Market Outlook – Q1 2022

Vermeulens' Market Reports are based on actual bid prices in the Institution-Commercial-Industrial Construction Industry. Forecasts are based on leading indicators, and historical comparative analysis.

- Construction Prices rose in Q1 of 2022 at 0.75% per month following a 0.5% per month rate in the second half of 2021

- Supply Chain Shortages, labor shortages, and increased backlogs are impacting bid prices. We recommend carrying bidding contingency of 5%-15% in addition to escalation projections

- Fed Watch: The Federal Reserve has increased interest rates 0.25% in line with plans to continue increases in rates and will be announcing a plan to tighten quantitative measures https://vermeulens.com/blog/market-outlook-fed-watch-2

- Architectural Billings growth was moderate in early Q1 before increasing in March along with contracts

- Construction Dollar Volume: Residential construction continues to boom reaching new highs in Q1; non-residential construction is up 7.0% annually, and infrastructure spending increased 1.3% this quarter. Go to Vermeulens' blog for details on the infrastructure program and the effect of overall fiscal measures https://vermeulens.com/blog/the-bipartisan-infrastructure-plan-and-construction-costs

- Construction Job Growth: Approximately 82,000 construction jobs were added in Q1, or +1.1%; construction employment is now only 0.3% below pre-pandemic levels

- New York Stock Exchange dropped 1.4% from new highs reached in Q4 2021

- Growth in Employment: Monthly average job growth through Q1 was 562K peaking in February with 750k before falling to 431k in March

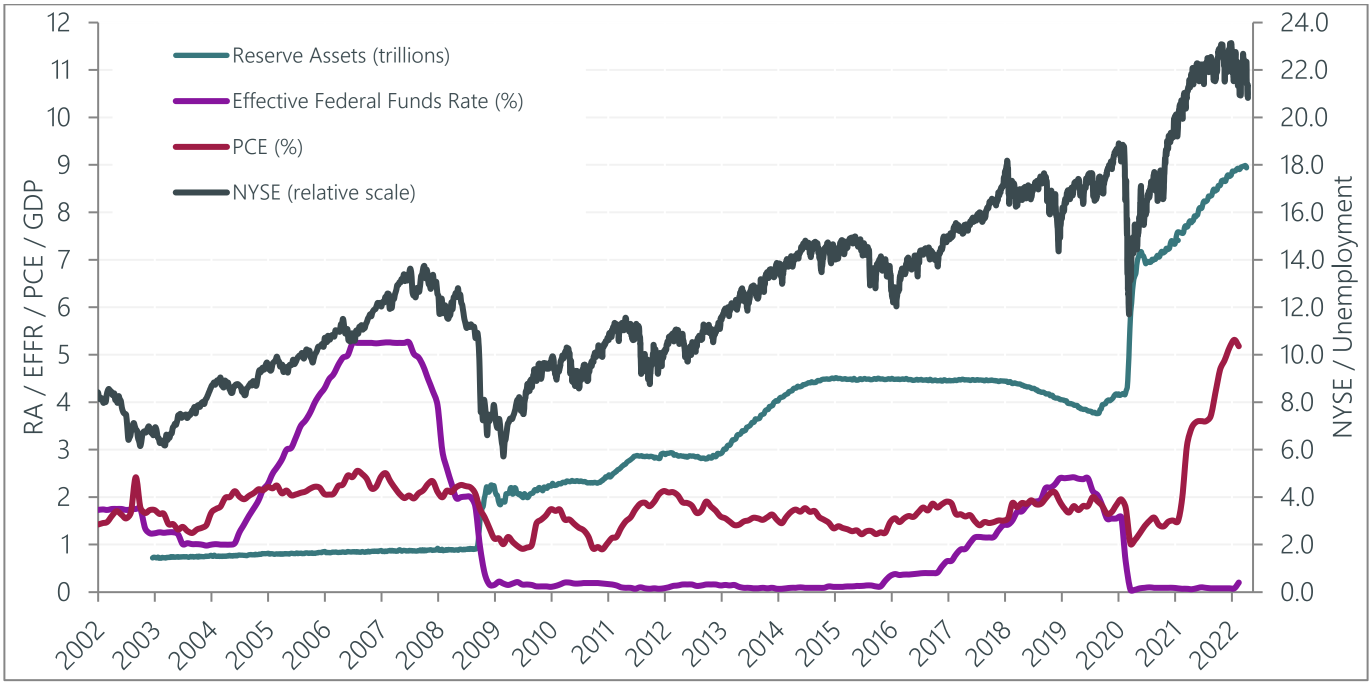
- Gross Domestic Product: GDP dropped from Q4 2021 to Q1 2022 for the first time since the onset of the pandemic. GDP in Q1 2022 fell at an annualized rate of 1.4%

- Commodities continue to put cost pressure on prices across the board. The war in Ukraine and pandemic closures in China have created significant shortages and price surges

- Personal Consumption Expenditures (PCE) price index increased 5.2% year over year (March 21/ March 22) prompting the Fed to begin stabilizing monetary measures

Fed Watch

Inflation and employment targets propel monetary policy, and subsequently construction prices. Strong growth, low unemployment, and underlying inflation are bringing the Fed's plans for quantitative tightening and interest rates forward by almost one year. As these measures take hold, some dampening of growth will occur over the medium term in the interest rate sensitive construction sector.
https://www.federalreserve.gov/newsevents/pressreleases/monetary20220316a.htm



Indicator	Effect	Current	Forecast
Consumer Inflation – increasing	*Stimulative*	↑	↑
Construction Backlog – increasing	*Stimulative*	↑	↑
Nom Interest Rates – increasing	*Moderating*	↑	↑
Real Interest Rates – stable	*Moderating*	↔	↔
Government Deficits – decreasing	*Moderating*	↓	↔
Government Spending – decreasing	*Moderating*	↓	↔
Financial Assets – stable	*Moderating*	↔	↔
Real Estate Assets – increasing	*Stimulative*	↑	↔
Construction Volume - increasing	*Stimulative*	↑	↑
Construction Employment – increasing	*Stimulative*	↑	↑

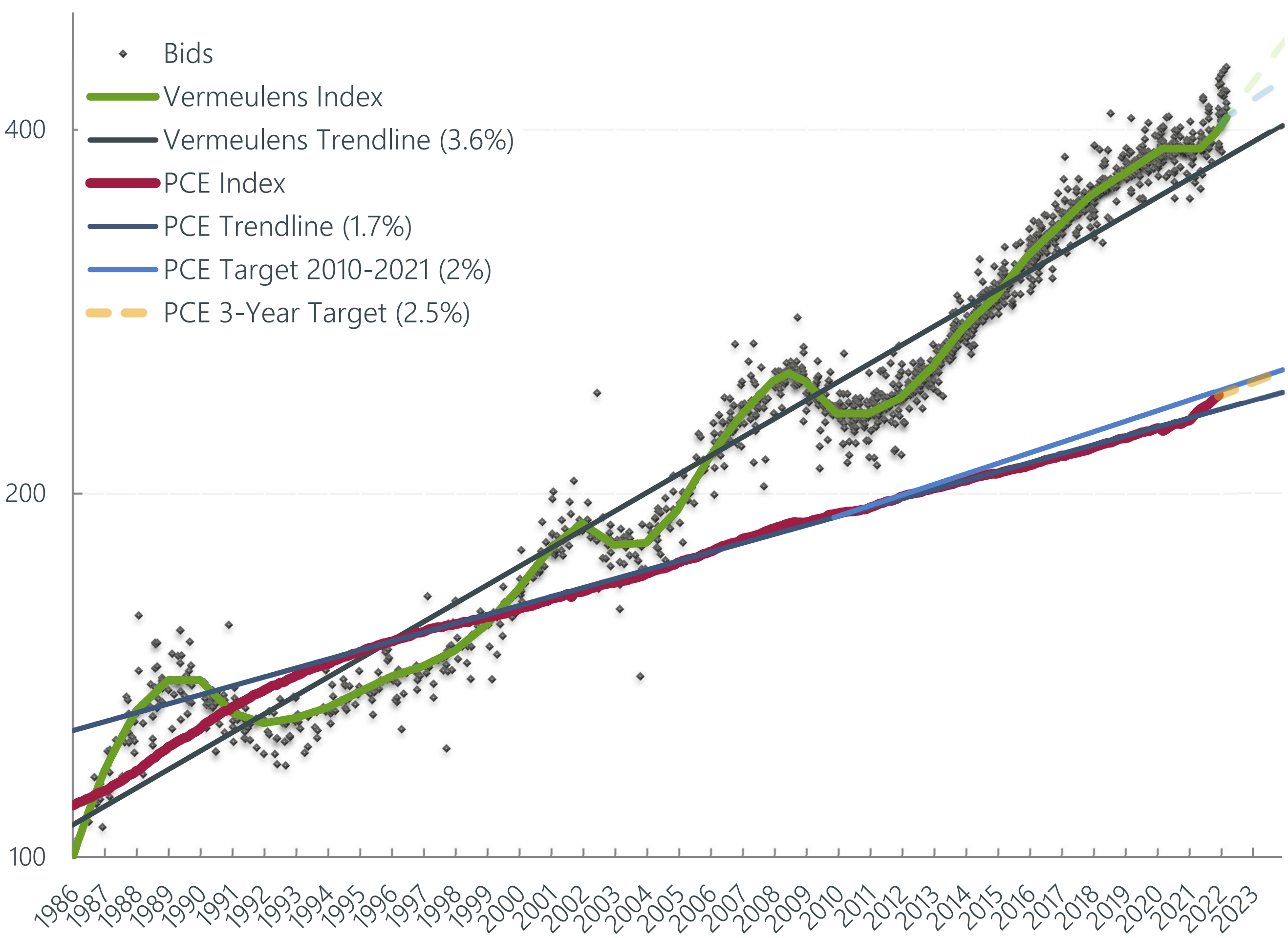
Vermeulens Construction Cost Index

Price increases for Q1 2022 nationally increased to 0.75% monthly as contractor backlogs filled, and labor/material shortages continued.

For the past 34 years, construction prices trended at a 3.6% annually compounded escalation rate. The rate of escalation seen in construction costs relate to the target of 2% annual inflation for consumer prices and the monetary policy used to achieve this goal. Consumer inflation has increased rapidly to the long-term target of 2%.

In contrast to previous financial recessions, strong and immediate fiscal and monetary measures countered the collapse in activity at the outset of the pandemic. We are now at the turning point where these measures are reversing due to the overwhelming strength of major indicators.

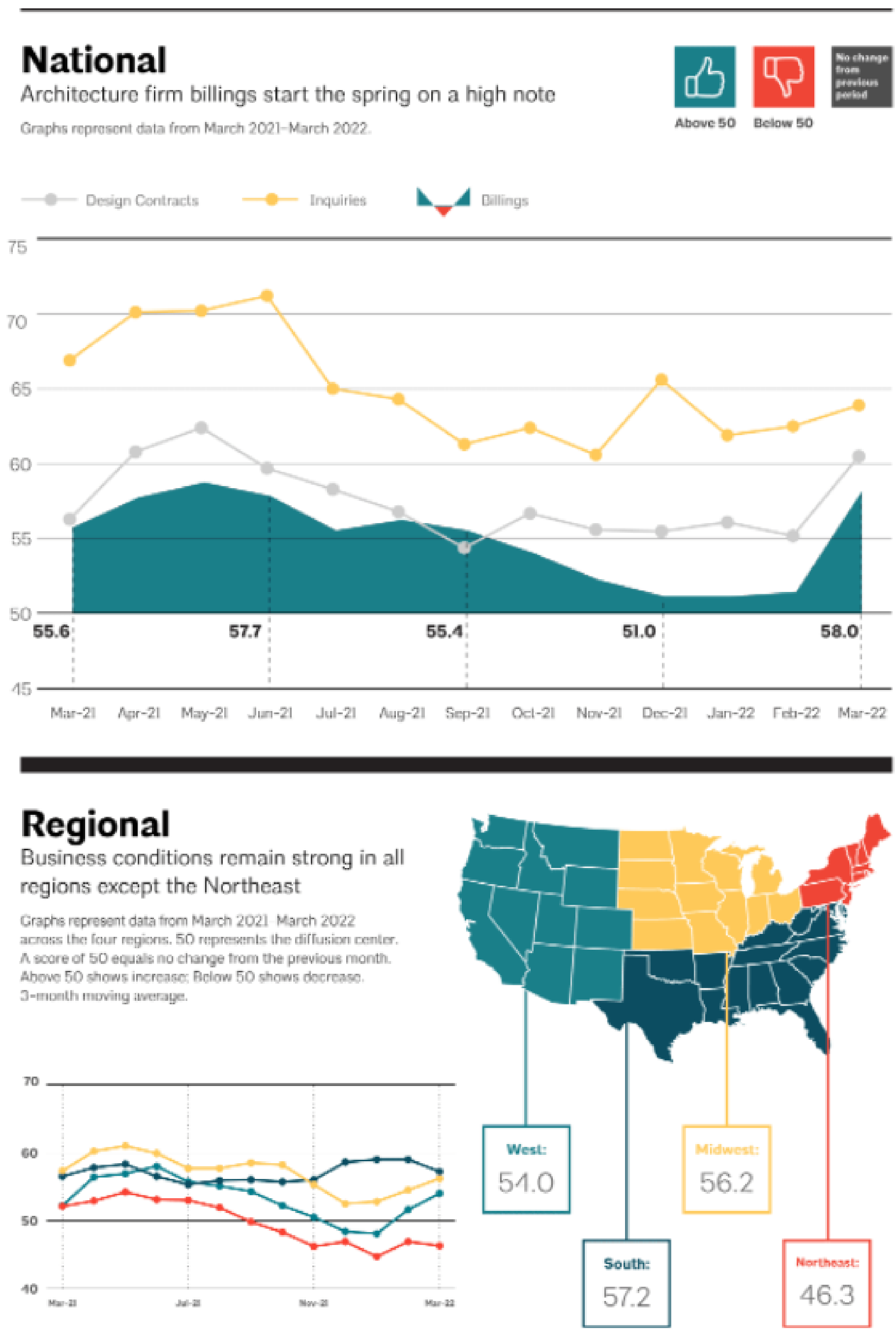
The chart below illustrates bid prices for non-residential construction projects relative to the Construction Trendline (1986 = 100) of 3.57% and the 1.7% Personal Consumption Expenditures Index Trendline. Strength in the construction sector point to short term cost increases of 0.75% per month, and a continuing increase in the long term Vermeulens Trendline toward 4%.



AIA Billings

Architectural billings are a leading indicator for future construction volume. A score greater than 50 indicates growth. Design fee billings typically indicate construction volume 9 - 12 months in advance.

Architectural Billings growth tapered off toward the end of 2021 and continued with moderate growth through mid-Q1 before rising in March along with design contracts. Inquiry growth has been steady. https://www.aia.org/



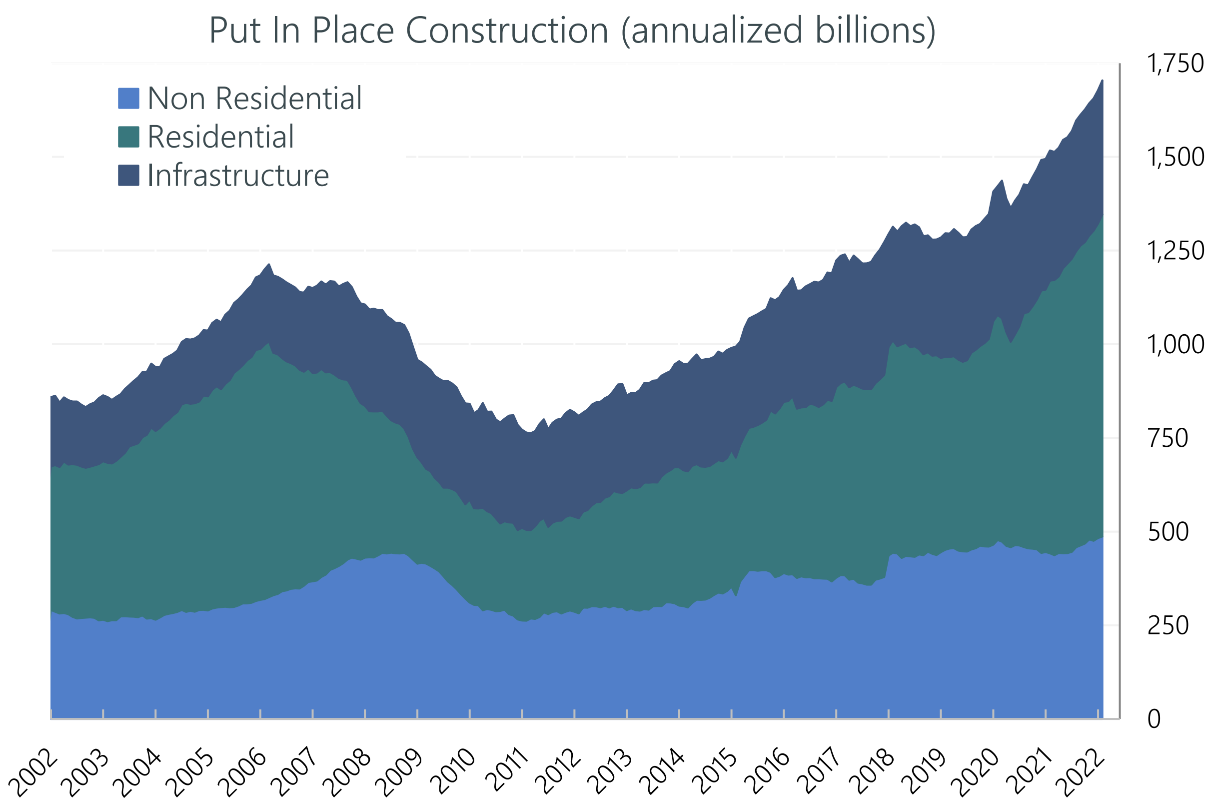
Put In Place Construction

Construction dollar volume grew in Q1, posting an 12.4% year over year increase (February 21/February 22). Construction dollar volume is the main driver of construction prices.

Residential dollar volume continued its explosive growth, improving year over year by 18.2% (February 21/February 22).

Non-Residential spending is up 7.0% year over year (February 21/February 22). Improved backlogs, attrition, and shortages are driving price increases in this sector.

Infrastructure spending increased since Q4 2021, with a 1.3% year over year change (February 21/February 22). Due to Federal programs, infrastructure spending is expected to increase by $50 billion per year over the next 10 years, approximately 10% of this sector. See https://vermeulens.com/blog/the-bipartisan-infrastructure-plan-and-construction-costs for more specifics of the program.

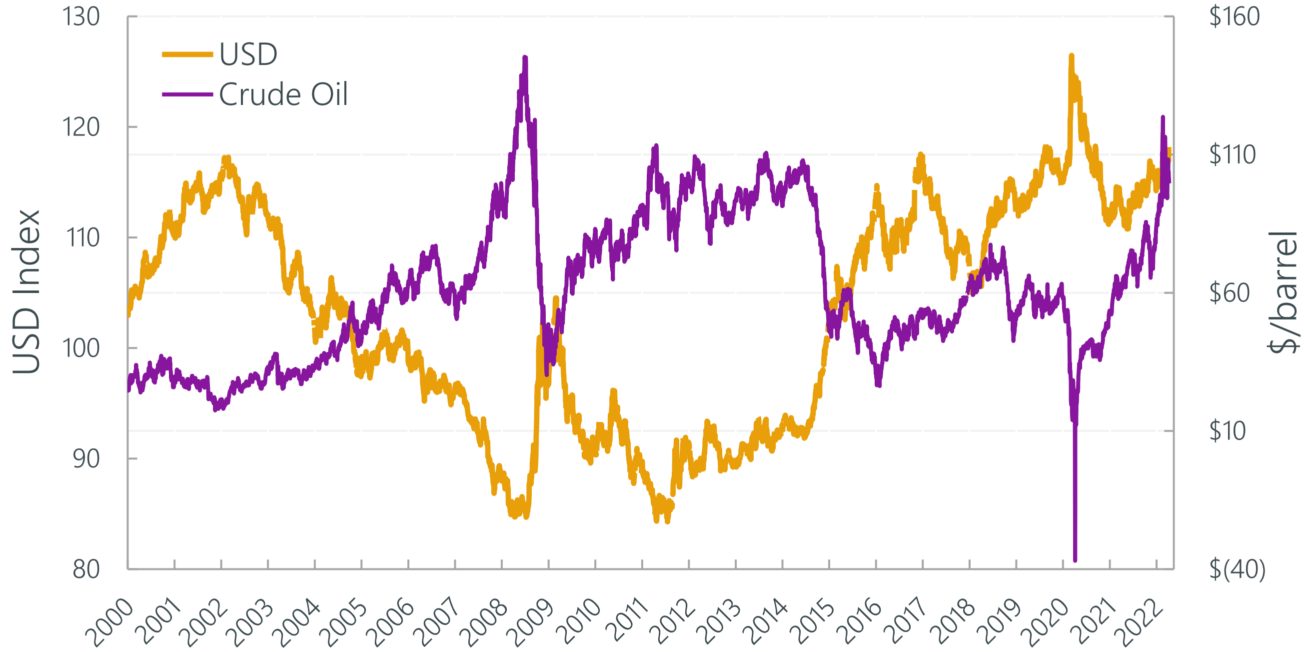


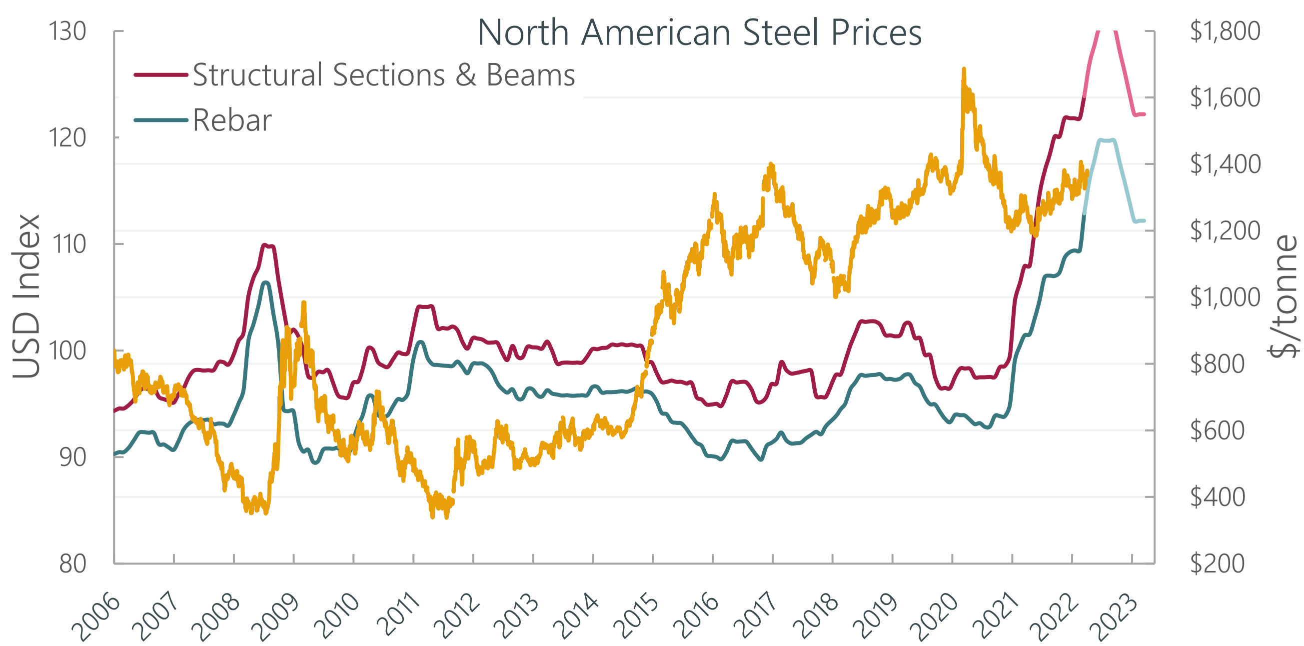
https://www.census.gov/construction/c30/c30index.html

Commodity Prices

Crude Oil reached $100.53 per barrel at the end of March 2022. Prices increased relatively throughout the quarter, peaking at $123.64 on March 8th.

Structural Steel prices through Q1 2022 increased from Q4 2021 levels. Structural sections and beams increased by 4.29% and rebar is up by 9.73% since January 2022. Steel futures indicate a gradual return in prices by 2022.

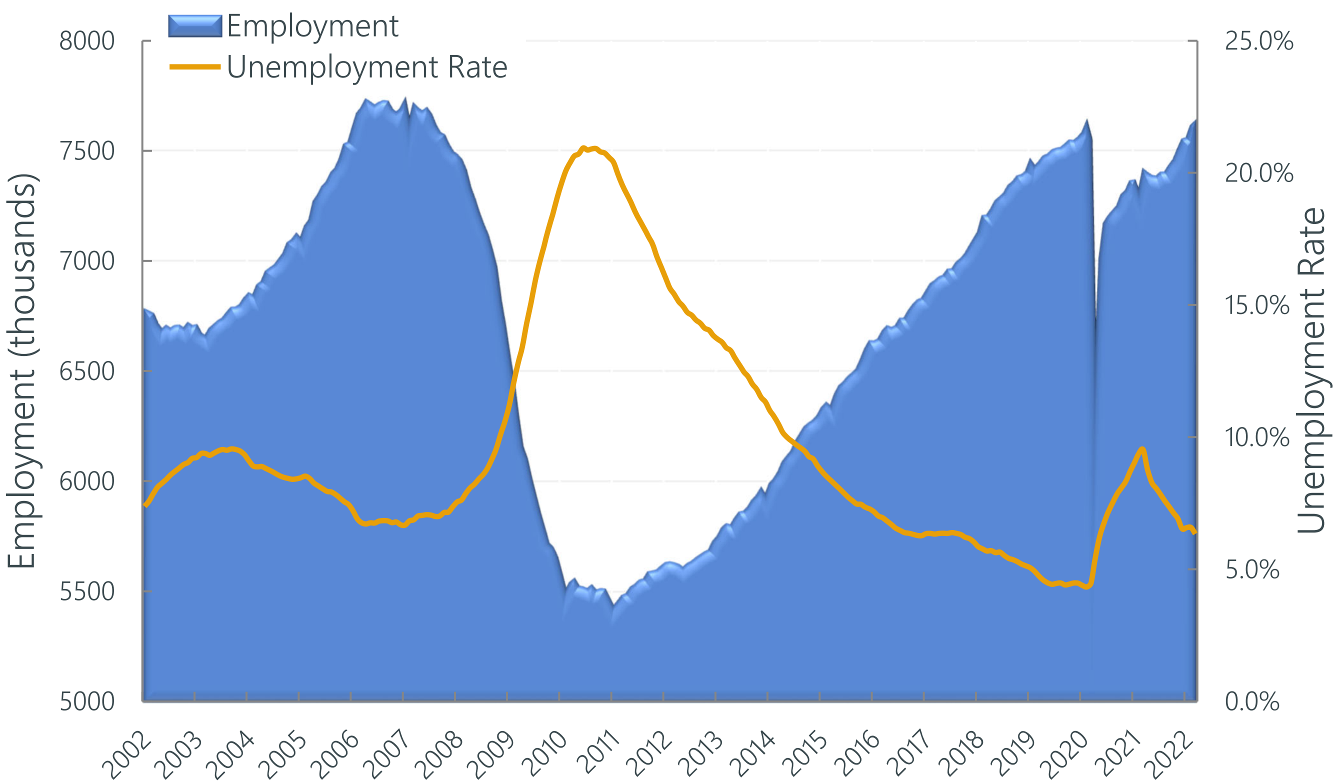




Construction Labor Market

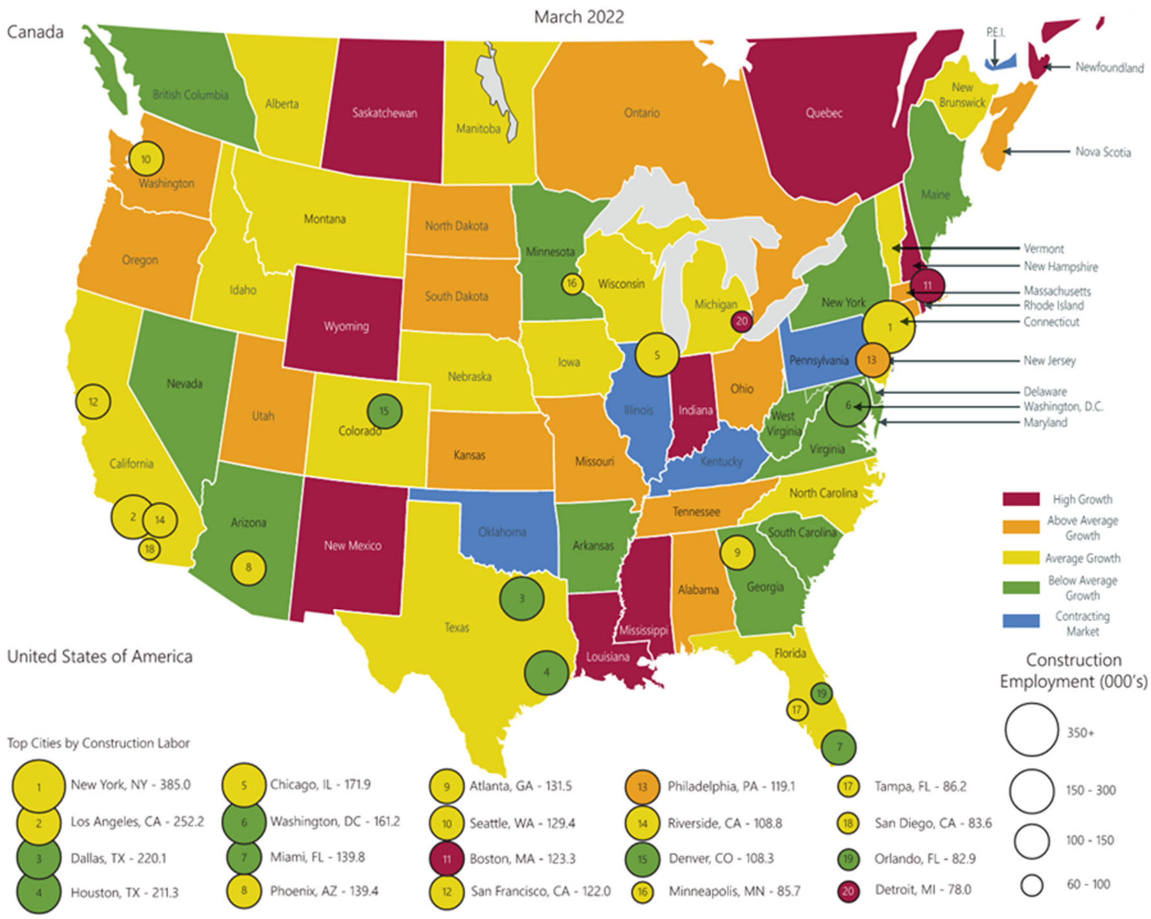
Construction Unemployment at the end of Q1 sits at 6.3% (12-month average), down from 6.5% at the end of Q4, reflecting a lack of increase in labor supply.

Construction Job Growth was 82,000 or 1.1%, this quarter. Wage and profit increases in the sector, driven by residential volumes, will draw new entrants, as well as restructuring from other sectors of the economy. Labor growth is likely to continue its steep rise as selling prices in the sector outperform other industries.



Construction Labor Force Growth Rate

Construction Labor Force Growth Rate is calculated by the current 12-month average in construction employment relative to previous 12-month average in construction employment.

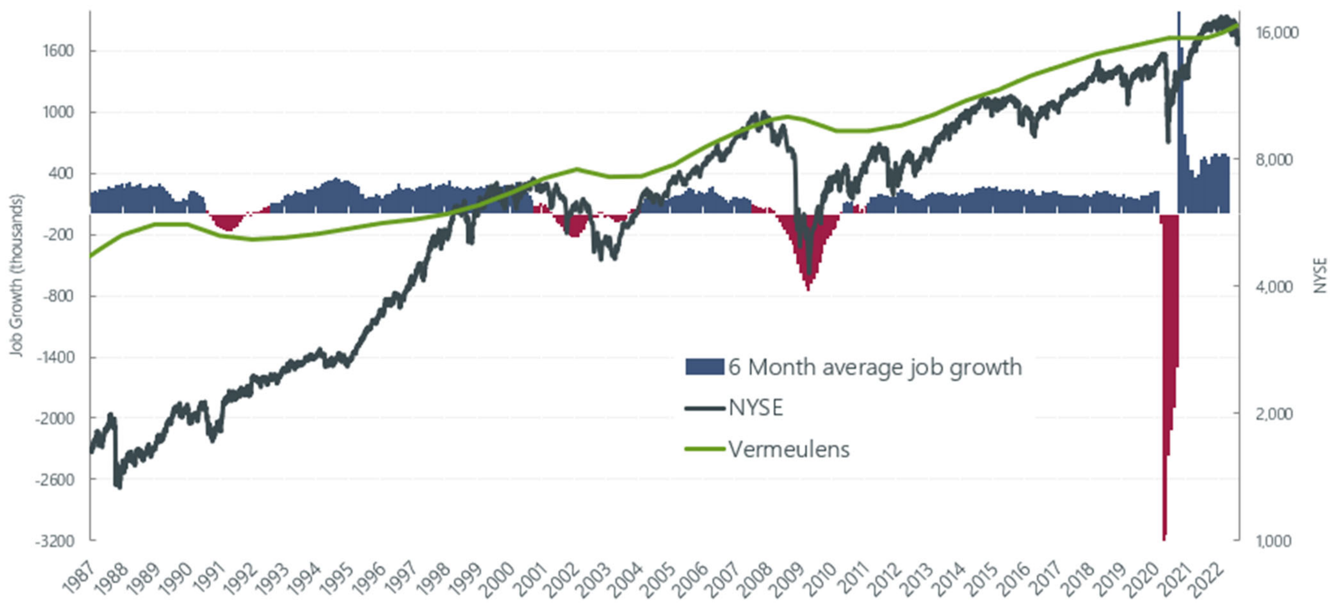


High	7% - 9%
Above Average	5% - 7%
Average	4% - 5%
Below Average	3% - 4%
Contracting Market	TBD

Total Jobs and Market Performance

Monthly average job growth for the US economy through Q1 was 562K peaking in February with 750k before falling to 431k in March.

The chart below removes short-term fluctuations in job growth by looking at a 6-month moving average. The size of the labor force grows at 100,000 per month due to population increase. Sustained periods of recession, where job creation remains below 100,000 jobs per month, has accompanied dips in construction prices as illustrated by the red bars below.



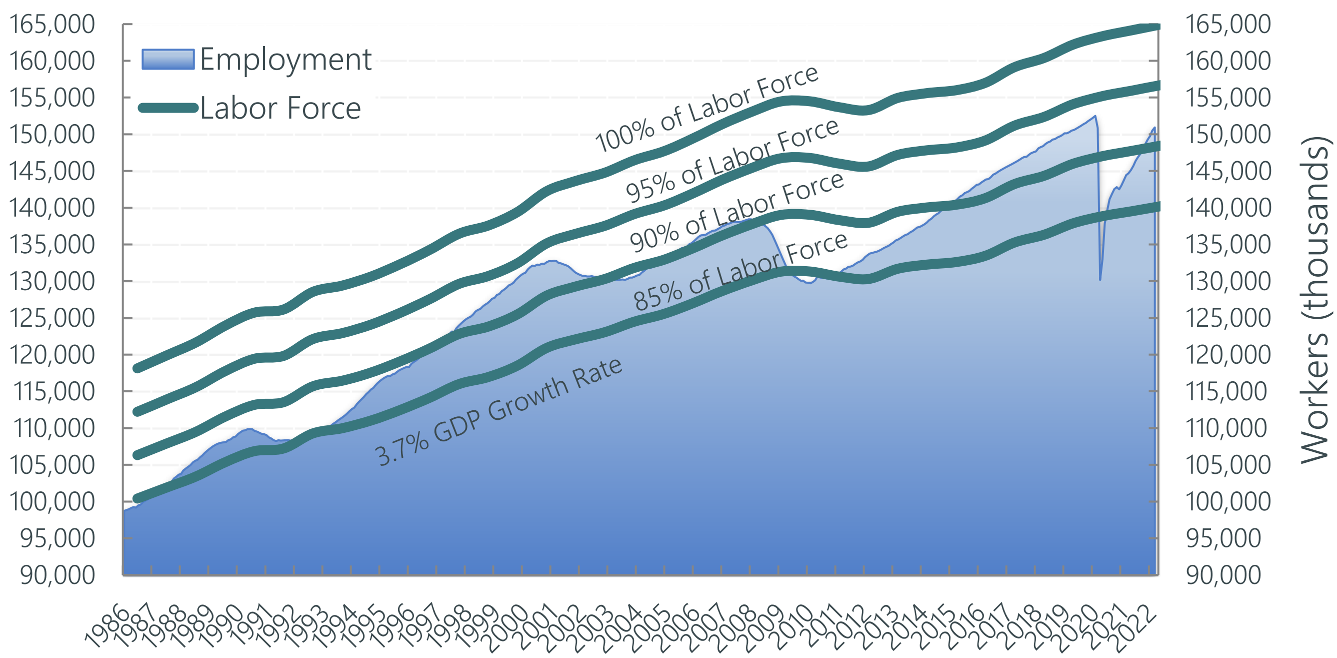
https://data.bls.gov/timeseries/CES0000000001

Employment Percentage of Total Workforce

Total Employment as a percentage of total workforce continued its recovery reaching more than 91% at the end of Q1 2022.

The chart below shows total employment as a percentage of the US workforce. The Federal Reserve will accommodate growth to maximize employment. Both the size of the labor force and participation rates are at play, as we have seen in recent months, where labor force growth has not kept pace with employment opportunities, resulting in shortages. See Vermeulens' blog, The Feds New Normal for more analysis of employment and labor force factors.

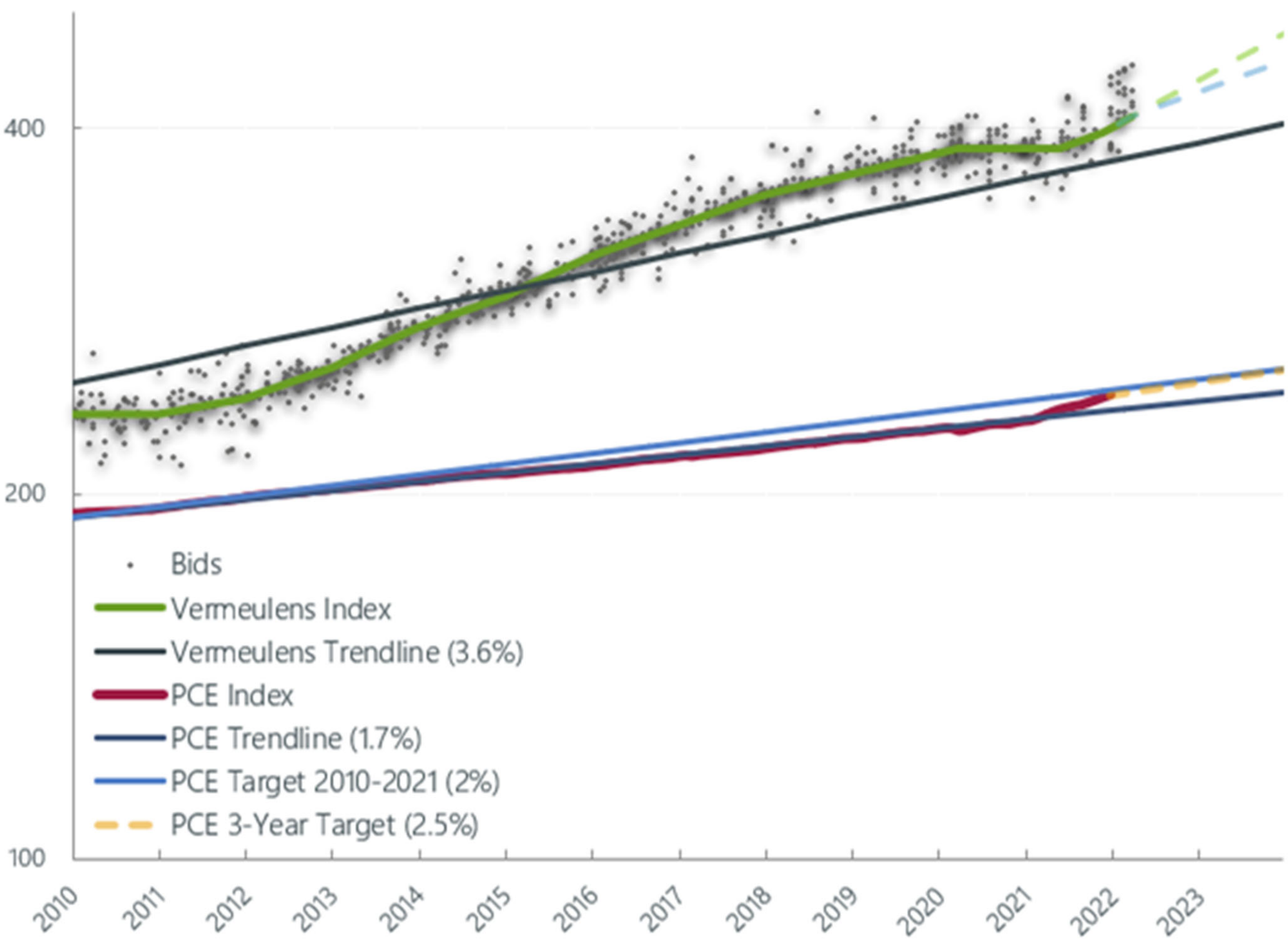
https://www.federalreserve.gov/monetarypolicy/files/monetary20220316a1.pdf



Forecast - National Trend

Construction prices rose in Q1 of 2022 at 0.75% per month following a 0.5% per month rate in the second half of 2021. Contractor backlogs stabilized along with expectation of strong margins, increased labor costs, and upward volatility in supply prices. Medium term construction price inflation is forecast at 6 to 9% annually before settling to a long-term average of 4% for non-residential construction.

The Federal Reserve's "new normal" has raised inflation above the previous trend of 1.5%. Medium term inflation could exceed 3% before settling to the 2% long term target. See Vermeulens' blog, The Feds New Normal for more information. https://www.federalreserve.gov/monetarypolicy/files/monetary20220316a1.pdf



If you:

Need any help with your projects,

Want to set up a presentation to your group,

Would like to meet to see how we can help your team, and expand our business together,

Are looking for company information,

Please contact: Marisol Serrao, Director of Marketing at 617 263 8879 or mserrao@vermeulens.com.