

FORECAST 2014

Slow and Steady Tops Fast and Furious

The construction recovery is unfolding in a slow, steady pattern—and that may be a good thing

It has been a long time coming, but the construction recovery seems to be almost here. The housing market has been keeping up construction growth, which is rebounding from record lows, but now many of the non-residential building markets are starting to turn the corner, making for many optimistic forecasts for 2014. The remaining drag on construction growth for next year is the public sector, which continues to be squeezed by the battle over the federal deficit.

Some economists, however, see a silver lining even there. “The recession pushed millions of workers out of the industry, and it is not going to be easy to get them back, so a slow but steady recovery might be the best thing for helping to control inflation,” says Randy Giggard, chief economist for FMI, Raleigh, N.C. “You could make a similar argument for some of the materials markets.”

Construction market fundamentals are there for even stronger growth, but markets are hobbled by political uncertainty generated by chronic budget battles between Democrats and Republicans. All the forecasts collected by ENR take into consideration this political uncertainty, but if politics spins out of control again, the rather optimistic consensus among economists for 2014 could suddenly turn less sunny. For now, all the forecasts suggest the industry can look, as the Monty Python song says, “on the bright side of life.”

The McGraw Hill Construction forecast for 2014 is certainly on the bright side, calling for a 9% increase in construction starts next year. It also predicts strong double-digit growth in the dollar value of single-family housing, multifamily housing and commercial buildings. MHC also is forecasting that a three-year decline in institutional buildings will be

checked in 2014 with a modest 2% gain next year. Manufacturing work is forecast to increase 8% next year, following a 6% increase this year. MHC expects public works to fall another 5% next year, while the power market drops 33%.

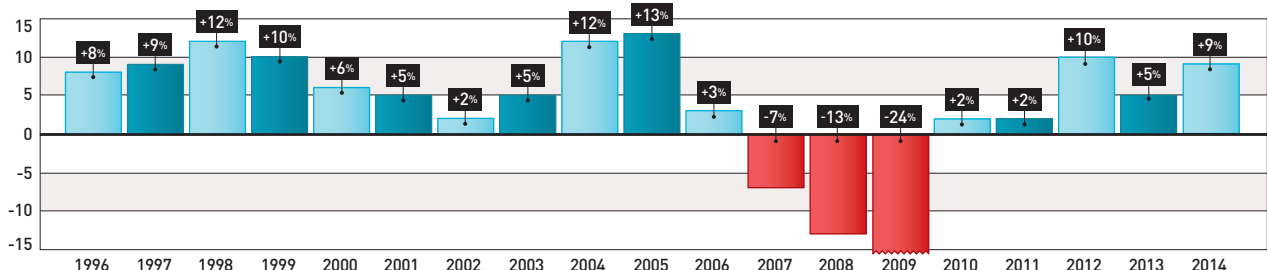
“Our outlook is positive, with a few caveats,” says Robert Murray, MHC chief economist. “This is another step on the way to a more full-fledged expansion,” he adds. “Because this is a measured expansion, there is a very good chance this forecast will play out.”

Murray cautions the industry not to get too excited about percent changes. While MHC is seeing good growth in the residential and commercial markets and many non-residential building markets are starting to turn the corner, most are still below peak levels, Murray says.

Murray puts himself in the “slow-and-steady is not a bad thing” camp. “The way the recovery is unfolding is beneficial for

Construction Recovery Gains Momentum After a Slow Start

[% annual chg.]



SOURCE: MCGRAW HILL CONSTRUCTION DODGE. ANNUAL PERCENT CHANGE FOR DOLLAR VOLUME OF CONSTRUCTION STARTS.

MCGRAW HILL CONSTRUCTION STARTS FORECAST

MARKET	ACTUAL 2012	ESTIMATE 2013	FORECAST 2014	% CHG. 12-13	% CHG. 13-14
TOTAL CONSTRUCTION	485,296	508,050	555,300	+4.7	+9.0
RESIDENTIAL	165,965	207,500	254,250	+25.0	+23.0
SINGLE-FAMILY HOUSING	125,791	159,525	201,125	+26.8	+26.0
MULTIFAMILY HOUSING	40,174	47,975	53,125	+19.4	+11.0
NON-RESIDENTIAL	157,581	163,250	176,700	+3.6	+8.0
OFFICE BUILDINGS	17,293	20,350	23,500	+17.7	+15.0
HOTELS AND MOTELS	6,489	7,725	8,850	+19.1	+15.0
STORES AND SHOPPING CENTERS	15,720	16,700	19,350	+6.2	+16.0
OTHER COMMERCIAL	14,502	17,575	21,000	+21.2	+19.0
MANUFACTURING	12,921	13,750	14,850	+6.4	+8.0
EDUCATIONAL BUILDINGS	37,565	36,275	37,300	-3.4	+3.0
HEALTH-CARE FACILITIES	22,384	21,525	21,950	-3.8	+2.0
OTHER INSTITUTIONAL BUILDINGS	30,707	29,350	29,900	-4.4	+2.0
NON-BUILDINGS CONSTRUCTION	161,750	137,300	124,350	-15.1	-9.0
HIGHWAYS AND BRIDGES	52,697	58,800	55,850	+11.6	-5.0
ENVIRONMENTAL PUBLIC WORKS	28,980	31,300	29,500	+8.0	-6.0
OTHER PUBLIC WORKS	29,217	24,200	23,500	-17.2	-3.0
ELECTRIC UTILITIES	50,856	23,000	15,500	-54.8	-33.0

SOURCE: MCGRAW HILL CONSTRUCTION DODGE

PCA CONSTRUCTION PUT-IN-PLACE FORECAST

MARKET	ACTUAL 2012	ESTIMATE 2013	FORECAST 2014	% CHG. 12-13	% CHG. 13-14
TOTAL CONSTRUCTION	516.5	523.4	565.3	+1.3	+8.0
TOTAL RESIDENTIAL BUILDING	192.3	210.2	237.7	+9.3	+13.1
TOTAL NON-RESIDENTIAL BUILDING	100.7	102.7	110.4	+1.9	+7.5
INDUSTRIAL	27.6	28.3	30.9	+2.8	+8.9
OFFICE	16.6	17.4	19.2	+5.3	+9.9
HOTELS, MOTELS	6.6	7.9	8.9	+20.4	+12.6
HOSPITALS, INSTITUTIONS	14.9	13.6	13.7	-8.6	+0.9
RELIGIOUS AND MISCELLANEOUS	2.4	2.1	1.9	-13.6	-8.6
EDUCATIONAL	8.5	8.5	8.8	-0.3	+3.6
COMMERCIAL	20.0	20.6	22.6	+3.2	+9.8
PUBLIC UTILITY	63.1	58.3	60.0	-7.5	+2.8
PUBLIC CONSTRUCTION	156.1	148.1	153.1	-5.2	+3.4
BUILDINGS	58.4	52.7	55.3	-9.7	+4.8
HIGHWAYS AND STREETS	44.8	42.1	42.4	-5.9	+0.7
CONSERVATION	3.5	3.1	3.1	-12.5	+0.7
SEWER SYSTEMS	12.6	12.0	12.9	-4.8	+6.9
WATER SUPPLY	7.5	7.7	8.2	+2.8	+6.3
MISCELLANEOUS	23.6	25.5	26.2	+8.3	+2.7

SOURCE: PORTLAND CEMENT ASSOCIATION, SKOKIE, ILL.

two reasons: It lessens the chance of another boom-then-bust cycle, and it allows for labor constraints to be not as severe," he says.

Robert Denk of the National Association of Home Builders, Washington, D.C., agrees that slower is better and don't get too excited about percent changes. "We are seeing some great per-

cent increases, but we are still short of where we would like to be," he says. For Denk, a "normal" market would be about 1.3 million housing starts a year. NAHB estimates that total housing starts will increase a healthy 18%, to 924,000, this year. NAHB predicts the market will approach "normal" next year, with 1.15 million starts.

While double-digit increases in housing are driving overall construction growth, economists are just as excited about some broad swings in the non-residential markets that they see coming next year. Murray predicts that Dodge starts for educational buildings will swing from a negative 3.4% this year to a positive 3.0% in 2014. He also sees health care going from a minus 2.8% this year to a plus 2.0% next year. "The key for 2014 is institutional buildings. Can [that market] stabilize, or is there room for further declines?" he asks. Murray's forecast calls for the institutional building market to bounce back 2% next year, after falling 4.4% in 2013.

Similar Swings

FMI's Randy Giggard predicts similar swings. FMI's forecast calls for the office market to go from a minus 2% to a plus 4%, for school building to go from a 4% decline to a 4% increase, and health-care work from down 1% to up 6%. "Health care follows a natural cycle, and it is just time to start building more hospitals," Giggard says. "And people keep voting for school building bonds, so that market is looking good, too," he adds.

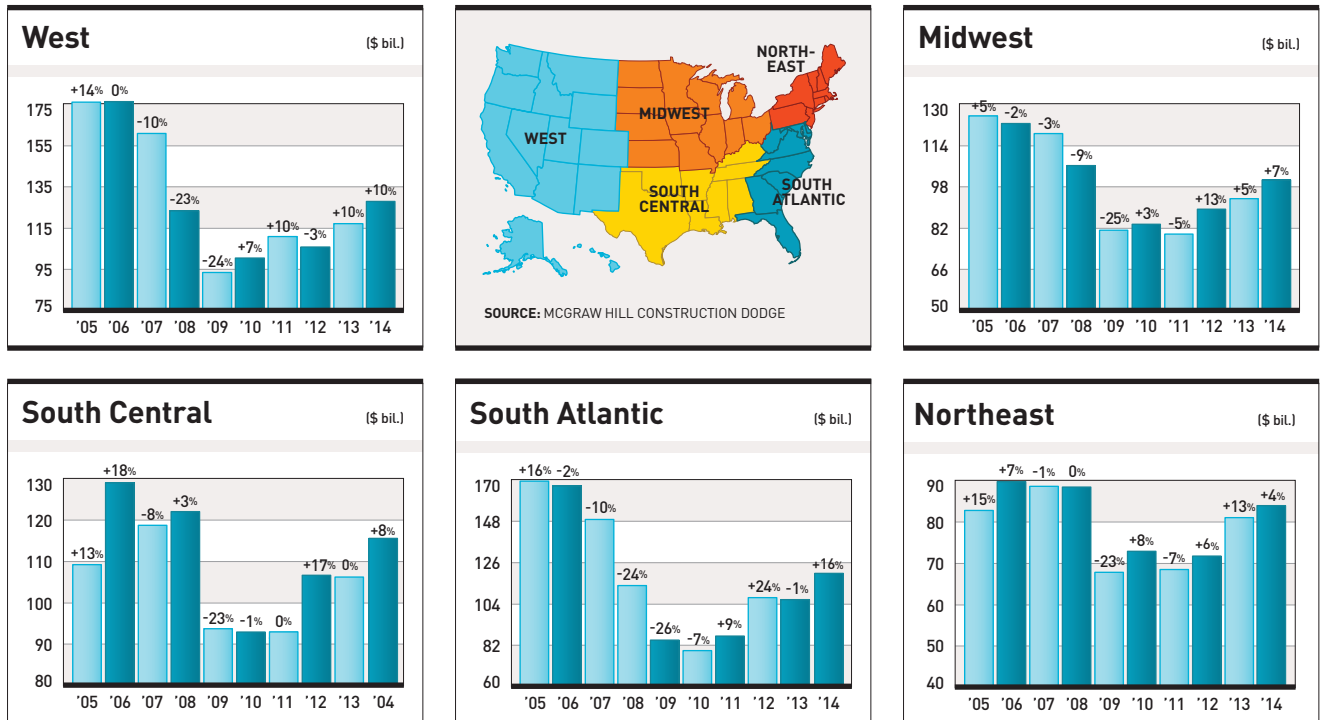
The Portland Cement Association, Skokie, Ill., is predicting an 8% increase in construction put-in-place next year, compared to an estimated increase of just 1.3% this year. The PCA forecast is a little more bullish on public construction than other forecasts. PCA predicts growth in the overall public market will swing from a negative 5.2% this year to a positive 3.4% in 2014.

The Associated Builders and Contractors, Washington, D.C., is forecasting a 6% increase in construction next year. "Our model shows next year's growth of 5% for commercial construction, 7% for health care, 8% for lodging and 6% for communications," says Anirban Basu, ABC's chief economist.

The forecast for highway paving and bridge work by the American Road & Transportation Builders Association, Washington, D.C., is mixed, with tepid growth for paving work but relatively

ALL REGIONS GROW IN 2014 BUT ALSO REMAIN BELOW PEAK LEVELS

The South-Atlantic region will see the biggest increase, with a projected 16% jump in construction starts in 2014.



strong growth for bridge construction. “The 1.9% increase in paving work we are forecasting for next year barely even qualifies as a rebound,” says Alison Black, ARTBA’s chief economist. She estimates the paving market fell 11.4% this year, following a 3.3% decline in 2012. “The pavement market looks pretty sluggish

over the next few years,” she adds.

Bridge work, on the other hand, is growing at a steady pace. ARTBA predicts the dollar value for bridge work in 2014 will increase another 5.6%, after increasing 7.1% this year and 5.1% in 2012.

“We have seen a big divergence between the highway and bridge markets,”

says Black. “On the pavement side, we have seen a significant pullback in state and local spending. But what is really holding down our forecast is the questions over the Highway Trust Fund,” she adds. “There is very little money going into new construction.”

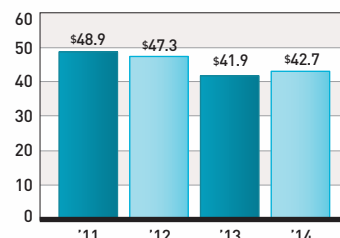
Indeed, federal government funding is

ARTBA FORECAST

Highway Work Remains Weak, Bridge Work Relatively Strong

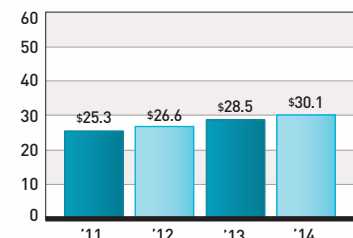
The highway market will fork into two different roads in 2014, according to the latest forecast from ARTBA. It predicts a barely perceptible rebound of 1.9%, to \$42.7 billion, in paving work. That forecast follows this year’s estimated annual decline of 11.4%, which was preceded by a 3.3% drop in 2012. Taking the high road, ARTBA predicts the bridge market next year will increase 5.6%, to \$30.1 billion. That expected uptick compares to annual increases of 7.1% in 2013 and 5.1% in 2012, says ARTBA’s chief economist, Alison Black. ■

Pavement Work (\$ bil.)



SOURCE: ARTBA, 2013 ESTIMATE, 2014 FORECAST, 2011 AND 2012 CENSUS BUREAU

Bridge Work (\$ bil.)



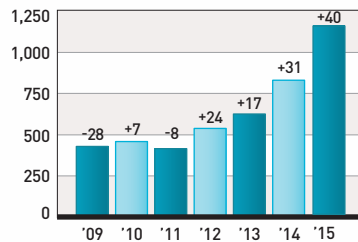
SOURCE: ARTBA, 2013 ESTIMATE, 2014 FORECAST, 2011 AND 2012 CENSUS BUREAU

NAHB HOUSING FORECAST

Housing Starts Expected To Make Another Big Leap Next Year

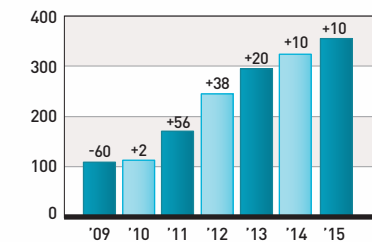
The National Association of Home Builders says this year's estimated 17% increase in single-family housing starts was not a statistical blip. NAHB predicts the market will continue to come back, with a 31% increase in housing starts in 2014, followed by an even stronger 40% increase in 2015, when single-family housing starts are expected to reach 1.16 million. The multifamily housing market also is predicted to continue to make strong gains, increasing another 10% next year, says NAHB. ■

Single-Family Housing



THOUSANDS OF UNITS, PERCENT CHANGE YEAR TO YEAR.
SOURCE: NAHB / HOUSING ECONOMICS.

Multi-Family Housing



THOUSANDS OF UNITS, PERCENT CHANGE YEAR TO YEAR.
SOURCE: NAHB / HOUSING ECONOMICS.

a key issue for many construction markets next year because of its uncertainty. A congressional budget standoff caused a 16-day shutdown of much of the federal government in October, further unsettling the companies that pursue federal construction projects.

During the shutdown, many agencies did not award new contracts, and there also was a temporary halt in the Corps of Engineers' processing of permits to build in and around wetlands.

Finally, on Oct. 16, congressional leaders reached an agreement to extend funding through Jan. 15 and brought federal workers back on the job. The measure also averted a government default by raising the debt ceiling through Feb. 7.

In addition, the deal called for members of the House and Senate budget committees to begin negotiations toward a budget blueprint for fiscal year 2014. If enacted, it would be the first budget resolution to become law since 2009. The joint House-Senate budget conference committee held its first meeting on Oct. 30 and met again on Nov. 13 but did not reach an agreement.

The conferees, led by House Budget Committee Chairman Paul Ryan (R-Wis.) and Senate budget panel Chairman Patty Murray (D-Wash.), face a Dec. 13 deadline to produce a deal.

Murray said the minimum goal would be to set an overall discretionary-spending

cap for 2014. While the House approved a \$966-billion limit, and the Senate passed a \$1.058-trillion cap.

If the budget conferees can agree on a compromise "top line" spending figure, the House and Senate appropriations committees would set to work to determine 2014 funding levels for each line-item account, including construction

programs. Another open question is whether the budget conferees will replace the mandatory budget sequester's wide-ranging spending reductions with some alternate formula for reductions. The 2013 sequester round cut construction spending by \$4 billion, according to ENR's estimate. ■

By Tim Grogan and Tom Ichniowski

FMI CONSTRUCTION PUT-IN-PLACE FORECAST

MARKET	ACTUAL 2012	ESTIMATE 2013	FORECAST 2014	% CHG. 12-13	% CHG. 13-14
TOTAL CONSTRUCTION	856,953	909,643	977,105	+6.0	+7.0
TOTAL RESIDENTIAL	286,523	338,163	379,599	+18.0	+12.0
SINGLE-FAMILY	131,380	167,626	196,016	+28.0	+17.0
MULTIFAMILY	26,293	35,889	45,012	+36.0	+25.0
HOME IMPROVEMENT	128,850	134,648	138,571	+4.0	+3.0
TOTAL NON-RESIDENTIAL	354,202	352,509	369,070	0.0	+5.0
LODGING	11,423	13,135	14,301	+15.0	+9.0
OFFICE	38,433	37,481	38,942	-2.0	+4.0
AMUSEMENTS AND RECREATION	14,977	13,979	14,271	-7.0	+2.0
RELIGIOUS	3,768	3,573	3,681	-5.0	+3.0
EDUCATION	84,618	81,333	84,704	-4.0	+4.0
HEALTH CARE	41,797	41,581	44,003	-1.0	+6.0
COMMERCIAL	46,303	47,256	49,691	+2.0	+5.0
MANUFACTURING	46,850	45,874	47,533	-2.0	+4.0
PUBLIC SAFETY, ADMINISTRATIVE	10,295	9,833	10,097	-4.0	+3.0
TRANSPORTATION	38,210	41,250	43,990	+8.0	+7.0
NON-BUILDING STRUCTURES	216,228	218,971	228,435	0.0	+5.0
CONSERVATION AND DEVELOPMENT	6,350	5,911	5,973	-7.0	+1.0
HIGHWAYS AND STREETS	80,517	78,242	80,085	-3.0	+2.0
SEWERS SYSTEMS	22,066	20,950	21,275	-5.0	+2.0
POWER	94,068	99,924	106,707	+6.0	+7.0
WATER SUPPLY	13,227	13,943	14,396	+5.0	+3.0

SOURCE: FMI CORP., RALEIGH, N.C. HISTORICAL DATA ARE COMPILED FROM BUILDING PERMITS, CONSTRUCTION PUT-IN-PLACE AND TRADE-SOURCE ESTIMATES FOR 2013, AS WELL AS A FORECAST FOR 2014 BY FMI.

EQUIPMENT

Mixed Growth in Construction Dampens New Machine Sales



INCHING UP Demand for rented machines, such as this boom lift, has rental fleets gradually replacing units.

As construction continues its slow recovery, sales of new construction machines are expected to remain muted next year, with flat to slightly positive movement in 2013, analysts say. The market expects rental companies and dealers that operate rental lots to drive much of the sales, as they did this year.

Rentals on the jobsite continue to grow as contractors keep a close eye on their balance sheets. Caterpillar sells 35% of new machines to rental fleets, said Chairman and CEO Doug Oberhelman earlier this year at the Bauma exhibition in Munich. He expects that percentage to rise soon to as high as 50%. “That means their dealer organization is going to have to put anywhere between \$3 billion to \$4 billion of new equipment on their balance sheets,” says Frank Manfredi, an equipment analyst in Mundelein, Ill. “The dealers are in the rental business whether they want to be or not, and it’s a big business.”

Maintaining a healthy rental fleet that commands profitable pricing and utilization figures calls for gradual machine replacement each year, and rental companies are doing just that. Rental rates will climb 4% by the end of this year, United Rentals estimates in its third-quarter results. United expects its rental capital expenditures for 2013 to top \$1.1 billion.

Manufacturers and dealers report that inventories have been shrinking to match this year’s sluggish business, and delivery times for machines and parts are stretching out. While rental firms typically place orders in November for March and April delivery, some had to start ordering in August and September of this year, one United manager tells ENR.

Some observers see construction activity giving sales a boost next year. Deere’s fourth-quarter earnings report, issued on Nov. 20, forecasts a 10% rise in construction machine sales in 2014, after slipping

8% in 2013. Likewise, Manfredi forecasts a 5.7% jump this year and a nearly 7% jump next year on housing and private construction growth. “Non-residential construction is coming back, and construction employment is beginning to pick up nicely,” Manfredi explains. “That’s all good for equipment and for rental.”

United, which posted a record 49% adjusted pre-tax margin in the third quarter, and other rental firms “are the only ones buying equipment right now,” says Charles Yengst, an equipment analyst in Wilton, Conn. He is less optimistic about the machinery market, forecasting sales of new equipment to slip 5% in 2013 and remain flat in 2014. “I see virtually no growth,” Yengst explains. “Money is not being spent on construction or investment in any great way. Most of it is maintenance.”

Is rental the new normal for construction? Perhaps in the short term, as many contractors can’t justify dropping \$225,000 on an excavator or wheel loader. However, Yengst thinks construction firms will return to the showroom if the economy becomes more predictable. “You are going to have a complete switch if you get a better economy,” he says. “If you give anybody profits for six to 12 months, they are going to figure out how to do their business cheaper, and it’s always cheaper to own equipment. That’s why you don’t have a rental car in the garage.”

As for pickups and larger work trucks, pent-up demand from contractors’ delayed spending is expected to push up sales next year. Pickup sales will continue a five-year climb to nearly two million units, a 2.4% annual rise, according to IHS Automotive in Detroit. Heavier trucks also are being replaced, notes Steve Tam, vice president of analyst ACT Research, Columbus, Ind. It forecasts sales of new heavy-duty trucks to rise 14.4% next year, with vocational trucks jumping 24.3%. “It’s much easier to hold onto vocational equipment longer, since it doesn’t drive as many miles,” Tam says. “We are seeing relief of pent-up demand that was the result of skipping purchases.” ■

By Tudor Van Hampton

2014 CONSTRUCTION EQUIPMENT FORECAST						
CATEGORY	2010	2011	2012	FORECAST 2013	FORECAST 2014	% CHG '13-'14
CONSTRUCTION EQUIPMENT	102,746	142,238	164,734	174,097	186,070	6.9
PICKUP TRUCKS (FULL-SIZE)	1,344,672	1,499,026	1,637,379	1,887,717	1,932,797	2.4
HEAVY-DUTY TRUCKS (CLASS 8)	110,000	173,700	198,700	188,000	215,000	14.4
VOCATIONAL TRUCKS (CLASS 8)	27,500	35,500	44,600	45,700	56,800	24.3

SOURCE: MANFREDI & ASSOCIATES; IHS; ACT RESEARCH. ALL DATA SHOWN IN UNITS, RETAIL SALES, U.S.