



COMMODITY PRICING OVERVIEW

QUARTER THREE | 2021

Construction escalation and supply chain issues are two issues which the stability of the industry is determined. Although construction commodities have continued their steady rise through the third quarter of 2021, they are beginning to stabilize. On the other hand, disruptions to the supply chain present challenges in the form of decreased availability and increased lead and shipping times. Commodities like steel and lumber continue to trend upwards in both cost escalation and lead time increases. Other construction commodity staples like insulation and glazing that haven't necessarily seen an uptick in cost are seeing increased lead times. Overall, supply chain and COVID procurement hurdles have added one to two months onto a typical construction schedule.

Commodity	Year-Month	Current PPI	Prev Month PPI	Month over Month % Change	Year over Year % Change
Treated lightweight aggregate and crushed slag, minerals and earths	2021-09	136.80	136.80	0.00	1.60
Structural concrete block	2021-09	302.00	302.00	0.00	3.80
Steel mill products	2021-09	416.10	396.30	19.80	134.20
Softwood lumber	2021-09	273.60	285.80	-12.20	-31.40
Plywood	2021-09	272.30	410.20	-137.90	-2.20
Plastics pipe	2021-09	182.40	178.90	3.50	59.00
Millwork	2021-09	324.00	322.80	1.20	14.00
Lubricating oil base stocks	2021-09	178.60	167.80	10.80	101.60
Hardwood lumber	2021-09	295.50	295.20	0.30	43.50
Gypsum building materials	2021-09	294.90	294.90	0.00	25.50
Fabricated structural metal bar joists and concrete reinforcing bars	2021-09	334.90	324.20	10.70	55.40
Construction sand and gravel (run of pit/bank, washed, screened, etc)	2021-09	150.70	149.90	0.80	3.40
Concrete block and brick	2021-09	292.50	292.20	0.30	4.30
Cement, hydraulic	2021-09	274.60	272.90	1.70	4.40
Asphalt	2021-09	247.10	250.00	-2.90	52.20

Figure 1 Commodity Overview Q3 2021

The industry is seeing impacts on commodities across the board. For the sake of brevity, we will focus on those seeing the most significant changes: steel, lumber, and oils.

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STEEL

Status: Increase

Reason: Supply Chain

Future Projection: Continued Increases

For thirteen months steel has continued an uninterrupted trend upwards. The Producer Price Index (PPI) for steel mill products increased over twenty-two percent from last quarter. While this continues the trend upwards, it is essential to note that the percent increase between the second and third quarters is about five percent less than between the first and second quarters. However, the year-over-year change from the third quarter of 2020 to 2021 was just over one hundred thirty four percent.

In addition to steel mill products, other steel and metal products have trended upwards for the whole of 2021. The Producer Price Index (PPI) for fabricated structural metal bar joists and rebar increased fifteen and a half percent from the second quarter, and over fifty-five percent from the third quarter of 2020.

One of the reasons steel and metal products are seeing such an increase on in pricing is products' availability. In the Pacific Northwest, joist and deck packages are seeing lead times of over thirteen months. Furthermore, products that require metal, such as fire extinguishers, fire extinguisher cabinets, and metal roof hatches are seeing lead times at least double that of pre-pandemic. While the unusually long lead times are beginning to soften slightly for smaller joists and products, steel trends for both price and lead times continue trending upwards.

Demand for steel and steel products is expected to continue to rise throughout 2021 and into 2022. Meanwhile, the worldwide production of crude steel has decreased nearly nine percent from the third quarter of 2020. Increased demand and reduced supply mean PPI will likely continue its uninterrupted trend upwards.

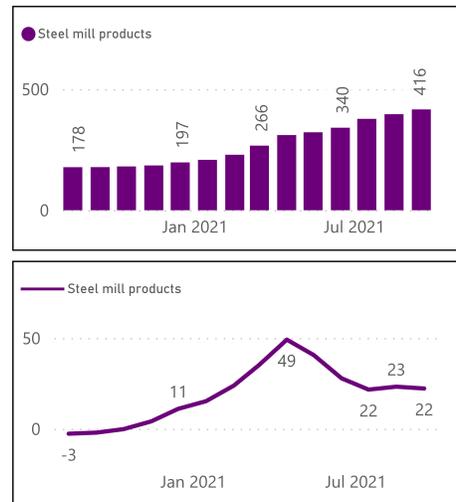


Figure 2 Steel Mill Products Overview. PPI top; Change of PPI Q/Q bottom.

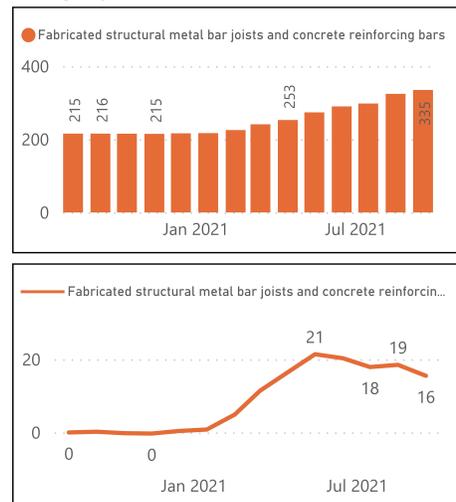


Figure 3 Fab Steel Products Overview. PPI top; Change of PPI Q/Q bottom.

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LUMBER

Status: Increase

Reason: Supply Chain

Future Projection: Beginning to Plateau

There is some good news amid all the supply chain issues: lumber price increases are beginning to soften. The Producer Price Index, or PPI, for laminated veneer lumber, which is engineered and stronger than dimensional lumber and used for headers and beams, plateaued between June and July of 2021. It has since continued its upwards trend, though much less aggressively. The PPI rose nine and a half percent from the previous quarter, which in comparison to the thirty-seven percent rise between the first and second quarters is a much-anticipated cooling in the upwards trend.

On the other hand, softwood lumber has begun to trend down and is on its fourth month in doing so. The Producer Price Index, or PPI, for softwood lumber has dropped fifty percent from last quarter, and just over thirty percent from quarter three of 2020.

Though not shown via a graph, hardwood lumber, is in the middle of the two previous lumber commodities. The Producer Price Index, or PPI, for hardwood lumber, rose six percent from last quarter, with a year-on-year increase of forty-three percent.

Although price is beginning to stabilize, COVID-procurement and shipping delays in getting anything from overseas is still very much an issue. It is important to note that case goods and countertops from overseas take an additional four month to receive on average. Until the supply chain issues are resolved, lead times for any of these items should be considered critical.

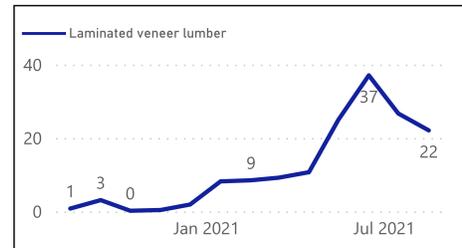
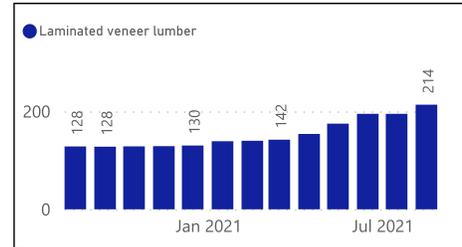


Figure 4 Laminated Lumber Overview. PPI top; Change of PPI Q/Q bottom.

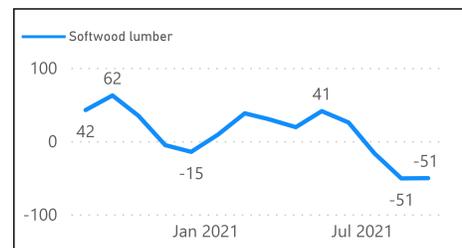
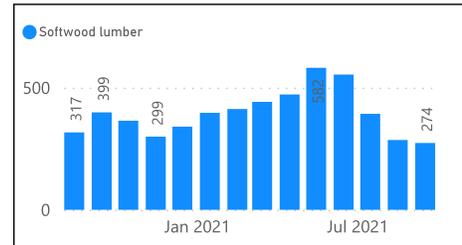


Figure 5 Softwood Lumber Overview. PPI top; Change of PPI Q/Q bottom.

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OILS

Status: Increase

Reason: Economic Revival & Demand

Future Projection: Continued Increases

The Producer Price Index, or PPI, for oils and fuels has reached a level not seen since 2014. While only an eight percent increase from last quarter, PPI increased over 100 percent from the third quarter of 2020.

As the vaccines rolled out and people began emerging from lockdown, oil prices mimicked the revival. This trend upwards is likely to continue, at least for the short term, as economic revival continues and demand increases.

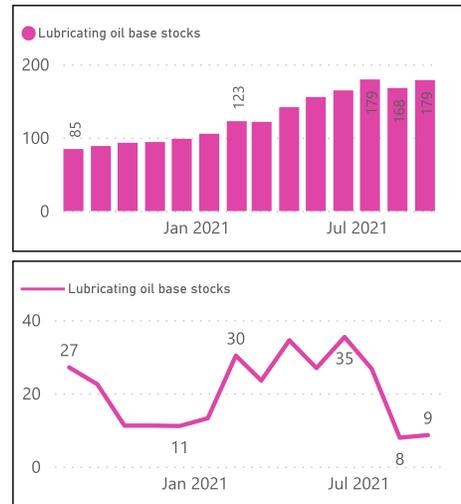


Figure 6 Oils Overview. PPI top; Change of PPI Q/Q bottom.

CONCLUSION

Additional materials such as PVC and TPO roofing have seen a significant shift up in price and an even bigger shift down in availability. For reasons such as this summer's hurricanes that shut down plants and effectively cut forty percent of the domestically produced PVC, supply chain issues, and increase in oils and fuels, prices and availability for many construction commodities reflect these conditions.

Commodity escalation has continued throughout the third quarter of 2021. Meanwhile, as demand continues to rise due to economic revival, supply has not met these demands. As such, pricing and availability will continue to be a challenge in the industry throughout the remainder of 2021 and likely into the first months of 2022. **Based on the current information and the local industry feedback, Pence's recommendation to our clients is to carry a 0.5% escalation per month through the first quarter 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) or Jenny Volbeda (971.867.0499).

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SOURCES

- U.S. Bureau of Labor Statistics
<https://www.bls.gov/>
- Federal Reserve Economic Data | FRED
<https://fred.stlouisfed.org/>
- Associated General Contractors of America | AGC
<https://www.agc.org/>
- World Steel Association
<https://www.worldsteel.org>
- Supply Chain Dive
<https://www.supplychaindive.com>
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