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When will contractors see a boost of infrastructure dollars?

Federal money for civil projects could start to arrive early next year, but it's unclear when it will translate into earnings for construction companies.

Published Nov. 29, 2021

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When the American Recovery and Reinvestment Act of 2009 passed, the public construction firms eagerly anticipated a windfall of funding and new projects.

But then localities shifted the projects to other priorities. The Recovery Act "really amounted to a pretty anticlimactic impact for the large, publicly traded companies," said Sean Eastman, equity research analyst at Cleveland-based corporate and investment bank KeyBanc Capital Markets.

But Eastman thinks the recently signed Infrastructure Investment and Jobs Act should be different.

"This package feels more capital project-oriented and I feel like the state of state and local budgets now versus the 2009 era is quite a lot different," Eastman said. "So maybe there'll be less susceptibility to states allocating funds elsewhere, other than infrastructure."

Adam Thalhimer, director of research at Richmond, Virginia-based investment advisor Thompson Davis & Co., was equally as effusive, calling the infrastructure package "a normal highway bill on steroids."

"This provides states visibility and certainty to be able to tackle bigger projects," Thalhimer said. "A lot of the companies that I cover have been saying that the states have a big backlog of projects."

While the money flowing from the infrastructure package and the areas it will target seems locked in now that it’s been passed by Congress and the White House, analysts still think other details are in flux.

"With the exact timing of how this ultimately percolates into backlogs and earnings for E and C [engineering and construction] companies, there's still some uncertainty there," Eastman said. "But my sense is, going into 2023, there should be some momentum from this funding."

Thalhimer thinks the money will hit sooner than some people suppose. "It does cover fiscal '22," he said. "Everybody said, 'Oh, we won't see anything from this for a year.' I'm not completely sure that is true."

Competing for talent

But even after the work arrives, there will still be challenges. If things get backed up, Matt Arnold, senior equity analyst for St. Louis-based financial services firm Edward Jones, thinks companies could develop large backlogs in 2023, 2024 and 2025.

"I think there will be limiting factors, even a couple of years out," Arnold said. "If these companies all get that busy, it's going to be tough for them to be as prepared as they want to be in terms of actual capabilities to deliver on certain projects."

Part of the challenge of delivering projects is that finding labor to complete the work, especially for specialized jobs, could be difficult, leading to slower construction timelines.

"They're definitely going to be competing for talent in order to pursue these projects," Arnold said. "It's hard to put a number on how limiting of a factor it's going to be, but it's going to be something that has to be watched."

This shortage of workers will most likely lead to much higher labor costs just as these infrastructure projects begin to break ground, industry experts told Construction Dive. Joe Natarelli, national leader of Marcum's Construction Services practice, predicts wages will go up "significantly."

Material shortages and price increases could also pose a problem, but Arnold thinks those will subside over time. Nevertheless, while labor and materials issues could provide at least short-term constraints, Arnold thinks the infrastructure package will ultimately prolong a post-COVID-19 upturn that is only in its infancy.

"It's reasonable that they [recoveries] typically last a good solid few years before they start to really slow down or turn negative, depending on the macroeconomic environment at the time," Arnold said. "But this upturn is young, and it's going to get turbocharged by this infrastructure stimulus."