

## **CONSTRUCTION OUTLOOK REMAINS UNCERTAIN**

### **STIMULUS WOULD HELP AS CONSTRUCTION SPENDING DECLINES**

Construction spending in the U.S. fell 2.9% in June compared to the previous month. Both nonresidential and residential construction experienced monthly declines in spending, dipping 1.8% and 4.5%, respectively.

While the construction sector fared better than other segments in the economy during earlier stages of the pandemic, in part due to its essential industry status, the outlook is not positive. A growing number of firms report that their backlog is shrinking. Many expect both sales and profit margins to decline over the balance of 2020 and into 2021. Indeed, anecdotally, contractors report fewer available bidding opportunities and more competitive bidding, both of which are consistent with diminished revenues and margins going forward.

Economic fundamentals in many private construction segments have been damaged by the lingering pandemic, including emerging office and retail vacancies. Construction spending in the lodging category is down more than 12% year over year. An emerging new normal with respect to office work further jeopardizes spending in the office category, which has also been declining recently.

### **CANADIAN CONSTRUCTION SPENDING REBOUNDS**

Construction spending in Canada expanded 25.2% on a monthly basis in June as the economy continued to reopen. Despite June's performance, year-over-year construction spending is down 3.1% in Canada. However, nonresidential construction spending is up 13.6 percent, meaning that the year-over-year loss in spending is attributable to the residential category, which was down nearly 10 percent over the same time period.

### **U.S. AND CANADA RECOVER LOST JOBS**

Like the balance of America's economy, the construction industry suffered massive job losses during the early months of the downturn. In March and April, the industry lost a combined 1.1 million jobs. Construction unemployment rose from 5.5% in February, when the threat of the virus was poorly understood and had yet to manifest itself meaningfully in North America, to 6.9% in March. In April, the month associated with the most job losses, the rate rose again, this time to 16.6%.

- Construction spending is up on a Y-o-Y basis in the U.S. (+3.0%), but down in Canada (-3.1%);
- U.S. residential construction increased more on a Y-o-Y basis compared to nonresidential, but is down more on a monthly basis; public safety has seen the largest Y-o-Y increase in the U.S.; Canadian nonresidential spending is up Y-o-Y;
- Canadian construction spending rebounded in May and June following a drop in April;
- Both the U.S. and Canada experienced rapid employment growth in the months following March and April as their economies reopened;
- Construction employment in the U.S. and Canada has expanded on a monthly basis, but is still down Y-o-Y;
- Input prices in the U.S. increased by 1.9% in May, but are down 2.4% compared to the same time last year.

And then, seemingly in the blink of an eye, things changed. Construction added a combined 639,000 jobs during the months of May, June, and July in the U.S. Industry unemployment dipped to 8.9 percent, meaningfully below the national average of 10.2%. Indeed, data indicates that construction employment has recovered faster than any other major economic segment. Over the three-month period ending in July, the industry recovered 59% of the jobs lost in March and April.

After losing more than 300,000 construction jobs over the course of March and April, Canada has since recovered 60% of those jobs. The country's labor force participation rate, which had dropped to 59.5% in April, has risen to 65.3% by July. Canadian unemployment, which had risen to 13.7% in May, declined to 10.9% by July.

### **INFLATION ON THE RISE IN THE U.S.**

To date, inflation has remained benign despite the challenges faced by global supply chains due to the pandemic, creation of massive new money supply around the world, and public deficit spending. In fact, over the course of the pandemic, inflation has generally been in retreat. That may be changing. Construction input prices rose 1.9% in July over the previous month according to the latest data released by the Bureau of Labor Statistics. The price of softwood lumber registered the largest increase (9.8% for the month).

U.S. CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	June-20	May-20	June-19	May-20	June-19
<i>Total Construction</i>	\$1,346,166	\$1,386,579	\$1,307,136	-2.9%	3.0%
<i>Residential</i>	\$544,312	\$569,887	\$512,113	-4.5%	6.3%
<i>Nonresidential</i>	\$801,854	\$816,692	\$795,023	-1.8%	0.9%
Lodging	\$29,999	\$30,093	\$34,169	-0.3%	-12.2%
Office	\$78,762	\$79,314	\$78,906	-0.7%	-0.2%
Commercial	\$89,214	\$91,239	\$84,294	-2.2%	5.8%
Health care	\$45,561	\$45,801	\$44,491	-0.5%	2.4%
Educational	\$93,506	\$96,819	\$99,026	-3.4%	-5.6%
Religious	\$2,632	\$2,853	\$2,877	-7.7%	-8.5%
Public safety	\$13,455	\$13,654	\$9,944	-1.5%	35.3%
Amusement and recreation	\$25,890	\$26,160	\$29,094	-1.0%	-11.0%
Transportation	\$53,939	\$55,436	\$52,898	-2.7%	2.0%
Communication	\$23,370	\$23,490	\$23,453	-0.5%	-0.4%
Power	\$111,248	\$112,417	\$99,904	-1.0%	11.4%
Highway and street	\$106,350	\$112,152	\$112,609	-5.2%	-5.6%
Sewage and waste disposal	\$26,451	\$26,043	\$25,228	1.6%	4.8%
Water supply	\$18,506	\$18,648	\$16,385	-0.8%	12.9%
Conservation and development	\$8,584	\$8,440	\$8,860	1.7%	-3.1%
Manufacturing	\$74,388	\$74,132	\$72,884	0.3%	2.1%
Employment, SA (in thousands)	July-20	June-20	July-19	June-20	July-19
National Total Nonfarm	139,582	137,819	150,953	1.3%	-7.5%
Construction	7,195	7,175	7,504	0.3%	-4.1%
Residential building	815	798	818	2.0%	-0.5%
Nonresidential building	782	791	840	-1.2%	-6.9%
Heavy and civil engineering construction	1,018	1,016	1,072	0.2%	-5.1%
Residential specialty trade contractors	2,031	2,023	2,089	0.4%	-2.8%
Nonresidential specialty trade contractors	2,550	2,546	2,685	0.1%	-5.0%
Producer Price Index	July-20	June-20	July-19	June-20	July-19
Inputs to Construction Industries	228.1	223.9	233.7	1.9%	-2.4%

CANADA CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	June-20	July-20	June-19	July-20	June-19
Total Construction	\$15,450	\$12,342	\$15,938	25.2%	-3.1%
Residential	\$10,168	\$7,723	\$11,287	31.7%	-9.9%
Nonresidential	\$5,282	\$4,619	\$4,651	14.4%	13.6%
Industrial	\$903	\$806	\$836	12.0%	8.0%
Commercial	\$3,188	\$2,742	\$2,684	16.3%	18.8%
Institutional and Governmental	\$1,191	\$1,071	\$1,131	11.2%	5.3%
Employment, SA (in thousands)	July-20	June-20	July-19	June-20	July-19
Total All Industries	17,845.9	17,427.4	19,037.9	2.4%	-6.3%
Construction	1,364.3	1,330.8	1,474.5	2.5%	-7.5%
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%