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## Commercial Construction Confidence on the Rise Despite Slow Start to Recovery

Nearly two-thirds of contractors are anticipating business growth in the coming months, according to Marcum's latest Commercial Construction Index.

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[Becky Schultz](#)

While the residential construction sector has seen an ongoing boom, commercial construction continues to lag behind in its recovery. This isn't diminishing contractor sentiment, with confidence in the sector on the upswing, according to the latest [Marcum Commercial Construction Index](#), produced by Marcum LLP's national Construction Services group.

"Contractor confidence is finally on the rise, with nearly two-thirds of contractors anticipating business growth in the coming months," says Joseph Natarelli, Marcum's national construction leader.

Anirban Basu, author of the report and Marcum's chief construction economist, agrees, adding, "Despite the malaise characterizing a number of commercial real estate segments, contractor confidence increased steadily during the first quarter of 2021. According to ABC's Construction Confidence Index, 55% of contractors expect their sales to increase over the next six months, up from just 34% a year earlier. As of April 2021, only 19% of contractors expect their sales to decline."

Admittedly, nonresidential construction has not seen the steady boom experienced in the residential sector. In fact, spending contracted 7.4% from March 2020 to March 2021. Basu indicates nonresidential's recovery may, in fact, be hindered by ongoing housing demand.

"The combination of expanding demand for homeownership opportunities and truncated inventory has produced a surge in housing prices," Basu comments. "While this is all excellent news for the residential construction industry, the increased demand for labor and commodities has and will continue to frustrate profitability in more slowly recovering nonresidential construction segments..."

Construction costs have risen steeply in recent months, with more inflation expected as the global economy continues to recover and pent-up demand for goods and services – with corresponding added pressure on the global supply chain – expands along with it.

Rising labor costs are also anticipated. The construction industry has added 917,000 jobs since May 2020, equivalent to roughly 82% of the jobs log during the initial months of the pandemic, Marcum points out. While still well below peak levels, recovery in the commercial sector will drive further workforce needs and push costs further upwards.

“The lingering shortage of labor and commodities combined with higher materials prices will continue to depress profits for the foreseeable future,” Natarelli acknowledges. “On the bright side, our beleaguered industry is poised to benefit from a federal infrastructure plan that should bolster spending in transportation, affordable housing, water, public schools and other sectors. Now that pandemic conditions are lifting and the economy is beginning to reopen, a new chapter for construction is about to begin. We are advising our clients to use this time to prepare.”

Basu takes a more cautious approach. “While the longer-term nonresidential construction outlook is upbeat, current circumstances remain far from positive,” he states. “Despite rising contractor confidence, broader economic recovery and the promise of a sizeable federal infrastructure package, nonresidential construction coincident indicators remain subdued.”

Although Basu predicts the economy to expand rapidly as vaccination rates increase, he also warns it may not be an entirely smooth ride for construction. “For instance, the recent surge of inflation may induce policymakers to hold off on significant new stimulus packages out of fear of further overheating the economy,” he notes. “That could induce Washington, D.C. to dial down the size of the infrastructure package presently under consideration.”