

Indicators	Sept. 2015	Oct. 2015	Nov. 2015	Dec. 2015	Jan. 2016	Feb. 2016	March 2016
<b>ABC Construction Backlog</b> Amount of commercial construction to be performed in coming months	8.5 mo. 2nd Qtr. '15			8.5 mo. 3rd Qtr. '15			8.7 mo. 4th Qtr. '15
<b>AIA Architectural Billing Index</b> 50 or above indicates growth	53.7	53.1	49.3	50.9	49.6	50.3	51.9
<b>FMI Non-Residential Construction Indicator</b> 50 or above indicates growth	63.6 3rd Qtr. '15			59.5 4th Qtr. '15			55.6 1st Qtr. '16
<b>Core Inflation Rate</b> Target is 2%	1.89%	1.91%	2.02%	2.10%	2.21%	2.33%	2.19%
<b>Gross Domestic Product</b> Healthy rate of growth is 2-3%	2% 3rd Qtr. '15			1.4% 4th Qtr. '15			0.5% 1st Qtr. '16
<b>Housing Starts - Single Family</b> Declining trend indicates slowing economy	740,000	722,000	794,000	768,000	761,000	841,000	764,000
<b>Unemployment Rate</b>	5.1%	5.0%	5.0%	5.0%	4.9%	4.9%	5.0%



## Construction backlog expands nearly 3% at the close of 2015

Nationally, backlog expanded by 2.7% to 8.7 months in the last three months of the year, with the South expanding on its previous record high reading by 8.7% to 11.19 months. In addition, infrastructure-related backlog expanded by 23.2% in the fourth quarter to 12.2 months.

"For the first time in years, some contractors are reporting that they are turning away work," said ABC Chief Economist Anirban Basu. "Skill-worker shortages are a frequently cited reason. The recent uptick in backlog suggests that demand for construction workers will remain elevated going forward, which will translate into faster wage growth, but also potentially rising costs and extended timelines.

"The nonresidential construction recovery remains very much in place," said Basu. "Despite disappointing news regarding global growth and corporate earnings, most contractors reported steady to rising backlog during 2015's final weeks. That's important to contractors, of course, but also to other economic stakeholders, since nonresidential construction spending growth has emerged as one of the nation's leading economic drivers.

"Nonresidential construction spending growth in January of 2016 was fully 12.3% its year-ago level," said Basu. "However, there were a number of months during the latter half of 2015 during which construction spending growth was soft. Accordingly, backlog expanded less rapidly during that period, including during the quarters that precede the fourth quarter's expansion."

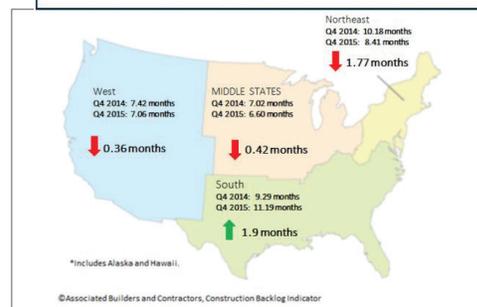
### Regional Readings

The South once again recorded the lengthiest backlog among four regions. The region's backlog expanded to 11.2 months, an 8.7% increase from the previous quarter. There is evidence that the recently passed federal highway bill is already inducing state department of transportation leaders to move forward with previously sidelined projects. The South is also associated with the nation's fastest population growth, and therefore tends to experience faster growth in both residential and commercial construction. Backlog in the Middle States also expanded, though less dramatically. While energy production has softened in a number of states, there is evidence that manufacturing activity has begun to stabilize. The auto sector continues to drive industrial work and healthcare-related construction remains active.

### Industry Highlights

- Backlog in the infrastructure category has reached an all-time high of 12.2 months. During the fourth quarter, backlog in this category increased by 2.3 months, a remarkable result and indicative of the quick impact of the newly passed federal highway spending bill – the first such bill to be passed in many years.
- Backlog in the heavy industrial category stands at 6.64 months, 6% lower than during the third quarter of 2015. This comes as little surprise as the nation's manufacturing sector sustained a 6 percent dip in exports last year. Additionally, the strong U.S. dollar has rendered imports more price competitive, suppressing domestic profit margins and construction.
- Backlog in the commercial/institutional category stands at more than 8 months. Backlog in this segment has stood at 8 months or better for 14 consecutive months, a reflection of the ongoing gradual economic recovery.

Region	Months of Backlog	% Change	Change from Q3 2015
Northeast	8.4	-1.6%	-0.13 months
South	11.2	8.7%	0.90 months
Middle States	6.5	1.8%	0.12 months
West	7.1	-9.2%	-0.72 months
<b>Industry</b>			
Commercial/Institutional	8.0	-2.4%	-0.20 months
Heavy Industrial	6.6	-6.0%	-0.43 months
Infrastructure	12.2	23.2%	2.30 months
<b>Company Size</b>			
<\$30 Million	7.2	-0.5%	-0.04 months
\$30-\$50 Million	12.1	22.2%	2.20 months
\$50-\$100 Million	10.2	-0.3%	-0.04 months
>\$100 Million	11.8	5.8%	0.65 months



## AIA Architecture Billings Index ends the first quarter on an upswing

The Architecture Billings Index reflects consecutive months of increasing demand for design activity at architecture firms. As a leading economic indicator of construction activity, the ABI reflects the approximate nine to twelve month lead time between architecture billings and construction spending. The American Institute of Architects (AIA) reported the March ABI score was 51.9, up from the mark of 50.3 in the previous month. This score reflects an increase in design services (any score above 50 indicates an increase in billings). The new projects inquiry index was 58.1, down from a reading of 59.5 the previous month.

"The first quarter was somewhat disappointing in terms of the growth of design activity, but fortunately expanded a bit entering the traditionally busy spring season. The Midwest is lagging behind the other regions, but otherwise business conditions are generally healthy across the country," said AIA Chief Economist, Kermit Baker, Hon. AIA, PhD. "As the institutional market has cooled somewhat after a surge in design activity a year ago, the multi-family sector is reaccelerating at a healthy pace."

### Key March ABI highlights:

- Regional averages: South (52.4), Northeast (51.0), West (50.4), Midwest (49.8)
- Sector index breakdown: multi-family residential (55.7), commercial / industrial (51.8), mixed practice (50.0), institutional (48.0)
- Project inquiries index: 58.1
- Design contracts index: 51.8

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

Hon, K. (2016, April 20). Architecture Billings Index Ends the First Quarter on an Upswing. Retrieved from AIA.org: <http://www.aia.org/press/AIAB108769>

## FMI Non-Residential Construction Indicator 1st Quarter 2016 - "Modest growth would be just great. We do not see things slowing down at this point."

The NRCI index for the first quarter 2016 dropped 3.9 points to 55.6. That is the third consecutive quarter that the NRCI has dropped since reaching 64.9 in the second quarter of 2015. An index number of 55.6 by itself is still an indication of growth, albeit slower growth. The last time the NRCI was in that range was the fourth quarter of 2012, and the index began to climb in the ensuing quarters. What we are concerned about is not the single-quarter results but the recent trend. Nonetheless, it is worth noting that 55.6 is the median score for the NRCI since its inception in the fourth quarter of 2007 and slightly above the historical average.

In the results of our NRCI survey this quarter, we find both hot and cold responses. "Just right" is impossible to achieve in a dynamic global economy. It is at first a puzzlement to understand why so many NRCI panelists have downgraded their views of the economy and nonresidential construction markets when most who wrote comments also said they are busier than ever and hiring plans are nearly the same or higher than last year. The immediate problem is that they cannot find the people they need to hire in order to increase productivity, work off backlogs and take advantage of market opportunities while the market is hot. Then there is the uncertainty hanging over the economy that causes concerns that the economy is likely to cool too fast.

### Overall Economy: **Down**

NRCI panelists' outlook for the overall economy continued to slip in the first quarter, moving from 58.3 to 56.5. This is a drop of over 20 points from Q2 2015.

### Overall Economy Where Panelists Do Business: **Down**

The component for the economy where panelists do business dropped 7.5 points from 64.8 to 57.3 in the first quarter.

### Panelists' Construction Business: **Down**

Panelists' construction business is still strong at 64.1, but that represents a drop of 5.8 points since the fourth quarter 2015.

### Nonresidential Building Construction Market Where Panelists Do Business: **Down**

At 60.6, the nonresidential construction markets where panelists do business are still in solid growth mode; however, this component signals expected slower growth, dropping 4.7 points since last quarter.

### Expected Change in Backlog: **Down**

The median backlog for all responses fell from a high of 12 months to 11 months, still higher than the historical average for the NRCI survey.

### Cost of Construction Materials (**Lower**) and Labor (**No Change**):

While still considered high, the cost of materials component improved 7.5 points to 38.1. Little changed since last quarter, the cost of labor continues to rise. Note that the NRCI composite score is affected negatively when cost of major inputs of materials and labor increase.

### Productivity: **Higher**

While productivity gained slightly in the first quarter, it is still the most difficult area to make significant improvement in the construction industry.

Warner, P. (2016). NRCI Quarter 1 Report 2016. FMI Corporation. Retrieved from <https://www.fminet.com/resources>