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Service Beyond Estimation

Market Outlook – Q2 2019

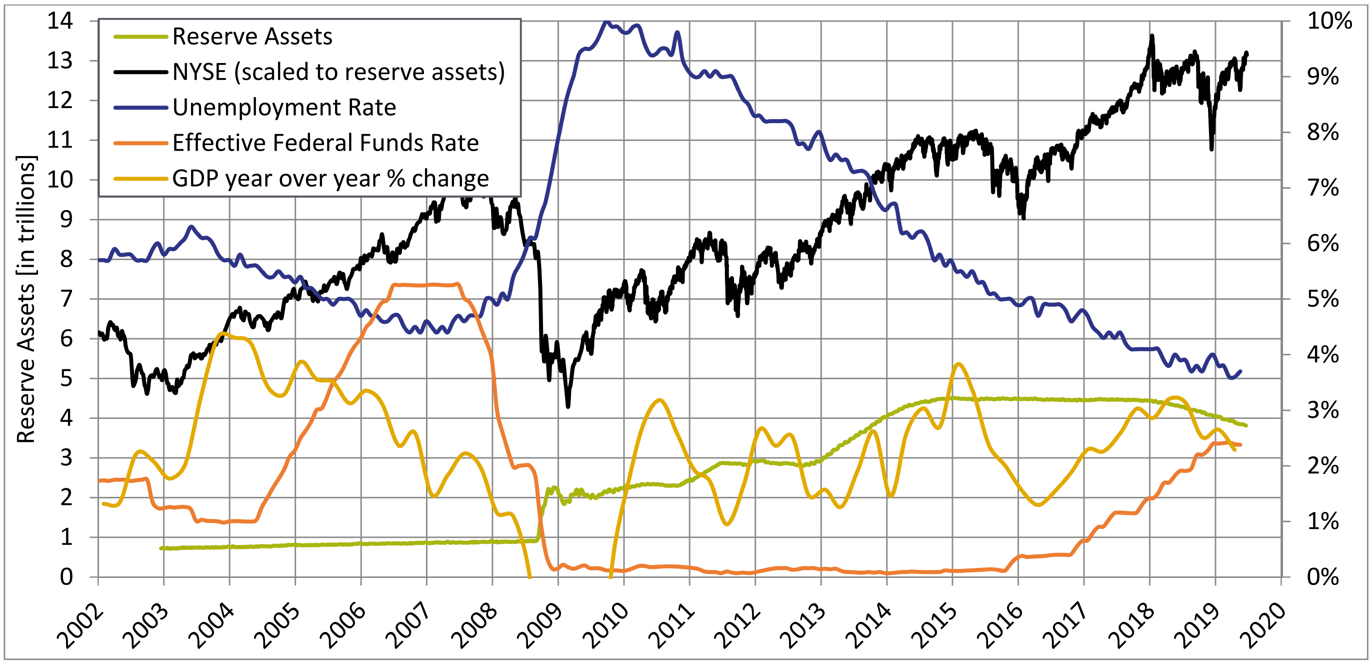
Vermeulens' Market Reports are based on actual bid prices in the Institutional-Commercial-Industrial Construction Industry. Forecasts are based on leading indicators, and historical comparative analysis.

- **Construction Price:** Escalation nationally has trended to 4% per annum for Q2 2019.
- **Fed Watch:** For the breaking news on the latest moves by the Fed, go to Vermeulens Blog "What if this is the recession?"
- **Construction Cost Trendline:** Due to consistent increases in construction costs over the past few years, Vermeulens' Index long term trendline is up to 3.5%.
- **Construction Dollar Volume:** Declined in past months and is -2.1% year over year (Jun 18/Jun 19). This is due to Residential (-8.0%) spending decline. Infrastructure (+0.2% year over year) spending declined to Q4 2018 volume levels. Non-Residential (+2.3% year over year) spending declined 1.75% from Q1 to Q2.
- **Construction Job Growth:** We are at full employment in the construction sector. Q2 has seen the addition of 53,000 construction jobs (0.71%) nation-wide. Wage and profit levels in the sector will continue to draw employment from new entrants and other sectors.
- **Architectural Billings:** Declined for the second time in 4 months. The decline was led by the Northeast, while the South continued to grow.
- **New York Stock Exchange:** The stock market held relatively consistent levels through Q2 2019, rising 2.8% since Q1.
- **Growth in Employment:** Monthly average job growth through Q2 was 157,000 jobs, held back by a second low growth month in the past 6 (62,000 in May). A second low growth month has brought the 6-month rolling average down to 141,000. Labor force participation rates are high by historic measures, but do not appear to be causing inflationary pressure.
- **Gross Domestic Product:** GDP maintained a strong annualized growth rate of 2.3% through Q2 2019. Long term expectations have fallen slightly. GDP growth since 1990 follows a 2.5% trendline, but the past decade is more in line with a 2.3% annual growth rate.
- **Commodities:** Steel price level changed from $920 (2019 Q1) to $877 (2019 Q2). The forecast is to fall to $840 next quarter, and rise back to $855 by the end of the year. Oil prices changed from $60.14 (2019 Q1) to $58.47 (2019 Q2), fluctuating between a high of $66 and a low of $51.
- **Consumer Price Index:** Q2 CPI rose slightly which resulted in the annual inflation rate remaining steady at 1.9% (2019 Q1 to 2019 Q2).

Fed Watch (all data to June 30 – see "What if this is the recession?" for Q3 events)

Inflation and employment targets propel monetary policy, and subsequently construction prices. Although the target range for federal funds has decreased, continuing low interest rates are good for stability in the interest rate sensitive construction sector. https://www.federalreserve.gov/newsevents/pressreleases/monetary20190619a.htm

"… Although growth of household spending appears to have picked up from earlier in the year, indicators of business fixed investment have been soft… inflation items are running below 2 percent… measures of inflation compensation have declined; longer-term inflation expectations are little changed…the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent... sustained expansion of economic activity, strong labor market conditions, and inflation near the 2 percent objective are the most likely outcomes, but uncertainties about this outlook have increased."



Indicator	Effect	Current	Forecast
CPI Inflation – low	*Stimulative*	↔	↔
ICI Demand – increasing	*Stimulative*	↑	↑
Nom Interest Rates – stable	*Stimulative*	↔	↔
Real Interest Rates – stable	*Stimulative*	↔	↔
Government Deficits – stable	*Stable*	↔	↔
Government Spending – increasing	*Stimulative*	↑	↑
Financial Assets – stable	*Stable*	↔	↑
Real Estate Assets – increasing	*Stimulative*	↑	↑
Construction Volume - decreasing	*Moderating*	↓	↔
Construction Employment – increasing	*Moderating*	↑	↑

Vermeulens Construction Cost Index

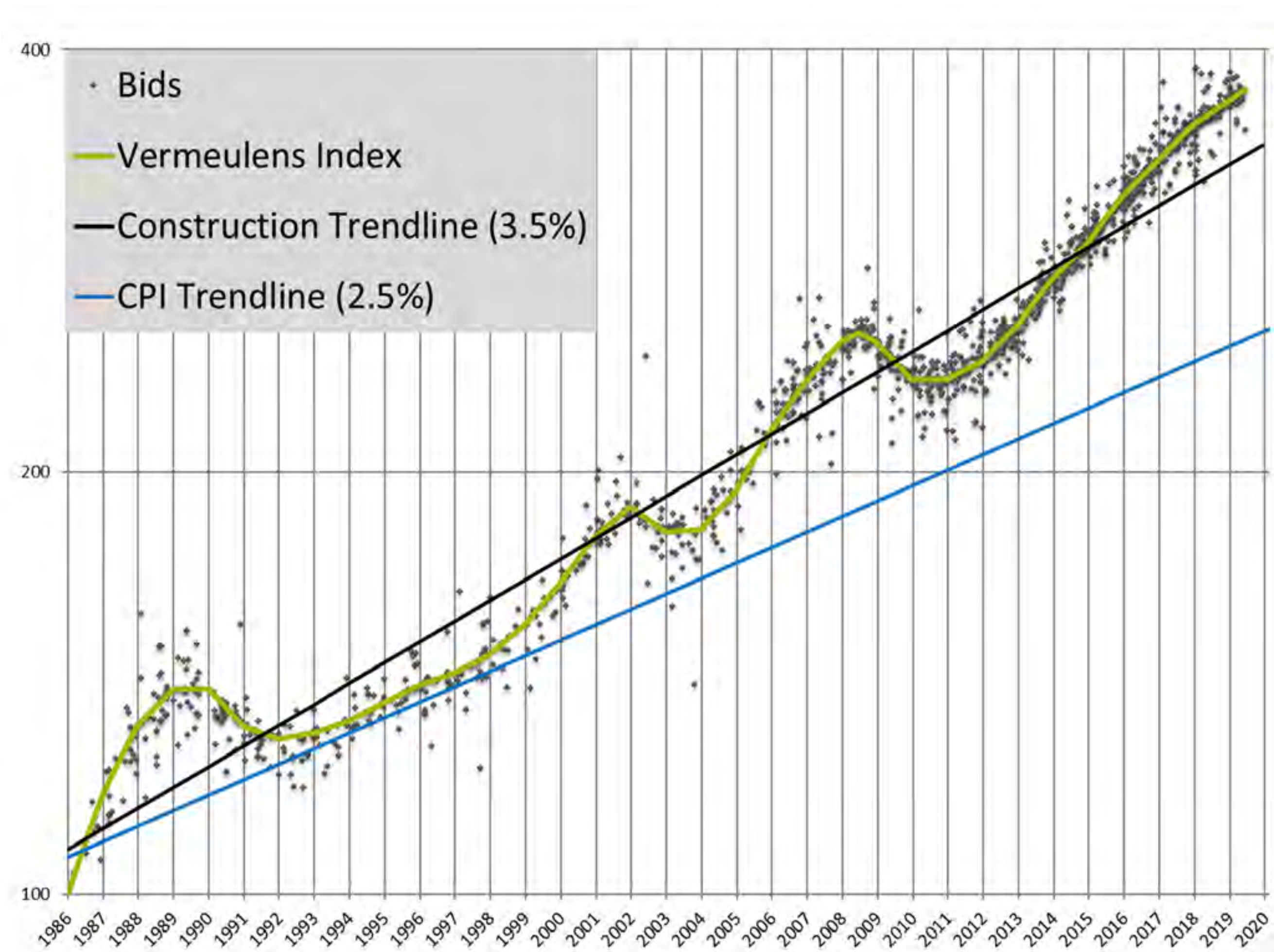
As inflation in other sectors of the economy moderate, escalation in the construction sector will continue to have room to increase at a higher rate.

Price increases for Q2 2019 nationally trended towards 4% annually.

For the past 33 years, construction prices trended at a 3.46% annually compounded escalation rate. The rate of escalation seen in construction costs relate to the target of 2% annual inflation for consumer prices and the monetary policy used to achieve this goal. CPI inflation hovering at 2% is in line with the federal reserve long term targets.

Following the global recession construction bid prices for institutional projects fell by 14% from their peak in 2008. During 2011, Vermeulens saw an average selling price increase of 3%. This was followed by a 6% increase in 2012, 8% in 2013, 6% in 2014, 8% in 2015, 6% in 2016, 5% in 2017, and 4% through 2018 and the first two quarters of 2019.

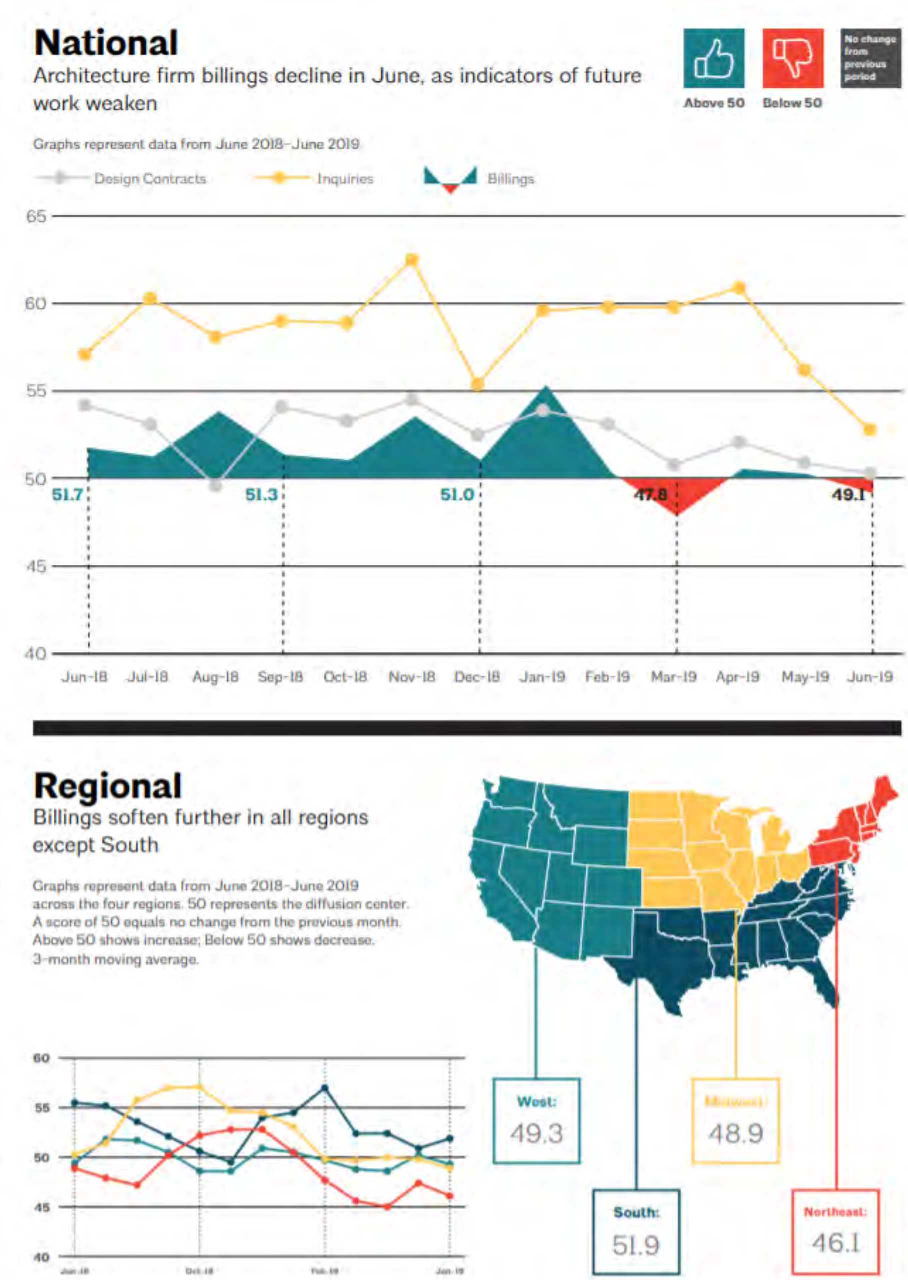
The chart below illustrates bid prices for Institutional Commercial Industrial (ICI) construction projects relative to the Construction Trendline (1986 = 100) of 3.46% and the 2.5% Consumer Price Index Trendline.



AIA Billings

Architectural billings are a leading indicator for future construction volume. A score greater than 50 indicates growth. Design fee billings typically indicate construction volume 9 -12 months in advance.

Architectural Billings fell below the 50.0 mark once again in June following very minimal growth in April/May. Contracts have fallen slightly while future work indicators & inquiries fell drastically in May and continue to drop moving into Q3. The Northeast region has been held below the growth line for a fifth consecutive month come end of Q2. The other regions are hovering near the median.



https://www.aia.org/pages/6175201-abi-june-2019-architecture-firms-report-an

Put In Place Construction

Construction dollar volume has decreased 2.1% year over year (Jun 18/Jun 19). Construction dollar volume is the main driver of construction prices. As volumes level off, contractor bidding opportunities and backlogs maintain, then margins included in bid prices will also level off.

Residential dollar volume overall is -8.0% year over year, holding at consistent levels since the previous quarter.

Non-Residential construction spending is down 1.75% from the previous quarter, however is still +2.3% year over year. Moderate growth and strong margins in Non-Residential construction volume has caused reduced escalation in this sector.

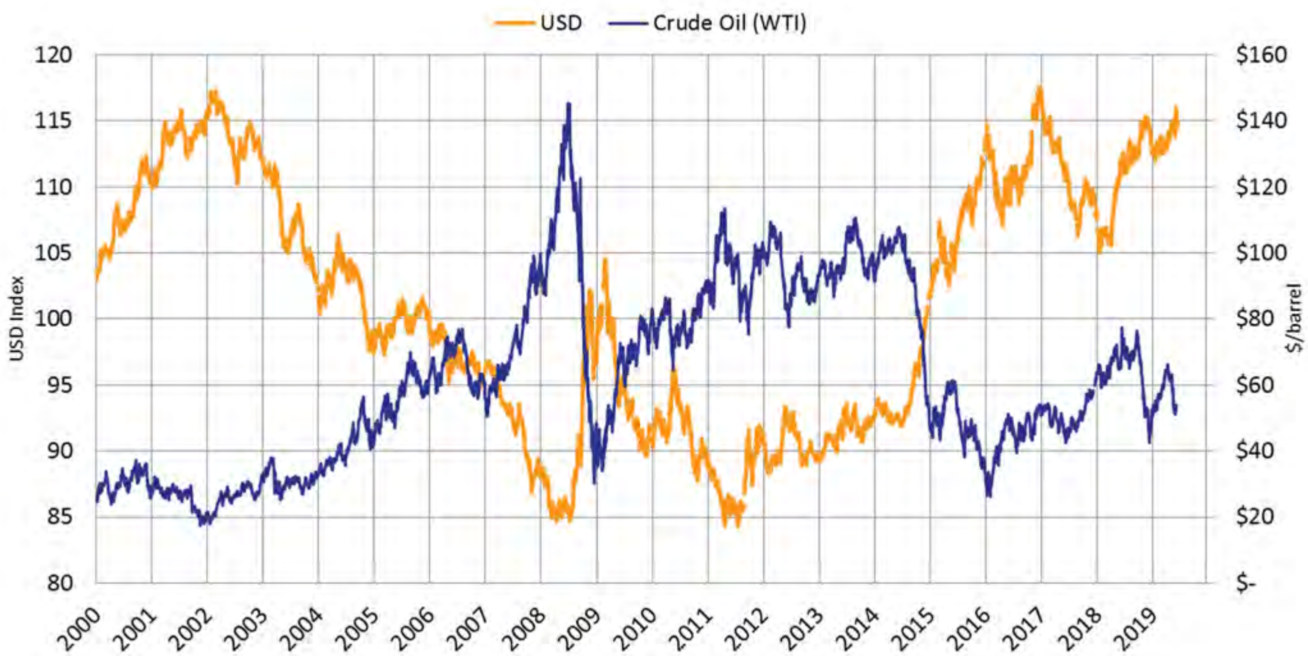
Infrastructure spending declined 2.45% from the previous quarter, returning to the previous years volume (+0.2% year over year).

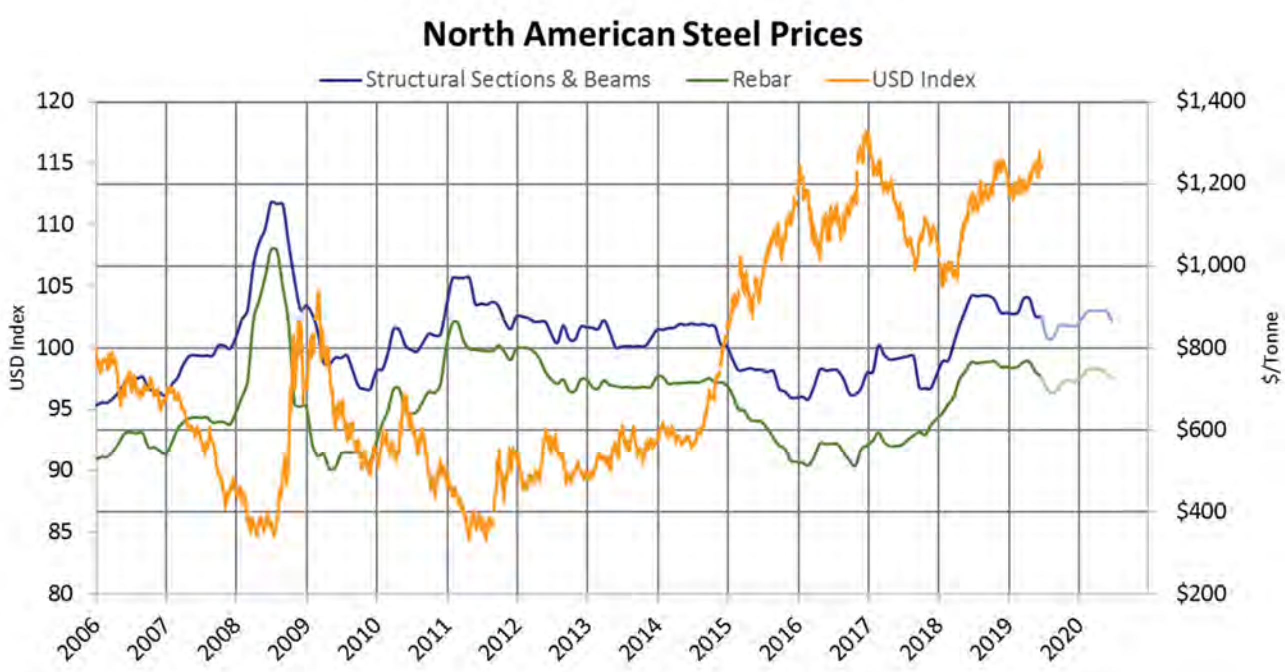
http://www.census.gov/construction/c30/c30index.html

Commodity Prices

Crude Oil reached $58.47 per barrel at the end of Q2. Price per barrel peaked in early April at $66.30 before turning downward consistently through May and June.

Structural Steel prices fell by 4% this quarter, returning to similar prices from early Q1. Prices are expected to continue this trend moving into Q3.

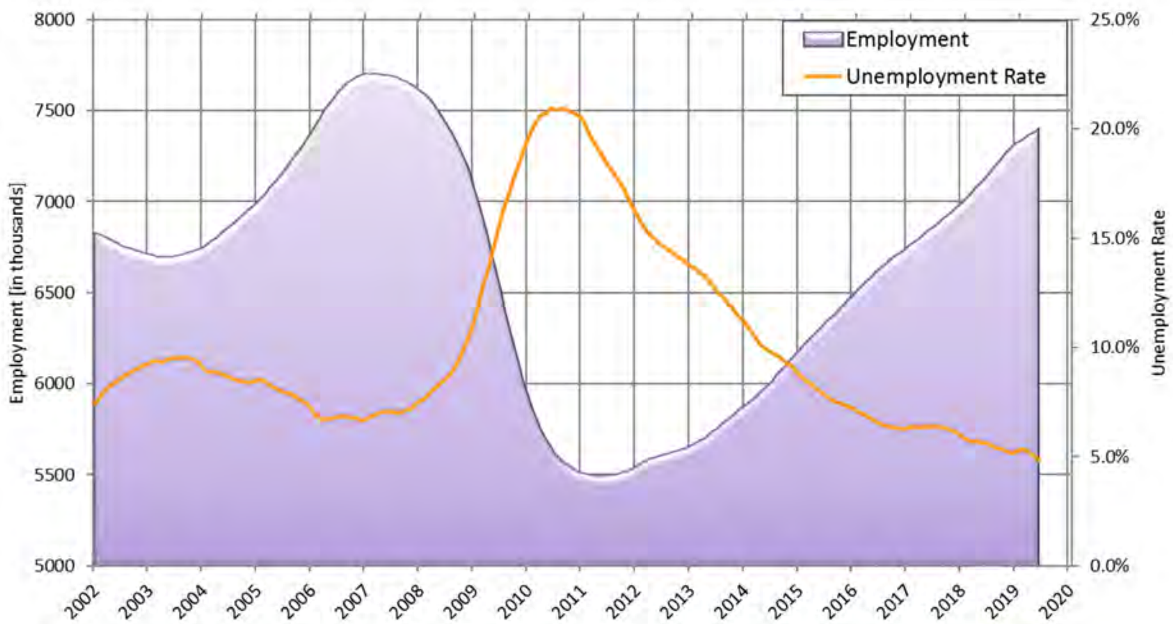


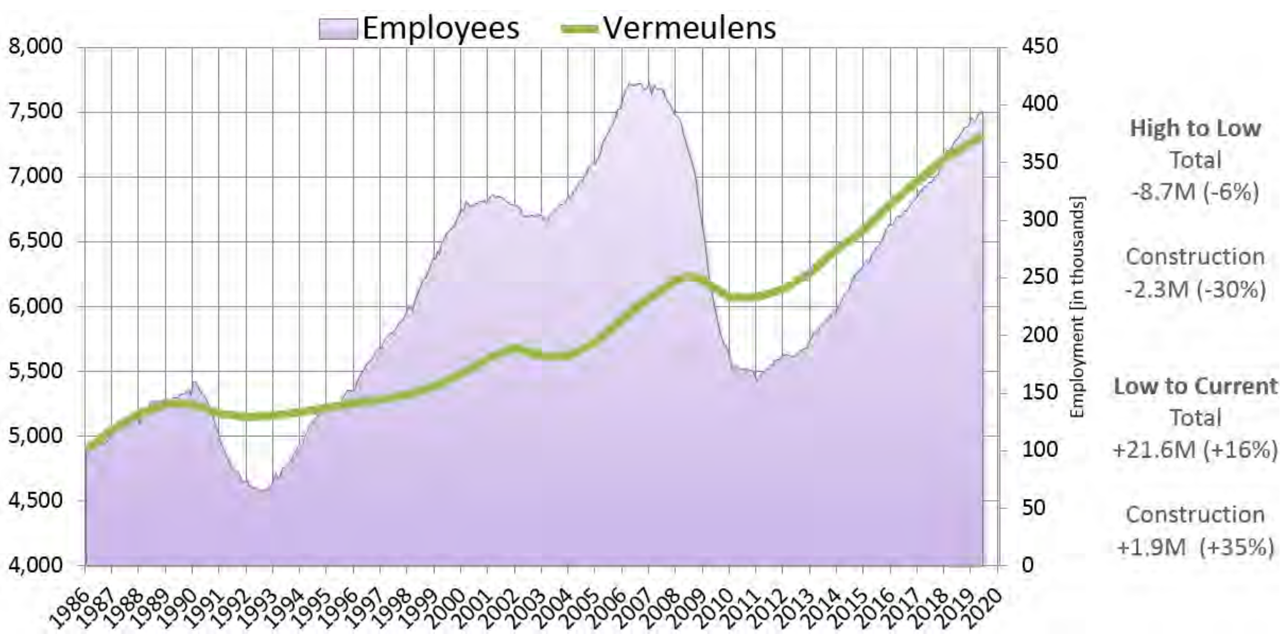


Construction Labor Market

Construction Unemployment for a 12-month average, unemployment fell further from 4.7% (Q1) to 4.4% (Q2). This will maintain the upward pressure on labor costs.

Construction Job Growth was 53,000 or 0.7%, this quarter. Wage and profit increases in the sector will draw new entrants as well as restructuring from other sectors of the economy.

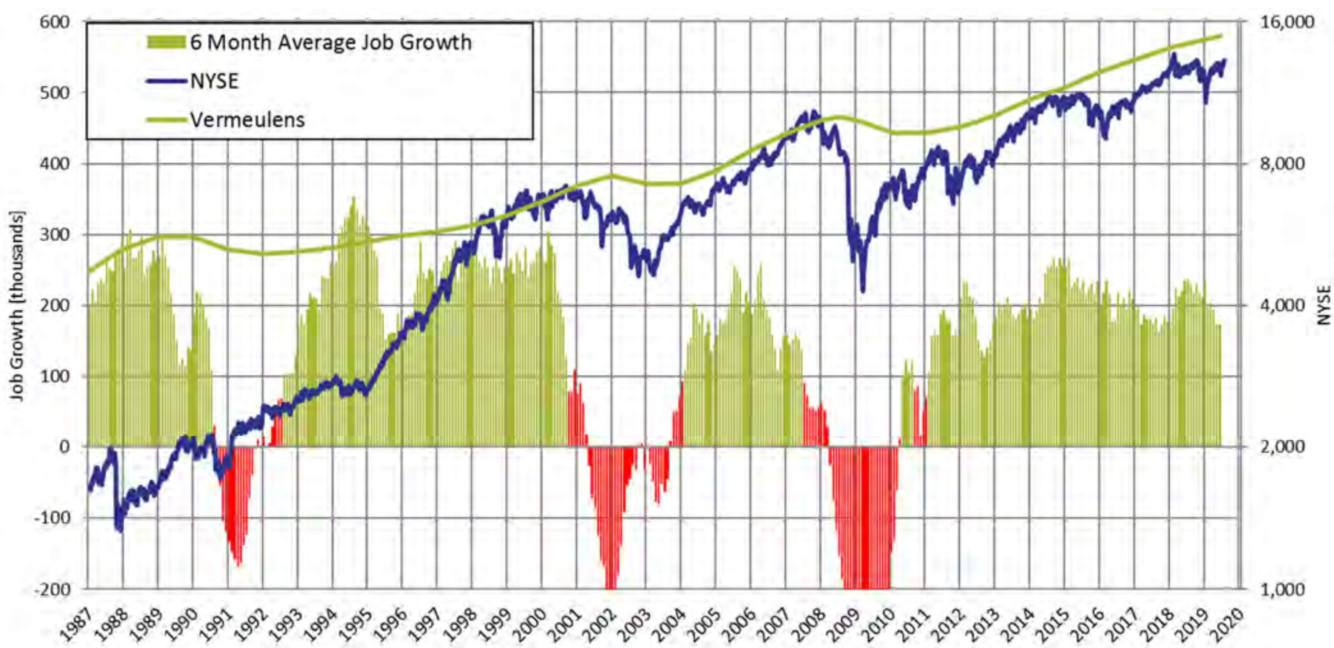




Total Jobs & Market Performance

Total Jobs in the US economy during Q2 2019 saw an average monthly increase of 157,000 jobs, similar to growth in Q1. 6-month moving average job growth numbers declined to mid-170's due to only 62,000 jobs being added in May. This brought the rolling average to it's lowest point since Q1 2018 (141,000).

The chart below removes short-term fluctuations in job growth by looking at a 6-month moving average The labor force grows at 100,000 per month. Sustained periods of recession, where job creation remains below 100,000 jobs per month, has accompanied dips in construction prices as illustrated by the red bars below.

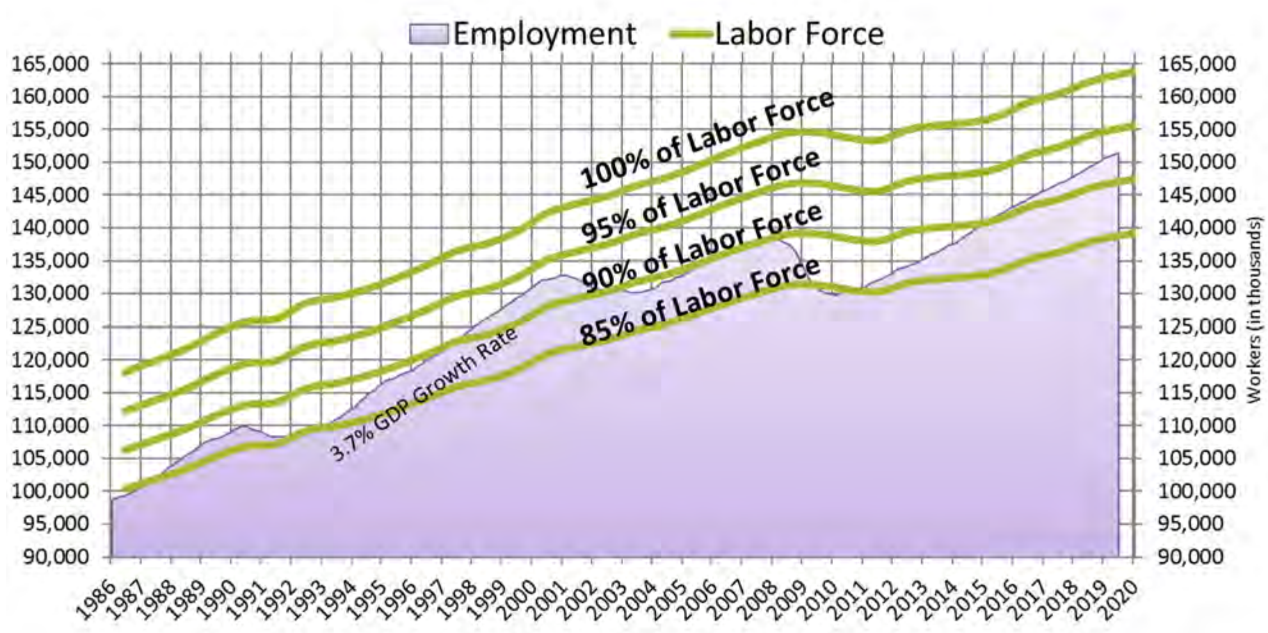


https://data.bls.gov/timeseries/CES0000000001

Employment Percentage of Total Workforce

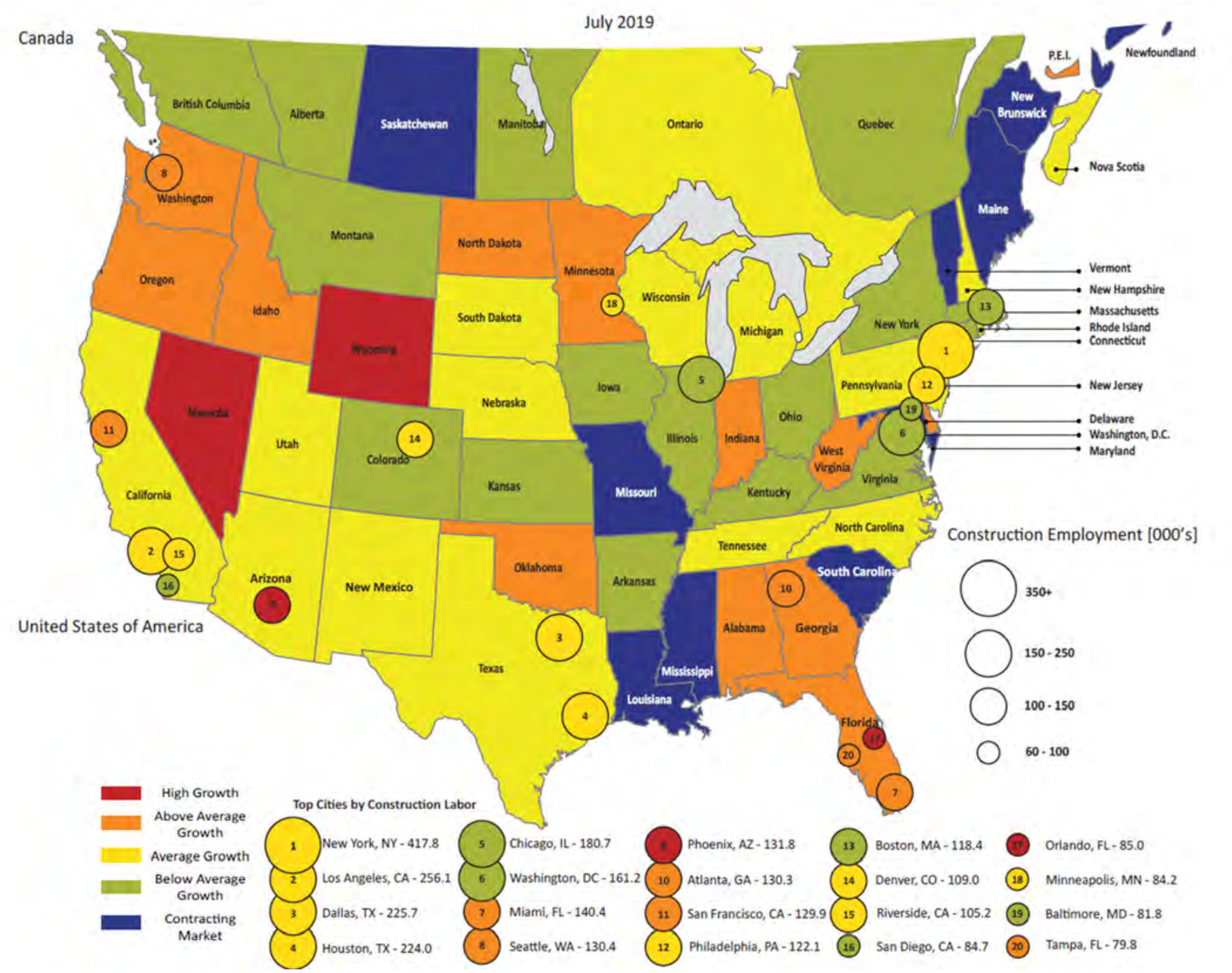
Total Employment as a percentage of total workforce is approaching a long term high of 93%.

The chart below shows total employment as a percentage of the US workforce. The Federal Reserve will accommodate growth until full employment puts inflationary pressure on consumer prices above the 2% target. The workforce in the US continues to expand so the economy must produce at least 100,000 jobs/month to remain neutral. The Federal Reserve will continue to support strong employment growth over the medium term with low interest rates.



Construction Labor Force Growth Rate

Construction Labor Force Growth Rate is calculated by the current 12 month average in construction employment relative to previous 12 month average in construction employment.

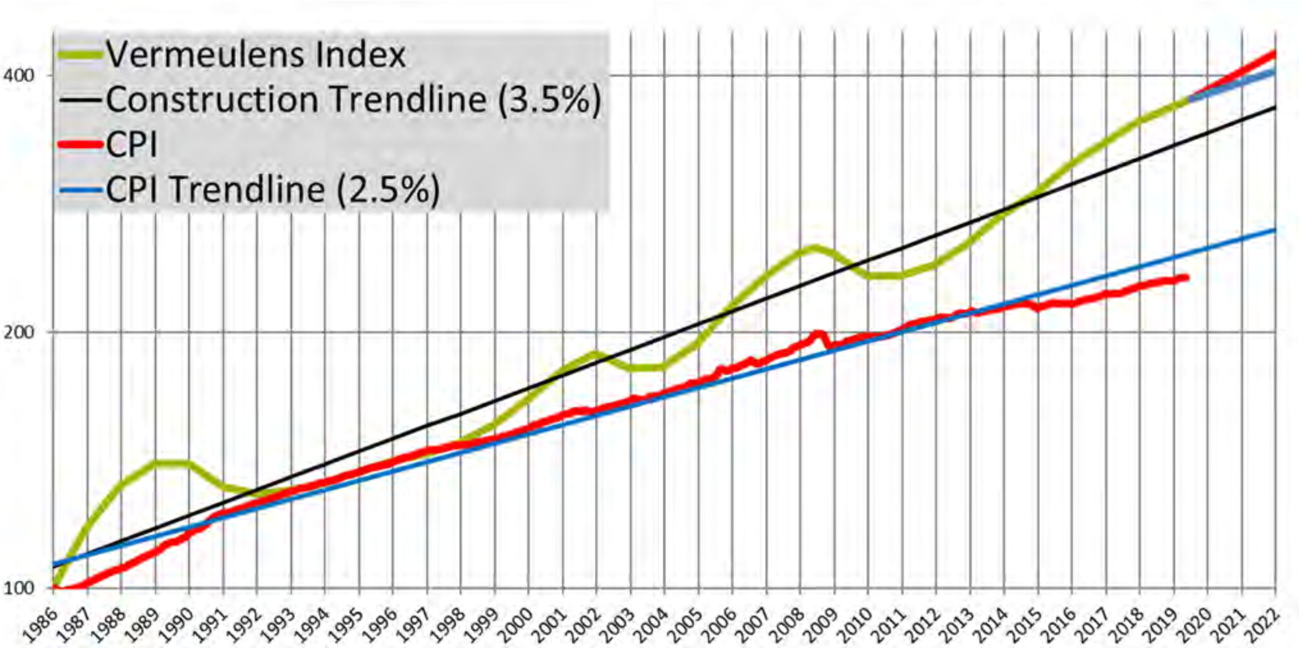


Annual Growth	Forecast
High	7% - 9%
Above Average	5% - 7%
Average	4% - 5%
Below Average	2% - 4%
Contracting Market	< 2%

Forecast - National Trend

Construction prices for North America are firm and stabilizing above the long term Trendline. The medium term national forecast is 4% per year. Local market variations from the average depend on market conditions in that market. Contact Vermeulens for specific market information for your project.

With the current labor market at capacity, and continued stability in construction volume, construction costs will remain above the Construction Cost Trendline for the medium term.



Vermeulens strives to give our clients the greatest possible value and results for their projects.

If you:
Need any help with your projects,
Want to set up a presentation to your group,
Would like to meet to see how we can help your team, and expand our business together,
Are looking for company information,

Please contact:* *Marisol Serrao, Director of Marketing at 617 273 8430 or mserrao@vermeulens.com.