

WHAT THE DICKENS IS HAPPENING?

A TALE OF TWO RECOVERIES

The early stages of economic recovery from the horrendous period of economic dislocation suffered in North America in March and April has been remarkable. During that two-month period, the U.S. lost approximately 22 million jobs while Canada sustained a loss of roughly 3 million jobs. By April, America's unemployment rate approached 15 percent while Canada was in the range of 13 percent.

Since that time, both economies have benefited from a pace of recovery that has surprised many economists. The U.S. added another 661,000 net new positions in September while Canada added 378,200. Arguably, the Canadian recovery has been more vigorous. By September, Canada had recovered 76 percent of the jobs it lost in March and April while America had recovered a bit more than 51 percent.

The pattern is markedly different with respect to construction employment. In September, construction added 26,000 net new jobs, with the level of employment down less than 4 percent from a year ago. In Canada, construction employment was unchanged in September and industry employment is down 7.4 percent on a year-ago basis.

GREAT EXPECTATIONS FOR HOMEBUILDERS

Construction spending rose 1.4 percent in the U.S. and 7.7 percent in Canada in September, thanks primarily to burgeoning residential activity. Ultra-low interest rates have induced more people to jump into owner occupancy. The enhanced desire to social distance, the demographics of Millennials, and a growing demand for enough space to support a home office has also persuaded more people to abandon their leases in favor of a mortgage. In September, nonresidential construction spending rose 0.8 percent in Canada, but residential spending was up by nearly 11 percent. Similar patterns are apparent in America where commercial construction has been faltering while single family building permits surge.

MATERIAL PRICES TWIST HIGHER

Though the global economy will end the year considerably smaller than it began, various commodity (e.g. copper, oil) and materials prices have been edging higher recently. In September, materials prices rose 1.6 percent in the U.S. after falling for much of the previous year. Even with September's rise in prices, materials are only 1.1 percent more expensive than they were a year ago.

- The U.S. economy has recovered roughly half of the jobs lost in March and April, while Canada has recovered close to three-quarters of its lost positions.
- Construction employment increased in the U.S. in September but remained virtually unchanged in Canada.
- Total construction spending is up on a year-over-year basis in both the U.S. (+2.5%) and Canada (+6.3%).
- Residential construction spending increased in both the U.S. (+7.0%) and Canada (+6.0%) on a Y-o-Y basis.
- Nonresidential construction spending fell in the U.S. (-0.7%) on a Y-o-Y basis, but was up in Canada (+7.1%).

With residential activity surging and many homebuilders placing orders for softwood lumber packages, lumber prices have exploded. In the U.S. softwood lumber prices rose 27.4 percent in September alone, and are up more than 80 percent on a year-ago basis. However, if Europe, the U.S., and other regions continue to experience rapidly rising COVID-19 infections, economies could shut down again, which would likely result in near-term reversals in many materials prices.

HARD TIMES

As if COVID-19 were not enough, the U.S. has also encountered the uncertainties that accompany a high-stakes presidential election. As is often the case, many economic actors embraced a wait and see attitude, stalling the pace of economic recovery as winter approaches.

There is much at stake, including America's policies on the taxation of capital and income, regulation of the oil and natural gas industry, attitudes toward international trade and immigration, infrastructure, and the shape of stimulus presumably yet to come.

U.S. CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Aug-20	July-20	Aug-19	July-20	Aug-19
<i>Total Construction</i>	\$1,412,823	\$1,392,653	\$1,378,956	1.4%	2.5%
<i>Residential</i>	\$598,556	\$577,468	\$559,162	3.7%	7.0%
<i>Nonresidential</i>	\$814,267	\$815,184	\$819,794	-0.1%	-0.7%
Lodging	\$29,039	\$29,153	\$33,031	-0.4%	-12.1%
Office	\$80,469	\$81,245	\$88,278	-1.0%	-8.8%
Commercial	\$81,478	\$82,441	\$80,557	-1.2%	1.1%
Health care	\$46,894	\$47,325	\$44,666	-0.9%	5.0%
Educational	\$99,588	\$99,224	\$103,332	0.4%	-3.6%
Religious	\$2,722	\$2,713	\$3,535	0.3%	-23.0%
Public safety	\$15,329	\$15,642	\$10,968	-2.0%	39.8%
Amusement and recreation	\$26,741	\$26,746	\$28,455	0.0%	-6.0%
Transportation	\$57,454	\$57,752	\$58,868	-0.5%	-2.4%
Communication	\$23,061	\$23,033	\$22,824	0.1%	1.0%
Power	\$118,015	\$119,323	\$118,857	-1.1%	-0.7%
Highway and street	\$100,941	\$98,996	\$94,273	2.0%	7.1%
Sewage and waste disposal	\$27,199	\$27,668	\$26,527	-1.7%	2.5%
Water supply	\$19,568	\$19,164	\$15,326	2.1%	27.7%
Conservation and development	\$8,795	\$9,478	\$9,667	-7.2%	-9.0%
Manufacturing	\$76,974	\$75,282	\$80,631	2.2%	-4.5%
Employment, SA (in thousands)	Sept-20	Aug-20	Sept-19	Aug-20	Sept-19
National Total Nonfarm	141,720	141,059	151,368	0.5%	-6.4%
Construction	7,245	7,219	7,524	0.4%	-3.7%
Residential building	827	821	825	0.8%	0.2%
Nonresidential building	794	788	839	0.7%	-5.4%
Heavy and civil engineering construction	1,006	1,009	1,079	-0.3%	-6.8%
Residential specialty trade contractors	2,075	2,060	2,090	0.8%	-0.7%
Nonresidential specialty trade contractors	2,543	2,541	2,691	0.1%	-5.5%
Producer Price Index	Sept-20	Aug-20	Sept-19	Aug-20	Sept-19
Inputs to Construction Industries	233.1	229.4	230.5	1.6%	1.1%

CANADA CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Aug-20	July-20	Aug-19	July-20	Aug-19
Total Construction	\$18,310	\$17,006	\$17,226	7.7%	6.3%
Residential	\$12,989	\$11,729	\$12,256	10.7%	6.0%
Nonresidential	\$5,321	\$5,278	\$4,970	0.8%	7.1%
Industrial	\$924	\$916	\$906	0.9%	2.0%
Commercial	\$3,113	\$3,115	\$2,852	-0.1%	9.2%
Institutional and Governmental	\$1,284	\$1,247	\$1,211	3.0%	6.0%
Employment, SA (in thousands)	Sept-20	Aug-20	Sept-19	Aug-20	Sept-19
Total All Industries	18,469.9	18,091.7	19,154.9	2.1%	-3.6%
Construction	1,369.4	1,368.8	1,478.9	0.0%	-7.4%
Building Construction Price Index	2020Q2	2020Q1	2019Q2	2020Q1	2019Q2
Residential Building	111.6	111.1	109.3	0.5%	2.1%
Nonresidential Building	108.8	108.7	107.2	0.1%	1.5%