

Construction Industry Resilient as Market Softens



2022 Q2 PRICING AND TRENDS INFLUENCE MARKET OUTLOOK



From the desk of Tim Baugus
Vice President, Pence Construction

With the very real concern of an impending recession, the industry, and the country as a whole, are delving into unique ways to help make the softening as short and painless as possible.

But economic indicators signal it is not all doom and gloom. The Chief Economist for the Associated Builders and Contractors (ABC National) predicts the rest of 2022 to be full of growth. Backlog remains strong, as seen in the latest Architecture Billings Index (ABI). **While growth is slowing, the trend continues upwards with a robust supply of work remaining in the pipeline. Additionally, employment has continued to improve post-pandemic, which helps to combat the labor shortages felt across the industry.**

Let's take a closer look at how the market responded to the ongoing volatility over Q2. *It is important to remember this is just a snapshot into a very detailed and intricate system that measures inflation via consumer expenditure data over time. There are many more matters at play than the few discussed here.*

The Impact of Inflation

12-month inflation hit nine and a half percent in June of 2022, marking another high since 1981. For reference, inflation in 1981 was just over 10.25 percent. The Federal Reserve bumped interest rates by another .75 percent during their July meeting, and the United States economy contracted for the second quarter in a row, which shows signs that if the country isn't already in a recession, it could be shortly.

Commodity	Year-Month	Current PPI	Prev Month PPI	Month over Month % Change	Year over Year % Change
Asphalt	2022-06	413.38	387.82	25.56	77.50
Cement, hydraulic	2022-06	289.98	289.98	0.00	6.80
Concrete block and brick	2022-06	322.05	320.24	1.81	11.30
Concrete products	2022-06	329.76	324.36	5.40	13.50
Construction sand and gravel (run of pit/bank, washed, screened, etc)	2022-06	160.43	159.67	0.76	7.50
Fabricated structural metal bar joists and concrete reinforcing bars	2022-06	379.31	375.76	3.55	29.90
Gypsum building materials	2022-06	343.86	343.86	0.00	19.60
Hardwood lumber	2022-06	310.47	312.67	-2.20	9.60
Laminated veneer lumber	2022-06	279.07	292.16	-13.09	52.20
Lubricating oil base stocks	2022-06	248.74	225.65	23.09	54.20
Millwork	2022-06	370.69	373.29	-2.60	13.20
Plastics pipe	2022-06	216.31	216.65	-0.34	35.30
Plywood	2022-06	352.73	355.41	-2.68	-25.20
Softwood lumber	2022-06	340.99	453.29	-112.30	-38.10
Steel mill products	2022-06	420.33	428.02	-7.69	22.40
Structural concrete block	2022-06	330.60	330.12	0.48	11.50

Figure 1 Commodity Overview Q2 2022

STEEL

Status: Increase

Reason: Supply Chain, Financial Volatility & War in Ukraine

Future Projection: Increase

The predicted softening in steel was in fact short lived. Due to uncertainty surrounding the war in Ukraine, WorldSteel updated their Short Range Outlook (SRO) in April of 2022 to forecast that supply chain issues are likely to remain and potentially worsen. While supply chain issues remain and supply is unable to meet demand, inflation will be present.

The slight cooling Steels' Producer Price Index saw last quarter didn't last long, and as of the end of Q2 increased 11.6 percent from the previous quarter. This equates to a 22.4 percent increase year over year. While no longer cooling, the increase remains significantly slower than in the past couple of years.

Rebar PPI increased as well, at 7.2 percent increase over the previous quarter, and nearly 30 percent year over year.

Crude steel production continued to decrease across the globe by nearly six percent year over year. Of that worldwide shortage, North America produced two and a half percent less than it did the year prior. The biggest decrease in production is seen in Russia and Ukraine, which saw a nearly 35 percent decrease in production year over year. While supply has decreased, the SRO forecasts demand will continue growing through 2023.

Pence Insight: Lead times for any of these materials remain critical. Currently Pence is seeing lead times of seven weeks for structural steel, upwards of 47 weeks for steel joists, and 17 weeks for steel decking.

Steel Mill Products

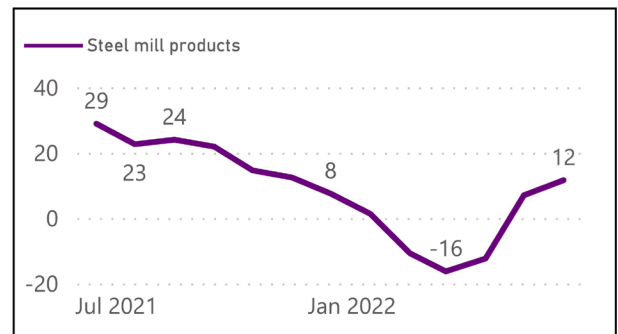
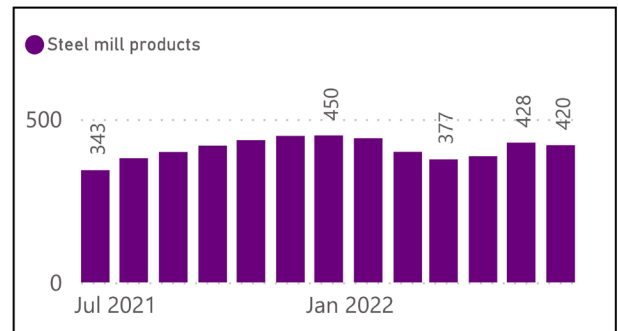


Figure 2 Top: PPI change month over month; Bottom: Change in PPI by month

Fabrication Steel Products

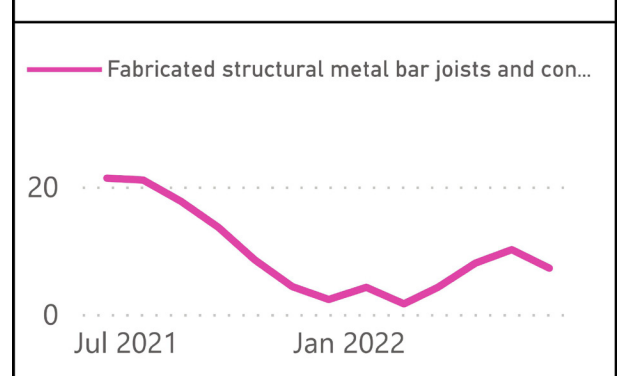
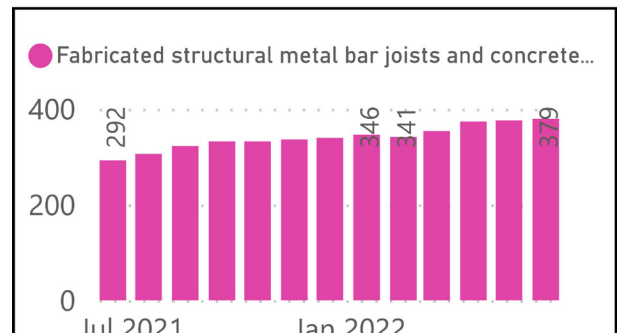


Figure 3 Top: PPI change month over month; Bottom: Change in PPI by month

LUMBER

Status: Decrease

Reason: Equalizing between Supply and Demand

Future Projection: Slow Trend Downwards

The Producer Price Index (PPI) for most lumber commodities began their trends downwards in Q2. Softwood Lumber saw the greatest decrease at nearly 37 percent over last quarter, and 38.1 percent decrease year-on-year. Plywood followed with a quarterly decrease of 11.2 percent, and a yearly decrease of 25 percent. The trend upwards for Millwork pricing began cooling this past quarter as well, with an increase of two percent over the last quarter. Both Hardwood Lumber and Laminated Veneer Lumber continued their quarterly trend upwards; however, when looking at year-on-year percent change for both commodities, both show the start to a softening.

Supply and demand are beginning to level out, which is helping to bring these prices back down. However, it will likely take some time before the softening prices are truly felt by the public. Barring any additional crisis, lumber prices should continue to soften back towards pre-pandemic pricing.

Pence Insight: Lumber lead times across the board are finally getting some much-anticipated relief. Currently Pence is seeing that most all lumber materials, including floor joists, are readily available.

Hardwood Lumber, Laminated Veneer, Millwork, Plywood, and Softwood

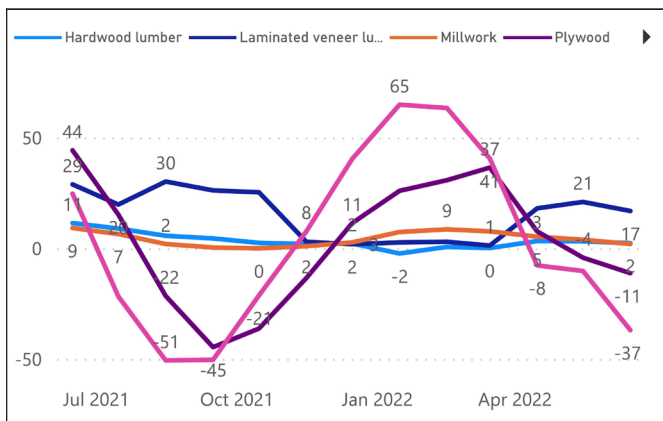


Figure 4 PPI change month over month by lumber type

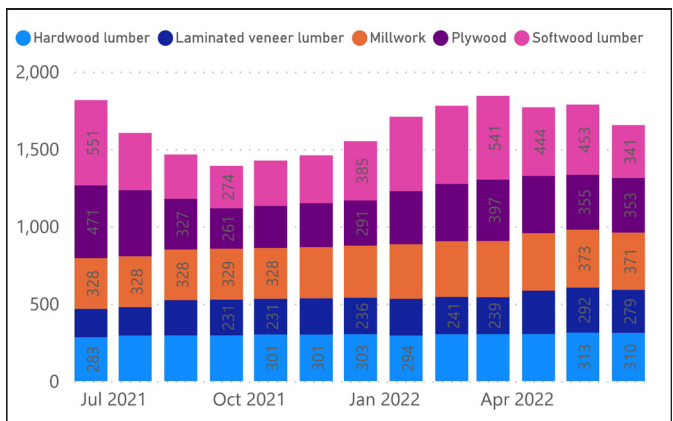


Figure 5 Change in PPI by month by lumber type

ASPHALT

Status: Increase

Reason: Market Volatility

Future Projection: Decrease

Asphalt saw a sizable jump upwards in Producer Price Index (PPI) this past quarter, with a nearly 43 percent increase over the previous quarter. The year over year increase was even more troublesome at 77.5 percent. Being that asphalt is a petroleum-based product, it makes sense that PPI for both commodities follow a similar trajectory.

OILS & GASOLINE

Status: Increase

Reason: Market Volatility & Outside Intervention

Future Projection: Decrease

As of August 2022, the national average of gas pricing hit \$4.139/gallon for regular, and \$5.215/gallon for diesel. The Pacific Northwest average runs higher; gas in Oregon hit an all-time high for regular unleaded in mid-June at \$5.548/gallon, and early July for diesel at \$6.474/gallon. However, at the time of this publication, oils and gasoline have seen a weekly decline in price.

Oil and gas pricing impacts every commodity and every aspect of construction; as pricing at the pump declines, other commodities should feel the relief, as well.

Asphalt



Figure 6 Top: PPI change month over month; Bottom: Change in PPI by month

Oils

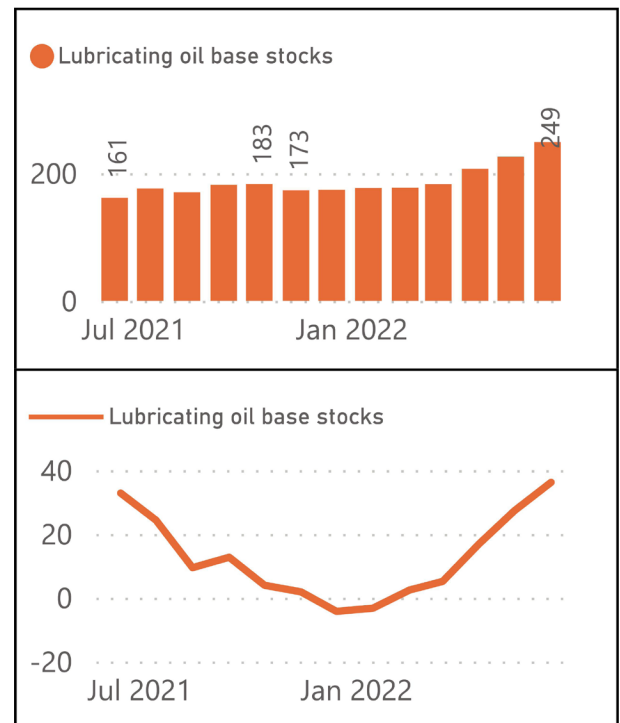


Figure 7 Top: PPI change month over month; Bottom: Change in PPI by month

CONCLUSION

Commodity escalation has continued throughout Q2, although at a slower trend upwards. Material availability and skilled labor continue to be at the crux of these issues. **Pricing and availability are beginning to improve in the industry. While inflation is expected to continue, demand remains consistent.**

Based on the current information and the local industry feedback, Pence's recommendation to our clients is to carry a 0.76% escalation per month through the end of 2022.

Pence Construction uses economic and market trending sources noted below to provide graphs and an overview of the market. If you have any questions, comments, or feedback on the information provided, please reach out to Tim Baugus (503.789.5563).

SOURCES

AAA Gas Prices	https://gasprices.aaa.com/
Architecture Billings Index ABI	https://www.aia.org/
Associated General Contractors of America AGC	https://www.agc.org/
AZ Big Media	https://azbigmedia.com/
CBC Radio Canada	https://www.cbc.ca/
Consumer News and Business Chanel CNBC	https://www.cnbc.com/
ConstructionDive	https://www.constructiondive.com/
Engineering News Record ENR	https://www.enr.com/
Federal Reserve Economic Data FRED	https://fred.stlouisfed.org/
Gordian / RS Means	https://www.gordian.com
National Association of Home Builders NAHB	https://eyeonhousing.org/
Rider Levett Bucknall RLB	https://www.rlb.com/americas/
The New York Times	https://www.nytimes.com/
The Wall Street Journal	https://www.wsj.com/
U.S. Bureau of Economic Analysis BEA	https://www.bea.gov
U.S. Bureau of Labor Statistics	https://www.bls.gov/
U.S. Energy Information Administration EIA	https://www.eia.gov/
World Steel Association	https://www.worldsteel.org