

CONSTRUCTION FORECAST

Surveys: Market Slows in 2019

Voter-approved bond issues will boost transportation sector growth next year, but declines in multifamily and other housing work will lead to an overall flat construction sector

Overall construction growth, already slowing down over the last few years, won't pick up any steam in 2019 as housing shortfalls negate gains in non-buildings sectors, according to economic forecasts analyzed by ENR.

Following mostly increasing numbers over the last several years, construction starts will see basically no change next year, says Dodge Data & Analytics in its 2019 Construction Outlook. Dodge reports that construction starts will reach \$806.8 billion in 2018, a 3% increase from the 2017 figure of \$785.3 billion. But starts for 2019 are expected to rise only 0.2%, to \$808.3 billion.

"During the 2012-15 period, total construction showed an annual growth in the 11% to 14% range, which was then followed by some deceleration in 2016 and 2017 as total construction starts advanced 7% each year," says Robert A. Murray, senior vice president and chief economist at Dodge Data & Analytics. "This deceleration was expected, since expansions typically register slower growth as they mature."

Material prices also are expected to remain at a higher rate through 2019, says Murray. While the U.S. Bureau of



WHAT'S AHEAD Construction starts are set to increase just 0.2% in the coming year, says Dodge Chief Economist Robert Murray.

Labor Statistics' producer price index reported restrained increases in the years following the economic downturn in 2008, prices rose 3.6% in 2017. For the first nine months of 2018, prices are up 6.5% overall, with most

of the increases coming from metal materials, as aluminum mill shapes, copper wire and steel mill products each posted double-digit increases. Some of the rising material costs can be attributed to the 25% steel tariffs and 10% aluminum tariffs that were imposed by the Trump Administration on Canada, Mexico and the European Union this past June.

An FMI Corp. market forecast predicts next year's total construction put-in-place to increase 5.6% to \$1.4 trillion, roughly the same as this year's escalation of 5.5%. Its outlook also calls for an increase of 6.2% in non-residential construction, up from last year's 5.3% rise.

FMI expects housing to grow 5.9%, slowing down from the 6.7% rate last year. FMI principal Jay Bowman remains optimistic about next year's market performance. "Certain markets may not be as positive looking, but we still think 2019 will be a good year," he says.

Housing To Slide

Total residential starts are expected to experience a 6% boost by the end of 2018, according to Dodge. The strengthening economy has renewed demand for single-family homes, which increased 6%, while multifamily housing rose 5%. However, Dodge expects housing to post a 2%

downturn in 2019, with multifamily housing dropping 6% and single family construction staying flat.

“So far this year, economic conditions have remained largely beneficial to single-family housing,” says Murray. “But conditions are changing.” He notes that the housing construction sector is showing signs of maturity, and points to the negative impact of last year’s tax cuts on the market.

“By increasing the standard deduction and limiting other deductions, the new law reduces the tax advantages of home ownership,” says Murray.

Still, the National Association of Home Builders predicts single-family housing starts will continue to rise, reaching 927,000 starts in 2019, a 4.7% increase from 885,000 in 2018. NAHB expects that increase to continue into 2020, with starts reaching 979,000. Starts in multifamily housing will rise 7.6% in 2018, 383,000 from 356,000, but will see a downturn in the next two years. NAHB is forecasting a drop of 4.4% in 2019, followed by a 0.5% decrease in 2020.

The Portland Cement Association offers a more optimistic outlook for 2019. It reports a 1.4% increase in construction put-in-place in 2018, up slightly from 1% growth the previous year. In 2019, PCA expects the rise to hit 2.2%.

Both residential and non-residential construction are forecasted to improve in 2019, with non-residential coming back from a 0.9% decrease in 2018. Also looking more positive next year is the industrial construction sector, set to increase 4.9% after falling 6.6% in 2018.

“The economy is strong,” says Ed Sullivan, PCA senior vice president and chief economist. “While there may be factors that are beginning to emerge that could lead to a softer pace of economic and construction activity, it will probably take some time for economic growth to unwind.”

Transportation Boosts Public Works

PCA forecasts a 2.4% boost in public

DODGE CONSTRUCTION STARTS FORECAST: 2019 (\$ BIL)

MARKET	ACTUAL 2017	ESTIMATE 2018	FORECAST 2019	% CHG. 17-18	% CHG. 18-19
TOTAL CONSTRUCTION	785.301	806.825	808.325	+2.7	+0.2
RESIDENTIAL	307.628	325.450	319.275	+5.8	-1.9
SINGLE-FAMILY HOUSING	218.641	232.425	232.150	+6.3	-0.1
MULTIFAMILY HOUSING	88.987	93.025	87.125	+4.5	-6.3
NON-RESIDENTIAL	285.975	295.175	296.450	+3.2	+0.4
OFFICE BUILDINGS	41.892	44.575	44.900	+6.4	+0.7
HOTELS AND MOTELS	16.921	18.550	17.450	+9.6	-5.9
STORES AND SHOPPING CENTERS	20.064	18.300	18.075	-8.8	-1.2
OTHER COMMERCIAL	37.731	37.850	35.425	+0.3	-6.4
MANUFACTURING	25.838	30.400	30.925	+17.7	+1.7
EDUCATIONAL BUILDINGS	57.659	64.225	68.300	+11.4	+6.3
HEALTH-CARE FACILITIES	28.186	26.850	28.575	-4.7	+6.4
OTHER INSTITUTIONAL BUILDINGS	57.684	54.425	52.800	-5.6	-3.0
NON-BUILDINGS CONSTRUCTION	191.698	186.200	192.600	-2.9	+3.4
HIGHWAYS AND BRIDGES	71.515	76.700	79.300	+7.3	+3.4
ENVIRONMENTAL PUBLIC WORKS	36.771	39.400	41.700	+7.1	+5.8
OTHER PUBLIC WORKS	51.633	46.400	48.600	-10.1	+4.7
ELECTRIC UTILITIES	31.779	23.700	23.000	-25.4	-3.0

SOURCE: DODGE DATA & ANALYTICS

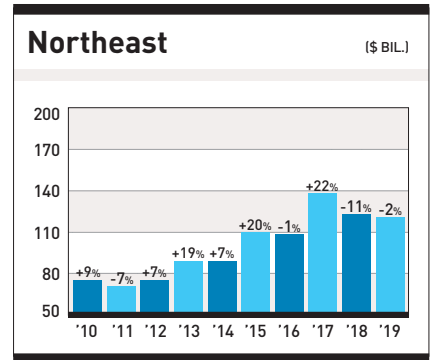
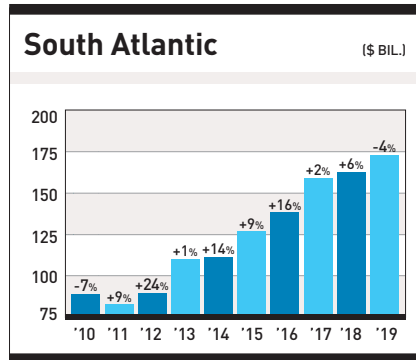
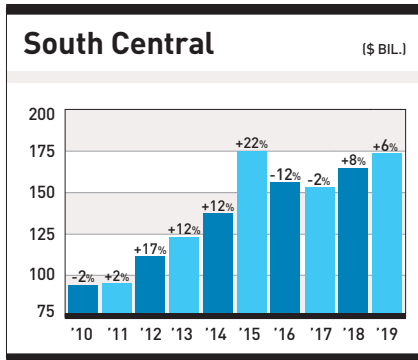
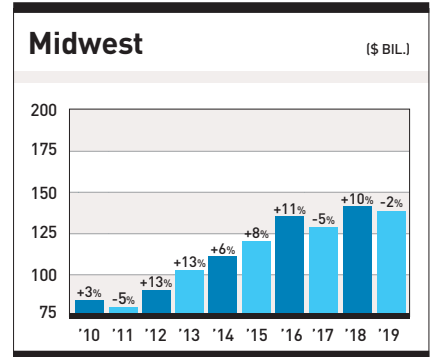
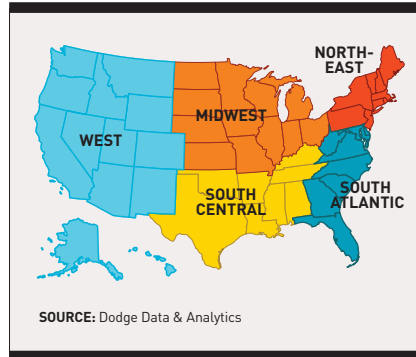
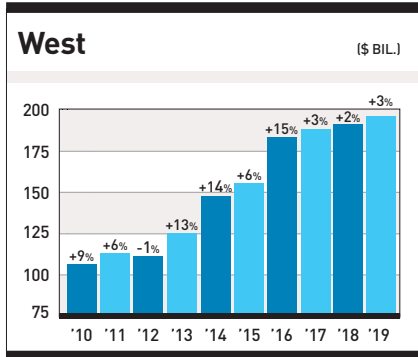
FMI CONSTRUCTION PUT-IN-PLACE FORECAST: 2019 (\$ BIL)

MARKET	ACTUAL 2017	ESTIMATE 2018	FORECAST 2019	% CHG. 17-18	% CHG. 18-19
TOTAL CONSTRUCTION	1,246.002	1,314.807	1,388.796	+5.5	+5.6
TOTAL RESIDENTIAL	531.657	567.218	600.673	+6.7	+5.9
SINGLE-FAMILY	270.338	288.993	304.201	+6.9	+5.3
MULTIFAMILY	66.354	68.119	70.121	+2.7	+2.9
HOME IMPROVEMENT	194.965	210.105	226.350	+7.8	+7.7
TOTAL NON-RESIDENTIAL	489.343	515.144	547.258	+5.3	+6.2
LODGING	28.672	30.896	32.791	+7.8	+6.1
OFFICE	66.850	72.757	78.271	+8.8	+7.6
AMUSEMENTS AND RECREATION	24.851	26.212	27.921	+5.5	+6.5
RELIGIOUS	3.366	3.217	3.112	-4.4	-3.3
EDUCATION	91.213	93.711	99.241	+2.7	+5.9
HEALTH CARE	41.916	42.941	44.833	+2.4	+4.4
COMMERCIAL	87.733	91.396	96.719	+4.2	+5.8
MANUFACTURING	66.448	68.005	72.544	+2.3	+6.7
PUBLIC SAFETY, ADMINISTRATIVE	8.290	9.150	9.731	+10.4	+6.3
TRANSPORTATION	45.173	50.866	55.129	+12.6	+8.4
NON-BUILDING STRUCTURES	225.002	234.445	240.865	+4.2	+2.7
CONSERVATION AND DEVELOPMENT	7.244	7.962	8.498	+9.9	+6.7
HIGHWAYS AND STREETS	89.053	92.519	96.074	+3.9	+3.8
SEWER SYSTEMS	20.386	20.943	21.859	+2.7	+4.4
POWER	96.513	98.376	101.068	+1.9	+2.7
WATER SUPPLY	11.806	12.645	13.365	+7.1	+5.7

SOURCE: FMI CORP., HISTORICAL DATA ARE COMPILED FROM BUILDING PERMITS, CONSTRUCTION PUT-IN-PLACE AND TRADE SOURCES. ESTIMATES FOR 2018 AND FORECAST FOR 2019 BY FMI.

GROWTH PREDICTED IN WEST AND SOUTH CENTRAL REGIONS

The Northeast and Midwest are expected to see a 2% decrease in 2019



works in 2019, followed by smaller bumps of 1.2% and 0.2% in 2020 and 2021, respectively. “Public construction activity represents a significant adjustment to PCA’s overall construction outlook,” notes Sullivan. “In previous forecasts

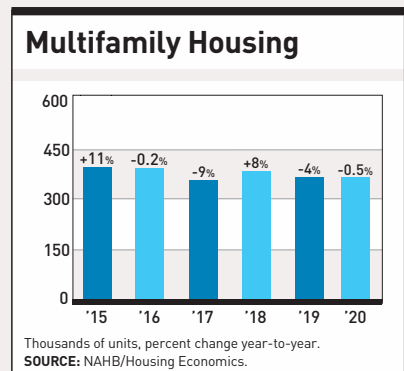
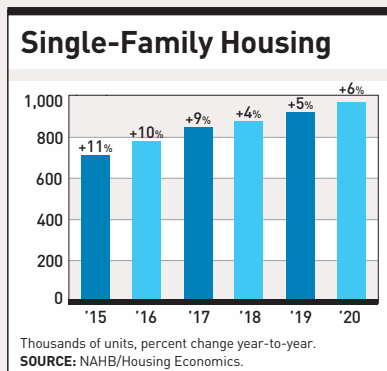
[when] the construction sector weaken[ed] under the weight of higher interest rates,” he says, a Trump administration infrastructure plan was expected “like a great white knight, to prop up weakened private construction spending.” While specula-

tion grows that it could finally come in 2019, “based on discussions with our Washington, D.C., office, this help may not materialize until later in the forecast horizon, and the levels of stimulus may be smaller,” Sullivan explains.

NAHB FORECAST

Single-Family Housing Growth Will Slow in 2019

Single-family housing starts are expected to rise 3.9%, to 885,000 this year, after increasing 8.5% during 2017, according to the National Association of Home Builders. That growth rate is expected to slow to 4.7% in 2019, says Danushka Nanayakkara-Skillington, NAHB assistant vice president, forecasting and analysis. Multifamily starts are expected to increase 7.6% this year, after a 9.4% drop last year. However, Nanayakkara-Skillington predicts a 4.4% decrease for next year, followed by a 0.5% decrease in 2020. ■



PCA CONSTRUCTION PUT-IN-PLACE FORECAST: 2019 (\$ BIL)

MARKET	ACTUAL 2017	ESTIMATE 2018	FORECAST 2019	% CHG. 17-18	% CHG. 18-19
TOTAL CONSTRUCTION	1,032.4	1,047.1	1,069.7	+1.4	+2.2
TOTAL RESIDENTIAL BUILDING	417.4	425.0	434.6	+1.8	+2.3
TOTAL NON-RESIDENTIAL BUILDING	248.5	246.2	252.2	-0.9	+2.4
INDUSTRIAL	58.0	54.1	56.8	-6.7	+5.0
OFFICE	59.1	60.2	61.8	+1.9	+2.7
HOTELS, MOTELS	22.9	23.8	24.4	+3.9	+2.5
HOSPITALS, INSTITUTIONS	22.7	21.7	21.9	-4.4	+0.9
RELIGIOUS AND MISCELLANEOUS	2.8	2.4	2.2	-14.3	-8.3
EDUCATIONAL	17.3	17.1	16.8	-1.2	-1.8
COMMERCIAL	65.7	66.9	68.84	+1.8	+2.9
PUBLIC UTILITY	107.0	109.3	111.2	+2.1	+1.7
PUBLIC CONSTRUCTION	209.6	215.9	219.6	+3.0	+1.7
BUILDINGS	94.4	95.0	95.7	+0.6	+0.7
HIGHWAYS AND STREETS	75.1	77.3	78.7	+2.9	+1.8
CONSERVATION	6.1	6.9	7.2	+13.1	+4.3
SEWER SYSTEMS	17.1	18.1	18.8	+5.8	+3.9
WATER SUPPLY	9.9	10.9	11.3	+10.1	+3.7
MILITARY, PUBLIC SECURITY	7.0	7.7	7.9	+10.0	+2.6

SOURCE: PORTLAND CEMENT ASSOCIATION

The American Road & Transportation Builders Association (ARTBA) reports a 4.6% increase in highway work in 2018, to be followed by a 4.9% increase in 2019. After a 2.2% drop this year, bridge work is expected to increase 1.6% in 2019.

“The federal transportation programs will receive a boost from supplemental general funds,” says Alison Black, ARTBA senior vice president and chief economist, citing the \$2.5 billion approved by Congress in fiscal 2018 as part of the Fixing America’s Surface Transportation (FAST) Act. An additional \$930 million has been approved for 2019. Still, she says that the outlook “could be tempered by any potential delays in the reauthorization of the federal-aid highway program and finding a fix for the Highway Trust Fund. Although the FAST Act provides funding through next year, it is difficult for states to plan projects amid the uncertainty.”

Looking toward the future, “PCA assumes a more modest infrastructure spending initiative supplementing existing programs” will start in 2022 and “gradually build up spending strength

over the course of three years,” says Sullivan. “This means the crux of the impact of the supplemental infrastructure spending will materialize in the years beyond the forecast horizon.”

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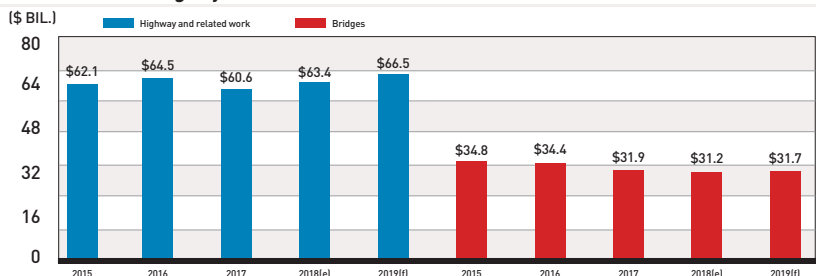
She adds that before the act passed, “21 states had expressed concerns

ARTBA FORECAST

Highway and Bridge Work To Increase Next Year

The American Road & Transportation Builders Association estimates total spending on bridge work will fall 2.2% this year, while highway construction will rise 4.6%. In 2019, bridges will rebound, growing 1.6%, while highway construction is expected to increase 4.9%. “Growth in state and local transportation revenues, driven largely by increased user fees, bond issues and local ballot measures, will continue to support highway and bridge investment next year,” says Alison Black, senior vice president and chief economist for ARTBA. ■

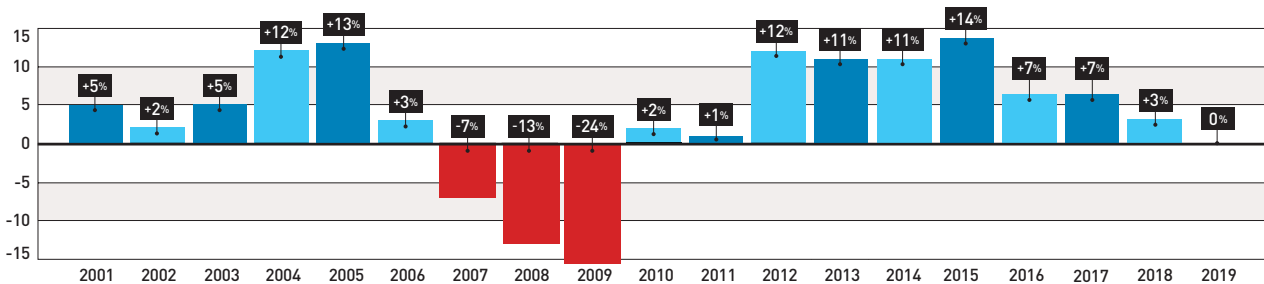
ARTBA forecasts 2019 construction market will be slightly above 2018 levels



SOURCE: ARTBA 2019 Forecast. Historical spending data from U.S. Census Bureau Value of Construction Put in Place for pavement and bridges and tunnels, adjusted with ARTBA Price Index.

Dollar Volume Is Forecast To Remain the Same in 2019

[% ANNUAL CHANGE]



SOURCE: Dodge Data & Analytics. Annual percent change for dollar volume of total construction starts.

about the feasibility of future transportation projects and some states even delayed or canceled projects.”

According to Dodge’s outlook, highway and bridge construction will increase 3% in 2019, following a 7% jump in 2018. Environmental public works will rise 6%, due in part to the passing of the America’s Water Infrastructure Act in October. The bill includes \$3.7 billion in federal funding for flood control and other water infrastructure.

“Wastewater treatment ... was one of those declining markets for a while and now it’s picking back up,” says Bowman. “When you look at the capacity of a lot of wastewater treatment plants, you’re getting the level where you’re required to expand.” FMI’s construction put-in-place for water supply infrastructure is expected to rise 7.1% in 2018 and 5.7% in 2019. PCA forecasts an even larger increase this year for water supply construction put-in-place, at 10.1%, but pulls back to a 3.7% increase in 2019.

Electric power plants saw a 25% drop this year. Murray attributes this to the start of only two natural gas-fired power plants valued above \$750

million in 2018—the \$1.3-billion South Field Energy power plant in Ohio and Entergy’s \$872-million Lake Charles power station in Louisiana. Dodge predicts that starts will drop an additional 3% in 2019.

Dodge reports that construction starts in the commercial building sector will close out 2018 at a 2% increase, largely spurred by the 10% gain in hotels and motels and the 18% jump in manufacturing structures. In 2019,

“The economy is strong. While there may be factors that are beginning to emerge that could lead to a softer pace of economic and construction activity, it will probably take some time for economic growth to unwind.”

—Ed Sullivan

Senior Vice President and Chief Economist,
Portland Cement Association

overall commercial starts will drop 3%, with a 6% decline in the hotel sector generating the largest loss.

“Two factors, casino proliferation and convention center growth, have played important roles in hotel expansion, but both could now be faltering,” says Murray. As the legalization of gambling has increased over the past several years, casino growth has been “a boon to hotel construction,” says Murray. But the boom is slowing with gambling already legal in 37 of 50 states. A convention center uptick provided a boost in 2017 and 2018, with large projects such as the \$1.2-billion Javits Convention Center getting underway, but slower growth will dampen starts in the coming year.

Institutional building is expected to rise 3% in 2019, following a 1% increase in 2018, says Dodge’s forecast. Murray partly attributes this to an uptick in education construction linked to a predicted 6.9% increase in university enrollment in the next five years, which will require continued expansion. K-12 school enrollment is also expected to increase in the same timeframe, at a rate of 1.1% ■

By Alisa Zevin