

Despite Challenges, Construction Growth Expected



2021 Q4 PRICING AND TRENDS INFLUENCE 2022 OUTLOOK



From the desk of Jenny Volbeda
Project Manager, Preconstruction

Construction has entered 2022 with guarded enthusiasm. After multiple years of COVID-influenced supply chain and shipment delays—and a new challenge of inflation effects—it is no wonder many projects are looking to [find creative ways to meet 2022 budgets and schedules](#). The good news is construction, as an industry, is reporting continued increasing demand. The Associated General Contractors of America (AGC) released survey results from over 1,000 construction firms across the country, pointing to high expectations for this coming year. Growth is anticipated in warehouses, healthcare, and multi-family within the private sector. **The work is there, which means so too are lenders and buyers.**

Let's look at the challenges of the past quarter and Pence's experience with current lead times and pricing. *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 the few discussed here.*

Inflation Increases

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	2021-12	136.83	137.01	-0.18	1.60
Structural concrete block	2021-12	302.94	303.06	-0.12	4.10
Steel mill products	2021-12	447.96	447.08	0.88	127.20
Softwood lumber	2021-12	383.10	309.91	73.19	12.60
Plywood	2021-12	288.69	283.97	4.72	13.30
Plastics pipe	2021-12	194.66	191.04	3.62	60.90
Millwork	2021-12	335.61	329.76	5.85	17.10
Lubricating oil base stocks	2021-12	166.42	173.16	-6.74	69.10
Laminated veneer lumber	2021-12	231.02	231.02	0.00	77.40
Hardwood lumber	2021-12	301.75	300.12	1.63	35.00
Gypsum building materials	2021-12	300.96	300.96	0.00	22.60
Fabricated structural metal bar joists and concrete reinforcing bars	2021-12	340.43	333.73	6.70	57.40
Construction sand and gravel (run of pit/bank, washed, screened, etc)	2021-12	151.39	151.44	-0.05	3.50
Concrete block and brick	2021-12	294.87	295.20	-0.33	5.10
Cement, hydraulic	2021-12	273.93	273.93	0.00	4.20
Asphalt	2021-12	248.97	264.98	-16.01	69.50

Figure 1 Commodity Overview Q4 2021

An ever-present concern is inflation. *Inflation is at a 40 year high at 7%*, and construction material pricing inflation is up nearly 20% in 2021 alone. Market volatility remains a current concern, however, **costs are anticipated to rise much more slowly than last year.**

STEEL

Status: Increase

Reason: Supply Chain

Future Projection: Beginning to Soften

The steel market is beginning its journey to leveling out. The Producer Price Index (PPI) rate increase for 2021 came in just over 127%. However, the PPI from Q3 through Q4 was 7%, which is the first time a single-digit inflation rate has been seen in over a year. It is anticipated that this softening will continue as the industry continues to stabilize from COVID restrictions.

Crude steel production is one of the reasons for this favorable change in course. While there was a 3% decrease in worldwide crude steel production, the United States saw an 18% increase year-on-year.

Lead times and pricing for steel materials have a direct relationship; as lead times increase steel pricing increases, and as lead times decrease steel pricing decreases. As pricing softens, quicker lead times are anticipated.

Currently Pence is seeing lead times of four to six months for metal decking, and 12 to 14 months for metal joists. As pricing and lead times are just beginning to soften, lead times for any of these items should still be considered critical.

Steel Mill Products

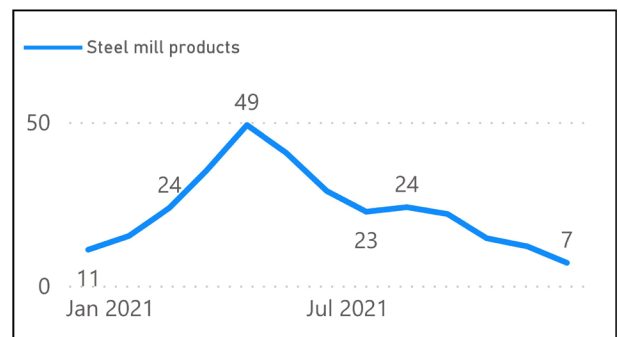
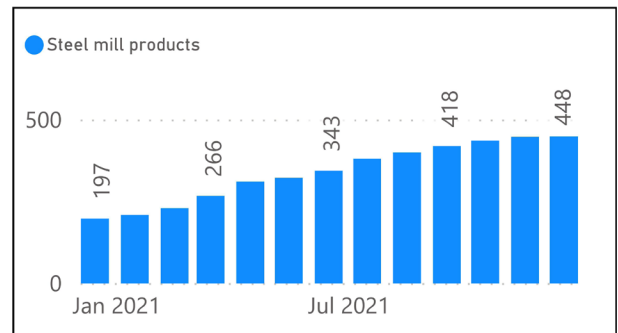


Figure 2 Top: PPI change month over month; Bottom: Change in PPI by month

Fabrication Steel Products

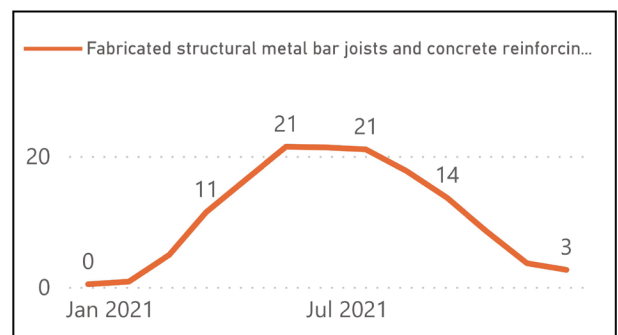
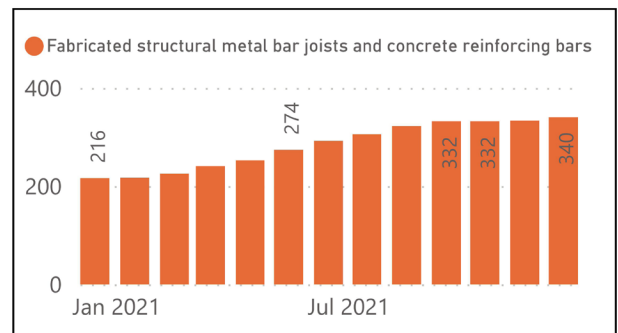


Figure 3 Top: PPI change month over month; Bottom: Change in PPI by month

LUMBER

Status: Increase

Reason: Supply Chain & Anticipated Tariffs

Future Projection: Increase

The 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, and continued to trend down finishing at a 0.1% decrease from Q3 to Q4. The year-on-year PPI was at 77%, which shows a softening in both Quarter to Quarter and year-on-year.

Adversely, the softening of both plywood and softwood lumber commodities was short lived. Both saw percent decreases last Quarter but have come back strong for Q4. Plywood had a 15% increase from Q3 to Q4 and ended the year with just over a 13% increase year-on-year. Softwood Lumber had a nearly 40% increase from Q3 to Q4 and ended the year with a 13% increase year-on-year.

One of the major events at play is the increased tariffs on Canadian imports, particularly softwood lumber. The new tariffs are nearly 18%, which is more than double than just a few years back. Additionally, a major storm late 2021 washed out rail lines and paused shipments out of the country. Last year Canada was the number one exporter of softwood lumber in the world, and the United States was the seventh: Oregon being the top producer within the United States. While Oregon is a top producer of lumber, it is not immune to the effects of tariffs and trade.

Laminated Veneer Lumber, Plywood, and Softwood

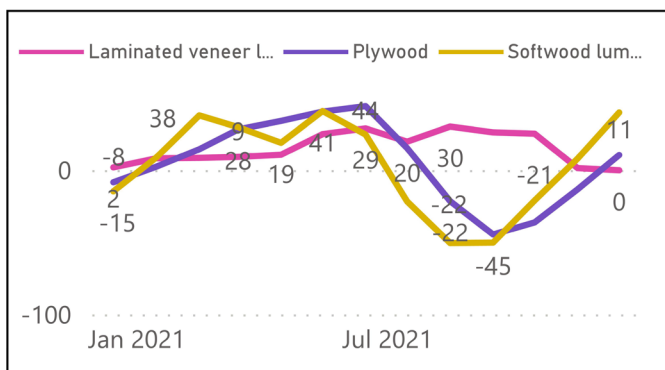


Figure 4 PPI change month over month by lumber type

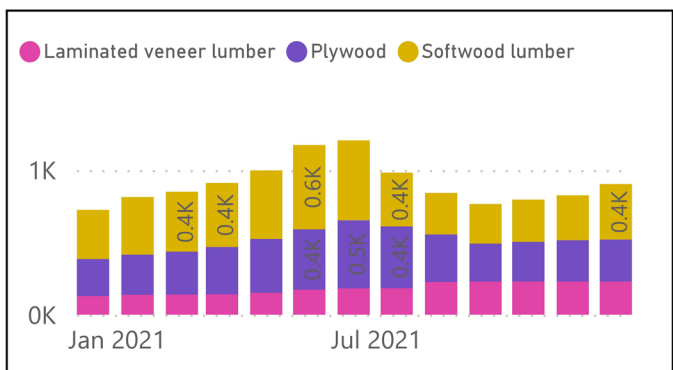


Figure 5 Change in PPI by month by lumber type

PLASTICS

used in roofing, sheeting, pipes, MEP, and fireproofing

Status: Increase

Reason: Demand Outweighing Supply

Future Projection: Continued Increases

Plastics have been important to watch over the past Quarter. The PPI for plastics pipe saw a 7% increase over the past Quarter, and a nearly 61% percent increase year-on-year.

Due to limited availability and increased demands over the past year prices have seen a steady trend upwards. One of Pence's subcontractors noted that they and other suppliers were limited in their annual purchase volumes due to these constraints.

Pence Note: A major plastics manufacturing plant in Louisiana has had a significant decrease in supply due to hurricanes and COVID. Pence has seen an uptick in the price of plastics in every division.

Plastics

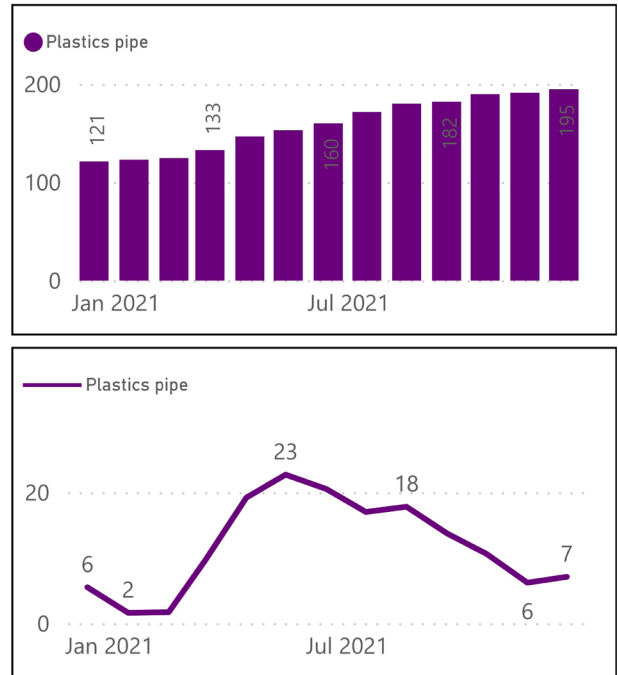


Figure 7 Top: PPI change month over month;
Bottom: Change in PPI by month

At the time of publication, the market for oil was volatile. For this reason, we have omitted a perspective on oil. Please look for information for this commodity in future publications.

CONCLUSION

Commodity escalation continued throughout 2021. Demand has continued to rise due to economic revival, and supply is just beginning to meet these demands. Pricing and availability will continue to be a challenge in the industry until the two can level out.

While escalation is expected to continue its rise, there is hope and guarded excitement for what this year has in store for the construction industry.

Based on the current information and the local industry feedback, Pence's recommendation to our clients is to carry a 0.58% 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 at tim.baugus@pence.net or Jenny Volbeda at jenniferv@pence.net

SOURCES

Associated General Contractors of America AGC	https://www.agc.org/
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