Economic Outlook Notes - March 2022

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The construction economy continues to improve as we move forward into 2022. The three main indicators for the construction industry will all be positive at the same time during 2022. Housing permits & starts, nonresidential construction, & highway-infrastructure are all forecast to be positive during 2022 & 2023. There are obstacles to be dealt with but none that should alter the outlook significantly. The following bullet points address the positives and negatives of the outlook.

- With the passage of the infrastructure legislation, we will have increased expenditures on a variety of categories. When I looked at what has been allocated so far by state it adds up to about 435 billion dollars spread out over 5 years. I know that more allocations will follow as the total infrastructure spending is around 650 billion. I have this broken down by eight categories for each state in my individual customer reports. When you look at the current level of government spending on infrastructure that addition will be significant. I do not expect much impact until 3rd or 4th quarter of 2022 as it will take time to establish the program and distribute the funds. Another positive is that contrary to expectations most states did not have significant reductions in tax revenue during 2020 or 2021 and have not made significant reductions in infrastructure spending.

- The employment side of the economy continues to recover, however employment gains have slowed. As of December, we are still around five million jobs short of pre pandemic levels with many jobs available, specifically in the service sector. The January jobs report showed 1.5 million hires, well above expectations but coincidental with declines in the individual savings rate and the end of government stimulus. On the construction side of the employment picture, we still have fourteen states that have negative job growth from December of 2020. We have added 56,800 jobs in residential building and 153,000 for total construction across the U.S. and the direction is positive. Not back to pre-pandemic levels yet but getting close.

- The housing market continues with the same trend we have seen for the last 18 months. The inventory of unsold homes maintains at only 1 or 2 months with many markets effectively at zero. Price inflation has slowed but continues in this segment and will do so until we move from a sellers' market to a neutral' market. It will probably be late 2022 before we get to a 6-month inventory of unsold homes returning the market to a normal buyer-seller ratio. Even anticipated increases in 30-year mortgage rates should not slow this market and changes in down payment requirements (policy driven) should help stimulate growth for the remainder of 2022 and beyond. Lumber prices are trending downward but are still 100% higher year over year.

- The risks to the housing market are continued material price increases and/or inflation. The consumer price index increased by 7.5% during 2021 and the producer price index by 9.7%, a significant increase not seen in years. As a result, the Federal Reserve has now changed direction and anticipates 3 or 4 interest rate increases during 2022, the first possibly in March. A number of categories important to construction ended 2021 with significant year over year increases, some are listed below.

Asphalt + 69.5%
Steel bars, plates, & structural steel + 58.9%
Aluminum +29.8%
Copper wire & cable + 20.7%
Gasoline +67.4%, Diesel fuel +54.9%
Oil ended 2021 at $91 per barrel and tension over the situation in Ukraine may well

send it higher. Fuel effects the price of everything that has to be transported.

- The trend in housing is impacting the nonresidential sector as well. I expect declines in sectors like lodging, brick & mortar retail, and office space. However, as more people move to the suburbs more infrastructure will be needed, water, sewer, power, & communications. It will also bring the normal building of grocery, medical, educational, etc. that follows population growth or migration. Nonresidential construction will return to positive growth during 2022 for the first time since 2019 and continue through 2023 with the housing trend contributing to some of the increase. I have forecast an increase in total nonresidential construction forecast for 2022 but not back to the levels of 2019.

- There seems to be a shortage of about everything. From chips to tires to steel many of the things we consume in the construction industry are in short supply. As a result, availability of equipment will continue to be an issue for construction equipment dealerships. We are confronted with a situation where the economy will support more equipment purchases than the manufacturers can provide. In a recent conversation with a manufacturer, he stated that even if you can find the supplies you need to build equipment, finding shipping space is another challenge. As of December, there were still close to one hundred container ships waiting to dock at the Los Angeles and Long Beach ports, a new record. We can expect lead times to stretch and prices to increase as we go forward as the average time it takes to get product from Asia to the U.S. has increased by 43% and the price of containers have increased 500% year over year. This situation does however raise the value of existing inventory and equipment fleets allowing for higher margins. This applies to parts departments as well. Another shortage in the construction industry is labor. As with equipment the construction economy will present more opportunities than we have the labor to capitalize on. Whether it is qualified technicians or manual laborers for our contractors they are in short supply and labor rate inflation is averaging 15% to 20%

- With all three primary construction indicators positive I expect 2022 to be a year of growth in construction and machinery and that that will continue through 2023. The pandemic is not behind us yet, but economic activity continues to increase as more of the population is protected by the vaccine or natural immunity, more states are eliminating business restrictions and we are moving toward a more historical level of economic activity. I believe this will continue as more states follow that trend.