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VERMEULENS®
Service Beyond Estimation

Market Outlook – Q3 2019

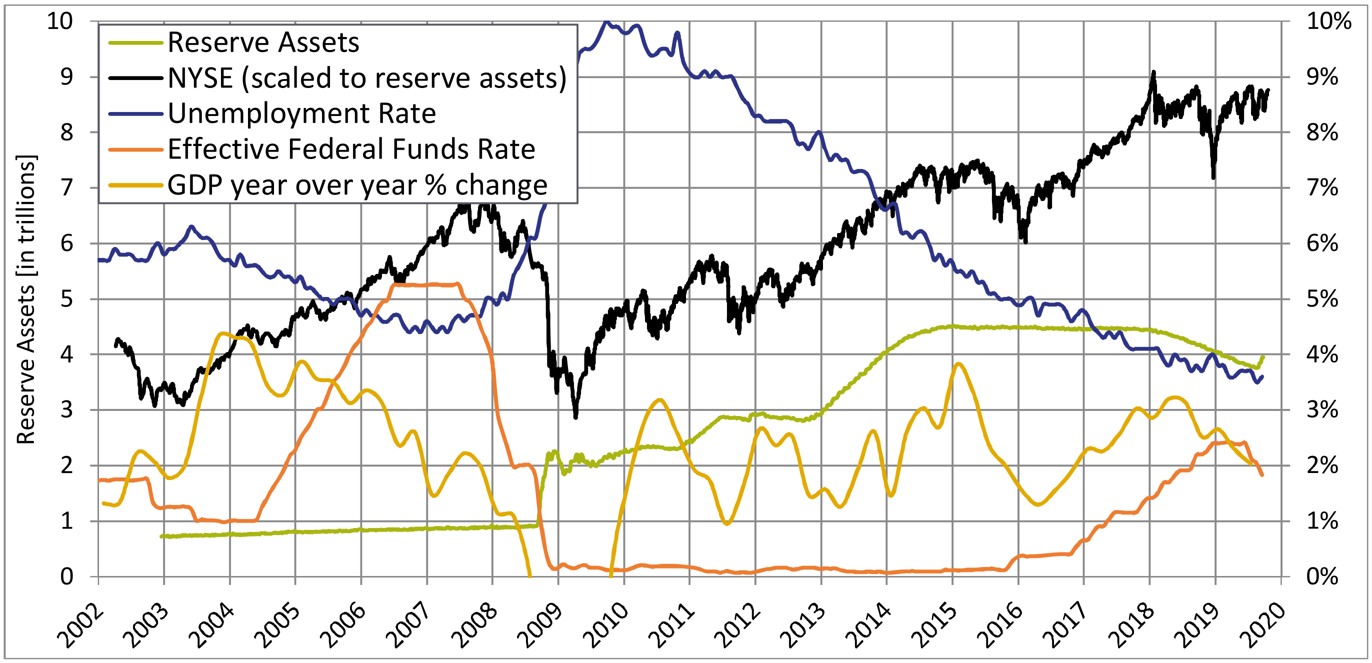
Vermeulens' Market Reports are based on actual bid prices in the Institutional-Commercial-Industrial Construction Industry. Forecasts are based on leading indicators, and historical comparative analysis.

- **Construction Price:** Escalation nationally has trended to 4% per annum for Q3 2019.
- **Fed Watch:** The Federal Reserve continued monetary stimulus. For more information, 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%.
- **Architectural Billings:** Has continued to see declines in recent months, however inquiries and contracts have shown recent growth.
- **Construction Dollar Volume**: Has held over the past few months and is +0.45% year over year (Sep 18/Sep 19). This is a result of Residential (-3.4% year over year) spending declining, and Non-Residential (+3.2% year over year) spending increasing. Infrastructure (+0.95% year over year) spending has been relatively constant over the past year.
- **Construction Job Growth:** We are at full employment in the construction sector, however growth has slowed compared to previous years. Q3 has seen the addition of 15,000 construction jobs (0.20%) nation-wide. Increased wage and profit levels in the sector will continue to draw employment from new entrants and other sectors.
- **New York Stock Exchange:** The stock market dropped by over 5% in August and recovered fully by the end of the quarter (-0.45% Q2-Q3).
- **Growth in Employment:** Monthly average job growth through Q3 was 188,000. The 6-month rolling average is still down at 170,000 and has not yet recovered from the drop in May. 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.
- **Commodities**: Steel price level changed from $877 (2019 Q2) to $761 (2019 Q3). US steel import tariffs of 25% were lifted in May 2019. Oil prices changed from $58.47 (2019 Q2) to $54.07 (2019 Q3), fluctuating between a high of $62.9 and a low of $51.09.
- **Consumer Price Index:** Q2 CPI rose slightly which resulted in the annual inflation rate remaining steady at 1.9% (2019 Q2 to 2019 Q3).

Fed Watch (all data to September 30)

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/monetary20190918a.htm

"… Although household spending has been rising at a strong pace, business fixed investment and exports have weakened. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1-3/4 to 2 percent. This action supports the Committee's view that 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 remain."



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

Vermeulens Construction Cost Index

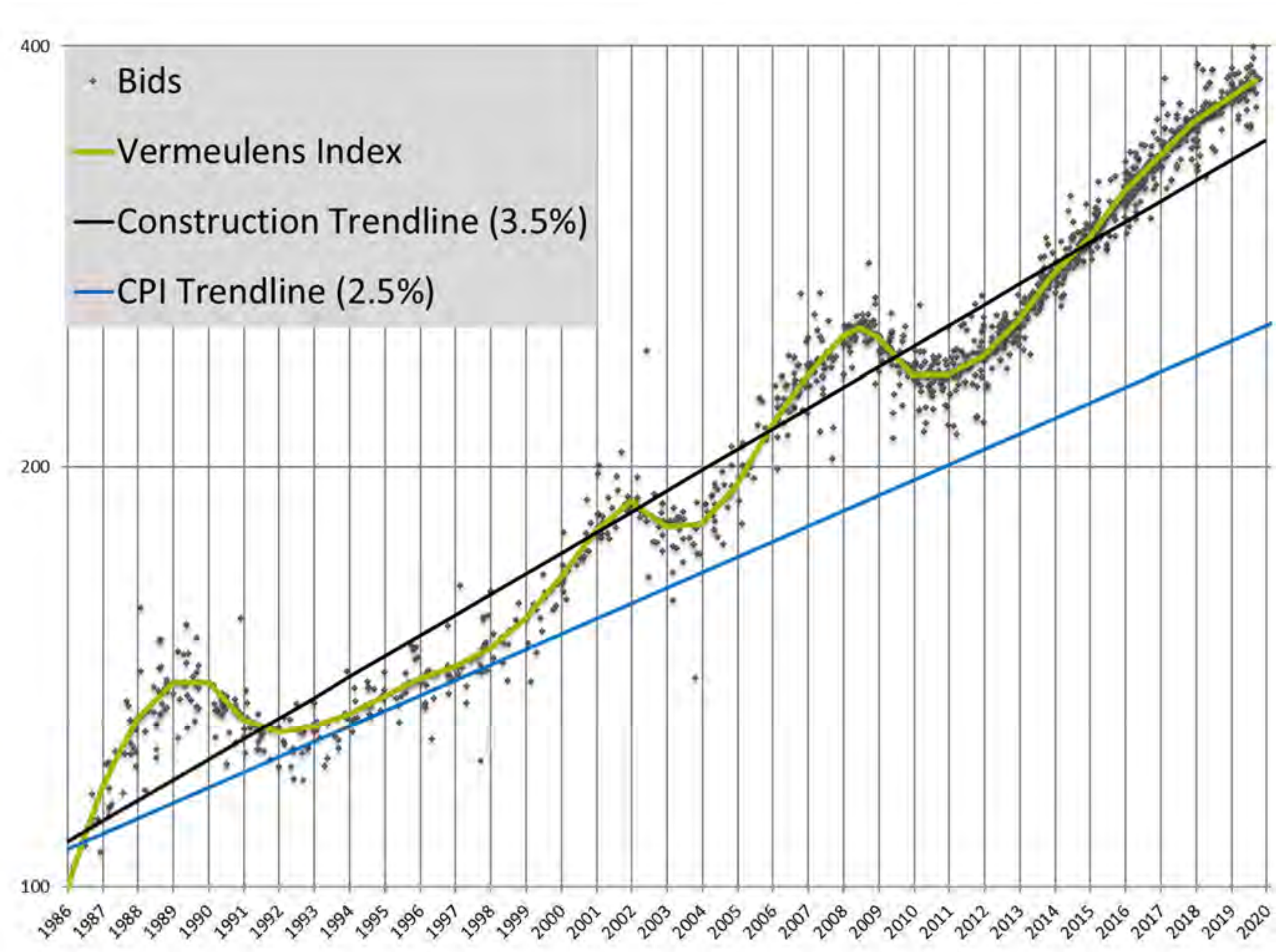
As inflation in other sectors of the economy moderate, escalation in the construction sector will continue to have room to increase at a higher rate.

Price increases for Q3 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 three quarters of 2019.

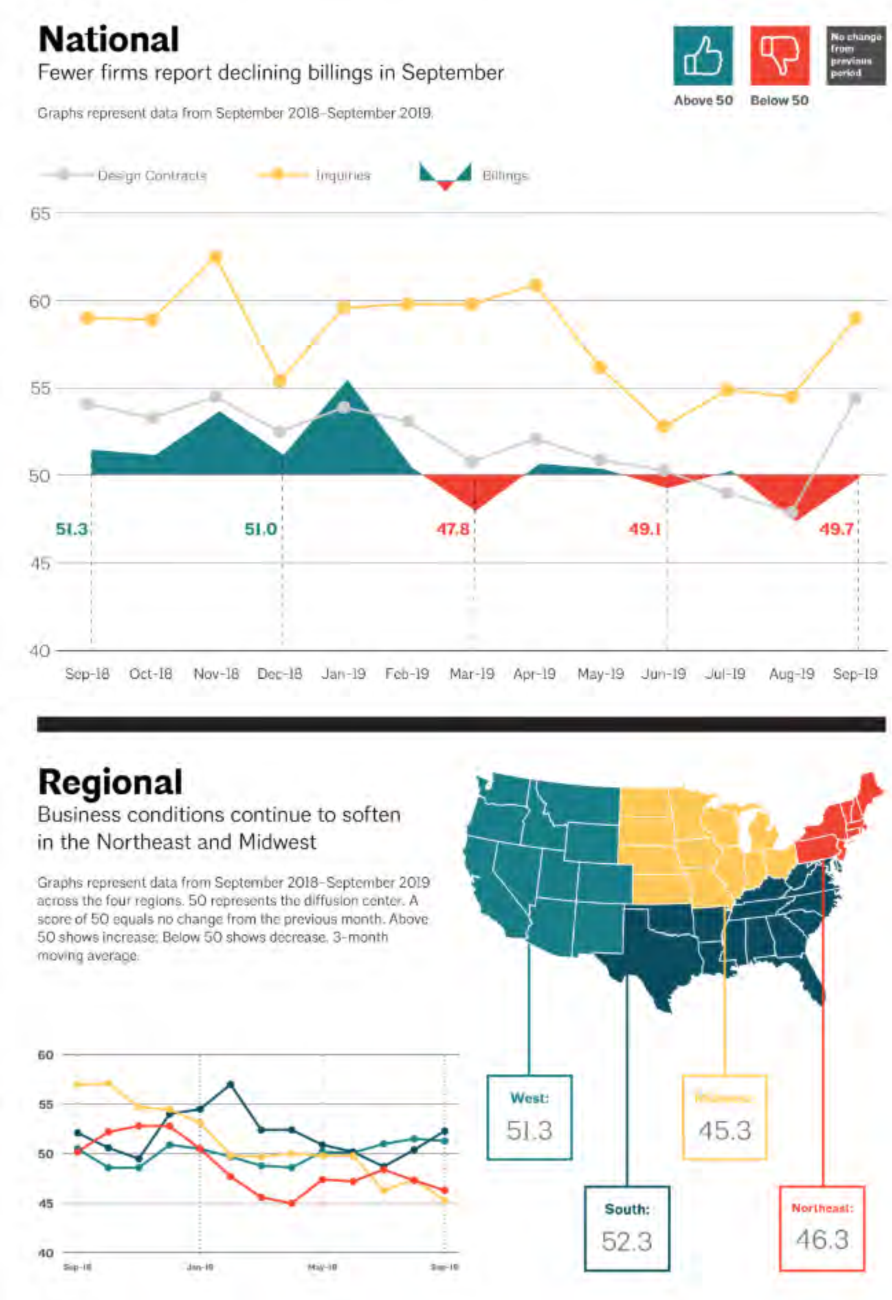
The chart below illustrates bid prices for Institutional Commercial Industrial (ICI) construction projects relative to the Construction Trendline (1986 = 100) of 3.46% and the 2.5% Consumer Price Index Trendline.



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 has held below the 50.0 mark for 2 consecutive months in August and September. However the outlook for the coming months is trending positive as September saw a sharp increase in inquiries and contracts which bears good news for Q4.



https://www.aia.org/pages/6220566-abi-september-2019-firm-billings-remain-sl

Put In Place Construction

Construction dollar volume has been consistent, increasing only 0.45% year over year (Sep 18/Sep 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 -3.4% year over year and is recovering slowly, increasing 2.4% from last quarter.

Non-Residential construction spending is up 3.2% year over year. Moderate growth and strong margins in Non-Residential construction volume has caused reduced escalation in this sector.

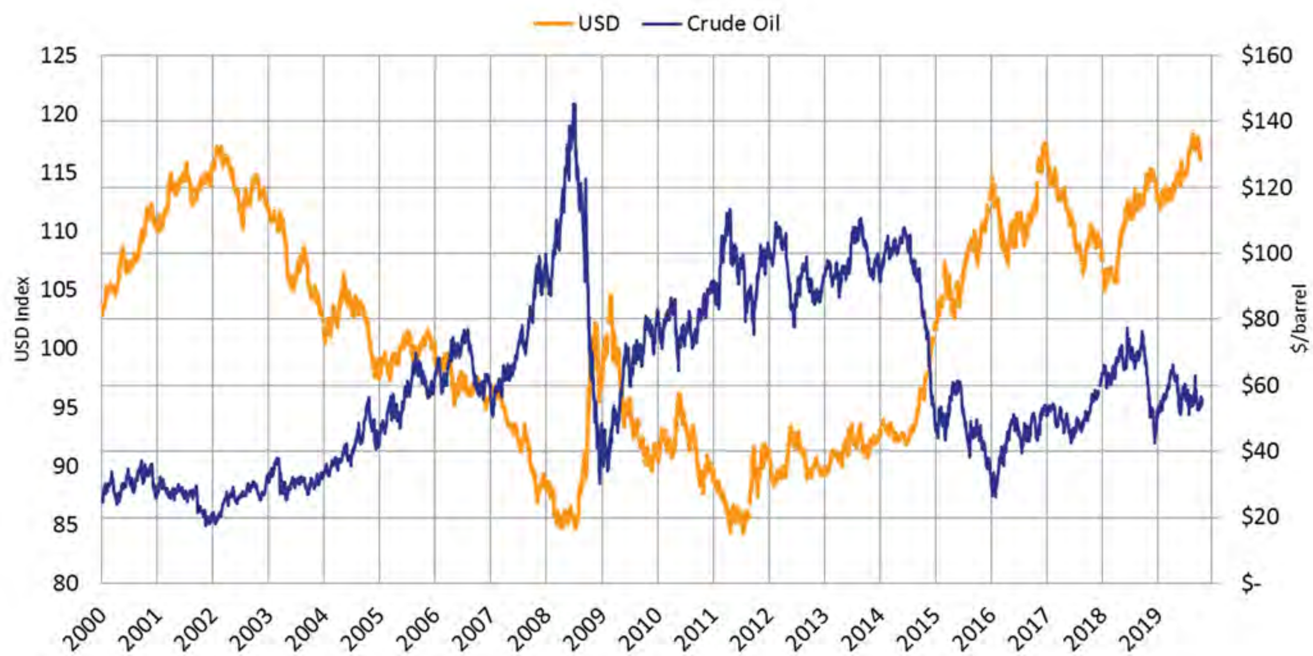
Infrastructure spending increased by 0.95% year over year after peaking in Q2.

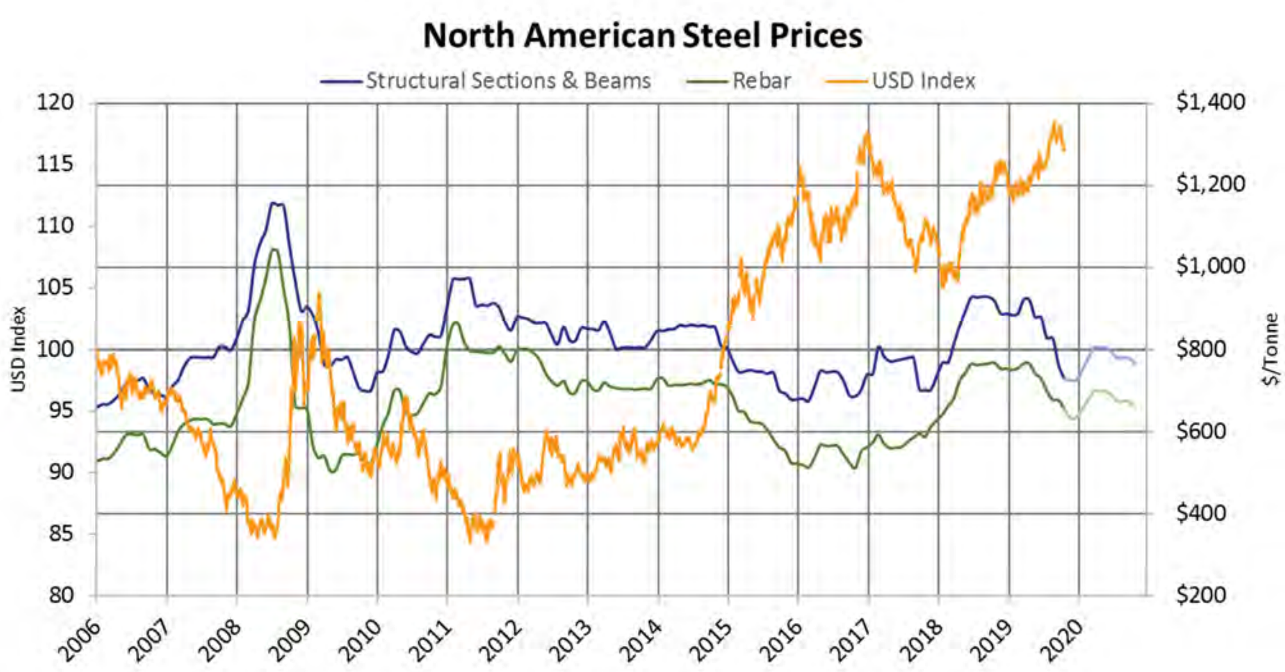
http://www.census.gov/construction/c30/c30index.html

Commodity Prices

Crude Oil reached $54.07 per barrel at the end of Q3. Price per barrel peaked in mid September at $62.90.

Structural Steel prices fell by 13% this quarter, returning to price levels of late 2017. Steel rate are expected to hold through Q4, and rise going into Q1 2020. US steel import tariffs of 25% were lifted in May 2019.

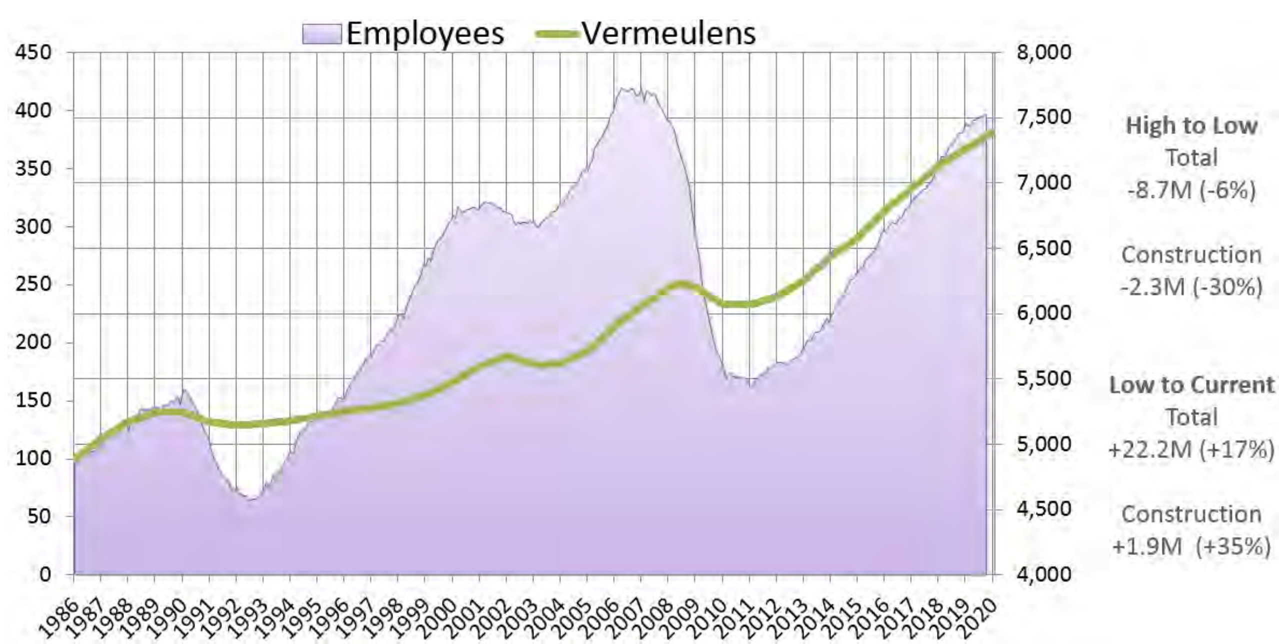




Construction Labor Market

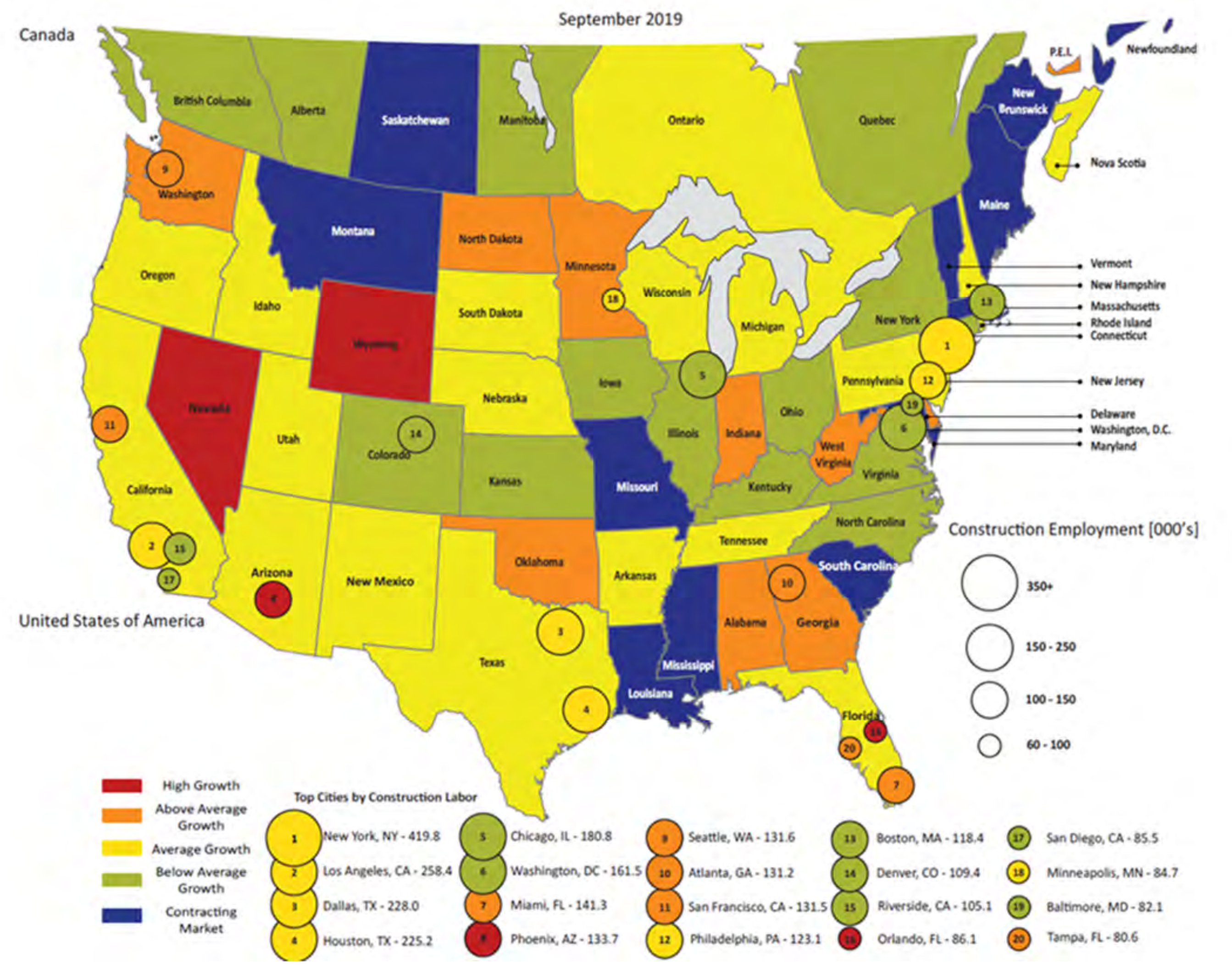
Construction Unemployment for a 12-month average has held at 4.4% since Q2 (June). This will maintain the upward pressure on labor costs.

Construction Job Growth was 15,000 or 0.2%, this quarter. Wage and profit increases in the sector will draw new entrants as well as restructuring from other sectors of the economy.



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.

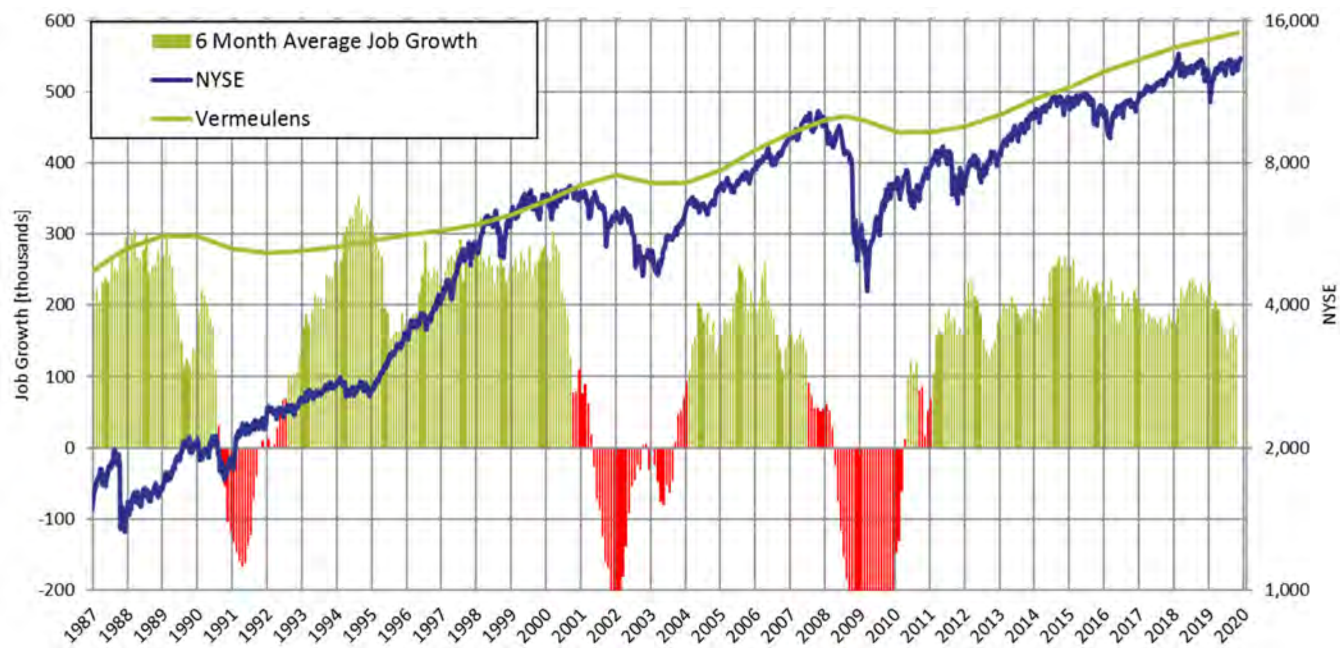


Annual Growth	Forecast
High	7% - 9%
Above Average	5% - 7%
Average	4% - 5%
Below Average	3% - 4%
Contracting Market	TBD

Total Jobs & Market Performance

Total Jobs in the US economy during Q3 2019 saw an average monthly increase of 188,000 jobs, in the form of consistent growth throughout the quarter. 6-month moving average job growth numbers are still in the 170,000 range due to the depressing affect of the 62,000 jobs added in May.

The chart below removes short-term fluctuations in job growth by looking at a 6-month moving average The size of the labor force grows at 100,000 per month due to population increase. 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.

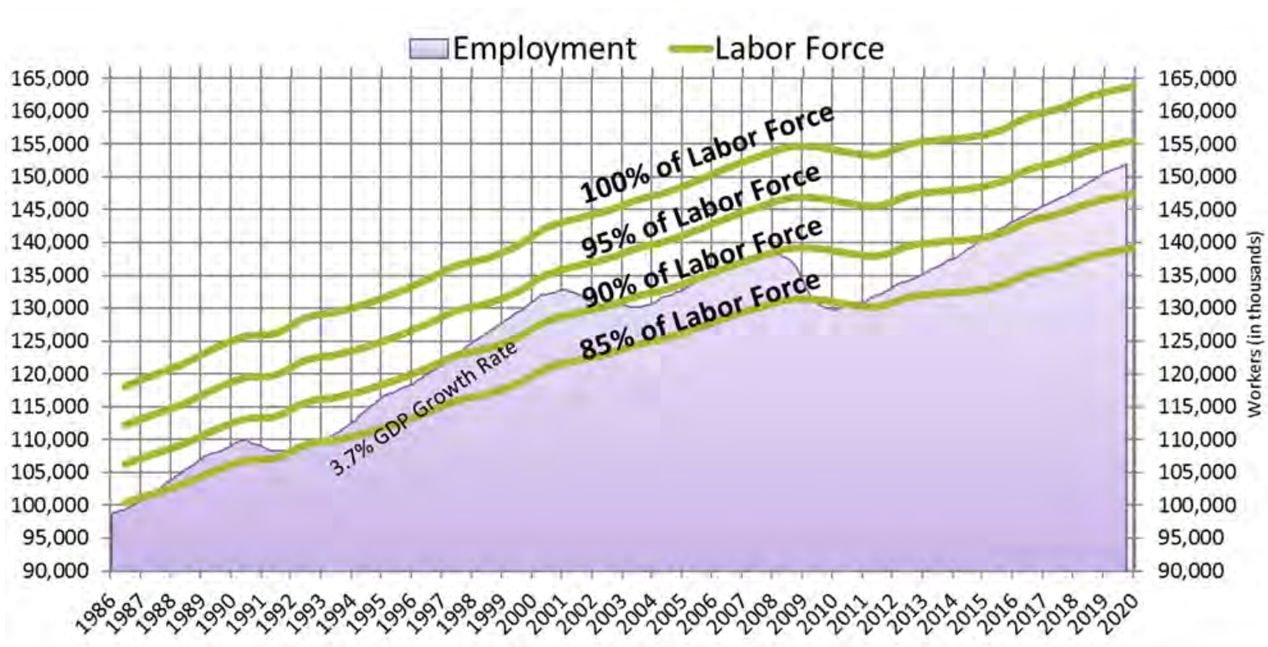


https://data.bls.gov/timeseries/CES0000000001

Employment Percentage of Total Workforce

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

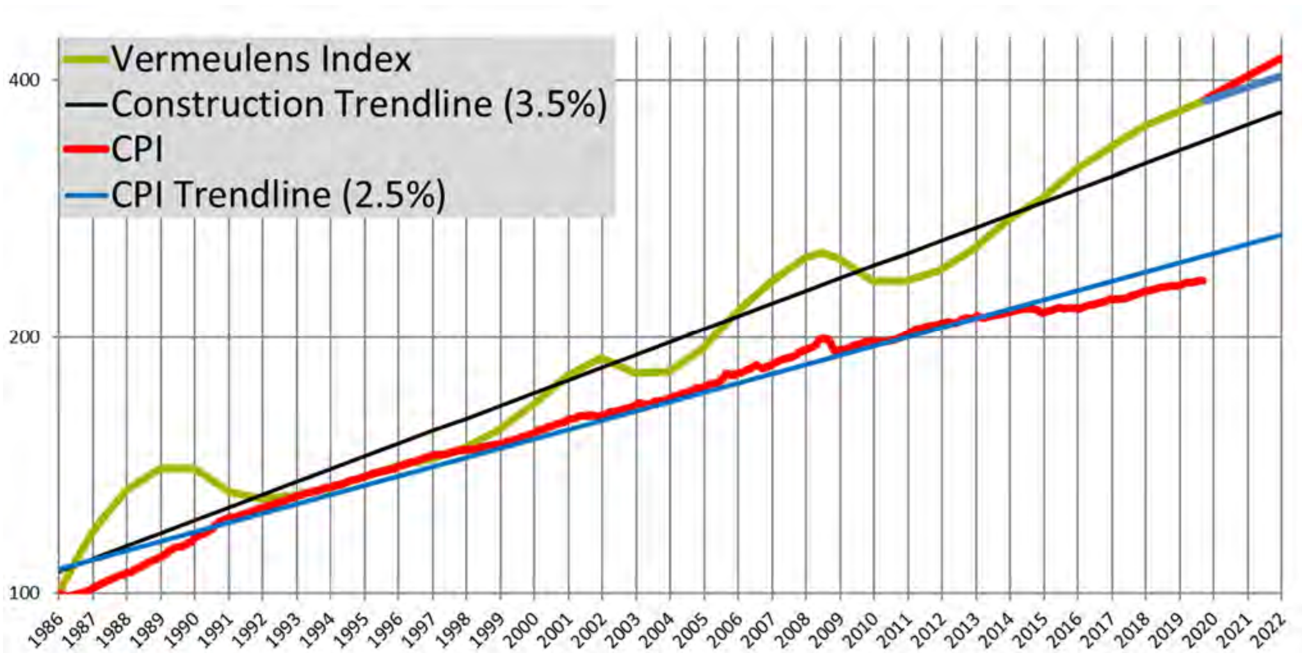
The chart below shows total employment as a percentage of the US workforce. The Federal Reserve will accommodate growth until full employment puts inflationary pressure on consumer prices above the 2% target. The workforce in the US continues to expand so the economy must produce at least 100,000 jobs/month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



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.**