

## Economy Begins to Weaken

### Construction Spending Wavers

At the start of March, the economic outlook was downbeat but relatively straightforward. Expert forecasters agreed that inflation was too hot, demand too strong, and labor too scarce. The only question at that time was whether the Federal Reserve would raise rates by 25 or 50 basis points at their next meeting.

Then came the events of March 10-12 and the failing of Silicon Valley Bank and later Signature Bank. While the fallout from that episode appears to be contained, the resulting tightening of credit conditions has significantly altered the outlook.

After rapid spending growth from May to November of 2022, U.S. nonresidential construction spending has stagnated, rising just 1.2% over the past four months. Importantly, these figures are not adjusted for inflation, and with construction input costs up nearly 40% since the start of the pandemic, nonresidential spending is likely down in real terms. Were it not for significant investment in manufacturing facilities, which is up 53.5% over the past year, the nonresidential segment would be even weaker.

In Canada, nonresidential spending continues to grow, albeit at a sluggish pace. As is the case in the U.S., industrial-related spending has powered the segment, rising 25.1% during the year ending in January 2023. The residential segment has contracted in the U.S. and is up just 1.5% year over year in Canada, a reflection of the deleterious effects high mortgage rates have on homebuying. When inflation subsides and interest rates begin to fall, expect a glut of pent up demand to be released, reinvigorating the residential segment.

### Construction Employment Declines

While the construction industry continues to face acute skilled labor shortages, there are signs that demand for labor is beginning to slip. The U.S. construction industry lost 9,000 jobs in March 2023, while the Canadian industry lost nearly 19,000 jobs.

Despite these recent indications of falling demand for construction labor, the number of job openings at U.S. construction firms remains elevated, with 4.9% of all construction jobs were unfilled as of February 2023. As demand falls somewhat more in line with the supply of labor, wage pressures should dissipate, helping to control extremely elevated construction costs. As evidence of this dynamic, the share of construction workers who quit their job fell in February while the share that were laid off ticked higher.

### Inflation Slows in the U.S., but Continues Rising in Canada

The most recent U.S. Producer Price Index data indicate that construction input prices fell 0.9% from March 2022 to March 2023. That's the first annual decline since August 2020, but materials prices are still up more than 39% since the start of the pandemic. A large portion of the recent decline in input costs is due to falling

- Construction spending declined in the most recent month in the U.S. but is rising, albeit modestly, in Canada.
- The nonresidential sector continues to be buoyed by the manufacturing-segment.
- Material price increases have moderated.
- Labor shortages persist, but there are signs that demand is falling as supply conditions improve.
- Economywide inflation appears to be moderating but remains well above monetary policymakers' target.
- It remains to be seen how much the economy will have to slow for inflation to return to the desired level.

oil and natural gas prices, but lumber and iron and steel have also exhibited double-digit price declines over the past year.

Broader inflation also appears to be moderating, with recent readings from both the U.S. and Canada indicating dissipating price pressures. That's good news, but the fact that inflation has been subsiding is no guarantee that it will continue to subside, and it remains to be seen how much economic fallout will occur as a result of ongoing interest rate increases.

<b>U.S. CONSTRUCTION INDUSTRY OVERVIEW</b>					
<b>Indicator</b>	<b>Values</b>			<b>% Change from</b>	
<b>Construction Spending, SA (\$Millions)</b>	<b>June-22</b>	<b>May-22</b>	<b>June-21</b>	<b>May-22</b>	<b>June-21</b>
<i>Total Construction</i>	\$1,762,317	\$1,781,909	\$1,627,985	-1.1%	8.3%
<i>Residential</i>	\$932,911	\$948,318	\$808,662	-1.6%	15.4%
<i>Nonresidential</i>	\$829,406	\$833,591	\$819,324	-0.5%	1.2%
Lodging	\$16,757	\$16,813	\$18,089	-0.3%	-7.4%
Office	\$85,492	\$85,354	\$86,634	0.2%	-1.3%
Commercial	\$102,918	\$103,435	\$93,143	-0.5%	10.5%
Health care	\$50,082	\$50,254	\$47,975	-0.3%	4.4%
Educational	\$95,488	\$95,995	\$96,755	-0.5%	-1.3%
Religious	\$2,777	\$2,856	\$2,793	-2.8%	-0.6%
Public safety	\$11,178	\$11,183	\$11,952	0.0%	-6.5%
Amusement and recreation	\$26,296	\$26,116	\$25,269	0.7%	4.1%
Transportation	\$54,918	\$55,484	\$57,034	-1.0%	-3.7%
Communication	\$23,913	\$23,666	\$24,802	1.0%	-3.6%
Power	\$107,484	\$109,303	\$122,804	-1.7%	-12.5%
Highway and street	\$98,026	\$100,829	\$98,923	-2.8%	-0.9%
Sewage and waste disposal	\$30,579	\$30,424	\$28,615	0.5%	6.9%
Water supply	\$21,526	\$20,113	\$19,170	7.0%	12.3%
Conservation and development	\$9,007	\$8,776	\$8,091	2.6%	11.3%
Manufacturing	\$92,966	\$92,990	\$77,274	0.0%	20.3%
<b>Employment, SA (in thousands)</b>	<b>July-22</b>	<b>June-22</b>	<b>July-21</b>	<b>June-22</b>	<b>July-21</b>
National Total Nonfarm	152,536	152,008	146,387	0.3%	4.2%
Construction	7,706	7,674	7,395	0.4%	4.2%
Residential building	902	899	861	0.3%	4.7%
Nonresidential building	814	809	785	0.6%	3.7%
Heavy and civil engineering construction	1,081	1,078	1,034	0.3%	4.6%
Residential specialty trade contractors	2,267	2,256	2,187	0.5%	3.7%
Nonresidential specialty trade contractors	2,642	2,632	2,528	0.4%	4.5%
<b>Producer Price Index</b>	<b>July-22</b>	<b>June-22</b>	<b>July-21</b>	<b>June-22</b>	<b>July-21</b>
Inputs to Construction Industries	328.3	334.3	279.6	-1.8%	17.4%

<b>CANADA CONSTRUCTION INDUSTRY OVERVIEW</b>					
<b>Indicator</b>	<b>Values</b>			<b>% Change from</b>	
<b>Construction Spending, SA (\$Millions)</b>	<b>Jan-23</b>	<b>Dec-22</b>	<b>Jan-22</b>	<b>Dec-22</b>	<b>Jan-22</b>
<i>Total Construction</i>	\$20,401	\$20,089	\$19,670	1.6%	3.7%
<i>Residential</i>	\$14,810	\$14,533	\$14,591	1.9%	1.5%
<i>Nonresidential</i>	\$5,591	\$5,556	\$5,079	0.6%	10.1%
Industrial	\$1,100	\$1,088	\$879	1.1%	25.1%
Commercial	\$3,086	\$3,074	\$2,809	0.4%	9.9%
Institutional and Governmental	\$1,404	\$1,394	\$1,391	0.7%	0.9%
<b>Employment, SA (in thousands)</b>	<b>Mar-23</b>	<b>Feb-23</b>	<b>Mar-22</b>	<b>Feb-23</b>	<b>Mar-22</b>
Total All Industries	20,088.8	20,054.1	19,663.3	0.2%	2.2%
Construction	1,590.6	1,609.4	1,538.5	-1.2%	3.4%
<b>Building Construction Price Index</b>	<b>2022Q4</b>	<b>2022Q3</b>	<b>2021Q4</b>	<b>2022Q3</b>	<b>2021Q4</b>
Residential Building	165.2	163.5	143.2	1.0%	15.4%
Nonresidential Building	135.4	133.3	121.9	1.6%	11.1%