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Construction Spending, Labor & Materials Outlook

AGC of Vermont

Montpelier, February 26, 2015

Ken Simonson

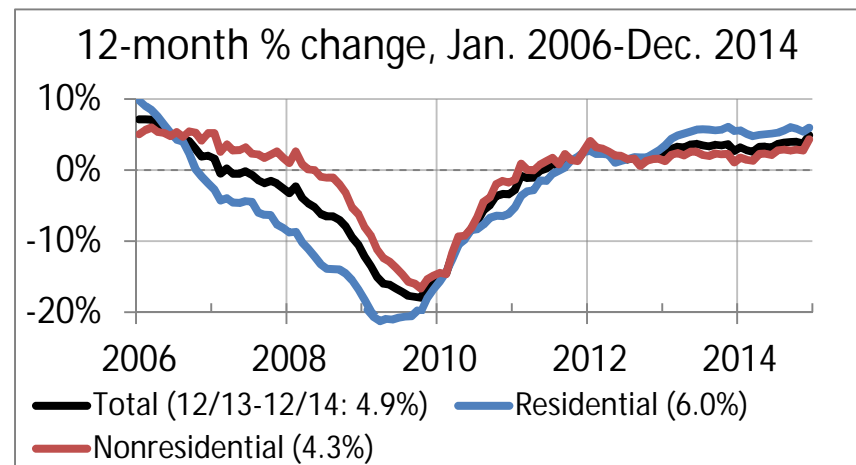
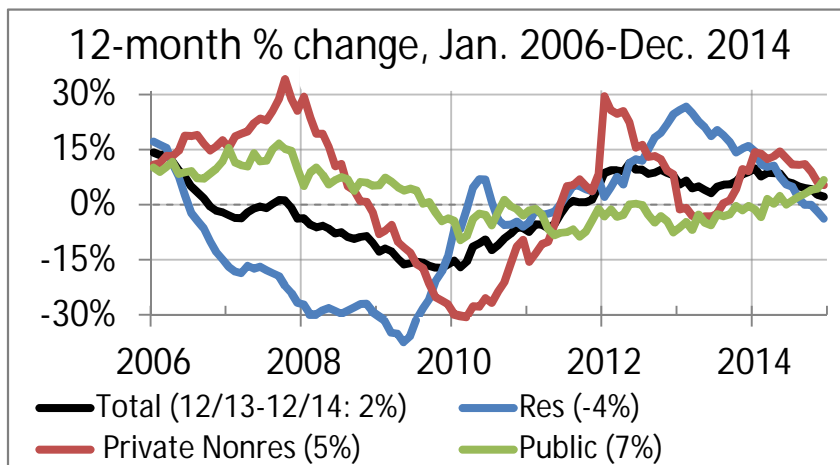
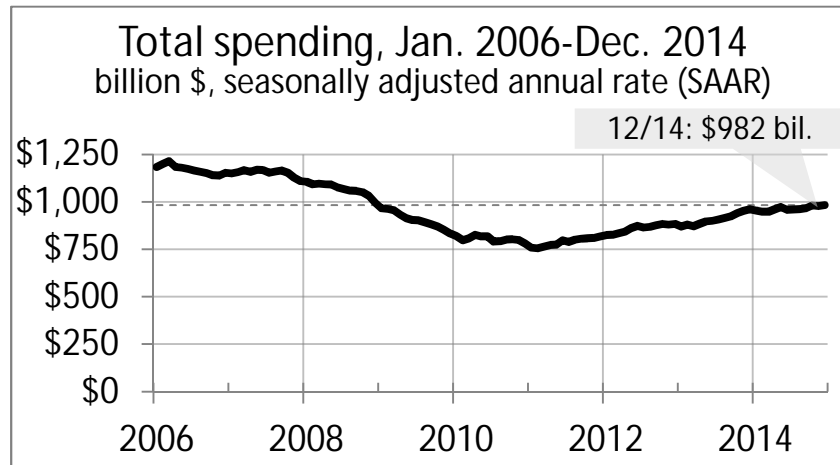
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Construction spending & employment, 2006-14



Source: BLS, Census Bureau construction spending reports

Construction is growing, but unevenly

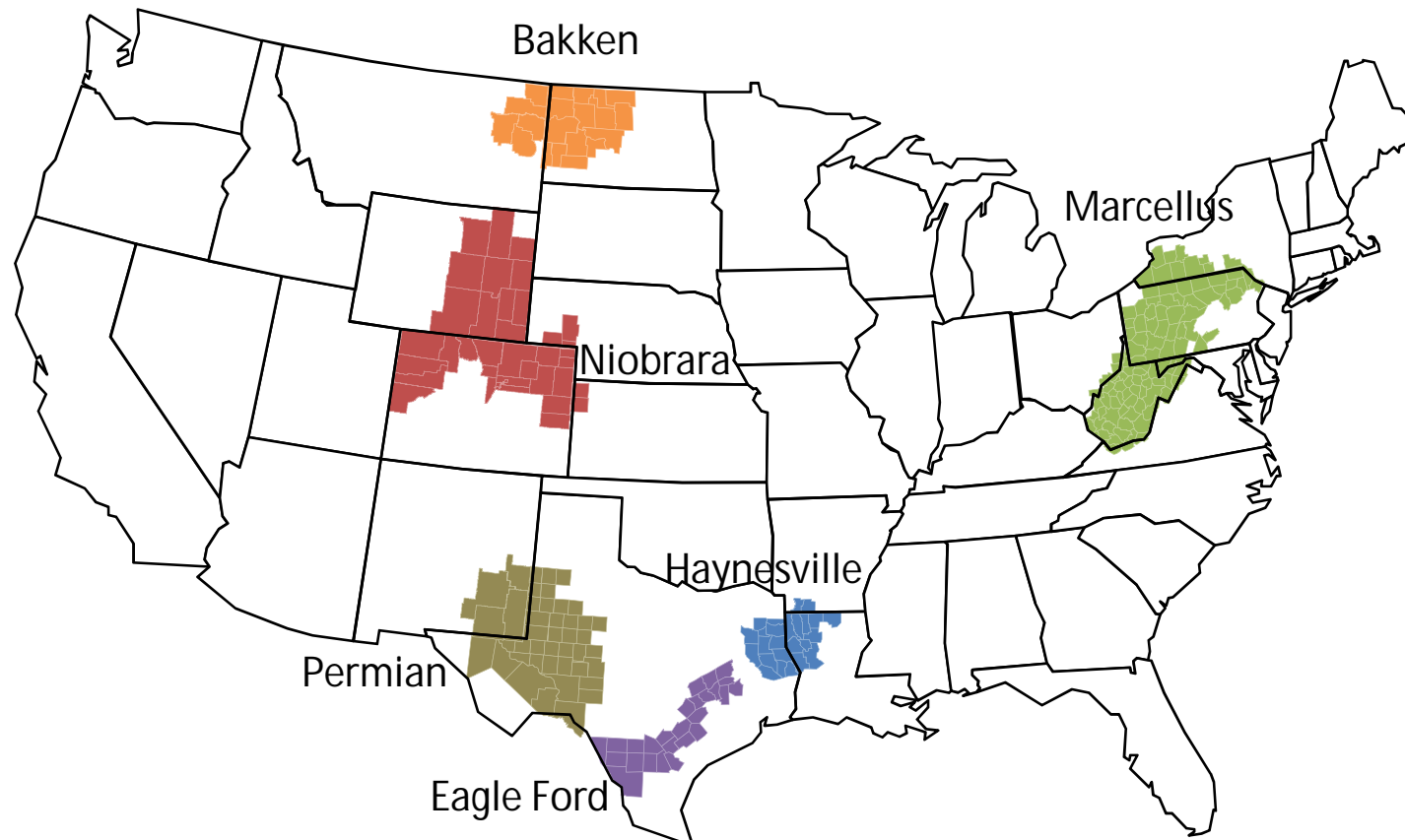
3 trends helping many sectors and regions:

- 'Shale gale'—continuing despite oil price plunge
- Panama Canal expansion
- Residential revival, especially multifamily

3 trends holding down construction growth:

- Government spends less on schools, infrastructure
- Consumers switch from stores to online buying
- Employers shrink office space per employee

One (or many) bright spot(s): the shale 'gale'

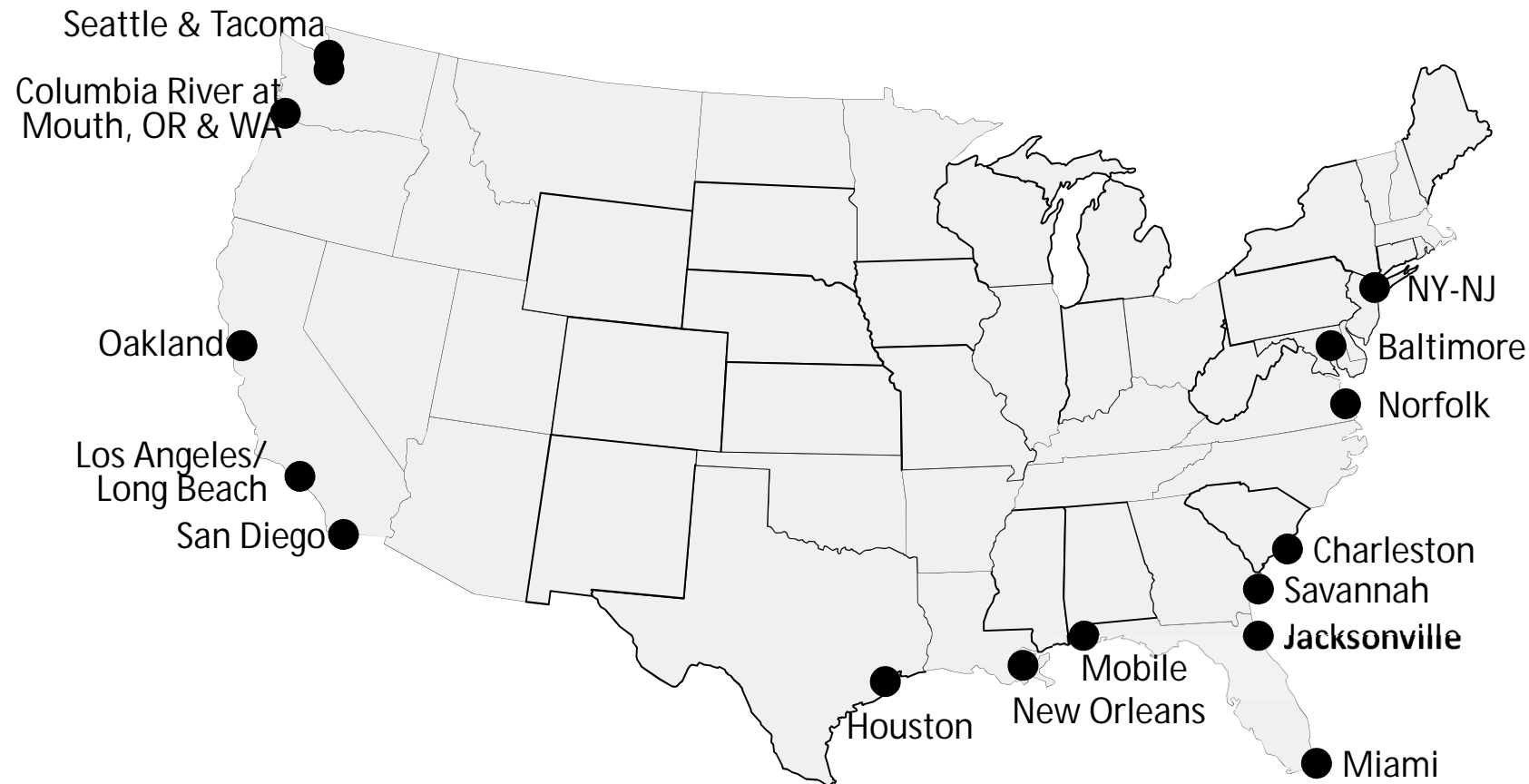


Source: U.S. Energy Information Administration

Shale's direct and indirect impacts on construction

- Onsite: Each well requires access road, site prep, pad, storage pond, support structures, pipes
- Nearby: Products, water require trucking, rail, pipeline, processing
- Local spending by drilling firms, workers, royalty holders
- Upstream: orders for fracking sand, rigs, compressors, pumps, pipe, tanks, trucks, railcars, processing facilities
- Downstream: Petrochemical, power, steel plants; LNG export terminals, fueling stations; NG-powered vehicles
- Losers: coal; maybe wind, solar, nuclear & their suppliers

U.S. ports affected by Panama Canal expansion

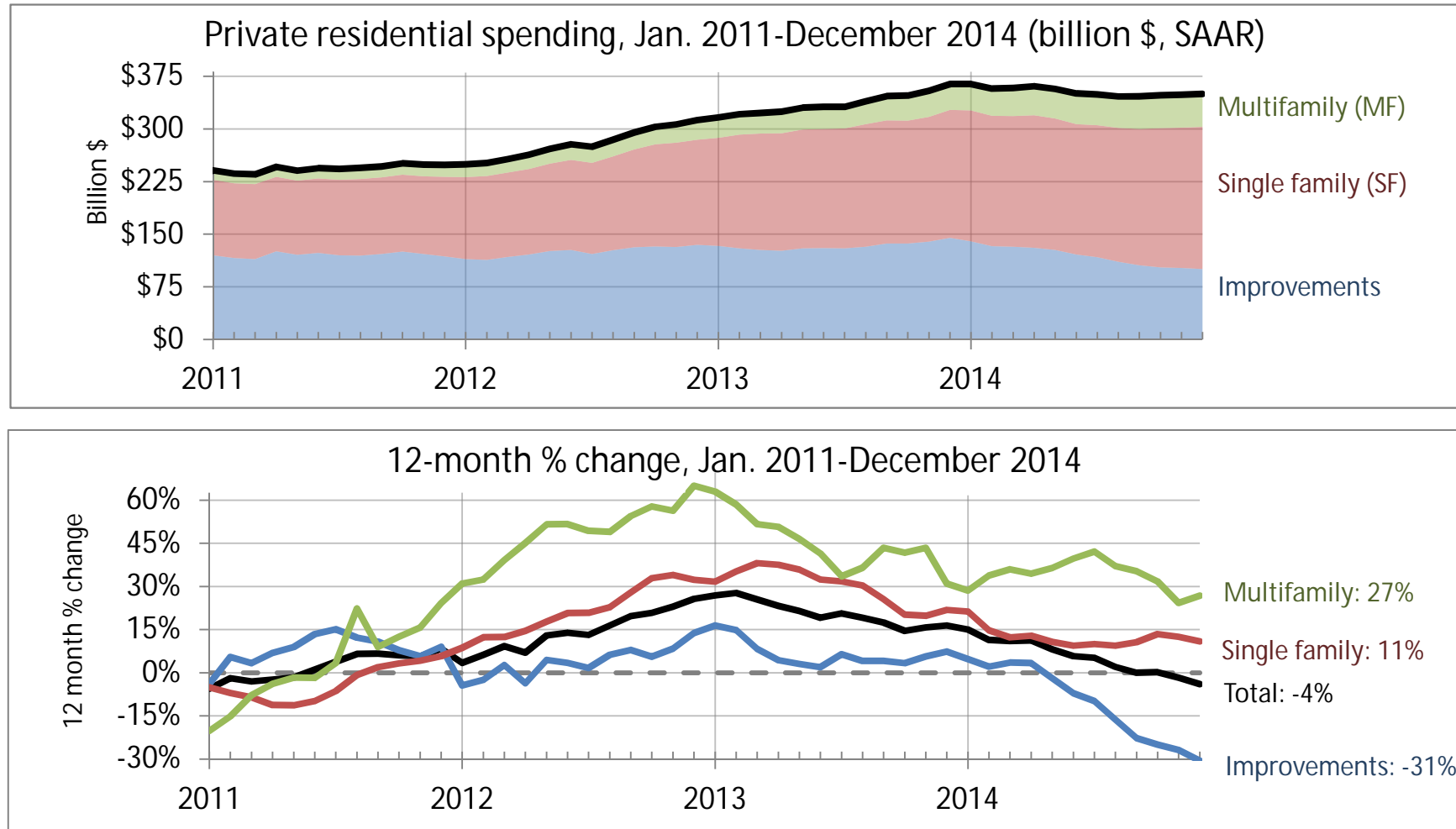


Source: U.S. Army Corps of Engineers

Panama Canal expansion's impacts on construction

- Ports: investing in dredging, piers, cranes, land access
- Nearby: Storage, warehouse, trucking, rail facilities
- Bridge, tunnel, highway improvements
- Inland: possible changes in distribution, manufacturing

Private residential spending: MF still soaring, SF slowing

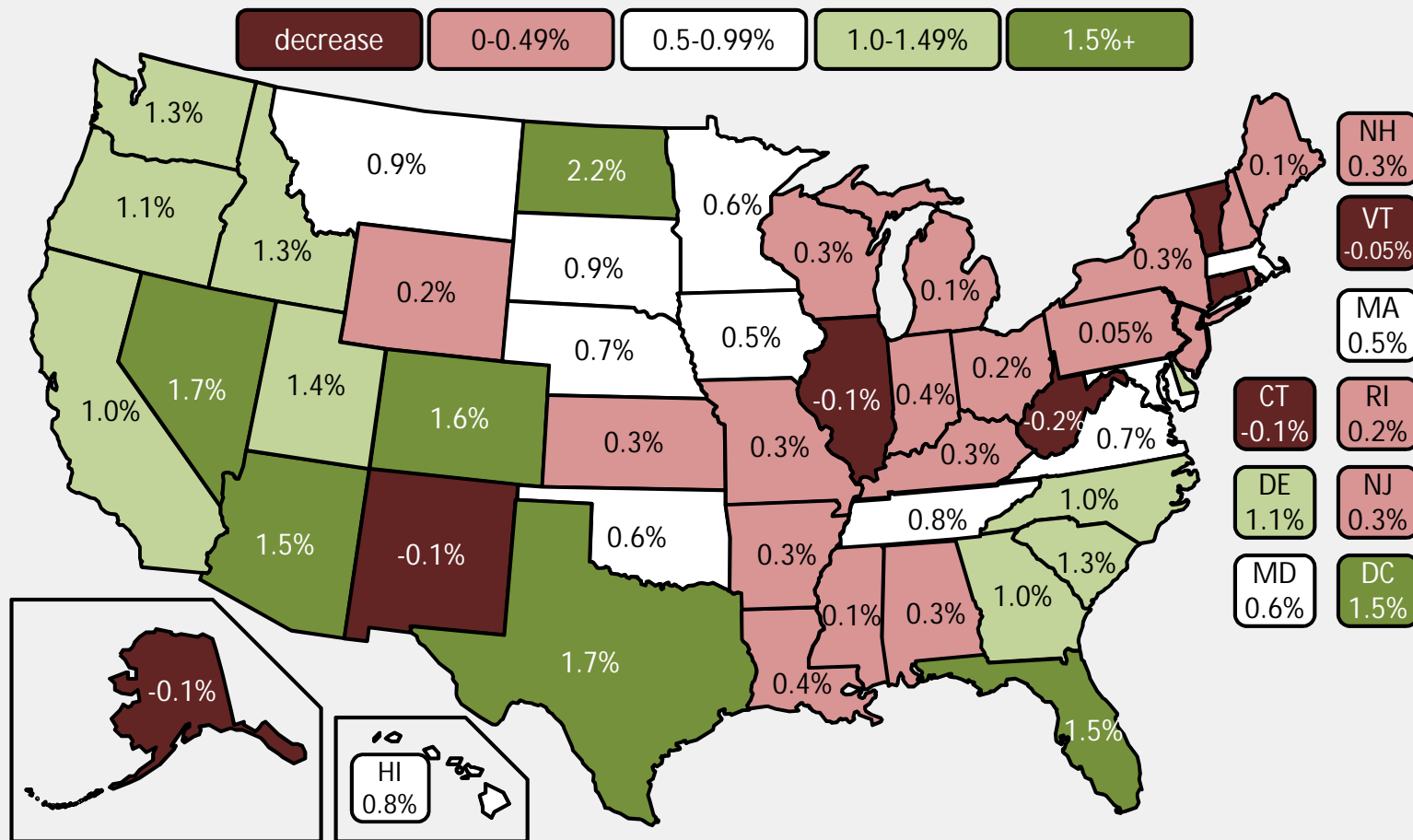


Source: Census Bureau construction spending reports

Housing outlook

- SF: rising for now but tight credit, fear of lock-in, demographic shifts may limit increases
- MF: Upturn should last through 2015
 - Vacancy rates near multi-year lows in most cities
 - Preference for urban living adds to demand
 - Condos have been slower to revive than rentals
 - Government-subsidized market remains weak
- Improvements: down in '14 but should track SF sales

Population change by state, July 2013-July 2014 (U.S.: 0.75%)

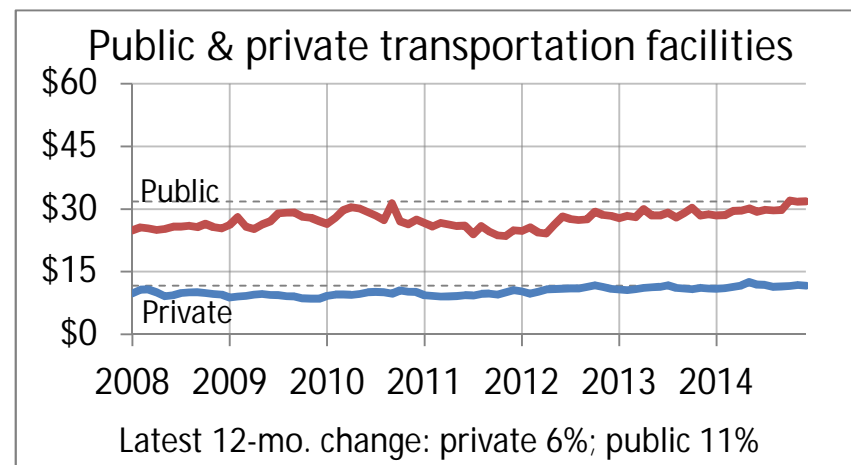
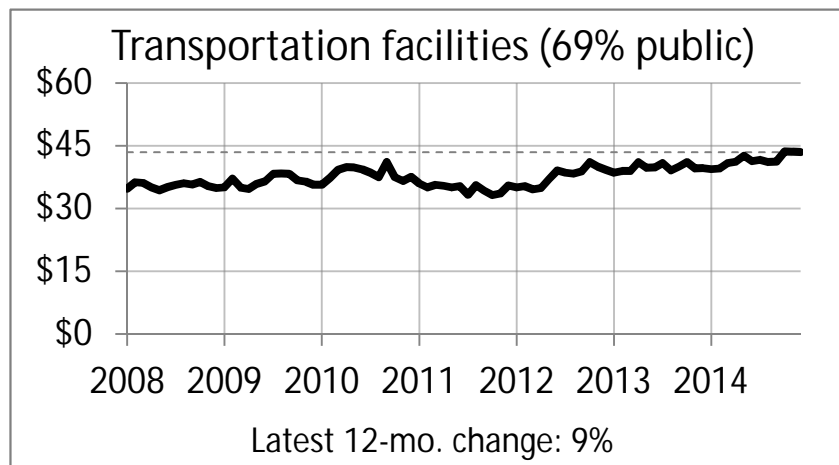
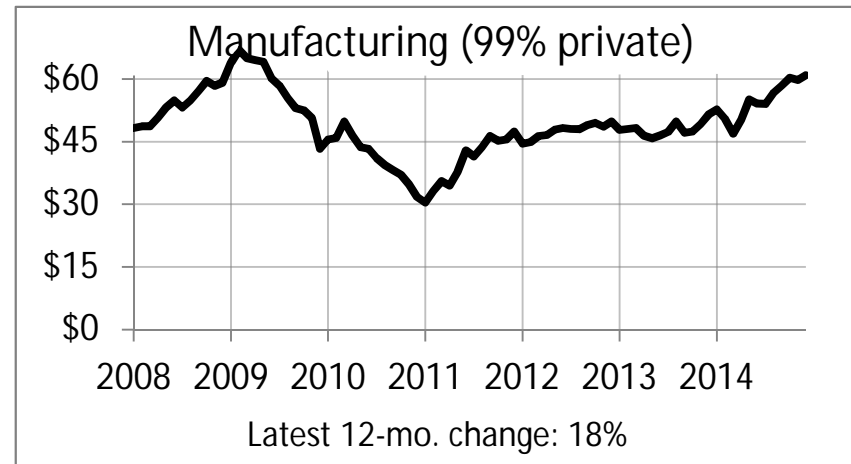
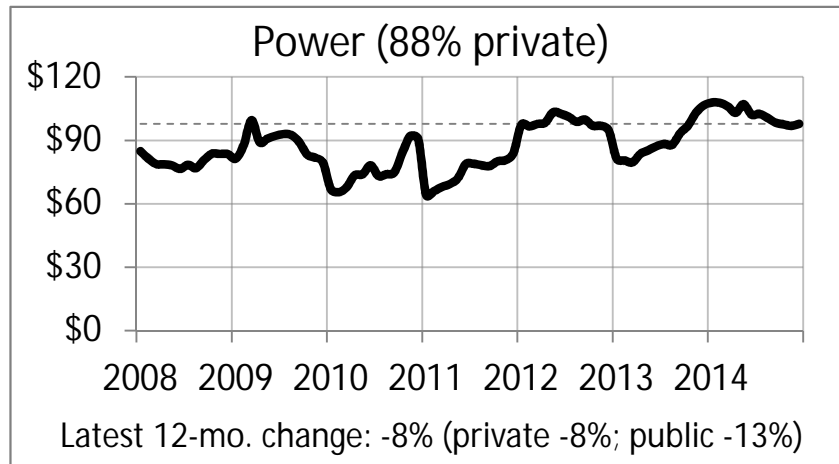


Nonresidential segments: 2014 total & 2015 forecast

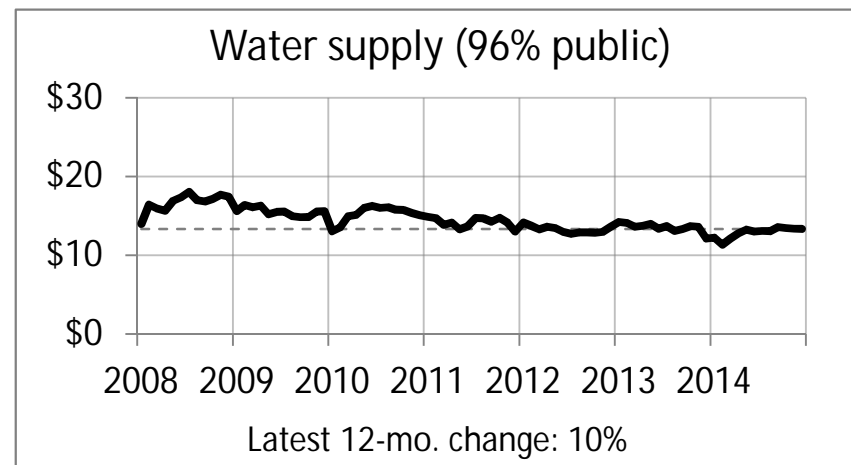
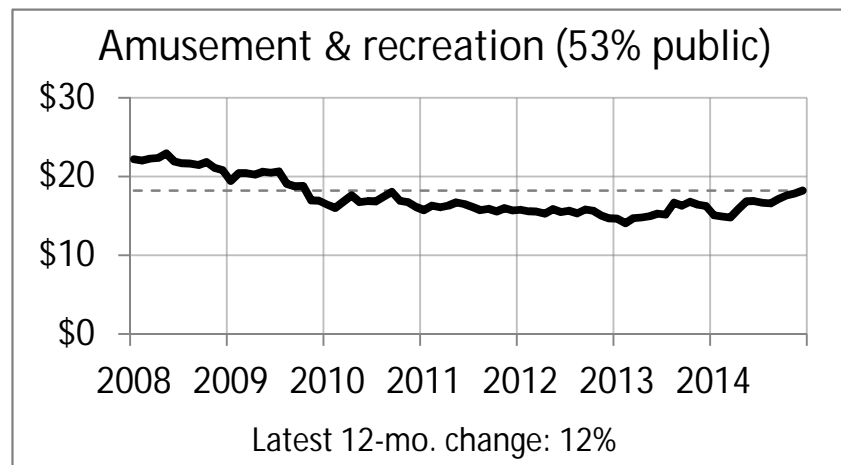
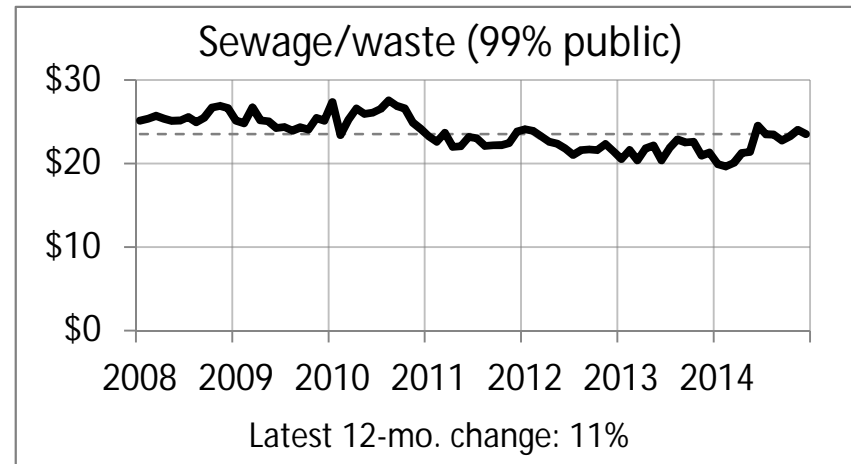
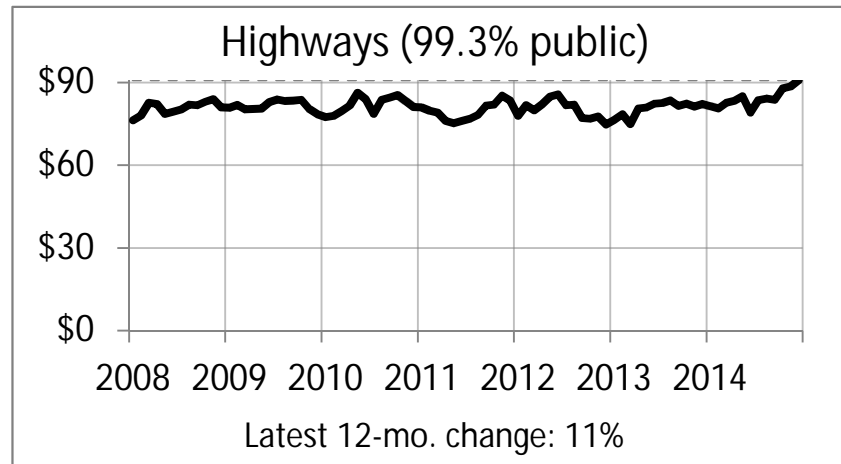
	<u>2014 total</u>	<u>2014 vs. 2013</u>	<u>2015 forecast</u>
Nonresidential	\$606 billion	7 %	4-8%
Power (incl. oil & gas structures, pipelines)	101	12	10+
Highway and street	85	4	0 to -5
Educational	78	1	0 to 5
Commercial (retail, warehouse, farm)	57	12	0 to 5
Manufacturing	55	15	10+
Office	45	19	5+
Transportation	42	5	2 to 5
Health care	39	-6	0 to -5
Sewage and waste disposal	23	4	
Lodging	16	18	10+
Amusement & recreation	17	7	
Other (communication; water; public safety; conservation; religious): 8% of total		-2	

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

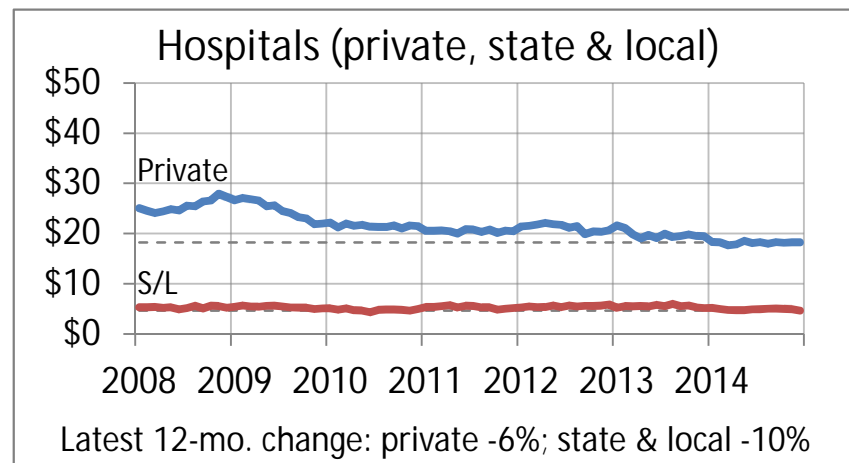
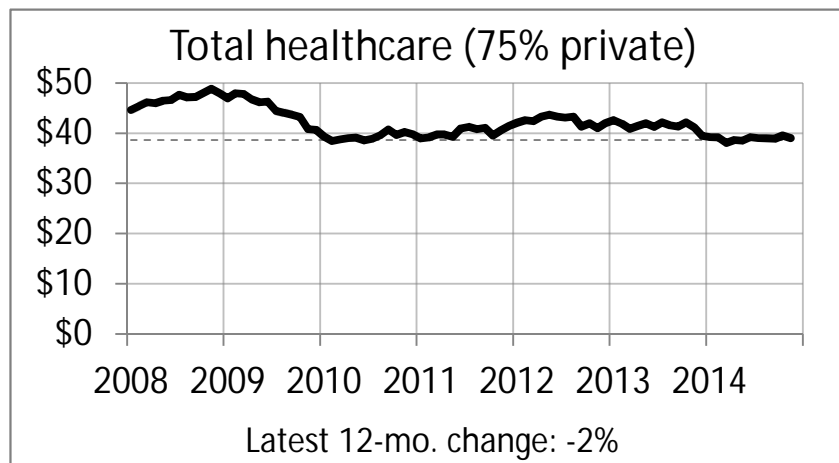
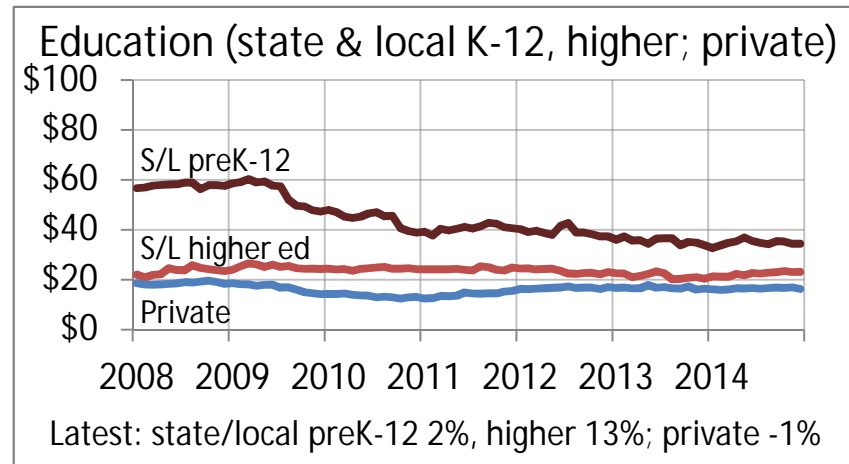
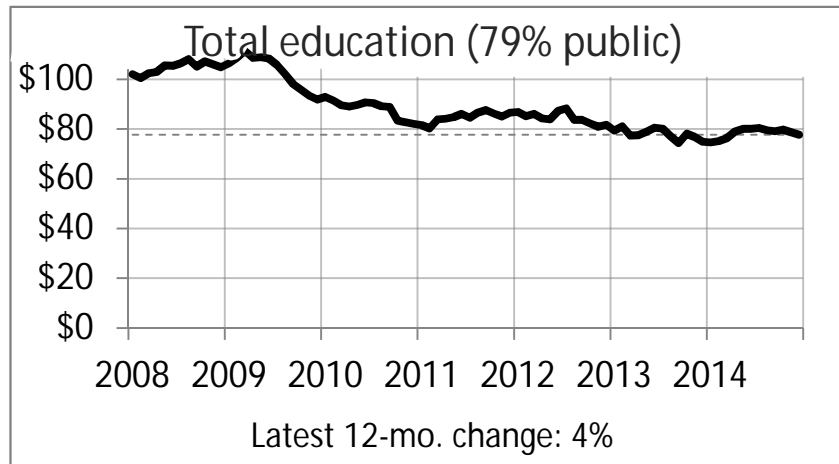
Construction spending: industrial, heavy (billion \$, SAAR)



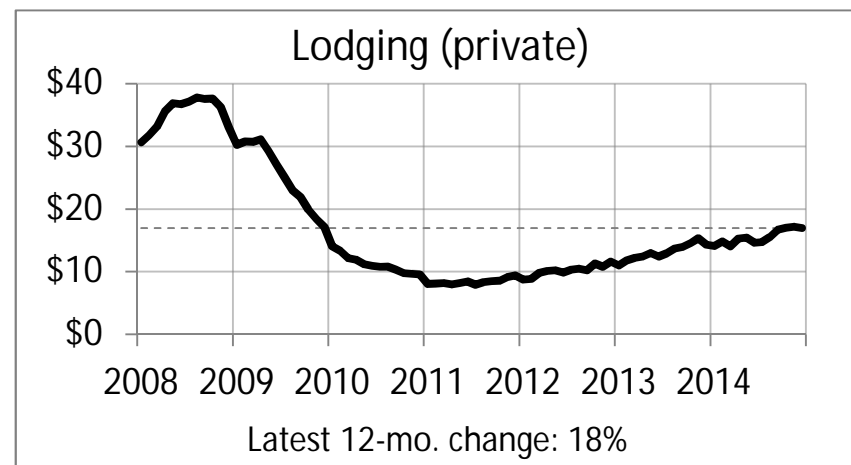
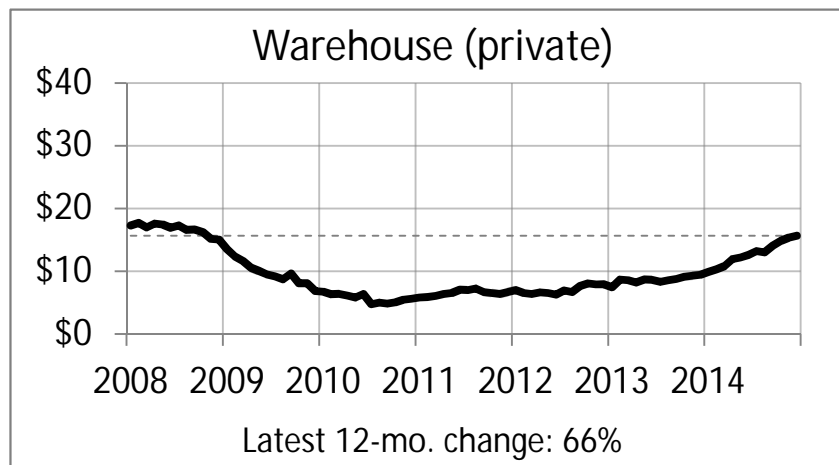
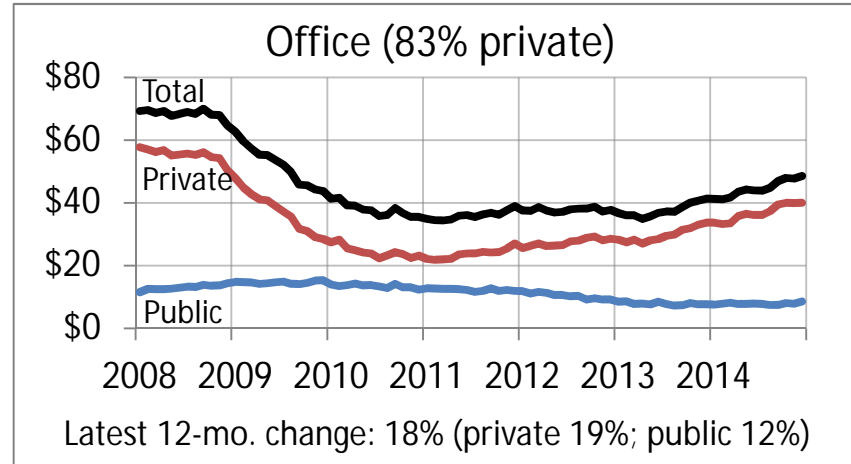
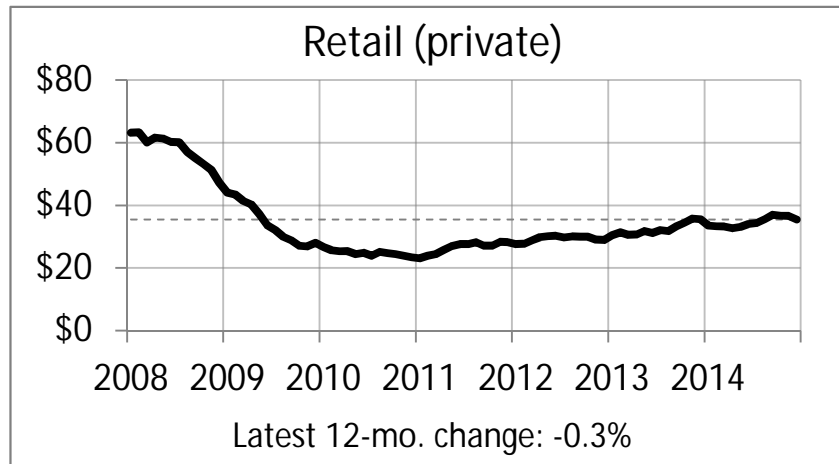
Construction spending: public works (billion \$, SAAR)



Construction spending: institutional (private + state/local)



Construction spending: developer-financed (billion \$, SAAR)

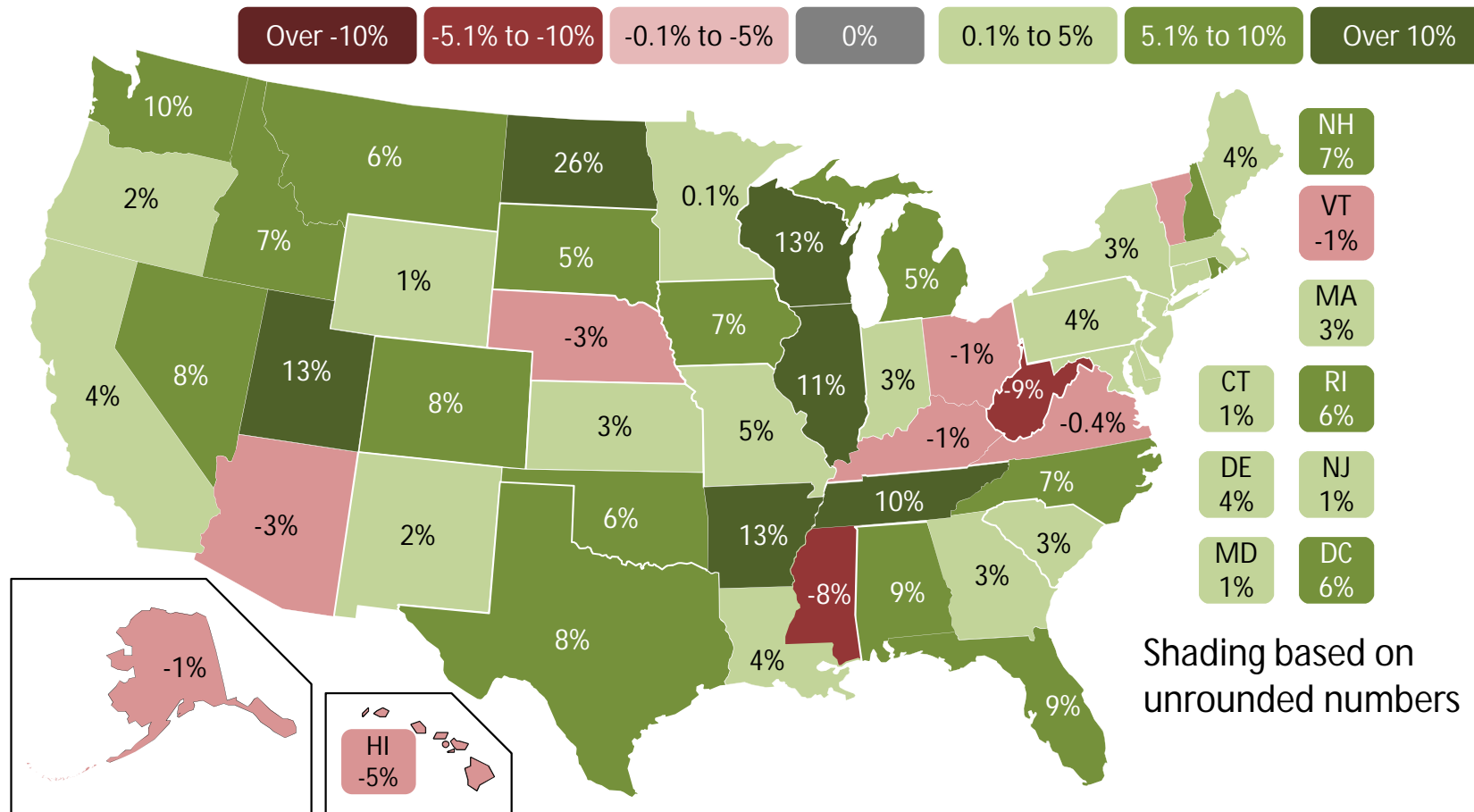


Major locations for data centers



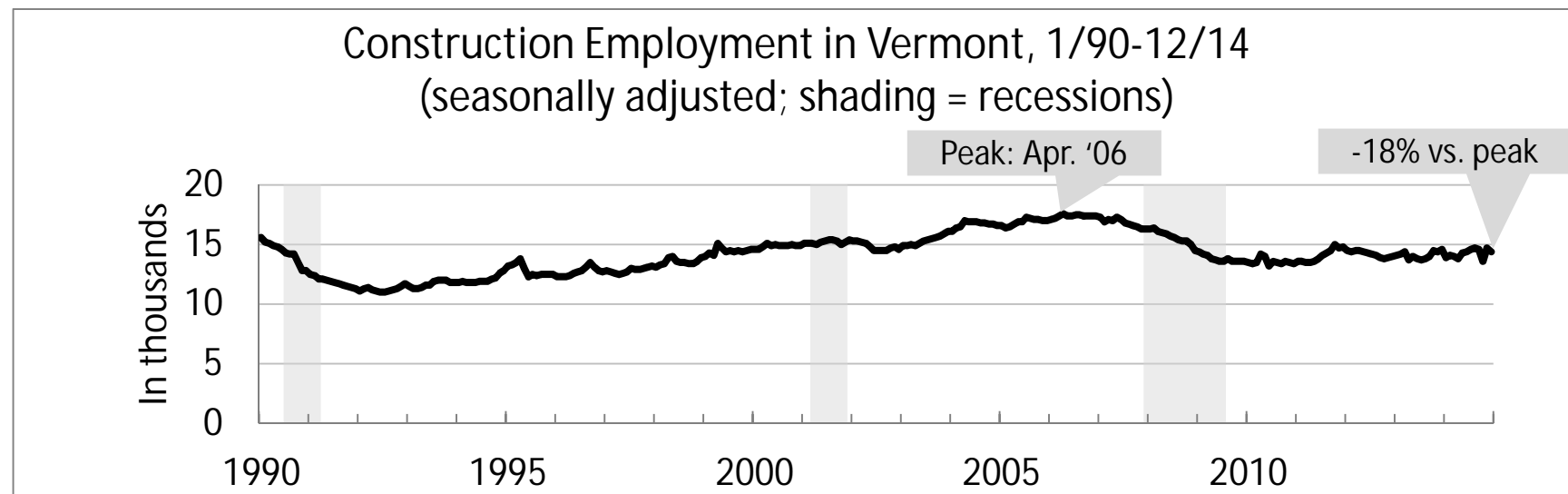
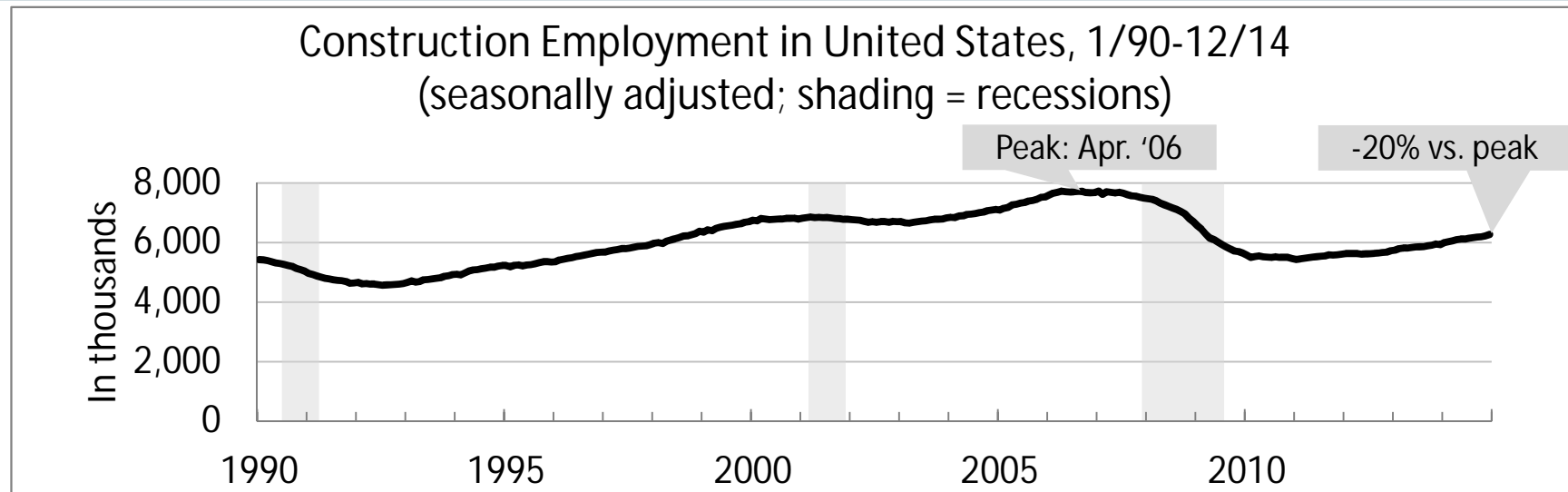
Source: www.DataCenterKnowledge.com, from CBRE, ASHRAE

State construction employment change (U.S.: 4.9%) 12/13 to 12/14: 40 states + DC **up**, 10 **down**



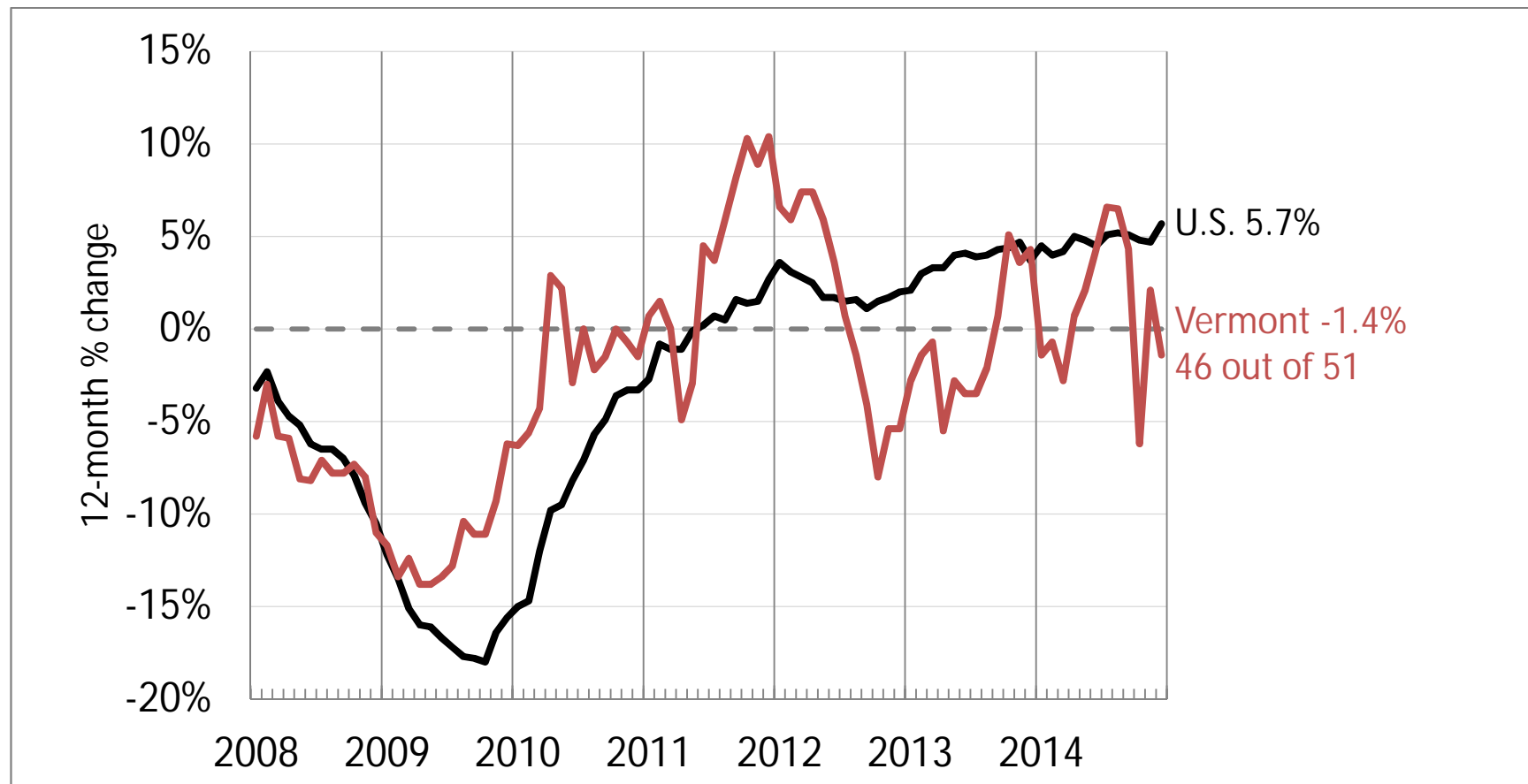
12-Month Percent Change in State Construction Employment (seasonally adjusted), 2010-December 2014





Source: BLS

Construction Employment Change from Year Ago 1/08-12/14 (seasonally adjusted)



Source: BLS

Change in construction employment, 12/13-12/14 not seasonally adjusted (NSA)

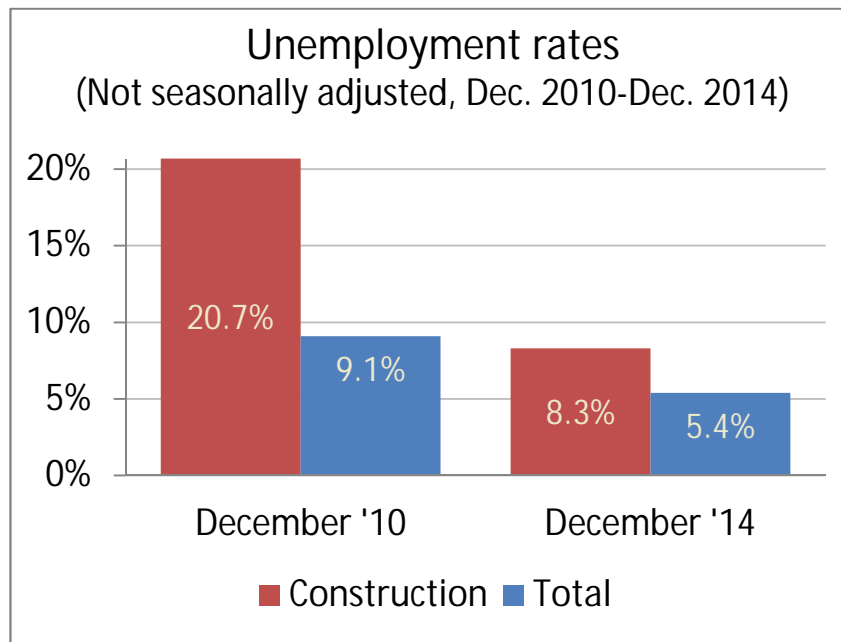
Metro area or division	12-mo. empl. change (NSA)	Rank (out of 339)
Statewide* (Const/mining/logging)	-1%	
Burlington-South Burlington, NECTA*	10%	53

NECTA: New England City and Town Area (equivalent of metropolitan statistical area)

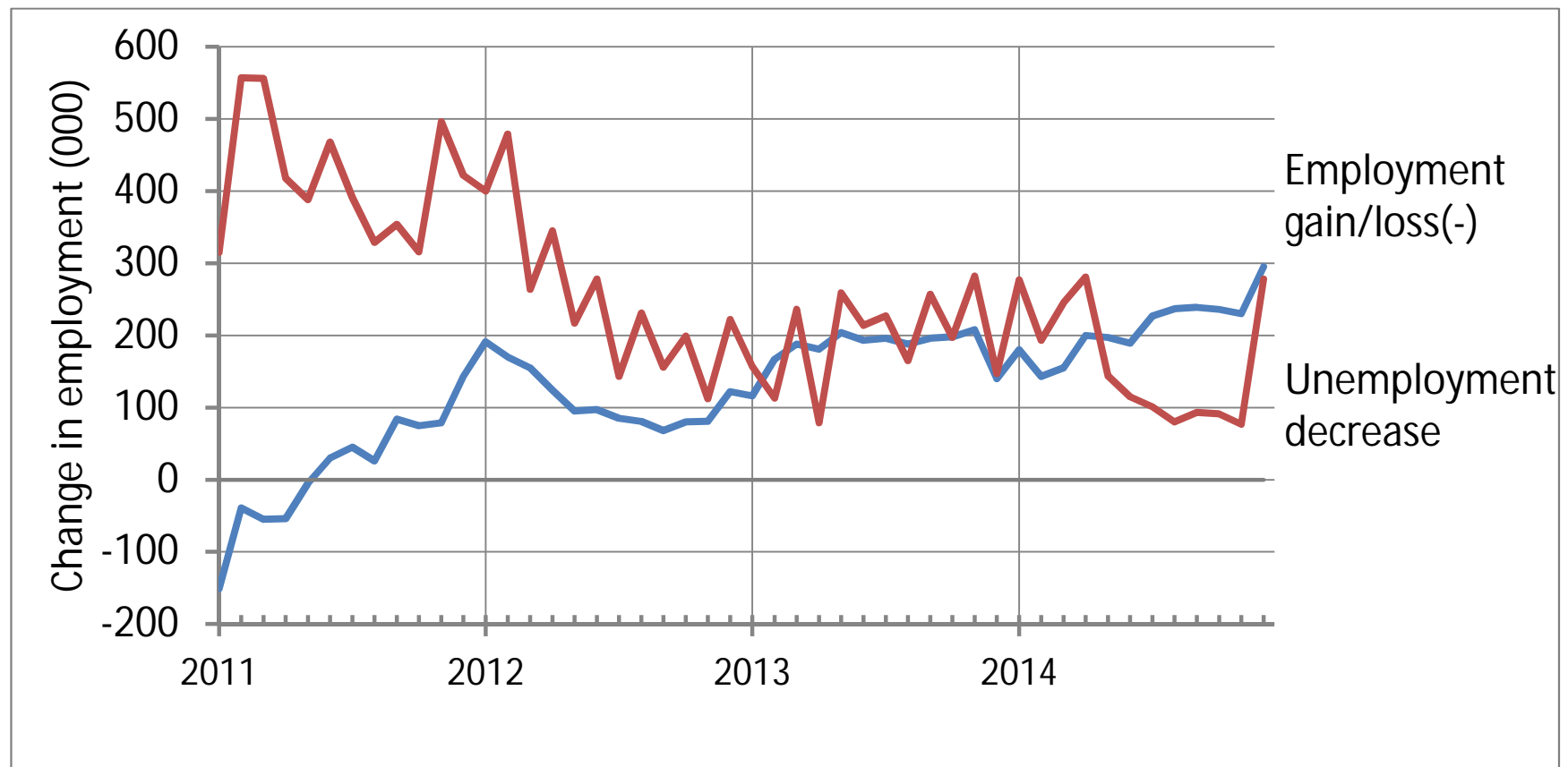
*The Bureau of Labor Statistics reports employment for construction, mining and logging combined for most metro areas and some states in which mining and logging have few employers. To allow comparisons between states and their metros, the table shows combined employment change.

Change in construction (un)employment, 12/10-12/14

- Construction unemployment fell sharply in past 4 years
- But industry employment rose much less
- Thus, workers left for other sectors, school, retirement



12-month change in construction employment and unemployment, Jan. 2011-2014 (not seas. adjusted)



Hardest positions to fill

(% of respondents who are having trouble filling)

Craft 83%

Carpenters 66

Roofers 64

Equipment operators 59

Plumbers 54

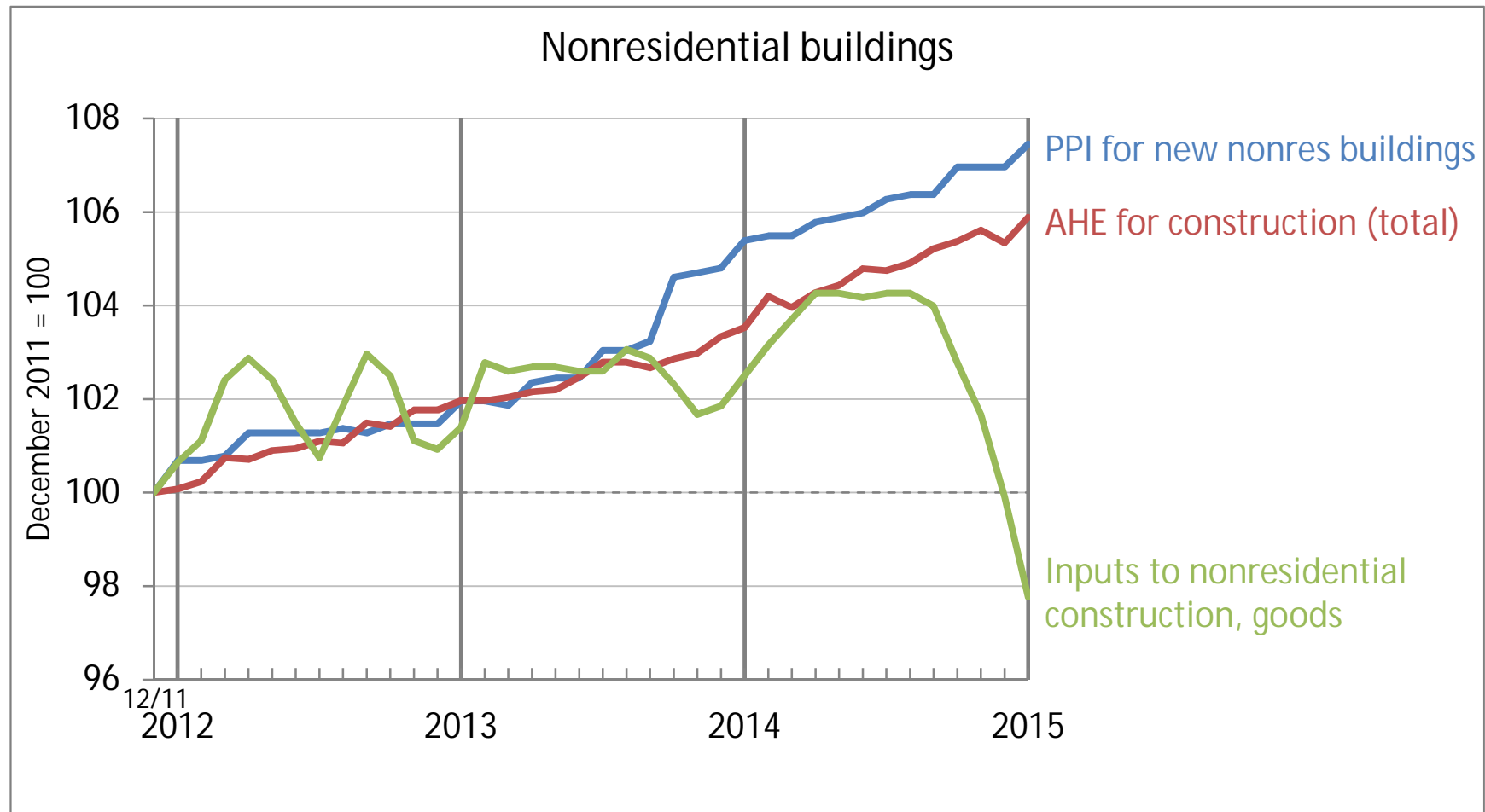
Electricians 52

Professional 61%

Project
managers/supervisors 48

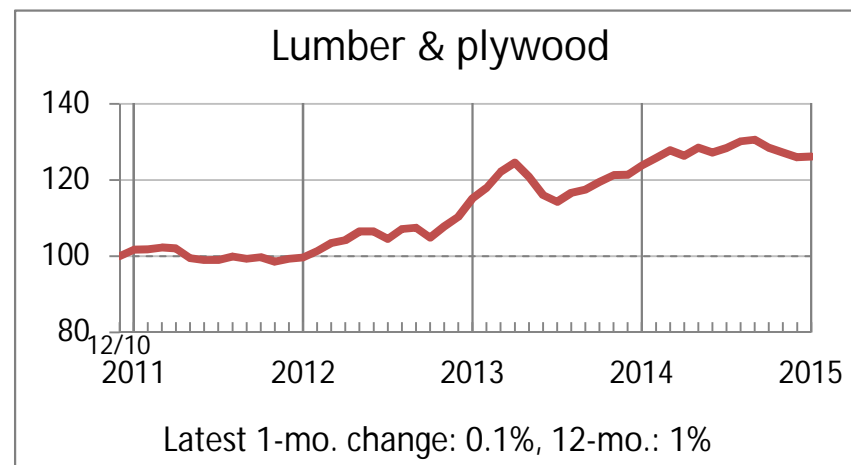
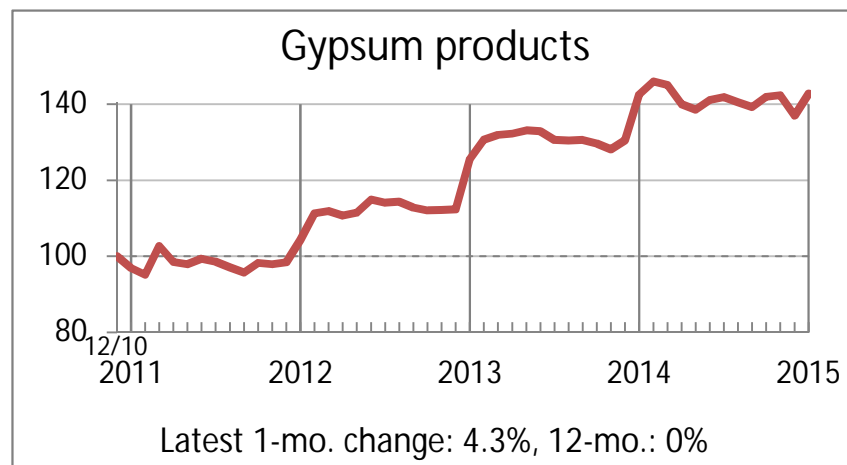
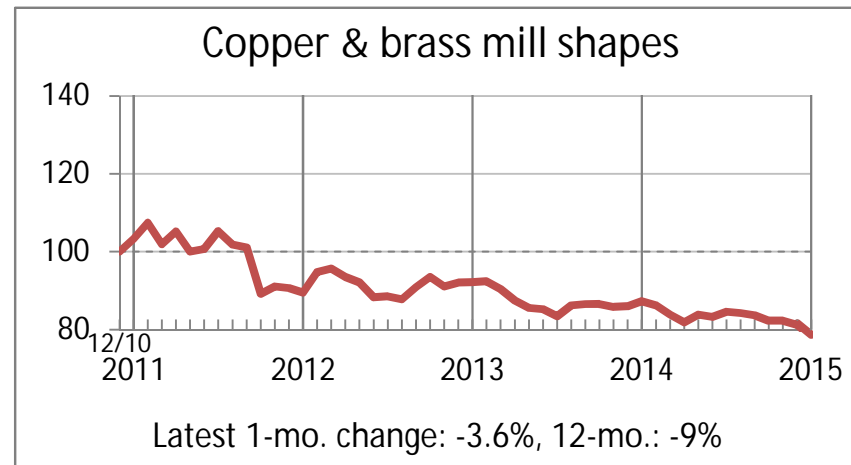
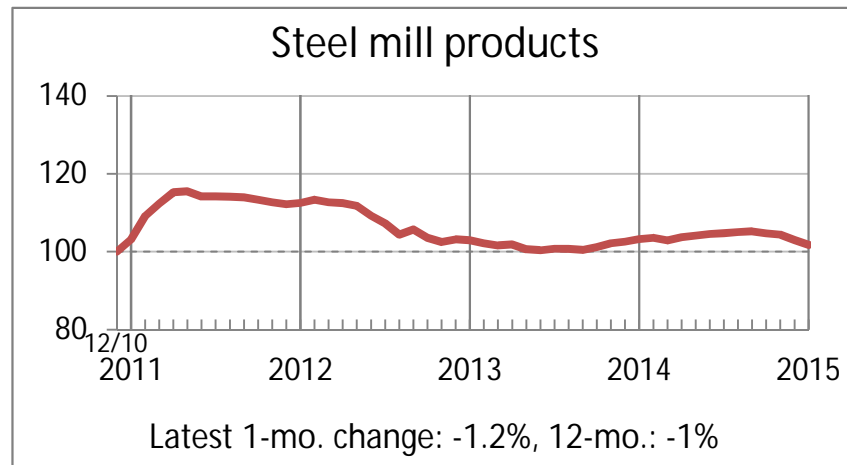
Estimators 32

Construction prices, materials costs, average hourly earnings (AHE)



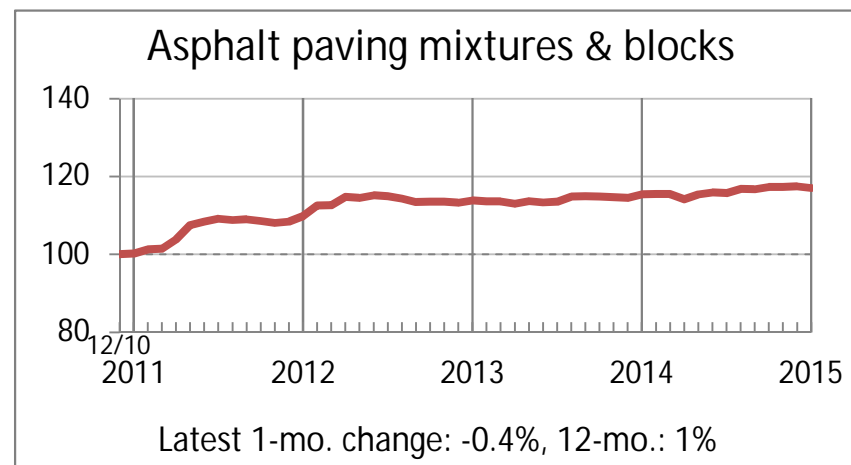
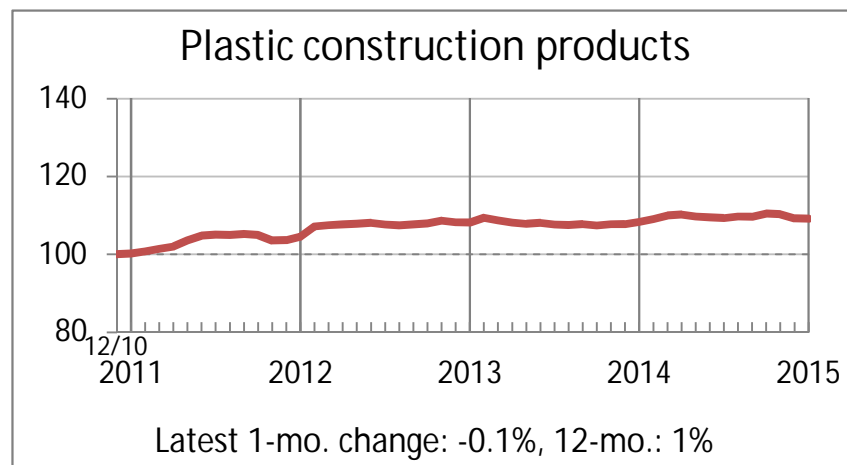
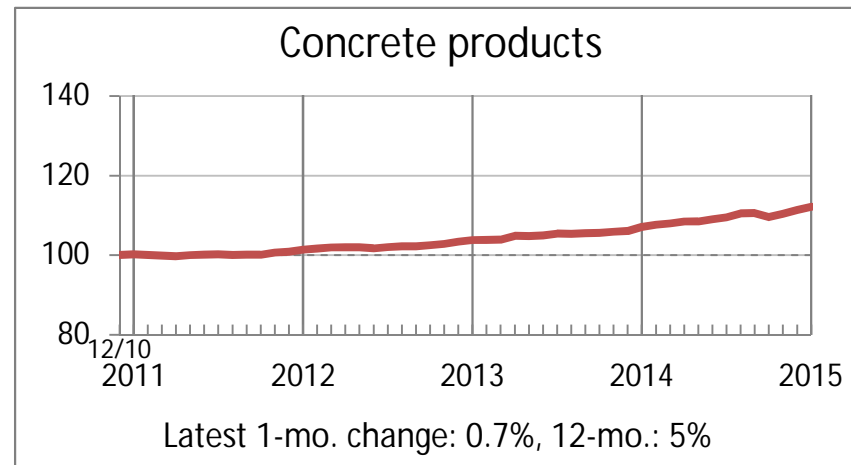
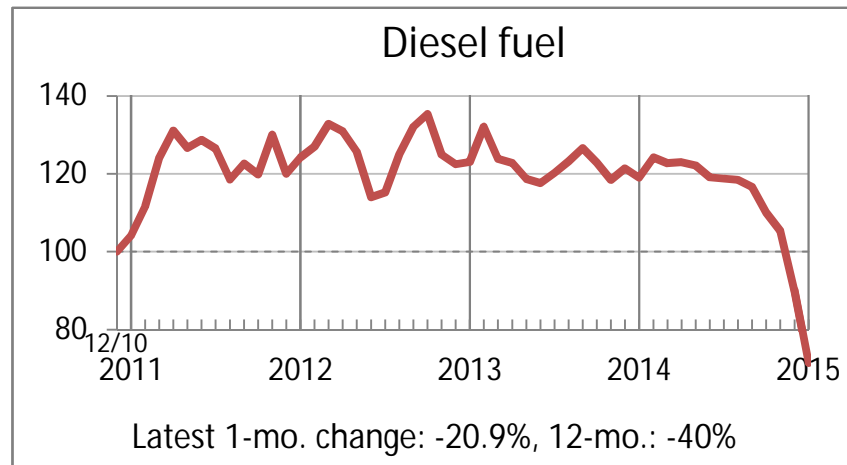
Source: Bureau of Labor Statistics: PPI, AHE; Federal Highway Administration: National Highway Construction Cost Index

Producer price indexes for key inputs, 12/10-1/15 (Dec. 2010=100)



Source: Author, based on BLS producer price index reports

Producer price indexes for key inputs, 12/10-1/15 (Dec. 2010=100)



Source: Author, based on BLS producer price index reports

AGC members' expectations for 2015

Net % who expect dollar volume of projects to be higher

33%	Retail/warehouse/lodging	15%	Higher education
26%	Manufacturing	13%	Other transportation
25%	Private office	8%	K-12 school
24%	Water/sewer; also Energy	5%	Public building
20%	Hospital	-6%	Marine construction
17%	Power	-16%	Direct federal construction
16%	Highway		

Trends: 2015-2017

- Total construction spending: +6% to +10% per year
 - less SF housing, retail; flat public spending
 - new drivers: shale-based gas & oil; Panama Canal widening; more elderly & kids, fewer young adults
- Materials costs: -1 to +3% (similar to CPI); rare spikes
- Labor costs: +2.5% to + 5%
- Labor supply: widespread shortages possible due to retirements, competition from other sectors, fewer vets

Summary for 2013, 2014, 2015-17 forecast

	2013 actual	2014 actual	2015-17 annual average forecast
Total spending	6%	6%	6-10%
Private – residential	20%	4%	1-10%
– nonresidential	1%	11%	1-10%
Public	-3%	2%	near 0
Materials PPI	1.3%	-0.9%	0-3%; rare spikes
Employment cost index	2.0%	1.8%	2.5-5%

Source: 2013-14: Census, BLS; 2014-17: Author's ests.

AGC economic resources

(email simonsonk@agc.org)

- The Data DIGest: weekly 1-page email (subscribe at www.agc.org/datadigest)
- monthly press releases: spending; PPI; national, state, metro employment
- state and metro data, fact sheets
- website: <http://www.agc.org/Economics>
- webinars, surveys



Sept. 24-Oct. 2, 2009
Vol. 9, No. 33

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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