Key Takeaways

- Total construction spending put in place for the U.S. is forecast to end up 4% in 2017 compared to 2016.

2017 Construction Segments

Up
- Single-family
- Multifamily
- Improvements
- Lodging
- Office
- Commercial

Stable
- Health Care
- Amusement and Recreation
- Transportation
- Communication

Down
- Educational
- Religious
- Public Safety
- Manufacturing
- Power
- Highway and Street
- Sewage and Waste
- Water Supply
- Conservation and Development

- Looking ahead to 2018, FMI continues to forecast a 5% increase in total construction spending over 2017.

- The primary growth segments in 2018 are expected to include residential, commercial, lodging, office and manufacturing—all with forecast growth of 5% or more. Most other segments are likely to grow roughly with the rate of inflation and may therefore be considered stable. Sewage and waste and water supply are the only segments expected to decline in 2018.
Total Construction Put in Place
Estimated for the U.S.

Source: U.S. Census and FMI Forecast
Total Construction Spending Put in Place 2016 and Forecast Growth (2016-2021 CAGR) by Construction Segment

* Improvements includes additions, alterations and major replacements. It does not include maintenance and repairs.
Total Construction Spending Put in Place 2016 and Forecast Growth (2016-2021 CAGR) by Metropolitan Statistical Area
RESIDENTIAL BUILDING

Single-family
- Unemployment at or below “full employment” rate and wage improvement creating many first-time homebuyers
- Home sales up, creating a shortage of housing stock in many metropolitan markets across the U.S.

Drivers: unemployment rate, core CPI, income, mortgage rate, home prices, housing starts, housing permits

Multifamily
- Vacancy rates remain at historical lows
- Tight inventory of houses for sale, driving many to multifamily
- Potential overbuilding beginning to occur in some markets

Drivers: unemployment rate, core CPI, income, mortgage rate, home prices, housing starts, housing permits

Improvements
- New homes market has been influencing above-average improvement investments
- Rising home prices, starts and sales in select markets will continue

Drivers: unemployment rate, core CPI, income, mortgage rate, home prices, housing starts, housing permits
Nonresidential Construction Index (NRCI)
Score Since Inception Q1 2010 to Q4 2017
(Scores above 50 indicate expansion; scores below 50 indicate contraction.)

Lodging
- Coming off several years of strong double-digit, year-over-year growth since 2012
- Supply outpacing demand, causing increasing vacancy rates
  
  *Drivers: occupancy rate, RevPAR, average daily rate, room starts*

Office
- Still seeing positive growth, but moderating after double-digit gains during the past three years
- Slowdown in high-tech development of office space is the primary drawback on forecast growth
  
  *Drivers: office vacancy rate, unemployment rate*
### Commercial
- Several traditional brick-and-mortar retailers closing stores in large numbers
- Continued rise in e-commerce as a percent of retail sales driving demand for warehouse and distribution center construction

**Drivers:** retail sales, CPI, income, home prices, housing starts, housing permits

### Health Care
- Uncertainty around federal health care policy continues to delay capital investments
- Movement away from large-scale new hospital construction with greater emphasis expected on expansions and renovations

**Drivers:** population change younger than age 18, population change ages 18-24, stock market, government spending, nonresidential structure investment

### Education
- Increasing K-12 enrollment in more than half of the states
- Greater use of flexible space to accommodate year-round school and reduce need for new facilities

**Drivers:** population change younger than age 18, population change ages 18-24, stock market, government spending, nonresidential structure investment

### Religious
- Ongoing improved (and in many cases creative) space utilization
- Demographic trends and patterns are shaping demand for facilities across various markets

**Drivers:** GDP, population, income, personal savings
Public Safety
- Local governments facing fiscal constraints
- Trump administration favors privately run prisons
Drivers: population, government spending, incarceration rate, nonresidential structure investment

Amusement and Recreation
- Several big-budget sports stadiums are underway with others in planning
- Increased casino investment seen nationwide
Drivers: income, personal savings rate, unemployment rate, employment

Transportation
- Airports planning accommodation of new wide-body aircraft
- Needed repairs at hurricane-damaged ports
- Trump administration proposing to cut the Department of Transportation budget
Drivers: population, government spending, transportation funding

Communication
- Innovation and technology demands are increasing more rapidly than ever
- Connectivity is increasingly becoming a requirement for local and regional economic activity and growth
Drivers: population, security/regulation standards, private investment, innovation/technology investment
### Manufacturing
- Manufacturing capacity utilization rates remain below historical averages
- Many planned manufacturing facility upgrades (Toyota) and additions

*Drivers: PMI, industrial production, capacity utilization, durable goods orders, manufacturing inventories*

### NONBUILDING STRUCTURES

#### Power
- New power-generating facilities coming online
- Approval of Keystone XL pipeline could increase spending by year-end

*Drivers: population, industrial production, government spending*

#### Highway and Street
- Federal funding to remain flat
- Greater dependency on state and local governments for infrastructure additions and improvements

*Drivers: population, government spending, nonresidential structure investment*

#### Sewage and Waste Disposal
- Similar situation to water supply
- Uncertainty regarding current Trump administration decisions about the EPA

*Drivers: population, industrial production, government spending*
**Water Supply**

- Local governments caught in an unsustainable financial situation, resulting from eliminated or reduced federal assistance but maintained mandates and regulations

*Drivers: population, industrial production, government spending*

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**Conservation and Development**

- Federal budget cuts and the current administration’s reprioritization of programs continue to be a drag on conservation and development spending

*Drivers: population, government spending*
Construction Put in Place  
Estimated for the United States

Quarter 3 of 2017 Forecast (Based on Quarter 2 2017 Actuals)

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About the Authors

Jay Bowman is a principal with FMI. Jay assists a broad range of stakeholders in the construction industry, from program managers and general contractors to specialty trades and materials producers, with the identification and assessment of the risks influencing the strategic and tactical decisions they face. In this role, Jay’s primary responsibilities include research design and interpretation, based on developing an understanding of the context within which these organizations operate. Jay can be reached at jbowman@fminet.com.

Brian Strawberry is a senior economist with FMI. Brian’s expertise is in economic and statistical modeling. He leads FMI’s efforts in market sizing, forecasting, and building product/construction material pricing and consumption trends. Brian’s combination of analytical skills and creative problem-solving abilities have proven valuable for many contractors, owners and private equity groups as well as industry associations and internal research initiatives. Brian can be reached at bstrawberry@fminet.com.
For over 60 years, FMI has been the leading management consulting and investment banking firm dedicated exclusively to engineering and construction, infrastructure and the built environment.

FMI serves all sectors of the industry as a trusted advisor. More than six decades of context, connections and insights lead to transformational outcomes for clients and the industry.

Sector Expertise

- A/E and Environmental
- General Contractors/CM
- Heavy Civil
- Industrial
- Specialty Trades
- Utility T&D
- Cleantech and Energy Services
- Construction Materials
- Building Products
- Oil and Gas
- Private Equity
- Owners

FMI Client Highlights

- 73% of the ENR Top-400 Largest Contractors
- 65% of the ENR Top-200 Specialty Contractors
- 57% of the ENR Top-100 Design Firms
- 56% of the ENR Top-200 Environmental Firms
- 58% of the ENR Top-100 CM for Fee Firms
- 98% Client Satisfaction Record