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Construction Executive's

# 2021

## Mid-Year

Construction  
Economic Update  
& Exclusive Forecast

**By: Anirban Basu**

MPP, MA, JD, PhD

**Sage Policy Group, Inc.**

The logo for CMiC, featuring the letters 'C', 'M', and 'C' in red, with a yellow and white lightning bolt graphic integrated into the letter 'i'.The logo for Prophix, consisting of a red 3D cube icon followed by the word 'Prophix' in red, with a registered trademark symbol.The logo for Fulcrum, featuring a red circle with a red triangle pointing upwards inside, followed by the word 'Fulcrum' in black.The logo for LABORCHART, featuring a blue and orange hexagonal icon above the word 'LABORCHART' in blue and orange capital letters.

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**2021 Mid-Year  
Construction  
Economic Update  
& Exclusive Forecast**

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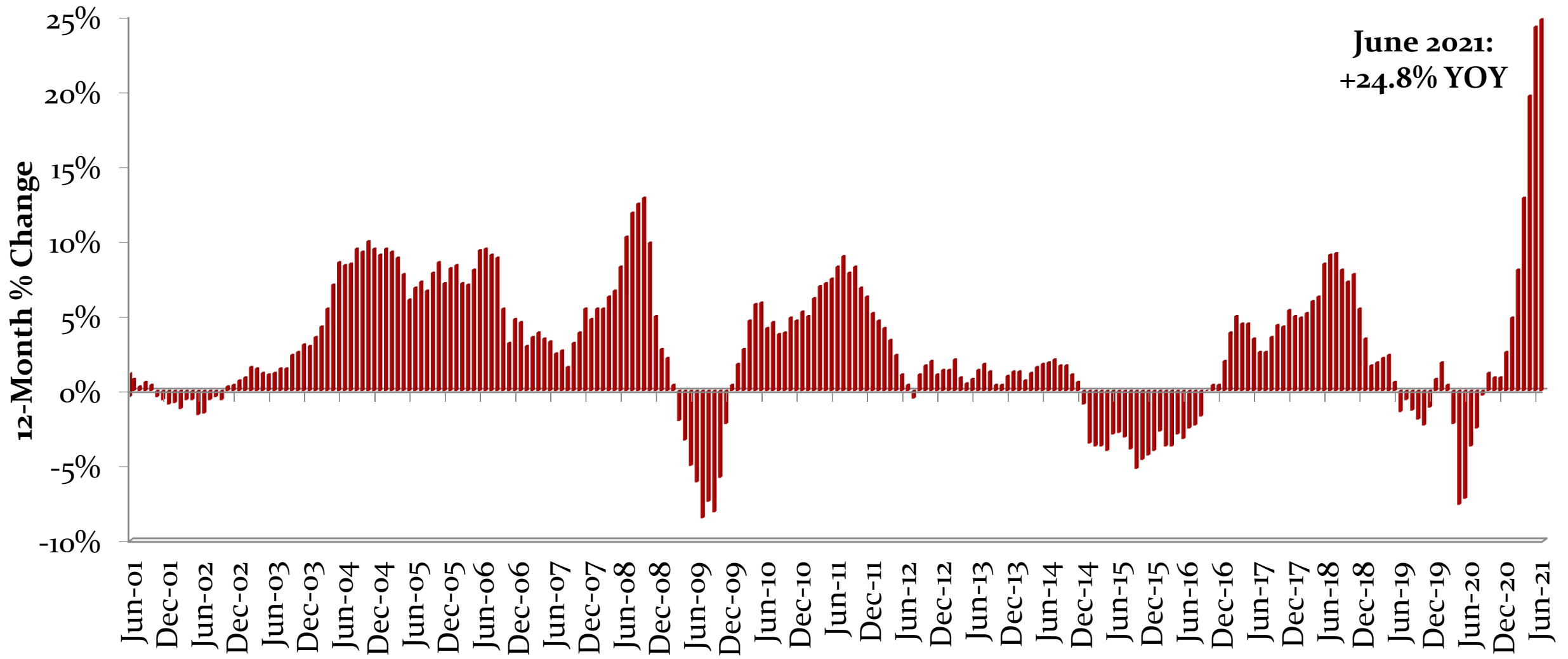
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July 14 2021

# Inputs to Construction PPI (NSA)

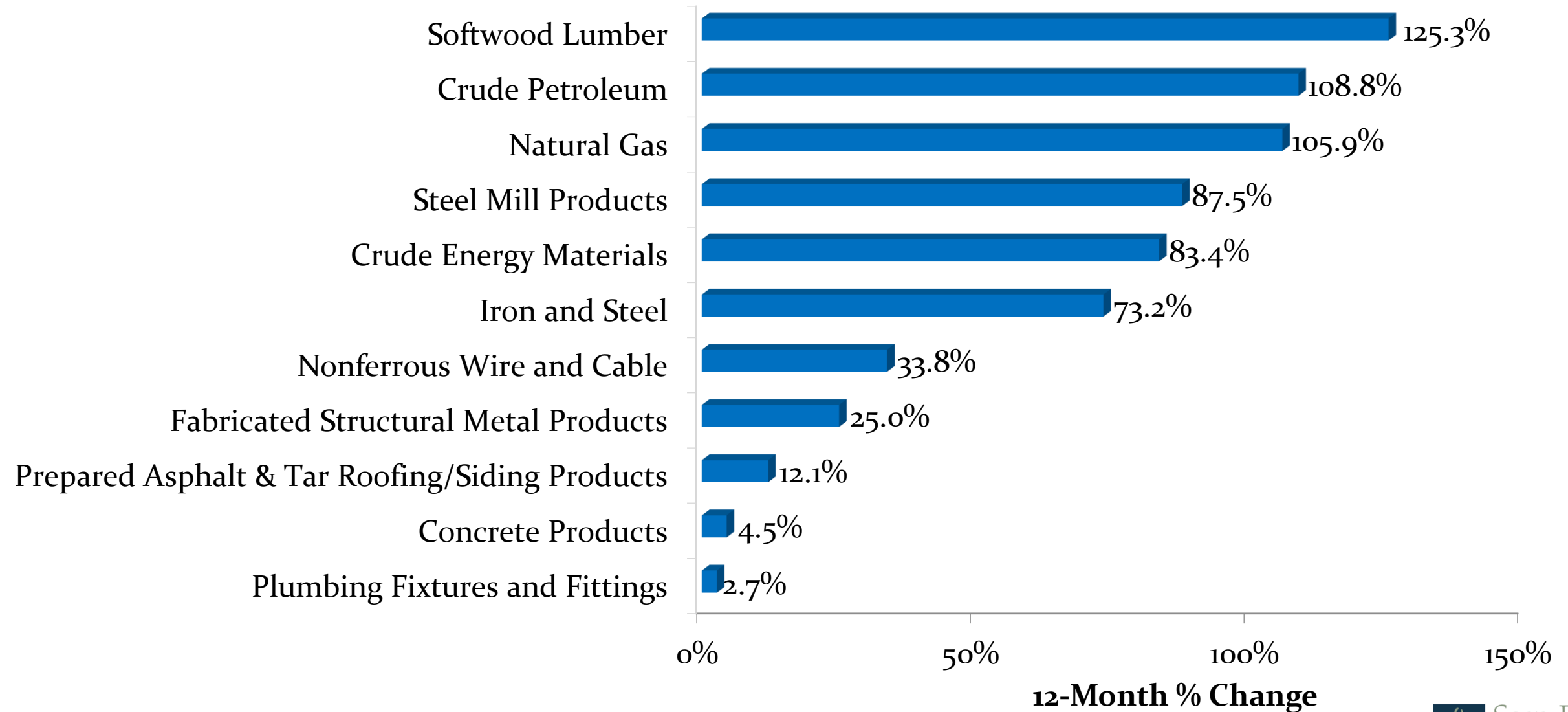
June 2001 – June 2021



**June 2021:**  
**+24.8% YOY**

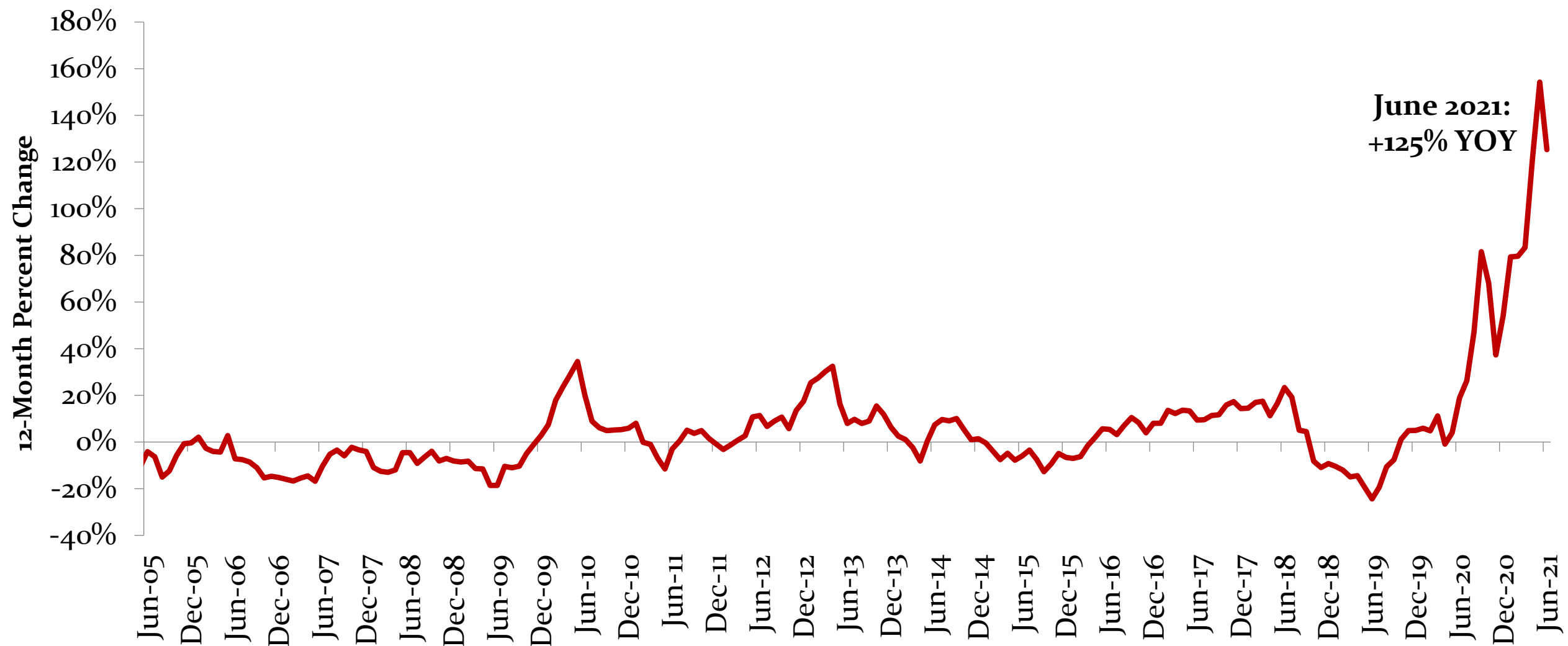
# Construction Materials PPI (NSA)

*12-Month % Change as of June 2021*



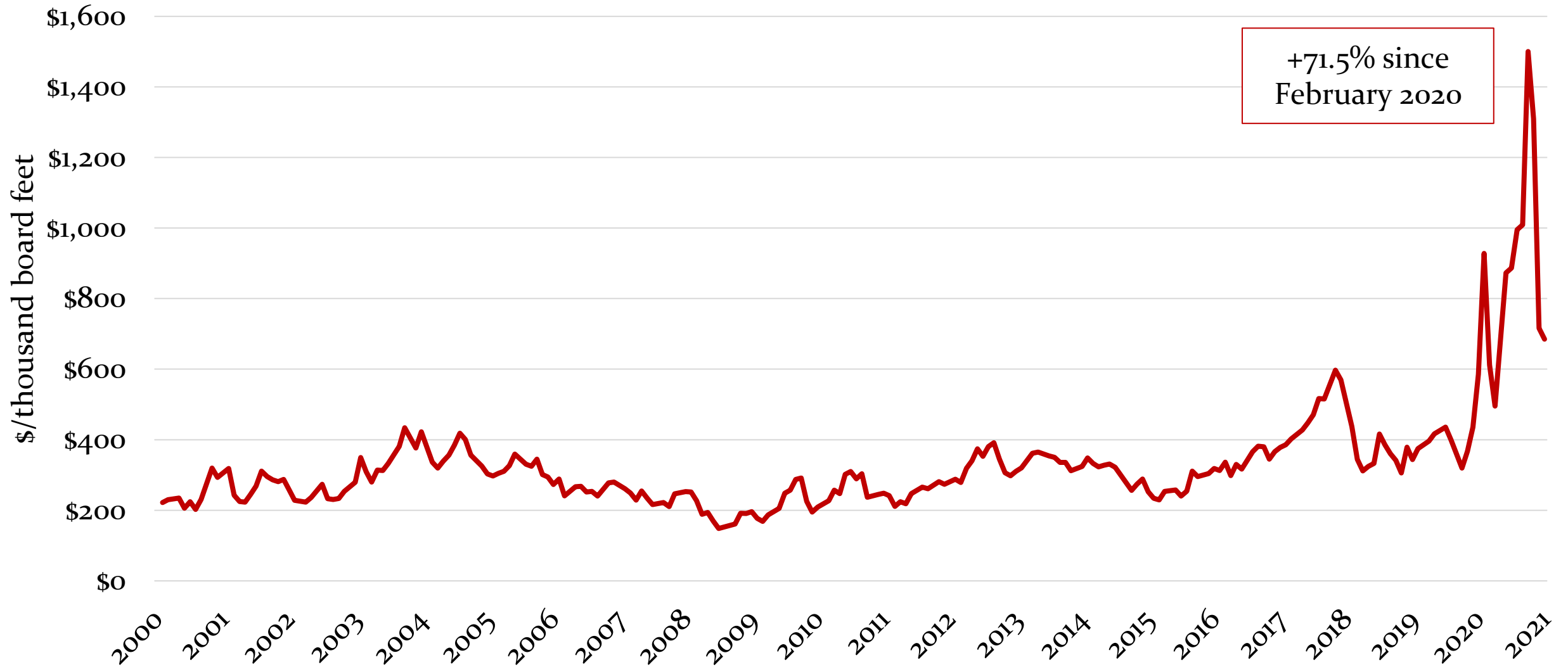
# Construction Materials PPI: Softwood Lumber

YOY % Change, June 2005 – June 2021



**June 2021:  
+125% YOY**

# Random Length Lumber Futures (\$ USD)



+71.5% since  
February 2020

# Materials Prices: Lumber

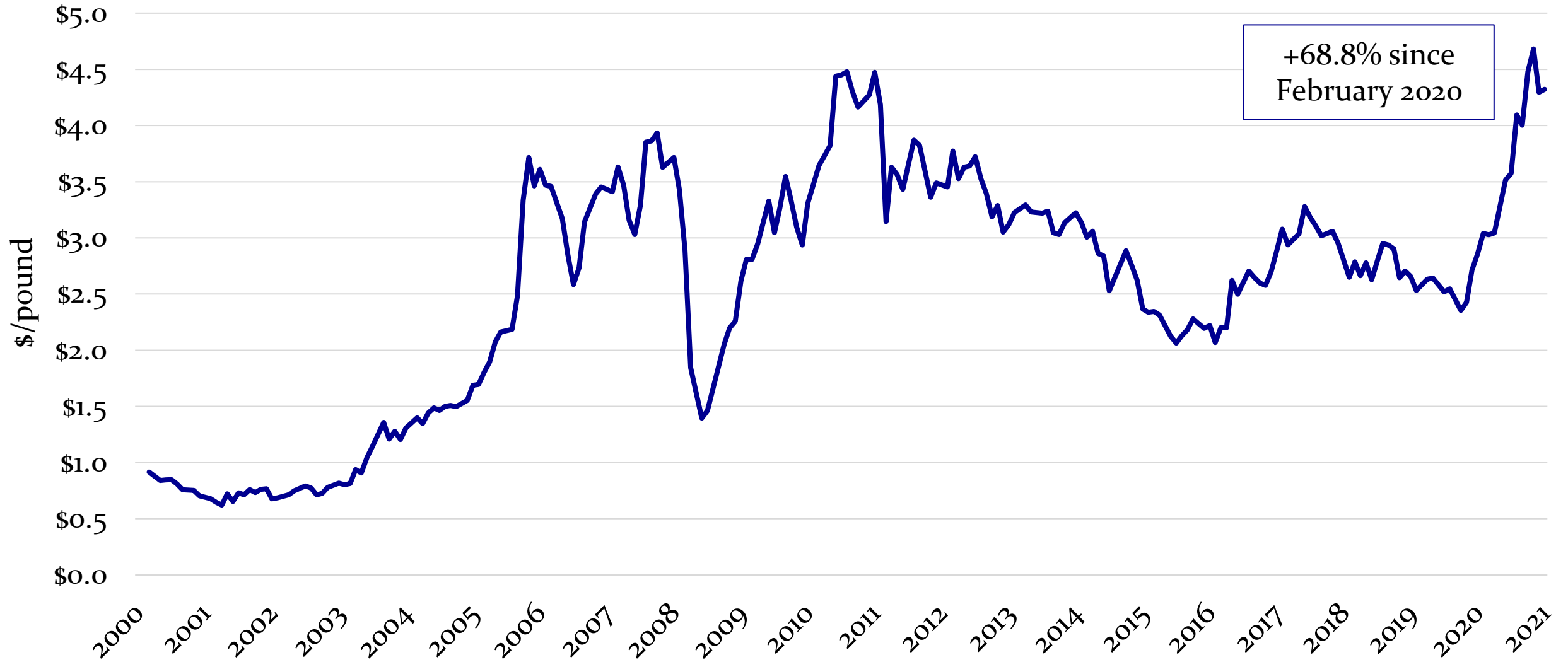
- The elevated price of softwood lumber appears to have peaked in early May at more than \$1,700 per thousand board feet;
- As of July 12<sup>th</sup>, the price has fallen below \$700 per board feet, down about 59% in less than two months;
- That's still an unusually lofty price by historic standards—prices remain almost twice as high as in February 2020—but the trend is very much in the right direction;
- Builders who had been hoarding lumber have now begun to sell from their own inventory, other builders have delayed lumber purchases in wait of lower prices, and sawmill operators have been adding shifts and expanding capacity, all of which puts downward pressure on prices.



# Materials Prices: Metals

- Copper prices, which have nearly doubled since the pandemic began, have fallen modestly in recent weeks as China released metals reserves and the Federal Reserve indicated a more hawkish stance on future rate increases;
- Further construction materials' price dips are likely, particularly for metals like aluminum and zinc;
- Steel prices, with demand elevated and China curbing production, have leveled off since late May but remain nearly three times higher than pre-pandemic levels.

# Copper Futures (\$ USD)



# Audience Poll

**Which of these is the leading challenge for your company today?**

- Skills / worker shortages
- Supply chain and/or materials issues
- Insufficient demand for construction services
- Availability of financing for projects/project work
- None of the above

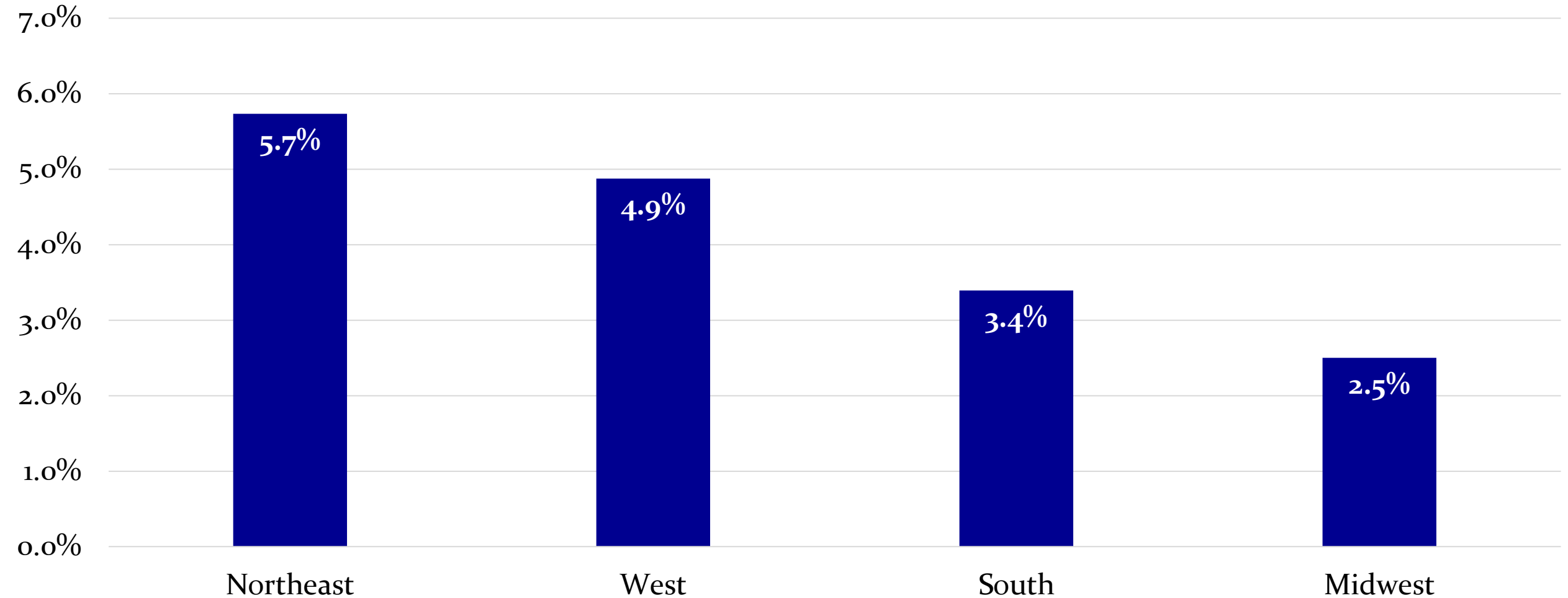
# The Cure?

- The cure for high prices is high prices, which decreases quantity demanded in the short term, increases quantity supplied, and incentivizes suppliers to bolster capacity over the longer term;
- That said, input prices will remain elevated by historical standards for at least several more months.

# PPI: New Nonresidential Building Construction by Region

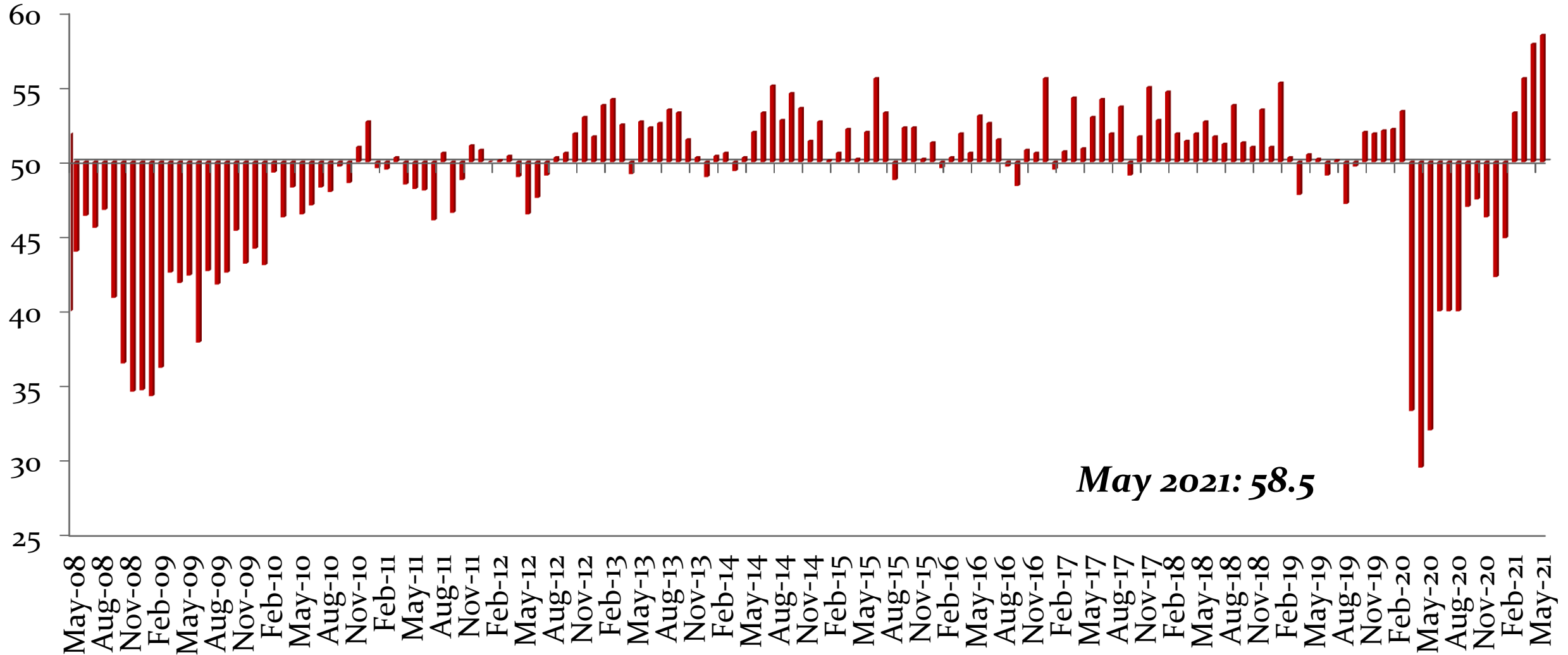
*February 2020 v. June 2021 % Change*

February 2020 v. June 2021



# Architecture Billings Index

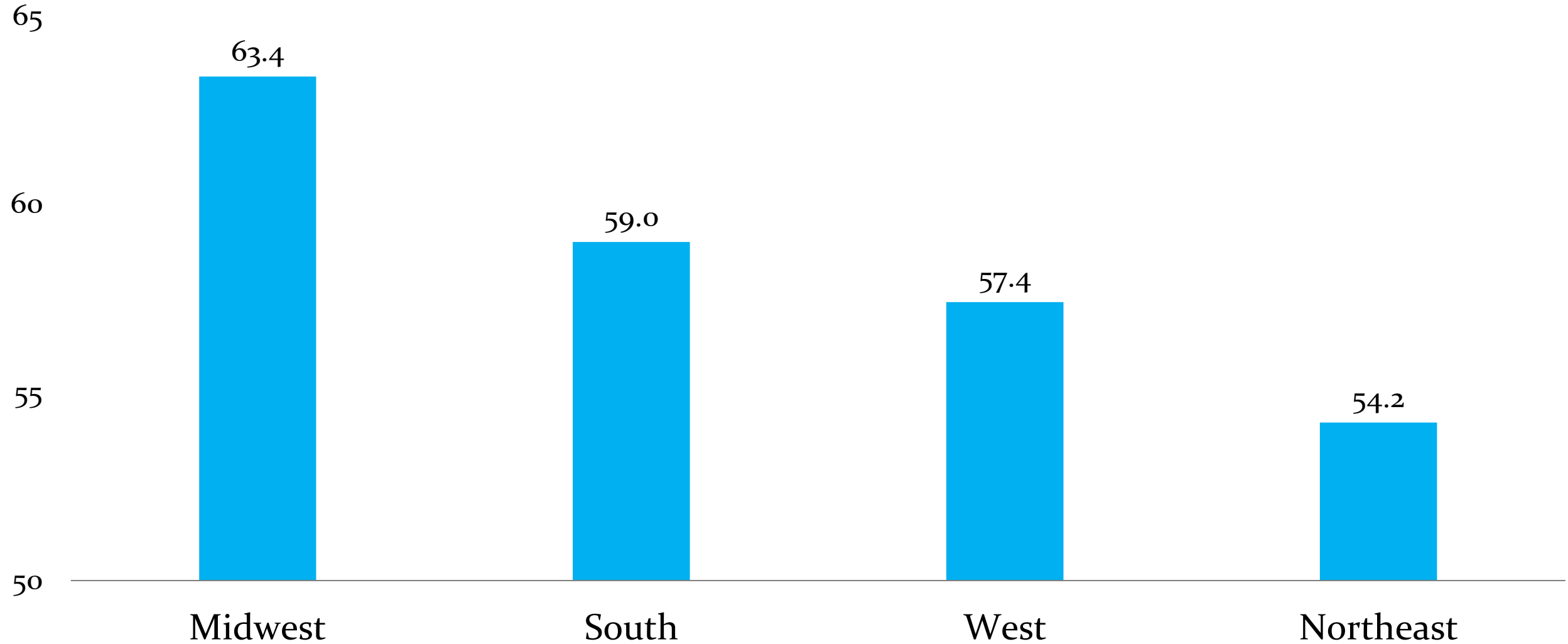
May 2008 – May 2021



**May 2021: 58.5**

# Architecture Billings Index by U.S. Region\*

May 2021



\*Regional billings—unlike the national score, are calculated as three-month moving averages

Source: The American Institute of Architects

# Construction Employment Growth, 25 Largest Metros (NSA)

*February 2020 v. May 2021 Percent Change*

Rank	MSA	%	Rank	MSA	%
1	Minneapolis-St. Paul-Bloomington, MN-WI	14.4%	14	Baltimore-Columbia-Towson, MD	-1.0%
2	Detroit-Warren-Dearborn, MI	11.3%	14	Orlando-Kissimmee-Sanford, FL	-1.0%
3	St. Louis, MO-IL	8.9%	16	Washington-Arlington-Alexandria, DC-VA-MD-WV	-1.3%
4	Chicago-Naperville-Elgin, IL-IN-WI	7.8%			
5	Boston-Cambridge-Nashua, MA-NH	5.2%	17	Atlanta-Sandy Springs-Roswell, GA	-1.7%
5	Seattle-Tacoma-Bellevue, WA	5.2%	18	San Francisco-Oakland-Hayward, CA	-1.9%
7	Riverside-San Bernardino-Ontario, CA	2.2%	19	Phoenix-Mesa-Scottsdale, AZ	-2.0%
8	Tampa-St. Petersburg-Clearwater, FL	2.0%	20	Miami-Fort Lauderdale-West Palm Beach, FL	-2.1%
9	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1.9%	21	San Antonio-New Braunfels, TX	-2.3%
10	Charlotte-Concord-Gastonia, NC-SC	1.3%	22	Los Angeles-Long Beach-Anaheim, CA	-4.0%
11	Portland-Vancouver-Hillsboro, OR-WA	1.1%	23	Dallas-Fort Worth-Arlington, TX	-4.4%
12	San Diego-Carlsbad, CA	0.1%	24	New York-Newark-Jersey City, NY-NJ-PA	-7.5%
13	Denver-Aurora-Lakewood, CO	-0.5%	25	Houston-The Woodlands-Sugar Land, TX	-12.8%

***U.S. Percent Change***  
***2/2020 v. 4/2021: -2.9%***



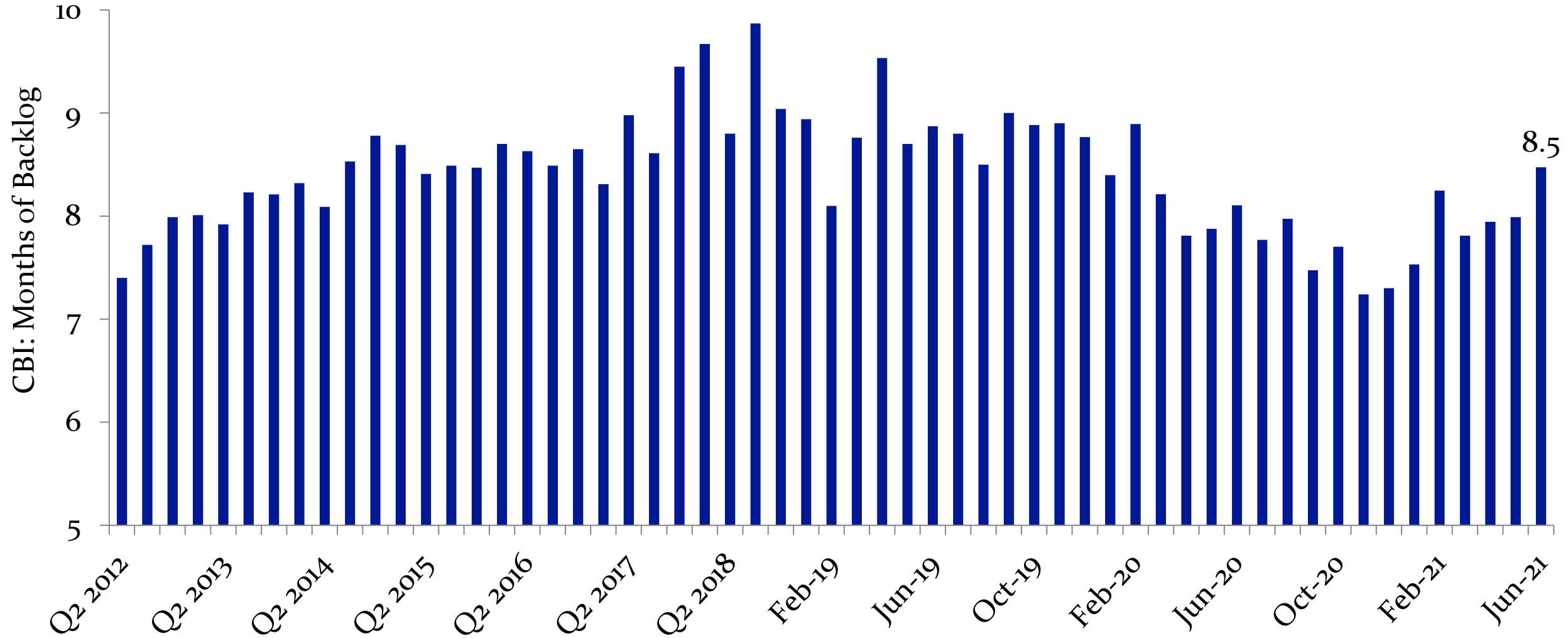
# Audience Poll

**Which of these staffing challenges has proven to be the most difficult for your company?**

- Too much demand for construction services
- Fear of COVID-19
- Lack of available skilled workers
- Expanded unemployment benefits
- We have no issue finding staff

# ABC's Construction Backlog Indicator

2012 – June 2021



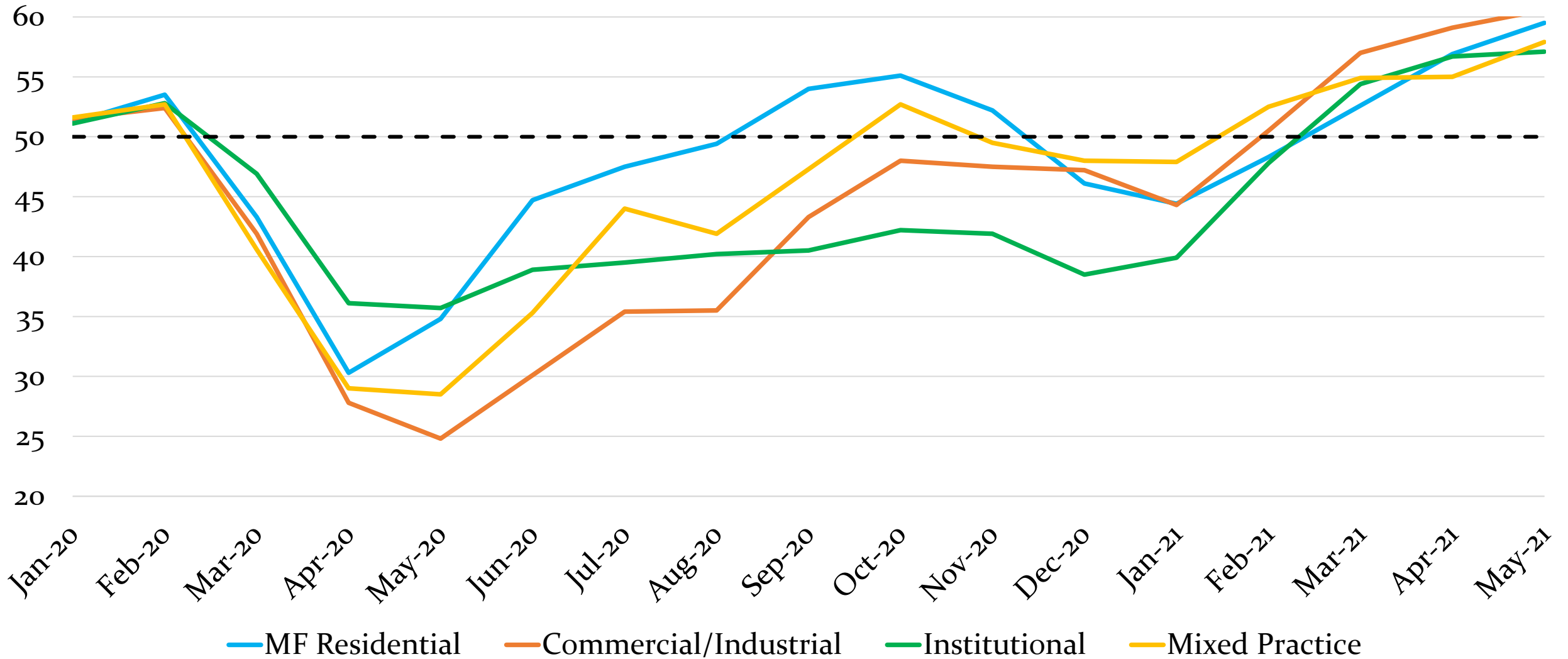
# Audience Poll

**Over the last three months, how has your company's backlog fared?**

- It has risen considerably
- It has risen slightly
- It has remained about the same
- It has declined slightly
- It has declined considerably

# Architecture Billings Index by Sector\*

January 2020 – May 2021

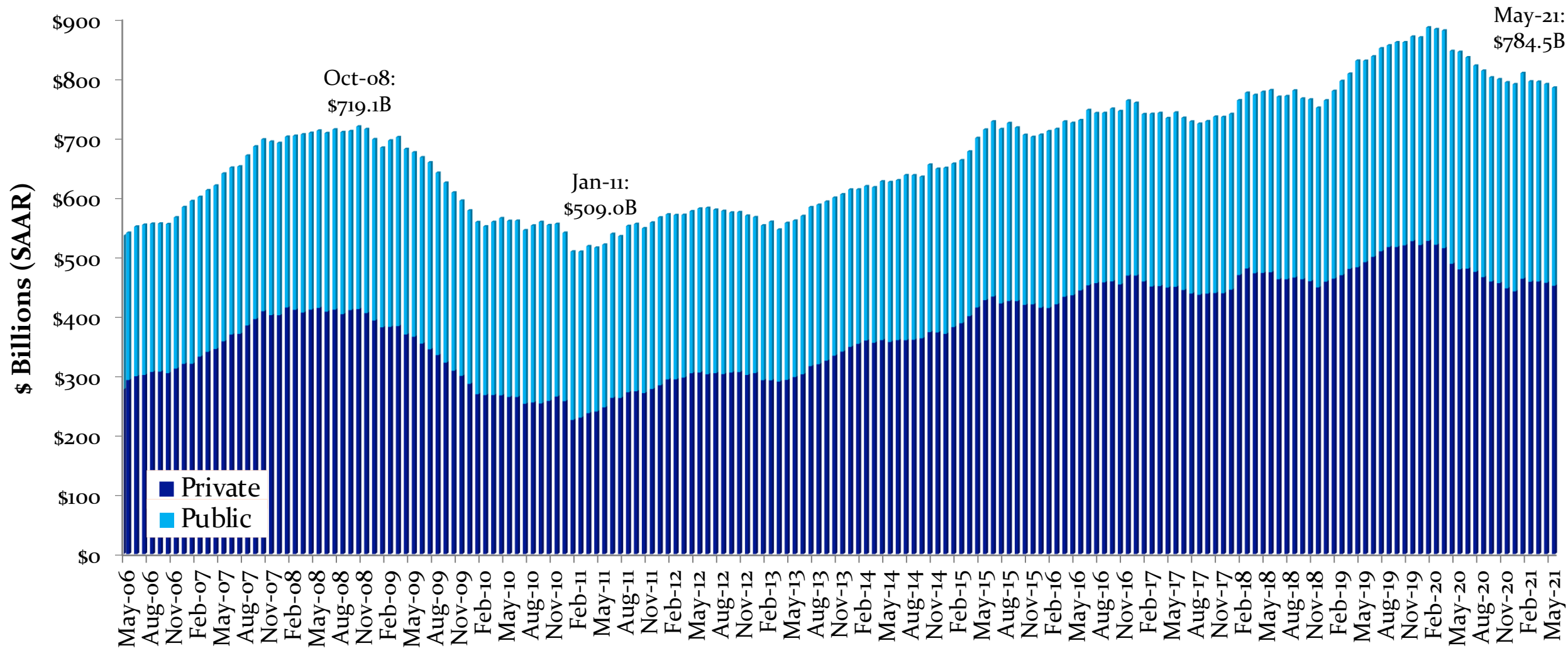


\*Sector billings—unlike the national score, are calculated as three-month moving averages

Source: The American Institute of Architects

# Nonresidential Construction Put-in-Place

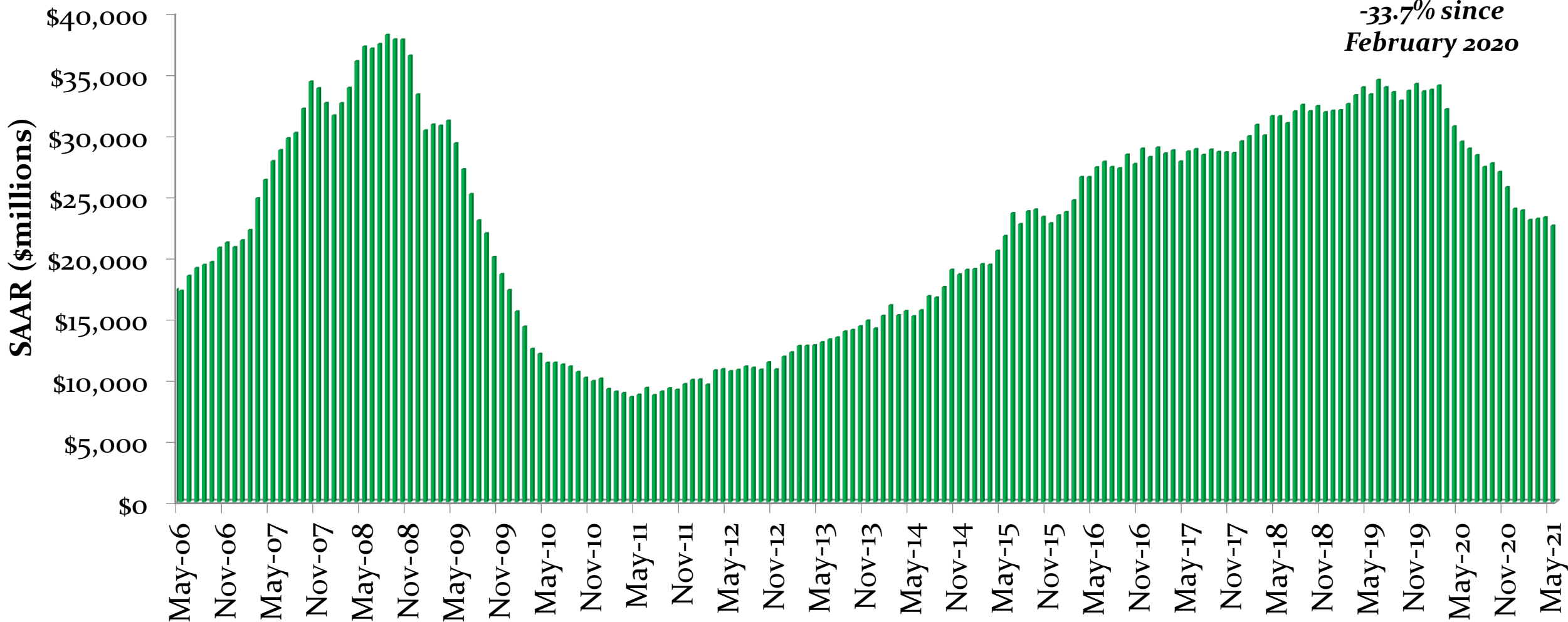
May 2006 – May 2021



# U.S. Lodging Construction Spending

May 2006 – May 2021

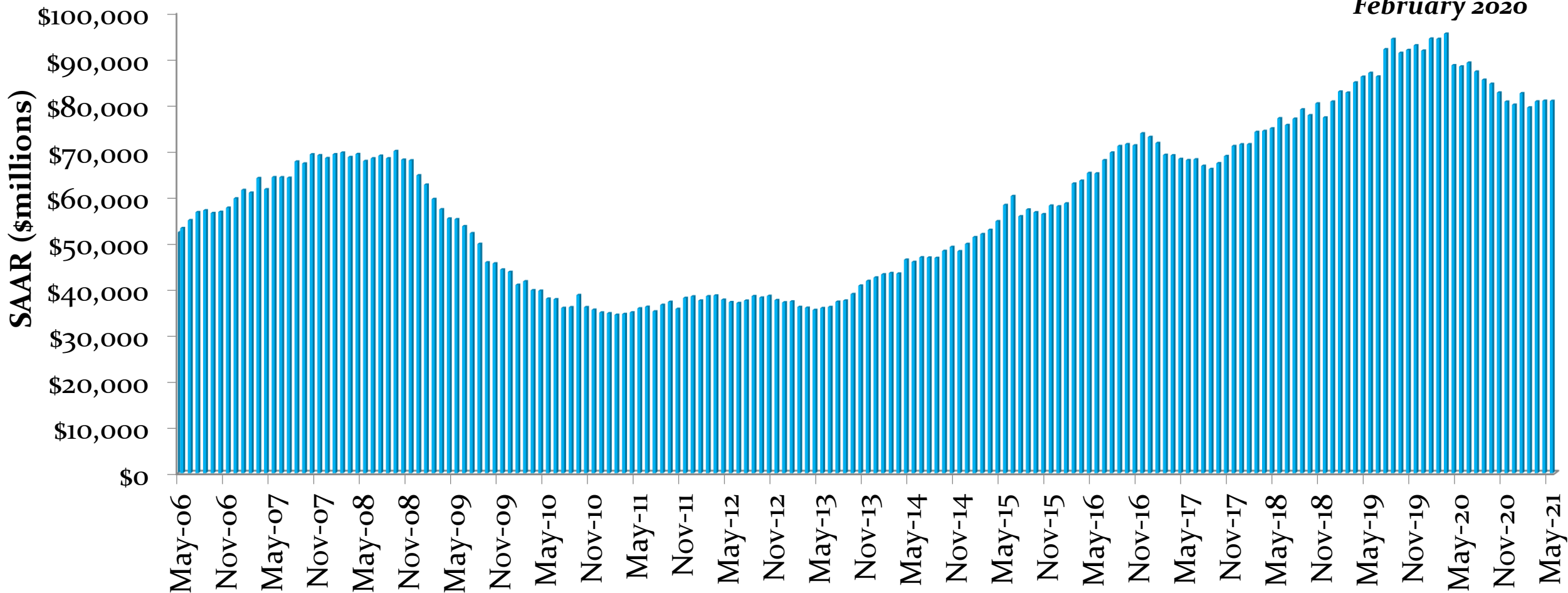
*May 2021: -22.3% YOY  
-33.7% since  
February 2020*



# U.S. Office Construction Spending

May 2006 – May 2021

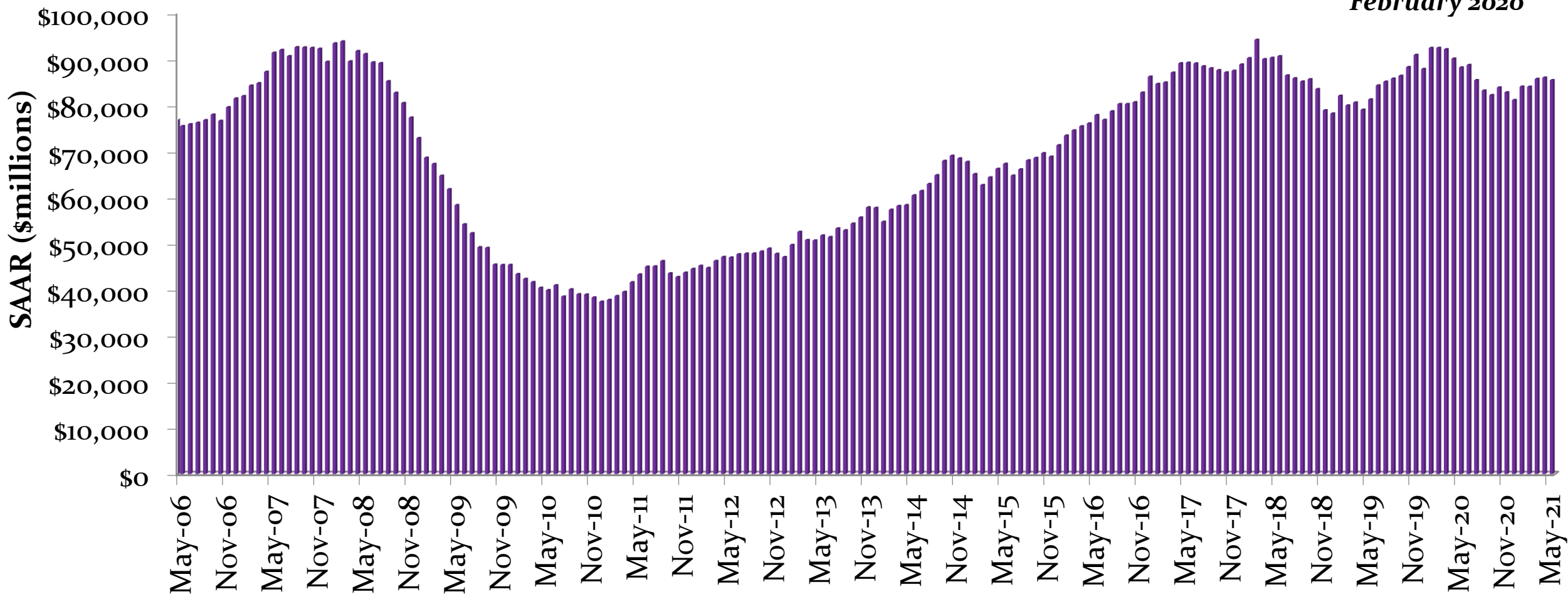
**May 2021: -8.5% YOY  
-14.3% since  
February 2020**



# U.S. Commercial Construction Spending

May 2006 – May 2021

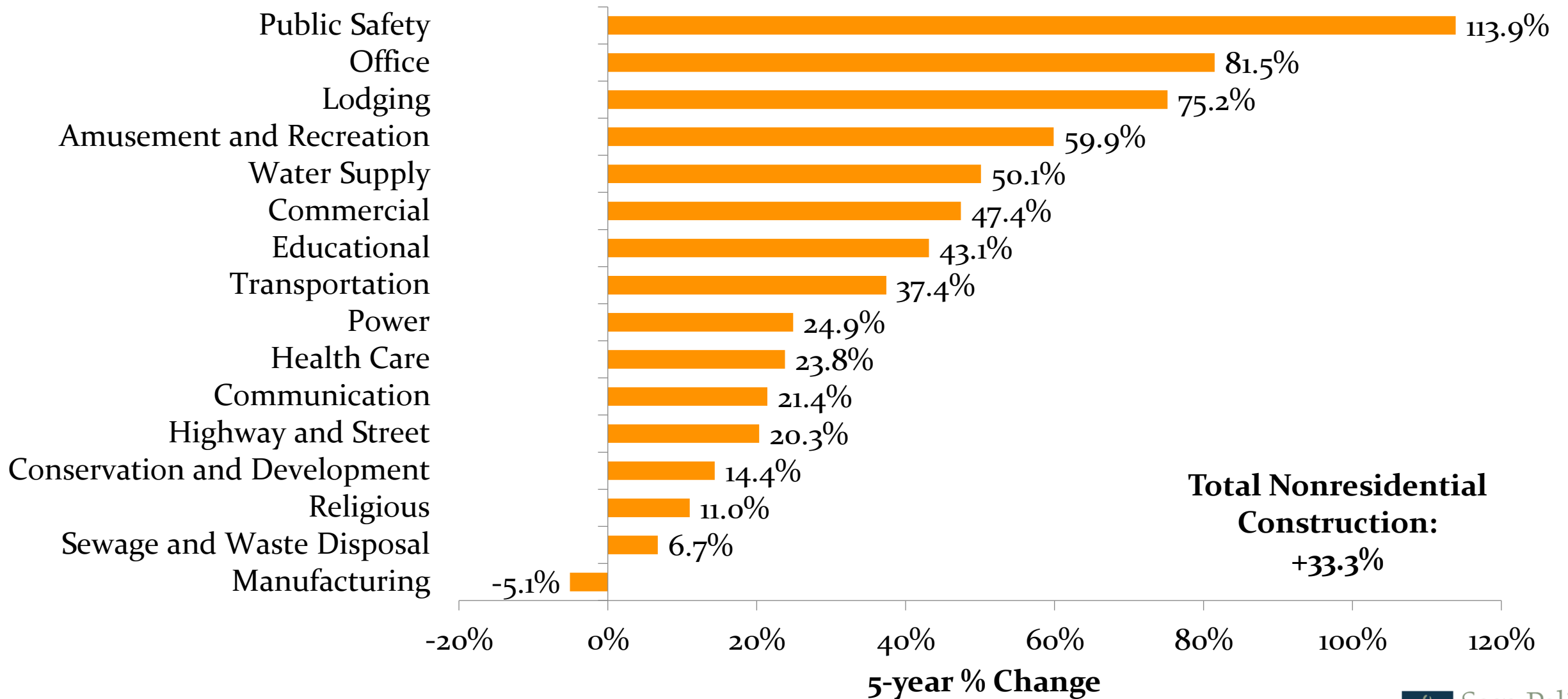
May 2021: -3.1% YOY  
-7.6% since  
February 2020





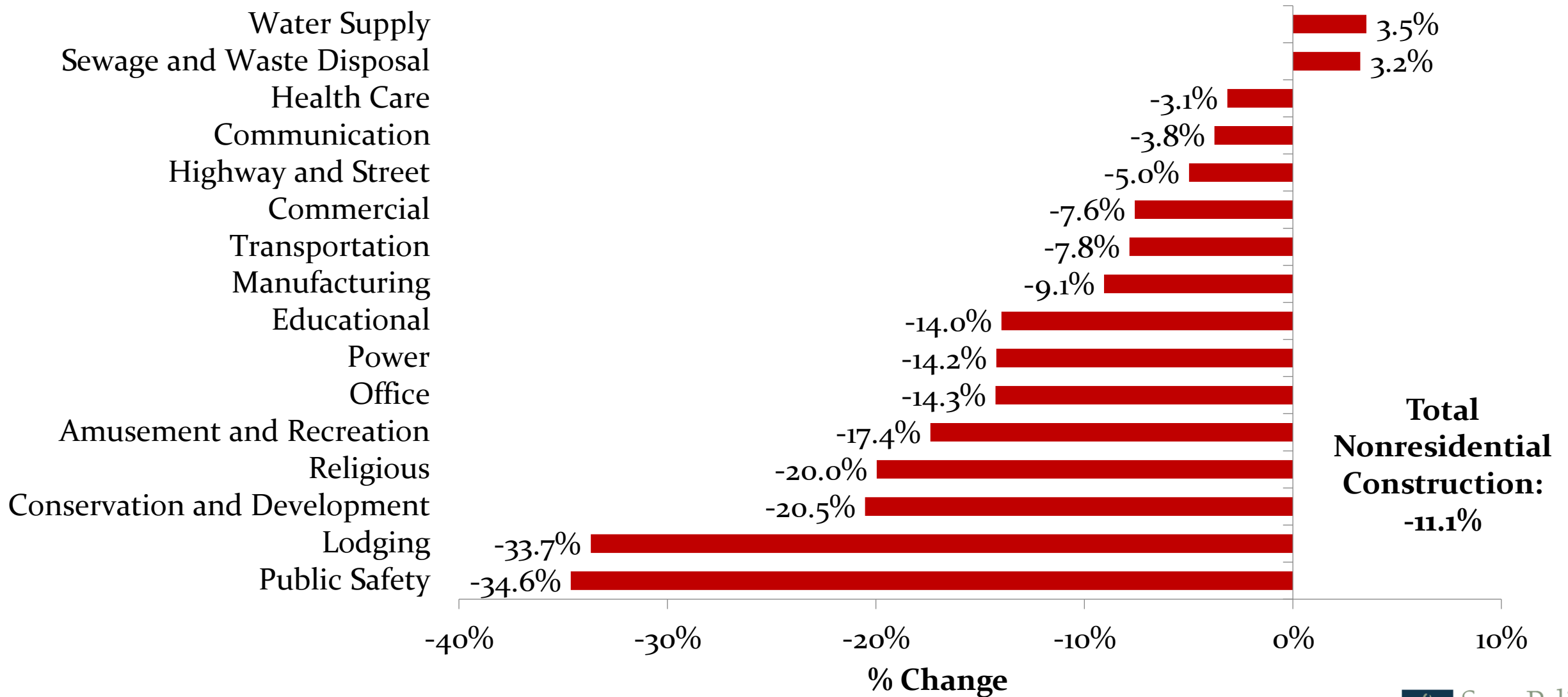
# National Nonresidential Construction Spending by Subsector

February 2015 v. February 2020



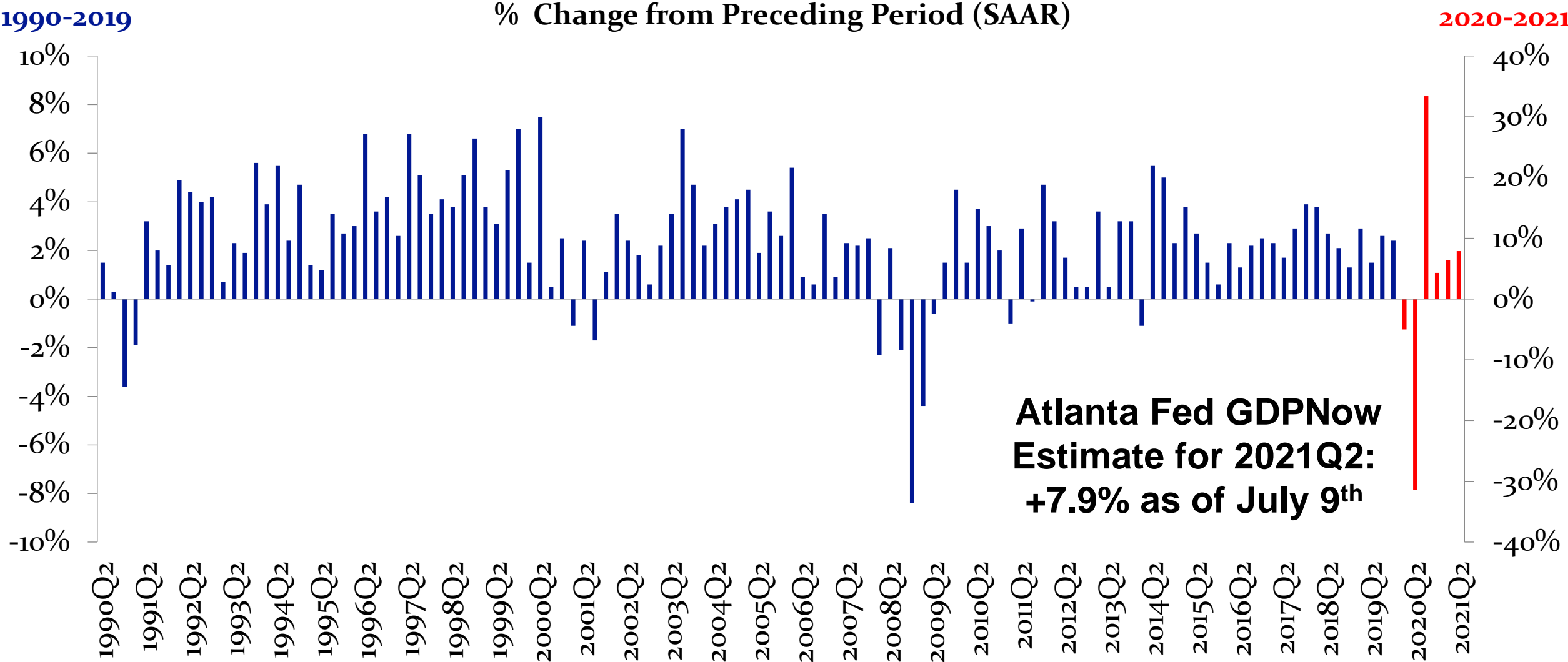
# National Nonresidential Construction Spending by Subsector

February 2020 v. May 2021



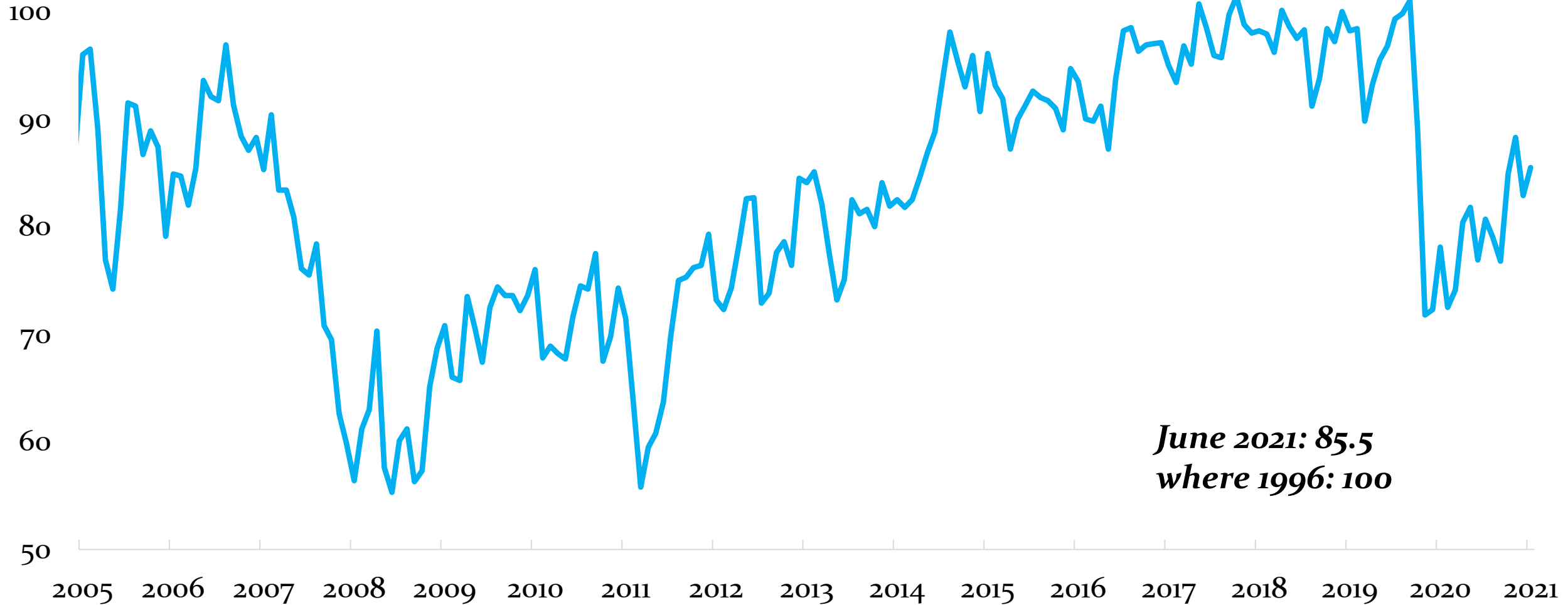
# Gross Domestic Product

## 1990Q2 – 2021Q2



# University of Michigan Index of Consumer Sentiment

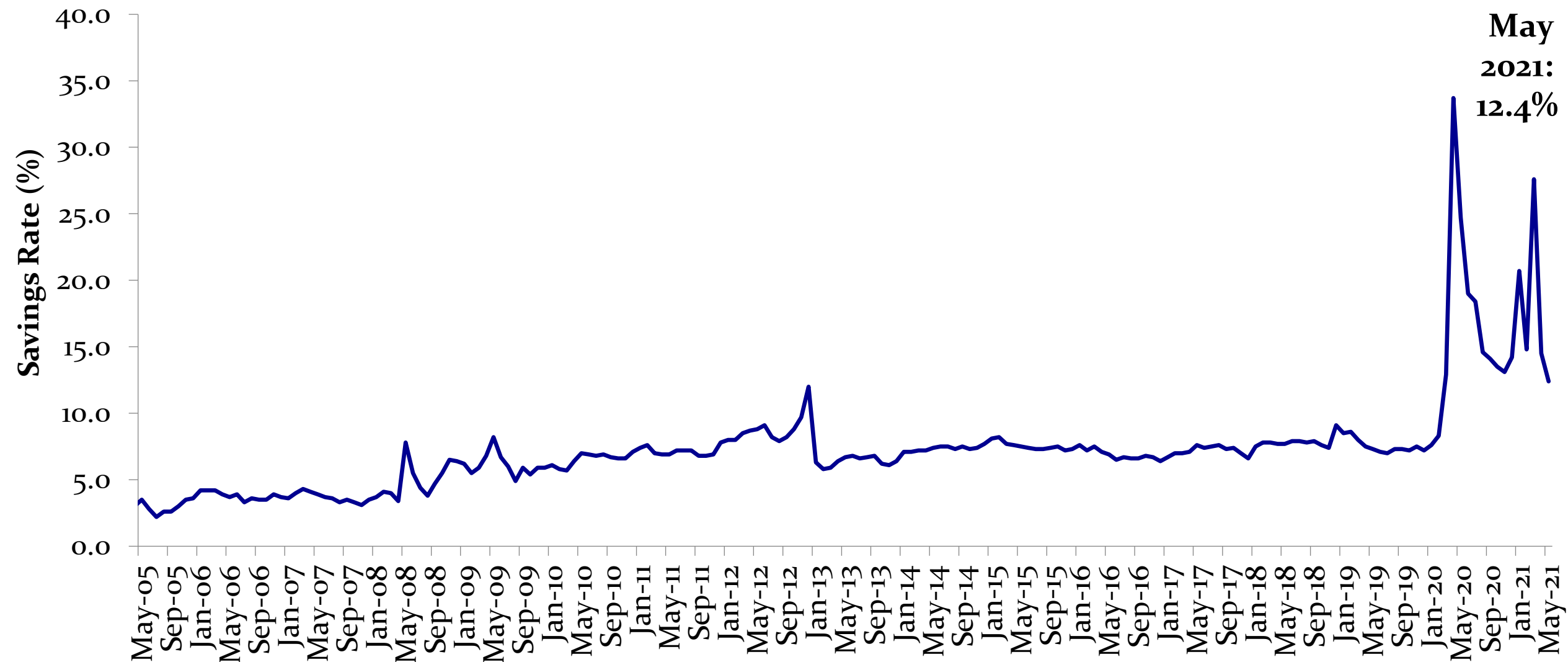
2005 – 2021



*June 2021: 85.5  
where 1996: 100*

# U.S. Saving Rate, May 2005 – May 2021

*(Savings as Percentage of Personal Disposable Income)*



**May  
2021:  
12.4%**

# NFIB Index of Small Business Optimism: Good Time to Expand

## 1986 – 2021

% of respondents who think the next 3 months will be a good time to for small business to expand



# Audience Poll

**Where do you expect your company's profit margins to be a year from now?**

- Substantially higher
- Substantially higher
- About the same
- About the same
- Substantially lower

# Conclusion

- For an economy to flourish, both demand and supply sides of economy must participate.
- With ongoing stimulus, demand gets a further boost, but supply will be constrained by numerous factors, and not just in America.
- The result is that the U.S. savings rate will remain elevated, spring loading the economy for rapid economic growth once vaccines become more broadly available.
- The back half of 2021 should be spectacular for economic growth — back half really began in June.
- However, there will be a day of reckoning as deficit hawks come back into fashion, creating the possibility of greater austerity during the years ahead.



# Q&A

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