DUCKER Carlisle

Q2 2022 Construction Industry Outlook

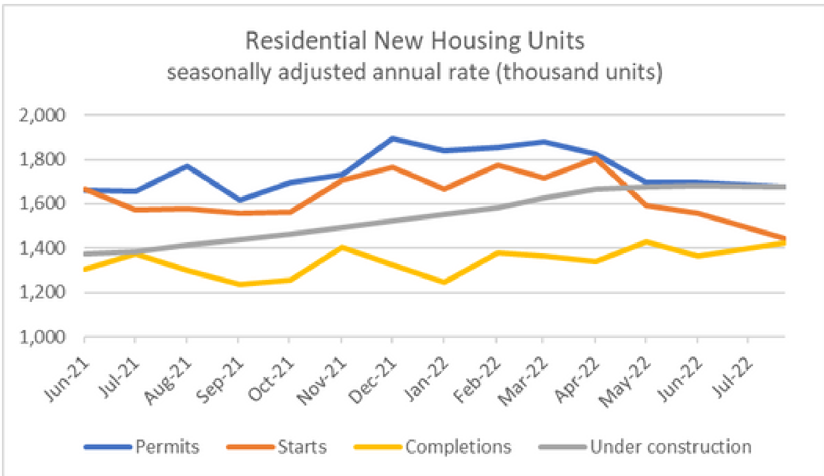
for Residential and Non-Residential

SUMMARY

Economic Slowdown to Dampen Construction Activity

The Federal Reserve has again raised interest rates by three-quarters of a percentage point, the latest in a series of hikes attempting to cool rapid inflation. Recessionary fears were further stoked by the latest GDP figures showing a 0.2 percent decline in the second quarter, after a 0.4 percent decline in the first.

While the labor market remains strong and company profits are very high, consumer spending is lagging faced with rapidly rising prices and tightening credit conditions. The short-term impact on the construction market has been seen in the recent slowdown in new housing activity and other indicators of activity. Ducker now expects 2022 full year volume activity to end flat compared to 2021, giving back the gains made in the first half of the year. We forecast that while non-residential building activity will pick back up later this year and through 2023, declining residential new construction activity through 2023 particularly will drive a modest fall in overall residential expenditures (current dollar basis) before recovery from a relatively mild recession begin in 2024.



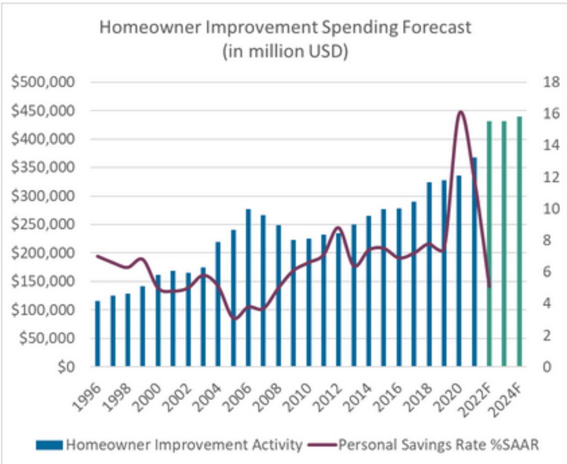
While the fundamentals for housing activity remain strong, and a significant gap remains between housing requirements and new unit availability, the housing market has cooled after a strong first quarter due to increased mortgage rates and recessionary concerns.

Housing starts were up 6 percent for the first half of 2022 over prior year, driven almost entirely by multifamily gains of 20 percent to 533,000 units SAAR and strength in nonurban area low- and mid-rise projects. Completions were down 1 percent, reflecting the continued extended schedules due to labor and supply issues, although material lead times are starting to normalize.

A notable consequence is the 24 percent increase in units under construction, which will extend demand for suppliers into the second half of the year.
recession begin in 2024.

Housing Starts ('000)	2021	2021 Jan-Jun	2022 Jan-Jun	2022F	2023F	'21 to '22 YTD	'21 to '22	'22F to '23F
Single Family	1,127	565	566	1,029	1,019	0%	-9%	-1%
Multifamily	474	229	274	548	501	20%	16%	-9%
Total	1,601	794	840	1,577	1,520	6%	-1%	-4%

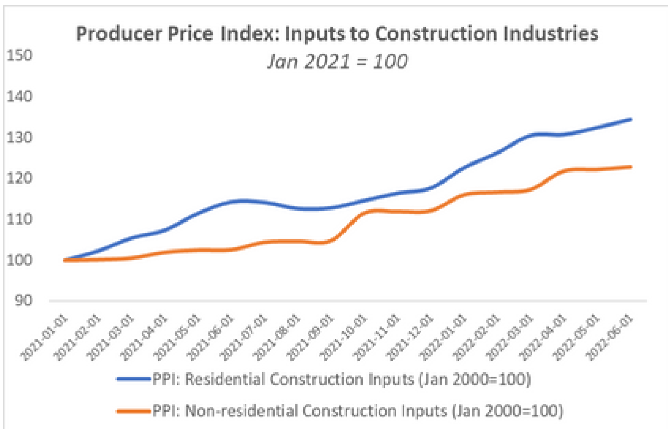
New housing construction forecasts have been adjusting down for the full year and 2022 starts are currently forecast to decline by 1 percent from 2021, with an 9 percent decline in single family starts offset by a 12 percent gain in multifamily. Our forecast for 2023 is a further 4 percent decline overall, and 2 percent for single family.



Remodeling and home improvement activity has also shown recent signs of softening. Amid future concerns that a slowdown in existing home sales, seen as a primary driver of remodeling demand, higher interest rates, and the steep fall in the personal savings rate – down to ~5 percent – will dampen future demand. However, home equity per owner has increased significantly with the strong home price appreciation of the past 2 years, and with the lack of available inventory for trade-up homes, more homeowners are likely to stay in their existing home and remodel.

The Leading Indicator of Remodeling Activity projects that gains in the four-quarter moving rate of change in homeowner improvements and repairs will decelerate from 17.4 percent in 2022 to 10.1 percent by Q2 2023, still well above the historical average of 5 percent. Factoring in residential price inflation of ~12 percent in 2022, we forecast 2022 R&R volume demand will increase by ~5 percent, then slow to 2 to 3 percent in 2023.

The Producer Price Index for Residential Construction Inputs continues to rise, up 14 percent YTD and 34 percent from the beginning of 2021. Nonresidential Construction Input prices moderated in Q2 and up 10 percent YTD and 22 percent from the beginning of 2021. The PPI for Metals and Metal Products is up 10 percent YTD while Fabricated Plastics Products and Concrete Products are up 9 percent. While Flat Glass PPI is up just 3 percent, leading suppliers recently announced new increases with a headline of 30-40 percent for many products.



Non-residential building activity has shown dollar growth in the first part of 2022, with Construction PIP Expenditures for non-residential building up 6.5 percent through May, while non-building infrastructure spend was up a more modest 1.4 percent. But factoring in inflation growth of ~6 percent, volume demand has been flat. The AIA Consensus Forecast for non-residential building in 2022 is 9 percent growth, led by the industrial and commercial segments, followed by 6 percent growth in 2023, including a rebound in the lodging sector.

AIA Consensus Construction Activity	2022	2023
Lodging	-5%	14%
Office	3%	4%
Commercial	12%	3%
Health care	5%	6%
Educational	2%	5%
Religious	-9%	-1%
Public safety	-10%	6%
Amusement and recreation	8%	6%
Industrial	31%	10%
Nonresidential Building	**9%**	**6%**
Non-building Infrastructure*	**4%**	**8%**

*Ducker forecast

Overall construction activity is entering a period of flattening demand, lagging somewhat behind overall economic activity which is driven by consumer spending, due to backlogs and lead times. New residential activity will be impacted the most due to higher interest rate sensitivity but expect a relatively modest softening in volume demand overall for residential construction products through 2023, while non-residential and infrastructure markets will continue their rebound from COVID declines and show modest volume gains over the upcoming period.

In the short-term, many building material companies are dealing with inventory management issues as demand cools. Major retailers such as Home Depot are overstocked, and pro-channel distributors are adjusting excess inventory levels in anticipation of an economic slowdown. This is leading to sharp drops in immediate supplier order levels. The issue is compounded for imported products by elongated supply chains which are slow to adapt due to product already in transit.

Ducker's Building and Construction teams are at the forefront of key trends impacting the industry. Our goal is to help clients deliver growth solutions to support critical decisions and growth strategies. How can we help you deliver better outcomes for your business?
Contact us to connect with a team member.

Contact the Ducker and Carlisle team for the latest insights and implications for global business.

Nick Limb
Managing Principal
nlimb@ducker.com

Chris Fisher
Managing Principal
cfisher@ducker.com

Rhett Bender
Senior Engagement Manager
rbender@ducker.com