Professional Construction Estimators Association Orlando, FL

December 2019 Vol. 17, Issue 07

President's Letter

Welcome to PCEA Orlando and the first newsletter of my term as President. I want to thank you for your interest in PCEA and for allowing me to represent this chapter. Some amazing things happened last year under Christina Kanhai Presidency, and I wanted to do a quick recap for anyone new and for those that have not been able to make every meeting. We set a membership record for the Orlando Chapter, at 145 members. Second, we set a scholarship amount record and gave away $17,000 through our three scholarship options, Randy Welch, Student Member, and Member Professional. With the help of those two items, we were able to win the Bill Helms PCEA Chapter of the Year award at the National Convention in May.

I have four main goals that the 2019-2020 Board of Directors will accomplish during my term as President - to give away more scholarship money, break last year's membership record, expand our contributions to the community, and defend our status as Chapter of the Year and recipients of the Bill Helms award this year. You can read more about these goals on the following page.

If you are not a member, and would like more information about becoming one, please reach out to me or any of the other Board Members listed in each newsletter.

Thank you,

Tim McLaughlin
PCEA Orlando, Chapter President

PCEA Orlando

PESSIMISTIC PREDICTIONS, OR OPTIMISTIC OUTLOOK?

BY ANIRBAN BASU, CHIEF CONSTRUCTION ECONOMIST FOR ABC

Anirban Basu is the Chief Economist for ABC, and is also the Chairman & CEO for Sage Policy Group, Inc. Anirban has presented at several CURT events and is best known for his witty take on the economy. He has twice been reconginized as one of Maryland's 50 most influential people, and has also been named one of the Baltimore's region's 20 most powerful business leaders.

At the beginning of the year, the Wall Street Journal released the poll results from a survey that asked 73 economists what they expected from the economy. The survey revealed that in the collective minds of economists, there is a 25 percent chance of recession in the coming year. According to the Journal, this was the highest level since October 2018, and a significant increase from 2017, when respondents said there was only a 13 percent chance of a recession.

While there may be a recession in the near-term, most economists have already been proven incorrect. "A further deterioration in the trade dispute with China, combined with a deeply divided U.S. government and a conclusion to [special counsel Robert] Mueller's investigation could sap all the energy out of the economy," said Bernard Baumohl, Chief Global Economist at the Economic Outlook Group. The trade disputes persist of course, but the Mueller investigation has had, and will likely continue to have, no material impact on the economy.

Other economists were concerned about inflation. Most envisioned worsening inflationary pressures emerging as the root cause of a downturn. In the context of full employment and a 50-year low in unemployment, wage pressures were set to drag inflation higher, prompting the Federal Reserve to further ratchet up interest rates and borrowing costs until the economy began to shrink.

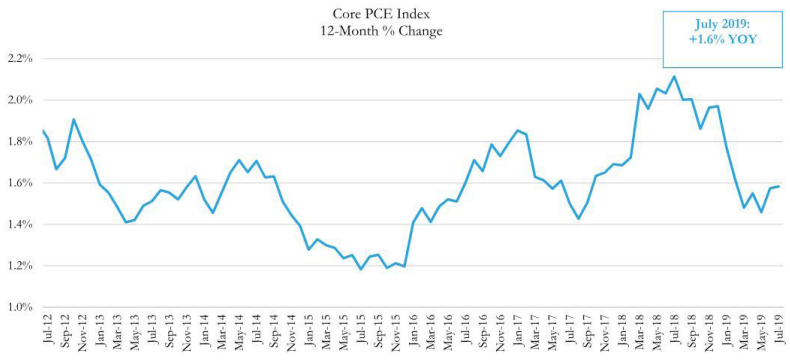

Exhibit 1: Core PCE, July 2012 – July 2019. Source: U.S. Bureau of Economic Analysis.

PROFESSIONAL CONSTRUCTION ESTIMATORS
ASSOC OF AMERICA INC

UPCOMING PCEA MEMBERSHIP MEETINGS:

JANUARY MEMBER MEETING
January 28, 2019, 5:30 PM - 7:30 PM
Speaker: Keith Carr
Project Director, The Americas
Merlins Entertainment Group

February 25, 2019
5:30 PM - 7:30 PM
Speaker: TBD

Membership Meetings occur on the 4th Tuesday of each month at the Citrus Club
255 South Orange Avenue
Suite 1800
Orlando, FL 32801

Sign up for Meetings and Events at:
www.pcea-orlando.org

But rather than worsen, inflation moderated due to a number of forces, including a weakening global economy and a strong U.S. dollar. While the Federal Reserve raised key interest rates nine times between December 2015 and December 2018, they have cut them twice since. The simultaneity of full employment and low inflation is precisely the state of affairs the Federal Reserve seeks and many economic actors want. For now, the economy continues to perform well. Still, many perceive coming storms.

While forecasts of recession have yet to come to fruition, the economy has softened. Last year, the U.S. economy expanded 2.9 percent, buoyed in part by tax cuts enacted in late 2017. During 2019's initial quarter, the U.S. economy expanded 3.1 percent on an annualized basis. The economy then downshifted to two percent during the second quarter, with many economists expecting growth for all of 2019 to be closer to two percent than three percent.

Job growth has also slowed. Over the past six months for which there are available data, job growth in America has averaged 150,000 jobs/month. During the prior six months, the monthly average stood at 196,000. In August, the nation added 130,000 net new jobs with June and July estimates revised lower by a combined 20,000. The result would have been even worse but for the creation of 25,000 temporary Census jobs.

But even this can be easily explained away. Employers are suffering increasing difficulty securing workers to fill job openings, resulting in slower monthly employment creation. One could argue that the emerging softness in job creation is not due to falling demand, but to the dwindling supply of human capital. As of writing this article, there are still 7.22 million unfilled, available jobs in America.

There have been almost precisely six million unemployed Americans in recent months, which means there have been approximately 1.2 available job openings for each unemployed American. That is a powerful indication of a strong U.S. labor market. See Exhibit 2.

Predictably, the tight labor market is producing meaningful wage gains for workers; which in turn is helping to provide sustained fuel to the nation's consumer spending-led economy. Through August 2019, year-over-year wage growth has met or exceeded three percent for 13 consecutive months. As indicated by the Wall Street Journal, a worker with a 40-hour-a-week job earning the average hourly wage from August 2017 (when it was $22.11) through August 2019 ($23.59), would have experienced an annual salary increase from about $44,000 to $47,000.

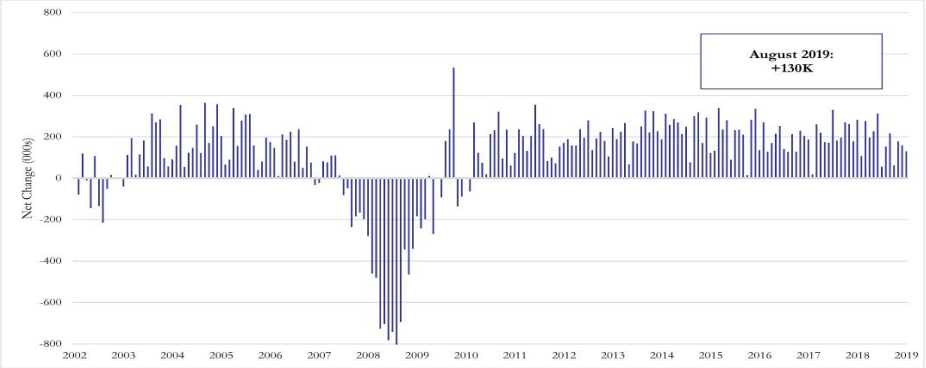

Exhibit 2. Net Change in U.S. Jobs (SA), August 2002 – August 2019. Source: U.S. Bureau of Labor Statistics.

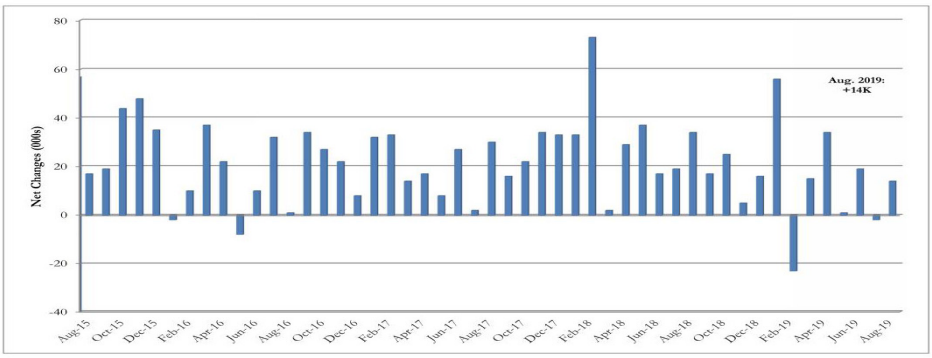

Exhibit 3. Construction Employment, August 2015 through August 2019. Source: U.S. Bureau of Labor Statistics.

Exhibit 4. Construction Spending Year-over-Year % Change, July 2015 through July 2019. Source: U.S. Census Bureau.

Construction

The construction industry added 14,000 net new jobs in August. Year-over-year, the total number of construction jobs is up 2.4 percent; or rather, 177,000 jobs. That represents an impressive tally for a number of reasons. Ask any contractor about their circumstances and they are likely to break out with laments regarding an incapacity to secureelectricians, heating and air conditioning workers, glaziers, roofers, superintendents, or estimators.

Somehow, construction firms have managed to continue to find net new people, though undoubtedly in many instances the newcomers require substantial training. Among experienced workers, wages continue to rise rapidly, helping to drive up the overall cost of delivering construction services even in the context of generally well-behaved construction materials prices. See Exhibit 3.

While construction employment growth has persisted, nonresidential construction spending growth has become decidedly erratic. In particular, construction spending in a number of private categories has waned, perhaps because of rising concerns regarding overbuilding in certain segments. Among these segments are office and lodging, both of which have experienced chunky increases in spending over the last five years, recent weakness notwithstanding.

Weakness in a handful of private construction segments has resulted in the trends observable in Exhibit 4. Meanwhile, a dramatic decrease in mortgage rates since late last year has helped to produce more residential construction activity, with both multifamily and single-family housing activity picking

up recently. Still, residential construction was down nearly seven percent from a year-ago, through July 2019.

One of the sources of strength for the U.S. economy has been a pickup in infrastructure spending. True, the federal government has yet to fashion a full-fledged infrastructure plan for the nation. In fact, the nation's Highwayture plan for the nation. In fact, the nation's Highway Trust Fund (HTF) is set for insolvency by 2021, absent Congressional action. The most recent national effort regarding the HTF is scheduled for expiration in 2021.

There is hope, however. The Senate Committee on Environment and Public Works recently voted unanimously on a five-year $287 billion reauthorization bill, with almost all the funding going towards the nation's roads and bridges.

In the interim, both state and local governments have come to the rescue, supported by rising collections of income, sales, and property taxes as the U.S. economic expansion enters an unprecedented 11th year. A number of key construction segments have benefitted as a result, including water/sewer, transportation, and highway/street.

Input prices, how low will they go?

There was a time when construction industry leaders were deeply concerned about rising materials prices. While many remain continuously vigilant regarding any factor that can influence the cost of delivering construction services and profit margins, materials prices have generally been benign of late. Indeed, construction input prices fell 0.6 percent in August 2019 according to the Bureau of Labor Statistics. On a year-over-year basis, prices are down 0.9 percent. Nonresidential construction input prices were down 0.4 percent for the month, and 0.4 percent for the year.

Falling energy prices have been largely responsible. The largest annual declines were in natural gas (-33.3 percent), unprocessed energy materials (-19.1 percent), and crude petroleum (-15.7 percent). While the assault on Saudi oil facilities has produced considerable uncertainty regarding the future of energy prices, oil prices began to moderate only days after the attack. Other categories of materials experiencing significant declines in price, according to government data, are softwood lumber (-11.7 percent), iron and steel (-10.7 percent), and steel mill products (-10.6 percent). See Exhibit 6.

A number of factors have conspired to produce lower materials prices, including a weakening global economy. For instance, Latin American economies are expected to collectively expand less than one percent this year. China registered its lowest economic growth last year since 1990. A number of key nations are flirting with recession; including Germany, South Korea, and Russia. All of this has led to weaker demand for certain key commodities, which in turn has generated lower prices in the United States. A strong U.S. dollar has helped reinforce these dynamics.

Regionally, job growth tends to be meaningfully more rapid in the South and the West, with the implication being that this is where construction activity is most likely to remain robust. The Architecture Billings Index (ABI) has begun to hint at a slowdown in construction spending in those categories of construction involving architects; including office, lodging, and commercial categories.

Exhibit 7 breaks the ABI down by region for each month dating back to July 2017. Back then, all four regions were associated with a reading in excess of 50, indicating that architects were generally getting busier from month-to-month. But since that time, data readings have steadily deteriorated. By July 2019, only the West was associated with a reading above 50. The South generated an ABI reading of 48.3, only the third time in the last three years that the region was associated with a sub-50 indication. The Northeast is associated with five consecutive sub-50 readings, signifying that the average architect has been getting less busy for nearly half a year.

Looking ahead, it's not an easy projection

Economists have been predicting the next economic recession for years now. The current

One could argue that the emerging softness in job creation is not due to falling demand, but to the dwindling supply of human capital. As of writing this article, there are still 7.22 million unfilled, available jobs in America.

Exhibit 5. Nonresidential Spending Growth, Millions of Dollars, Seasonally Adjusted Annual Rate

	July 2019	June 2019	July 2018	1-Month Percent Change	12-Month Percent Change
Nonresidential	$776,017	$778,511	$775,629	-0.3 percent	0.1 percent
Water supply	$17,338	$16,570	$16,109	4.6 percent	7.6 percent
Conservation and development	$9,722	$9,341	$8,972	4.1 percent	8.4 percent
Sewage and waste disposal	$27,848	$27,253	$23,358	2.2 percent	19.2 percent
Manufacturing	$72,491	$71,149	$70,142	1.9 percent	3.3 percent
Public safety	$10,500	$10,327	$9,400	1.7 percent	11.7 percent
Health care	$44,761	$44,278	$42,429	1.1 percent	5.5 percent
Educational	$90,845	$89,878	$95,231	1.1 percent	-4.6 percent
Power	$99,518	$99,235	$99,466	0.3 percent	0.1 percent
Office	$78,943	$78,862	$74,498	0.1 percent	6.0 percent
Communication	$22,921	$23,122	$24,103	-0.9 percent	-4.9 percent
Transportation	$56,179	$56,755	$53,395	-1.0 percent	5.2 percent
Lodging	$34,663	$35,444	$32,313	-2.2 percent	7.3 percent
Amusement and recreation	$27,802	$28,468	$29,027	-2.3 percent	-4.2 percent
Highway and street	$97,314	$100,037	$95,080	-2.7 percent	2.3 percent
Commercial	$82,552	$85,070	$98,894	-3.0 percent	-16.5 percent
Religious	$2,622	$2,722	$3,212	-3.7 percent	-18.4 percent

Source: U.S. Census Bureau

period is especially difficult to forecast, given the enormous influence of uncertain policymaking. Tariffs announced one month can be postponed the next. While much of the focus has been on Sino-U.S. trade disputes recently, there are also conflicts involving America and the European Union, as well as India. Brexit also becomes increasingly perilous, with British governments continuously on the precipice of being undone.

Though the Federal Reserve have cut rates twice in the span of three months, that won't likely solve the issues underlying the economy. The problem in the U.S. has not excessively elevated borrowing costs. The problem in America is a dramatic increase in the levels of uncertainty concerning households and businesses. When the current administration in Washington, D.C. entered the fray, uncertainty facing many businesses declined, regulations were withdrawn, corporate earnings surged, markets rose, employment growth accelerated, and consumer spending took off.

Today, the situation is far different, with Americans struggling to understand the impact of trade disputes, circumstances pertaining to Iran, and the consequences of their own expanding indebted-ness. All that is known is that there will be elections in the U.S. next year, which will further expand uncertainty.

From a policymaking perspective, there is a big difference between Donald Trump and Elizabeth Warren. There is a big difference between Donald Trump and Kamala Harris. Indeed, there is a big difference between Donald Trump and any conceivable Democratic nominee. For business, this means an uncertain outlook regarding the future of health insurance, defense contracting, trade relations with China and other partners, taxes, and of course regulation.

For households, this translates into uncertainty regarding federal taxes, state and local tax de ductions, incentives to purchase electric vehicles, social assistance, payments to farmers, etc. Even state and local government policymakers face growing uncertainty regarding future federal spending on infrastructure and social programs like Medicaid.

Ultimately, the heightened level of uncertainty could induce many economic actors to adopt a wait-and-see attitude, further reducing economic activity in the context of an already rapidly softening global economic environment. An inverted yield curve and other indications have been flashing yellow for months. Conclusion: 2019 will be fondly remembered by many economic actors, but 2020 may not be.

Exhibit 6. Producer Price Index, August 2019

	Aug. 2019	July 2019	Aug. 2018	1-Month Percent Change	12-Month Percent Change
Inputs to Construction	232.4	233.8	234.5	-0.6 percent	-0.9 percent
Inputs to Nonresidential Construction	117.2	117.7	117.7	-0.4 percent	-0.4 percent
Plumbing Fixtures and Fittings	282.5	281.5	269.6	0.4 percent	4.8 percent
Fabricated Structural Metal Products	240.7	238.4	236.9	1.0 percent	1.6 percent
Iron and Steel	218.7	217.3	244.8	0.6 percent	-10.7 percent
Steel Mill Products	198.7	201.3	222.3	-1.3 percent	-10.6 percent
Nonferrous Wire and Cable	245.5	246.5	253.0	-0.4 percent	-3.0 percent
Softwood Lumber	212.9	213.9	241.0	-0.5 percent	-11.7 percent
Concrete Products	275.2	274.0	264.7	0.4 percent	4.0 percent
Prepared Asphalt, Tar Roofing & Siding Products	245.0	244.3	236.2	0.3 percent	3.7 percent
Crude Petroleum	159.6	162.6	189.3	-1.8 percent	-15.7 percent
Natural Gas	69.4	72.7	104.0	-4.5 percent	-33.3 percent
Unprocessed Energy Materials	135.8	138.9	167.8	-2.2 percent	-19.1 percent

Source: U.S. Bureau of Labor Statistics

This article was originally featured in Issue 4, 2019 of The VOICE, which is the official magazine of the Construction Users Roundtable (CURT). You can learn more about CURT and read past issues of the magazine at https://www.curt.org/resources/the-voice-magazine. Anirban Basu will be providing the keynote address at the 2020 CURT National Conference, Monday, February 10, in Chandler, Arizona

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Alpha Insulation and Waterproofing Inc
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Newsletter Editor Christina Stone