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Construction Spending, Labor & Materials Outlook

July 5, 2016

Ken Simonson

Chief Economist, AGC of America

simonsonk@agc.org

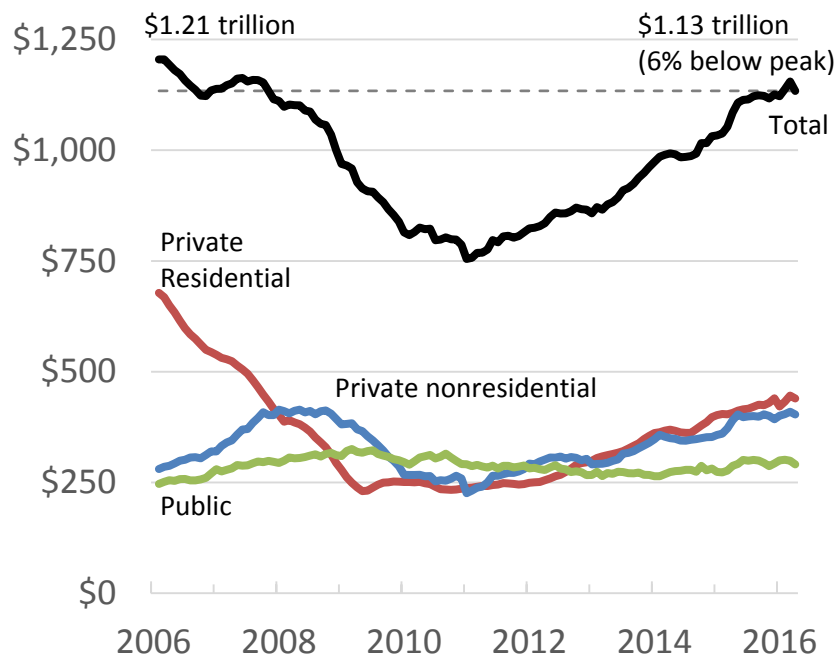


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Construction spending & employment, 2006-16

Total spending, Feb. '06 (peak)-Apr. '16

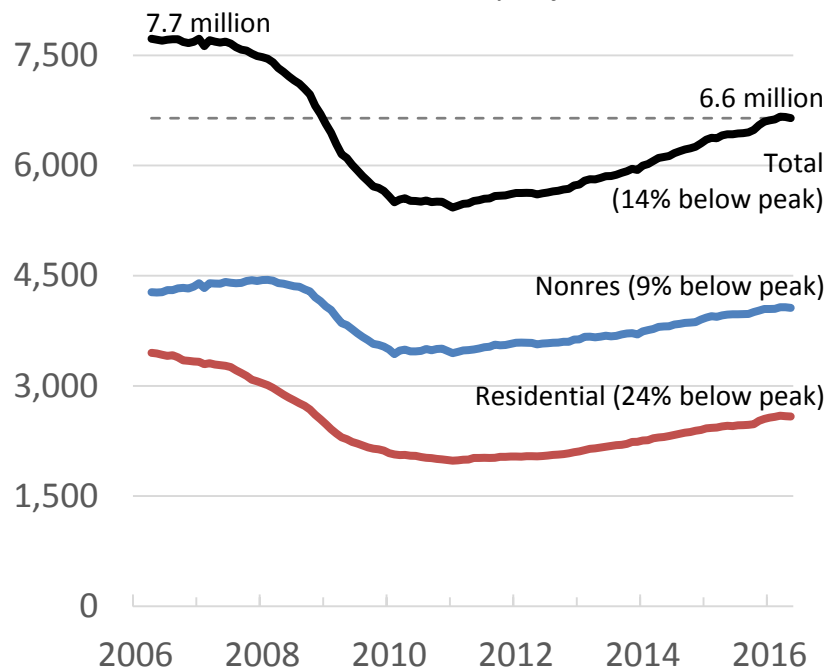
billion \$, seasonally adjusted annual rate (SAAR)



April 2015-April 2016: total 5%
private res. 8%, private nonres. 3%, public 1%

Total employment, Apr. '06 (peak)-May '16

thousands, seasonally adjusted



May 2015-May 2016: total 3.4%
residential 5.2%, nonresidential 2.3%

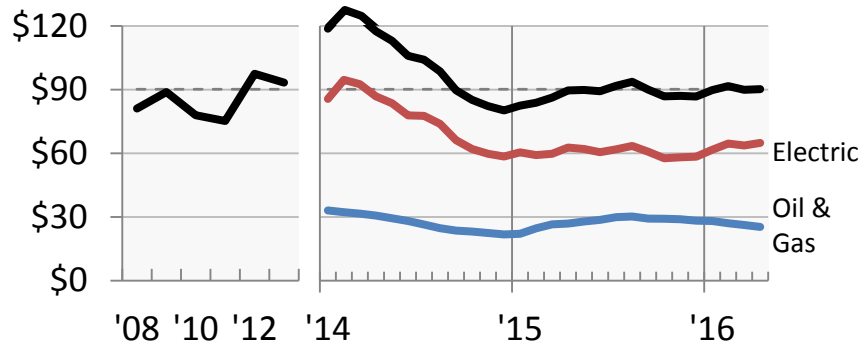
Nonresidential segments: 2015 actual, 2016-17 forecast

	<u>2015 vs.</u> <u>2014</u>	<u>Jan.-May</u> <u>'16 vs. '15</u>	<u>2016</u>	<u>2017</u>
<u>Nonresidential total (public+private)</u>	<u>7 %</u>	<u>7%</u>	<u>2-7%</u>	<u>2-6%</u>
Power (incl. oil & gas field structures, pipelines)	-16	7	6-10	5-10
Highway and street	6	7	4-6	2-5
Educational	5	9	3-6	2-5
Manufacturing	33	-1	-10 to 0	<0
Commercial (retail, warehouse, farm)	6	11	0-5	0-5
Office	18	21	10-15	5-10
Transportation	8	0	0-5	0-5
Health care	5	4	3-8	3-8
Sewage and waste disposal	5	2		
Lodging	30	27	5-15	<0
Other--amusement; communication; religious; public safety; conservation; water: 11% of total	9	3		

Construction spending: industrial, heavy

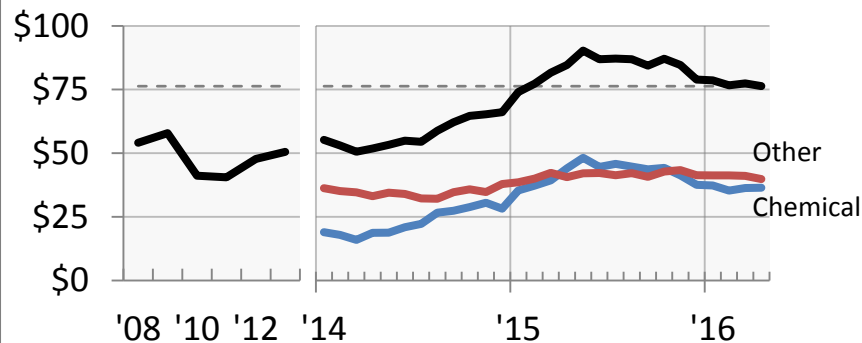
annual total, 2008-13; monthly, SAAR, 1/14-4/16; billion \$

Power (90% public)



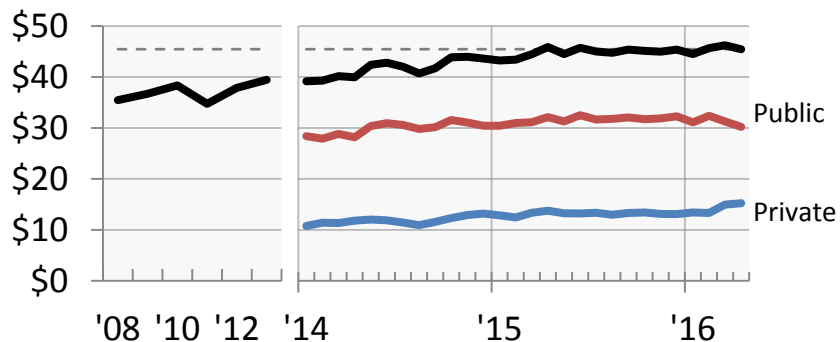
Apr. '15-Apr. '16 change: 1% (oil & gas -6%; electric 3%)

Manufacturing (99% public)



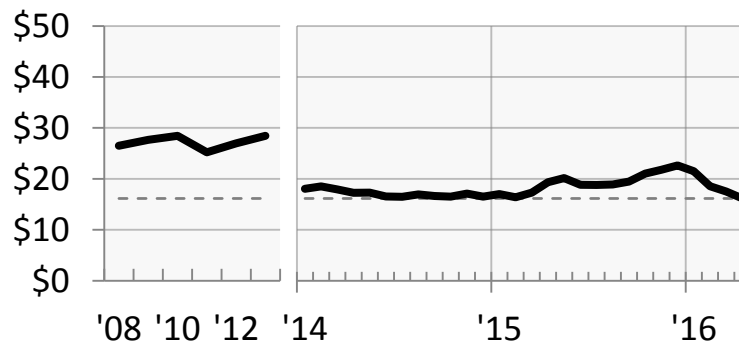
Apr. '15-Apr. '16 change: -10% (chemical -17%; other -2%)

Transportation facilities (66% public)



Apr. '15-Apr. '16 change: -1% (private 11%; public -6%)

Communication (99.5% private)



Apr. '15-Apr. '16 change: -16%



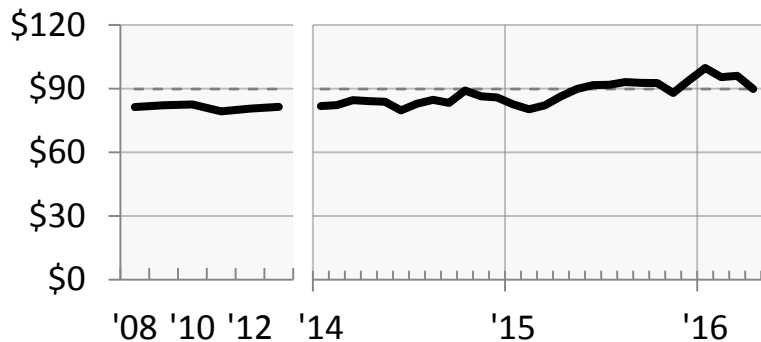
Key points: power, mfg., transportation

- Solar, wind power are growing again; expect more gas-fired plants, natural gas pipelines into '18
- Mfg growth led by chemicals (petrochemical plants, ethane crackers, LNG) and transportation equipment (cars, trucks, jets, railcars, barges); but few new starts; cuts in plants tied to farming, mining, exports
- Private (mainly rail) investment in transportation will decline; small gains for public airports, ports, transit

Construction spending: public works

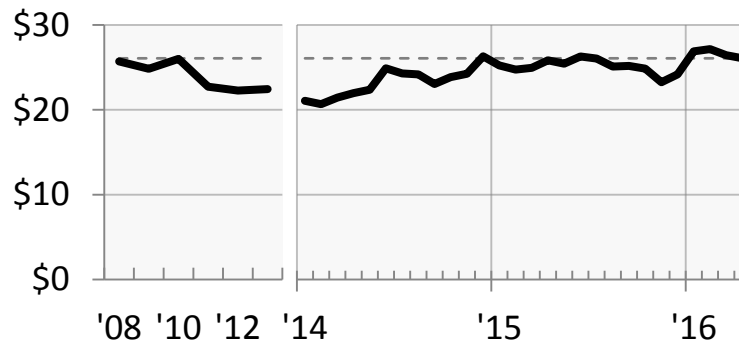
annual total, 2008-13; monthly, SAAR, 1/14-4/16; billion \$

Highways (99.5% public)



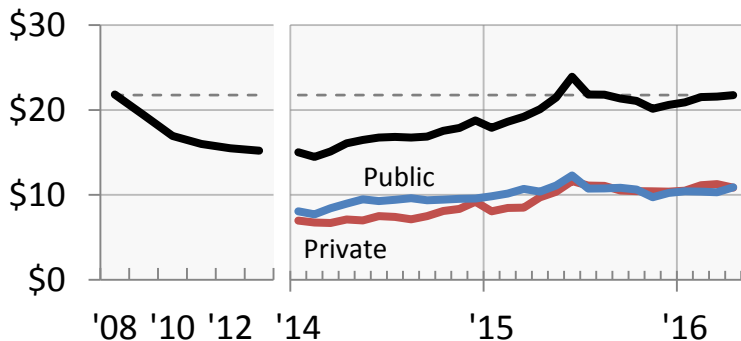
Apr. '15-Apr. '16 change: 4%

Sewage/waste (97% public)



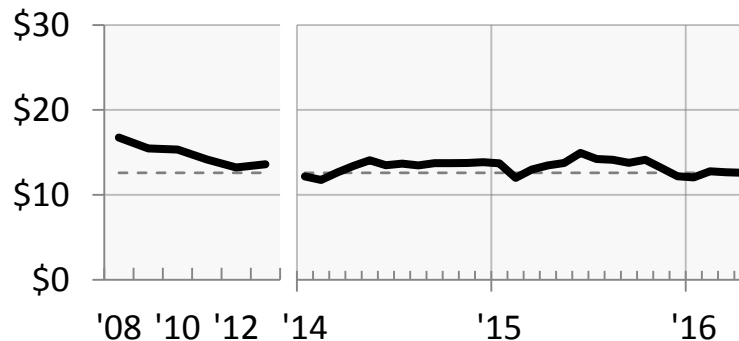
Apr. '15-Apr. '16 change: 1%

Amusement & recreation (50% public)



Apr. '15-Apr. '16 change: 8% (private 12%; public 5%)

Water supply (99% public)



Apr. '15-Apr. '16 change: -6%

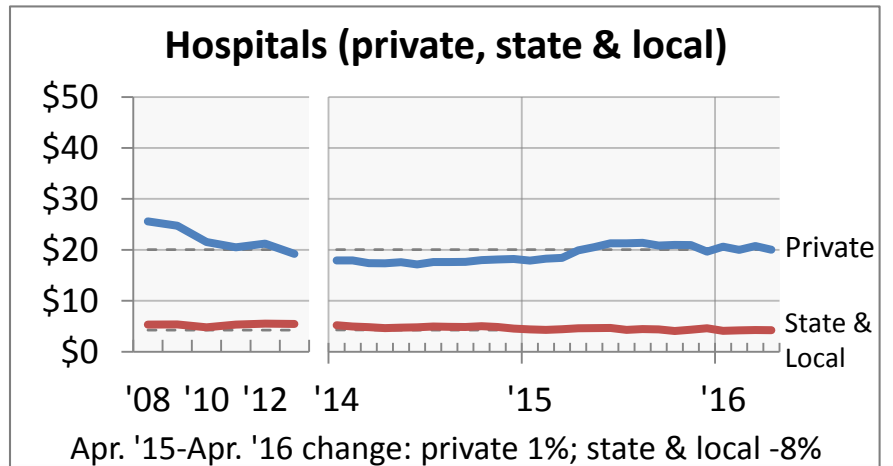
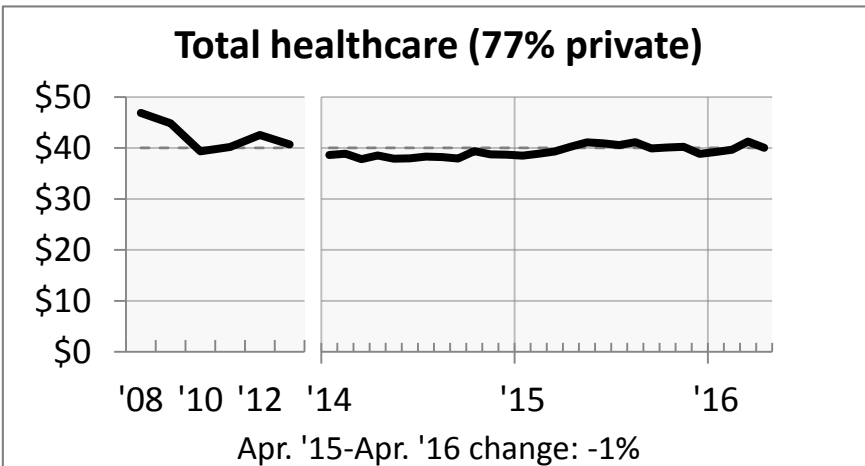
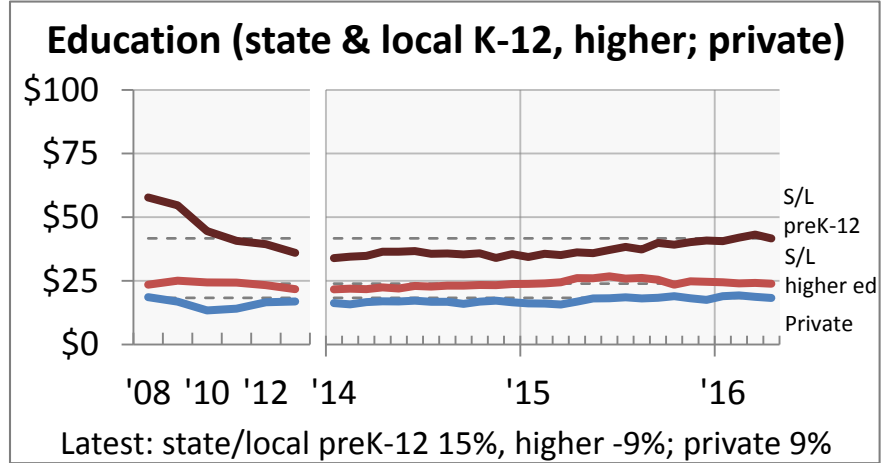
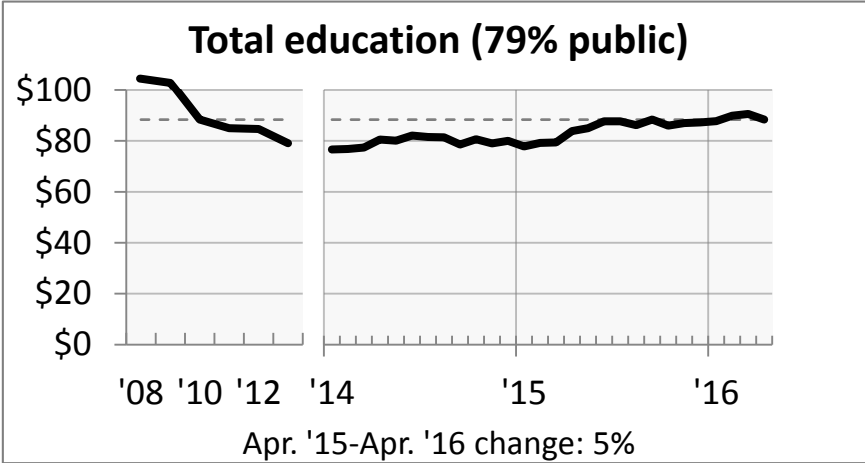


Key points: roads, recreation, sewer/water

- Highway funds benefit from more travel, hence fuel purchases; gradual pick-up in state funding & P3s
- Amusement & recreation spending is very “lumpy” — a few big stadiums at irregular intervals; but funding for local, state, federal parks keeps eroding
- 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, 1/14-4/16; billion \$

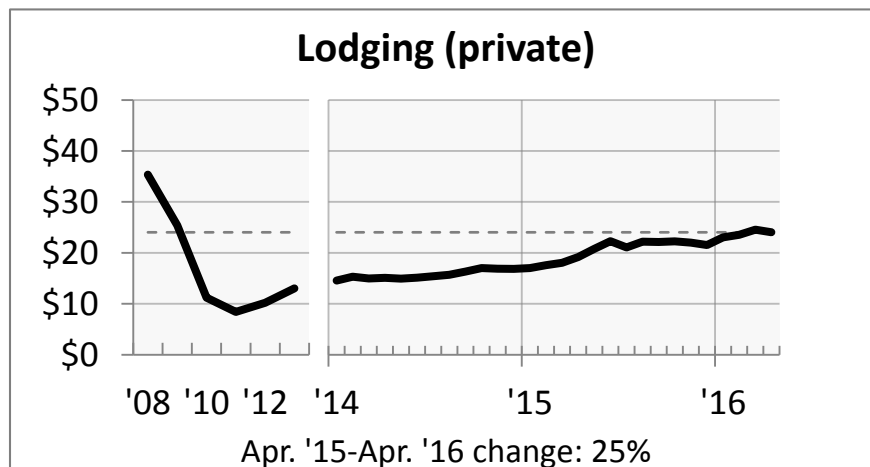
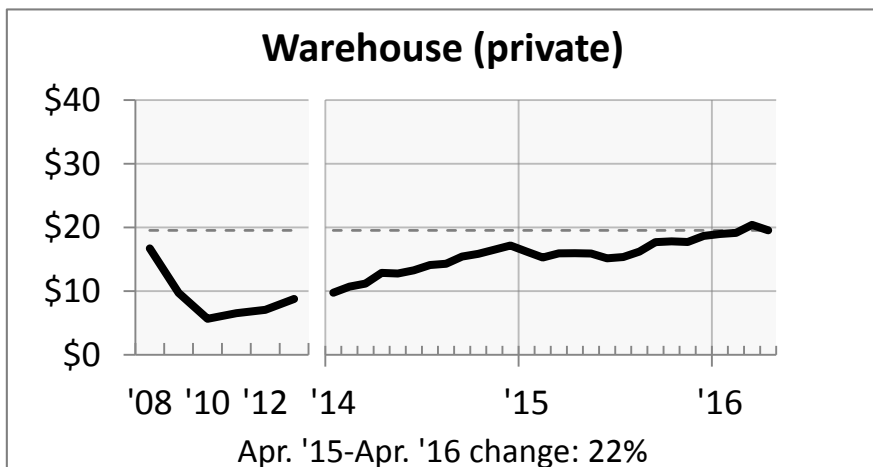
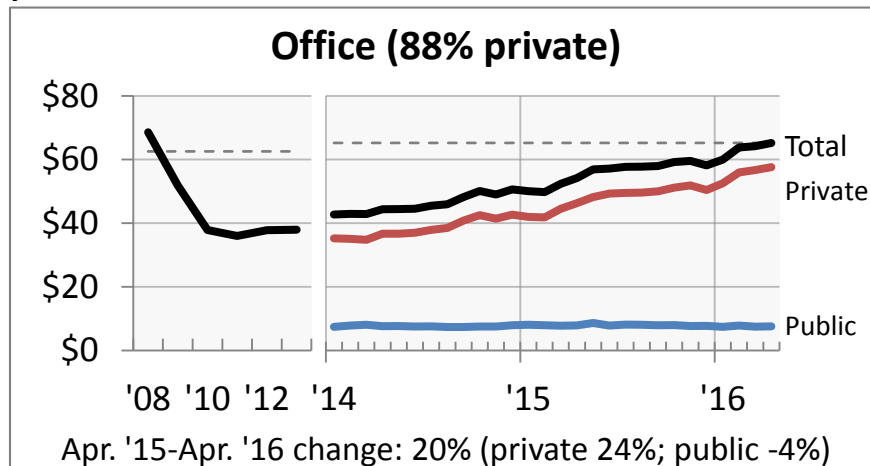
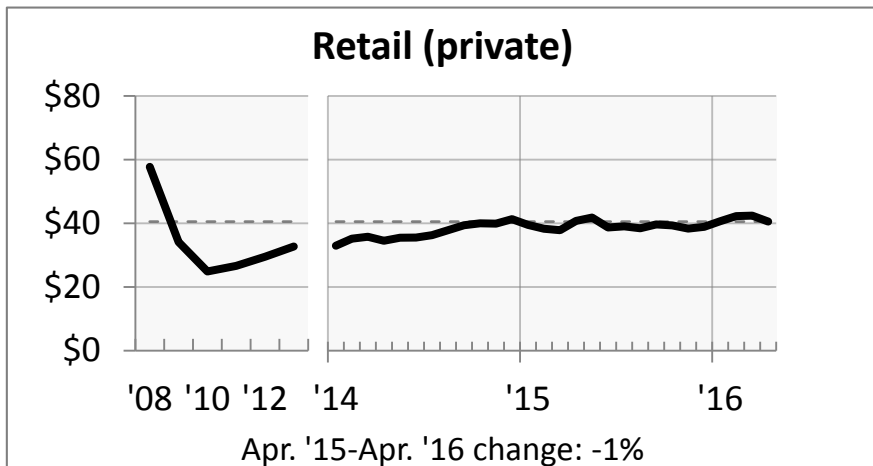


Key points: education & health care

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

Construction spending: developer-financed

annual total, 2008-13; monthly, SAAR, 1/14-4/16; billion \$



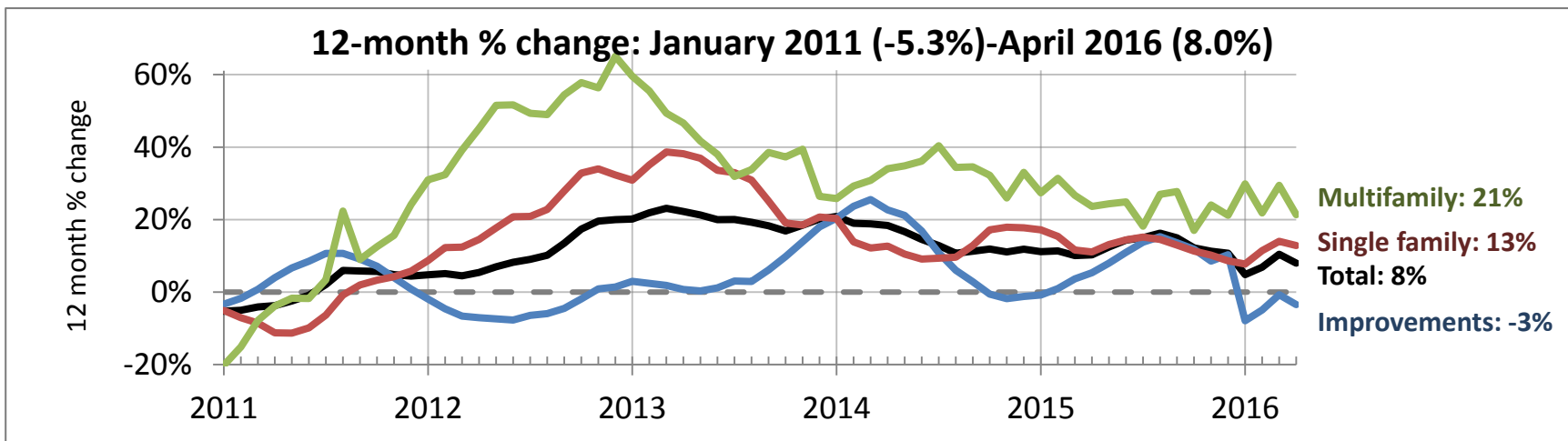
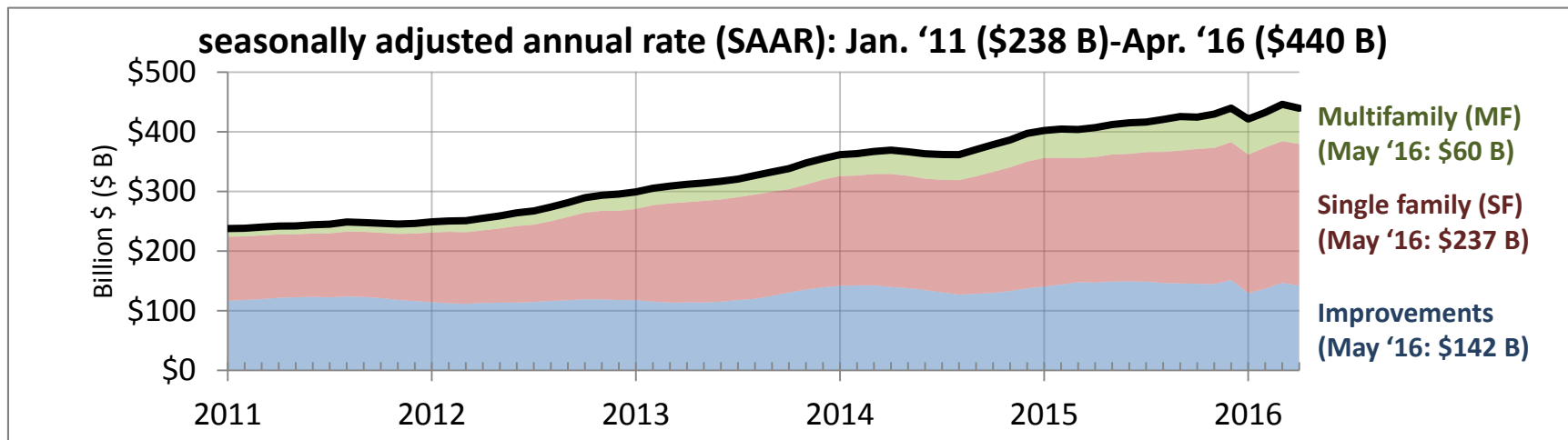
Key points: retail, warehouse, office, hotel

- 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 declines

Major locations for data centers



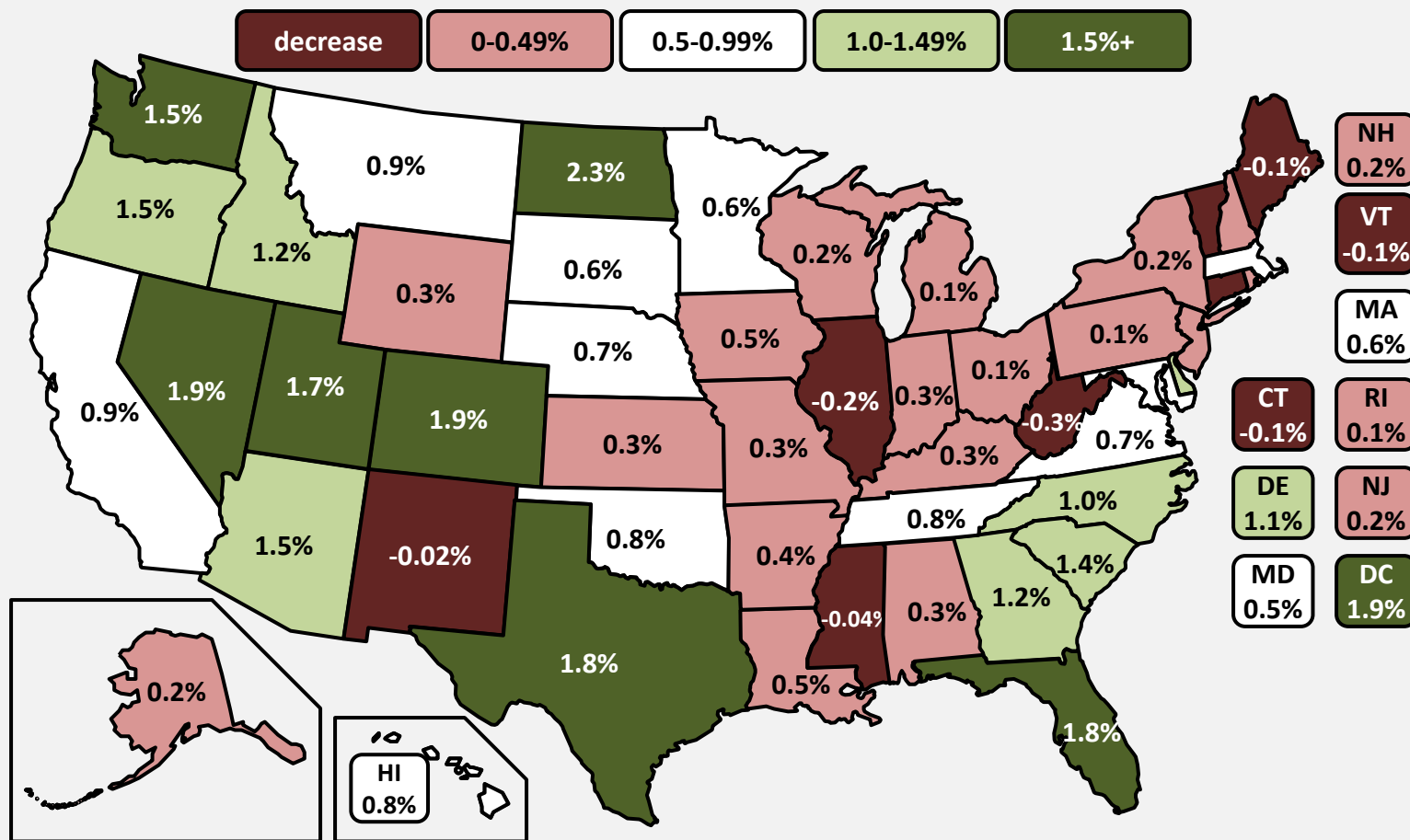
Private residential spending: MF continues to outpace SF



2016 residential spending forecast: 5-9%

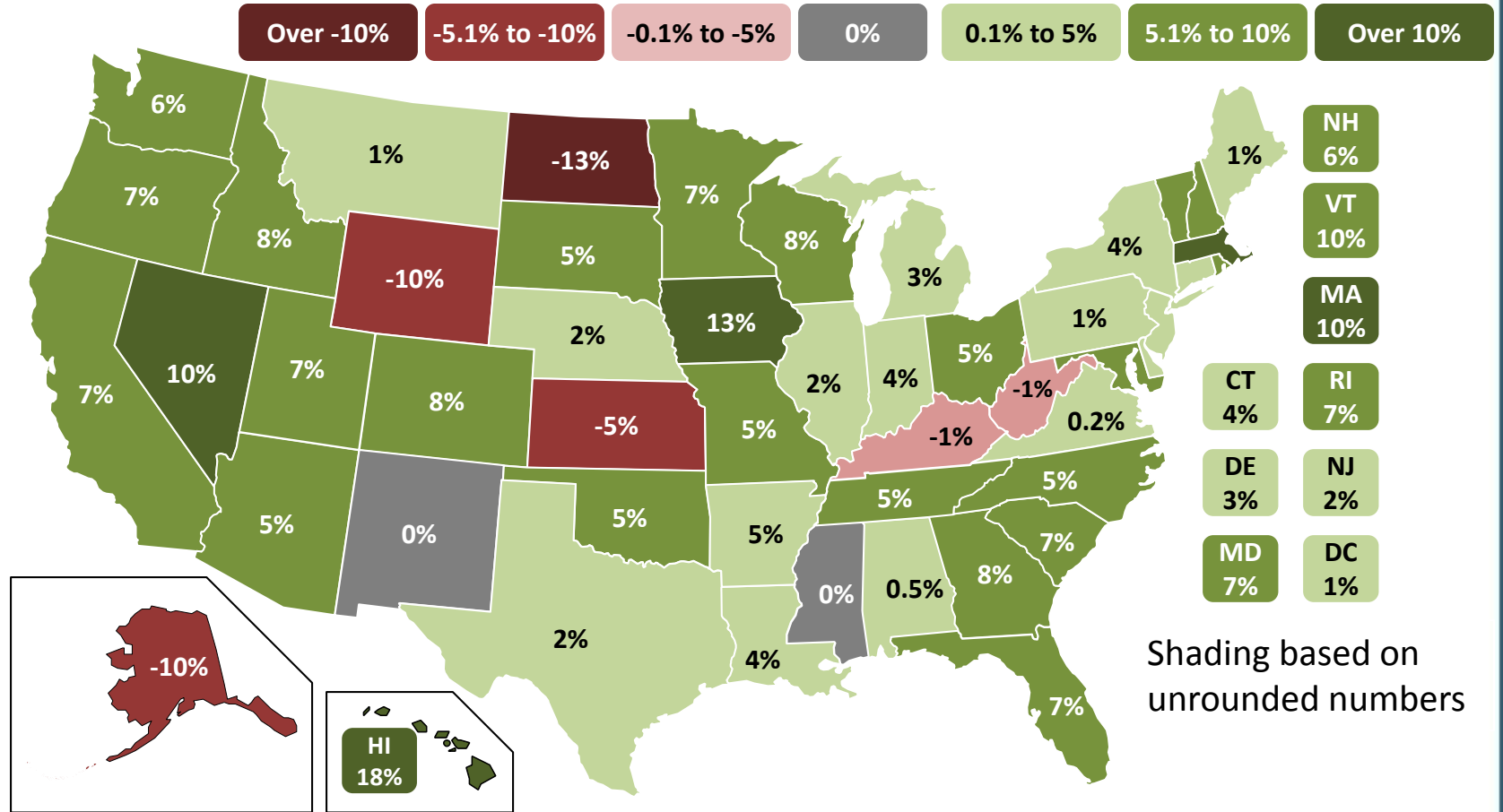
- SF: 6-9%; ongoing job gains add to demand; student debt, fears of lock-in, limited supply will cap growth
- MF: 8-12%; growth is slowing but should last through 2017
 - low vacancies, high rent growth encourage investors
 - millennials show continued preference for cities
 - nearly all MF construction is rental, not condo
- Improvements: 0-10%; Census data is not reliable and shows only a loose relationship to SF spending

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



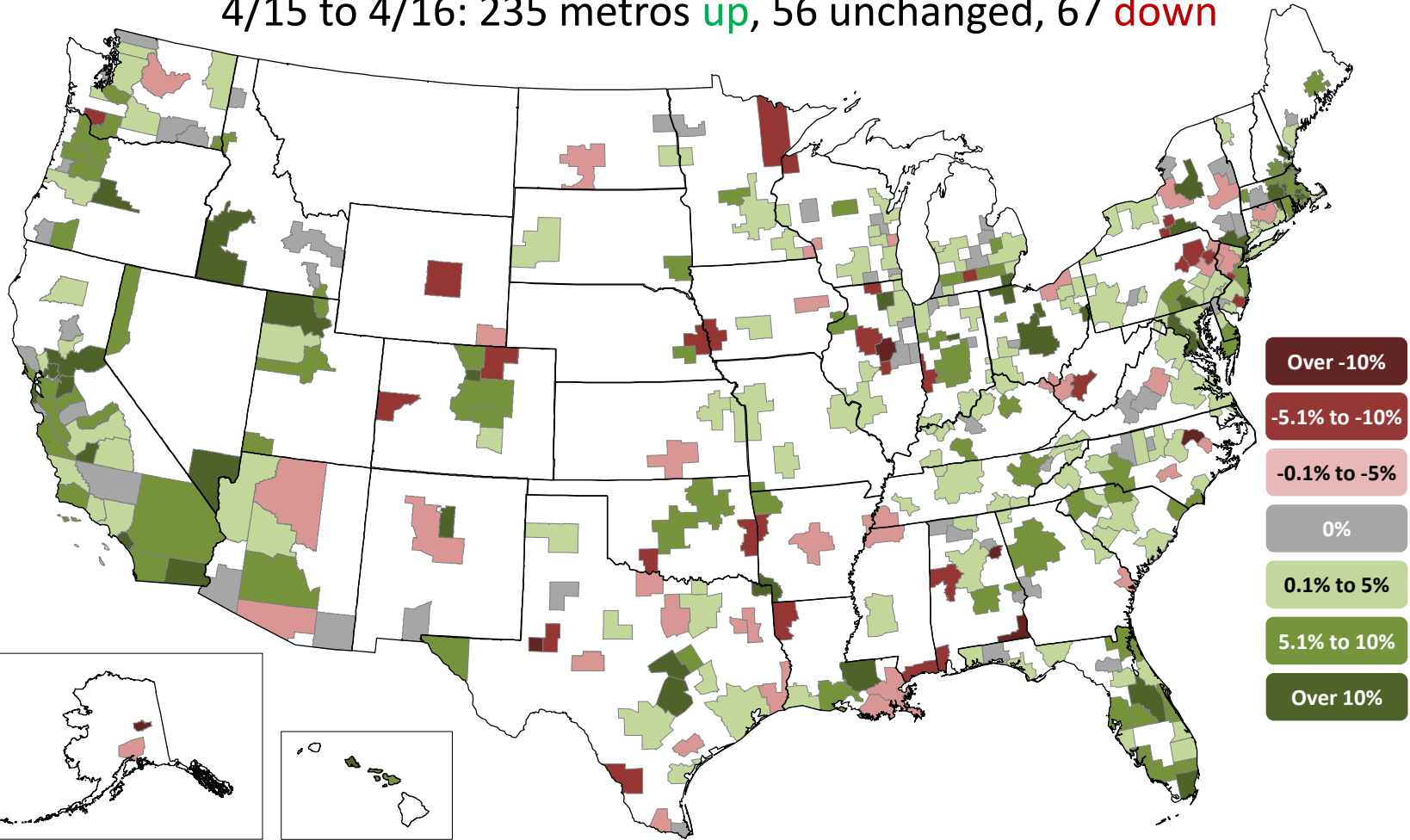
State construction employment change (U.S.: 3.9%)

4/15 to 4/16: 42 states + DC up, 2 unchanged, 6 down

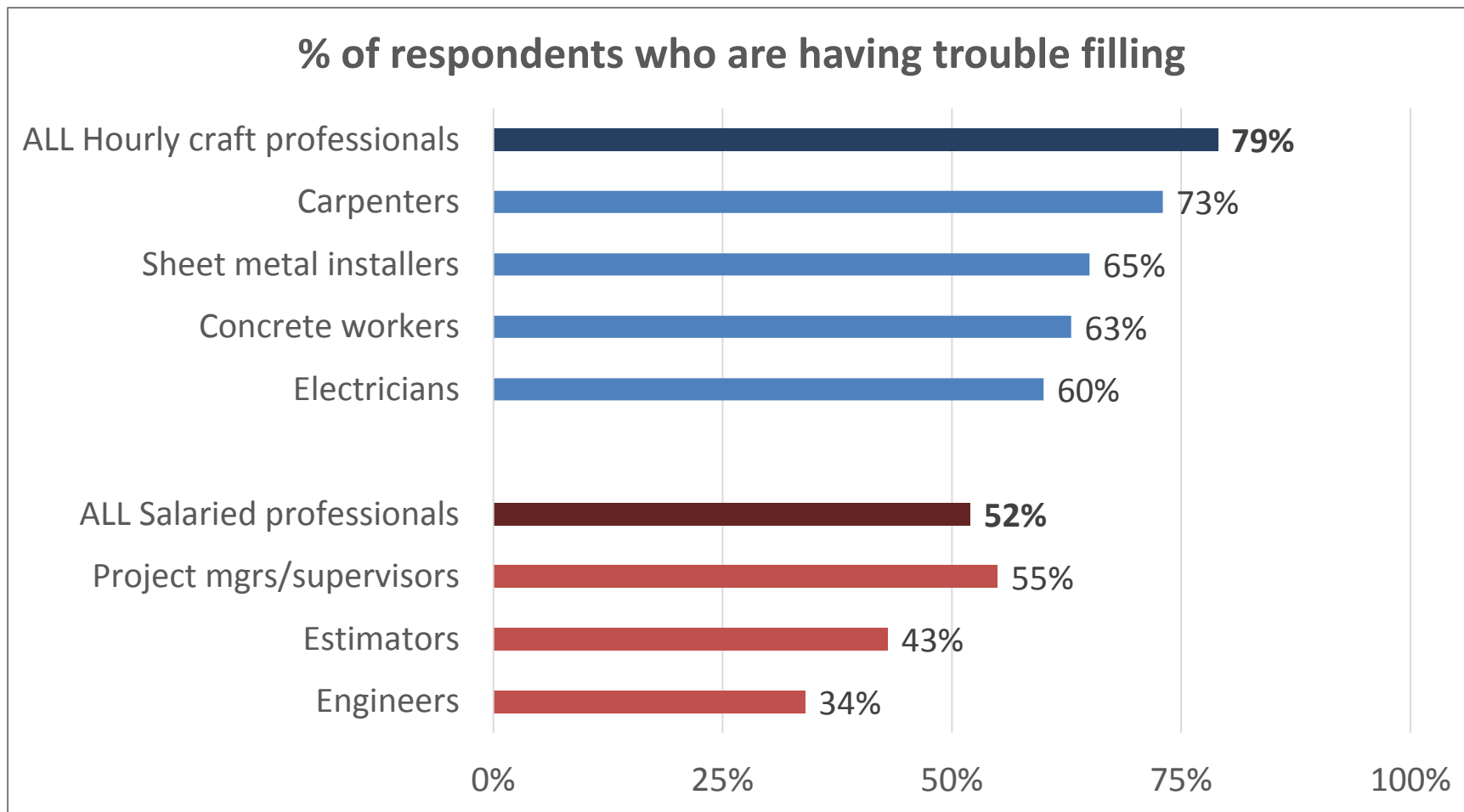


Metro construction employment change

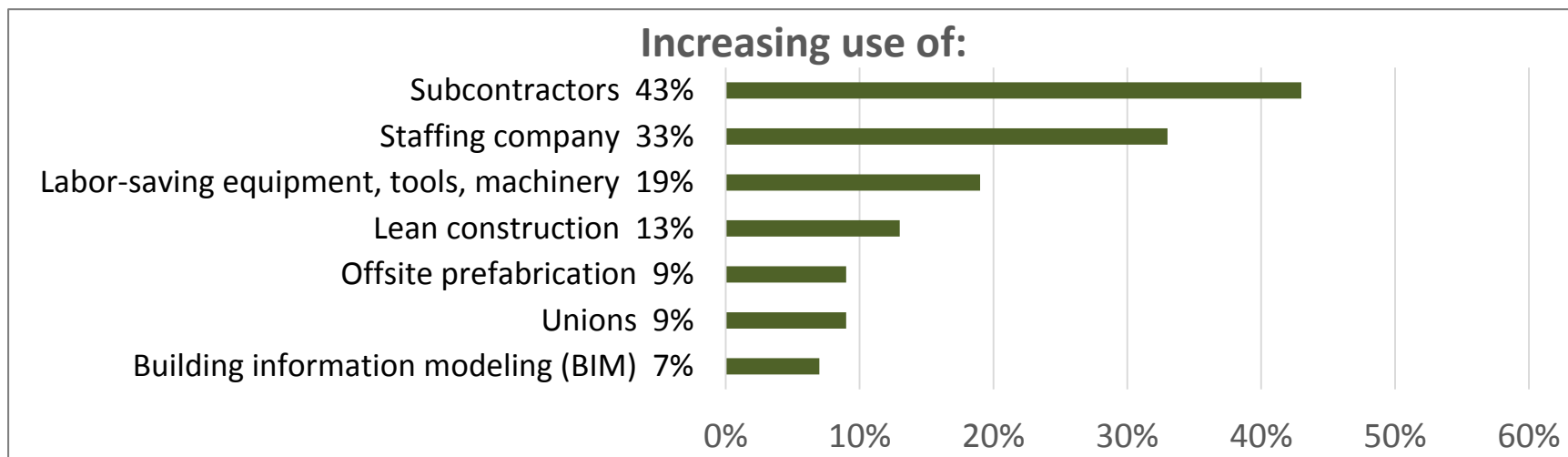
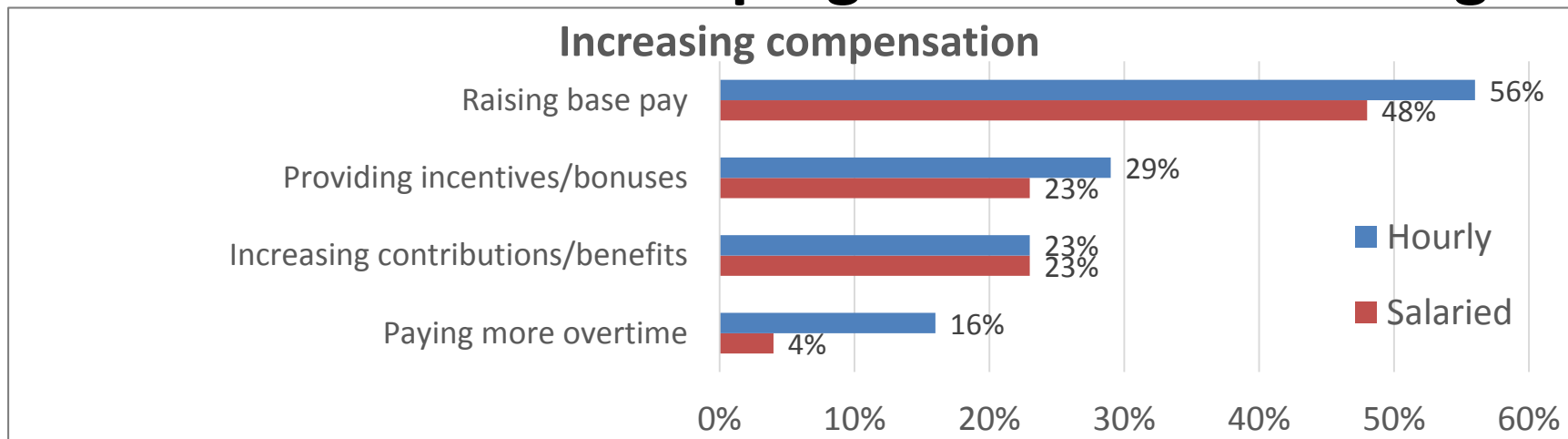
4/15 to 4/16: 235 metros **up**, 56 unchanged, 67 **down**



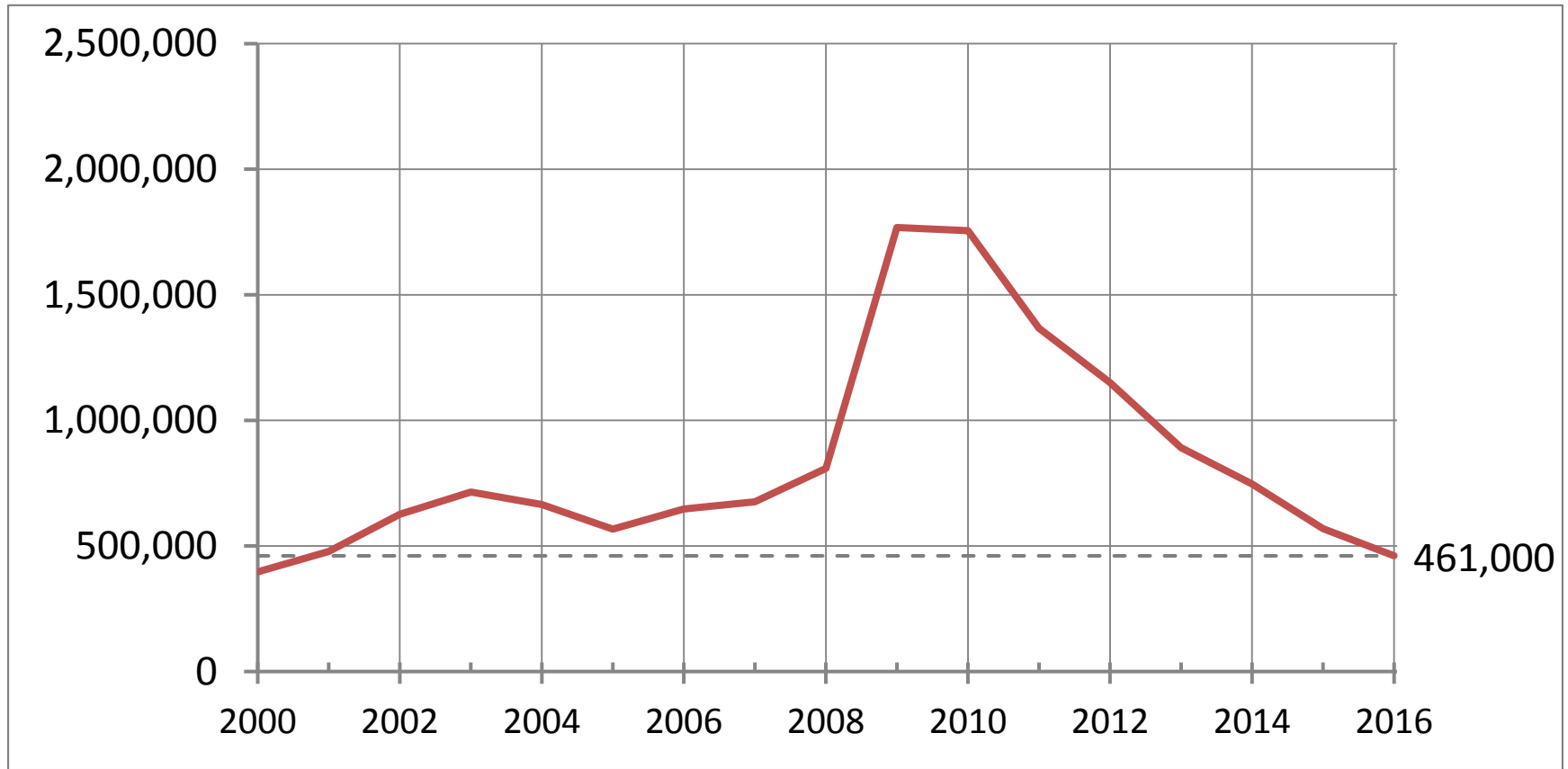
Hardest positions to fill



How contractors are coping with worker shortages

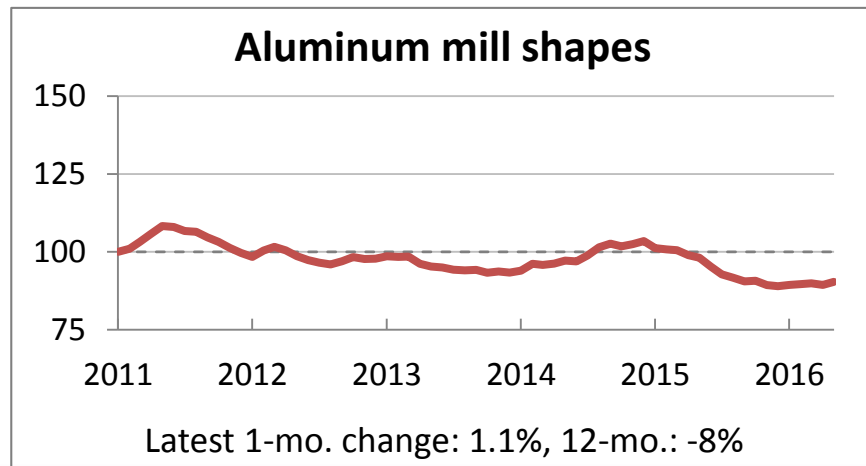
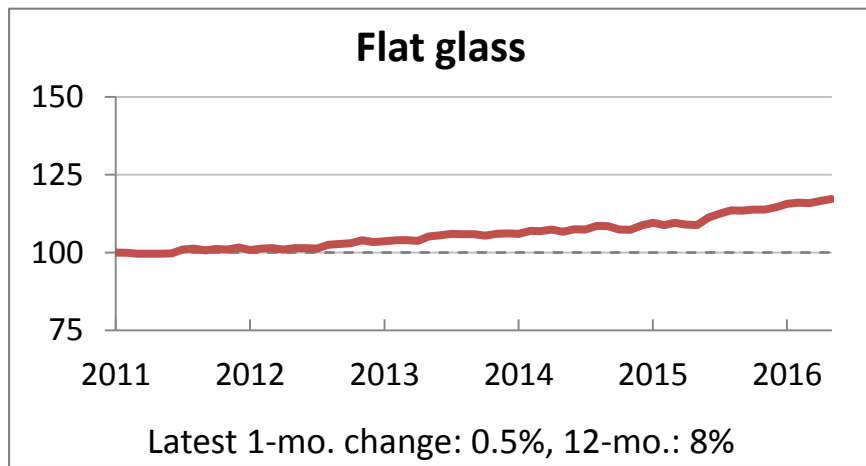
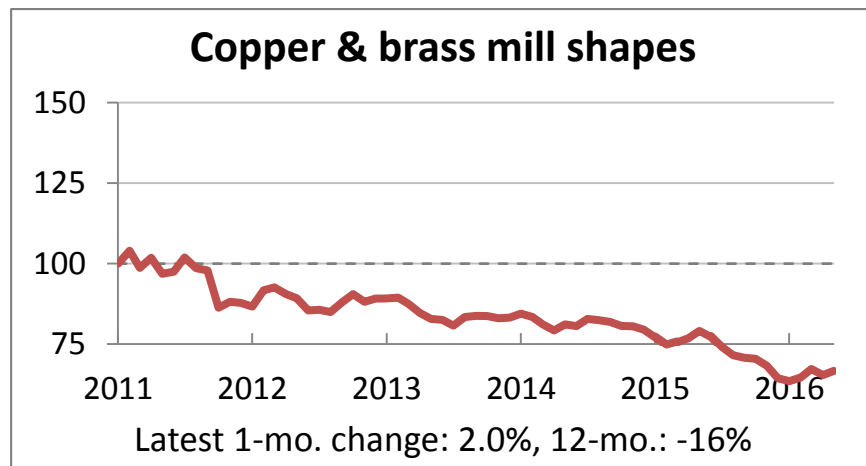
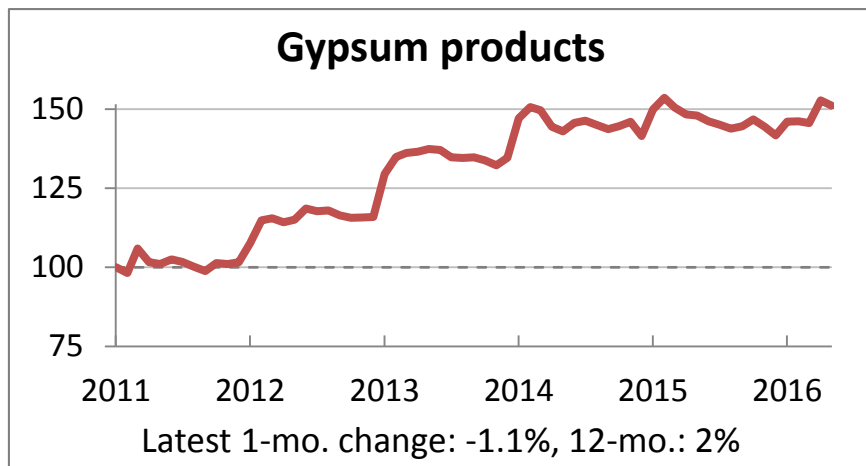


Unemployed construction workers, May 2000-May 2016 (not seasonally adjusted)

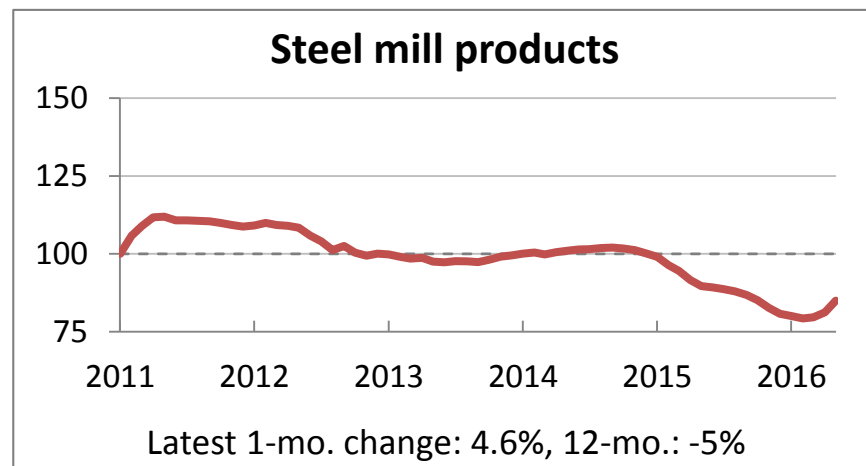
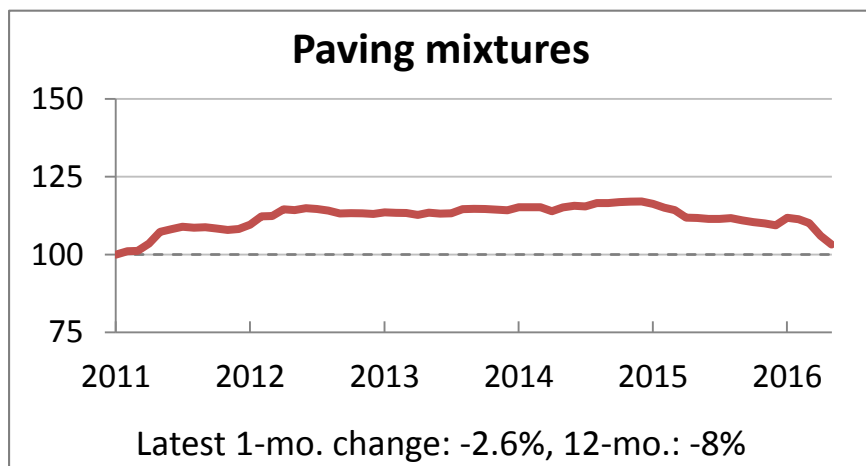
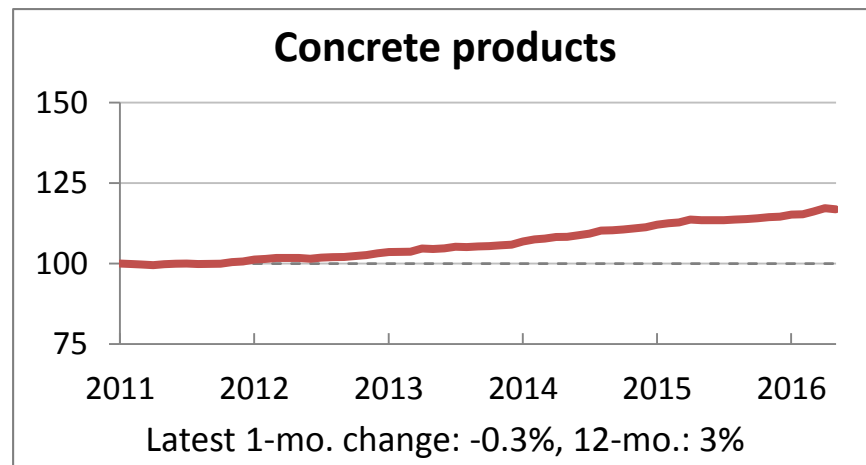
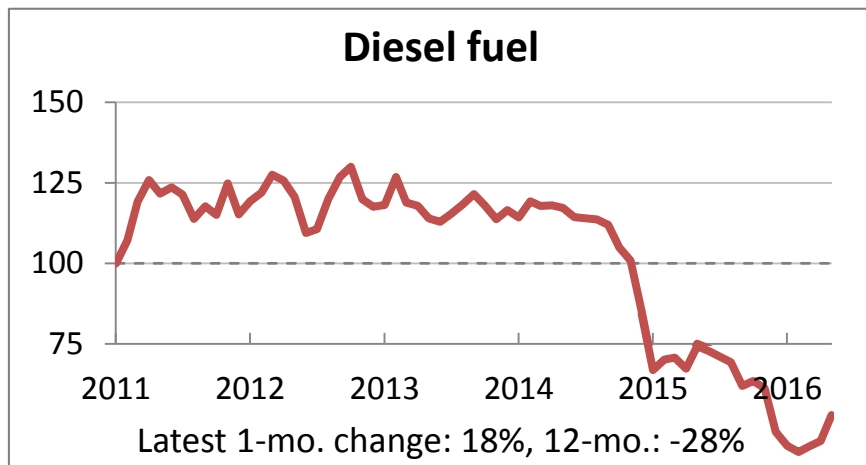


Source: BLS monthly employment situation report

Producer price indexes for key inputs, 1/11-5/16 (Jan. 2011=100)



Producer price indexes for key inputs, 1/11-5/16 (Jan. 2011=100)



Summary for 2015, 2016-17 forecast

	2015 actual	2016 yr-to- date	<u>forecast</u> 2016 2017	
Total spending	11%	8%	3-8%	2-7%
Private – residential	17%	10%	4-10%	3-8%
– nonresidential	8%	9%	3-8%	2-7%
Public	5%	4%	1-5%	1-5%
Goods & serv. inputs PPI	-2%	-2%	0-2%	0-2%
Employment cost index	2.2%	2.3%	3-4%	3-4.5%

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



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Sept. 24-Oct. 2, 2009
Vol. 9, No. 23

Construction job losses remain heavy, widespread; homebuilding rises, water skills

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

Seasonally adjusted nonfarm payroll job losses in September totaled 203,000, 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 number of work days.) But construction, particularly nonresidential, continued to hemorrhage jobs. Construction lost 13% 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. The fairly positive sign was that architectural and engineering services employment, a harbinger of future demand for construction, rose for the first time in 23 months, added by only 360 jobs (0.04%). Average hourly earnings in construction climbed 16 cents to \$22.45 in September, bringing the 12-month change to 30 cents or 1.6%, compared to 2.3% for all private-sector production or nonagricultural employees. The overall unemployment rate climbed to 9.5% in September, not seasonally adjusted (9.8%, seasonally adjusted) from 6.9% 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 300 areas reporting nonfarm payroll employment, 156 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, 2.3%; Jonesboro, Ark., 1.9%; and Mexican Hat-Bloomington, Texas, 1.3%. If reversed, these gains can lead to more demand for construction. AGC compiled a list of 137 areas, including divisions and subdivisions of the 14 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 124 of these divisions, rose in eight and was unchanged in five. The largest 12-month percentage construction employment gains were in Columbia, Indiana, 14% (residential data); Anderson, Ind., 8% (residential); Telford construction only; Longview, Wash. (residential) and Baton Rouge (construction only), 5% each. The worst construction job losses were in Reno-Sparks, Nevada, -35% (construction only); Dallas-Metroplex-Wascom, -33% (residential); Tucson, -31% (construction only); Honolulu-Hawaiki, Wash., -30% (residential); and Bowling, California, -29% (residential).

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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Ken Simonson, Chief Economist, Associated General Contractors of America
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