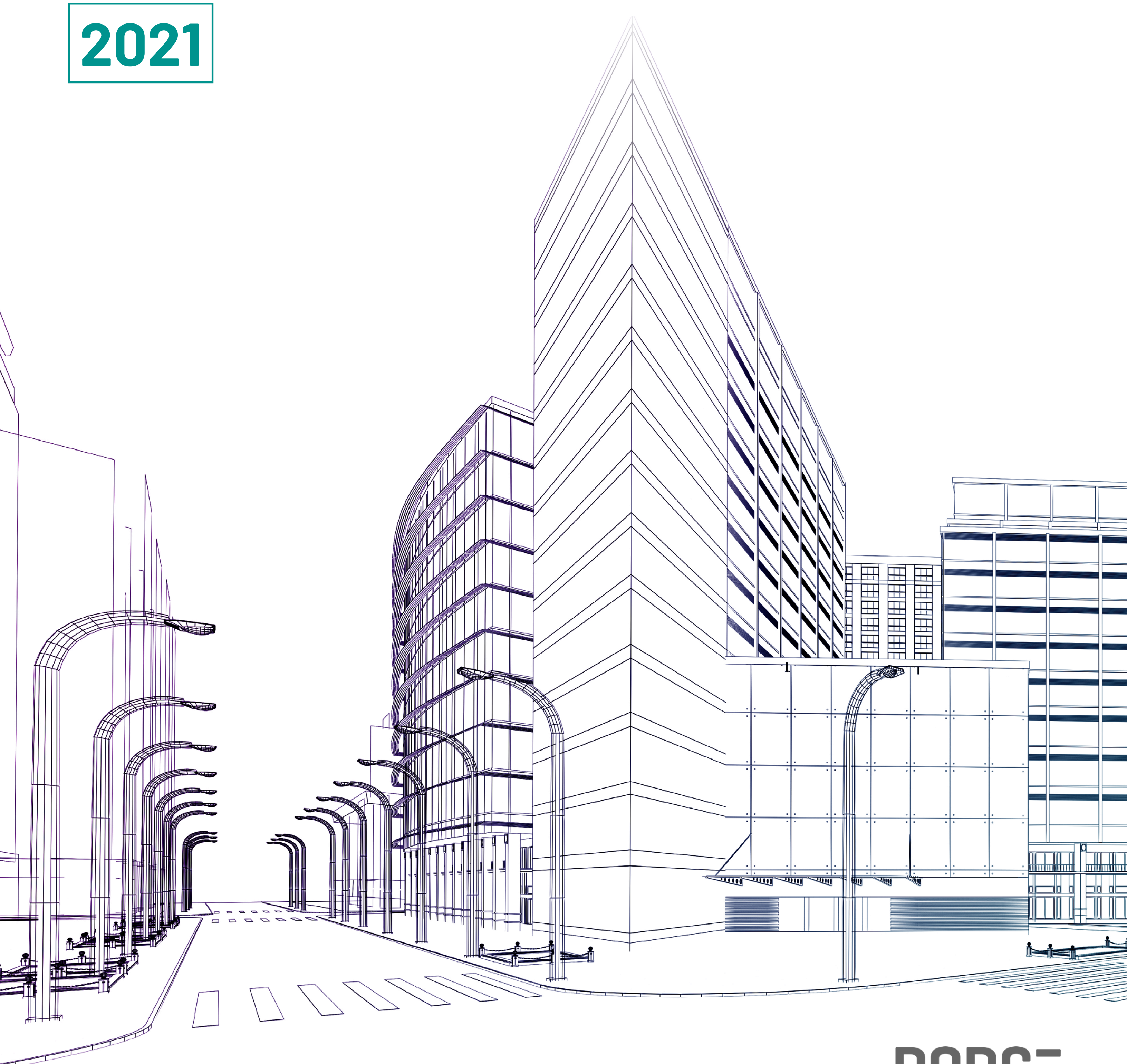
A MID-YEAR OUTLOOK FOR THE CONSTRUCTION INDUSTRY

2021



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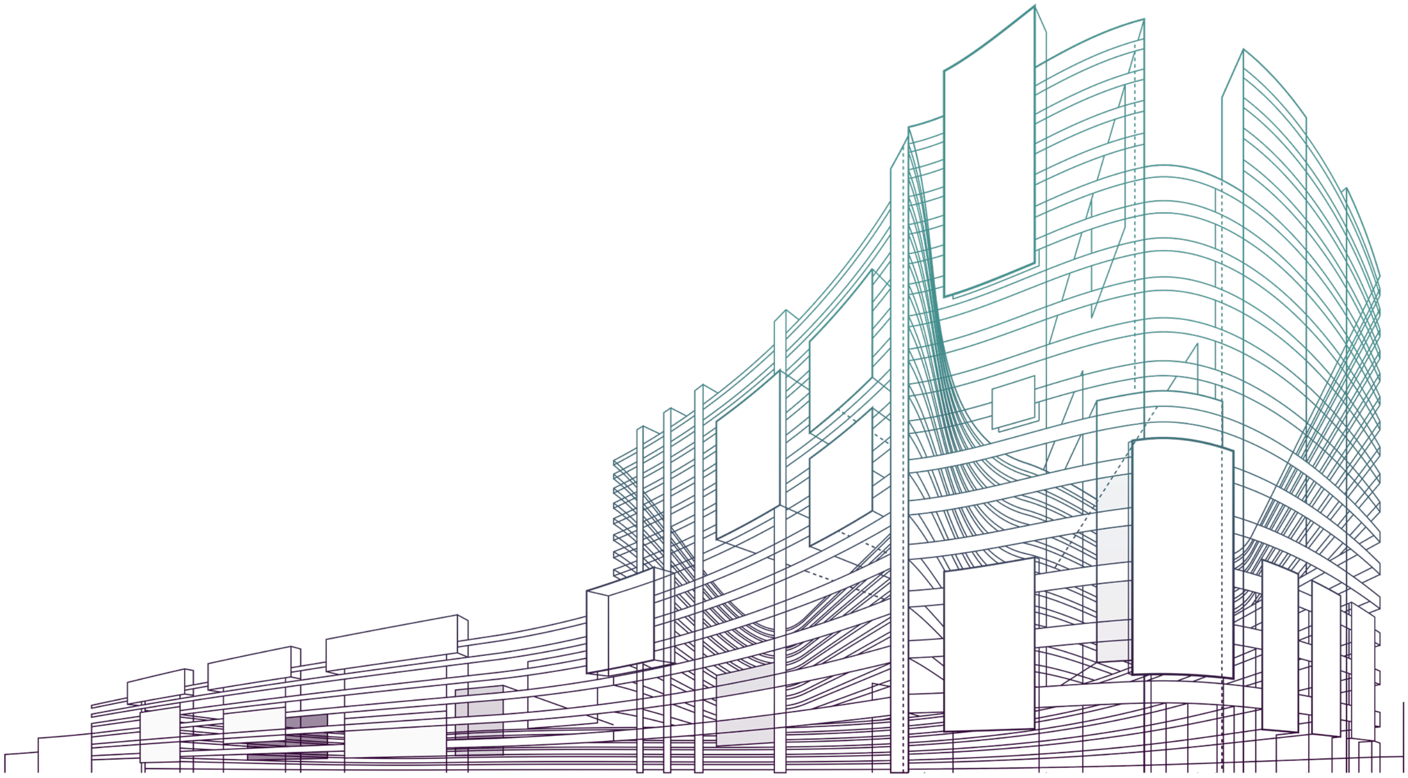

Introduction

The drop off in construction starts as the pandemic hit in 2020 was sudden and severe. Construction bans brought a steep decline in activity; work from home orders injected uncertainty into the market for offices, the lockdown threw the hospitality industry into turmoil, and state and local spending was paralyzed due to budget constraints.

After the crisis abates, though, comes recovery. Economic growth in the second half of 2021 is expected to be healthy as more Americans become vaccinated and federal stimulus continues to flow. However, not all regions nor all sectors will recover at the same pace.

The construction sector in particular faces unique challenges as recession turns to recovery. In this report, **Dodge Data and Analytics**, North America's leading provider of data and analytics for the construction industry, uses proprietary data, econometric modelling, and experienced insights to create a fact-based and grounded national outlook for the construction industry.

Economic Outlook

- Economic growth is surging thanks to the growing number of vaccinated Americans and substantial federal stimulus.
- This surge will continue into 2022 as consumers and businesses spend and invest anew.
- Higher material prices and labor shortages, however, will impede a quick recovery for the construction sector.

The pandemic has had a major impact on the economy. As of mid-May 2021, the U.S economy remained 11% below pre-pandemic levels, according to the Moody's Analytics/CNN Business Back to Normal Index. However, with the vaccine roll out proceeding well and most states quickly reopening, the U.S. is back on a solid path to recovery. The U.S economy is likely to be back to pre-pandemic output by the mid-2021. Depending on local economic conditions, some regions of the U.S. will see a more robust recovery than others.

The recovery is getting a helping hand from the additional fiscal stimulus approved in March. Consumers and businesses are flush with cash and releasing a tidal wave of economic growth which will extend into 2022. This year and next are expected to be the best two consecutive years for economic growth dating back to 1950-1951.

Not every sector, however, will recover at the same pace. Construction is one sector expected to underperform. The rapid acceleration in economic activity is causing significant supply chain problems across the U.S. Logistics operations have not caught up with the unprecedented uptick in demand, thereby placing significant upward pressure on prices. And the construction industry is feeling the full force of these constraints. In April 2021, the Producer Price Index for construction materials was 24% higher than a year earlier, with prices for most materials significantly higher. Higher prices are likely to persist through the remainder of 2021 and are the most significant downside risk to the construction outlook as projects get delayed and cancelled.

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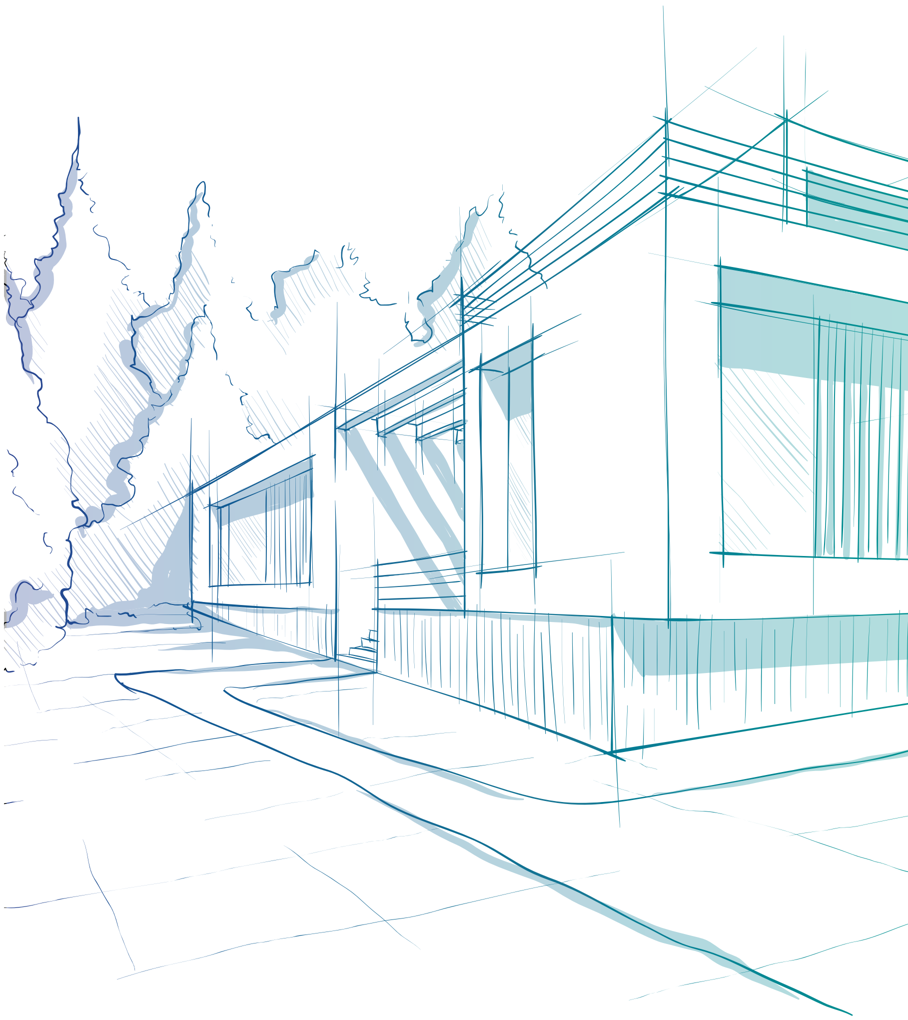
While the future is uncertain, Dodge's combination of dedicated construction economists, proprietary statistical models, and extensive database of construction projects in planning creates a unique look into the future. In particular, the **Dodge Momentum Index** (DMI), a robust leading indicator of nonresidential building construction, provides an indication of what lies ahead. In the early months of recovery, planning projects were heavily weighted towards large commercial warehouse projects, however, over the last several months an increasing number of public education and healthcare projects have created a more balanced trend. The DMI, which provides a one-year advanced look for trends in construction spending put-in-place, is nearing a 13-year high.

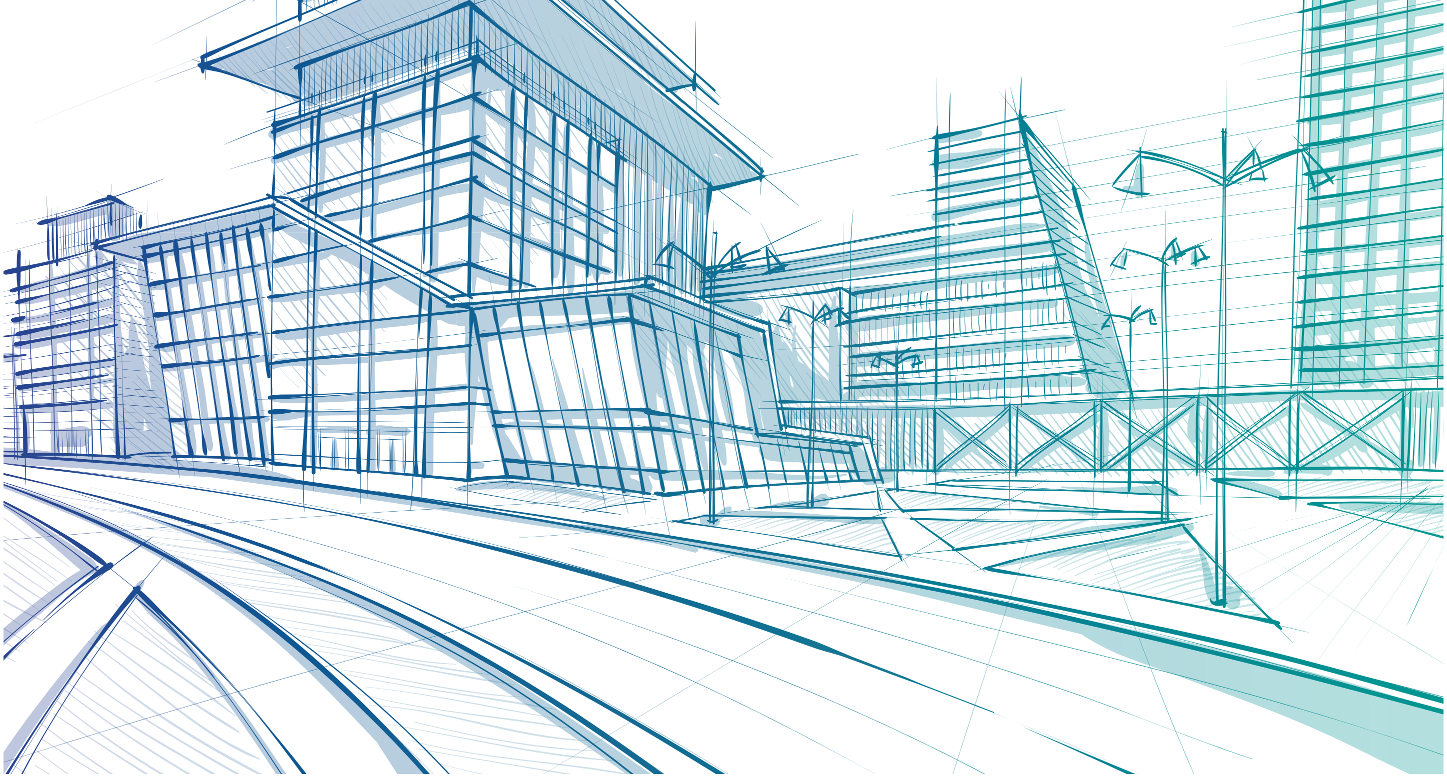
Residential Buildings

- Single family construction to slow in 2021 after an incredibly robust 2020.
- Multifamily starts to fall this year as construction remains soft in large metro areas.

The single-family residential market has been on fire over the last year as the pandemic pushed Americans out of dense urban areas and into the suburbs and beyond. This exodus was, in part, fueled by the increase in work from home (WFH). The single family sector, however, is very exposed to today's higher lumber prices and shortage of skilled labor. Additionally, an insufficient supply of homes for sale has pushed prices higher, hurting affordability. When combined, the growth in single family starts will ease back to 7% this year following the torrid pace set in 2020.



Multifamily starts, meanwhile, continue to drop in large metro areas such as New York, Houston, and Los Angeles. Multifamily activity outside of these areas, however, is performing well. Supply overhangs in these large metro areas is driving up vacancy rates and will offset growth seen in smaller population centers.



Commercial Construction

- The commercial construction recovery has begun but is uneven.
- Warehouses, data centers, and renovations are bright spots.
- The outlook for retail, hotels, and traditional offices remains more uncertain.

In sum, total commercial construction starts are expected to rise 5% in 2021, however, the recovery is not evenly shared across all sectors. Retail construction starts will post tepid growth during the year fed, in part, by the increase in residential construction in the suburbs. The level of activity for retail starts, however, remains near historic lows as the shift towards online shopping continues. Similarly, hotel construction remains very subdued as the financial impacts of the pandemic restrain growth. While travel will resume over the course of the year, it will not be enough to push hotel starts into positive territory. Recovery for this sector will be delayed.

The real strength for the commercial sector lies in warehouses. Warehouse starts continue to smash records as builders like Amazon, Seefried, and Northpoint build massive distribution centers across the country. There are also many large warehouse projects in the planning stages that should keep starts elevated for the foreseeable future.

Office construction is mixed. Demand for new space remains very weak due to the uncertainty over when, and if, workers will return to their offices. This pressure is likely to remain in place through this year, keeping office starts subdued. At the same time, office renovation is increasing as landlords and owners add more touchless interfaces and improve air handling to make workers feel more comfortable when they return Additionally, data center construction (included in office construction) is healthy as demand for cloud space and quicker data transfers increases.

Manufacturing

- Manufacturing output is rising as the economy recovers from the pandemic.
- Construction will remain subdued as skilled high tech manufacturing labor is sparse.

The manufacturing sector is in the early stages of recovery. Output, as measured by industrial production is rising as demand increases. Material shortages and rising prices should be a large incentive to building more manufacturing capacity. However, like in the construction sector, a shortage of skilled labor will dampen a quick and strong recovery. In March 2021, for example, 540,000 positions remained unfilled in the manufacturing sector — nearly a 20-year high. This will impede the ability of the manufacturing sector to quickly add to capacity and will keep construction levels low throughout the remainder of the year.

Institutional Construction

- A slower recovery is expected for institutional building construction.
- Healthcare will be the bright spot of the sector.

Publicly-funded building generally lags the overall construction cycle, and 2021 will be no different as institutional starts remain sluggish. Education building starts have declined since 2019 and will step further back in 2021 as state and local budgets have been battered by the pandemic and recession. Not all areas of the U.S., however, are expected to contract as bond measures in states such as Texas and California could lead to increased K-12 construction.

Healthcare starts are one institutional sector expected to see healthy growth in 2021 fueled by aging demographics and a new awareness about the need for surge capacity for hospitals. Hospital starts, in fact, are expected to outperform clinic and nursing home construction.

Nonbuilding Construction

- Nonbuilding/infrastructure construction will see tepid growth in 2021, followed by stronger growth with the expected passage of an infrastructure package.
- Environmental public works and electric power are expected to be strong areas in 2021.

Nonbuilding construction includes infrastructure investments such as streets/highways, bridges, sewers, hazardous waste removal, drinking water systems, and electric power generation. Over the longer term, the outlook for infrastructure construction is very positive as hopes rise for an infrastructure agreement in Congress. In the meantime, core infrastructure starts will see tepid growth in 2021. Highway and bridge starts are expected to be flat as new authorizing legislation was delays and federal appropriations were largely kept at levels seen in the previous fiscal year. Environmental public works will see a 4% gain fueled by bipartisan Congressional support for large water and sewer projects. Electric power, meanwhile, will benefit from the rising tide of utility-scale renewable energy projects.

Conclusion

While the future is always uncertain, Dodge Data & Analytics can customize forecasting and analytics products to meet your specific needs. Dodge forecasts 22 different types of construction from the U.S. down to the county level to provide customizable geographies that match your sales or operations territories. Our industry-leading team of in-house construction economists and database of over a 100,000 projects in planning will energize your sales and provide a leg up over the competition. Reach out to fuel your growth!

This E-book represents highlights of Dodge Data & Analytics Mid-Year Outlook Webinar hosted May 2021. Watch the full on-demand version **here**.

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About Us

Dodge is North America's leading provider of commercial construction project data, market forecasting & analytics services and workflow integration solutions for the construction industry. Building product manufacturers, architects, engineers, contractors, and service providers leverage Dodge to identify and pursue unseen growth opportunities that help them grow their business. On a local, regional or national level, Dodge empowers its customers to better understand their markets, uncover key relationships, seize growth opportunities, and pursue specific sales opportunities with success. The company's construction project information is the most comprehensive and verified in the industry.

The Blue Book Network is the largest, most active network in the U.S. commercial construction industry and delivers three unparalleled databases of companies, projects, and people as well as free digital tools that help the industry improve its workflow – from design through post-construction. Blue Book serves General Contractors, Subcontractors, Suppliers, Manufacturers, Architects, Engineers, Building Owners, Transportation and Utilities Professionals, Real Estate Developers, Facility and Property Managers, and Government Agencies.