

3RD 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
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%	1.2% 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%	3.1% 2nd Qtr. '17	811,000	4.4%
July 2017		51.9		1.70%		838,000	4.3%
August 2017		53.7		1.70%		869,000	4.4%
September 2017	8.6 mo. 2nd Qtr. '17	49.1	58.8 3rd Qtr. '17	1.70%	3.0% 3rd Qtr. '17	829,000	4.2%

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 'Returns to Earth' in Second Quarter

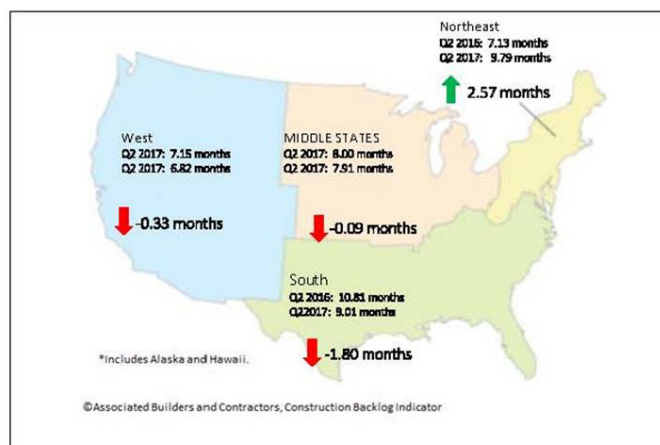
Associated Builders and Contractors (ABC) today reported its Construction Backlog Indicator (CBI) fell to 8.6 months during the second quarter of 2017, down 4.1 percent from the first quarter of 2017. CBI is up by 0.1 months, or 1.4 percent, on a year-over-year basis.

"Construction backlog was bound to return to Earth in the second quarter," said ABC Chief Economist Anirban Basu. "The first quarter of 2017 saw growing backlog for each and every region, industry and company size, which had never occurred in the eight-year history of the series. It should not be viewed as a surprise that backlog shortened modestly in the second quarter.

"Some contractors had hinted that backlog may become a bit more erratic after the first quarter due to a combination of growing concerns regarding overbuilding in certain sub-markets in certain cities and weak public construction spending in much of the nation," said Basu. "Still, backlog data remains elevated by historic standards and remains above its year-ago level. The primary implication is that the construction recovery cycle has not yet begun to wind down in earnest.

"With interest rates remaining low, U.S. and global economies improving and plentiful capital available, private construction activity should remain formidable. However, public construction continues to languish, which has placed a ceiling on backlog throughout the current cycle."

Region	Months of Backlog	% Change		Change from Q1 2017
Northeast	9.70	11.8%	+	1.02 months
South	9.01	-8.3%	-	-0.82 months
Middle States	7.91	-7.2%	-	-0.62 months
West	6.82	-12.4%	-	-0.96 months
Industry				
Commercial/Institutional	8.39	-5.8%	-	-0.51 months
Heavy Industrial	5.50	-6.4%	-	-0.38 months
Infrastructure	11.66	5.7%	+	0.63 months
Company Size				
<\$30 Million	7.52	-4.4%	+	-0.35 months
\$30-\$50 Million	10.90	6.1%	+	0.62 months
\$50-\$100 Million	9.20	-4.8%	-	-0.47 months
>\$100 Million	11.11	-5.8%	-	-0.69 months



Industry Highlights

Backlog in the commercial/institutional segment slipped to 8.4 months during the second quarter, but that still represents the second highest level for the indicator since the fourth quarter of 2014. The implication is that private commercial construction will remain robust for the foreseeable future.

Average backlog in the heavy industrial category fell to 5.5 months during the second quarter, meaningfully lower on both quarterly and annual bases. There have been many forces at work, including slowing auto sales, downward pressure on prices in a number of key manufacturing segments and soft exports. Recent weakening of the U.S. dollar should stimulate exports, which should eventually translate into longer heavy industrial backlog.

Backlog in the infrastructure category expanded during the second quarter to 11.7 months, the second highest reading on record. That is particularly interesting given that Census Bureau data continue to indicate that infrastructure spending remains weak and many categories remain in decline. It may be that a significant number of firms have left the industry or been acquired over time, leading to fewer players, which is associated with longer average backlog.

FMI Construction Outlook Third Quarter Report

Key Takeaways:

- Looking ahead to 2018, FMI continues to forecast a 5% increase in total construction spending over 2017.
- The primary growth segments in 2018 are expected to include residential, commercial, lodging, office and manufacturing—all with forecast growth of 5% or more. Most other segments are likely to grow roughly with the rate of inflation and may therefore be considered stable. Sewage and waste and water supply are the only segments expected to decline in 2018

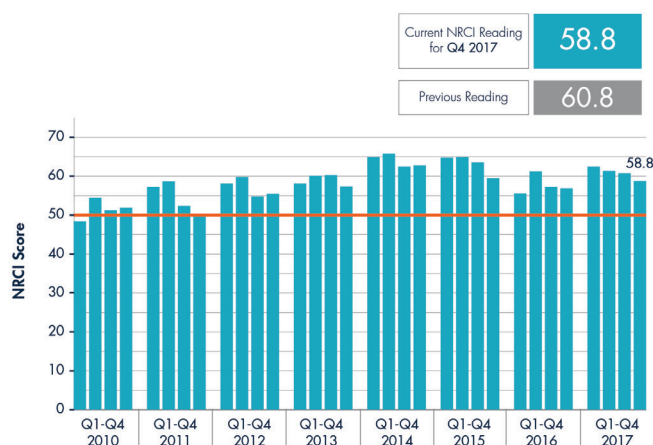
2017 Construction Segments



Nonresidential Construction Index (NRCI)

Score Since Inception Q1 2010 to Q4 2017

(Scores above 50 indicate expansion; scores below 50 indicate contraction.)



Bowman, J., & Strawberry, B. (2017). *FMI's Construction Outlook Third Quarter Report*.

Firms in the South most likely to have already seen impacts from recent hurricanes

Business conditions at architecture firms softened modestly in September, as AIA's Architecture Billings Index (ABI) score declined to 49.1. Billings have been growing at a strong pace in recent months, so it is too early to determine whether this is a new trend or just a modest course correction. In addition, per the results from this month's special topical question to survey panelists regarding the impact of hurricanes on their business, while some firms have seen an impact on their projects it is generally too early to have seen much of an effect on billings.

Inquiries into new projects and the value of new design contracts continued to increase, although slightly fewer firms reported an increase in September than in August. Backlogs at architecture firms also remained essentially unchanged from the second quarter to the third quarter, at 5.8 months, on average.

The general economy showed more signs of the impact of the hurricanes in September, with nonfarm payroll employment posting its first monthly decline in seven years. However, the decline was generally modest (33,000 positions), and largely in industries that were directly impacted by shutdowns related to the storms (food service and drinking places). Architectural services employment figures are always released one month after national employment numbers, and were essentially flat from July to August, with a modest decline of 700 positions. In total, architectural services employment has still added more than 8,000 positions in the last 12 months.

New residential construction also declined modestly in September, with housing starts declining by 4.7 percent from August and building permits for new privately-owned housing units falling by 4.5 percent. However, housing starts remain 6.1 percent higher than they were one year ago, a generally positive sign for future growth.

American Institute of Architects (US). (2017, October). *ABI September 2017: Firms see modest slowdown in billings*. Retrieved from aia.org: <https://www.aia.org/pages/158846-abi-september-2017-firms-see-modest-slowdown>

Key June ABI highlights:

- **Regional averages:** South (54.0), West (48.4), Northeast (56.9), Midwest (50.4)
- **Sector index breakdown:** multi-family residential (51.0), institutional (51.0), commercial / industrial (54.0)
- **Design contracts:** 52.9

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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