

Construction Market Recap

Consecutive quarterly interest rate hikes exacerbate a construction environment reeling from inflation and labor shortages. The contractor's ability to control cash flow in conjunction with elevated backlogs is in focus. Overextending resources, whether it is talent, subcontractors or suppliers poses a material threat to existing and future projects.

Through the first half of 2022, there continues to be a mix of projections amongst the various construction sectors. The sectors with the most favorable outlooks include:

Manufacturing

Due to producers addressing domestic demand, Manufacturing Investments is expected to remain strong. Existing international supply chain constraints are expected to remain in place. Industries sensitive to elevated oil prices will lead investment growth.

Commercial

Bulk purchases will provide some protection against inflation for big-box retailers. Future investments in traditional brick-and-mortar commercial buildings, will be driven by Multifamily developments. Competition will increase in logistics infrastructure and warehousing.

Multifamily Residential

Multifamily spending expectations have increased for the foreseeable future as rising rental rates and affordable housing projects continue to ramp up developer interest. It is likely that Multifamily investments will increase to offset the tightening affordability of single-family areas afflicted by high price appreciations. Rising market rental rates will continue to aggravate inflation across construction.

Sewage and Waste Disposal

Growth in the Wastewater industry is expected to be steady thanks to the \$50 billion IJJA bill. As industrial restrictions increase, there will be a rise in investments for water reuse technologies. Utility companies continue to spend on metering and data capture which is driving physical construction investments as well.

Highway & Street

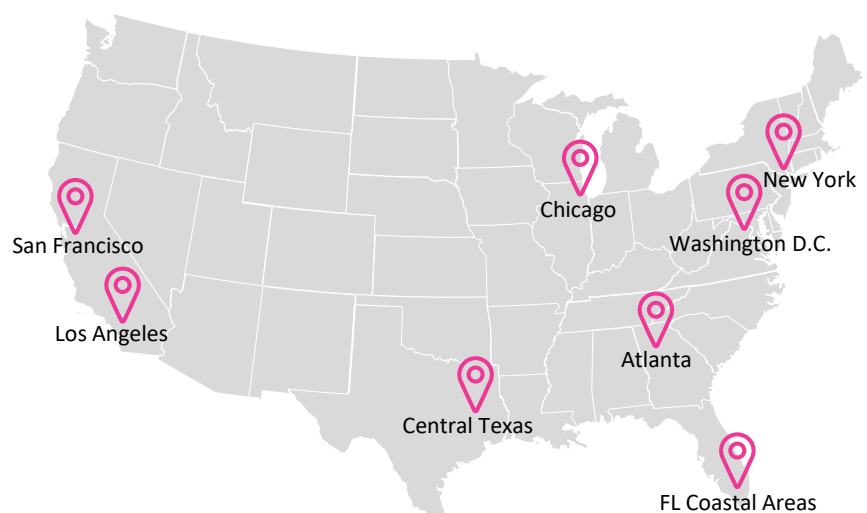
Over the next 5 years, more than \$365 billion from the IJJA will be allocated to bridge programs and roads. As a result, bridge construction is expected to see an uptick in the upcoming years. As states adjust their budgets, early funds will favor quick turning projects.

Other Construction Segments

Health Care
Communication
Water Supply

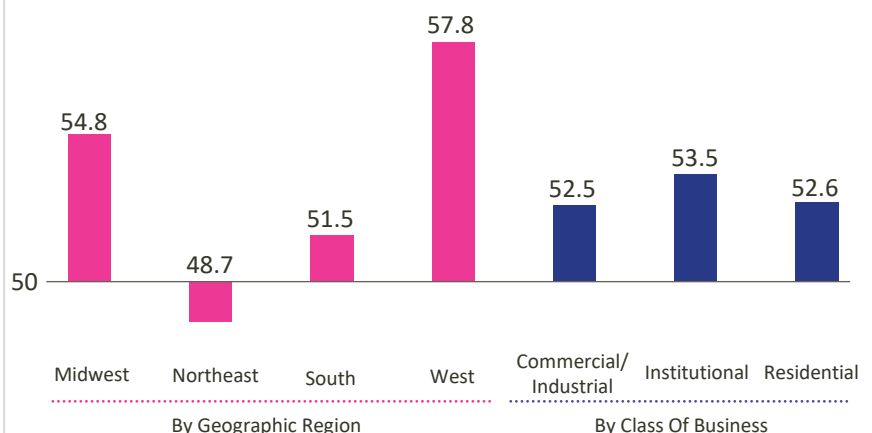
Key Construction Markets

Markets expecting the most construction activity over the next 5 years:



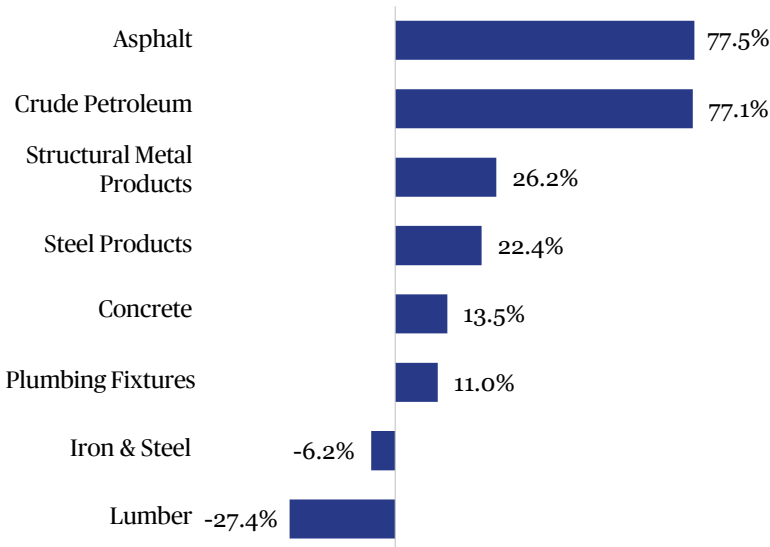
Architectural Billings Index

The Architectural Billings Index was 58.0 for the US as of June 2022. Momentum has continued in an upward trend in both the South and Midwest at readings of 51.5 and 54.8. After a two-month decline, the Western region is seeing an increase in billings again, with a reading of 57.8. The Northeast market is still experiencing a downward trend, earning a 48.7. All construction sectors saw improvements in June 2022, with Commercial/Industrial, Institutional, and Residential having respective readings of 52.5, 53.5, and 52.6.



Materials Prices

Material prices in June 2022 continued to experience substantial inflation. Some notable price changes to key construction materials year-over-year in June included:



Lean Workforce and Elevated Capacity

With historic forecasted construction spending being paired with the lean workforce, it remains critical to continuously evaluate subcontractor and supplier capacity. Pressure continues to mount for the subcontractor and supplier community to deliver project performance and materials despite limited qualified labor. Resources are stretched thin and not enough subcontractors and suppliers are turning away work. This elevates the risk for the entire backlog and in some instances is forcing prime contractors to carry subcontractors to the finish line.

Cash flow comes into focus with record backlog. Specifically, there should be routine liquidity assessments for managing change orders and disputes which, along with everything else, are inflated today. Lengthy dispute resolution processes contribute to the growing cash flow concerns in addition to the sharp rise in interest rates..

Employment Figures

Roughly **85%** of states have seen an increase in construction employment levels since June 2021. The largest percentage gains were in:

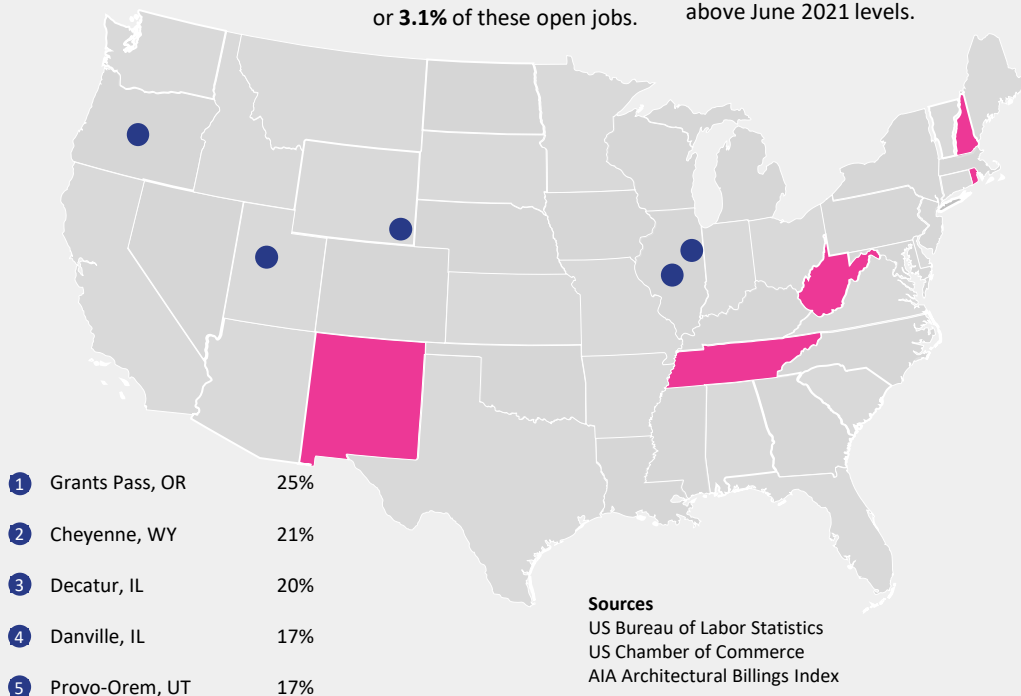
- 1 New Mexico 14.0%
- 2 West Virginia 12.2%
- 3 Tennessee 10.2%
- 4 New Hampshire 9.8%
- 5 Rhode Island 9.0%

Similarly, **68.9%** of metropolitan areas have seen some level of increase from a year ago in June 2021. The largest percentage increases were in:

82.3% of able-bodied persons aged 25-54 are currently in the workforce, a marginal improvement from **81.7%** a year ago in June 2021.

At the end of June 2022, the number of job openings in the U.S. had decreased to **10.7 million**. The construction industry accounted for **334 thousand** or **3.1%** of these open jobs.

Nonfarm Payroll Employment increased by **372 thousand** in June, relatively in line with the 3-month prior average of **383 thousand**. Construction employment has seen little growth but remains **16 thousand** above June 2021 levels.



Sources

US Bureau of Labor Statistics
US Chamber of Commerce
AIA Architectural Billings Index