

THE INFLATION STORY IS REAL

Finishing Contractors Know Better than Anyone

The march toward the post-pandemic world has been grinding. The onset of vaccinations earlier this year continues to hold much promise, but a recent viral surge across the globe serves as a reminder that much of the world economy continues to be beholden to a lingering public health crisis. Stadiums and arenas remain largely empty, and mask requirements are virtually ubiquitous once one leaves the home.

But while there are plenty of pandemic reminders, there is also data consistent with a booming economy. According to an initial estimate from the Bureau of Labor Statistics, stimulus-infused America added 916,000 jobs on net in March. U.S. unemployment has plummeted to 6 percent from nearly 15 percent last April. Financial markets have soared, with the S&P recently crossing the 4,000 threshold for the first time. Home prices continue to race higher in the context of low inventory and a scramble for homeownership opportunities, particularly in the suburbs. Canada regained jobs at an even faster pace in March, expanding their employment base by 1.6 percent for the month.

Perhaps nothing better reflects the nascent reawakening of the global economy than the recent surge in materials prices. Construction input prices rose 3.5 percent in March 2021, according to U.S. Bureau of Labor Statistics' Producer Price Index data. Construction input prices are 12.9 percent higher than in March 2020. Nonresidential construction input prices are up 12.4 percent during that span. Natural gas and unprocessed energy materials experienced the largest year-over-year increases, rising 178 percent and 97 percent, respectively. The price of crude petroleum is up 91 percent on a year-ago basis. According to Random Lengths, as of mid-February 2021, the price of framing lumber topped \$975 per thousand board feet, a 180 percent increase since last April when the analogous price was in the range of \$350.

The National Association of Homebuilders recently indicated that the price of building the typical new home in America is up \$24,000 due to softwood lumber price spikes alone. Anecdotal evidence indicates that some homebuilders have returned deposits to customers indicating that they cannot satisfy contractual obligations given the massive rise in lumber prices.

- The U.S. economy has recovered 62.4% of the jobs lost in March and April of 2020, while Canada has recovered 90.1% of lost positions;
- In March, construction employment expanded 1.5% in the U.S., with many projects placed on hold earlier during the pandemic now coming back to life. Construction employment expanded 1.8% in Canada.
- In February, year-over-year construction spending was down 0.8% in the U.S. and 4.7% in Canada;
- In the U.S., residential construction spending was up 21.1% on a year-over-year basis in February and 8.6% in Canada;
- Nonresidential construction spending declined on a year-over-year basis both in the U.S. and in Canada, falling 6.1% and 12.8%, respectively;
- U.S. input prices increased 3.5% in March and are 12.9% higher than a year ago.

The presumption is that as the global economy reopens in earnest later this year, the attendant tsunami of demand will cause construction input prices to rise even further. This may or may not be the case, however, if the pandemic ends either this year or next, suppliers will be allowed to operate more efficiently, presumably expanding output in the process.

There's at least one additional consideration. After passing a \$1.9 trillion federal stimulus package in March, the Biden administration is actively marketing a \$2-3 trillion infrastructure package. While that money would be spent over the course of 8-10 years, it would further expand demand for construction materials. That will put additional upward pressure on input prices in North America, all things being equal.

Among other things, the plan includes provisions that would "build, preserve, and retrofit more than two million homes and commercial buildings, modernize our nation's schools and childcare facilities, and upgrade veterans' hospitals and federal buildings." All of this stands to create new demand and opportunities for finishing contractors. Given volatile input prices and ongoing skills shortages, however, the prospective surge in demand will create its own sets of challenges.

U.S. CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Feb-21	Jan-21	Feb-20	Jan-21	Feb-20
Total Construction	\$1,516,927	\$1,528,954	\$1,441,145	-0.8%	5.3%
Residential	\$727,420	\$728,715	\$600,581	-0.2%	21.1%
Nonresidential	\$789,507	\$800,239	\$840,564	-1.3%	-6.1%
Lodging	\$24,096	\$24,825	\$31,356	-2.9%	-23.2%
Office	\$79,136	\$79,527	\$83,305	-0.5%	-5.0%
Commercial	\$78,201	\$79,471	\$84,527	-1.6%	-7.5%
Health care	\$44,970	\$46,494	\$47,982	-3.3%	-6.3%
Educational	\$102,580	\$105,715	\$107,890	-3.0%	-4.9%
Religious	\$3,028	\$3,089	\$3,390	-2.0%	-10.7%
Public safety	\$16,765	\$16,619	\$13,403	0.9%	25.1%
Amusement and recreation	\$24,535	\$25,039	\$28,729	-2.0%	-14.6%
Transportation	\$56,095	\$57,017	\$57,500	-1.6%	-2.4%
Communication	\$22,069	\$22,334	\$22,806	-1.2%	-3.2%
Power	\$114,639	\$115,137	\$126,506	-0.4%	-9.4%
Highway and street	\$102,594	\$103,235	\$103,853	-0.6%	-1.2%
Sewage and waste disposal	\$26,338	\$27,148	\$25,627	-3.0%	2.8%
Water supply	\$18,149	\$18,146	\$17,687	0.0%	2.6%
Conservation and development	\$7,409	\$7,761	\$9,091	-4.5%	-18.5%
Manufacturing	\$68,904	\$68,682	\$76,913	0.3%	-10.4%
Employment, SA (in thousands)	Mar-21	Feb-21	Mar-20	Feb-21	Mar-20
National Total Nonfarm	144,120	143,204	150,840	0.6%	-4.5%
Construction	7,466	7,356	7,557	1.5%	-1.2%
Residential building	873	863	833	1.2%	4.8%
Nonresidential building	817	809	844	0.9%	-3.2%
Heavy and civil engineering construction	1,063	1,036	1,097	2.6%	-3.1%
Residential specialty trade contractors	2,158	2,131	2,110	1.3%	2.3%
Nonresidential specialty trade contractors	2,557	2,518	2,674	1.5%	-4.4%
Producer Price Index	Mar-21	Feb-21	Mar-20	Feb-21	Mar-20
Inputs to Construction Industries	255.8	247.1	226.5	3.5%	12.9%

CANADA CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Feb-21	Jan-21	Feb-20	Jan-21	Feb-20
Total Construction	\$14,367	\$15,072	\$13,230	-4.7%	8.6%
Residential	\$10,038	\$10,641	\$8,268	-5.7%	21.4%
Nonresidential	\$4,329	\$4,431	\$4,962	-2.3%	-12.8%
Industrial	\$781	\$814	\$889	-4.0%	-12.1%
Commercial	\$2,454	\$2,509	\$2,969	-2.2%	-17.3%
Institutional and Governmental	\$1,094	\$1,109	\$1,105	-1.3%	-1.0%
Employment, SA (in thousands)	Mar-21	Feb-21	Mar-20	Feb-21	Mar-20
Total All Industries	18,834.3	18,531.2	18,133.8	1.6%	3.9%
Construction	1,468.1	1,442.4	1,492.1	1.8%	-1.6%
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%