TODAY'S CONSTRUCTION ECONOMY

QUARTERLY REPORT | FOURTH QUARTER 2026

The Deepening Divergence: Data Centers, a Divided Washington, and a Quiet Fed



MOCA SYSTEMS, INC.

Brandon Michalski
Principal, Chief Economist
MOCA Economics
MOCA Systems, Inc.

EXECUTIVE SUMMARY | THE DEEPENING DIVERGENCE

The divergence this report has tracked for six quarters deepened again in the third quarter of 2026. Data center spending is running at an $85 billion annual rate, up 73% year-over-year; manufacturing construction is down 19% and roughly a third off its 2024 peak; every other category of private nonresidential building is down about 6% combined. The headline figure, nonresidential spending up 0.5% year-over-year in August, after five straight monthly gains, is the arithmetic of those pieces, not a description of anyone's actual market. We continue to describe this as a K, with data centers and the power that serves them on the rising arm and most traditional private building on the falling one, but with a caveat that matters more this quarter than last: September's Dodge Momentum Index showed data center planning slowing for the first time this year. The rising arm is not guaranteed.[1]

Three things will decide how that divergence resolves over the next twelve months, and this report takes a position on each. The November 3 midterms (MOCA's base case: a Democratic House, a coin-flip Senate) will change the process of policy far more than its substance. The Federal Reserve, which hiked in September after three cuts and six months of holds, is at or near the end of its tightening in our view, and the industry should underwrite at 4.25% or slightly above through 2027. And the divergence itself will narrow from both ends in 2027, which makes the next three to four quarters the window for owners and contractors on the falling arm to act. Each conclusion feeds the MOCA forecast in Section 1.

$85B	-19.2%	3.75–4.00%	+8.9%
Data center spending, SAAR, +73% YoY (Aug '26)	Manufacturing construction, YoY (Aug '26)	Fed funds target after Sep 16 hike (first since 2023)	PPI, inputs to nonres. construction, YoY (Aug '26)

Source(s): U.S. Census Bureau (Aug 2026); Federal Reserve (Sep 16, 2026); AGC of America analysis of BLS PPI (Sep 10, 2026). Full citations in footnotes.



WHY IT MATTERS FOR MOCA CLIENTS

The strategic question this quarter is not whether the market is growing; it is which arm of the divergence you are on and whether you are pricing your work accordingly. Owners and contractors on the falling arm have a buyer's market for contractor capacity that will not last; those on the rising arm are competing for electricians, switchgear and grid interconnection against hyperscalers with effectively unlimited budgets.

1. THE MOCA FORECAST

This quarter we have switched our employment metric from total construction to all employees in nonresidential building construction, because the residential and nonresidential labor markets have decoupled: nonresidential employment rose by 142,000 (+2.9%) in the year through September while residential fell 32,800 (-1.0%), and a total-industry average now obscures more than it reveals for our clients.[2]

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US Construction Market Forecast — Q4 2026

	Historical (YoY)						Forecast (YoY)		
	2020	2021	2022	2023	2024	2025	2026	2027	2028
US GDP	-2.2%	5.8%	1.9%	2.5%	2.8%	2.3%	2.0%	1.9%	2.0%
Total Construction Spend	7.9%	10.3%	14.9%	9.1%	7.9%	0.3%	-2.1%	1.8%	2.0%
Nonresidential Construction Spend	2.3%	-1.3%	14.6%	23.2%	8.5%	1.1%	0.2%	2.4%	2.5%
PPI Construction Materials	1.5%	26.9%	12.6%	-2.9%	-1.0%	2.9%	7.1%	2.4%	2.3%
PPI Construction Machinery	1.8%	4.5%	10.4%	9.4%	3.2%	2.9%	3.1%	2.1%	2.0%
All Employees Nonres Construction	-5.1%	-0.5%	5.0%	5.6%	3.6%	1.3%	2.7%	1.8%	1.5%
PPI New Nonres Construction	2.5%	5.2%	19.9%	7.9%	0.1%	1.6%	3.5%	2.5%	2.2%
Average Hourly Earnings, Construction	2.9%	3.9%	5.6%	5.1%	4.7%	3.9%	4.0%	2.8%	2.5%

Prepared by: Brandon Michalski; Principal, Chief Economist, MOCA Systems, Inc. (MSI) (brandon.michalski@mocasystems.com)

Source(s): Historical: U.S. Bureau of Economic Analysis; U.S. Census Bureau; U.S. Bureau of Labor Statistics, via FRED. Forecast: MOCA Economics, Q4 2026. Values in navy are MOCA's calls.

WHERE WE STICK OUR NECK OUT

- **Nonresidential spending, +0.2% in 2026:** Year-to-date spending is below 2025, but the series has risen for five consecutive months and turned positive year-over-year in August. We are betting that data centers growing at a 149% annualized pace since March outweigh a manufacturing category still shrinking at 19%, and that the fourth quarter exits at or above the 2025 run-rate. 2027 growth of 2.4% is deliberately modest with the Fed holding, or tightening further, into the recovery. The call fails if data center planning keeps slowing before institutional and grid work can replace it.
- **Total construction, -2.1% in 2026, +1.8% in 2027:** Census puts January–August total spending 3.1% below 2025. This is our highest-risk line: it includes residential construction, which is not MOCA's core market, which has shown the most persistent softness of any segment, and which a Fed hike will not help.
- **Materials PPI, +7.1% in 2026, +2.4% in 2027:** Inputs to nonresidential construction were up 8.9% year-over-year in August, with aluminum +27%, steel +23% and copper +21% under 50% Section 232 tariffs. We expect the tariff regime to survive the midterms untouched, so the 2027 deceleration is a base effect, not relief: prices stay high; they just stop climbing. A tariff rollback or a Middle East de-escalation that pulls diesel down is the main risk to 2026.[3]
- **Bid prices +3.5%; wages +4.0%; nonresidential employment +2.7%:** The gap between input inflation (8.9%) and bid-price inflation (3.5%) is margin compression on the falling arm and pass-through on the rising one. Construction wages are running 4.3% against 3.3% for the private sector; headcount growth is capped by retirements and immigration enforcement rather than by order books, which is why we trim employment to 1.8% and 1.5% in 2027–2028. Immigration policy in either direction is the swing factor.
- **GDP ~2.0% through 2028:** Second-quarter growth was revised up to 2.2%, but a September payroll print of 29,000 and a Fed hike argue against anything better than trend. No recession in the base case; this is a macro call we hold loosely.[4]

SOURCE(S)

[1]U.S. Census Bureau, Monthly Construction Spending, August 2026 (released Oct 1, 2026); ABC analysis, https://www.enr.com/articles/63746-data-center-construction-spending-accelerates-at-[2]149-annualized-pace; AGC analysis via MDM, https://www.mdm.com/news/top-distributor-sectors/building-materials-construction/august-u-s-construction-spending-unexpectedly-jumps/; Dodge Momentum Index, Oct 7, 2026, https://www.construction.com/dodge-momentum-index-grows-2-in-september/

[2]U.S. Bureau of Labor Statistics, Employment Situation, September 2026 (released Oct 2, 2026), https://www.bls.gov/news.release/empsit.nr0.htm; AGC Data Digest, Sept. 28–Oct. 2, 2026, https://constructioncitizen.com/blog/agcs-data-digest-sept-28-oct-2-2026/2610021

2. THE MIDTERMS: A NOTHINGBURGER FOR POLICY, NOT FOR PROCESS

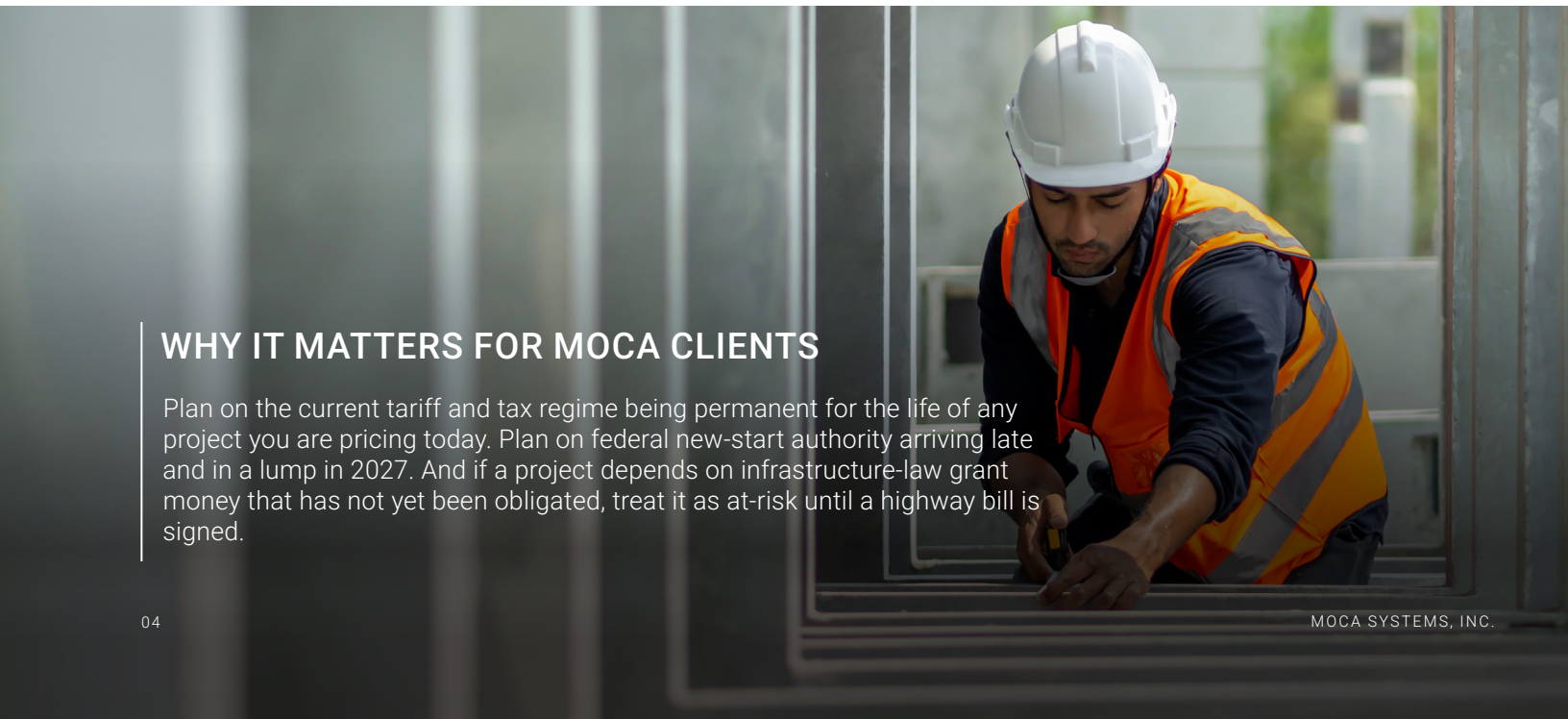
Three weeks out, every major model and prediction market favors Democrats to take the House (Decision Desk HQ 76%, Silver Bulletin ~93%, Polymarket ~91%) with the Senate a toss-up that leans Democratic (DDHQ 56%, Polymarket ~64%). We cite the prediction markets deliberately, because they aggregate real money rather than opinions, with the caveat that they are thinly traded, prone to herding, and have been wrong before. **MOCA's base case is a Democratic House and a 50–50 or 51–49 Senate.**[5]

On substance, very little changes. The three policies that matter most to construction are executive actions or settled law: the 50% Section 232 tariffs on steel, aluminum and copper are a Commerce Department action that no plausible Congress can override; the One Big Beautiful Bill's permanent 100% bonus depreciation and expensing are enacted; the administration's permitting posture is regulatory. A Democratic House gains oversight and a seat at the appropriations table, not a legislative agenda. **The cost and tax regime you are pricing today is the regime you will have through January 2029**, which for cost planning is a form of certainty.

On process, a great deal changes, and almost all of it in the lame duck. The continuing resolution expires **December 11**, taking federal highway and transit authority with it; the Senate's bipartisan permitting deal and the House's five-year, $580 billion highway bill are both waiting for a post-election vote; and the Senate has passed none of the twelve FY2027 appropriations bills. **MOCA's call: the lame duck is the only legislative window of consequence for the next two years.** We expect the permitting bill to pass in some form, highway funding to get another short extension into 2027, and roughly one-in-three odds of a partial shutdown after December 11. After January, a divided government governs by continuing resolution: FY2027 federal programs funded at FY2026 levels, no new project starts until a full-year bill passes (Q2 2027 at the earliest), and infrastructure-law advance appropriations that have already lapsed. That lapse is the single largest downside risk to our 2027 total-construction number.[6]

SOURCE(S)

[3]AGC of America, Construction Input Costs Climb 8.9% Between August 2025 and August 2026, Sep 10, 2026, https://www.agc.org/news/2026/09/10/construction-input-costs-climb-89-between-august-2025-and-august-2026-association-survey-finds-war
[4]U.S. Bureau of Economic Analysis, GDP (Third Estimate), 2nd Quarter 2026, Sep 30, 2026; BLS Employment Situation, September 2026.
[5]Decision Desk HQ 2026 Election Forecast (as of Oct 12, 2026), https://votes.decisiondeskhq.com/forecast/2026; Silver Bulletin, https://www.natesilver.net/p/nate-silver-2026-midterm-election-polls-model; Polymarket, https://polymarket.com/event/balance-of-power-2026-midterms. Probabilities move daily; verify before citing externally.

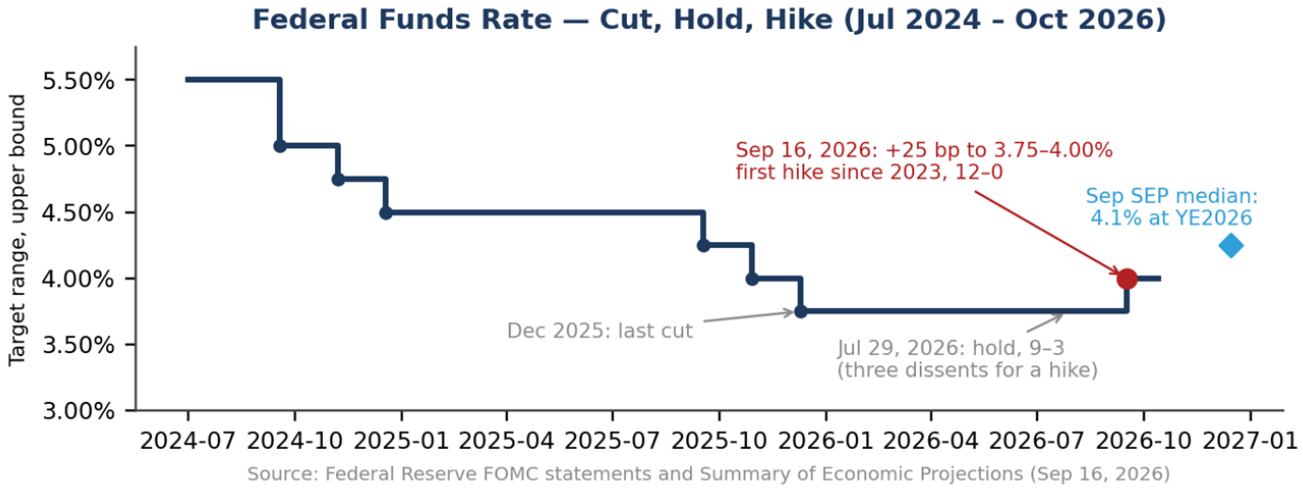


WHY IT MATTERS FOR MOCA CLIENTS

Plan on the current tariff and tax regime being permanent for the life of any project you are pricing today. Plan on federal new-start authority arriving late and in a lump in 2027. And if a project depends on infrastructure-law grant money that has not yet been obligated, treat it as at-risk until a highway bill is signed.

3. THE FED: QUIET IN PUBLIC, DIVIDED IN PRIVATE

The chart tells the year: three cuts in late 2025, six months of holds, then a 25 basis point hike on September 16 to 3.75–4.00%, the first increase since 2023. The public record is quiet: a new chair who says little and a unanimous 12–0 vote on the hike. The private record is not: the July hold drew three dissents in favor of a hike, the first-half holds drew dissents in favor of cuts, and the October 7 minutes show members split between further tightening and a pause. Headline CPI is 3.7% on energy; September payrolls printed 29,000; market odds of an October hike have fallen to about one in five.[7]



MOCA's view: 4.25% is at or near the top of this cycle, but we would not rule out one more move. The dot plot's median still implies a second 25-basis-point-hike by year-end, and a committee that went from three cuts to a hike in nine months has shown it will follow the data. Our base case is a hold at 3.75–4.00% through mid-2027 with a hike to 4.25% the more likely alternative, and no cut before the second half of 2027 in either case. For construction, the late-2025 cuts have been reversed in spirit: the 10-year Treasury yield, capitalization rates, and construction loan pricing are unlikely to improve in the next four quarters, and anything underwritten on 2026 rate relief should be re-run at 4.00–4.25%.

SOURCE(S)

[6]Congressional Research Service, Overview of Continuing Appropriations for FY2027 (P.L. 119-103), https://www.congress.gov/crs-product/R49353; Holland & Knight, Beyond the Midterms, Oct 2026, https://www.hklaw.com/en/insights/publications/2026/10/beyond-the-midterms-congress-faces-converging-year-end-deadlines; CNBC, Senators clinch permitting reform deal, Sep 30, 2026, https://www.cnbc.com/2026/09/30/permitting-deal-congress-election.html; RSM US, What the 2026 midterms could mean for construction, https://rsmus.com/insights/industries/real-estate/us-midterm-elections-2026-construction-real-estate.html

[7]Federal Reserve, FOMC Statements, Jul 29 and Sep 16, 2026, https://www.federalreserve.gov/newsevents/pressreleases/monetary20260729a.htm; https://www.federalreserve.gov/monetarypolicy/files/monetary20260916a1.pdf; CNBC, https://www.cnbc.com/2026/09/16/fed-rate-decision-september-2026.html; Charles Schwab, Fed Hikes in 12-0 Vote, https://www.schwab.com/learn/story/fomc-meeting; FOMC minutes (Oct 7) via Raisin, https://www.raisin.com/en-us/news/fomc-minutes-breakdown-rate-hike-division/

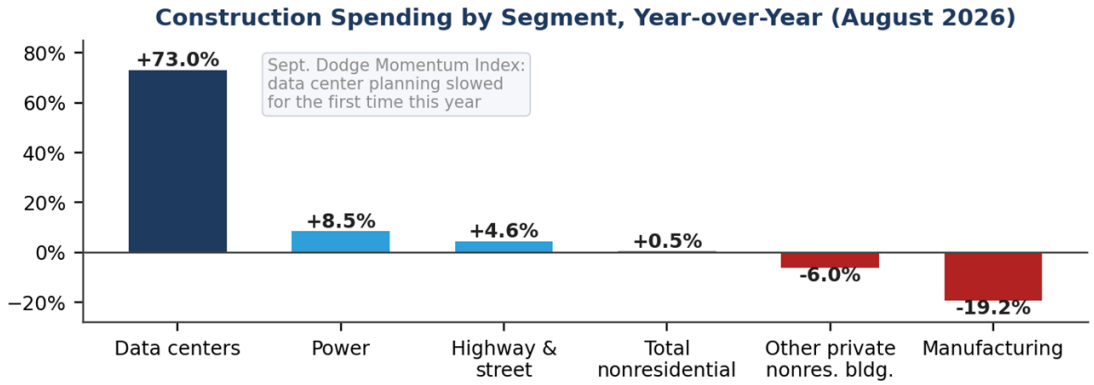
[8]ABC, Construction Backlog Indicator, Sep 15, 2026, https://www.globenewswire.com/news-release/2026/09/15/3362305/0/en/abc-survey-1-in-6-members-perform-data-center-work-backlog-rebounds-in-august.html; AIA/Deltek ABI, August 2026, https://www.archpaper.com/2026/09/aias-architecture-billings-index-august-trend/

WHY IT MATTERS FOR MOCA CLIENTS

Treat financing as a fixed-to-rising input through 2027 and stress-test at 4.25%. Projects on the falling arm that were waiting for cheaper money should proceed on today's terms or be recognized as deferred indefinitely. Projects on the rising arm are equity-funded by hyperscalers and indifferent to the Fed, which is one more reason their demand for labor and switchgear will not slow.

4. THE DIVERGENCE, AND WHERE THE CONSTRUCTIVE WORK IS

The chart below captures the quarter in one picture: data centers at +73%, power and highway comfortably positive, the total nonresidential spending barely above zero, and everything else in private nonresidential building negative. Two details keep us from overcommitting to the K-shaped picture Power (+8.5%) and highway (+4.6%) represent real, broad-based growth beyond data centers, while the September Dodge index, despite rising 2.4% overall on institutional planning, recorded the first slowdown in data center and warehouse planning this year. Meanwhile, one in six ABC contractors is under contract on a data center, a record; architecture billings remain in contraction at 47.2; backlog is 8.5 months, flat on a year ago.[8]



MOCA's view of where constructive, winnable work exists through 2027:

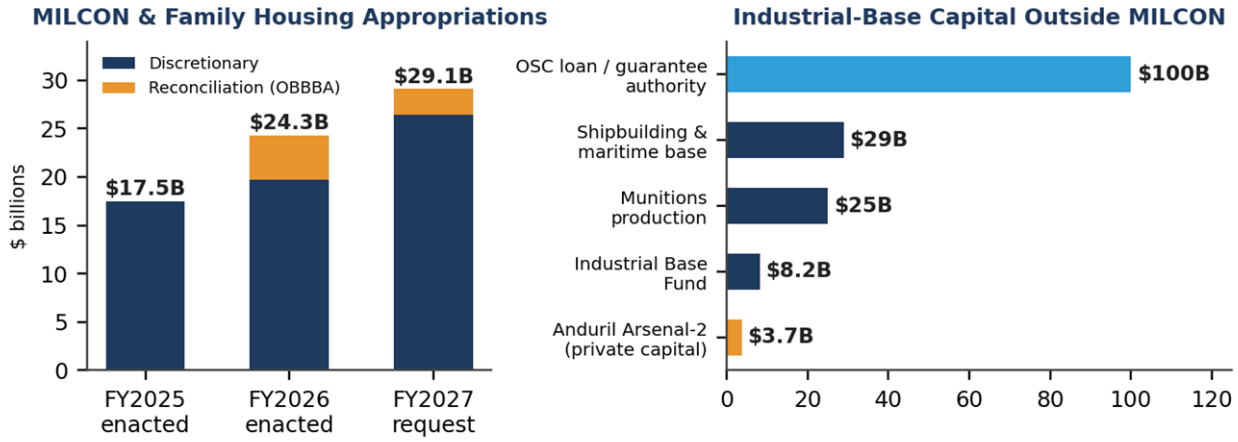
- **Power and grid:** Every data center is a substation and a transmission tap; grid interconnection, not land or permitting, is the pacing item. The permitting deal's transmission provisions, if enacted, unlock utility-scale civil, electrical and structural work for firms that will never bid directly to Amazon, Microsoft or Google.
- **Institutional:** healthcare and education: Institutional planning led the September Dodge index and healthcare has the strongest 2027 outlook of any traditional building type in the AIA consensus panel. These owners are moving now because contractor capacity on the falling arm is available.[9]
- **Federal and defense:** Large, counter-cyclical, indifferent to cap rates, and now being built with private capital as well as appropriations (Section 5).
- **Trades the hyperscalers do not want:** Civil, concrete, structural steel and envelope remain far more competitive than MEP and electrical. Owners should exploit that spread with design-assist and early procurement while it exists.
- **Adaptive reuse:** the silver lining: The office-to-residential conversion pipeline hit a record 90,300 units at the start of 2026, up 28% in a year, with office now 47% of all planned adaptive reuse. Add idle fab shells across the Sun Belt and the second life of existing structures is a genuine 2027 market for firms with renovation and structural expertise.[10]

WHY IT MATTERS FOR MOCA CLIENTS

The divergence will narrow from both ends: data center planning is already slowing, and the rest of nonresidential should grow again in 2027. The window to secure institutional, federal, conversion and grid-adjacent backlog without hyperscaler competition is roughly the next three to four quarters. Our forecast assumes clients use it.

5. FEDERAL AND DEPARTMENT OF WAR CONSTRUCTION LENS

The big news this quarter is that the defense industrial base is being rebuilt with private money, on private sites, at private speed. On October 6 the White House and Anduril Industries announced Arsenal-2, a 2-million-square-foot shipyard at Sparrows Point, Maryland, that the President called the largest new U.S. shipyard since World War II. Anduril is funding the $3.7 billion facility from its own capital; the Navy's contribution is a production contract worth up to $2.9 billion, not a construction appropriation. The yard will build Virginia-class submarine modules for Electric Boat and Newport News starting in 2030, adding a third source to a supply chain bottlenecked at two yards for two decades.[11]



Source: CRS; DoW FY2027 MILCON justification; One Big Beautiful Bill Act; DoW Office of Strategic Capital; State of Maryland (Oct 6, 2026)

The chart shows why Arsenal-2 is a pattern, not an outlier. On the left, appropriated military construction is growing: $17.5 billion in FY2025, $24.3 billion in FY2026 including reconciliation money, and a $29.1 billion FY2027 request, though the House bill trims that request by roughly $9 billion and the Senate has not acted. On the right is the larger story: the One Big Beautiful Bill put $29 billion into shipbuilding, $25 billion into munitions, $8.2 billion into the Industrial Base Fund and $100 billion of loan authority into the Department's Office of Strategic Capital, a lender that requires 80% private co-funding on every project. The Department counts more than 250 private investment deals worth over $50 billion. The industrial base is being grown in sleeper mode: government signals demand, private balance sheets build the plants. For AEC firms, a growing share of defense construction will be procured not as MILCON under federal acquisition rules but as private industrial work on a government schedule: design-build, fast, and competed on capability.[12,13]

On cost, federal escalation is behind the market. The Area Cost Factor basket weights materials at 63% for MILCON, and the three tariffed metals are running 21–27% above a year ago while the broad materials index is up 10%; programmed estimates built on FY2026 assumptions will understate the first FY2027 awards, most acutely on electrical and mission-critical scopes. Military construction is funded at FY2026 levels through December 11 with no new-start authority; while appropriations are unresolved, the FY2027 C-1 exhibit (the Department's project-by-project MILCON budget list) is the right planning document.

WHY IT MATTERS FOR AEC FIRMS SERVING FEDERAL AND DOW CLIENTS

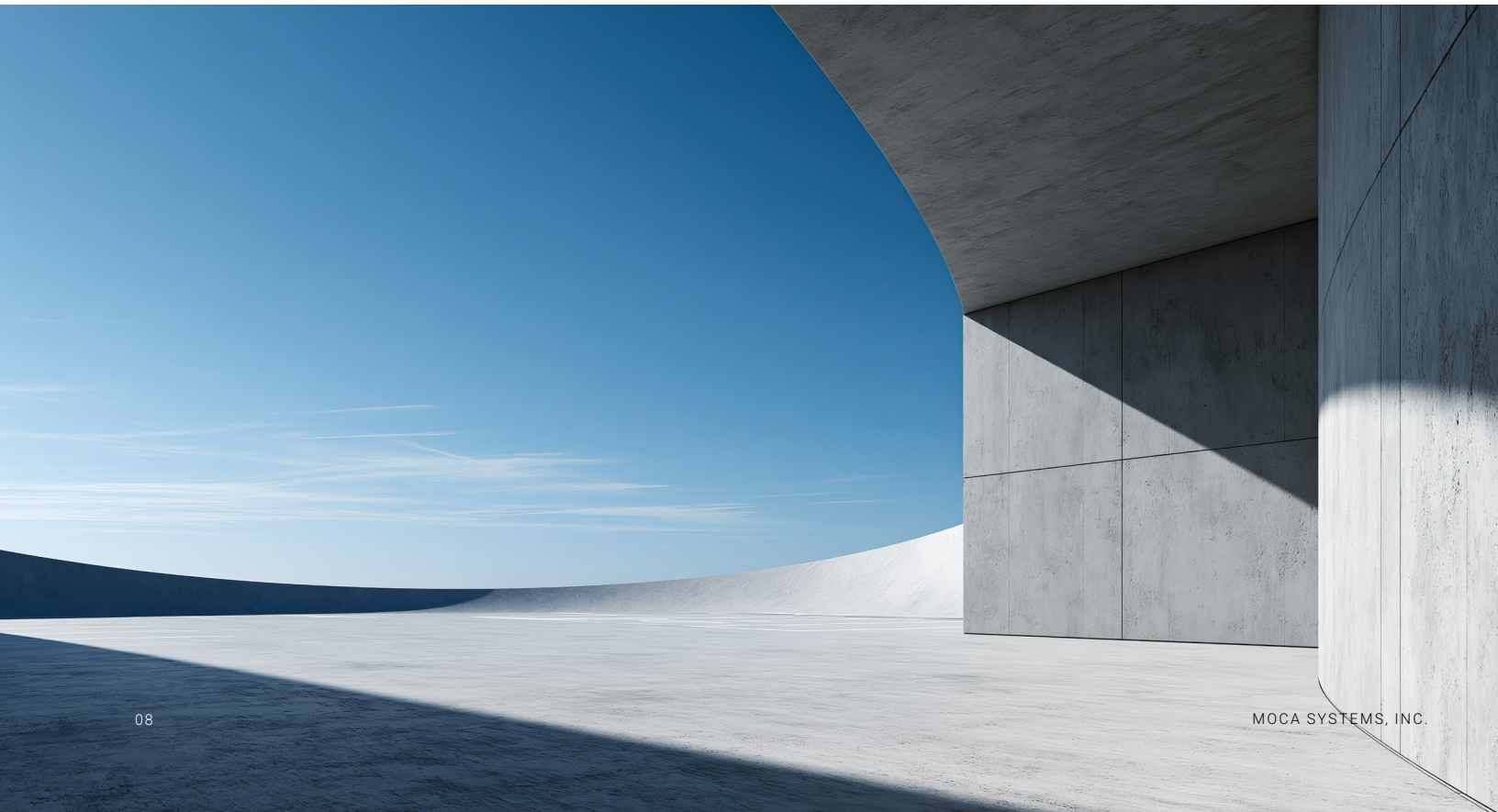
Two markets are opening at once. Appropriated MILCON will be late and lumpy: a full-year bill in Q2 2027, a surge of awards in Q3–Q4, and escalation that needs re-baselining before award. The privately financed defense-plant market is already moving and rewards firms that can deliver heavy industrial, marine and process facilities on commercial timelines. Firms that pre-qualify civil, structural and marine subcontractors now, and lock long-lead electrical equipment before FY2027 awards cluster, will be positioned for both.

6. RISKS AND OPPORTUNITIES TO THE FORECAST

- **Downside:** A second Fed hike as September CPI printed at 3.7% has added financing risk: a post-December 11 shutdown longer than 30 days; data center planning slowing before institutional and grid work can replace it; infrastructure-law advance appropriations not restored; residential weakness deeper than our total-construction line assumes.
- **Upside:** A lame-duck permitting bill with transmission provisions; a highway bill near the $580 billion House level; a geopolitical supplemental lifting defense construction above its floor; Office of Strategic Capital lending scaling faster than expected; manufacturing stabilizing (August posted its first monthly increase since January).

SOURCE(S)

[9]AIA Consensus Construction Forecast, July 2026, https://www.aia.org/resource-center/july-2026-consensus-construction-forecast
[10]RentCafe/Yardi Matrix adaptive reuse analysis, 2026, via NAIOP, https://blog.naiop.org/2026/04/office-to-apartment-conversions-accelerate-as-adaptive-reuse-reshapes-the-rental-pipeline/ and BD+C, https://www.bdcnetwork.com/adaptive-reuse/news/55367859/office-to-residential-conversions-up-28-from-last-year. Pipeline counts include planned and underway projects.
[11]DefenseScoop, Oct 6, 2026, https://defensescoop.com/2026/10/06/white-house-anduril-announce-new-shipyard-baltimore-county/; Naval News, https://www.navalnews.com/naval-news/2026/10/anduril-u-s-navy-invest-6-6-billion-to-expand-americas-submarine-industrial-base/; State of Maryland, https://governor.maryland.gov/news/press-releases/arsenal-2-expected-directly-or-indirectly-support-over-14000-jobs-total. The 'largest since WWII' characterization is the President's.
[12]CRS, FY2026 Military Construction Appropriations: A Summary, https://www.congress.gov/crs-product/IN12622; DoW FY2027 Military Construction Budget Estimates, https://comptroller.war.gov/Portals/45/Documents/defbudget/FY2027/budget_justification/pdfs/07_Military_Construction/Military_Construction_Defense-Wide_Consolidated.pdf; House Appropriations FY27 MILCON-VA summary, https://appropriations.house.gov/sites/evo-subsites/republicans-appropriations.house.gov/files/evo-media-document/fy27-milcon-va-bill-full-committee-summary.pdf; CSIS, Tracking FY 2027 Defense Appropriations, https://www.csis.org/analysis/tracking-fy-2027-defense-appropriations-reconciliation-and-supplemental-request
[13]One Big Beautiful Bill Act defense provisions, https://www.nossaman.com/newsroom-insights-the-obbb-act-enhancing-u-s-national-security-and-defense-capabilities; CRS, Office of Strategic Capital, https://www.congress.gov/crs-product/IF13215; White House, America's Maritime Action Plan, Feb 2026; the 250-deal/$50B figure is from Secretary Hegseth's testimony and is self-reported.



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