

Commercial Construction & Renovation

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Q1 MARCUM CONSTRUCTION REPORTS CHALLENGES

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The [Marcum Commercial Construction Index](#) for the first quarter of 2022 reports that the construction industry faces increasing costs and shortages of both labor and materials as well as rising interest rates. The residential sector has maintained its momentum while weakness continues to characterize the nonresidential sector.

2022 marks 10 years of publishing the Marcum Commercial Construction Index. The index is produced by Marcum's national [Construction Services group](#).

"While overall contractor confidence has dipped a bit recently, many contractors continue to expect growth in sales, employment, and even profit margins over the next six months," said [Anirban Basu](#), Marcum's chief construction economist and author of the report. "Despite rising costs of capital, demand for construction services remains elevated. Many contractors report operating at capacity."

As of April 2022, the construction industry has recovered all of the jobs lost during the early months of the pandemic. "Industry employment is 4,000 jobs above February 2020 levels," said Dr. Basu. "This represents a rapid recovery by historical standards, with the industry adding more than 1.1 million jobs since the worst of the downturn. That said, industry employment is significantly lower than it would have been had the pandemic not occurred, in part because many former workers permanently retired as the pandemic tore through the economy and endangered public and personal health."

While construction spending in the residential sector continues to climb higher, nonresidential spending remains weak. "Nonresidential construction spending is up 5.6 percent year-over-year, but once one factors in inflation, this represents a setback in real terms. Another measure of construction spending, investment in nonresidential structures, a component of gross domestic product, fell 0.9 percent during 2022's first quarter and has now declined during nine of the past ten quarters."

Some segments have fared better than others, though Dr. Basu anticipates it may be some time before the nonresidential construction sector reaches full recovery. "Certain segments, like manufacturing, should exhibit continued strength, but spending remains weak in pandemic affected segments like retail, lodging, and amusement and recreation," said Dr. Basu. "With borrowing costs rising and inflation still untamed, it may be some time before the nonresidential sector finds its footing."

Inflation and materials prices remain a pressing issue for the industry, and one that has pushed profit margins down. "At some point, these prices will come back to earth, in part because the Federal Reserve is set to curb money supply growth," said Dr. Basu. "For now, however, the world remains a

far too chaotic place for commodity prices to dip meaningfully. The expectation is that contractors will enjoy some relief by 2022's end, but only time will tell.”

Marcum's national construction leader, [Joseph Natarelli](#), said, “Builders are still learning how to cope with this ‘new normal.’ They're procuring and securing materials a lot sooner and getting funds to pay for materials upfront, before jobs even start. We're also seeing a lot more joint ventures. Contractors with labor issues are partnering with builders who have a more secure workforce to ensure they have labor for jobs. The same goes with materials procurement. We're seeing contractors with an ‘in’ on the supplies side entering into joint ventures with other builders who don't have that access.

“Barring a black swan event, I see steady, consistent growth in the construction industry in the coming months. While I think residential is going to slow down a bit because of interest rate impacts, I see construction backlogs overall fuller than they've been in a long time and have a lot of optimism for the industry in the coming months.”

To download the full Marcum Commercial Construction Index or for more information, visit www.marcumllp.com.

Marcum Construction Services

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