US Construction Outlook: Torrid or Tepid?

Ken Simonson
Chief Economist, AGC of America
ken.simonson@agc.org
Total nonfarm & construction employment, Jan. 2022–Feb. 2024
Year-over-year change, seasonally adjusted

Source: BLS current employment statistics, https://www.bls.gov/ces/
Construction employment change by state, Dec. 2022-Dec. 2023 (U.S.: 3.1%)

35 states up & 14 states & DC down & 1 state unchanged

**Top 5**
- SD 20.8%
- AR 12.8%
- KY 12.2%
- NM 10.2%
- WY 8.4%

**Bottom 5**
- NY -3.9%
- HI -3.6%
- ND -3.1%
- RI -3.1%
- CO -2.4%

Construction job openings & new hires

Job openings and hires, January 2001-January 2024, not seasonally adjusted

Job openings January 2024: 407,000
change from January 2023: 39%

New hires January 2024: 352,000
change from January 2023: -1.4%

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–Feb. 2024**  
(seasonally adjusted)

% change in AHE Feb. 2023 – Feb. 2024:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>4.9%</td>
</tr>
<tr>
<td>Private</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Sources: BLS, [www.bls.gov/ces](http://www.bls.gov/ces)
Construction materials & labor costs top consumer inflation

Year-over-year change in producer price index (PPI) for nonresidential inputs, average hourly earnings (AHE) for production employees in construction, and consumer price index (CPI), Feb. 2020 – Jan. 2024

Some construction costs remain volatile
producer price indexes, 1- & 12-mo. change (not seasonally adjusted)

<table>
<thead>
<tr>
<th></th>
<th>January 2024 change from:</th>
<th></th>
<th>Jan. 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec. 2023 (1 month)</td>
<td>Dec. 2023 (12 months)</td>
<td></td>
</tr>
<tr>
<td>Cement</td>
<td>4%</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Ready-mix concrete</td>
<td>2%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>-4%</td>
<td>-27%</td>
<td></td>
</tr>
</tbody>
</table>

**Subcontractor price indexes, nonresidential building work**

<table>
<thead>
<tr>
<th></th>
<th>January 2024 change from:</th>
<th></th>
<th>Jan. 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec. 2023 (1 month)</td>
<td>Dec. 2023 (12 months)</td>
<td></td>
</tr>
<tr>
<td>Roofing contractors</td>
<td>0.3%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Plumbing contractors</td>
<td>0.4%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Electrical contractors</td>
<td>0.1%</td>
<td>-5%</td>
<td></td>
</tr>
<tr>
<td>Concrete contractors</td>
<td>0.9%</td>
<td>-0.5%</td>
<td></td>
</tr>
</tbody>
</table>

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-Jan 2024

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: January 2024 vs. January 2023

Year-over-year % change in current (not inflation-adjusted) dollars, seasonally adjusted

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total construction</td>
<td>12%</td>
</tr>
<tr>
<td>Private residential</td>
<td>5%</td>
</tr>
<tr>
<td>Nonresidential</td>
<td>17%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>37%</td>
</tr>
<tr>
<td>Highway and street</td>
<td>22%</td>
</tr>
<tr>
<td>Power</td>
<td>16%</td>
</tr>
<tr>
<td>Education</td>
<td>20%</td>
</tr>
<tr>
<td>Health care</td>
<td>13%</td>
</tr>
<tr>
<td>Transportation</td>
<td>5%</td>
</tr>
<tr>
<td>Office</td>
<td>7%</td>
</tr>
<tr>
<td>Commercial</td>
<td>3%</td>
</tr>
</tbody>
</table>
**Change in construction spending:** January 2024 vs. January 2023

current (not inflation-adjusted) dollars, seasonally adjusted

**Total** 12%: *Private residential* 5% (single-family 13%; multi 8%; *improvements* -4%); *public residential* 17%
  *Nonresidential* 17% (private 15%, public 20%)

**Nonresidential segments** (in descending order of Jan. 2024 spending; combined new & renovation spending)
  • Mfg. 37% (computer/electronic 52%; chemical 14%; *food/beverage/tobacco* -6%; transportation equipment 25%)
  • Highway and street 22%
  • Power 16% (electric 22%; *oil/gas fields & pipelines* -10%)
  • Commercial 3% (warehouse 2%; *retail* -0.8%; farm 7%)
  • Education 20% (primary/secondary 20%; higher ed 19%)
  • Office (including data centers) 7%
  • Transportation 5% (air 8%; private rail/truck 6%; *transit* -15%)
  • Health care 13% (hospital 13%; medical building 17%; special care 9%)

  • Other: Sewage/waste 24%; Amuse/recreation 17%; Water supply 22%; Communication 4%; Lodging 5%; Conservation/development 6%

*Source: Author, from U.S. Census Bureau, www.census.gov/constructionspending*
AGC Outlook Survey: Net* % who expect 2024 value of projects to be higher/lower than 2023

* Net = % expecting higher value - % expecting lower value than in 2023

Source: AGC 2024 Outlook Survey; 1,293 total respondents
AGC Outlook Survey: Firms’ expectations regarding their headcount and hiring over next 12 months

% of respondents who:

**Expect headcount to:**
- Increase: 69%
- Decrease: 10%

**Expect it will become/continue to be:**
- Easier to hire: 13%
- Harder to hire: 55%

Source: AGC 2024 Outlook Survey; 1,293 total respondents
Medium-term outlook for construction

• Economic recovery should continue but risk of recession remains
• Single-family homebuilding should continue recovering
• Multifamily, warehouse, retail, office, lodging: slowdown likely due to 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 costs, lead times: mostly better except electrical gear, some electronics
• 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 ➔ fewer workers but also slower demand growth
• 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 2022–July 2023
(U.S.: 0.49%)

Top 5
SC 1.7%
FL 1.6%
TX 1.6%
ID 1.3%
NC 1.3%

Bottom 5
NY -0.5%
LA -0.3%
HI -0.3%
IL -0.3%
WV -0.2%
AGC economic resources
(email ken.simonson@agc.org)

• Surveys (2024 Outlook Survey):
• State and metro data, fact sheets: 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
• Construction impact model: https://www.agc.org/agc-construction-impact-model
• ConsensusDocs Price Escalation Resource Center: https://www.consensusdocs.org/price-escalation-clause/