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Labor Shortages and Rising Materials Prices Slowed Construction Recovery

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The Marcum Commercial Construction Index for the third quarter of 2021 reports that the construction industry's recovery slowed during the summer in the face of labor shortages and rising material prices. Nonresidential construction spending remains 10.7 percent below January 2020 levels but is just 1.3 lower than it was one-year ago.

The index is produced by **Marcum's National Construction Services group**.

"The nonresidential construction segment added 33,000 net new jobs in October 2021 and supports 46,500 more jobs than it did in October 2020," says **Anirban Basu**, Marcum's chief construction economist and author of the report. "But a majority of that growth has occurred in the heavy and civil engineering sub-segment, which is largely fueled by public financing. Nonresidential building employment, which is largely supported by private investment, is up only 4,700 positions over the past year."

Dr. Basu points out that, as has been the case since the beginning of the pandemic, the residential sector continues to outpace nonresidential. "Residential construction employment has outpaced nonresidential job growth since the start of the pandemic. Of the 169,000 jobs the construction industry has added since October 2020, the residential sector accounted for 122,800 (72.6 percent) of them," he said.

Inflation and sluggish supply chains continue to be issues for both the construction industry and broader economy, and transportation costs may be a primary culprit. "One of the factors driving input prices higher is high transportation costs. The Freightos Baltic Index, which measures the price of shipping a standard 40' container by ocean freight, is up 665 percent since pandemic onset. Domestically, transportation costs have also surged due largely to a lack of available truck drivers. During a recent 12-month period, the cost of truck transportation rose 14 percent," says Dr. Basu.

Dr. Basu is optimistic about the construction industry but warns that current conditions may suppress contractor profit margins. "Most contractors remain very busy," said Dr. Basu. "Demand for construction services remains high. The primary issues relate to rising costs, materials shortages, and worker shortages. Thus, while the average contractor expects sales and employment to rise over the next six months, profit margins are expected to decline."

Marcum's national construction leader, **Joseph Natarelli**, says: "Prices are continuing to rise for materials, and the labor shortage is causing timing issues as well as increased overall costs to employ people. We strongly urge contractors to lock in material purchases for future projects further out than they normally would, in an effort to curb delays as much as possible. It is also important to account for these increased costs in future bids in order to limit further gross profit deterioration."