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2026 Construction Forecast: The Only Thing Certain is Uncertainty



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As 2026 dawns, it is natural to consider the outlook for construction in the coming year. John Kenneth Galbraith famously opined on the validity of economic forecasting in general: “The only function of economic forecasting is to make astrology look respectable.”

With that admonition in mind, the construction industry is again faced with uncertainty and challenges including tariffs, rising material costs, supply chain disruptions, a dwindling workforce, insurance cost increases, interest rates, and other economic and political challenges. While a couple of sectors such as data center and manufacturing construction continue to thrive for now, most other sectors will continue to deal with significant issues. Identifying and analyzing the key factors that will impact the construction industry will help owners and contractors alike prepare a nimble strategy for dealing with them. This update will briefly address those potential obstacles and offer ways to overcome them.

Tariffs and Material Cost Increases

Tariffs on essential building materials, such as aluminum, steel and copper, continue to result in dramatic price increases in construction materials. In fact, the effective tariff rate for construction goods reached a 40-year high of 25% to 30% in 2025. In addition to raising prices on construction materials, the lack of a coherent and consistent tariff policy, often appearing to be subject to sudden political whims, will continue to add to general uncertainty and impact the ability to plan an effective strategy. We urge both owners and contractors to have frank and open discussions on tariffs and material costs and work together to craft contract provisions that share the impact and uncertainty of such costs. Such collaborative drafting can help share risk and allow projects to proceed with more certainty.

Supply Chain Disruptions

Because of tariff issues, COVID-era hangover, geopolitical issues and other factors, supply chains continue to be vulnerable at best. Again, contracts should be drafted to clearly identify and share supply chain disruptions. Additionally, construction projects should have a robust preconstruction phase that can, among other things, identify materials subject to supply chain issues and plan a strategy to lessen their impact including:

- Identifying possible substitute materials
- Purchasing and storing materials while they are available (taking into account insurance and warranty issues if the materials will be stored for any substantial time period)

- If possible, identifying multiple and diverse suppliers
- Identifying domestic sources to avoid or lessen tariff impacts
- Using technology to develop advanced procurement methods

Dwindling Workforce Issues

There is a well-documented labor shortage in the construction industry, which will continue to cause delays, cost overruns and decreasing margins, and will generally impact the ability to scale construction starts. It appears that the problem is getting worse, not better, as younger workers either leave the trades or are not attracted to them in the first place, while older workers retire. By 2031, 41% of construction workers are expected to retire, and only 10% of current workers are under 25. Additionally, we are also seeing the negative effects of current immigration policies, as a significant portion of the construction workforce is foreign born. In fact, immigrants make up one in four workers in the construction industry, and 32.5% of construction tradesmen.

While certain trades have increased their apprenticeship programs and even affiliated with universities to attract potential workers with an attendant college degree, the qualified labor pool continues to shrink. For this reason, it is crucial that general contractors maintain their labor force, even through slow periods, and that they nourish relationships with their subcontractors. Owners should make sure they confirm the ability of any general contractor retained to maintain an appropriate workforce by verifying the number of employees and contemporaneous jobs for the contractor. That information will let the owner know if the contractor can handle the owner's project.

Additionally, contractors will have to develop and rely on digital tools and automation to reduce manual labor. However, this is not likely a practical solution for most contractors yet.

Insurance Costs

Another factor that will impact construction in the coming year is the cost and availability of sufficient project insurance. Premiums for liability and property insurance continue to rise. Although the property insurance market is starting to soften, the liability insurance market is hardening in large personal injury judgments. Underwriting has also become more restrictive, especially resulting in a trend toward policy terms and exclusions that narrow coverage. It is crucial that anyone planning a construction project has a clear understanding of both the costs and availability of coverage before moving forward.

Economic Issues

In addition to tariffs and industry-specific economic factors, there are the usual well-known economic factors that can influence construction starts. Investor confidence is not currently strong, and that has been and will continue to suppress construction starts in many sectors. Similarly, and not unrelated, interest rates and inflation continue to impact construction. It is also possible that federal infrastructure projects and funding could impact private construction starts as well as have obvious impacts on government projects. The current administration's decision to shut down several offshore wind projects on the East Coast is a dramatic example.

Navigating Uncertainty Through Planning and Flexibility

As we advise clients all the time, there is never a "perfect" or risk-free time to build things. While the current and near-future environment presents many challenges, being sensitive to the factors outlined above, addressing them as well as possible with contract terms, and being nimble enough to pivot on projects to reflect supply chain and cost issues, will assist both owners and contractors alike in navigating the current turbulent waters.

Want help navigating the current challenges facing the construction industry? Please contact a member of Gould & Ratner's Construction Practice.