CONSTRUCTION MARKET UPDATE

Q2 2023

I think I speak for many of us when I say 2022 was a wild ride. We started to emerge from our homes after nearly two years of being cooped up inside because of the pandemic. We went shopping. We went to the movies. We took vacations. Some of us experienced Disney World.

And, as expected, **the economy reacted the way it's supposed to when that happens: Prices shot through the roof.** The Consumer Price Index for the last two years looks like a wild EKG chart, with significant lows at the pandemic's onset and substantial highs when we began to emerge in summer 2022. Current numbers show that things are starting to settle into a new normal. But what does that mean for those of us in the construction industry?

We hope to provide some of those answers in our quarterly Construction Market Update. But I think we can all agree that while many of us are seeing some relief from the skyrocketing prices and long equipment/procurement lead times of 2022, things are not the way they were. In fact, some economists are even saying a recession is on the horizon.

In the meantime, barring another pandemic-like shock to the economy, **we can look forward to a year of relative stabilization and more predictability** as we undertake more complex critical infrastructure projects than ever before.

BRETT WILLIAMS

PRESIDENT

CONSTRUCTION GROUP

CONNECT WITH BRETT

ECONOMIC OUTLOOK: MIXED MESSAGES

Economic conditions continue to confuse and confound. Despite continued predictions that a recession is coming, the labor market is strong, and gross domestic product (GDP) is growing.

Unemployment was 3.5% in March. The number of job openings has declined over the past year but remains higher than pre-pandemic numbers.

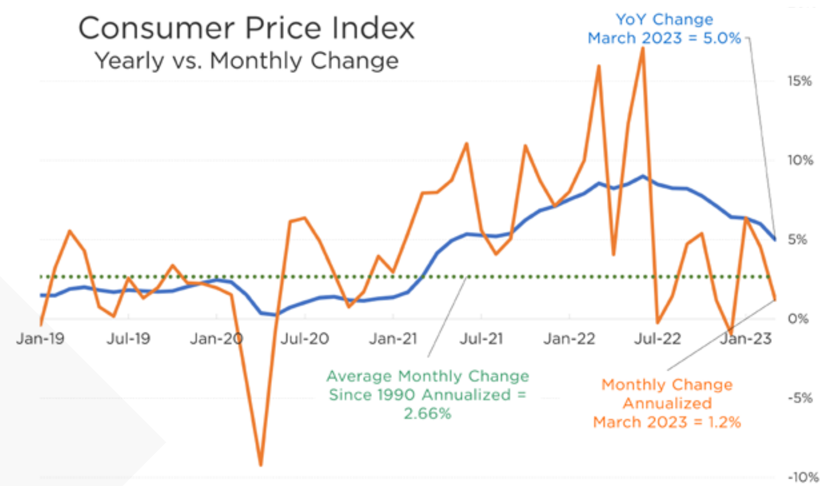
After a dip in early 2022, GDP was positive the last three quarters, with a 1.1% growth rate in Q1 2023. Nonresidential investment has been growing but at a decreasing rate. Commercial and industrial loan volume grew throughout 2022 despite interest rate increases but fell in February and March of 2023.

> THE BIG PICTURE: PRICES HAVE COME DOWN BUT ARE STILL HIGH.

INFLATION

The consumer price index (CPI) increased 5% over the last year but averaged a 2.6% increase over the last nine months (monthly change, annualized).

Energy prices have been one of the key drivers of fluctuating pricing. Diesel prices are down 37% and gasoline prices are down 44% from their peaks in June 2022. Also, natural gas reached $8.81 per million BTU in August 2022, before falling to $2.31 in March 2023.



SUPPLY CHAIN STATS

- Container shipping from China has nearly returned to pre-pandemic levels. Truck spot rates fell for most of 2022, before an uptick at the end of the year.
- **Lead times for electrical components remain very high by historical standards, ranging from nearly 60 weeks for electrical houses to 150 weeks for liquid-filled transformers.**
- Lumber, steel and copper prices are less than their peak, but have been trending upward.
- Concrete/cement, construction machinery and transformer prices continue to increase.

The net cost of inputs to nonresidential construction fell from June to December 2022 but increased in January and February 2023. Prices are still almost 40% higher than pre-pandemic numbers.

Manufacturers continue to cite insufficient labor and materials as challenges (though less than at the beginning of 2022). Both manufacturing and construction continue to have a historically high level of job openings.

READ HOW SOME INDUSTRIES ARE OVERCOMING SUPPLY CHAIN CHALLENGES >

CONSTRUCTION AND ENGINEERING

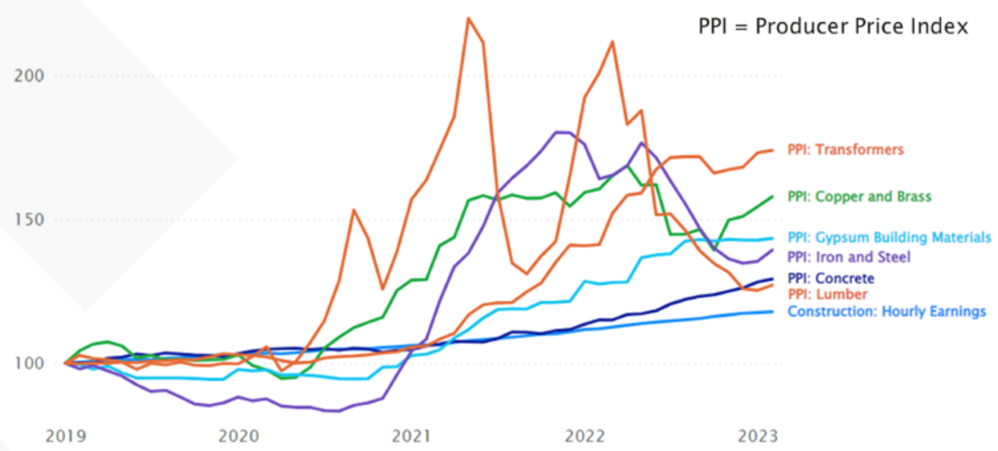
Concern about the overall economy is overshadowing what is otherwise a robust market for engineering and construction. Engineering firms report strong conditions for their own firms, including sizeable backlogs — an average of 10 months for all firms and 13 months for firms with more than 500 people. Their outlook for the industry is less rosy though still positive into 2024, even with the possibility of recession.

ConstructConnect is predicting a 4% fall in nonresidential construction starts for 2023, while Dodge is predicting a 4% gain. Both anticipate a major drop in manufacturing starts, which represents a prominent number of the construction starts in 2022. (Major projects include several semiconductor plants, EV and battery plants, and LNG facilities.) **Projected manufacturing starts for 2023 are still well above pre-pandemic levels.**

Forecasts for infrastructure sectors are generally strong for 2023, particularly streets, water/sewer, and power. S&P Global anticipates that publicly traded U.S. electric, gas and multi-utilities will have $171 billion in 2023 capital expenditures, up 18% from 2022.

DIG IN DEEPER ON THE DIGITALIZATION OF MATERIALS MANAGEMENT

Key Construction Prices (Indexed, January 2019 = 100)



Construction Spending

Sector	Value ($B, Annualized Rate)	% Change from Last Month	Jan 2018 – Mar 2023
Total Nonresidential	$997	0.7%	
Total Residential	$838	-0.2%	
Power	$114	-0.4%	
Highway	$123	-0.1%	
Manufacturing	$147	4.6%	
Water and Sewer	$62	1.2%	

CURRENT STATE OF MIND

BRETT POULOS

ESTIMATING & PRECONSTRUCTION DIRECTOR

CONNECT WITH BRETT >

Inflation. A nationwide labor shortage. Prolonged project delivery. Construction personnel are highly aware of what's hindering our industry. It's simple supply and demand: **Supply is extremely low, and demand is extremely high.** I think it's more important — and costly — today to procure the right materials and hire the right people, and it's compounded by a construction backlog that's the highest it's been in years. Though these challenges are persistent, the opportunities to innovate and educate to improve on-site execution have motivated many of us to become part of the solution.

National statistics show that, within the next year, the industry **will need to hire more than 550,000 workers** in addition to what's needed to execute the normal pace of construction. And that accounts for a slowdown. Of those in the industry now, 1 in 5 construction workers are above the age of 55. As those in the field retire, the current labor shortage will worsen.

It's up to us, contractors and engineer-procure-construct firms, to increase awareness about the good work that happens in construction. We need to find ways to increase technical education and on-the-job training and encourage (possibly incentivize) those interested to explore the value and benefits of craft labor.

Utilizing early procurement strategies, prefabrication, offshore resources and phased execution approaches can help quickly and safely mobilize all facets and mitigate project delays. So can technology. Though the construction industry has historically been seen as a slow adopter, advanced **technology is a necessity to build efficiency in the estimating and procurement processes**.

The project management tools at our fingertips proactively manage construction schedules, budget, work orders and resource allocation. Companies that have yet to adopt technology will, unfortunately, pay the price through challenges in either securing work or executing projects successfully.

We, as a country, must **ingrain ourselves in our communities to help inspire, train and enhance the craft labor force**. Mitigating a nationwide labor shortage won't happen overnight, but we know what needs to be done to keep the momentum moving in the right direction.