Will Construction Thrive or Dive Next Year?

Featuring: Ken Simonson, Chief Economist for the Associated General Contractors of America

with

Michael Trettel, i+iconUSA, AGCA Business Development Forum Chair

Michael Geary, CEO of the Society for Marketing Professional Services
Over 650 Active Members – all company types and sizes

14 Member Steering Committee

https://www.agc.org/connect/agc-groups/business-development

Newly launched Business Development Specific LinkedIn Group
  • https://www.linkedin.com/groups/7064844
AGC Business Development Forum

- **BD Best Practices Series Articles**
  - Monthly articles written by AGC members, SMPS members, & other industry professionals

- **BD Webinars**
  - Periodic webinars dealing with pertinent BD & marketing topics and issues

- **Other Content**
  - BD and marketing related tools, surveys, reports from various sources

- Interested in contributing?
  - Contact Paige Packard at paige.packard@agc.org
  - You and your company will be featured and marketed to the largest and foremost audience in the construction industry!
AGC Presents BuildCon 2016

- October 18-19, 2016 at the Hyatt Regency Atlanta in Atlanta, GA

- NEW this year, BuildCon attendees will have access to the Fall BIMForum sessions

- “BIM for Business Development” Session (October 18 at 2:45 pm EST)
  - Sarah Appleton, PE, Associate at Wallace Engineering
  - Benjamin Crosby, Director of BIM, Yates Construction
  - Fred Meeske, Corporate BIM Director, Rosendin Electric
  - Dan Russell, Director Construction Technology, Sundt Construction

- Registration & more info: [http://meetings.agc.org/buildcon/](http://meetings.agc.org/buildcon/)
AGC Business Development Forum

Not a member yet?

Join the Forum via your online AGC profile!

www.agc.org ➔ log in
SMPS Helps You Market Smarter
Who is SMPS?

- Along with the SMPS Foundation, the Society is the only organization dedicated to building business in the A/E/C industry.

- SMPS is a community of nearly 7,000 marketing and business development professionals—including principals and other firm leaders—working to secure profitable business relationships for their A/E/C companies.

- Through networking, business intelligence, and research, SMPS members gain a competitive advantage in positioning their firms successfully in the marketplace.

- SMPS offers members professional development, leadership opportunities, and marketing resources to advance their careers.
Our History

- Created in 1973 by a small group of professional services firm leaders
- Recognized the need to sharpen business development skills, pool resources, and work together to create business opportunities
SMPS Today

- Represents nearly 7,000 marketing and business development professionals from architectural, engineering, planning, interior design, construction, and related specialty consulting firms
- Benefits from the support of 3,250+ design and building firms
- Encompasses 80% of the firms in the *Engineering News–Record*
- Top 500 design and engineering firms plus the leading 400 contractors
SMPS Today

- Supports 57 dynamic chapters and an extensive professional network that extends across the United States and Canada.
- Led by a dedicated volunteer board of seven officers and directors.
- Supported by a professional team at the Society’s headquarters in Alexandria, Virginia.
Domains of Practice for Professional Services Marketers

In 1997, SMPS conducted an analysis of professional services marketing to articulate and document the profession’s knowledge and skill sets.

The knowledge and skill sets are classified under six Domains of Practice:

- Market Research
- Marketing Planning
- Client and Business Development
- Proposals/SOQs
- Promotional Activity
- Management
MARKENDIUM: The SMPS Body of Knowledge

- Seller-Doer Research and Training Programs
- Business Development Research and Training Programs
- Online Programs and Publications
- Onsite Training
- Business Networks Through SMPS Chapters
- Research on Trends and Future Possibilities
- SMPS U in conjunction with the University of Maryland
Construction Spending, Labor & Materials Outlook

AGC/SMPS WebEd
September 21, 2016
Ken Simonson
Chief Economist, AGC of America
simonsonk@agc.org
Construction spending & employment, 2006-16

Total spending, Feb. ‘06 (peak)-Jul. ‘16
billion $, seasonally adjusted annual rate (SAAR)

- $1.21 trillion (4% below peak)
- $1.15 trillion

Total employment, Apr. ‘06 (peak)-Aug. ‘16
thousands, seasonally adjusted

- 7.7 million
- 6.6 million (14% below peak)

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%

Source: U.S. Census Bureau (spending); Bureau of Labor Statistics (employment)
## Nonresidential segments: 2014-15 change, 2016-17 forecast

<table>
<thead>
<tr>
<th>Nonresidential total (public+private)</th>
<th>2015 vs. 2014</th>
<th>Jan.-July ’16 vs. ’15</th>
<th>2016 forecast</th>
<th>2017 forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power (incl. oil &amp; gas field structures, pipelines)</td>
<td>7 %</td>
<td>5%</td>
<td>4-10%</td>
<td>2-6%</td>
</tr>
<tr>
<td>Highway and street</td>
<td>-16</td>
<td>6</td>
<td>5-10</td>
<td>5-10</td>
</tr>
<tr>
<td>Educational</td>
<td>6</td>
<td>2</td>
<td>2-5</td>
<td>2-5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5</td>
<td>3</td>
<td>3-6</td>
<td>2-5</td>
</tr>
<tr>
<td>Commercial (retail, warehouse, farm)</td>
<td>5</td>
<td>11</td>
<td>7-12</td>
<td>0-5</td>
</tr>
<tr>
<td>Office</td>
<td>33</td>
<td>-3</td>
<td>-8 to -4</td>
<td>&lt;0</td>
</tr>
<tr>
<td>Transportation</td>
<td>6</td>
<td>11</td>
<td>7-12</td>
<td>0-5</td>
</tr>
<tr>
<td>Health care</td>
<td>5</td>
<td>2</td>
<td>1-5</td>
<td>3-8</td>
</tr>
<tr>
<td>Sewage and waste disposal</td>
<td>5</td>
<td>-5</td>
<td>-5 to 0</td>
<td></td>
</tr>
<tr>
<td>Lodging</td>
<td>30</td>
<td>26</td>
<td>15-30</td>
<td>&lt;0</td>
</tr>
<tr>
<td>Other--amusement; communication; religious; public safety; conservation; water: 11% of total</td>
<td>9</td>
<td>0</td>
<td>-2 to 4</td>
<td></td>
</tr>
</tbody>
</table>
Construction spending: industrial, heavy
annual total, 2008-13; monthly, SAAR, 1/14-7/16; billion $

Power (92% private)

- Electric
- Oil & Gas

Manufacturing (99% private)

- Other
- Chemical

Amusement & recreation (53% private)

- Public
- Private

Communication (99.3% private)

Jul. '15-Jul. '16 change:
- Power: 1% (oil & gas -12%; electric 5%)
- Manufacturing: -5% (chemical -1%; other -9%)
- Amusement & recreation: 5% (private 15%; public -5%)
- Communication: -9%
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

Source: Author
Construction spending: public works
annual total, 2008-13; monthly, SAAR, 1/14-7/16; billion $

Highways (99.8% public)

Sewage/waste (98% public)

Transportation facilities (71% public)

Water supply (98% public)

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

Source: Author
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

SMPS
Society for Marketing Professional Services

AGC of America
The Associated General Contractors of America

Quality People. Quality Projects.
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

- Seattle
- Portland
- Silicon Valley
- Southern California
- Las Vegas
- Salt Lake City
- Denver
- Colorado Springs
- Minneapolis
- Des Moines
- Omaha
- Kansas City
- Chicago
- St. Louis
- Atlanta
- Dallas
- Houston
- Northern Florida
- Northern New Jersey
- Northern Virginia
- Philadelphia
- Boston

Source: www.DataCenterKnowledge.com, from CBRE, ASHRAE
Private residential spending: MF continues to outpace SF

Seasonally adjusted annual rate (SAAR): Jan. 2011 ($238 B)-July 2016 ($445 B)

- Multifamily (MF) (June ‘16: $60 B)
- Single-family (SF) (June ‘16: $238 B)
- Improvements (June ‘16: $148 B)

Source: U.S. Census Bureau construction spending reports

12-month % change: January 2011 (-5.3%)-July 2016 (1.9%)

- Multifamily: 20%
- Single-family: 2%
- Total: 2%
- Improvements: -4%
Residential spending forecast:
2016: 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 slowing but should last till 2018
  - 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 5-10%; improvements 0-10%

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

<table>
<thead>
<tr>
<th>Position</th>
<th>Percentage of Respondents Filling Trouble</th>
</tr>
</thead>
<tbody>
<tr>
<td>All hourly craft positions</td>
<td>69%</td>
</tr>
<tr>
<td>Carpenters</td>
<td>60%</td>
</tr>
<tr>
<td>Electricians</td>
<td>53%</td>
</tr>
<tr>
<td>Plumbers, roofers</td>
<td>50%</td>
</tr>
<tr>
<td>Concrete workers</td>
<td>49%</td>
</tr>
<tr>
<td>All salaried field positions</td>
<td>38%</td>
</tr>
<tr>
<td>Project mgrs/supervisors</td>
<td>50%</td>
</tr>
<tr>
<td>Estimators</td>
<td>31%</td>
</tr>
<tr>
<td>Engineers</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source: AGC Member Survey, Sept. 2015
How contractors are coping with worker shortages

- Raising base pay: 48% (Salaried), 43% (Hourly)
- Providing incentives/bonuses: 27% (Salaried), 20% (Hourly)
- Increasing contributions/benefits: 22% (Salaried), 21% (Hourly)
- In-house training: 48%
- Overtime hours: 47%
- Subcontractors: 39%
- Engage w/ career-building prog.: 37%
- Staffing company: 24%
- Labor-saving equip., tools, mach.: 21%
- Unions: 18%
- Lean construction: 15%
- Offsite prefabrication: 13%
- Building information modeling (BIM): 7%

Source: AGC Member Survey, Sept. 2015
Construction workforce indicators (not seasonally adjusted)

Construction hires, July 2001-July 2016

Job openings, July 2001-July 2016

Unemployment, July 2001-July 2016

Employment cost index, Q2 2001-Q2 2016

Source: Bureau of Labor Statistics
Producer price indexes for key inputs, 1/11-7/16 (Jan. 2011=100)

**Gypsum products**
- Latest 1-mo. change: 0.1%, 12-mo.: 2%

**Copper & brass mill shapes**
- Latest 1-mo. change: 4.2%, 12-mo.: -8%

**Flat glass**
- Latest 1-mo. change: 0.1%, 12-mo.: 5%

**Aluminum mill shapes**
- Latest 1-mo. change: 0.2%, 12-mo.: -2%
Producer price indexes for key inputs, 1/11-6/16 (Jan. 2011=100)

- Diesel fuel: Latest 1-mo. change: 3%, 12-mo.: -19%
- Concrete products: Latest 1-mo. change: 0.5%, 12-mo.: 4%
- Paving mixtures: Latest 1-mo. change: 0.1%, 12-mo.: -7%
- Steel mill products: Latest 1-mo. change: 3%, 12-mo.: -1%

Source: Author, based on BLS producer price index reports
## 2015 summary, 2016-17 forecast

<table>
<thead>
<tr>
<th></th>
<th>2015 actual</th>
<th>2016 yr-to-date</th>
<th>forecast 2016</th>
<th>forecast 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total spending</strong></td>
<td>11%</td>
<td>6%</td>
<td>3-9%</td>
<td>2-7%</td>
</tr>
<tr>
<td><strong>Private – residential</strong></td>
<td>17%</td>
<td>7%</td>
<td>4-11%</td>
<td>5-10%</td>
</tr>
<tr>
<td><strong>– nonresidential</strong></td>
<td>8%</td>
<td>9%</td>
<td>4-10%</td>
<td>2-7%</td>
</tr>
<tr>
<td><strong>Public</strong></td>
<td>5%</td>
<td>0%</td>
<td>0-3%</td>
<td>1-5%</td>
</tr>
<tr>
<td><strong>Goods &amp; serv. inputs PPI</strong></td>
<td>-2%</td>
<td>-1%</td>
<td>0-2%</td>
<td>0-2%</td>
</tr>
<tr>
<td><strong>Employment cost index</strong></td>
<td>2.2%</td>
<td>2.5%</td>
<td>2.5-3.5%</td>
<td>3-4%</td>
</tr>
</tbody>
</table>

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](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](http://www.agc.org/learn/construction-data)
- WebEd 11/17 with Kermit Baker (AIA), Alex Carrick (ConstructConnect)
Questions?