34 percent— the only other category with a higher reading than in the 2025 Outlook survey.

In addition to data centers and power projects, contractors are moderately optimistic about hospitals, other healthcare facilities, water and sewer, and manufacturing. Within healthcare, non-hospital facilities, including clinics, testing facilities, and medical labs, recorded a net reading of 24 percent, followed by hospital construction with a net reading of 20 percent. Water and sewer had a net reading of 16 percent and manufacturing posted a net reading of 15 percent. Despite the positive net readings respondents were less optimistic about each of these segments than in the 2025 survey.

The net reading for construction of transportation structures, such as airport and rail projects, dropped sharply as well, from 29 percent to 11 percent. The reading for bridge and highway construction dropped 14 percentage points to 10 percent.

Several other categories remain in positive territory for 2026, but at much lower levels than a year ago. Contractors still expect growth in warehouse, federal work, multifamily residential projects, and public building. However, the degree of optimism has weakened substantially. The net reading for warehouse construction declined from 14 percent to 5 percent. Expectations for federal contracts for agencies such as the General Services Administration, Department of Veterans Affairs, U.S. Army Corps of Engineers, and the Naval Facilities and Engineering Command fell from 22 percent to 5 percent, while the multifamily residential net slid from 12 percent to 4 percent. Public building dropped as well, from 14 percent to 1 percent. Although these segments remain slightly positive, all four readings are now at their lowest levels since 2021, reflecting a notable pullback in confidence compared with 2025.

Five segments now show negative net readings for 2026, compared with just two a year ago. Two categories posted slightly moderately negative outlooks: K–12 schools and higher education. Three additional markets, lodging, private office, and retail, registered more negative expectations.

The net reading for K-12 construction declined from 13 percent in 2025 to -1 percent in this year’s survey. Higher education slipped from a net of 12 percent to -5 percent. Expectations for education construction have been weakening for several years, with both K–12 and higher education showing decelerating growth since 2022, aside from a brief uptick in higher education in 2024. The 2026 survey marks the first time since 2021 that both categories have posted negative net readings.

Expectations for lodging, private office, and retail construction were the three most negative segments in 2026. The net reading for lodging fell 14 points, from 7 percent in 2025 to -7 percent in this year's survey. Private office declined by 11 points to -14 percent, while retail dropped 13 points to -18 percent.

Overall, net readings are more positive than a year ago for only two segments and less positive for 15. Transportation was the segment with the largest net loss from 2025 to 2026. The average net reading across all 17 categories remains moderately positive at 9 percent, though it is only a fraction of last year's level. Even with the cooling in sentiment, contractors indicate that work remains available. Firms are still busy, but they are approaching 2026 with tighter margins and a sharper focus on risk.

BACKLOGS ARE MIXED

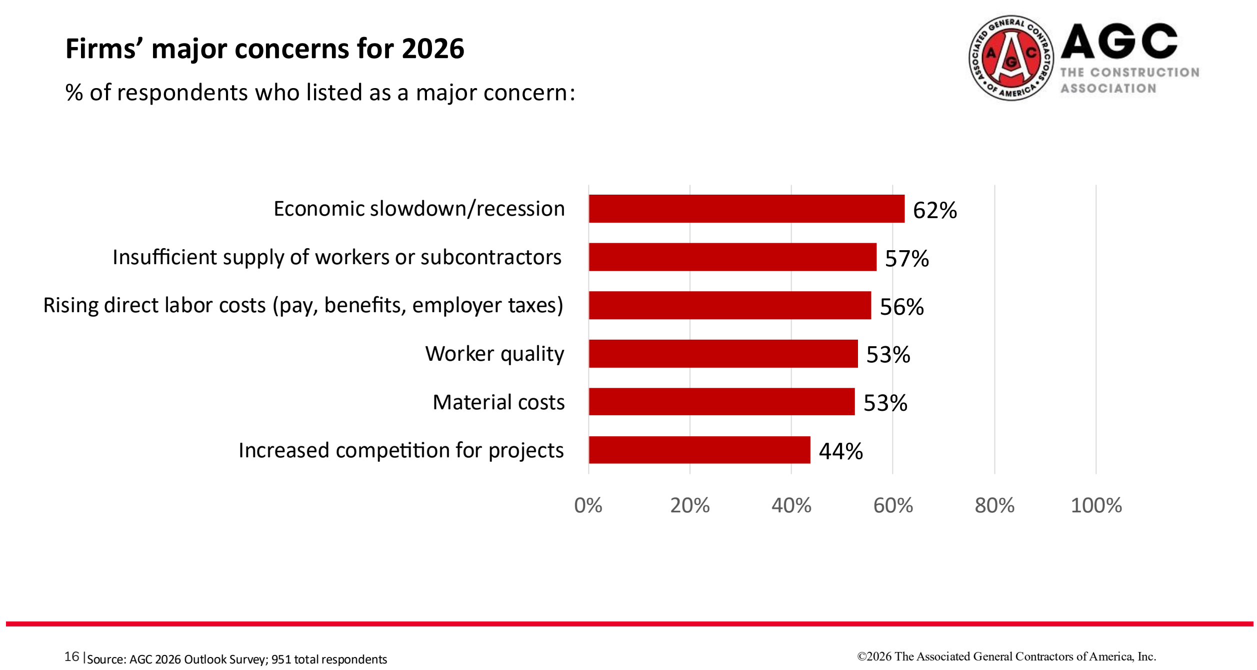
Contractors have a largely confident view of their firm's backlog and bidding prospects in 2026. This year more than three in four (76 percent) firms were at least moderately confident in their firm's backlog and bidding pipeline going into 2026.

When asked how current backlog compared to 12 months prior, two-thirds of firms said it was either larger (39 percent of firms) or about the same (29 percent) as the year prior. However, 30 percent of firms say backlogs are smaller than a year ago.

ONE-THIRD OF FIRMS HAVE SEEN IMPACTS OF IMMIGRATION ENFORCEMENT

One-third of firms (33 percent) reports having been affected by immigration enforcement actions in the past six months. Six percent report a jobsite or offsite was visited by immigration agents. Eleven percent report workers left or failed to appear because of actual or rumored immigration actions, and 24 percent report subcontractors lost workers. These results are very similar to those from the workforce survey AGC and

NCCER conducted in July and August, suggesting little change in the level of enforcement activities within the commercial construction sector.



Reported impacts varied by firm size and location. Larger firms, defined as those with reported revenue of $500 million or more, were more likely to report impacts, particularly indirect effects through subcontractors losing workers (35 percent), compared to 22 percent among smaller firms. Regionally, firms in the South were more likely than those in other regions to report enforcement-related impacts across all categories, while firms in the Northeast were least likely to report being affected.

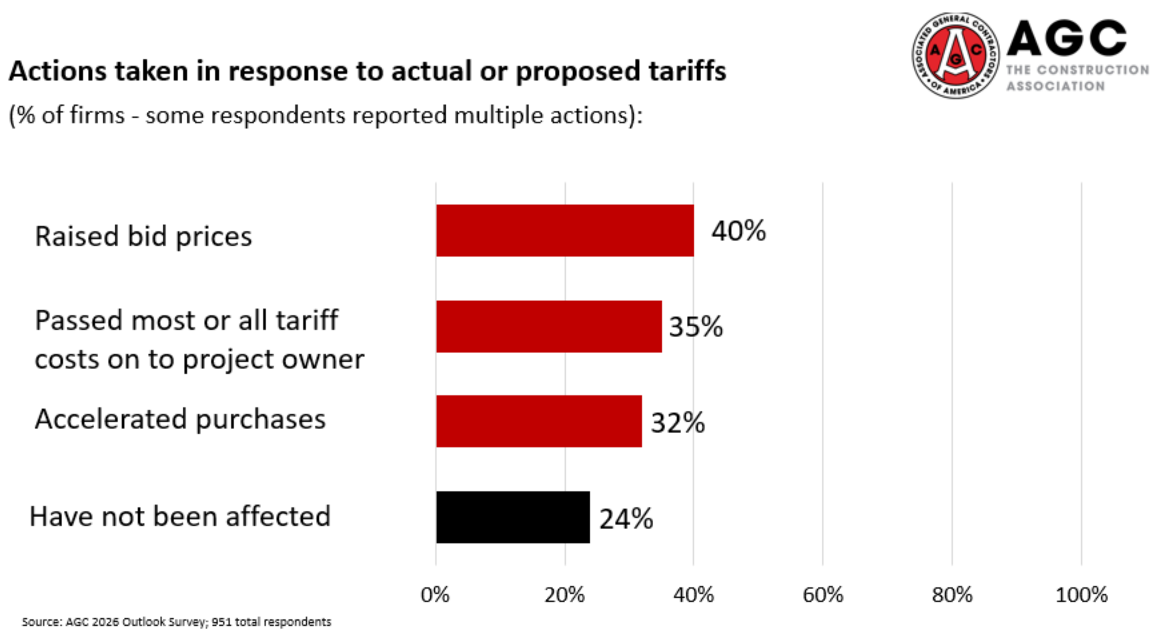
State-level responses point to especially elevated impacts in parts of the South.. Firms in Florida and North Carolina were among the most likely to report workers leaving or failing to appear (42 percent and 31 percent, respectively), while firms in Texas reported relatively high levels of jobsite visits and worker departures (each at 20 percent). Firms in Alabama and California were particularly likely to report indirect impacts through subcontractors losing workers (49 percent and 40 percent, respectively). By contrast, firms in Washington, New York, and Nebraska reported little to no direct impact from immigration enforcement actions.

MOST FIRMS HAVE BEEN IMPACTED BY TARIFFS

Roughly 70 percent of firms report being affected by tariffs this year. Strategies for dealing with tariffs varied.

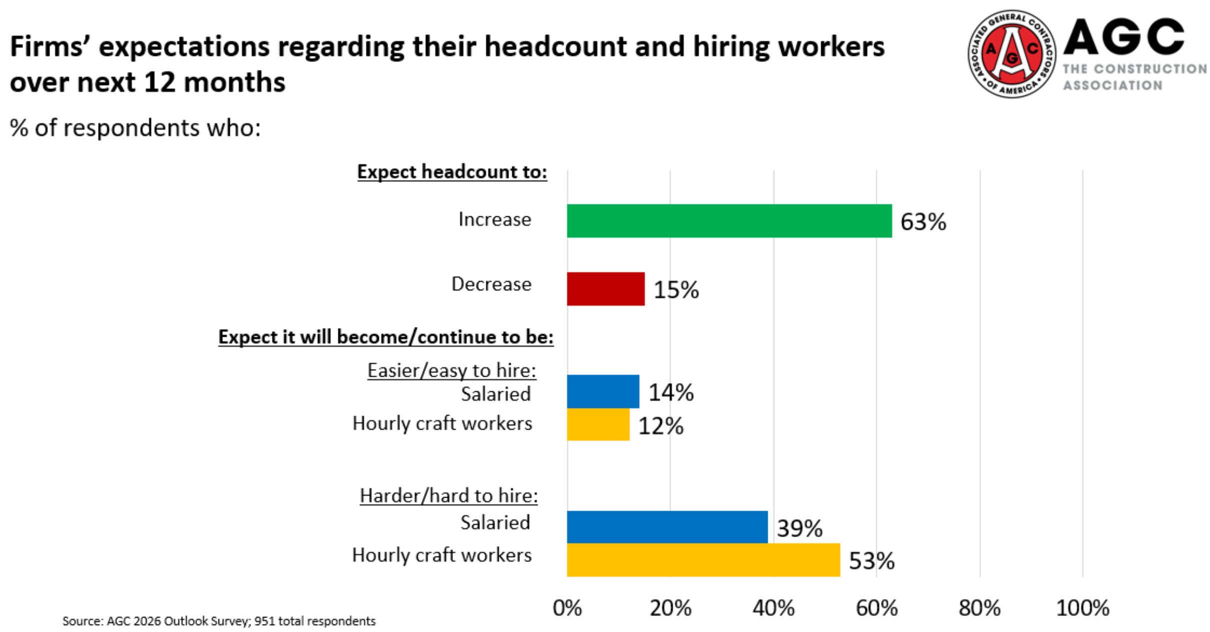
Two in five firms (40 percent) report responding to actual or proposed tariffs by raising bid prices and 20 percent of firms added price-sharing adjustments or other terms to contracts. While 35 percent report passing most or all tariff-related costs on to project owners, 11 percent say they absorbed most or all tariff costs. Nearly one in three firms (32 percent) said they accelerated purchases, while 6 percent delayed purchases Thirteen percent switched from foreign to domestic producers.

Taken together, the results indicate that tariffs are contributing to higher construction costs and greater pricing uncertainty, even as firms pursue a range of strategies to manage those impacts.



HIRING EXPECTATIONS ARE HIGH BUT SO ARE THE OBSTACLES

Most firms anticipate adding workers in 2026 to meet the needs of current and planned projects. More than three-fifths (63 percent) of firms expect to add to their headcount, compared to only 15 percent who expect a decrease. While over two-fifths (44 percent) of firms expect to increase their headcount by 10 percent or less, nearly one-fifth (19 percent) anticipate larger increases: 15 percent of respondents say their headcount will grow by 11 to 25 percent, and 4 percent of respondents anticipate an increase in headcount of more than 25 percent.



The share of firms that expect to add workers in 2026 is slightly lower than in the past four years. At the same time, the share of firms reporting difficulty filling open positions continues to rise. More than four out of five firms report having a hard time filling hourly craft positions (82 percent) or salaried openings (80 percent)—a higher proportion than at any point in the past three years. A majority of firms (53 percent) expects hiring craft workers to remain difficult (26 percent) or to become even harder (28 percent). Only 12 percent say it will become easier or remain easy to hire, while 35 percent expect no change.

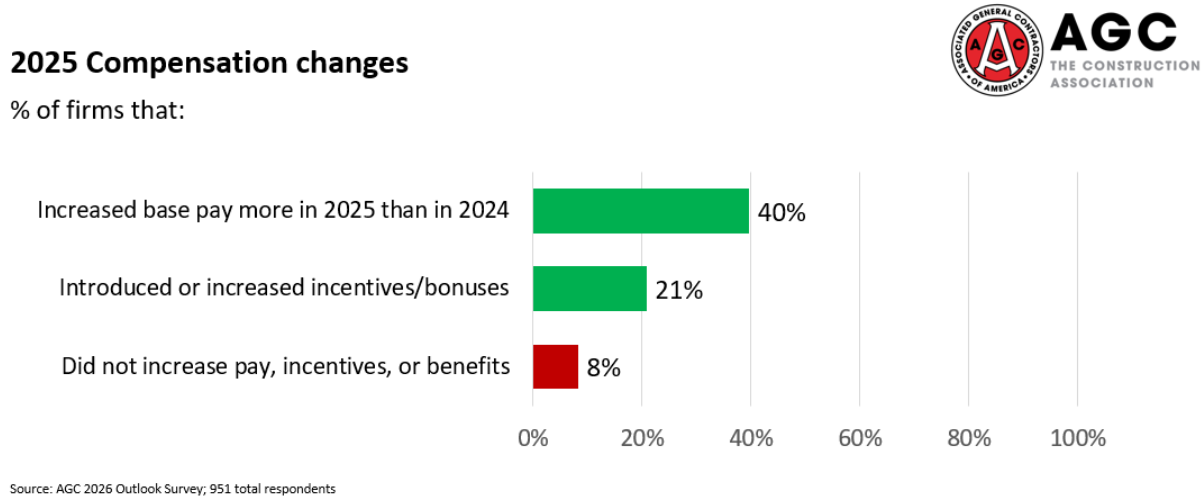
Contractors anticipate only slightly less difficulty in filling salaried positions. Nearly two-fifths of respondents (38 percent) believe hiring salaried employees will continue to be hard (19 percent) or will become harder (19 percent).

While both union and open-shop expect to expand their headcount in the coming year, there is some divergence in degree. Fifty-eight percent of union members expect to add to their headcount compared to 65 percent of open-shop firms. Both types of firms report difficulty filling positions: of the firms with openings for hourly craft workers, 86 percent of open-shop firms and 77 percent of union firms report difficulty filling hourly craft positions. Similarly, 81 percent of open-shop firms with unfilled salaried positions say the positions are hard to fill, as do 80 percent of union firms.

FIRMS REPORT VARIED RESULTS ON PAY AND PRODUCTIVITY

A majority of firms took steps in 2025 to attract and retain workers. Forty percent increased base pay rates by more than they had in 2024. In addition, 21 percent provided incentives or bonuses, and 20 percent increased their share of benefit contributions or enhanced employee benefits. Only 8 percent of firms reported no increases in pay, incentives, or benefits in 2025.

Among firms that raised worker pay, most increases fell within a mid-range bracket. Nearly half (46 percent) of firms increased pay by 4 to 6 percent, while one-third provided increases of 1 to 3 percent. Twelve percent of firms increased pay by 7 to 10 percent, while four percent of firms increased pay by more than 10 percent, and only 1 percent reported increases of less than 1 percent. These results were consistent across both union and open-shop firms: 53 percent of union contractors and 63 percent of open-shop firms raised pay by 4 to 10 percent. Regional results followed a similar pattern, although firms in the South were somewhat more likely to report moderate increases. Sixty-eight percent of Southern firms reported increases in the 4-to-10-percent range, nearly 13 percentage points higher than the next-highest region, the West, at 55 percent. Smaller but still substantial shares of firms in the Midwest (50 percent) and Northeast (48 percent) reported increases in that range.



When it comes to productivity, defined as the amount of output completed per worker or crew hour, nearly one in three firms (32 percent) reported that productivity improved over the past 12 months, while 41 percent said there was no change and 24 percent reported that productivity declined. Results were largely consistent across the Northeast, Midwest, and West, as well as between union and open-shop firms. Firms in the South were somewhat more likely to report productivity gains, with 37 percent indicating improvement. Large firms, defined as those with reported revenue of $500 million or more, also reported slightly stronger gains, with 41 percent saying productivity improved, while productivity responses were similar across the remaining firm size categories.

RISING COSTS AND REDUCED FUNDING ARE CAUSING POSTPONEMENTS

Over three-fifths (63 percent) of respondents report that an owner postponed or canceled a project in the past six months. When asked why, 37 percent cite a lack of funding or uncertainty about a funding source, whether federal, state, or private. More than one in three firms (34 percent) say project financing was unavailable or too expensive. Just under a quarter (23 percent) of firms say increasing material or labor costs played a role.

Additionally, this year firms were asked whether changes in project demand were tied to policy shifts. Thirteen percent of respondents said tariffs contributed to changes in project demand, which suggests that trade policy is beginning to influence decision-making. A larger share of firms, 22 percent, pointed to other policy changes such as federal funding levels, taxes, or regulatory requirements. These policy-related impacts were especially pronounced among larger firms. Thirty-two percent of firms with revenues over $500 million, compared to 20 percent of firms with revenue of $50 million or less, reported that broader policy changes affected project demand.

SUPPLY-CHAIN PROBLEMS HAVE FINALLY MODERATED

Nearly half (45 percent) of respondents report no supply-chain issues in 2025. This is consistent with last year's survey. To cope with or avoid problems, 41 percent of respondents have accelerated purchases after winning contracts, while 29 percent have turned to alternative suppliers, and 24 percent have specified alternative materials or products. Ten percent have stockpiled items before winning contracts.

Responses also varied by firm size and region. More than half of firms in the middle and upper revenue categories say they accelerated purchases, compared with roughly one-third of firms in the lowest revenue group. Union contractors also report relatively high use of accelerated purchasing, with 39 percent indicating they sped up purchases after winning contracts, while 14 percent saying they shifted sourcing or procurement. By contrast, firms in the Midwest report fewer responses overall, with about one-third accelerating purchases and fewer than one in ten (9 percent) shifting sourcing or procurement.

As in past surveys, the most frequently mentioned supply-chain problems center on electrical equipment, particularly switchgear, transformers, generators, control systems, and other components used to distribute and manage power, many of which remain long-lead items that can extend project schedules. HVAC and mechanical systems—including chillers, air-handling units, controls, and insulation—also appear prominently. Contractors additionally cite challenges with steel and other metal-based products, ductile iron fittings, specialty valves, and select precast and underground materials. Several respondents specifically point to tariff exposure and Build America, Buy America or AIS sourcing requirements as drivers of higher costs and longer lead times, especially for electrical, mechanical, and water-related products. Overall, the wide range of materials mentioned suggests that while supply chains have improved from earlier disruptions, constraints remain uneven and are increasingly tied to lead times, specifications, and compliance requirements rather than broad material shortages.

ECONOMIC AND WORKFORCE ISSUES DOMINATE FIRMS' TOP CONCERNS

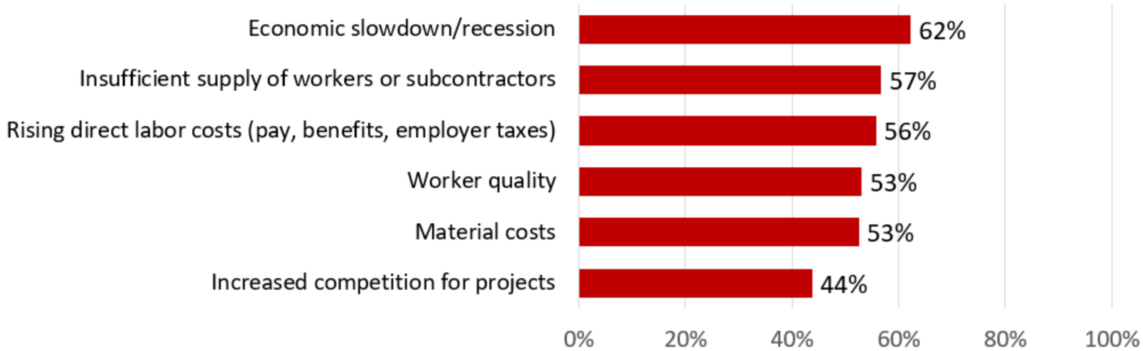
Respondents were invited to identify their biggest concerns for 2026, with no limit on how many to select or write in. Out of 19 listed choices, economic slowdown or recession emerged as the most often mentioned concern, cited by 62 percent of firms. This marks a notable shift from last year, when it ranked fifth, and returns the category to the top position it last held in the 2024 survey.

The next three most cited concerns were workforce-related: 57 percent of respondents cited insufficient supply of workers or subcontractors, 56 percent selected rising direct labor costs (pay, benefits, employer taxes), and 53 percent identified worker quality. Materials costs were the only other concern chosen by a majority of firms, at 53 percent.

Several additional issues registered with meaningful shares of respondents. Increased competition for projects was selected by 44 percent. High interest rates or financing costs was listed by 36 percent, a drop from prior years. Concerns related to permitting delays and regulatory reviews were cited by 30 percent of firms. Just under 30 percent identified costs associated with trucking, insurance or other services.

Firms' major concerns for 2026

% of respondents who listed as a major concern:



Source: AGC 2026 Outlook Survey; 951 total respondents

CONTRACTORS ARE BOOSTING INVESTMENTS IN ARTIFICIAL INTELLIGENCE

Construction firms are increasingly turning to artificial intelligence (AI). This year, 61 percent of respondents say their firms use AI or plan to increase investments in it, up from 44 percent in last year's survey. A breakdown of usage shows that 45 percent of firms deploy AI for office and administrative functions, 23 percent use it for estimating, and 20 percent apply it to design or preconstruction. Another 16 percent report using AI for recruitment, training, or other HR functions.

CONCLUSION

2026 offers a handful of clear bright spots for the construction industry amid a growing number of challenges, reflecting the mixed outlook reported throughout this survey. Contractors report especially strong expectations for data centers and power construction, while healthcare, water and sewer, manufacturing, and select public-sector categories are also expected to support demand. At the same time, backlog and productivity measures remain generally healthy, allowing many firms to continue pursuing work and adding staff where opportunities exist.

However, contractors remain concerned about labor availability, materials costs, and broader economic uncertainty heading into 2026. Labor shortages persist across much of the industry, particularly for skilled trades, while materials prices remain volatile. Uncertainty around tariffs and trade policy is complicating procurement and pricing decisions, and tighter financing conditions have contributed to postponed or canceled projects as owners reassess funding and timelines. These pressures help explain why overall sentiment has softened even as demand remains strong in select markets.

That is why the Associated General Contractors of America is pushing Congress and the Trump administration to act quickly to extend and expand current levels of funding for key infrastructure projects. In particular, the association is launching a new, nationwide campaign in 2026 to urge federal officials to pass new legislation funding improvements to the nation's highway and transit systems before current legislation expires at the end of September. Enacting a new surface transportation bill will help sustain demand for a range of public-sector construction segments.

At the same time, association officials continue to urge the administration and Congress to address construction workforce shortages with both short-term and long-term measures. In the near term, federal officials should work with Congress to expand lawful, temporary work visa pathways dedicated to construction, allowing firms to access needed workers while domestic training pipelines are rebuilt. Stabilizing the lawful workforce is especially important given the labor-intensive and highly specialized nature of data center and power projects. In addition, the administration should focus its immigration enforcement activities on undocumented immigrations who are engaged in additional unlawful activities, instead of those who are otherwise responsibly engaged in economic activity.

AGC is also calling for sustained investments to rebuild the domestic pipeline for construction professionals. Expanding support for post-secondary construction training, apprenticeships, and career and technical education programs remains essential. Recent progress on allowing short-term training programs to qualify for Pell Grants is a positive step that can help accelerate entry into construction careers when paired with high-quality, industry-aligned instruction.

Contractors also need greater clarity and restraint around tariff policy. Predictable trade rules and workable domestic sourcing requirements would help stabilize costs and improve planning without delaying projects when domestic materials are unavailable.

Finally, AGC is eager to work with federal leaders to implement practical permitting reforms that streamline reviews and accelerate project timelines without compromising environmental or safety standards. Reducing unnecessary delays would help move stalled projects into construction and give firms greater confidence to hire, invest, and plan for the future.

The bottom line is that 2026 is shaping up to be a year of adjustment rather than broad-based expansion for the commercial construction industry. While overall sentiment has softened, demand has not disappeared, it has shifted. Contractors that are able to follow where demand is emerging, particularly in data centers, power, and infrastructure-related markets, and reposition their capabilities accordingly are more likely to sustain activity in an uneven environment. With supportive workforce, trade, and permitting policies in place, construction can continue to play a critical role in economic growth by delivering essential projects and expanding access to high-paying career opportunities, even as firms navigate a more selective and uncertain market.

ABOUT THE SURVEY

AGC surveyed its members for the 2026 Construction Hiring and Business Outlook from November 4 through December 15, 2025. A total of 951 respondents across 49 states and the District of Columbia completed the survey. (Varying numbers responded to each question.)

Participating firms represent a broad cross-section of revenue and employment sizes. Of firms that listed their revenue size, 49 percent report performing $50 million or less worth of work in 2025. Thirty-four percent performed between $50.1 million and $500 million worth of work and 7 percent performed over $500 million worth of work. Seventeen percent of firms have fewer than 20 employees, while 42 percent have between 20 and 99 employees. Firms with 100 to 499 employees account for 30 percent of respondents and firms with 500 or more employees comprise 11 percent of the total.

Thirty percent of firms report they employ union workers most or all of the time, while 60 percent are either exclusively open-shop or only occasionally employ union labor. The remaining 11 percent do not self-perform or directly hire craft personnel.

Firms and their employees were not compensated or in any other way reimbursed for completing the survey.

The regions covered in the survey included the following states:

Northeast

Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

South

Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

Midwest

Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

West

Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

A full set of survey materials is available at https://news.agc.org/economics/2026-construction-industry-outlook/.