

## Market Outlook Construction Forum Summary

as of April 9th, 2021

#### **Presenters**

- Aaron Brown, Vice President, Linbeck
- Richard Vermeulen, Lead-Economist, Vermeulens
- Melissa Chabot, Associate Principal, Director of Research and Development, Vermeulens
- Blair Tennant, Associate Principal, Director of Business Development, Vermeulens

#### **Market Forecast, Vermeulens**

- many commodities have increased in price: copper is up \$2/lb., lumber is up by \$800 (per 1,000 board ft.)
- steel rates have gone up roughly \$300/ton due to increases in material and labor costs
- majority of the country remains in contracting construction market year over year
- the decline of the USD is affecting commodity prices
- construction employment nationally is down 200,000 jobs since the beginning of the pandemic
- non-residential construction and infrastructure construction are down 7% and 4% respectively since February 2020
- recommend carrying a bidding contingency on all projects due to potential upward volatility
- market conditions vary significantly by region

#### **Quarterly Forecast, Linbeck**

- steel joists have a 7-9-month lead time; electrical fixture parts manufactured overseas are experiencing delays
- subcontractors are absorbing the spikes in the commodity prices to remain competitive
- AGC has issued an inflation alert, due to the combination of price increases and supply shortages
- increased investment in new projects and resolving shipping issues are needed to go back to normal
- Q1 and Q2 has seen an increase in project proposals/RFPs
- the price of oil is beginning to increase
- AIA billings are up in Q4 2020 and Q1 2021
- consider changing subcontractor contracts to Integrated Delivery or Construction Management to share risk for price volatility and supply bottlenecks

#### The Feds New Normal, Vermeulens

- historical analysis of past financial crises and how they relate to our current economy
- background on the fed's influence on the economy





#### Design & Construction Market Outlook

Aaron Brown, Linbeck

Richard Vermeulen, Co-CEO

Melissa Chabot, Associate Principal

Blair Tennant, Associate Principal

North America's Construction Economist vermeulens.com

## Logistics

- Please keep camera function off
- Interim questions and comments via chat
- Slide Deck, Video, and Summary, available on website
- Next session Monthly, May 7th
- Canadian Market Outlook: Contact Us



## Agenda

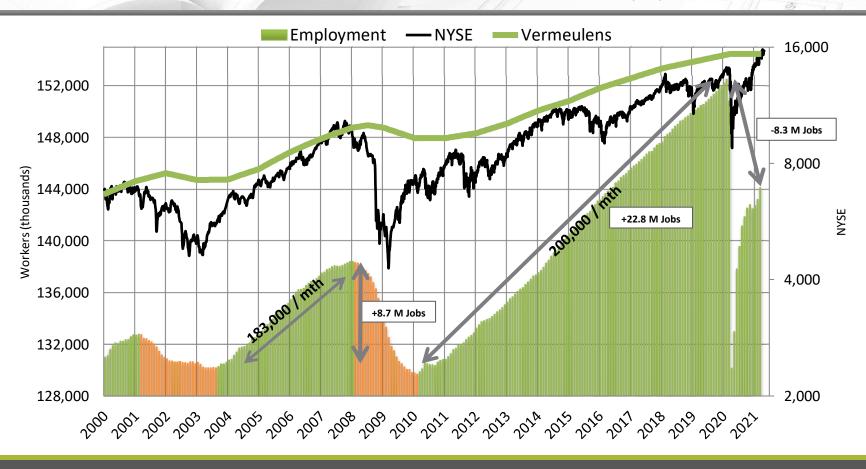
- 1. Mini Market Outlook
- 2. Linbeck's Quarterly
- 3. The Feds New Normal

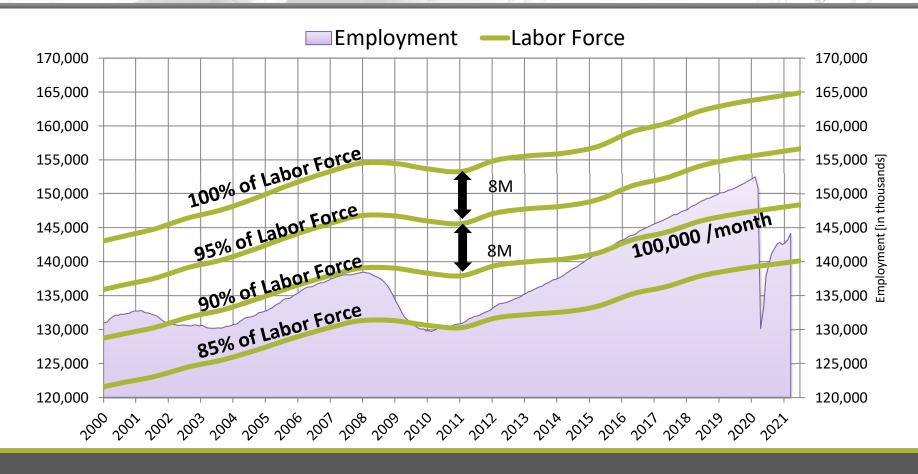


## Mini Market Outlook





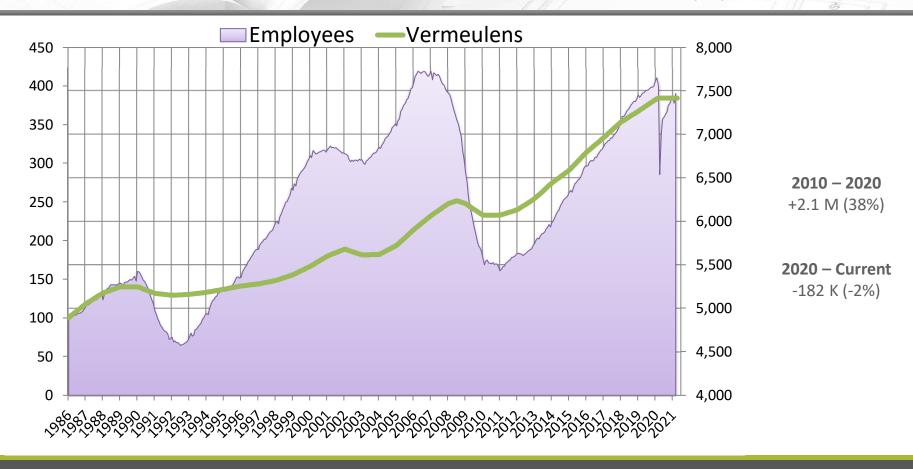


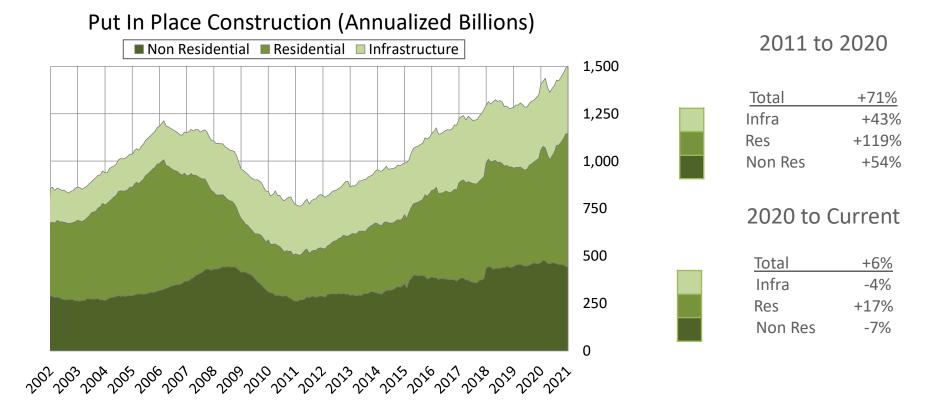


## Job Creation

US Employment (millions)								
	Jan-08	Feb-10	Feb-10 to Feb-20	Feb-20	Apr-20	Mar-21	Feb-20 to Mar-21	
Total nonfarm	138.4	129.7	22.7	152.4	130.4	144.1	-8.3	
Total private	116.0	107.3	22.4	129.7	108.6	122.5	-7.2	
Goods-producing	21.9	17.6	3.6	21.2	18.7	20.4	-0.8	
Mining & logging	0.7	0.7	0.0	0.7	0.7	0.6	-0.1	
Construction	7.5	5.5	2.1	7.6	6.6	7.5	-0.2	
Manufacturing	13.7	11.5	1.4	12.9	11.5	12.3	-0.6	
Private service-providing	94.1	89.6	18.9	108.5	89.9	102.1	-6.4	
Trade, transportation, and utilities	26.7	24.5	3.3	27.8	24.5	27.2	-0.6	
Business	29.3	27.0	6.3	33.3	30.4	32.2	-1.1	
Education and health services	19.0	19.8	4.8	24.6	21.8	23.4	-1.2	
Leisure and hospitality	13.5	12.9	4.0	16.9	8.6	13.8	-3.1	
Other services	5.5	5.3	0.6	5.9	4.6	5.5	-0.4	
Government	22.4	22.5	0.2	22.7	21.8	21.6	-1.1	

#### US Construction Employment (Thousands)





## Economic Summary

Indicator	Status				
NYSE	+8.6% from peak - increasing				
GDP Growth	-2.5% from peak – increasing				
Fed Funds Rate	0.08% - stable				
Reserve Assets	\$7.6 T – increasing				
PCE: Personal Consumption Expenditures	1.53% - increasing 2% inflation target				
Unemployment Rate	7.0% - decreasing				
Total Employment	-9.6 M from peak – increasing				
Construction Jobs	-300 K from peak - increasing				

#### Vermeulens Construction Cost Index



## Linbeck: Quarterly Report





## LINBECK QUARTERLY MARKET FORECAST





92% Clients are Repeat Clients



\$300-500 Million Annual Revenue



5+ Million SF in Past 5 Years



83 Years in Business

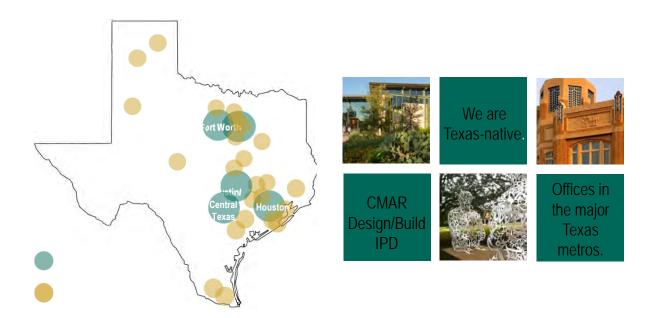


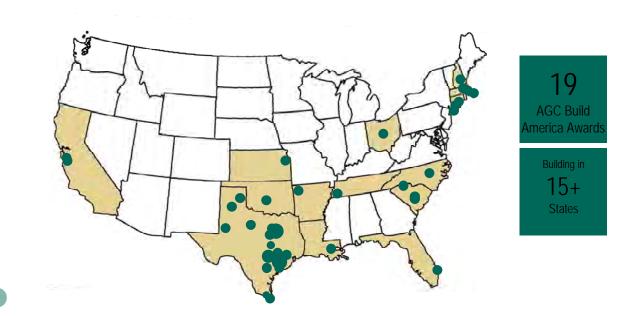
3<sup>rd</sup> Gen Family-Owned



Since 1938









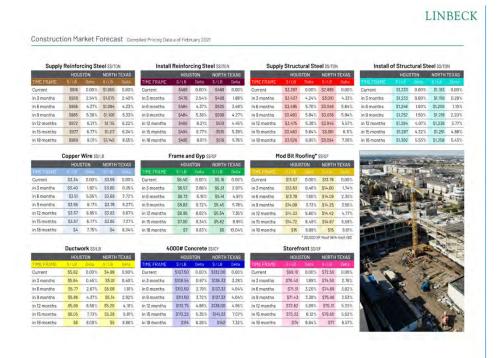


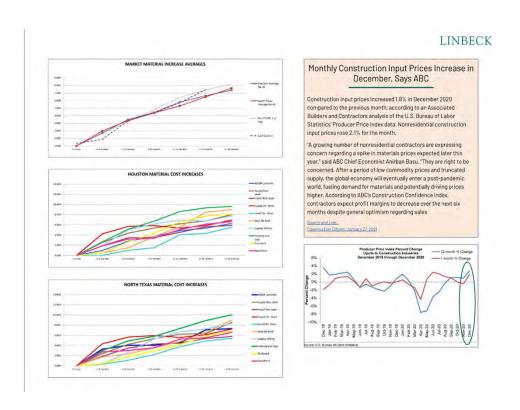
#### LINBECK

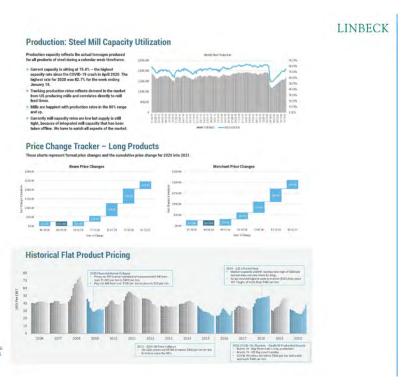
Gulf widens between input costs and bid prices; January starts slide, Dodge, ConstructConnect report

The gap between input costs for construction and contractors' bid prices widened further in January. The producer price index (PPI) for nonresidential building construction—a measure of the price that contractors say they would charge to build a fixed set of buildings-inched up 0.2% from December, while the PPI for inputs to new nonresidential construction jumped 2.5%, the Bureau of Labor Statistics (BLS) reported on Wednesday. AGC posted tables and a chart showing PPIs relevant to construction. Since hitting a low in April, the nonresidential building 'bid price" PPI has edged up only 0.2%, while PPIs for newconstruction inputs have soared 10.7% for nonresidential and 10.5% for residential. (There is no "bid price" index for residential or nonbuilding construction.) Several PPIs that declined early in the pandemic or last fall have soared in recent months. The PPI for lumber and plywood jumped 9.8% in January and 50% year-over-year (y/y) since January 2020. The PPI for copper and brass mill shapes climbed 3.1% for the month and 22% y/y. The index for diesel fuel rose 4.2% and 9.2%, respectively. There were also major variations within broad categories. The PPI for all steel mill products rose 5.2% for the month and 7.4% y/y.

Source and Link: AGC Data Placest Vol. 21, No. 7, February 17-19, 2821.

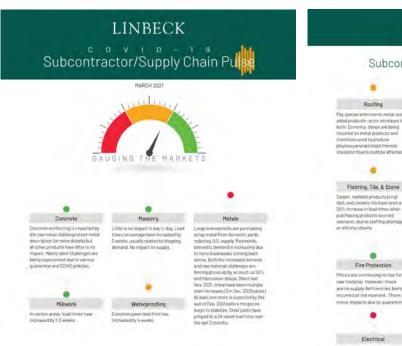






Schuff Steel: Quarterly Supply Chain Report December 2020

## <u>2021 Q1 - SUPPLY CHAIN</u> PULSE





## RECENT TREND - SUB BIDS VS COMMODITIES

Gulf widens between input costs and bid prices; January starts slide, Dodge, ConstructConnect report

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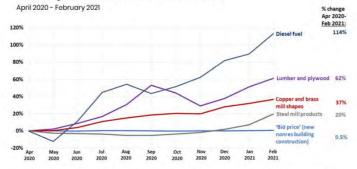
Source and Link: AGC Data Digest: Vol. 21, No. 7, February 17-18, 2021





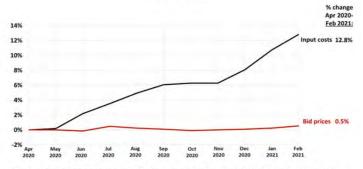
## RECENT TREND — SUB BIDS VS COMMODITIES

#### Price changes for construction and selected materials



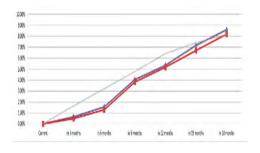
Source: Bureau of Labor Statistics, producer price indexes (PPIs) for new nonresidential building construction (bid prices), diesel fuel, wood, and metal products, not seasonally adjusted

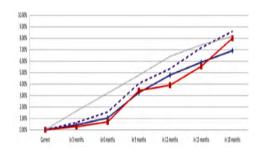
#### Change in construction input costs and bid prices April 2020-February 2021

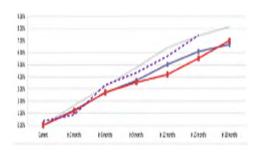


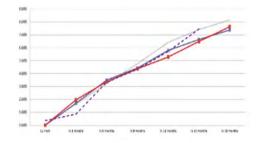
Source: Bureau of Labor Statistics, producer price indexes (PPIs) for new nonresidential building construction (bid prices) and inputs to nonresidential construction (input costs), not seasonally adjusted

## RECENT TREND — SUB BIDS VS COMMODITIES









## AGC INFLATION ALERT -

## MARCH 23

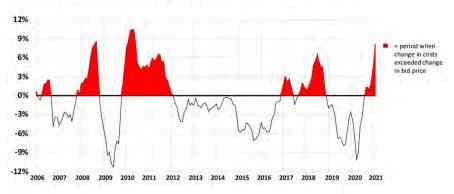




**AGC Construction Inflation Alert** 

## HOW LONG WILL THIS TREND LAST???

Change in material costs vs. change inwarehouse bid prices, Jan. 2006 -Feb. 2021 Difference between year-over-year change in costs vs. bid prices



Source: Bureau of Labor Statistics, producer price indexes fogoods inputs to nonresidential construction (naterial costs) and new warehouse construction (bid prices)

#### RECENT POSITIVE SIGNS







- Q1 & Q2 increase in project proposals/RFPs
- Price of Oil
- Architecture Billings are up in 2020 Q4 and 2021 Q1
- COVID Vaccination % Rapidly Increasing along with Reopenings

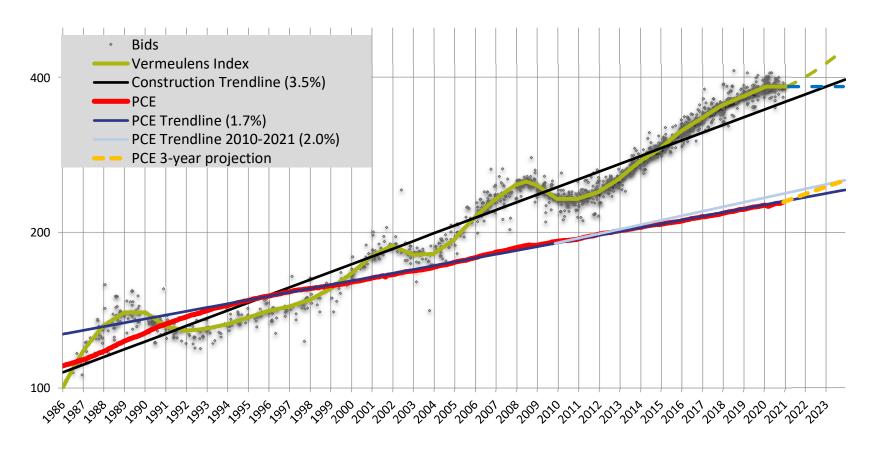


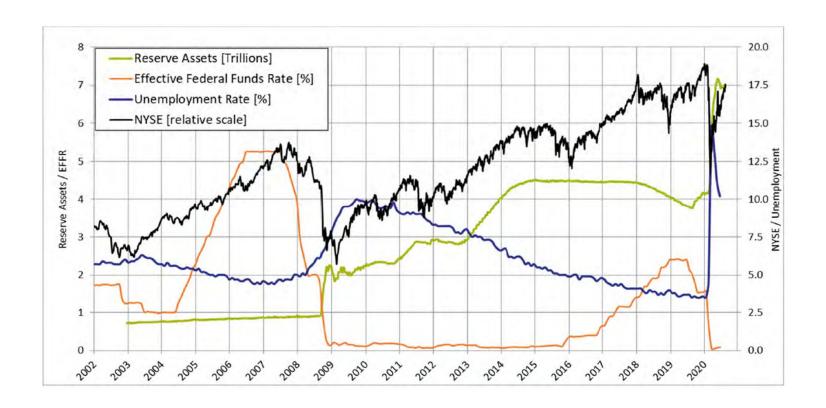
# The Feds New Normal Response to COVID-19

Beyond Estimation to Ideas

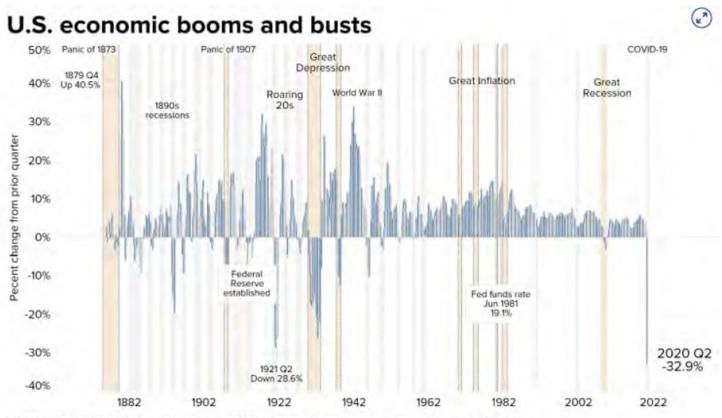




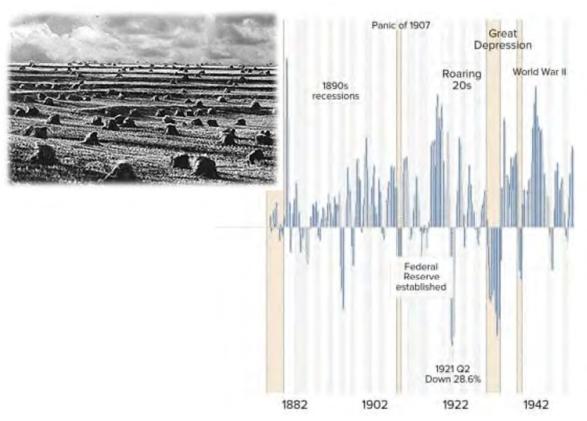




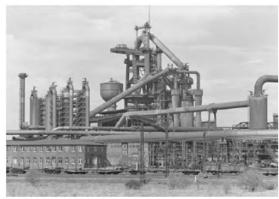
VERMEULENS

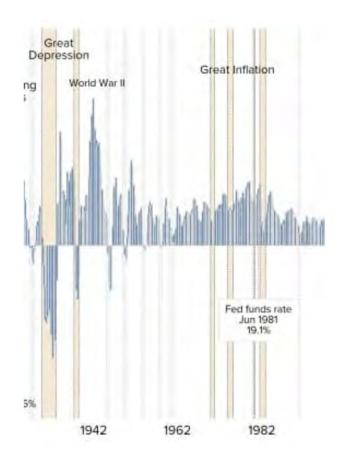


SOURCE: NBER (GNP, 1895-1948), St. Louis Federal Reserve (GDP, 1948-present). Data are not seasonally adjusted or adjusted for inflation.



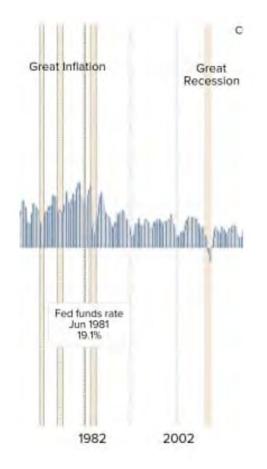
The Great Deflation
The Gold Standard in a rapidly expanding
agrarian and industrial age





War and Inflation
The rise of fiat money and
government spending in a
service economy





The Great Moderation
Volcker and Greenspan bring
inflation to around 2 percent
through a series of asset booms
and busts



construction economists



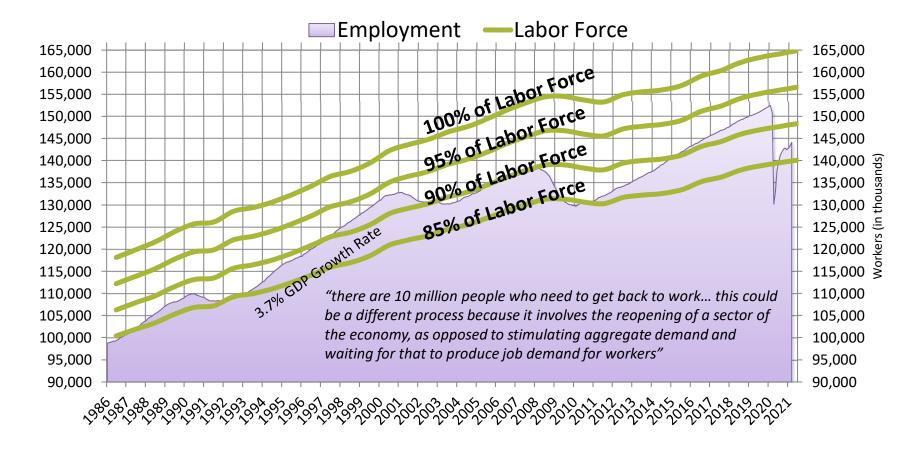


#### High Labor/Low Inflation Targeting 2 percent leads to sub 2 percent average

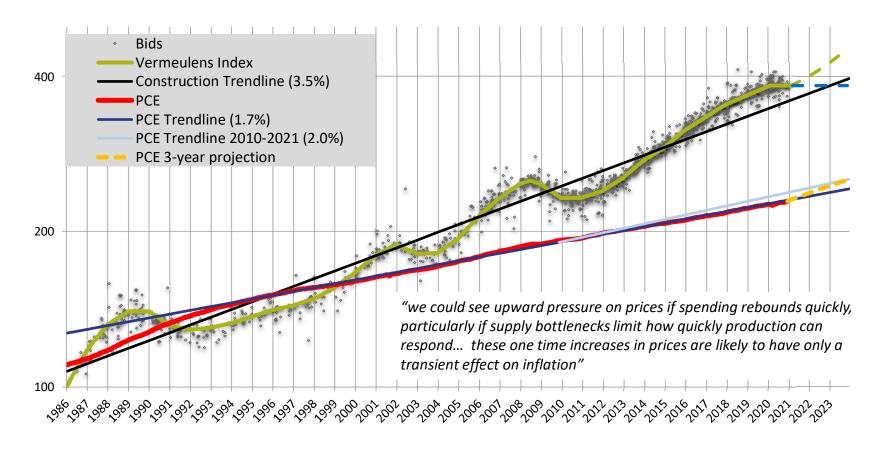
our revised employment statement says that our policy decision will be informed by our "assessments of the *shortfalls* of employment from its maximum level" rather than by "deviations from its maximum level" as in our previous statement

our new inflation statement indicates that we will seek to achieve inflation that *averages* 2 percent over time. Therefore, following periods when inflation has been running below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time



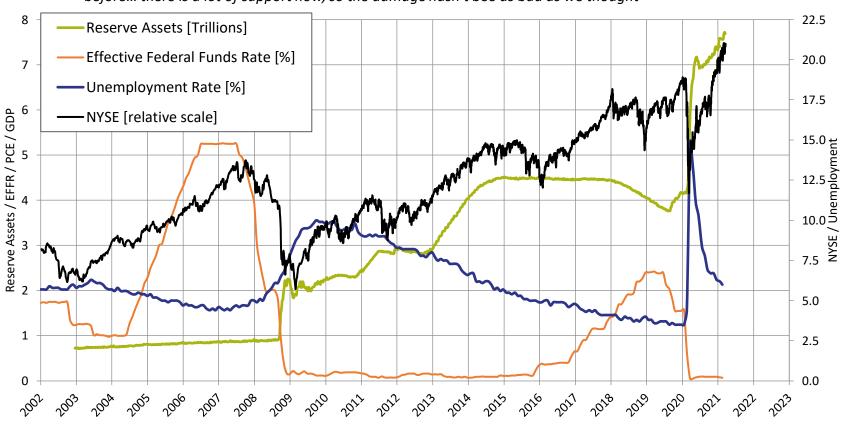








"we haven't had this (monetary) and fiscal stimulus before... we haven't come out of a pandemic before... there is a lot of support now, so the damage hasn't bee as bad as we thought"





FORTUNE

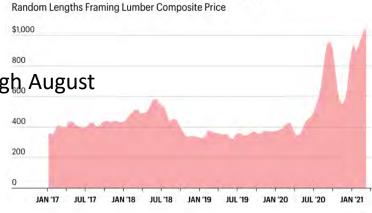
Out of fiberglass insulation, no cost premium just ZERO available Steel Joist are now at 7-9mo lead time

We are hearing talks of escalation on resin based products (aka everything)

Vendors are starting to not honor quotes to subs Subs are also not honoring proposals to GC's

DSI cannot buy as much as we want due to allotments

5-6 MILLION pounds each year, can only purchase through August



Lumber price per thousand board feet

UPWARD COMODITIY PRESSURE + EXTREME LOW CONTRACTOR MARGINS = POTENTIAL LANDMINDS FOR CLIENTS AND GC'S

- For <u>2020 margins offset cost increases</u> in materials, labor and construction efficiency
- 4%-5% escalation for projects between Q2 2021 and Q1 2022.
- Recommend Bidding Contingency on all projects
- Design add alternates in the 10% of cost range.
- Escalation Rates are regionally dependant



#### Beyond Estimation Market Outlook®

Thank You

North America's Construction Economist vermeulens.com