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Optimism, Pessimism from Marcum Index

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Anirban Basu, chief construction economist, Marcum LLP

Total construction employment has rebounded since Covid hit the economy last spring, according to the Marcum Commercial Construction Index, produced by Marcum LLP, for the fourth quarter of 2020, yet it remains below levels registered before the pandemic. Nonresidential continues to recover; residential is booming; and infrastructure holds hope for a federal influx of dollars.

“Nonresidential construction employment declined by about 644,000 jobs between February and May of 2020 as the pandemic’s grip took firm hold,” wrote Anirban Basu, author of the report and Marcum’s chief construction economist. “As of January 2021, the nonresidential industry had recovered about 60 percent of those losses, which means that the segment’s employment is still 5.5 percent lower than it was at pandemic’s onset.”

Residential, however, has boomed.

“The story in residential construction segments has been vastly different,” Basu wrote. “Mass migration toward the suburbs, triggered in part by the pandemic but also by underlying demographics, has helped launch a single-family housing construction boom.”

Marcum’s national construction leader, Joseph Natarelli, addressed infrastructure in a prepared statement:

“If you’re in the infrastructure subsector, the outlook is especially positive, with most infrastructure subsectors trending up. Will there be a new New Deal from the White House? We don’t know that for certain yet, but if contractors can look into ways that their current operations can innovate in that direction, it is likely to pay dividends in years to come.”

Construction spending data indicate that nonresidential spending contracted 5.7 percent on a year-over-year basis in December 2020.

“Among the most damaged segments were retail, hotel room, and traditional office space construction,” the report says. “Based on leading indicators, near-term dynamics will not be positive in many nonresidential segments. Among the exceptions are data centers and fulfillment centers.”

Construction input prices have not been subject to rampant inflation thus far, although Basu says that could change due in part to elevated shipping costs.

“With so many construction commodities shipped from various parts of the world, it is remarkable that there hasn’t been ever more construction input price inflation,” he wrote. “The reconciling factor is likely the diminished demand for inputs to construction in much of the pandemic-hammered world.”

Marcum predicts that the economy will expand rapidly in the second half of 2021, but that nonresidential construction may take longer to bounce back.

“In recent cycles, the recovery of nonresidential construction spending has tended to lag that of the overall economy by 12 to 18 months. If that formula remains in place, solid macroeconomic recovery this year should translate into more exuberant expansion in nonresidential activity in 2022 and/or 2023.”

Source: Marcum