



Market Outlook – Q4 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 Prices:** Escalation nationally has trended to 4% per annum for Q4 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:** Had positive growth in Q4, overturning declining numbers through the previous 2 quarters.
- **Construction Dollar Volume:** Trended upward in Q4 and is now +4.05% year over year (Dec 18/Dec 19). Non-Residential spending had a big quarter as well, leading year over year growth to 4.95%.
- **Construction Job Growth:** Approximately 23,000 construction jobs were added this quarter, or 0.3%. 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 grew by almost 7% in Q4, reaching new highs and moving strong into the new year. Overall the NYSE gained 22.2% through 2019.
- **Growth in Employment:** Monthly average job growth through Q4 was 211,000. The 6-month rolling average has climbed up to 206,000 indicating a strong 6-month period since the lowly 85,000 jobs added in May 2019. 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 Q4 2019. Long term expectations have fallen slightly.
- **Commodities:** Steel price level changed from \$761 (2019 Q3) to \$727 (2019 Q4). US steel import tariffs of 25% were lifted in May 2019. Oil prices changed from \$54.07 (2019 Q3) to \$61.06 (2019 Q4), fluctuating between a high of \$61.72 and a low of \$52.45.
- **Consumer Price Index:** Q4 CPI continued to increase, reaching +2.06% year over year (Dec 18/Dec 19).

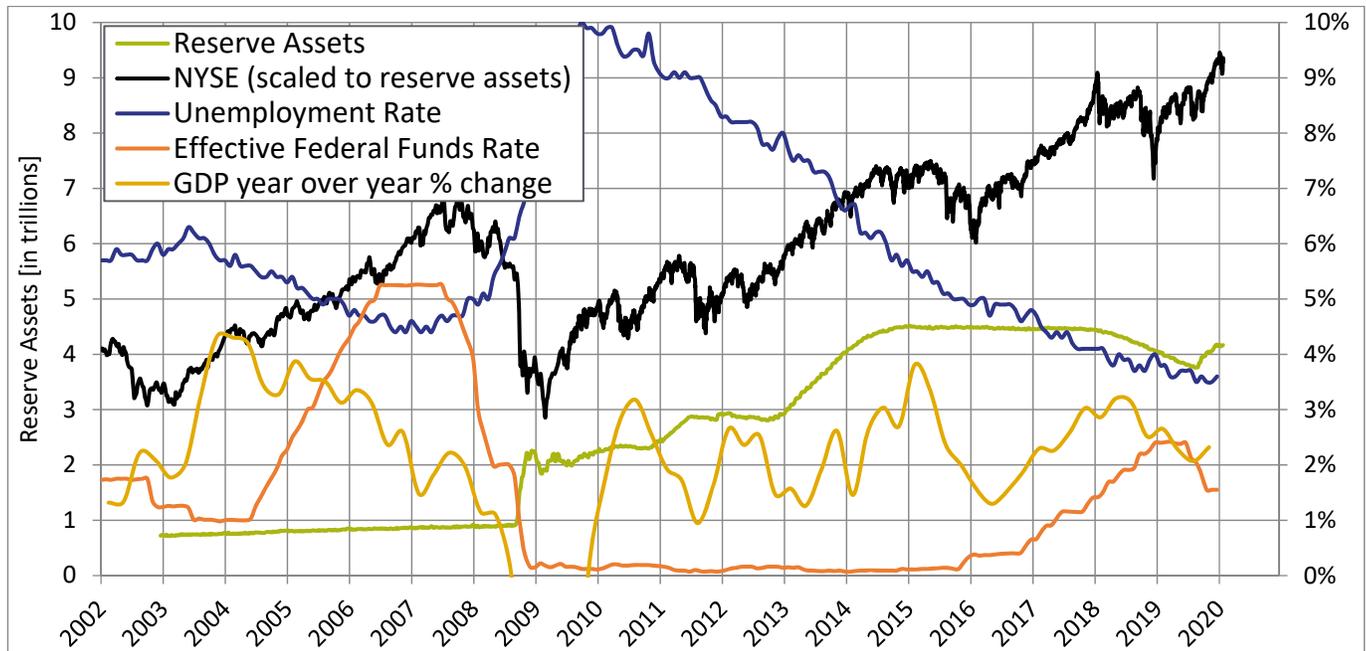
North America's Construction Economist

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Fed Watch (all data to January 1)

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/monetary20191211a.htm>

“...the labor market remains strong and that economic activity has been rising at a moderate rate... Although household spending has been rising at a strong pace, business fixed investment and exports remain weak... inflation is running below 2 percent... inflation compensation remain low... longer-term inflation expectations are little changed. The Committee decided to maintain the target range for the federal funds rate at 1-1/2 to 1-3/4 percent.”



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

Vermeulens Construction Cost Index

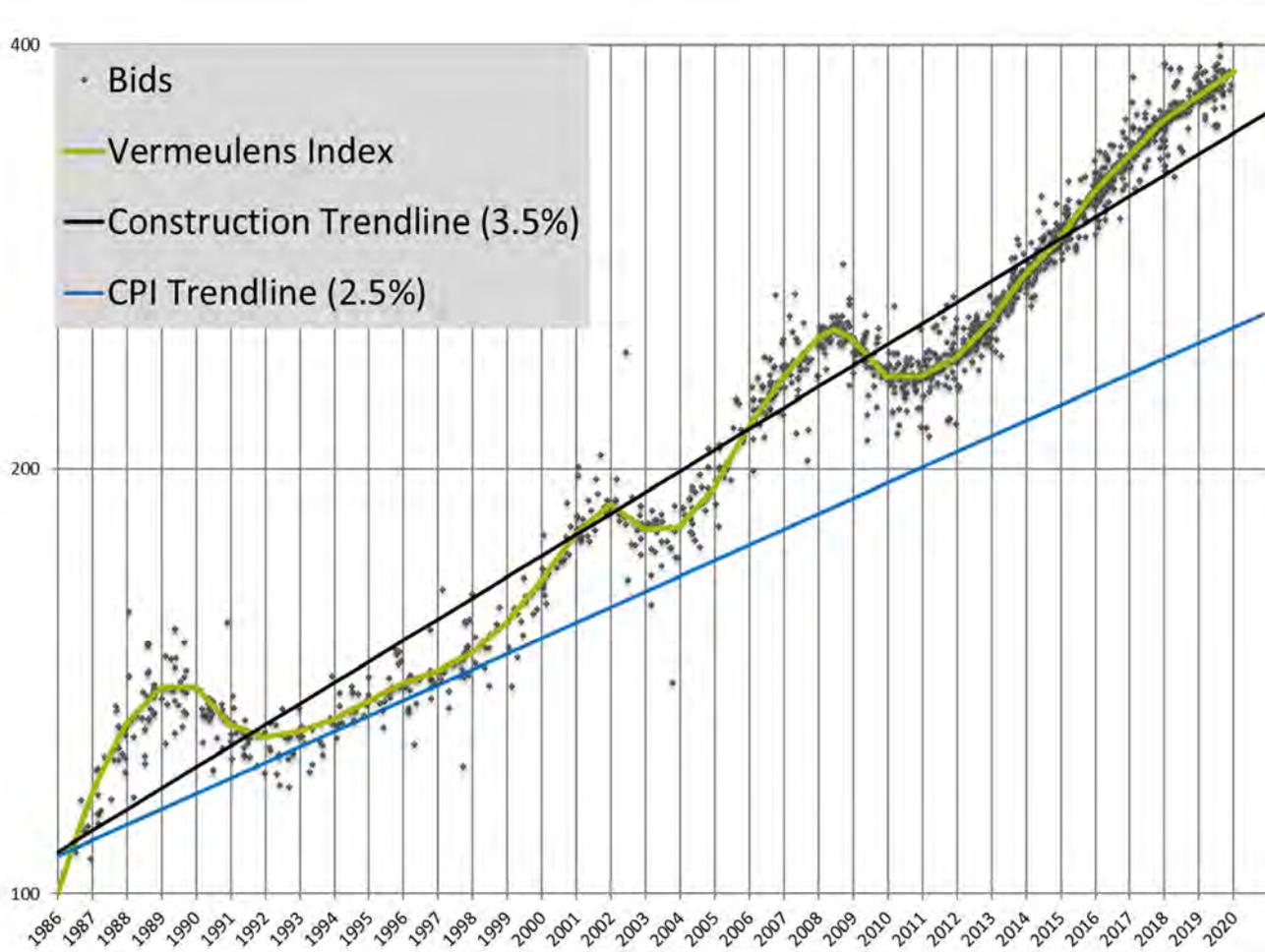
As inflation in other sectors of the economy moderate, escalation in the construction sector will continue to have room to increase at a higher rate.

Price increases for Q4 2019 nationally trended towards 4% annually.

For the past 34 years, construction prices trended at a 3.5% 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 all of 2018 and 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.



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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.

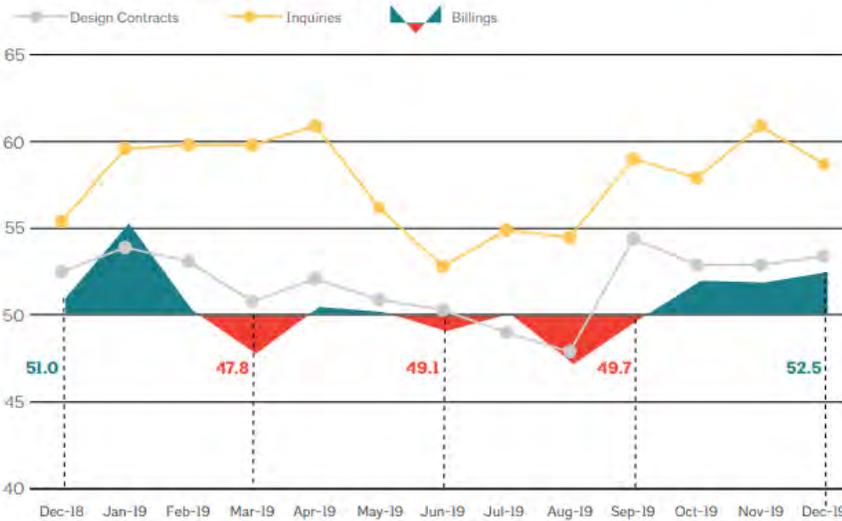
Architectural Billings finished off the year strong, keeping above the 50.0 mark throughout Q4 for the first time since Q4 2018. Inquiries and Contracts have held at consistent levels since the spike experienced in September.

National

Business conditions at architecture firms continue to improve in December



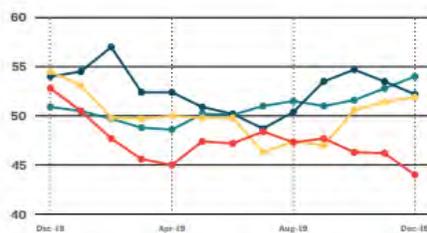
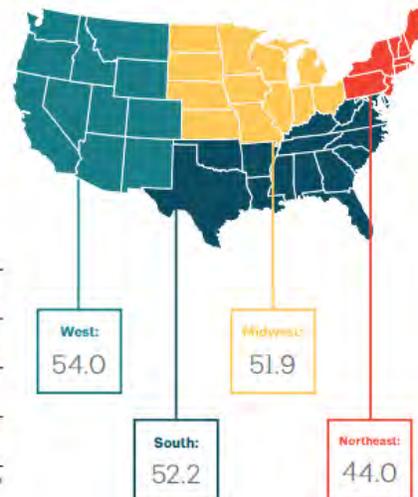
Graphs represent data from December 2018-December 2019.



Regional

Billings soften further at firms in the Northeast, strengthen elsewhere

Graphs represent data from December 2018-December 2019 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



<https://www.aia.org/pages/6259984-abi-december-2019-year-ends-on-a-stronger->

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Put In Place Construction

Construction dollar volume saw positive growth in Q4, gaining 4.05% year over year (Dec 18/Dec 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 had a strong Q4, improving year over year by 2.8% (Dec 18/Dec 19).

Non-Residential construction spending is up 4.95% year over year (Dec 18/Dec 19). Moderate growth and strong margins in Non-Residential construction volume has caused reduced escalation in this sector.

Infrastructure spending decreased by 2.4% in Q4, but overall is still +1.2% year over year (Dec 18/Dec 19).

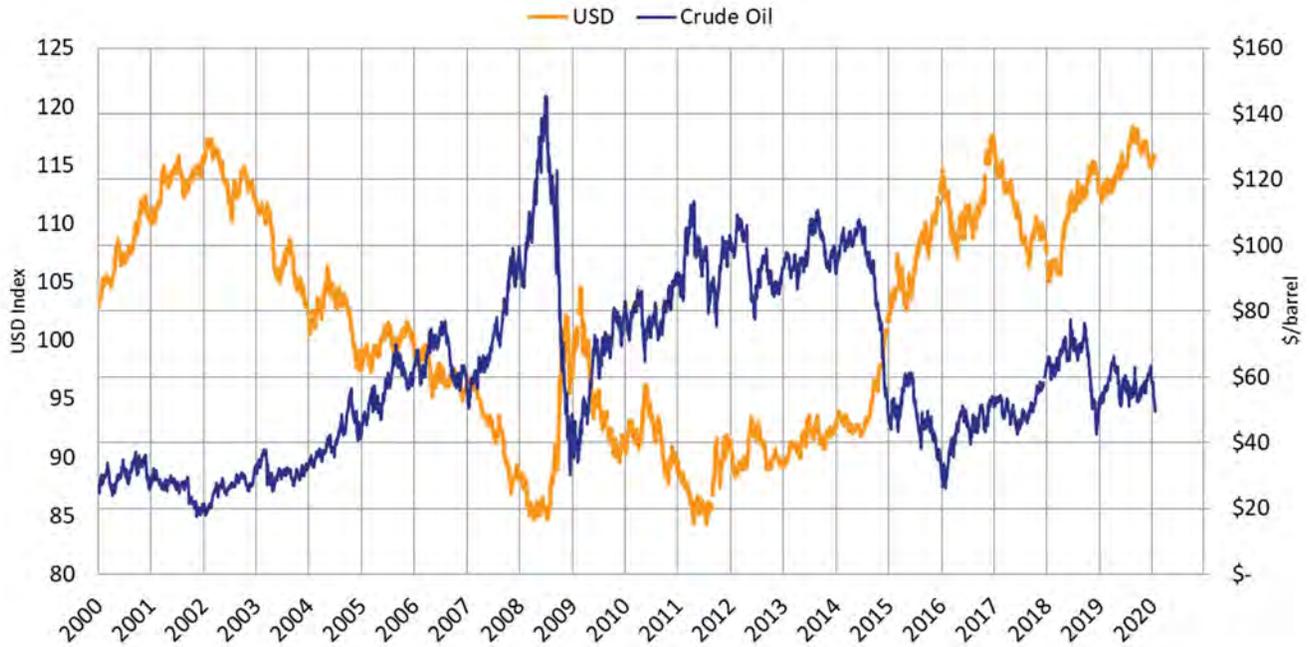


<http://www.census.gov/construction/c30/c30index.html>

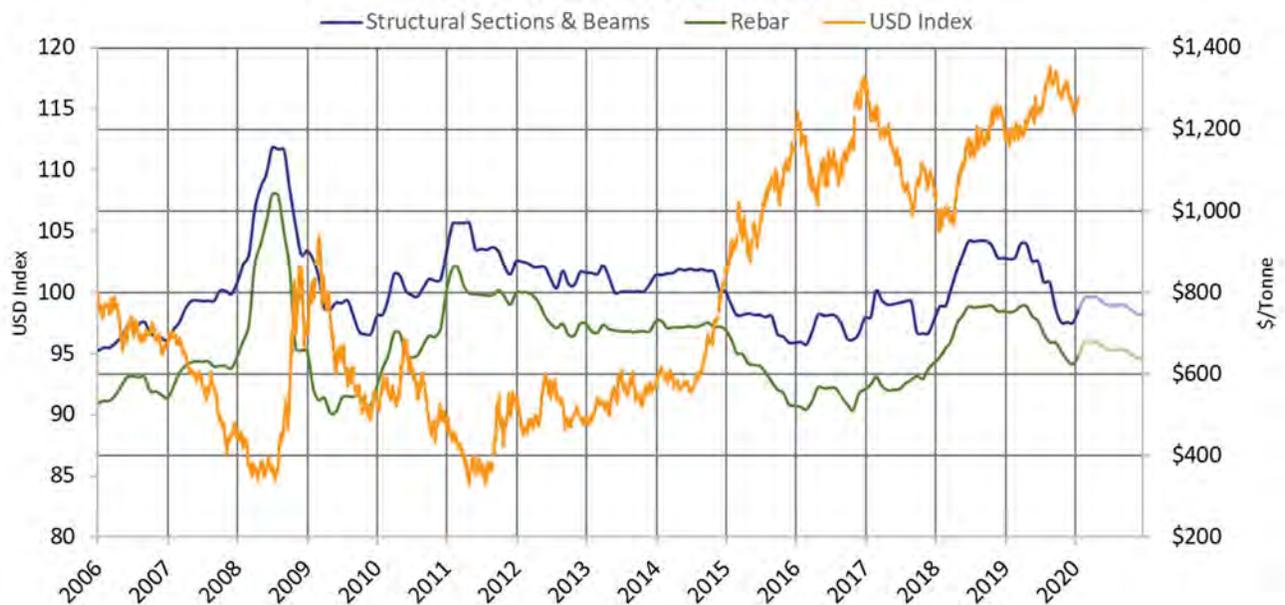
Commodity Prices

Crude Oil reached \$61.06 per barrel at the end of Q4. Prices climbed throughout the quarter, peaking at \$61.72 just before year's end.

Structural Steel prices fell by 4% since the end of Q3, remaining at consistent levels throughout the quarter. Steel rates are expected to increase over the duration of Q1 2020.



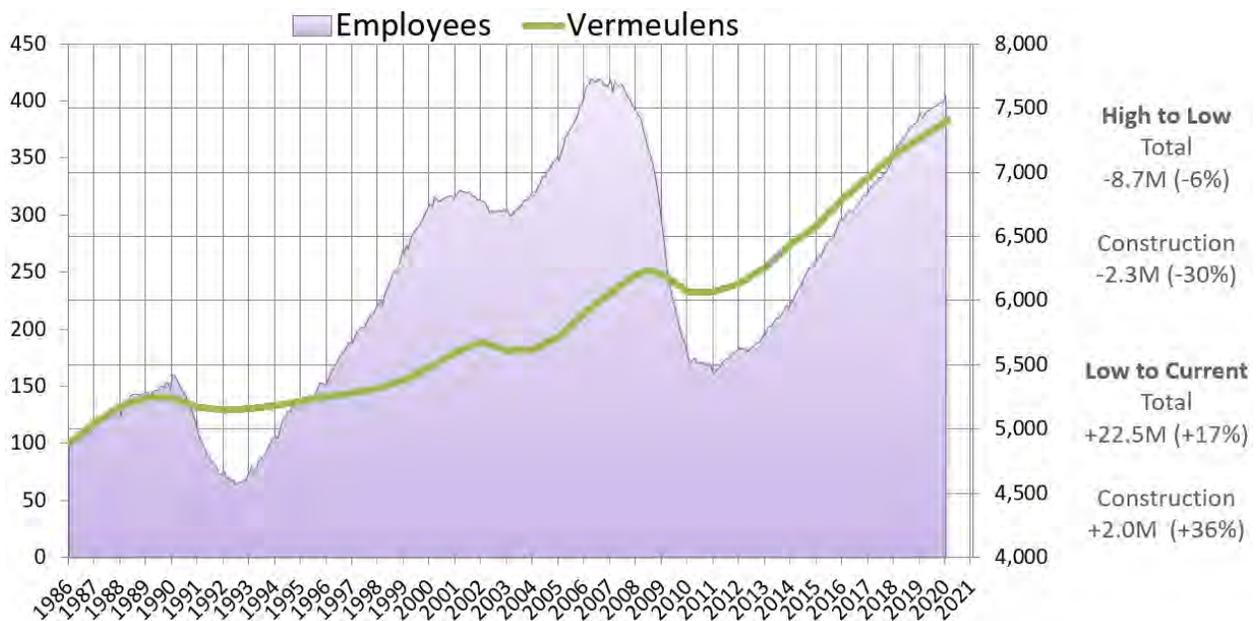
North American Steel Prices



Construction Labor Market

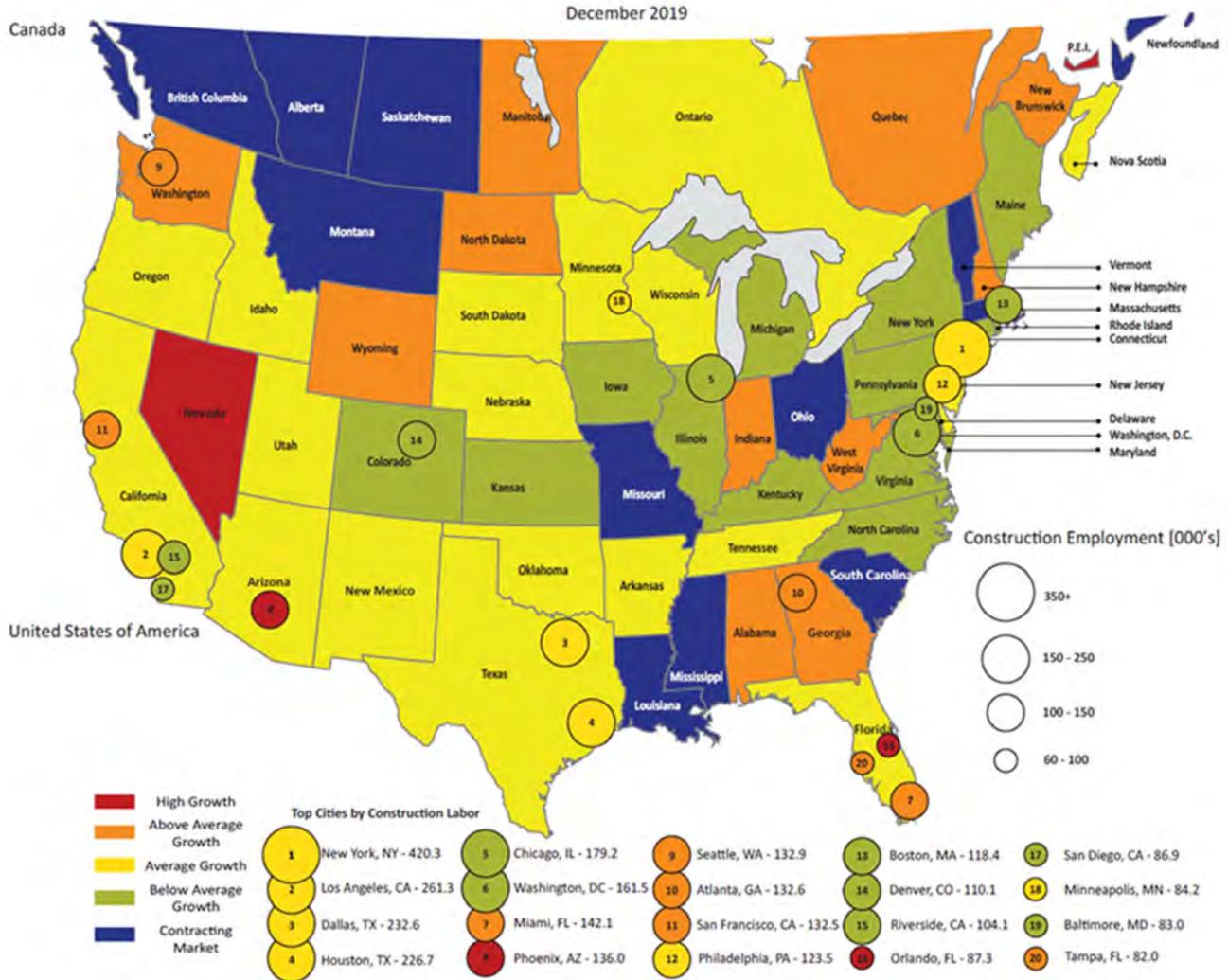
Construction Unemployment for a 12-month average has held at 4.4% since Q2 (June). This will maintain the upward pressure on labor costs.

Construction Job Growth was 26,000 or 0.3%, 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.

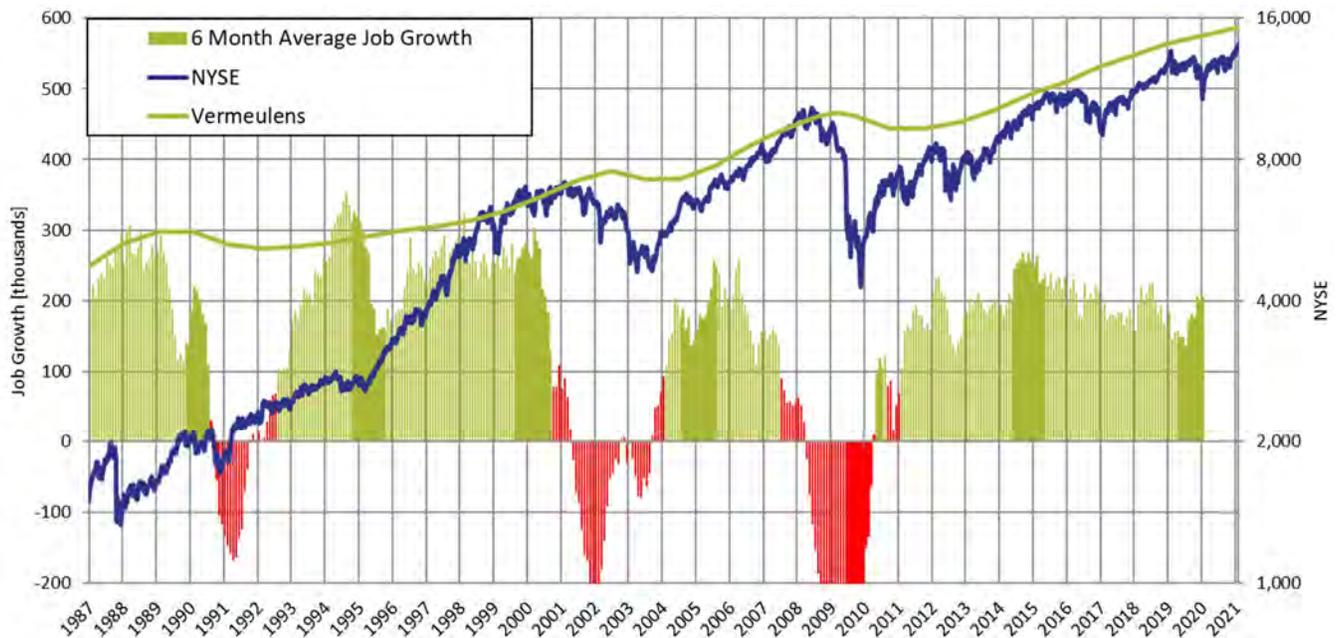


Annual Growth	Forecast
High	7% - 9%
Above Average	5% - 7%
Average	4% - 5%
Below Average	3% - 4%
Contracting Market	TBD

Total Jobs & Market Performance

Total Jobs in the US economy during Q4 2019 saw an average monthly increase of 198,000 jobs, in the form of consistent growth throughout the quarter. 6-month moving average job growth numbers have risen to 200,000 which is a positive sign going forward.

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.

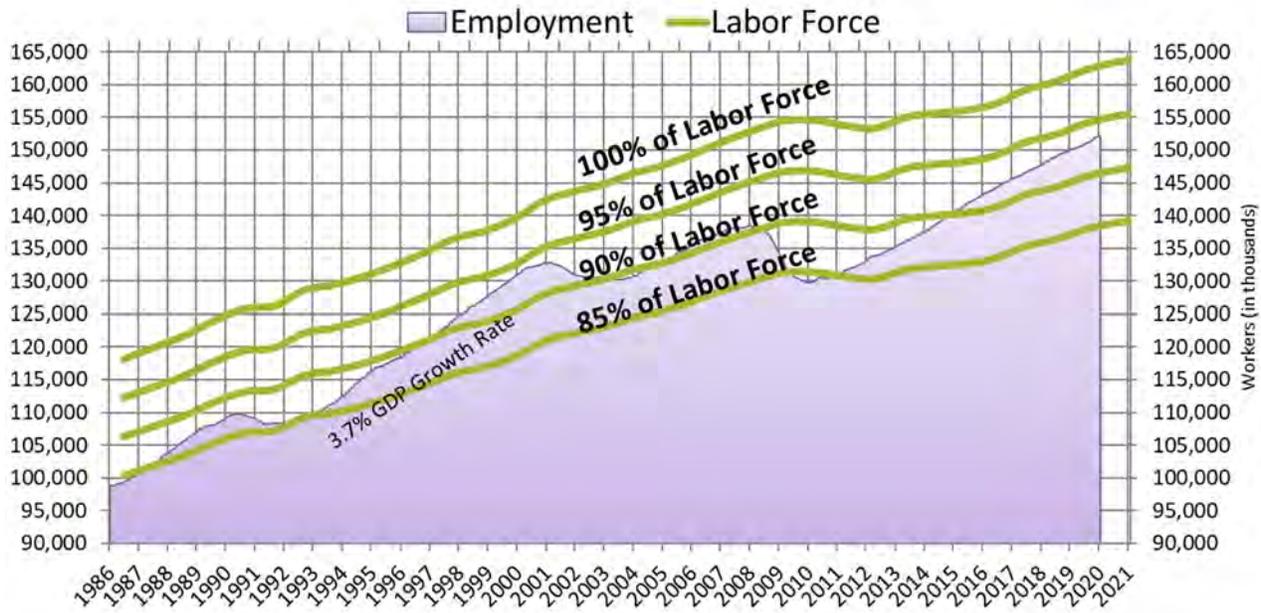


<https://data.bls.gov/timeseries/CES0000000001>

Employment Percentage of Total Workforce

Total Employment as a percentage of total workforce is approaching a long term high of 94%.

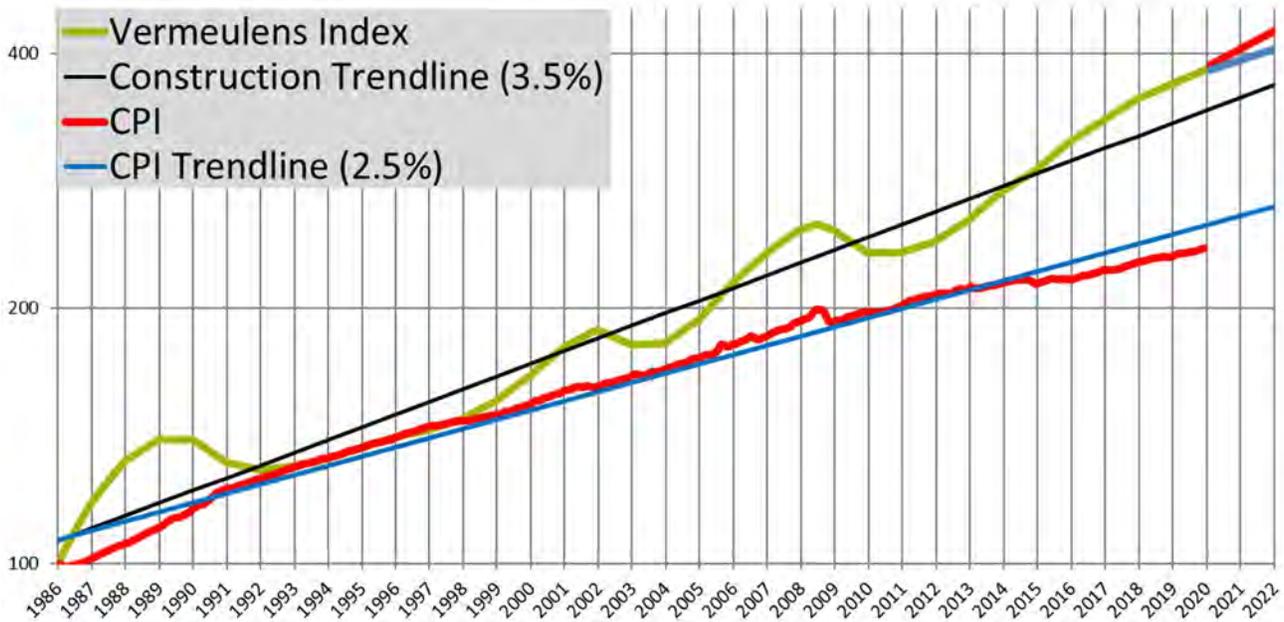
The chart below shows total employment as a percentage of the US workforce. The Federal Reserve will accommodate growth until full employment puts inflationary pressure on consumer prices above the 2% target. The workforce in the US continues to expand so the economy must produce at least 100,000 jobs/month 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 617 263 8879 or mserrao@vermeulens.com.