US Construction Outlook: Rotation or Retreat?

Ken Simonson
Chief Economist, AGC of America
ken.simonson@agc.org
Total nonfarm & construction employment, Feb. 2020–June 2023
Year-over-year change, seasonally adjusted

% change since:
June 2022  Feb. 2020
Nonresidential Construction  3.2%  0.7%
Total Nonfarm  2.5%  2.5%
Residential Construction  1.6%  10.3%

Source: BLS current employment statistics, https://www.bls.gov/ces/
Construction employment change by state, June 2022-June 2023 (U.S.: 2.6%)  
45 states up, 5 states down, DC unchanged

**Top 5**
- AR 11.8%
- KY 8.0%
- NE 7.8%
- OR 7.5%
- LA 7.5%

**Bottom 5**
- VT -1.9%
- ND -1.9%
- MO -1.3%
- CO -0.8%
- CT -0.8%
Construction job openings & new hires

Job openings and hires, June 2001-June 2023, not seasonally adjusted

New hires June 2023: 406,000
change from June 2022: -4.9%

Job openings June 2023: 378,000
change from June 2022: -2.1%

Construction unemployment rate

June 2000-June 2023, not seasonally adjusted

Construction unemployment rate
June 2023: 3.6%

Construction wage “premium” vs. total private sector

Excess of average hourly earnings (AHE) for production and nonsupervisory employees in construction vs. private sector

**Annual premium, 2000–2019**

**Monthly premium, Jan. 2020–June 2023**
(seasonally adjusted)

<table>
<thead>
<tr>
<th>% change in AHE Jun. 2022 – Jun. 2023:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
</tr>
<tr>
<td>Private</td>
</tr>
</tbody>
</table>

Sources: BLS, [www.bls.gov/ces](http://www.bls.gov/ces)
Construction inputs & labor costs

Year-over-year change in PPI for nonresidential inputs & AHE for production employees in construction, Feb. 2020 – June 2023

Not all construction costs are cooling!

producer price indexes, 1- & 12-mo. change (not seasonally adjusted)

<table>
<thead>
<tr>
<th></th>
<th>May 2023 change from:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Apr 2023 (1 month)</td>
</tr>
<tr>
<td>Ready-mix concrete</td>
<td>1.1%</td>
</tr>
<tr>
<td>Insulation materials</td>
<td>0.0%</td>
</tr>
<tr>
<td>Steel mill products</td>
<td>5.2%</td>
</tr>
<tr>
<td>Construction machinery and equipment</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

**Subcontractor price indexes, nonresidential building work**

|                                |                          |                     |
|                                | Roofing contractors     | 0.0%                |
|                                | Electrical contractors  | 0.1%                |
|                                | Plumbing contractors    | 0.9%                |
|                                | Concrete contractors    | -0.2%               |

Source: BLS, producer price indexes, www.bls.gov/ppi
Cost squeeze on contractors can reappear suddenly, last 2+ years

Difference between year-over-year change in materials costs vs. bid prices, Jan 2007-May 2023

- Dec 2009- Jan 2012: 26 months
- Oct 2016- Nov 2018: 25 months
- Dec 2020- June 2022: 19 months

Source: BLS, www.bls.gov/ppi, producer price indexes for goods inputs to nonresidential construction (material costs) and new school building construction (bid prices)
Change in construction spending: June 2023 vs. June 2022
Year-over-year % change in current (not inflation-adjusted) dollars, seasonally adjusted

- Total construction: 4%
- Private residential: -10%
- Nonresidential: 18%
- Manufacturing: 80%
- Highway and street: 20%
- Health care: 11%
- Transportation: 9%
- Education: 8%
- Office: 8%
- Power: 5%
- Commercial: 4%

Source: Author, from U.S. Census Bureau, www.census.gov/constructionspending
Change in construction spending: June 2023 vs. June 2022

current (not inflation-adjusted) dollars, seasonally adjusted

Total 3%: Private residential -10% (single-family -21%; multi 22%; improvements -5%); public residential 7%
Nonresidential 18% (private 21%, public 14%)

Nonresidential segments (in descending order of June 2023 spending; combined new & renovation spending)
• Mfg. 80% (computer/electronic 237%; chemical 23%; food/beverage/tobacco 18%; transportation equipment -2%)
• Highway and street 20%
• Commercial 4% (warehouse 3%; retail 2%; farm 15%)
• Power 5% (electric 8%; oil/gas fields & pipelines -7%)
• Education 8% (primary/secondary 6%; higher ed 10%)
• Office (including data centers) 8%
• Transportation 9% (air 8%; private rail/truck 13%; transit -6%)
• Health care 11% (hospital 11%; medical building 15%; special care -10%)
• Other: Sewage/waste 24%; Amuse/recreation 6%; Water supply 6%; Communications 1%; Lodging 20%; Conservation/development 30%

Source: Author, from U.S. Census Bureau, www.census.gov/constructionspending
Medium-term outlook for construction

• Economic recovery should continue but risk of recession remains
• Homebuilding appears poised for slow recovery
• Multifamily, warehouse, retail, office, lodging are at risk from slowdown, rising rates
• Data center and manufacturing construction should remain hot
• Infrastructure Investment & Jobs Act, “Chips” Act, Inflation Reduction Act will give major boost to infrastructure, manufacturing, and power construction. BUT
  - money will be slow to turn into construction awards and spending
  - Buy America(n), labor, environmental strings may tie up project starts for years
• Materials cost and lead time trends are mixed, no longer all upward
• Labor availability has resumed being the #1 challenge for many contractors
Long-run construction outlook

- Finding workers will be a challenge for much longer than materials costs or supply
- Slower population growth means slower demand growth for most construction
- Slowing demand for K-12, decline for higher ed construction
- Permanent shift from retail to e-commerce/distribution structures
- More specialized and online healthcare facilities; fewer hospitals, nursing homes
- More wind, solar, battery storage and charging facilities, and related manufacturing
- Not clear if offices will decentralize or remain in less demand
- Not clear if recent urban/rural or state-to-state migration will remain or reverse

Source: Author
Population change by state, July 2021–July 2022
(U.S.: 0.38%)

Top 6
- FL 1.9%
- ID 1.8%
- SC 1.7%
- TX 1.6%
- SD, MT 1.5%

Bottom 5
- NY -0.9%
- IL -0.8%
- LA -0.8%
- WV -0.6%
- HI -0.5%
AGC economic resources

(email ken.simonson@agc.org)

• *Data DIGest*: weekly 1-page email (subscribe at [http://store.agc.org](http://store.agc.org))

• ConsensusDocs Price Escalation Resource Center: [https://www.consensusdocs.org/price-escalation-clause/](https://www.consensusdocs.org/price-escalation-clause/)

• Surveys, state and metro data, fact sheets: [www.agc.org/learn/construction-data](http://www.agc.org/learn/construction-data)

• Monthly press releases: construction spending; producer price indexes; national, state, metro employment with rankings: [https://www.agc.org/newsroom](https://www.agc.org/newsroom)