

CONSTRUCTION SPENDING AND GROWTH FORECASTS

THE WAY CLEARS BUT UNCERTAINTY REMAINS

February of 2017 saw an increase of 0.8% for construction spending, which was an 11-year high for that month. This market indicator is a clear sign that construction has room to proceed forward and there are encouraging prospects for growth. Even though the markets remain fairly flat overall, there is opportunity within certain market segments for the construction industry, and reasons for continued optimism.

According to data from the Associated Builders and Contractors' (ABC) Construction Confidence Index (CCI), the majority of industrial and commercial construction contractors still expect growth this year. The CCI for profit margin expectations fell from 61.1% to 56%, largely reflecting the lack of skilled workers, which will drive up wage costs.

As the economy continues to move along, there's an uptick in commercial construction, particularly in the office segment and within certain areas of retail. Companies continue to build flagship-style office buildings in order to improve their corporate branding, present an eco-friendly image, and develop or continue a dynamic culture that fosters innovation.

Office building construction has been on a tear the last few years, as the economic recovery chugs along and hiring and expansion continue.



INDUSTRY CHALLENGES REMAIN

Despite the promise of increased growth in multiple segments for 2017, challenges remain. The cost of construction materials are expected to rise, continuing the trend seen year-over-year. For February and March of 2017, there was an increase of 0.3% for prices, according to an Associated Builders and Contractors analysis of Bureau of Labor Statistics' data. This marked four months of consecutive growth and brings feelings of optimism for the rest of the year.

The ability of construction firms to attract and retain skilled workers remains another major challenge, as the limited supply of such workers drives wages higher and can cause project schedules to extend to cost-prohibitive timeframes.

From 2006 to the end of the recession in early 2011, the construction industry eliminated up to 40% of its workforce, and many of those workers have not returned to the field. There's also a lack of technical training in schools, and the workforce continues to "gray" as many of the skilled workers are aging out of their positions and heading towards retirement.

An uncertainty for 2017 construction spending is the administration's plans for an infrastructure bill that will

push construction growth increases among many sectors. Firms are waiting to see the likely timing and scope of such infrastructure spending, knowing that a massive infrastructure bill will have widespread effects, including growth for the vertical construction segment.

BRIGHTER SIGNS FOR E-COMMERCE

While brick and mortar retail in the form of suburban malls and similar outlets continues its slide, there is an increase in spending to support the infrastructure of e-commerce. Online goods still need to be warehoused and shipped, new data centers are being built, and all of these “virtual” activities still require physical structures. There’s a continual increase in the construction of facilities that support e-commerce retailers that are mainly focused on online sales.

In the retail sector there is also an increase in the number of developments that offer a unique tenant mix with retailers that cater specifically to millennials. To differentiate themselves, especially with the emergence of online shopping, these developments are geared to serve urban neighborhoods and tend to be lifestyle oriented. This provides construction firms with the opportunity to create some more innovative and multi-use spaces that differ aesthetically from the traditional mall space.

ADDITIONAL GROWTH SEGMENTS

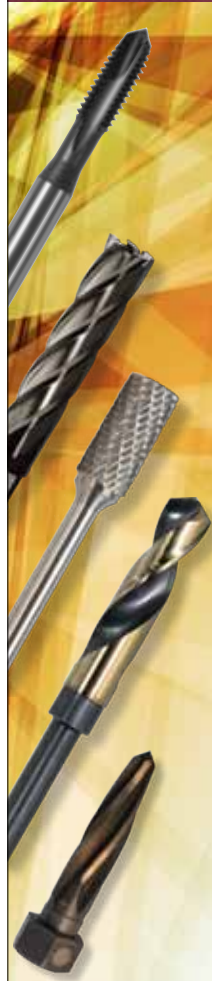
The office, retail, and industrial sectors have performed well recently and will likely continue to drive growth in 2017. The energy sector is also strong and will continue to drive construction growth, especially in areas of the south such as Texas and Louisiana.

The Northeast and West will continue to struggle in terms of additional construction growth, but they will be shored up by the continued growth of favorable Midwest areas. The growth in the Northeast will be more localized, as New York City and Boston become technology hubs and attract businesses enticed by the deep pools of talent that live within those cities.

In 2017 and beyond, there will be other trends impacting construction spending and how the industry itself operates. For example, the Internet of Things (IoT) will continue to transform the industry. Wearable devices can provide workers in the field with sensor-based protection from job hazards, and can also help firms manage labor mistakes and fraud. Technology tools like virtual design planning will also become more commonplace, as firms can use Building Information Modeling (BIM) technology to detect costly problems before construction begins. **CS**



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