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# Construction Spending, Labor and Materials Outlook

June 20, 2018

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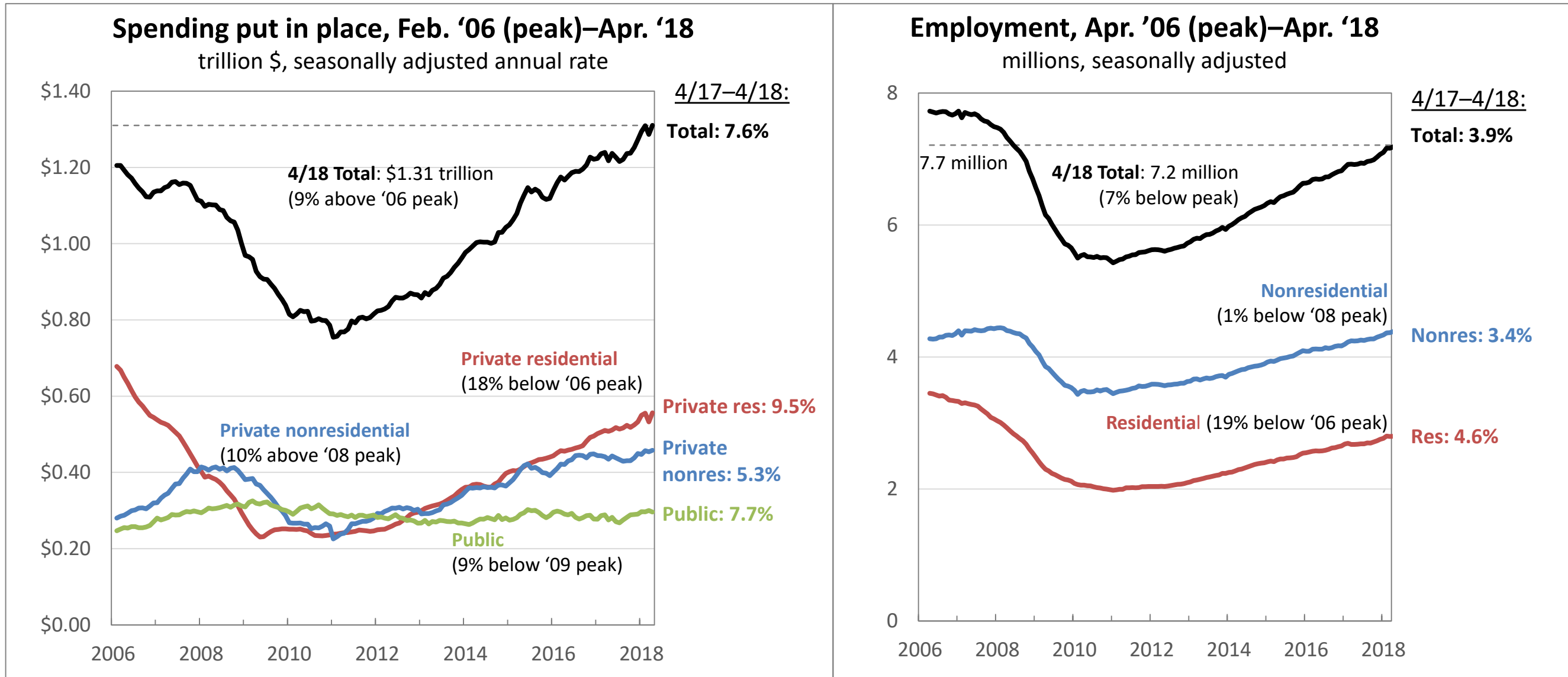


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## Headline Forecast

- The US economy is strong and growing; the foundations are strong
- Tariffs and trade tensions are increasing prices, US steel mills are struggling to keep up with demand, expect further price increases
- Construction labor market continues to add jobs, but unemployment at an all time low; majority of contractors regardless of sector or size are struggling to fill craft and other jobs
- Possible delays and cancellations of construction projects; contractors are taking much more risk by guaranteeing project delivery and cost
- The AGC continues to promote reforms in training and education

# Construction spending & employment, 2006–2018



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

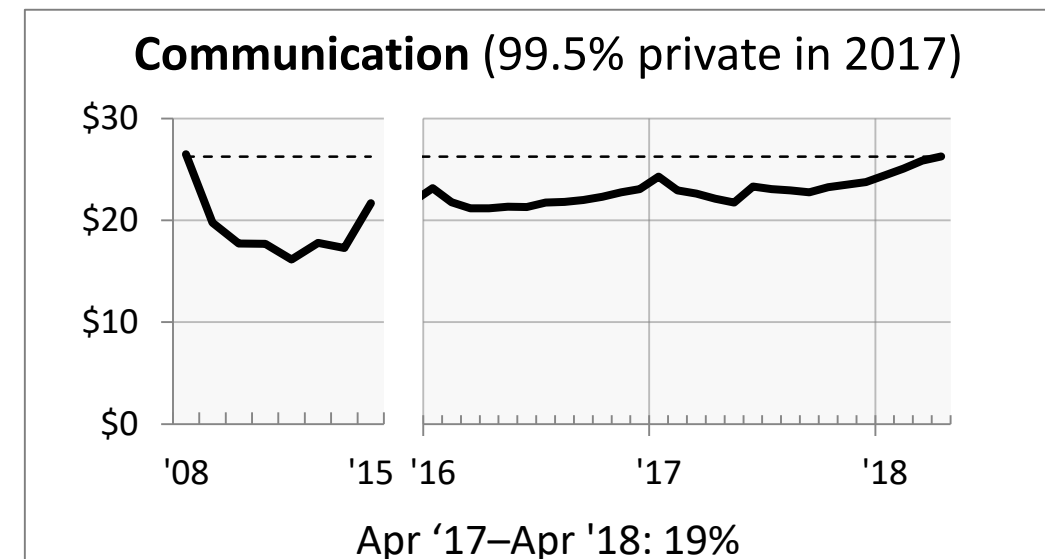
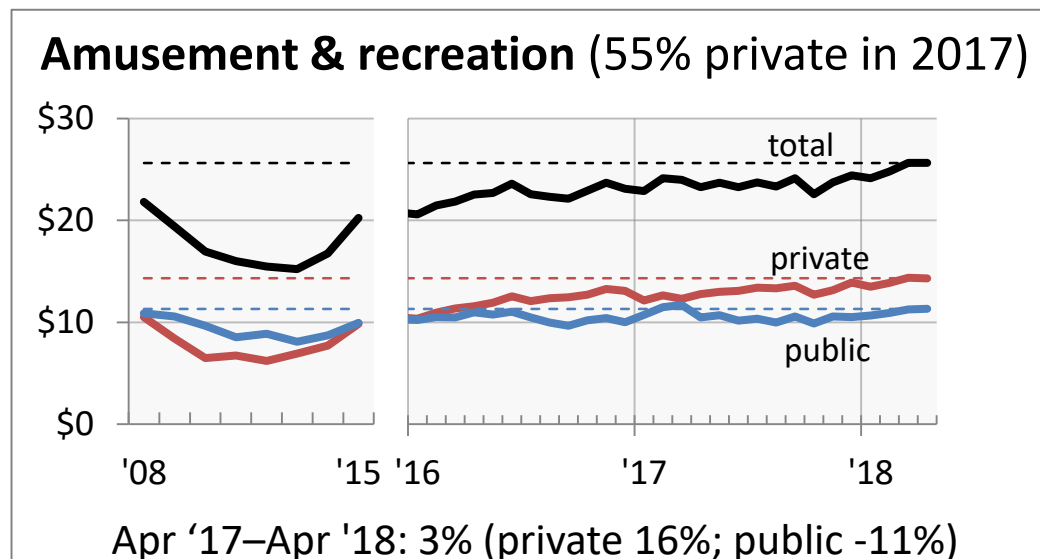
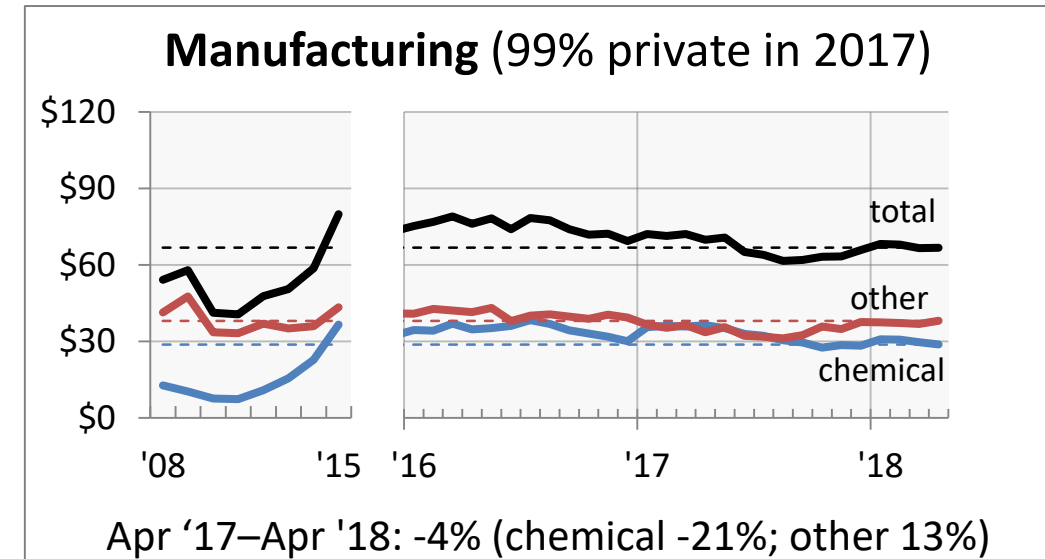
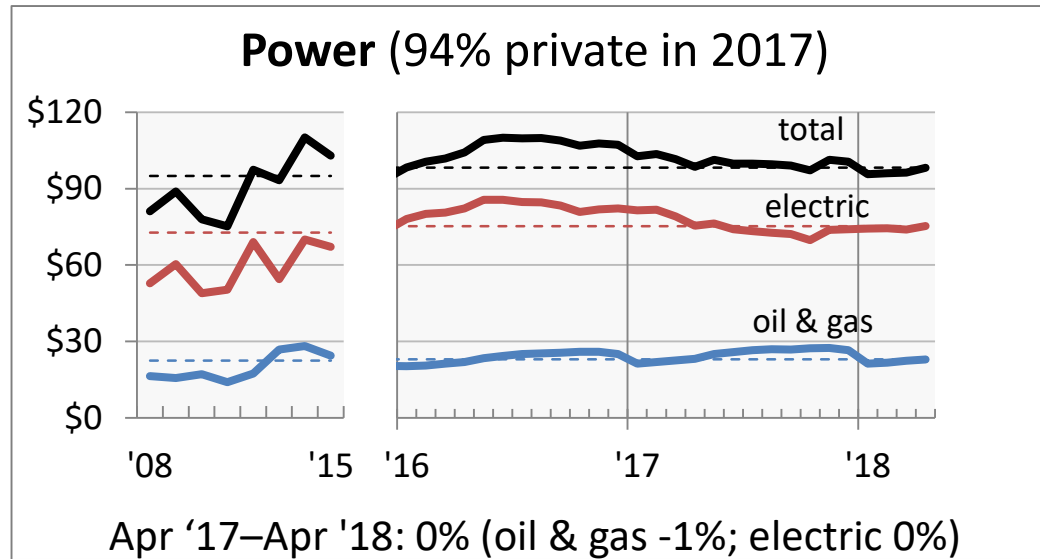
## Nonresidential spending by segment: 2017 change, 2018 forecast

	<u>2017 vs. 2016</u>	<u>Jan-Apr '18 vs. Jan-Apr '17</u>	<u>2018 forecast</u>
<b>Nonresidential total (public+private)</b>	<b><u>0%</u></b>	<b><u>5%</u></b>	<b><u>1-5%</u></b>
Power (incl. oil & gas field structures, pipelines)	-6	-4	5-10%
Educational	2	5	2-7%
Highway and street	-4	-3	0-3%
Commercial (retail, warehouse, farm)	14	10	5-10%
Office	2	5	0-3%
Manufacturing	-12	-4	-2 to 2%
Transportation	4	22	7-12%
Health care	4	9	2-7%
Lodging	6	13	-2 to 2%
Sewage & waste disposal	-13	9	-2 to 2%
Other--amusement; communication; religious; public safety; conservation; water: 11% of '17 total	0	12	-2 to 2%

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

# Construction spending: industrial, heavy

annual total, 2008–15; monthly (seasonally adjusted annual rate), 1/16–4/18; billion \$

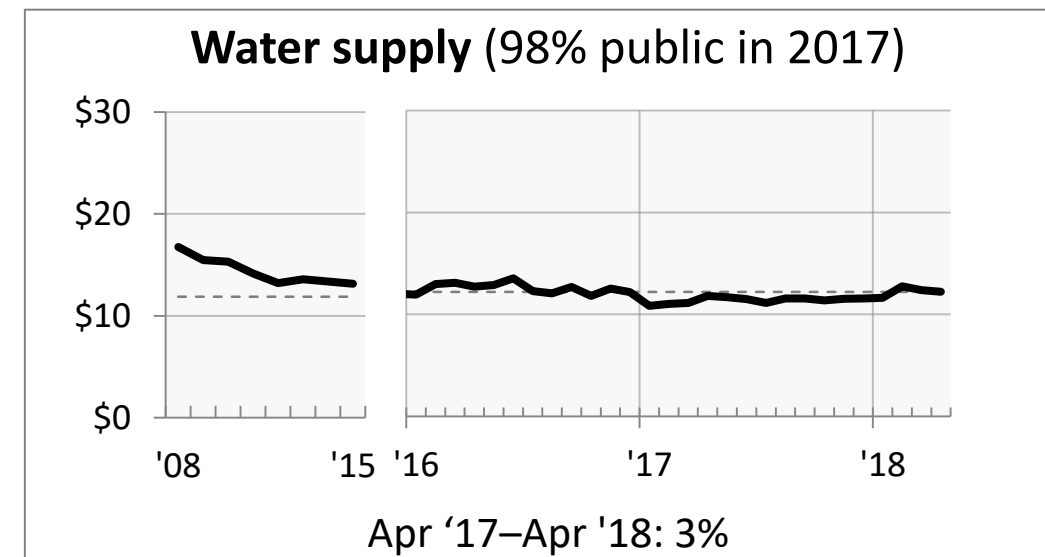
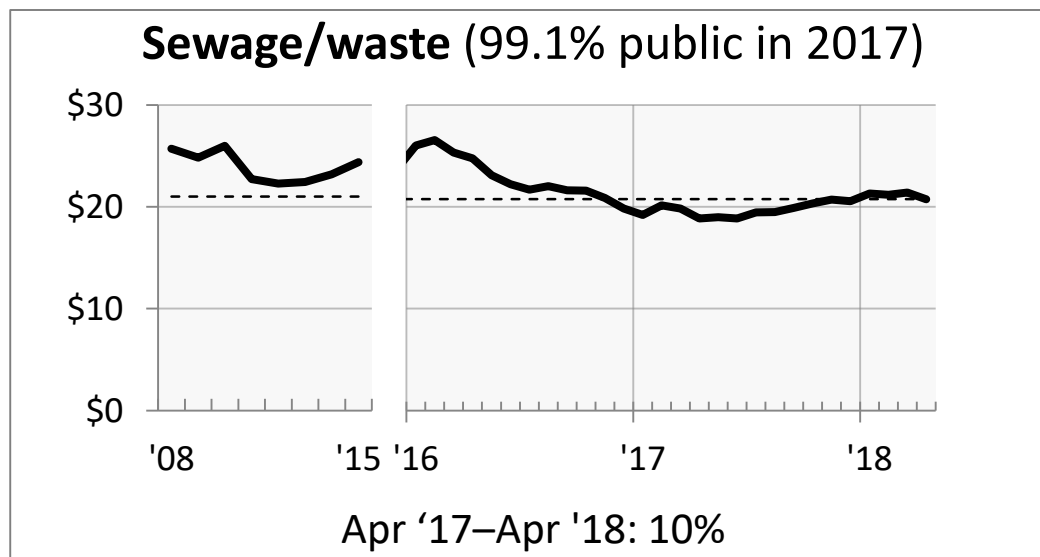
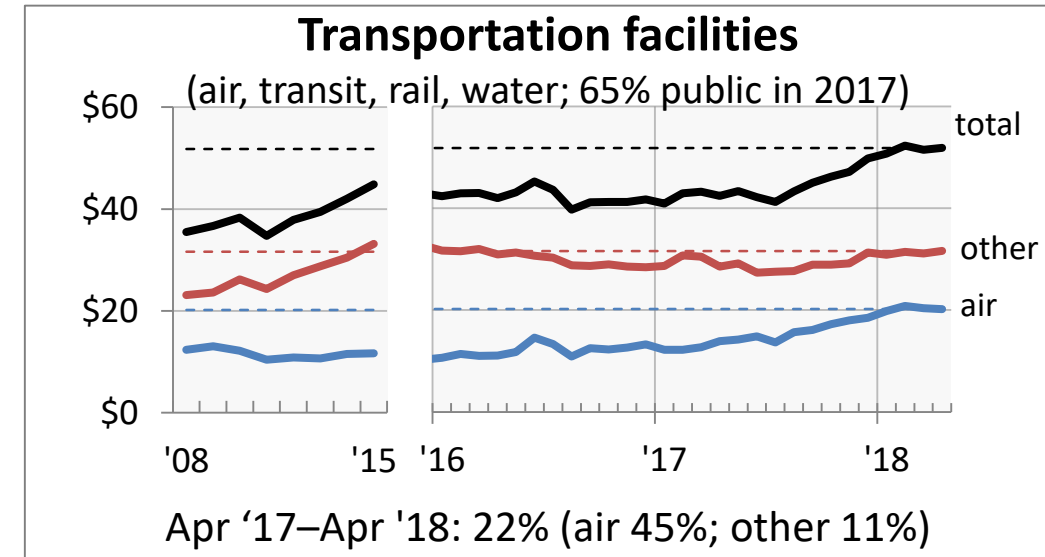
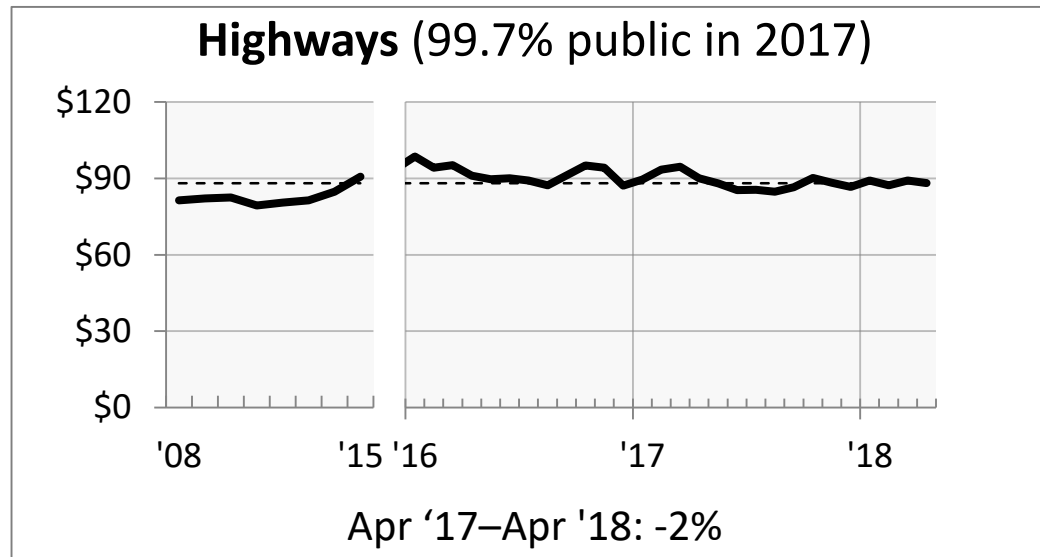


## **Key points: power & energy, mfg, amusement & recreation**

- 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, U.S. & global economic growth, weaker dollar; but tariffs, foreign retaliation are a concern
- 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, 2008–15; monthly (seasonally adjusted annual rate), 1/16–3/18; billion \$



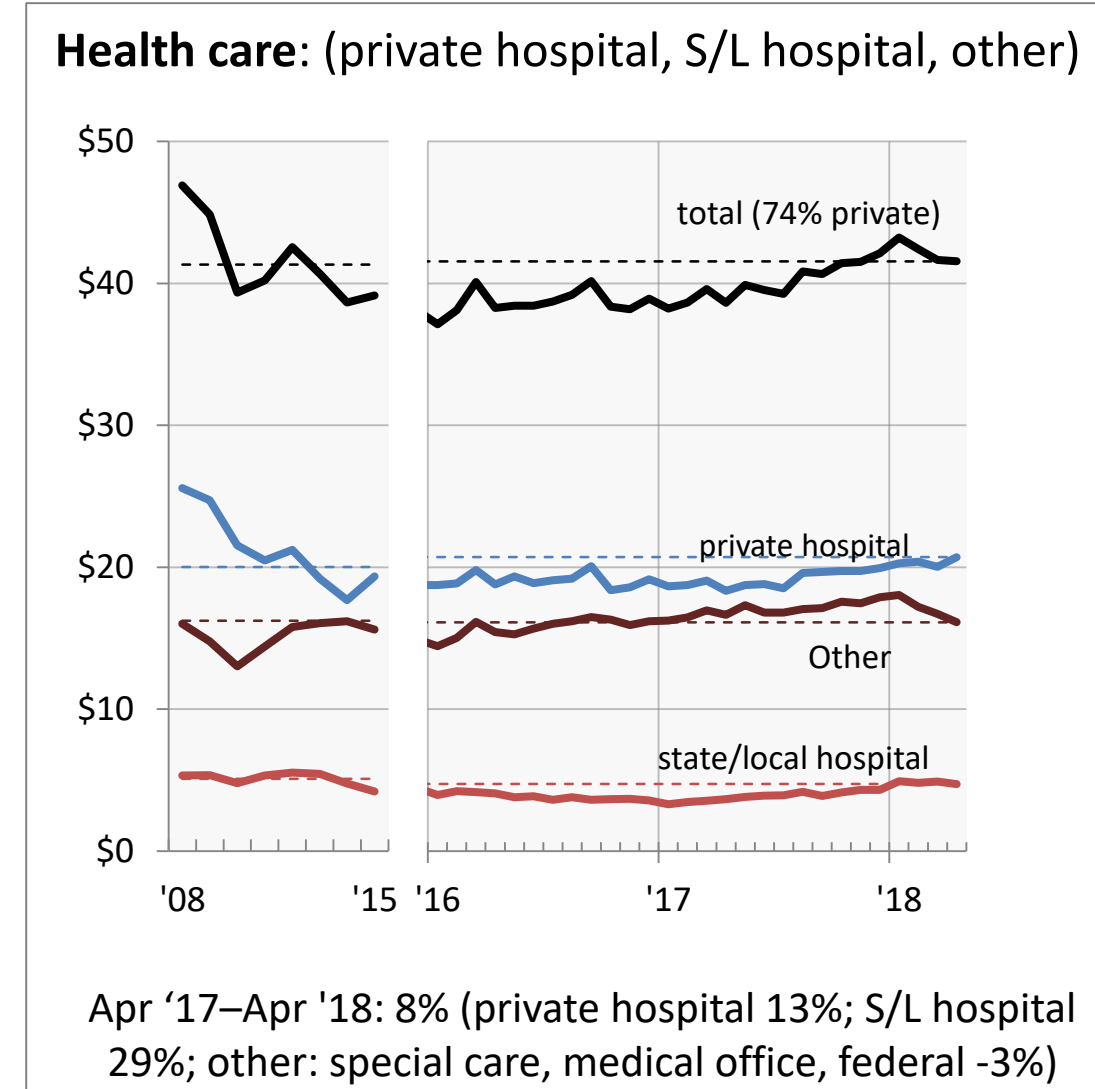
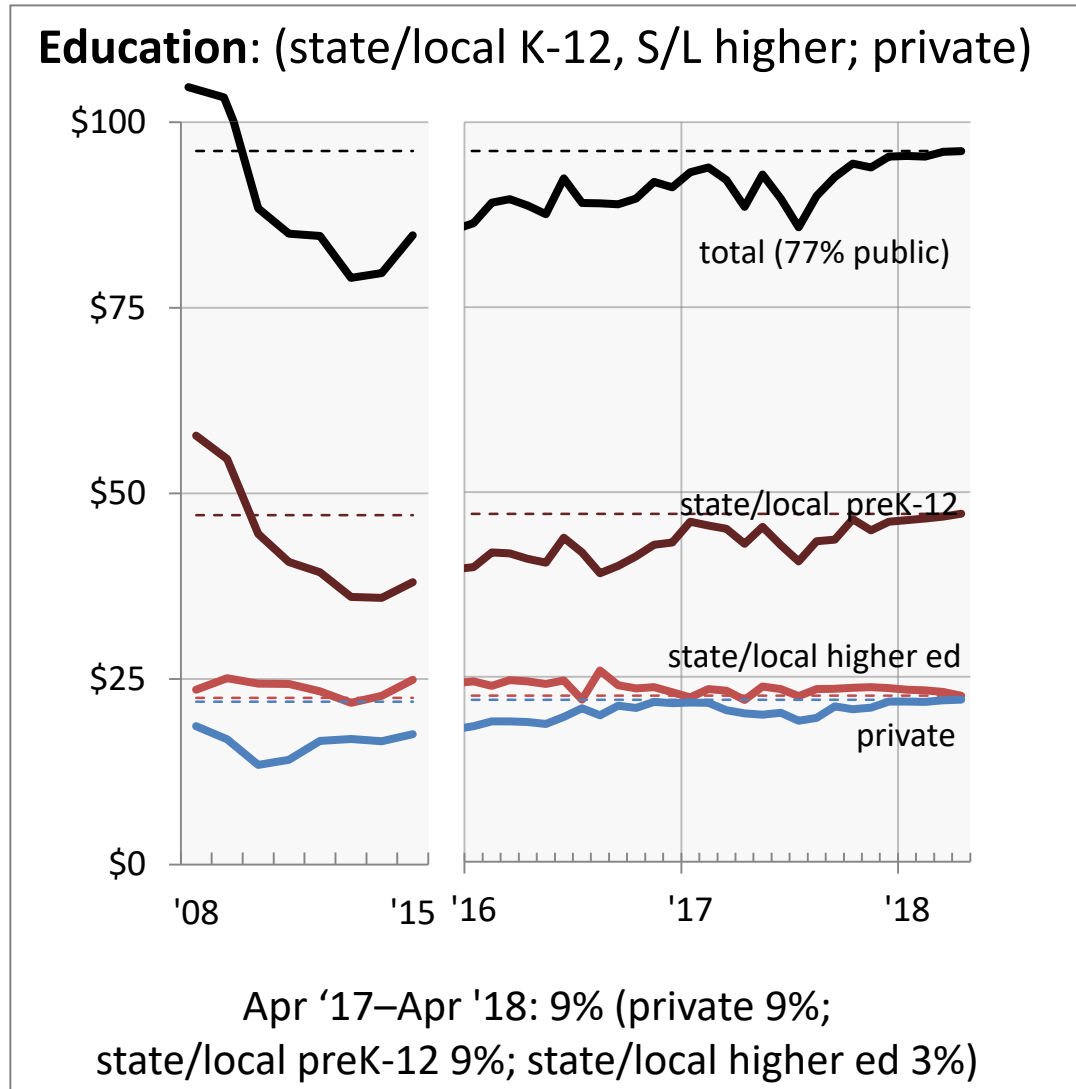
## **Key points: roads, transportation, sewer/water**

- State highway funding and P3s gradually increasing but federal funding likely to be flat through 2018; pickup likely by 2019
- Many new and ongoing public & private airport projects; revival of freight rail construction; but no net increase 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, 2008–15; monthly (seasonally adjusted annual rate), 1/16–4/18; billion \$

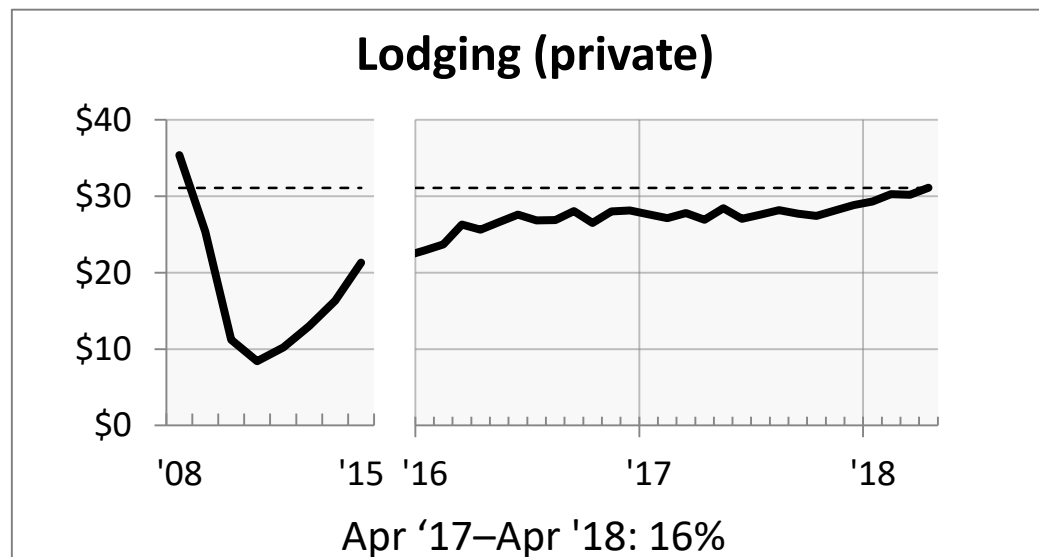
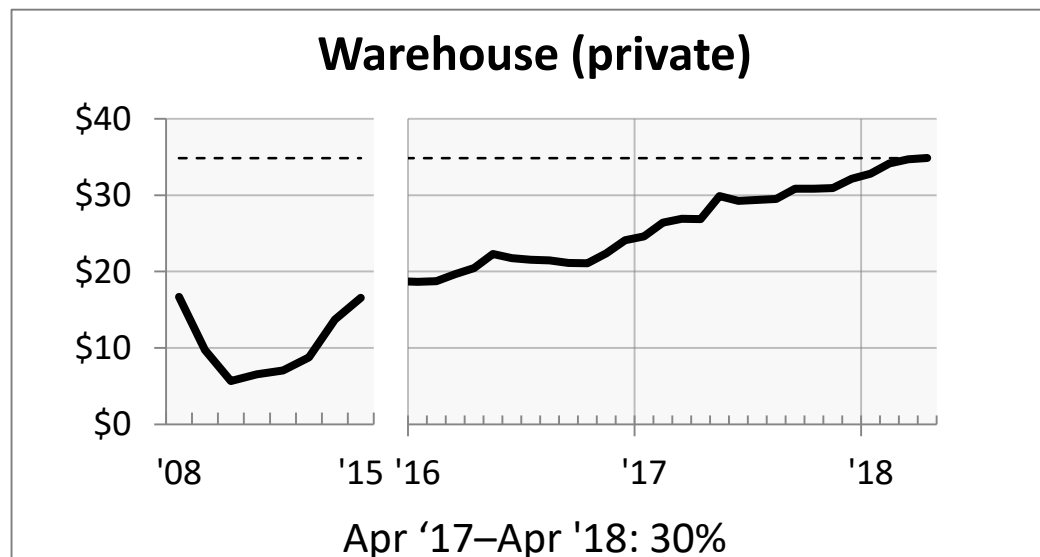
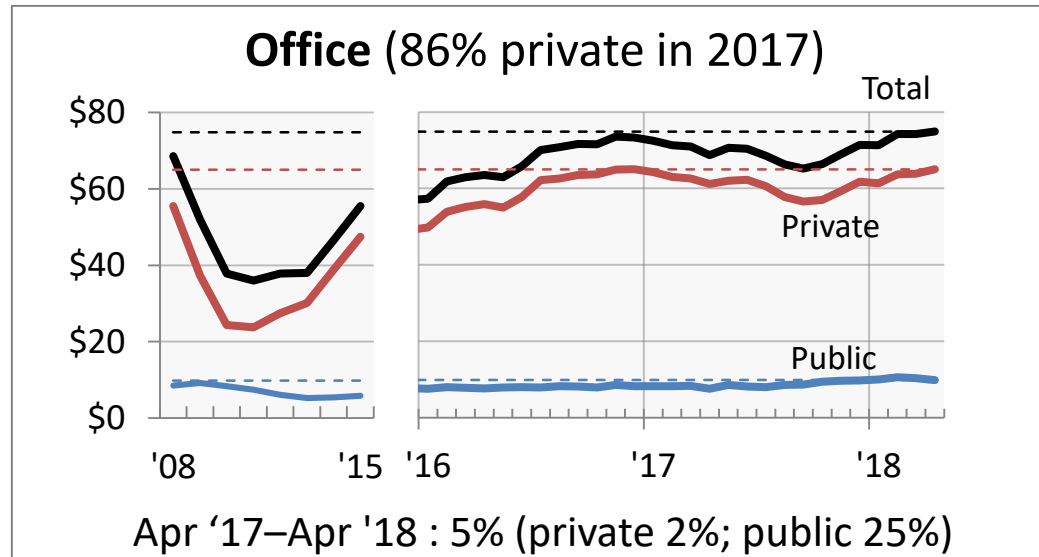
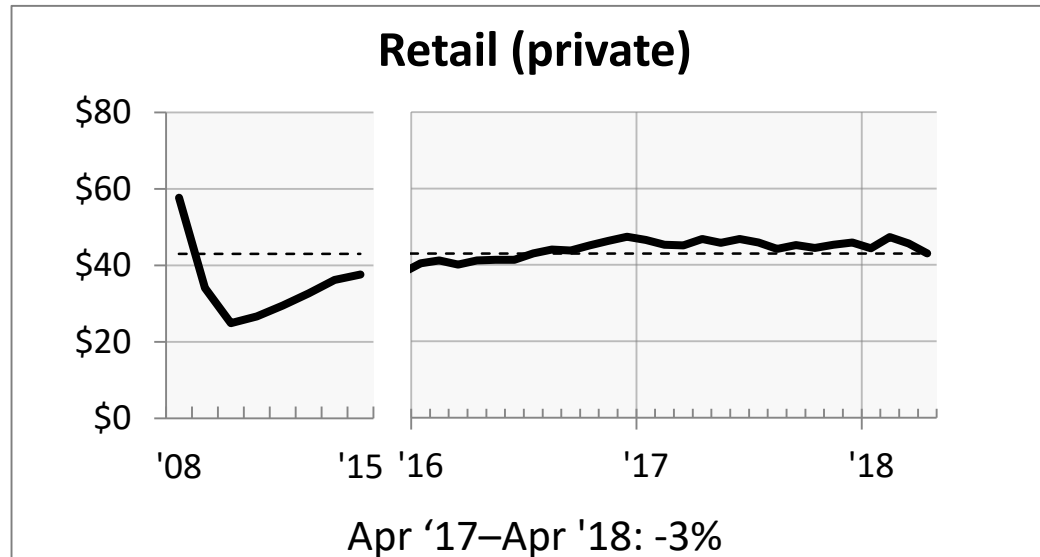


## **Key points: education & health care**

- 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, 2008–15; monthly (seasonally adjusted annual rate), 1/16–4/18; billion \$

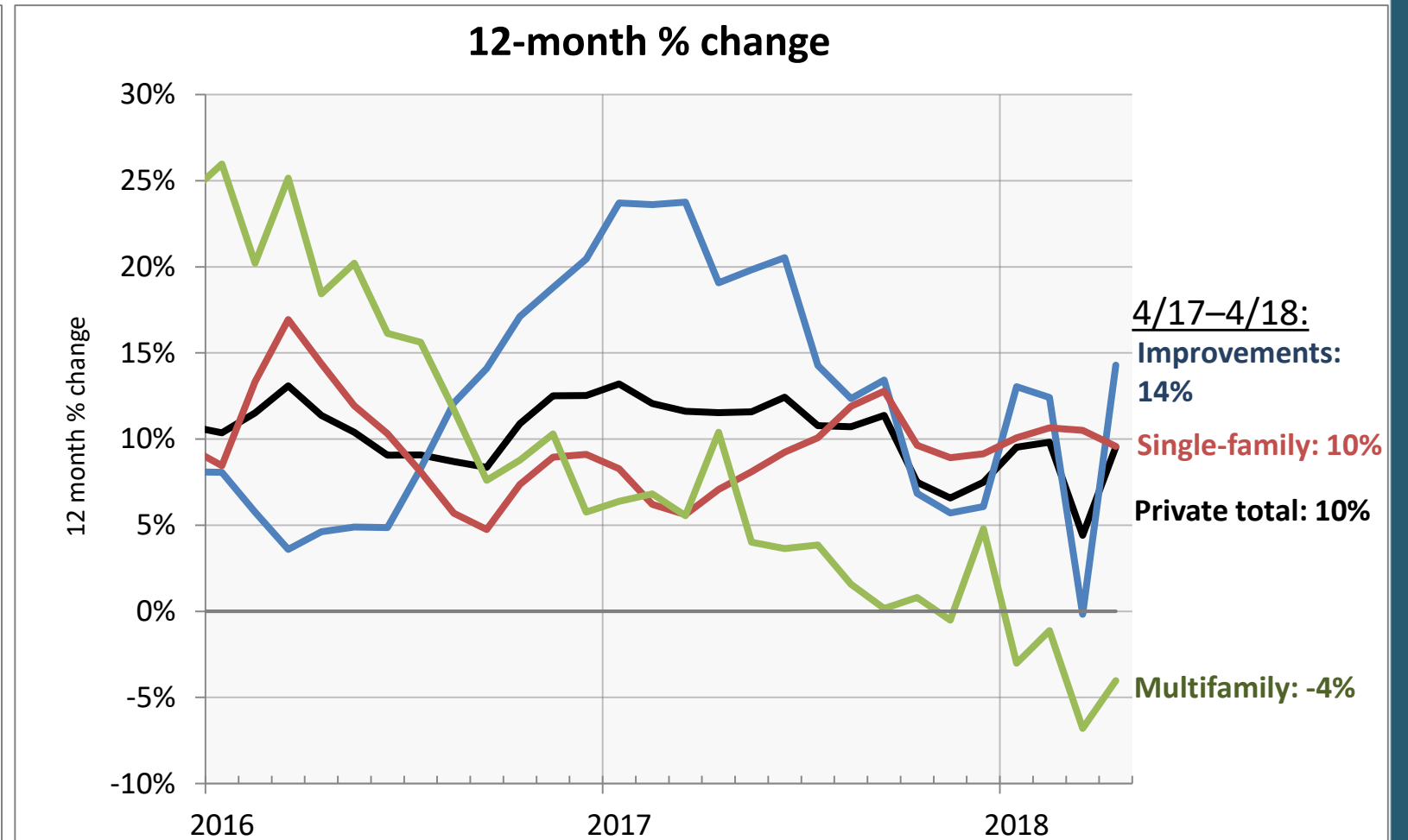
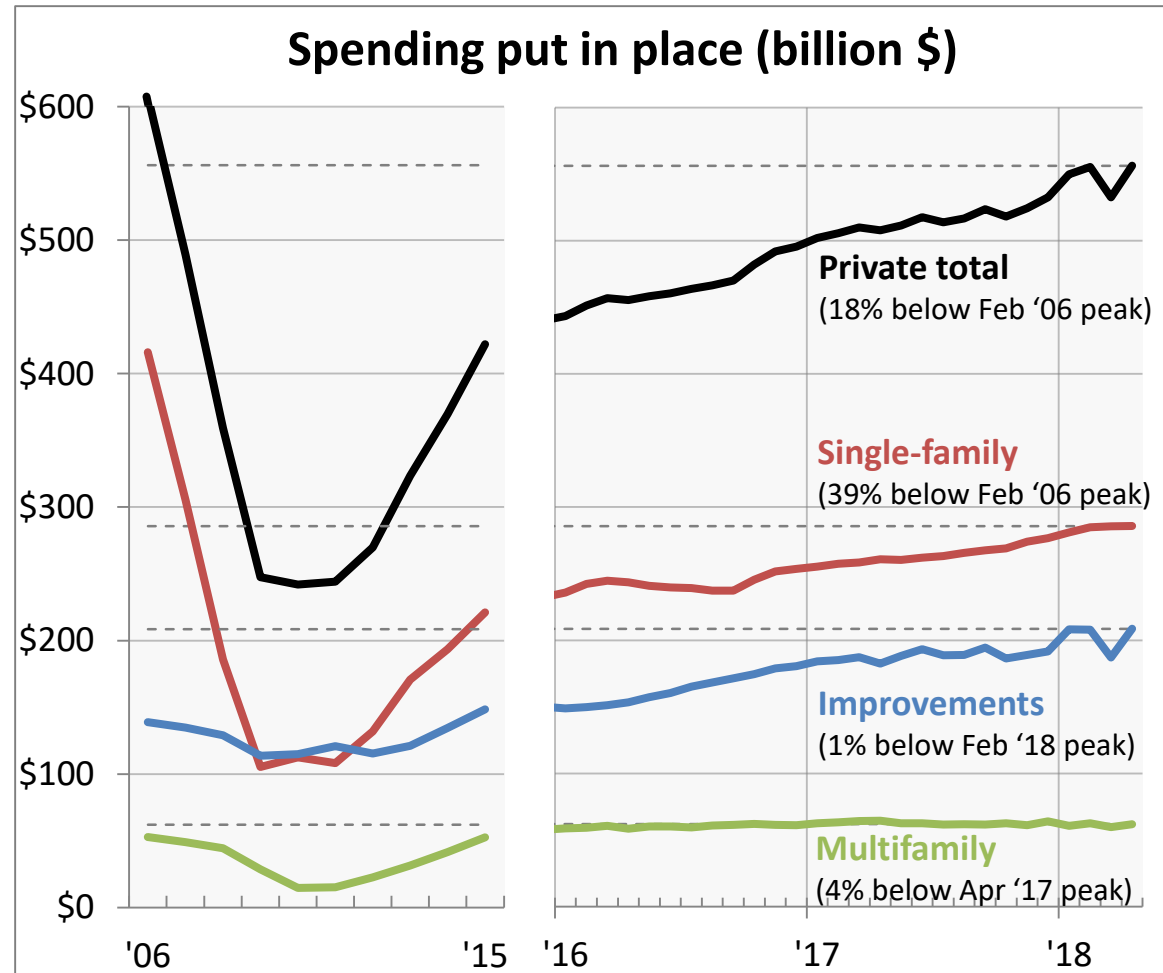


## **Key points: retail, warehouse, office, hotel, data centers**

- 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 markets reaching saturation; more competition from Airbnb
- Data centers remain a strong niche but no data available on how strong

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

annual total, 2006–15; monthly (seasonally adjusted annual rate), 1/16–4/18; billion \$

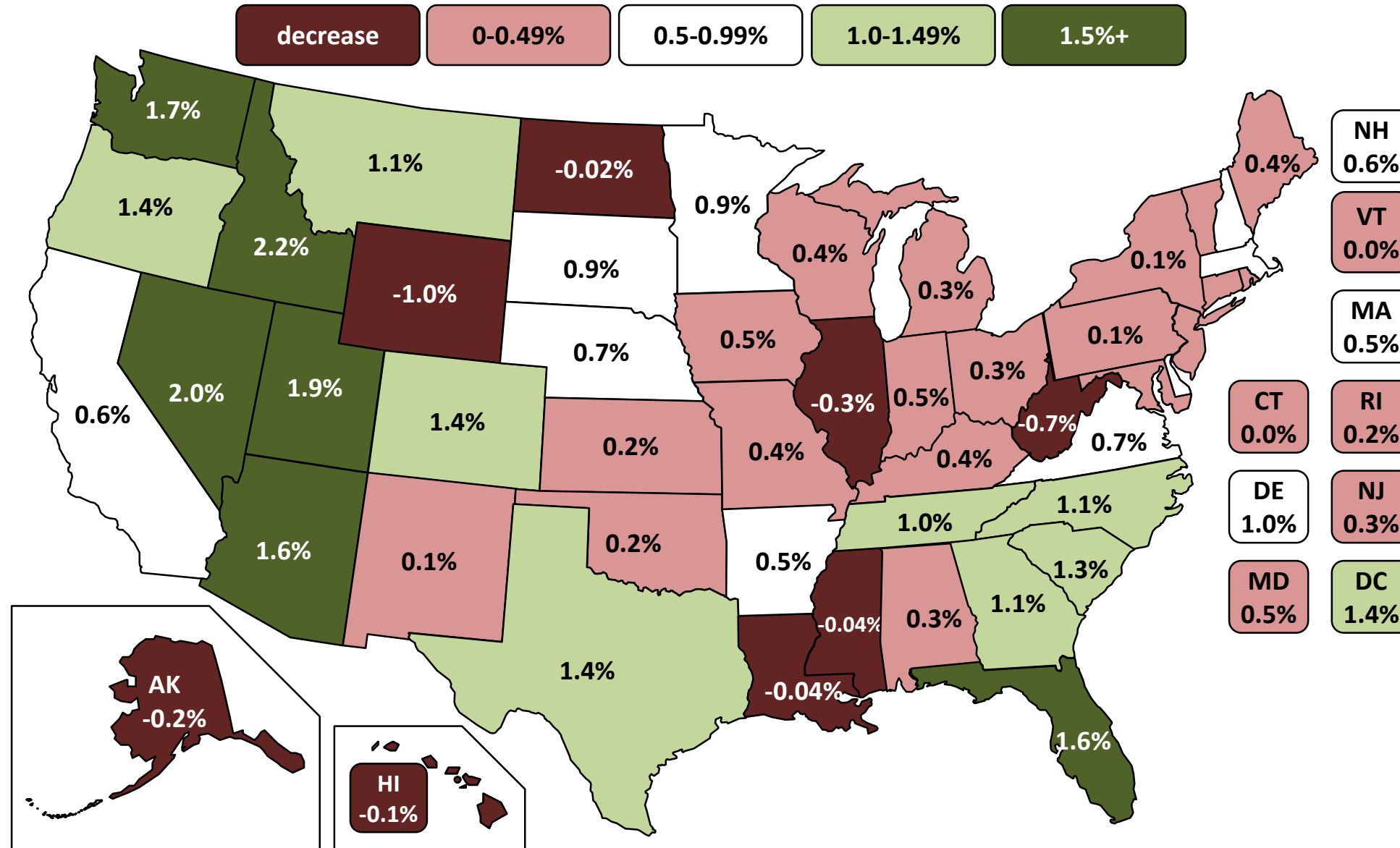


Source: U.S. Census Bureau construction spending report

## **Residential spending forecast--2018: 6-9% growth (11% in 2017)**

- **SF: 8-10% growth in 2018** (9% in 2017); rising interest rates, tax law changes, student debt will limit number of potential buyers
- **MF: near 0 change in 2018** (4% in 2017)
  - occupancy rates, rents have leveled off; but permits are rising, implying rebound in 2019
  - 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: 10-15% growth in 2018** (16% in 2017); unpredictable because Census lacks reliable data source; post-storm reconstruction may boost totals

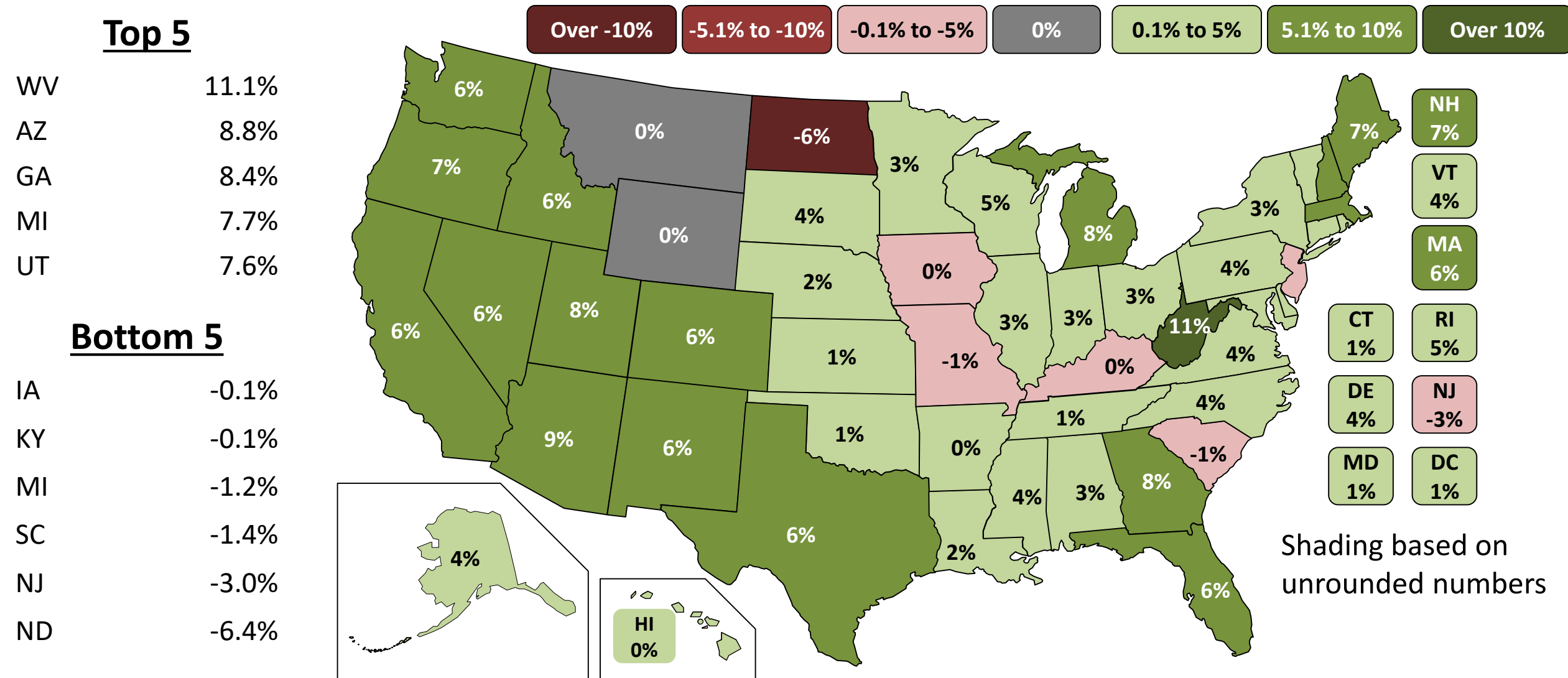
# Population change by state, July 2016–July 2017 (U.S.: 0.72%)



Source: U.S. Census Bureau

# State construction employment change (U.S.: 3.3%)

5/17 to 5/18: 38 states and DC **up**, 12 **down**

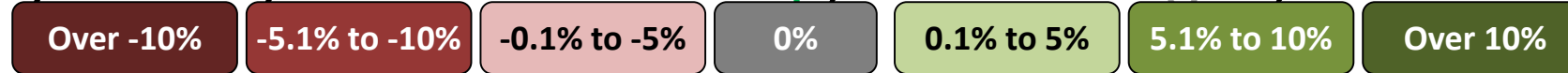


Source: BLS state and regional employment report



# Metro construction employment change (U.S.: 3.3%)

5/17 to 5/18: 263 metros **up**, 48 unchanged, 47 **down**

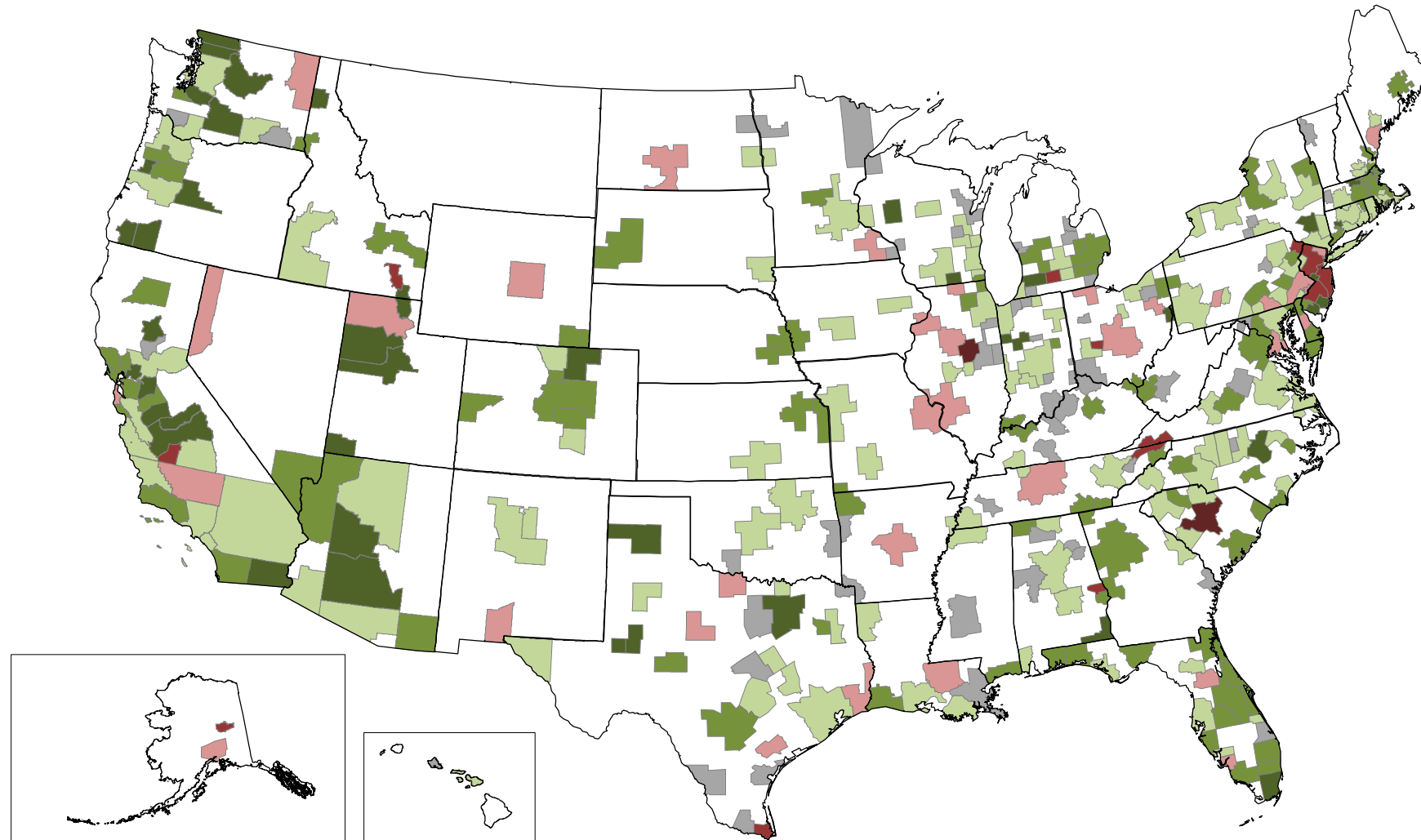


## Top 5

Merced, CA	29%
Midland, TX	29%
Atlantic City- Hammonton, NJ	20%
New Bedford, MA NECTA	19%
Weirton- Steubenville, WV- OH	19%

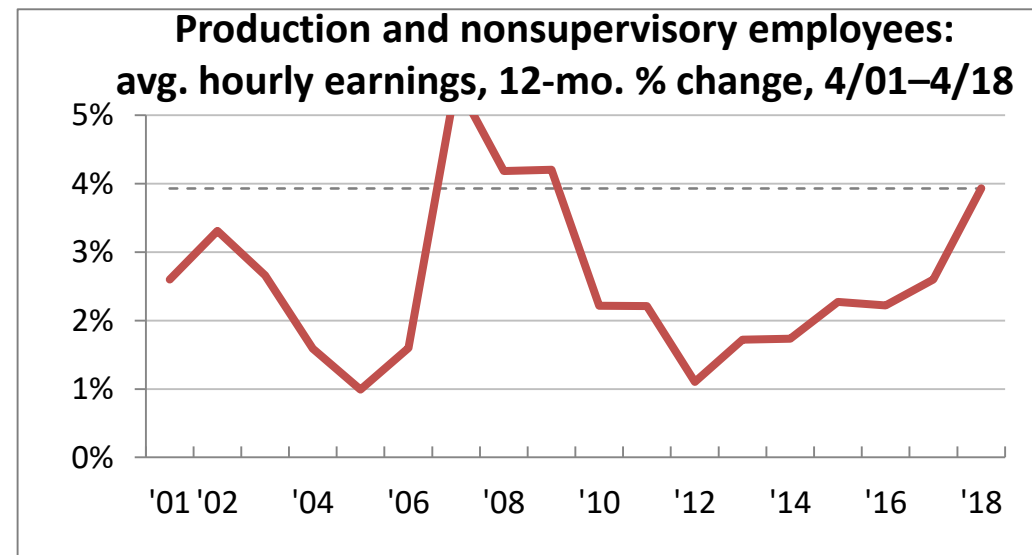
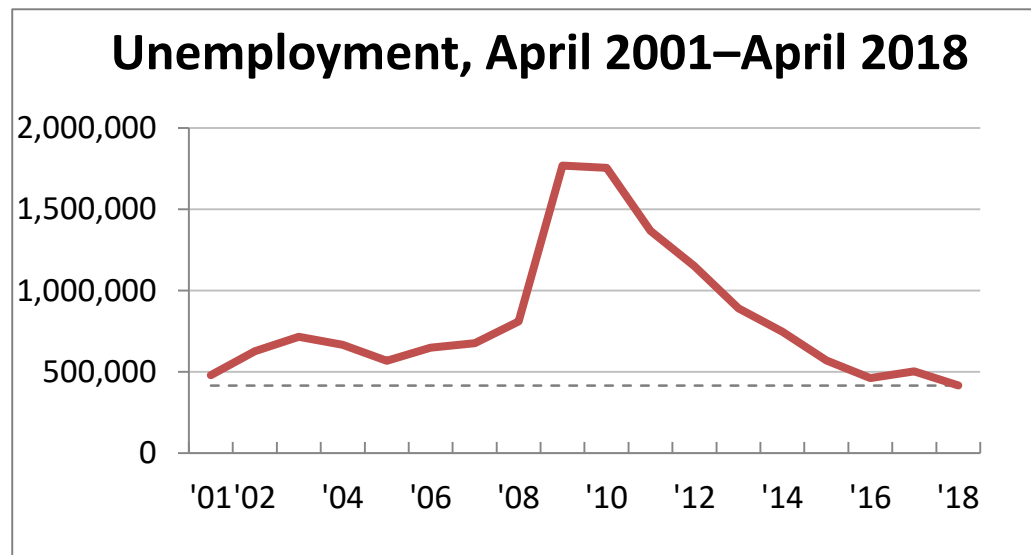
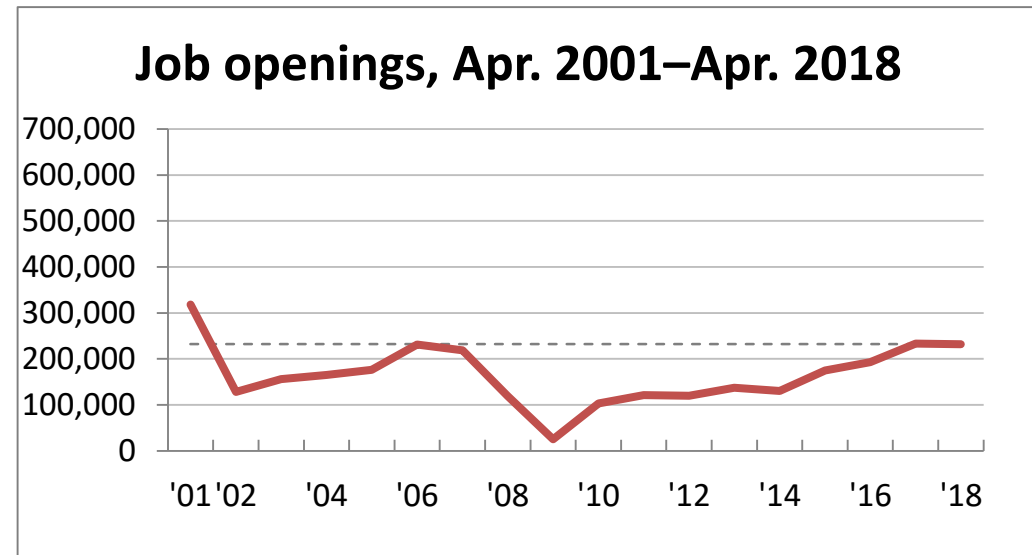
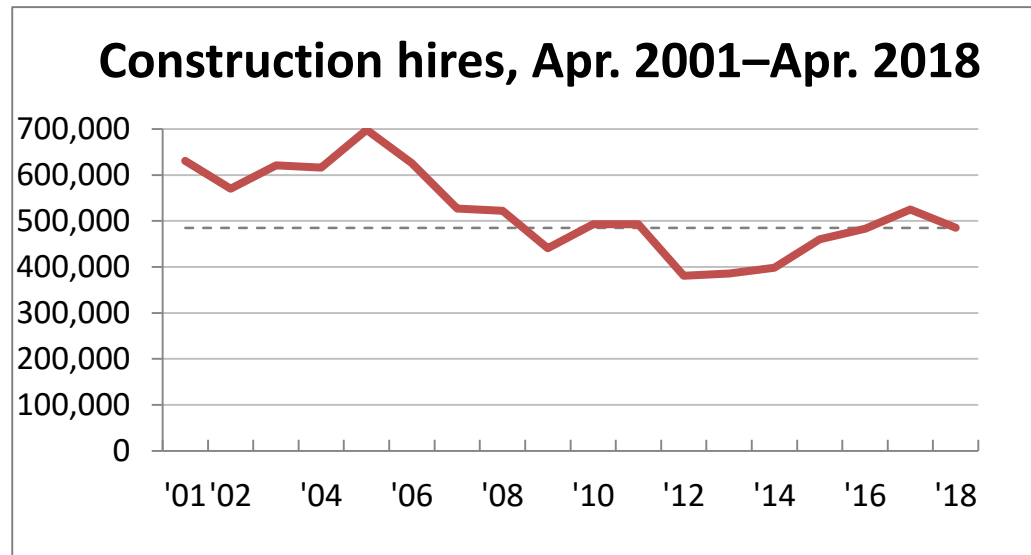
## Bottom 5

Camden, NJ Div.	-9%
Pocatello, ID	-10%
Hanford- Corcoran, CA	-10%
Columbia, SC	-11%
Bloomington, IL	-14%



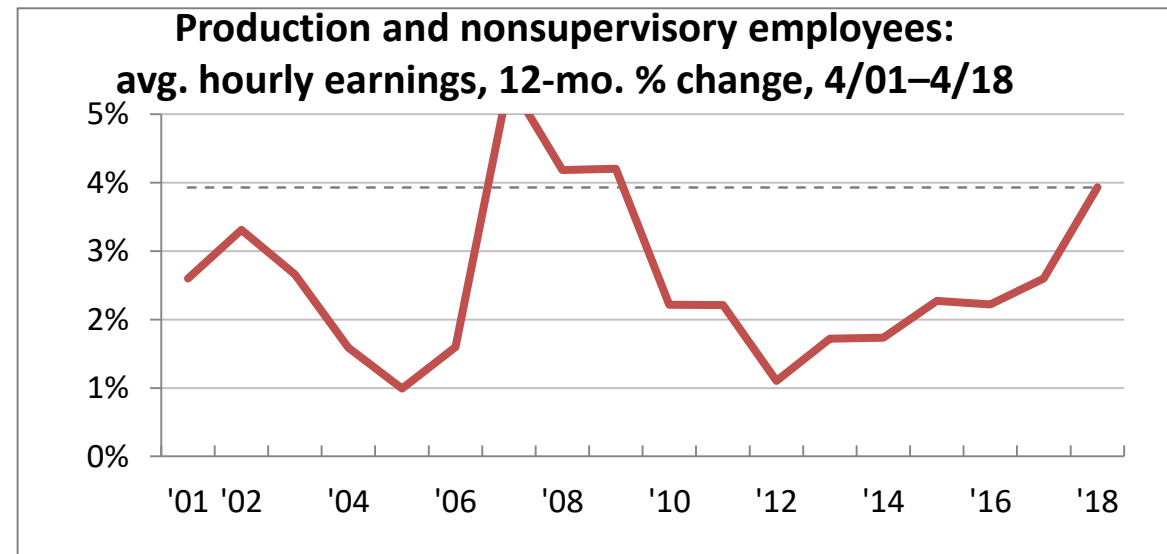
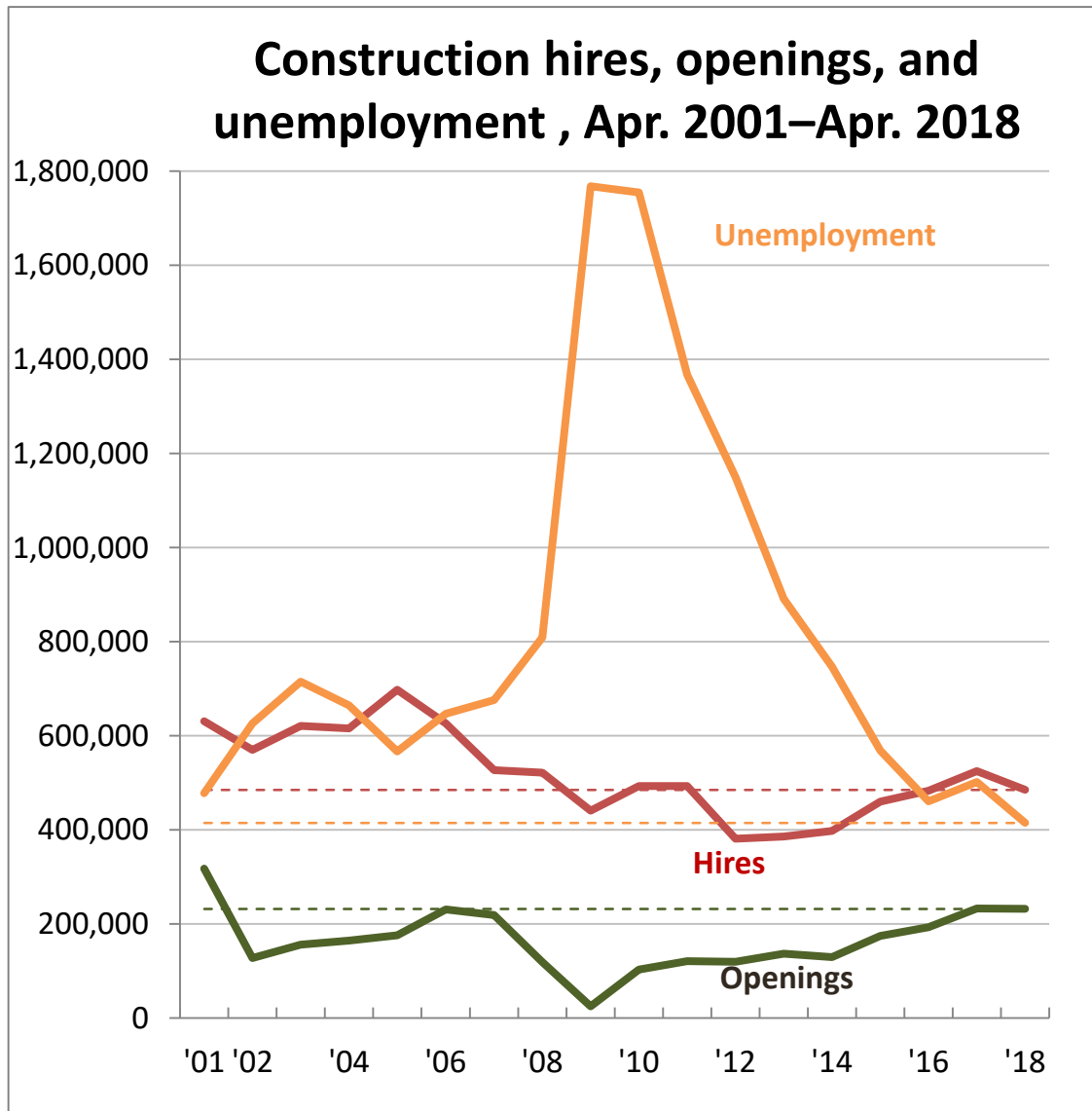
Source: BLS state and regional employment report

# Construction workforce indicators (not seasonally adjusted)



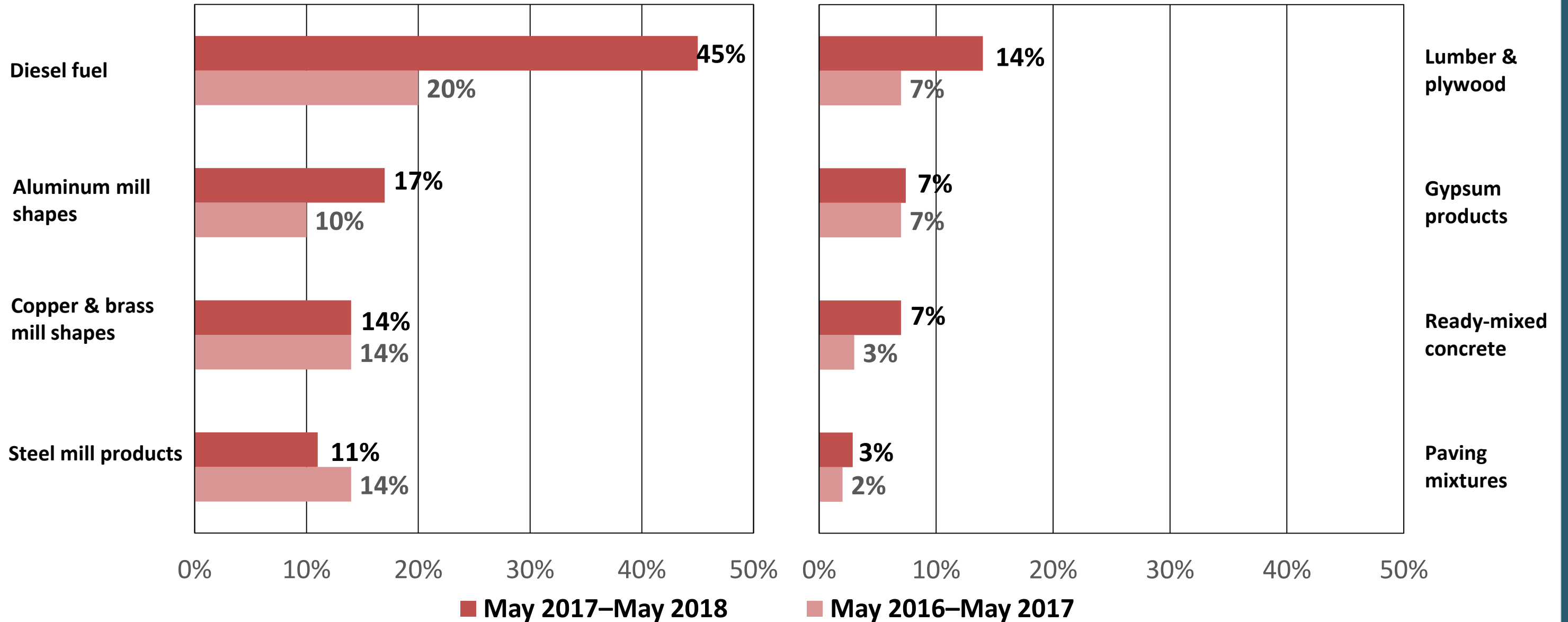
Source: Bureau of Labor Statistics

# Construction workforce indicators (not seasonally adjusted)



Source: Bureau of Labor Statistics

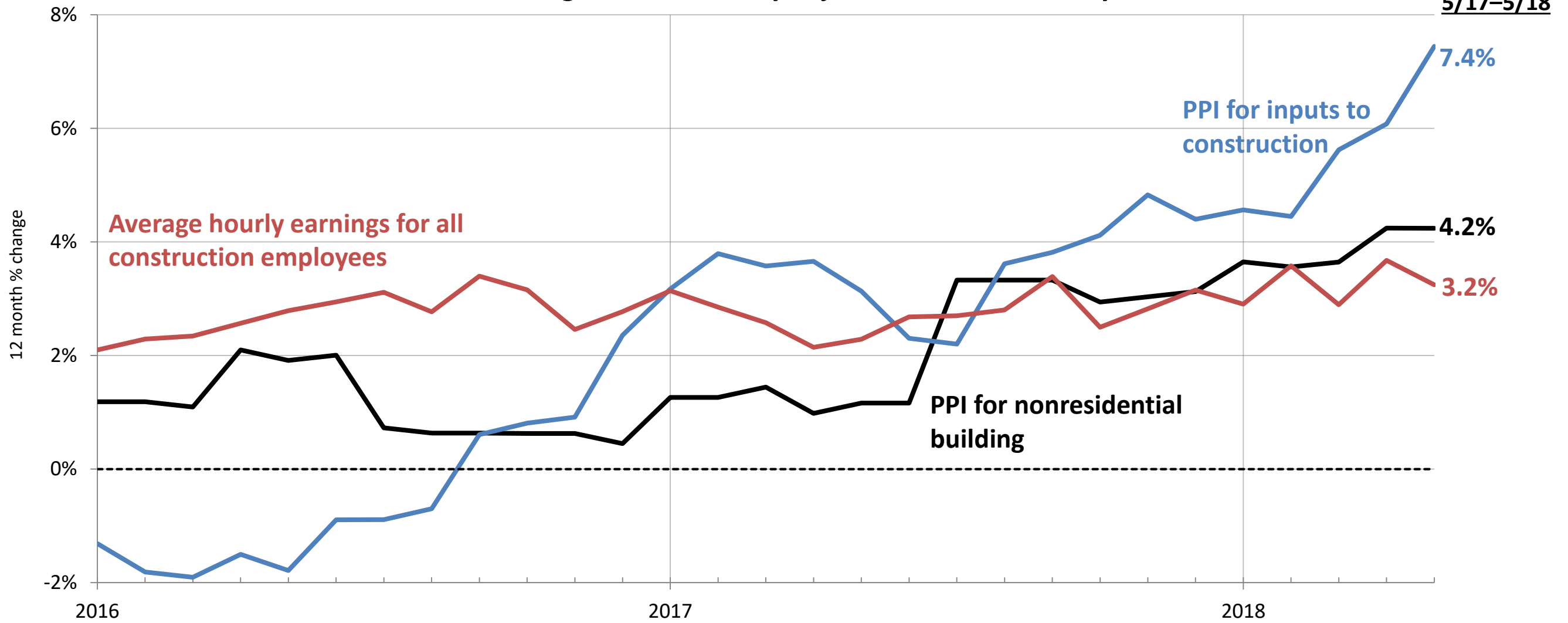
# 12-month change in producer price index for key inputs



Source: Bureau of Labor Statistics

# Materials costs are rising faster than bid prices

12-month % change, not seasonally adjusted: Jan. 2016 – May 2018



Source: Bureau of Labor Statistics

# 2016–2017 summary, 2018 forecast

	2017 actual	4/17– 4/18	2018 forecast
Total spending	4%	8%	2-7%
Private – residential	11%	10%	6-9%
– nonresidential	1%	5%	1-5%
Public	-2%	8%	-3 to 3%
Goods & services inputs PPI	4%	6%	4-5%
Employment cost index	2.7%	2.4%*	3-4%

\* 2018Q1/2017Q1

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

# Recent leading indicators for construction, May 2018

	YTD change or index #
Dodge starts – total (Jan.–May 2018 vs. 2017)	-3%
Residential	5%
Nonres building	-16%
Nonbuilding	0%
ConstructConnect starts – total (Jan.–May 2018 vs. 2017)	-8%
Nonres building	-16%
Heavy (civil)	9%
Census multifamily starts (Jan.–May 2018 vs. 2017)	14%
Multifamily permits (Jan.–May 2018 vs. 2017)	9%
Architecture Billings Index (May 2018)	52.8

# AGC economic resources

(email [simonsonk@agc.org](mailto: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](http://www.agc.org/learn/construction-data)

