

# Long Island Business News

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## Construction challenged by rising costs, interest rates and shortages

By: [David Winzelberg](#) May 31, 2022

The construction industry faces big challenges from increasing costs and shortages of both labor and materials as well as rising interest rates, according to the [Marcum Commercial Construction Index](#).

“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,” Anirban Basu, Marcum’s chief construction economist and author of the report, said in a company statement. “Despite rising costs of capital, demand for construction services remains elevated. Many contractors report operating at capacity.”

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 factoring in inflation, it represents a setback. 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 10 quarters.

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,” Basu said. “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.”

Inflation and materials prices remain a pressing issue for the industry, and one that has pushed profit margins down.

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.”

Natarelli also said there are 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,” he said. “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.”

Despite the obstacles, Natarelli sees 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.”