

TODAY'S CONSTRUCTION ECONOMY

Third Quarter 2017

Construction growth has been significant in the 3rd quarter of 2017, outstripping that of the overall economy. In this newsletter, we continue to focus on those issues that impact construction selling price. Although incremental changes in material and labor costs have an impact on the price of construction, market conditions and pricing strategy are always the primary drivers of selling price to owners. Construction prices are high now and will continue to increase through 2017 and into next year.

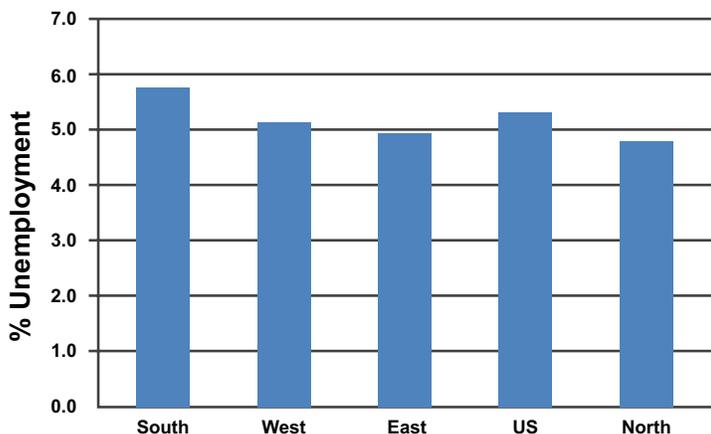
Impact on selling price:

Lower -  Higher -  Neutral/Inconclusive - 

Construction Employment and Wages

The states with the lowest estimated (not seasonally adjusted) construction unemployment rates in order from lowest rate to highest were Vermont, 1.5 percent, Iowa, 2.2 percent, Idaho, 2.3 percent, Colorado, 2.4 percent, and Indiana and North Dakota (tied), 2.5 percent.¹ 

U.S. Construction Unemployment, May 2017 ²



Two-thirds (66 percent) of contractors said they expect to employ more workers in the next six months, indicating growth in a sector that employs approximately 3 million Americans. But 61 percent of Index respondents reported difficulty finding skilled workers. The contractors reported the biggest shortages in the concrete, interior finishes/millwork, masonry, electrical and plumbing trades.³ 

After more than a decade of flat wage increases in the Davis-Bacon wages we track, we are all of a sudden seeing increases of more than 4%," says Bill Mahoney, President of BNI, which publishes cost-consulting books.⁴ 

Average hourly earnings in construction increased 2.2% y/y to \$28.68, or 9.4% higher than the average for all private-sector employees (\$26.22, a y/y gain of 2.5%). Average weekly hours in construction totaled 39.2, the highest May level since the series began in 2006. The longer workweek and low unemployment rate suggest contractors are having trouble finding unemployed jobseekers with experience.⁵ 

In the project supervision job family, the actual change in base pay from 2016 to 2017 ranged from 4.7% (assistant superintendents)

to 7.0% (superintendents) with project superintendents averaging 6.1% and construction managers coming in at 6.9%. Similarly, the project management job family saw entry level project engineers jumping 5.0% with experienced PE's changing 6.8%, project managers moving 6.2% and senior project managers averaging 5.5%. Critical specialized positions also saw exceptional increases with risk managers changing 6.7% and safety directors recording an 8.0% increase in the past year."⁶ 

The largest (construction job) gains again occurred in Riverside-San Bernardino-Ontario, Calif. (14,600 construction jobs, 16%), followed by Tampa-St. Petersburg-Clearwater (8,900 construction jobs, 13%) and Las Vegas-Henderson-Paradise (8,500 construction jobs, 16%).⁷ 

There were 203,000 construction industry job openings, not seasonally adjusted, at the end of April—the highest April level since 2007, the Bureau of Labor Statistics (BLS) reported on Tuesday (6 June) in its monthly Job Openings and Labor Turnover Survey (JOLTS).⁸ 

The market's message: Construction employment has seen one of its best quarters on record. The demand for workers has lowered unemployment significantly since the beginning of 2017. This labor demand will continue to have an upward impact on labor rates, and will continue to increase construction selling prices.

Construction Demand and Forecasts

Commercial construction is in high demand across the country and contractors are confident in the trajectory of the industry, according to the USG + U.S. Chamber of Commerce Commercial Construction Index ('Index'), launched today. Nearly all contractors surveyed – 96 percent – expect revenues to grow or remain stable this year compared to 2016, with 40 percent expecting an increase and only 3 percent expecting a decrease in revenue.⁹ 

"The fact that the data surrounding both new project inquiries and design contracts have remained positive every month this year, while reaching their highest scores for the year, is a good indication that both the architecture and construction sectors will remain healthy for the foreseeable future," said AIA Chief Economist Kermit Baker, PhD. "This growth hasn't been an overnight escalation, but rather a steady, stable increase."¹⁰ 

"In May, it was public spending that led the way, including in the highway and street category, which has generally been a source of enormous disappointment since the Fixing America's Surface Transportation Act became law in late 2015. Whether the recent uptick in public construction spending is part of an emerging sustained trend or simply statistical anomaly is not clear. What is clear is that overall nonresidential construction spending growth appears to be stalling, with many prospective purchasers of construction services having apparently adopted a wait-and-see attitude."¹¹ ↓

Nonresidential Spending Growth, Millions of Dollars, Seasonally Adjusted Annual Rate¹²

	May 17	April 17	May 16	1-month % change	12-month % change
Religious	\$3,343	\$3,225	\$3,537	3.7%	-5.5%
Educational	\$93,553	\$90,979	\$87,593	2.8%	6.8%
Amusement and Recreational	\$23,655	\$23,060	\$22,682	2.6%	4.3%
Office	\$72,168	\$71,045	\$62,907	1.6%	14.7%
Power	\$100,507	\$99,805	\$109,092	0.7%	-7.9%
Health Care	\$39,225	\$39,002	\$38,427	0.6%	2.1%
Lodging	\$27,699	\$27,771	\$27,070	-0.3%	2.3%
Commercial	\$83,005	\$83,557	\$76,068	-0.7%	9.1%
Highway and street Transportation	\$90,777	\$91,653	\$89,692	-1.0%	1.2%
Manufacturing	\$41,913	\$42,414	\$43,107	-1.2%	-2.8%
Communication	\$70,068	\$71,267	\$78,324	-1.7%	-10.5%
	\$21,767	\$22,189	\$21,343	-1.9%	2.0%

"The real star of the agenda was the \$1-trillion infrastructure stimulus proposal", says CEO of economic consultant Sage Policy Group Anirban Basu. But after five months in office, Trump is no closer to fulfilling his promises on infrastructure than he was in January. "Many in the industry believe there won't be an infrastructure package until 2018, if at all."¹³ ↓

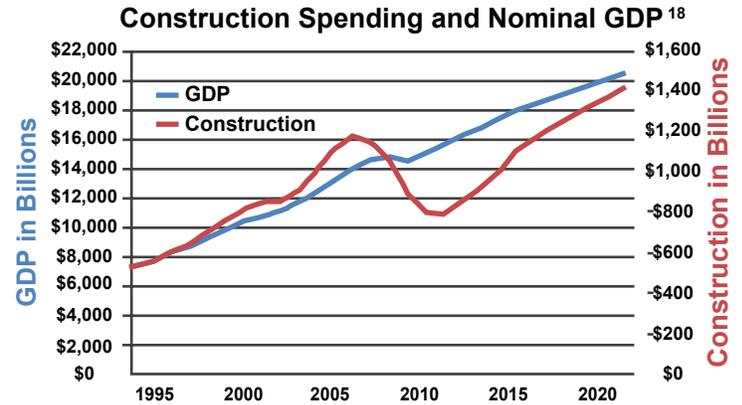
In May, the commercial component of the Momentum Index increased 4.8% to an 8-1/2 year high, which suggests that construction activity for commercial buildings will continue to rise over the next year, even with signs of decelerating improvement in market fundamentals (occupancies and rents).¹⁴ ↑

"Contractors in the U.S. commercial construction industry are optimistic about the current state and forward-looking health of the sector, noting a healthy balance of project backlog and projected growth, which indicates overall strength and confidence in the market," according to a new Commercial Construction Index that USG Corporation and the U.S. Chamber of Commerce introduced on Thursday (8 June).¹⁵ ↑

"Seven in 10 [architecture] firms report modest or significant increases in prices for construction materials in their projects," the

American Institute of Architects reported in its monthly Work-on-the-Boards release on June 23.¹⁶ ↑

"Commercial/industrial construction spending has increased just under 7% through the first five months of the year relative to the same period in 2016, as compared to over 10% growth for 2016 overall," AIA Chief Economist Kermit Baker wrote in the mid-year summary of seven construction spending forecasts, released on Tuesday (18 July). As a result, the AIA Consensus Construction Forecast panel is predicting slower growth for the construction industry for the remainder of 2017 and through 2018.¹⁷ ↑



The market's message: All commonly-used forecasting metrics indicate growth through 2017 and into 2018, although the level of growth may not stay on pace with that experienced in the first part of 2017. Commercial construction is booming, while infrastructure is lagging due to unfulfilled expectations of significant federal re-investment.

Final Thoughts

Since last year's presidential election, there has been speculation that a recovering economy coupled with promises of a new administration's focus on relieving constraints on business will buoy construction. Indeed, increasing numbers of construction jobs have been filled to the point where labor shortages are worsening. Construction material prices are also rising, albeit more slowly than labor rates. When combining these features with the universal belief that construction will continue to experience steady growth, prices will rise. We will continue to see price escalation in commercial space, and could see flattening or even decreases in infrastructure pricing. Construction growth will outpace GDP growth for the next several years.

Sources

¹ <http://www.dcd.com/tradewinds.html>, 27 Jun 2017

² <http://www.dcd.com/tradewinds.html>, 27 Jun 2017

³ <http://www.dcd.com/tradewinds.html>, 27 Jun 2017

⁴ Grogan, Tim, After Absorbing Hits, Costs Start to Show Signs of Rising, ENR, 10 Jul 2017, p. 20

⁵ Simonson, Ken, Association of General Contractors (AGC) Data Digest, Vol. 17, No. 20 · May 30-June 2, 2017

⁶ Contractor Compensation Quarterly, PAS Compensation consultancy, in Data Digest, Vol. 17, No. 20 · May 30-June 2, 2017

⁷ Data Digest, Vol. 17, No. 20 · May 30-June 2, 2017

⁸ Data Digest, Vol. 17, No. 21 · June 5-9, 2017

⁹ <http://www.dcd.com/tradewinds.html>, 27 Jun 2017

¹⁰ <http://www.dcd.com/tradewinds.html>, 27 Jun 2017

¹¹ ABC Chief Economist Anirban Basu in <http://www.dcd.com/tradewinds.html>, 27 Jun 2017

¹² <http://www.dcd.com/tradewinds.html>, 27 Jun 2017

¹³ Tulacz, Gary, Industry Execs Worry About Delays in Trump Agenda, ENR, 10 Jul 2017, p. 19

¹⁴ Data Digest, Vol. 17, No. 21 · June 5-9, 2017

¹⁵ Data Digest, Vol. 17, No. 22 · June 12-16, 2017

¹⁶ Data Digest, Vol. 17, No. 24 · June 26-July 5, 2017

¹⁷ Data Digest, Vol. 17, No. 27 · July 20-24, 2017

¹⁸ Construction Outlook, 2nd Quarter 2017, FMI