



Construction Industry Remains Tenacious Through Uncertain Times

2023 Q4 PRICING & TRENDS INFLUENCE MARKET OUTLOOK



From the desk of Tim Baugus
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Economic uncertainty continued to affect the construction industry throughout 2023 and in the final quarter of the year. The cost of services remained high, and labor shortages across the country have been impactful. The industry is facing an astounding 450,000 construction job openings.

Despite apprehensions, the construction industry overall has remained resilient in the face of higher borrowing costs, inflation and workforce challenges. Infrastructure projects lead industry growth, while construction of commercial and multi-family housing projects have slowed.

Going into the first quarter of 2024, utilizing forecasts has helped the industry successfully navigate uncertain times. In this report, we'll look at how the construction industry responded to market volatility over the final quarter of 2023. *It's 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 noted here.*

Inflation at-a-Glance

The annual inflation rate for the U.S. was at 3.4% for the 12 months ending in December, which is down considerably from 6.5% in December 2022. Despite this, the consumer price index rose in December, more than anticipated, from 0.1% the previous month to 0.3%. The cost of services remains high.

The lower inflation rates during the past 18 months are a positive development, but economists stress that there is still work to do to reach the longer-run goal of 2%. Most economists foresee the Federal Reserve successfully bringing inflation down without going into a recession; however, some have concerns that a recession could happen in the first half of 2024, leading to a more fruitful 2025.

What is PPI?

According to U.S. Bureau of Labor Statistics, the Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller.

Commodity	Year-Month	Current PPI	Prev Month PPI	Month over Month % Change	Year over Year % Change
Structural concrete block	2023-12	387.52	383.60	3.92	11.50
Steel mill products	2023-12	309.28	299.35	9.93	-2.00
Softwood lumber	2023-12	241.34	240.79	0.55	-14.60
Plywood	2023-12	281.93	282.36	-0.43	-3.80
Plastics pipe	2023-12	190.59	193.05	-2.46	-11.00
Millwork	2023-12	350.45	352.01	-1.56	-3.40
Lubricating oil base stocks	2023-12	189.91	188.80	1.11	-21.40
Laminated veneer lumber	2023-12	233.24	231.41	1.83	-13.90
Hardwood lumber	2023-12	248.52	249.91	-1.39	-0.20
Gypsum building materials	2023-12	347.75	348.94	-1.19	-2.00
Fabricated structural metal bar joists and concrete reinforcing bars	2023-12	385.13	364.11	21.02	9.80
Construction sand and gravel (run of pit/bank, washed, screened, etc)	2023-12	173.01	172.95	0.06	6.10
Concrete block and brick	2023-12	369.60	363.99	5.61	10.30
Cement, hydraulic	2023-12	335.64	335.62	0.02	8.20
Asphalt	2023-12	237.36	255.68	-18.32	23.90

Figure 1: Commodity Overview 2023 Q4

STEEL

PPI Status: Decrease due to steady supply & demand

PPI Future Projection: Decrease

Throughout the past 12 months, we've witnessed the volatility of steel mill products within the steel market. While the quarter-over-quarter numbers initially showed an increase in PPI, the year-over-year was steadily lower than in 2022. In Q4, we saw a decrease of 0.75% from Q3, and a 2.01% decrease from December 2022. (See Figure 2)

At the start of Q4 2023, we saw a rapid increase in hot-rolled coil pricing. Since this time, these price increases have all retracted and are expected to continue to fall and bottom out in the spring 2024.

The Pacific Northwest is seeing mill products distributors drive the current price lower. Overall, steel experts are expecting 2024 to be a buyer's market.

WorldSteel updated its Short Range Outlook (SRO) in October 2023, forecasting demand growth of 1.6% in 2024.

The rebar PPI increased 6.59% quarter-over-quarter, and by 9.82% year-over-year.

Pence Insight: Despite a steady supply of steel, Pence has consistently seen lead times ranging from six weeks for structural steel framing and three to four months for steel decking.

Steel Mill Products

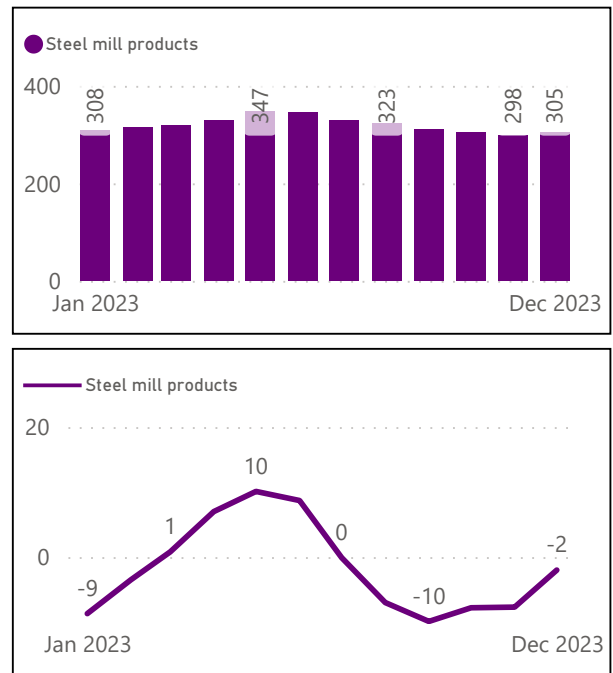


Figure 2 Top: PPI change month over month; Bottom: Change in PPI by month

Fabrication Steel Products

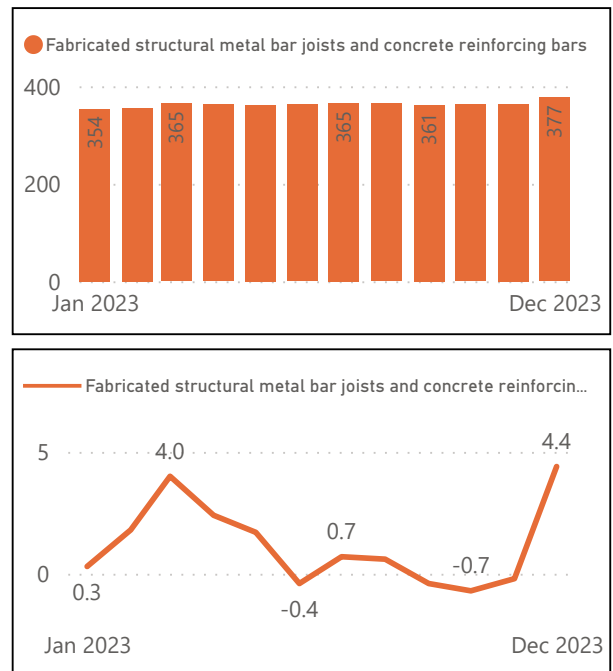


Figure 3 Top: PPI change month over month; Bottom: Change in PPI by month

LUMBER

PPI Status: Decrease due to reduced lumber production

PPI Future Projection: Increase

Toward the end of 2023, lumber prices dipped below peak pandemic levels. The PPI for most lumber commodities reflected the downward trend we saw throughout the year. Softwood lumber was down 7.69% quarter-over-quarter and 14.63% year-over-year. Plywood was the only material that increased during the quarter at just 0.18%, with the year-over-year rate down by 3.84%. Millwork, laminated veneer lumber and hardwood lumber also decreased quarterly and annually.

Market researchers project that lumber prices will spike in 2024, primarily driven by demand for new homes. This will likely also lead to increased prices for lumber.

Pence Insight: Most lumber commodities are still challenging to obtain on a short turnaround. Pence has experienced lead times of more than 35 weeks for glu-lams and cross laminated timber (CLT) products.

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

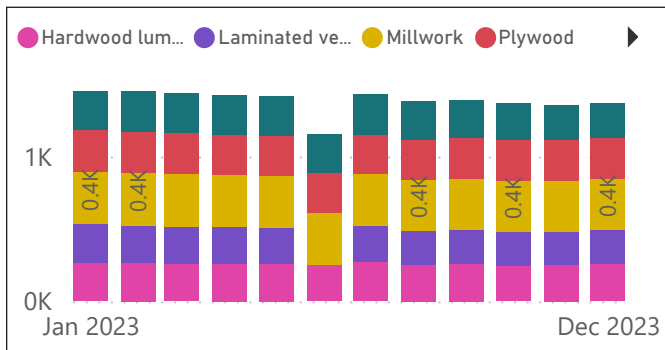


Figure 4: PPI change month over month by lumber type

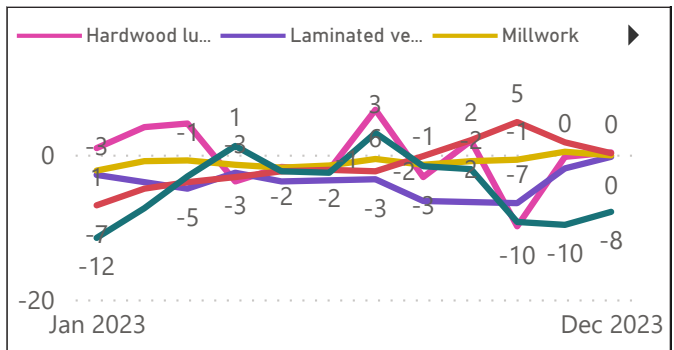


Figure 5: Change in PPI by month by lumber type

ASPHALT

PPI Status: Decrease due to market volatility

PPI Future Projection: Increase

In December 2022, the asphalt PPI plummeted to a record low. That number is still affecting how we interpret the commodity prices for 2023. The prices rose for the first half of 2023 before stabilizing around Q3. Then Q4 ended with a slight decrease quarter-over-quarter (10.68%), but an increase year-over-year (23.90%).

Based on previous years, we can assume that prices will increase during the spring/summer months as demand increases.

OILS & GASOLINE

PPI Status: Increase due to market volatility & falling inventories

PPI Future Projection: Increase

As of December 2023, the average national gas price for regular fuel was \$3.13, and \$3.97 for diesel. It's projected that demand for gas is only going to increase, and prices will follow at the pump. Average prices in the Pacific Northwest are typically higher than the national average.

Oil and gas pricing impacts every commodity and every aspect of construction.

Asphalt

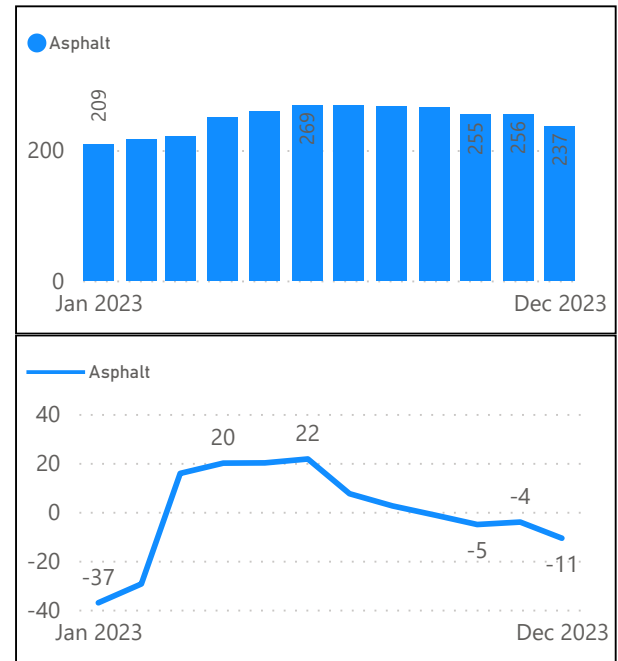


Figure 6 Top: PPI change month over month; Bottom: Change in PPI by month

Oils

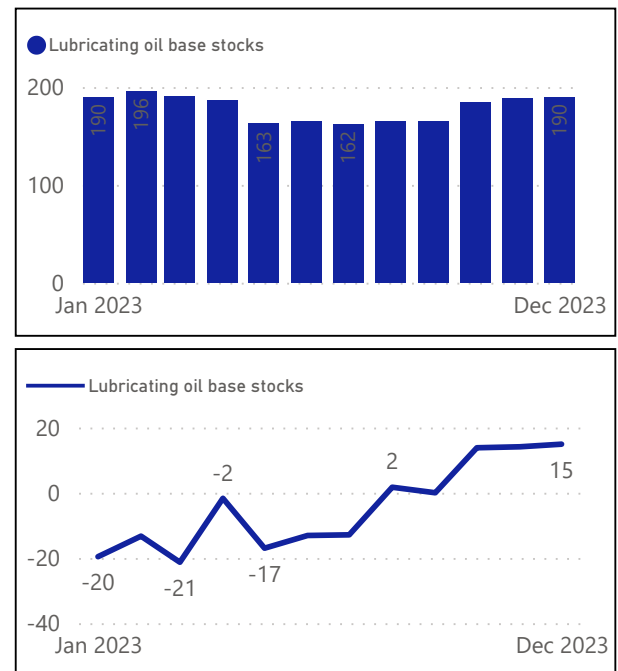


Figure 7 Top: PPI change month over month; Bottom: Change in PPI by month

CONCLUSION

On a positive note, commodity escalation has softened in many markets. Cooling inflation during the past year is an encouraging development and the feds may be able to reach their 2% goal without a recession.

Continuing to review market data, forecasts and plan accordingly is a strategy that should help those in the construction industry when it comes to making sound decisions about materials for upcoming projects.

Based on information currently available and local industry feedback, Pence's recommendation to our clients is to carry a 0.29% escalation per month as we head into the second quarter of 2024.

Pence Contractors 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/
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