



Today's Construction Economy

Published First Quarter 2024

Introduction

Today's Construction Economy captures key insights 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.

In the first quarter of 2024 the U.S. construction market has continued to reflect strong fundamentals with some indicators softening. Labor demand and wages continue to steadily climb as projects continue to outpace supply. Material price and availability are little changed, though specialty products remain difficult to source. Machine demand is elevated but volatile, ultimately remaining above the four-year average. Though market conditions continue to be upbeat, there are signs of headwinds from the Fed's rate expectations, and a rumbling geopolitical backdrop increases project risk. Still, the tailwind of planned spend for 2024 outweighs those risks for now. Our focus continues to be on the primary drivers of selling price to Owners.

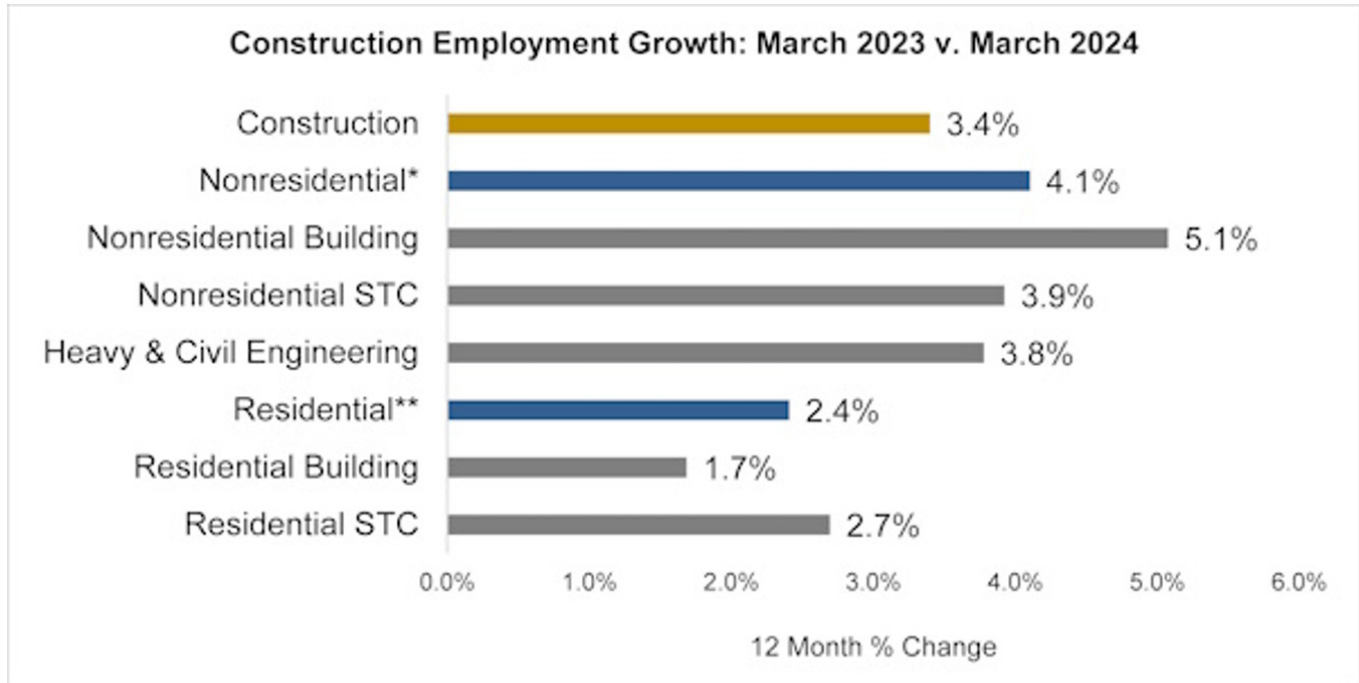
First Quarter 2024

Prepared by Brandon Michalski
Principal, Construction Economist
(850) 389-8128
Email: Brandon.Michalski@mocasystems.com

MOCA Systems, Inc. (MSI) - The leading services and software provider for the Architecture, Engineering, and Construction industry.



Labor: Positive Employment Momentum Continues



Source: U.S. Bureau of Labor Statistics

*Includes Nonresidential Building, Nonresidential STC, and Heavy and Civil Engineering

**Includes Residential Building and Residential STC

“The 39,000 jobs added by the nation’s construction segment was roughly twice the monthly growth observed over the past year. If one focuses purely on nonresidential construction, monthly job growth was nearly 80% faster than the one-year average,” Anirban Basu, Associated Builders and Contractors (ABC) chief economist. (1)

“ABC estimates that the U.S. construction industry needs to attract about a half million new workers in 2024 to balance supply and demand,” said Michael Bellaman, ABC president and CEO. (2)

The construction industry added 39,000 jobs on net in March. On a year-over-year basis, industry employment has expanded by 270,000 jobs, an increase of 3.4%.

Nonresidential construction employment increased by 24,600 positions on net, with growth in all three subcategories. Nonresidential specialty trade added the most jobs, increasing by 16,300 positions. Heavy and civil engineering and nonresidential building added 6,000 and 2,300 jobs, respectively.

THE MARKET’S MESSAGE



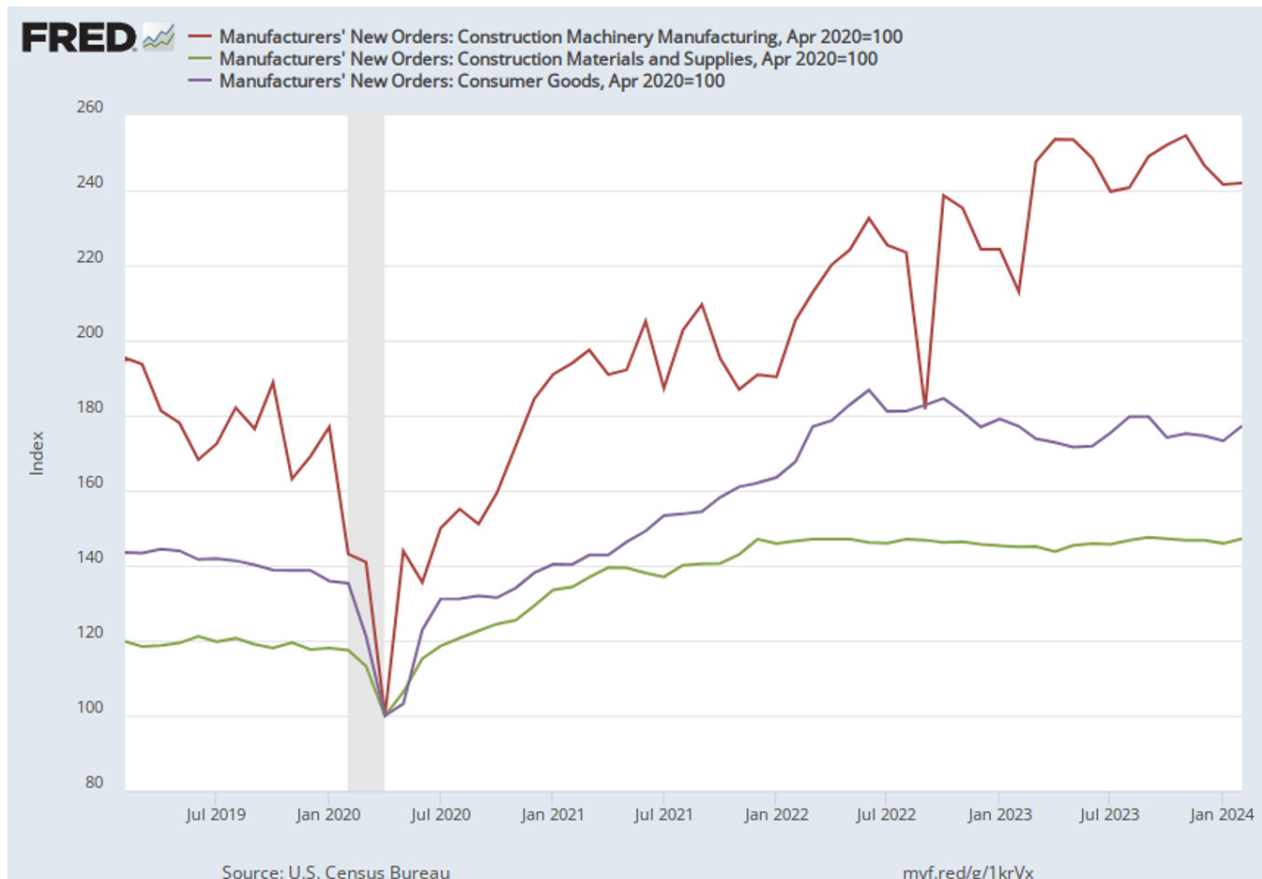
Labor demand continues to outstrip supply in most sectors, especially the nonresidential sector which typically sources more specialty trades. Ultimately, the impact of strong construction labor demand will increase selling price.

SOURCES

- (1) <https://www.abc.org/News-Media/News-Releases/abc-nonresidential-construction-adds-whopping-24600-jobs-in-march>
- (2) <https://www.abc.org/News-Media/News-Releases/abc-2024-construction-workforce-shortage-tops-half-a-million>



Materials and Machinery: Elevated Sustained Demand



(Ending Feb 2024)

“Prices are coming down from those extraordinary levels of a year or two ago, but they’re not back to what we’ve seen pre-pandemic,” according to Brent Thielman, managing director and senior research analyst at D.A. Davidson & Co. (3)

Contractors are seeing some relief. Construction input prices for some materials like copper wire and cable and gypsum products have fallen since last January, per ABC analysis. According to Brent Thielman, costs for plastic and resin-based products, which were “through the roof” during the pandemic, are beginning to normalize.

THE MARKET’S MESSAGE



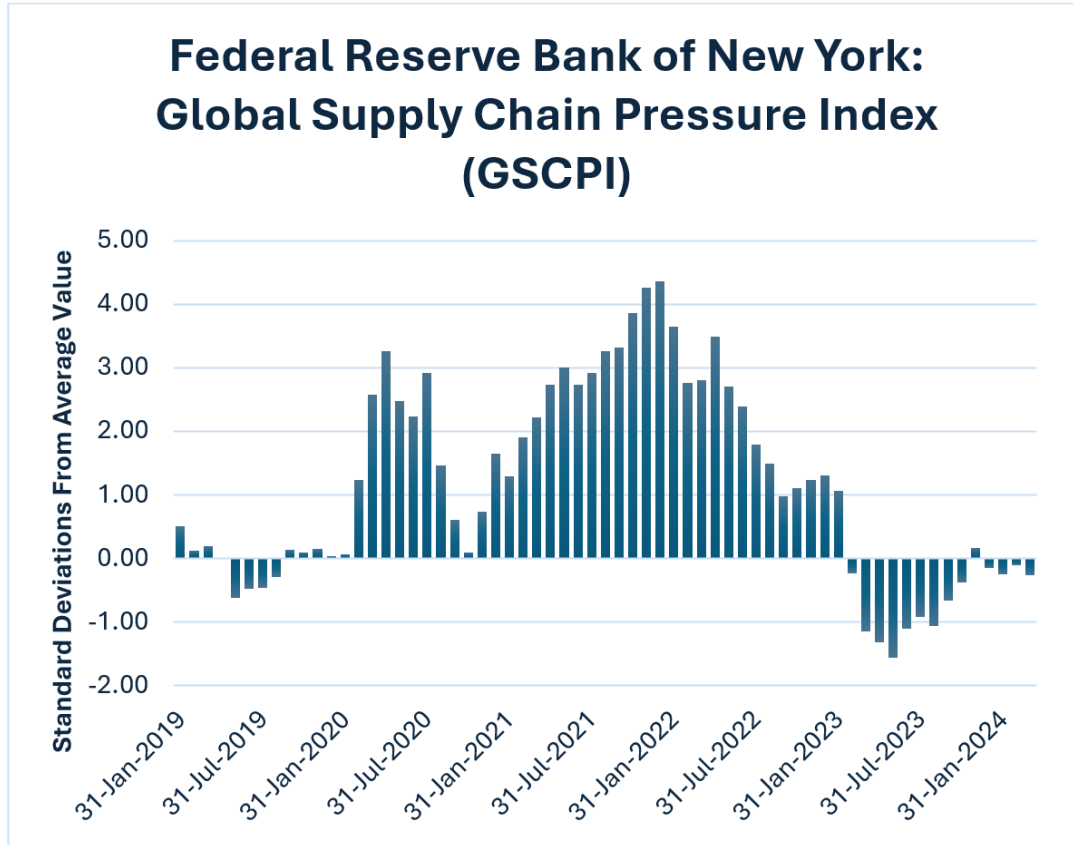
New orders for materials and machinery remain at elevated levels, though some stabilization has occurred. Additionally, although some machinery and materials prices are normalizing, demand remains elevated compared to the five-year average. The resultant impact on the selling price of machinery and materials is inconclusive.

SOURCES

- (3) <https://www.constructiondive.com/news/construction-materials-supply-chain-shortage/708866/>



Supply Chain: Normalizing, but Risks Remain



The Global Supply Chain Pressure Index (GSCPI) fell to -0.27 in March, down from -0.11 in February (revised down from an initial reading of 0.10). GSCPI readings measure standard deviations from the index’s historical average. (4)

“It’s likely that the container lines will include the longer transit times in upcoming vessel schedules, so the expected time of arrival certainty will only increase in the coming weeks. That will improve planning and reduce the risk of delays and stockouts,” said Mirko Woitzik, director of Intelligence Solutions at Everstream Analytics. (5)



THE MARKET’S MESSAGE

The New York Fed’s GSCPI has narrowly edged down in March, even as geopolitical activity has increased, suggesting some shippers may have adapted to alternative routes and fuel costs. European markets have historically been more sensitive to activity in the Red Sea and the Suez Canal. Ultimately, for the U.S. market, while risk may ratchet at any moment, the impact of supply chain improvements on selling price is downward.

SOURCES

(4) <https://www.census.gov/construction/c30/current/index.html>

(5) <https://canada.constructconnect.com/dcn/news/usa/2024/04/u-s-construction-spending-slips-3-per-cent-in-february>



LOWER



HIGHER



NEUTRAL/INCONCLUSIVE

U.S. Manufacturing: Driving Significant Spend

Onshoring effort accelerates after COVID-19 pandemic

Construction spending for manufacturing since 2002, seasonally adjusted dollars



Chart: Sebastian Obando/Construction Dive • Source: U.S. Census Bureau • Created with [Datawrapper](#)

“I haven’t seen in the last 25 years anything like this,” said Didi Caldwell, president and CEO of Global Location Strategies, a Greenville, South Carolina-based business consulting and services firm for capital, labor, energy and water intensive manufacturers. “This is a once-in-a-lifetime or a once-in-a-century-type event that we’re experiencing.” (6)

THE MARKET’S MESSAGE



Onshoring is driving significant manufacturing construction spend, though the overall volume of contracts may not be expanding at the same rate in the near term. Ultimately, the increase in demand for a domestic U.S. manufacturing footprint will increase selling price.

SOURCES

(6) <https://www.constructiondive.com/news/manufacturing-construction-onshoring-ancillary-projects/699500/>



LOWER



HIGHER



NEUTRAL/INCONCLUSIVE

U.S. Manufacturing Outlook: Another Blockbuster Year

Manufacturing construction skyrockets to new heights

Public funds, such as IIJA and CHIPS Act, continue to boost starts in the sector.

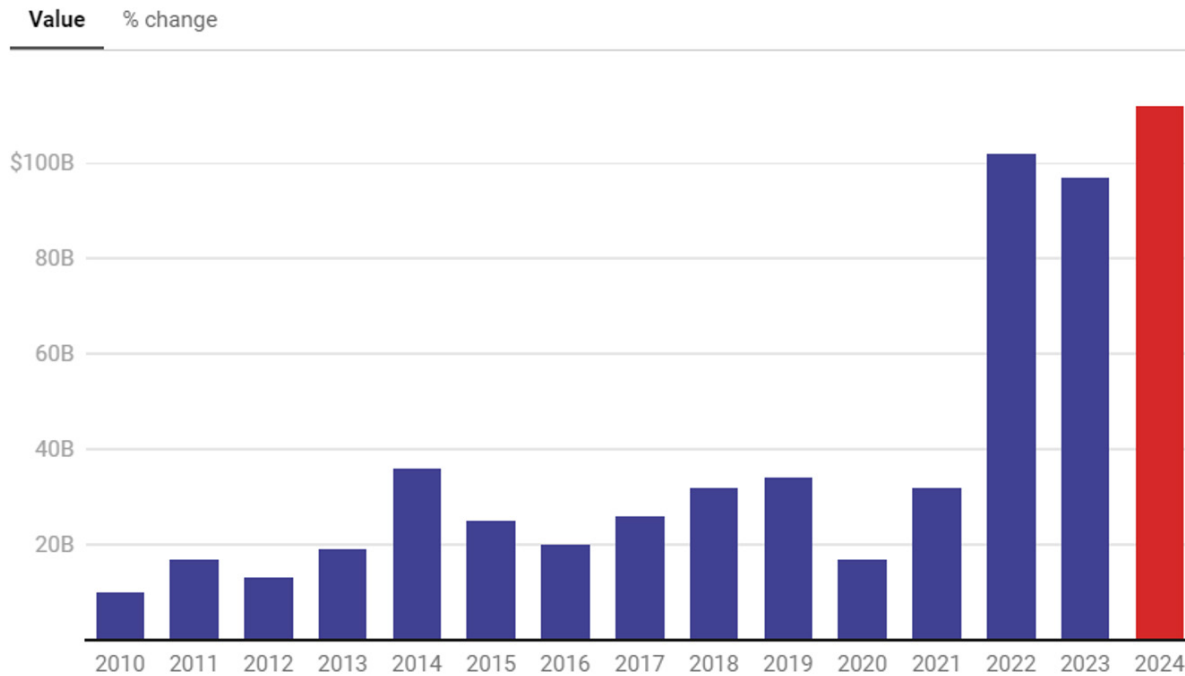


Chart: Sebastian Obando/Construction Dive • Source: Dodge Construction Network • Created with [Datawrapper](#)

Starts in the manufacturing sector, which include multibillion-dollar electric vehicle battery plants and 1,000-acre semiconductor factories projects, hit \$97 billion in 2023, according to Dodge Construction Network. (7) That ranks as the second largest amount of investment in one year over the past 15 years. Only 2022, which set the all-time record at \$102 billion, posted higher activity.

“...this year is on track to be even bigger. Dodge forecasts \$112 billion in investment in the sector for 2024, a potential record amount of activity,” said Richard Branch, chief economist for Dodge Construction Network. (8)

THE MARKET’S MESSAGE



Construction spend on manufacturing is expected to increase in 2024, though there have been some recent indications that this is at risk due to various factors such as higher interest rates. It is important to note that with sustained higher costs increased spend does not necessarily indicate more projects put in place. Ultimately, higher spend and the draw on specialized labor and materials in the sector will increase selling price.

SOURCES

- (7) <https://www.constructiondive.com/trendline/top-5-stories-from-construction-dive/368/#story-1>
- (8) Ibid.



LOWER

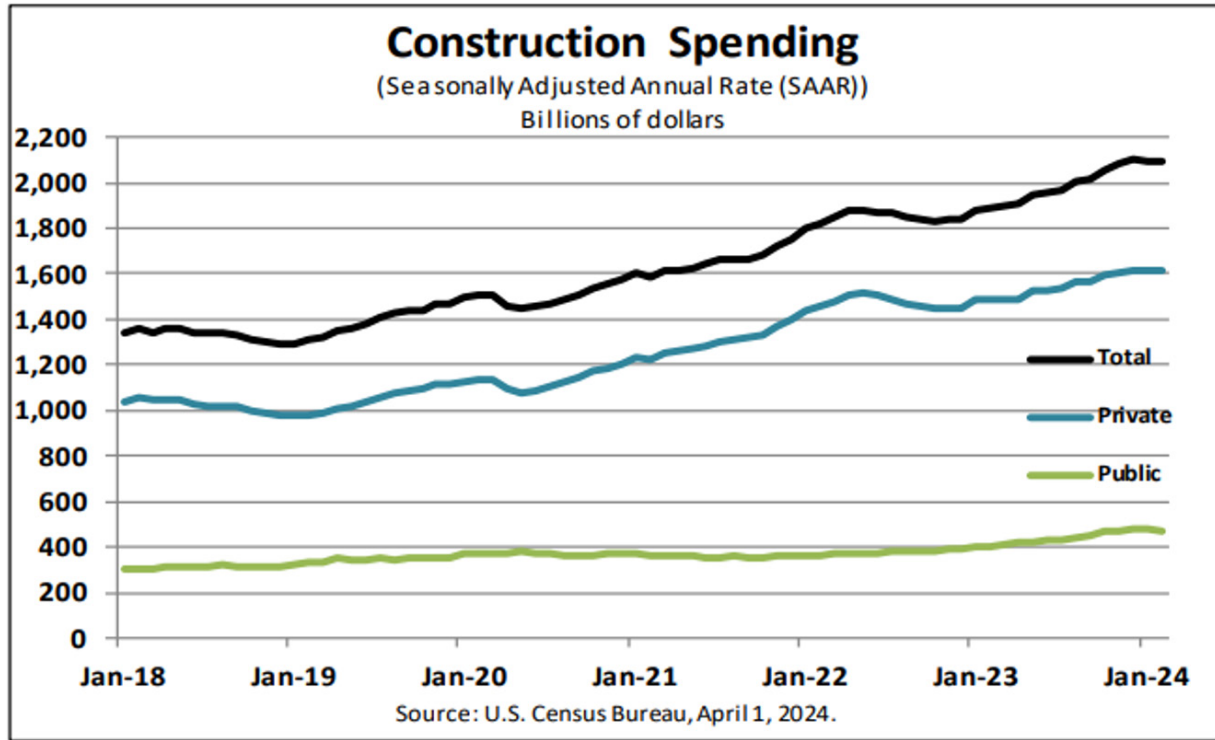


HIGHER



NEUTRAL/INCONCLUSIVE

Construction Spending: Elevated, but Catching a Breath



Construction spending during February 2024 was estimated at a seasonally adjusted annual rate of \$2,091.5 billion, 0.3 percent below the revised January estimate of \$2,096.9 billion. The February figure is 10.7 percent above the February 2023 estimate of \$1,889.6 billion. During the first two months of this year, construction spending amounted to \$298.1 billion, 11.9 percent above the \$266.5 billion for the same period in 2023. (9)

Associated General Contractors of America (AGC) officials suggested in a release the monthly decline could have been caused by changes in winter weather patterns, including heavy rain and snow in the west, during February.

“There were monthly decreases for nearly all types of nonresidential projects,” said Ken Simonson, the association’s chief economist, in a statement. “But every spending segment increased from a year earlier, suggesting the current downturns may reflect short-term challenges such as severe weather, not fading demand.” (10)

THE MARKET’S MESSAGE



There has been some modest softening in construction spend; though there are suggestions this may be weather related, there are other factors that may also be responsible such as sustained elevated interest rates, elevated cost of labor, and some political risk. Ultimately, the impact of softening/stabilizing spend on selling price is downward.

SOURCES

- (9) <https://www.census.gov/construction/c30/current/index.html>
- (10) <https://canada.constructconnect.com/dcn/news/usa/2024/04/u-s-construction-spending-slips-3-per-cent-in-february>



Construction Starts: Elevated, with Some Seasonal Churn

Year-to-date Construction Starts

Value of projects breaking ground up to Feb., in millions of dollars.

	2 Mos. 2024	2 Mos. 2023	% Change
Nonresidential Construction	\$67,624	\$53,586	26%
Residential Construction	\$62,378	\$47,247	32%
Nonbuilding Construction	\$42,464	\$35,222	21%
Total Construction	\$172,465	\$136,054	27%

Table: Matthew Thibault / Construction Dive • Source: [Dodge Construction Network](#) • [Get the data](#) • Created with [Datawrapper](#)

Monthly Construction Starts

Value of projects breaking ground, in millions of dollars.

	Feb. 2024	Jan. 2024	% Change
Nonresidential Construction	\$406,518	\$483,277	-16.00%
Residential Construction	\$392,329	\$398,769	-2.00%
Nonbuilding Construction	\$275,087	\$282,877	-3.00%
Total Construction	\$1,073,934	\$1,164,923	-8.00%

Table: Matthew Thibault / Construction Dive • Source: [Dodge Construction Network](#) • [Get the data](#) • Created with [Datawrapper](#)

“Construction activity was hit hard by higher rates and more restrictive credit standards,” said Richard Branch, chief economist at Dodge Construction Network. “Starts struggled over the past several months as the lagged effect of higher rates impacted projects moving forward through the planning process.” (11)

THE MARKET'S MESSAGE



Year-to-date starts remain robust, but taking a more granular look at month-over-month data there is some indication of normalizing growth patterns. While the slowing starts don't yet suggest a downward trend, this does provide some relief for selling price in the short term and has a downward effect.

SOURCES

(11) <https://www.constructiondive.com/news/construction-starts-fed-interest-rates/710948/>

Final Thoughts

Labor costs are the biggest factor affecting nonresidential construction prices. Despite risks like high interest rates and political uncertainty, these haven't significantly affected project decisions. The fear of a recession has largely disappeared, and a soft-landing scenario appears more likely. Given the current market messages, we can expect a strong construction market and high selling prices to continue in 2024.

First Quarter 2024

Prepared by Brandon Michalski
Principal, Construction Economist
(850) 389-8128
Email: Brandon.Michalski@mocasystems.com

MOCA Systems, Inc. (MSI) - The leading services and software provider for the Architecture, Engineering, and Construction industry.