

## **SURGING COSTS WILL DELAY CONSTRUCTION'S RECOVERY**

### **JOB LOSSES HINT AT BROADER CHALLENGES**

This was supposed to be a grand economic reopening. With vaccination programs proceeding apace, the notion has been that economic growth would reach a crescendo, resulting in, among other things, booming construction activity.

According to COVID-19 Tracker Canada, by mid-June, nearly 30 million doses of approved vaccines had been administered across Canada. That translated into almost precisely 65% of Canada's population receiving at least one dose, above the 53% rate achieved in the U.S.

Indeed, there has been an economic reawakening, at least in America. Since passing additional stimulus in late-December 2020, America has consistently added jobs with each ensuing month. Unemployment, which stood at 14.8% in April 2020, had declined to 5.8% by May of the current year. Another massive stimulus package was signed by President Joe Biden on March 11 – the \$1.9 trillion American Rescue Plan Act of 2021.

With all of this stimulus in place, conventional wisdom suggests that the economy would be taking off without a hiccup. The combination of stimulus, vaccinations, pent-up demand and accumulated household savings should be translating into economic euphoria. But matters are never so simple in economics. In Canada, the economic recovery has stalled as another wave of restrictions has been put in place. Canada lost jobs in May for a second consecutive month, though almost all of the decline was in part-time work.

While it is true that the global economy is coming back to life, global supply chains remain in disarray. This has led to shortages of all types of goods, including softwood lumber, of course, but many other items ranging from computer chips to chlorine.

U.S. producer price index data for May indicate that the overall increase in the price of inputs to construction exceeded 24% on a year-ago basis. While softwood lumber has garnered much of the attention because of its importance to new home prices, a number of other categories have also experienced sharply rising prices. Among them are iron and steel (63%), crude petroleum (187%), natural gas (90%), and nonferrous wire and cable (31%). For its part, the price of softwood lumber is up 154% on a year-ago basis.

This is translating into delayed construction industry recovery. Anecdotal evidence suggests that some homebuilders have

- The U.S. economy has recovered 65.9% of the jobs lost in March and April. Canada has recovered 80.9% of lost positions;
- In May, construction employment declined 0.3% in the U.S. as contractors struggled to find workers;
- In Canada, construction employment dipped by 1.1% in May, due in large measure to ongoing social distancing directives;
- In April, year-over-year construction spending was up significantly in Canada, increasing 70.2%, though that number is inflated by comparison with an especially difficult month (April 2020);
- Residential construction spending in April was up 99% and 29.5% Y-o-Y in Canada and the U.S., respectively;
- Nonresidential construction spending was down Y-o-Y in the U.S. (-3.9%) but up in Canada (+15.1%);
- U.S. construction input prices increased 4.6% in May, and are 24.3% higher than a year ago;
- Residential building material prices are up 11.7% on a year-ago basis in Canada.

been returning deposits to customers, indicating that they simply cannot deliver a home at the contracted price. During much of last year, single-family building permits had been surging, but the once upward trajectory has become flatter more recently. New privately-owned single-family housing starts peaked at an annualized rate of 1.3 million units in January of this year. It has not returned to that level since.

There's more. In addition to materials price increases, contractors in both Canada and the U.S. are struggling to fill positions. Partially as a result, job growth has been disappointing in America in recent months, and in May the nation actually lost 20,000 construction jobs on net. Not only are construction workers difficult to locate, but many are being lured away from the industry by other segments that have large numbers of job openings, including logistics.

Many contractors remain upbeat about the balance of the year. However, the level of industry confidence has been ebbing recently in the context of lofty materials prices and a challenging labor market. At some point, global supply chains will become more orderly along with labor market functioning. At that time, cost increases will become far less severe. But the next several months may prove more challenging than many contractors had anticipated coming into the spring.

<b>U.S. CONSTRUCTION INDUSTRY OVERVIEW</b>					
<b>Indicator</b>	<b>Values</b>			<b>% Change from</b>	
<b>Construction Spending, SA (\$Millions)</b>	<b>Apr-21</b>	<b>Mar-21</b>	<b>Apr-20</b>	<b>Mar-21</b>	<b>Apr-20</b>
Total Construction	\$1,524,183	\$1,521,014	\$1,387,936	0.2%	9.8%
Residential	\$737,985	\$730,844	\$569,892	1.0%	29.5%
Nonresidential	\$786,198	\$790,170	\$818,044	-0.5%	-3.9%
Lodging	\$22,914	\$22,963	\$29,352	-0.2%	-21.9%
Office	\$80,179	\$80,156	\$81,204	0.0%	-1.3%
Commercial	\$82,013	\$81,793	\$83,850	0.3%	-2.2%
Health care	\$46,601	\$46,276	\$46,769	0.7%	-0.4%
Educational	\$99,743	\$100,309	\$104,552	-0.6%	-4.6%
Religious	\$2,950	\$3,016	\$2,960	-2.2%	-0.3%
Public safety	\$12,093	\$14,247	\$13,670	-15.1%	-11.5%
Amusement and recreation	\$23,988	\$24,388	\$27,352	-1.6%	-12.3%
Transportation	\$54,867	\$56,193	\$56,145	-2.4%	-2.3%
Communication	\$21,847	\$22,034	\$22,921	-0.8%	-4.7%
Power	\$114,108	\$115,860	\$121,872	-1.5%	-6.4%
Highway and street	\$100,219	\$99,483	\$102,879	0.7%	-2.6%
Sewage and waste disposal	\$26,833	\$26,423	\$26,185	1.6%	2.5%
Water supply	\$18,272	\$17,772	\$17,874	2.8%	2.2%
Conservation and development	\$7,244	\$7,304	\$8,531	-0.8%	-15.1%
Manufacturing	\$72,327	\$71,955	\$71,930	0.5%	0.6%
<b>Employment, SA (in thousands)</b>	<b>May-21</b>	<b>Apr-21</b>	<b>May-20</b>	<b>Apr-21</b>	<b>May-20</b>
National Total Nonfarm	144,894	144,335	132,994	0.4%	8.9%
Construction	7,423	7,443	7,004	-0.3%	6.0%
Residential building	872	868	777	0.5%	12.3%
Nonresidential building	816	815	783	0.1%	4.2%
Heavy and civil engineering construction	1,060	1,065	1,038	-0.5%	2.1%
Residential specialty trade contractors	2,144	2,147	1,968	-0.1%	8.9%
Nonresidential specialty trade contractors	2,531	2,548	2,439	-0.7%	3.8%
<b>Producer Price Index</b>	<b>May-21</b>	<b>Apr-21</b>	<b>May-20</b>	<b>Apr-21</b>	<b>May-20</b>
Inputs to Construction Industries	271.1	259.2	218.1	4.6%	24.3%

<b>CANADA CONSTRUCTION INDUSTRY OVERVIEW</b>					
<b>Indicator</b>	<b>Values</b>			<b>% Change from</b>	
<b>Construction Spending, SA (\$Millions)</b>	<b>Apr-21</b>	<b>Mar-21</b>	<b>Apr-20</b>	<b>Mar-21</b>	<b>Apr-20</b>
Total Construction	\$19,880	\$18,694	\$11,682	6.3%	70.2%
Residential	\$15,257	\$14,110	\$7,665	8.1%	99.0%
Nonresidential	\$4,623	\$4,583	\$4,017	0.9%	15.1%
Industrial	\$847	\$832	\$781	1.8%	8.5%
Commercial	\$2,568	\$2,561	\$2,224	0.3%	15.4%
Institutional and Governmental	\$1,208	\$1,191	\$1,013	1.4%	19.3%
<b>Employment, SA (in thousands)</b>	<b>May-21</b>	<b>Apr-21</b>	<b>May-20</b>	<b>Apr-21</b>	<b>May-20</b>
Total All Industries	18,559.2	18,627.2	16,444.0	-0.4%	12.9%
Construction	1,439.6	1,455.4	1,242.2	-1.1%	15.9%
<b>Building Construction Price Index</b>	<b>2021Q1</b>	<b>2020Q4</b>	<b>2020Q1</b>	<b>2020Q4</b>	<b>2020Q1</b>
Residential Building	124.1	117.5	111.1	5.6%	11.7%
Nonresidential Building	111.0	109.4	108.7	1.5%	2.1%