



AGC of America
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Quality People. Quality Projects.



US & WA Construction Spending, Labor & Materials Outlook

Northwest Construction Consumer Council

Seattle February 7, 2019

Ken Simonson

Chief Economist, AGC of America

simonsonk@agc.org

Quality People.
Quality Projects.



Headline Forecast

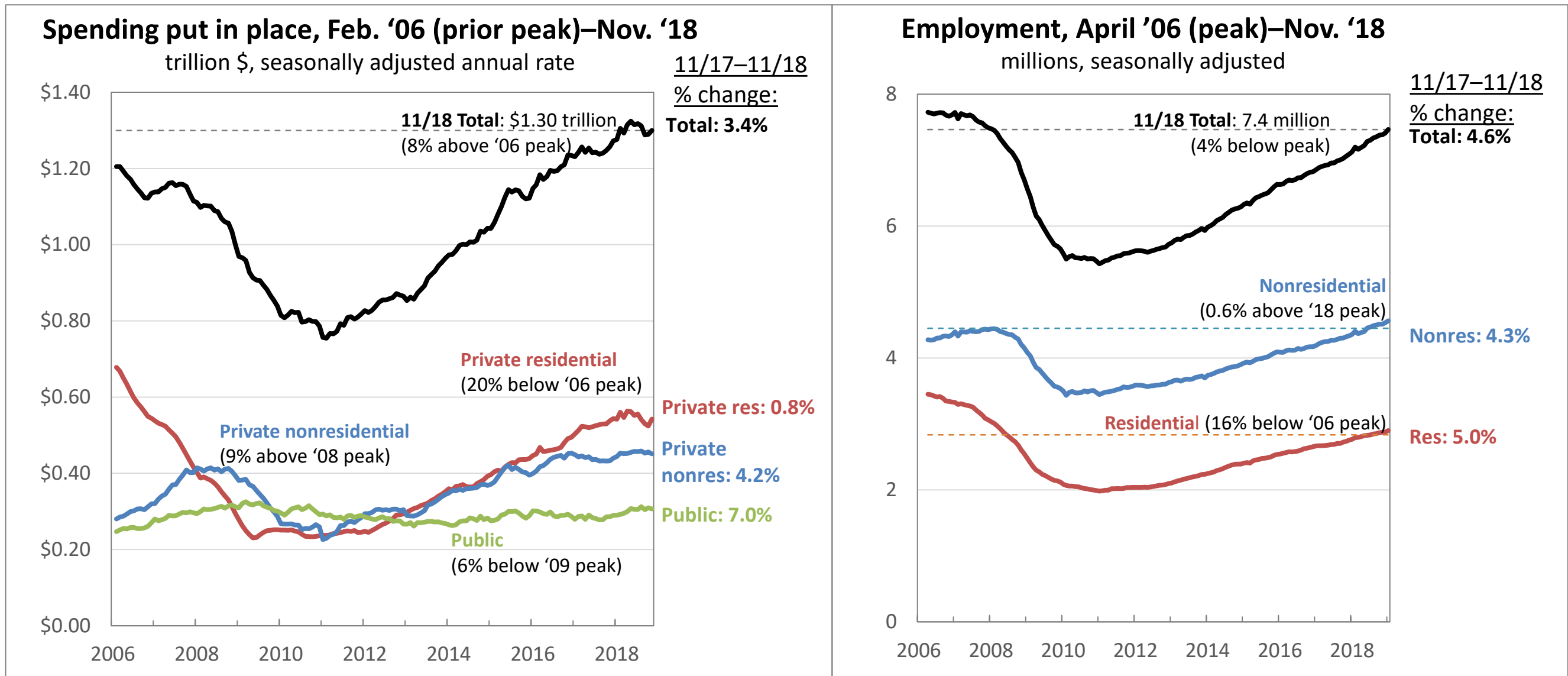
- The US economy is still growing well:
 - 304,000 jobs added in January, 2.8 million in past 12 months—the most since '15
 - consumer, business confidence are generally high; recession probability is low
 - but home & auto sales are slowing; trade & fiscal policy concerns continue
- Contractors remain busy and confident; construction employment at 11-year high with growth in most states and project categories
- Three concerns:
 - impact of trade policies on materials costs and demand for construction
 - widening labor shortage, worsened by hostile immigration policy
 - rising interest rates may cut demand for income-producing projects, new homes

AGC members' expectations for 2019—US & WA

US/WA Net % who expect dollar volume of projects to be higher

17%/12%	Public building	14%/11%	Water/Sewer
16%/12%	Highway	13%/0%	Private Office
16%/6%	K-12 school	12%/8%	Manufacturing
16%/13%	Hospital	11%/9%	Higher Education
15%/12%	Retail, Warehouse, Lodging	10%/13%	Power
15%/5%	Federal (e.g., VA, GSA, USACE, NAVFAC)	5%/-6%	Multifamily Residential
14%/38%	Transportation (e.g., transit, rail, airport)		

Construction spending & employment, 2006–2018



Source: spending--U.S. Census Bureau; employment--Bureau of Labor Statistics

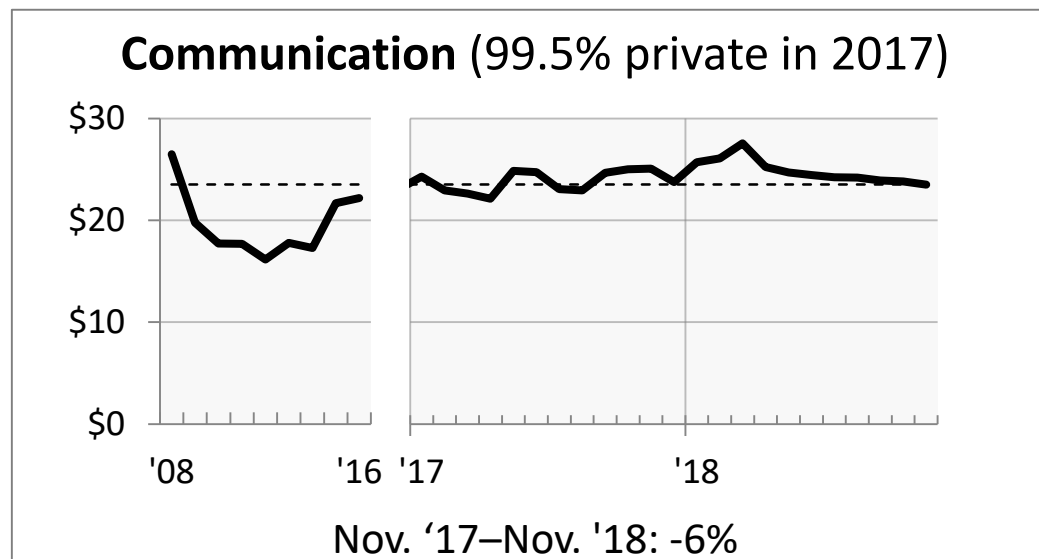
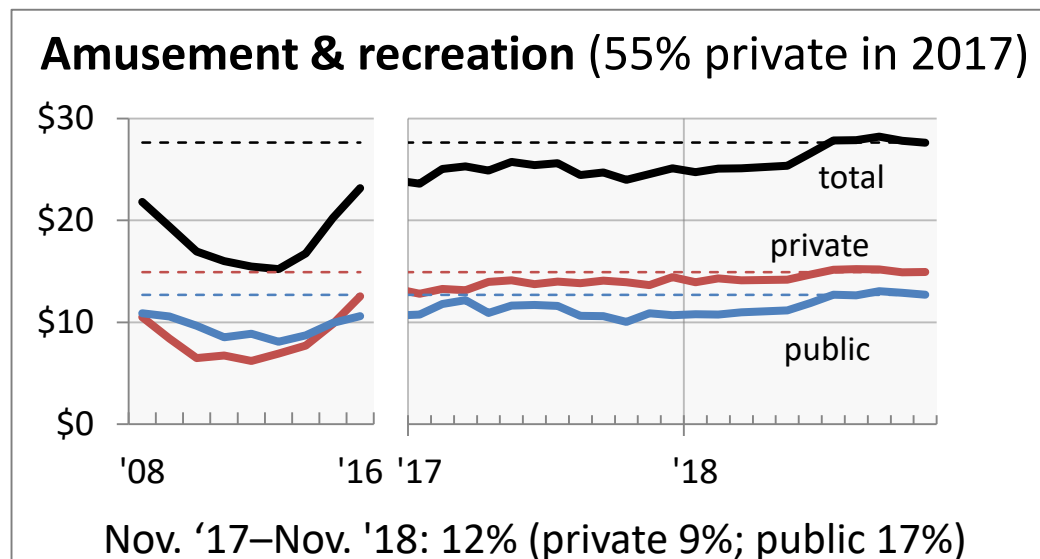
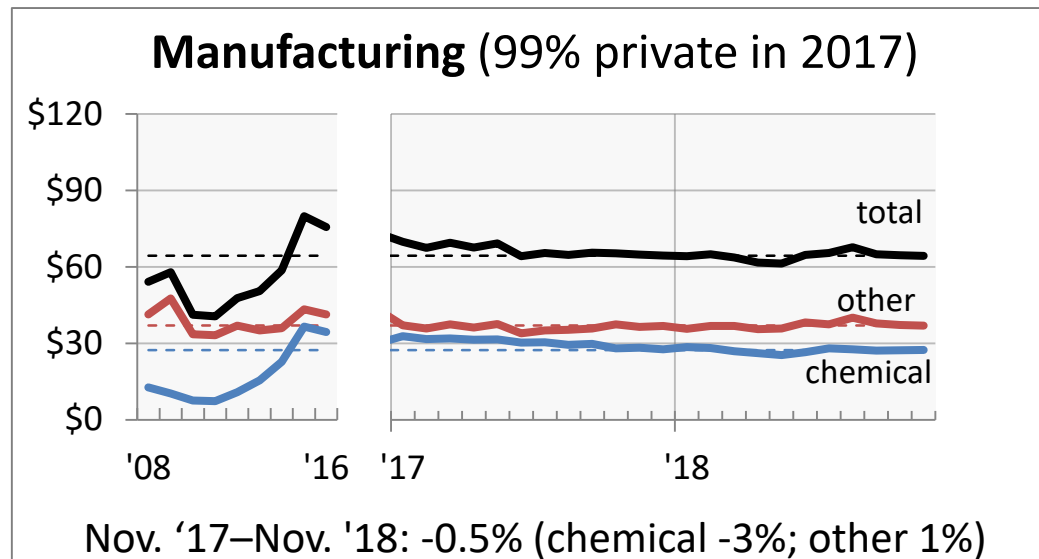
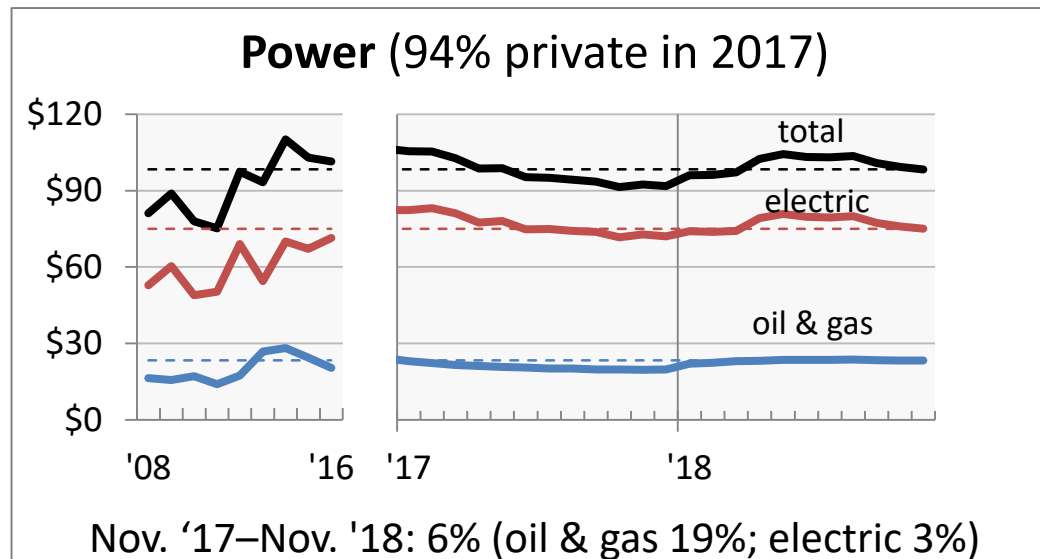
Nonresidential spending by segment: 2017-2018 change and 2019 forecast

	2017 vs. 2016	<u>Jan–Nov '18 vs.</u> <u>Jan–Nov '17</u>	<u>2019 forecast</u>
<u>Nonresidential total (public+private)</u>	<u>-0.5%</u>	<u>4.9%</u>	<u>2-5%</u>
Power (incl. oil & gas field structures, pipelines)	-5	3	3-8%
Educational	1	4	0-5%
Highway and street	-4	5	3-8%
Commercial (retail, warehouse, farm)	12	3	0-5%
Office	-1	9	0-5%
Manufacturing	-13	-3	near 0
Transportation	4	16	5-10%
Health care	4	0	near 0
Lodging	6	12	near 0
Sewage & waste disposal	-12	9	
Other--amusement; communication; religious; public safety; conservation; water: 11% of '17 total	3	6	

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

Construction spending: industrial, heavy

annual total, 2008–16; monthly (seasonally adjusted annual rate), 1/17–11/18; billion \$

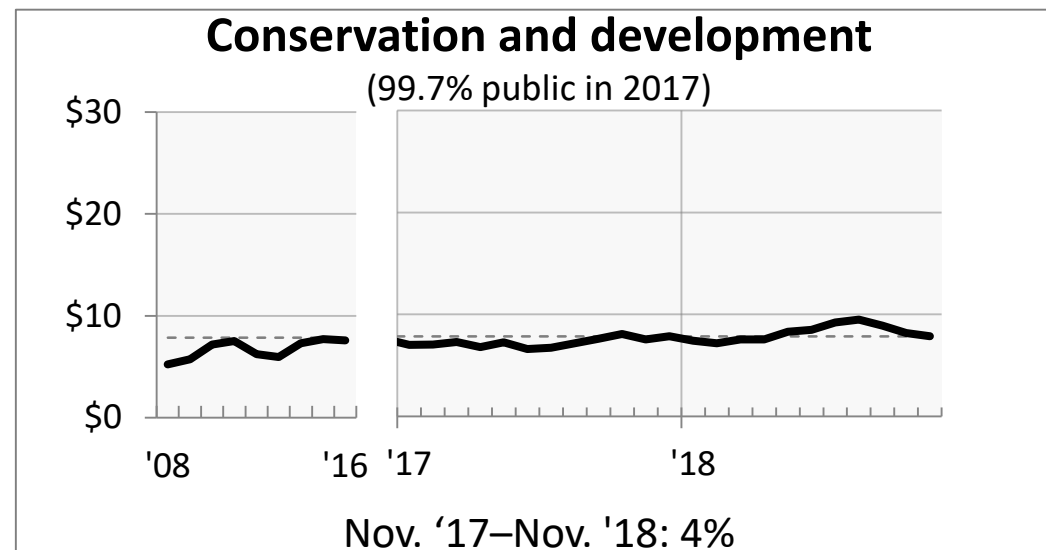
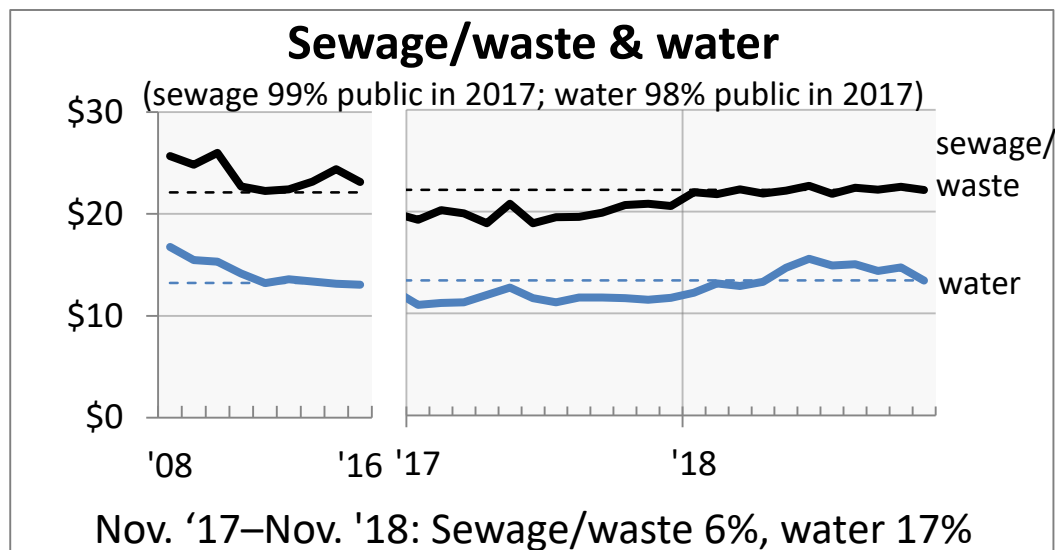
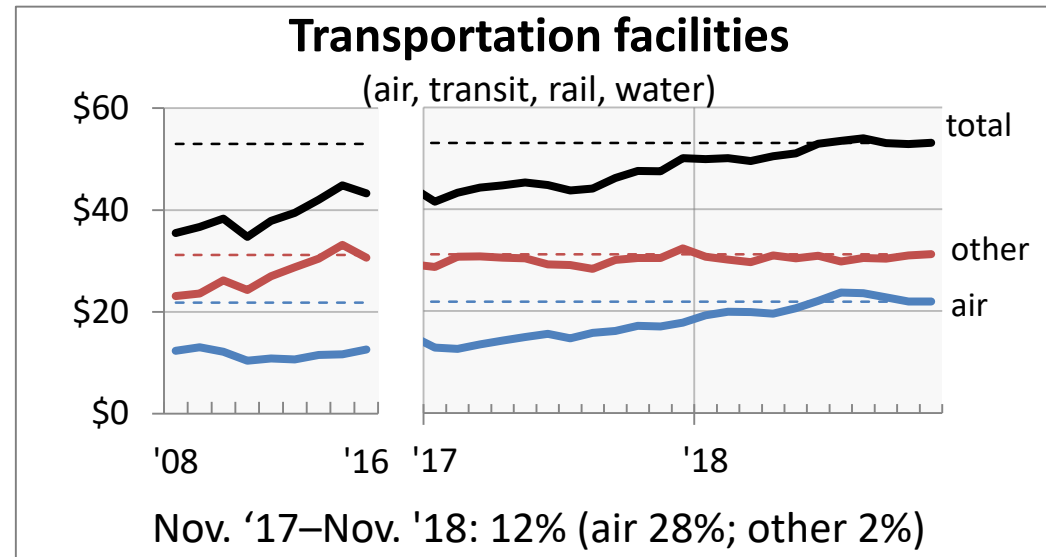
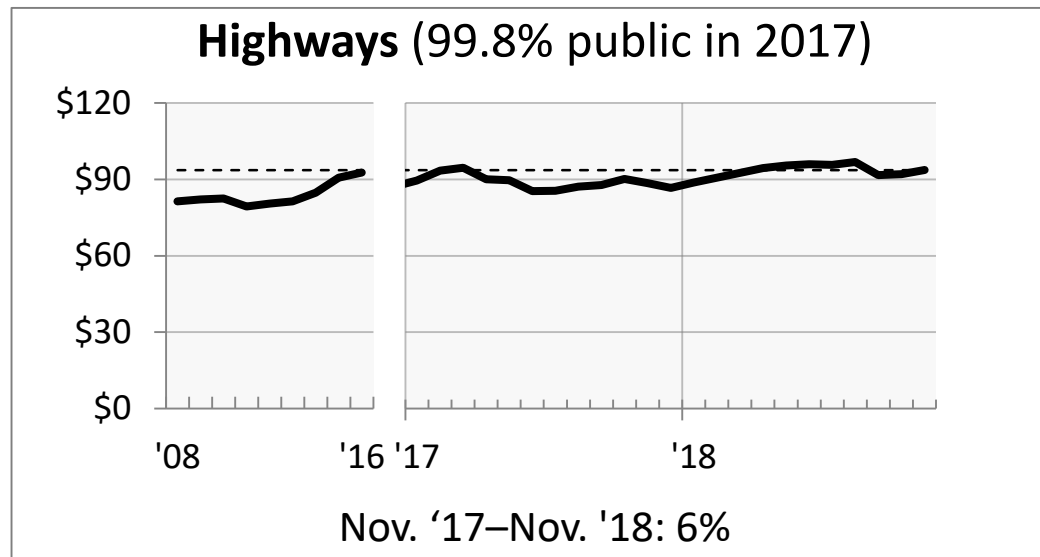


Key points: power & energy, mfg, amusement, communication

- Solar, wind power are growing again; expect more oil & natural gas pipelines in '19 but timing is subject to court & regulatory delays
- Manufacturing construction should recover further in '19 based on energy projects, U.S. economic growth; but tariffs, foreign retaliation, rising construction costs are major concerns
- Amusement & recreation spending is very “lumpy”—a few big stadiums at irregular intervals; but funding for local, state, federal parks keeps eroding
- Communication may revive as wireless firms build out 5G networks

Construction spending: public works

annual total, 2008–16; monthly (seasonally adjusted annual rate), 1/17–11/18; billion \$

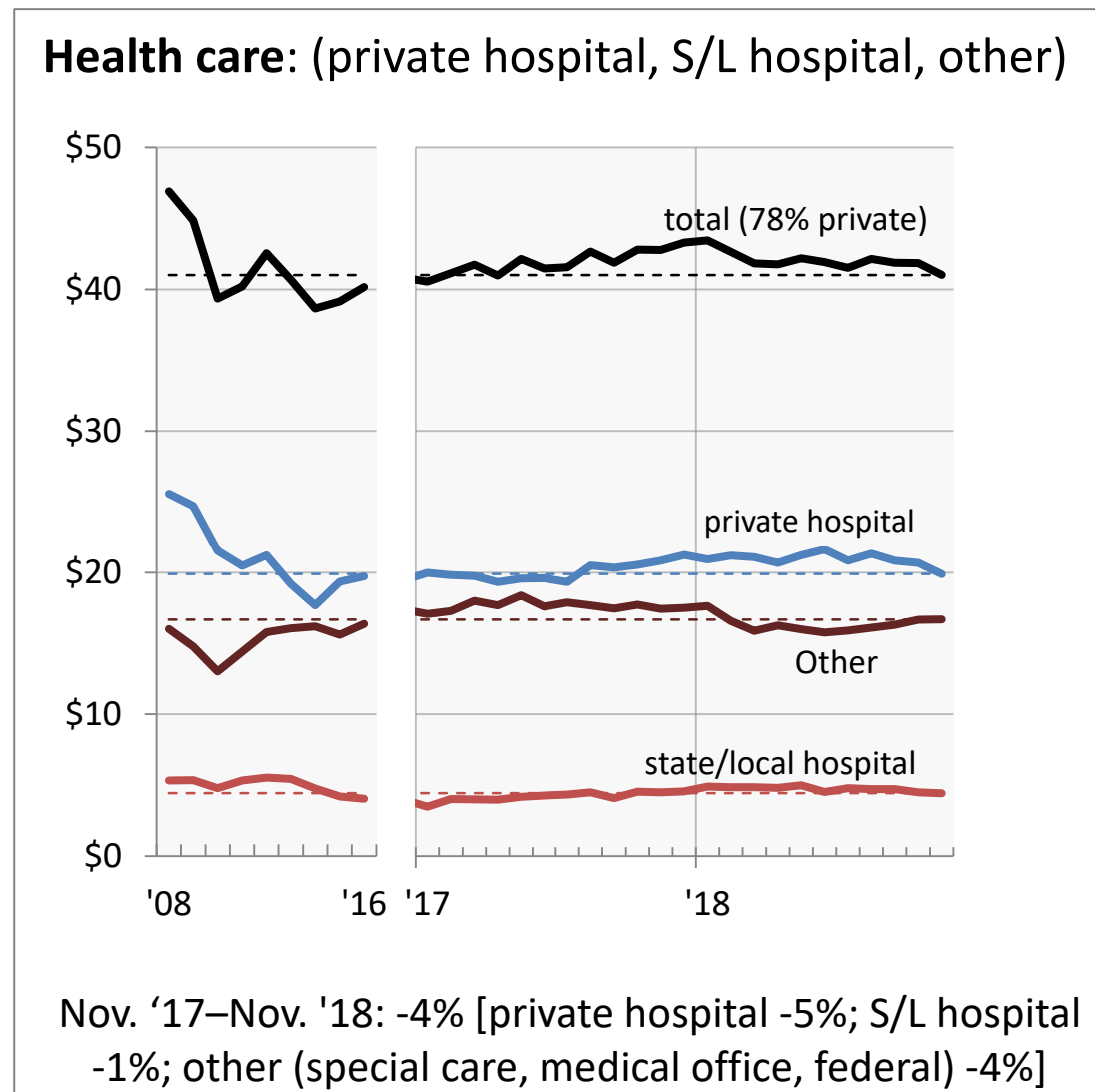
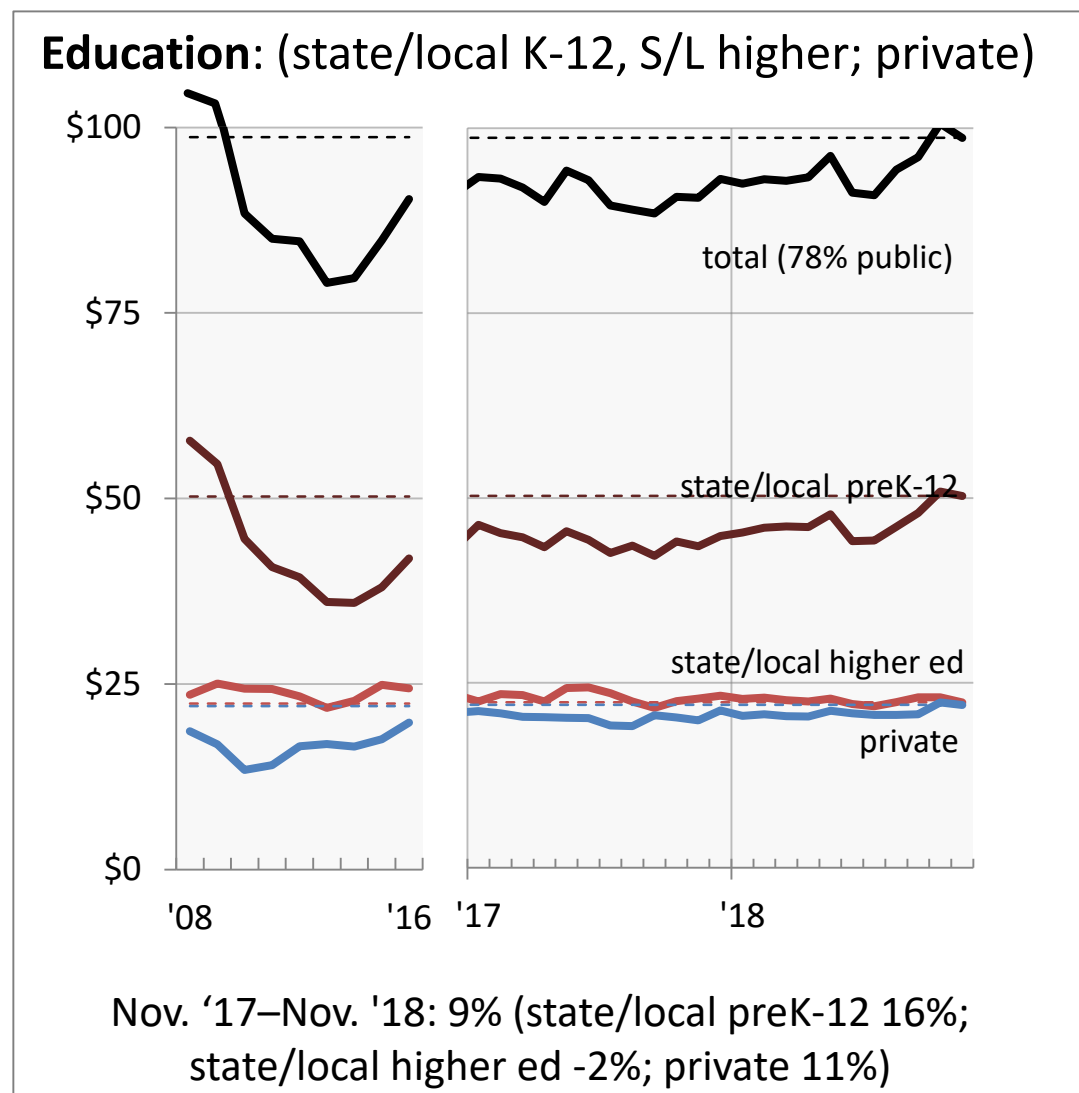


Key points: roads, transportation, sewer/water

- Federal infrastructure bill is unlikely in 2019; spending wouldn't occur until later, but state highway funding and P3s are increasing
- Many new and ongoing public & private airport projects; revival of freight rail construction; but no net increase likely in public funding for port, passenger rail or transit construction
- Water & sewer/wastewater spending returning to 2011-15 levels after large drop in 2016-17; little long-term new funding likely
- Conservation will grow if Corps of Engineers can award enough \$

Construction spending: education, health care

annual total, 2008–16; monthly (seasonally adjusted annual rate), 1/17–11/18; billion \$

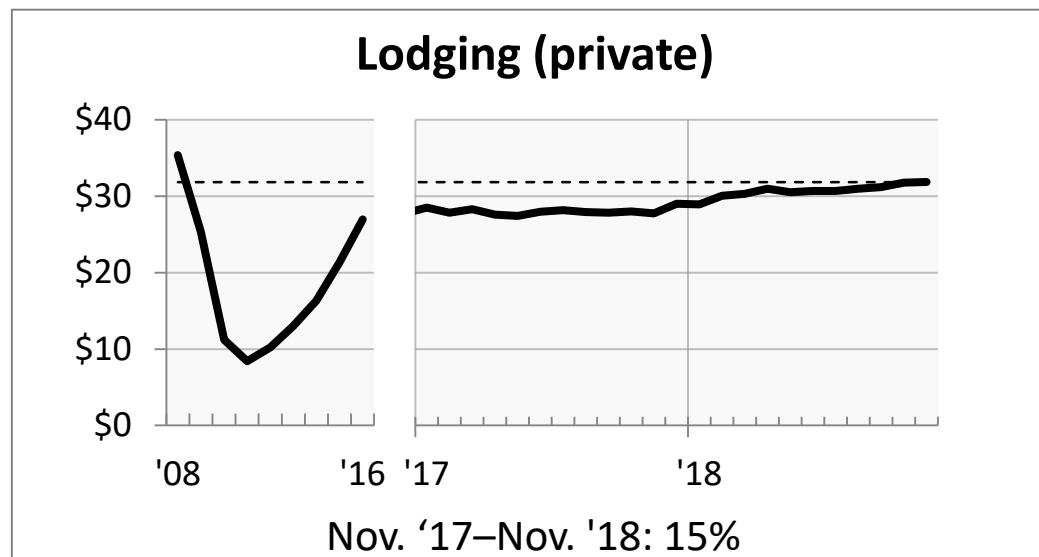
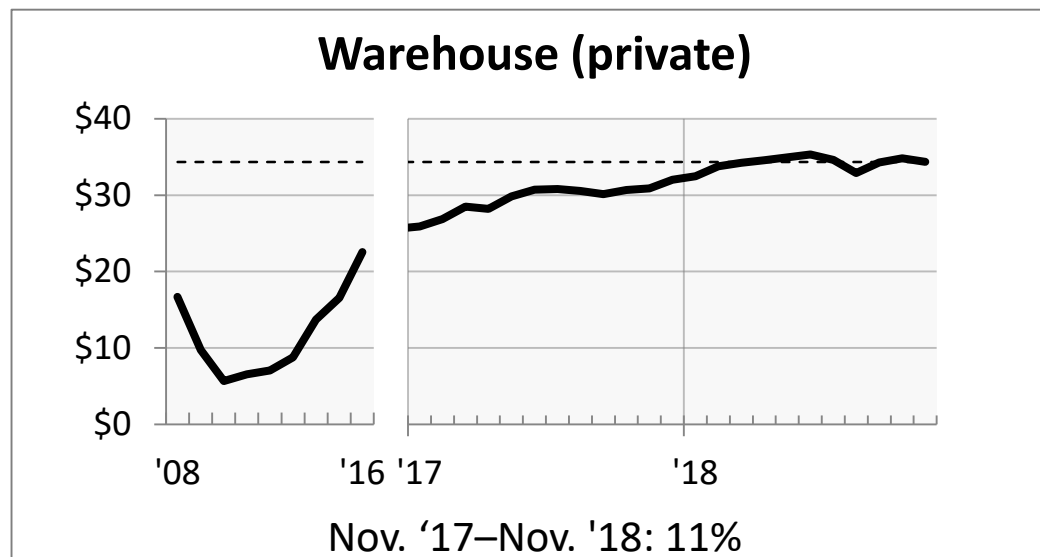
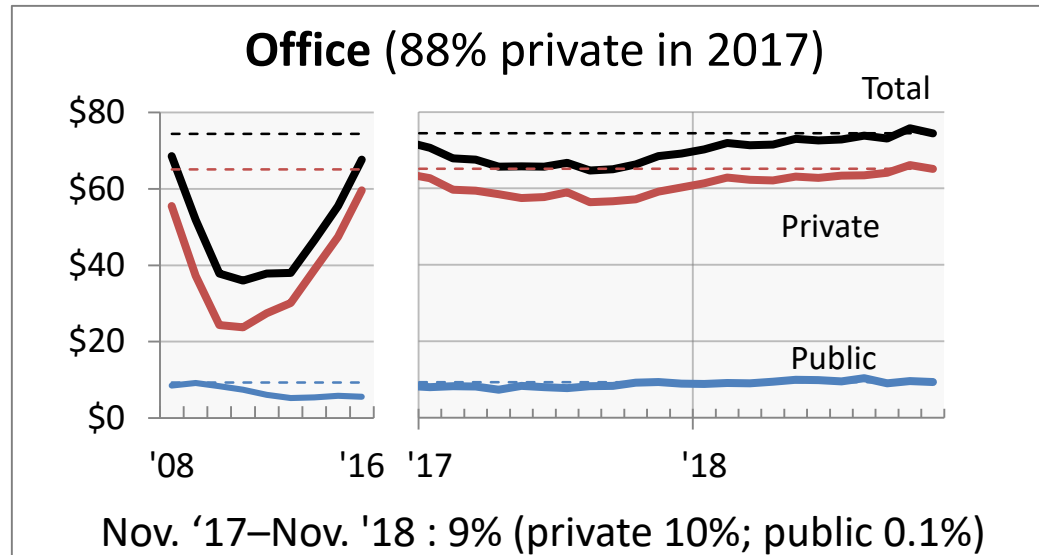
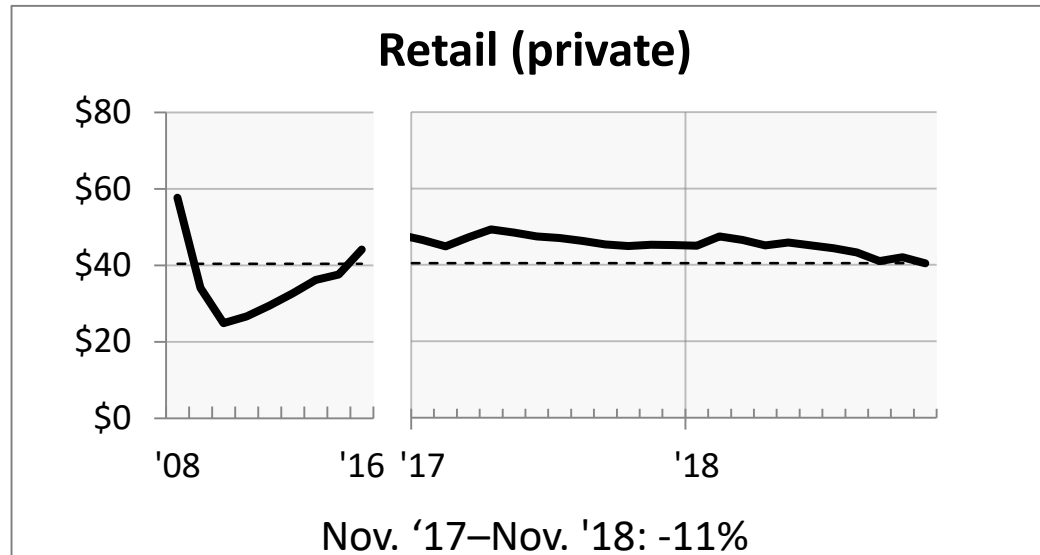


Key points: education & health care

- Rising house & commercial property values are supporting school district tax receipts & bond issues for preK-12 projects
- Higher-ed enrollment declined 21% from 2011 to 2016; likely decrease in full-tuition foreign students will hurt budgets; apts. (multifamily) replacing dorms (educational construction)
- Rising stock prices help private school & college capital campaigns
- Health care spending is shifting from hospitals to standalone special-care facilities (urgent care, surgery, rehab, hospices)

Construction spending: developer-financed

annual total, 2008–16; monthly (seasonally adjusted annual rate), 1/17–11/18; billion \$

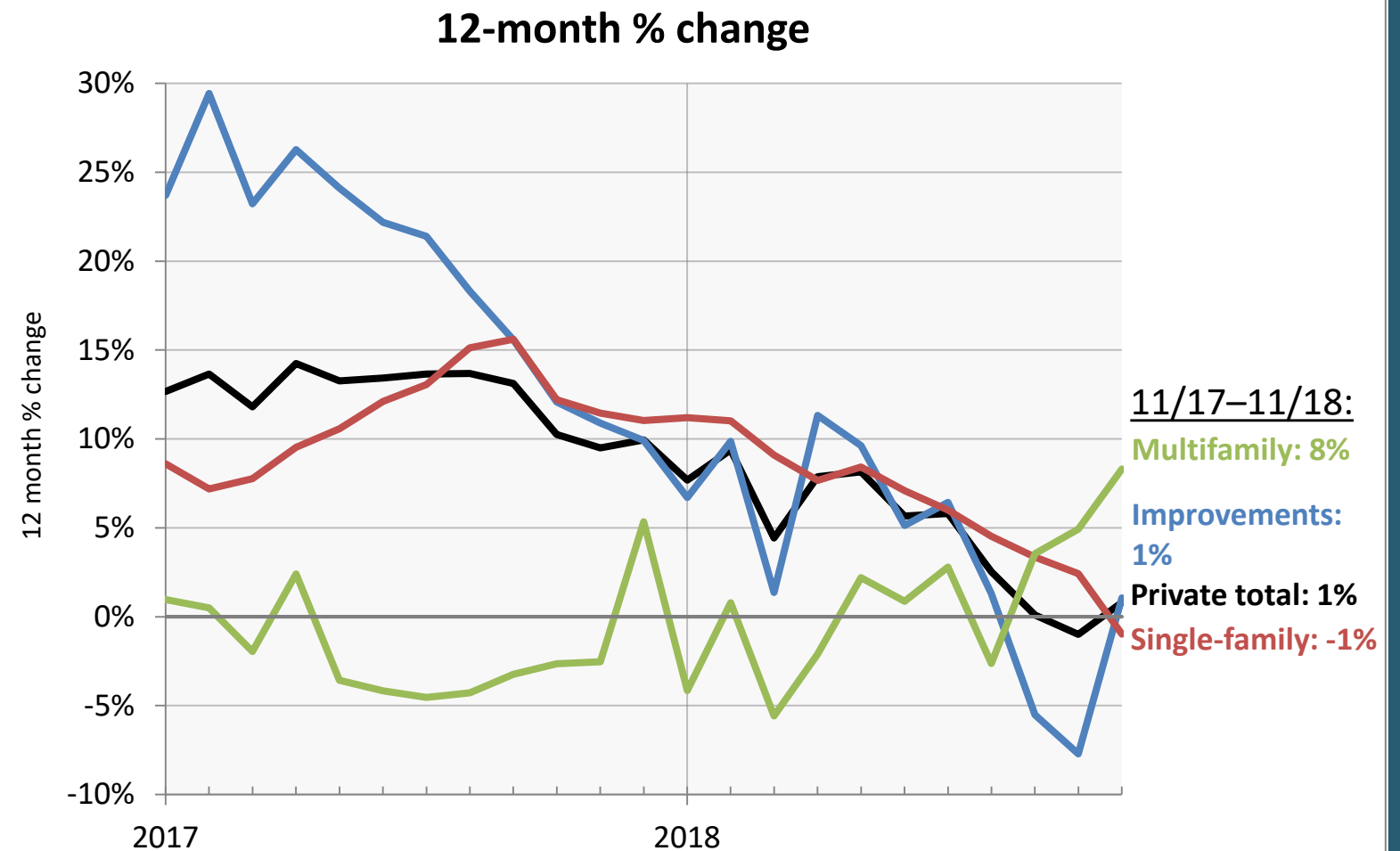
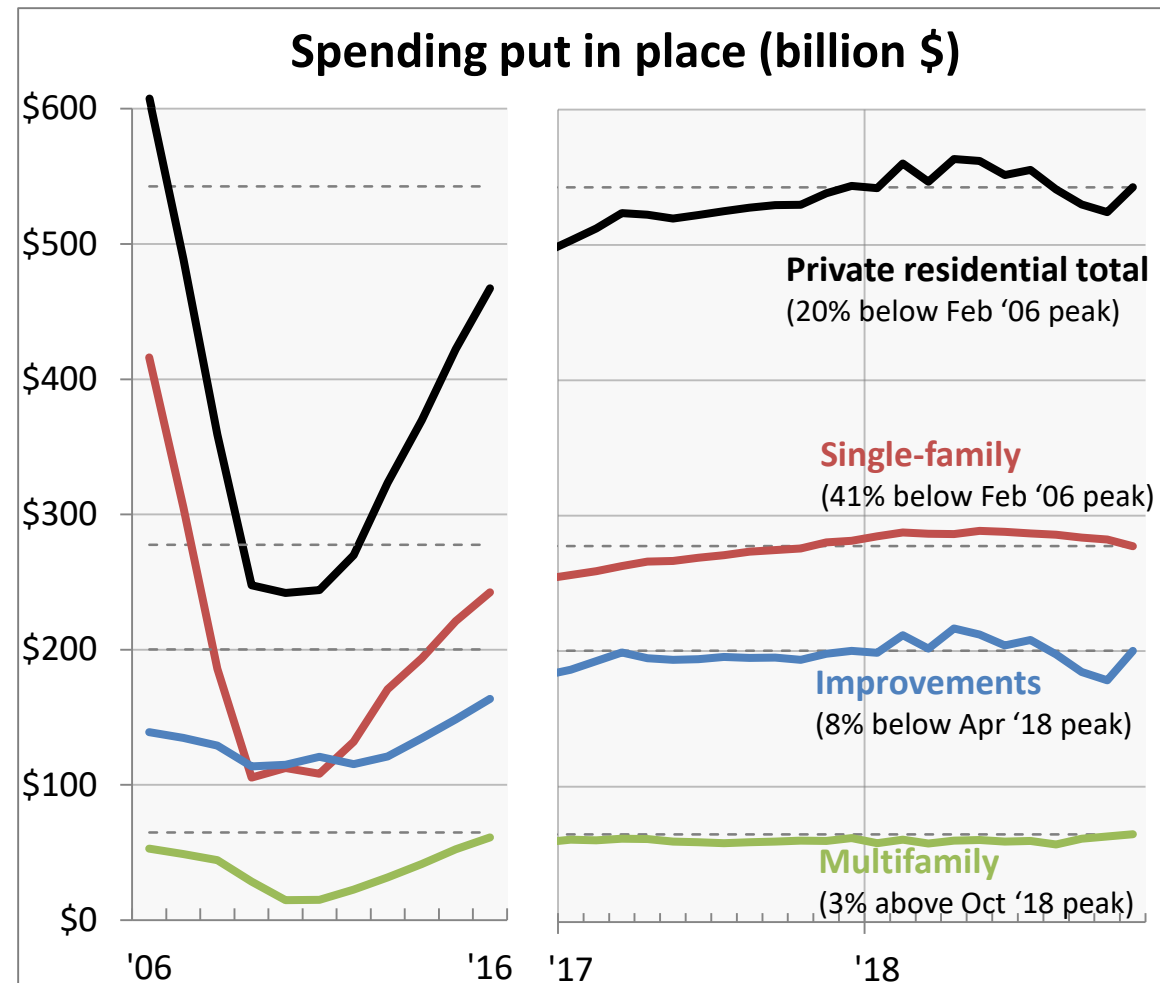


Key points: retail, warehouse, office, hotel, data centers

- Retail now tied to mixed-use buildings & renovations, not standalone structures; ongoing store closings imply downturn continuing in '19
- Warehouse growth is still benefiting from e-commerce; more local than huge regional distribution centers likely in future; self-storage is booming
- Office employment still rising but space per worker is shrinking; more urban & renovation work than suburban office parks
- Hotel pipeline is still growing but sector is very interest-rate sensitive
- Data centers remain a strong niche but no data available on how strong

Private residential spending: slower single-family growth, pickup in multifamily

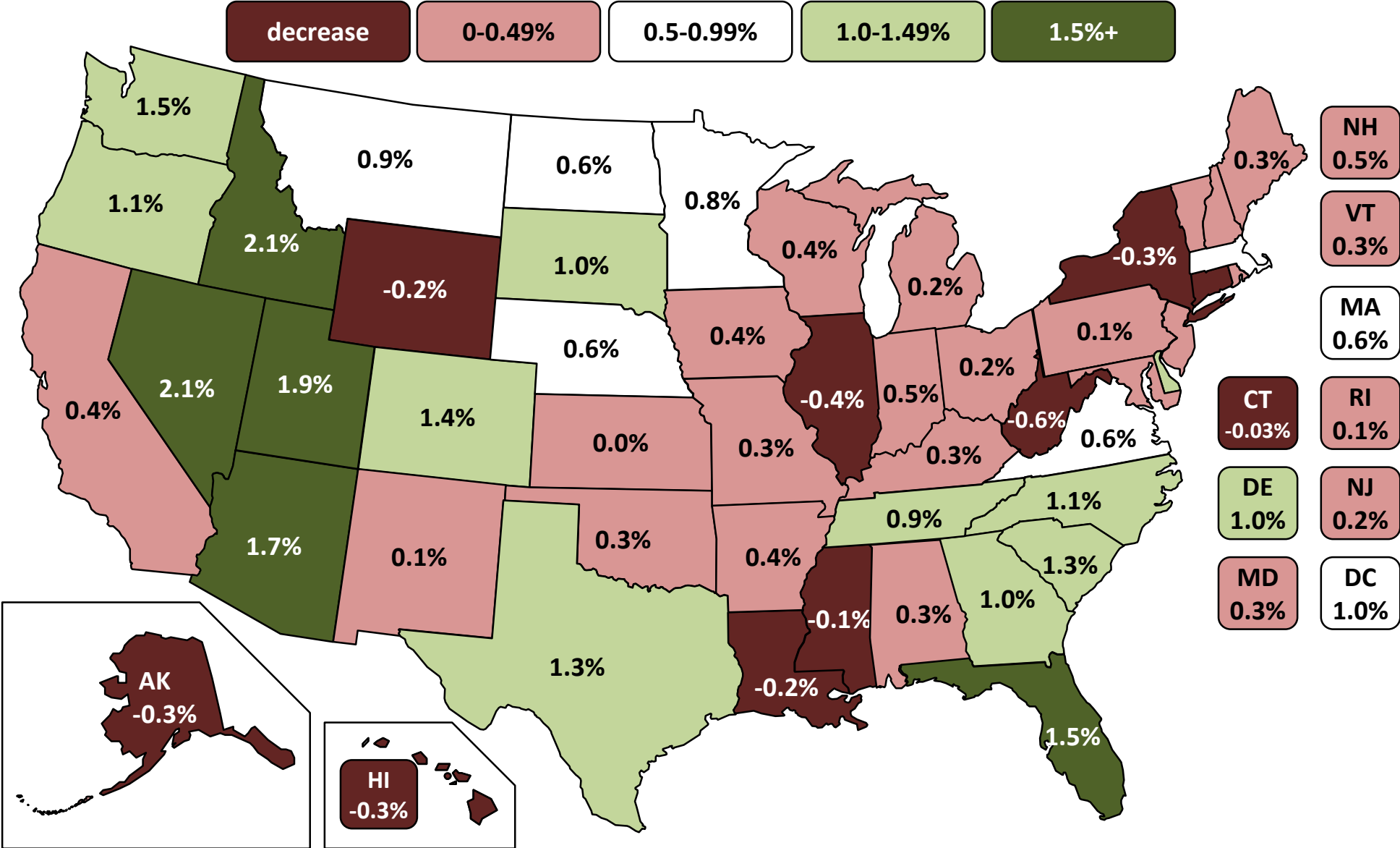
annual total, 2006–16; monthly (seasonally adjusted annual rate), 1/17–11/18; billion \$



Residential spending forecast--2018: 3-4% growth; 2019: 5-9% (12% in 2017)

- **SF--2018: 6-7% growth; 2019: 6-10% (11% in 2017);** rising interest rates, building costs, student debt will limit number of potential buyers
- **MF--2018: 0-1% growth; 2019: 2-5% (-2% in 2017)**
 - occupancy rates, rents have leveled off; but permits are rising, implying rebound in 2019
 - millennials are staying longer in cities and denser suburbs where MF construction is bigger share of market than in outer suburbs
 - nearly all MF construction is rental, not condo; more high-rises
- **Improvements--2018: 1-3% growth; 2019: 5-10% (19% in 2017);** rising number of seniors prefer remodeling to moving but interest cost, labor scarcity are barriers

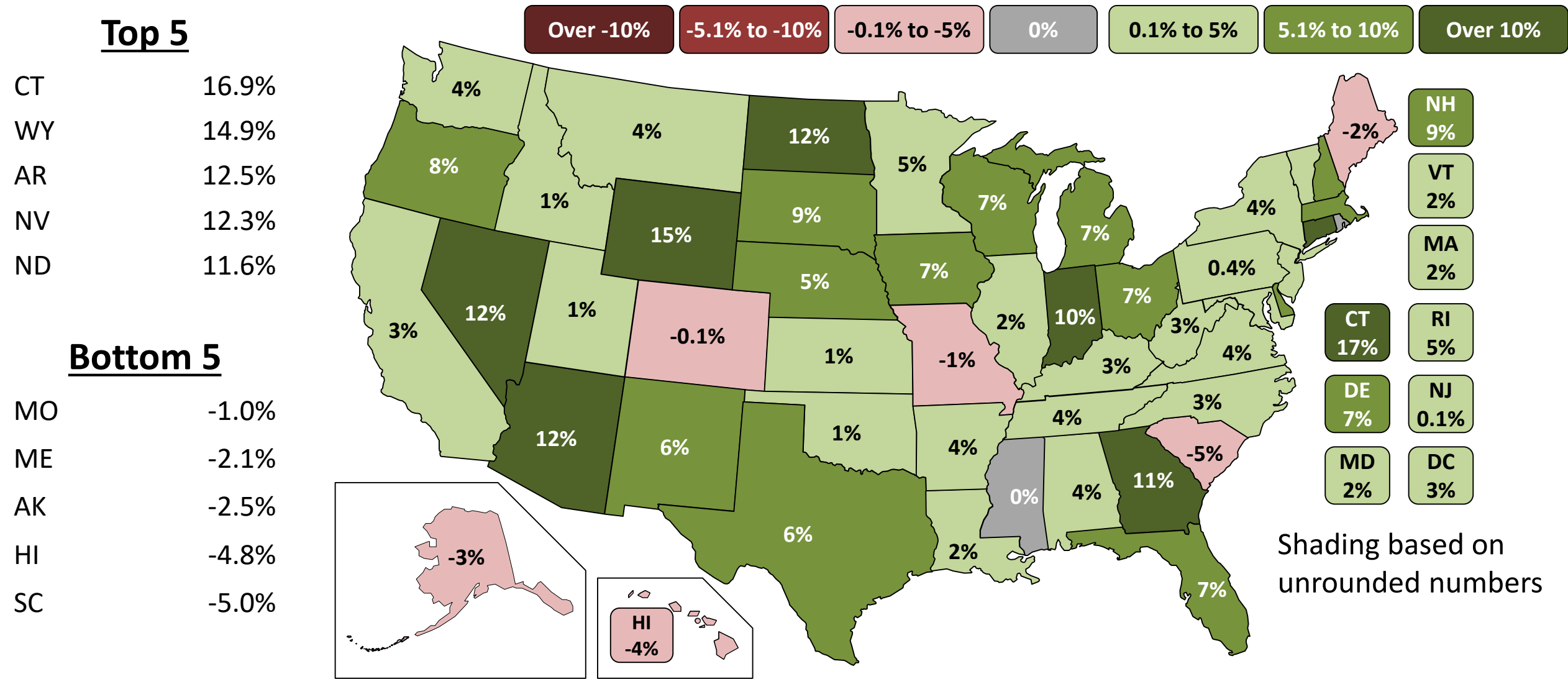
Population change by state, July 2017–July 2018 (U.S.: 0.62%)



Source: U.S. Census Bureau



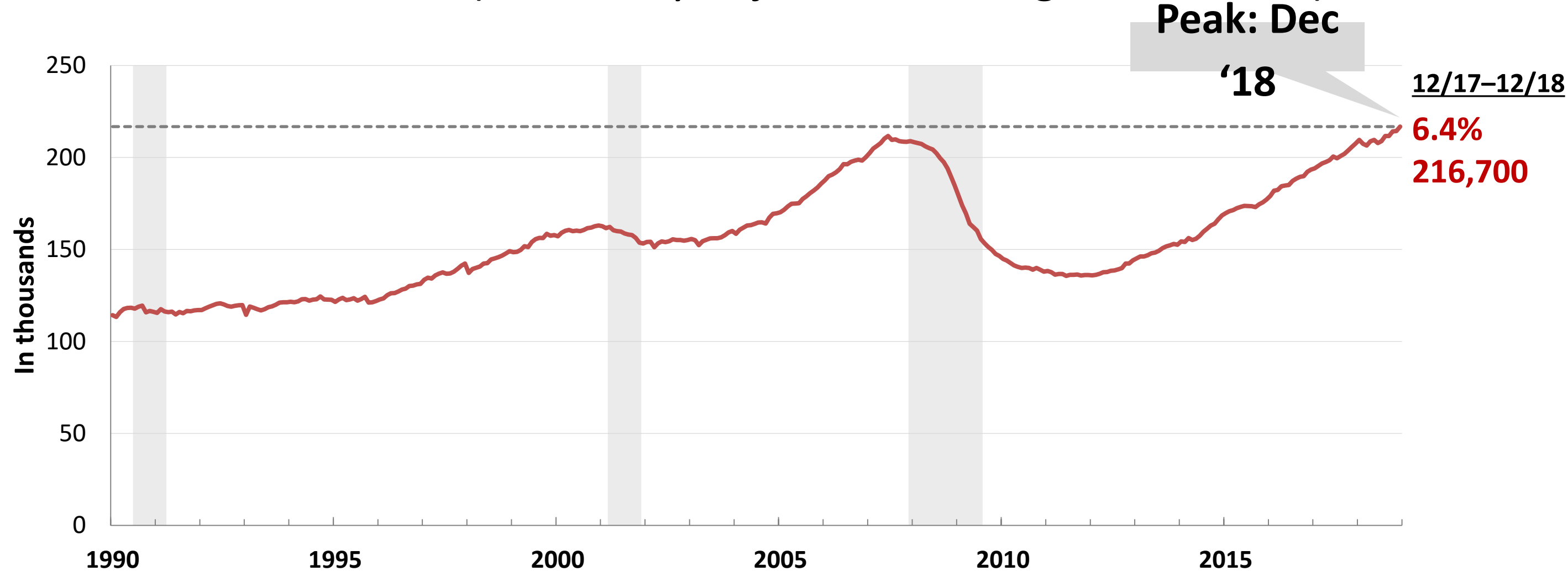
State construction employment change (U.S.: 4.0%)
12/17 to 12/18: 43 states and DC up, 6 down



Source: BLS state and regional employment report

Washington Construction Employment

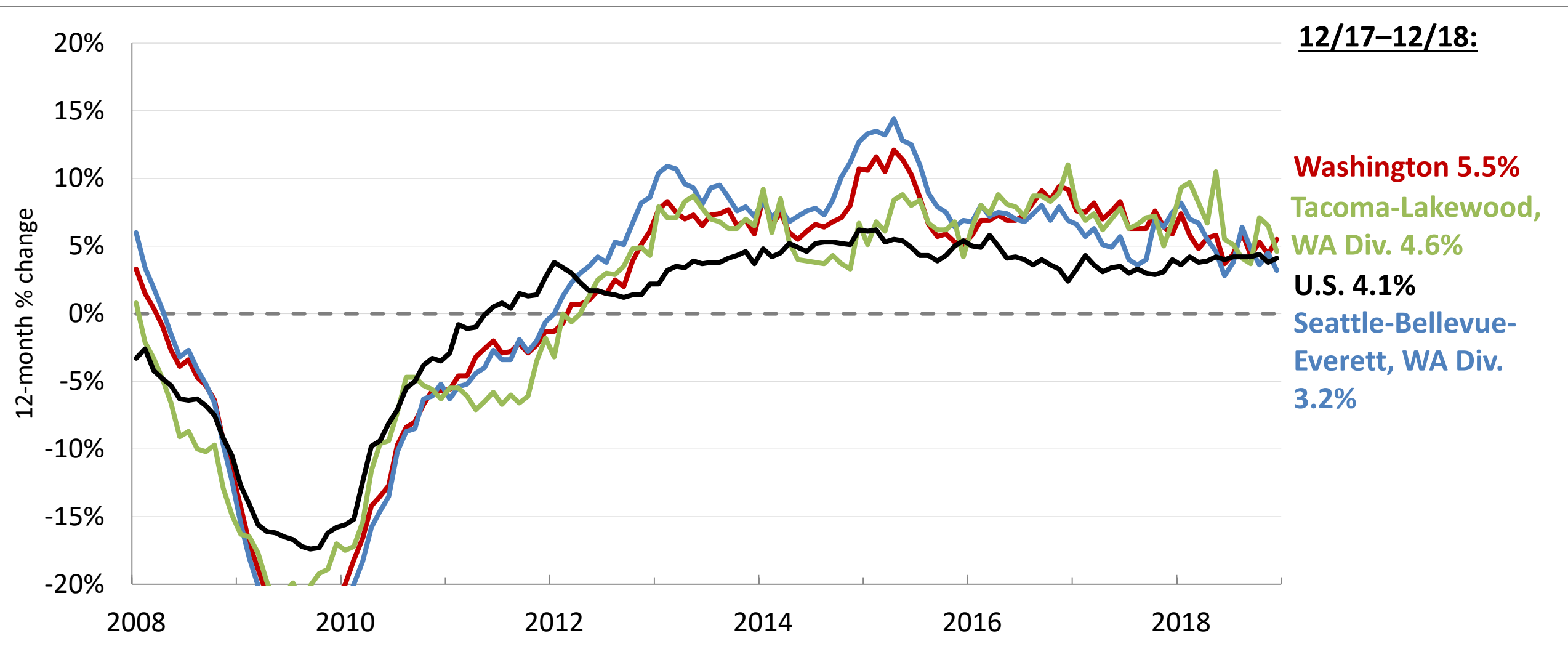
1/90–12/18 (seasonally adjusted; shading = recessions)



Source: BLS



Construction Employment Change from Year Ago 1/08–12/18 (not seasonally adjusted)



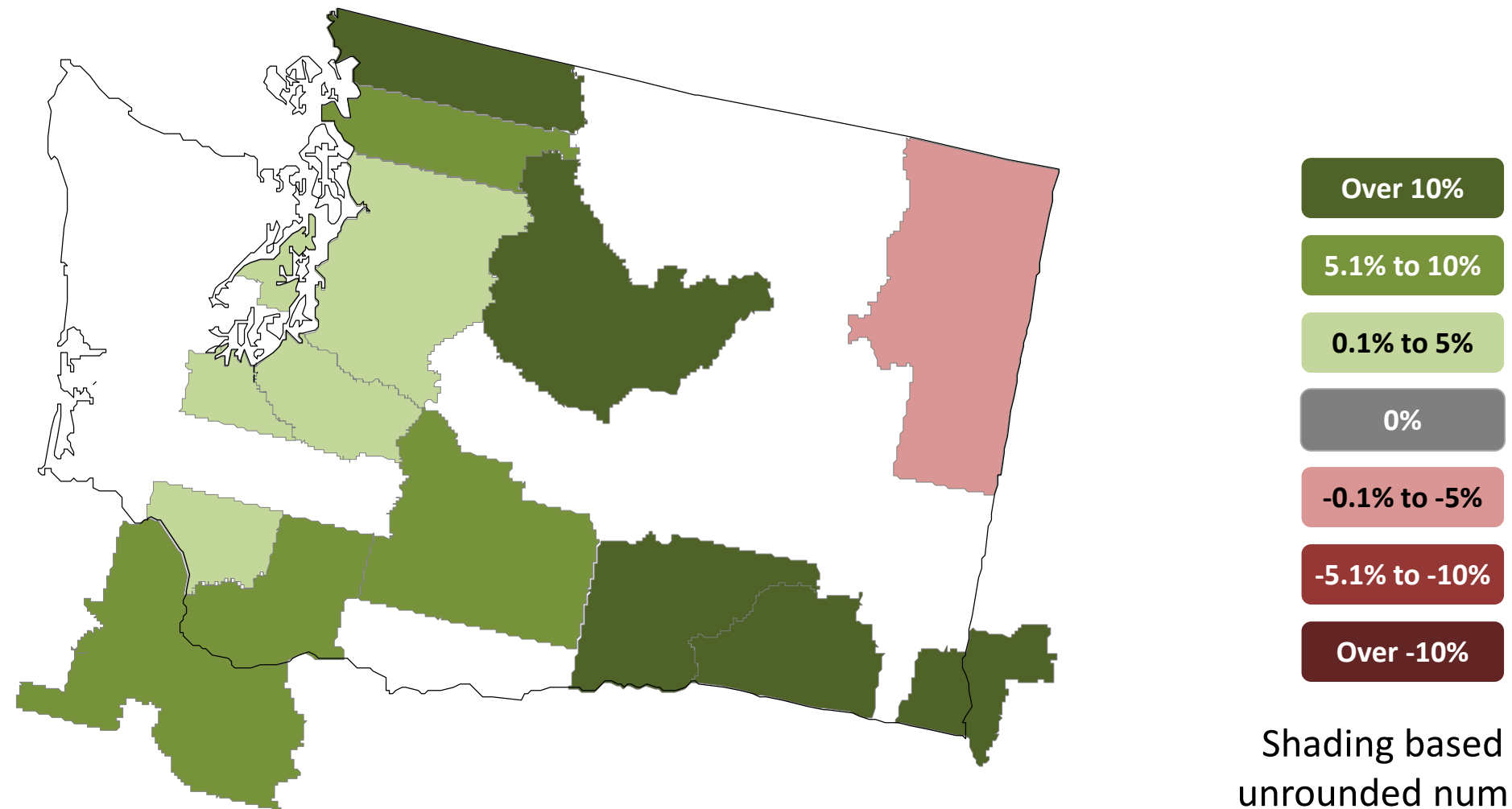
Source: BLS

Change in construction employment, 12/17–12/18 (NSA)

Metro area or division	12-mo. empl. change	Rank (out of 358)	Metro area or division	12-mo. empl. change	Rank (out of 358)
Statewide (Construction)	5%		Tacoma-Lakewood Div.	5%	150
Statewide (Mining, logging, and construction)*	5%		Walla Walla*	10%	45
Bellingham*	10%	45	Wenatchee*	11%	32
Bremerton-Silverdale*	2%	239	Yakima*	8%	69
Kennewick-Richland*	10%	45	Lewiston, ID-WA	23%	2
Longview*	3%	205	Portland-Vancouver-Hillsboro, OR-WA	9%	58
Mount Vernon-Anacortes*	7%	91	<i>*The Bureau of Labor Statistics reports employment for construction, mining and logging combined for metro areas in which mining and logging have few employers. To allow comparisons between states and their metros, the table shows combined employment change for these metros. Not seasonally adjusted statewide data is shown for both construction-only and combined employment change.</i>		
Olympia-Tumwater*	3%	205			
Seattle-Bellevue-Everett Div.	3%	205			
Spokane-Spokane Valley*	-2%	330			

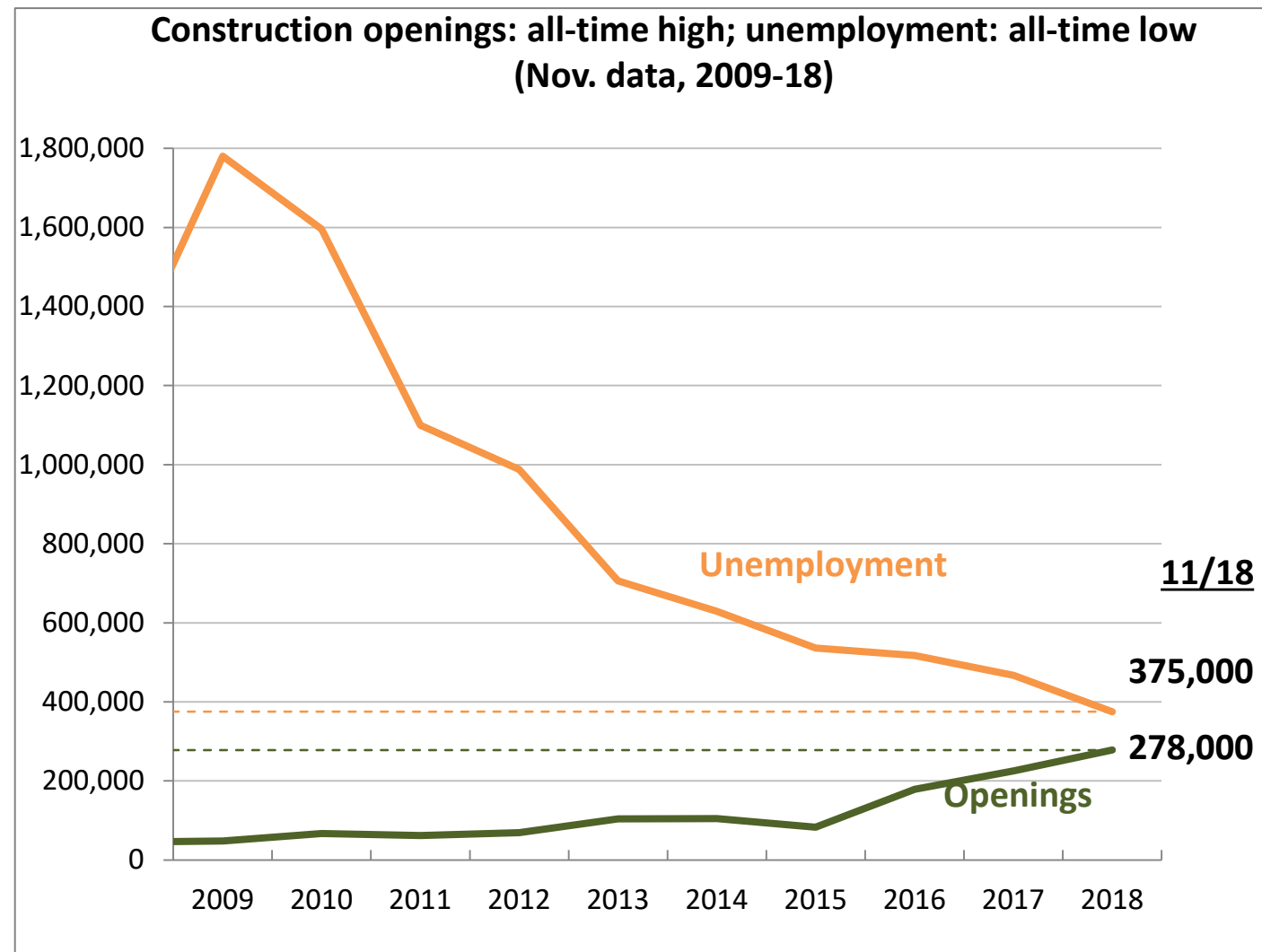
Source: AGC rankings, calculated from BLS state and area employment reports

Construction employment change by WA metro, 12/17–12/18



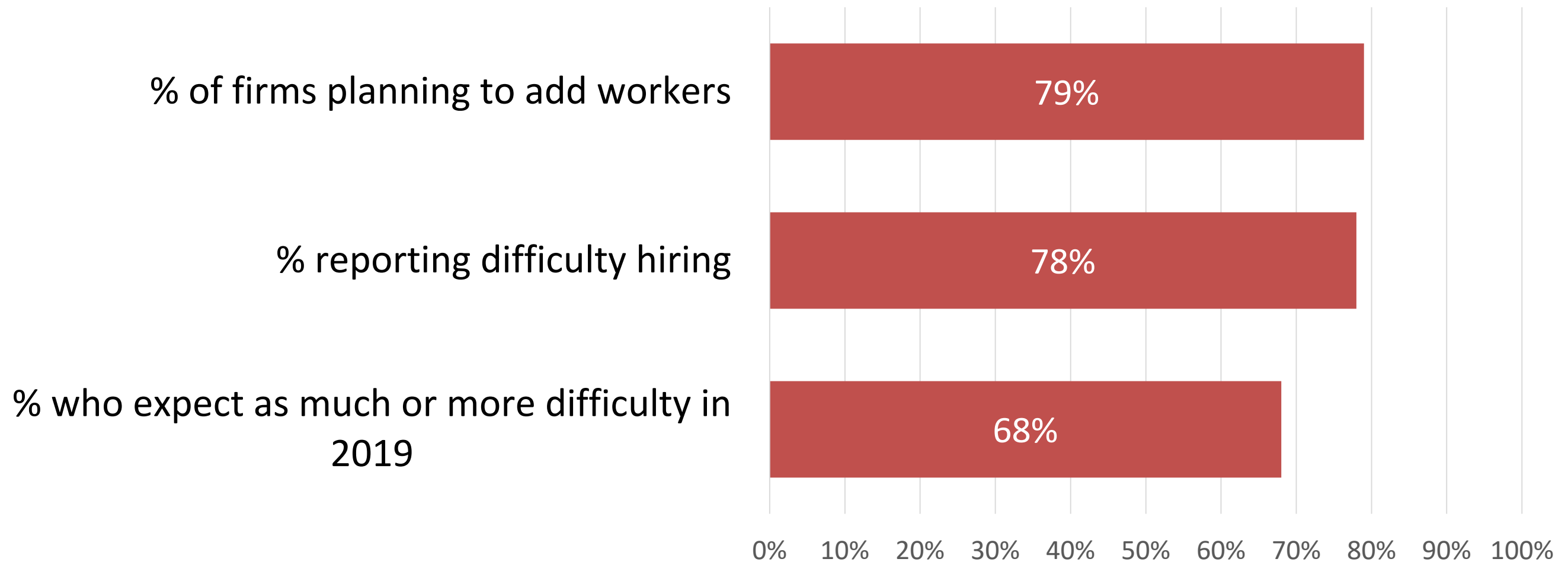
Source: BLS state and regional employment report

Construction workforce indicators (not seasonally adjusted)



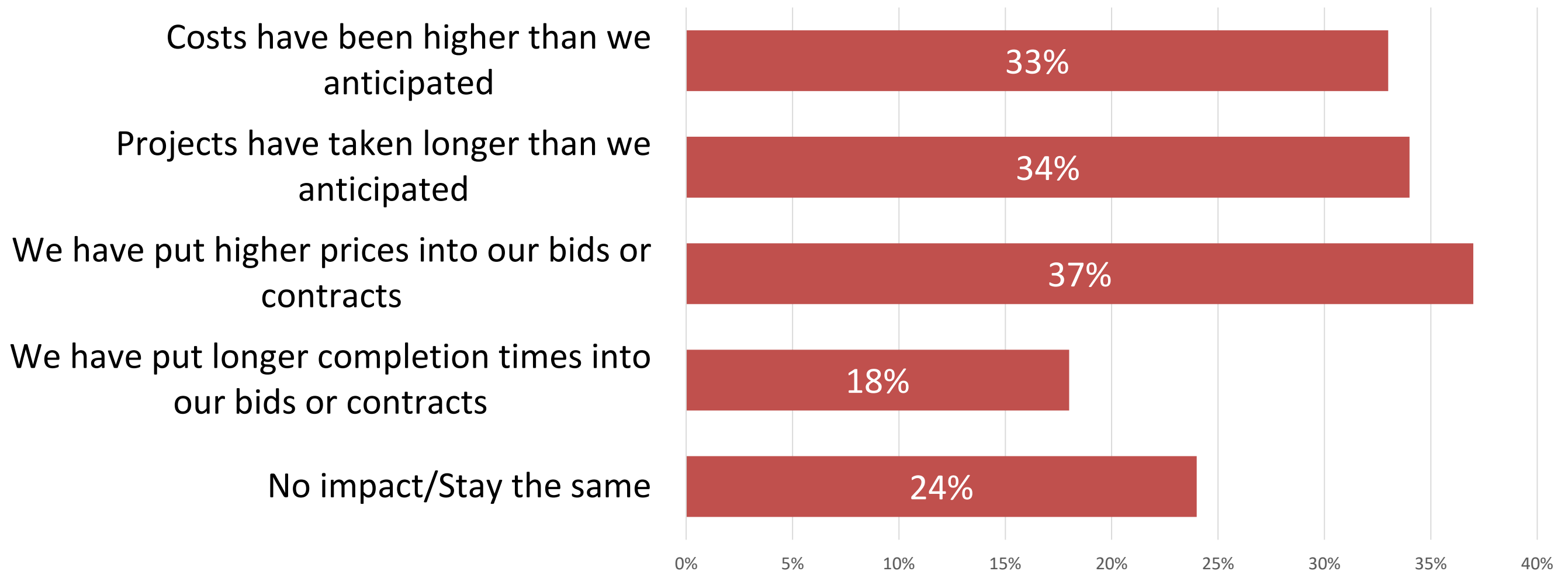
Source: Bureau of Labor Statistics

Outlook 2019: Firms plan to add workers but expect continued difficulty finding them

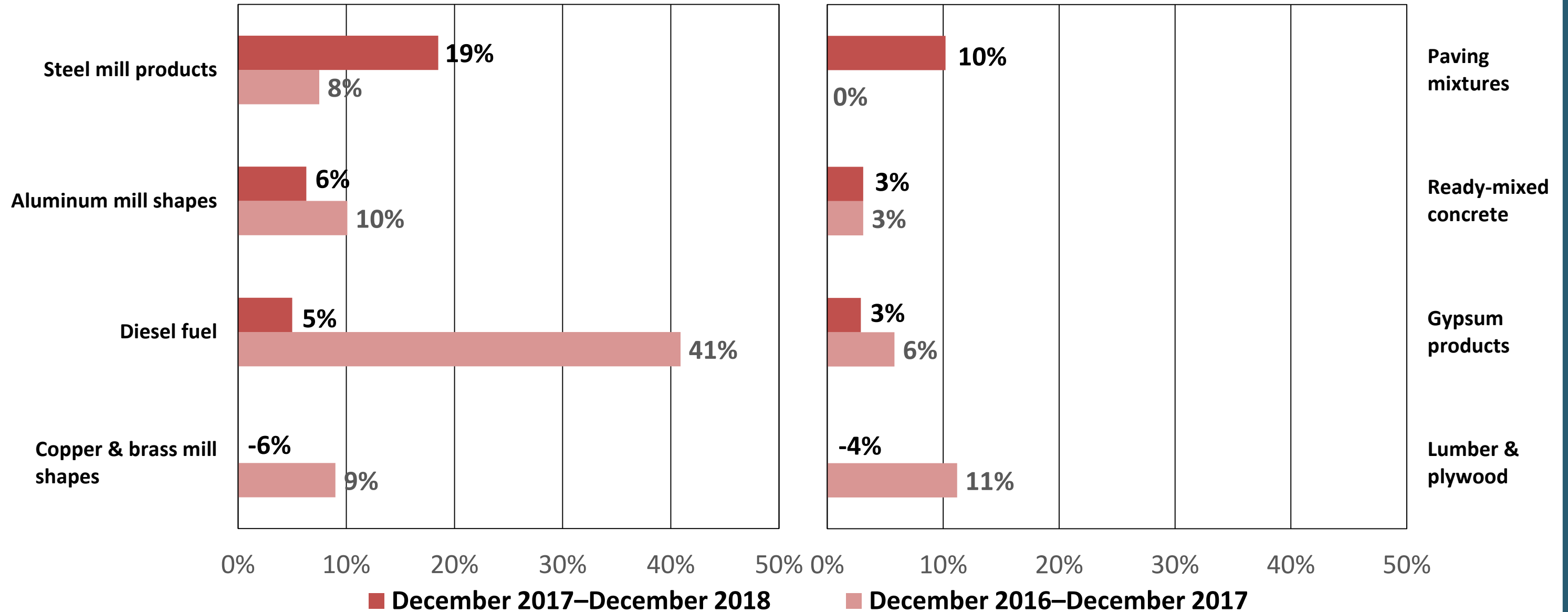


Source: AGC 2019 Outlook Survey, Jan. 2019

Outlook 2019: Firms with staffing challenges face higher costs and delays

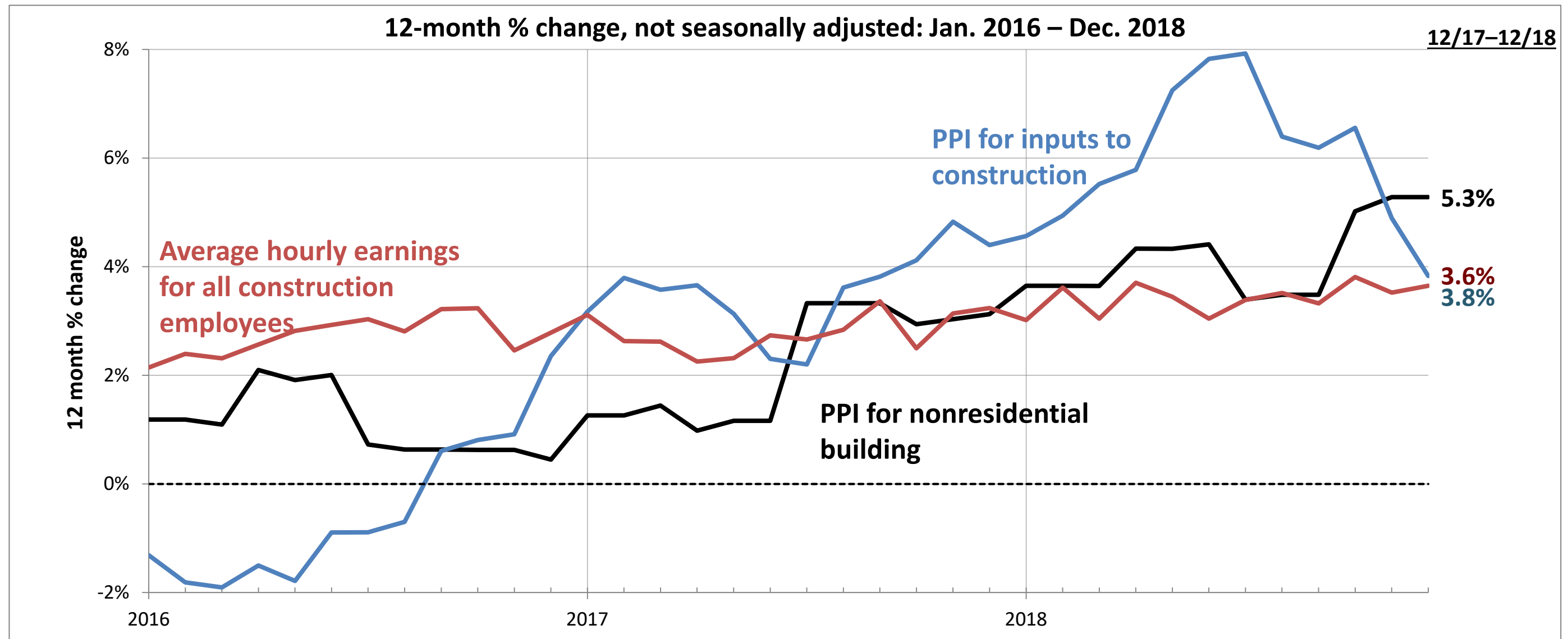


12-month change in producer price index for key inputs



Source: Bureau of Labor Statistics

Materials & labor costs and bid prices accelerated in '18



Source: Bureau of Labor Statistics

2017-2018 summary and 2019 forecast

	2017 actual	2018 actual	2019 forecast
Total spending	4%	4.5%*	5-8%
Private – residential	12%	4%*	5-9%
– nonresidential	1%	3%*	3-6%
Public	-3%	7%*	2-5%
Goods & services inputs PPI	4.4%	3.8%	4-6%
Wages & salaries (avg. hourly earnings)	3.1%	3.6%	3.5-4.5%

*Jan.-Nov. 2017 to Jan.-Nov. 2018

AGC economic resources

(email simonsonk@agc.org)

- *The Data DIGest*: weekly 1-page email (subscribe at <http://store.agc.org>)
- monthly press releases: spending; producer price indexes; national, state, metro employment with rankings
- yearly employment & outlook surveys, state and metro data, fact sheets: www.agc.org/learn/construction-data

