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Construction Spending, Labor & Materials Outlook

AGC National & Chapter Leaders Conference
Washington, DC, September 25, 2016

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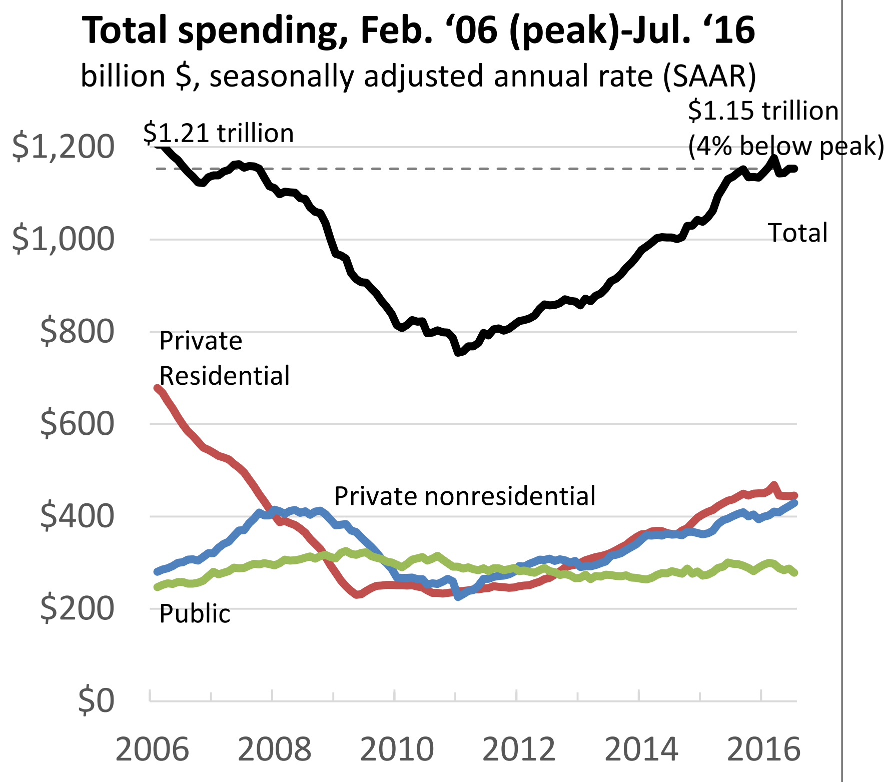
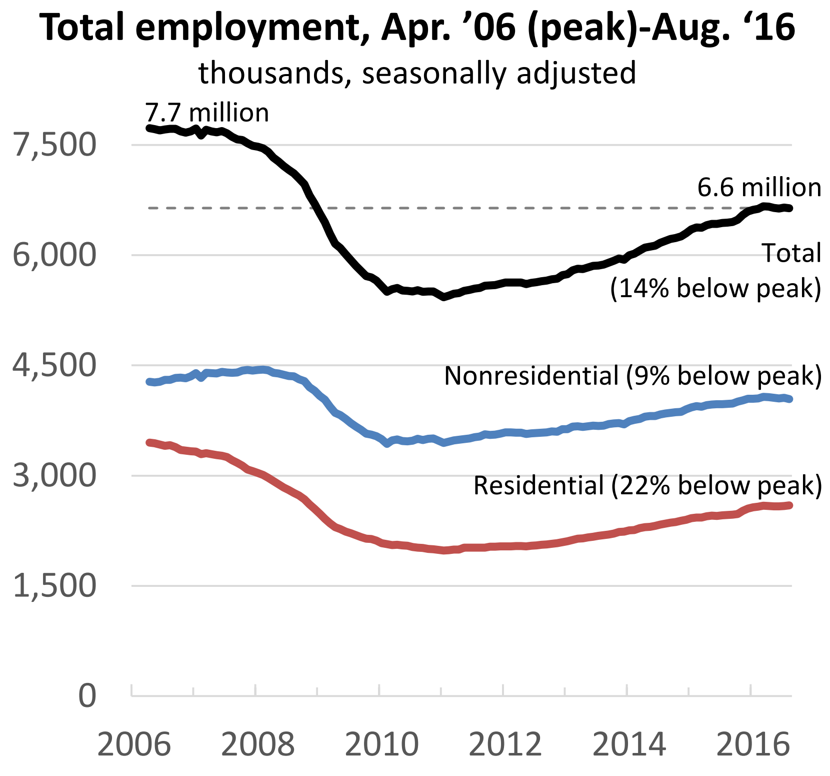
Construction spending & employment, 2006-16



July 2015-July 2016: total 2%
private res. 2%, private nonres. 7%, public -7%



Aug. 2015-Aug. 2016: total 3.1%
residential 5.4%, nonresidential 1.7%

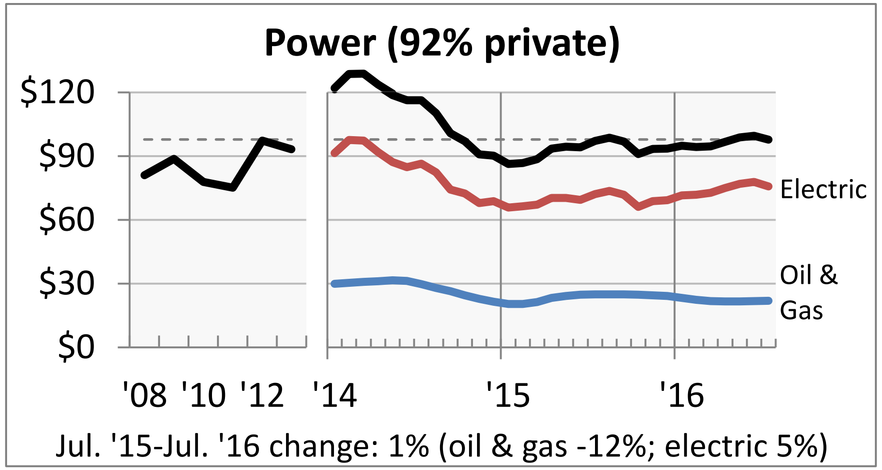
Nonresidential segments: 2014-15 change, 2016-17 forecast

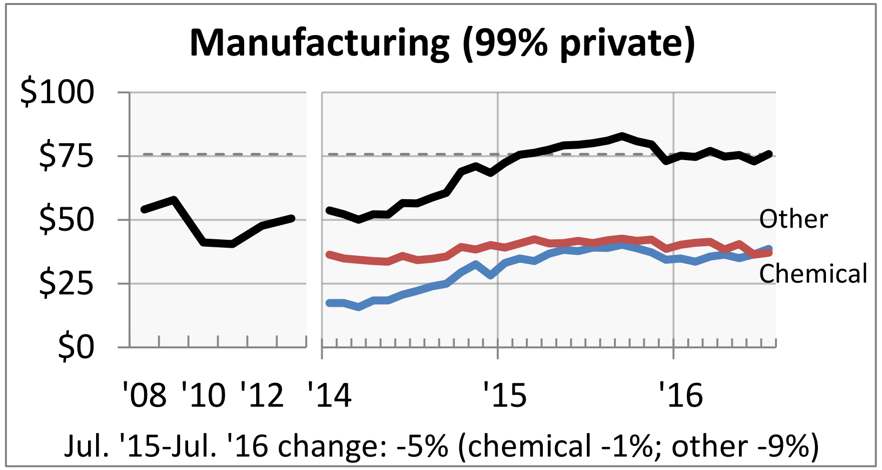
	2015 vs. 2014	Jan.-July '16 vs. '15	2016 forecast	2017 forecast
Nonresidential total (public+private)	**7 %**	**5%**	**4-10%**	**2-6%**
Power (incl. oil & gas field structures, pipelines)	-16	6	5-10	5-10
Highway and street	6	2	2-5	2-5
Educational	5	5	3-6	2-5
Manufacturing	33	-3	-8 to -4	<0
Commercial (retail, warehouse, farm)	6	11	7-12	0-5
Office	18	22	17-22	5-10
Transportation	8	-2	-3 to 3	0-5
Health care	5	2	1-5	3-8
Sewage and waste disposal	5	-5	-5 to 0	
Lodging	30	26	15-30	<0
Other--amusement; communication; religious; public safety; conservation; water: 11% of total	9	0	-2 to 4	

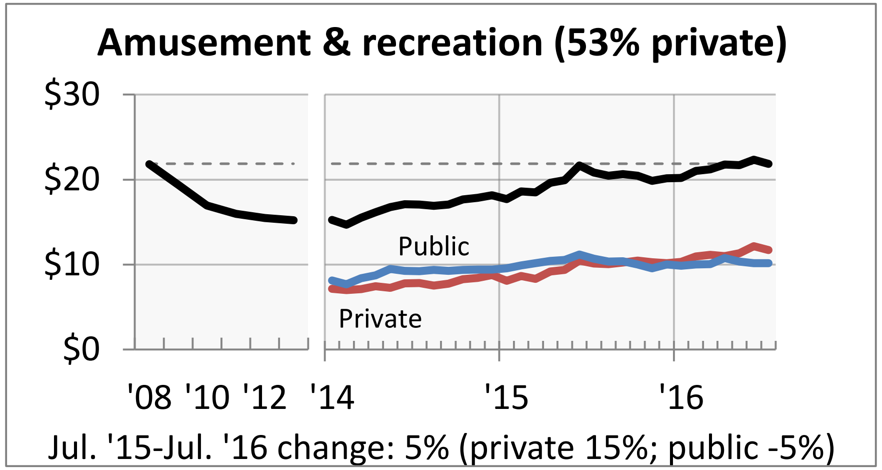
Source: U.S. Census Bureau construction spending report; Author's forecast

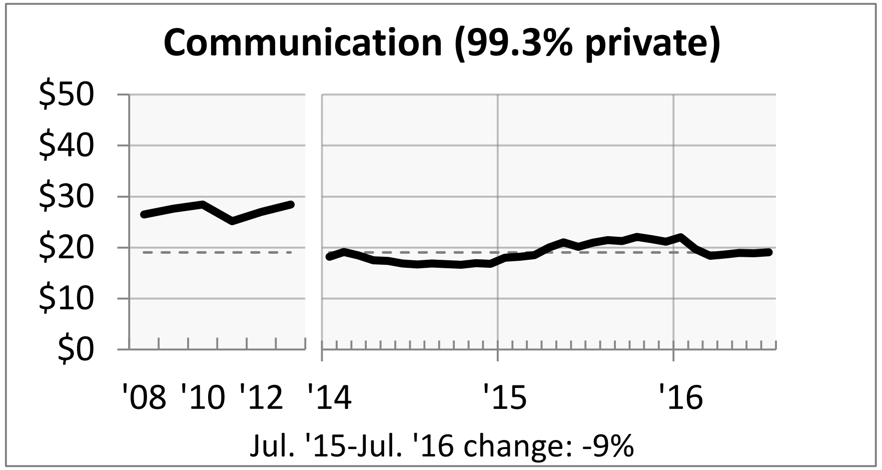
Construction spending: industrial, heavy

annual total, 2008-13; monthly, SAAR, 1/14-7/16; billion $







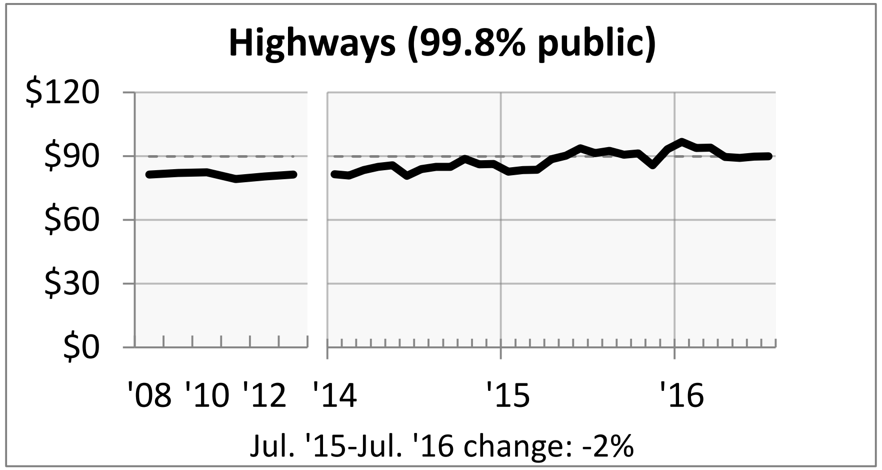


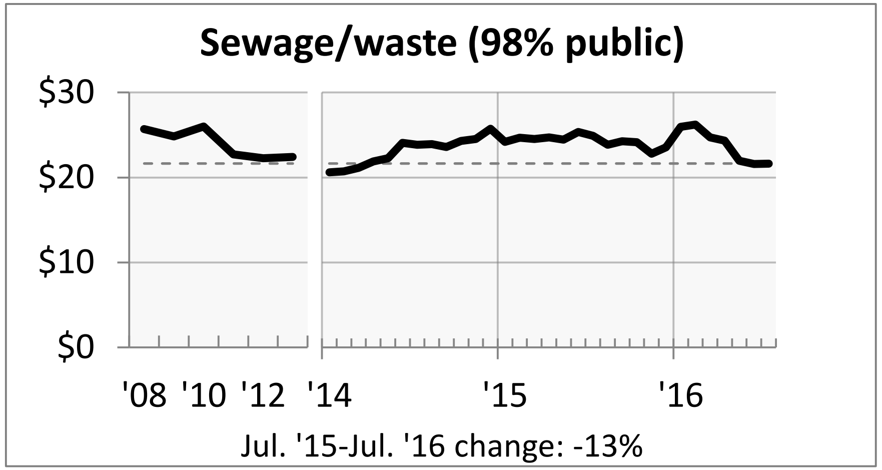
Key points: power, mfg., recreation

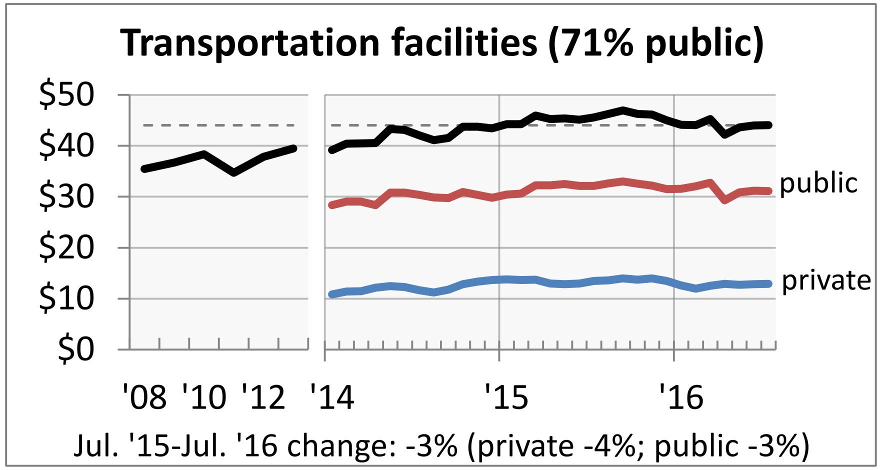
- Solar, wind power are growing again; expect more gas-fired plants, natural gas pipelines into ‘18
- Mfg decline led by completion/delay of chemical plants (ethane crackers, petrochemicals, LNG) and transportation equipment (cars, trucks, jets, railcars)
- Amusement & recreation spending is very “lumpy”—a few big stadiums at irregular intervals; but funding for local, state, federal parks keeps eroding

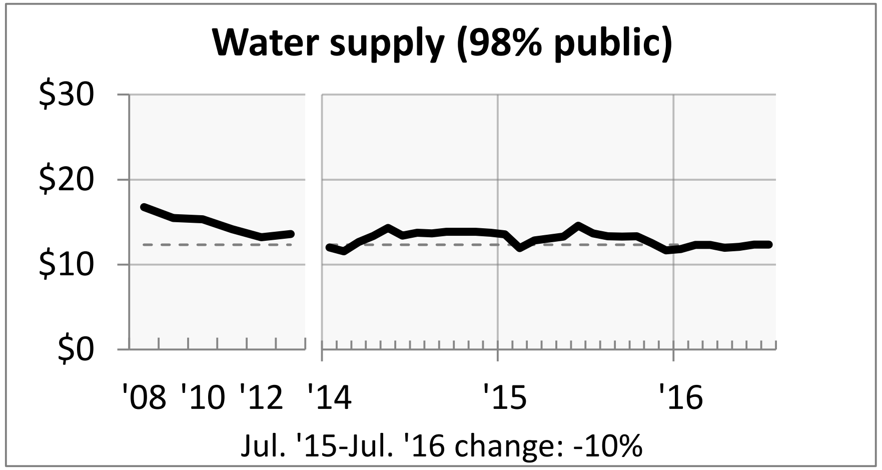
Construction spending: public works

annual total, 2008-13; monthly, SAAR, 1/14-7/16; billion $









Source: U.S. Census Bureau construction spending report

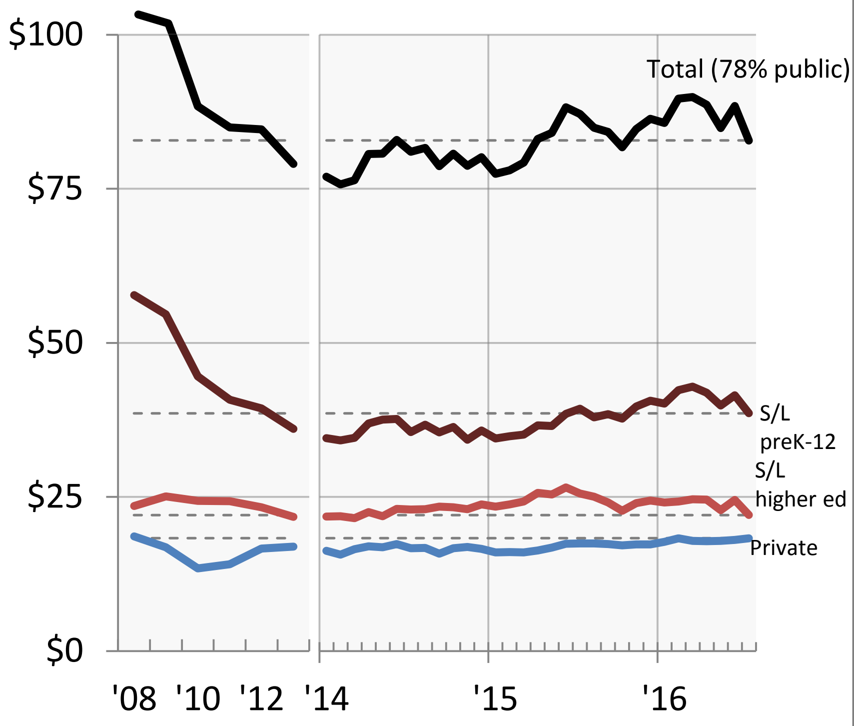
Key points: roads, transportation, sewer/water

- Highway funds benefit from more travel, hence fuel purchases; gradual pick-up in state funding & P3s
- Railroads slashing investment; little net change for public airport, port, transit construction
- Eastern & Midwestern cities under orders to make long-term upgrades to sewer systems that should boost spending; water utilities hurt by drought, conservation but may get money for lead abatement

Construction spending: institutional (private + state/local)

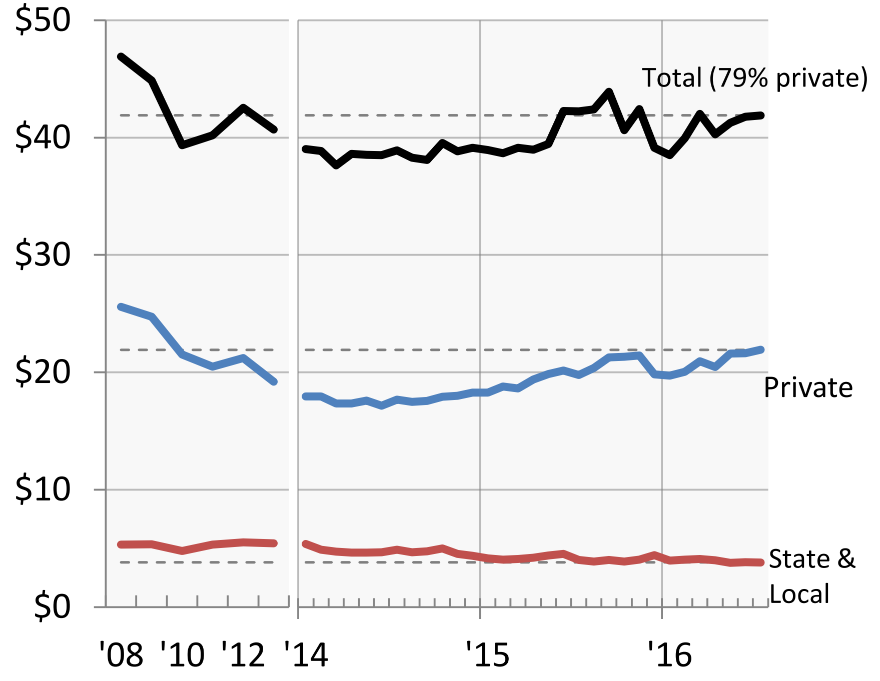
annual total, 2008-13; monthly, SAAR, 1/14-7/16; billion $

Education (state & local K-12, higher; private)



Jul. '15-Jul. '16 change: -5% (state/local preK-12 -2%, higher -14%; private 5%)

Health care (private, state & local)



Jul. '15-Jul. '16 change: -0.8% (private 11%; state & local -5%)

Source: U.S. Census Bureau construction spending report

Key points: education & health care

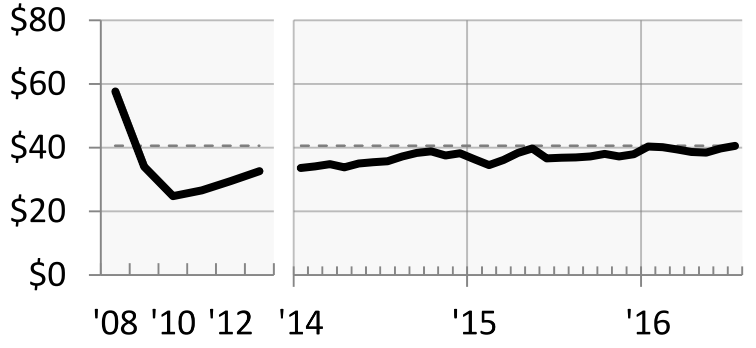
- PreK-12 enrollment is flat; more children staying in cities and filling underused or charter schools, so construction no longer matches population growth
- Higher-ed enrollment is shrinking, so colleges need fewer dorms & classrooms; apts. (multifamily) replacing dorms (educational construction)
- Hospitals face more competition from standalone urgent care, outpatient surgery, clinics in stores; more investment in small facilities, short stays

Source: Author

Construction spending: developer-financed

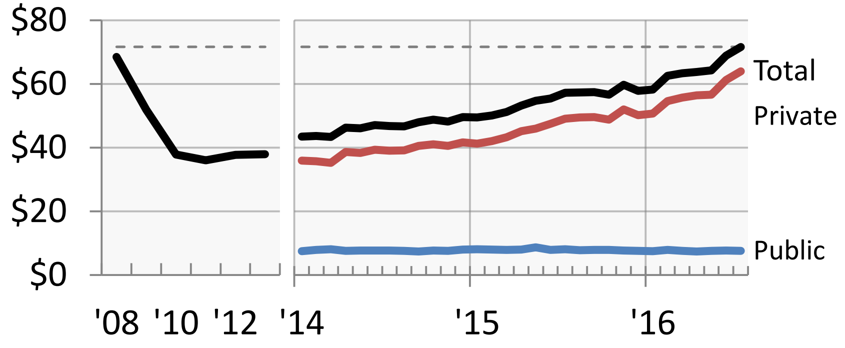
annual total, 2008-13; monthly, SAAR, 1/14-7/16; billion $

Retail (private)



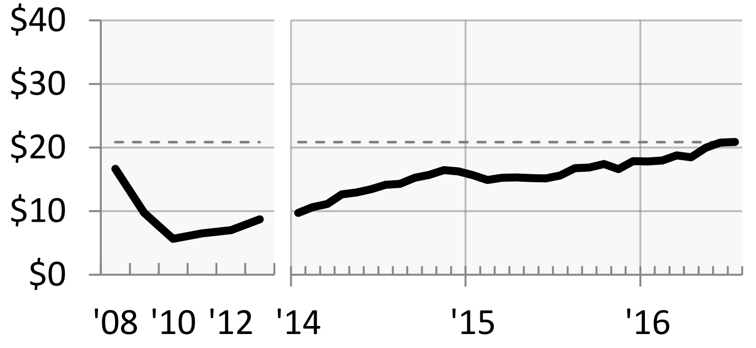
Jul. '15-Jul. '16 change: 10%

Office (89% private)



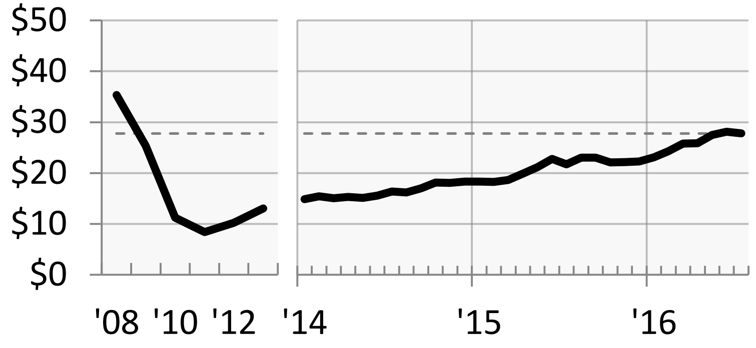
Jul. '15-Jul. '16 change: 25% (private 30%; public -6%)

Warehouse (private)



Jul. '15-Jul. '16 change: 34%

Lodging (private)



Jul. '15-Jul. '16 change: 28%

Source: U.S. Census Bureau construction spending report

Key points: retail, warehouse, office, hotel

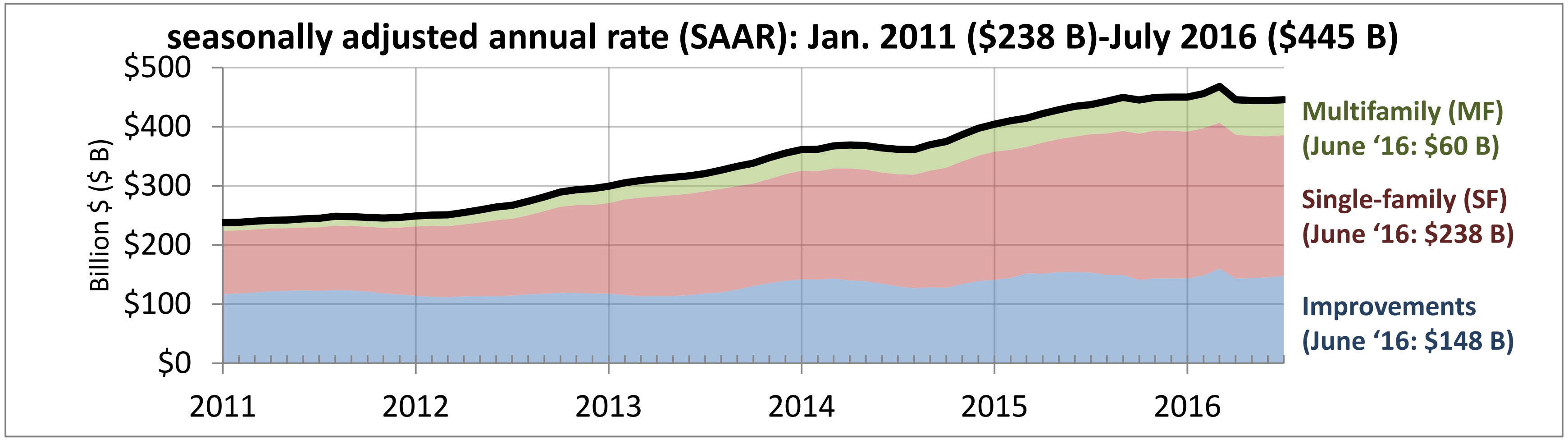
- Retail now tied to mixed-use buildings & renovations, not standalone stores or shopping centers; consumer pivot to online buying will continue
- Warehouse market still benefiting from e-commerce; may heat up if Panama Canal leads to distribution shifts
- Employment sets records each month but office space per employee keeps shrinking; growth mainly in cities & renovations, not suburban office parks
- Hotel construction likely to drop as revenue per available room slows

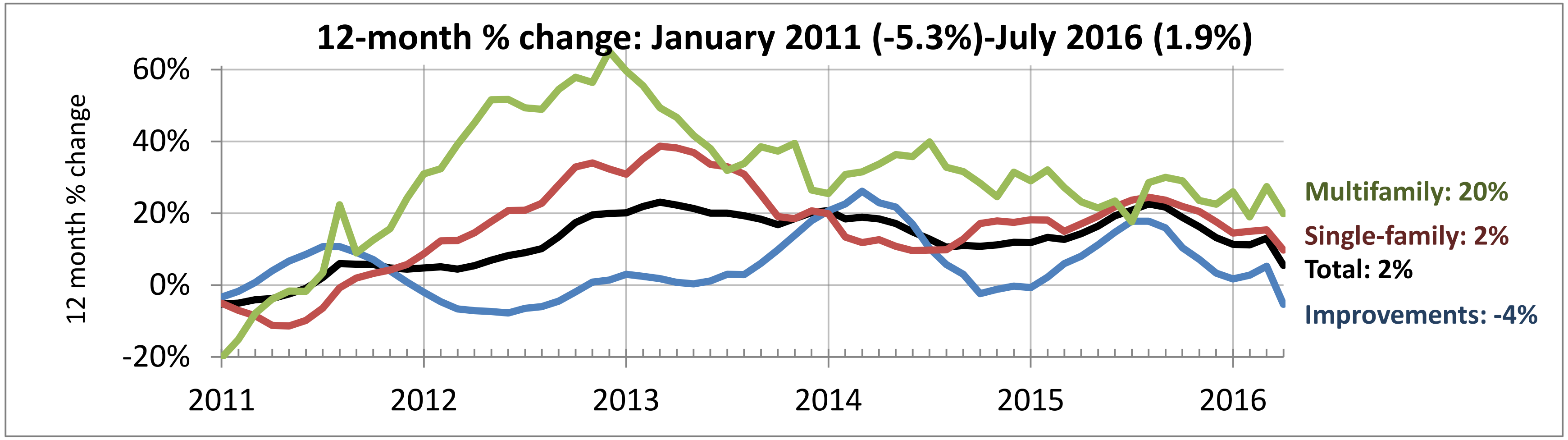
Source: Author

Major locations for data centers

Source: www.DataCenterKnowledge.com, from CBRE, ASHRAE

Private residential spending: MF continues to outpace SF





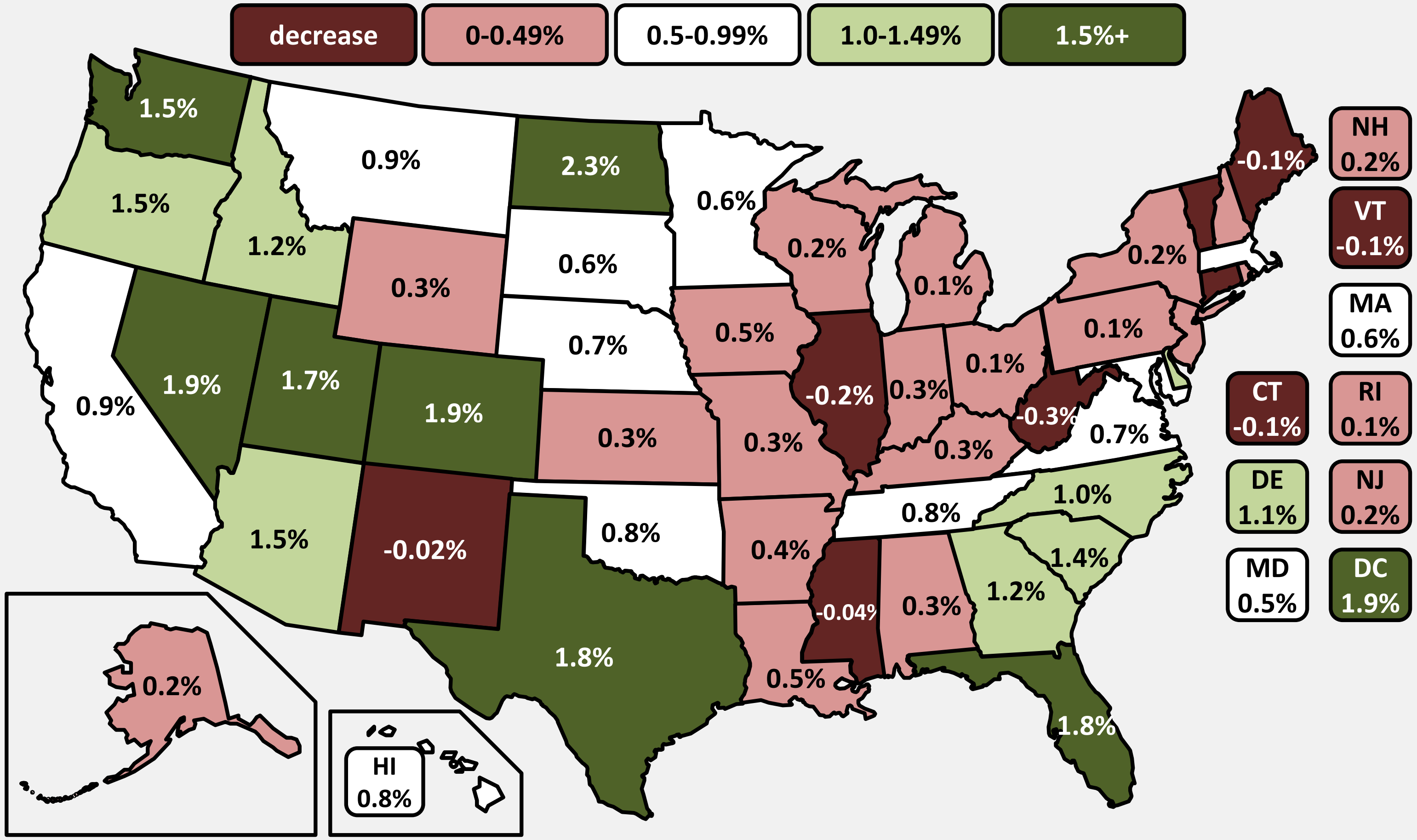
Source: U.S. Census Bureau construction spending reports

2016 residential spending forecast: 4-11%; 2017: 5-10%

- SF: 6-11%; ongoing job gains add to demand; student debt, fears of lock-in, limited supply will cap growth
- MF: 10-15%; growth is slowing but should last through 2017
  - low vacancies, high rent growth encourage investors
  - millennials show continued preference for cities
  - nearly all MF construction is rental, not condo
- Improvements: 0-10%; Census data is not reliable and shows only a loose relationship to SF spending
- 2017: SF 6-11% again; MF slows to 5-10%; improvements 0-10% again

Source: Author

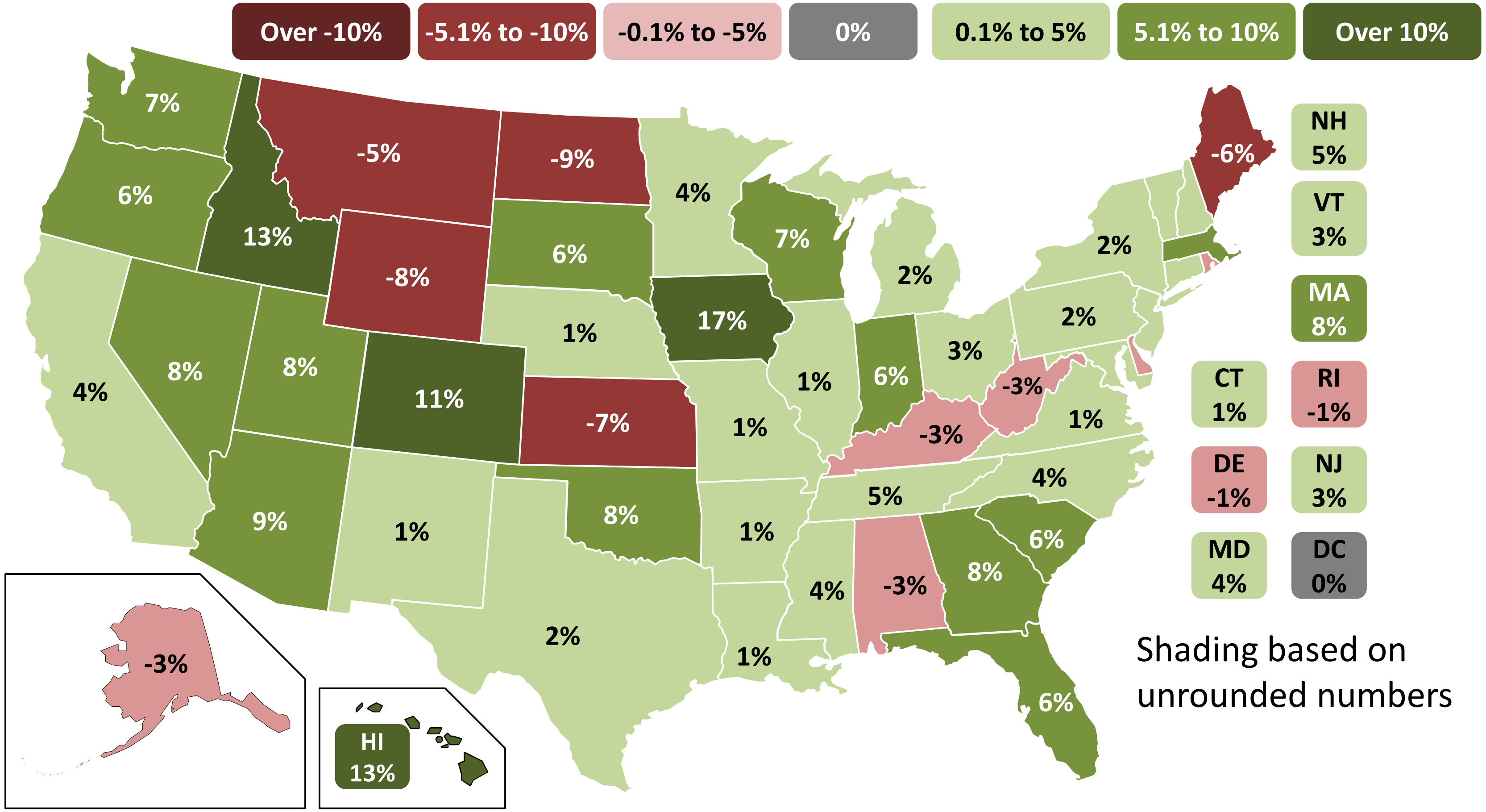
Population change by state, July 2014-July 2015 (U.S.: 0.79%)



Source: U.S. Census Bureau

State construction employment change (U.S.: 3.1%)

7/15 to 7/16: **39** states up, DC unchanged, **11** down

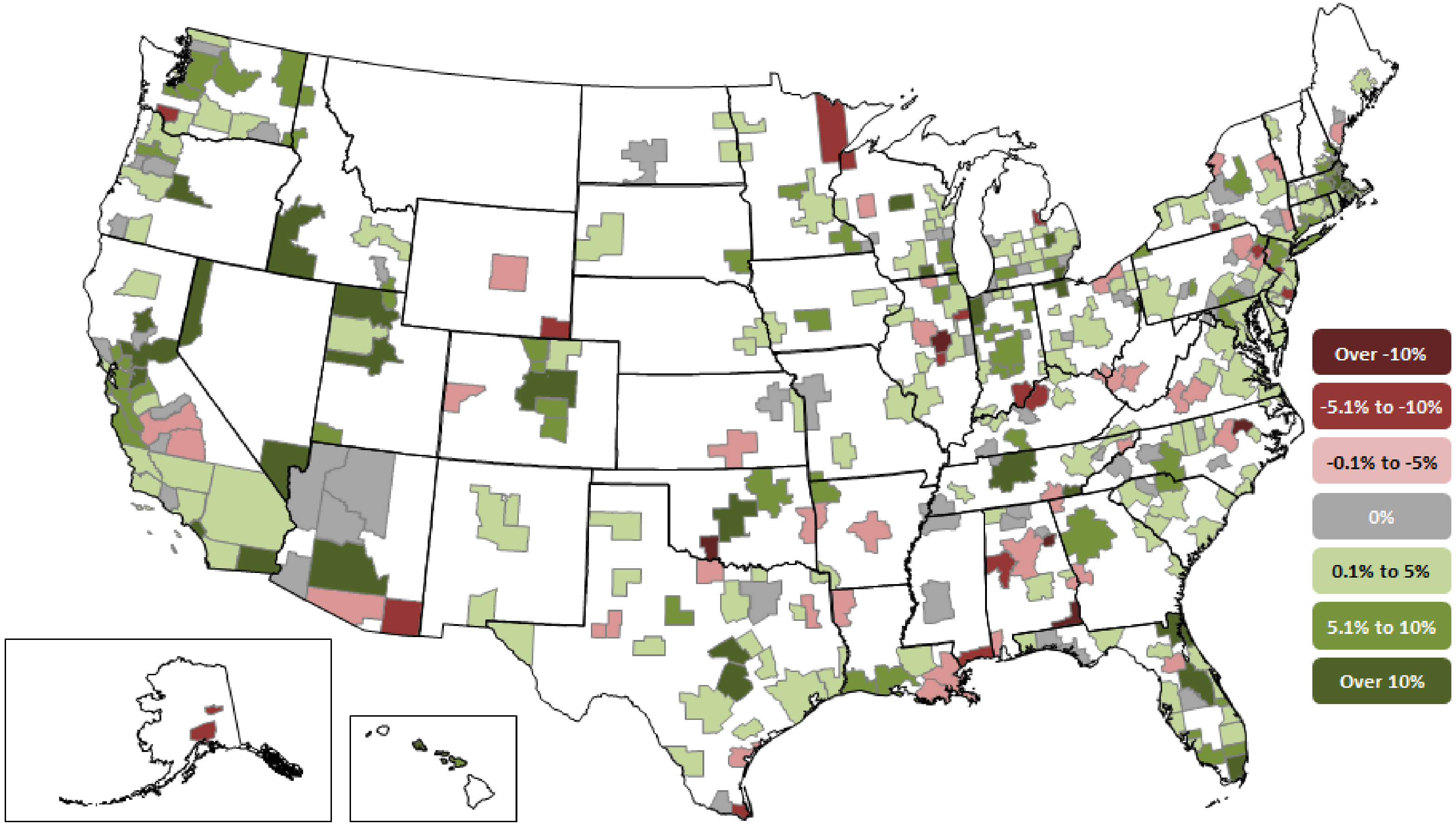


Shading based on unrounded numbers

Source: BLS state and regional employment report

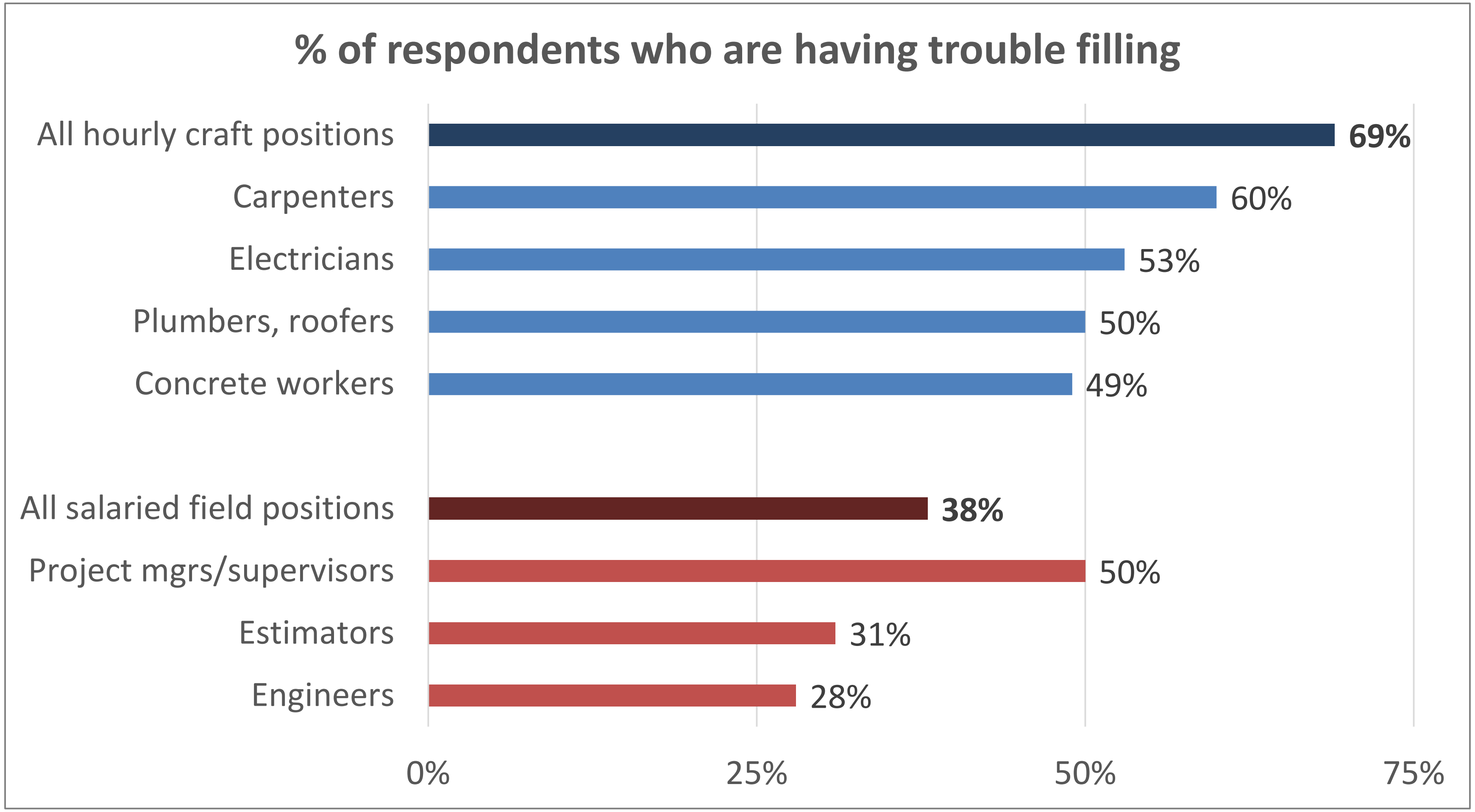
Metro construction employment change

7/15 to 7/16: 239 metros up, 59 unchanged, 60 down



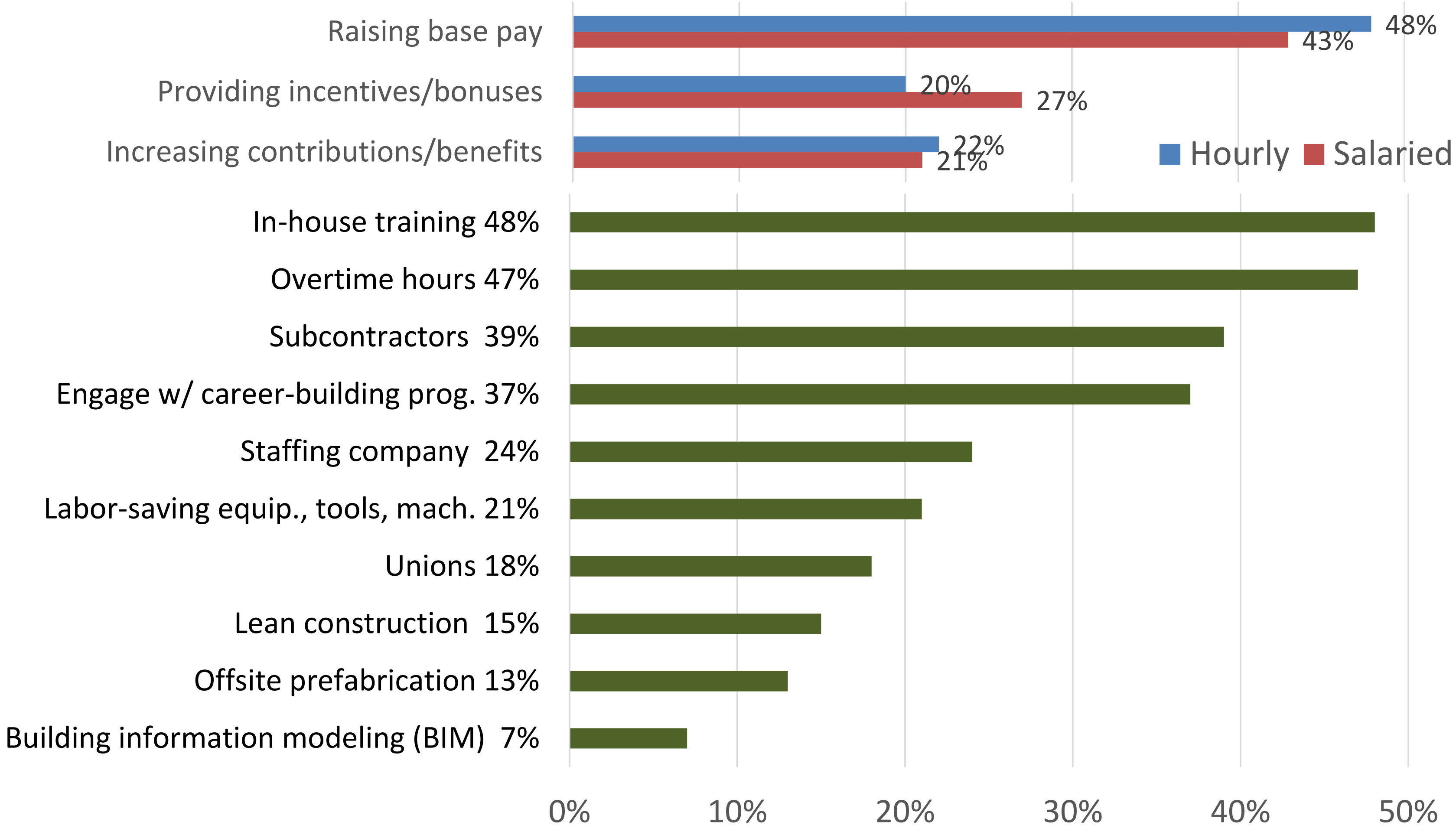
Source: BLS state and regional employment report

Hardest positions to fill



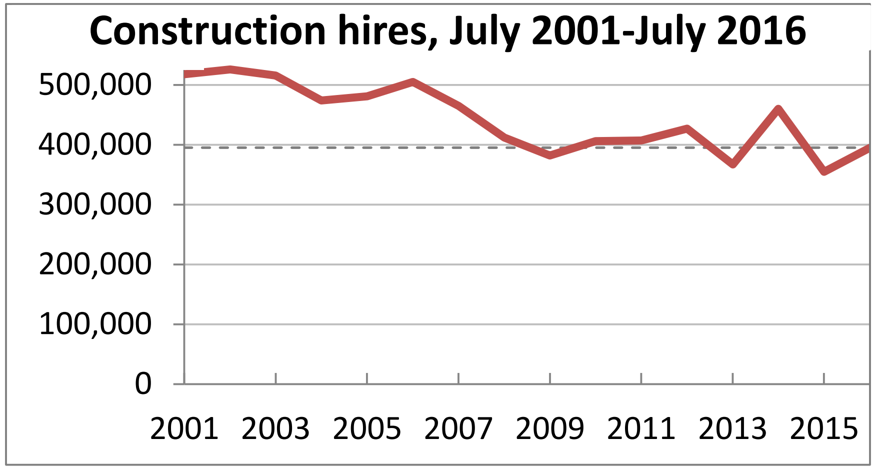
Source: AGC Member Survey, Sept. 2015

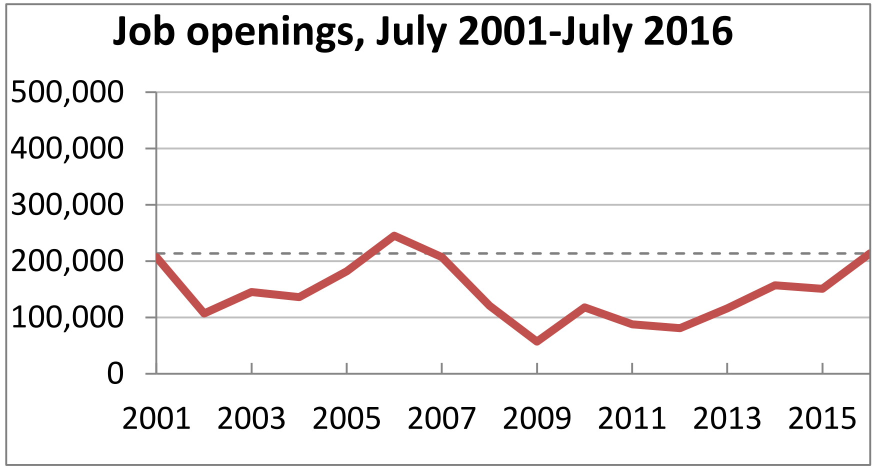
How contractors are coping with worker shortages

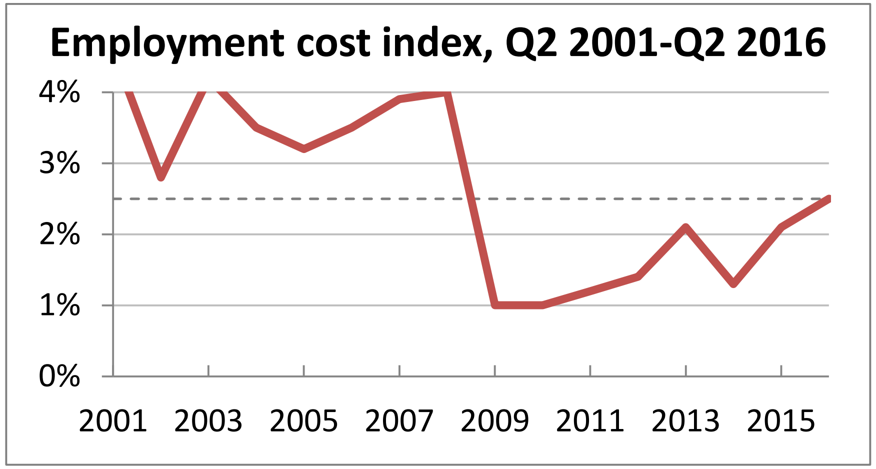


Source: AGC Member Survey, Sept. 2015

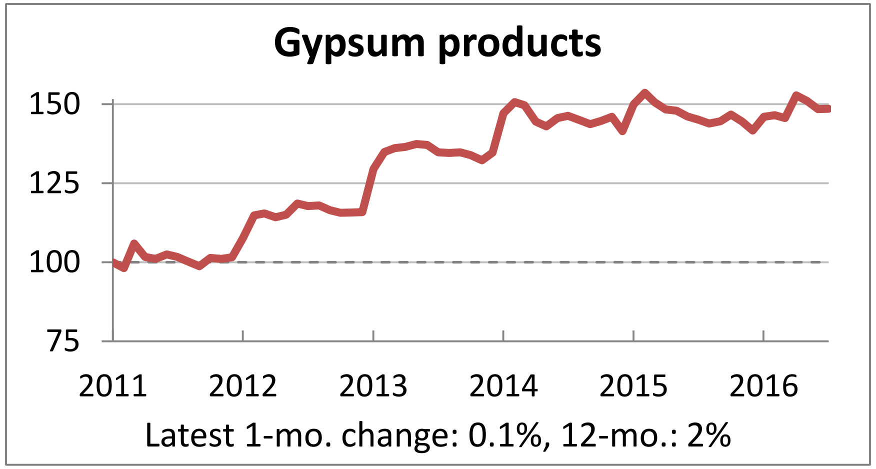
Construction workforce indicators (not seasonally adjusted)

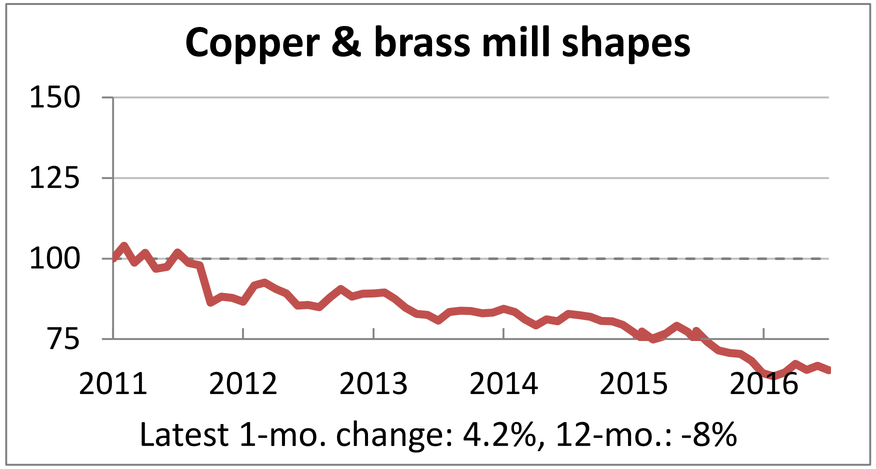


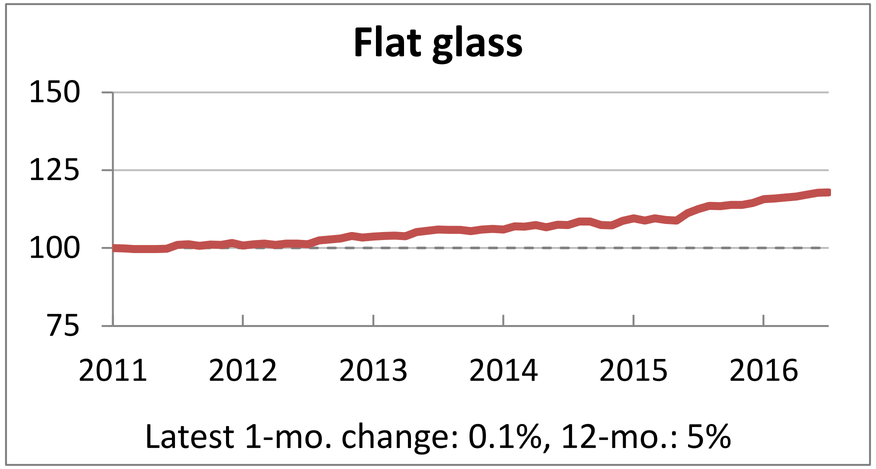


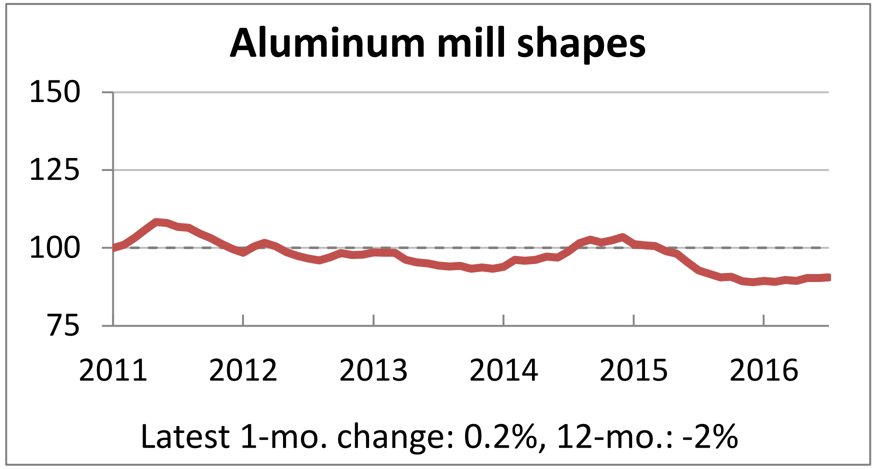


Producer price indexes for key inputs, 1/11-7/16 (Jan. 2011=100)



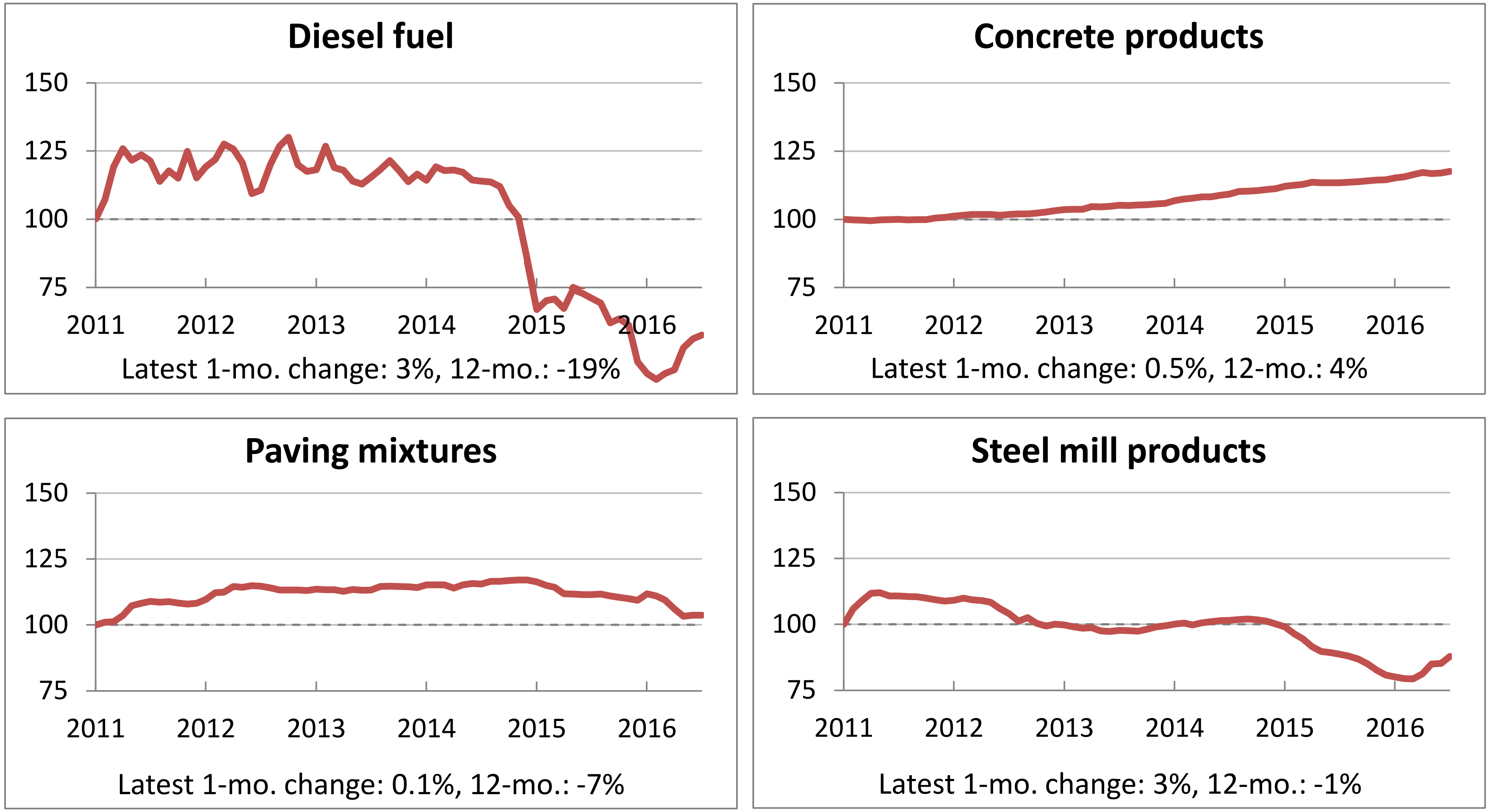






Source: Author, based on BLS producer price index reports

Producer price indexes for key inputs, 1/11-6/16 (Jan. 2011=100)



Source: Author, based on BLS producer price index reports

2015 summary, 2016-17 forecast

	2015 actual	2016 yr-to-date	forecast 2016	forecast 2017
Total spending	11%	6%	3-9%	2-7%
Private – residential	17%	7%	4-11%	5-10%
– nonresidential	8%	9%	4-10%	2-7%
Public	5%	0%	0-3%	1-5%
Goods & serv. inputs PPI	-2%	-1%	0-2%	0-2%
Employment cost index	2.2%	2.5%	2.5-3.5%	3-4%

Source: actuals: Census, BLS; forecasts: Author's estimates

AGC economic resources

(email simonsonk@agc.org)

- *The Data DIGest*: weekly 1-page email (subscribe at http://store.agc.org)
- monthly press releases: spending; PPI; national, state, metro employment
- state and metro data, fact sheets: www.agc.org/learn/construction-data
- WebEd 11/17 with Kermit Baker (AIA), Alex Carrick (ConstructConnect)


Data DIGest

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Vol. 9, No. 33

Construction job losses remain heavy, widespread; homebuilding rises, nonres sinks

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City-by-City Construction Employment, August 2009 and 2008

Seasonally adjusted nonfarm payroll **job losses** in September totaled 263,000, barely half the average of the last 12 months, the Bureau of Labor Statistics (BLS) reported on Friday. (Seasonal adjustment takes into account normal monthly variations in weather and numbers of work days.) ***But construction***, *particularly nonresidential, continued to hemorrhage jobs. Construction lost 15% of its September 2008 jobs in the last 12 months, compared to 4% for the entire nonfarm economy. September losses totaled 51,000 in nonresidential building, specialty trade, and heavy and civil engineering construction combined, nearly the monthly average loss of 54,000 over the past 12 months. Residential building and specialty trade contractors shed a combined 13,000 jobs in September, barely a third as many as the monthly average over the 12-month span. One faintly positive sign was that* ***architectural and engineering services employment****, a harbinger of future demand for construction, rose for the first time in 15 months, albeit by only 500 jobs (0.04%).* ***Average hourly earnings*** *in construction tumbled 16 cents to $22.45 in September, bringing the 12-month change to 36 cents or 1.6%, compared to 2.5% for all private-sector production or nonsupervisory employees.* The overall **unemployment rate** climbed to 9.5% in September, not seasonally adjusted (9.8%, seasonally adjusted) from 6.0% a year earlier. *The* ***unemployment rate in construction****, 17.1%, not seasonally adjusted, again topped every other industry and was up from 9.9% a year earlier.*

For the eighth month in a row, all 372 **metro areas** had higher **unemployment rates** in August than a year earlier, BLS reported on Wednesday. (Seasonally adjusted industry and metro unemployment rates are not available.) Of the 369 areas reporting nonfarm payroll employment, 356 had year-to-year losses, 11 had gains and two were unchanged. The largest percentage gains were in Sandusky, Ohio, 2.7%; Hot Springs, Arkansas, 2.6%; Kennewick-Pasco-Richland, Washington, 2.5%; Jonesboro, Ark., 1.9%; and McAllen-Edinburg-Mission, Texas, 1.5%. *If sustained, these gains can lead to more demand for construction. AGC compiled a list of 337 areas, including divisions and subdivisions of the 34 largest metros, for which BLS provided construction employment figures (combined with mining and logging in metros where employment in these industries is small).* ***Construction employment*** *fell over the past 12 months in 324 of these locations, rose in eight and was unchanged in five. The largest 12-month percentage construction employment gains were in Columbus, Indiana, 14% (combined data); Anderson, Ind., 6% (combined); Tulsa (construction only); Longview, Wash. (combined) and Baton Rouge (construction only), 3% each. The worst construction job losses were in Reno-Sparks, Nevada, -35% (construction only); Duluth, Minnesota-Wisconsin, -33% (combined); Tucson, -31% (construction only); Wenatchee-East Wenatchee, Wash., -30% (combined); and Redding, California, -28% (combined).*

Construction in Chicago will not get a boost from the Olympics. The International Olympic Committee today awarded the 2016 Games to Rio.

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