Securing Your Tomorrow®

The Lien Index

2021 Q1

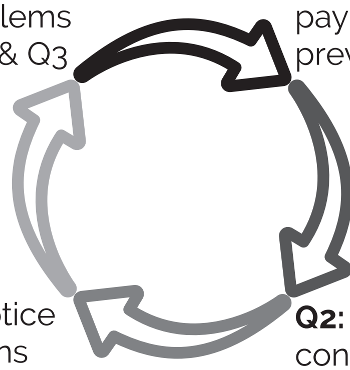
The Lien Index

Full Report

In an average year, mechanic's lien filings are high in Q1, low in Q2 & Q3, and rise again in Q4. This is the cyclical, seasonal nature of the construction industry. Typically, Q2 & Q3 are active construction months; preliminary notice volume increases during these quarters, and payment issues frequently arise 30-120 days later, resulting in the lien filing increases in Q4 and Q1. As an example, a construction project starts in April and various parties will furnish to the project in waves. A party may finish furnishing in September, then payment is delayed 60 days, resulting in the filing of a mechanic's lien in November.

Q4: lien filings increase as non-payment problems arise from Q2 & Q3

Q1: residual lien activity from non-payment in previous year



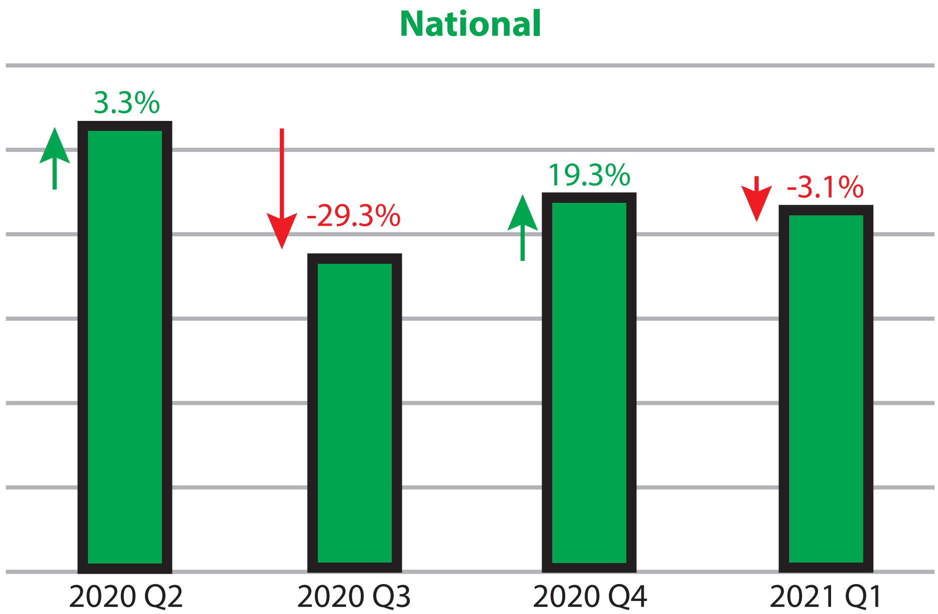
Q3: active construction; preliminary notice volume remains high, lien volume is low

Q2: beginning of construction season; increase in preliminary notices

Additionally, mechanic's lien filings are impacted by other factors, including catastrophic weather events, and general economic expansions and contractions. Interestingly, the number of liens filed may also increase proportionally when there is rapid growth in new construction starts.

"The Lien Index has a lot of great information. It examines historical data, from a variety of sources, which illustrates how the industries and their respective trends influence one another. It provides valuable insight if you are on the fence about whether to file a lien."
– Jerry Bailey, NCS Executive Sales & Education Services Manager

NCS Lien Index – National Analysis

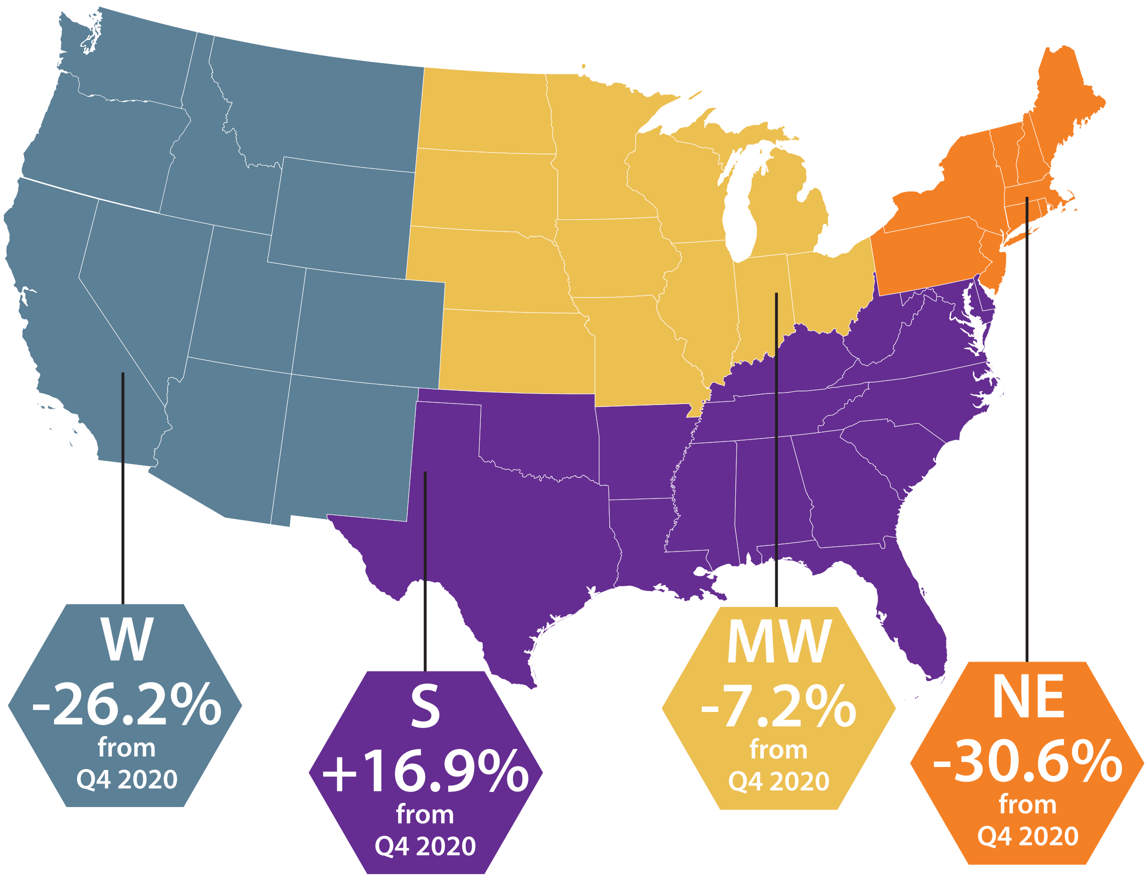


Unsurprisingly, the COVID-19 pandemic wreaked havoc across the construction industry, which is reflected in the drastic movements of The NCS Lien Index (LI). The most striking LI change was the unexpected high volume of liens filed in Q2 2020. Normally, we would expect to see a dip in lien activity in the warmer months (Q2 and Q3). The high number of liens filed in Q2 was a direct result of businesses' initial reaction to the uncertainty of the pandemic, and their approach to how best deal with the unknown risks associated to the "new normal." As the dust settled, the LI displayed some normal lien activity in the latter part of 2020. Consequently, the LI posted a 19.3 percent increase in Q4 2020 and -3.1 in Q1 2021. Q1 2021 showed greater volume than Q3 2020, which was expected.

"In March/April 2020, as states began issuing closure orders, construction projects were forced to stop. Nationwide, there was immense uncertainty of whether these halted projects were going to resume. Not to mention, if the projects resumed, companies didn't know if there would be adequate funds to pay those furnishing to the projects. Cash flow virtually ceased. Contractors, subcontractors, suppliers, distributors, everyone was concerned about payment, and rightfully so. The economic uncertainty definitely led to a spike in lien activity in Q2 2020."

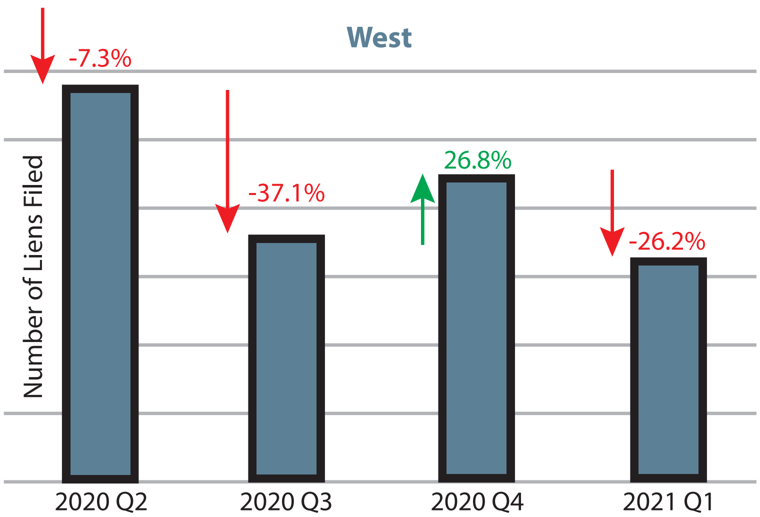
– Jerry Bailey, NCS Executive Sales & Education Services Manager

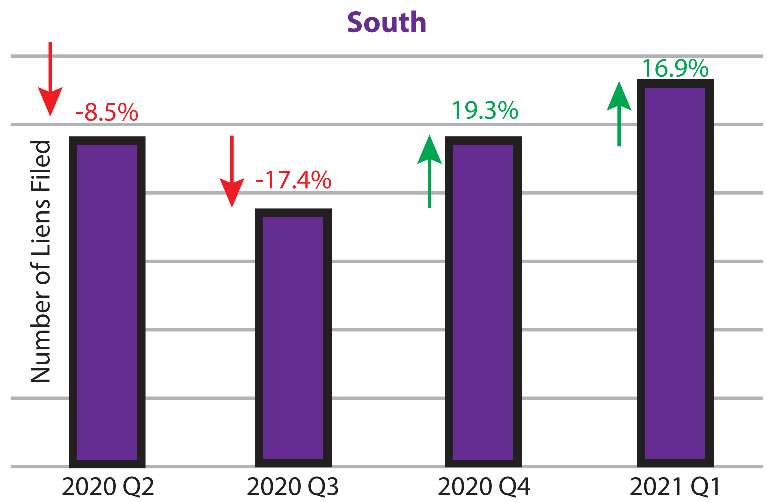
NCS Lien Index – Regional Analysis

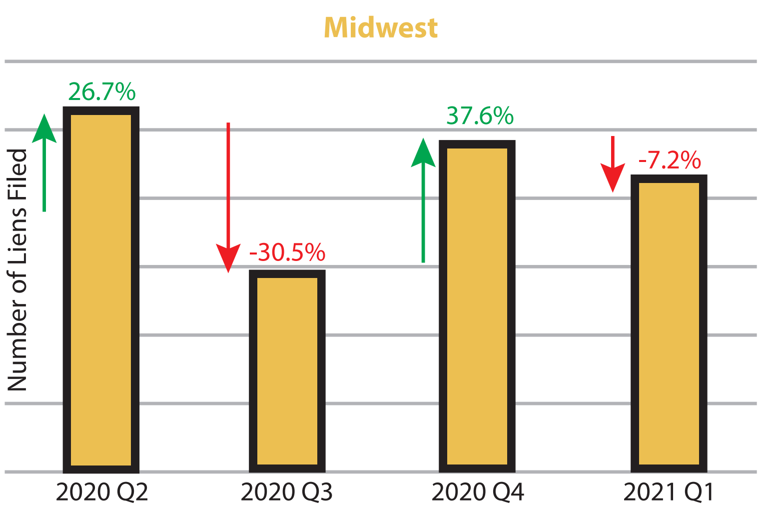


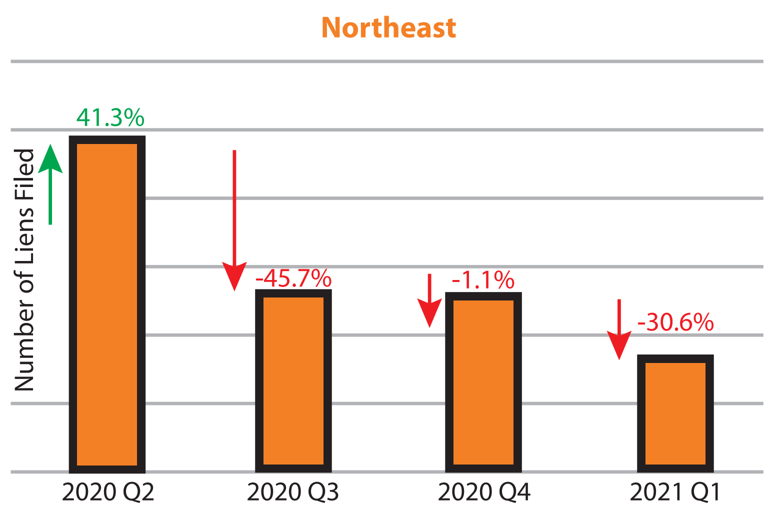
The instability inflicted by the pandemic and its negative impacts to the economy, coupled with the unexpected high volume of liens in Q2 2020, caused inconsistencies between U.S. regions. With few exceptions, the volume of liens has decreased for the Western, Northeast, and Midwest regions over the past 4 quarters. The Southern region has trended positive over the same period. The upward trend in the South is likely due to fewer state closures and restrictions imposed by state governments during the pandemic and the ability to outperform other parts of the US.

Per the Architecture Billings Index (ABI), firms in the Southern region of the country reported billings growth for the second consecutive month in February, while firms in the Western and Midwest states saw only small declines and are likely to return to growth soon. Conditions remained softest at firms located in the Northeast, and the pace of the decline in firm billings slowed for the third month in a row.


West
Number of Liens Filed
-7.3%
-37.1%
26.8%
-26.2%
2020 Q2
2020 Q3
2020 Q4
2021 Q1


South
Number of Liens Filed
-8.5%
-17.4%
19.3%
16.9%
2020 Q2
2020 Q3
2020 Q4
2021 Q1


Midwest
Number of Liens Filed
26.7%
-30.5%
37.6%
-7.2%
2020 Q2
2020 Q3
2020 Q4
2021 Q1

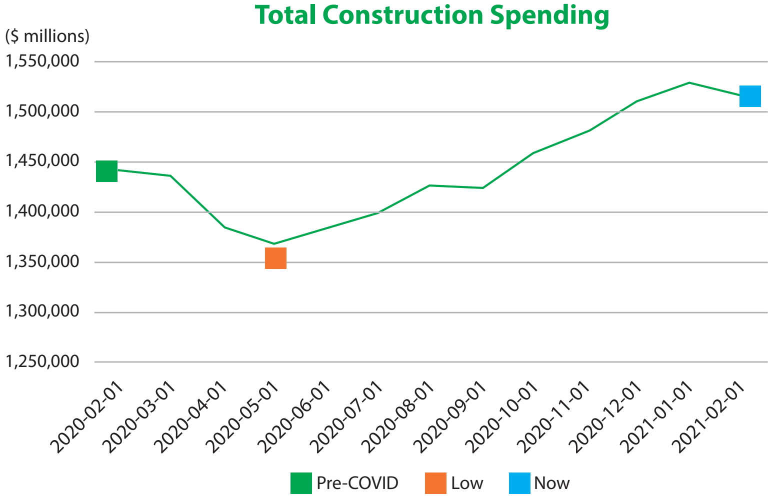

Northeast
Number of Liens Filed
41.3%
-45.7%
-1.1%
-30.6%
2020 Q2
2020 Q3
2020 Q4
2021 Q1

$ SPENDING

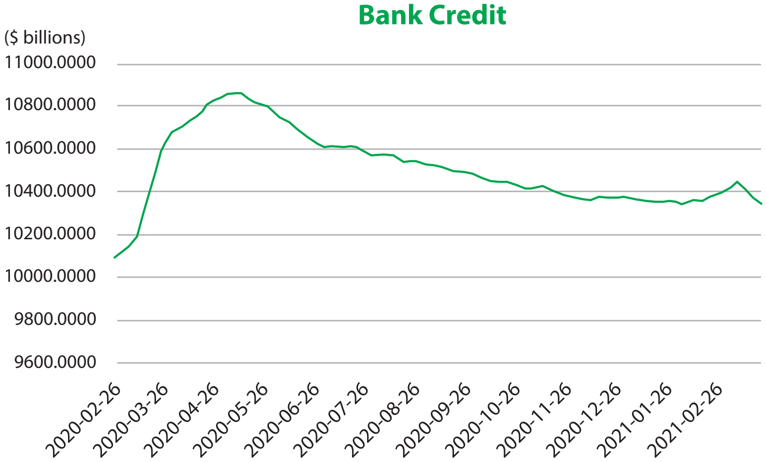
Construction spending has been an interesting metric to follow, and it has been impacted by many factors over the past year, including:

- COVID-19 mandated shutdowns.
- US election results, including change of power in the executive and legislative branches of government.
- Multiple economic stimulus aid.

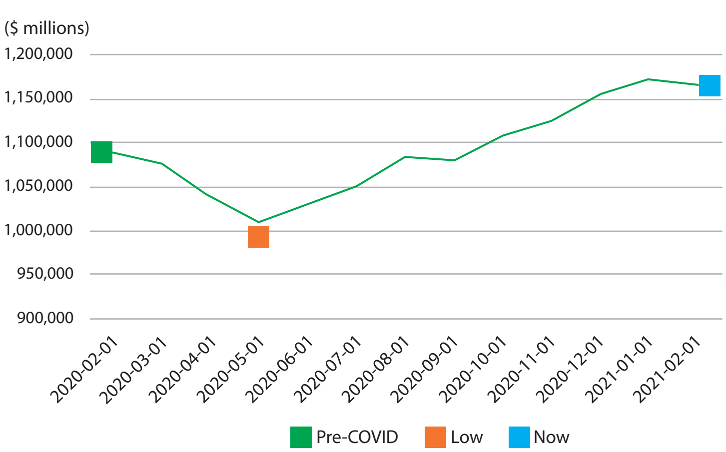
Total Construction Spending



Bank Credit



Total Construction Spending – Private Sector

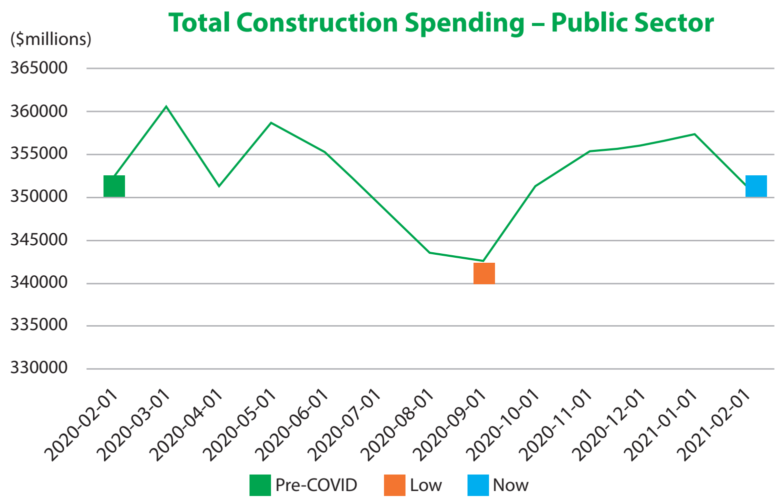


According to Federal Reserve Economic Data, pre-pandemic total construction spending was $1,441,145M. In the last year, spending hit a low ($1,369,363M) at the height of the pandemic in May 2020. At last update (February 2021), total construction spending was $1,516,927M. Total construction spend was up year-over-year by 5.3 percent.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), initially signed into law in March 2020, has totaled over $2 trillion. While CARES included direct stimulus payments for many Americans, it also contained the Paycheck Protection Program which provided forgivable loans to small businesses, loans for corporations, and funding to both state and local governments.

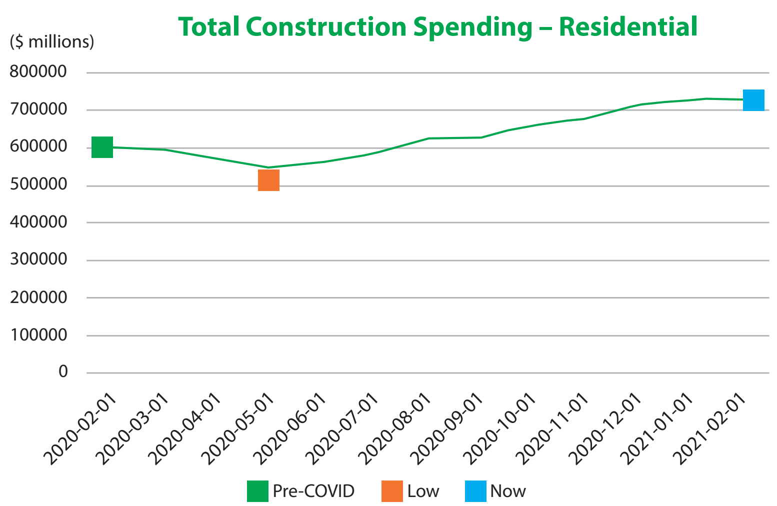
Subsequent stimulus legislation has been passed since CARES, including an additional $900 billion as part of the Consolidated Appropriations Act in December 2020, and most recently the American Rescue Plan Act of 2021, which included a $1.9 trillion Covid-relief package. All stimulus related to Covid-19 has had a significant impact to bank loans and construction spending. As bank credit was made available to businesses, the amount of construction spending has increased.

Total Private spending pre-Covid was $1,088,780M in February 2020, hitting a low in May 2020, of $1,010,666M, and most recently in February 2021, increasing to $1,165,721M, ($76,941M greater than pre-Covid).

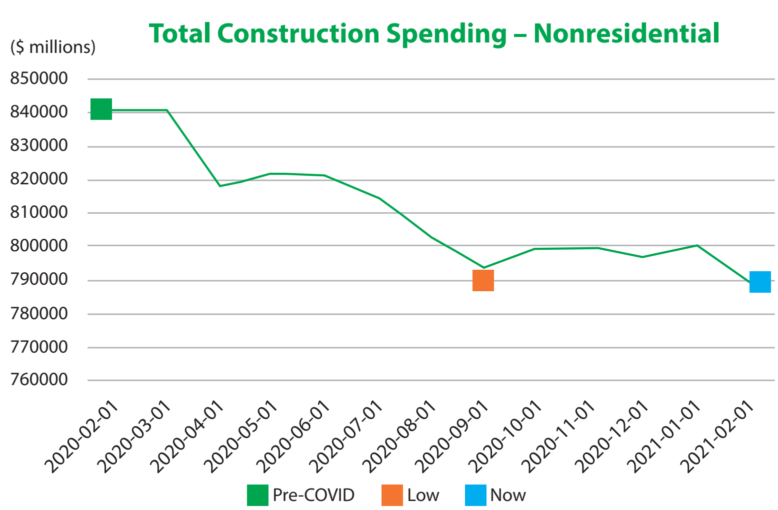


Looking deeper into the data we see distinctions between Private and Public spending.

Public construction spending over the past year has been more volatile. Prior to the pandemic, public spending was $352,364M, then it declined for several months to record a low of $342,658M in September 2020, with a recent rebound to $351,206M in February 2021.



Residential spending pre-Covid was $600,581M (February 2020) and $727,420M (February 2021), recording a low in May 2020, of $547,787M. During this same period, residential spending increased $126,839M.

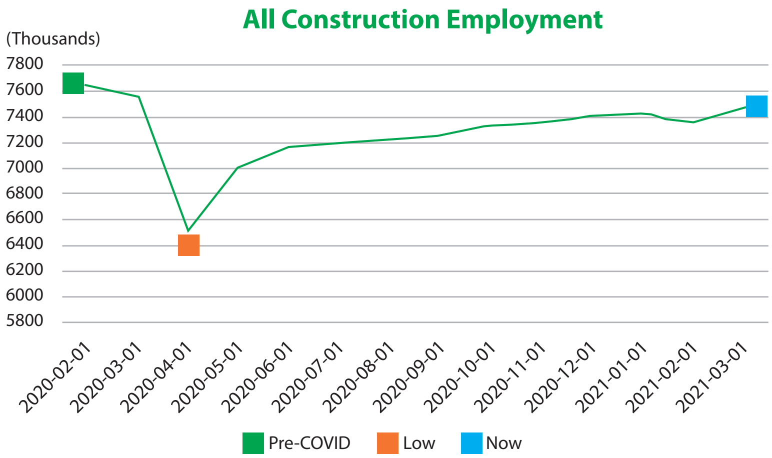


The data relationship between Residential and Nonresidential spending parallels Residential and Nonresidential workforce data. Residential spending has steadily increased over the past year and nonresidential has decreased.

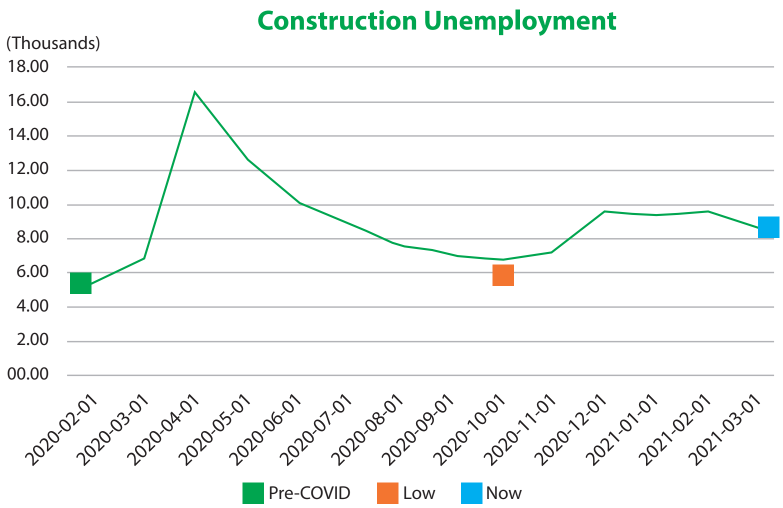
Prior to the pandemic, Nonresidential spending was at a level of $840,564M. Spending has since decreased, and hit its current low of $789,507M in February 2021, $51,057M less than pre-pandemic.

WORKFORCE

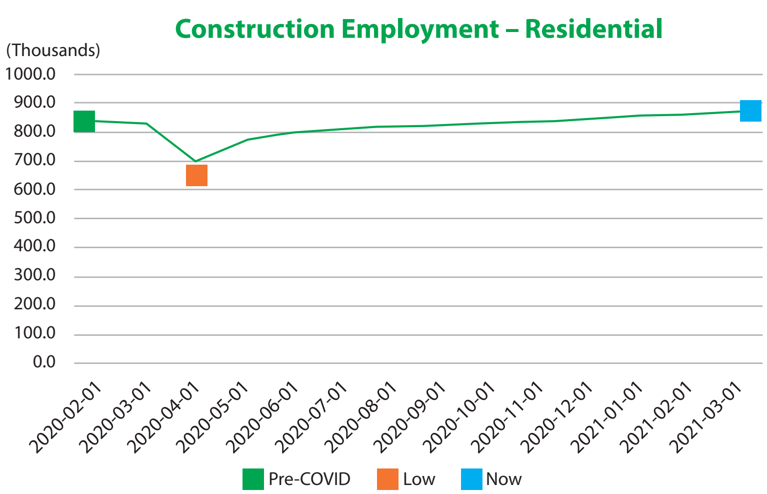
As with most business sectors, U.S. construction was hampered by the pandemic.



Prior to the pandemic the number of U.S. employed in construction was 7,648K. After the pandemic hit, employment plummeted to 6535K (seasonally adjusted) in April 2020. Since then, total construction has made a comeback, but not to the same level prior to the pandemic. The current construction workforce is still 182K less than in February 2020, or about 2.4 percent less.

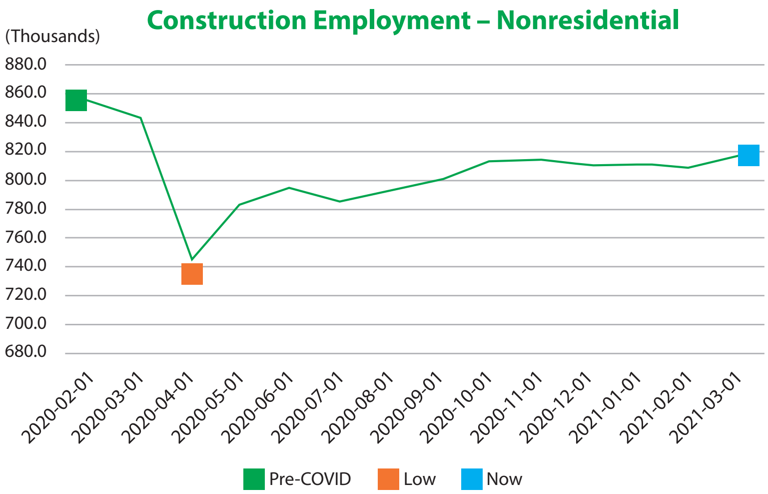


Construction unemployment followed a similar trend. Prior to the pandemic, unemployment was at 5.5 percent (not seasonally adjusted) in February 2020. At its worst month, April 2020, construction unemployment rose to 16.6 percent. Unemployment has improved, currently at 8.6 as of March 2021, but still 3.1 percent higher than pre-pandemic.



A deeper look into the raw construction workforce numbers shows a substantial difference between Residential and Nonresidential.

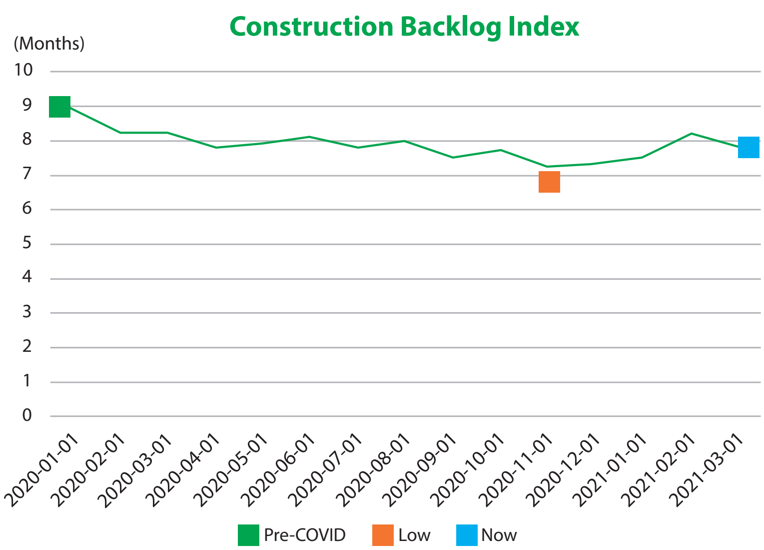
Before Covid-19, the Residential Building workforce was 839.8K. Residential dipped to 709.2K in April 2020 and the number of employed has rebounded to 872.7K, or 3.9 percent greater than pre-pandemic.



While the Nonresidential workforce has made some improvement since its pandemic low, it has not done nearly as well as Residential. Prior to the pandemic, Nonresidential was at 854.8K. Hitting its low in April 2020 (747K), Nonresidential is currently 816.6K, which remains a deficit of 38.2K construction workers or 4.5 percent less.

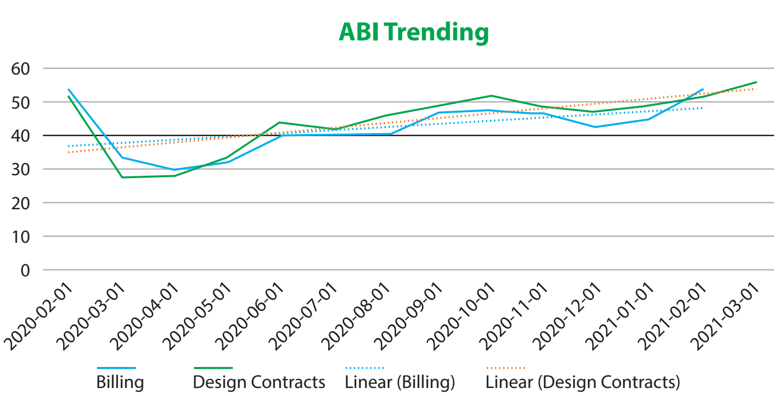
PROJECTS

Throughout most of 2020, the construction industry withstood the effects of the pandemic. When compared to the restaurant, retail, and consumer travel sectors, construction maintained a relatively stable state as it took advantage of a strong project backlog established prior to the pandemic. The Associated Builders and Contractors' (ABC) Construction Backlog Indicator (CBI) estimates the number of months of future construction work. The higher the CBI, the more confidence there is within the construction industry for future project work.



Prior to the covid pandemic, the CBI was consistently hovering just below or above the 9-month mark. While the CBI experienced relative stability through 2020, it did experience a slight decline through most of 2020. However, since hitting its 2020 low in November 2020, the CBI has been gaining some strength, indicating a stronger construction project backlog.

The Architecture Billing Index (ABI), measuring the construction sector's level confidence and future business expectations, consists of two indicators, Billing (completed work) and Design Contracts (new projects). Anything above a baseline 50 indicates positive confidence.



Like the CBI, the ABI consistently reported construction strength prior to the pandemic. Hitting a low in April 2020, the ABI has steadily improved, and in February and March 2021, it posted above 50 indexes for both Billing and Design Contracts for the first time since the pandemic.

NCS Lien Index – Commentary

Optimism for 2021

Infrastructure Legislation Impact

The 2020 election results (both presidential and congressional) could impact construction business in 2021 and beyond. President Biden's infrastructure proposal, called the "American Job Plan," views infrastructure through the lens of climate and green energy. The $2 trillion plus plan is designed to stimulate economic recovery, with a focus on manufacturing, workforce development, and infrastructure. The proposed infrastructure investment includes roads and bridges, as well as schools, broadband, water, and energy. Significant investment is targeted in clean transportation, environment-friendly construction materials and transit. When and to what degree this legislation is passed and becomes law has a potential to fuel the construction industry. Time will tell, but there is potential to create an industry boom in the nonresidential and public building sectors for several years.

COVID-19 Impact

The December 2020 release and subsequent rollout of the COVID-19 vaccine was welcome news. While vaccination rates in the US start to decline, President Biden recently set a new goal to vaccinate (at least with the first shot) 70 percent of Americans by July 4, 2021. If successful, this could signal the promising end of the COVID-19 health crisis.

Nevertheless, the pandemic remains an overriding impact to the construction industry, and though there is great hope for a return to normal, some level of risk and uncertainty. Negative effects caused by supply chain disruptions, especially lumber and other building materials, continue to plague the industry. Additionally, public, and nonresidential construction related to the workforce, backlog, and spending all have been negatively impacted. While private and residential construction have been booming, one must wonder if this sector has hit its peak, especially considering the record level of lumber, steel, and other construction material costs.

Final Comments

Defying all conventional wisdom, the construction industry remains upbeat for 2021 and the future. The project backlog has been steadily increasing the last several months. Additionally, projects that had been put on hold are now starting to be resurrected. Continued stimulus by the federal government is also having a positive impact. And lastly with the continued successful rollout of the vaccine, the COVID-19 pandemic shutdowns and public health restrictions may soon be over.

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call 800-826-5256

email SecureYourTomorrow@ncscredit.com

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