

2021: WHAT A DIFFERENCE A YEAR MAKES

Economic Outlook has Never Been Better

One could certainly find things about which to complain. A global pandemic lingers. People impatiently await vaccination. Hospitals in Paris and elsewhere remain overwhelmed by COVID-19 infected patients. NBA arenas remain empty. Initial claims for unemployment remain far higher than during the pre-pandemic period. Both consumer and business sentiment remain unusually low. The cruise lines industry, one of many travel-related industries to be devastated during the crisis, has lost nearly \$40 billion in total sales over the past year, and many countries continue to prohibit cruising and other leisure activities.

And yet, the economic outlook for 2021 is perhaps better than any other year on record. The U.S. and Canadian economies are steadily reopening. Along with Pfizer and Merck, vaccines developed by Johnson & Johnson and Novavax are making their way into the market. America added nearly 400,000 jobs in February, and unemployment is down to 6.2 percent.

Much of the recent U.S. momentum is attributable to a \$900 billion stimulus package legislated by Congress. But that was hardly enough for U.S. policymakers, who recently promulgated a \$1.9 trillion stimulus package even as the economy was gathering momentum. Meanwhile, the Federal Reserve, ignoring warnings of coming inflation, has recommitted to maintaining monetary accommodation and low interest rates. The upshot is that the U.S. economy is headed for a period of dazzling growth during the latter half of 2021 and into 2022.

There's more. The Canadian economy has been manifesting surprising vigor as businesses there stock up on inventories in anticipation of much faster growth later this year. According to a preliminary estimate released by Statistics Canada, GDP expanded at a nearly 10 percent annualized rate during last year's fourth quarter. More recently, however, employment has dipped, particularly in Ontario and Quebec where economic lockdown measures continue to ripple through labor markets.

I'm Going Home, the One I Own

Many observers note what has become a massive push to the suburbs in America. Over the past year, people have sought to take advantage of lower mortgage rates, inducing them to leave expensive city apartments behind in favor of suburban homes. A desire to more aggressively social distance, for more space for home gyms and home offices, and the coming of age of Millennials have also helped to push more Americans into suburban homeownership.

- The U.S. economy has recovered 57.6% of the jobs lost in March and April, while Canada has recovered 80% of lost positions;
- In February, construction employment declined 0.8% in the U.S., perhaps due in part to weather-impacted activity in Texas, but increased slightly in Canada (0.5%);
- In January, year-over-year construction spending was up 5.8% in the U.S. and 7.0% in Canada;
- In the U.S., residential construction spending increased 21.1% on a year-over-year basis in January and 17.9% in Canada;
- Nonresidential construction spending declined on a year-over-year basis both in the U.S. and in Canada, falling 5% and 12.5%, respectively;
- U.S. input prices increased 2.1% in February, and are 7.6% higher than a year ago.

But America is hardly alone. Similar trends are apparent in Canada. As indicated by Bloomberg Wealth, Canada's three largest metropolitan areas, Toronto, Montreal, and Vancouver, built more apartment units per capita than almost every other large North American city over the past decade. Indeed, from 2010 to 2019, Vancouver built the most apartment units per capita among large metropolitan areas in North America according to data compiled by Bloomberg and online brokerage Redfin.

The COVID-19 pandemic and its attendant remote-work revolution have urbanites leaving those cities in record numbers, emptying condominium towers and sending apartment rents tumbling. While this does not portend well for new multifamily construction, single-family home building continues to surge as builders aggressively search for developable lots.

Contractors Beware! Materials Prices on the Rise

One of the big newsmakers last year was the surge in softwood lumber prices. Since that time, other commodity prices have also been racing higher, including iron/steel, petroleum and natural gas. With the global economy set to reopen and certain supply chains still in disarray, the probability of further materials price increases remains elevated.

U.S. CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Oct-20	Sept-20	Oct-19	Sept-20	Oct-19
<i>Total Construction</i>	\$1,521,454	\$1,496,450	\$1,437,719	1.7%	5.8%
<i>Residential</i>	\$722,379	\$704,823	\$596,728	2.5%	21.1%
<i>Nonresidential</i>	\$799,074	\$791,627	\$840,990	0.9%	-5.0%
Lodging	\$24,908	\$24,788	\$32,133	0.5%	-22.5%
Office	\$79,515	\$79,572	\$83,280	-0.1%	-4.5%
Commercial	\$78,361	\$79,895	\$85,166	-1.9%	-8.0%
Health care	\$46,171	\$45,659	\$47,497	1.1%	-2.8%
Educational	\$106,188	\$106,186	\$108,392	0.0%	-2.0%
Religious	\$3,111	\$3,133	\$3,555	-0.7%	-12.5%
Public safety	\$16,246	\$16,007	\$12,928	1.5%	25.7%
Amusement and recreation	\$25,074	\$24,886	\$28,809	0.8%	-13.0%
Transportation	\$56,585	\$56,916	\$57,275	-0.6%	-1.2%
Communication	\$22,321	\$22,084	\$22,700	1.1%	-1.7%
Power	\$114,181	\$115,025	\$126,449	-0.7%	-9.7%
Highway and street	\$108,108	\$102,152	\$101,784	5.8%	6.2%
Sewage and waste disposal	\$26,506	\$27,024	\$26,317	-1.9%	0.7%
Water supply	\$18,369	\$18,259	\$17,714	0.6%	3.7%
Conservation and development	\$7,610	\$7,161	\$9,791	6.3%	-22.3%
Manufacturing	\$65,822	\$62,882	\$77,204	4.7%	-14.7%
Employment, SA (in thousands)	Feb-21	Jan-21	Feb-20	Jan-21	Feb-20
National Total Nonfarm	143,048	142,669	152,523	0.3%	-6.2%
Construction	7,340	7,401	7,648	-0.8%	-4.0%
Residential building	858	853	840	0.6%	2.2%
Nonresidential building	806	810	855	-0.4%	-5.7%
Heavy and civil engineering construction	1,033	1,053	1,111	-2.0%	-7.0%
Residential specialty trade contractors	2,132	2,137	2,141	-0.3%	-0.5%
Nonresidential specialty trade contractors	2,512	2,549	2,701	-1.4%	-7.0%
Producer Price Index	Feb-21	Jan-21	Feb-20	Jan-21	Feb-20
Inputs to Construction Industries	247.1	242.0	229.7	2.1%	7.6%

CANADA CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Jan-21	Dec-20	Jan-20	Dec-20	Jan-20
Total Construction	\$15,075	\$15,673	\$14,089	-3.8%	7.0%
Residential	\$10,642	\$11,156	\$9,024	-4.6%	17.9%
Nonresidential	\$4,433	\$4,517	\$5,064	-1.9%	-12.5%
Industrial	\$814	\$847	\$927	-3.9%	-12.2%
Commercial	\$2,509	\$2,541	\$3,013	-1.3%	-16.7%
Institutional and Governmental	\$1,111	\$1,130	\$1,125	-1.7%	-1.2%
Employment, SA (in thousands)	Feb-21	Jan-21	Feb-20	Jan-21	Feb-20
Total All Industries	18,531.2	18,272.0	19,130.3	1.4%	-3.1%
Construction	1,442.4	1,435.6	1,494.6	0.5%	-3.5%
Building Construction Price Index	2020Q4	2020Q3	2019Q2	2020Q1	2019Q4
Residential Building	117.7	114.4	110.4	2.9%	6.6%
Nonresidential Building	109.7	109.3	108.1	0.4%	1.5%