2023 Construction Spending Update

August 1 Data Release

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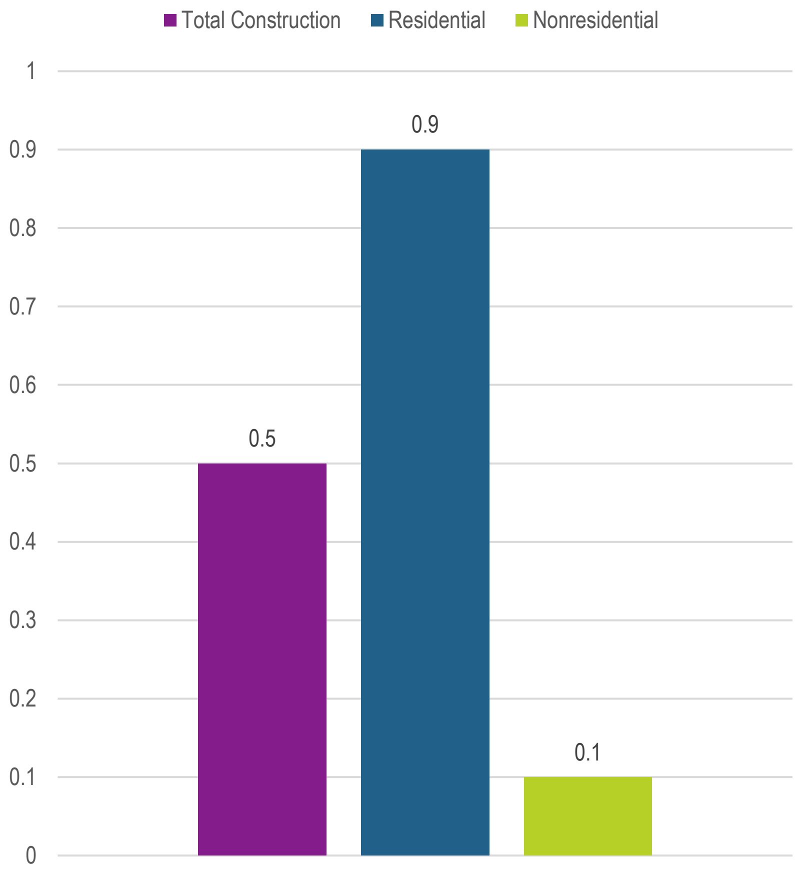
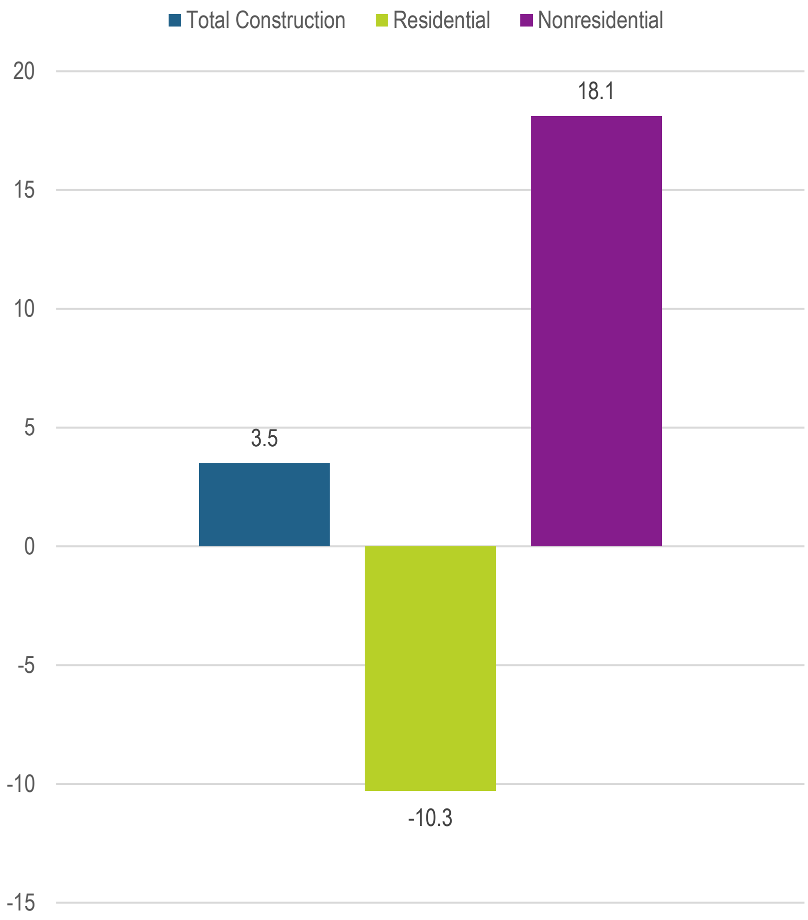
Overall Construction Spending

Monthly Change in Total Construction
May to June 2023



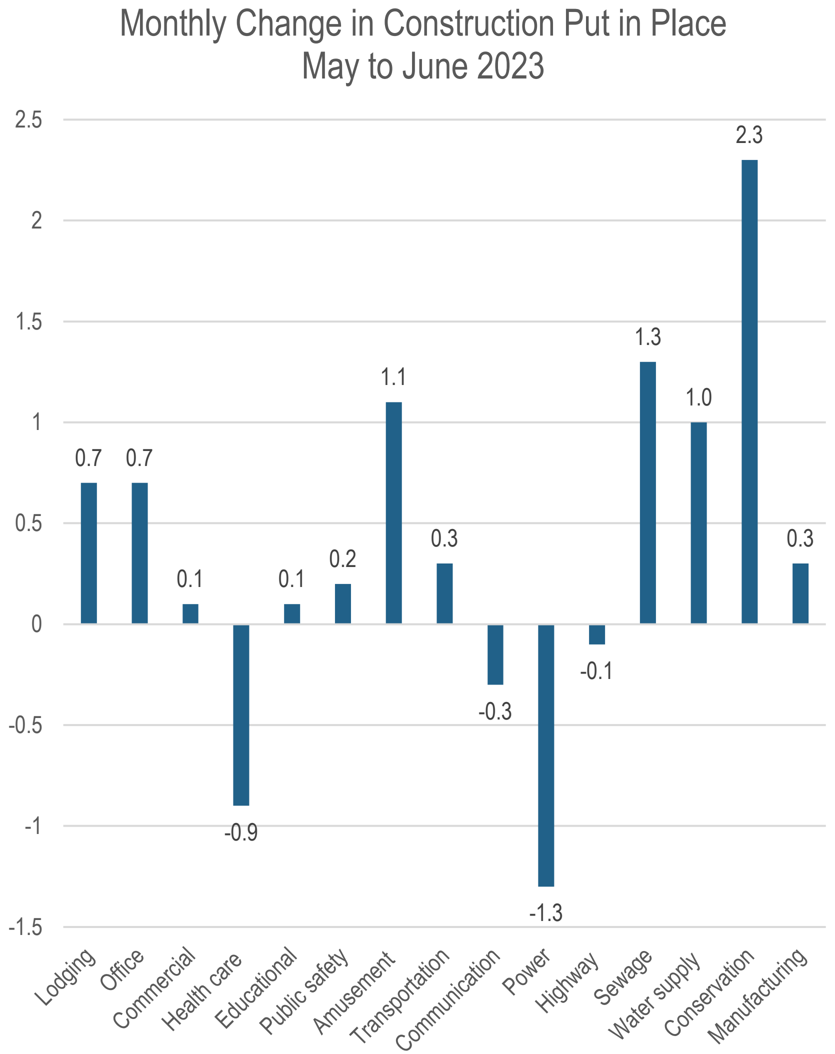
Annual Change in Total Construction
June 2022 to June 2023

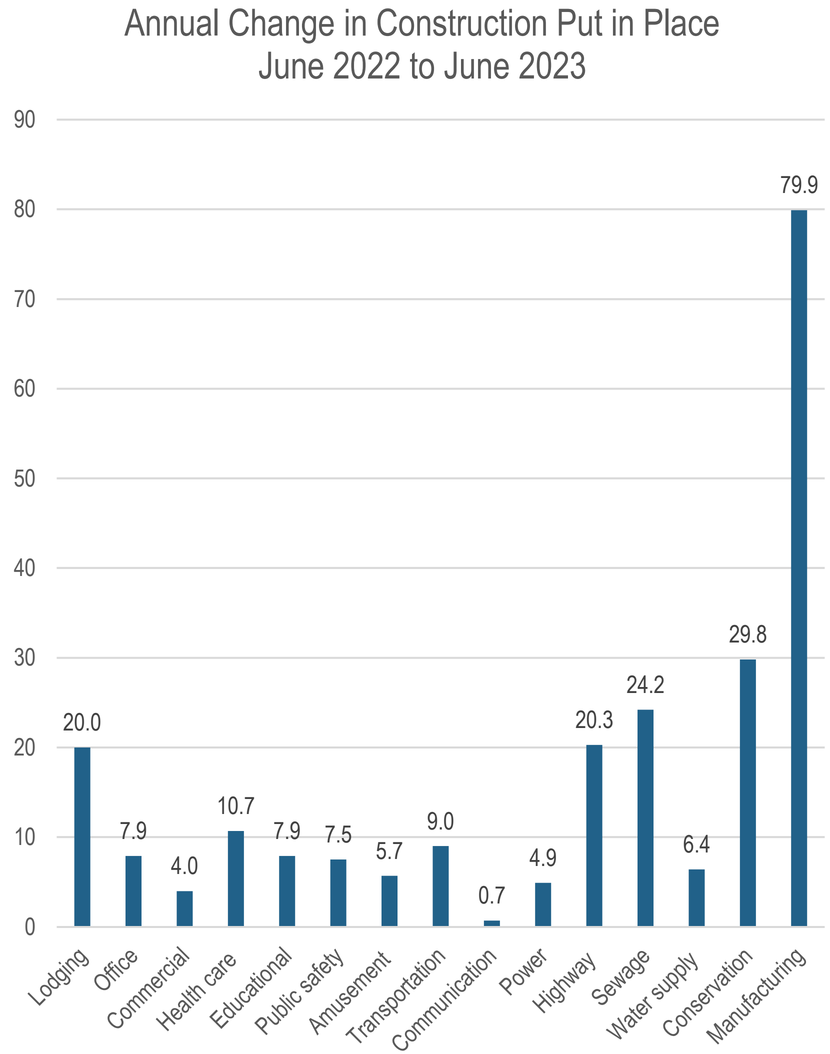


- Overall Construction Put in Place was up 0.5% in June 2023 and up 3.5% over the last year. In April, the annual growth number was 7.2%. In general, it appears the growth rate is leveling off.
- Note that inflations, specifically material prices, have also leveled off in the last year. The overall slowing of construction put in place growth is likely due as much to moderating inflation as it is to slower growth of construction activity.
- Nonresidential monthly growth from May to June was only 0.1%. This was below the growth rates seen in the winter and spring and indicates the market is leveling off.
- Residential spending grew by nearly 1% in June. The single-family market appears to have bottomed in April 2023 while multi-family remains strong. Despite high interest rates, residential new construction appears very strong from a historical perspective.

Source: census.gov

Nonresidential Construction





Source: census.gov

- Annual growth numbers across all segments remain excellent with no segment showing an annual decline.
- Construction inflation was around 6% in 2022 and has cooled to around 4% this year. If we account for this in the annual growth, only Communication, Commercial and Power may have seen some slight decline in overall construction activity over the last year.
- The strongest segments include:
  - Highway, Water/Wastewater, and Conservation which ae fueled by the infrastructure bill.
  - Manufacturing which is fueled by onshoring of us manufacturing and the chips act.
  - Lodging which is still recovering from a steep drop caused by the pandemic.

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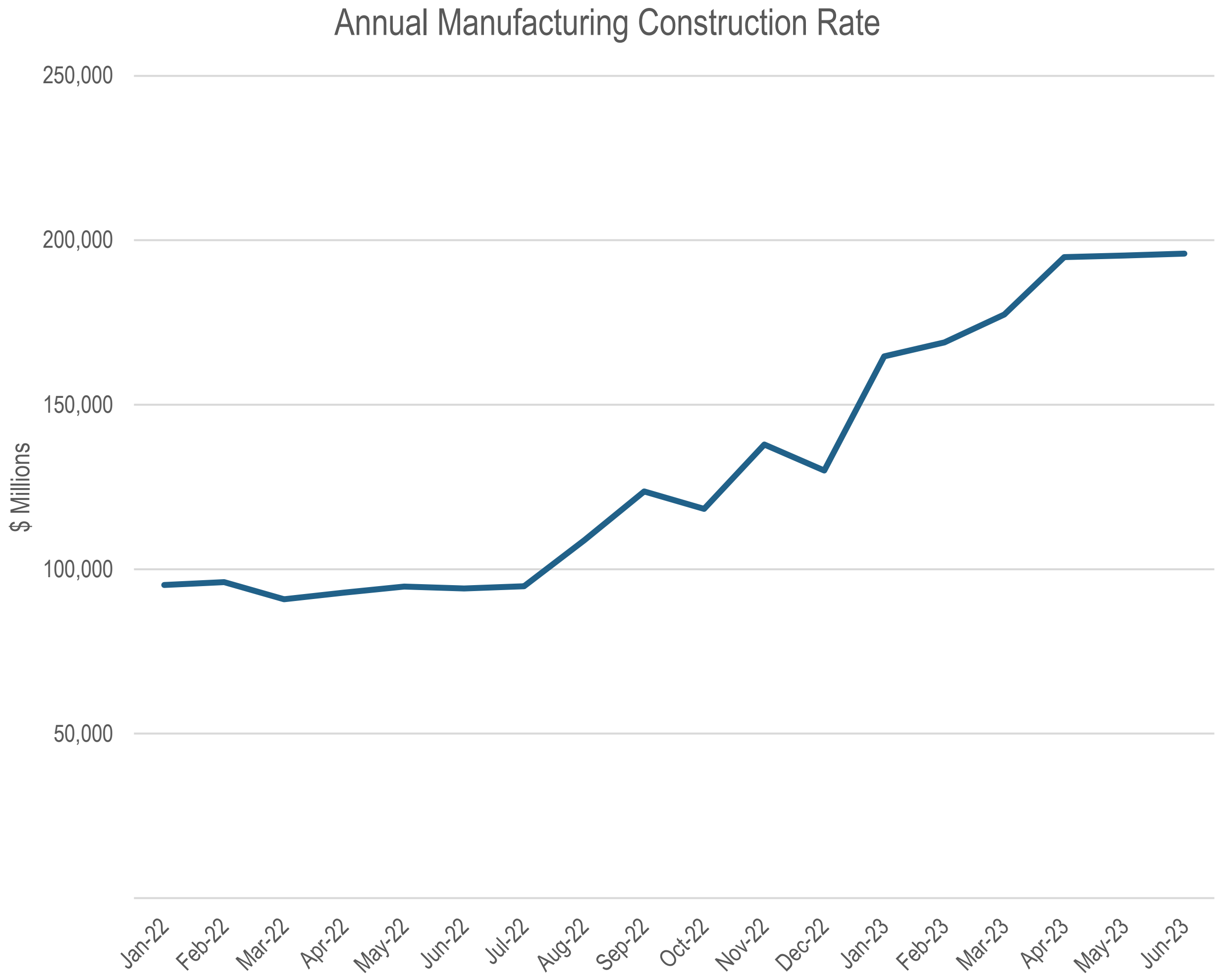
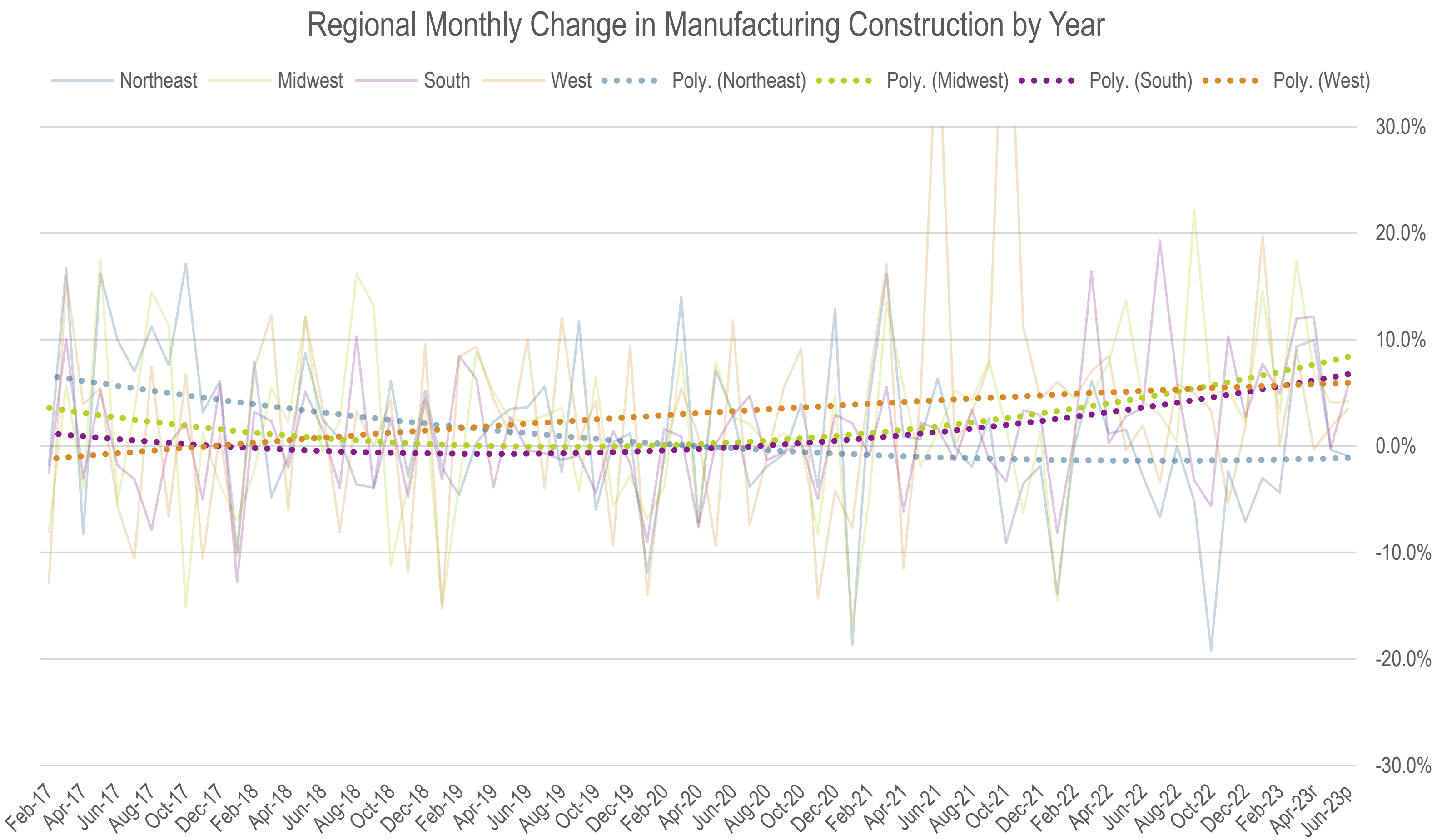
Manufacturing Construction



- Manufacturing Construction remains the biggest growth driver of construction spending and the biggest story in US construction today.
- Between July 2022 and April 2023 Manufacturing construction spending grew by $100 billion dollars.
- Spending has leveled off with the number remaining around $195 billion annually since April.
- This may be an indication that we have reached capacity in terms of annual run rate for this type of construction.
- Most of the mega projects are multi-year and as a result we expect this high level of spending to continue for the next few years.

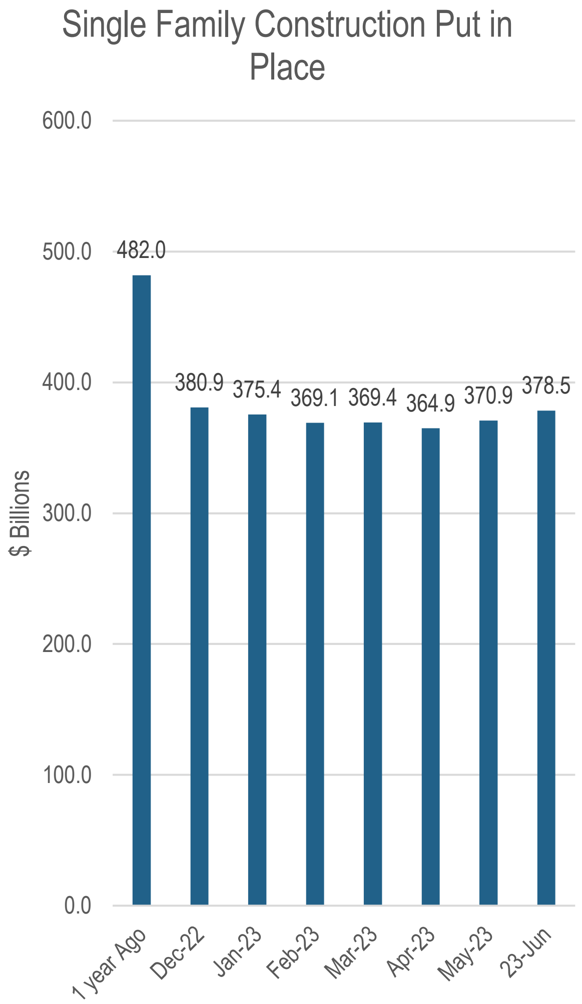
Source: census.gov

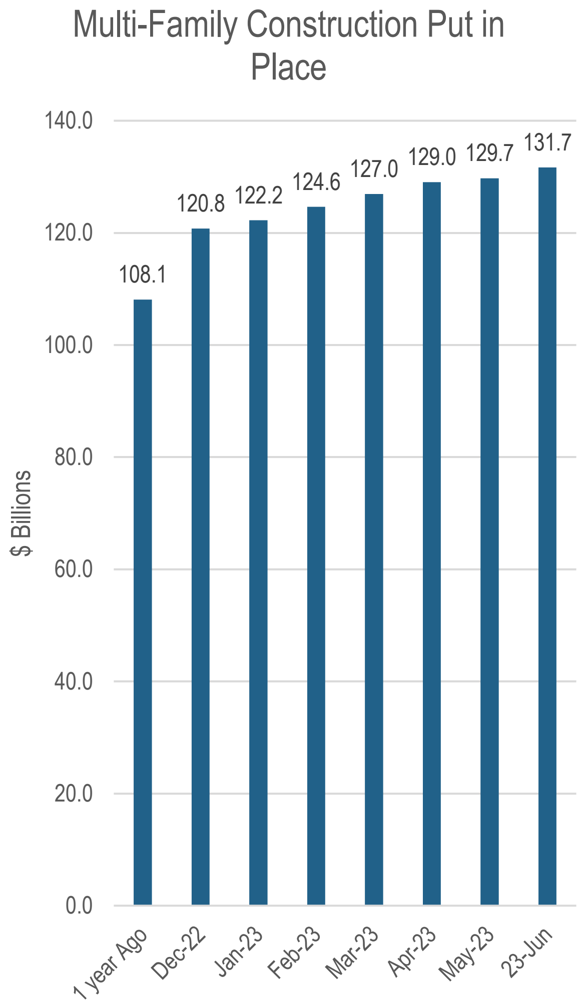
Regional Manufacturing Construction

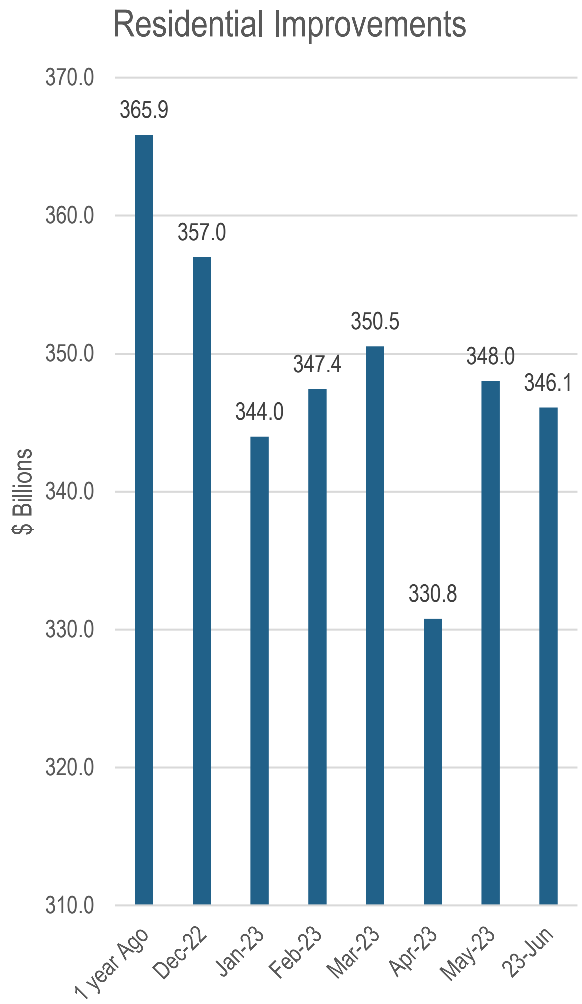


- The chart to the left shows the monthly change in manufacturing construction put in place by region with a trendline shown for each.
- The key takeaway is how broad-based the growth of manufacturing construction is across the US. Growth has been strong across all regions with the exception of the northeast since late 2020.
- At the sub-regional level, it should be noted that the Pacific (WA, OR, CA) has not seen as much growth, but it is still positive over the last three years. The mountain region, led by Arizona has seen some of the highest growth.
- One implication of this broad-based growth is that it will be difficult to source labor from other regions due to high levels of demand locally. The northeast is a possible exception though the market there is by no means poor.

Residential Construction







- In terms of historical slow downs in residential construction the 10% decline of the last year would barley qualify as a downturn.
- Total residential construction was $866.4 billion in June 2023 – up $32 billion from its April 2023 low. This is down from its recent peak of $965 billion in June 2022. For reference, total residential construction was $789 billion two years ago in June 2021. June 2022 was the height of post covid residential spending and should probably be viewed as a blip on the overall growth line. If we look at the last two years, we see a residential market growing from $789 billion in 2021 to $866 billion in 2023. 10% growth over two years.
- Multi-family is at record spending levels and continues to show growth.
- Single family is off its recent bottom and viewed from a historical perspective is still strong despite an unfavorable interest rate environment.

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Overall August 2023 Observations

- The non-residential construction market remains very strong though there are signs that it is leveling off. Note the AIA billings and design contract index is slightly above 50 in June, also indicating a flat market. Capacity, specifically in hot markets like manufacturing construction, may also be a factor limiting growth through the rest of the year.
- A flat market, maintaining at or above record levels of spending, is not necessarily a bad thing. Most contractors in the market have plenty of opportunity. Slower growth may also help mitigate inflation.
- Despite headwinds of high interest rates, the new residential construction market remains very strong. Multi-family is at record levels while single family is bouncing back from a moderate dip. The record low amount of re-sale inventory on the market may also be a factor. High interest rates are leading many homeowners to stay put and not sell. Buyers in the market for a home have very limited options in terms of re-sale homes. In many cases, new construction, or renting an apartment may be their only option. This should help to support the new residential construction market until interest rates moderate.