

Construction Demand Present, Pricing and Availability Remain Challenging



2022 Q1 PRICING AND TRENDS INFLUENCE MARKET OUTLOOK



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The anticipation of a slowly stabilizing post-pandemic recovery has encountered additional unforeseen hindrances with the war in Ukraine, as well as continued rising inflation.

Market volatility has rippled across the entire construction industry. This can be seen through subcontractors and suppliers' inability to hold pricing and increases in fuel surcharges. However, what is not always seen is the cost-bid gap that contractors have been covering. ConstructionDive records indicate that while overall construction costs have grown more than 22 percent year-over-year, contractor bid pricing increased only 17 percent over the same timeframe.

Despite new challenges faced by the industry, economists suggest there is still plenty of buying power and demand for construction. In particular, the multi-family sector saw fairly strong growth throughout the first quarter of 2022, and commercial/industrial sectors saw moderate growth as well.

Let's look at how the market has responded to the market volatility over the last quarter. *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 factors at play than those shown here.*

Inflation Continued Increase

The 12-month inflation rate hit eight and a half percent in March 2022, the highest since 1981. In the past, these impacts have been heavily felt through a couple of commodities at a time; however, it is much more extensive in the current environment and being felt across the board on commodities. Many commodities are experiencing long lead times, availability shortages and erratic shipping, all which lead to price volatility.

Commodity	Year-Month	Current PPI	Prev Month PPI	Month over Month % Change	Year over Year % Change
Structural concrete block	2022-03	324.82	323.54	1.28	10.30
Steel mill products	2022-03	380.64	400.12	-19.48	42.90
Softwood lumber	2022-03	542.76	504.26	38.50	22.90
Plywood	2022-03	383.04	370.86	12.18	17.20
Plastics pipe	2022-03	208.30	203.78	4.52	57.00
Millwork	2022-03	364.75	360.05	4.70	21.60
Lubricating oil base stocks	2022-03	194.70	178.98	15.72	60.30
Laminated veneer lumber	2022-03	238.71	241.48	-2.77	67.90
Hardwood lumber	2022-03	301.60	303.39	-1.79	18.60
Gypsum building materials	2022-03	314.19	314.19	0.00	20.80
Fabricated structural metal bar joists and concrete reinforcing bars	2022-03	332.60	337.98	-5.38	38.10
Construction sand and gravel (run of pit/bank, washed, screened, etc)	2022-03	157.59	153.67	3.92	6.80
Concrete block and brick	2022-03	314.49	310.74	3.75	10.30
Cement, hydraulic	2022-03	286.20	285.69	0.51	8.20
Asphalt	2022-03	284.63	272.00	12.63	36.90

Figure 1 Commodity Overview Q1 2022

STEEL

Status: Decrease

Reason: Supply Chain, Financial Volatility & War in Ukraine

Future Projection: Short-Term Softening

Last quarter economists and professionals in the steel and construction industries were convinced the steel markets were beginning to level out. According to the U.S. Bureau of Labor Statistics, they were correct, although this softening is likely to only last short-term. Due to uncertainty surrounding the war in Ukraine, WorldSteel updated its Short Range Outlook (SRO) to forecast that supply chain issues are likely to remain and potentially worsen.

Economic note: when supply chain issues are present and the supply does not meet the demand, inflation will be present

Between Q4 2021 and Q1 2022, the Producer Price Index for the steel market did see a slight cooling of 15 percent for steel mill products and a two percent decrease for rebar. **It has been more than two years since the steel market has seen a softening like this.**

Crude steel production decreased across the globe by nearly six percent year-over-year, and North America produced nearly three percent less of it. The biggest decrease in production can be seen in Russia and Ukraine, which saw a more than 19 percent decrease in production. While supply has decreased, the SRO forecasts demand will continue growing throughout 2023.

Pence Insight: Lead times for any of these materials should still be considered critical. Pence is currently 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

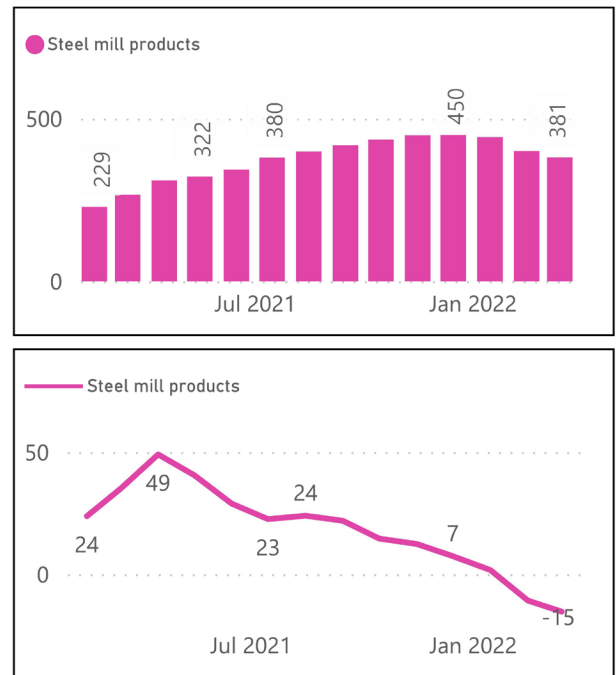


Figure 2 Top: PPI change month over month; Bottom: Change in PPI by month

Fabrication Steel Products

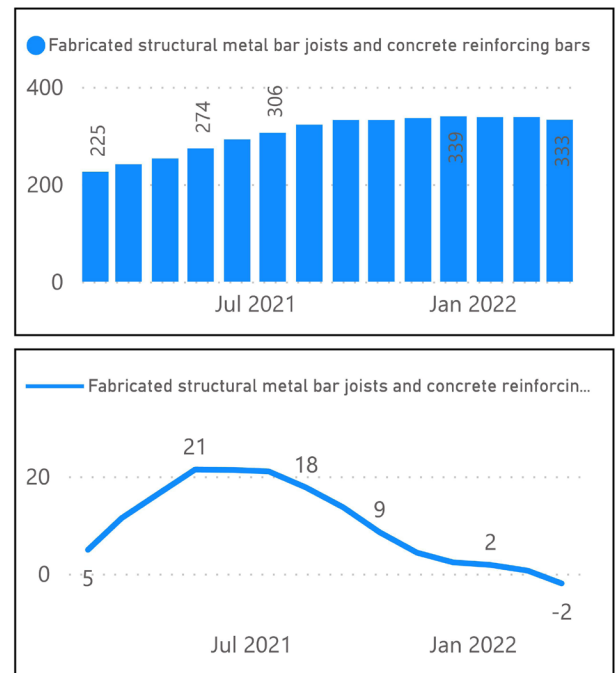


Figure 3 Top: PPI change month over month; Bottom: Change in PPI by month

LUMBER

Status: Increase

Reason: Supply Chain & Anticipated Tariffs

Future Projection: Increase

The Producer Price Index (PPI) for most lumber commodities continued its trend upward. Softwood lumber experienced the greatest increase at 41 percent over the last quarter, and a 23 percent increase year-over-year. Plywood followed with a quarterly increase of 32 percent, and a yearly increase of 17 percent. Millwork and laminated veneer lumber also increased quarterly and annually. **The only lumber commodity that did not increase was hardwood. Hardwood decreased by less than half a percent since Q4 2021, which was the first time this has happened since early 2020 (before the pandemic).**

Inventories remain light, tariffs remain in place, lumberyards remain at the mercy of nonexistent trucks and rail cars, and now lumber trade flows are being impacted by the war in Ukraine, as well. Many countries have implemented sanctions against Russia and its exports, and additionally two major wood certification companies have labeled any timber leaving the country as “conflict timber.”

Pence Insight: Impact on lead times for most lumber commodities are still in action. Pence is currently seeing lead times up to 20 weeks from the date of order for casework. Additionally, engineered woods (glu-lams, i-joists, and roof trusses) are upward of eight weeks from the date of order.

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

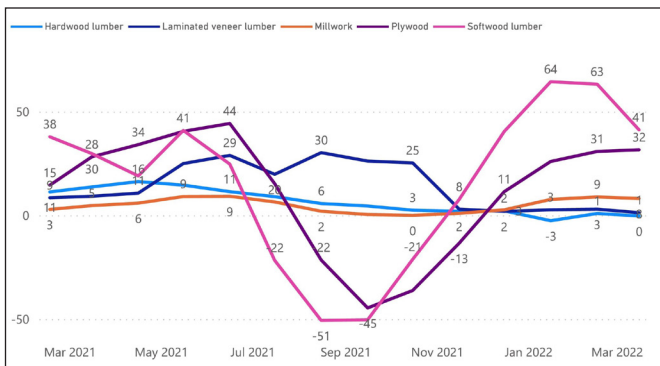


Figure 4 PPI change month over month by lumber type

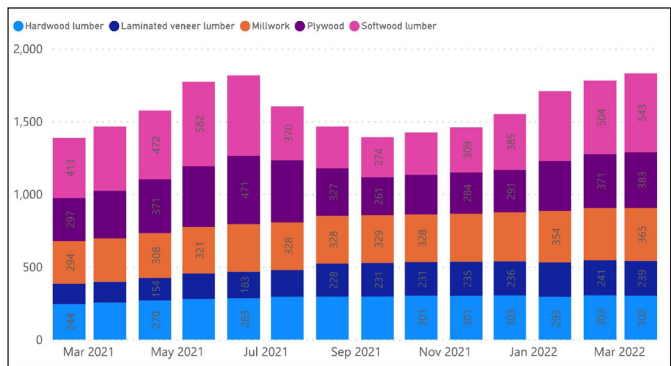


Figure 5 Change in PPI by month by lumber type

OILS & GASOLINE

Status: Increase

Reason: Market Volatility

Future Projection: Increase

Oils and gasoline have seen a significant increase - due to the current market volatility and inflation. Russia has been a top supplier of oils and natural gas and due to sanctions against the country's supply, these changes are expected to last for a while.

As of May 2022, the national average gas price hit \$4.27 for regular and \$5.51 for diesel. The Pacific Northwest average still trends higher than other parts of the country, with retail pricing averaging between \$4.51 and \$5.78. This is the first time the national average for gasoline pricing has exceeded \$4 per gallon since 2008.

From the already hurting supply chain that is needed to get materials to jobsites to the machinery that keeps each site working, gas and oil pricing impacts every aspect of construction.

Oils

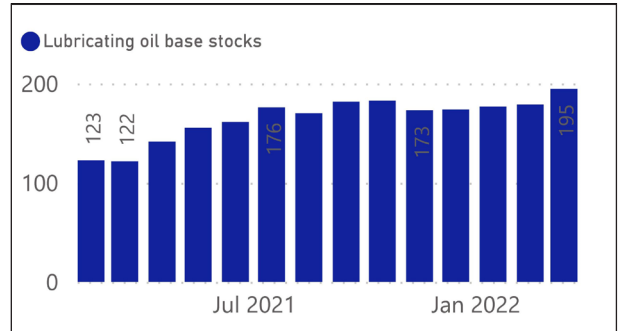


Figure 6 Oils PPI by month

Gasoline

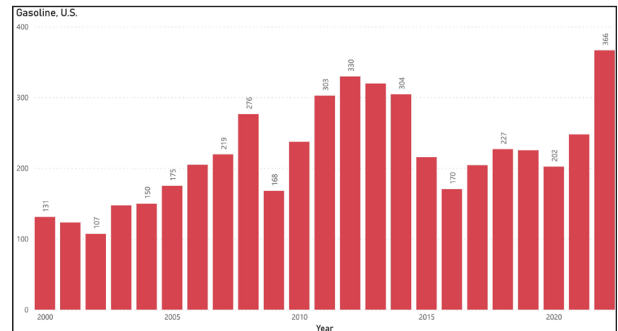


Figure 7 Oils PPI by month

CONCLUSION

Commodity escalation has continued throughout the first quarter of 2022. The war in Ukraine has unfortunately increased market volatility, which was beginning to stabilize. **Pricing and availability will continue to be a challenge in the construction industry. While inflation is expected to continue, demand remains present.**

Based on the current information and local industry feedback, Pence recommends that our clients carry a 0.65 percent escalation per month through the second quarter of 2022.

Pence Construction uses the economic and market trending sources noted below to provide graphs and an overview of the market. If you have questions, comments or feedback on the information provided, please reach out to Tim Baugus (503.789.5563) or Jenny Volbeda (971.867.0499).

SOURCES

AAA Gas Prices	https://gasprices.aaa.com/
Associated General Contractors of America AGC	https://www.agc.org/
British Broadcasting Corporation BBC	https://www.bbc.com/
ConstructionDive	https://www.constructiondive.com/
Engineering News Record ENR	https://www.enr.com/
Federal Reserve Economic Data FRED	https://fred.stlouisfed.org/
National Association of Home Builders NAHB	https://eyeonhousing.org/
The Wall Street Journal	https://www.wsj.com/
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