

Economy Remains Overheated

Construction Spending Down to End 2022

The construction industry continues to face many of the same headwinds that buffeted it throughout 2022, including labor shortages, elevated material costs, and high and rising interest rates. While overall construction spending expanded throughout the year in both the U.S. (+7.7%) and Canada (+4.7%), spending dipped on a monthly basis in December, falling 0.4% and 6.3%, respectively.

The U.S. nonresidential sector contracted in December, ending a streak of six-straight monthly increases. The contraction was broad-based with spending declining in ten of the sixteen nonresidential subsectors.

Nonresidential constructions pending expanded in Canada, up a modest 0.2%. That's due almost entirely to a 2.1% increase in industrial construction spending; spending fell in the institutional and government category and was flat in the commercial category in December.

The residential sector, on the other hand, has struggled as lofty interest rates push mortgage rates higher, severely limiting homebuying activity. As a result, residential construction spending declined 0.3% in the U.S. and 8.8% in Canada during December.

Labor Shortages Remain Firmly In Place

As was the case throughout all of 2022, the construction industry continues to be defined by high demand for labor but a pervasive shortage of workers. Contractors continue to hire, with employment increasing 3.9% year over year in the U.S. and 7.6% year over year in Canada, but those hiring figures would undoubtedly be larger if not for worker scarcity.

In the U.S., the industry averaged 390,500 open, unfilled jobs per month in 2022, by far the highest level on record, and as of December 2022, 5.0% of all construction jobs were unfilled. As a result, power dynamics have shifted significantly in the direction of workers. On average, 2.4% of construction workers quit their job throughout 2022, well above the historical norm, while the rate at which contractors laid off workers remained historically low. This has caused construction wages to rise at a significantly faster rate than wages in all industries, further contributing to already elevated construction costs.

Materials Prices Increasing at a Slower Rate but Still Elevated

month ago, it appeared that both overall inflation and construction input cost increases were moderating. More recent data suggests otherwise. Construction input prices increased 1.3% in the U.S. in December and 1.6% in the fourth quarter in Canada. The price increases were spread across several commodities and input types. Copper, concrete, and construction machinery, for instance, all experienced sizable price increases to end the year. This mirrors a broader economic trend. That is, inflation appeared to be subsiding but, according to recent data, has picked back up. While some parts of the economy, like the homebuying industry, have been severely affected by higher interest rates,

- Construction spending declined in both the U.S. and Canada in December 2022 but remains up on a year-over-year basis;
- Nonresidential spending has been buoyed by manufacturing-related activity but remains relatively weak;
- Material prices reaccelerated lately despite earlier signs of moderation;
- Labor shortages persist, frustrated contractors and pushing construction wages higher;
- High interest rates have damaged some sectors, but many remain unaffected. The upshot is that interest rates will have to be raised higher and remain there longer than previously anticipated, increasing the odds of a recession.

most economic segments appear relatively unaffected. Retail sales data indicate that consumer spending continues to increase at a faster rate than overall inflation. For inflation to subside, demand must decline. The longer demand remains elevated, the higher interest rates will need to rise and the longer they'll need to remain at those elevated levels. This greatly decreases the chances of a soft landing, and recession appears likely either in alter 2023 or early 2024.

U.S. CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Dec-22	Nov-22	Dec-21	Nov-22	Dec-21
<i>Total Construction</i>	\$1,809,785	\$1,817,287	\$1,681,044	-0.4%	7.7%
<i>Residential</i>	\$866,300	\$869,189	\$852,307	-0.3%	1.6%
<i>Nonresidential</i>	\$943,485	\$948,098	\$828,737	-0.5%	13.8%
Lodging	\$21,526	\$21,582	\$15,808	-0.3%	36.2%
Office	\$92,039	\$92,469	\$84,467	-0.5%	9.0%
Commercial	\$126,654	\$126,070	\$103,251	0.5%	22.7%
Health care	\$54,823	\$55,600	\$49,691	-1.4%	10.3%
Educational	\$104,094	\$104,808	\$98,187	-0.7%	6.0%
Religious	\$2,665	\$2,817	\$2,855	-5.4%	-6.7%
Public safety	\$11,468	\$11,827	\$9,755	-3.0%	17.6%
Amusement and recreation	\$28,701	\$28,785	\$25,832	-0.3%	11.1%
Transportation	\$60,165	\$59,963	\$55,007	0.3%	9.4%
Communication	\$24,959	\$24,795	\$24,361	0.7%	2.5%
Power	\$107,557	\$107,214	\$116,289	0.3%	-7.5%
Highway and street	\$118,175	\$116,941	\$103,460	1.1%	14.2%
Sewage and waste disposal	\$34,107	\$33,972	\$27,025	0.4%	26.2%
Water supply	\$24,121	\$24,693	\$18,781	-2.3%	28.4%
Conservation and development	\$9,776	\$11,090	\$7,941	-11.8%	23.1%
Manufacturing	\$122,656	\$125,473	\$86,027	-2.2%	42.6%
Employment, SA (in thousands)	Jan-23	Dec-22	Jan-22	Dec-22	Jan-22
National Total Nonfarm	155,073	154,556	150,106	0.3%	3.3%
Construction	7,884	7,859	7,590	0.3%	3.9%
Residential building	934	934	903	0.0%	3.5%
Nonresidential building	855	851	816	0.5%	4.9%
Heavy and civil engineering construction	1,078	1,079	1,043	-0.1%	3.3%
Residential specialty trade contractors	2,331	2,326	2,248	0.2%	3.7%
Nonresidential specialty trade contractors	2,685	2,669	2,581	0.6%	4.1%
Producer Price Index	Jan-23	Dec-22	Jan-22	Dec-22	Jan-22
Inputs to Construction Industries	316.3	312.3	301.5	1.3%	4.9%

CANADA CONSTRUCTION INDUSTRY OVERVIEW					
Indicator	Values			% Change from	
Construction Spending, SA (\$Millions)	Dec-22	Nov-22	Dec-21	Nov-22	Dec-21
<i>Total Construction</i>	\$19,615	\$20,938	\$18,737	-6.3%	4.7%
<i>Residential</i>	\$13,926	\$15,263	\$13,630	-8.8%	2.2%
<i>Nonresidential</i>	\$5,689	\$5,675	\$5,106	0.2%	11.4%
Industrial	\$1,135	\$1,111	\$896	2.1%	26.6%
Commercial	\$3,153	\$3,152	\$2,824	0.0%	11.7%
Institutional and Governmental	\$1,401	\$1,411	\$1,386	-0.7%	1.1%
Employment, SA (in thousands)	Jan-23	Dec-22	Jan-22	Dec-22	Jan-22
Total All Industries	20,032.3	19,882.4	19,286.0	0.8%	3.9%
Construction	1,610.9	1,595.1	1,496.5	1.0%	7.6%
Building Construction Price Index	2022Q4	2022Q3	2021Q4	2022Q3	2021Q4
Residential Building	165.2	163.5	143.2	1.0%	15.4%
Nonresidential Building	135.4	133.3	121.9	1.6%	11.1%