2024 Construction Spending Update

August 1 Data Release

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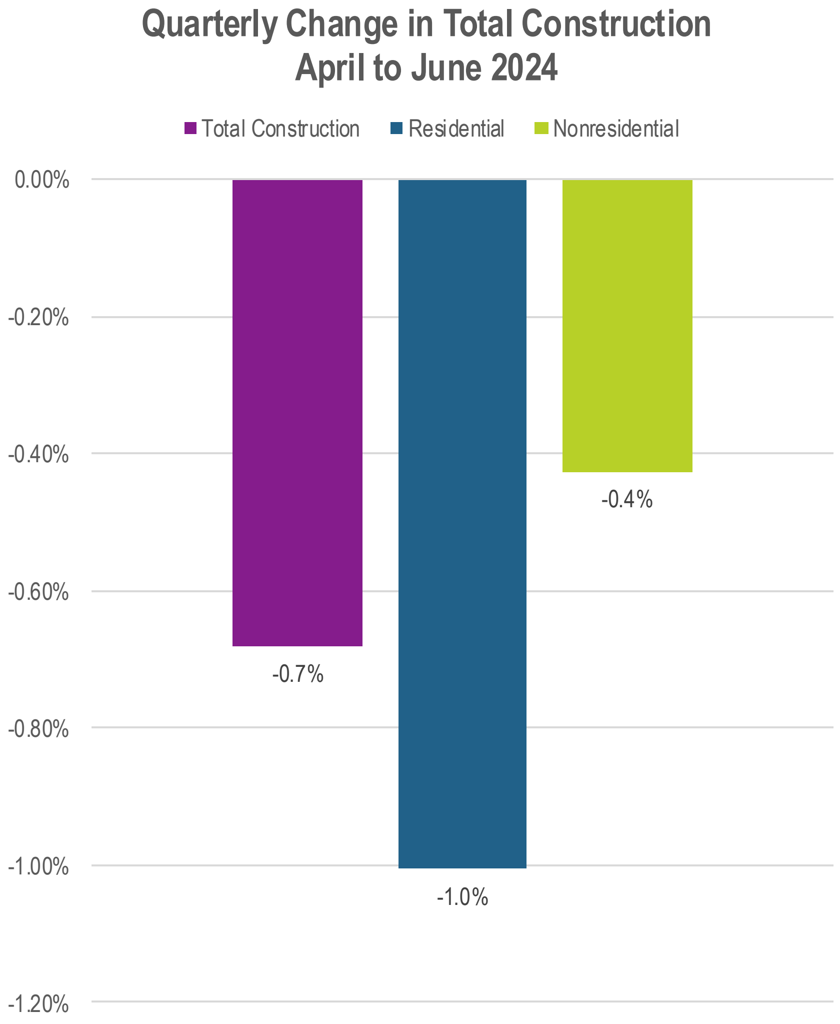
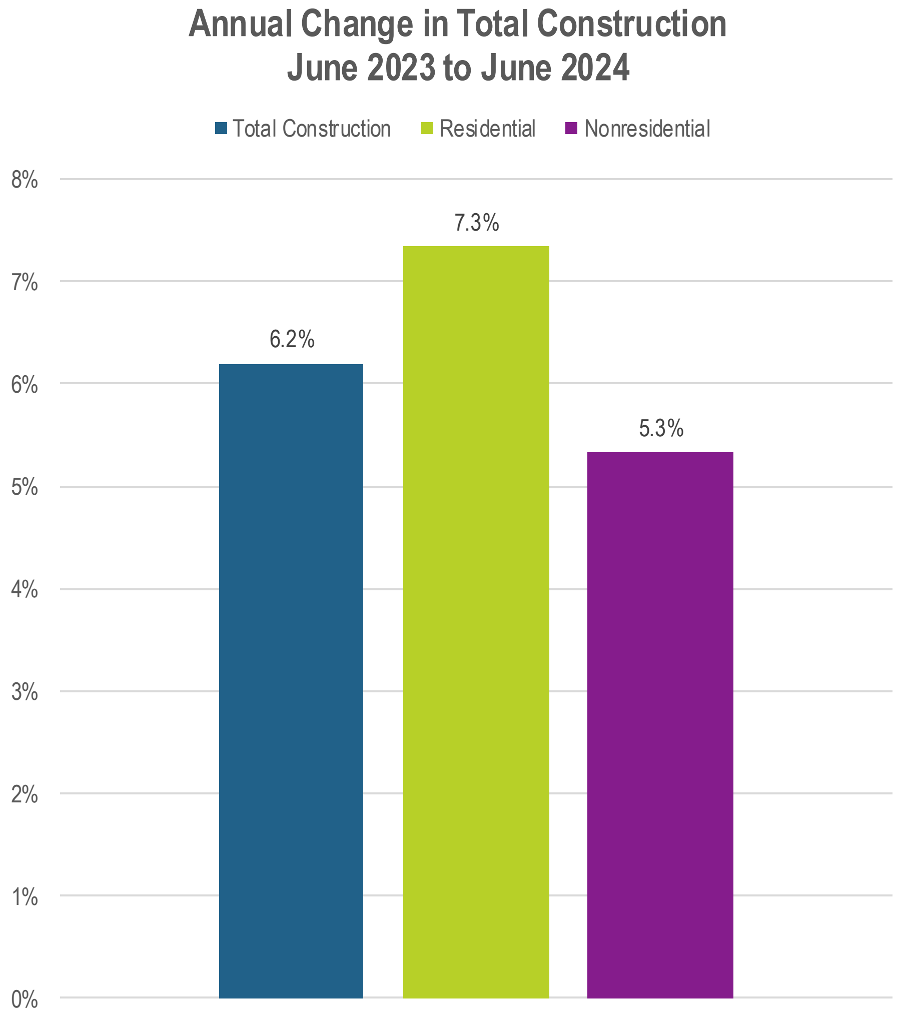
Advisory Group

Overall Construction Spending





- The gradual slowing of construction in the first quarter of 2024 continued in the second quarter.
- Residential construction slowed the most, off 1% from the previous quarter. Non-residential fell a modest 0.4%.
- On an annual basis construction spending is still up significantly form this time last year.

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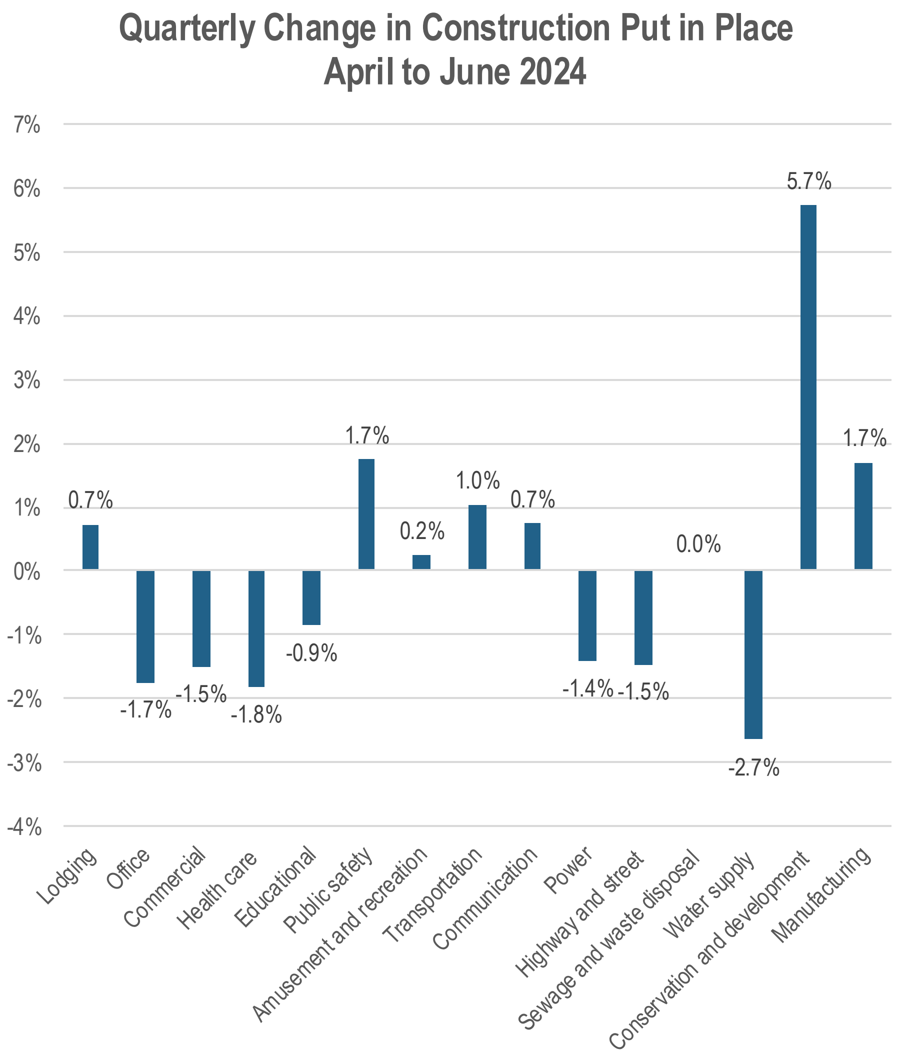
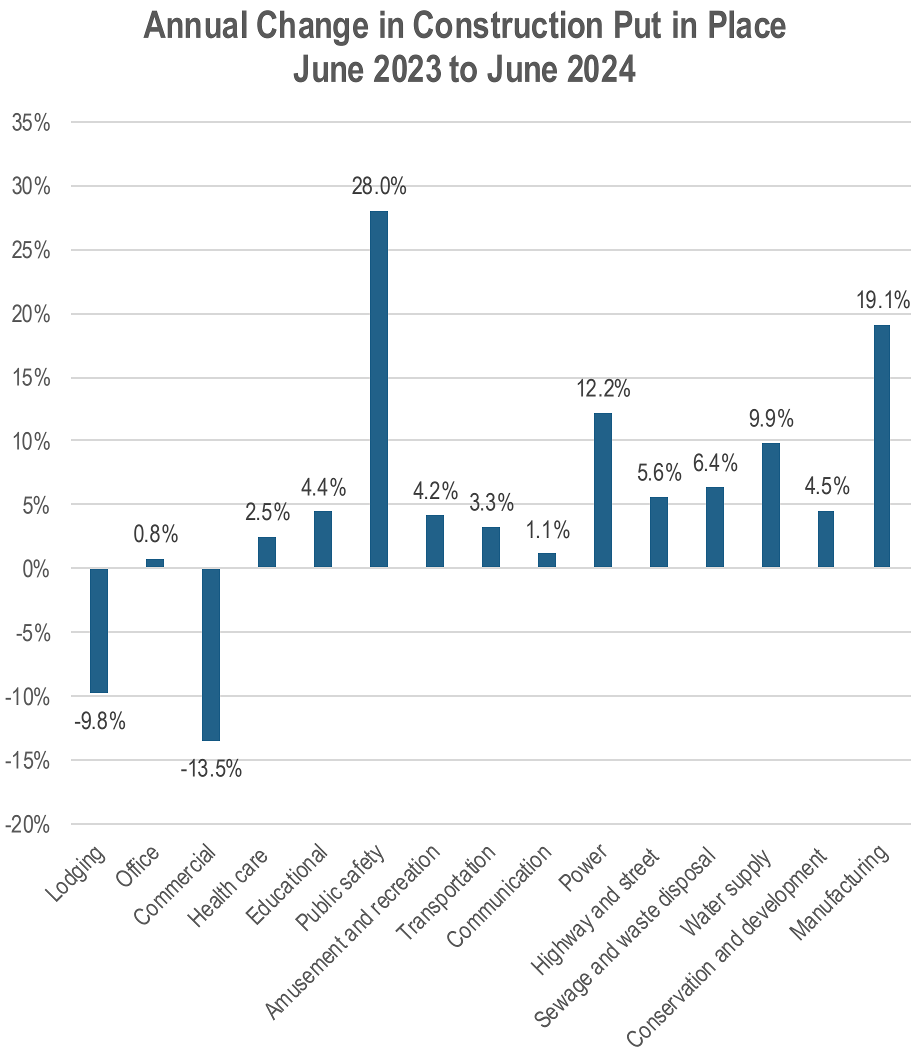
Source: census.gov

Nonresidential Construction





- On an annual basis, most segments show moderate growth. Public Safety, Power, Water, and Manufacturing show strong annual growth. Developer-driven segments are now down significantly on a yearly basis driven by high interest rates and a decline in warehouse spending.
- The quarterly numbers reflect the overall decline in nonresidential construction observed over the last quarter. Sectors driven by government spending, including public safety, transportation, and conservation/development, continue to grow.
- Manufacturing, which is in a period of long-term growth, continues to show growth despite reaching levels three times historical norms.

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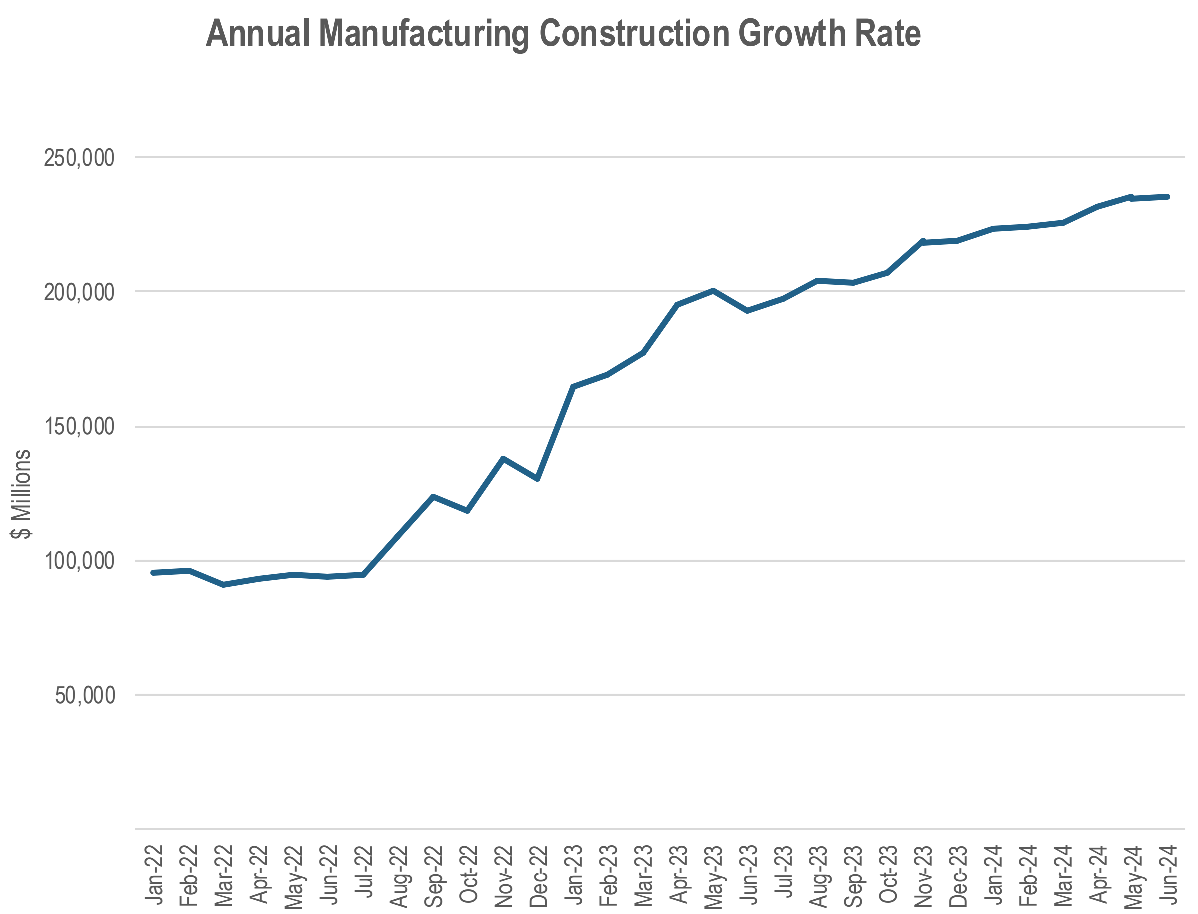
Source: census.gov

Manufacturing Construction

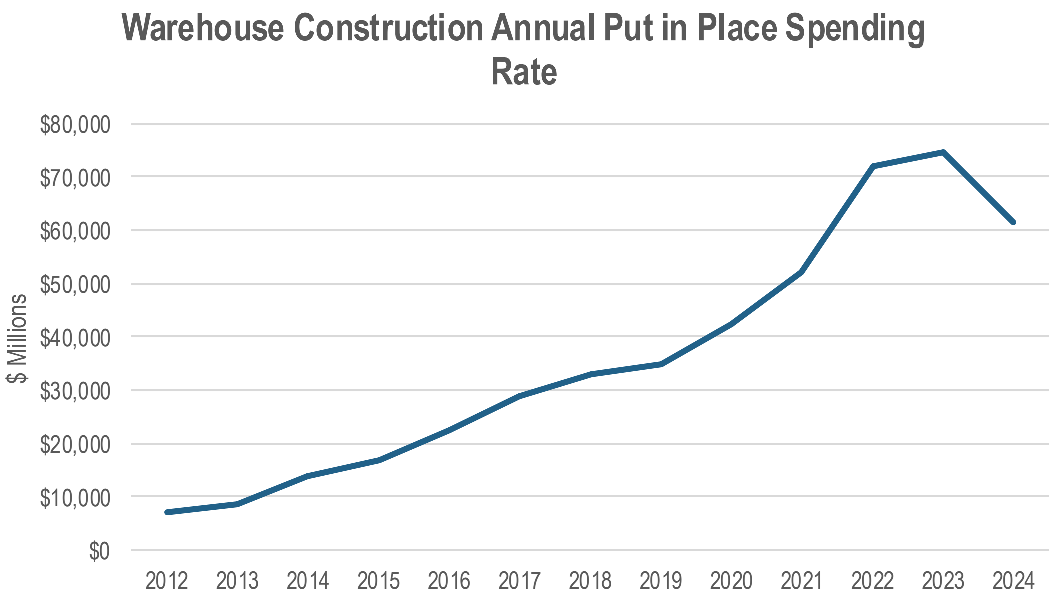


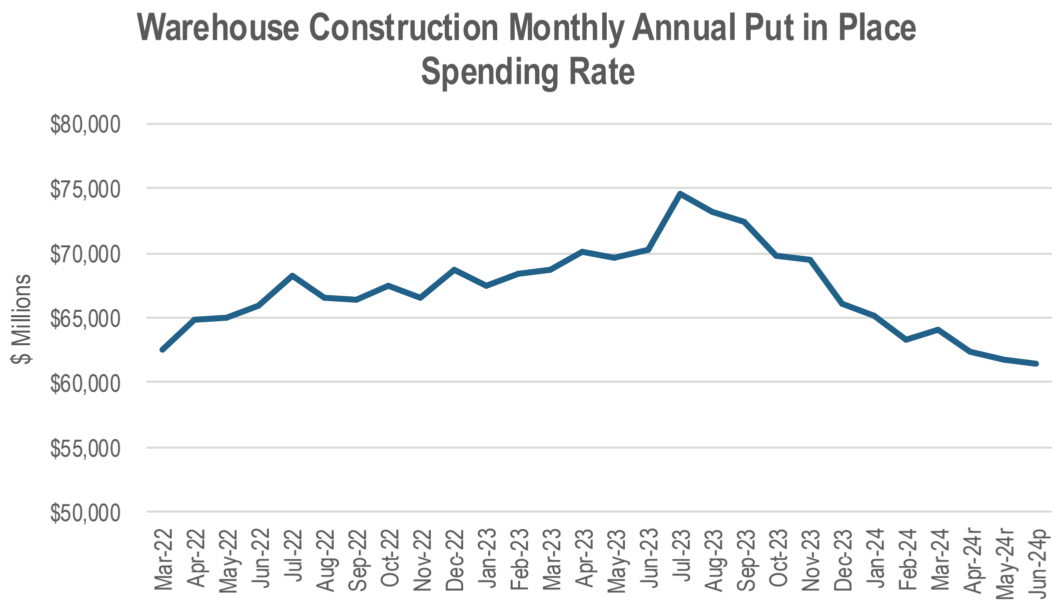
- Manufacturing Construction experienced rapid growth from July 2022 to May 2023, essentially doubling from $100 billion per year to $200 billion per year.
- While growth in this area has slowed since May 2023, we've still observed growth from $200 billion to $235 billion over the last year.
- The mega-projects driving this growth (chip plants and battery plants) are multi-year projects that should sustain this high level of spending for at least another 2-3 years.

Source: census.gov

Warehouse Construction Appears to Have Peaked in the Short Term

- Warehouse construction has been the major driver of commercial construction and a primary driver of overall growth in nonresidential construction over the last decade.
- The last year has seen a significant decline in spending, falling back below May 2022 levels. A longer-term view shows the current annual rate of $61 billion is still historically high.
- Growth in E-commerce is the largest underlying driver of this spend. That growth is projected to be 8% to 9% though 2029. As a result, we would expect further declines in warehouse to be limited with growth resuming by 2026.





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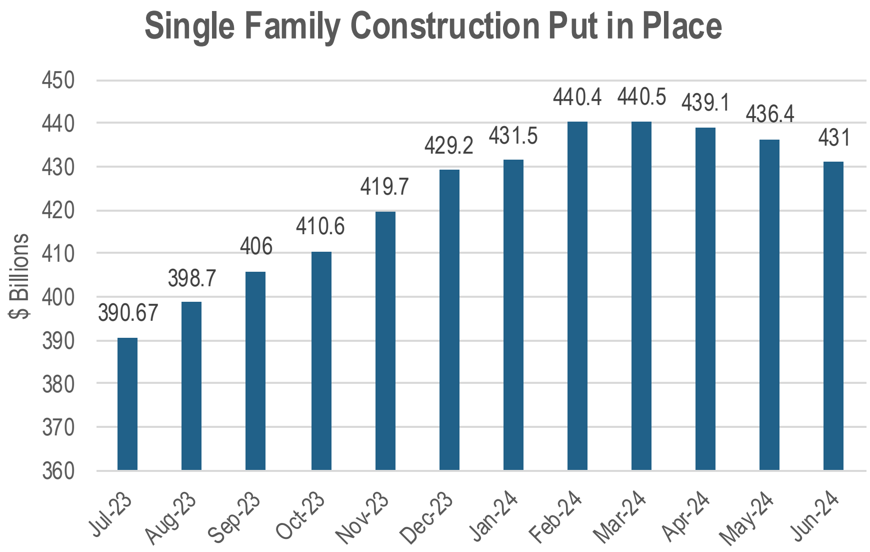
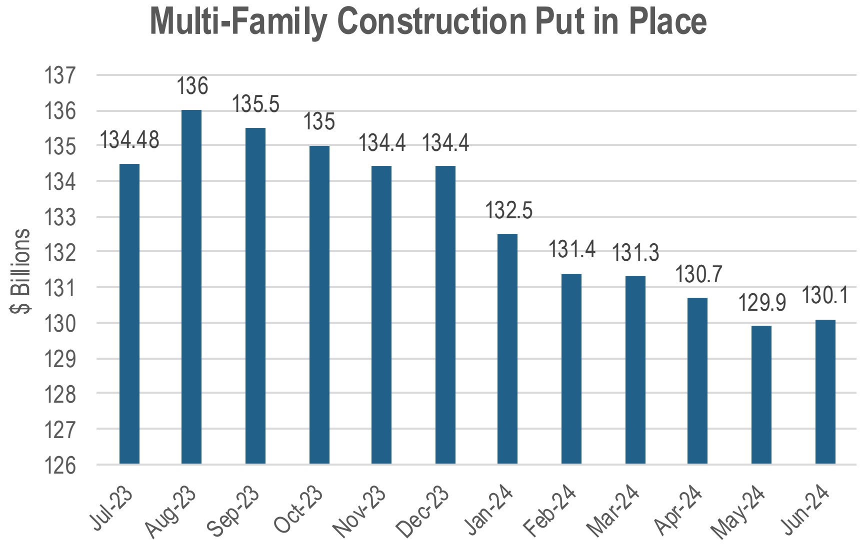
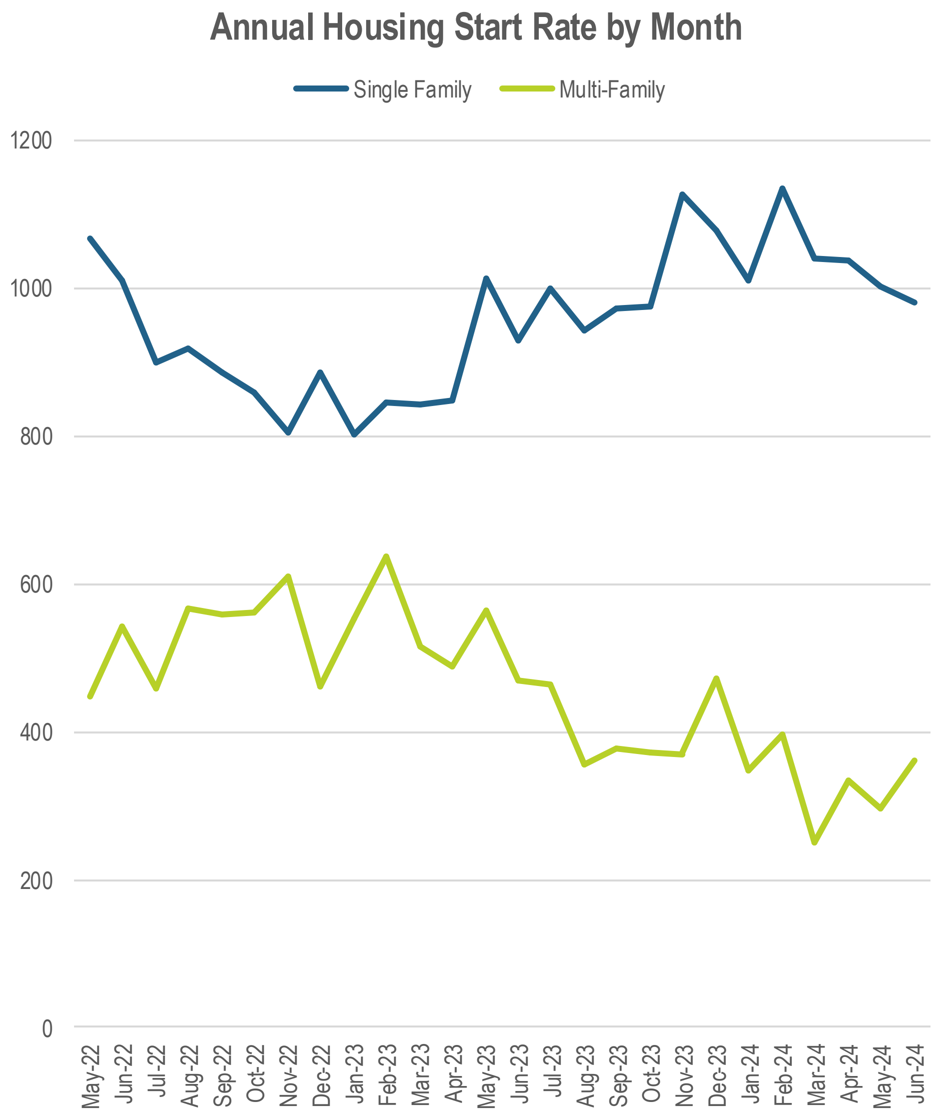
Residential Construction







- After some decline following the COVID housing boom and the rise in interest rates, single-family construction grew significantly from mid-2023 to winter 2024. This growth ended over the last quarter, with modest declines in spending and starts. Current spending is still at historically strong levels.
- Multi-family construction now appears to be in a cyclical downturn. March 2024 starts were at an annual rate of 250,000, which would be very low historically. Over the last few months, starts have recovered to an annual rate of 360,000, which is a typical cyclical trough.

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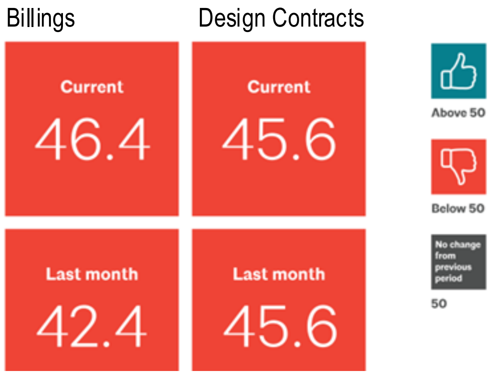
Leading Indicators – AIA

April 2024

May 2024

June 2024



- Beginning in July 2023, both architectural billings and new design contracts turned negative. New design contracts bounced back to slightly positive in early 2024. In the last quarter, the Billings and Design Contracts indexes remain negative.
- As a leading indicator, this aligns with the declines in nonresidential construction we have seen over the last quarter and would indicate the rest of 2024 will likely see a slowly declining market.

Source: AIA.org

August 2024 Overall Observations

- It is now clear that 2024 will be a flat to slowly declining year for construction spending. The good news is that this slow decline is from generally record levels seen in 2023 across most segments.
- Based on architectural activity we would expect continued slow declines in many sectors of nonresidential construction into 2025. Sectors driven by private developers such as commercial, lodging, and office are likely to see the most declines.
- We are not likely to see a rapid decline in overall nonresidential construction spending. Government spending and incentives tied to the infrastructure bill, the Inflation Reduction Act, and the CHIPS Act are likely to provide a strong baseline of spending driving a healthy construction market across many sectors of nonresidential construction into 2025.
- In the residential space, we appear to be trending towards a declining market in both multi-family and single-family. The expected decline in interest rates over the next year should begin to turn the market to the positive later in 2025. Low inventory of single-family homes continues and likely prevents the market from experiencing large declines over the next few quarters.