Construction Quarterly

Materials Pricing Pressures: What's Driving Costs Up & Margins Down?

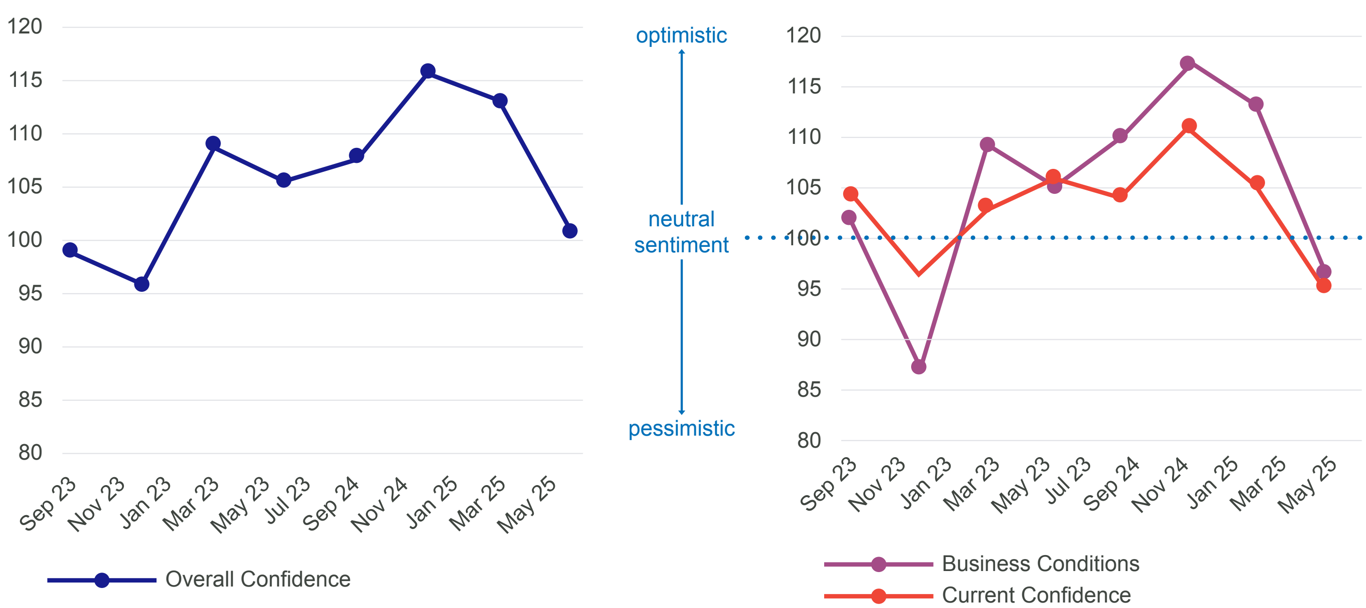
July 2025

Contrary to what the data might lead one to believe, construction leaders have maintained a sense of cautious optimism over the past several quarters. However, this quarter marks a turning point: construction company CEOs and CFOs are voicing real concerns about the future. Their main point of apprehension? Rising materials costs.

Harness Your Knowledge

The CONFINDEX is an index published quarterly by the Construction Financial Management Association (CFMA) that measures the sentiment of executives in the construction industry. The CONFINDEX is a composite index that considers executives' sentiments on (1) business conditions, (2) financial conditions, (3) current confidence, and (4) the outlook for the year ahead. This quarter, we can see that overall confidence has plummeted (see blue graph below). Sentiments remain optimistic for now. Still, when considering individual indices, the business conditions (green graph) and current confidence (orange graph) indices are trending pessimistic for the first time in five quarters.

June 2025 CONFINDEX Confidence Index



A score of 100 is a neutral baseline. A number above 100 is an optimistic outlook, and a number below 100 is a pessimistic outlook.

This change in sentiment appears to be attributed to concerns surrounding input costs, among other factors. In the comments section of the CFMA survey, respondents noted that they were concerned with the cost and availability of all inputs, which include materials but may also include equipment, tools, labor, and energy.

One of the questions posed to respondents was, "Compared to the previous quarter, are materials prices better, the same, or worse?" 66% of executives said that they expect materials prices to be worse. Last quarter, only 38% of respondents said the same. This growing concern with input pricing reshapes how contractors approach their jobs and run their businesses.

What's driving materials price uncertainty?

Rising materials costs are not the only factor making life difficult for contractors; it's input uncertainty. When prices change rapidly and materials sourcing isn't guaranteed, it's more difficult to accurately plan, budget, and price projects.

We've identified three main drivers of uncertainty around materials pricing and availability. Let's discuss all three.

Tariffs

The construction team at Forvis Mazars meets regularly with our clients to discuss their concerns. Nearly all contractors we meet with report that they're concerned about navigating the uncertain tariff environment regarding the pricing of future projects and the impacts on projects in process. The CONFINDEX survey proved this to be true. In the comments section of the report, the 144 respondents collectively used the word "tariff" a whopping 39 times.

Spencer Heywood, CPA, senior manager in the Washington National Tax Office (WNTO) at Forvis Mazars, said this about tariff uncertainty: "While some progress has been made on deals between countries such as China, the U.K., and Vietnam, the threat of reciprocal tariffs on dozens of countries remains in effect. The administration has seemed reluctant to implement the high tariffs, opting to continue to provide extensions for countries to make deals when deadlines approach. Whether the extensions will continue, or the negotiation tactic brings the wanted outcome remains to be seen; the uncertainty it brings to the market will persist."

Tariffs exacerbate uncertainty around input pricing and sourcing in the following ways:

Costs

Tariffs raise the prices of imported goods. Commonly tariffed materials include steel, wiring, HVAC components, lumber, and petroleum-based products like asphalt. Cranes, bulldozers, forklifts, tools, safety equipment, and special machinery are also often tariffed when imported. And if they're assembled domestically, they're typically assembled using imported materials and components subject to tariffs.

But it's not just the materials and components that are more expensive. Tariffs may also raise the cost of transportation, freight, and warehousing. When companies change suppliers or route products through different international ports to limit their tariff exposure, transportation and warehousing may become less efficient and more costly.

In addition, bankers and insurance companies are aware that tariffs take a financial toll on businesses. As time goes on, bankers and insurers may reconsider their risk profiles and raise insurance and lending costs for contractors and other businesses that import materials and equipment.

Business Planning

A survey respondent said, "The lack of clarity regarding the permanence of the newly imposed tariffs makes assessing our customers' needs even more difficult than the tariffs themselves." In response to tariff uncertainty, contractors may need to make the following operational changes:

- **Change assumptions in bids**: They may need to build new prices into their bids to absorb those additional costs.
- **Re-source materials**: Finding alternate markets can be difficult, costly, and may lead to longer lead times.
- **Renegotiate contracts**: Contractors may need to build language into their contracts to protect themselves against tariff uncertainty. As such, price escalation clauses were discussed in [last quarter's report].

Energy

Energy is a sticky subject to address, but it's one we can't ignore. Changes in energy prices, specifically crude oil, affect the industry from three main angles.

1. **Direct operating costs**: Fuel powers the equipment that moves materials and crew around construction sites.
2. **Transportation costs**: If crude oil prices rise, so will transportation costs. Construction companies must consider freight costs when they purchase inventory, tools, and materials.
3. **Materials pricing**: Many materials used in construction are derived from petroleum, *e.g.*, asphalt, plastics, insulation, paint, adhesives, carbon fiber, etc.

While some fear that energy supplies will dwindle, contractors are more acutely concerned with the price volatility of oil and petroleum.

Geopolitical unrest is a major driver of changing oil prices. Coleman Rowland, leader of the Energy & Natural Resources industry at Forvis Mazars, introduces the problem in simple terms, using the current conflict in the Middle East as an example:

"A large portion of the world's oil reserves are coming out of the ground in the Middle East. So when you have geopolitical unrest, oil prices go up for fear of shortening supply."

The U.S. Energy Information Administration reports a strong correlation between oil price shocks and geopolitical events.[1] Oil prices have changed drastically during these international events:

- Arab Oil Embargo from 1973 to 1974
- Iran-Iraq War in the 1980s
- Persian Gulf War from 1990 to 1991
- U.S. sanctions on Venezuela in 2019
- Russia's invasion of Ukraine in 2022
- The Gaza war that began in 2023
- Political instability in Libya in 2024
- U.S. drone strikes on Iran's nuclear facilities in 2025

However, it's not just geopolitical events that affect the price of oil. Other factors include:

- Actions taken from the Organisation of Petroleum Exporting Countries (OPEC)
- Natural disasters
- Refinery outages
- Pipeline concerns
- Oil storage availability
- National and international demand
- Availability of alternative energy sources
- Market speculation

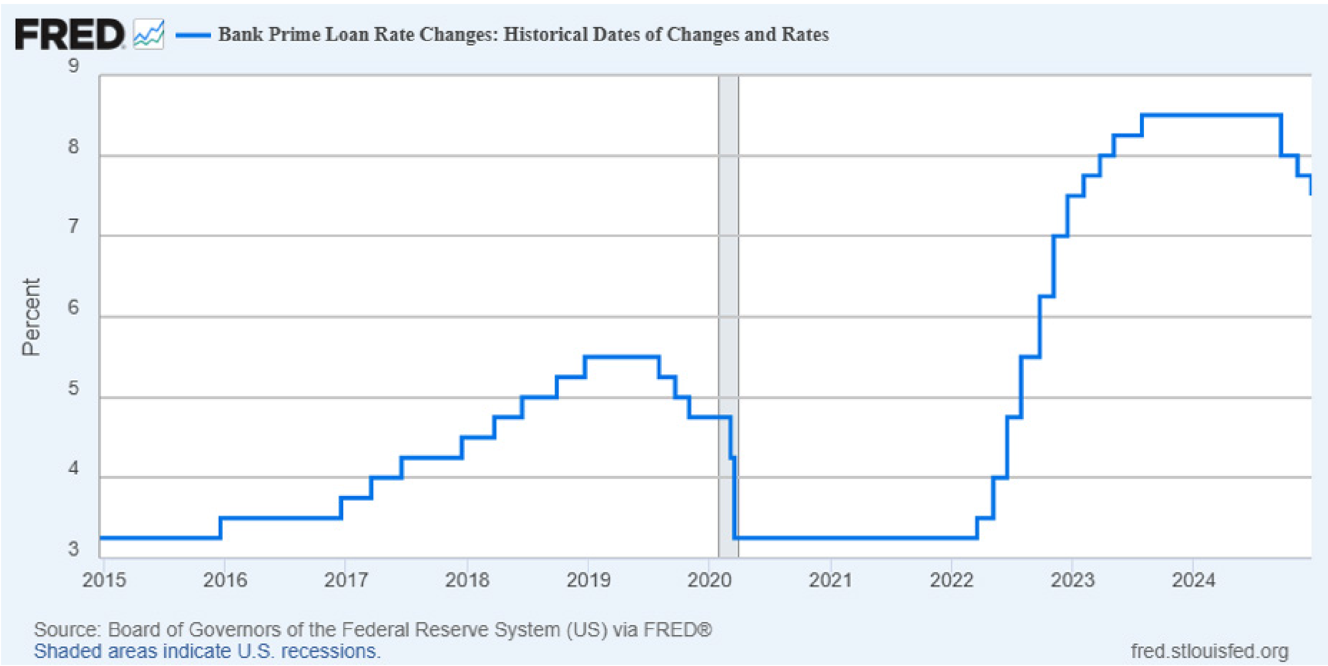
There isn't an easy way for contractors to fully protect themselves against crude oil price swings. Larger contractors may be able to adopt hedging strategies, but those options may not be accessible to midsize and smaller companies. Still, all contractors can weather price volatility to some extent by shoring up operations and by building a specific playbook to follow when times are tough.

1 "Oil and petroleum products explained: oil prices and outlook," eia. gov, August 16, 2023.

Interest Rates

Interest rates are always a concern for industries that tend to be highly leveraged, which often include construction companies and the owners of many construction projects that are in the development pipeline. Some contractors rely on lines of credit, owners and developers rely on commercial loans for capital-intensive projects, and some even use financing to manage day-to-day cash flow. Interestingly, construction leaders don't expect the lending environment to worsen. According to the CONFINDEX survey, two-thirds of respondents think there will be no change in the general availability of bank credit a year from now.

But that doesn't mean contractors and the owners they complete projects for are happy with the interest rates and availability as they stand today. Interest rates are still quite high, with the bank prime rate sitting at 7.5% as of the date of this publication.



When interest rates are this high, contractors and owners/developers struggle, and there are three main reasons for this:

1. **Financing costs more.**
   One survey respondent had this to say about high interest rates: "High interest rates are preventing private companies from starting construction projects." Projects can be delayed when borrowing becomes more expensive, resulting in lower volume and decreased profit for contractors.

2. **Owners/developers are less willing to move forward with projects.**
   One survey respondent noted that due to the high cost of borrowing, some of their clients "decide not to proceed with future phases due to funding." Delayed and canceled projects can disrupt cash flow, but they can also disrupt resource planning. Consider labor: Without steady projects, crews may sit idle, and construction companies must decide if they want to (1) pay wages to underutilized staff, or (2) let those staff members go temporarily and risk losing them to another industry before they can rehire them.

3. **Banks are tightening their lending rules.**
   One survey respondent said, "We're seeing … more due diligence on the bank side." Higher interest rates tend to make banks more cautious about extending financing, and in response, they may impose stricter credit evaluations. This could make it more difficult for construction companies to get credit approval or secure optimal rates. Banks may also impose tighter loan terms, like lower loan amounts or shorter repayment periods, which can place an even greater financial strain on construction companies' cash reserves.

The only constant is change.

There is one source of good news: the 2025 Tax Act was signed into law on July 4, 2025. Heywood says that the passage of this reconciliation bill should "ease some of the uncertainty that has gripped the construction industry over the last couple of quarters." While there are many provisions in the *One Big Beautiful Bill Act* (OBBBA) that could benefit the industry—like the permanent extension of 100% bonus depreciation, the enhanced deductibility of business interest expense, and the new ability to deduct qualified real estate manufacturing property in the year placed in service—the three drivers of uncertainty that we discussed above remain a concern.

Fortunately, uncertainty is nothing new in this industry. You've weathered changes before, and you'll do it again. While today's challenges can feel overwhelming, we believe you have the information and real-world experience to adapt and endure.

To explore specific strategies for navigating this environment, please reach out to a professional construction advisor at Forvis Mazars to help.

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