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Divergence, Capacity, and Competitive Advantage

A POINT OF VIEW ON CIVIL AND
INFRASTRUCTURE CONSTRUCTION IN 2026





EXECUTIVE SUMMARY

Civil and infrastructure construction remains one of the more attractive sectors in the built environment, but the 2026 headline numbers are misleading. Total U.S. construction put in place is estimated to have declined 1% in 2025 and is forecast to rise just 1% in 2026, to ~\$2.2 trillion, according to the [2026 North American Engineering and Construction Outlook: Second Quarter](#). Beneath that flat top line, the market has split: nonbuilding structures are expected to lead with 4% growth, infrastructure-related segments continue to carry volume, and private building categories remain mixed to weak. The practical implication is that 2026 is not a market for broad assumptions. It's a market for selectivity.

Contractor sentiment reflects the same split. In Q1 ([2026 Civil Infrastructure Construction Index: First Quarter](#)), local market confidence outpaced national confidence, publicly funded pipelines advanced, and backlog conditions improved materially. In Q2 ([2026 Civil Infrastructure Construction Index: Second Quarter](#)), backlog expectations index fell to 54.7 from 57.3, and the book-to-burn rate dropped to 48.9 from 56.3. In Q1, the median contractor reports 12 months of backlog while the average sits above 15 (with no change reported for Q2). But contractors remain cautious despite strong demand because labor availability, productivity, and execution capacity are limiting how much of that demand can realistically be converted into profitable work.

Our position is clear: civil contractors that treat this as a uniformly rising market will underperform against those that read the divergence clearly. Transportation and highway remain solid, but the clearest sources of above-market growth are power, water, wastewater, resilience, and data-center-adjacent civil work. The firms that win over the next several years will follow those demand streams with discipline, invest in people as a permanent strategic constraint, and build operating systems that reliably convert backlog into margin.

THE MARKET IS NO LONGER DEFINED BY BROAD GROWTH

For several years, civil infrastructure benefited from unusually strong public funding and above-trend growth. That phase is maturing. Transportation remains a healthy segment, but it's entering a more measured period as earlier funding waves work through authorization into delivery. Transportation construction spending is forecast to grow from about \$69.3 billion in 2025 to \$85.2 billion by 2029, a 5.3% CAGR. Highway and street construction tracks more moderately, from approximately \$142.6 billion in 2025 to \$144.5 billion in 2026 and \$160.7 billion by 2029, a 3.0% CAGR. Highway remains a solid, reliable lane. It is no longer the primary driver of outsized growth.

Power is a different story. Spending is forecast at roughly \$164 billion in 2026, rising to about \$229 billion by 2029. The drivers are grid modernization, reliability, resilience, and the infrastructure demands in data-center-heavy regions, where utilities have increased annual capex by 15% to 20% from 2024 levels. This is not a temporary spike in demand. The pace of data center construction has fundamentally changed the power buildout trajectory.

The civil pull-through from data centers is too large to treat as a niche. Data center construction was up 35% in 2025, to about \$42 billion, and is forecast to reach \$52 billion in 2026. In some metro areas, data centers now account for more than 25% of total nonresidential building construction. Louisiana, Virginia, and Texas represent two-thirds of year-to-date starts value. For civil contractors, the demand is not confined to the building footprint. These projects pull through substations, wet and dry utilities, water systems, and site packages. Power availability, not tenant demand, is what determines where they are built.



WATER, WASTEWATER, AND RESILIENCE ARE DURABLE GROWTH PLATFORMS

Water-related construction has moved past the defensive utility narrative. It's now a capacity and resilience story with genuine long-cycle momentum. Sewage and waste disposal is forecast to grow from about \$52 billion in 2025 to \$56 billion in 2026 and \$68 billion by 2029. Water supply is expected to grow from \$35 billion to \$37 billion in 2026 and \$45 billion by 2029. The growth is tied to wastewater upgrades, collection systems, pump stations, WIFIA-backed financing, drought resilience, and expanding demand from data centers and advanced manufacturing, both of which require large volumes of reliable, high-quality water.

Conservation and development are strengthening for the same reasons. The segment is forecast to rise from \$13 billion in 2025 to \$14 billion in 2026 and \$17 billion by 2029. The drivers—resilience, dredging, stormwater reduction, port and waterway reliability, and coastal protection—are cyclical development trends. Congressional proposals also suggest U.S. Army Corps of Engineers Civil Works budgets could increase more than 12% in FY 2026. For contractors seeking stable, fundable work, resilience-oriented civil is a healthy lane through the forecast period.

PRIVATE DEVELOPMENT REMAINS A DRAG ON ADJACENT CIVIL WORK

The divergence cuts both ways. Segments tied to rate-sensitive private development remain under pressure, and that matters directly for contractors with exposure to site civil work linked to housing and commercial development. Single-family residential spending is projected to decline 5% to about \$420 billion, with starts down nearly 4% year over year. Affordability remains the constraint, and 67% of builders were offering discounts or incentives in December 2025, the highest share in the post-COVID period.

Many adjacent civil segments tied to residential and commercial development are not growing, and most that are experiencing growth are growing very slowly. Contractors should resist reading broad market stabilization as a signal that conditions are improving across the board. Segment labels like “office” or “commercial” can be misleading without looking closely at the mix beneath them. The private side remains selective, and financing remains tighter than it was.





DIVERGENCE DEMANDS SELECTIVITY

In a split market, chasing volume is the wrong instinct. The better response is to align the business with the most durable, best-funded demand streams and apply conservative judgment everywhere else. The Q2 2026 index reinforces that opportunity is not evenly distributed geographically, either. Contractors are generally more confident in their own regional markets than in the national picture, and even within civil infrastructure there are localized concerns, though the gap between national and local sentiment has narrowed considerably.

Diversification still matters for firms seeking stability or growth, but it needs to be purposeful. The goal is not to simply spread risk across more segments. It's to follow the segments and geographies where funding, owner demand, and execution capability intersect. That increasingly means power, transportation with visible funding, water and wastewater, resilience-related public work, and data-center-enabled civil programs.

CAPACITY, NOT DEMAND, IS THE BINDING CONSTRAINT

The most important finding from the Q2 2026 index has nothing to do with demand. The market is not short on work. It's short on the organizational capacity to capture that work profitably. Contractors across transportation, water, and utilities describe projects advancing from design into construction. Those same contractors consistently identify labor availability, competitive bidding, project complexity, staffing experience gaps, and productivity as the actual limits on growth.

The Q2 CICI shows productivity ticked up to 50.0, the only index component that improved quarter over quarter, signaling that firms are holding even on productivity despite structural headwinds, not falling behind. The causes are structural—turnover, retirements, onboarding of less-experienced workers, and declining plan quality—and are forcing contractors to deploy more people for the same output. This is not a temporary problem that loosens when the labor market improves, but a defining operating condition of the industry.

Respondents plan to add headcount in 2026, but much of that hiring is replacement and backlog pacing, not incremental expansion. 59% of respondents identify field staff management roles as hardest to fill, and 80% of firms are now prioritizing leadership skills training above all other training investments.

Voluntary turnover runs just above 10% on average, with a median near 7%. Hiring alone has not solved this and will not. Leading firms are investing more in succession planning, internal development, and leadership transitions. The firms that outperform will be the ones building people systematically, through structured training and professional development programs.



EQUIPMENT AND TECHNOLOGY AS STRATEGIC LEVERS

For most heavy civil contractors, equipment is one of the largest uses of capital. In a constrained labor environment, it's also one of the few areas where efficiency gains translate quickly into freed capital. Even modest improvements in utilization, deployment, and mobilization can release meaningful resources back into the business. That capital is most valuably redeployed into people, training, and enabling technology—the resources that are limiting growth.

This matters more because the fastest-growing segments are themselves supply-constrained. Power, data center, manufacturing, and utility work all face scheduling pressure from scarce transformers, electrical controls, and commissioning talent. Better asset planning and capital discipline are not internal efficiency exercises in this environment. They're part of how firms stay competitive in the segments where they want to grow.

On the labor side, technology adoption is growing, but contractors are approaching it pragmatically. Early use cases center on estimating, takeoff, data management, and administrative workflows. Contractors are not treating AI as a substitute for experienced judgment. They're using it to reduce repetitive tasks, support decision-making, and improve throughput from scarce professional talent. The real barriers continue to be employee resistance, lack of internal expertise, weak data quality, and uncertain ROI. The long-term direction is clear, but firms need technology that directly strengthens productivity, not technology adopted to keep pace with perception.

THE REAL DIFFERENTIATOR IS OPERATING DISCIPLINE

Technology will not create competitive advantages on its own. Neither will a strong backlog or a favorable market position.

35% of firms report lower margins year over year, and none report significantly higher margins. In addition, 71% of firms report increased competition, and 36% saw bid prices fall. The firms that consistently convert work won into margin are the ones with repeatable operating processes.

In a competitive market where backlog is growing and less-experienced project managers are being pushed into more complex work, that discipline is not optional. Pre-award planning, short-interval scheduling, monthly project reviews, clear exit criteria, and post-job review are the less glamorous practices that protect profitability when conditions are tight.

The next several years will likely offer more opportunities than most firms can absorb. Backlog size will not determine the winners. The separating factors will be disciplined selectivity, realistic capacity planning, consistent project controls, and the ability to execute what was won at the margin it was priced.





CONCLUSION

Civil and infrastructure construction remains attractive. But it's a market defined by divergence, not broad expansion. Transportation and highway are durable but growing at a measured pace. Power, water, wastewater, and data-center-adjacent infrastructure are the clearest growth engines. Resilience-related civil work is strengthening. Private segments tied to housing and commercial development continue to pressure adjacent site civil demand.

The firms that emerge stronger will be the ones pursuing the right markets, in the right places, with an operating model built to deliver profitably. That model will include:

- Treating people as a strategic investment, not a pipeline problem
- Managing equipment and capital with the same discipline they apply to project execution
- Enforcing consistent operating practices when the pressure is highest (exactly when most firms let them slip)

The work is available. The question is which firms are built to capture the work and exercise the discipline to deliver it at a profit.

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