

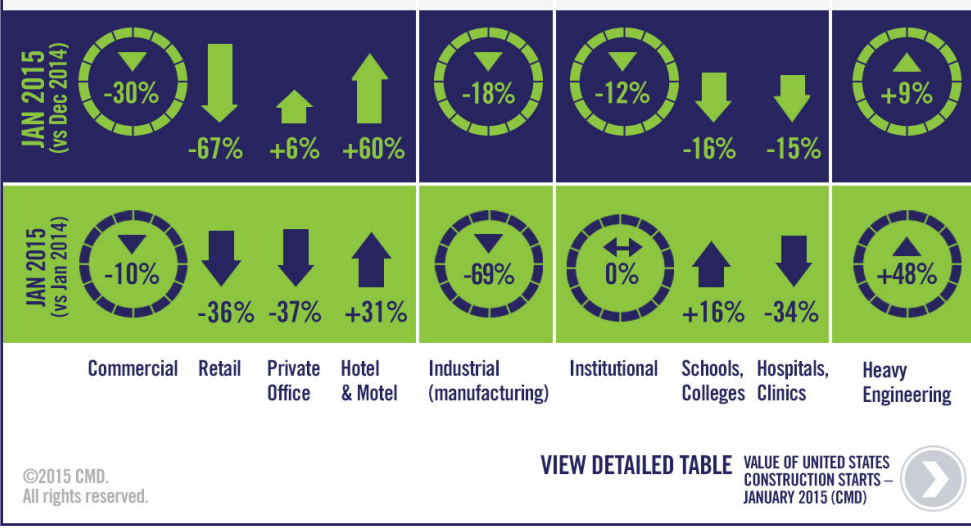
# Construction Industry Snapshot

February 2015

## January's Drop in Starts a Match for Usual Seasonality

CMD announced today that January's \$22.5 billion of construction starts, excluding residential activity, was **10.1% lower than in December**.

*The long-term average December-to-January moderation, due to obstructionist winter weather, has been 8.5%.*



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## January's Notable Points

- CMD's dollar value of construction starts in January, excluding residential activity, was 10.1% lower than in December.
- This year's kick-off volume was the highest for a first month since January 2010's \$22.8 billion.
- Compared with a year ago in January 2014, the latest month's non-residential starts were +10.8%.
- Among the major sub-categories of construction starts, heavy engineering (+8.7%) was the only one with a respectable percentage increase month to month in January. The others all declined, although the degree to which institutional work (-12.1%) fell back was less than for industrial (-18.2%) and commercial (-30.2%).

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## January's Drop in Starts a Match for Usual Seasonality

CMD announced today that January's \$22.5 billion of construction starts, excluding residential activity, was 10.1% lower than in December. The decline all but disappears, however, when allowance is made for seasonality. CMD's long-term average December-to-January moderation, due to obstructionist winter weather, has been 8.5%.

(Despite making the foregoing allowance, the figures referred to throughout this report are not seasonally adjusted or NSA.)

This year's kick-off volume was the highest for a first month since January 2010's \$22.8 billion.

Compared with a year ago in January 2014, the latest month's non-residential starts were +10.8%.

The starts figures are in 'current' dollars, meaning they are not adjusted for inflation.

'Non-residential building' plus 'engineering/civil' work accounts for a considerably larger share of total construction than residential activity. The former's combined proportion of total put-in-place construction (NSA) in the Census Bureau's December report was 65% versus the latter's 35%.

CMD's construction starts are leading indicators for the Census Bureau's capital investment or put-in-place series. Also, the reporting period for starts (i.e., January 2015) is one month ahead of the reporting period for the investment series (i.e., December 2014.)

U.S. 'real' (i.e., inflation-adjusted) gross domestic product (GDP) growth in the final quarter of last year eased to 2.6% after outsized gains of 5.0% in Q3 and 4.6% in Q2. Consumers and many corporations, with roots outside the energy sector, will benefit from the dramatic drop in the world price of oil from \$107 USD per barrel little more than half a year ago to \$45 at present.

According to the Bureau of Labor Statistics, the total number of construction jobs in the nation shot up by 39,000 in January on top of an impressive 44,000 increase in December. At a combined 83,000, this has been one of the fastest back-to-back jumps since the recession.

January's year-over-year employment increase of 308,000 yields a percentage rise of 5.1%, more than double the nation's total jobs gain of 2.3%.

Among the major sub-categories of construction starts, heavy engineering (+8.7%) was the only one with a respectable percentage increase month to month in January. The others all declined, although the degree to which institutional work (-12.1%) fell back was less than for industrial (-18.2%) and commercial (-30.2%).

The dollar volume in the industrial category of starts is usually much smaller than for the other three categories. It is also prone to a great deal of volatility depending on the timing of specific large project initiations.

When January of this year is compared with the same month of last year, engineering/civil work (+47.6%) was again the frontrunner, with a percentage change that was ahead by almost half.

Institutional starts (+0.1%) in the first month of this year were almost exactly the same as in last year's lead-off period. Among the three major sub-categories, commercial starts (-10.4%) were the most disappointing.

## VALUE OF UNITED STATES CONSTRUCTION STARTS – JANUARY 2015 (CMD)

	Previous Annual		Latest Month		
	2014 (\$ billions)	% Change (2014 vs 2013)	Jan 2015 (\$ billions)	% Change (Jan 15 vs Jan 14)	% Change (Jan 15 vs Dec 14)
Hotel/Motel	7.075	2.0%	0.644	31.0%	60.3%
Retail	18.276	-2.0%	0.792	-35.8%	-66.8%
Parking Garage	1.798	-9.2%	0.217	317.9%	9.5%
Amusement	6.144	11.5%	0.374	-25.7%	1.1%
Private Office	15.384	2.4%	1.235	-37.1%	5.8%
Government Office	10.753	13.0%	0.580	-42.9%	-18.9%
Laboratory	2.374	39.3%	0.017	-89.3%	-85.7%
Warehouse	6.752	64.7%	0.480	-5.4%	16.6%
Misc. Commercial	12.918	-9.7%	1.235	320.8%	-44.2%
<b>COMMERCIAL</b>	<b>81.474</b>	<b>4.8%</b>	<b>5.574</b>	<b>-10.4%</b>	<b>-30.2%</b>
<b>INDUSTRIAL (Manufacturing)</b>	<b>9.364</b>	<b>16.4%</b>	<b>0.206</b>	<b>-69.2%</b>	<b>-18.2%</b>
Religious	1.378	-19.1%	0.155	58.8%	52.1%
Hospital/Clinic	13.121	-12.4%	1.142	-34.0%	-14.5%
Nursing/Assisted Living	3.893	-1.5%	0.494	91.9%	33.4%
Library/Museum	2.262	1.2%	0.092	69.1%	-55.6%
Police/Courthouse/Prison	3.776	-8.1%	0.290	94.3%	-33.3%
Military	10.833	119.1%	0.146	-68.3%	5.3%
School/College	53.402	11.2%	3.599	15.9%	-16.4%
Misc. Government	2.328	-9.6%	0.268	-17.3%	85.7%
<b>INSTITUTIONAL</b>	<b>90.993</b>	<b>10.3%</b>	<b>6.186</b>	<b>0.1%</b>	<b>-12.1%</b>
Misc. non-residential	3.904	19.7%	0.298	-3.5%	-10.3%
<b>NON-RES. BUILDING</b>	<b>185.735</b>	<b>8.3%</b>	<b>12.263</b>	<b>-8.3%</b>	<b>-21.4%</b>
Airport	3.276	14.9%	0.080	-47.1%	82.4%
Road/Highway	47.222	14.7%	3.528	22.3%	2.1%
Bridge	11.302	6.0%	0.913	7.3%	-26.9%
Dam/Marine	5.111	-4.7%	0.478	73.6%	-16.5%
Water/Sewage	26.256	10.9%	1.883	21.0%	-25.2%
Misc. Civil	18.333	2.2%	3.376	174.8%	110.5%
<b>HEAVY ENGINEERING</b>	<b>111.500</b>	<b>9.7%</b>	<b>10.258</b>	<b>47.6%</b>	<b>8.7%</b>
<b>TOTAL</b>	<b>297.235</b>	<b>8.8%</b>	<b>22.521</b>	<b>10.8%</b>	<b>-10.1%</b>

Source: CMD Research Group/Table: CMD.

Industrial starts (-69.2%) almost faded from view, but that kind of radical swing is not unusual for this category.

Engineering/civil work provides the largest dollar volumes. In January, the category was led by 'road/highway' work, which was +2.1% month over month (m/m) and +22.3% year over year (y/y). Also important were 'water/sewage' projects (-25.2% m/m but +21.0% y/y.)

The 'school/college' sub-category is dominant within institutional, accounting for a dollar volume more than three times as large as for 'hospitals/clinics'. In January, educational work was -16.4% m/m, but +15.9% y/y. Construction starts on health care facilities were -14.5% m/m and -34.0% y/y. The latter is a plunge of one-third.

Acting as a particular drag on commercial starts has been the 'retail' sub-category, -66.8% m/m and -35.8% y/y. 'Private office' building starts in January were okay m/m, +5.8%, but uninspiring y/y, -37.1%. 'Government office' buildings were worse, though, -18.9% m/m and -42.9% y/y.

Conveying an upbeat message were 'hotels/motels', +60.3% m/m and +31.0% y/y, and 'warehouses', +16.6% m/m despite being -5.4% y/y.

Among the dozen 12-month moving average trend graphs that accompany this report, the ones with easily discernible upward trends are 'schools/colleges', 'roads/highways' and 'water/sewage'. Moving in the opposite direction are 'private office buildings'.

The downward slide of 'hospitals/clinics' appears to be leveling off.

The U.S. economy is now performing better than at any time since the recession. Analysts are most interested in whether increasing labor market tightness is translating into improved wages. According to the Bureau of Labor Statistics' data, the answer is 'yes', but not exceptionally so.

Average hourly earnings in the construction sector were +2.1% year over year in January, slightly ahead of December's +1.8%. The comparable figure for all jobs in the economy in January was +2.0%. Average weekly earnings in construction were +4.2% in January, a pick-up from December's +3.9%. Across all sectors, latest average weekly earnings were +2.9%.

The value of construction starts each month is summarized from CMD's database of all active construction projects in the U.S. Missing project values are estimated with the help of RSMeans' building cost models.

CMD's non-residential construction starts series, because it is comprised of total-value estimates for individual projects, some of which are mega-sized, has a history of being more volatile than many other leading indicators for the economy. ♦

Alex Carrick

A start is determined by taking the announced bid date and adding 30 days. It is then assumed the project will actually break ground within 30 to 60 days of the start date. CMD continues to follow the project via its network of researchers. If it is abandoned or re-bid, then the start data is updated to reflect the new information.

Alex Carrick is Chief Economist for CMD. He has delivered presentations throughout North America on the U.S., Canadian and world construction outlooks. Mr. Carrick has been with CMD since 1985.

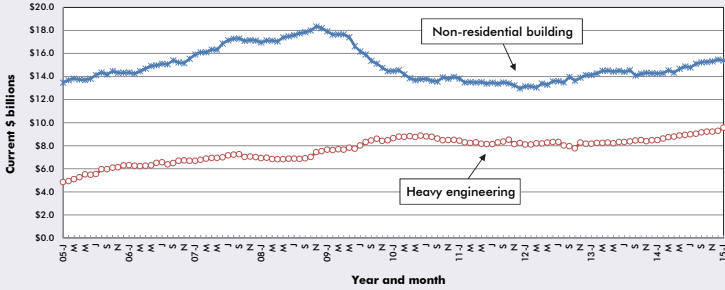
## THESE ARE THE 10 LARGEST PROJECTS IN THE U.S. START FIGURES FOR JANUARY 2015

REGION (EAST TO WEST)	TYPE OF CONSTRUCTION	DESCRIPTION	SQUARE FEET 000S	DOLLARS 000,000S
<b>New York</b> New York	Commercial	MTA Sea Beach Line 6 Stations various locations MTA New York City Transit	*	\$189
<b>New Jersey</b> Woodbridge	Engineering/Civil	Turnpike Interchange 14A Toll Plaza & Ramp New Jersey - Turnpike Authority	*	\$160
<b>North Carolina</b> Charlotte	Institutional	Veterans Affairs Medical Complex (1 structure; 4 stories) Tyvola Rd & Cascade Pointe Blvd Childress Klein Properties	295	\$150
<b>Tennessee</b> Pigeon Forge	Commercial	Dollywood DreamMore Resort (1 structure; 5 stories) 2700 Dollywood Parks Blvd Dollywood Inc	1,300	\$300
<b>Illinois</b> Chicago	Commercial	Wrigley Field Renovations (3 structures) 1060 W Addison St Chicago Cubs	*	\$500
<b>Wisconsin</b> Pardeeville	Engineering/Civil	Columbia Power Plant W8375 Murray Rd Alliant Energy Corporate Services	*	\$150
<b>Oklahoma</b> Tulsa	Industrial	Macy's Tulsa County Fulfillment Center (1 structure; 1 story) 76 N Lakewood Ave Macy's Incorporated Corporate Office	1,300	\$170
<b>California</b> Greenbrae	Institutional	Marin Hospital Replacement Prequalify Part 2 (3 structures; 4 stories) 250 Bon Air Rd Marin General Hospital	1,635	\$414
Butte County	Engineering/Civil	Lost Creek Dam Crest South Feather Water & Power Agency	*	\$197
<b>Oregon</b> Portland	Commercial	Daimler Trucking Headquarters Expansion (1 structure; 9 stories) 4747 N Channel Ave Daimler Trucking Company	265	\$158
<b>TOTALS:</b>			<b>4,795</b>	<b>\$2,388</b>

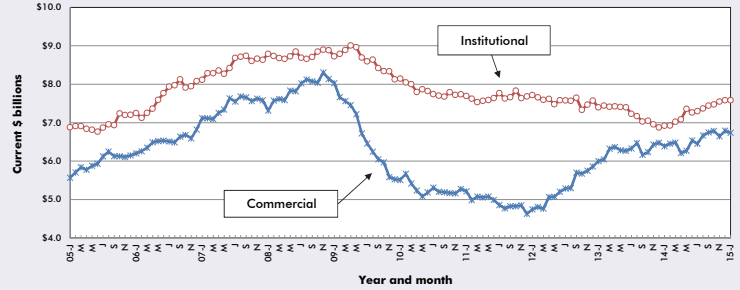
\*A square footage measure does not apply for alteration and engineering/civil work.

Source: CMD/Table: CMD.

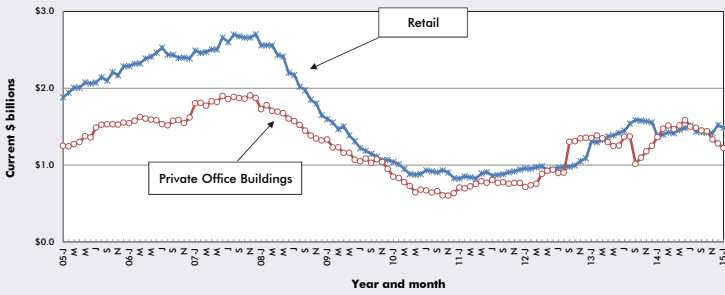
## U.S. NON-RESIDENTIAL CONSTRUCTION STARTS – CMD (12-MONTH MOVING AVERAGES)



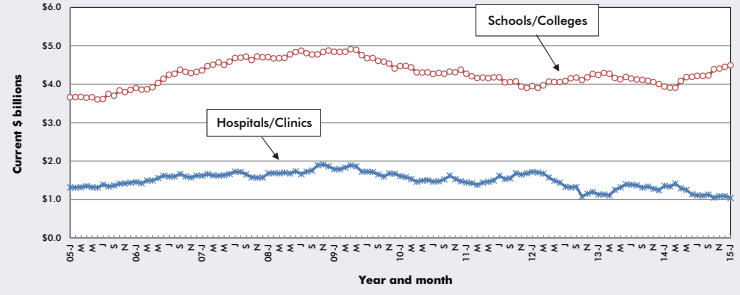
## U.S. COMMERCIAL AND INSTITUTIONAL CONSTRUCTION STARTS – CMD (12-MONTH MOVING AVERAGES)



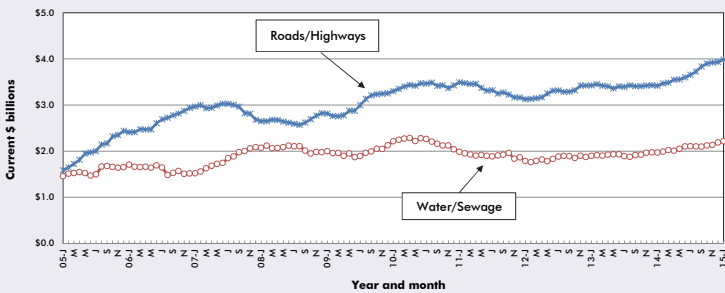
## U.S. RETAIL AND PRIVATE OFFICE BUILDING CONSTRUCTION STARTS – CMD (12-MONTH MOVING AVERAGES)



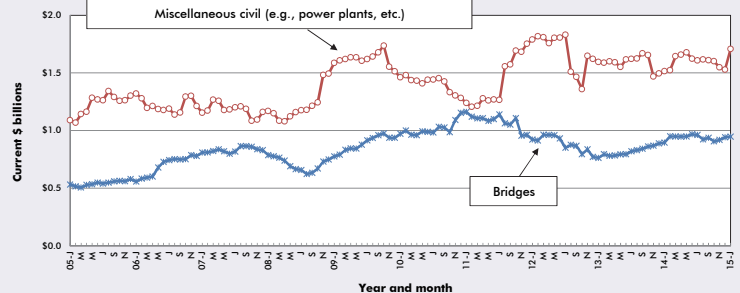
## U.S. HOSPITAL/CLINIC AND SCHOOL/COLLEGE CONSTRUCTION STARTS – CMD (12-MONTH MOVING AVERAGES)



## U.S. ROAD/HIGHWAY AND WATER/SEWAGE CONSTRUCTION STARTS – CMD (12-MONTH MOVING AVERAGES)



## U.S. BRIDGES AND MISCELLANEOUS CIVIL CONSTRUCTION STARTS – CMD (12-MONTH MOVING AVERAGES)



Source: CMD/Charts: CMD.

