

2ND QUARTER 2017

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ECONOMIC INDICATORS



DEFINING TECHNICAL EXCELLENCE

12-MONTH PERFORMANCE SUMMARY



MATT McCLELLAN
President

	ABC Backlog	AIA ABI	FMI NRCI	Core Inflation Rate	GDP	Single Family Housing Starts	Un-employment Rate
July 2016		51.5		2.19%		711,000	4.9%
August 2016		49.7		2.32%		724,000	4.9%
September 2016	8.6 mo. 2nd Qtr. '16	48.4	57.3 3rd Qtr. '16	2.21%	3.5% 3rd Qtr. '16	783,000	5.0%
October 2016		50.8		2.14%		863,000	4.9%
November 2016		50.6		2.11%		780,000	4.6%
December 2016	8.7 mo. 3rd Qtr. '16	55.9	56.9 4th Qtr. '16	2.20%	2.1% 4th Qtr. '16	817,000	4.7%
January 2017		49.5		2.30%		823,000	4.9%
February 2017		50.7		2.20%		875,000	4.6%
March 2017	8.3 mo. 4th Qtr. '16	54.3	61.4 1st Qtr. '17	2.00%	0.7% 1st Qtr. '17	821,000	4.7%
April 2017		50.9		1.90%		826,000	4.4%
May 2017		53.0		1.70%		779,000	4.3%
June 2017	9 mo. 1st Qtr. '17	54.2	60.8 2nd Qtr. '17	1.70%	2.6% 2nd Qtr. '17	811,000	4.4%

Performance Key:

- Good
- Average
- Poor

ABC Construction Backlog
Amount of commercial construction to be performed in coming months

AIA Architectural Billing Index - 50 or above indicates growth

FMI Non-Residential Construction Index - 50 or above indicates growth

Core Inflation Rate - Target is 2%

Gross Domestic Product - Healthy rate of growth is 2-3%

Housing Starts - Single Family - Declining trend indicates slowing economy

ABC's Construction Backlog Indicator Rebounds in 2017; All Categories Experience Gains During First Quarter

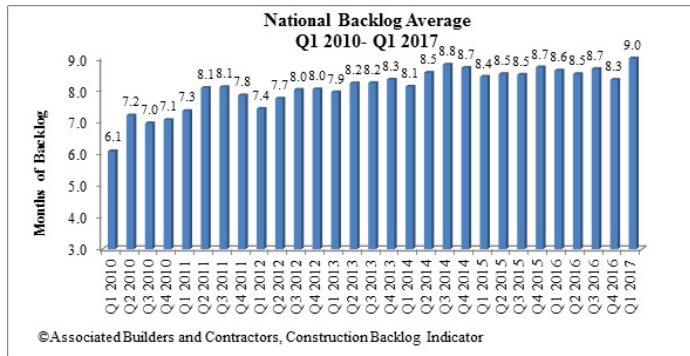
Associated Builders and Contractors (ABC) reported that its Construction Backlog Indicator (CBI) rose to 9 months during the first quarter of 2017, up 8.1% from the fourth quarter of 2016. CBI is up by 0.4 months, or 4%, on a year-over-year basis.

"This was a terrific report," said ABC Chief Economist Anirban Basu. "For the first time in the series' history, every category—firm size, industry and region—registered quarterly growth in CBI. Among the big winners were firms in the western United States and those with annual revenues between \$30 million and \$50 million per annum.

"However, some contractors have expressed concerns regarding construction conditions in 2019 or 2020," said Basu. "These concerns are rooted in a number of factors, including the already lengthy duration of the economic recovery, evidence of saturation in certain commercial real estate markets, weak momentum in numerous public spending categories and tightening monetary conditions. However, first quarter 2017 CBI strongly suggests that rumors of the business cycle's demise are exaggerated, at least thus far.

"Because of these and other emerging concerns, ABC's CBI measure is arguably more important than usual," said Basu. "Backlog is a leading indicator, and meaningful declines in CBI could potentially confirm fears that the current construction spending expansion cycle is winding to a close.

CONSTRUCTION BACKLOG INDICATOR				
Region	Months of Backlog	% Change		Change from Q4 2016
Northeast	8.68	2.8%	+	0.24 months
South	9.83	2.5%	+	0.24 months
Middle States	8.53	10.0%	+	0.78 months
West	7.78	25.6%	+	1.58 months
Industry				
Commercial/Institutional	8.90	11.1%	+	0.89 months
Heavy Industrial	5.88	7.1%	+	0.39 months
Infrastructure	11.03	4.2%	+	0.44 months
Company Size				
<\$30 Million	7.86	5.3%	+	0.39 months
\$30-\$50 Million	10.28	24.5%	+	2.02 months
\$50-\$100 Million	9.67	4.9%	+	0.45 months
>\$100 Million	11.80	9.4%	+	1.01 months



Industry Highlights

Backlog in the commercial/institutional segment rose by more than 11% during the first quarter, and now stands at nearly 9 months. Backlog also expanded in the heavy industrial and infrastructure categories during the first three months of the year.

Commercial/institutional backlog expanded to 8.9 months, matching its highest level since the third quarter of 2014. Though there are growing concerns regarding overbuilding in a number of metropolitan areas, and retail stores continue to close in large numbers, increases in office and hotel construction are helping to propel this category forward.

Average backlog in the heavy industrial category rose to 5.88 months, but remains well below levels registered during much of the history of the series. Excluding the fourth quarter of 2016, this represents the lowest reading since the fourth quarter of 2014. There are many forces at work, including slowing auto sales, downward pressure on prices in a number of key manufacturing segments and soft exports.

Basu, A. (2017, June 19). *ABC's Construction Backlog Indicator Rebounds in 2017*. Retrieved from www.abc.org: <http://www.abc.org/NewsMedia/ConstructionEconomics/ConstructionBacklogIndicator/tabid/272/entryid/8733/abc-s-construction-backlog-indicator-rebounds-in-2017.aspx>



FMI Non-Residential Construction Index 2nd Quarter 2017

The backlog index continues to indicate a median of 12 months, unchanged for the last four quarters, and the cost of labor index is still indicating higher costs. When labor and materials costs rise, the overall NRCI index decreases somewhat. Nonetheless, as we have noted before, rising costs of labor and materials indicate that the economy continues to support these increases. Although the Index number changed little this quarter, panelists' outlook for the overall economy slipped 4.3 points while the outlook for their businesses gained 1.8 points. Expected growth in backlogs is also down somewhat. With the exception of manufacturing, the near-term outlook for all markets improved.

Health Care

FMI is forecasting \$42.4 billion in construction put-in-place for 2017 and 4% growth in 2018. Traditional large hospital projects are returning to the drawing boards with fewer large hospital projects in the works. The bulk of the work will be renovation and additions as well as outpatient care. New facility designs are upping the game for a patient-centered environment as well as reducing concerns for the spread of supergerms. Construction will continue to become more collaborative and integrated with the various communities involved. The uncertain future of government health care policy and challenges of updating to the latest technologies and security measures will be top challenges in the years ahead.

Office

Office construction will slow to 9% growth in 2017. That is much less than the 25% improvement enjoyed in 2016. After three high-growth years post-recession, it appears office construction is on the downward leg of its current cycle. Vacancy rates are increasing in major metros that have had a boom in office space in recent years. After several years of high-tech firm growth moving to the city, it is possible that there may be a growing interest in the suburbs again.

Residential Construction

The forecast calls for only 6% growth in multifamily construction in 2017 and just 3% in 2018. Even though multifamily vacancy rates are still low, we expect a low point in the cycle as single-family construction picks up 2% to 8% for 2017, then back to 6% for 2018. With unemployment at or below "full employment" rates and wages continuing to improve, first-time homebuyers can begin to see homeownership as a good investment again. Two drivers affecting growth are the low inventory of homes for sale and the potential for interest rate increases later in the year. The result is that new home sales slipped 1.2% in April. Seniors looking to downsize should have more luck selling their homes as prices improve and housing inventory is low. As a barometer for the economy, residential construction is subject to fluctuations, and the recent drop in housing starts by 5.5% in May indicates continuing fluctuations.

Education

FMI forecasts education construction put-in-place for 2017 to grow 3% to \$91.4 billion. Growth for 2018 is expected to be 5% for a total of \$95.0 billion by year-end. Development will be driven by population growth and the increasing need to bring schools into compliance for safety and the health of the student populations. Higher education will either embrace distance learning or continue to compete with it, similar to retail stores versus online shopping.

Schools increasingly need to have security measures in place due to continued threats of terrorism and deranged people entering the school with weapons. There also need to be funding solutions to improve the deplorable conditions in inner-city schools in depressed areas like Detroit. To prepare students for future careers, all schools should include modern technology or be renovated and updated for modern computing and collaborative environments.

FMI. (2017). *FMI's Construction Outlook Second Quarter Report with Third Quarter Nonresidential Construction Index*.

FMI. (2017, July 11). *Second Quarter 2017 Nonresidential Construction Index*. Retrieved from [www.fminet.com: https://www.fminet.com/2017/07/11/nrci/](https://www.fminet.com/2017/07/11/nrci/)

ABI June 2017: Firm billings start summer on a strong note

More than half of firms are hiring new architectural employees

Architecture firms continued to report strong business conditions to start the summer, with AIA's Architecture Billings Index (ABI) climbing by more than a point from May to a score of 54.2 in June (any score over 50 indicates billings growth). While billings have trended slightly up and down over the last year, they have been on a positive trajectory for the last several months. Despite growth in inquiries into new projects and the value of new design contracts dipping slightly in June, firms continue to report robust backlogs averaging 5.9 months and indicate a steady supply of work in the pipeline.

Business conditions were strong in all regions of the country in June. Architecture firms located in the Northeast reported billings growth for the first time in three months, and billings remained strong for firms located in the South, which has seen the largest share of firms reporting growth for the last five months. Firms with a residential specialization saw robust billings in June, while business conditions also remained positive at firms with an institutional specialization as well as those with a commercial/industrial specialization.

The overall national economy generally remained strong in June as well, with total nonfarm payroll employment increasing by 222,000 positions. Construction employment has been essentially flat this year, and while architectural services employment declined modestly from April to May (the most recent data available), the sector has still added nearly 7,500 positions in the last year. The latest edition of the Federal Reserve's Beige Book report, released on July 12, shows that economic activity continued to expand across the country in June, with most regions anticipating further growth in the coming months. Construction activity was generally flat to modestly expanding across the country, with the Minneapolis and Atlanta districts showing increases in nonresidential construction, while residential construction slowed in the Philadelphia district and multifamily construction softened in the Atlanta district.

American Institute of Architects (US). (2017, July). *ABI June 2017: Firm Billings Start Summer on a Strong Note*. Retrieved from [www.aia.org](https://www.aia.org/pages/139321-abi-june-2017-firm-billings-start-summer-on): <https://www.aia.org/pages/139321-abi-june-2017-firm-billings-start-summer-on>

Key June ABI highlights:

- **Regional averages:** South (54.8), West (53.1), Northeast (51.5), Midwest (51.9)
- **Sector index breakdown:** multi-family residential (57.1), institutional (52.6), commercial / industrial (52.1)
- **Design contracts index:** 53.7

The regional and sector categories are calculated as a 3-month moving average, whereas the national index, design contracts and inquiries are monthly numbers.



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