

3RD QUARTER 2018

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ECONOMIC INDICATORS



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 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%
July 2018		50.7		2.4%		860,000	3.9%
August 2018		54.2		2.2%		879,000	3.9%
September 2018	9.9 mo. Q2 2018	51.1	54.6 Q4 2018	2.2%	3.5% Q3 2018	871,000	3.7%

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 Hits a New High in Second Quarter of 2018

"Construction backlog (9.9 months) has never been higher in the history of this series," said ABC Chief Economist Anirban Basu. "While contractors collectively reported a higher backlog, it was the industrial contractor segment that had the largest increase in the 2nd quarter. With industrial production rising & factory capacity utilization recovering, there is more demand for both improved & new industrial space. This was especially apparent among contractors in the southern U.S., where backlog stands at 11.2 months & has increased 2.2 months over the past year.

"The disproportionate role played by technology companies in creating economic growth is also apparent in the data," said Basu. "Contractors operating in tech-laden communities continue to report very strong backlog. Given announcements of new, large-scale data centers & tech campuses, technology is positioned to be an ongoing driver of demand for construction services."

Regional Highlights

- Backlog in the **South** increased by more than one month on a quarterly basis and now sits just below its all-time high established during the 3rd quarter of 2017. Construction backlog expansion continues to be driven by the usual suspects, including rapidly expanding metropolitan areas.
- Backlog in the **Northeast** rose to its highest level on record. Predictably, backlog growth continues to be led by strong commercial segments in metropolitan areas. There is also growing evidence of stronger construction activity in West Virginia and western Pennsylvania.

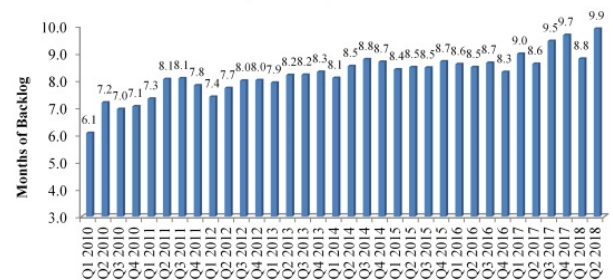
Industry Highlights

Backlog in the commercial/institutional segment rebounded during the 2nd quarter, increasing to 10.1 months. Backlog in this segment is up 20% from the 2nd quarter '17. This is remarkable given expectations prevailing a year ago. Back then, many worried that a number of commercial segments had become overbuilt, at least in certain geographies. Instead, the accelerated growth of the U.S. economy has further bolstered demand for commercial space, driving up the segment's construction backlog in the process.

Backlog in the heavy industrial category reached an all-time high of 7.8 months during the second quarter, a testament to the ongoing expansion of industrial production in the United States. Construction spending related to manufacturing had declined in recent years but exhibited growth during the second quarter. Tariffs, potential trade wars and rising input prices remain risks to this segment's near-term outlook.

Backlog in the infrastructure category edged higher during the 2nd quarter to 10.1 months. Based on U.S. Census Bureau data, construction spending in the water supply category is up 29% on a year-over-year basis, conservation and development (e.g. flood control) by 24 %, transportation by nearly 21%, public safety-related spending by 17% and sewage and waste disposal by 11%.

ABC Construction Backlog Indicator
Q1 2010 - Q2 2018



©Associated Builders and Contractors, Construction Backlog Indicator

- The exception to the general trend of growing backlog is the **Middle States**, where backlog is down 0.7 months on a year-over-year basis. Many factors are at work, including relatively softer employment growth in the Chicago, Detroit and St. Louis metropolitan areas.
- Led by technology segments, backlog in the **West** continues to surge, up by an astonishing 3.9 months over the past year. Contractors in Seattle; Portland, Oregon; San Jose and Los Angeles, California; Denver; Salt Lake City; Boise, Idaho; and Phoenix can expect to remain ultra-busy for the foreseeable future, strongly suggesting that human capital shortfalls will continue to worsen.

3rd Quarter Report

CONSTRUCTION PUT-IN-PLACE

KEY TAKEAWAYS

- Total engineering and construction spending for the U.S. is forecast to end up 6% in 2018, compared to up 5% in 2017.
- Spending growth in 2018 is forecast to be led by select nonresidential and residential segments. Current top-three-performing segments forecast through year-end 2018 include transportation (+13%), public safety (+10%), and conservation & development (+10%). The bottom three-performing segments include religious (-4%), power (+2%) and manufacturing (+2%).
- Several segments appear to be strengthening into the 3rd quarter of 2018. These include lodging and water supply, both of which have outperformed expectations and are now considered growth segments through 2018. Additionally, power spending has increased in recent months, and the segment has been promoted from a down segment into our stable territory at 2% growth through 2018.
- Two segments that were downgraded this quarter are educational and religious. Educational spending has been shifted downward to stable at only 3% growth. Religious spending has been downgraded from a stable segment to down, with an expected 4% decline through the year-end.



Multifamily Residential: STABLE 3%

Vacancy rates remain low, & prices continue to rise, particularly in dense urban cores. Rental demand continues to increase & prices continue to rise. Rental vacancy rates appear to be stabilizing.



Office: UP 9%

Net absorption remains positive, & low vacancy rates in major metropolitan areas will continue to bolster demand. Corporate relocations & demand for mission-critical facilities are driving the overall trend. New deliveries are expected to remain elevated through the next 12 months, into 2019.



Commercial: STABLE 4%

Overall vacancy has increased with over 2,500 closures through 2018 by Sears, Bon-Ton, Toys "R" Us & others. Ongoing rise in e-commerce, gas prices & interest rates continues to shape commercial spending. Increased warehouse & distribution center spending continues, driven by outdated facilities alongside new technological & logistics needs.



Healthcare: STABLE 2%

Aging populations & rising rate of chronic illness continue to drive outpatient facility investments. Increased use of green building techniques is driving demand for workers with appropriate skills/experience.



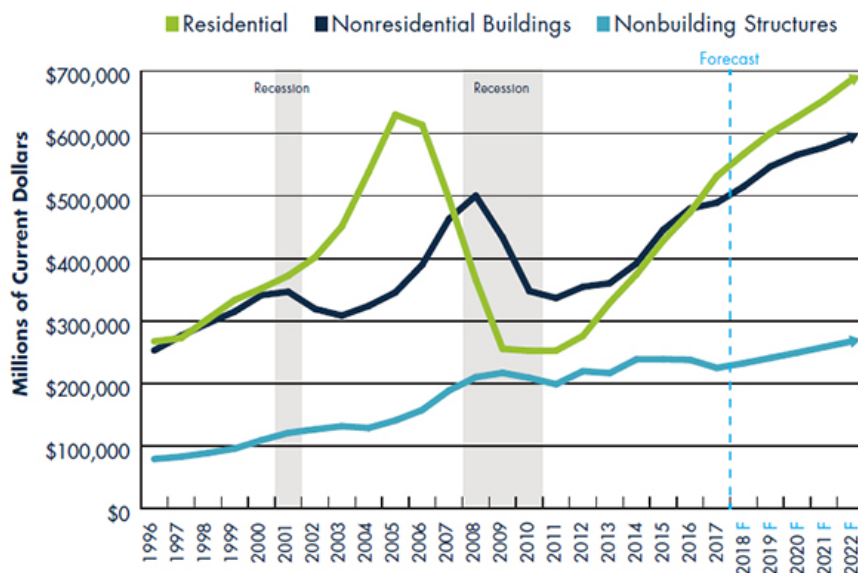
Education: STABLE 3%

Projected increase in the percentage of U.S. population under 18 years old. Public school enrollments expected to rise in most states, with concentrations in the South & West. College & university budgets have struggled to keep up with the rate of inflation. Any upcoming federal infrastructure package is expected to include funding for schools.



Manufacturing: STABLE 2%

Tax overhaul & new tariffs create several considerations for manufacturers; pros & cons vary by industry. Continued low-capacity utilization & vacancy rates, coupled with increasing demand, suggest improving investment conditions.



Source: U.S. Census and FMI Forecast

Bowman, J., & Strawberry, B. (2018). *FMI U.S. Construction Outlook - Third Quarter 2018 Report*. Retrieved October 29, 2018, from https://www.fminet.com/wp-content/uploads/2018/09/Q3_Outlook_2018.pdf

AIA Billings Index Fell in September but Remained Positive

"Architecture firm billings growth slowed in September but remained positive for the twelfth consecutive month, according to a new report today from The American Institute of Architects (AIA).

"AIA's Architecture Billings Index (ABI) score for September was 51.1 compared to 54.2 in August. However, continued strength in new projects coming into architecture firms points to billings growth in the coming months.

"Similar to the strong conditions we've seen nationally, architecture firms located in the Midwest and Southern regions of the country continued to report very strong billings in September," said AIA Chief Economist Kermit Baker, Hon. AIA, PhD. "However, billings were soft at firms located in the Northeast again, where they have declined or been flat for the entire year so far."

Key September ABI highlights:

- **Regional averages:** South (54.1), West (53.1), Northeast (46.6), Midwest (59.7)
- **Sector index breakdown:**
Residential (54.9), Institutional (55.1), Commercial/Industrial (50.8), Mixed Use (53.4)
- **Design contracts index:** 54.1
- **Project inquiries index:** 58.8

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, October 27). *Architecture Firm Billings Slow but Remain Positive in September*. Retrieved from officeinsight.com: <https://officeinsight.com/officenewswire/architecture-firm-billings-slow-but-remain-positive-in-september/>

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