

CONSTRUCTION FORECAST

Public Work Will Lead Market in 2020

Experts foresee enough construction work to hold off recession fears in the coming year, particularly in the transportation sector



LOOKING FORWARD Richard Branch presents the Dodge 2020 Construction Outlook, says no recession is looming.

As the market reaches the late stages of the recovery cycle, experts don't predict an impending downturn in the U.S., bolstered in part by increases in public work, according to economic forecasts analyzed by ENR.

"We're not expecting a recession in 2020," says Richard Branch, chief economist at Dodge Data & Analytics, adding that despite a slowdown, the economy is "in decent shape." However, Branch notes that this assertion is "on the assumption that some sort of trade

agreement is signed with China to forestall an escalation in tariffs." Discussions between the Trump Administration and China regarding possible tariffs remain ongoing.

As the post-recession construction boom wanes, Dodge Data & Analytics reports a 1% decline in the dollar value of construction starts by the end of 2019, the first overall drop since the recovery began. For 2020, Dodge predicts a 4% decrease, with total construction starts landing at \$776.4 billion.

Nonetheless, Branch remains cau-

tiously optimistic. "Yes, [construction will] decline in 2020, but nothing like what we saw in the last recession," he says, adding that "there will still be lots of opportunity for growth" in certain areas. Branch cites California, Texas, Arizona, Oregon, Washington state, Idaho and Florida as the strongest economies in the country.

On a national level, Dodge reports a few bright spots for 2020. On the commercial side, education and healthcare construction are projected to

increase 2% and 3%, respectively. In non-building, public works is expected to rise 4%.

The Portland Cement Association also expects overall public spending to rise 2.1% in 2019 and 1.7% in 2020, says Ed Sullivan, senior vice president and chief economist for PCA. He attributes that to funds allocated to roads, bridges, water and rail projects in the 2018 federal budget. "These benefits, coupled with various state infrastructure initiatives, have generated rather strong growth in public construction."

“Talk of a near term recession has dominated the news. Say the word long enough and loud enough, and at some point consumers’ and businesses’ decisions will reflect increased uncertainty and may curb spending.”

—Ed Sullivan
Senior Vice President and
Chief Economist,
Portland Cement Association

However, the Dodge Construction Outlook anticipates that construction starts in most sectors will see at least some decline in 2020. Housing will fall 6% overall, spurred mainly by a 13% decrease in multifamily housing starts.

“Multifamily housing starts have been a powerhouse of strength throughout the construction recovery,” says Branch, but the near-term prospects are “looking less optimal.” He points to slowing employment growth, down from a monthly average of 204,000 new jobs in 2018, to 198,000 in the same time period in 2019, as a catalyst for the decline. New jobs enable new households to form, he says.

The National Association of Home Builders projects a slightly more optimistic housing outlook for the coming year. While NAHB expects single-family housing starts to decline 2.2% by the end of 2019, the organization predicts an increase of the same amount in 2020, followed by a 2.3% boost in 2021. Starts in multifamily housing will rise 1.6% in 2019, to 383,000 from 377,000, but will stay relatively flat in 2020. In 2021, however NAHB expects multifamily construction to pick up again, with a 3.6% increase.

An FMI Corp. market forecast estimates that total construction put-in-

DODGE CONSTRUCTION STARTS FORECAST: 2020 (\$ BIL)

MARKET	ACTUAL 2018	ESTIMATE 2019	FORECAST 2020	% CHG. '18-'19	% CHG. '19-'20
TOTAL CONSTRUCTION	815.1	808.7	776.4	-0.8	-4.0
RESIDENTIAL	329.9	314.1	295.3	-4.8	-6.0
SINGLE-FAMILY HOUSING	230.1	223.5	216.8	-2.9	-3.0
MULTIFAMILY HOUSING	99.8	90.6	78.5	-9.2	-13.4
NON-RESIDENTIAL	296.6	292.5	284.7	-1.4	-2.7
OFFICE BUILDINGS	48.2	50.9	50.1	+5.6	-1.6
HOTELS AND MOTELS	19.1	18.4	16.3	-3.7	-11.4
STORES AND SHOPPING CENTERS	17.1	14.7	14.3	-14.0	-2.7
WAREHOUSES	23.7	25.3	22.8	+6.8	-9.9
MANUFACTURING	32.8	23.1	22.7	-29.6	-1.7
EDUCATIONAL BUILDINGS	62.9	64.6	65.7	+2.7	+1.7
HEALTH-CARE FACILITIES	27.5	27.6	28.6	+0.4	+3.6
OTHER INSTITUTIONAL BUILDINGS	50.1	50.6	48.2	+1.0	-4.7
NON-BUILDINGS CONSTRUCTION	188.5	202.1	196.4	+7.2	-2.8
HIGHWAYS AND BRIDGES	77.6	75.8	77.5	-2.3	+2.2
ENVIRONMENTAL PUBLIC WORKS	39.4	41.2	42.2	+4.6	+2.4
OTHER PUBLIC WORKS	47.4	40.9	44.6	-13.7	+9.0
ELECTRIC UTILITIES	24.1	44.2	32.2	+83.4	-27.1

SOURCE: DODGE DATA & ANALYTICS

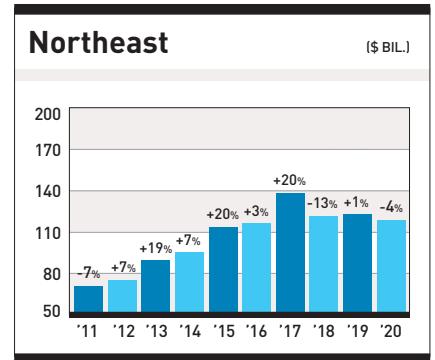
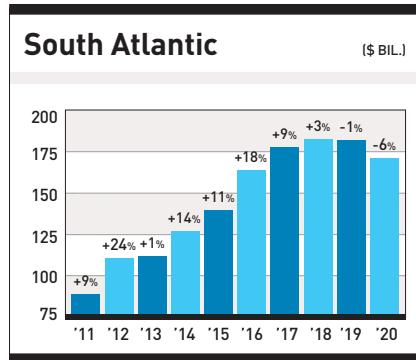
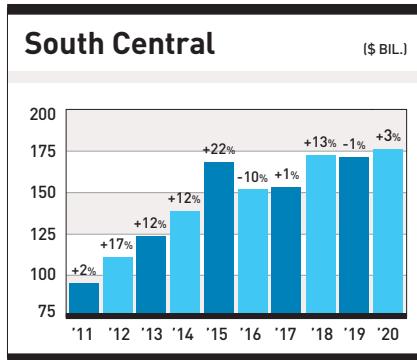
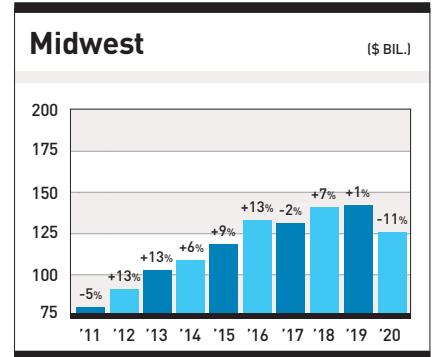
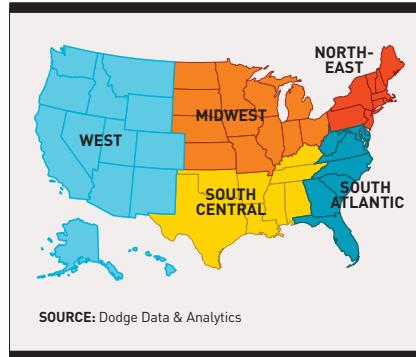
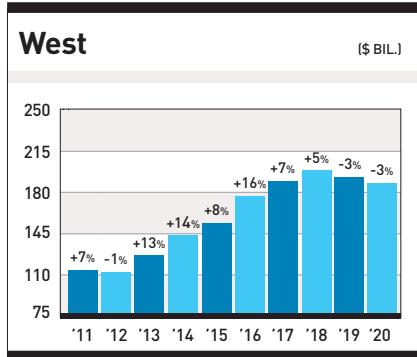
FMI CONSTRUCTION PUT-IN-PLACE FORECAST: 2020 (\$ BIL)

MARKET	ACTUAL 2018	ESTIMATE 2019	FORECAST 2020	% CHG. 18-19	% CHG. '19-'20
TOTAL CONSTRUCTION	1,307,249	1,312,631	1,344,204	+0.4	+2.4
TOTAL RESIDENTIAL	546,136	524,659	528,957	-3.9	+0.8
SINGLE-FAMILY	289,855	276,037	278,873	-4.8	+1.0
MULTIFAMILY	65,670	64,372	64,772	-2.0	+0.6
HOME IMPROVEMENT	190,611	184,250	185,312	-3.3	+0.6
TOTAL NON-RESIDENTIAL	529,312	542,384	556,848	+2.5	+2.7
LODGING	31,496	33,576	34,245	+6.6	+2.0
OFFICE	74,450	78,925	81,485	+6.0	+3.2
AMUSEMENTS AND RECREATION	27,924	28,423	28,190	+1.8	-0.8
RELIGIOUS	3,262	3,060	2,888	-6.2	-5.6
EDUCATION	97,777	98,082	101,069	+0.3	+3.0
HEALTH CARE	42,642	43,848	45,845	+2.8	+4.6
COMMERCIAL	95,420	92,454	90,761	-3.1	-1.8
MANUFACTURING	70,782	72,969	74,807	+3.1	+2.5
PUBLIC SAFETY, ADMINISTRATIVE	9,468	10,285	11,204	+8.6	+8.9
TRANSPORTATION	51,446	55,405	59,901	+7.7	+8.1
NON-BUILDING STRUCTURES	231,801	245,588	258,400	+5.9	+5.2
CONSERVATION AND DEVELOPMENT	8,253	9,060	9,639	+9.8	+6.4
HIGHWAYS AND STREETS	91,124	96,530	101,656	+5.9	+5.3
SEWER SYSTEMS	23,931	25,748	26,641	+7.6	+3.5
POWER	93,176	97,607	102,566	+4.8	+5.1
WATER SUPPLY	15,317	16,643	17,898	+8.7	+7.5

SOURCE: FMI CORP., HISTORICAL DATA ARE COMPILED FROM BUILDING PERMITS, CONSTRUCTION PUT-IN-PLACE AND TRADE SOURCES. ESTIMATES FOR 2018 AND FORECAST FOR 2020 BY FMI.

STARTS IN SOUTH CENTRAL REGION PREDICTED TO RISE 3%

An 11% drop is expected in the Midwest region in 2020, according to Dodge Data & Analytics



place will reach \$1.31 trillion by the end of 2019, a 0.4% increase over 2018's total. In 2020, FMI projects a 2.4% increase, to \$1.34 trillion. Total non-residential work is expected to rise 2.5% by the end of this year, with another

2.7% increase by the end of 2020. While residential put-in-place is projected to decline 3.9% in 2019, a 0.8% increase is in store next year, predicts FMI.

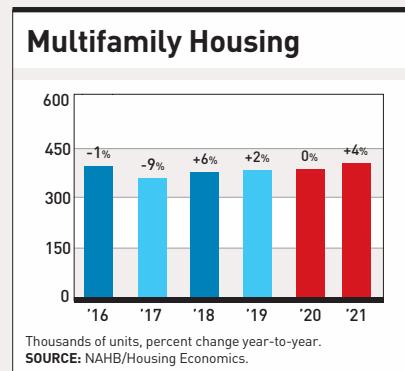
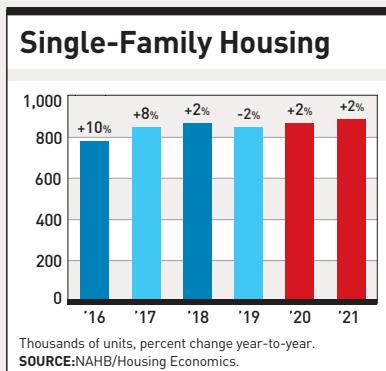
"Everyone is suggesting that the risk of recession is high within the next two years

or so. I agree that the risk is high, but it doesn't mean that there will be one," says FMI Principal Jay Bowman. "There's still a lot of good in the industry and broader economy that suggests we could continue a path of decent growth over the next sev-

NAHB FORECAST

Small Upticks Predicted for Both Housing Sectors in 2020

Single-family housing is expected to decline 2.2% by the end of 2019, according to the National Association of Home Builders. However, starts will experience an increase of the same amount in 2020, followed by a 2.3% boost in 2021, says Danushka Nanayakkara-Skillington, assistant vice president, forecasting and analysis, at NAHB. Starts in multifamily housing will rise 1.6% in 2019, to 383,000 from 377,000, but will stay relatively flat in 2020. "Growth is expected to decelerate in the coming two years," says Nanayakkara-Skillington. ■



PCA CONSTRUCTION PUT-IN-PLACE FORECAST: 2020 (\$ BIL)

MARKET	ACTUAL 2018	ESTIMATE 2019	FORECAST 2020	% CHG. '18-'19	% CHG. '19-'20
TOTAL CONSTRUCTION	1,032.0	1,034.2	1,045.1	+0.2	+1.1
TOTAL RESIDENTIAL BUILDING	413.3	414.8	418.4	+0.4	+0.9
TOTAL NON-RESIDENTIAL BUILDING	245.2	239.3	240.0	-2.4	+0.3
INDUSTRIAL	54.1	53.9	53.7	-0.4	-0.4
OFFICE	60.7	62.4	63.7	+2.8	+2.1
HOTELS, MOTELS	24.1	25.3	25.9	+5.0	+2.4
HOSPITALS, INSTITUTIONS	22.1	22.0	22.1	-0.5	+0.5
RELIGIOUS AND MISCELLANEOUS	2.3	2.2	2.2	-4.3	0.0
EDUCATIONAL	17.2	15.3	15.1	-11.0	-1.3
COMMERCIAL	64.7	58.3	57.3	-9.9	-1.7
PUBLIC UTILITY	107.5	108.4	109.9	+0.8	+1.4
PUBLIC CONSTRUCTION	213.4	217.8	221.6	+2.1	+1.7
BUILDINGS	94.9	92.3	93.3	-2.7	+1.1
HIGHWAYS AND STREETS	75.8	81.7	83.8	+7.8	+2.6
CONSERVATION	6.6	7.0	7.1	+6.1	+1.4
SEWER SYSTEMS	17.4	18.0	18.6	+3.4	+3.3
WATER SUPPLY	11.1	11.2	11.3	+0.9	+0.9
MILITARY, PUBLIC SECURITY	7.5	7.5	7.5	0.0	0.0

SOURCE: PORTLAND CEMENT ASSOCIATION

\$250 billion in 2009. Last year it was \$1.2 trillion. That's a compound annual growth rate of 20%," he says. "In my opinion, that's unsustainable. What happens with young people saddled with debt? They don't buy houses."

The Dodge Outlook also points to student loans as well as overall lack of affordability as reasons older millennial, now in their thirties, are delaying home ownership. Additionally, Branch notes that the 2017 changes to federal tax law, which stripped away many of the tax advantages of home ownership, has been a catalyst for the delay. Rates for home ownership reached 36.2% in 2018, says Branch, a slight improvement over 2017's 35.3% and 2016's 34.5%. According to the National Association of Real-

estate agents, 26% of home buyers in 2018 fit into the older millennial age range of 29-38 years old, while younger millennials, between 21 and 28 years of age, accounted for 11% of buyers.

years." Adds Bowman, "I cannot think of a contractor that I've spoken with in the past six months that has expressed any concern about backlog." Still, he concedes, "there are a few signs that suggest the risk of recession is higher." Bowman points to the tariff disputes with China and the upcoming presidential elections as possible factors, but says, "I tend to be more concerned

about what the Fed is doing with interest rates. They've cut the rate by 25 basis points twice now this year, in August and September." He adds, "just because they cut it doesn't mean there will be a recession, but I take notice."

When it comes to the slowing pace of the single-family housing market, Bowman points to student loans as a possible culprit. "[Student debt] was roughly

Pace of Growth

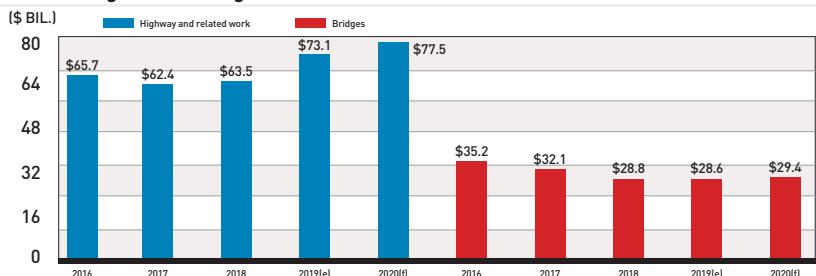
PCA projects total construction put-in-place will increase 0.2% in 2019 and 1.1% in 2020.

ARTBA FORECAST

Government Spending Will Drive Transpo Increases Next Year

The American Road & Transportation Builders Association estimates total spending for bridge construction will be down 0.7% by the end of 2019, while highway work will end the year up 15%. In the coming year, ARTBA forecasts both sectors will experience an increase, with highways seeing a 6% boost while bridge work will rise 3%. "Increased spending at the federal, state and local level will drive market growth in highway and bridge construction in 2020," says Alison Black, senior vice president and chief economist for ARTBA. ■

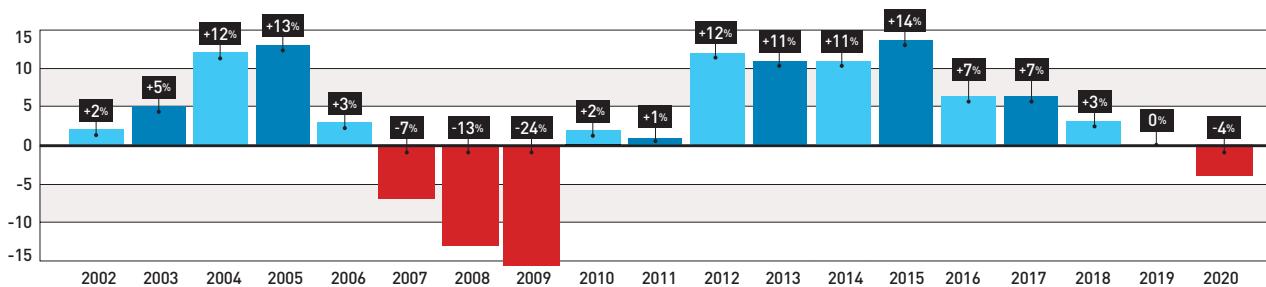
ARTBA forecasts strong growth for highway work (+6%) and moderate gains for bridge construction (+3%)



SOURCE: ARTBA 2020 Forecast. Historical spending data from U.S. Census Bureau Value of Construction Put in Place for pavement and bridges and tunnels, adjusted for expected changes in project costs.

Dollar Volume of Construction Starts Is Forecast To Drop 4% in 2020

[% ANNUAL CHANGE]



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

“Talk of a near-term recession has dominated the news,” says Sullivan. “Say the word long enough and loud enough, and at some point consumers’ and businesses’ decisions will reflect increased uncertainty and may curb spending.”

While PCA’s data doesn’t point to a recession, says Sullivan, it does support the notion that growth has slowed, adding that “the economy is now in the longest economic expansion in post-World War II history.”

PCA forecasts small amounts of growth in the residential sector both this year and next year, at 0.4% and 0.9%, respectively. It expects single-family housing to rise 0.5% by the end of this year and 1.8% in 2020, while the forecast for multifamily housing is for a 2% increase in 2019, and a flat rate in 2020.

“The outlook for both the single-family and multifamily markets is characterized by cyclical and structural factors,” says Sullivan. “On the cyclical side, moderate job growth is expected to support moderate growth in household formation—the underlying force behind residential construction. Mortgage rates now stand below 4% and are expected to remain near, or below, current levels.”

In the non-residential sector, PCA estimates an overall decline of 2.4% in 2019, with a slight rebound in 2020, at 0.3%. This year’s drop is largely spurred by an 11.3% decrease in education construction, expected to fall an additional

1.2% in 2020. However, those numbers are balanced by an increase in hotel and office construction. Hotels are expected to increase 4.8% in 2019 and 2.4% in 2020, while office work will go up 2.7% this year, followed by a 2.2% boost in the year to come.

Bills Will Fund Transit Work

On the transportation side, PCA predicts highways and streets construction put-in-place will be up 7.7% by the end of the year, with another 2.6% in the coming year. The American Road & Transportation Builders Association reports a 15% increase in highway work by the end of 2019, while bridge construction will experience a small 0.7% decrease. ARTBA predicts that both sectors will grow in 2020, with bridges seeing a 3% rise and highways up 6%, with overall transportation construction expected to increase 5%.

Alison Black, ARTBA’s senior vice president and chief economist, credits the uptick to an increase in government spending. “In addition to modest funding increases in the Fixing America’s Surface Transportation (FAST) Act, Congress is expected to approve additional investment for federal transportation programs as part of the fiscal year 2020 appropriations process,” explains Black. “Combined with increases in 2018 and 2019, Congress has provided an additional \$10 to \$12 billion in federal aid highway program funds.”

Black also notes that several local

“There’s still a lot of good in the industry and broader economy that suggests we could continue a path of decent growth over the next several years.”

—Jay Bowman
Principal, FMI Corp.

transportation funding measures will be on the ballot in 2020. “Voters recently approved a record 89% of measures in the November 2019 election, providing an additional \$9.6 billion for transportation investment that will be spent over the next decade.”

In terms of challenges in the coming year, Black mentions the ongoing labor shortage as a potential issue. She also recognizes that any delay in reauthorization of the federal aid highway program could affect transportation work in 2020.

“Although the FAST Act provides funding through fiscal year 2020, it is difficult for states to plan projects amid the uncertainty,” she says, adding that prior to the bill’s passage, “21 states had expressed concerns about the feasibility of future transportation projects and some states even delayed or canceled projects.” ■

By Alisa Zevin