



COMMODITY PRICING OVERVIEW

QUARTER TWO | 2021

Construction escalation is continuing the trend upwards, with the second quarter of 2021 showing the most significant increase the industry has seen in years. The consumer price index for construction saw an industry-wide increase of nearly five and a half percent from June 2020. *Figure 1* shows an overview of Producer Price Index, or PPI, monthly change, and historical change from June 2020.

Commodity	Year-Month	Current PPI	Prev Month PPI	Month over Month % Change	Year over Year % Change
Asphalt	2021-06	232.20	209.40	22.80	65.10
Cement, hydraulic	2021-06	271.50	266.70	4.80	3.80
Concrete block and brick	2021-06	290.20	288.70	1.50	4.40
Construction sand and gravel (run of pit/bank, washed, screened, etc)	2021-06	149.50	149.20	0.30	2.80
Fabricated structural metal bar joists and concrete reinforcing bars	2021-06	289.90	279.80	10.10	34.80
Gypsum building materials	2021-06	287.90	277.10	10.80	21.00
Hardwood lumber	2021-06	278.70	278.70	0.00	37.40
Laminated veneer lumber	2021-06	195.00	174.80	20.20	57.40
Lubricating oil base stocks	2021-06	164.50	141.70	22.80	127.50
Millwork	2021-06	329.90	320.30	9.60	23.00
Plastics pipe	2021-06	158.30	152.70	5.60	48.50
Plywood	2021-06	452.00	392.40	59.60	114.50
Softwood lumber	2021-06	553.80	565.90	-12.10	125.30
Steel mill products	2021-06	340.40	320.60	19.80	87.50
Structural concrete block	2021-06	297.50	296.80	0.70	3.90
Treated lightweight aggregate and crushed slag, minerals and earths	2021-06	136.80	136.50	0.30	1.70

Figure 1 Commodity Overview Q2 2021

Several factors are contributing to the continued escalation; we will focus on a few of the major drivers for the industry below, including steel, lumber, asphalt, and oils/fuels.

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STEEL

Status: Increase

Reason: Supply Chain

Future Projection: Continued Increases

Quarter Two 2021 saw a sharp increase in the cost of steel mill products. The rise in steel during the last quarter was dictated by the demand and supply for steel joists and decking; other structural members went up by ten percent. As figure 2 shows, the Producer Price Index, or PPI, for steel mill products nationwide increased over 28% from Quarter One and nearly 88% since June 2020. In our area of the Pacific Northwest escalation for structural steel, pre-engineered metal buildings, joists, and decking has been upwards of 160% from June 2020. Even the performance of steel on the market shows an increase of 23% from Quarter One, and nearly a 300% increase from June 2020.

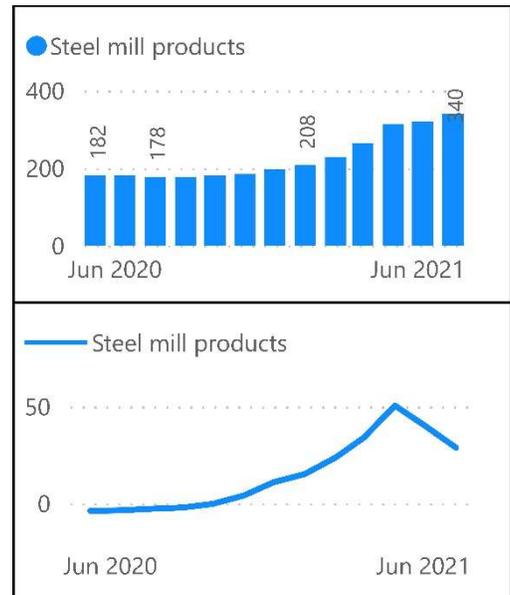


Figure 2 Steel Mill Materials Overview. PPI top; Change of PPI Q/Q bottom.

Inflation, supply and demand, environmental and engineering changes are driving price escalations. In steel, escalation has been influenced by all these factors, although two main factors contributed the most; the 2020 pandemic shutdowns and a higher demand than anticipated. Additionally, two mergers took place that created a duopoly in the industry. With all these factors still in play, we could see steel pricing trend upwards through to the end of 2021.

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LUMBER (Softwood and Plywood)

Status: Increase

Reason: Supply Chain

Future Projection: Continued Increases, beginning to level

Escalation within the wood market continued its rise in Quarter Two 2021. There are many drivers in the lumber market, including softwood and plywood; we will review the two seeing the most change. There are many drivers in the lumber market, including softwood and plywood; for this commodity overview, we will review the two seeing the most change. Softwood lumber PPI increased 26% from Quarter One and 125% from June 2020. Meanwhile, plywood PPI increased 44% from Quarter One, and nearly 115% from June 2020. Escalation of wood within the Pacific Northwest was less dramatic than the nationwide trends, with a year-over-year increase of about 35%.

There was an increased demand for lumber over the past year during lockdown which greatly outweighed the anticipated need, setting the supply chain off-balance. This year's wildfire season has impacted the lumber market, with the Pacific Northwest experiencing another record-setting year for fires and drought conditions.

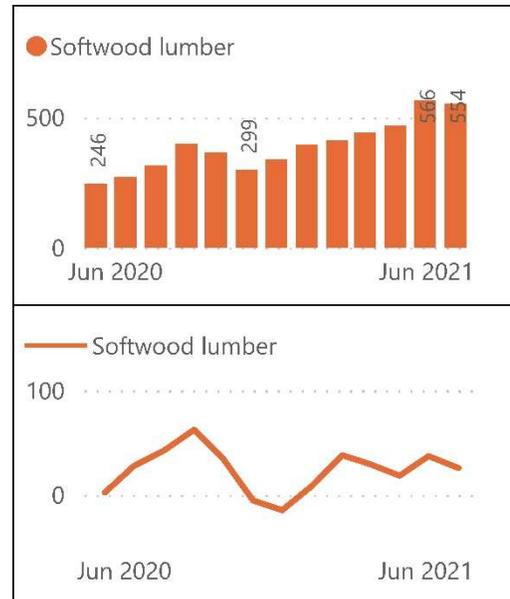


Figure 3 Softwood Lumber Overview. PPI top; Change of PPI Q/Q bottom.

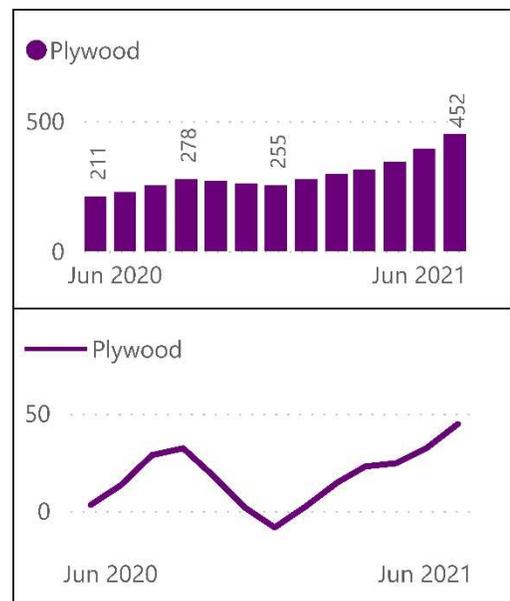


Figure 4 Plywood materials Overview. PPI top; Change of PPI Q/Q bottom.

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ASPHALT

Status: Increase

Reason: Market Volatility

Future Projection: Continued Increases

The Asphalt market in Quarter Two 2021 has continued to trend upwards. The PPI for Asphalt increased just over 11% from Quarter One and 65% increase from June 2020. These increases are due in part to market volatility in fuels, oils, and construction materials.

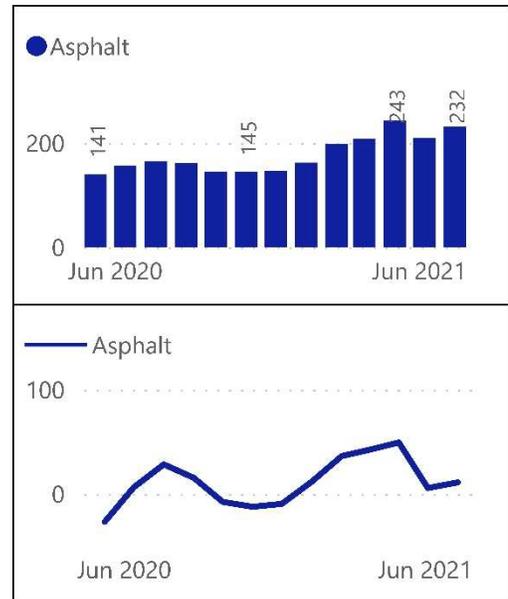


Figure 5 Asphalt Materials Overview. PPI top; Change of PPI Q/Q bottom.

OILS AND FUELS

Status: Increase

Reason: Market Volatility

Future Projection: Continued Increases

Oils and fuels have continued their upward trend, with a PPI increase of 125% from June 2020. Gas prices continue to increase upwards both nationally as well as in the Pacific Northwest. An increase in oils and fuel prices impacts costs of materials as well as the cost of construction onsite as well.

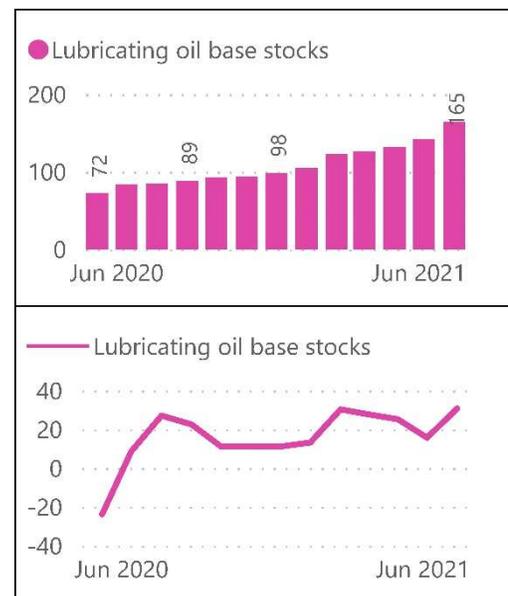


Figure 6 Oils Overview. PPI top; Change of PPI Q/Q bottom.

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CONCLUSION

Quarter Two 2021 saw commodity pricing and escalation continue to trend upwards; commodities like lumber and steel have been major factors in this trend.

Based on these trends and the reasoning behind them, Pence expects escalation to continue through the end of the year, with increases of at least .5% per month.

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

SOURCES

- U.S. Bureau of Labor Statistics
<https://www.bls.gov/>
- Federal Reserve Economic Data | FRED
<https://fred.stlouisfed.org/>
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<https://www.agc.org/>
- Fastmarkets RISI | Random Lengths
<https://www.risiinfo.com/product/random-lengths-weekly-report/>
- MarketWatch
<https://www.marketwatch.com/>
- InciWeb
<https://inciweb.nwcg.gov/>

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