VERMEULENS®
Service Beyond Estimation

Market Outlook – Q1 2019

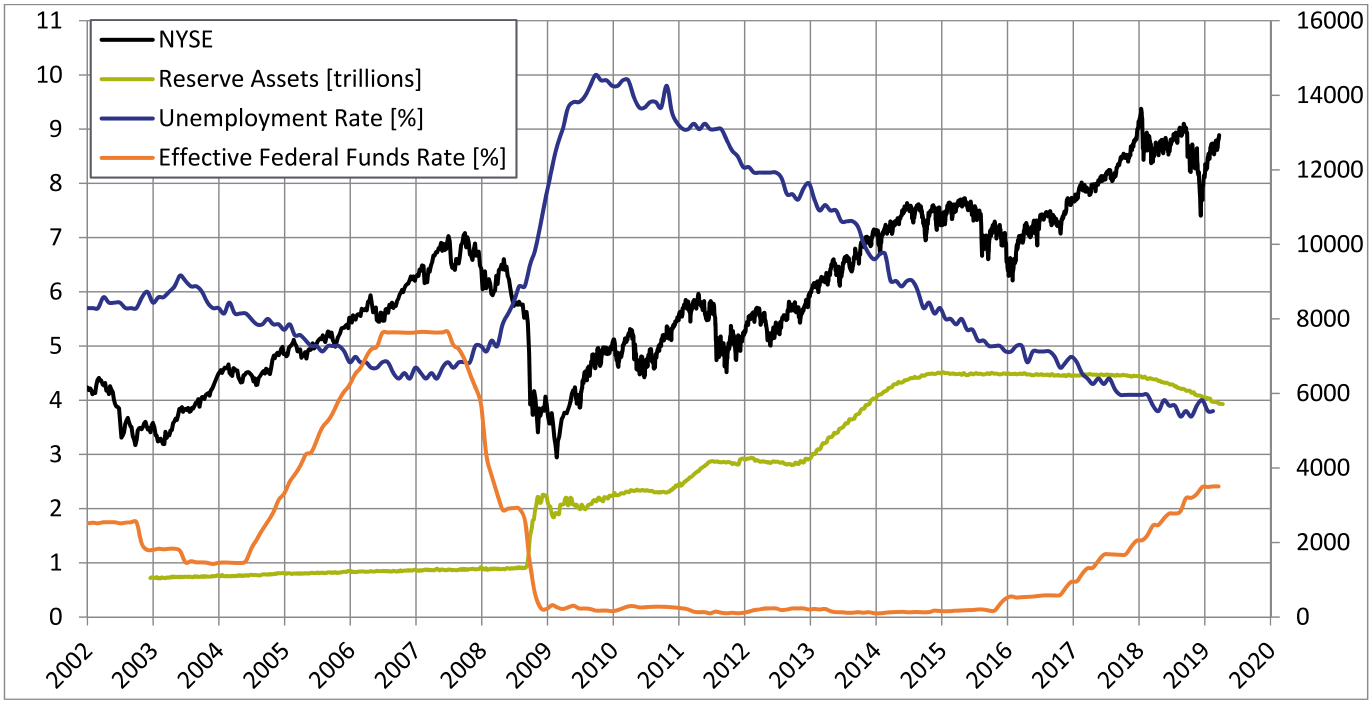
Vermeulens market reports are based on actual bid prices in the Institutional-Commercial-Industrial construction industry. Forecasts are based on leading indicators, and historical comparative analysis.

- **Construction Price** escalation nationally has trended to 4% per annum for Q1 2019.
- **Construction Cost Trendline:** Due to consistent increases in construction costs over the past few years, Vermeulens Index long term trendline is up from 3.4% to 3.5%.
- **Construction Dollar Volume** growth has calmed and is -0.8% year over year (Mar 18/Mar 19). This is attributed to Residential (-8.4%) spending. Infrastructure (2.3%) spending has climbed steadily since Q3 2018 while Non-Residential spending is experiencing an upward trend through Q1 2019 and is up 4.8% year over year.
- **Construction Job Growth:** We are at full employment in the construction sector. Q1 has seen the addition of 47,000 construction jobs (0.64%) nation-wide. Wage and profit levels in the sector will continue to draw employment from new entrants and other sectors.
- **Architectural Billings** declined for the first time in 2 years, falling most in the Northeast. The South continued to grow.
- **New York Stock Exchange:** The stock market has bounced back after the correction endured in Q4 2018. After falling 13% in Q4 the exchange has risen by 11.6% through Q1 2019.
- **Growth in Employment:** Monthly average job growth through Q1 was 180,000 jobs, notably held back by a slow February (33,000). This is a continuation of the increasing trend in job growth which started in early 2017. Labor force participation rates are high by historic measures, but do not appear to be causing inflationary pressure.
- **Gross Domestic Product:** GDP maintained a strong annualized growth rate of 3.4% through Q1 2019. Long term expectations have fallen slightly. GDP growth since 1990 follows a 2.5% trendline, but the past decade is more in line with a 2.3% annual growth rate.
- **Commodities:** Steel price level changes $886 (2018 Q4) to $920 (2019 Q1), forecast to remain steady at $920 next quarter, then decline to $860 by the end of the year.
- **Commodities:** Oil price level changes $45.41 (2018 Q4) to $60.14 (2019 Q1) back up to Q3 2018 levels.
- **Consumer Price Index:** Q1 CPI rose slightly which resulted in the annual inflation rate remaining steady at 1.9% (2018 Q4 to 2019 Q1).

Market Watch

Inflation and employment targets propel monetary policy, and subsequently construction prices. Although the target range for federal funds has increased, continuing low interest rates are good for stability in the interest rate sensitive construction sector. https://www.federalreserve.gov/newsevents/pressreleases/monetary20190130a.htm

*"… indicators point to slower growth of household spending and business fixed investment, inflation compensation remained low in recent months, and longer-term inflation expectations are little changed… **the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2 percent**… "*



Indicator	Effect	Current	Forecast
CPI Inflation – low	*Stimulative*	↔	↔
ICI Demand – increasing	*Stimulative*	↑	↑
Nom Interest Rates – stable	*Stimulative*	↔	↔
Real Interest Rates – stable	*Stimulative*	↔	↔
Government Spending – stable	*Stable*	↔	↔
Government Deficits – increasing	*Moderating*	↑	↑
Financial Assets – stable	*Stable*	↔	↑
Real Estate Assets – increasing	*Stimulative*	↑	↑
Construction Prices – increasing	*Moderating*	↑	↑
Construction Employment – increasing	*Moderating*	↑	↑

Vermeulens Construction Cost Index

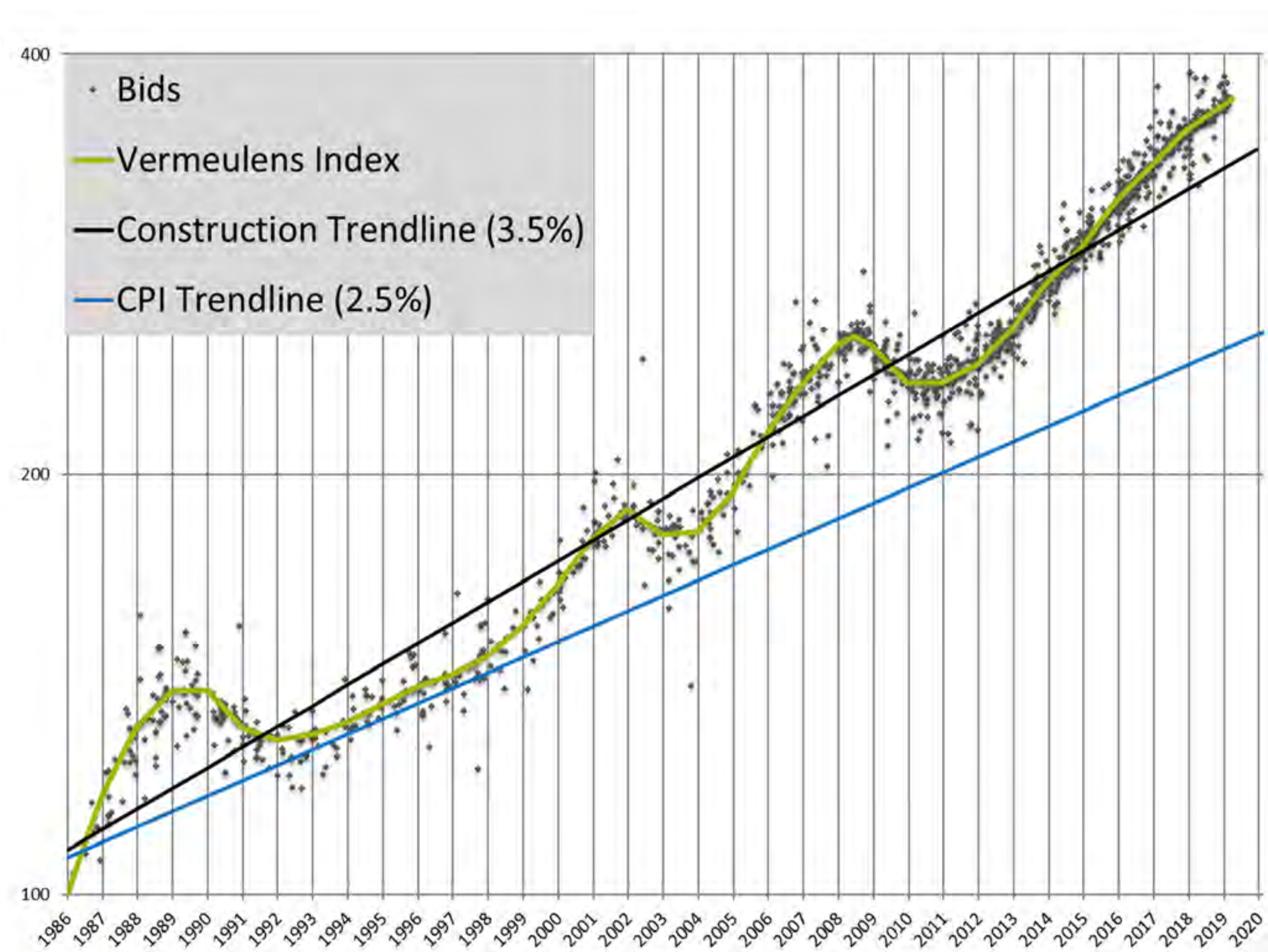
As inflation in other sectors of the economy moderate, escalation in the construction sector will continue to have room to increase at a higher rate.

Price increases for Q1 2019 nationally trended towards 4% annually.

For the past 33 years, construction prices trended at a 3.46% annually compounded escalation rate. The rate of escalation seen in construction costs relate to the target of 2% annual inflation for consumer prices and the monetary policy used to achieve this goal. CPI inflation hovering at 2% is in line with the federal reserve long term targets.

Following the global recession construction bid prices for institutional projects fell by 14% from their peak in 2008. During 2011, Vermeulens saw an average selling price increase of 3%. This was followed by a 6% increase in 2012, 8% in 2013, 6% in 2014, 8% in 2015, 6% in 2016, 5% in 2017, and 4% in 2018 and Q1 2019.

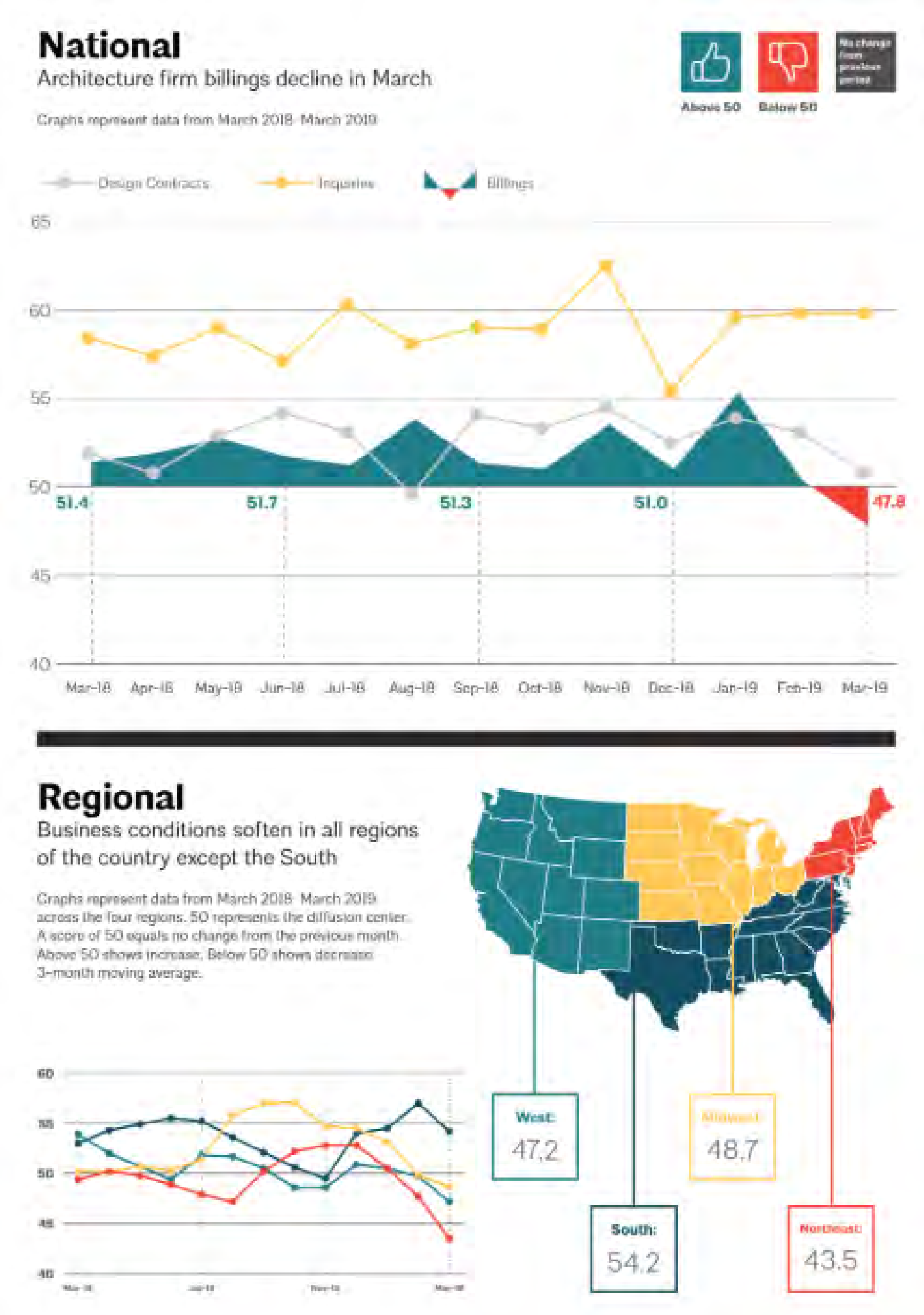
The chart below illustrates bid prices for Institutional Commercial Industrial (ICI) construction projects relative to the Construction Trendline (1986 = 100) of 3.46% and the 2.5% Consumer Price Index Trendline.



AIA Billings

Architectural billings are a leading indicator for future construction volume. A score greater than 50 indicates growth. Design fee billings typically indicate construction volume 9 -12 months in advance.

Architectural Billings fell below the 50 mark in March 2019, declining for the first time in more than 2 years, while future work indicators and back logs have continued to show growth. The Southern regions saw the most growth, while billings in the Northeast were weak in comparison and the Midwest experienced a second consecutive month of decline.



https://www.aia.org/pages/6137577-abi-march-2019-billings-decline-amidst-con

Put In Place Construction

Construction dollar volume has decreased 0.8% year over year (Mar 18/Mar 19). Construction dollar volume is the main driver of construction prices. As volumes increase and contractor bidding opportunities and backlogs grow, the margins included in bid prices will grow.

Residential dollar volume has seen growth at a reduced rate in recent quarters and is experiencing a decline through Q1 2019, falling 8.4% year over year.

Non-Residential construction spending has seen a 4.8% increase year over year, continuing the positive trend from the previous quarter's 4.3% increase. Moderate growth and strong margins in Non-Residential construction volume has caused reduced escalation in this sector.

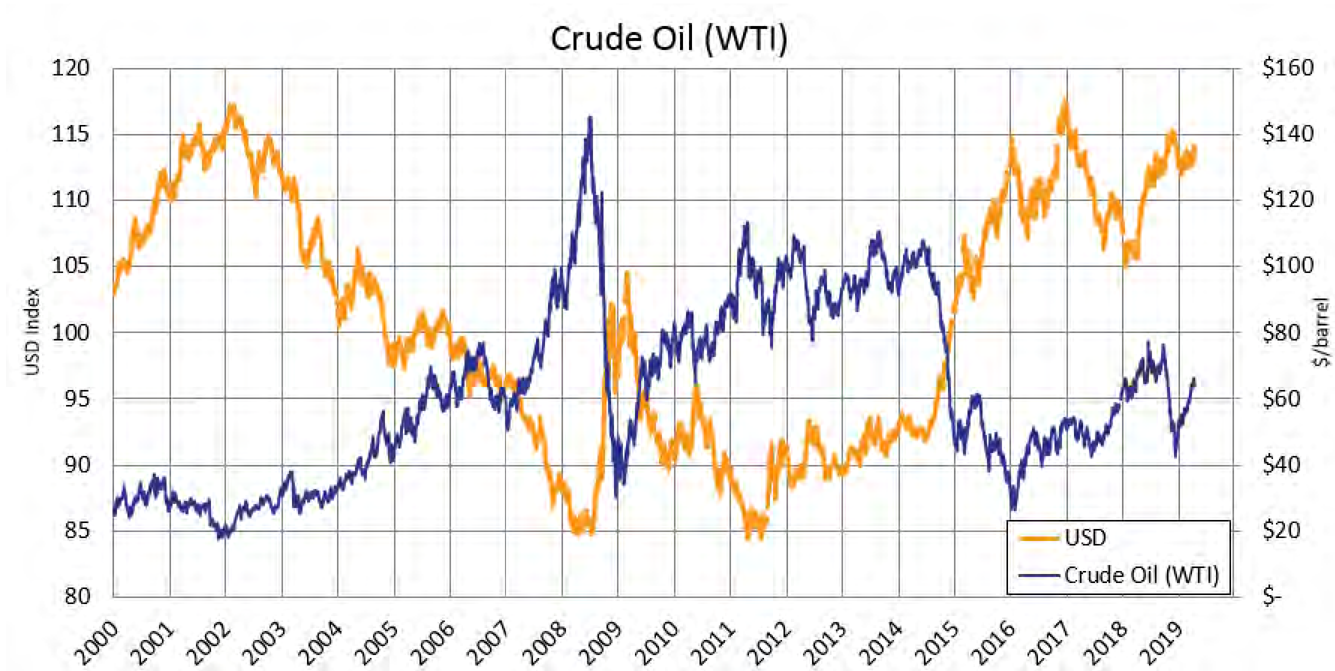
Infrastructure spending has seen a 2.3% year over year increase.

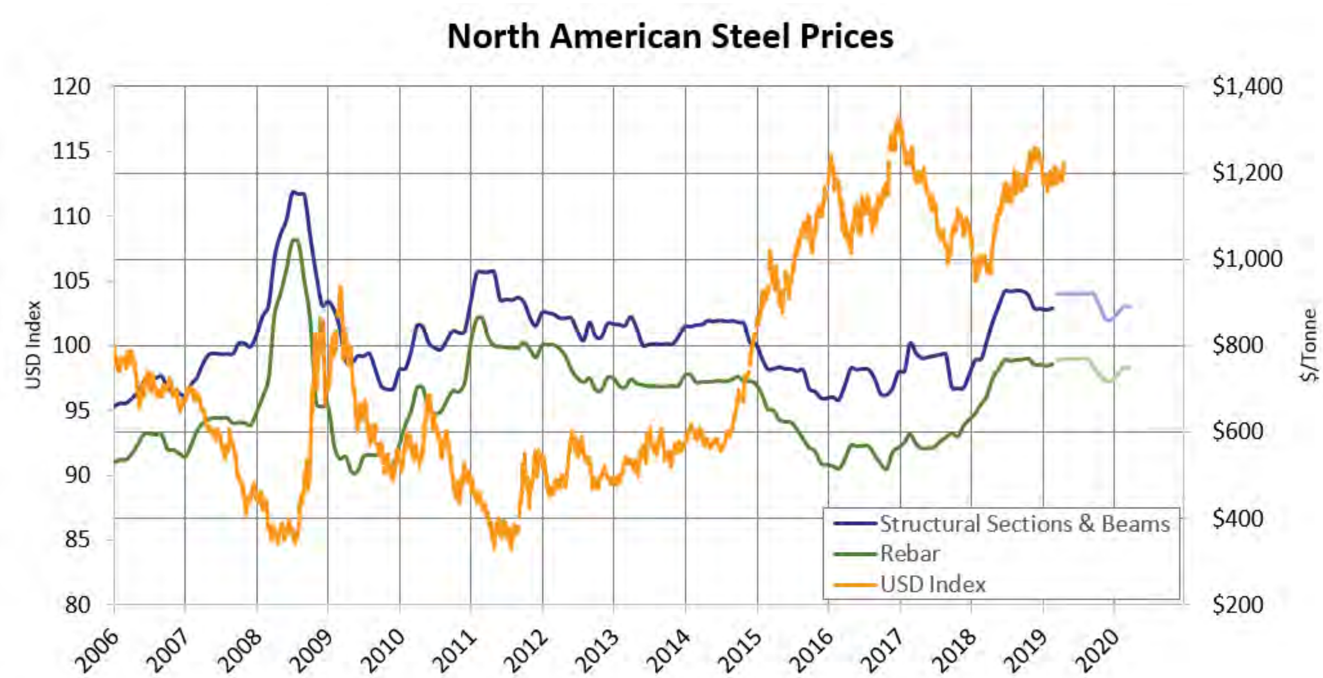
http://www.census.gov/construction/c30/c30index.html

Commodity Prices

Crude Oil dropped to $45.41 per barrel at the end of Q4 2018 and climbed back up to $60.14 this quarter while showing signs of continued growth in Q2.

Structural Steel prices rose by 4% this quarter, recovering from the decline in the previous quarter. Prices are expected to remain flat through Q2/Q3.

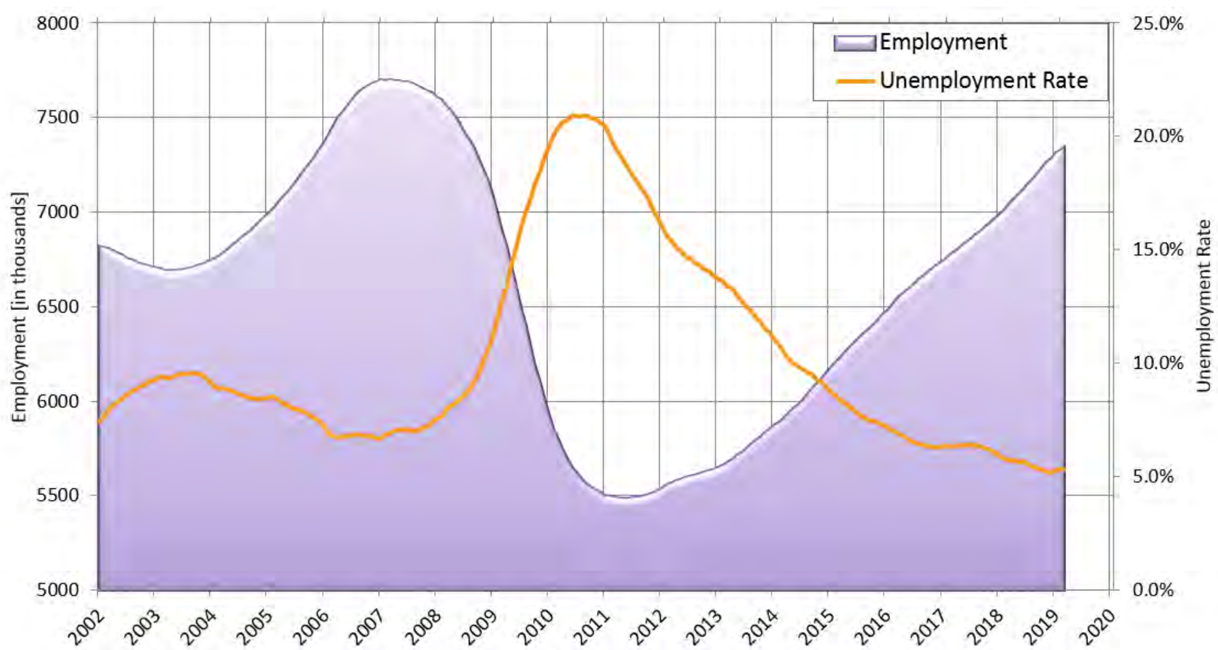


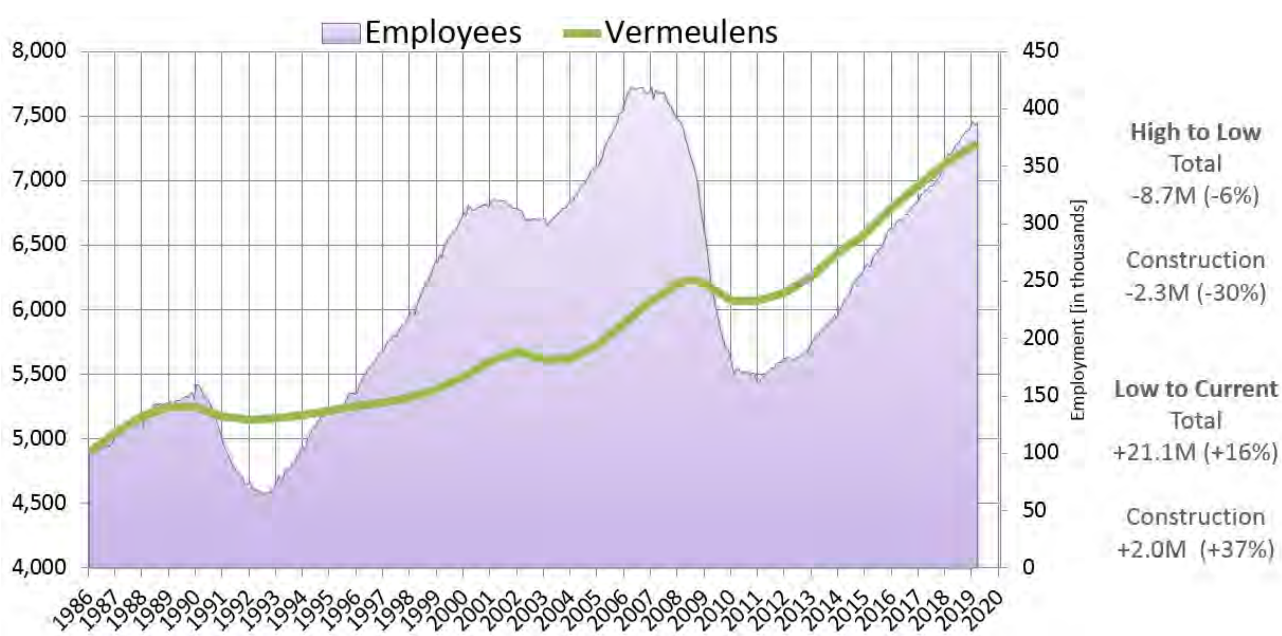


Construction Labor Market

Construction Unemployment: The 12-month average construction unemployment rate is levelling out after dropping each of the last 6 quarters. The unemployment rate in the construction industry through Q1 2019 held at 5.3% (the figure below graphs a 12-mo average). This will maintain the upward pressure on labor costs.

Construction Job Growth was 47,000 or 0.6%, this quarter. Wage and profit increases in the sector will draw new entrants as well as restructuring from other sectors of the economy (energy or exports, for example).

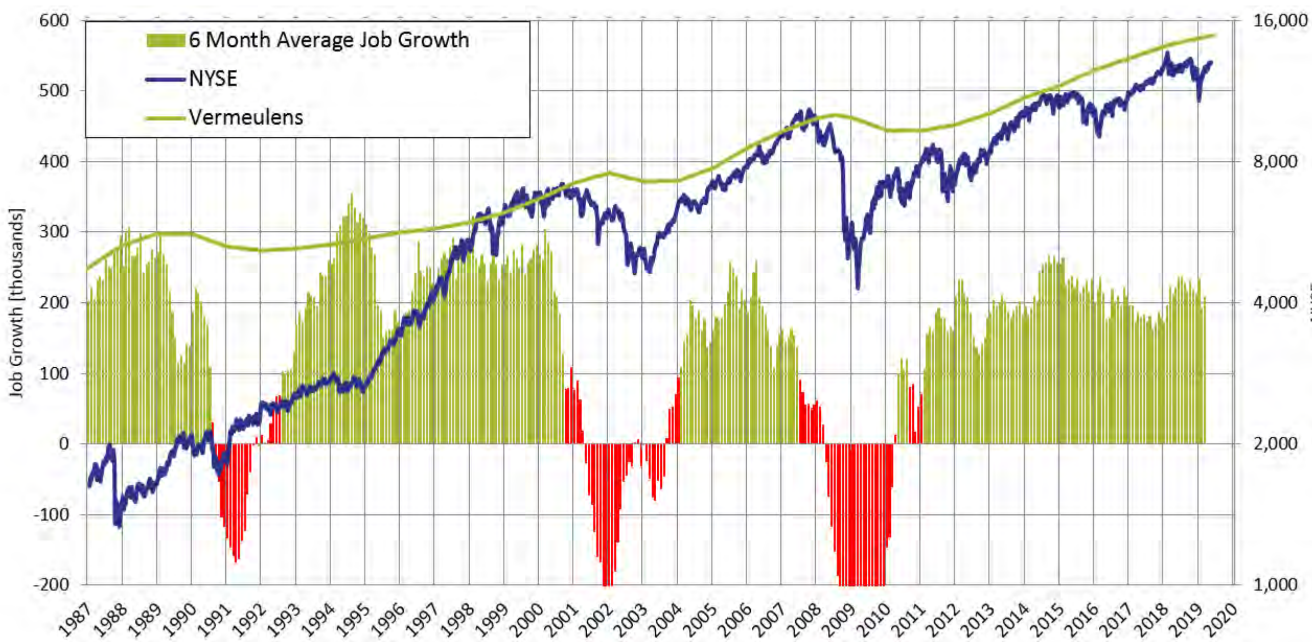




Total Jobs & Market Performance

Total Jobs in the US economy during Q1 2019 saw an average monthly increase of 180,000 jobs, down from 254,000 in Q4. 6-month moving average job growth numbers have fallen slightly due to a dismal February in which only 33,000 jobs were added to the economy. The broader downward trend in employment growth since Q2 of 2014 has reversed, and appears to be stabilizing at a higher level.

The chart below removes short-term fluctuations in job growth by looking at a 6-month moving average. Dips in job growth temper wage demands. Negative job growth accompanies financial sector recessions. Sustained periods of recession, where job creation remains below 100,000 jobs per month, has accompanied dips in construction prices as illustrated by the red bars below.

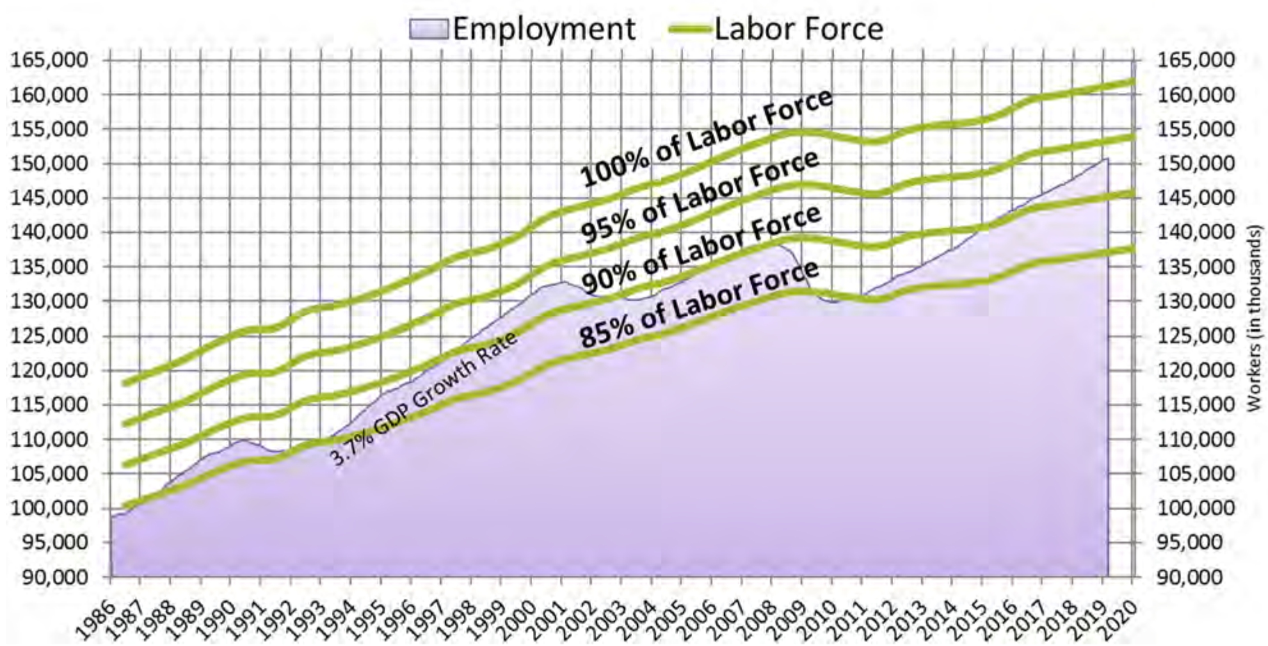


https://data.bls.gov/timeseries/CES0000000001

Employment Percentage of Total Workforce

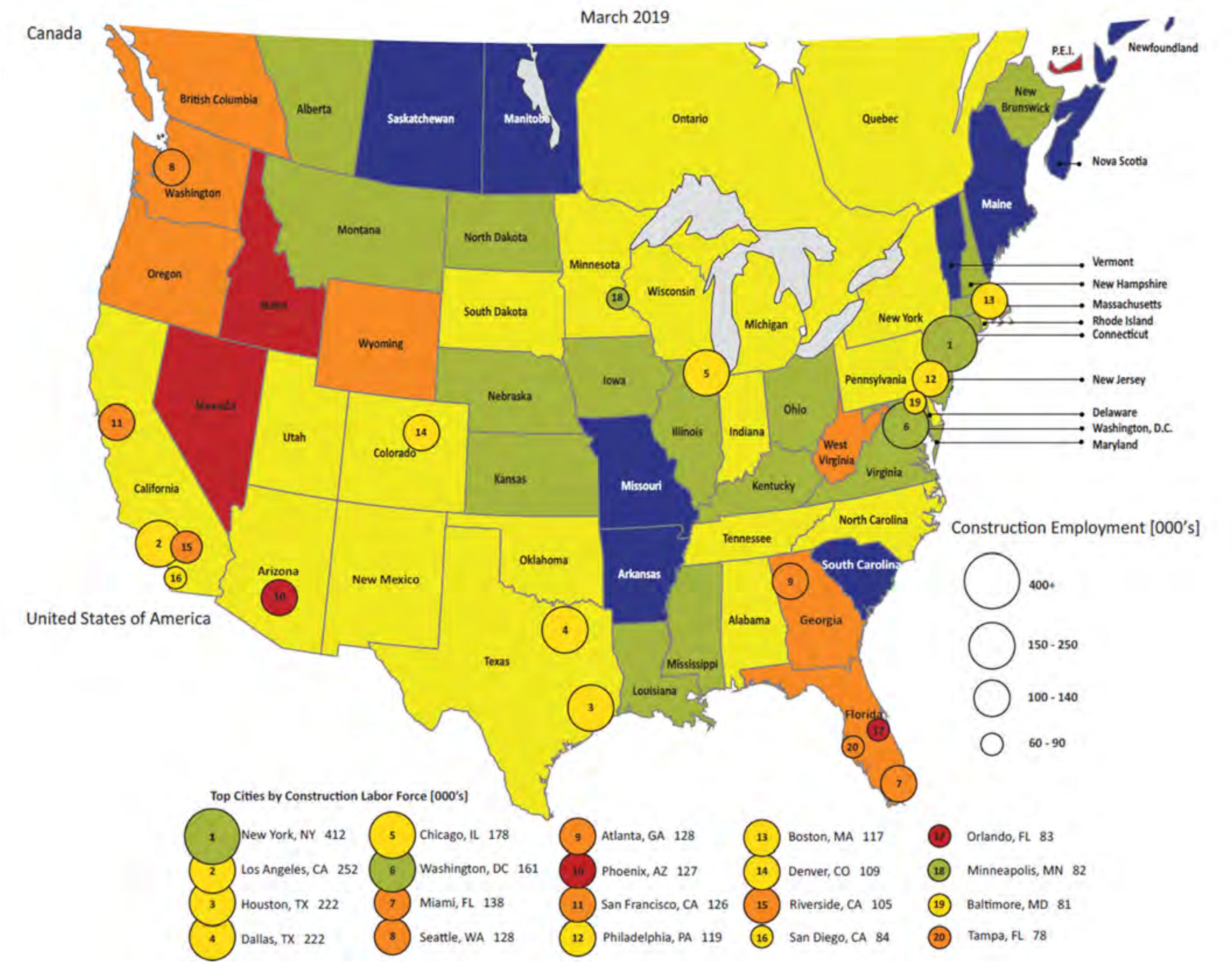
Total Employment as a percentage of total workforce is approaching a long term high of 94%.

The chart below shows total employment as a percentage of the US workforce. The Federal Reserve will accommodate growth until full employment puts inflationary pressure on consumer prices above the 2% target. The workforce in the US continues to expand so the economy must produce at least 100,000 jobs/month to remain neutral. The Federal Reserve will continue to support strong employment growth over the medium term with low interest rates.



Construction Labor Force Growth Rate

Construction Labor Force Growth Rate is calculated by the current 12 month average in construction employment relative to previous 12 month average in construction employment.

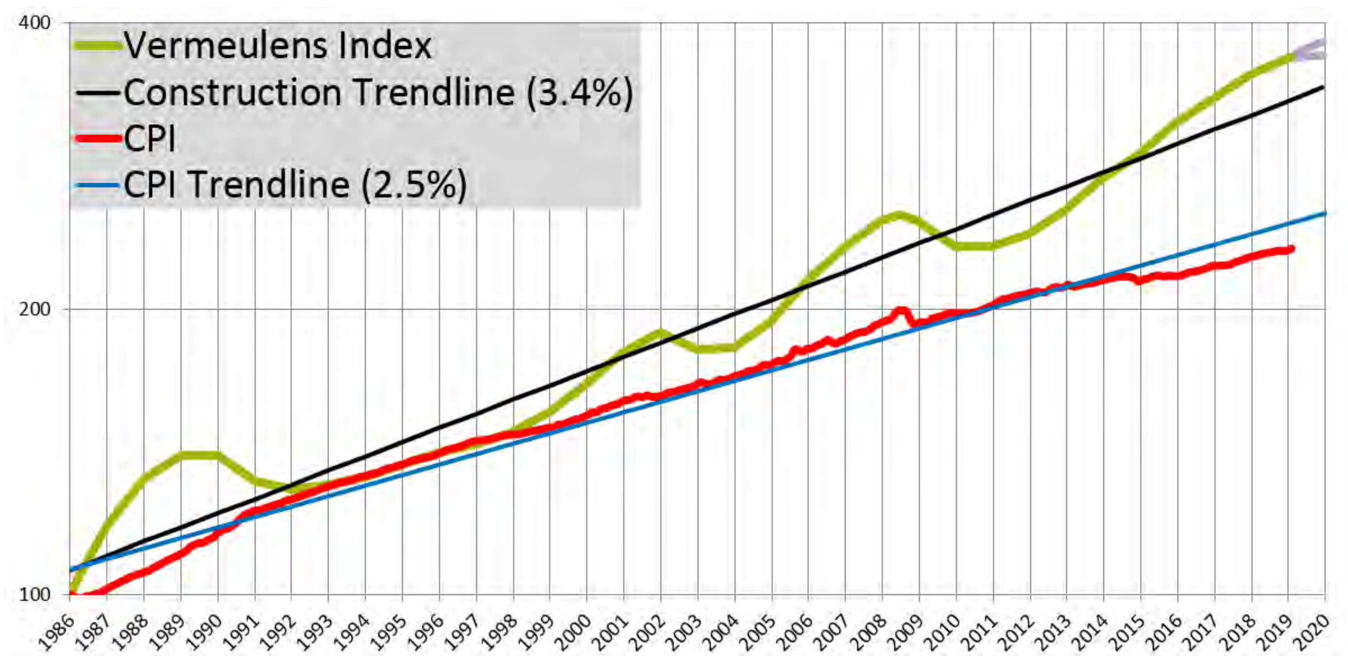


Growth	Forecast
High	7% - 9%
Above Average	5% - 7%
Average	4% - 5%
Below Average	3% - 4%
Contracting Market	TBD

Forecast - National Trend

Construction prices for North America are firm and stabilizing above the long term Trendline. The medium term forecast is 4% per year. Local market variations from the average depend on market conditions in that market. Contact Vermeulens for specific market information for your project.

With the current labor market at capacity, and continued stable growth in construction volume, construction costs will remain above the Construction Cost Trendline for the medium term.



Vermeulens strives to give our clients the greatest possible value and results for their projects.

If you:
Need any help with your projects,
Want to set up a presentation to your group,
Would like to meet to see how we can help your team, and expand our business together,
Are looking for company information,

Please contact:* *Marisol Serrao, Director of Marketing at 617 273 8430 or mserrao@vermeulens.com.