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US & Washington Construction Cost Outlook

Presentation to the Sound Transit Board
(System Expansion Committee)

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Headline Forecast

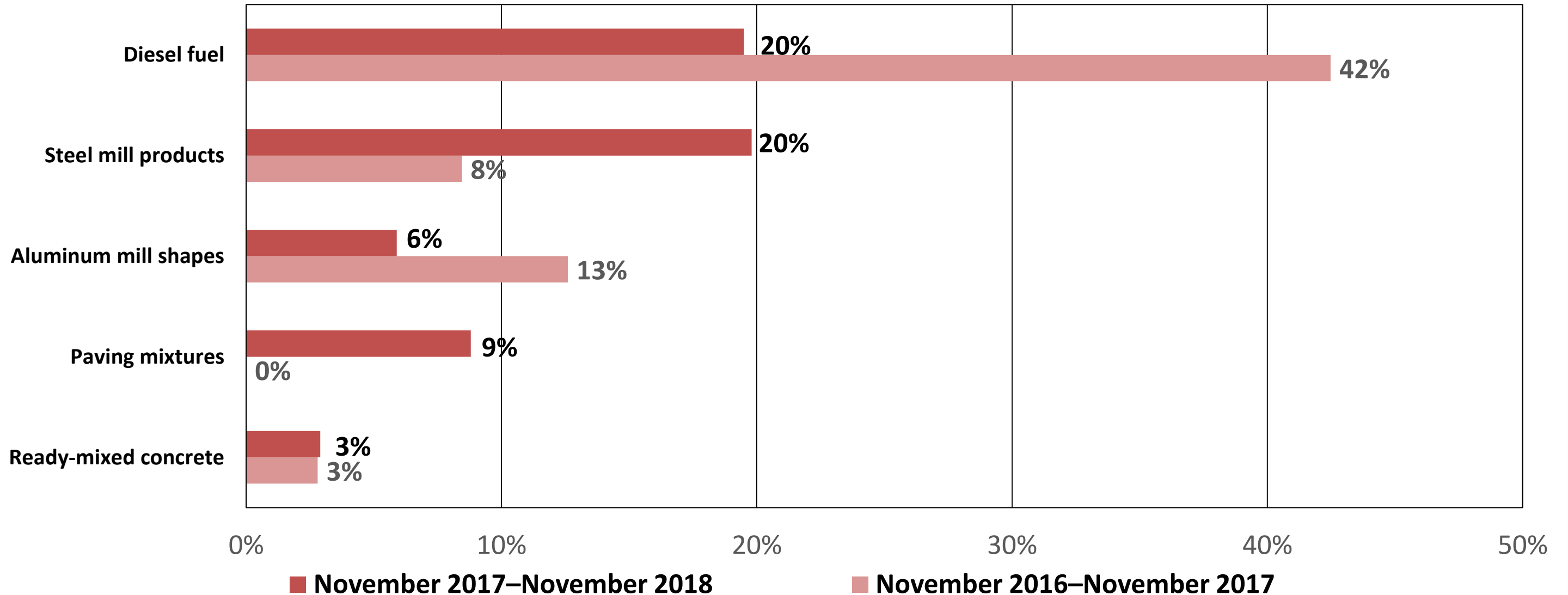
- The US economy is still growing well:
 - 304,000 jobs added in January, 2.8 million in past 12 months—the most since '15
 - consumer, business confidence are generally high; recession probability is low
 - but home & auto sales are slowing; trade & fiscal policy concerns continue
- Contractors remain busy and confident; construction employment at 11-year high with growth in most states and project categories
- Three concerns:
 - impact of trade policies on materials costs and demand for construction
 - widening labor shortage, worsened by hostile immigration policy
 - rising interest rates may cut demand for income-producing projects, new homes

Summary

- Costs for many construction materials have risen sharply in the past two years
- Labor costs are accelerating as pool of experienced unemployed jobseekers dries up
- Contractors want to add workers in 2019 but expect difficulty finding them
- As a result, some contractors are increasing bid prices or completion times

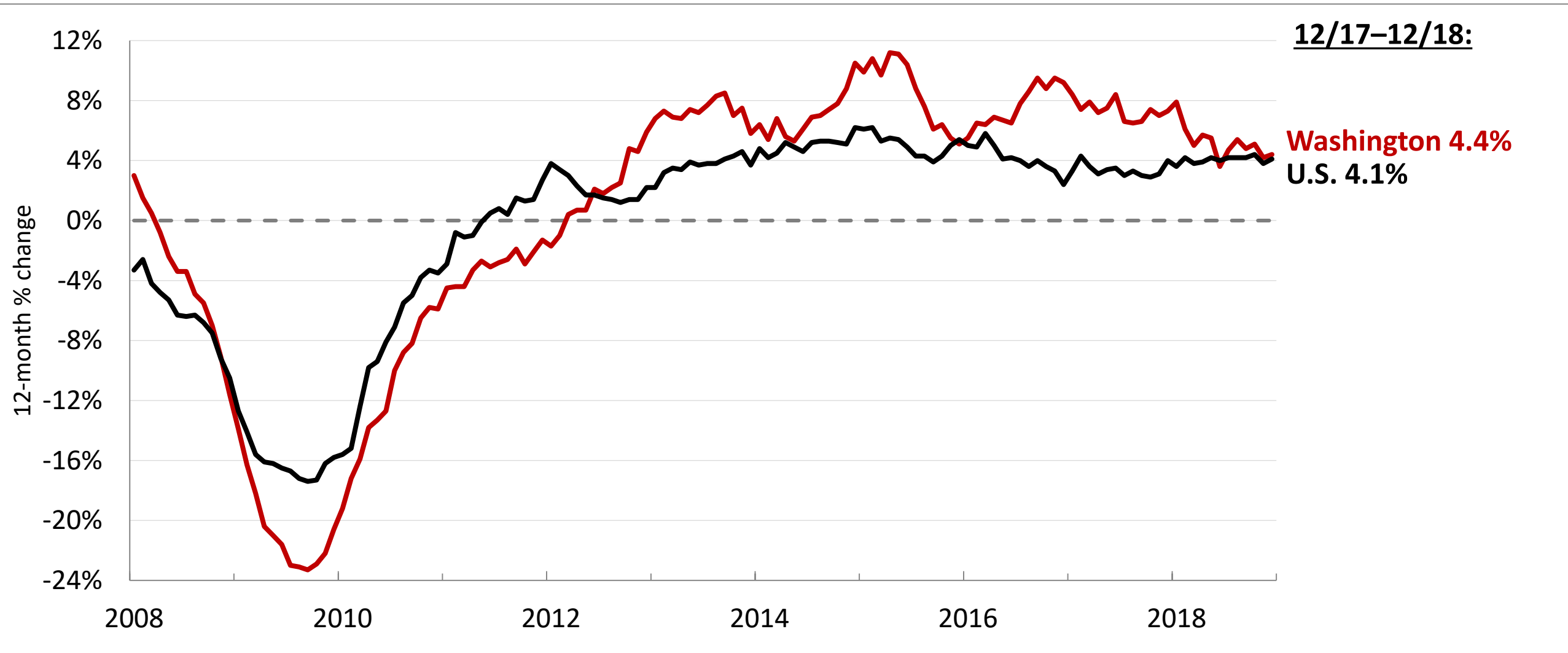
Prices for key inputs have risen sharply

(change in producer price indexes, Nov. 2017-2018 & Nov. 2016-2017)



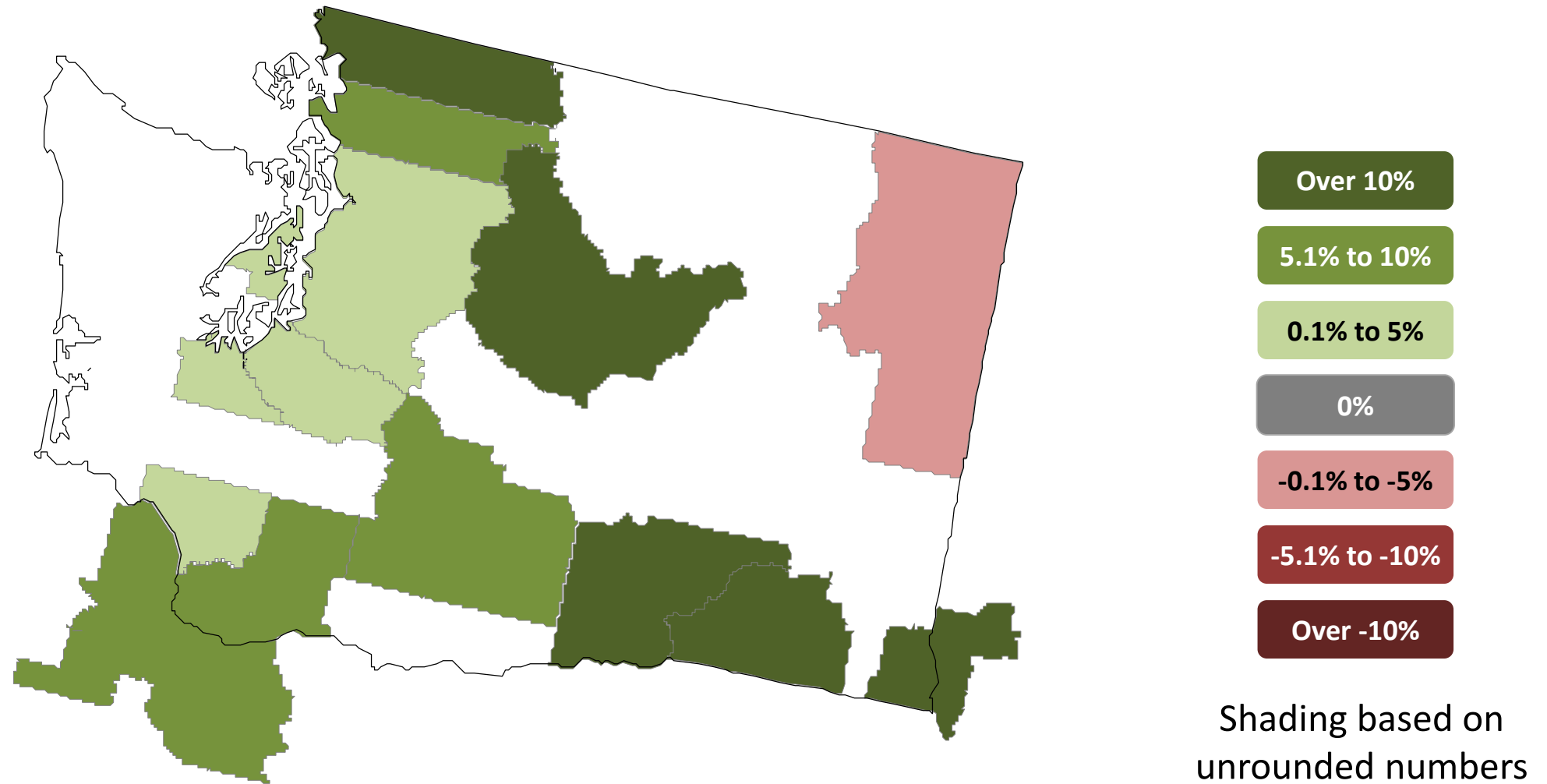
Source: Bureau of Labor Statistics

Construction Employment Change from Year Ago 1/08–12/18 (seasonally adjusted)



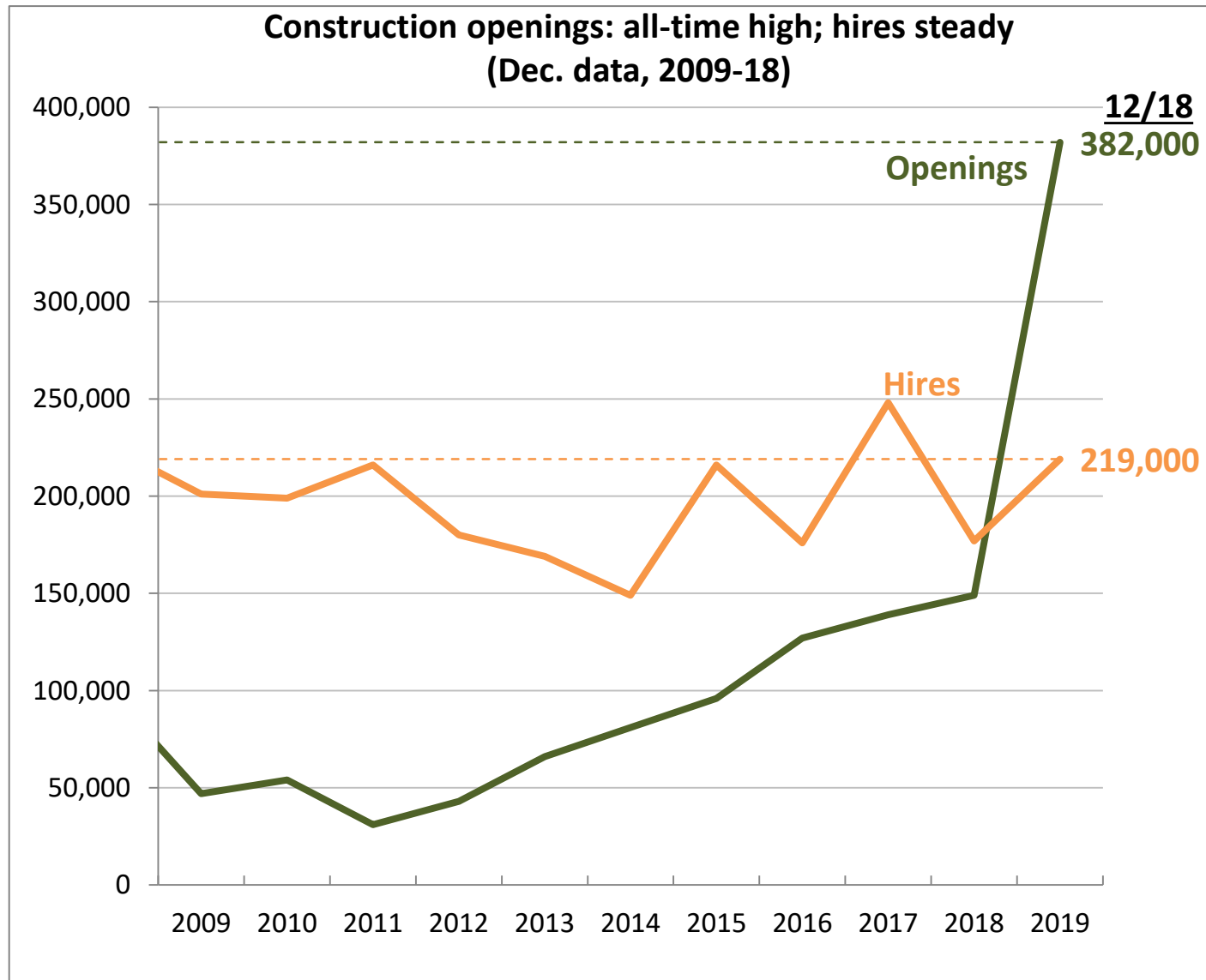
Source: BLS

Construction employment change by WA metro, 12/17–12/18



Source: BLS state and regional employment report

Construction workforce indicators (not seasonally adjusted)



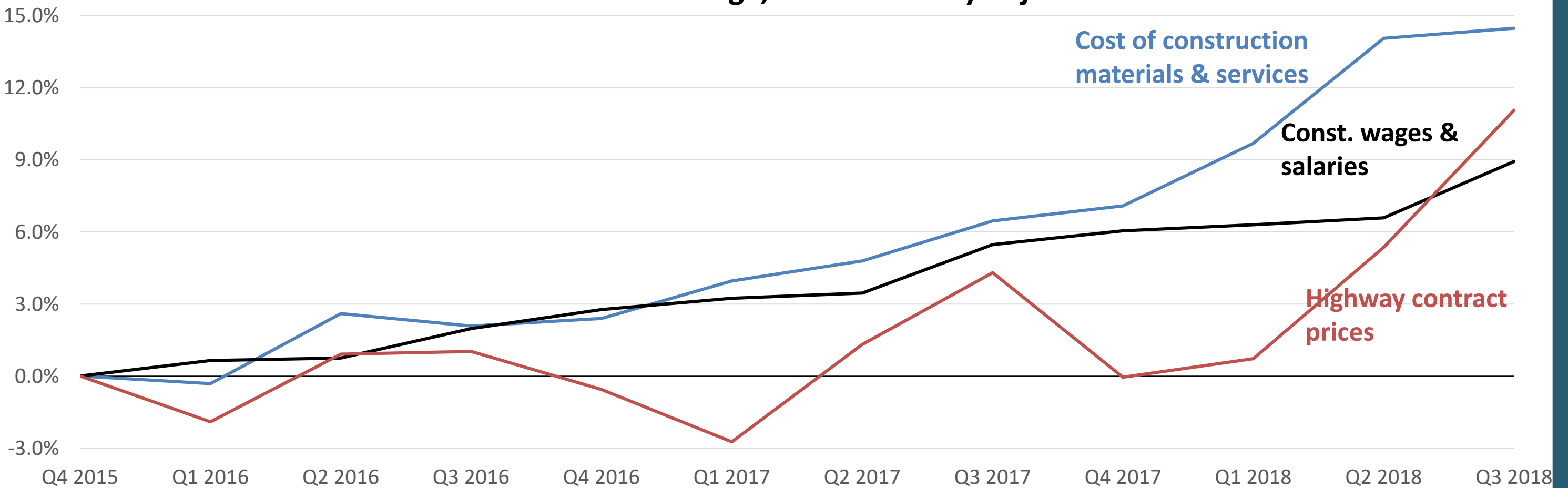
Source: Bureau of Labor Statistics

AGC members' expectations for 2019—US & WA

14%/38%	Transportation (e.g., transit, rail, airport)	14%/11%	Water/Sewer
17%/12%	Public building	13%/0%	Private Office
16%/12%	Highway	12%/8%	Manufacturing
16%/13%	Hospital	11%/9%	Higher Education
16%/6%	K-12 school	10%/13%	Power
15%/5%	Federal (e.g., VA, GSA, USACE, NAVFAC)	5%/-6%	Multifamily Residential
15%/12%	Retail, Warehouse, Lodging		

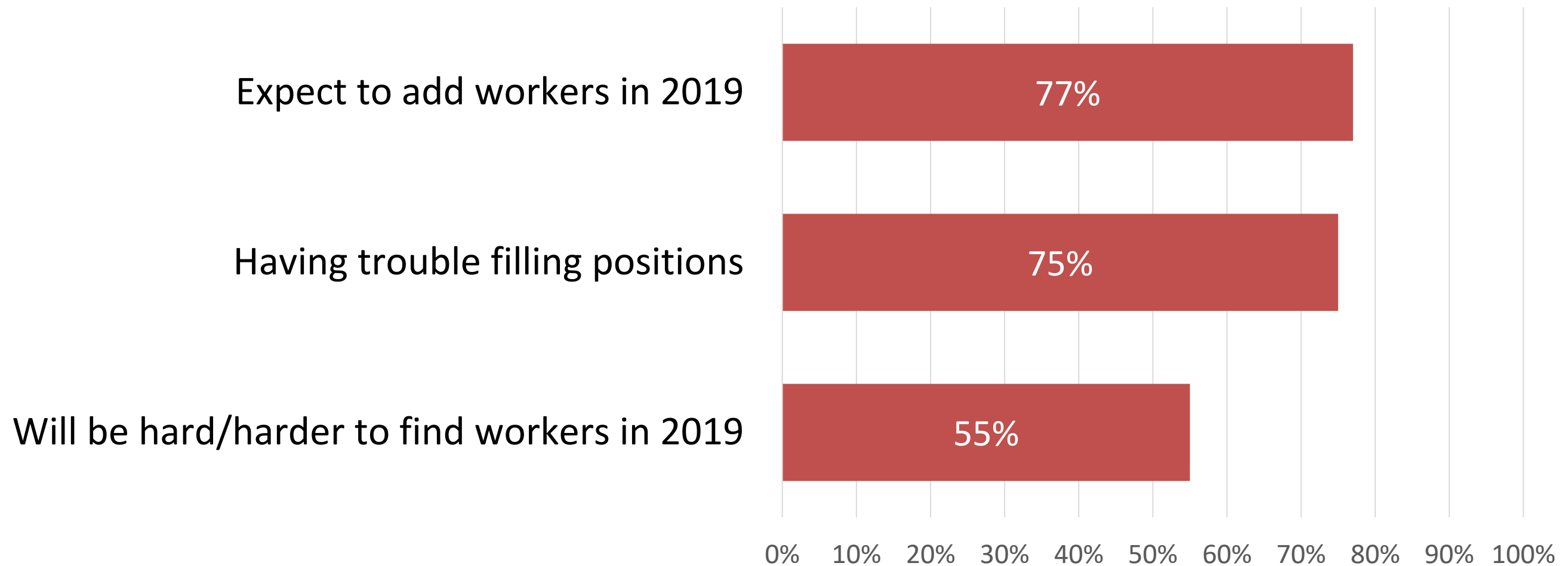
Rising materials and labor costs may portend higher bid prices

Cumulative change in highway bid prices and input costs, Dec. 2015–Sep. 2018
12-month % change, not seasonally adjusted

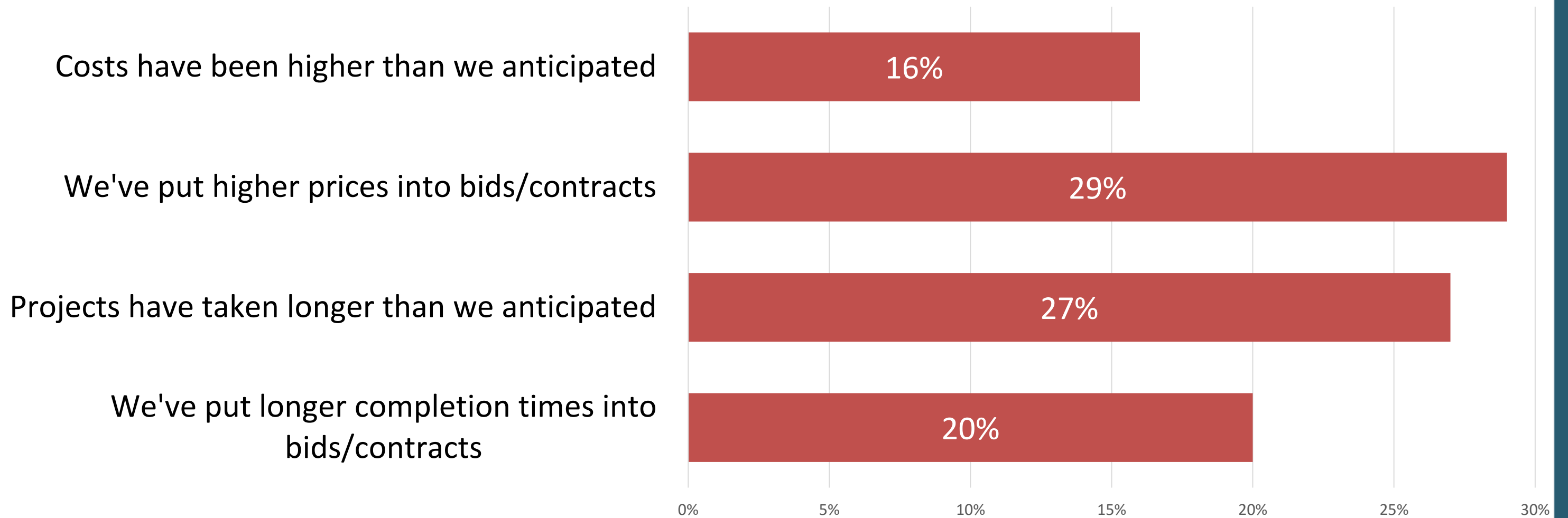


Sources: Highway contract prices: Federal Highway Administration, National Highway Construction Cost Index
Const. pay and materials, services cost: Bureau of Labor Statistics, Current Employment Statistics, Producer Price Index

AGC Outlook Survey: WA contractors expect to add workers but are having trouble finding them



AGC Outlook Survey: WA Firms with staffing challenges face higher costs and delays



2017-2018 US summary and 2019 forecast

	2017 actual	2018 actual	2019 forecast
Total spending	4%	4.5%*	5-8%
Goods & services inputs PPI	4.4%	3.8%	4-6%
Wages & salaries (avg. hourly earnings)	3.1%	3.6%	3.5-4.5%

*Jan.-Nov. 2017 to Jan.-Nov. 2018

AGC economic resources

(email simonsonk@agc.org)

- *The Data DIGest*: weekly 1-page email (subscribe at <http://store.agc.org>)
- monthly press releases: spending; producer price indexes; national, state, metro employment with rankings
- yearly employment & outlook surveys, state and metro data, fact sheets: www.agc.org/learn/construction-data

