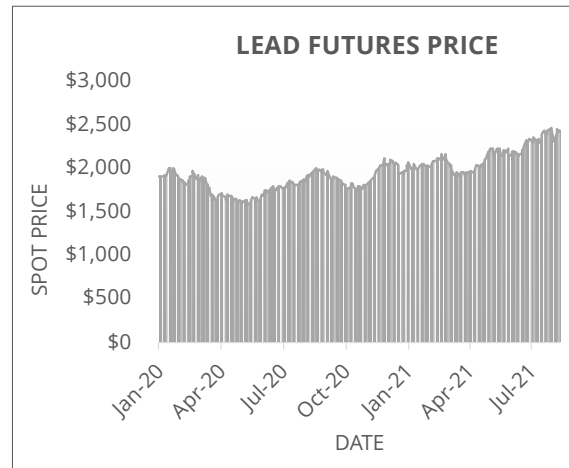


## U.S. Construction Demand Remains Strong Despite Inflation, Supply Shortages

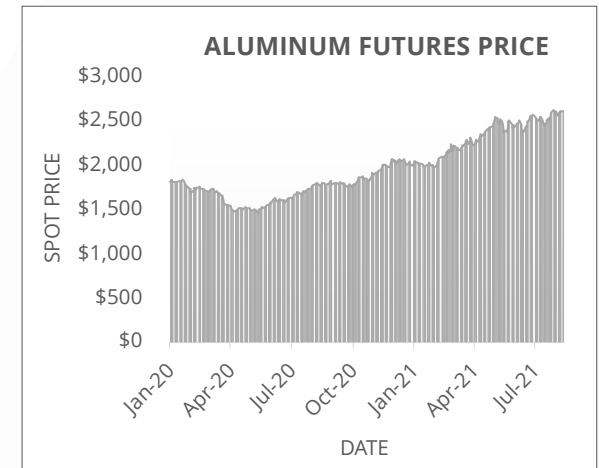
**CONSTRUCTION AT A GLANCE** 2020 was an extremely volatile year for the construction industry. Due to the Covid-19 pandemic, many construction projects were halted or delayed. As a result, the industry experienced decreases in billings and employment. However, 2020 also saw monetary policy enter an expansionary period, that allowed interest rates to drop to all-time lows and invigorated a renewed demand for construction services.

**MATERIALS PRICING** The Covid-19 pandemic imposed significant fluctuations on the prices of construction commodities. During the height of the pandemic (April 2020), construction commodity prices decreased as the fate of the industry was questioned and the pandemic's impact remained unknown. Now, construction related commodities are all trading above their pre-pandemic prices. In return, the construction and project management industries have had to adjust their prices accordingly.

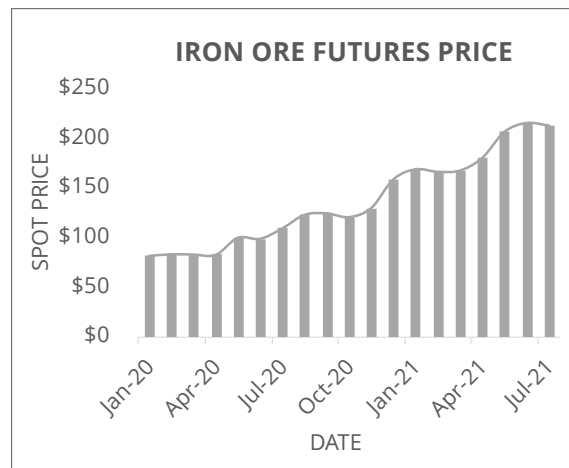
**LEAD** Lead, a highly dense material with a low melting point, typically available as rolled lead sheet, machine cast lead and sand cast lead, has experienced a year-to-date increase of approximately 23.12%. Dating back to January of 2020, the spot price of lead has increased by approximately 27.52%. Lead is an essential construction commodity often used in the construction of bridges, railways and lighthouses.



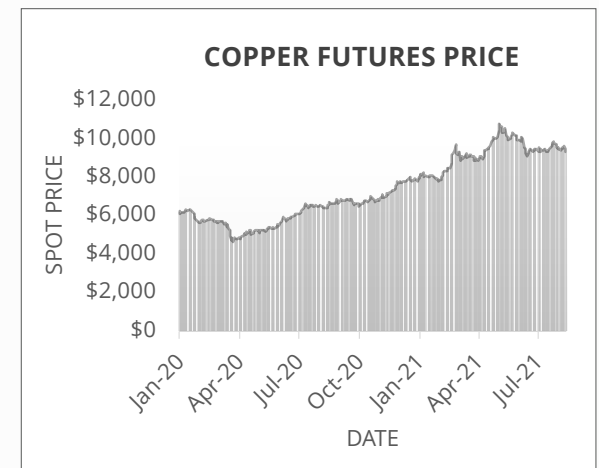
Source: markets.businessinsider.com



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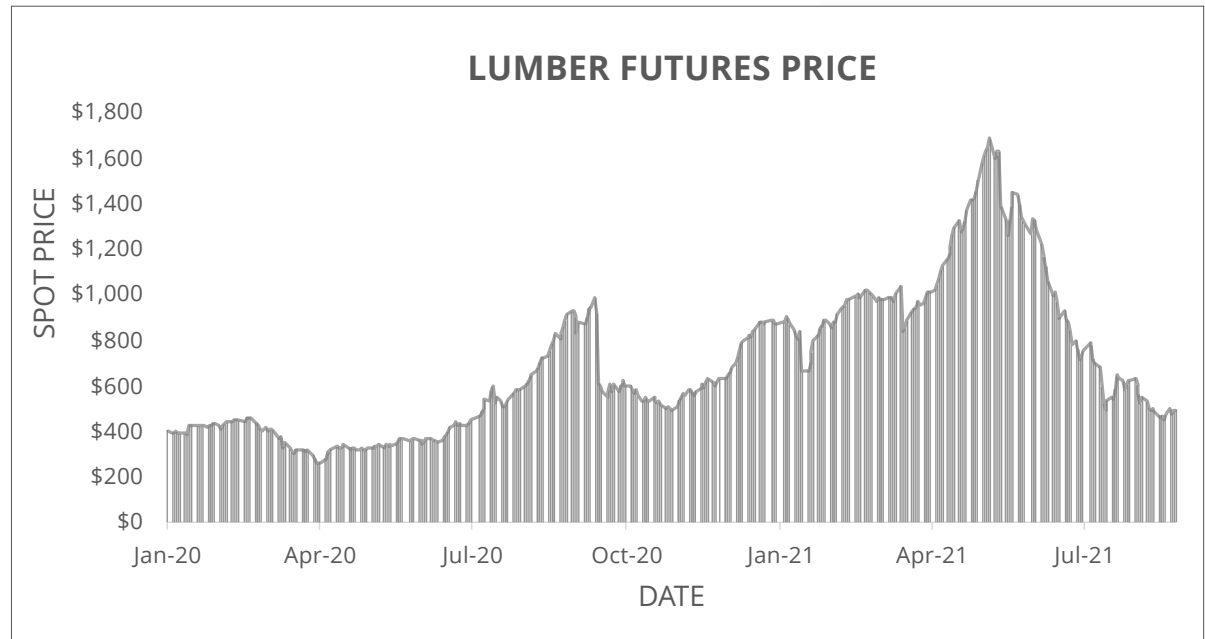
**ALUMINUM** Aluminum is a versatile construction material most often utilized for its high strength and low weight relative to similar commodities. Aluminum pricing has increased by approximately 31.33% year to date and by 44.07% since January 2020.

**IRON ORE** Iron ore, typically used for the manufacturing of steel, has experienced one of the sharpest pricing increases among major construction commodities. By tonnage and purpose, steel is the most used metal and serves as a necessity for the construction of buildings, which means increased iron ore prices have significantly impacted the industry. Since January 2020, iron ore prices have increased by 160.69%. While increases have slowed, iron ore pricing has so far increased by 26.08% in 2021 alone.

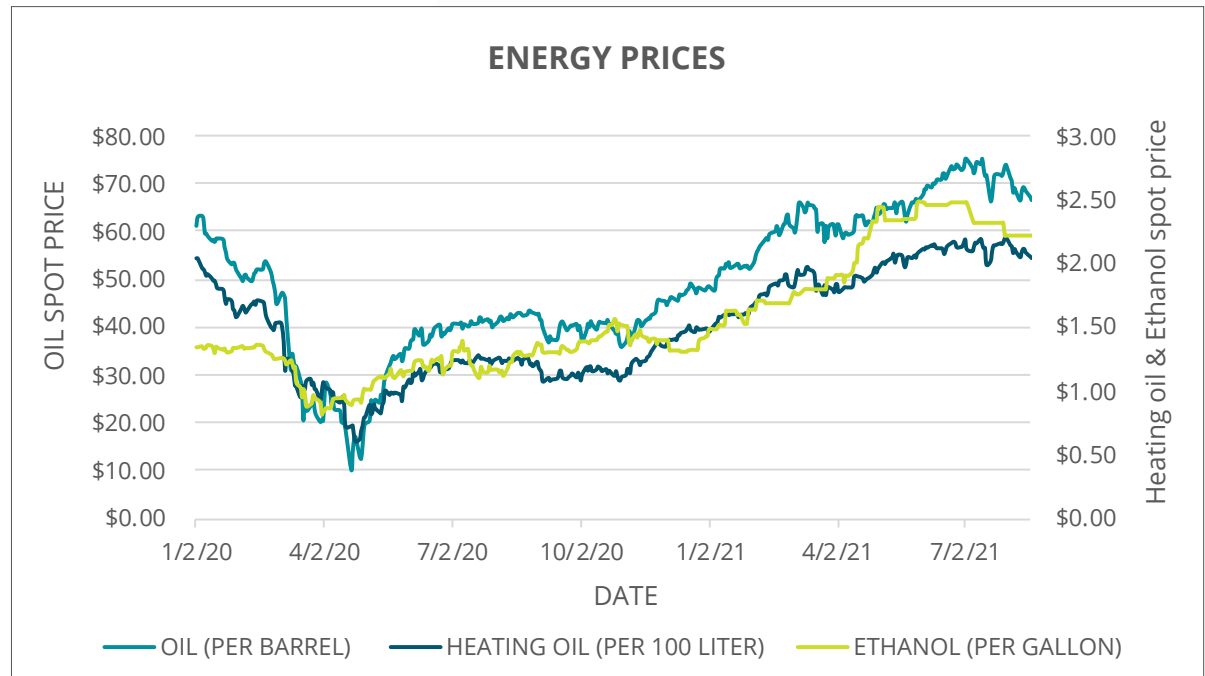
**COPPER** Copper, mostly known for its malleability and durability, is commonly used in construction to form pipes, gutters and roofing materials. On a year-to-date basis, the spot price of copper has increased by 19.07%, and dating back to January of 2020, copper's spot price increased by 49.65%.

**LUMBER** Lastly, the most discussed commodity of all, lumber, experienced the most substantial increase over the course of the pandemic, but has continued in a downward trend as sawmills regain the ability to meet supply and demand needs. Year to date, lumber has decreased by approximately 43.53% however, dating back to January of 2020, lumber has increased by 22.67%. During the height of the pandemic, the highest spot price of lumber reached \$1,686.00.

**ENERGY PRICES** In addition to construction materials, energy prices related to construction have also significantly increased.



Source: markets.businessinsider.com



Source: markets.businessinsider.com

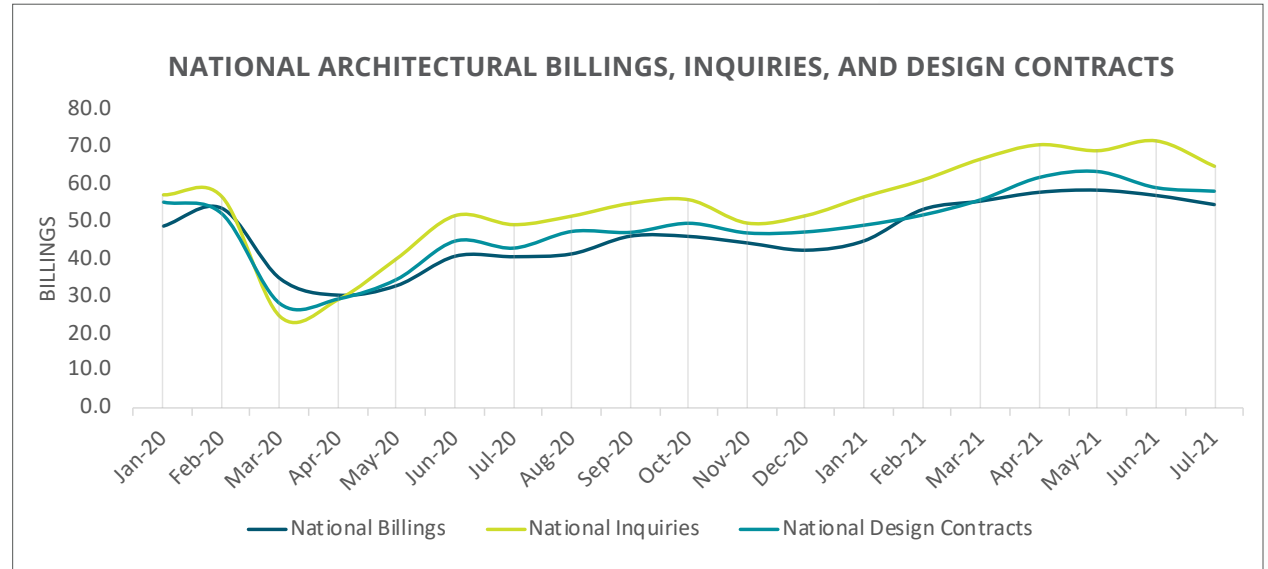
Overall, commodity spot prices play a major role in the ability of development firms to move forward with projects. Increasing costs squeeze construction companies' profit margins, resulting in increased costs of construction.

**CONSTRUCTION SECTOR ANALYSIS** Covid-19 imposed major implications to the construction industry. During the height of the pandemic, the demand for construction halted as projects were put off and shut down. The federal reserve responded with an aggressive monetary policy expansion in which it lowered interest rates and pumped stimulus funds into the economy. This resulted in increased demand for construction related services.

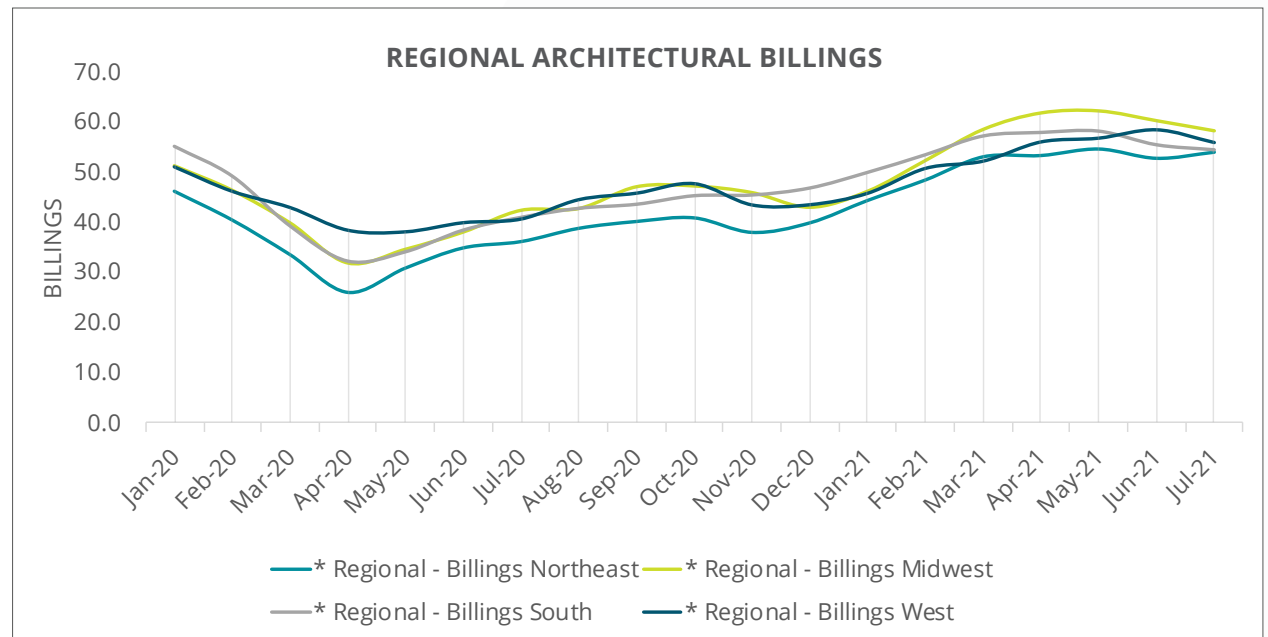
National billings, inquiries and design contracts all experienced significant declines from February 2020 through April 2020, however, all three began recovering in the second half of the year. National billings took a bit longer to fully recover but finally reached a score above 50 on the billings index in February of 2021 and have since continued to experience growth. Since June of 2020, inquiries have grown substantially with the highest score on the billings index of 71.8.

Regionally speaking, the greatest number of billings in the United States have been in the Midwest. Trailing the Midwest has been the South, the West and the Northeast, respectively.

Architectural billings by product type are extremely important in forecasting supply of materials and labor costs in relation to consumer demand. In 2020, and billings for commercial and industrial development suffered the greatest. However, in 2021, commercial and industrial billings have made a significant recovery, surpassing residential, institutional and mixed-use construction.



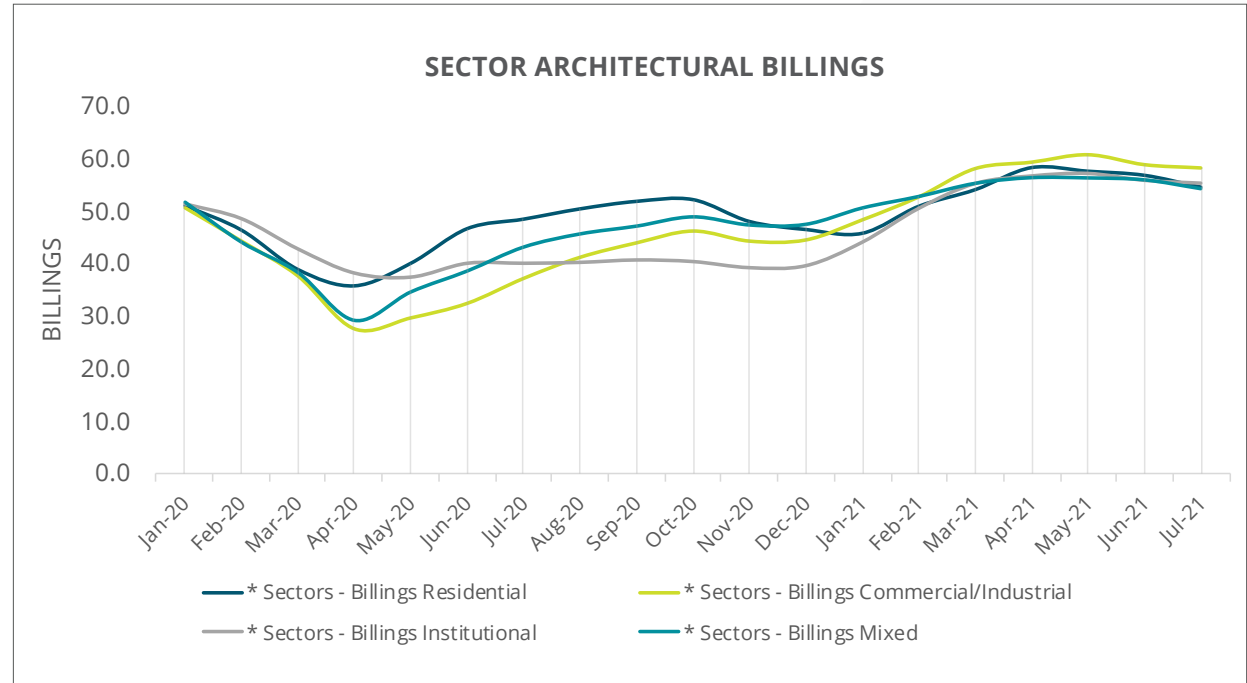
Source: AIA.org



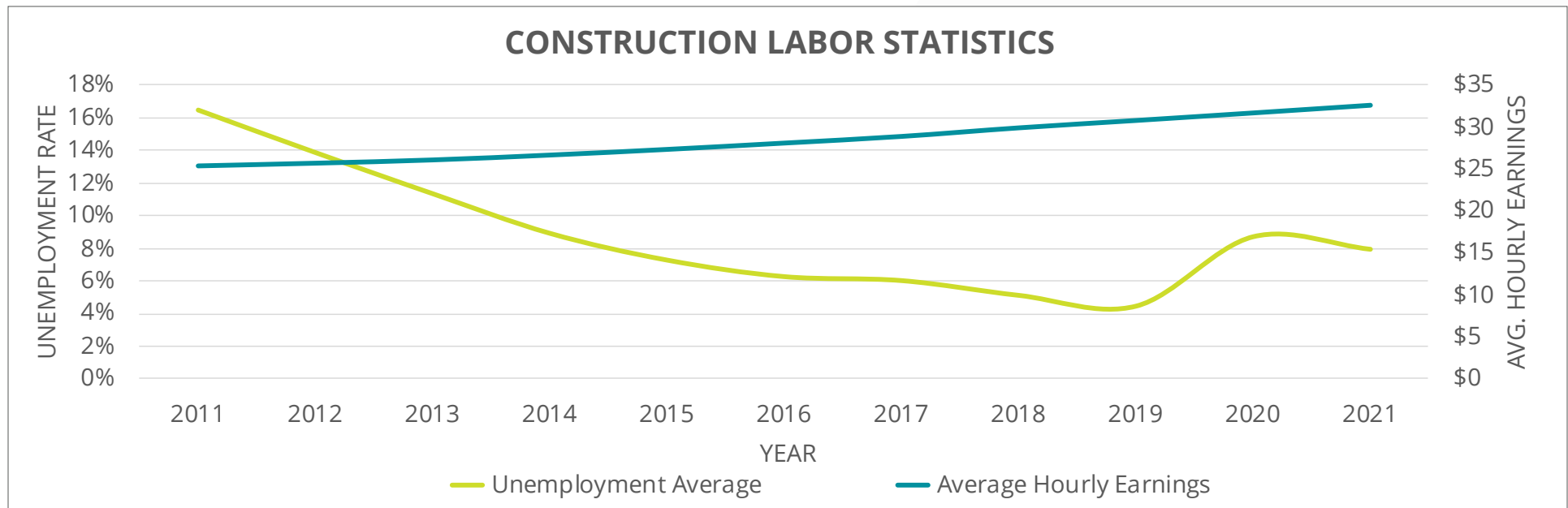
Source: AIA.org

**LABOR ANALYSIS** Average hourly earnings in the construction industry have increased year over year and currently are just below \$33. The pandemic caused the unemployment rate in construction to jump from a low of 3.2% in May of 2019 to a high of 16.6% in April of 2020. However, 2020 ended with an average unemployment rate of 8.7%, indicating a quick recovery.

**CONSTRUCTION FORECAST** After a very volatile 2020, 2021 has served as a stressful period for the construction industry. The pandemic temporarily slowed the industry, inflicting increases in construction unemployment, cost increases, and excessive lead times. However, an expansionary monetary policy from the United States Federal Reserve has fueled renewed demand for construction.



Source: AIA.org



Source: BLS.gov

Franklin Street forecasts the high demand of construction related services will continue throughout 2022. Commodity prices will continue to escalate, but at a lesser rate. Lumber, specifically, will remain higher than its pre-pandemic price, but now that sawmills are not as backlogged, supply and demand will even out, lowering the spot price of the commodity.

Billings, from a national standpoint, will remain above the index score of 50. Franklin Street predicts that the commercial and industrial sector will continue to see the greatest number of billings relative to other categories.

Overall, the outlook for construction related services is bright. The low interest rate environment has been a boon to the industry, and until the Federal Reserve places a contractionary monetary policy, we can expect to see continued surges in demand as the cost of capital is at an all-time low.

### CONSTRUCTION LABOR STATS

YEAR	AVERAGE HOURLY EARNINGS	UNEMPLOYMENT AVERAGE
2021	\$32.55	7.94%
2020	\$31.65	8.71%
2019	\$30.76	4.48%
2018	\$29.89	5.13%
2017	\$28.89	6.03%
2016	\$28.11	6.28%
2015	\$27.36	7.28%
2014	\$26.70	8.92%
2013	\$26.12	11.33%
2012	\$25.74	13.84%
2011	\$25.42	16.43%

Source: BLS.gov

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