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S&P: Record U.S. Infrastructure Spending Is Colliding With Higher Construction Costs And Other Hurdles

Key Takeaways

- Infrastructure spending continues to ramp up in 2024 as approximately $1.8 trillion in federal grants, loans, incentives, tax credits, and other financial assistance works its way into the U.S. economy.
- After dramatic, pandemic-induced increases since early 2021, general inflation as well as construction-related inflationary measures in the Producer Price Index have moderated, which is good news for public project sponsors and engineering and construction (E&C) issuers.
- However, still-elevated prices for some construction inputs, permanent wage-rate increases, and continued worker shortages for skilled trades remain key drivers of overall project cost inflation, resulting in what could be a significantly diminished bang-for-the-infrastructure-buck compared with that originally envisioned by policy makers.
- Both public sector and E&C issuers face hurdles related to federal contracting requirements and regulations, including the Build America Buy America Act; and project labor agreements that can lead to higher costs and/or delays.

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14 May, 2024 | 17:25

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