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Will High Inflation Erode the Potential Benefits of Government Infrastructure Spending?

As local and state governments, including transportation agencies, were already grappling with ongoing supply chain disruptions for their current infrastructure projects, the historic inflation will also likely serve as a significant blow to the overall progress, funding allocation, and timely completion of these projects.

Given the complexity and longer time horizon of many of these capital programs, local and state governments generally allocate set funding with an inflation factor, including the infrastructure programs funding through the federal government. However, with the current inflation numbers, the public sector may be faced with the dilemma to either scale back on the scope of these projects or find alternative funding sources.

A recent report by S&P ratings on inflation and local government capital programs indicates that the current high levels of construction costs couldn't have arrived at a more inopportune time. With historic levels of federal investment in infrastructure starting to flow, cost inflation is beginning to erode some of its benefits. The report also states that "In addition, the producer price index (PPI) for building materials and supplies increased around 25% between March 2021 and March 2022 and around 60% from January 2020."

In this article, we will take a closer look at how local and state governments will likely deal with the ongoing inflation challenges and funding their planned capital projects.

Continue reading.

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