

2016 Midyear Collaborative Construction Economic Forecast

August 15, 2016

2:00 – 3:00 p.m., EDT



AIA



2016 Midyear Collaborative Construction Economic Forecast

Today's moderator:

Jeff Leieritz

**Senior Media Relations Manager
Associated Builders and Contractors**



Moving Ahead: Issues Affecting the Residential and Nonresidential Construction Outlook

Kermit Baker, Hon. AIA
Chief Economist
The American Institute
of Architects

August 15, 2016

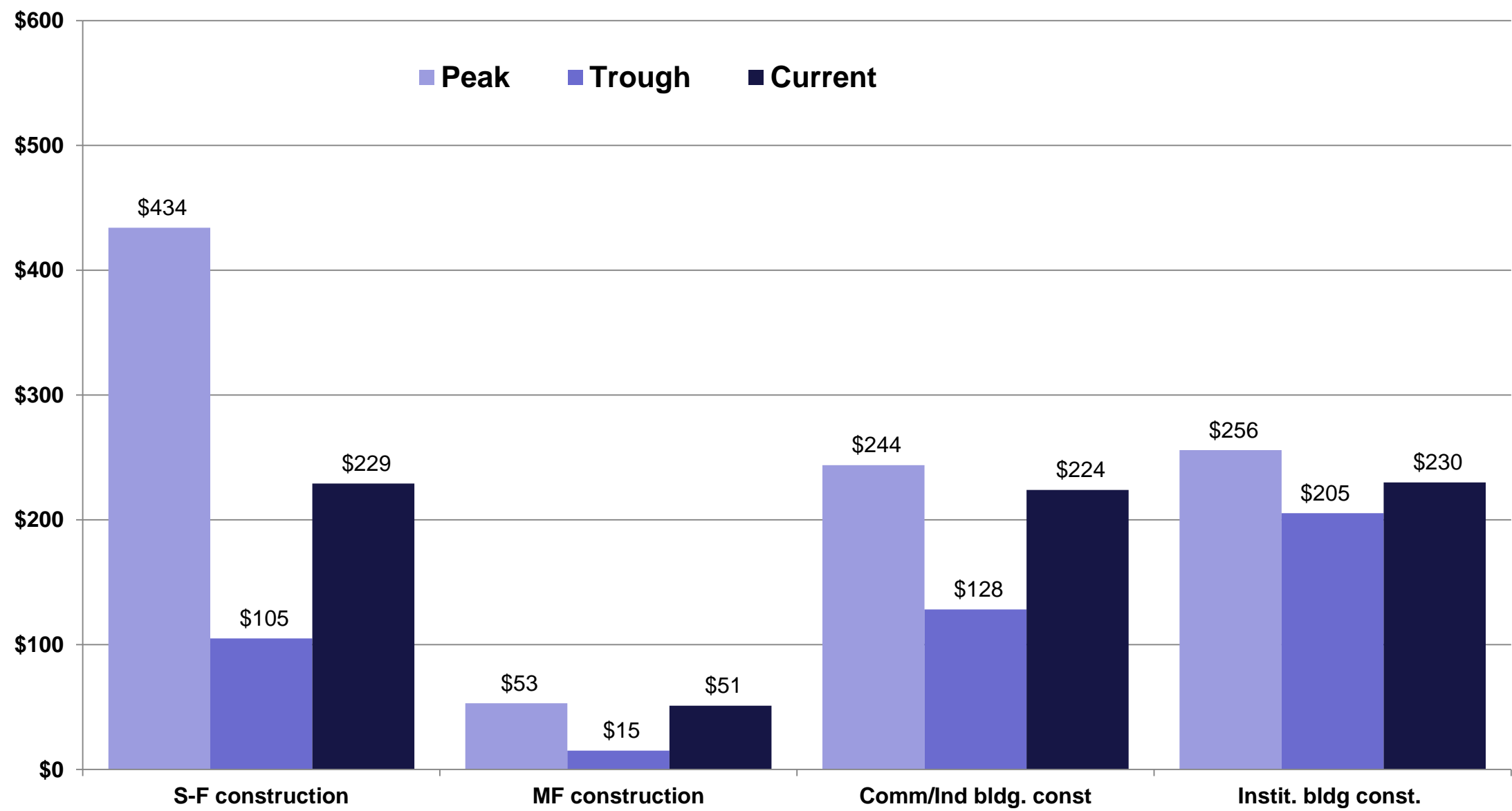


Topics

- Residential issues: demographic shifts and homeownership.
- Status and trends in commercial and institutional building construction, and the Architecture Billings Index.
- 2016/2017 outlook for nonresidential building spending, and comparison of current forecasts to outlook as of beginning of the year.

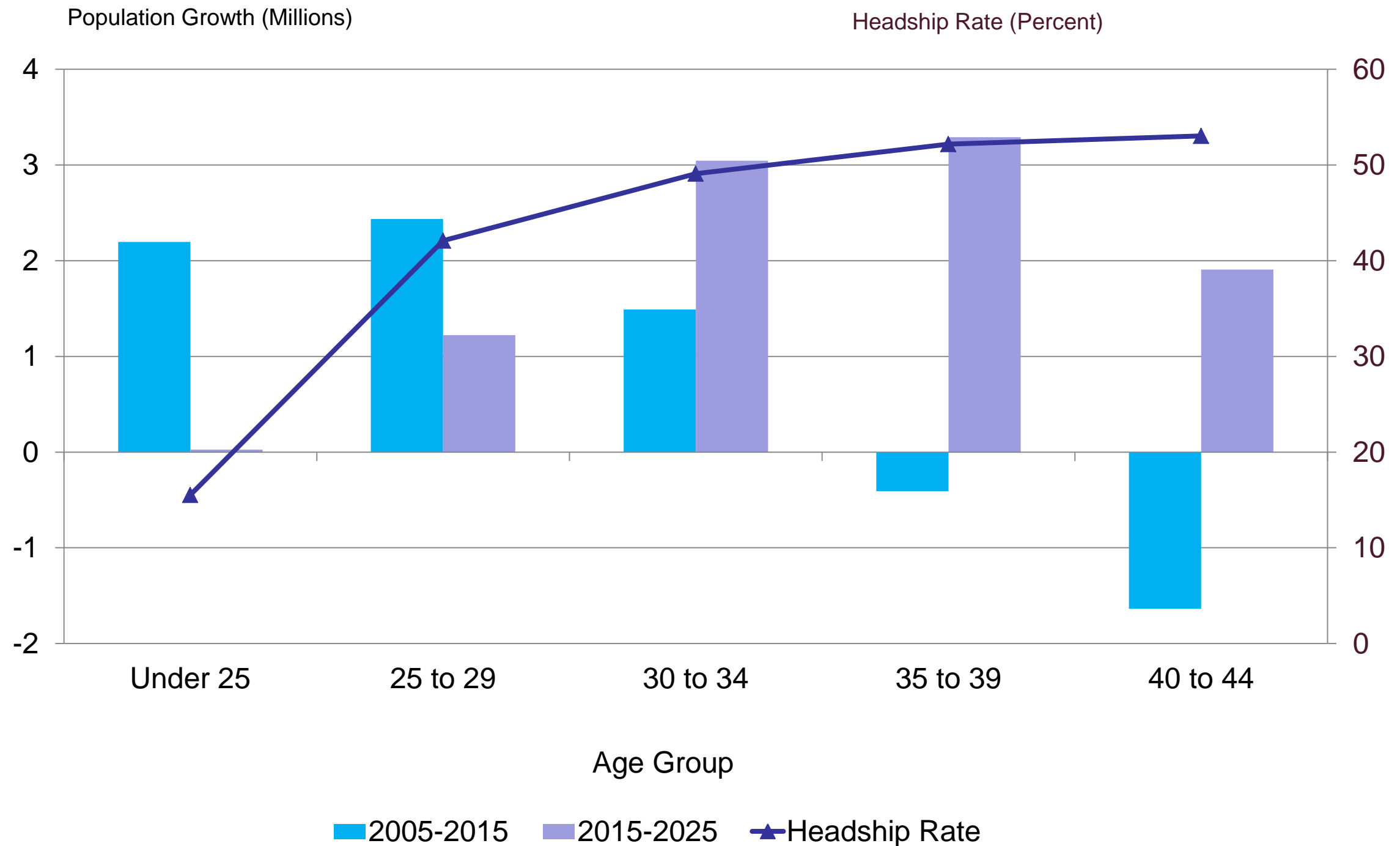
Construction Recovery Continues to Plod Along, Particularly for Single-Family Residential

Spending at various points in the past construction cycle (\$Billions)

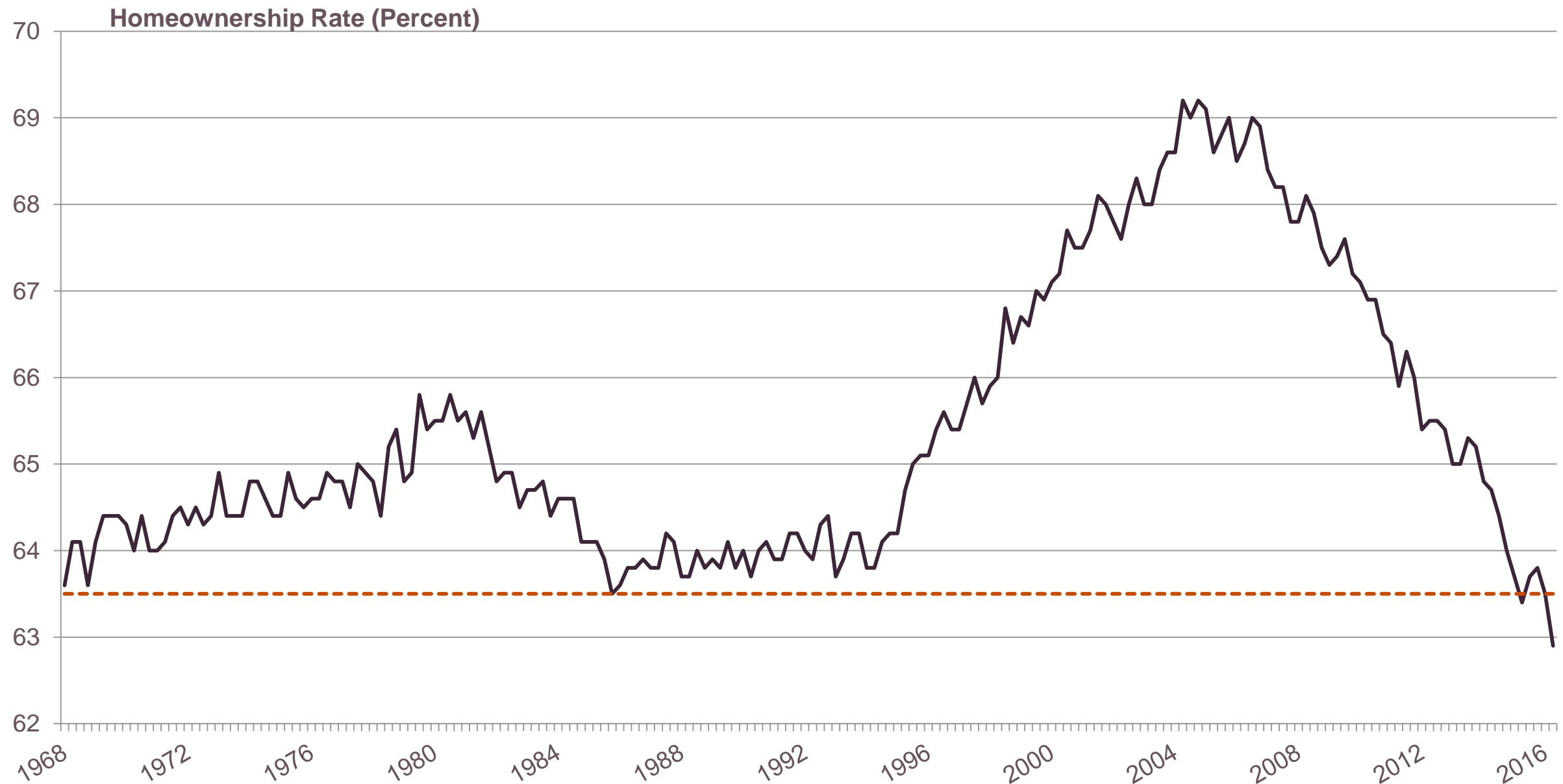


Note: Current as of Jun., 2016;
Source: U.S. Census Bureau Construction Spending Put-in-Place

The Millennial Generation is Moving Into Age Ranges with Higher Headship Rates



The National Homeownership Rate Has Fallen to Its Lowest Level in a Half Century



Source: JCHS tabulations of US Census Bureau, Housing Vacancy Surveys.

Nonresidential Building Trends and Outlook



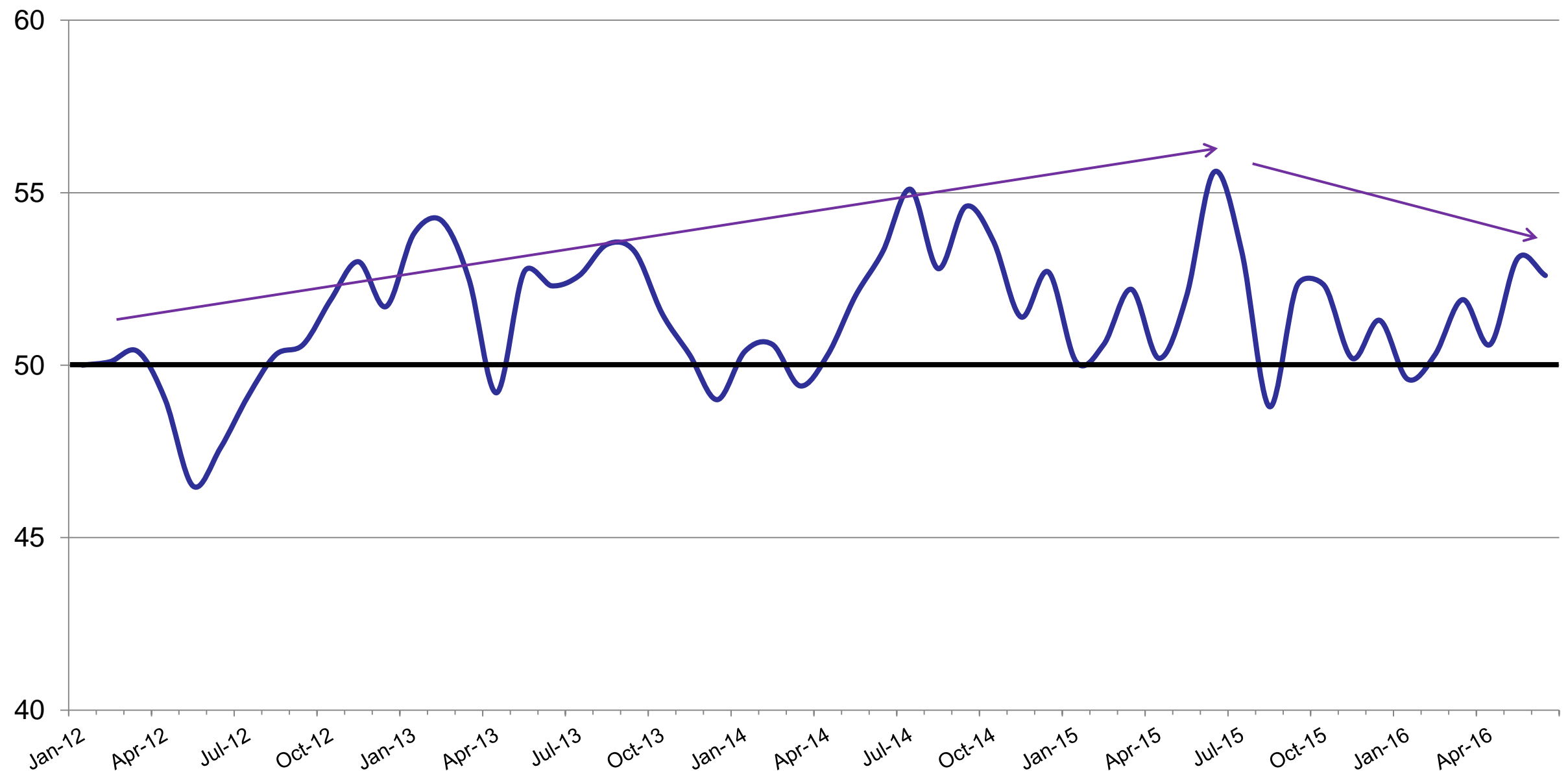
First Half 2016 Results Show Nonresidential Building Spending Starting to See Slower Growth

Billions of \$, NSA, January - June totals

	<u>2016</u>	<u>2015</u>	<u>% change</u>
Total Nonres. Bldg. Construction	\$219.1	\$206.0	6.3%
Commercial/Industrial	113.2	103.4	9.5%
Lodging	12.6	10.0	26.9%
Office	30.4	25.3	20.1%
Commercial (retail and other)	34.2	31.2	9.6%
Manufacturing	36.0	36.9	-2.6%
Institutional	105.8	102.6	3.2%
Health care	19.6	19.2	2.2%
Educational	41.0	38.6	6.2%
Religious	1.8	1.6	10.5%
Public safety	3.9	4.1	-6.4%
Amusement and recreation	10.2	9.2	10.2%
Transportation	20.3	20.8	-2.1%
Communication	9.0	9.0	0.5%

Though Remaining Volatile, Pace of Growth in Architecture Billings Seems to be Slowing

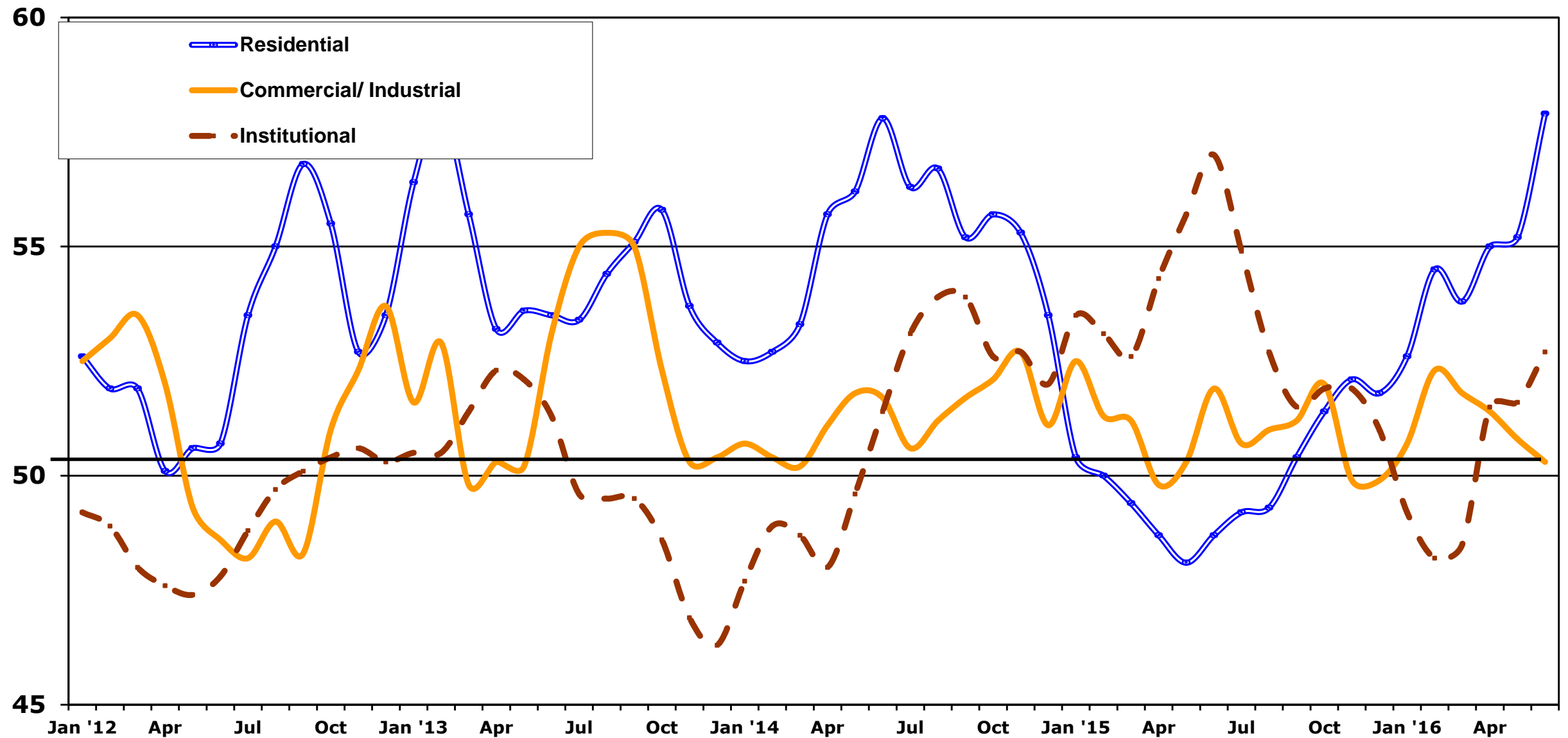
diffusion index: 50 = no change from previous month, seasonally adjusted



Source: AIA Architecture Billings Index

All Major Construction Sectors Seeing Healthy ABI Scores

Billings scores since 2012; index: 50 = no change from previous month

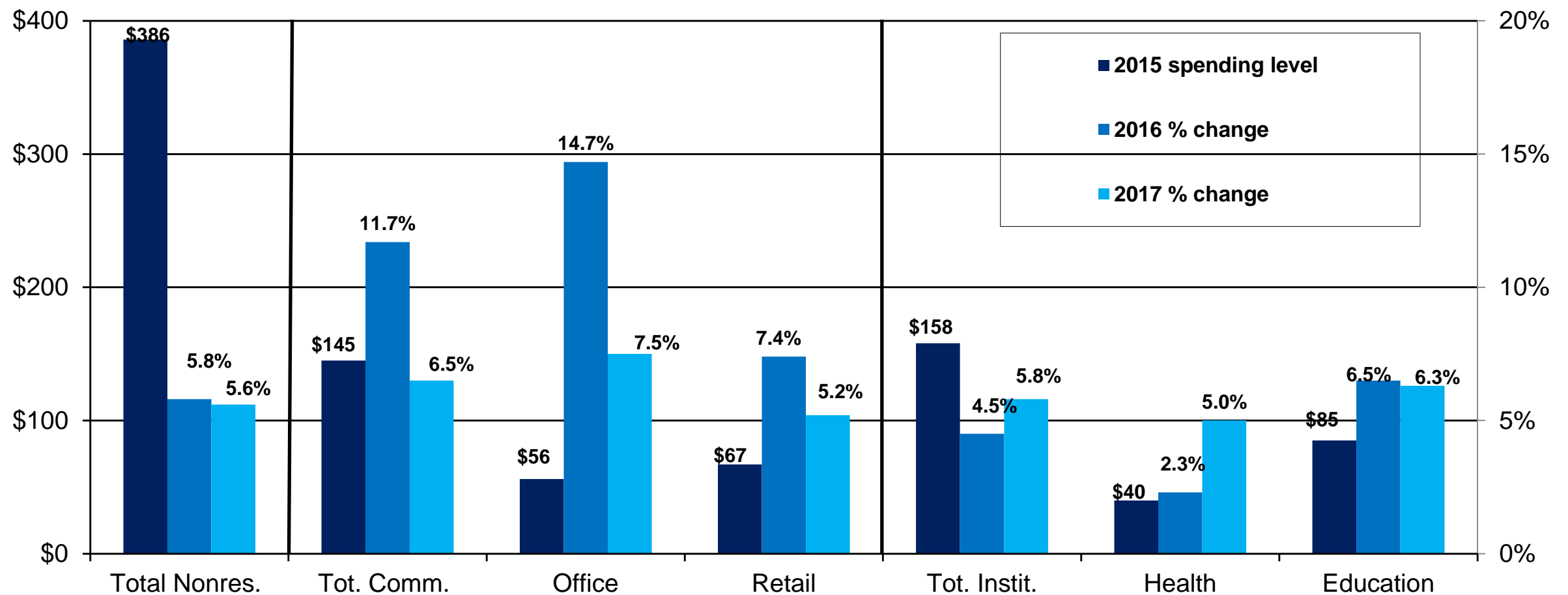


Source: AIA Architecture Billings Index

Commercial Gains Projected to Moderate as Growth Swings Over to Institutional Categories

billions \$ of construction spending on nonresidential buildings

annual % change



Source: AIA Consensus Construction Forecast Panel, June, 2016

National Association of Home Builders

Economic Forecast And Outlook

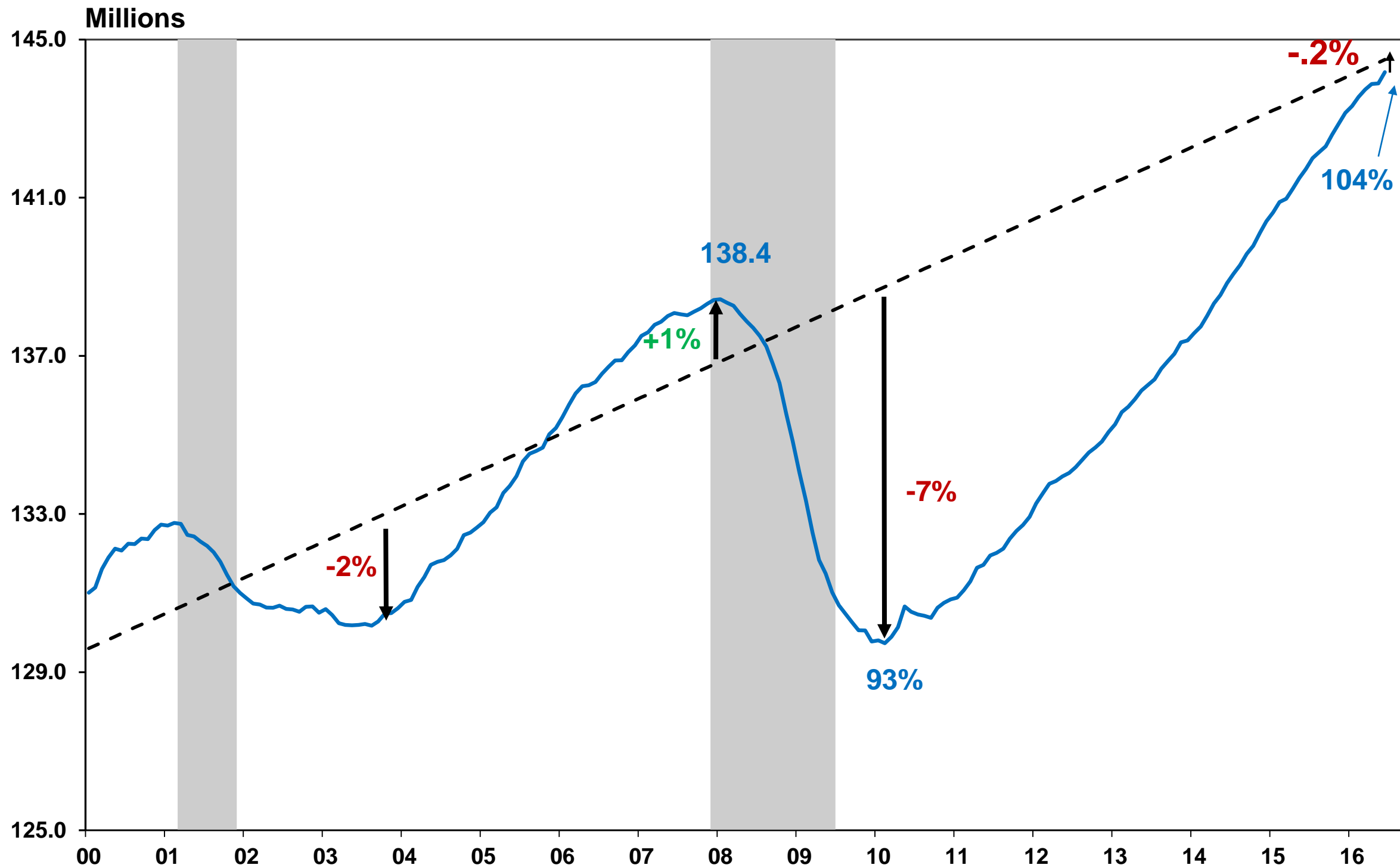
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*Robert Dietz, Ph.D.
NAHB Chief Economist*



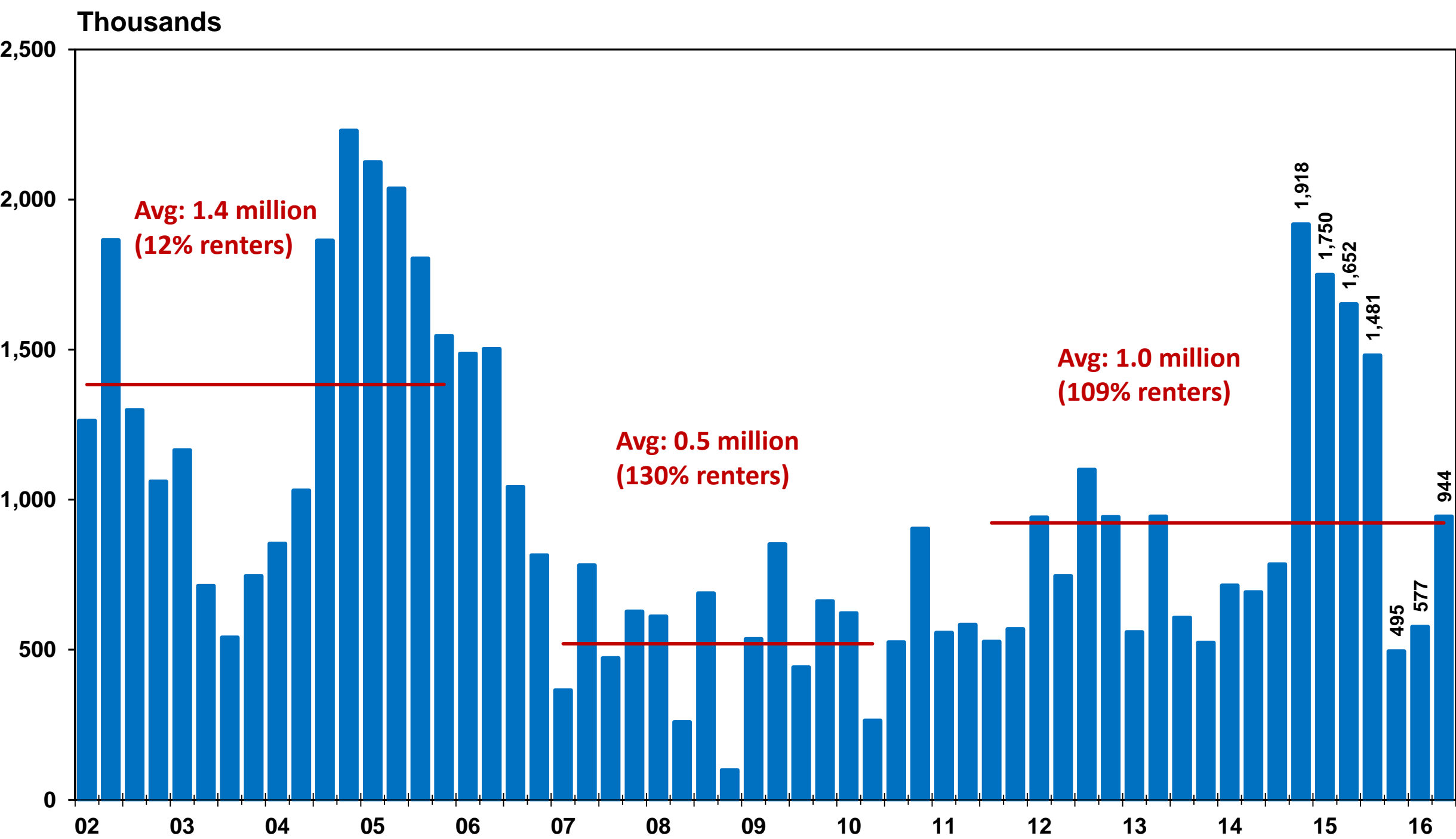
US Payroll Employment

Total jobs slightly below trend



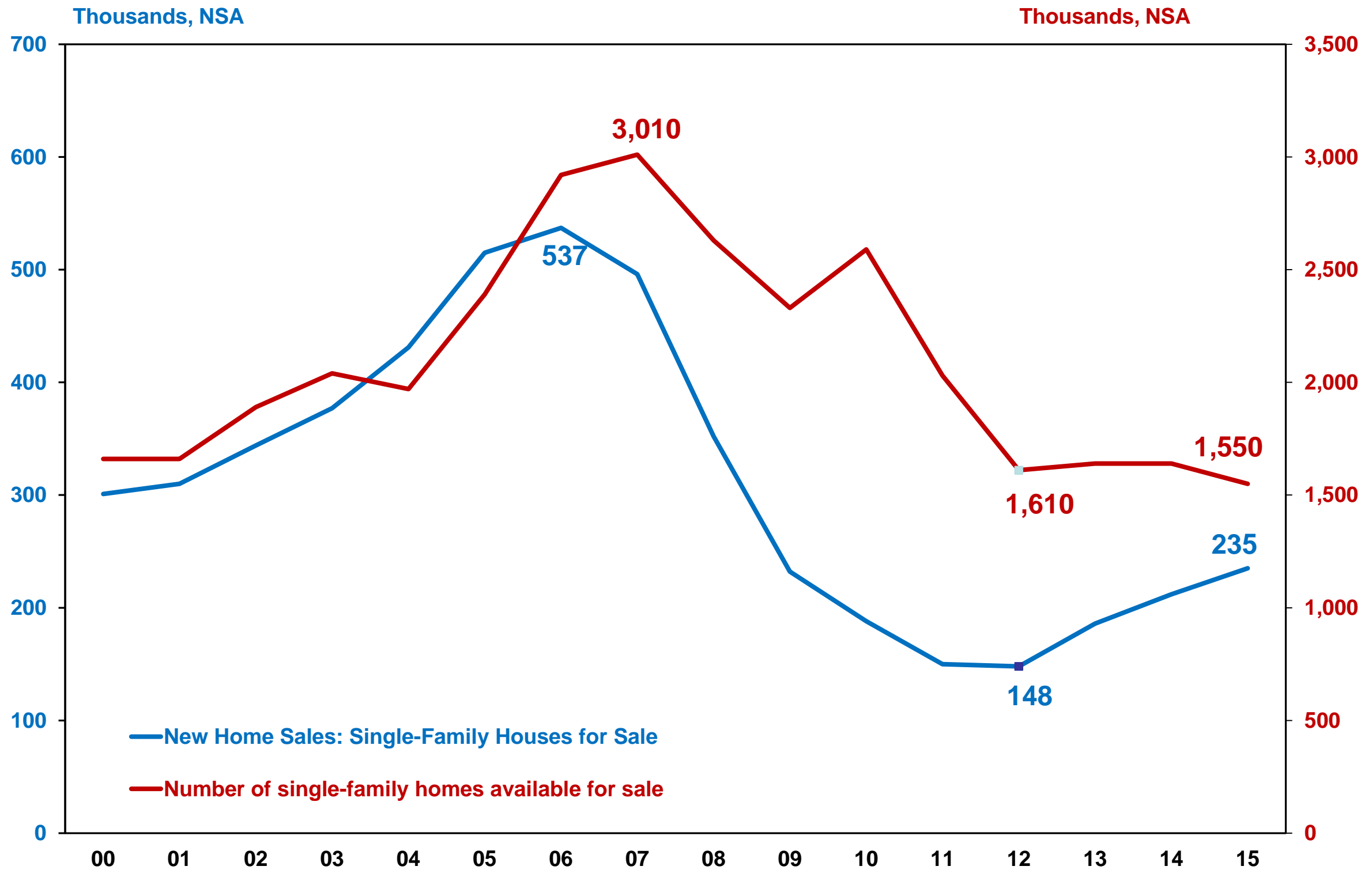
Household Formations

Average yearly growth of household formations has doubled



Low Housing Inventory

Existing home inventory flat

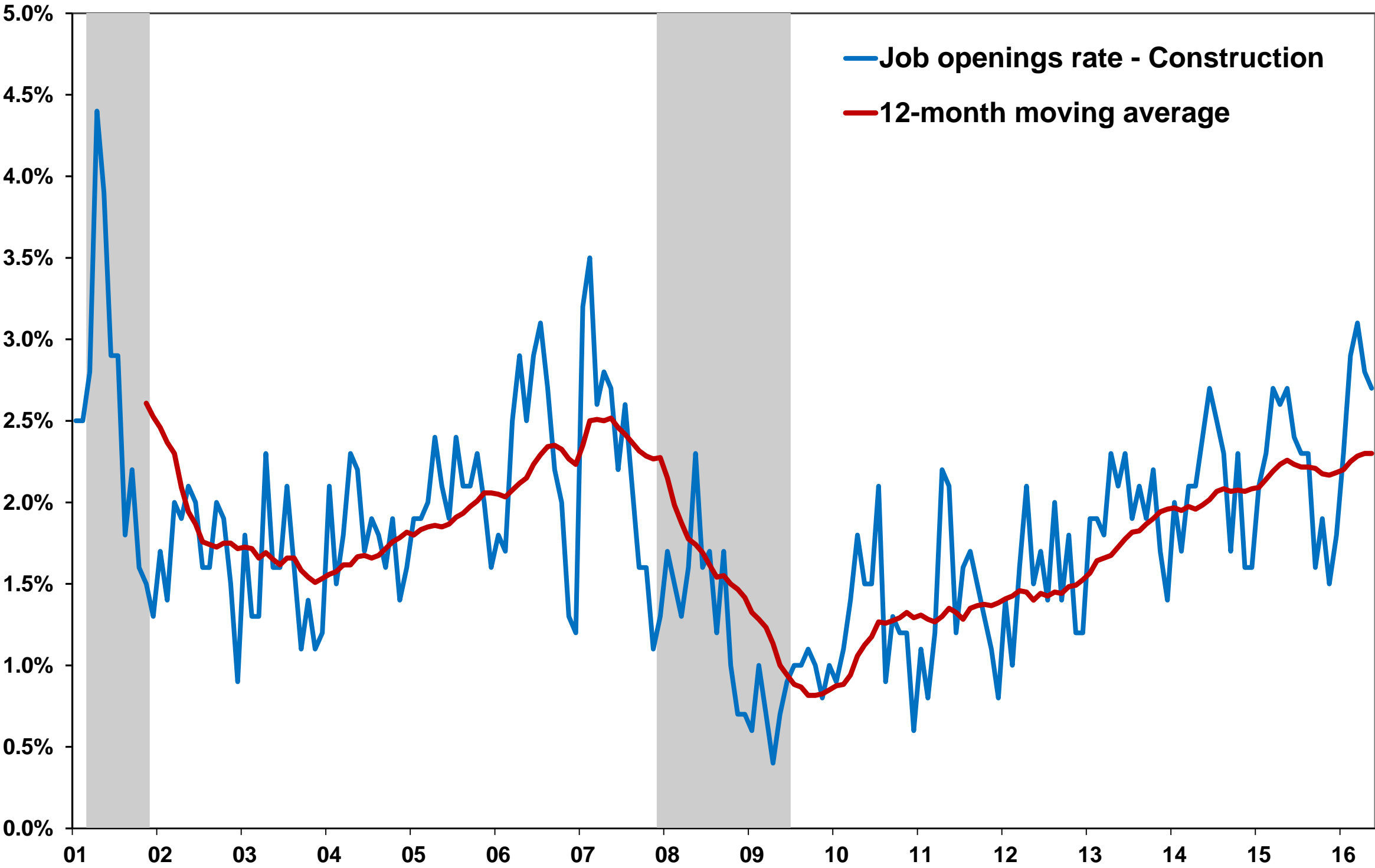


Constraints on Building Growth

The Three L's

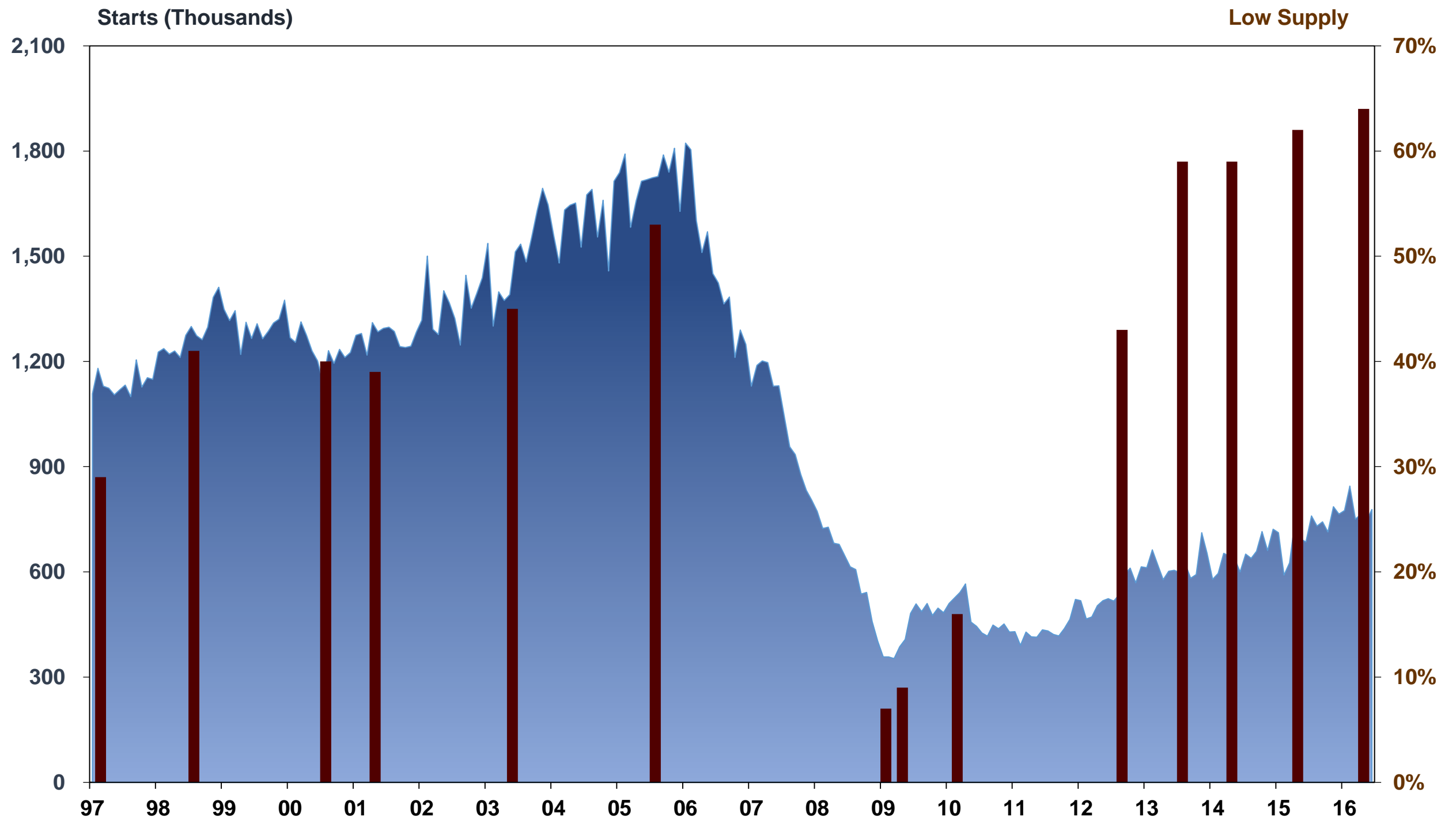
Labor

Unfilled construction jobs rising



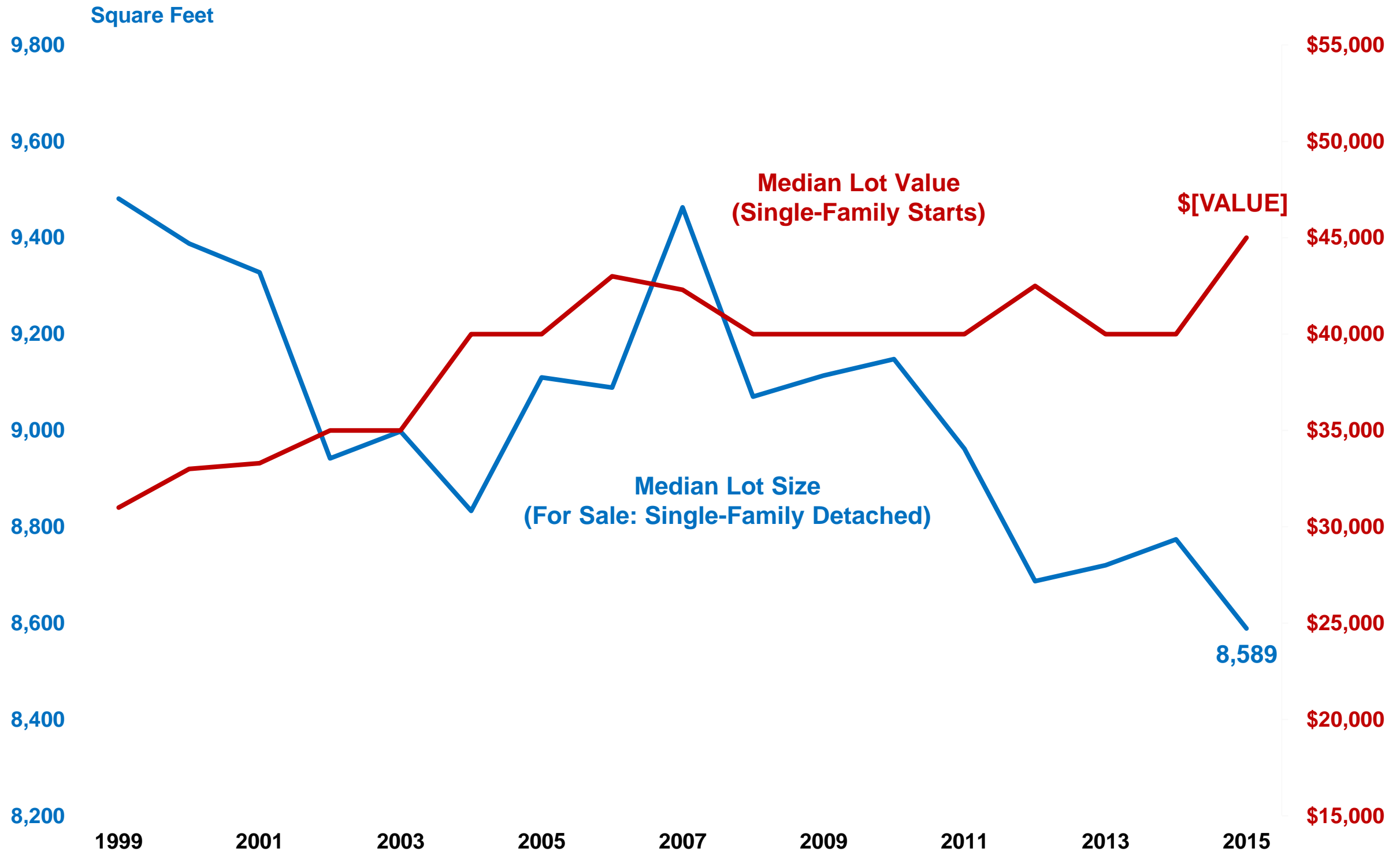
Lots

Housing Starts (Area) and Low/Very Low Lot Supply (bars)

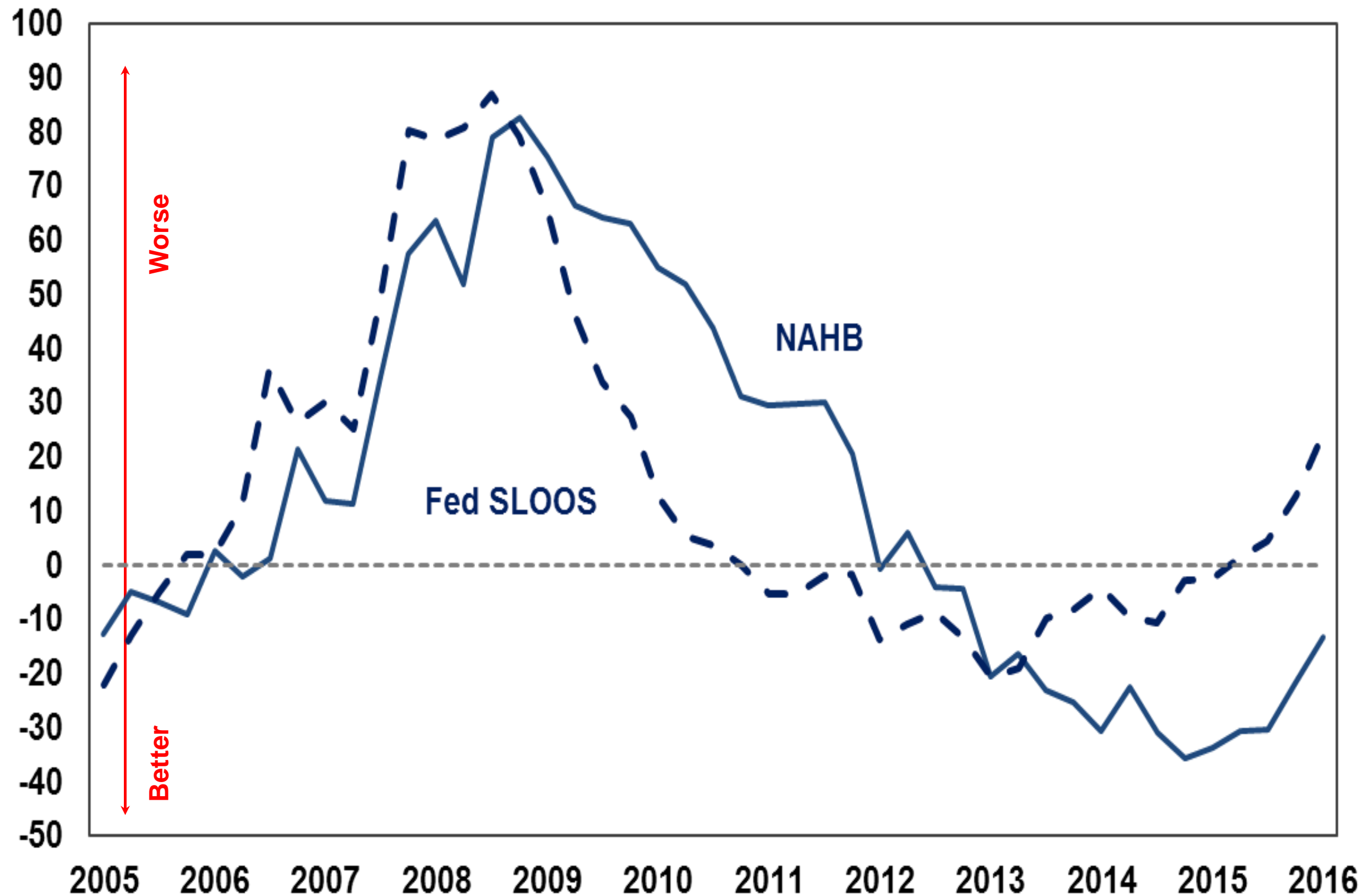


Median Lot Value and Size

Lot size declining --- lot value increasing



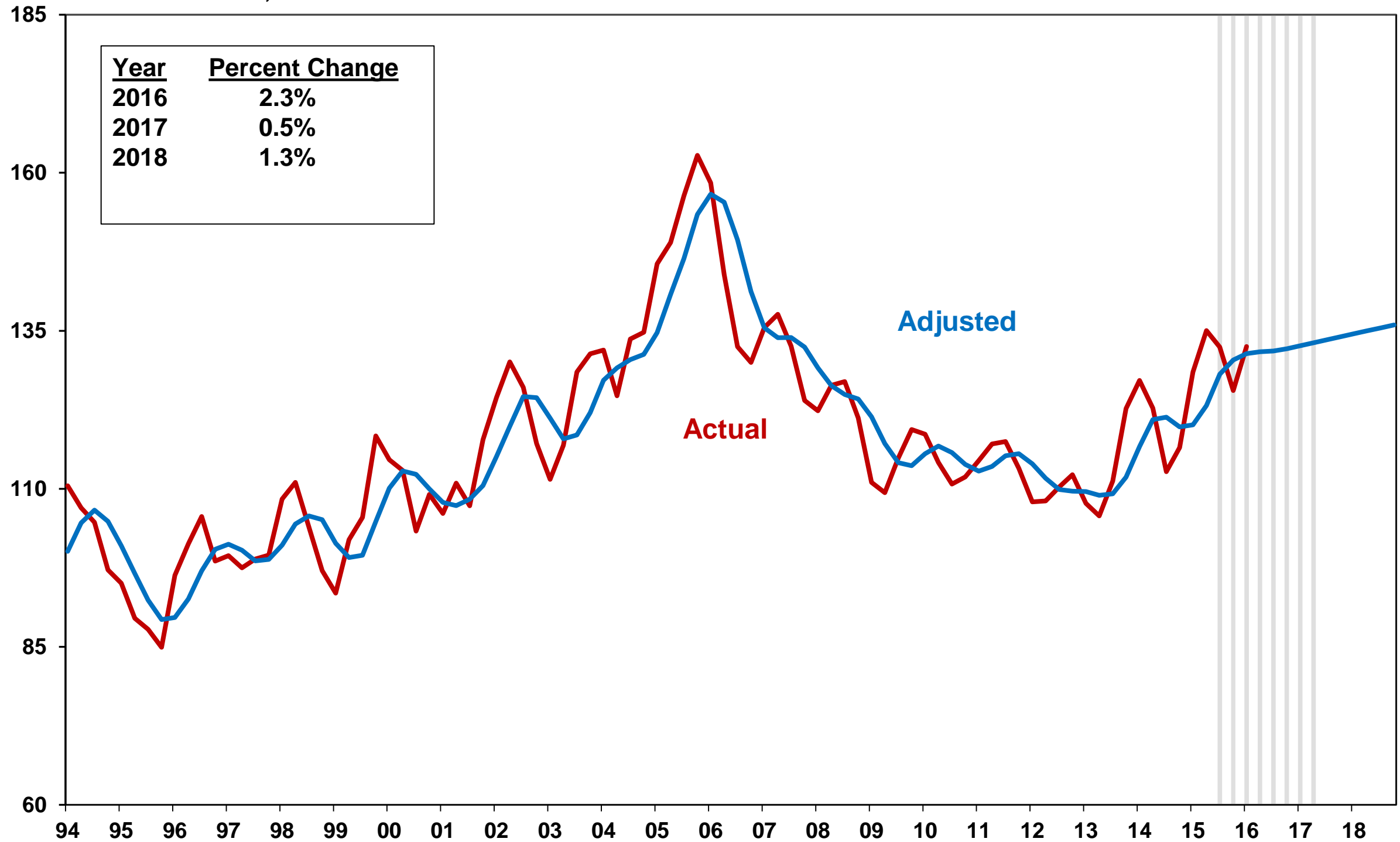
Lending - AD&C Access



Forecasts

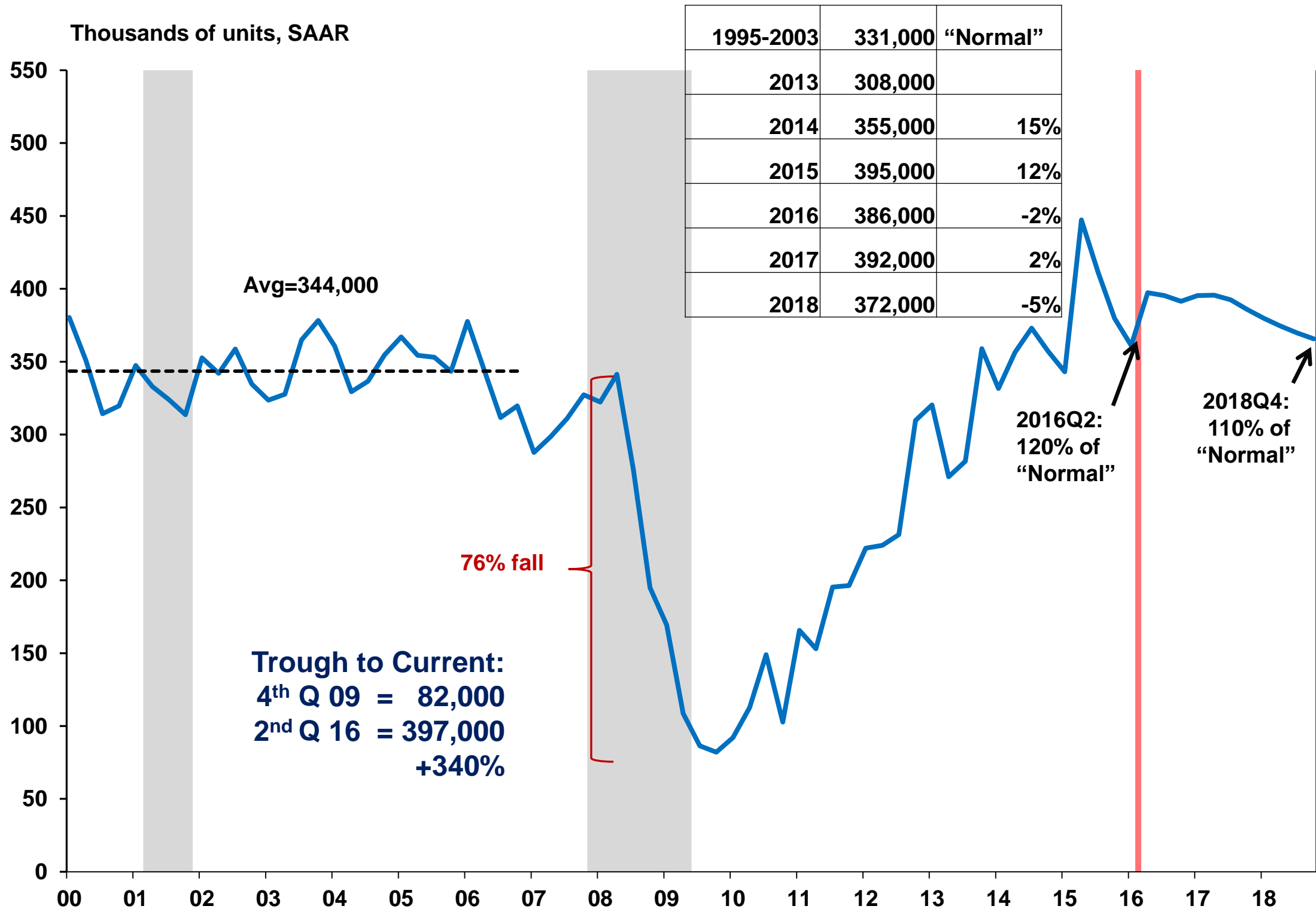
Residential Remodeling

Billions 2009 USD, SAAR



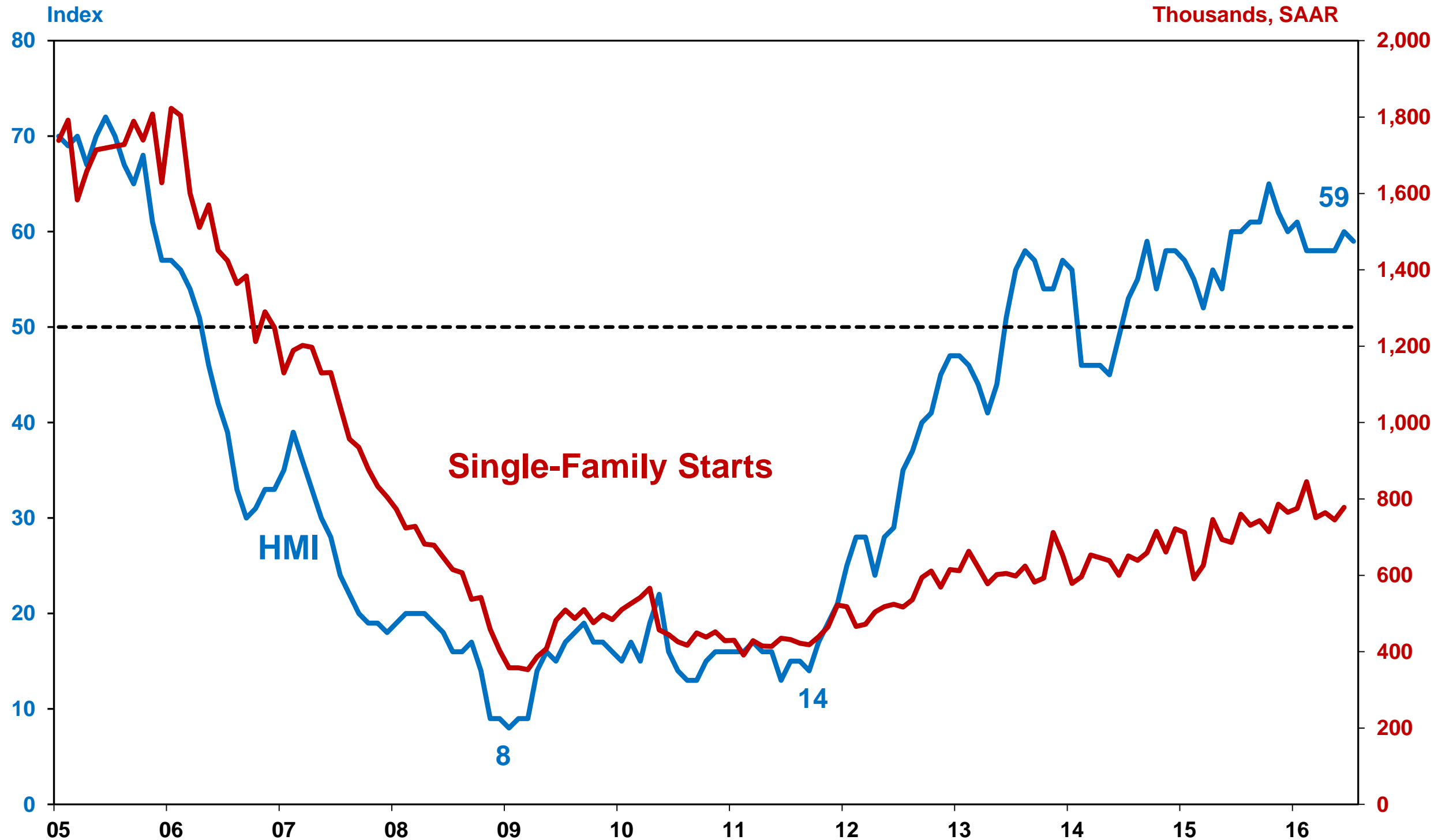
Multifamily Housing Starts

Leveling off



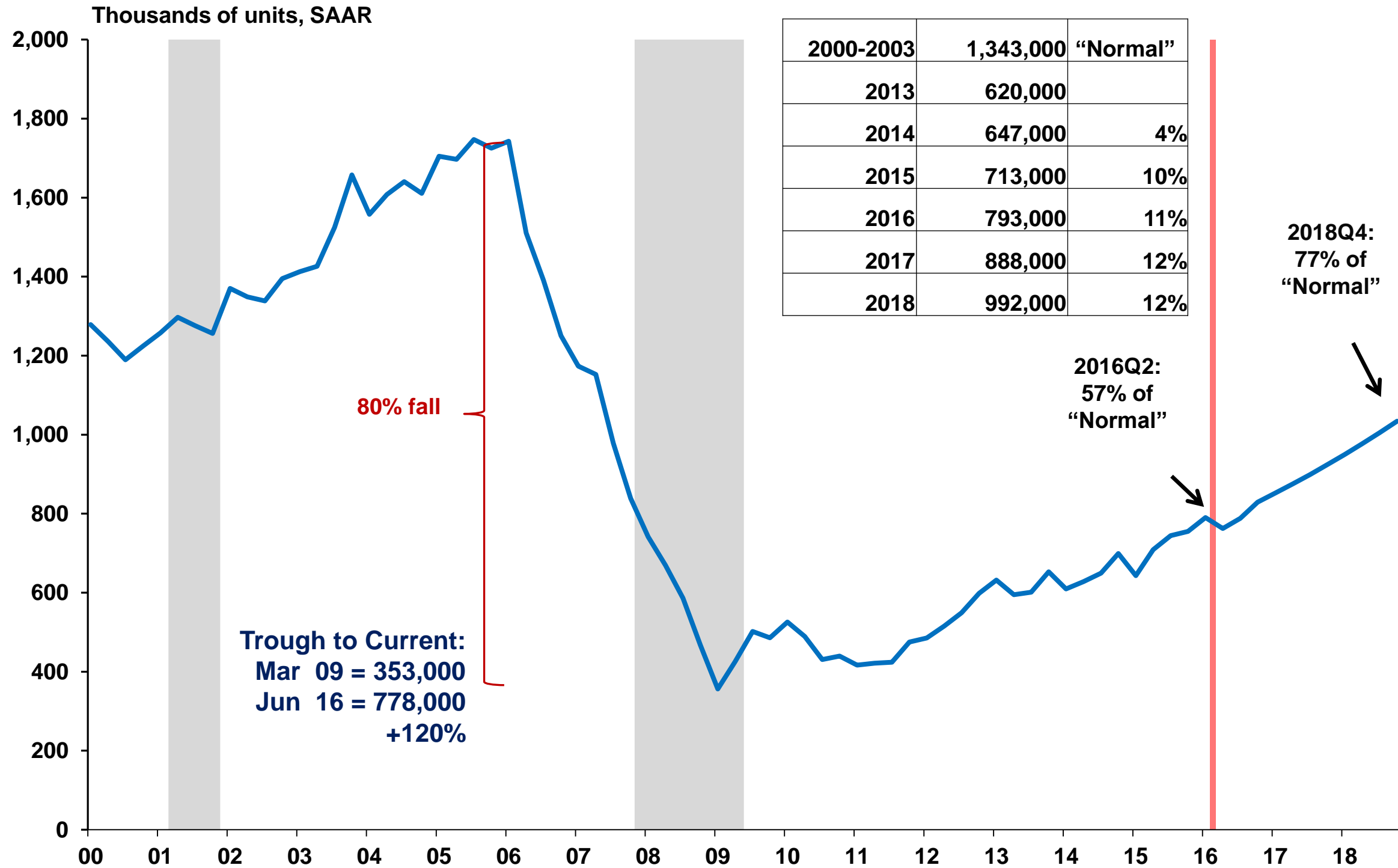
NAHB/Wells Fargo Housing Market Index

The song remains the same

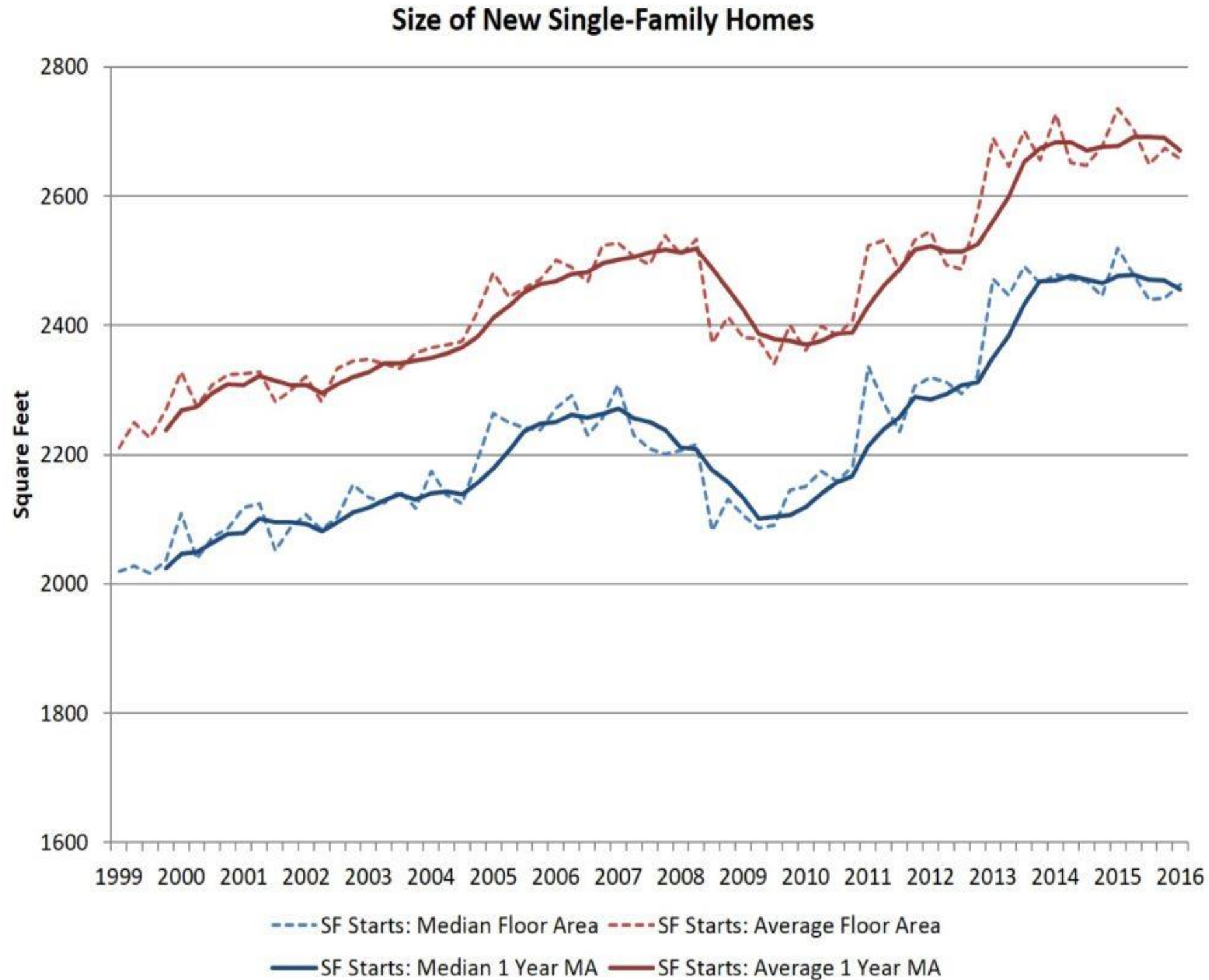


Single-Family Starts

Growing pains



Home Size Market Shift



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Anirban Basu

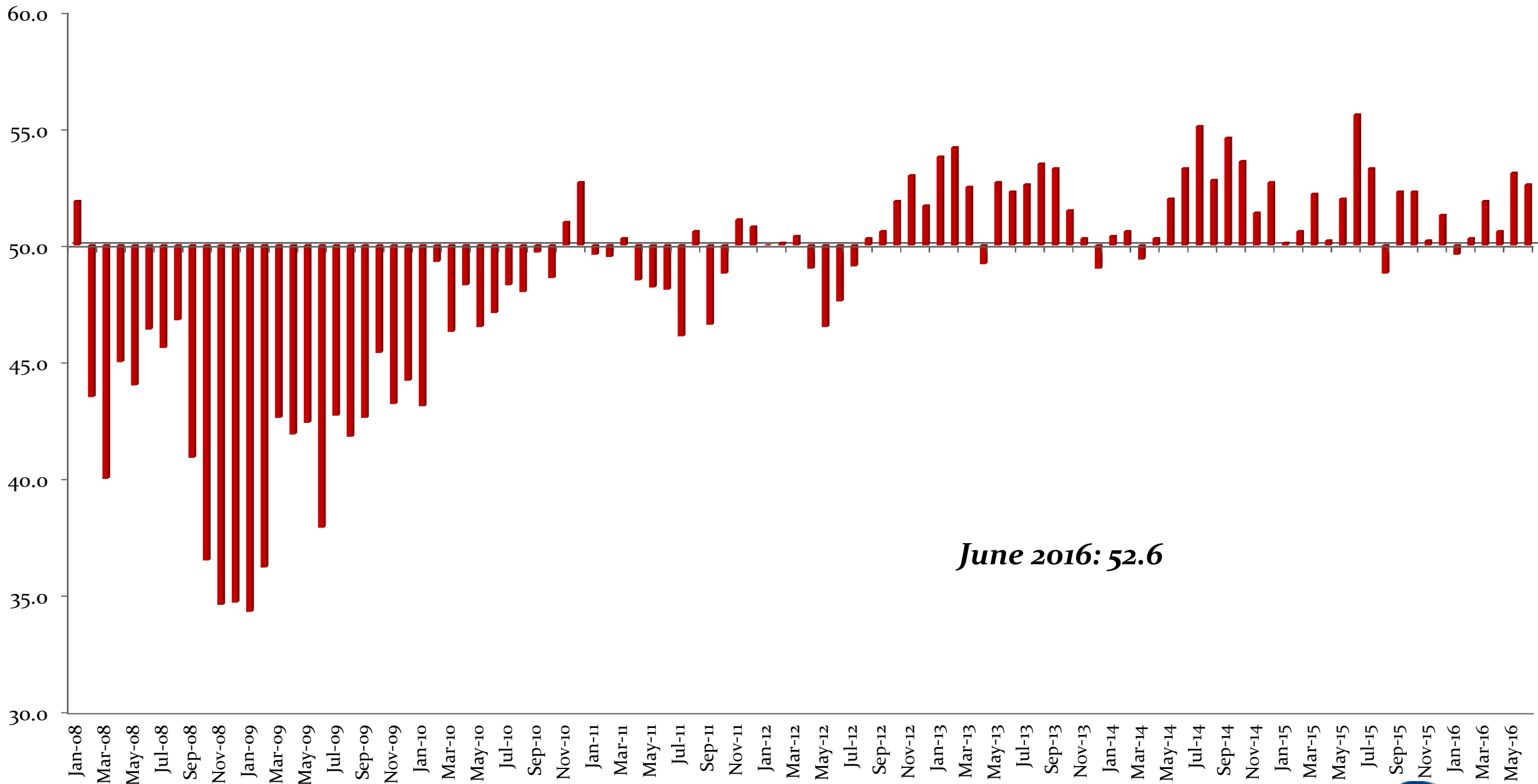
Chief Economist

Associated Builders and Contractors



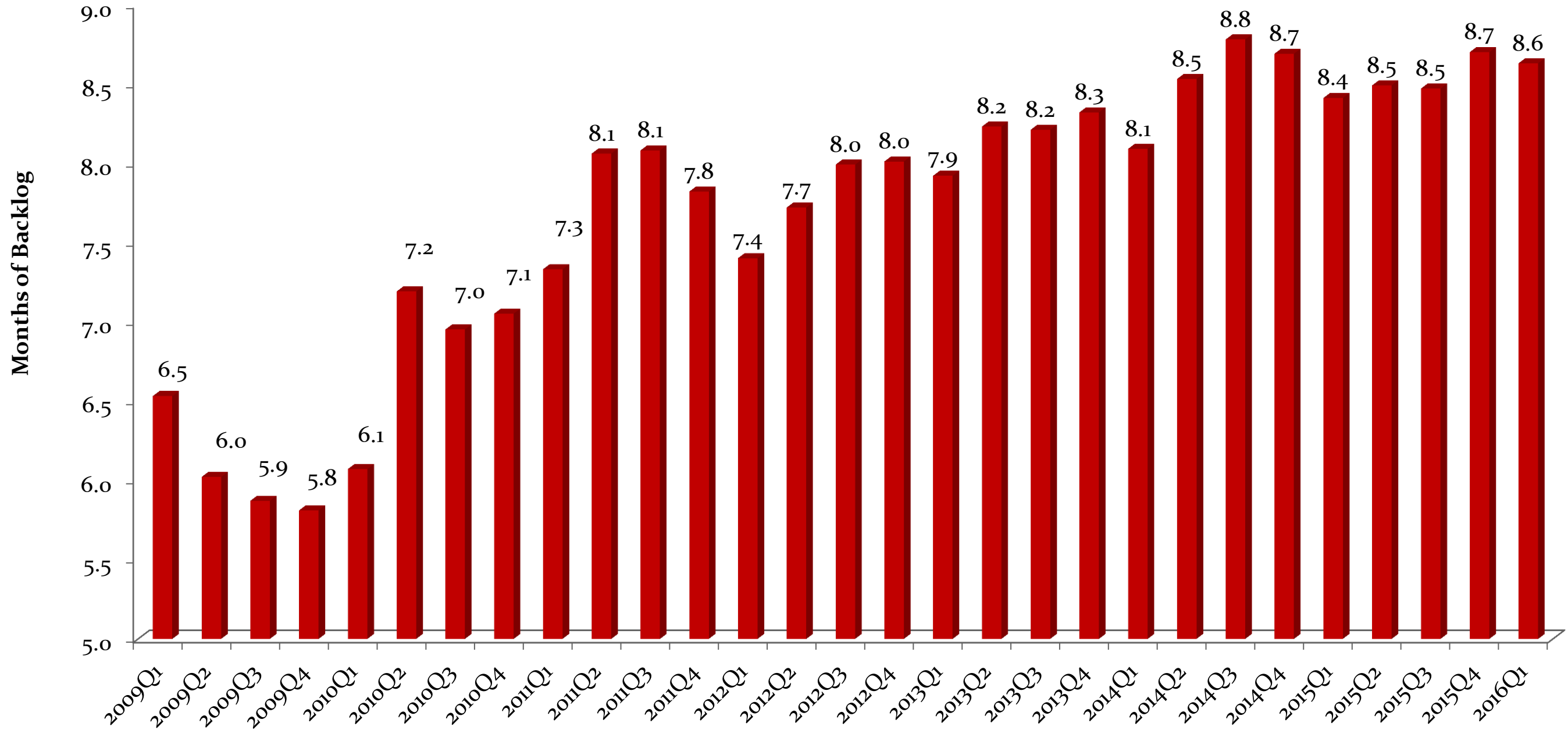
Architecture Billings Index

January 2008 through June 2016



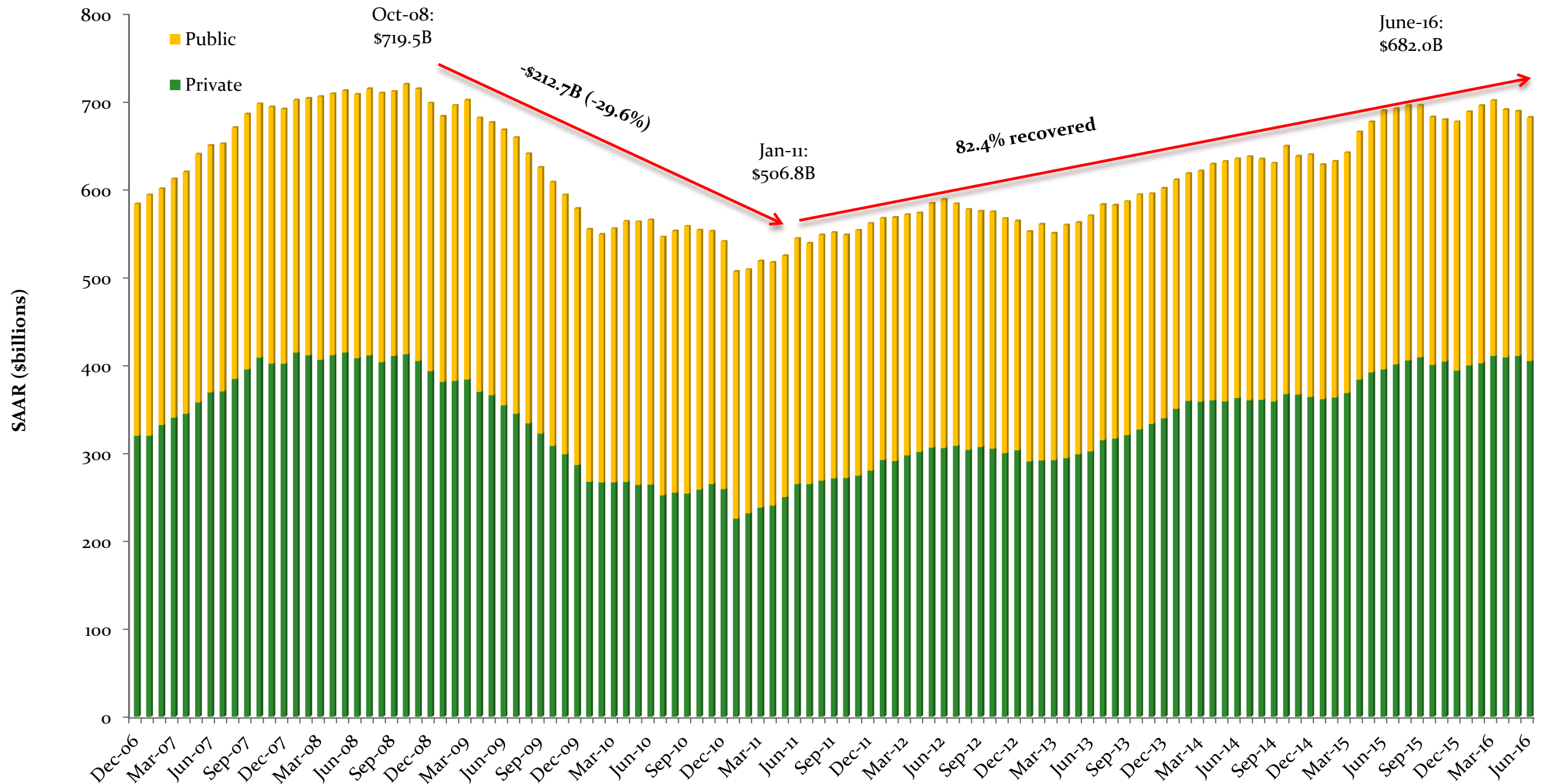
June 2016: 52.6

ABC's National Construction Backlog Indicator (CBI) Average *2009Q1 through 2016Q1*



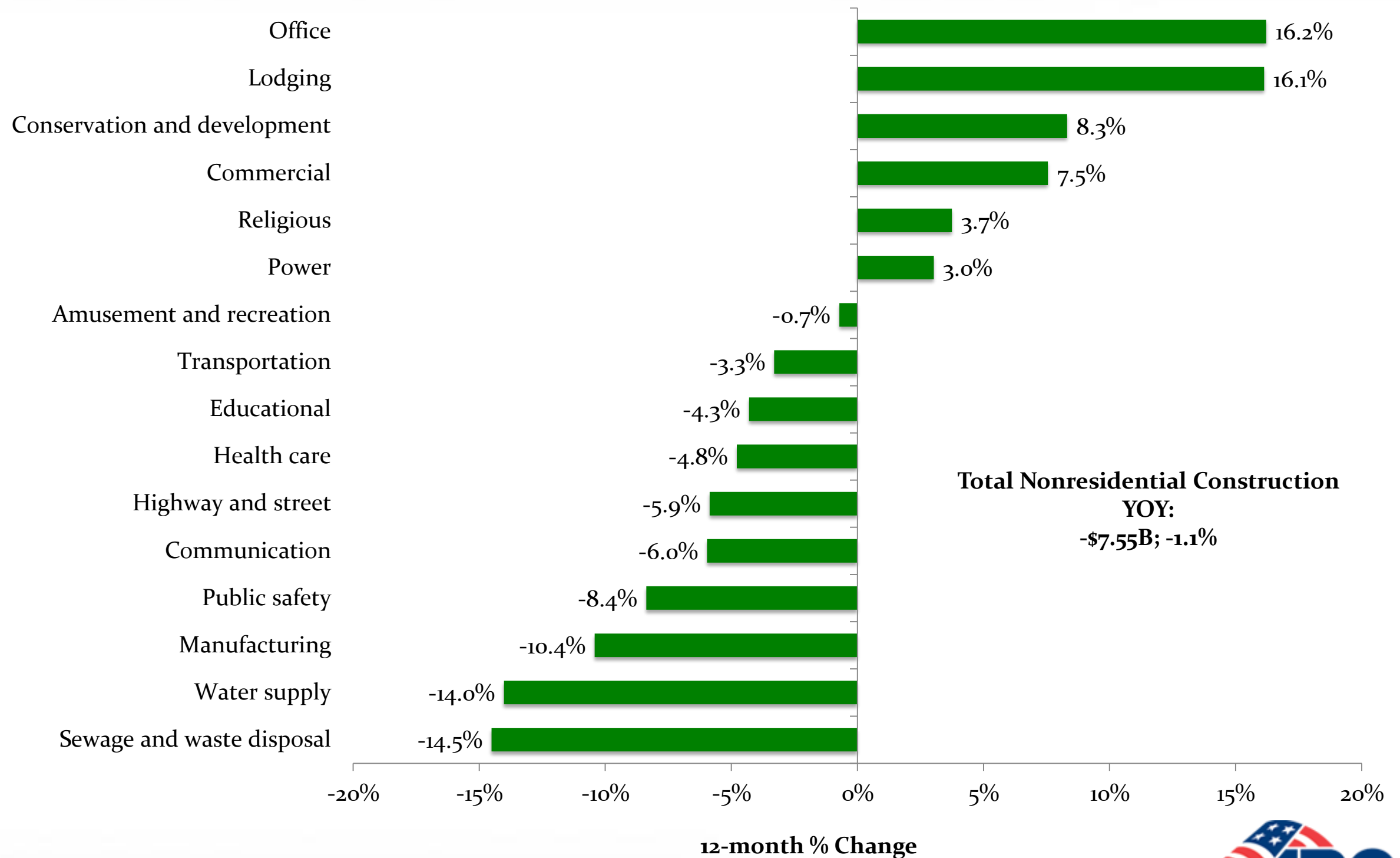
Nonresidential Construction Put-in-Place

December 2006 through June 2016

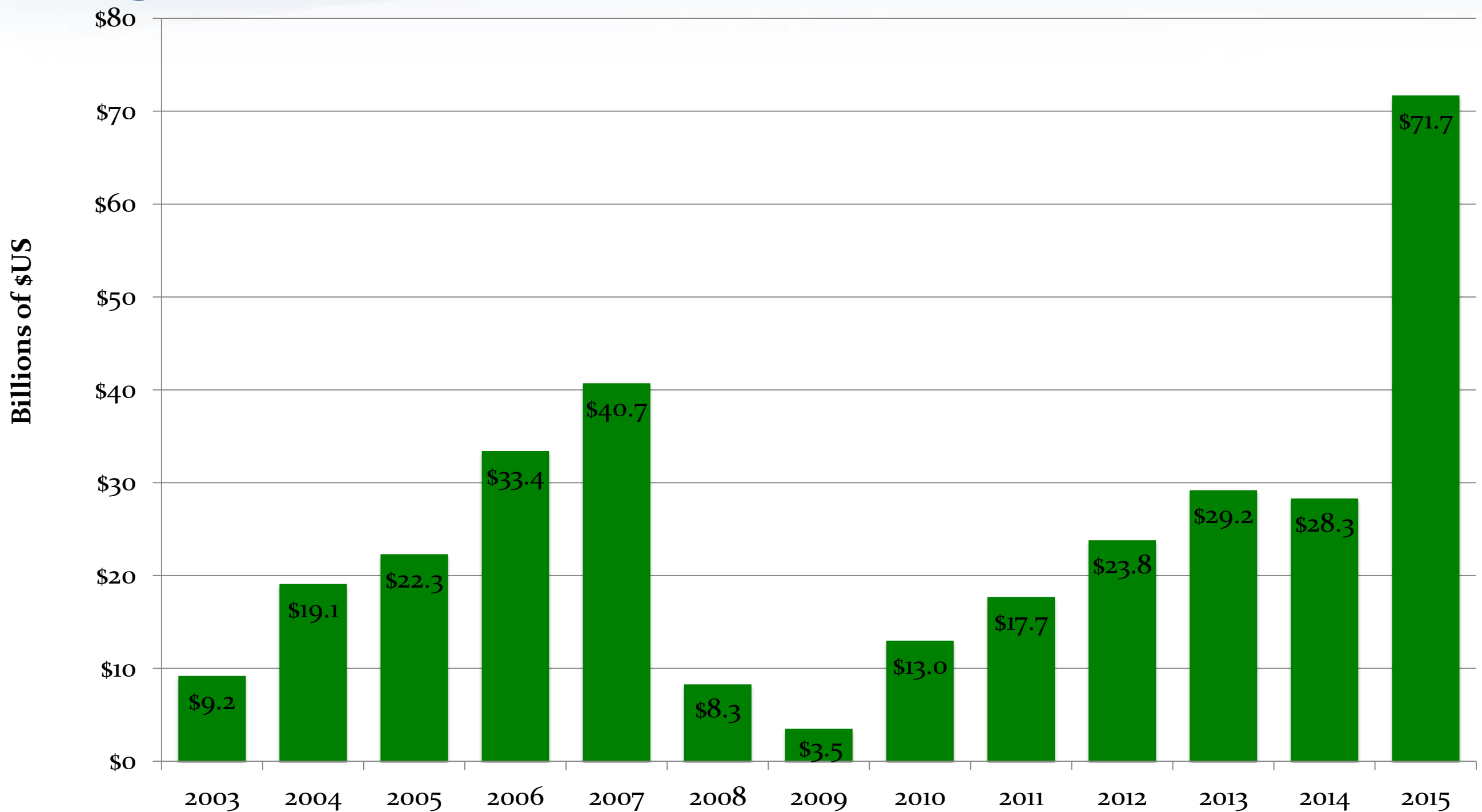


National Nonresidential Construction Spending by Subsector

June 2015 v. June 2016



Offshore Investment Sales Volumes Reach New Heights in 2015



Foreign Investment Increases 153.4 Percent in 2015 to \$71.7b

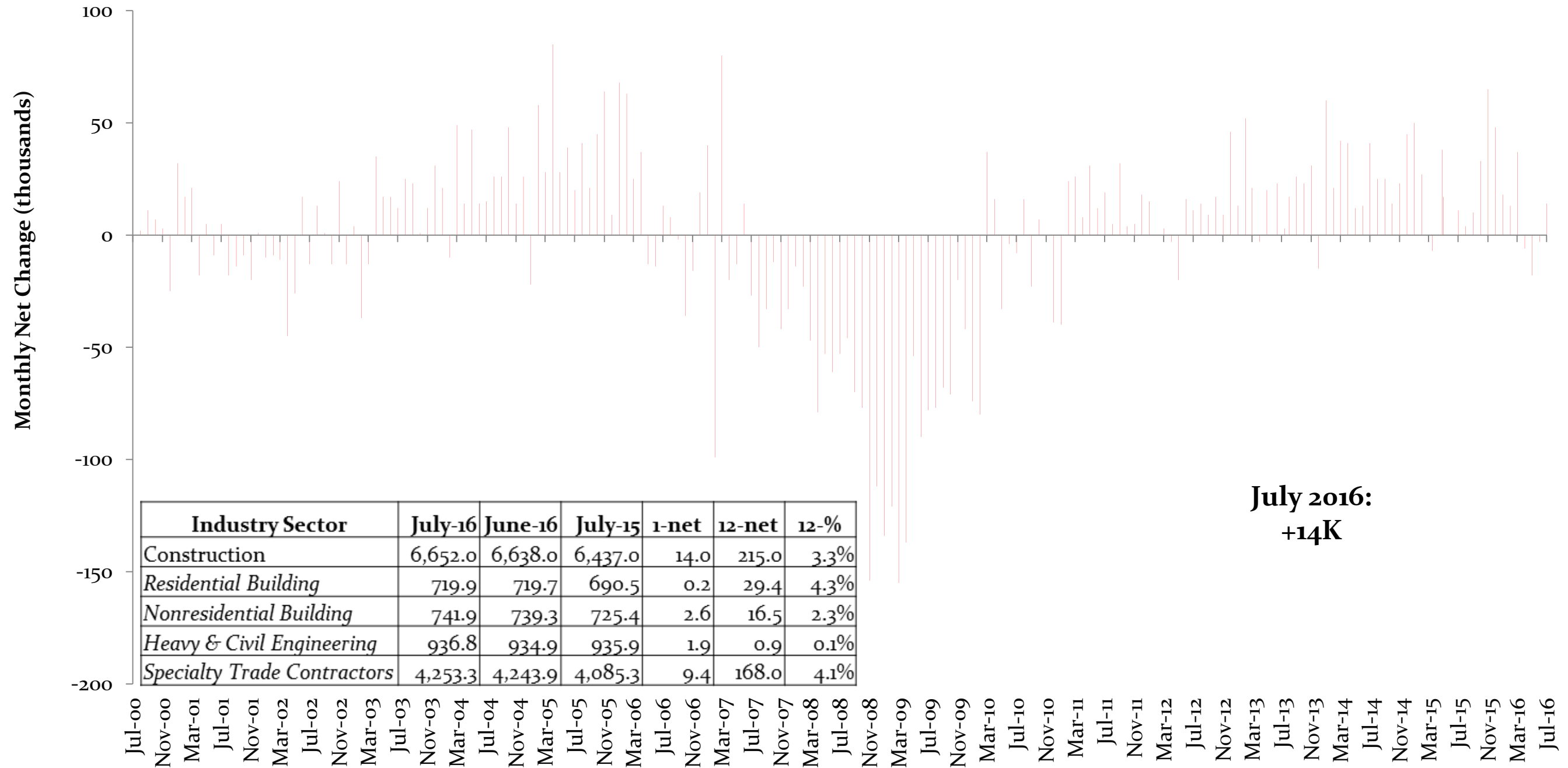
Source: Jones Lang LaSalle; Real Capital Analytics

Note: Among transactions larger than \$5.0 million



National Construction Employment

Monthly Net Change
July 2000 through July 2016



State-by-state Growth in Construction Jobs

June 2015 v. June 2016

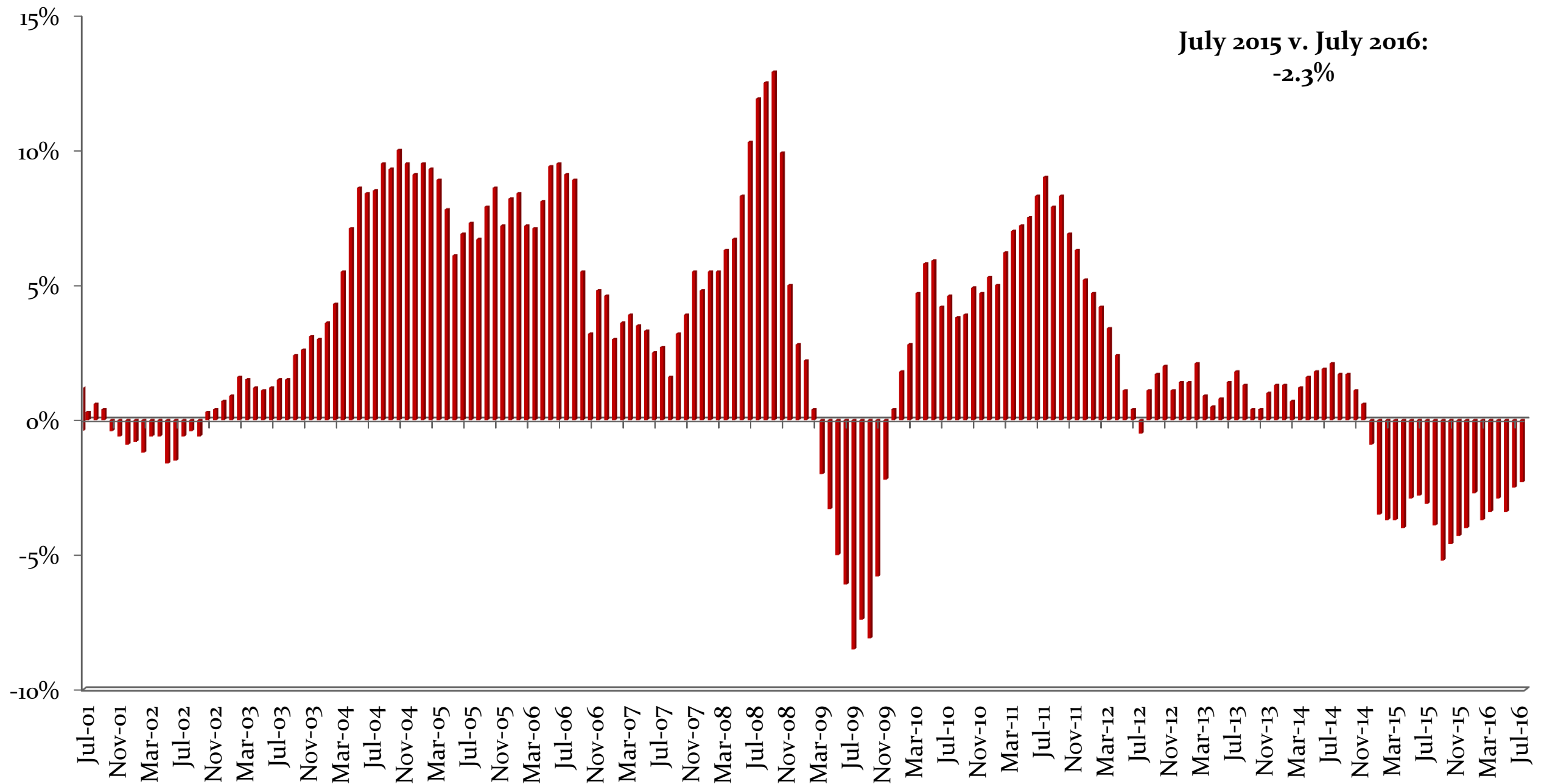
STATE	Year-over-year Ch. ('000)	STATE	Year-over-year Ch. ('000)	STATE	Year-over-year Ch. ('000)
CALIFORNIA	32.3	OREGON	6.1	DELAWARE*	0.7
FLORIDA	25.5	NEVADA	6.0	NEW MEXICO	0.5
COLORADO	13.2	UTAH	5.6	CONNECTICUT	0.4
WASHINGTON	12.5	HAWAII*	5.5	VERMONT	0.4
GEORGIA	12.2	ILLINOIS	3.8	NEBRASKA*	0.2
IOWA	12.2	TENNESSEE*	3.8	PENNSYLVANIA	-0.1
MASSACHUSETTS	11.2	MINNESOTA	3.5	RHODE ISLAND	-0.1
ARIZONA	11.0	MISSOURI	3.0	DISTRICT OF COLUMBIA*	-0.1
OHIO	9.9	LOUISIANA	2.9	ARKANSAS	-0.3
NEW YORK	8.6	MICHIGAN	2.4	ALASKA	-0.6
MARYLAND*	8.1	IDAHO	2.3	MONTANA	-1.1
NORTH CAROLINA	7.3	TEXAS	2.3	WYOMING	-1.5
WISCONSIN	7.1	VIRGINIA	1.4	MAINE	-1.7
OKLAHOMA	6.9	SOUTH DAKOTA*	1.2	WEST VIRGINIA	-1.8
NEW JERSEY	6.8	MISSISSIPPI	1.1	ALABAMA	-2.1
INDIANA	6.7	NEW HAMPSHIRE	1.1	KANSAS	-3.7
SOUTH CAROLINA	6.7	KENTUCKY	0.8	NORTH DAKOTA	-4.3

*Construction, Mining, and Logging are included in one industry.



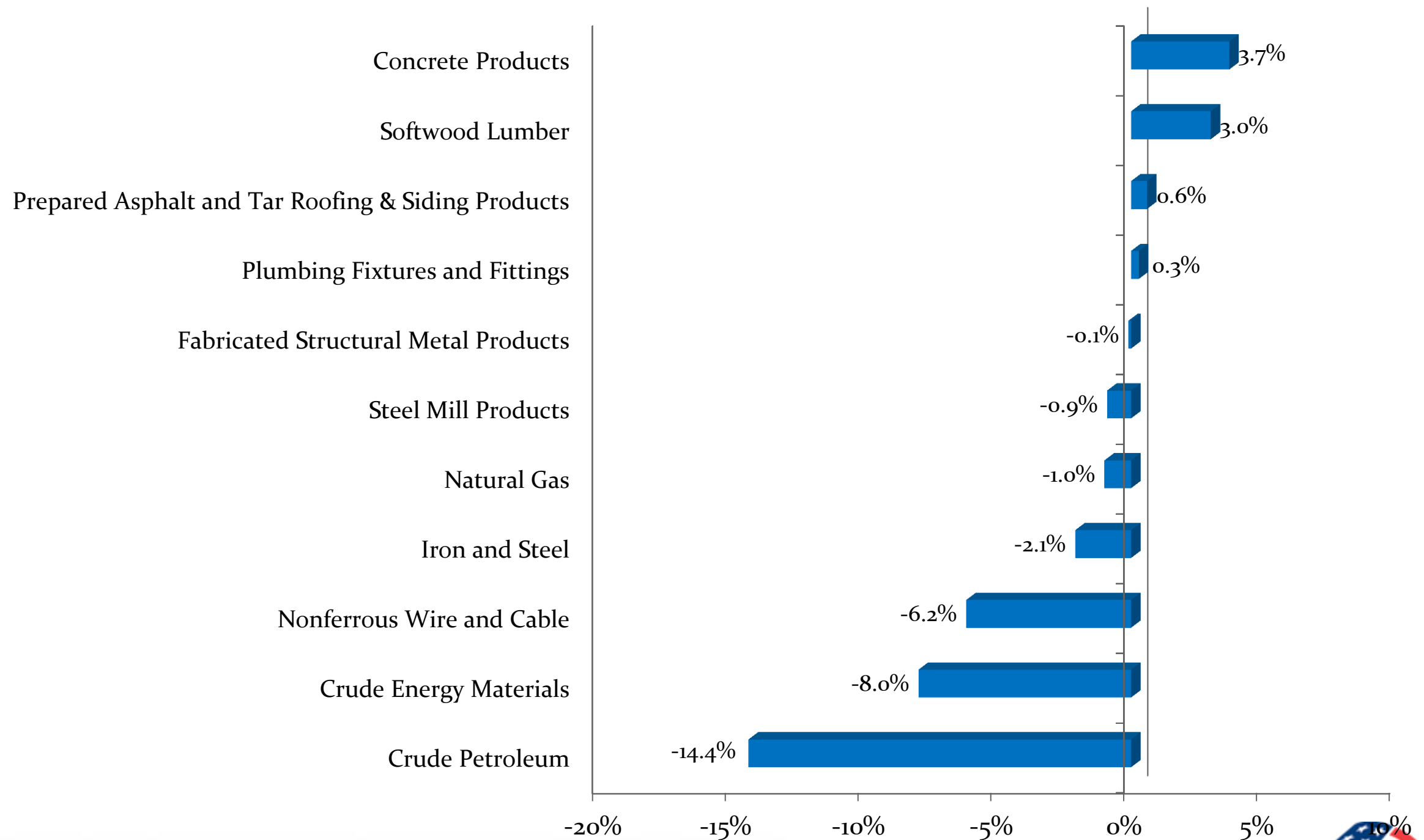
Inputs to Construction PPI

July 2001 – July 2016



Construction Materials PPI

12-month % Change as of July 2016



Things about which to be Nervous

- Regulators;
- Negative interest rates and other forms of monetary stimulus;
- Stretched asset values in the U.S., perhaps leading to excess investment in certain categories and creating negative wealth effect scenarios;
- Housing activity may be peaking & auto sales may be peaking;
- Consumer delinquencies;
- The usual black swan candidates; &
- Uncertainty surrounding the 2016 election cycle.

Nonresidential Spending Forecast

Billions of \$	2015 Actual	2016	2017
Commercial	\$144.5	\$156.9	\$161.9
		8.5%	3.2%
Industrial	\$83.4	\$80.2	\$85.0
		-3.9%	6.0%
Institutional	\$157.9	\$160.2	\$164.2
		1.5%	2.5%
Nonresidential Building	\$385.8	\$397.2	\$411.1
		3.0%	3.5%

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Questions and Answers

Kermit Baker

Chief Economist, American Institute of Architects

Robert Dietz

Chief Economist, National Association of Home Builders

Anirban Basu

Chief Economist, Associated Builders and Contractors

