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Construction Spending, Labor and Materials Outlook

AGC Nebraska Building Chapter

Kearney, January 23, 2018

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Quality Projects.

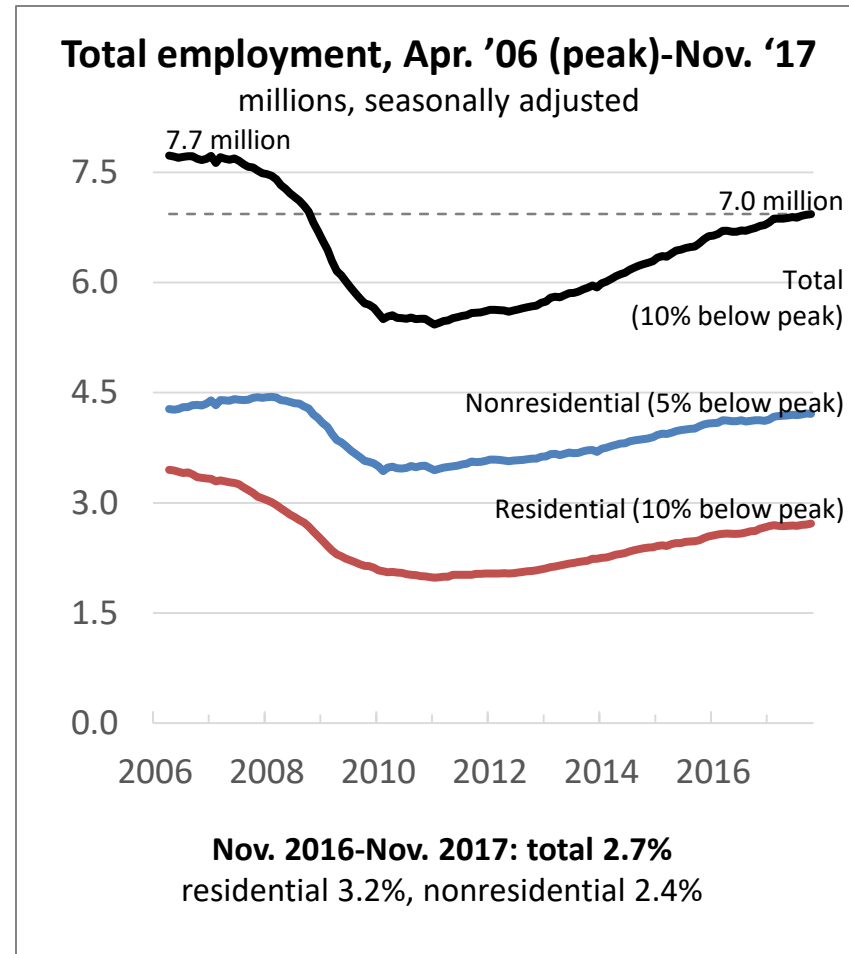
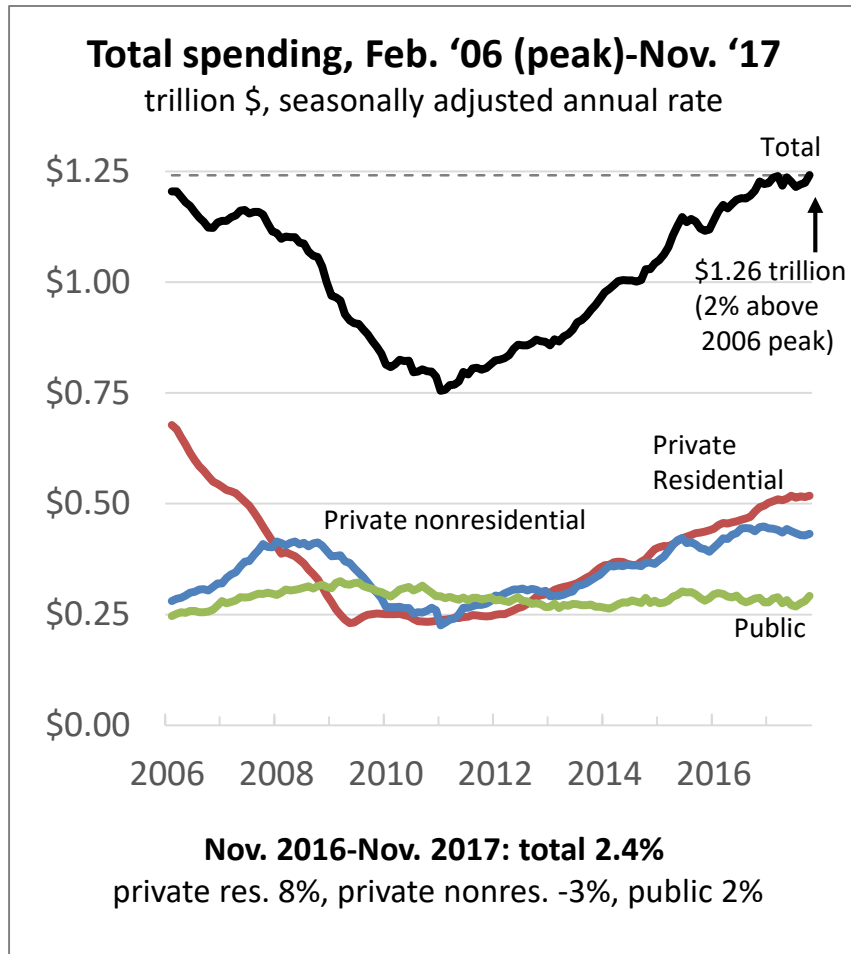


AGC members' expectations for 2018

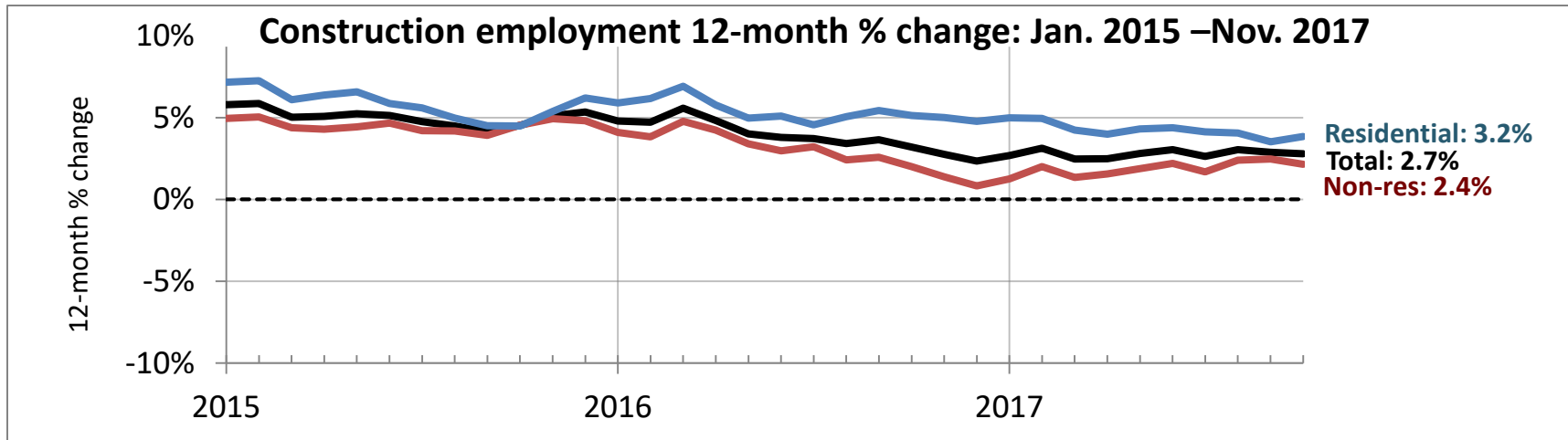
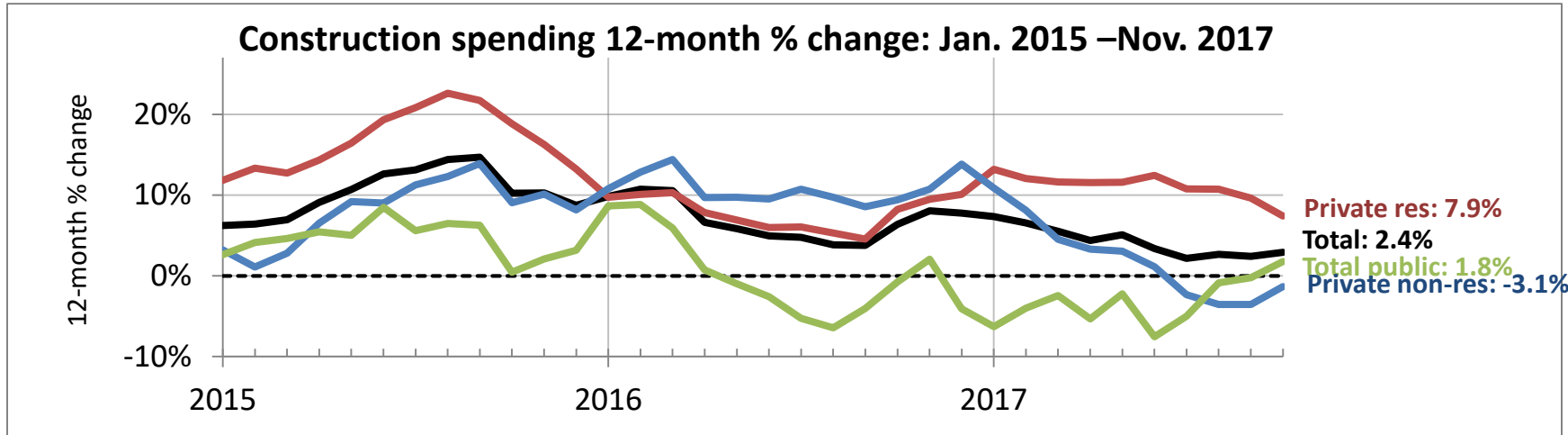
Net % who expect dollar volume of projects to be higher (US/NC)

44%	All projects	17%	Highway
22%	Private office	17%	Hospital
21%	Retail/warehouse/lodging	16%	Public building
21%	Transportation facilities	16%	Multifamily
20%	Manufacturing	13%	Power
20%	Water/sewer	11%	Higher education
18%	K-12 school	8%	Direct federal construction

Construction spending & employment, 2006-2017



Construction spending & employment, 2015-2017



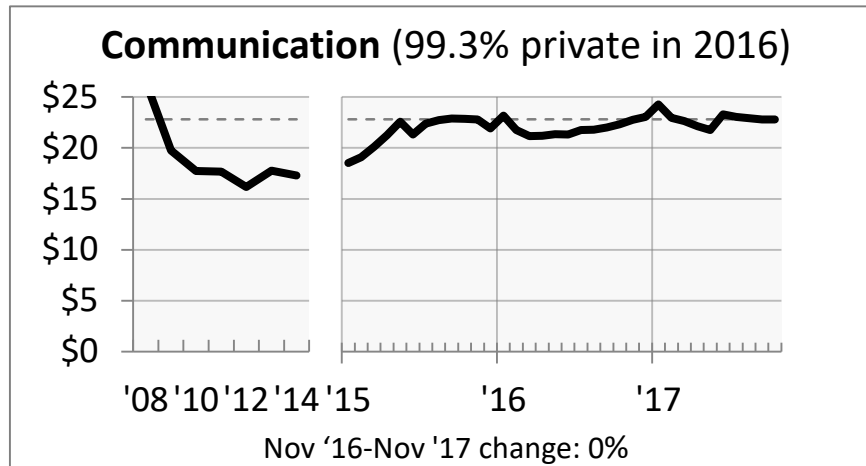
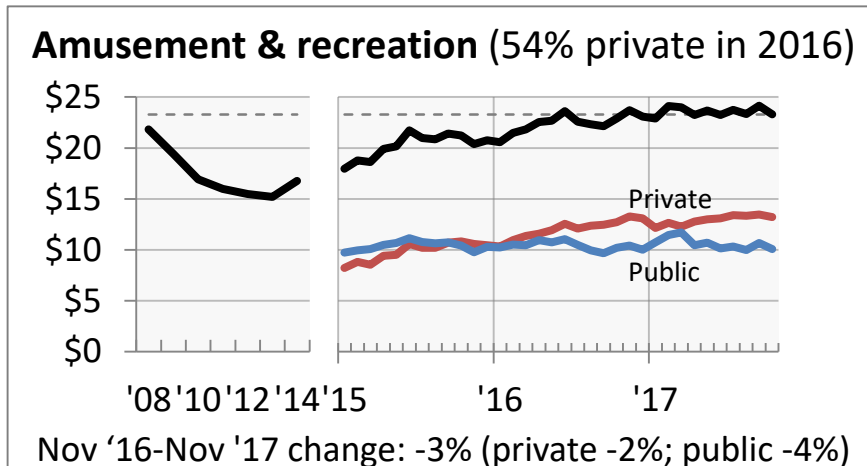
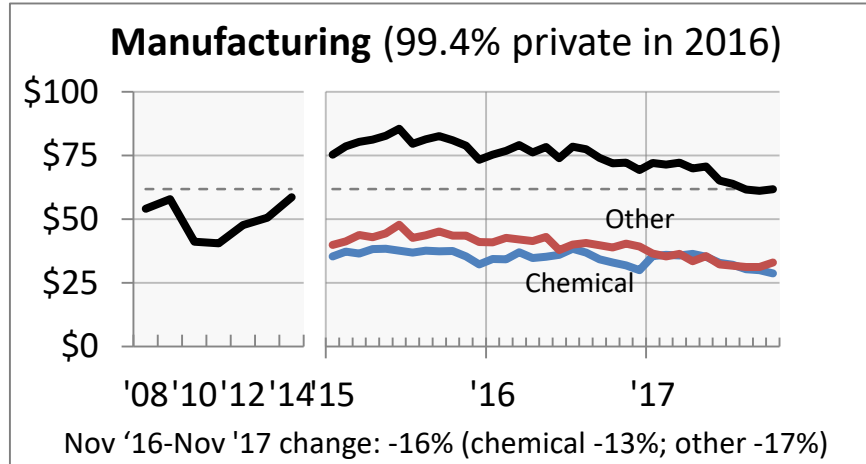
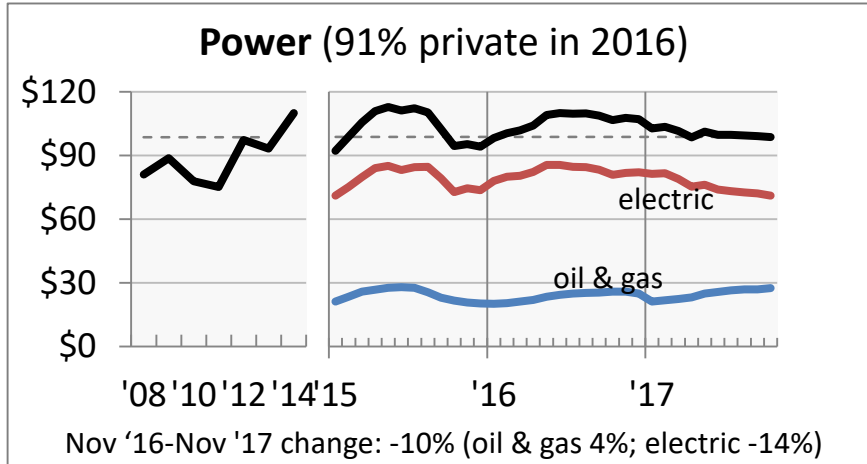
Source: spending--U.S. Census Bureau; employment--Bureau of Labor Statistics

Nonresidential segments: year-to-date change, 2017-18 forecast

	<u>Jan.-Nov.</u> <u>'17 vs. '16</u>	<u>Full-year 2017</u> <u>forecast</u>	<u>2018</u> <u>forecast</u>
<u>Nonresidential total (public+private)</u>	<u>0%</u>	<u>-1 to 0%</u>	<u>1-5%</u>
Power (incl. oil & gas field structures, pipelines)	-6	-5 to -7	positive
Highway and street	-4	-3 to -5	small pos.
Educational	3	2 to 4	positive
Commercial (retail, warehouse, farm)	14	13 to 15	less pos.
Manufacturing	-13	-12 to -14	flat
Office	3	2 to 3	less pos.
Transportation	3	2 to 3	small pos.
Health care	3	3 to 4	small pos.
Lodging	6	6 to 7	negative
Sewage & waste disposal	-14	-13 to -15	
Other--amusement; communication; religious; public safety; conservation; water: 13% of total		0	-1 to 1

Construction spending: industrial, heavy

annual total, 2008-14; monthly (seasonally adjusted annual rate), 1/15-11/17; billion \$

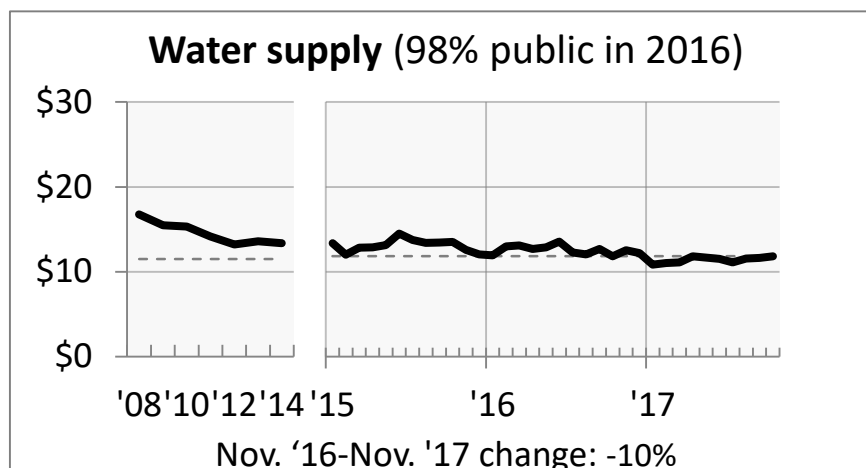
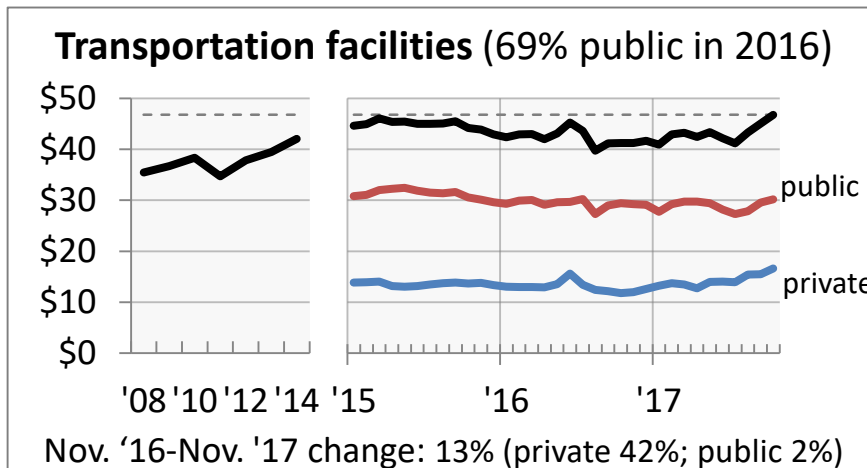
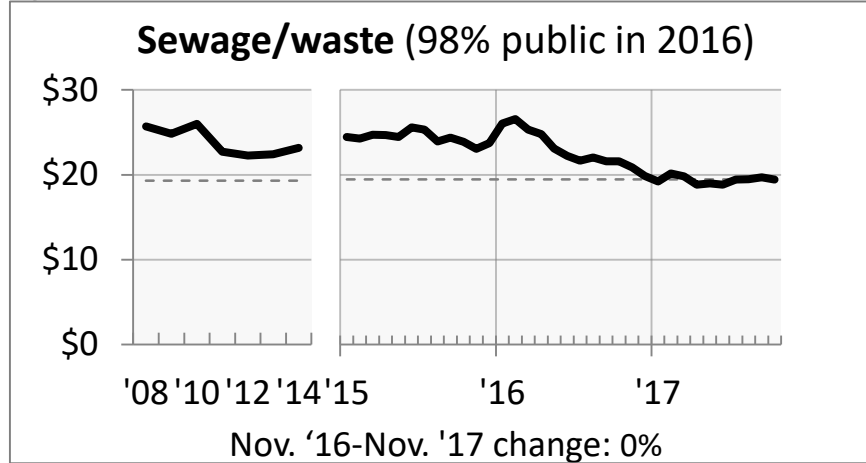
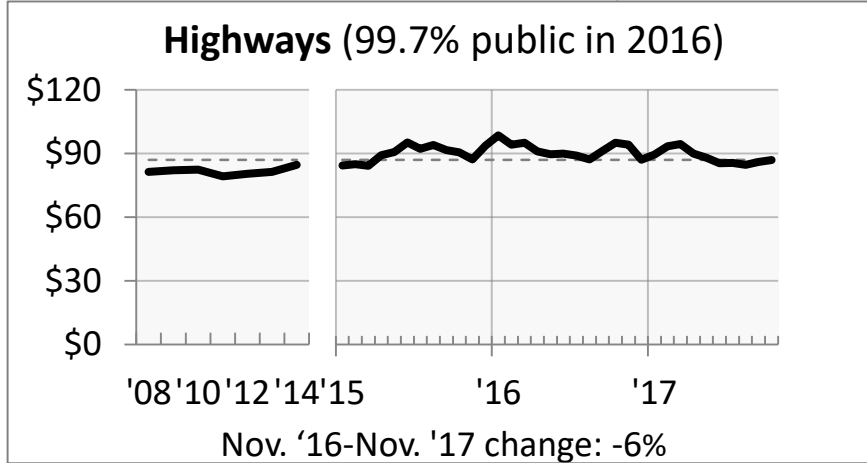


Key points: power & energy, mfg, amusement & recreation

- Solar, wind power are growing again; expect more gas-fired plants, natural gas pipelines in '18
- Manufacturing construction should recover in '18 based on energy projects, tax-induced reshoring, economic growth
- 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), 1/15-11/17; billion \$



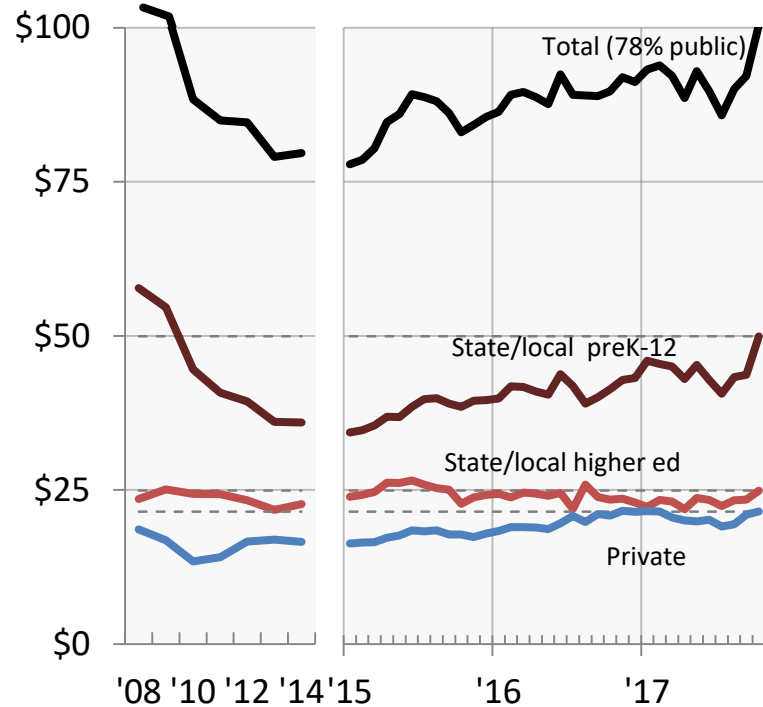
Key points: roads, transportation, sewer/water

- State highway funding and P3s gradually increasing but federal funding likely to be flat through 2018; pickup likely by 2019
- Many new and ongoing airport projects but no net increased likely in public funding for port, passenger rail or transit construction
- Huge declines in water & sewer spending in 2017: hard to explain and unlikely to be repeated

Construction spending: education, health care

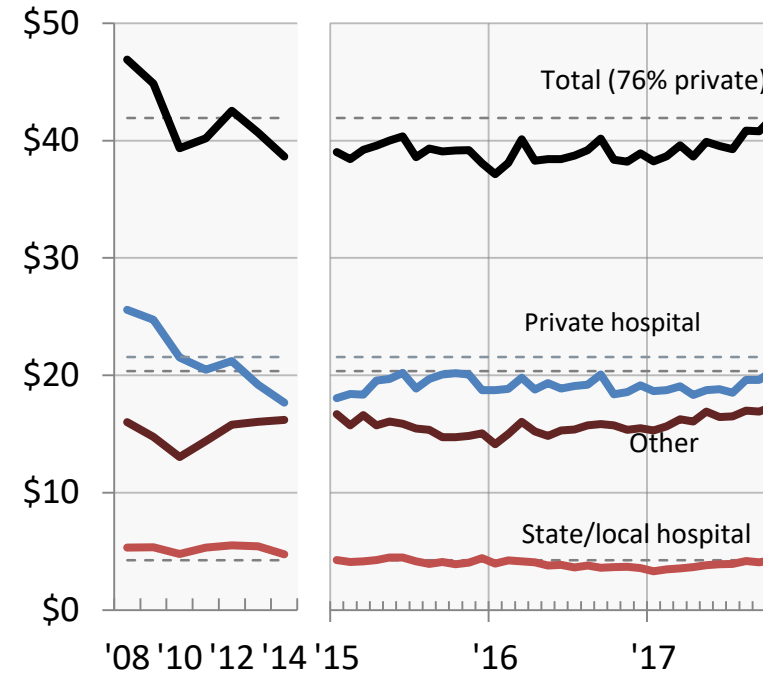
annual total, 2008-14; monthly (seasonally adjusted annual rate), 1/15-11/17; billion \$

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



Nov. '16-Nov. '17 change: 8% (private -4%; state/local preK-12 17%; state/local higher ed 2%)

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



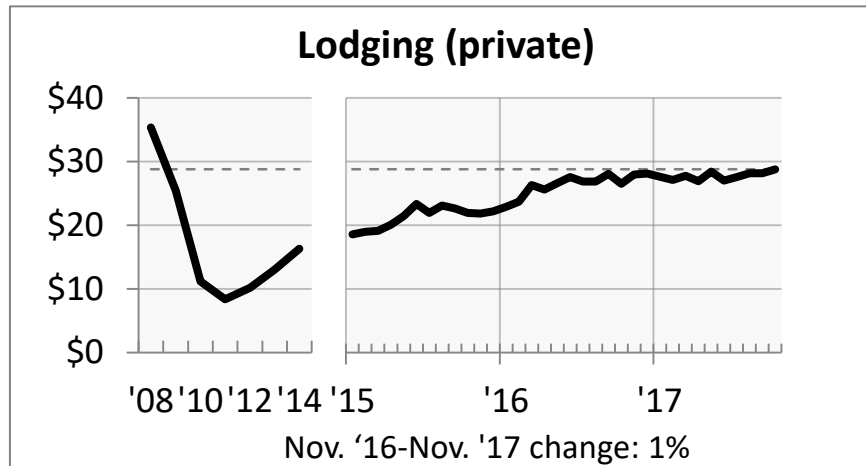
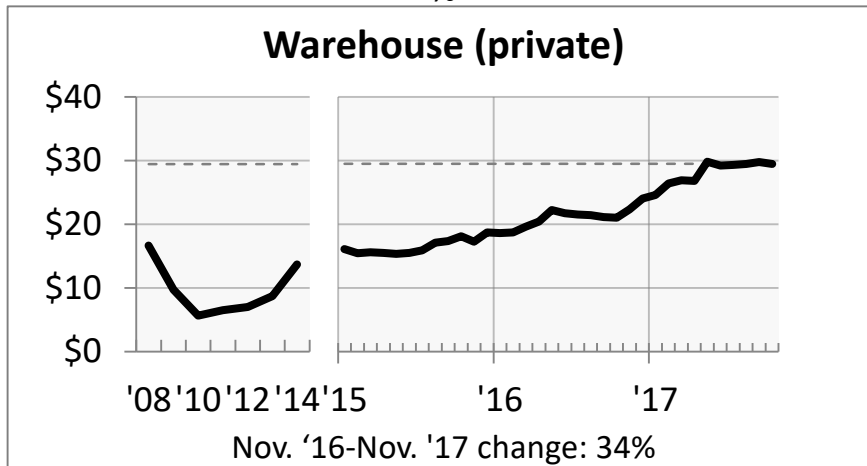
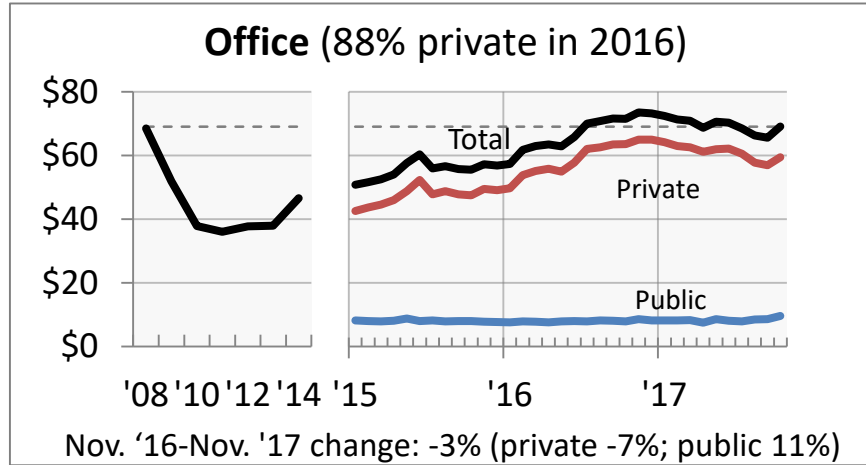
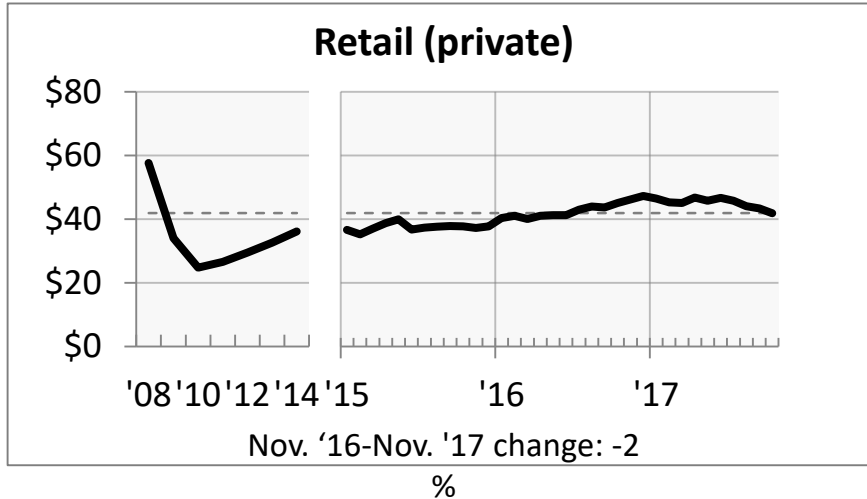
Nov. '16-Nov. '17 change: 9% (private hospital 9%; S/L hospital 14%; other: special care, med. office, federal 10%)

Key points: education & health care

- Rising house & commercial property values are supporting school district tax receipts & bond issues for preK-12 projects
- Higher-ed enrollment declined 21% from 2011 to 2016, so colleges need fewer dorms & classrooms; apts. (multifamily) replacing dorms (educational construction)
- Rising stock prices help private school & college capital campaigns
- Health care spending is shifting from hospitals to special care facilities (standalone urgent care, surgery, rehab, hospices)

Construction spending: developer-financed

annual total, 2008-14; monthly (seasonally adjusted annual rate), 1/15-11/17; billion \$

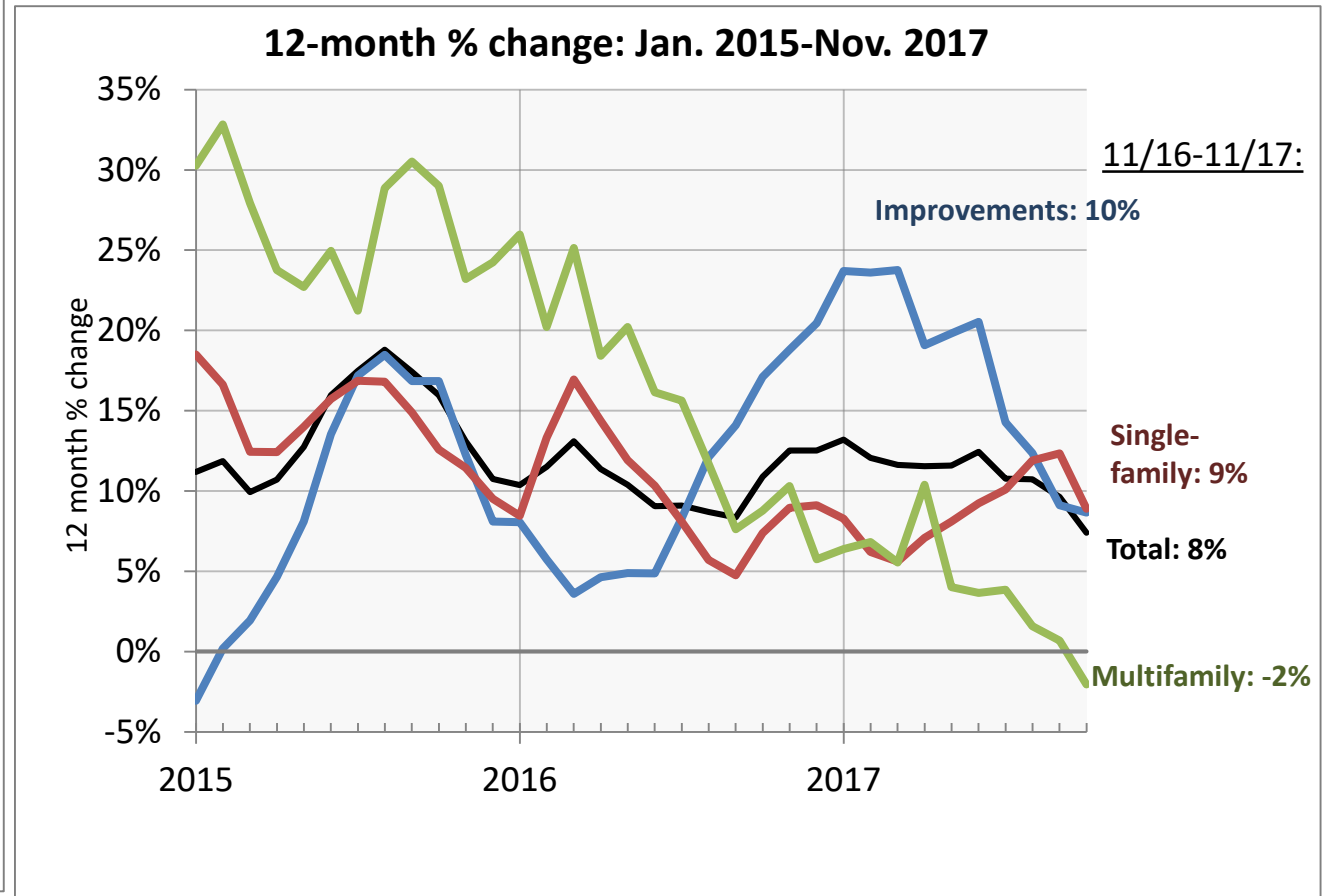
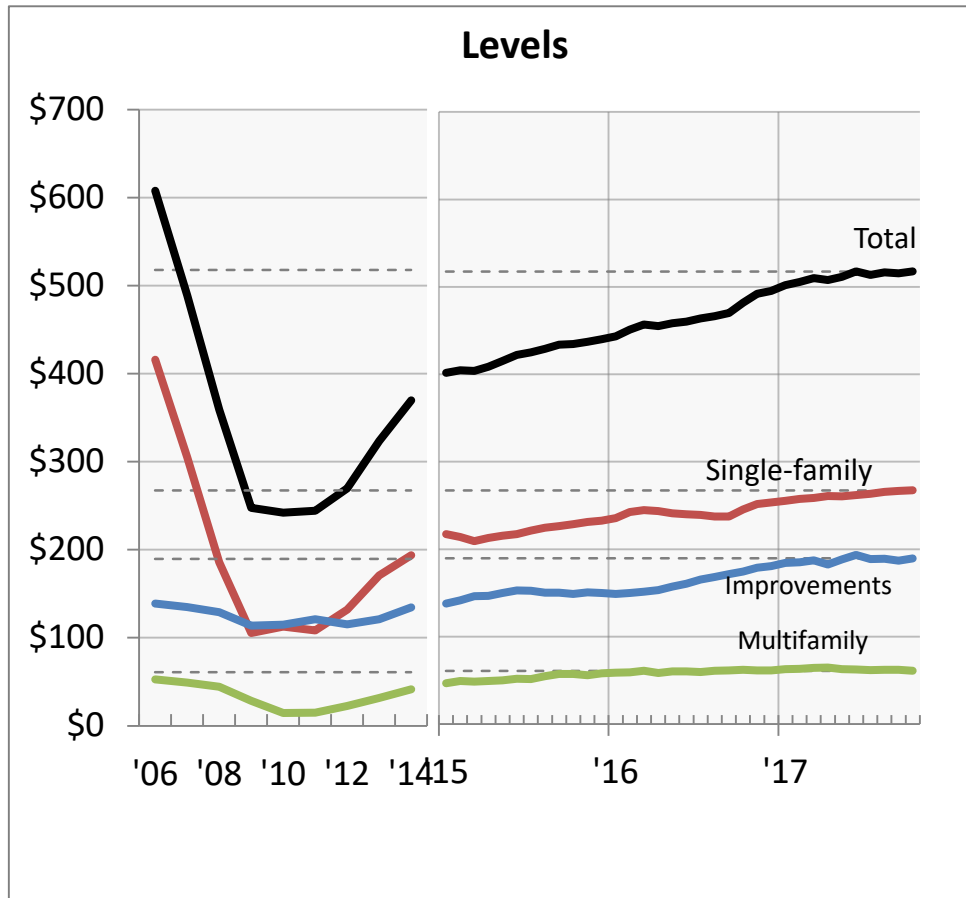


Key points: retail, warehouse, office, hotel, data centers

- Retail now tied to mixed-use buildings & renovations, not standalone stores or shopping centers; massive store closings imply downturn in '18
- Warehouse growth is still benefiting from e-commerce; more local than huge regional distribution centers likely in future; self-storage is booming
- Office growth is slowing; employment still rising but space per worker is shrinking; more urban & renovation work than suburban office parks
- Hotel: more competition from Airbnb; fewer foreign visitors?
- Data centers remain a strong niche but no data available on how strong

Private residential spending: steady single-family growth, slower multifamily

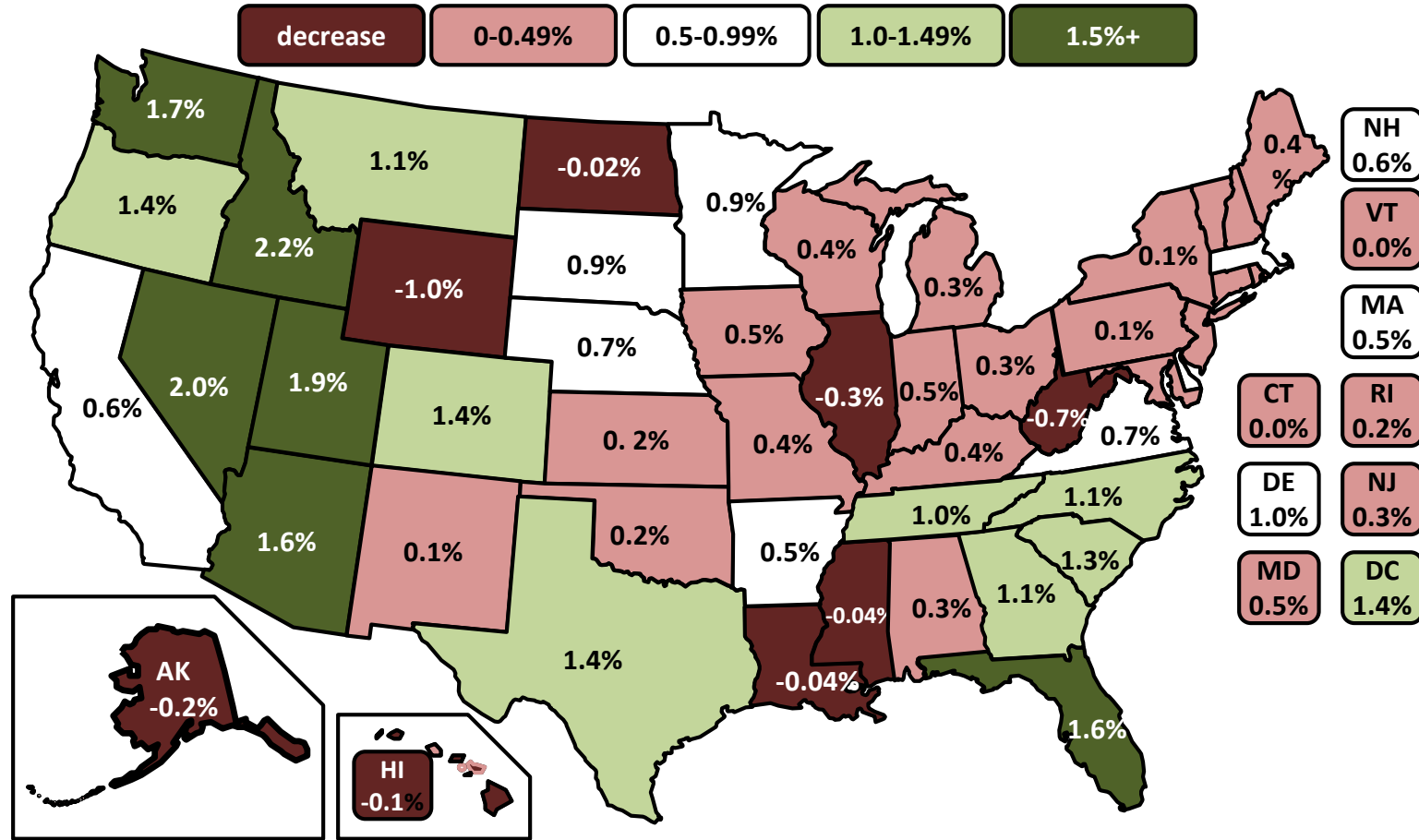
annual total, 2006-14; monthly (seasonally adjusted annual rate), 1/15-11/17; billion \$



Private residential spending forecast--2017: 10-12%; 2018: 6-9%

- SF: **8-10% in 2017 & 2018**; ongoing job gains add to demand; but student debt and other credit impairments, limited supply of lots and labor will limit growth
- MF: **3-4% in 2017; near 0 in 2018**
 - occupancy rates, rents have leveled off; starts, permits are down from 2016
 - millennials are staying longer in cities and 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: **15-20% in 2017 & 2018**; unpredictable because Census lacks reliable data source; post-storm reconstruction may boost totals

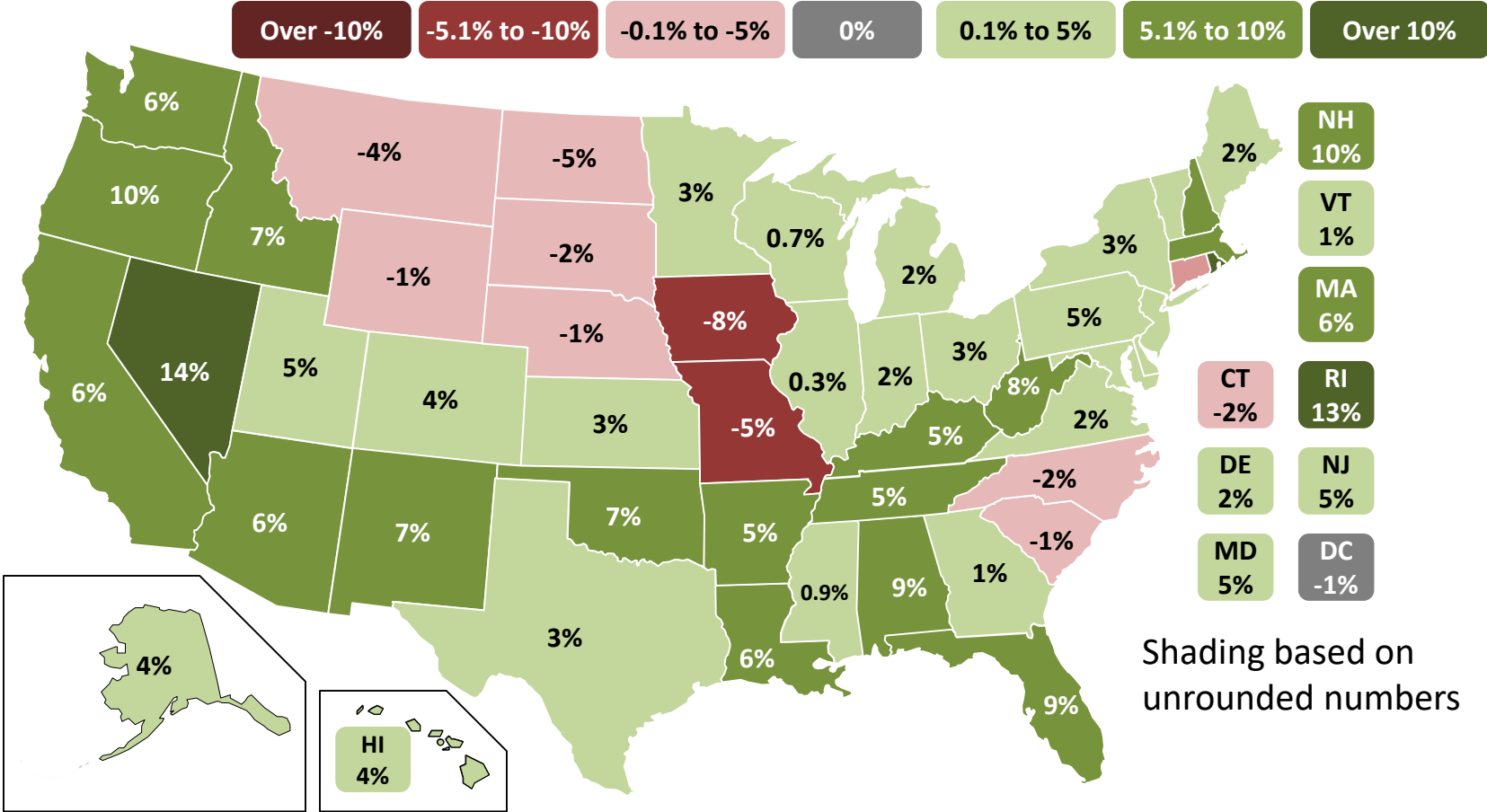
Population change by state, July 2016-July 2017 (U.S.: 0.72%)



Source: U.S. Census Bureau

State construction employment change (U.S.: 2.7%)

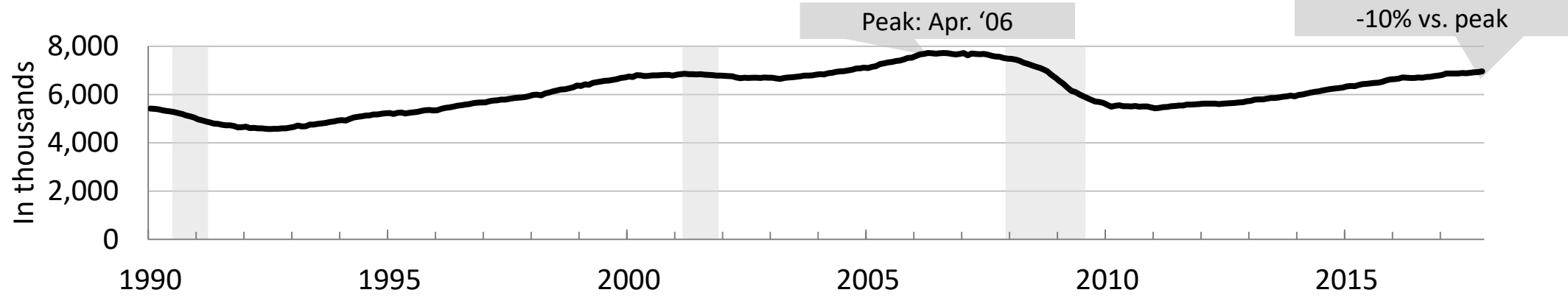
11/16 to 11/17: 40 states up, 9 down, DC unchanged



Source: BLS state and regional employment report

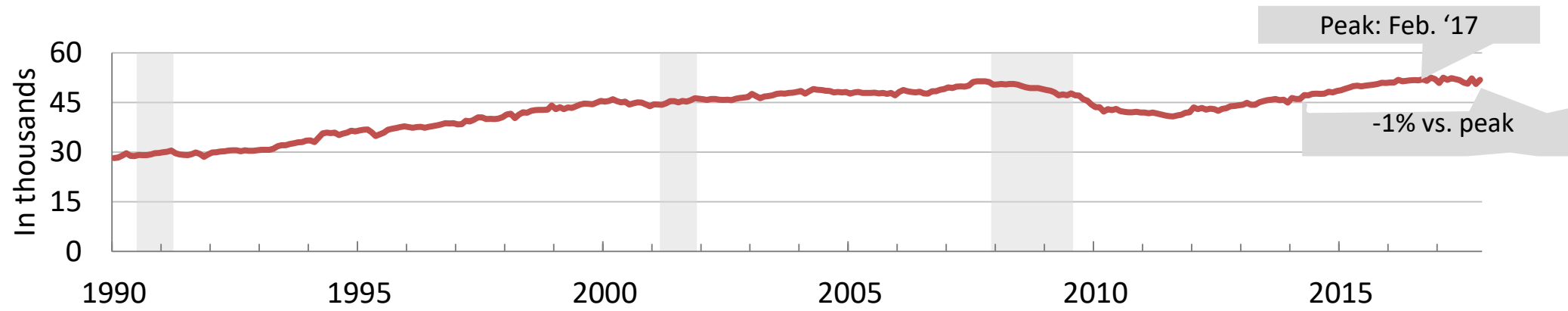
Construction Employment in United States, 1/90-11/17

(seasonally adjusted; shading = recessions)

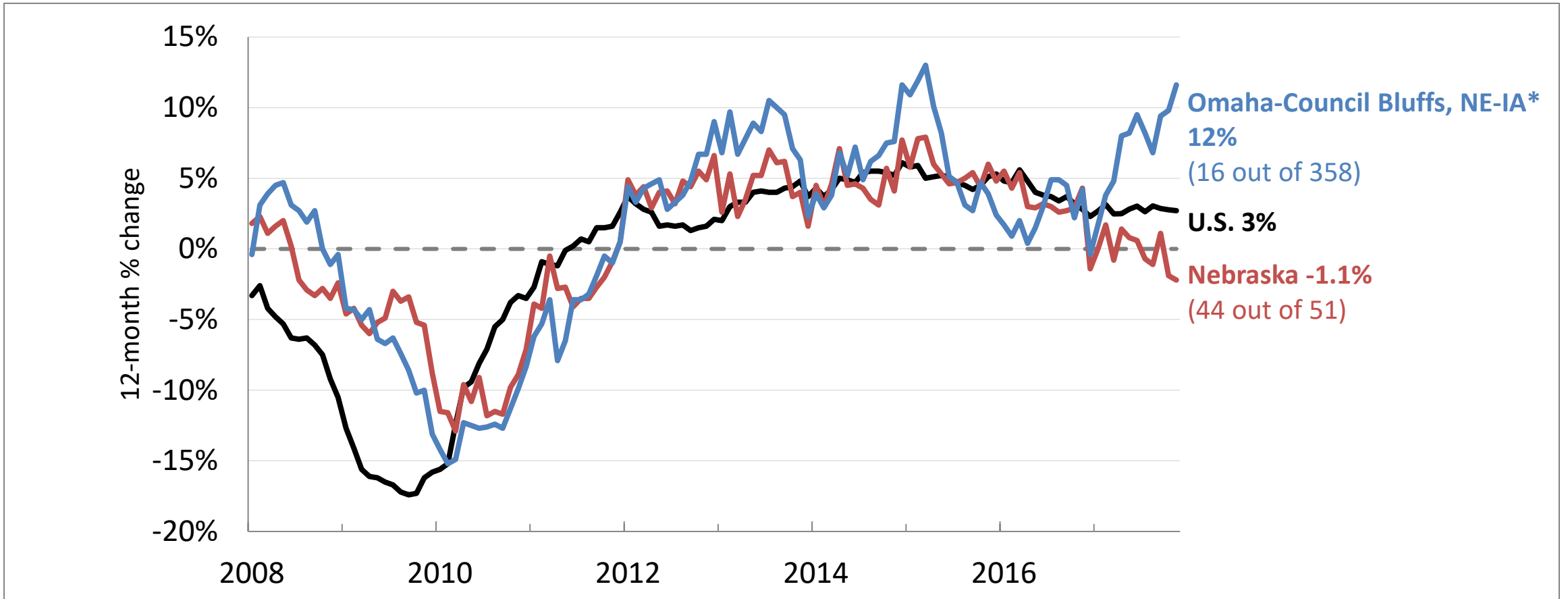


Construction* Employment in Nebraska, 1/90-11/17

(seasonally adjusted; shading = recessions)



Construction Employment Change from Year Ago 1/08-11/17 (not seasonally adjusted)



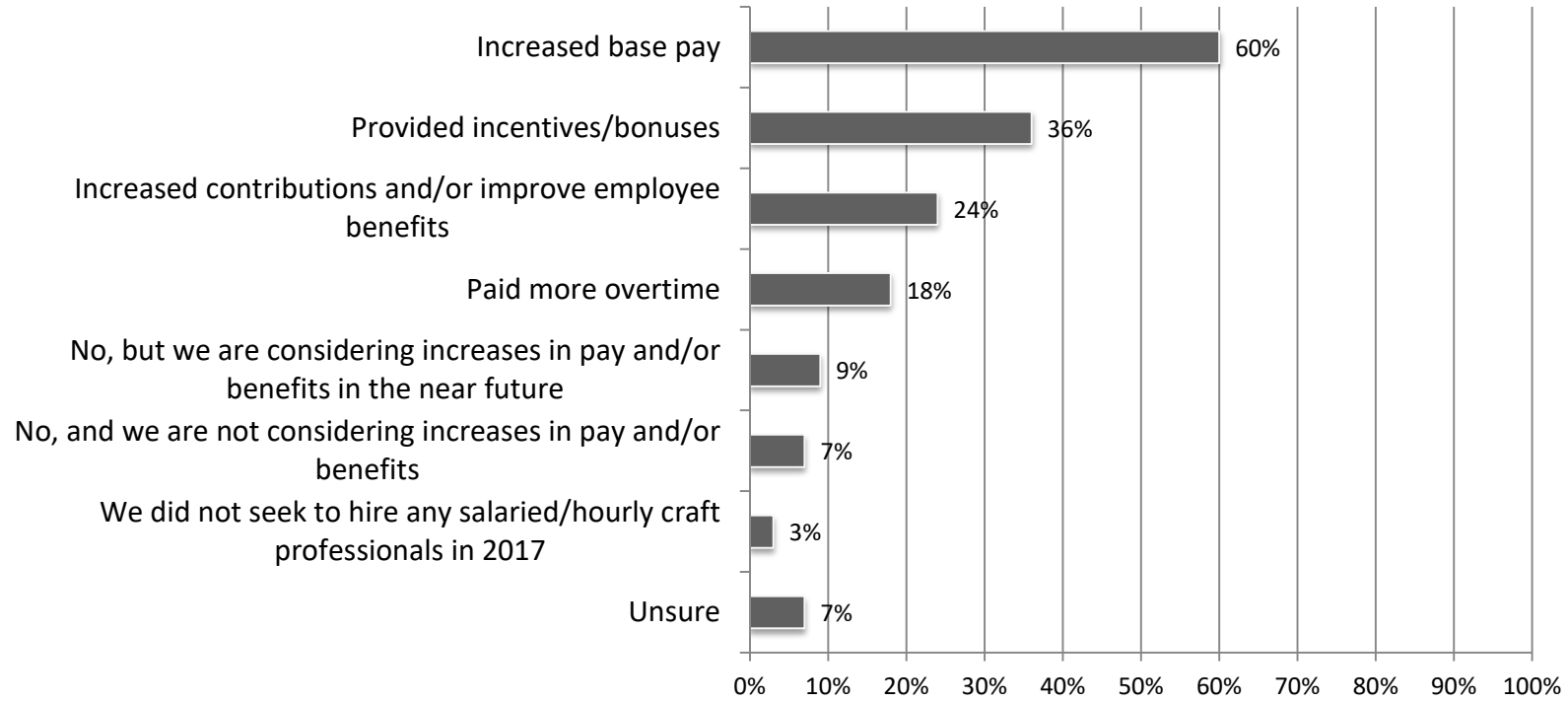
FIRMS WILL CONTINUE TO COPE WITH WORKER SHORTAGES

How would you describe your firm's current conditions for filling key salaried positions (project manager/supervisor, estimator, etc.) and hourly craft positions (carpenter, laborer, equipment operator, etc.)? My firm is:



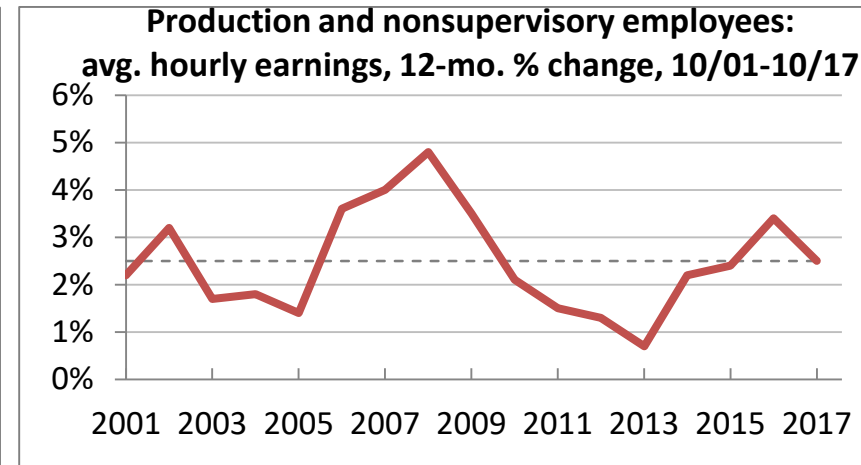
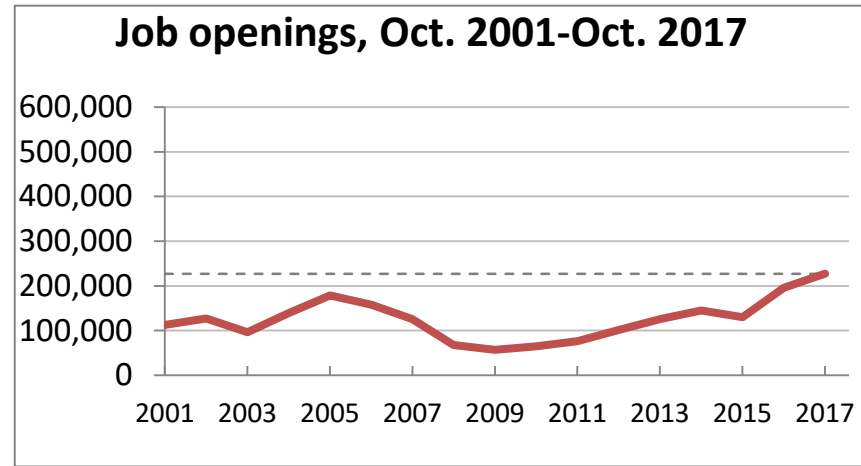
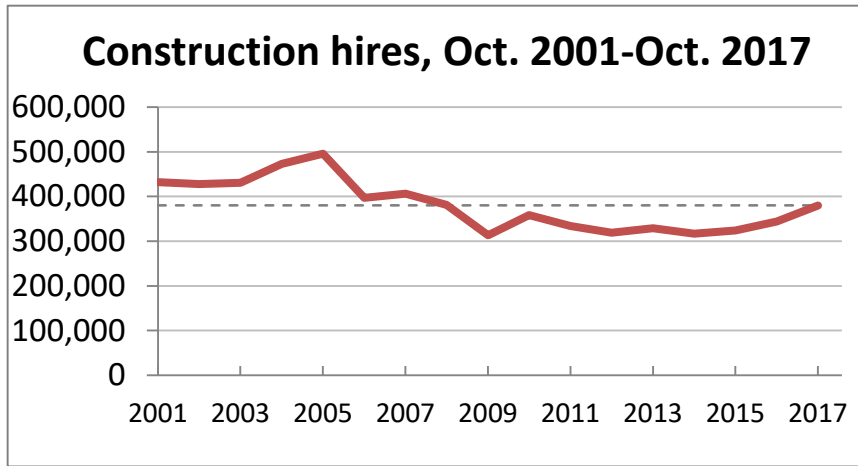
MOST FIRMS ARE INCREASING PAY OR BENEFITS...

Did your firm increase pay or benefits in 2017 to retain or recruit salaried/hourly craft professionals?

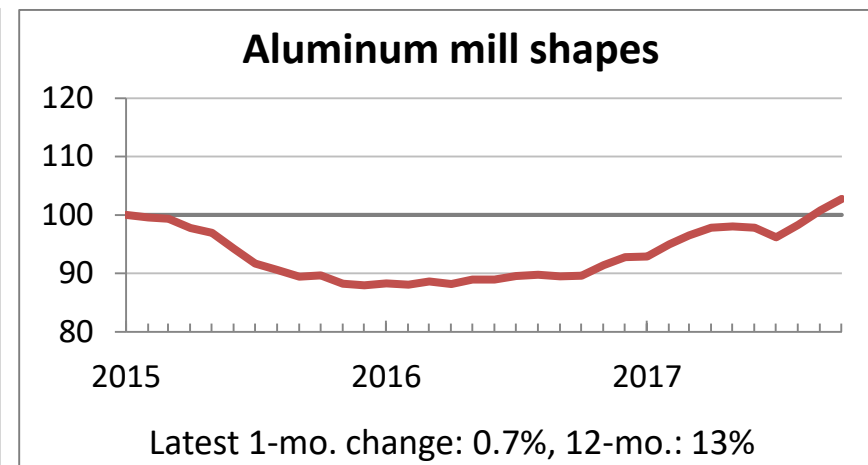
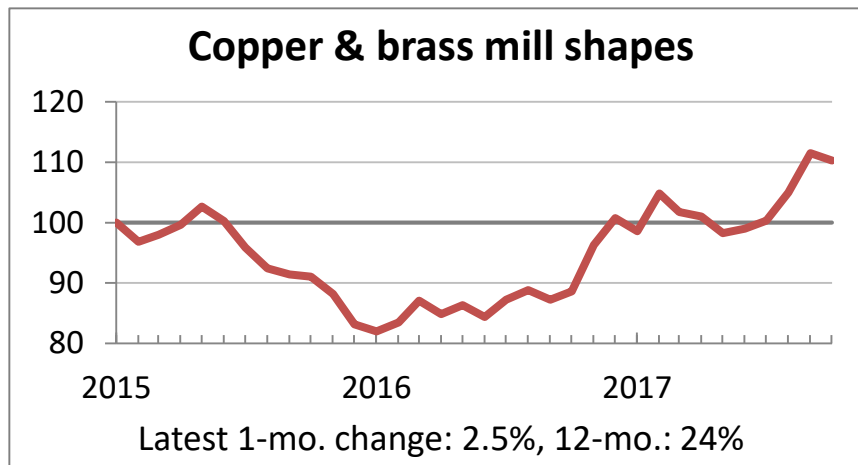
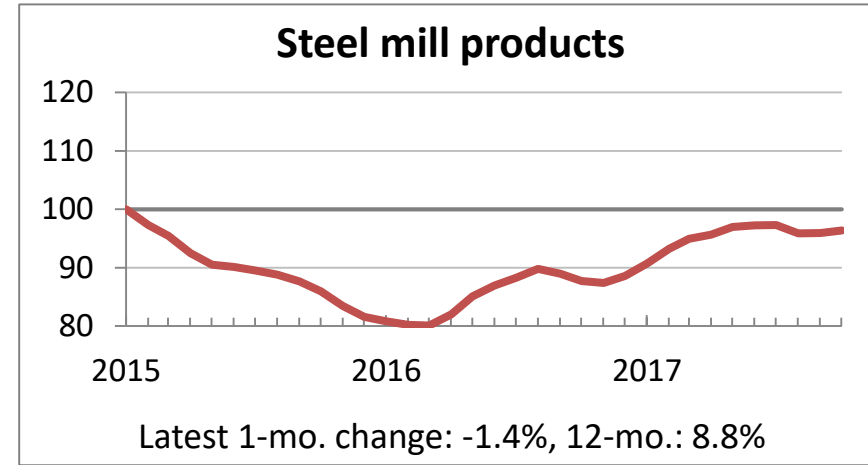
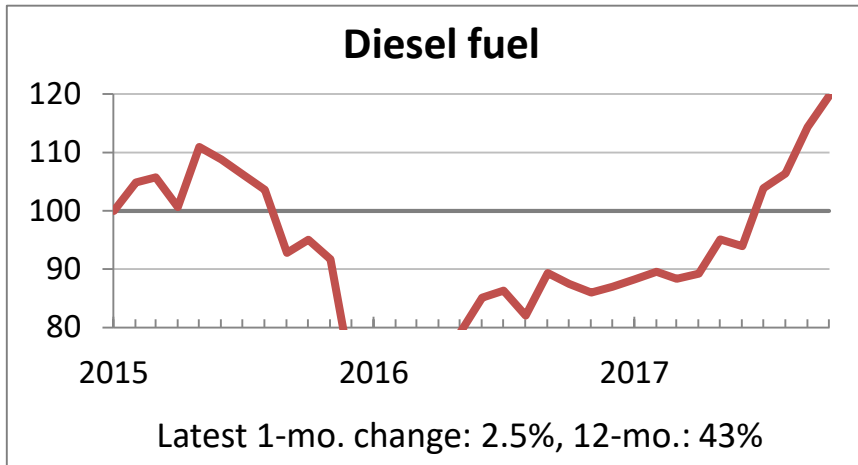


Source: AGC Construction Outlook Survey, January 2018. Survey conducted Nov.-mid-Dec. 2017.
Total responses: 1,046.; response totals varied by question.

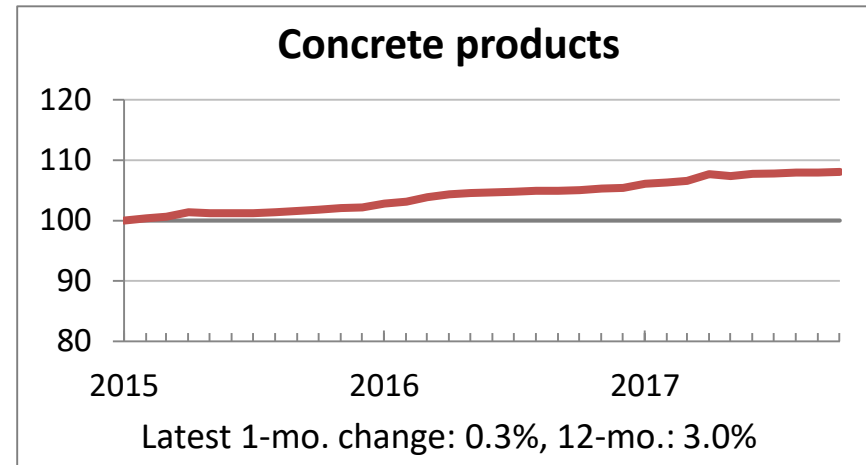
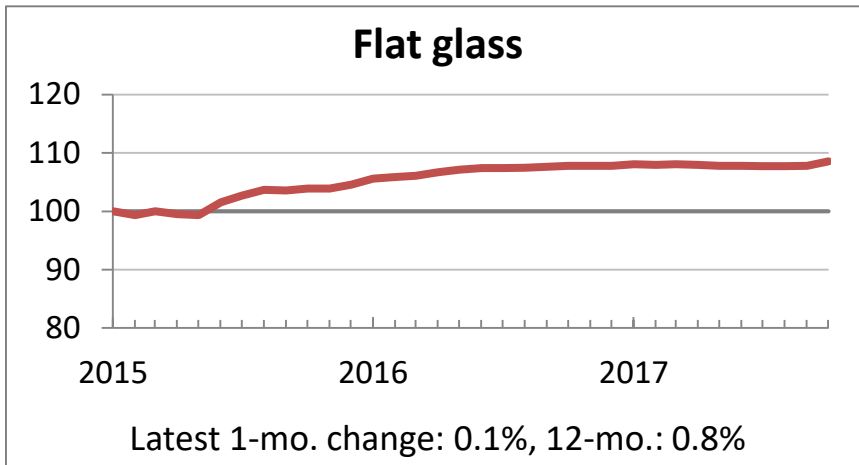
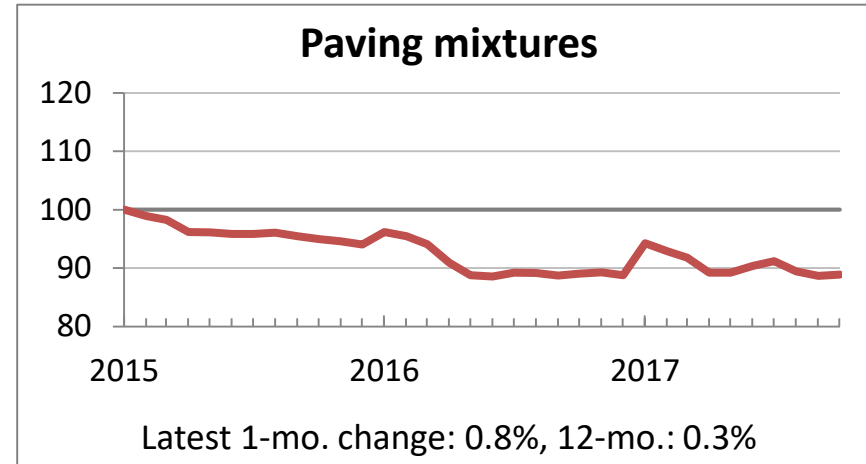
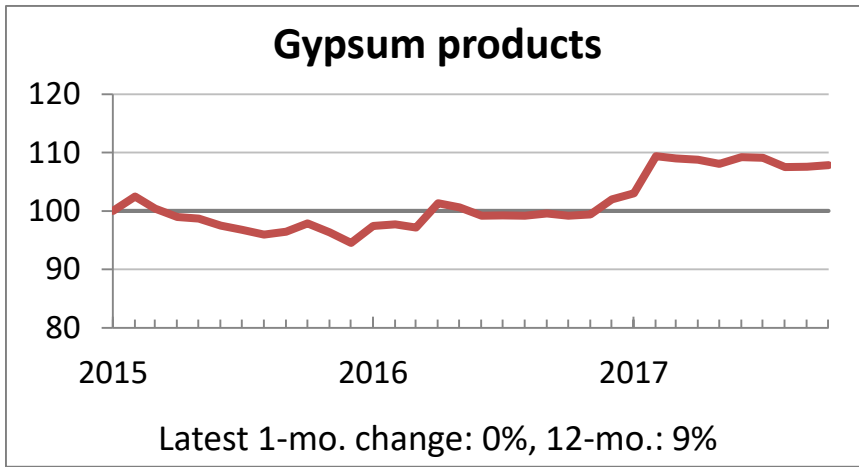
Construction workforce indicators (not seasonally adjusted)



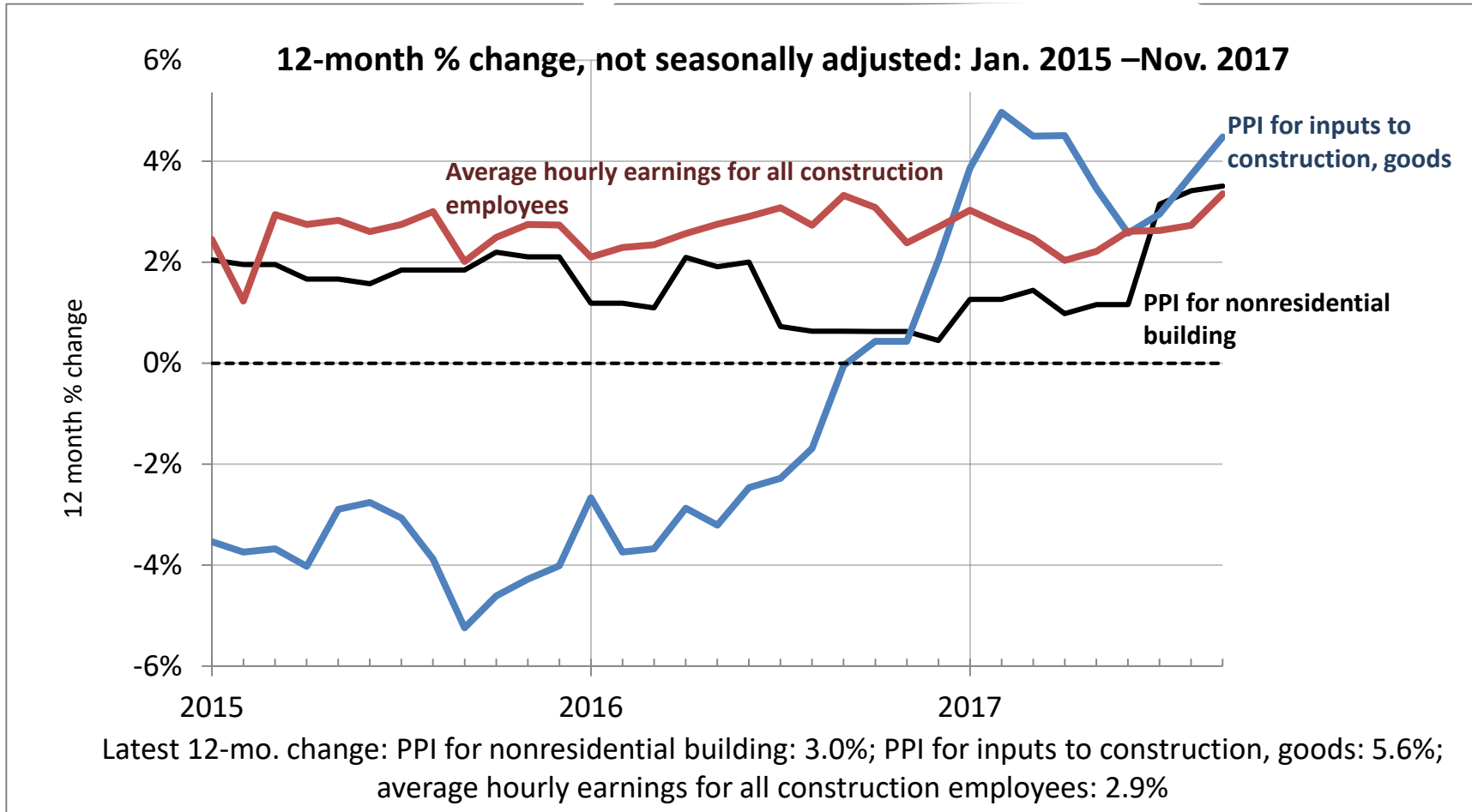
Producer price indexes for key inputs, 1/15-11/17 (Jan. 2015=100)



Producer price indexes for key inputs, 1/15-11/17 (Jan. 2015=100)



Change in costs for buildings, material inputs and wages



2016 summary, 2017-18 forecast

	2016 actual	2017 forecast	2018 forecast
Total spending	6%	4-5%	2-7%
Private – residential	11%	10-12%	6-9%
– nonresidential	8%	1-2%	1-5%
Public	-1%	-2 to -3%	-3 to 3%
Goods & services inputs PPI	2%	4.5-5%	4-5%
Employment cost index	2.2%	2.5-3%	3-4%

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

AGC economic resources

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- *The Data DIGest*: weekly 1-page email (subscribe at <http://store.agc.org>)
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- yearly employment & outlook surveys, state and metro area data, fact sheets:
www.agc.org/learn/construction-data



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Sept. 24-Oct. 2, 2009
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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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