



AGC of America
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Quality People. Quality Projects.



US Construction Spending, Labor and Materials Outlook

June 28, 2017

Ken Simonson

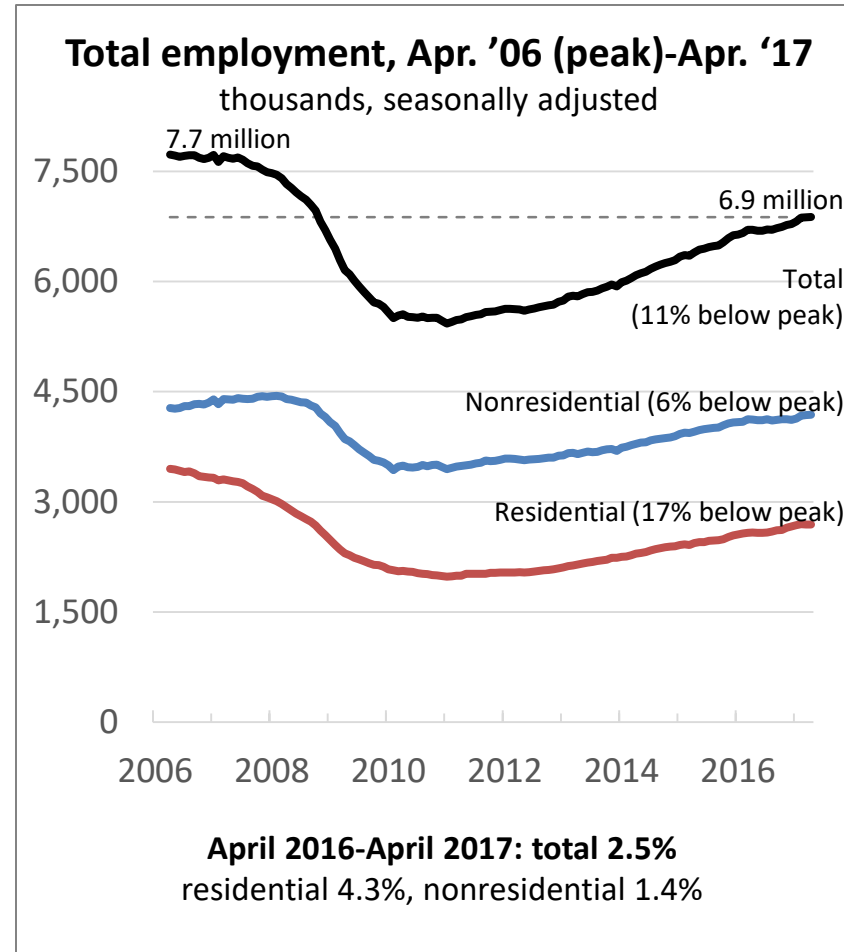
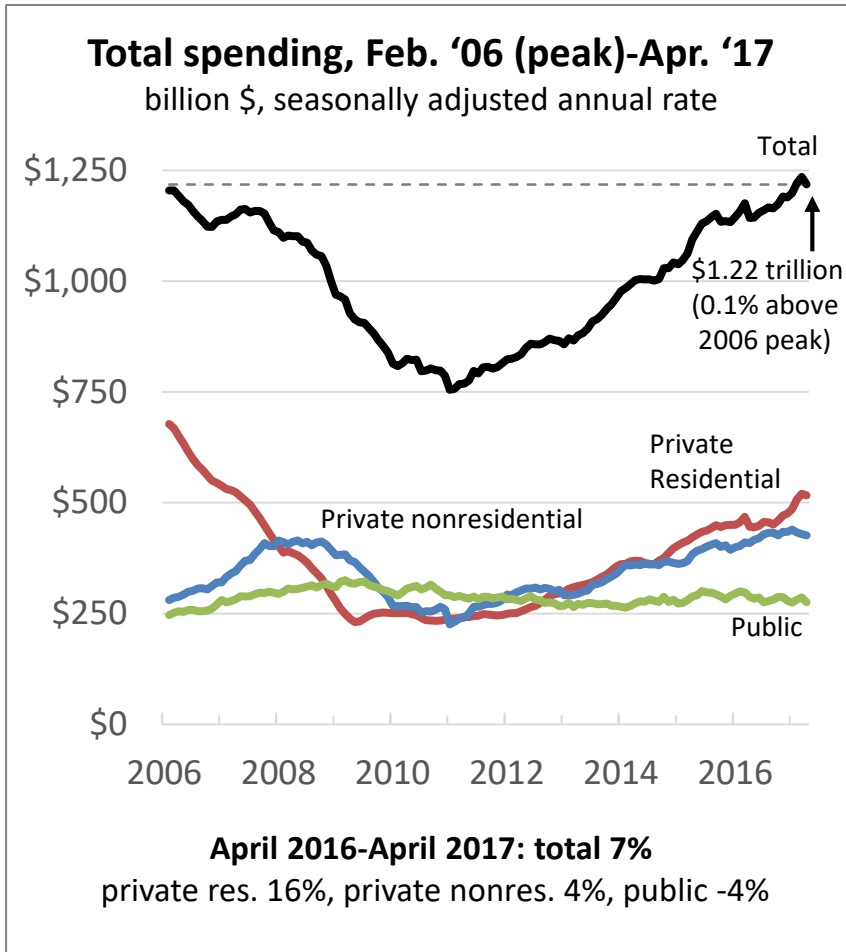
Chief Economist, AGC of America

simonsonk@agc.org

Quality People.
Quality Projects.



Construction spending & employment, 2006-2017



Policy possibilities & uncertainties affecting construction

- Infrastructure: How much? How soon? What types? Funding source?
- Immigration: Impact on new & current workers? Wall construction?
- Trade: Higher materials costs? Shortages? Less or more factory const.?
- Regulatory relief: Which rules? How soon will impact occur?
- Health care rewrite: Timing? Impact on demand for hospital const.?
- Fiscal: Lower taxes? For whom? Bigger deficits? Implications for construction demand, labor supply?
- Monetary: Higher interest rates? Impact on housing, state/local bonds?

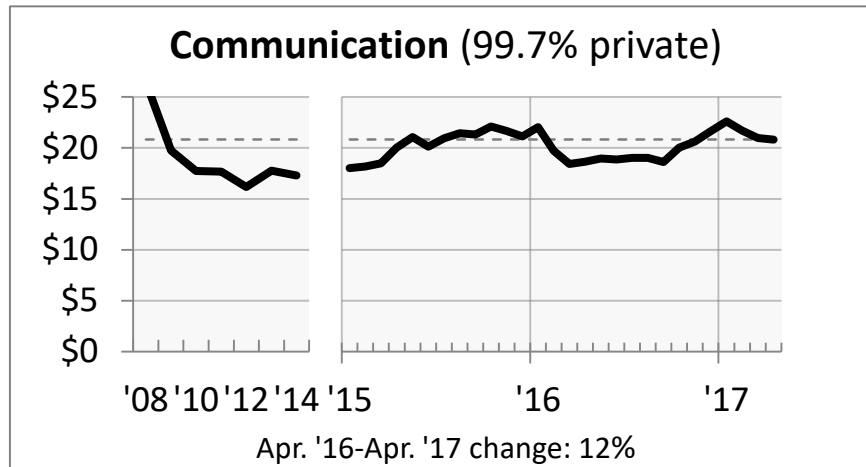
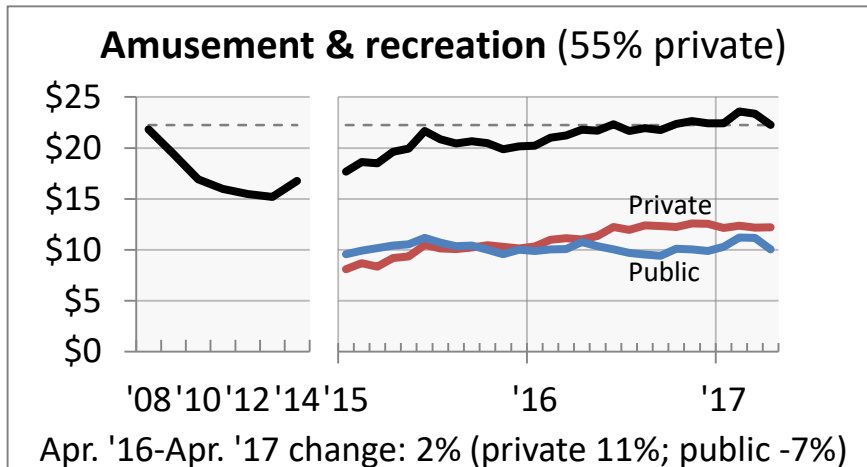
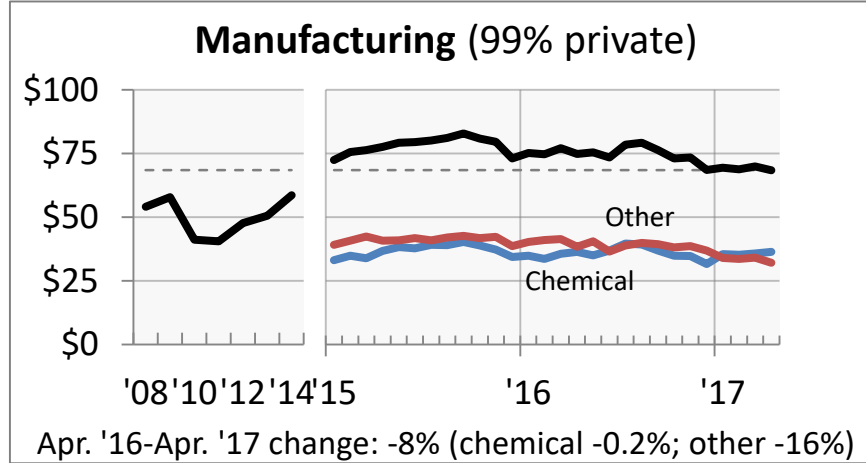
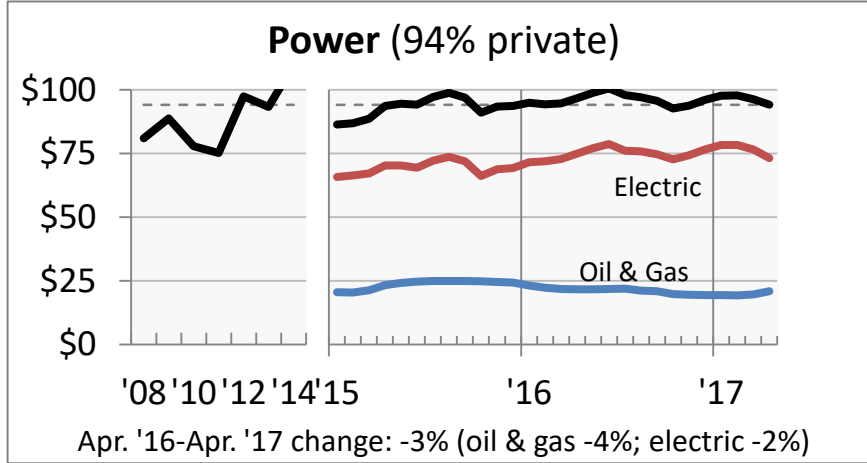
Nonresidential segments: 2015-16 change, 2017 forecast

	<u>2016 vs.</u> <u>2015</u>	<u>Jan.-Apr.</u> <u>'17 vs. '16</u>	<u>2017</u> <u>forecast</u>
<u>Nonresidential total (public+private)</u>	<u>5</u> %	<u>6</u>%	<u>2-6</u>%
Power (incl. oil & gas field structures, pipelines)	4	2	5-10
Highway and street	1	-3	2-5
Educational	6	4	3-7
Manufacturing	-4	-9	<0
Commercial (retail, warehouse, farm)	11	12	0-5
Office	25	16	8-13
Transportation	-6	-5	0-5
Health care	2	1	0-5
Lodging	25	12	~0
Sewage & waste disposal	-9	-24	
Other--amusement; communication; religious; public safety; conservation; water: 11% of total	-1	1	

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

Construction spending: industrial, heavy

annual total, 2008-14; monthly (seasonally adjusted annual rate), 1/15-4/17; billion \$

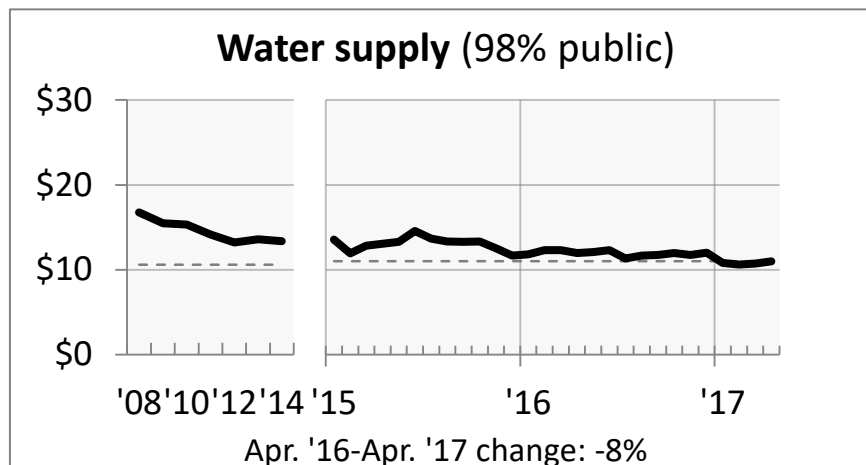
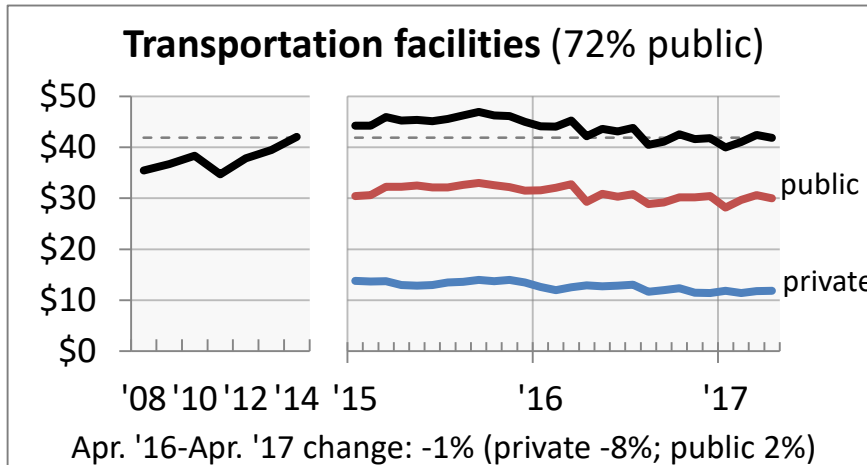
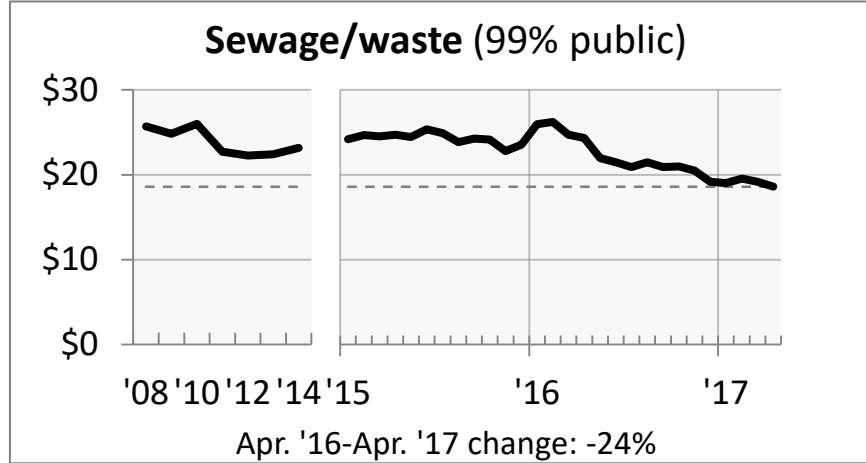
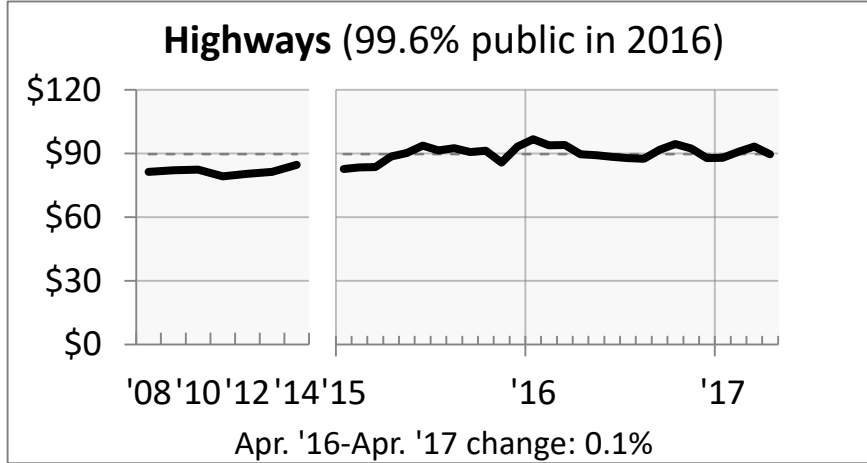


Key points: power & energy, mfg, amusement & recreation

- Solar, wind power are growing again; expect more gas-fired plants, natural gas pipelines into '18
- Manufacturing construction recovery in '18 depends on policy impacts, especially trade and tax
- 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, 2008-14; monthly (seasonally adjusted annual rate), 1/15-4/17; billion \$



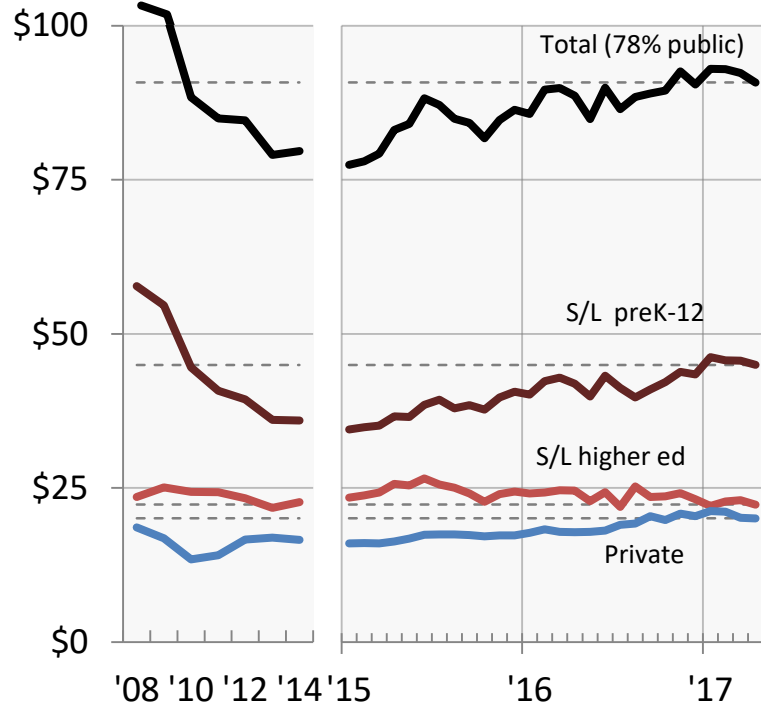
Key points: roads, transportation, sewer/water

- Highway funds benefit from more travel, hence fuel purchases; gradual pick-up in state funding & P3s; higher federal funding unlikely before '18
- Railroads slashing investment; pickup in airport projects but no increase likely in port, transit construction funding
- Eastern & Midwestern cities under orders to make long-term upgrades to sewer systems that should keep a floor on spending; water utilities hurt by drought, conservation but may get money for lead abatement

Construction spending: education, health care

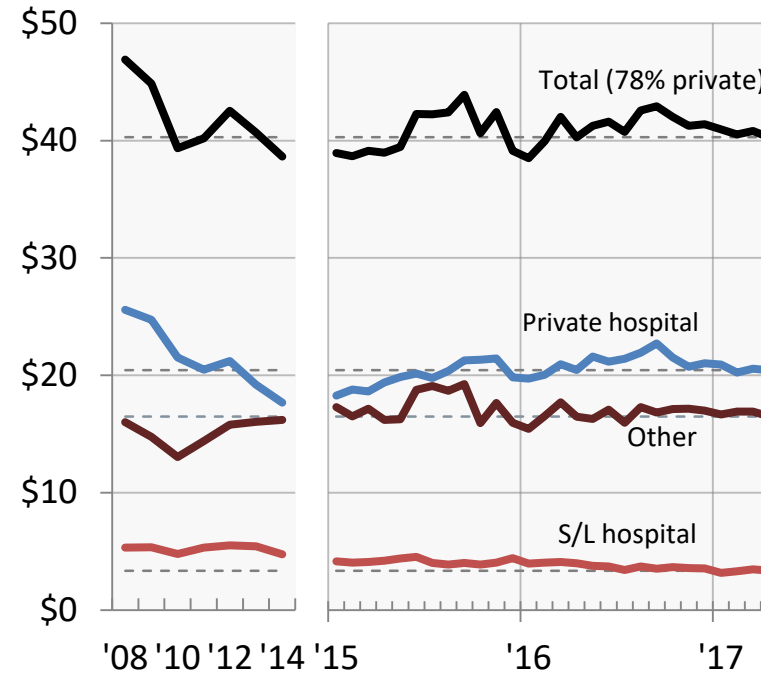
annual total, 2008-14; monthly (seasonally adjusted annual rate), 1/15-4/17; billion \$

Education: state/local K-12, S/L higher; private



Apr. '16-Apr. '17 change: 3% (private 13%; state/local preK-12 7%; state/local higher ed -9%)

Health care: (private hospital, S/L hospital, other)



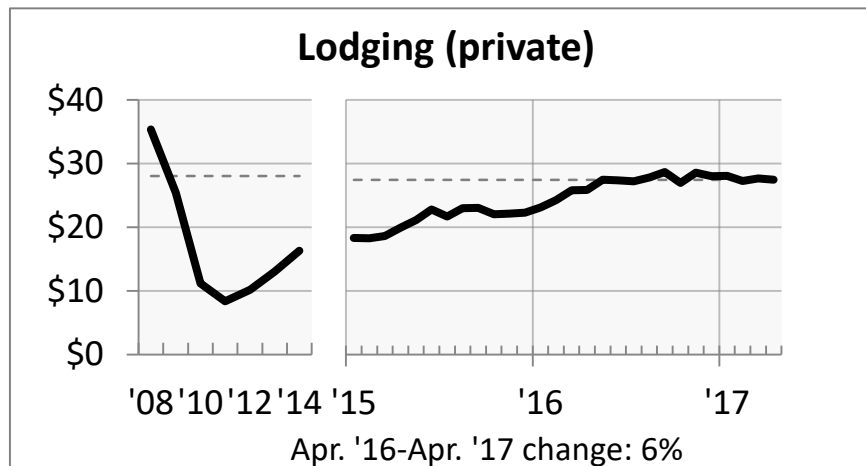
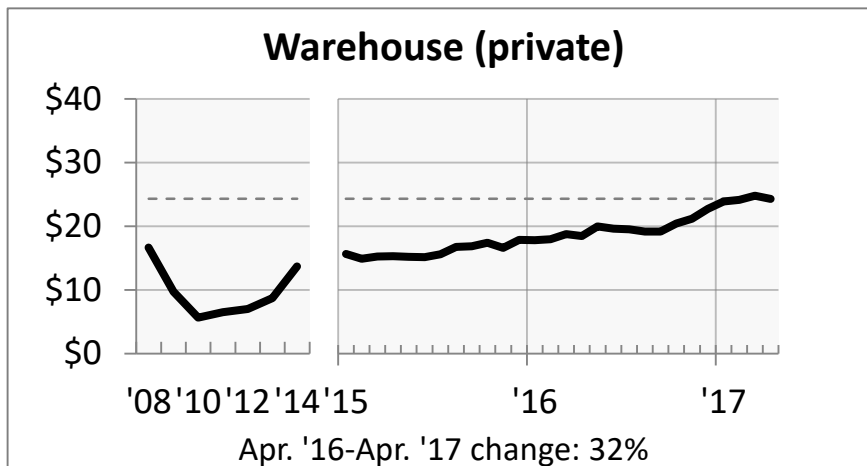
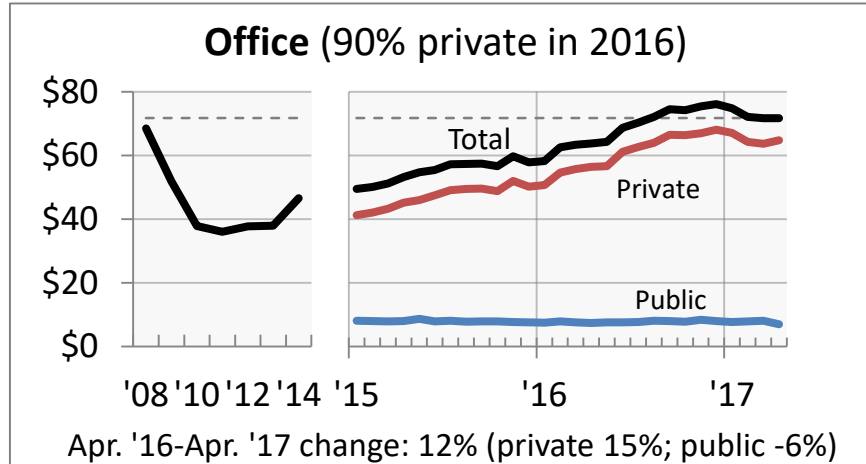
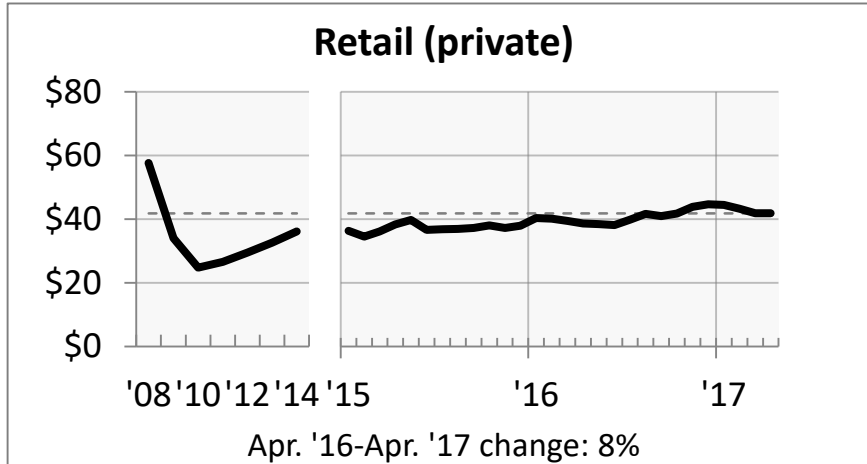
Apr. '16-Apr. '17 change: 0.02% (private hospital -0.1%; S/L hospital -16%; other: special care, med. office, federal 0.1%)

Key points: education & health care

- Bond issues passed in 2014-16 should boost preK-12 projects in 2017 and 2018
- Higher-ed enrollment declined 21% from 2011 to 2016, so colleges need fewer dorms & classrooms; apts. (multifamily) replacing dorms (educational construction)
- Hospitals face uncertainty about utilization and reimbursement rates if Affordable Care Act is repealed/modified/replaced; also, more competition from standalone urgent care, outpatient surgery, clinics in stores

Construction spending: developer-financed

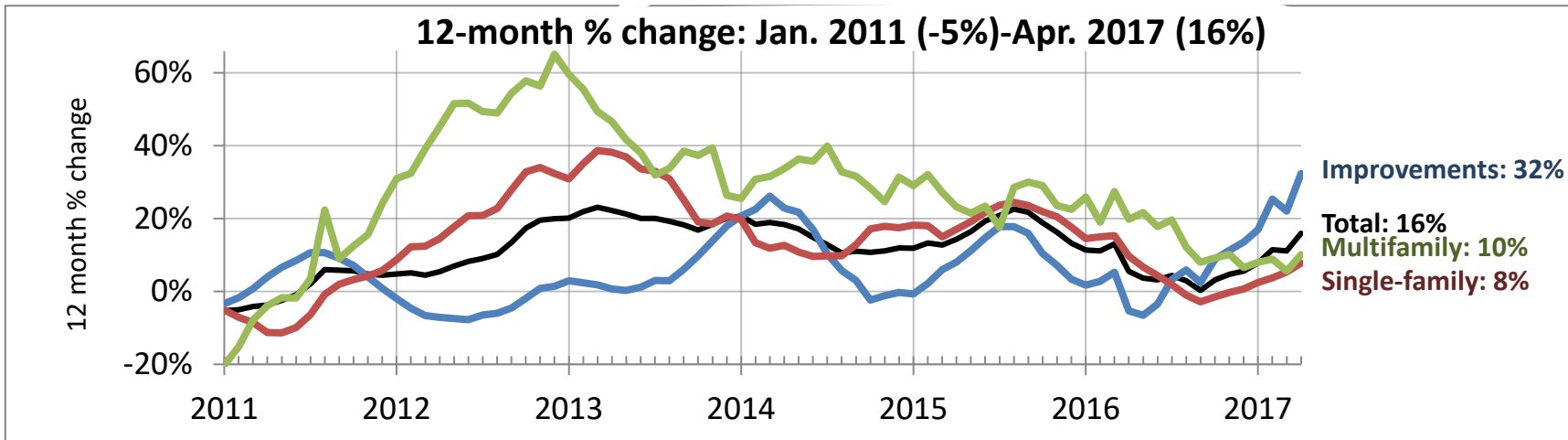
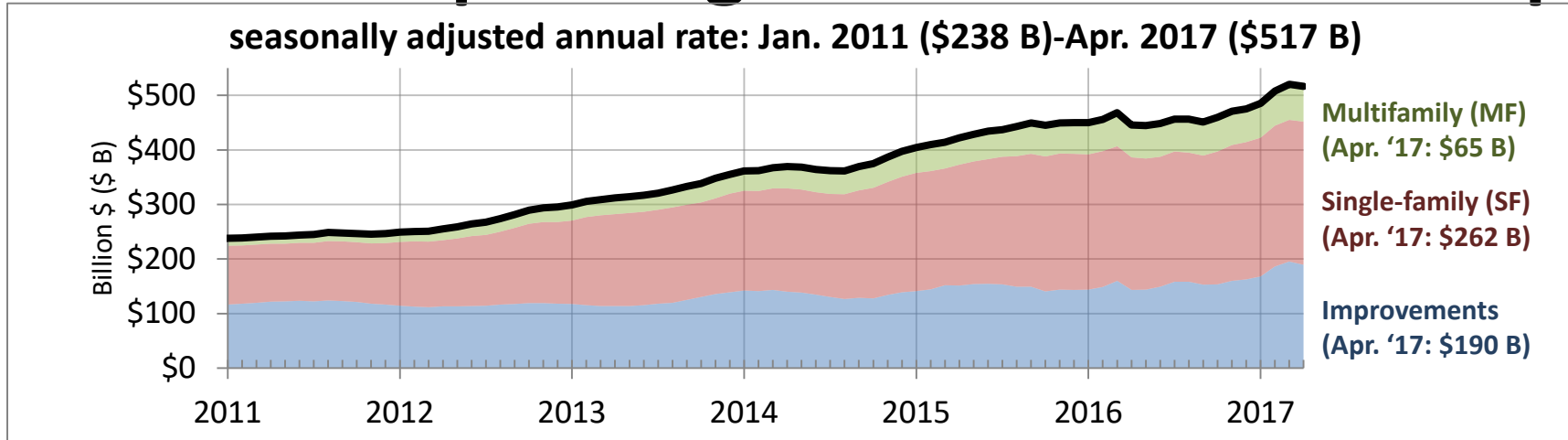
annual total, 2008-14; monthly (seasonally adjusted annual rate), 1/15-4/17; billion \$



Key points: retail, warehouse, office, hotel, data centers

- Retail now tied to mixed-use buildings & renovations, not standalone stores or shopping centers; spending has been flat since mid-2015
- Warehouse market still benefiting from e-commerce; more local than huge regional distribution centers likely in future
- Record employment each month but office space per employee keeps shrinking; more urban & renovation work than suburban office parks
- Hotel: flat since mid-2016; likely to drop as occupancy rates slip
- Data centers remain a strong niche but no data available on how strong

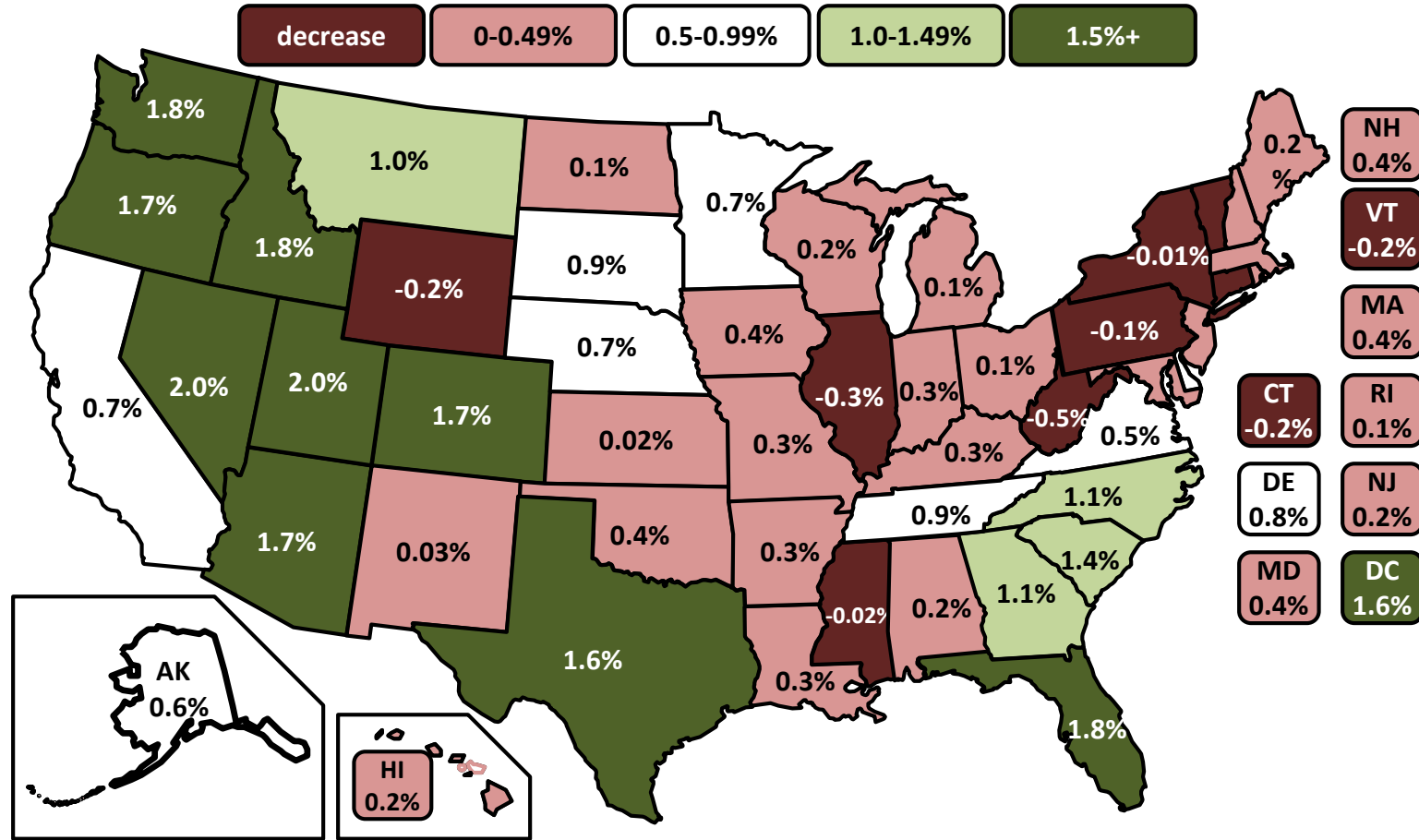
Private residential spending: MF continues to outpace SF



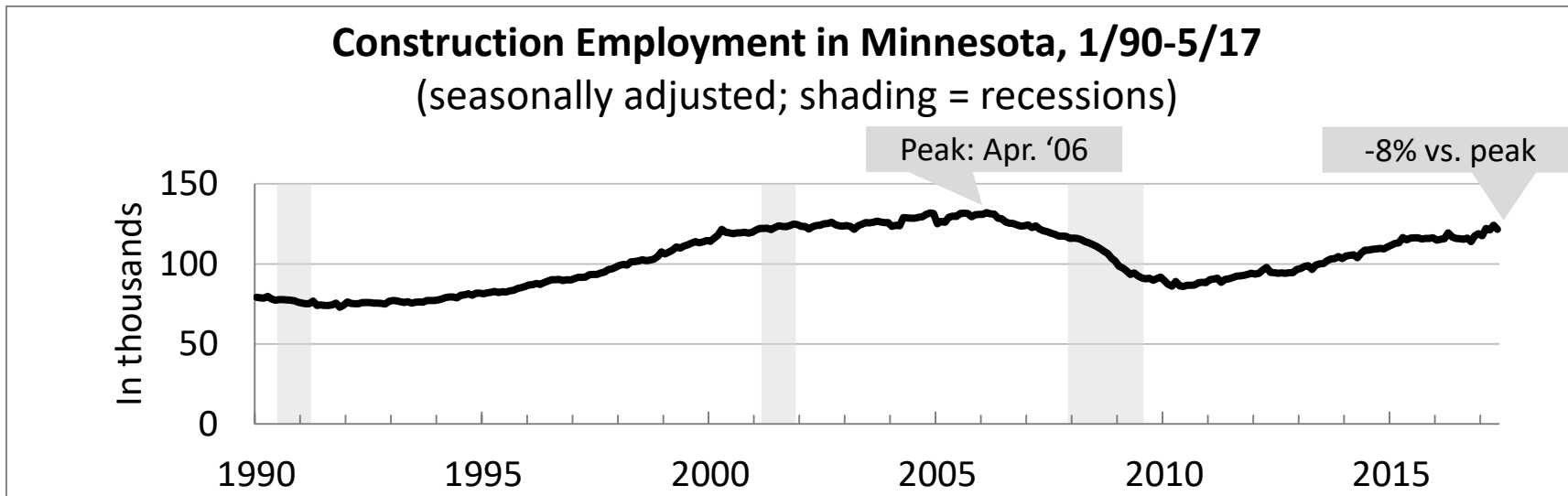
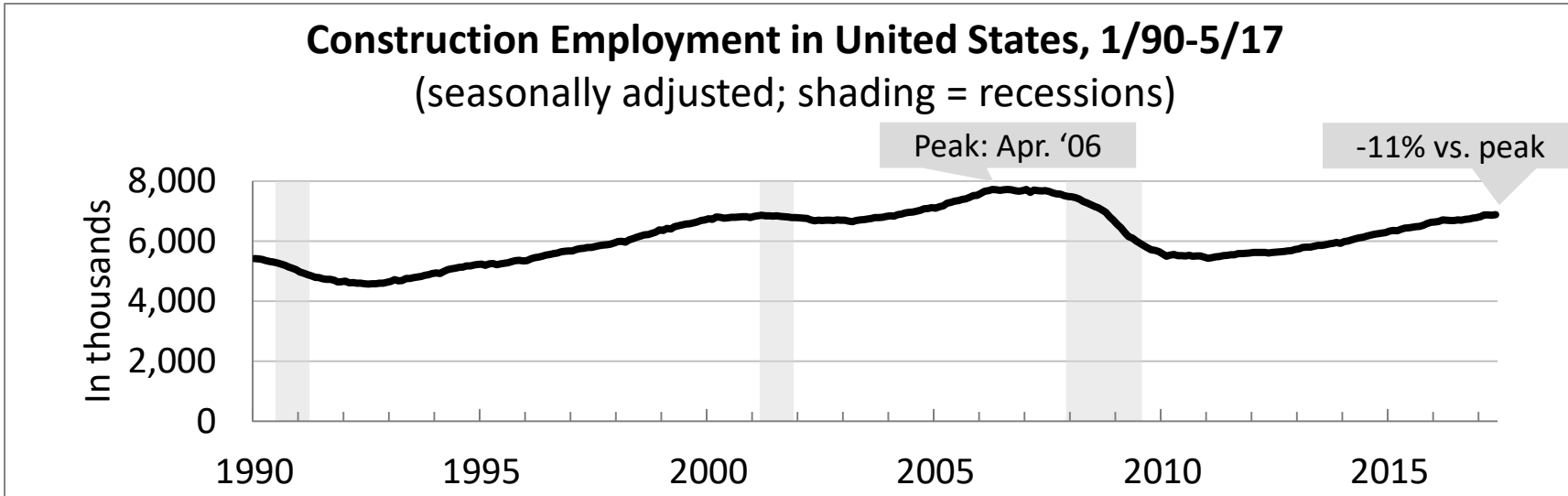
Private residential spending--2016: 6%; 2017 forecast: 6-10%

- SF: 4% in 2016, **7-11% in 2017**; ongoing job gains add to demand; but student debt and other credit impairments, limited supply of lots will limit growth
- MF: 16% in 2016, **5-8% in 2017**; growth is slowing, may turn negative in 2018
 - occupancy rates, rents have leveled off or dipped in some markets
 - millennials are staying longer in cities, denser suburbs where MF construction is bigger share of market than in outer suburbs
 - nearly all MF construction is rental, not condo; more high-rises
- Improvements: 4% in 2016, **5-15% in 2017**; Census data is not reliable and shows only a loose relationship to SF spending

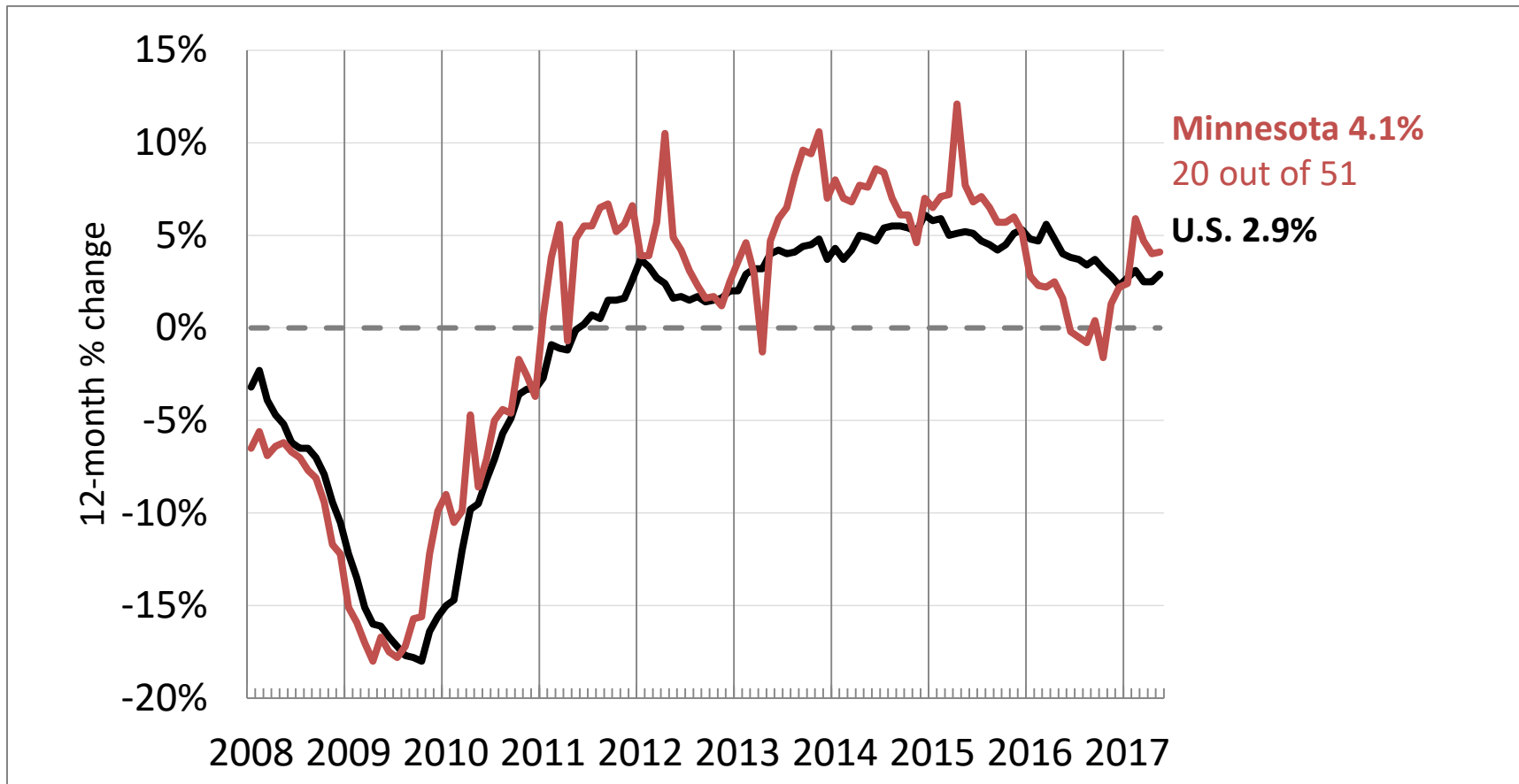
Population change by state, July 2015-July 2016 (U.S.: 0.70%)



Source: U.S. Census Bureau



Construction Employment Change from Year Ago 1/08-5/17 (seasonally adjusted)



Source: BLS

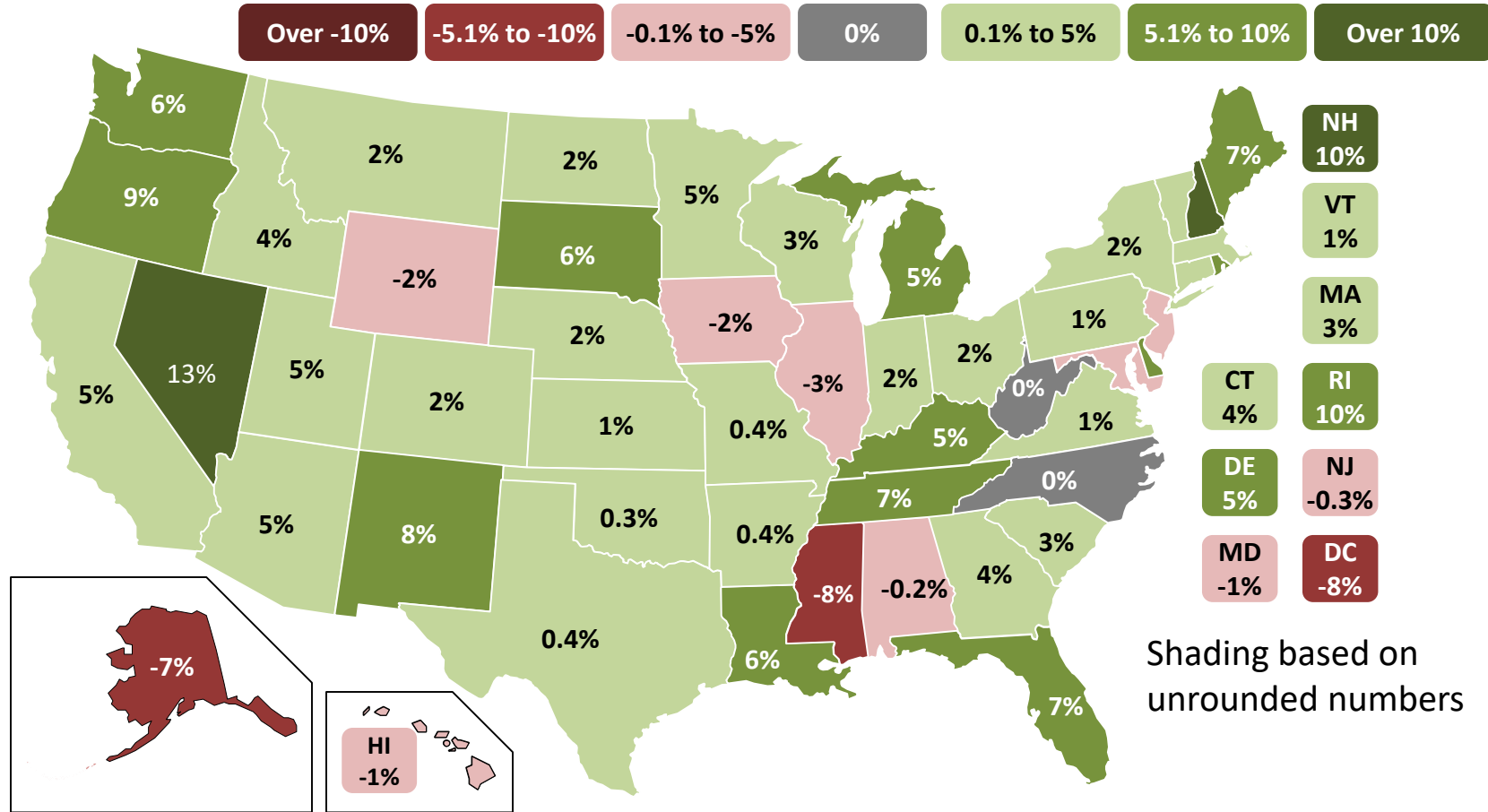
Change in construction employment, 5/16-5/17 (NSA)

Employment Change by Metro (not seasonally adjusted)		Rank (out of 358)
Metro area or division	5/16-5/17	
Statewide	4%	
Statewide* (construction, mining, logging)	4%	
Duluth, MN-WI*	8%	59
Minneapolis-St. Paul-Bloomington, MN-WI*	3%	182
Rochester*	-2%	309
	14%	8
<i>Fargo, ND-MN*</i>	<i>-1%</i>	<i>302</i>
<i>Grand Forks, ND-MN*</i>	<i>-15%</i>	<i>356</i>
<i>La Crosse-Onalaska, WI-MN*</i>	<i>0%</i>	<i>246</i>

*The Bureau of Labor Statistics reports employment for construction, mining and logging combined for most metro areas and some states in which mining and logging have few employers. To allow comparisons between states and their metros, the table shows combined employment change.

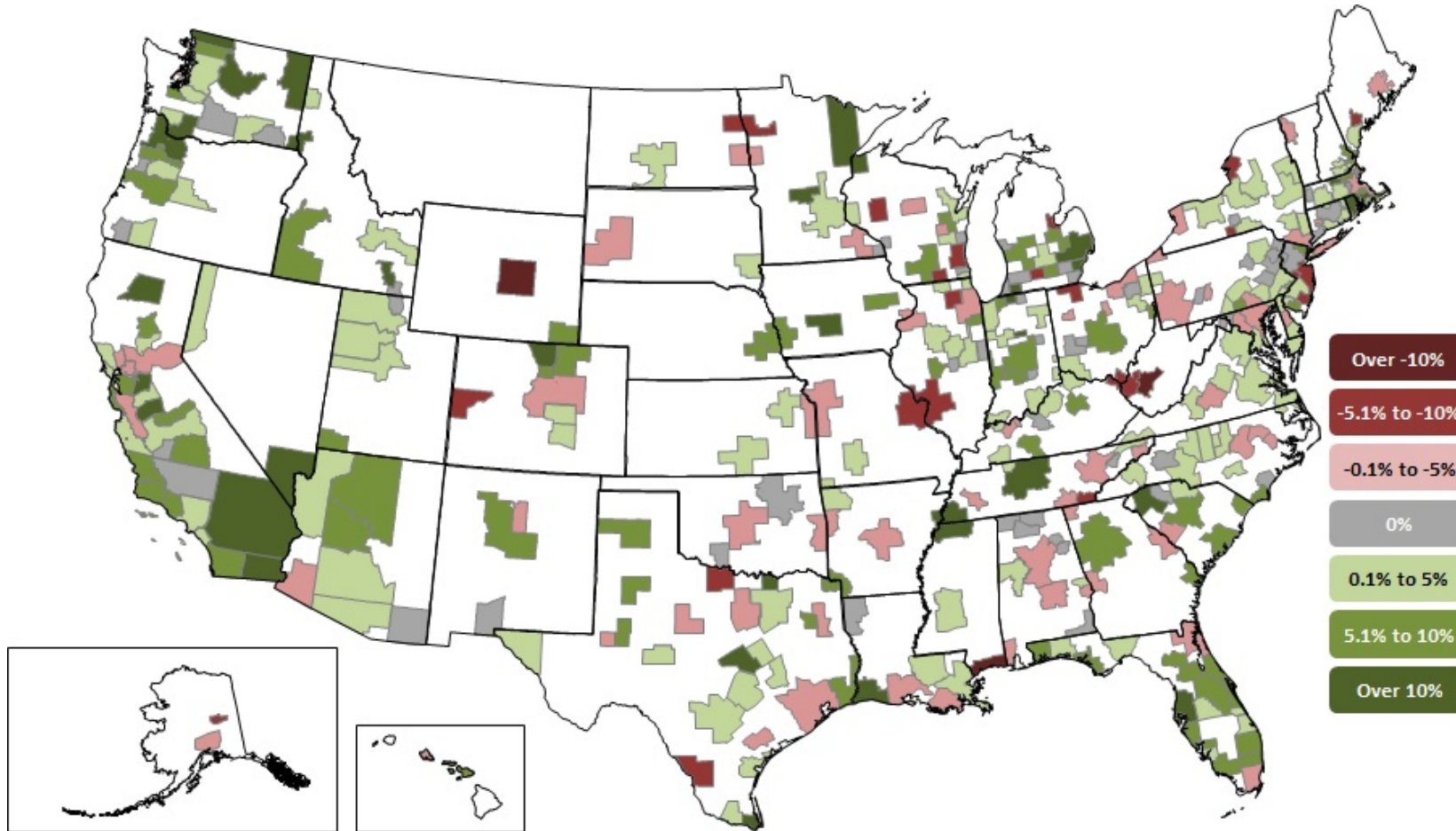
State construction employment change (U.S.: 2.5%)

4/16 to 4/17: 39 states up, 2 unchanged, 9 + DC down

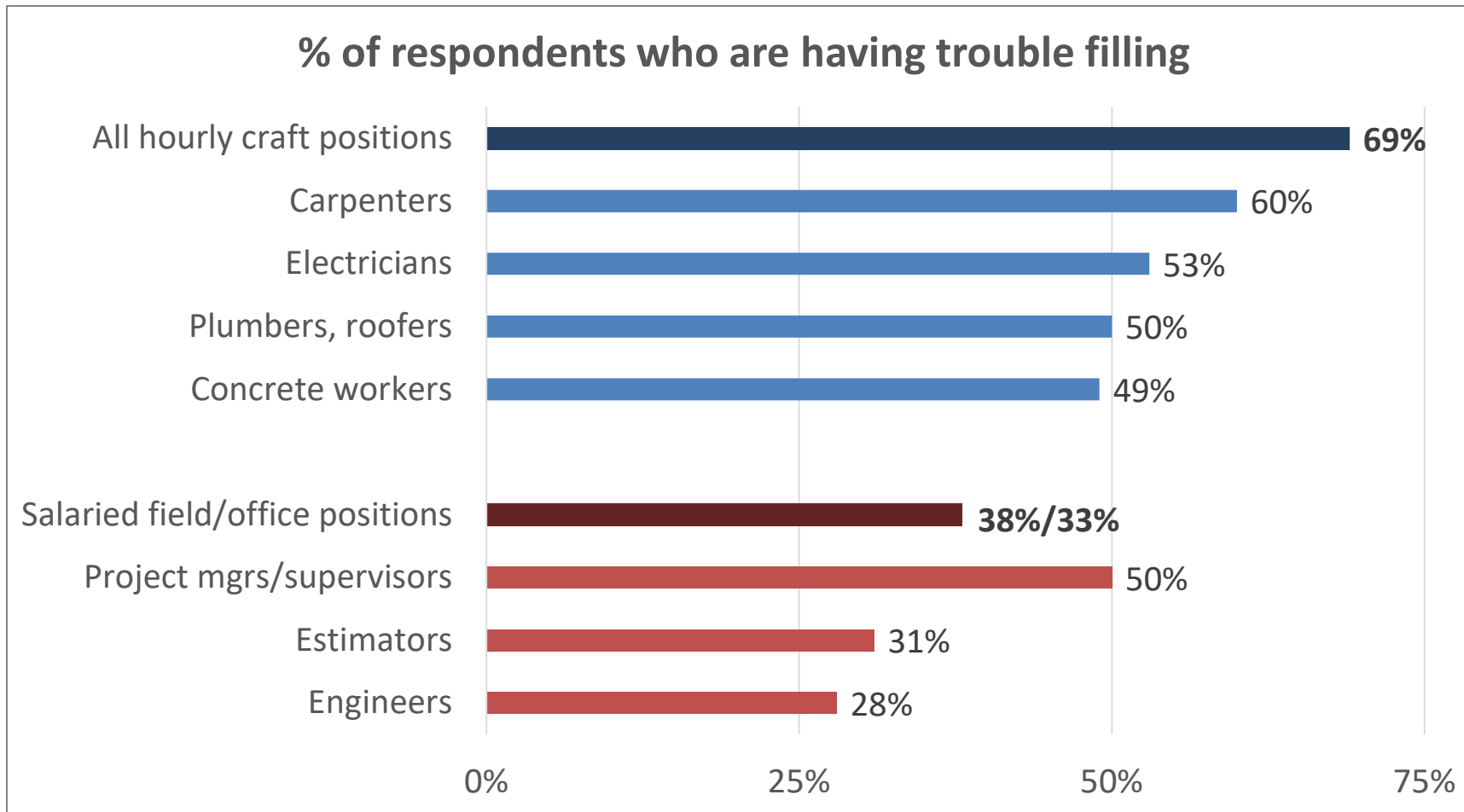


Metro construction employment change

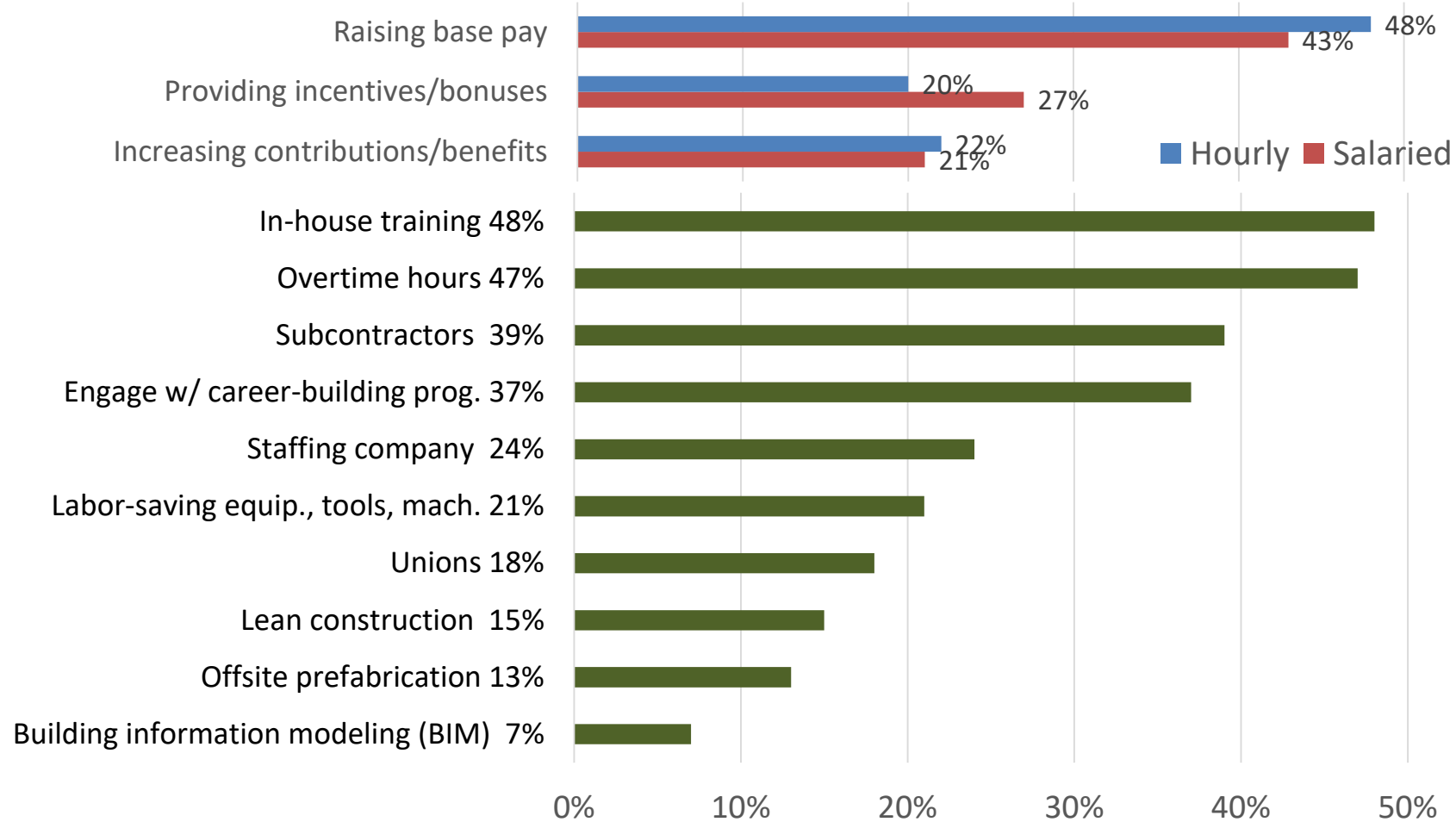
4/16 to 4/17: 217 metros **up (60%)**, 52 unchanged, 89 **down (24%)**



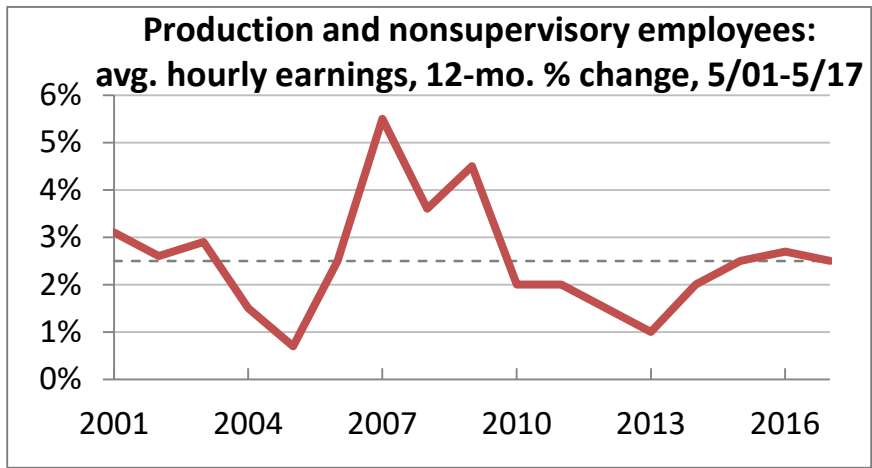
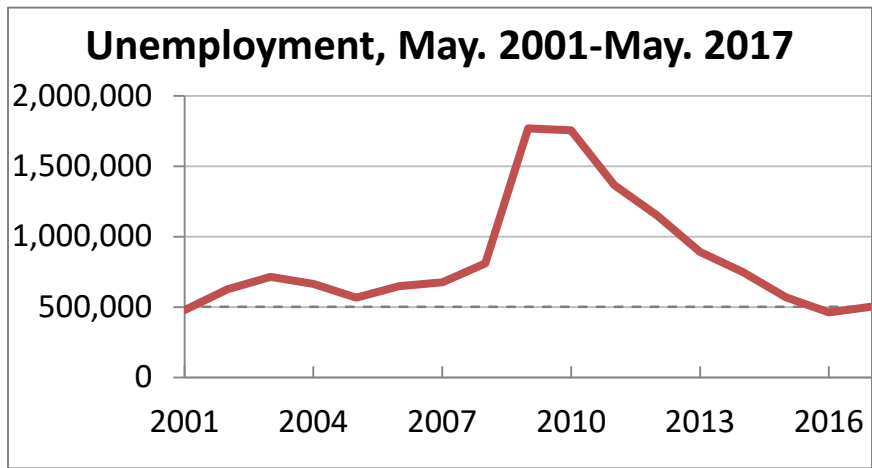
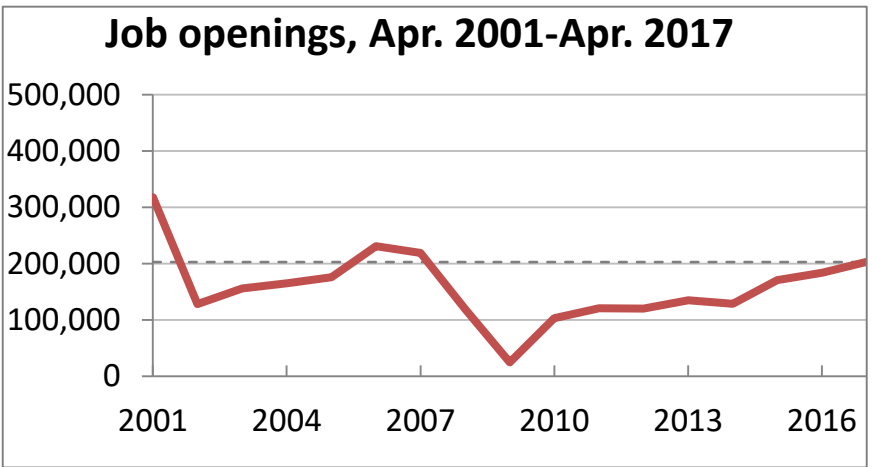
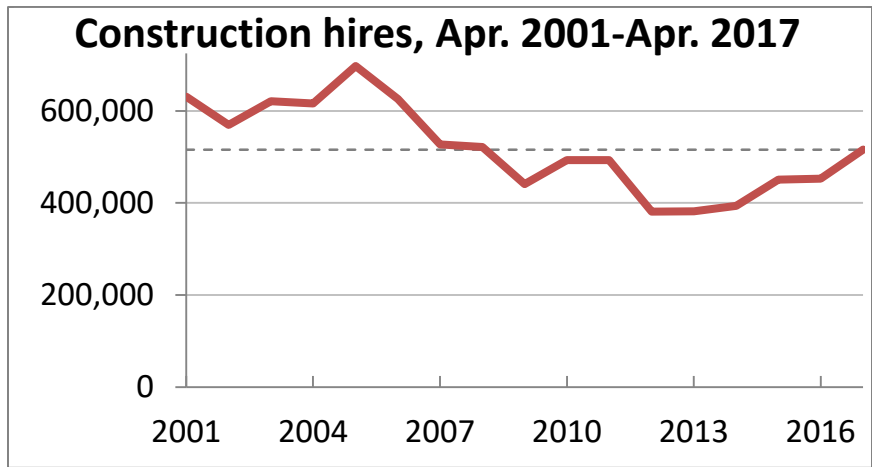
Hardest positions to fill



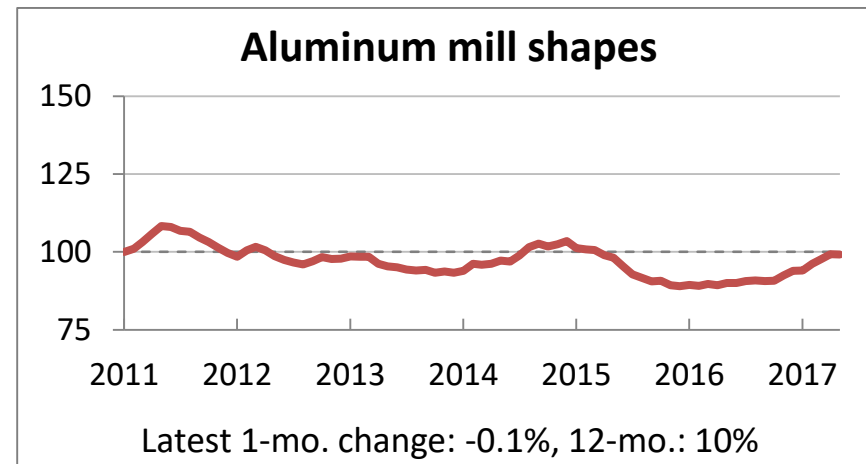
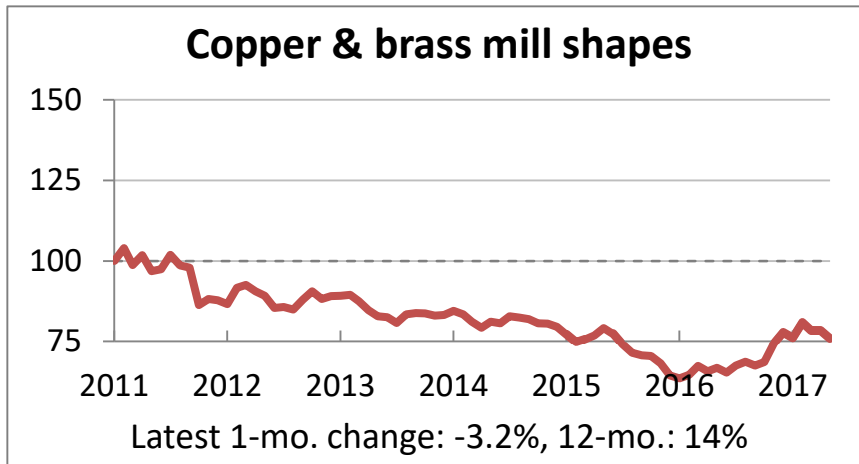
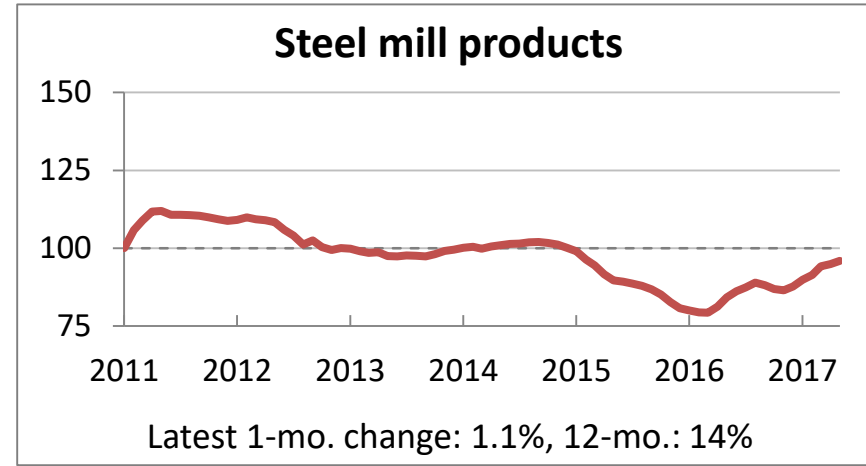
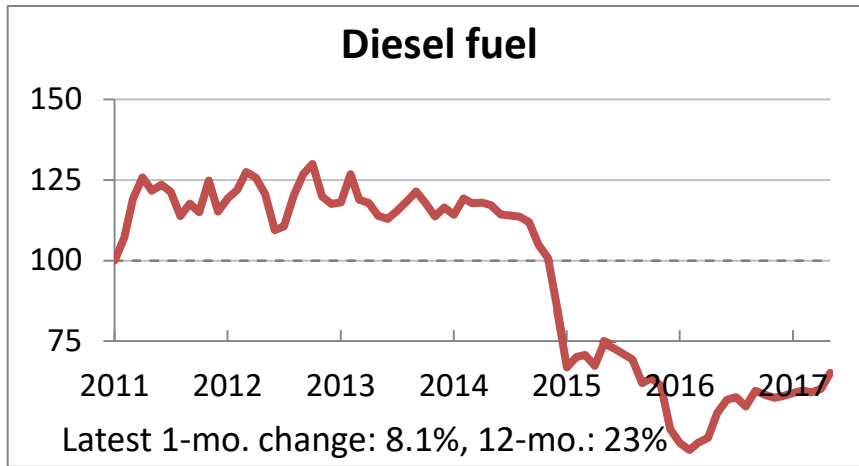
How contractors are coping with worker shortages



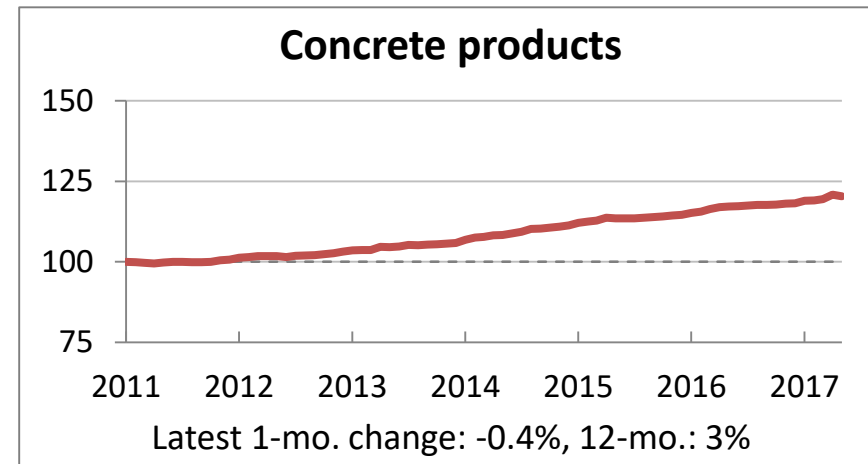
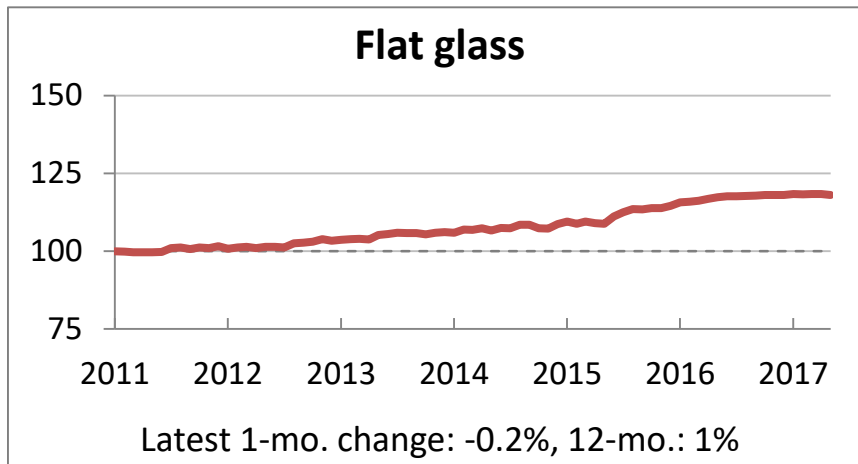
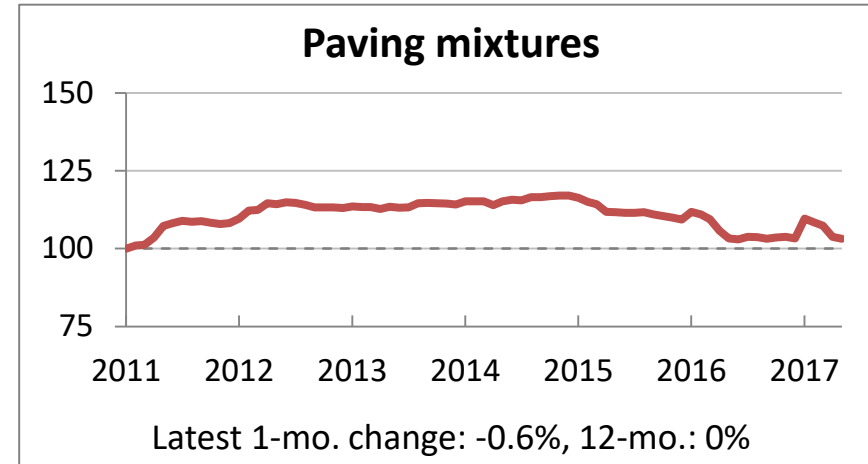
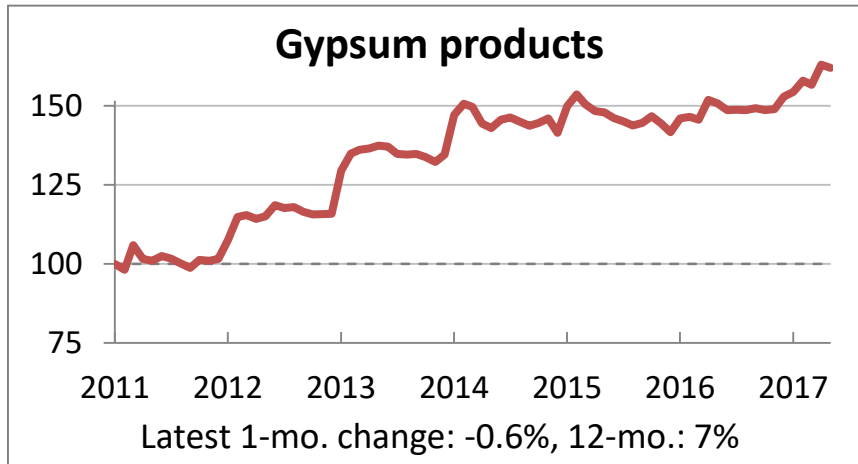
Construction workforce indicators (not seasonally adjusted)



Producer price indexes for key inputs, 1/11-5/17 (Jan. 2011=100)



Producer price indexes for key inputs, 1/11-5/17 (Jan. 2011=100)



2015-16 summary, 2017 forecast

	2015 actual	2016 actual	2017 forecast
Total spending	11%	5%	2-7%
Private – residential	17%	6%	6-10%
– nonresidential	8%	8%	2-7%
Public	5%	-1%	0-3%
Goods & services inputs PPI	-2%	2%	2-4%
Employment cost index	2.2%	2.2%	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
- yearly employment & outlook surveys, state and metro data, fact sheets:
www.agc.org/learn/construction-data



Data DIGest
AGC of America
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Quality People. Quality Projects.

Sept. 24-Oct. 2, 2009
Vol. 9, No. 33

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

[Download the one-page Data DIGest](#)

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.

The Data DIGest is a weekly summary of economic news; items most relevant to construction are in italics. All rights reserved.



Subscribe to Data DIGest
Ken Simonson, Chief Economist, Associated General Contractors of America
Phone: 703-837-5313 • Fax: 703-837-5407 Email: simonsonk@agc.org