Act Before the Cranes Arrive

Cranes don't predict growth. They confirm it, usually two years late. The advantage belongs to companies that read the earlier signal.

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Somewhere in a high school economics classroom, a teacher offers a rule of thumb: look for cranes. Cranes mean construction, construction means investment, and investment means confidence. The more cranes on the skyline, the healthier the economy.

It is a good rule of thumb. It is also, in important ways, backwards.

If you've spent any time working in or around nonresidential construction, you've probably felt this contradiction firsthand. A city grows. New subdivisions spread outward. Traffic gets worse. School enrollment swells. And yet the commercial pipeline stays quiet for what feels like forever. Then, seemingly out of nowhere, the cranes arrive. Projects break ground. The market heats up. Everyone wonders where all this activity came from.

It didn't come from nowhere. It came from two years ago.

The Two-Year Rule Nobody Talks About

Residential and nonresidential construction are not separate markets that occasionally brush against each other. They are the same underlying story told at different timelines. Residential growth plants the seed; nonresidential growth is the harvest, typically arriving two years later.

The mechanics of this lag are not mysterious. When families move into a new neighborhood, they don't instantly trigger a hospital expansion or a school bond. First, population growth has to be undeniable. Then, local governments and private investors have to agree the growth is real and durable, not a blip. Then someone has to acquire land, secure financing, hire an architect, survive permitting, go to bid, and break ground. By the time a crane appears above a new medical office building or a regional distribution center, the demand that justified it was baked in years earlier.

Economists have tracked this relationship through multiple full cycles, and the pattern holds with unusual consistency. Year-over-year (YoY) percentage changes in single-family housing starts have historically led comparable changes in private nonresidential construction spending by roughly two years. That is not a coincidence. It is a transmission mechanism.

Cranes are not predicting growth. They are confirming it, usually about two years after the fact.

What the Post-Recession Playbook Actually Showed

The Great Recession offers the clearest stress test of this relationship. Residential construction bottomed out and began its tentative recovery around 2011 after a few year whiplash. Homebuilding starts were still nowhere near healthy levels, but the year-over-year trend had turned positive for the first time in years.

Anyone working in commercial construction at that point would have told you the market still felt terrible. Nonresidential activity, across nearly every category, was still declining or flat. The sectors that supply into that market, including door hardware, access control, and security systems, saw no relief.

That was the lag, right on schedule. Residential recovery in 2011 and growth in 2012 eventually fed into a nonresidential recovery that didn't fully materialize until 2014. Companies that understood the sequencing used those quiet years to position themselves for what was coming. Companies that waited for the commercial market to confirm its own recovery before acting often missed the first, most profitable phase of the upturn.

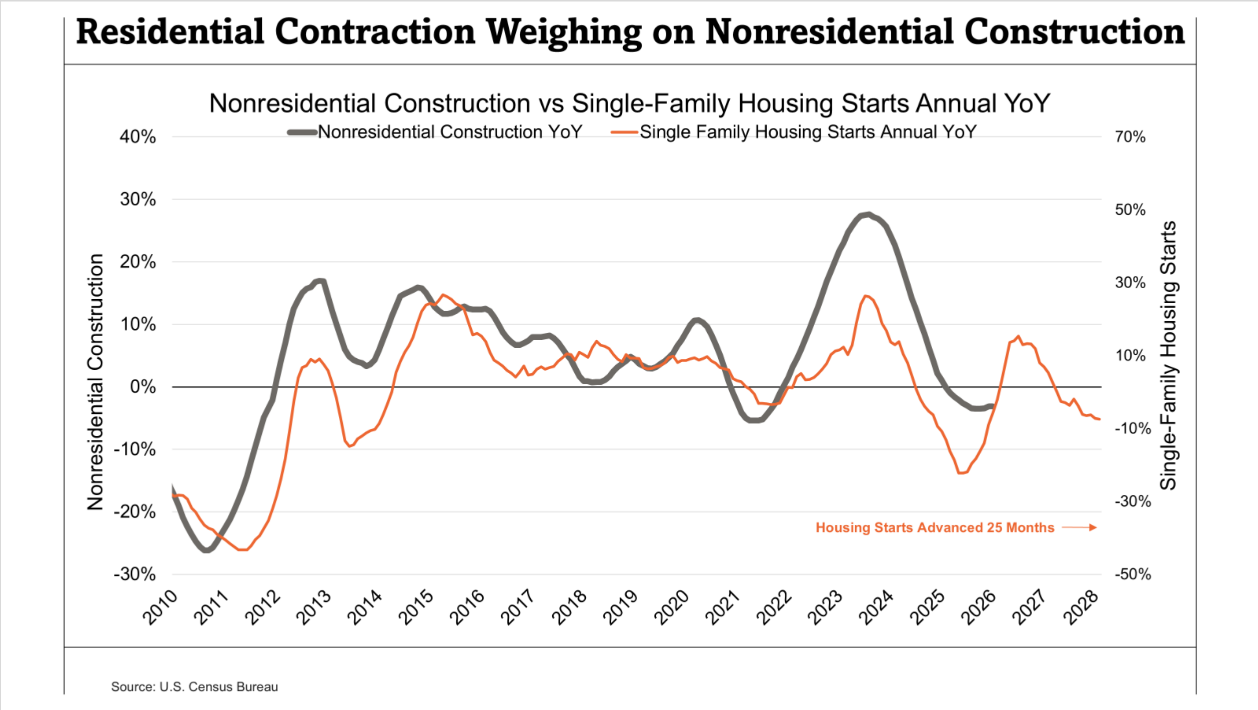

Chart: Single-Family Housing Starts (shifted +2 years) vs. Nonresidential Construction Spending YoY showing historical lead/lag relationship across multiple cycles

Where Things Stand Right Now and Expectations for the Rest of 2026

The current moment is worth reading carefully, because the signals are less than encouraging.

Residential construction spent much of the last couple of years fighting elevated mortgage rates, stretched affordability, and constrained builder financing. The result was a meaningful slowdown in new home construction that, per the two-year rule, is still working its way through the commercial pipeline. Current modeling points to minimal overall growth in the nonresidential market in 2026, followed by a resumed cyclical contraction in 2027.

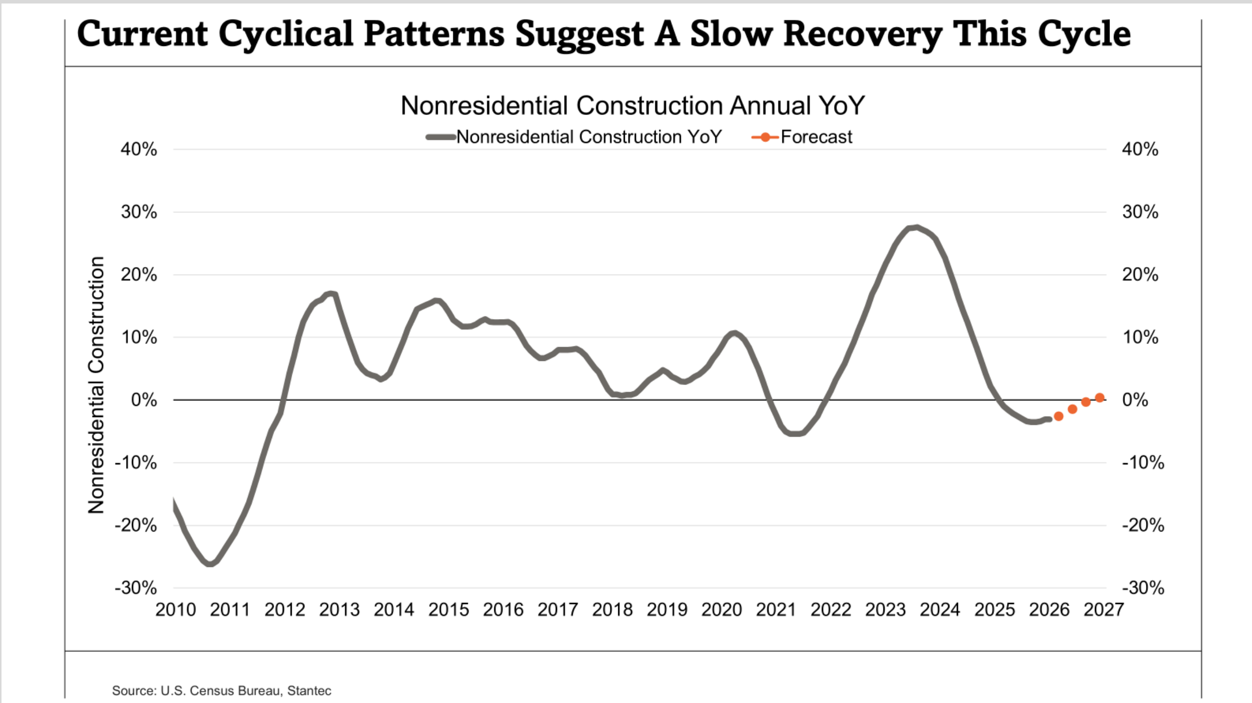

Chart: Forecast model showing nonresidential construction spending trajectory through 2026, highlighting minimal growth by year end

That is a genuinely different operating environment than what the industry experienced during the post-pandemic surge. The years from 2021 through 2024 were, for nonresidential construction, something of a sugar rush: a combination of pent-up demand, federal infrastructure spending, and reshoring investment that temporarily masked the underlying residential slowdown. That tailwind is fading.

None of this means the market is falling off a cliff. It means that businesses accustomed to a rising tide need to recalibrate their expectations and, more importantly, their planning horizons.

The Sector-by-Sector Reality Check

Calling the nonresidential market a single entity is a bit like saying you enjoy Rock and Roll without saying what decade and style. The aggregate number matters, but the composition matters more. Right now, the divergence across sectors is significant.

Sector	Annual YoY Change	What It Actually Means
Office	**-13.4%**	Structural, not cyclical. High vacancies are driving a double-dip. This one isn't waiting for a rate cut to recover.
Warehouse	**-10.8%**	Inventory rebalancing has taken hold in many sectors. A near-term cyclical bounce is plausible, but don't confuse a bounce with a growth run.
Manufacturing	**-8.0%**	The 2023 surge was real, but it borrowed from tomorrow. Contraction signals remain; patience required.
Multi-Retail	**-6.5%**	Consumer spending is still holding up better than expected. Cyclical upside exists, but 2027-2028 brings fresh caution.
Health Care	**-2.6%**	Even non-discretionary building has a down cycle. Near-term weakness remains.
Educational	**-1.8%**	An encouraging negative. A transition toward growth is likely soon.
Data Centers	**+31.1%**	Sizzling, but the power grid has opinions. Energy constraints could cap the runway faster than the headlines suggest.

Source: US Census Bureau

The table above is not meant to be depressing. It is meant to be useful. Office is in structural decline, and pretending otherwise could be a capital mistake. Data centers are genuinely growing, but the energy infrastructure required to support them is becoming a real constraint that aggressive growth projections tend to underweight. Educational and healthcare, despite their current negative readings, have demographic demand profiles that will reassert themselves.

For companies supplying into one specific sector could use a diversification strategy.

Building a Business That Can Read the Cycle

Understanding that construction markets are cyclical is a common thought. Every executive knows that. The harder discipline is building a business that can act on the cycle rather than merely survive it.

In practical terms, that means a few things. It means carrying different levels of inventory at different points in the cycle, not because the accounting is elegant but because the cost of being over- or under-stocked is asymmetric. It means planning workforce capacity on a two-to-three-year view, not just the next quarter's backlog. It means having a financial cushion that is sized for a real downturn, not just a soft quarter.

It also means being willing to invest before the market confirms the upswing. The companies that come out of down cycles with market share gains are almost always the ones that started hiring, upgrading systems, or expanding capacity while competitors were still cutting costs. They read the residential leading indicators, did the math on the two-year lag, and acted before the cranes showed up.

The companies that win coming out of a cycle rarely waited for confirmation. They acted while everyone else was still watching the skyline.

The Near-Term Outlook

In plain terms: the nonresidential construction market is likely to remain soft through 2026 and into 2027. Some sectors, data centers chief among them, will continue to grow. But the broad market, as measured by private nonresidential construction spending, is not positioned for a general reacceleration in the near term.

The pipeline of projects already in design and permitting will continue to generate activity. Short-term order volumes may not collapse. But the leading indicators that feed future demand, particularly residential growth, have not yet recovered enough to fuel the next expansion wave.

What that means practically: businesses that use this period to reduce exposure to structural restraints (office), build capacity in structural winners (data infrastructure, health care over a longer horizon), and prepare financially for a 2028-and-beyond recovery will be better positioned than businesses that simply wait for conditions to improve.

The cranes will come back. They always do. The question is whether you'll be ready when they do, or whether you'll spend the first year of the next upcycle scrambling to catch up.