DODGE REPORT FOR 2020

NATIONAL PROJECTIONS DOWN

(construction.com)

Dodge Data & Analytics released its 2020 Dodge Construction Outlook in October. The report is a mainstay in construction industry forecasting and business planning. The report predicts that total U.S. construction starts will slip to $776 billion in 2020, a decline of 4% from the 2019 estimated level of activity.

"The recovery in construction starts that began during 2010 in the aftermath of the Great Recession is coming to an end," stated Richard Branch, Chief Economist for Dodge Data & Analytics. **"Easing economic growth driven by mounting trade tensions and lack of skilled labor will lead to a broad based, but orderly pullback in construction starts in 2020. After increasing 3% in 2018 construction starts dipped an estimated 1% in 2019 and will fall 4% in 2020."**

"Next year, however, will not be a repeat of what the construction industry endured during the Great Recession. Economic growth is slowing but is not anticipated to contract next year. Construction starts, therefore, will decline, but the level of activity will remain close to recent highs. By major construction sector, the dollar value of starts for residential buildings will be down 6%, while starts for both nonresidential buildings and nonbuilding construction will drop 3%."

The pattern of construction starts for more specific segments is as follows:

- The dollar value of single-family housing starts will be down 3% in 2020, and the number of units will also lose 5% to 765,000 (Dodge basis). Affordability issues and the tight supply of entry-level homes have kept demand for homes muted and buyers on the sidelines.
- Multifamily construction was an early leader in the recovery, stringing together eight years of growth since 2009. However, multifamily vacancy rates have moved sideways over the past year, suggesting that slower economic growth will weigh on the market in 2020. Multifamily starts are slated to drop 13% in dollars and 15% in units to 410,000 (Dodge basis)
- The dollar value of commercial building starts will retreat 6% in 2020. The steepest declines will occur in commercial warehouses and hotels, while the decline in office construction will be cushioned by high-value data center construction. Retail activity will also fall in 2020, a continuation of a trend brought about by systemic changes in the industry.
- In 2020, institutional construction starts will essentially remain even with the 2019 level as the influence of public dollars adds stability to the outlook. Education building and health facility starts should continue to see modest growth next year, offset by declines in recreation and transportation buildings.
- The dollar value of manufacturing plant construction will slip 2% in 2020, following an estimated decline of 29% in 2019. Rising trade tensions have tilted this sector to the downside with recent data, both domestic and globally, suggesting the manufacturing sector is in contraction.
- Public works construction starts will move 4% higher in 2020, with growth continuing across all project types. By and large, recent federal appropriations have kept funding for public works construction either steady or slightly higher — translating into continued growth in environmental and transportation infrastructure starts.
- Electric utilities/gas plants will drop 27% in 2020 following growth of 83% in 2019 as several large LNG export facilities, and new wind projects broke ground.

FINAL LOOK AT 2019 CONSTRUCTION

(edzarenski.com)

Total of All construction spending is forecast to increase by 6.0% to $1.321 trillion in 2018 and 1.5% to $1.341 trillion in 2019. Spending in 2020 is forecast to reach $1.426 trillion

U.S. Total Construction Spending Summary										
$ in billions % growth vs prior yr	Actual 2016		Actual 2017		Forecast 2018		Forecast 2019		Forecast 2020	
Total Construction	1192	7%	1246	5%	1321	6.0%	1341	1.5%	1426	6.3%
Residential	474	11%	532	12%	562	6%	564	1%	577	2%
Nonresidential Buildings	415	9%	419	1%	444	6%	443	0%	482	9%
Nonbuilding Infrastructure	303	-1%	295	-3%	316	7%	334	6%	367	10%
Educational	90.3	7%	91.2	1%	96.5	6%	92.8	-4%	103.4	11%
Healthcare	40.2	3%	41.9	4%	42.2	1%	41.1	-3%	46.6	14%
Amusement / Recreation	23.2	14%	24.9	7%	27.8	12%	31.1	12%	31.7	2%
Commercial / Retail	78.2	19%	87.7	12%	91.7	5%	90.8	-1%	90.3	-1%
Lodging	27.0	23%	28.7	6%	32.3	13%	31.0	-4%	31.6	2%
Office	67.6	22%	66.9	-1%	74.1	11%	78.6	6%	84.2	7%
Manufacturing	76.4	-4%	66.4	-13%	66.7	0%	65.3	-2%	82.2	26%
Other Nonres Bldgs	11.7	-3%	11.7	-1%	12.3	5%	12.3	0%	12.3	0%
Power	101.4	-2%	96.5	-5%	102.0	6%	108.6	6%	106.6	-2%
Highway / Bridge / Street	92.7	2%	89.1	-4%	92.1	3%	93.3	1%	105.3	13%
Transportation / Air / Rail	43.3	-4%	45.2	4%	54.5	21%	62.1	14%	75.1	21%
Sewer / Water / Conservation	43.8	-3%	39.4	-10%	43.1	9%	46.4	8%	56.2	21%
Communication	22.2	2%	24.8	12%	24.5	-1%	23.3	-5%	23.4	0%
Forecast includes U.S.Census October 2018 year-to-date spending										
Forecast includes Dodge construction starts data as of 11-21-18									edzarenski.com	

CONSTRUCTION OUTLOOK

Steady and solid growth is likely to continue for the construction sector. As the second-largest in the world (behind China), the U.S. construction market is poised for 3.3 percent growth this year, 1.7 percent growth in 2020, and somewhere between 1.5 and 2 percent growth for the next five years.

Residential construction remains a strong driver – it represents about 40 percent of the total market and, in the last four years, it's seen double-digit growth. However, as of late, growth has slowed considerably.

“A lot of the optimism we saw in 2017 and 2018 seems to have evaporated,” said Duyck. “There really is no consensus to what the future truly holds.”

Tariffs are playing a role in the uncertainty, as is the need for a new comprehensive infrastructure package.

“Both political parties discuss this quite a bit, but nothing has materialized so far,” said Duyck. “It's now expected for 2021 – and hopefully it comes soon, as most of the infrastructure spending we see today occurs at the state and local level.”

While the outlook for construction remains positive, enough factors are having a negative impact that uncertainty is still pervasive for the time being.

THE BOTTOM LINE

2019 has been a solid year for the economy overall, as well as the ag and construction sectors. A number of factors – global trade wars and protectionism being chief among them – are leading to increased concern that a recession is right around the corner. And while that likely isn't the case, it's not unreasonable to suggest one may arrive by 2021.

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