

Today's Construction Economy

Published Fourth Quarter 2023

Introduction

Today's Construction Economy captures key insight directly from leaders in the construction industry. We take direct quotes from original sources and put them in context, highlighting the diverse perspectives of construction leaders. The newsletter pulls from these observations to determine the market's message.

Labor continues to be the cost driver, and while the lack of labor availability is holding up some projects, sales are still increasing. Talk of recession is ebbing, although new starts are down, and the nonresidential backlog has been decreasing for the past four months. Materials costs have levelled out, but there are still some components with unacceptably long lead times. Our focus continues to be on the primary drivers of selling price to owners.

Fourth Quarter 2023

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Employment and Jobs

All states posted an unemployment rate lower than 8.5%, marking the sixth consecutive month that all state rates were below 10%. ¹ ↑

The five states with the lowest estimated NSA (not seasonally adjusted) construction unemployment rates in September 2023 were:

1. Maryland, 0.4%
2. Utah, 1.2%
3. North Dakota, 1.4%
4. Maine and Tennessee (tie), 1.8% ² ↑

Maryland posted its lowest September NSA estimated construction unemployment rate on record. Utah matched last year’s lowest September rate on record. North Dakota and Maine both had their second lowest September construction unemployment rate on record behind last year’s 1.1% and 1.6% rates, respectively. Tennessee notched its lowest September construction unemployment rate on record. ³ ↑

The construction unemployment rate decreased slightly to 3.8%, while unemployment across all industries remained unchanged at 3.8% last month. ⁴ ↑

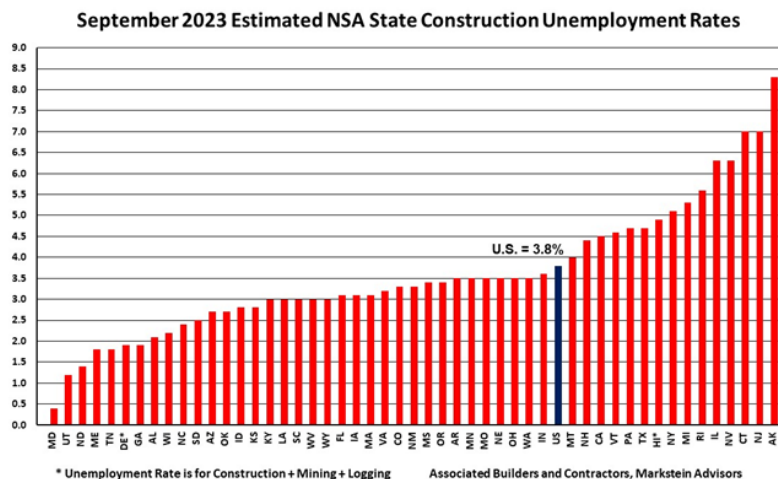
“Hiring would likely be faster if not for ongoing skills and labor shortages,” said Anirban Basu, ABC’s chief economist. “America desperately needs more people to enter the skilled trades as it seeks to rebuild its supply chains and improve its built environment. Despite efforts by the Federal Reserve to soften economic growth, a majority of contractors expect their sales and staffing to expand over the next six months, according to ABC’s Construction Confidence Index. That suggests that the construction labor market is poised to tighten further during the months ahead despite ongoing Federal Reserve efforts to curb inflation, including by further slowing the pace of hiring.” ⁵ ↑

In October 2021, residential construction employment moved above its pre-pandemic peak, while nonresidential construction employment only did so in February 2023. The September 2023 seasonally adjusted residential payroll construction employment was 351,000 above its pre-pandemic peak, while nonresidential payroll construction employment was 52,000 above its pre-pandemic peak. ⁶ ↑

The construction industry added 11,000 jobs on net in September, according to an Associated Builders and Contractors (ABC) analysis of data released today (Oct 6) by the U.S. Bureau of Labor Statistics. On a year-over-year basis, industry employment has increased by 217,000 jobs, an uptick of 2.8%. ⁷ ↑

The search for workers remains nearly as challenging as a year ago, according to results from the 2023 AGC of America-Autodesk Workforce Survey, which AGC posted on Wednesday (Sep 6). ⁸ ↑

Among firms with open positions 88% report having a hard time filling craft positions, and 86% report the same for salaried positions (vs. 91% and 89%, respectively, in 2022). ⁹ ↑

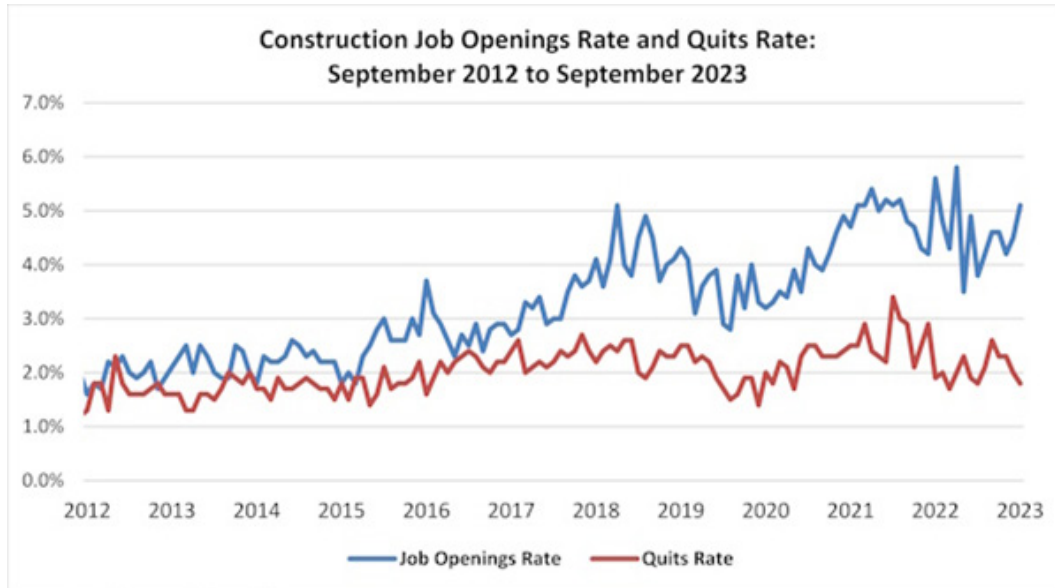


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Employment and Jobs

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The Bureau of Labor Statistics on Wednesday (Sep 6) issued its annual projections of 10-year employment change, covering 2022-2032. The agency projects construction industry employment to increase by 114,900 or an annual average of 0.1% per year. ¹²

THE MARKET'S MESSAGE

There is apparently no end to the demand for construction labor. Skilled craft labor in particular is highly sought after. The phenomenon is not constrained to one state – the whole nation needs construction workers. The national construction workforce is well above pre-pandemic levels with no end in sight.

SOURCES

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Labor Rates and Supply Chains Are in Two Different Places

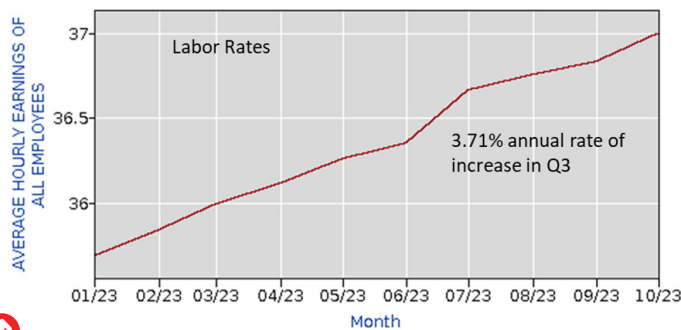
In June 2023, private industry employer compensation costs averaged \$55.57 per hour worked for union employees... Compensation costs for nonunion workers averaged \$39.75 per hour worked. ¹

"Merit-shop contractors anticipate skilled-craft hourly wage increases of 4.45% in 2023," compared to actual increases for 2022 of 5.10%, construction compensation data firm PAS reported on October 5. "These increases are across the board for all craft, contractor types, sizes, and regions of the country." ²

...The overall change (in annual wages) from 2022 to 2023 for all 30 craft positions combined was 6.9%, strong in all sectors except single-family residential. Laborers had the highest change from 2022 at 9.2%, followed by electricians at 7.1% and carpenters at 6.8%. ³

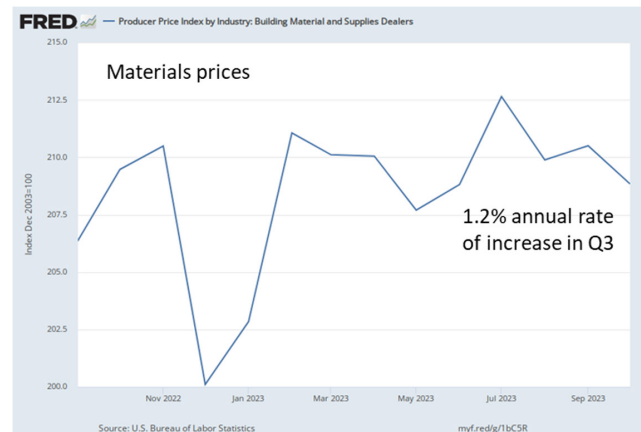
The "first year of new settlements reached from January through September of 2023 for union craft workers in the construction industry had an average increase of 4.6%," up from 3.9% in 2022, the Construction Labor Research Council (CLRC) reported on Friday (Oct 13). "Total package increases have risen more in the past two years than in the decade prior (2011-2021)." ⁴

...Supply chain issues also continue to ease as only 32% of respondents cite this as a concern compared to 56% in Q4 [the fourth quarter of] 2022. ⁵



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Input prices and bid prices for construction were little changed from August to September, according to data the Bureau of Labor Statistics posted on Wednesday (Oct 4). ⁸



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THE MARKET'S MESSAGE

The materials supply chain and cost issues of last year have largely subsided; labor rates are the new cost drivers. Wage increases have jumped by nearly double digits for some labor categories, but increases will not be as great as they were in 2022. Unions have had some influence and might be gaining strength in light of recent successes in other industries, but it is still an uphill struggle for construction worker unions.

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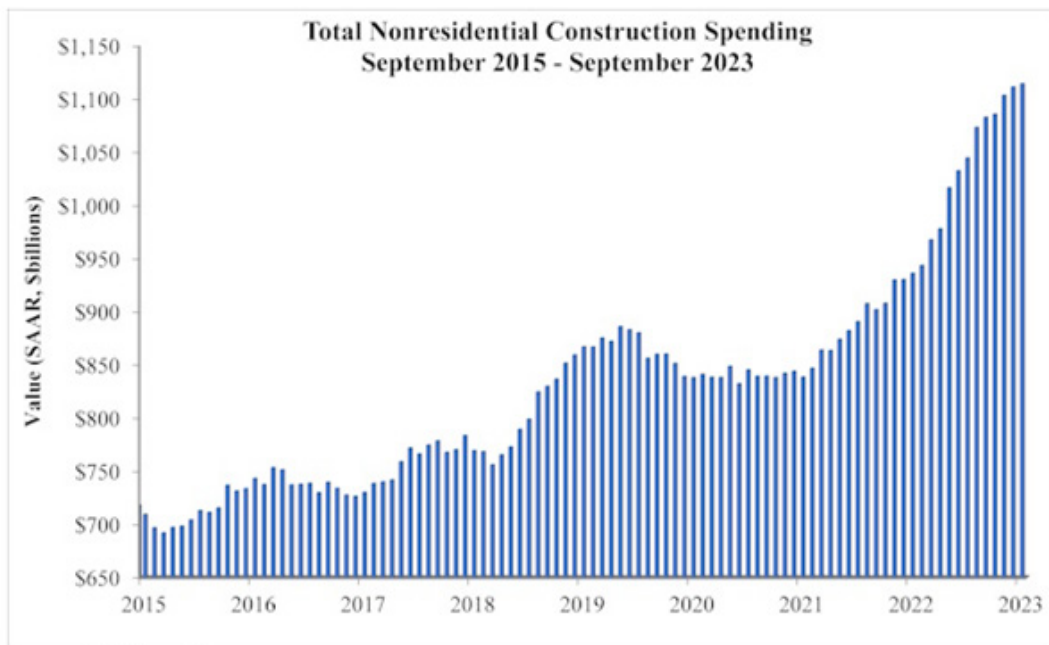
Spending

National nonresidential construction spending inched higher by 0.3% in September to a seasonally adjusted annualized basis of \$1.1 trillion, according to a new Associated Builders and Contractors analysis.¹ 

After a revision flipped May's 0.2% drop to a 0.9% gain, September's jump now indicates the 16th consecutive month of expansion, primarily due to publicly financed construction, said Basu.² 

"It is encouraging that most categories of construction, including homebuilding, are growing," said Ken Simonson, AGC's chief economist. "But the numbers would be even more impressive if the industry didn't have so many unfilled job openings."³ 

The value of construction starts in current dollars (not adjusted for inflation) tumbled 15% from August 2022 to last month, data firm ConstructConnect reported on Tuesday (Sep 19). Residential starts plunged 35%, with single-family down 7.4% and apartments down 66%. Nonresidential building starts climbed 5.0%....⁴ 



Source: U.S. Census Bureau

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THE MARKET'S MESSAGE

While construction spending continues to increase monthly, there is some concern that the great post-COVID recovery is subsiding. The labor shortage is the primary culprit. Inflation also continues to mask real spending levels, highlighting increased spending when volume may actually be falling. September's significant downturn in new starts may be foretelling.

SOURCES

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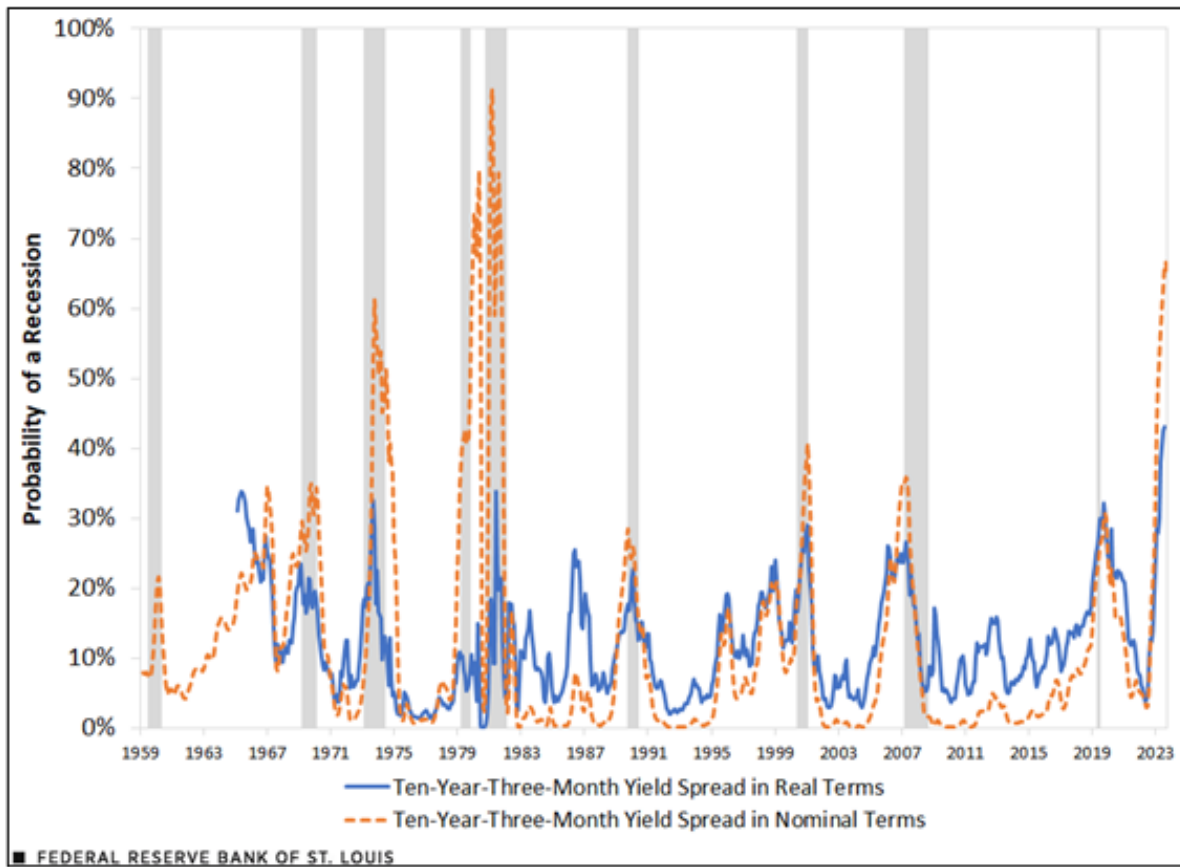
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...So Where's This Recession Everyone's Been Talking About?

On October 17, 2022, Bloomberg published a story with the headline, “Forecast for US Recession Within Year Hits 100%.” Well, it’s one year later, and not only have we avoided recession, data released this week make it clear the economy will continue to grow through the end of the year (barring a government shutdown).¹



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These rate hikes have also sidelined project starts because proformas have been impacted as credit markets tighten, thus increasing loan to value and requiring more funds be put into a project. We have noticed developer projects being pulled or being put on hold as developers conclude the numbers involved are not financially advisable.³

Gross domestic product expanded at a 4.9% seasonally- and inflation-adjusted annual rate in the third quarter—more than double the second quarter pace—the Commerce Department reported Thursday (Oct 26).⁴



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...So Where's This Recession Everyone's Been Talking About?

—Continued

Real GDP growth forecasts for 2024						
	GLOBAL	U.S.	CHINA	EURO AREA	UK	INDIA
Goldman Sachs	2.60%	2.10%	4.80%	0.90%	0.6%	6.3%
Morgan Stanley	2.80%	1.90%	4.20%	0.50%	-0.1%	6.4%
UBS	2.60%	1.10%	4.40%	0.60%	0.6%	6.2%
Barclays	2.60%	1.20%	4.40%	0.30%	0.1%	6.2%

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Consumers are feeling rather glum about the outlook. The consumer-confidence index of expectations fell below 80 in September, a level that historically has signaled a recession within the next year. ⁶

Among the possible challenges with fall: a broader auto workers strike, a lengthy government shutdown, the resumption of student loan payments and rising oil prices. ⁷

In the latest quarterly survey by The Wall Street Journal, business and academic economists lowered the probability of a recession within the next year, from 54% on average in July to a more optimistic 48%. That's the first time they have put the probability below 50% since the middle of last year. ⁸

THE MARKET'S MESSAGE

Despite rising interest rates, declining consumer confidence, potentially damaging government policies and behavior, and stubbornly high inflation, the GDP grew by 4.8% in the 3rd quarter of 2023. Historic recession forecasting measures do not appear to be holding. Constant warnings of an impending recession have given way to the real possibility of a "soft landing."

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Market Sectors

“Despite a small decrease in spending in September, manufacturing construction remains the nonresidential sector’s outperformer,” said Basu in the (AGC construction spending report, Nov 2023) release. “Spending in the category is up 62% over the past year and accounts for nearly 43% of the year-over-year increase in nonresidential construction put in place.”¹

...New [office] supply continues to come to market despite the downshift in demand. Net new deliveries measured roughly 14.0 million square feet in Q2, an increase from 12.3 million in [Q2 2022].²

Atlanta’s commercial-property turmoil shows that even Sun Belt cities with thriving economies can’t escape the office-sector meltdown.³

Onshoring effort accelerates after COVID-19 pandemic

Construction spending for manufacturing since 2002, seasonally adjusted dollars



⁴

“In my mind it was kind of like throwing gasoline on the fire,” said (Global Location Strategies CEO Didi) Caldwell regarding the Biden administration’s push to support manufacturing projects. “We were already seeing a huge uptick, especially in these capital-intensive projects.”⁵

The new [industrial] supply pipeline is also moderating slightly. The 108.3 million square feet delivered in Q2 represented a downshift from 123.9 million in Q1. With more supply than demand, the vacancy rate edged up to 4.7%. That said, industrial construction still far exceeds pre-pandemic levels.⁶



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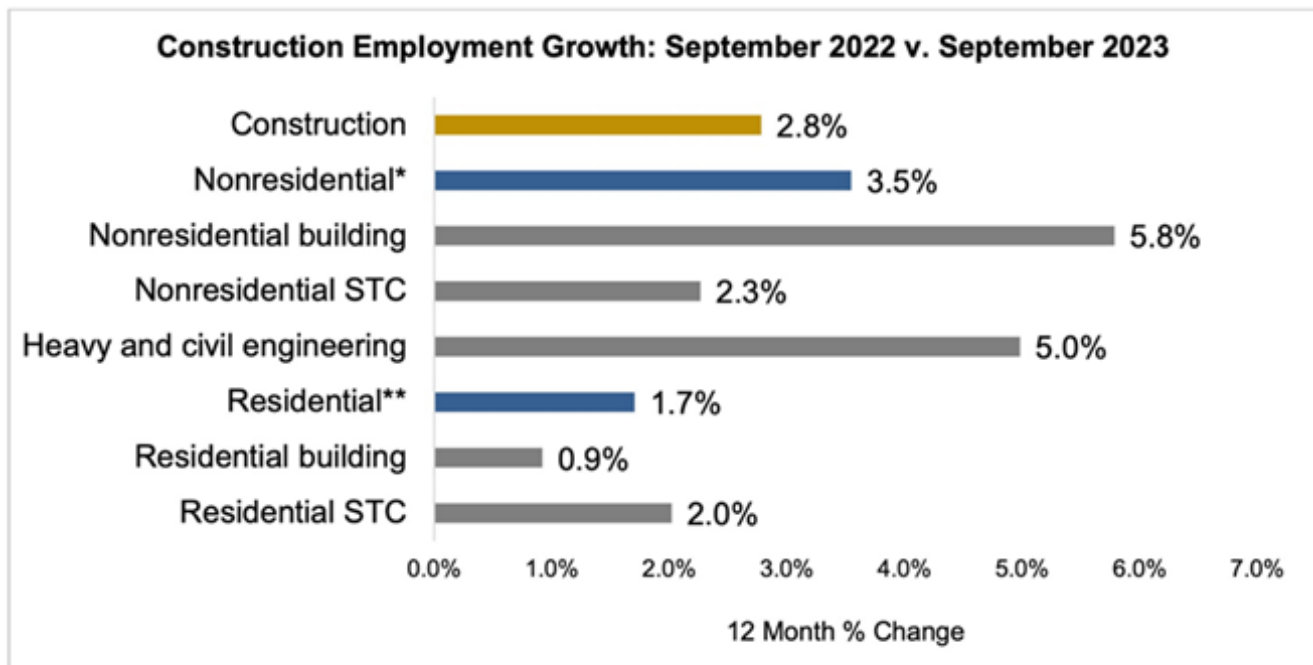
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Market Sectors

—Continued



Source: U.S. Bureau of Labor Statistics *Includes Nonresidential Building, Nonresidential STC, and Heavy and Civil Engineering
**Includes Residential Building and Residential STC



THE MARKET'S MESSAGE

Industrial construction has taken off in a way never seen before, largely spurred on by the post-pandemic desire to onshore manufacturing capacity and assisted by generous government funding. The increased spending is a generational phenomenon that appears to have long legs. Although new office buildings are losing their luster, they continue to be built.

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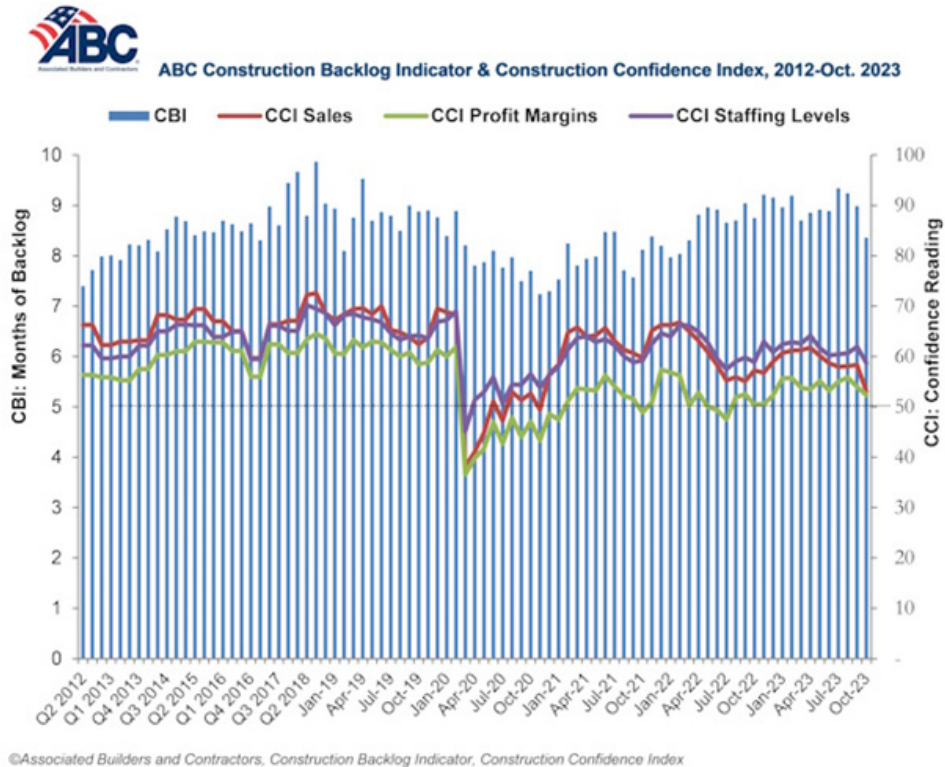


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Confidence and Backlog



“Out of 16 industries analyzed, the construction industry had the third-highest share of motivated and committed workers,” based on a new Employee Motivation and Commitment (EMC) index that the ADP Research Institute unveiled in its Q3 Today at Work report, posted on Thursday (Sep 6).²

A quarterly survey of 570 engineering and design services industry executives “shows executives have a more positive economic outlook, but workforce pressures are still impacting their businesses,” said Joe Bates, the lead researcher with the ACEC (American Council of Engineering Companies) Research Institute, which released the results on August 28....Current sentiment remains very optimistic within all market sectors.³

The value of construction starts in current dollars (not adjusted for inflation) tumbled 26% from September 2022 to last month, data firm ConstructConnect reported today (Oct 20).⁴

Total construction starts in current dollars fell 6% from August to September at a seasonally adjusted annual rate, Dodge Construction Network reported on Wednesday (Oct 18).⁵

The Architecture Billings Index (ABI) registered a score of 44.8, seasonally adjusted, in September, the lowest reading since August 2020 and down from 48.1 in August, the American Institute of Architects (AIA) reported on Wednesday (Oct 18).⁶

“The September ABI score reflects a marked downturn in business conditions at architecture firms, with the sharpest decline observed since the peak of the pandemic,” said AIA’s chief economist Kermit Baker. “While more firms are reporting a decrease in billings, the report also shows the hesitance among clients to commit to new projects with a slump in newly signed design contracts. As a result, backlogs at architecture firms fell to 6.5 months on average in the third quarter, their lowest level since the fourth quarter of 2021.”⁷



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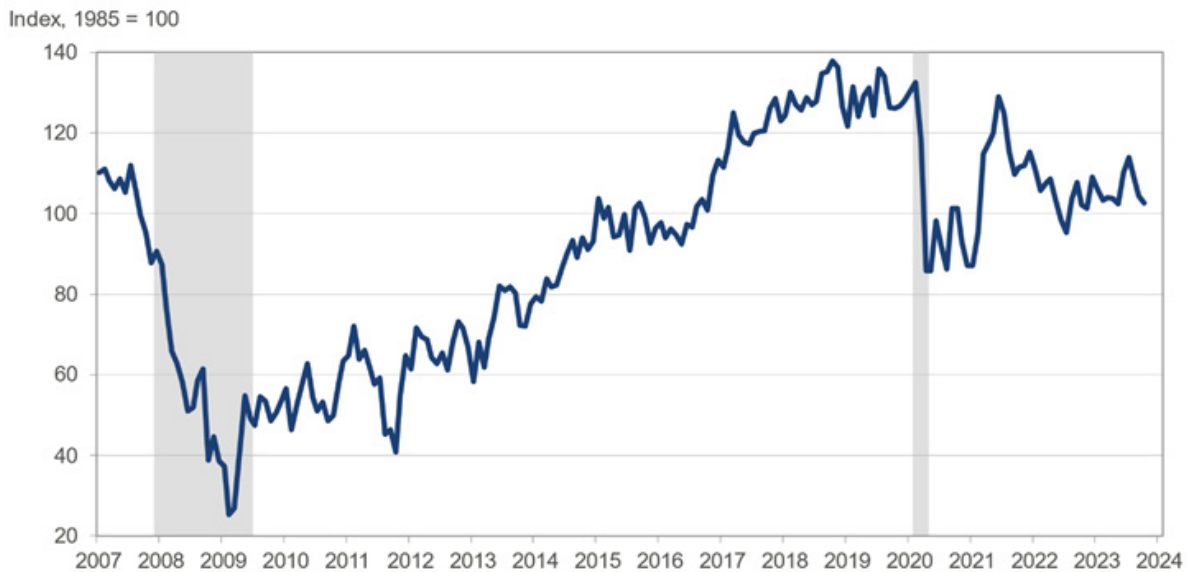


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Confidence and Backlog

—Continued

Consumer Confidence Index®



*Shaded areas represent periods of recession.
Sources: The Conference Board; NBER
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THE MARKET'S MESSAGE

Industry leaders continue to have mixed feelings about the future. Backlogs are shrinking, and confidence is waning. Construction starts have fallen, and architectural work saw lower billings in October than September. Workers are happy, though, if you can find them! Over the past several years industry leaders have been consistently upbeat.

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Final Thoughts

Labor availability is the number one deterrent to more explosive nonresidential construction growth. The nation's labor force has completely replaced all the construction jobs lost during COVID and desperately tries to keep up with constantly growing demand, reflecting near all-time low unemployment levels. Despite high borrowing rates, high labor rates, and the reduced backlog, contractors are optimistic...but less so than last quarter. Manufacturing construction continues to dominate all building and promises to continue to do so. The nation continues to wait for a recession....

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