Q3

Construction Market Forecast 2021

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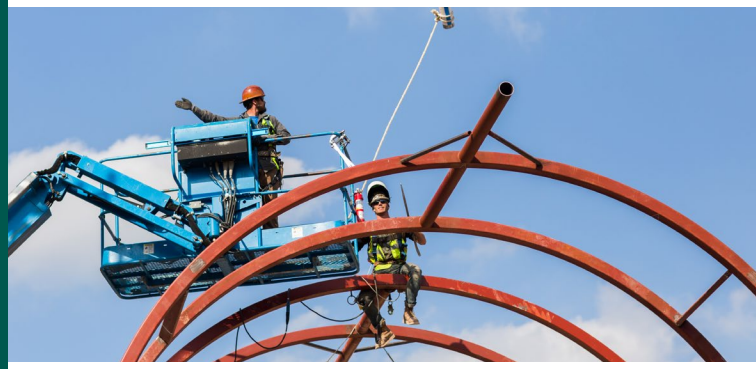
" Steel is a more significant input than lumber for most nonresidential contractors. With steel prices continuing to set new highs, contractors remain behind the curve in regard to passing on costs, even though lumber prices have tumbled and copper prices have dipped."



Ken Simonson, Chief Economist at Associated General Contractors of America

The Current State of Steel Pricing and Supply

Why the shortage?

While there is no definitive answer, we thoroughly track the market and interview our vendors in effort to best determine where we think the market will go. The following is a summary of what our thoughts on this topic are. As manufacturing, construction and other steel consuming industries returned to business after the initial impact of COVID was understood and safety precautions were developed, a strong spike in demand for steel products was created. This, coupled with the closure of many integrated steel mill furnaces and rolling facilities created an immediate shortage in the supply of steel products, and manufacturers struggled to fill their supply chain needs. This resulted in the consumption of all existing inventories; raw material to continue making product and finished goods to continue selling product.

Consumer demand for manufactured products like computers, automobiles, recreational goods and cell phones soared as stimulus money entered our economy. As our social dynamics changed and more people began working for home, demand for home related products like HVAC units, water heaters, appliances and lawn equipment also soared. These products are primarily manufactured from hot rolled flat steel which is the main product produced at integrated steel mills, although several electric arc furnace mills also produce it.

The electric arc furnaces that produce hot rolled flat steel are the most important factor when analyzing the balance of supply and demand. Approximately 10,000 to 12,000 tons of daily steel capacity from integrated mills never came back online after the COVID shutdowns and they have no intention of doing so. However, later this year and into 2022 new electric arc capacity will be brought online which will produce 8,000 to 9,000 tons of steel per day. Bottom line is the long-term net difference that will remain offline, at least for the next 3 to 5 years, will be 2,000 to 4,000 tons of steel per day.

The scrap demand factor

Where integrated mills use iron ore as the primary feed for their furnaces, electric arc mills use scrap. With the increase in steel production at electric arc mills versus integrated steel mills, the demand for scrap, DRI and HBI to produce product has also increased. Further, as sustainability and environmental concerns have become a priority, the production of steel at integrated mills has decreased in favor of the more environmentally friendlier option of electric arc mills.

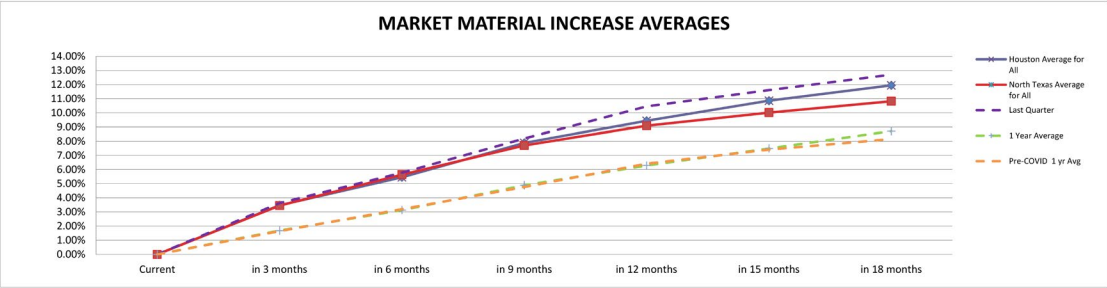
The scrap supply factor

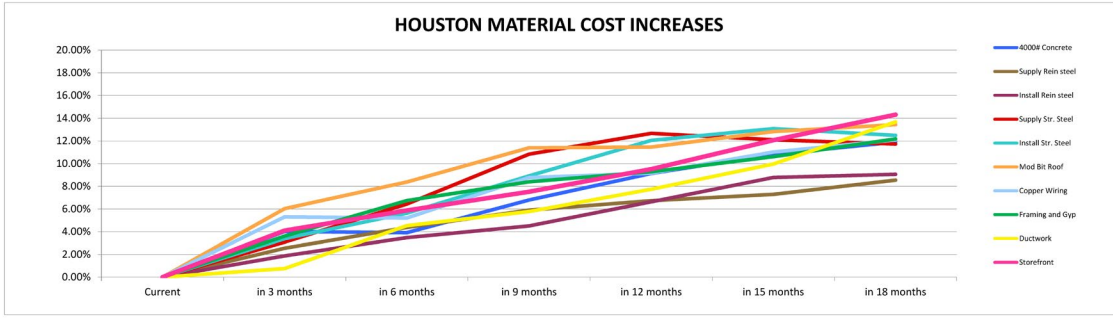
Some demand is being offset by manufacturing industries coming back online and increased recycling by consumers, both of which in turn produces scrap. As supply increases to match demand, it starts to drive the price down.

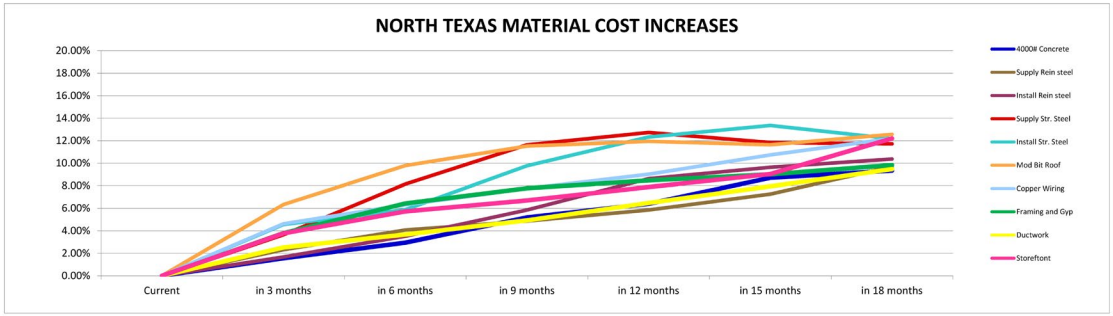
The new normal

With scrap being the main feed for steel products produced at electric arc mills the demand for scrap is high, which drives up the cost of steel. If the price of steel remains consistently high over a long period of time, it sets a new threshold which starts to become the new normal. You will see that even as prices fall, they will not fall as low as they have in the past. The new normal will be higher than the 2019 prices and lower than 2021/2022 prices. The eventual reality is a reduced margin on the selling price of steel from the mills since the input cost is unlikely to reduce unless the demand falls significantly. The demand for scrap will always be higher than it has been historically because the method of production for steel has changed. The key to when and how much prices will fall will become apparent when the demand for steel products falls or when the market starts to show resistance to pricing. At DBM Global we continue to track the end use markets for steel products looking for changes in demand that might give us direction on steel pricing.

Source and Link:
Schuff Steel Quarterly Supply Chain Report – Period June 2021 – Rustin Roach
https://www.schuff.com/wp-content/uploads/2021/07/Quarterly-Purchasing-Report-Q2-2021.pdf







" Wages and salaries in the construction industry rose 1.4 %, seasonally adjusted, in the second quarter (Q2) of 2021, up from 0.9% in Q1 2021 and 1.1% in Q2 2020, the Bureau of Labor Statistics (BLS) reported on Friday. The increase was the largest 3-month gain since the series began in 2000... "

Source and Link:
AGC Data DIGest: July 27-Aug. 2, 2021 - Ken Simonson
https://constructioncitizen.com/blog/agc-data-digest-july-27-aug-2-2021/2108031

Materials costs outrun bid prices for the year despite drop in August; job openings set record for July

Materials costs continued to outstrip bid prices in the 12 months ending in August despite a recent drop in lumber and fuel prices. The producer price index (PPI) for new nonresidential building construction—a measure of the price that contractors say they would charge to build a fixed set of buildings—increased 0.3% from July and 5.0% year-over-year (y/y) since August 2020, while the PPI for material and service inputs to construction industries climbed 20.6% y/y despite a decline of 1.7% for the month, the Bureau of Labor Statistics (BLS) reported on Friday. The PPI for lumber and plywood plunged 17% for the month but was still 16% higher y/y. The PPI for diesel fuel slid 2.0% for the month but soared 67% y/y. Other materials continued to rise in price, with double- or even triple-digit percentage increases y/y. The PPI for steel mill products soared 5.1% for the month and 123% y/y; copper and brass mill shapes, 1.0% and 45%, respectively; aluminum mill shapes, 3.7% and 35%; plastic construction products, 3.0% and 30%; gypsum products, 0.5% and 23%; insulation materials, 4.4% and 17%; truck transportation of freight, 0.9% and 14%; asphalt felt and coatings, 3.5% and 15%; and architectural coatings, 0.5% and 10%. There were smaller but nevertheless unusually large y/y increases for flat glass, down 0.3% for the month but up 7.1% y/y; concrete products, 1.0% and 6.0%, respectively; asphalt paving mixtures and blocks, 0.6% and 5.6%; and construction machinery and equipment, 0.8% and 5.4%. Bid prices, as measured by PPIs for new buildings and subcontractors, have risen at diverse rates. PPIs rose 7.1% y/y for new warehouse building construction, 6.0% for offices, 5.0% for industrial buildings, 4.4% for health care buildings, and 3.4% for schools. PPI increases for new, repair, and maintenance work ranged from 6.9% for roofing contractors to 5.6% for concrete, 4.0% for electrical, and 3.9% for plumbing contractors. AGC posted tables and graphs of construction PPIs.

Source and Link:
AGC Data Digest: Vol. 21, No. 35. September 6-13, 2021 - Ken Simonson
https://agca.informz.net/informzdataservice/onlineversion/ind/bWFpbGluZ2luc3RhbmNlaWQ9MTAyMTA3NTImc3Vic2NyaWJlcmlkPTEwNzMwNTM3MDE=

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Construction Market Forecast Compiled Pricing Data a of August 2021

Supply Reinforcing Steel $/TON

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$916	0.00%	$1,126	0.00%
in 3 months	$939	2.54%	$1,152	2.32%
in 6 months	$956	4.37%	$1,172	4.07%
in 9 months	$970	5.90%	$1,181	4.86%
in 12 months	$977	6.74%	$1,192	5.85%
in 15 months	$982	7.29%	$1,207	7.26%
in 18 months	$994	8.55%	$1,235	9.69%

Install Reinforcing Steel $/TON

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$468	0.00%	$452	0.00%
in 3 months	$476	2.54%	$459	1.67%
in 6 months	$484	4.37%	$468	3.51%
in 9 months	$489	5.90%	$478	5.85%
in 12 months	$499	6.74%	$491	8.63%
in 15 months	$509	7.29%	$495	9.64%
in 18 months	$510	8.55%	$499	10.37%

Supply Structural Steel $/TON

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$3,493	0.00%	$3,822	0.00%
in 3 months	$3,601	3.09%	$3,961	3.65%
in 6 months	$3,718	6.44%	$4,133	8.15%
in 9 months	$3,871	10.84%	$4,266	11.63%
in 12 months	$3,935	12.67%	$4,308	12.73%
in 15 months	$3,916	12.11%	$4,274	11.84%
in 18 months	$3,903	11.73%	$4,270	11.72%

Install of Structural Steel $/TON

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$1,390	0.00%	$1,446	0.00%
in 3 months	$1,437	3.39%	$1,512	4.56%
in 6 months	$1,468	5.63%	$1,531	5.88%
in 9 months	$1,514	8.92%	$1,587	9.77%
in 12 months	$1,557	12.05%	$1,624	12.33%
in 15 months	$1,572	13.09%	$1,639	13.36%
in 18 months	$1,564	12.49%	$1,622	12.18%

Copper Wire $/LB

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$3.89	0.00%	$4.31	0.00%
in 3 months	$4.09	5.31%	$4.51	4.62%
in 6 months	$4.09	5.21%	$4.58	6.31%
in 9 months	$4.23	8.77%	$4.64	7.75%
in 12 months	$4.24	9.16%	$4.70	9.02%
in 15 months	$4.32	11.02%	$4.77	10.74%
in 18 months	$4.36	12.09%	$4.83	12.20%

Frame and Gyp $/SF

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$7.05	0.00%	$5.97	0.00%
in 3 months	$7.30	3.61%	$6.20	3.80%
in 6 months	$7.52	6.74%	$6.35	6.43%
in 9 months	$7.64	8.40%	$6.43	7.78%
in 12 months	$7.70	9.29%	$6.48	8.47%
in 15 months	$7.79	10.61%	$6.51	9.01%
in 18 months	$7.90	12.18%	$6.56	9.84%

Mod Bit Roofing* $/SF

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$15.64	0.00%	$18.45	0.00%
in 3 months	$16.59	6.03%	$19.62	6.34%
in 6 months	$16.95	8.38%	$20.26	9.79%
in 9 months	$17.42	11.39%	$20.58	11.53%
in 12 months	$17.44	11.47%	$20.65	11.94%
in 15 months	$17.65	12.83%	$20.60	11.64%
in 18 months	$17.75	13.44%	$20.77	12.56%

** 20,000 SF Roof W/4-Inch ISO*

Ductwork $/LB

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$7.64	0.00%	$5.94	0.00%
in 3 months	$7.70	0.75%	$6.09	2.52%
in 6 months	$7.99	4.53%	$6.15	3.67%
in 9 months	$8.08	5.77%	$6.23	4.92%
in 12 months	$8.23	7.74%	$6.32	6.48%
in 15 months	$8.40	9.97%	$6.41	7.95%
in 18 months	$8.69	13.68%	$6.50	9.47%

4000# Concrete $/CY

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$121.50	0.00%	$144.50	0.00%
in 3 months	$126.38	4.02%	$146.75	1.56%
in 6 months	$126.25	3.91%	$148.75	2.94%
in 9 months	$129.75	6.79%	$152.00	5.19%
in 12 months	$132.60	9.14%	$153.75	6.40%
in 15 months	$134.64	10.81%	$157.08	8.71%
in 18 months	$135.96	11.90%	$158.00	9.34%

Storefront $/SF

	HOUSTON		NORTH TEXAS	
TIME FRAME	$ / LB	Delta	$ / LB	Delta
Current	$67.90	0.00%	$70.67	0.00%
in 3 months	$70.69	4.10%	$73.33	3.77%
in 6 months	$71.89	5.87%	$74.71	5.72%
in 9 months	$73.00	7.52%	$75.40	6.69%
in 12 months	$74.36	9.51%	$76.24	7.88%
in 15 months	$76.09	12.06%	$77.05	9.03%
in 18 months	$77.62	14.32%	$79.29	12.20%

" Overall construction input prices increased 23.1% from a year ago, as of July, according the U.S. Bureau of Labor Statistics Producer Price Index. Non-residential construction rose 23.4% in the same time period, with steel mill products soaring 108.6%. Energy prices also rose sharply, with natural gas up 146.7% and crude prude petroleum up 102.9%, year over year. "

Source and Link:
ENR: August 19, 2021 – Alisa Zevin
https://www.enr.com/articles/52267-steel-prices-causing-construction-pain-point