

2ND QUARTER 2018

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ECONOMIC INDICATORS



12-MONTH PERFORMANCE SUMMARY



	ABC Backlog	AIA ABI	FMI NRCI	Core Inflation Rate	GDP	Single Family Housing Starts	Un-employment Rate
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. Q2 2017	49.1	58.8 Q4 2017	1.70%	3.2% Q3 2017	829,000	4.2%
October 2017		51.7		1.70%		883,000	4.1%
November 2017		55.0		1.80%		948,000	4.1%
December 2017	9.5 mo. Q3 2017	52.9	60.4 Q1 2018	1.70%	2.9% Q4 2017	836,000	4.1%
January 2018		54.7		1.80%		877,000	4.1%
February 2018		52.0		1.80%		900,000	4.1%
March 2018	9.67 mo. Q4 2017	51.0	62.2 Q2 2018	2.1%	2.3% Q1 2018	867,000	4.1%
April 2018		52.0		2.0%		936,000	3.9%
May 2018		52.0		2.2%		944,000	3.8%
June 2018	8.8 mo. Q1 2018	51.3	57.4 Q3 2018	2.3%	4.1% Q2 2018	858,000	4.0%

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 Remains Elevated in First Quarter of 2018

"The Construction Backlog Indicator hit an all-time high during the fourth quarter of 2017," said ABC Chief Economist Anirban Basu. "A number of factors pushed backlog lower during the first quarter of 2018, including an extensive winter. Only one region has experienced a decline in backlog on a year-over-year basis: the Middle States, which encompasses the Upper Midwest. There also was a significant uptick in survey participation during the first quarter, which may have helped shape the result. In sum, average backlog remains lofty by historic standards."

"Given improved weather and normal seasonal factors, it is likely that backlog will bounce back during the second quarter. However, the level of improvement may be undermined by a combination of worker shortages and rapidly rising construction materials prices. Despite recent increases in the costs of delivering construction services due to rising human capital and materials costs, there is scant evidence of a decline in demand for construction services," said Basu."

Regional Highlights

- Backlog in the **South** fell 8% during the 1st quarter, but remains 2.9% higher on a year-over-year basis. Expect backlog to remain lengthy as communities impacted by last year's storms continue to rebuild.
- Backlog in the **Northeast** fell after expanding for 5 consecutive quarters. Despite the 1st quarter decline in backlog, the region's reading remains elevated by historical standards.
- Backlog in the **Middle States** is down 12.6% for the quarter (more than a full month) and 14.7% year-over-year. Weather played a role, but other

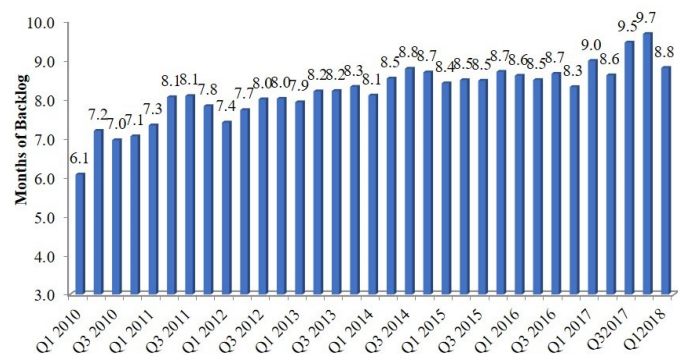
Industry Highlights

Backlog in the commercial/institutional segment fell for the first time since the end of 2016. Despite the 8.8% quarterly decline, backlog in this segment remains 3.2% higher than the same time one year ago. However, this sector is vulnerable to further declines given its significant exposure to rising borrowing costs, higher materials prices & growing concerns regarding product saturation in a number of first-tier American real estate markets.

Average backlog in the heavy industrial category rebounded during the first quarter, expanding 13.5%. Despite this sizable increase, the segment remains roughly unchanged at historically low levels on a year-over-year basis. Construction spending related to manufacturing has been drifting lower for months. While there have been some highly visible announcements regarding large capital projects in this segment, concerns regarding trade wars are likely to suppress backlog to a meaningful degree.

Backlog in the infrastructure category drifted back to Earth during the first quarter, declining by more than two months from levels observed during the fourth quarter of 2017. This reading may have been impacted by a sharp increase in survey participation. Weather likely played an even larger role. The expectation is that backlog in this category will expand for the balance of the year as improving state and local government finances spur more investment in education, public safety, highway/street and other publicly financed categories.

National Backlog Average
Q1 2010 - Q1 2018



Associated Builders and Contractors, Construction Backlog Indicator

factors are at work. Tariffs and threats of trade wars impact this region disproportionately given its central role in the nation's industrial production.

- Backlog in the **West** surged to its highest level since mid-2014. Rebuilding from prior wildfires likely played a role, but the bigger reason relates to surging technology sectors in San Jose, Calif., San Francisco, Seattle, Portland, Ore., Los Angeles and San Diego.

Associated Builders and Contractors, Inc. (2018, June 18). *ABC's Construction Backlog Indicator Remains Elevated in First Quarter of 2018*. Retrieved from abc.org: <http://www.abc.org/News-Media/Construction-Economics/Construction-Backlog-Indicator/entryid/15326/abc-s-construction-backlog-indicator-remains-elevated-in-first-quarter-of-2018>

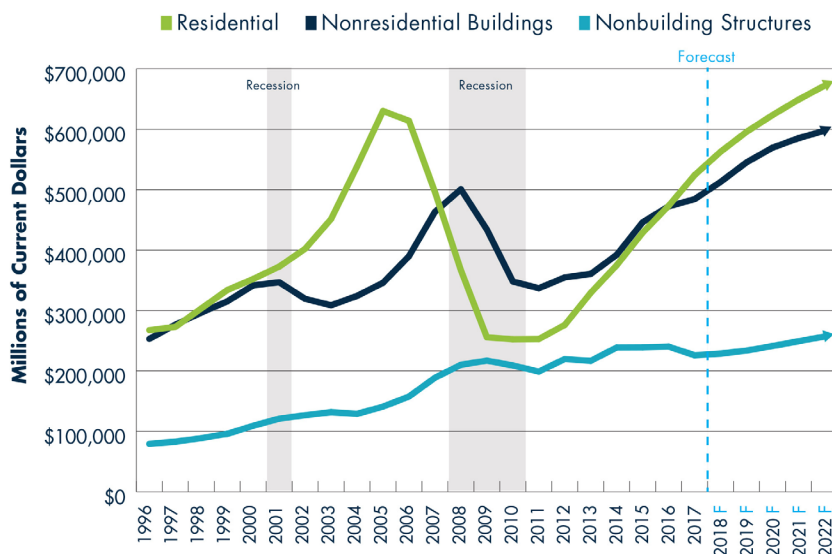


2nd Quarter Report

KEY TAKEAWAYS

- Total engineering and construction spending for the U.S. is forecast to end up 6% in 2018, compared to up 4% in 2017.
- Spending growth in 2018 is forecast to be led by select nonresidential and residential segments. Current top-three-performing segments forecast in 2018 include transportation (+10%), residential improvements (+9%) and office (+9%). The bottom-three-performing segments include power (-1%), sewage and waste disposal (+1%), and religious (+2%).
- Second quarter adjustments indicate several additional stabilizing segments. Newly stabilized segments include commercial and health care, two prior growth segments from Q1; also religious; sewage and waste disposal; and water supply construction; all three of which were previously forecast as down last quarter. Lastly, power was moved from stable to down, and conservation and development was elevated from down to growth, based on reported actuals through Q1.

Total Construction Put in Place
Estimated for the U.S.



Source: U.S. Census and FMI Forecast

CONSTRUCTION PUT-IN-PLACE

- ⊖ **Multifamily Residential: NEUTRAL 4%**
 Rental demand is expected to increase due to the removal of residential tax incentives & rising interest rates
- ⊕ **Office: UP 9%**
 Corporate relocations and demand for mission-critical facilities are driving the overall trend. Reduced tax rates will increase investment levels through 2018.
- ⊕ **Commercial: UP 5%**
 Ongoing rise in e-commerce, gas prices & interest rates continues to shape commercial spending. Increased warehouse and distribution center spending continues, driven by outdated facilities alongside new technological and logistics needs.
- ⊕ **Healthcare: UP 5%**
 Aging populations & rising rate of chronic illness continue to drive outpatient facility investment. Repeal of the Affordable Care Act increases number of uninsured, cutting into profitability.
- ⊕ **Education: UP 5%**
 Public school enrollments expected to rise in most states, with concentrations in the South & West. Any upcoming federal infrastructure package is expected to include funding for schools.
- ⊖ **Manufacturing: NEUTRAL 3%**
 Tax overhaul and new tariffs create several considerations for manufacturers; pros and cons vary by industry.

Bowman, J., & Strawberry, B. (2018). FMI U.S. Construction Outlook 2nd Quarter 2018 Report. Retrieved July 31, 2018, from https://www.fminet.com/wp-content/uploads/2018/06/Q2_Outlook_2018_FINAL2.pdf

ABI June 2018: Billings grow at modestly slower pace

“Architecture firm billings increased for the ninth consecutive month in June. Although the ABI score of 51.3 indicates that fewer firms reported an increase in billings than in May, which had a score of 52.8, billings still remain strong overall (any score over 50 indicates billings growth). In addition, the value of new design contracts at firms strongly increased for the second month in a row, and firms continued to report robust backlogs of 6.3 months for the second consecutive quarter. This remains the strongest that backlogs have been since the recession.

“Regionally, architecture firm billings were more variable in June. Billings have declined modestly for the last three months at firms located in the Midwest, and have also dropped at firms located in the West. Only firms located in the South have seen consistently strong billings throughout the year so far. Billings are also robust at firms with a residential specialization, as well as those with a commercial/industrial specialization. The pace of growth slowed modestly at firms with an institutional specialization in June but still remains generally strong, as firms with this specialization have not reported declining billings for more than a year and a half.

“In the broader economy employment gains remain strong, with nonfarm payroll employment adding 213,000 new positions in June for total growth of 2.4 million new positions over the last year. Construction employment continued to grow as well, adding 13,000 new jobs in June for a total of 282,000 over the last year. And architectural service employment gains remain solid as well, with 900 new positions added in May (the most recent data available) for a total of nearly 10,000 new positions added over the last 12 months. The job outlook for the next six months was also one of the high points from the Conference Board’s Consumer Confidence Index in June. While the overall index declined modestly from May, and the short-term outlook for the next six months fell, consumers reported that they have increased optimism about job gains for the remainder of 2018.

“This month we asked firm leaders responding to the survey about recent issues related to managing firm expenses. More than nine in 10 firms (92%) indicated that they are concerned to some degree about managing the costs of running their firm at the present, with 52% reporting that it is a major concern, and 40% reporting that it is a minor concern. Small firms tended to be less concerned about firm expenses than large firms, although firms of all sizes were generally concerned.

“Firms are undertaking a variety of strategies to better cope with their increasing firm expenses, with nearly half of firms (49 percent) indicating that they are working to increase staff productivity. Eighteen percent are deferring capital investments like technology, and 15 percent are outsourcing technical and support services, such as IT, website design, HR, and financial services. Firms are generally not planning to reduce staff/staff hours or employee benefits, cut back on office space or move to cheaper office space, or rent equipment instead of buying.”


Key June ABI highlights:


- **Regional averages:** South (57.4), West (46.9), Northeast (50.2), Midwest (49.8)
- **Sector index breakdown:** Residential (54.6), Institutional (51.6), Commercial/Industrial (53.4)
- **Design contracts:** 54.1

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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American Institute of Architects. (2018, June). *ABI June 2018: Billings Grow at Modestly Slower Pace*. Retrieved from aia.org: <https://www.aia.org/pages/204671-abi-june-2018-billings-grow-at-modestly-slo>

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