



US CONSTRUCTION OUTLOOK

Q1 2023



THREE THINGS TO REMEMBER



New Economy vs. Old Economy

Where can we expect continued demand regardless of market performance?



Geography

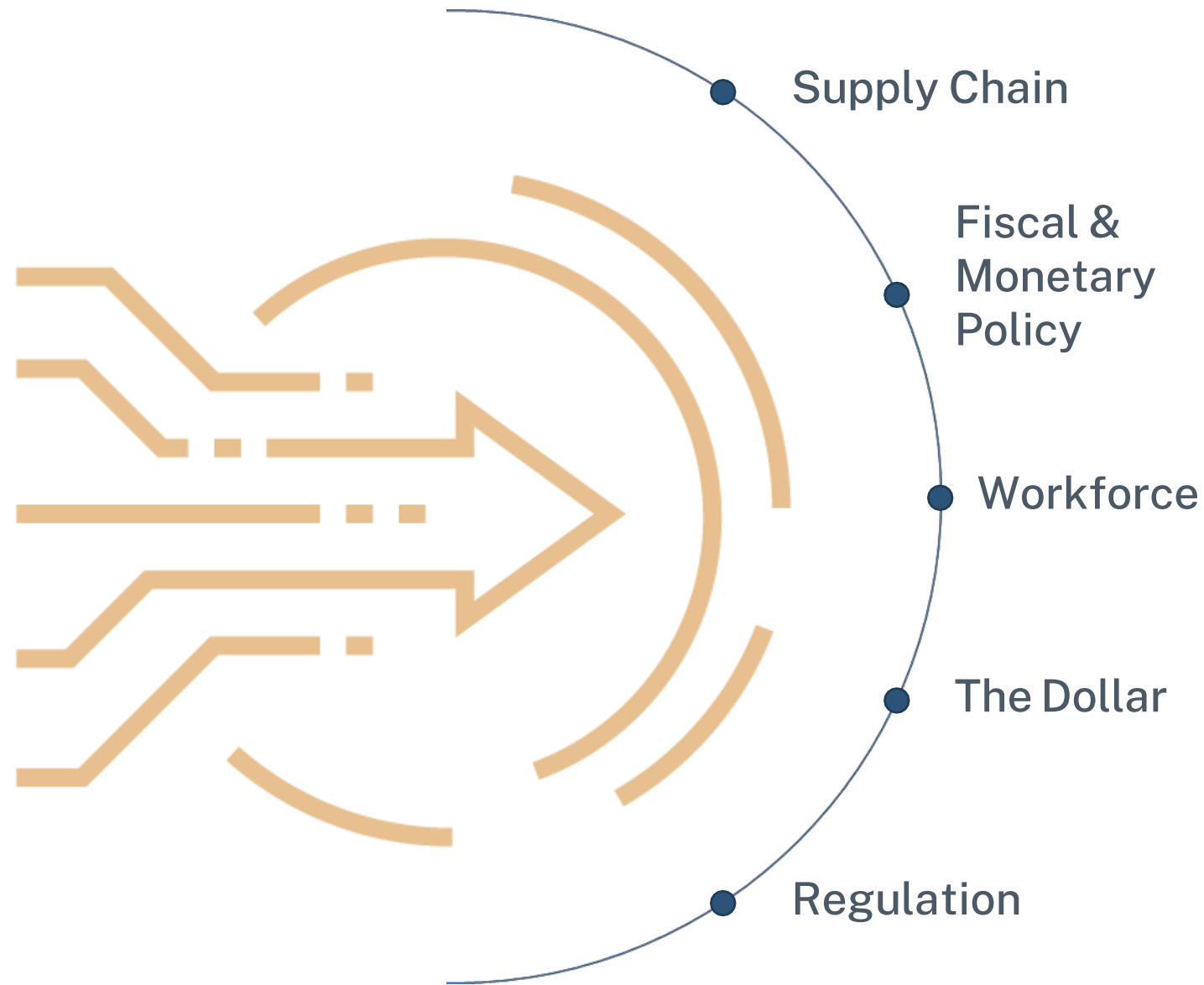
Does geography become the primary determinant of growth?



People

What opportunities exist to play both good offense *and* defense?

ECONOMIC HEADWINDS



- Demand shock
- Supply chain disruptions



- Inflation
- Interest rate increases
- Asset price corrections



- Unemployment decreasing
- Residential bust
- Labor availability



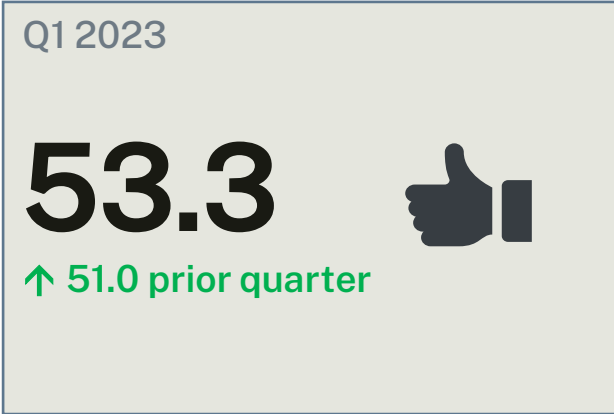
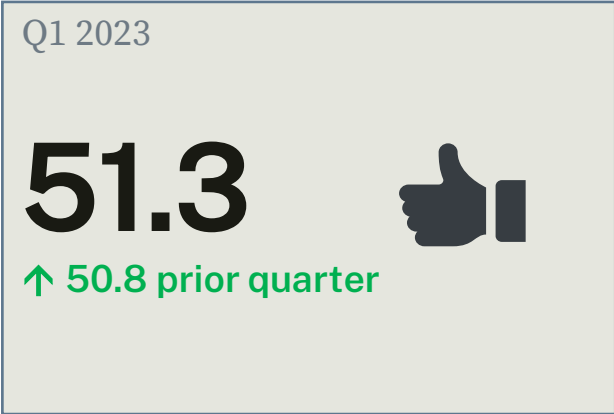
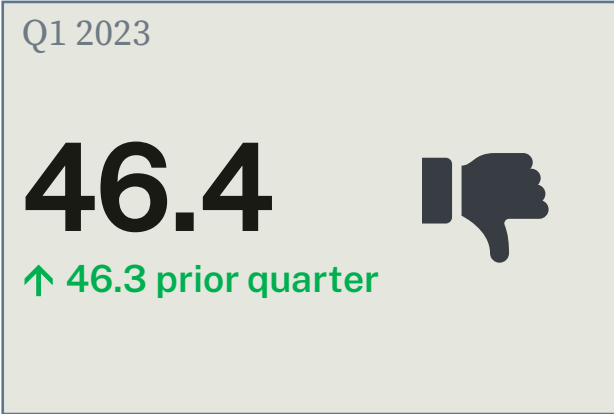
- Export reductions



- Compliance
- Environmental

HOW CONFIDENT IS THE MARKET?

AEC Sentiment Indices



Architectural Billings Index
(ABI)



Nonresidential Construction Index
(NRCI)



Heavy Civil Construction Index
(HCCI)

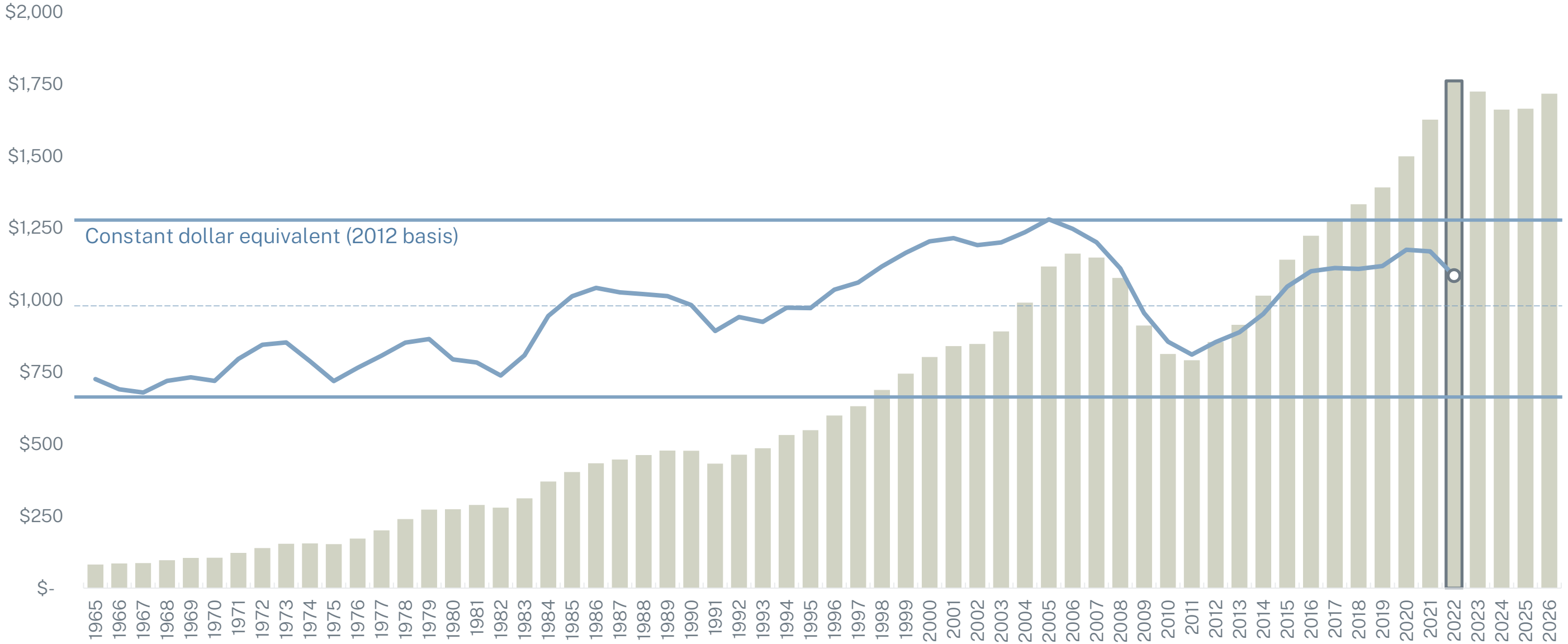


Construction Industry
Round Table

CIRT Sentiment Index

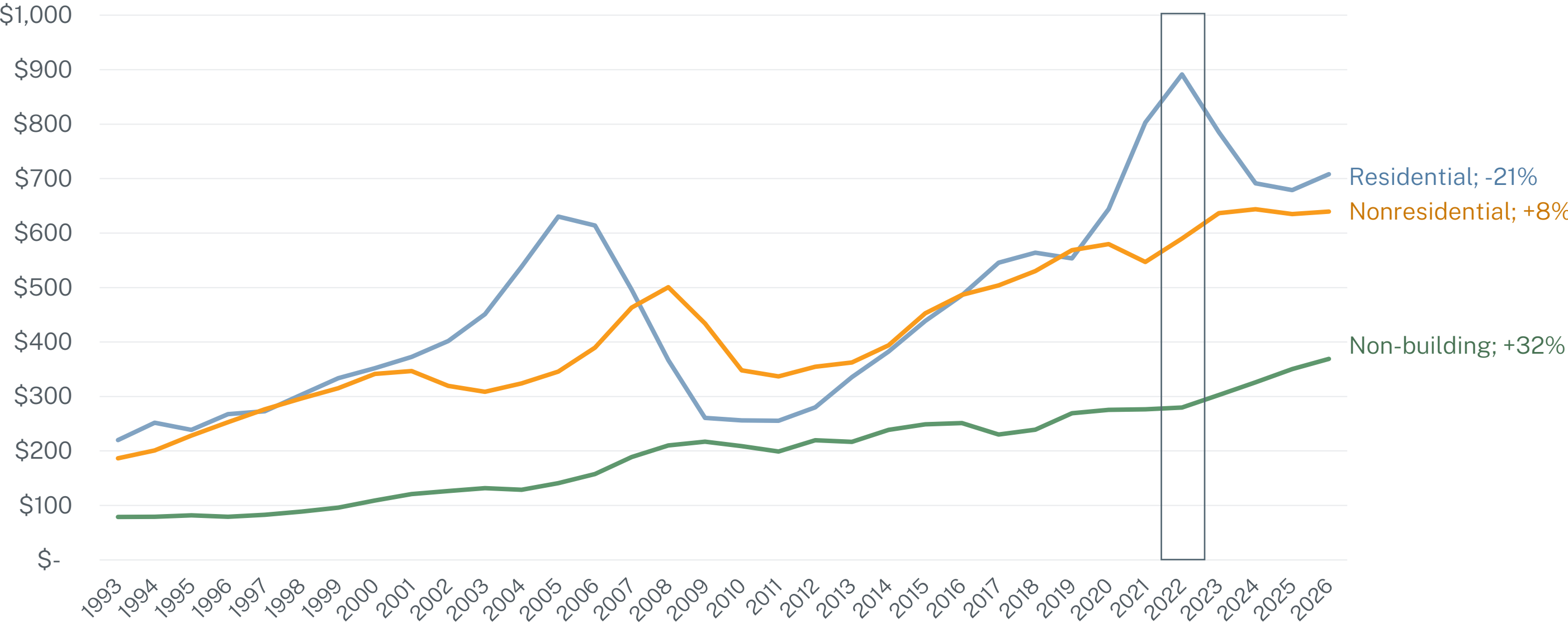
LESS FOR MORE

Total Construction Spending Put in Place (US)
Billions of current dollars



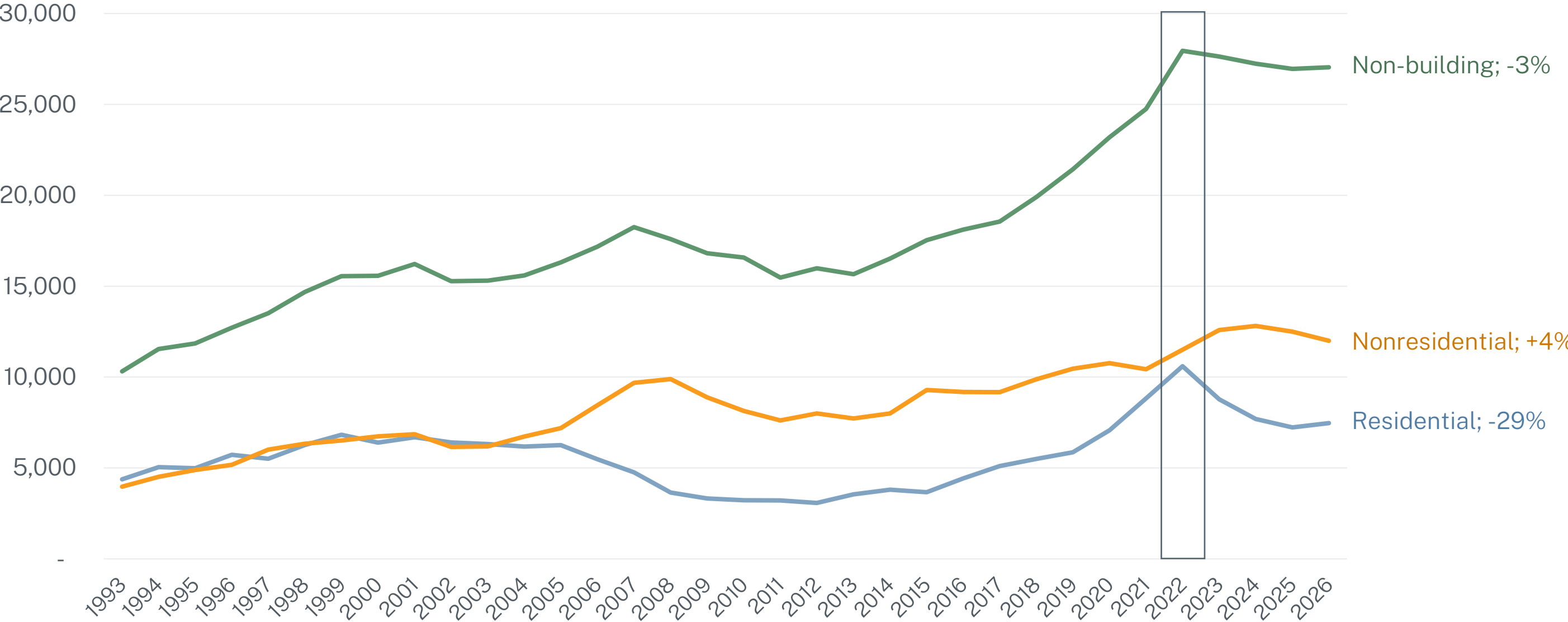
BULLS & BEARS COEXIST AT ALL TIMES

Total Construction Spending Put in Place (US)
Billions of current dollars



IN, OH, KY FORECAST

Total Construction Spending Put in Place (IN, OH, KY)
Billions of current dollars



TOTAL U.S. | DEVELOPER/ PRIVATE INVESTMENT DRIVEN SEGMENTS SUFFER

Largest Spending

Multifamily



Power



Manufacturing



Highway & Street



Highest Growth

Manufacturing



Highway & Street



Conservation & Development



Water Supply



Nonresidential Buildings

Heavy

	2022-2026 Average Construction Spending (in Billions)	2021-2026 Forecast Growth (CAGR)
Multifamily	\$ 122,889	1.1%
Lodging	\$ 19,867	2.0%
Office	\$ 80,549	-2.8%
Commercial	\$ 103,464	-0.5%
Health Care	\$ 55,811	3.5%
Educational	\$ 106,584	3.0%
Religious	\$ 2,793	-0.5%
Public Safety	\$ 13,386	3.4%
Amusement and Recreation	\$ 28,237	1.2%
Transportation	\$ 70,312	7.8%
Communication	\$ 28,701	5.8%
Manufacturing	\$ 119,294	8.9%
Power	\$ 118,359	1.9%
Highway and Street	\$ 131,597	8.5%
Sewage and Waste Disposal	\$ 37,852	8.8%
Water Supply	\$ 27,155	9.5%
Conservation and Development	\$ 10,629	8.5%

- Data centers represent approx. 20% of Office.
- Spending is forecast to increase by more than 50% over the next 5 years.

- Warehouse represented over 50% of Commercial segment in 2021.
- Construction spending on warehouses grew 35% from 2019-21
- 15% decrease in all other commercial buildings.

- Over the last 10 years, these have led the segment:
- Food & beverage
 - Chemical
 - Computer & electronics
 - Transportation equipment

IN, OH, KY | DEVELOPER/ PRIVATE INVESTMENT DRIVEN SEGMENTS SUFFER

Largest Spending

Manufacturing



Power



Commercial



Highway & Street



Highest Growth

Communication



Highway & Street



Conservation & Development



Water Supply/ Sewage and Waste

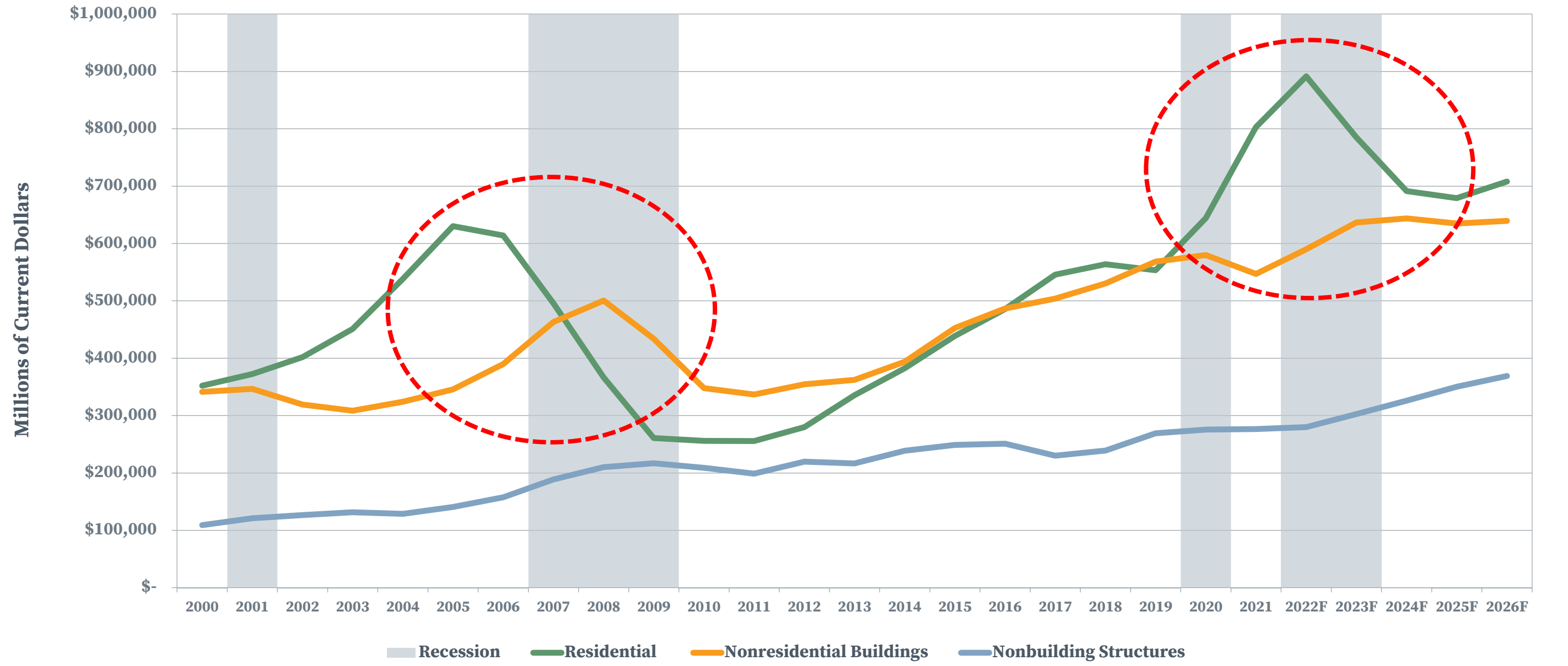


Segment		2022-26 Construction Spending (Billions)	2022-26 Forecast Growth (CAGR)
Nonresidential Buildings	Multifamily	\$8,591	1.60%
	Lodging	\$1,974	3.80%
	Office	\$7,491	-1.80%
	Commercial	\$11,132	0.80%
	Health Care	\$5,266	2.00%
	Educational	\$9,121	1.60%
	Religious	\$289	-0.20%
	Public Safety	\$994	4.20%
	Amusement and Recreation	\$2,440	2.30%
	Transportation	\$6,017	5.90%
Heavy Civil	Communication	\$2,826	7.50%
	Manufacturing	\$13,866	7.10%
	Power	\$12,099	2.40%
	Highway and Street	\$13,735	9.10%
	Sewage and Waste Disposal	\$3,828	9.40%
	Water Supply	\$2,831	10.00%
	Conservation and Development	\$1,135	11.80%

RECESSION INDICATORS – Q1 2023

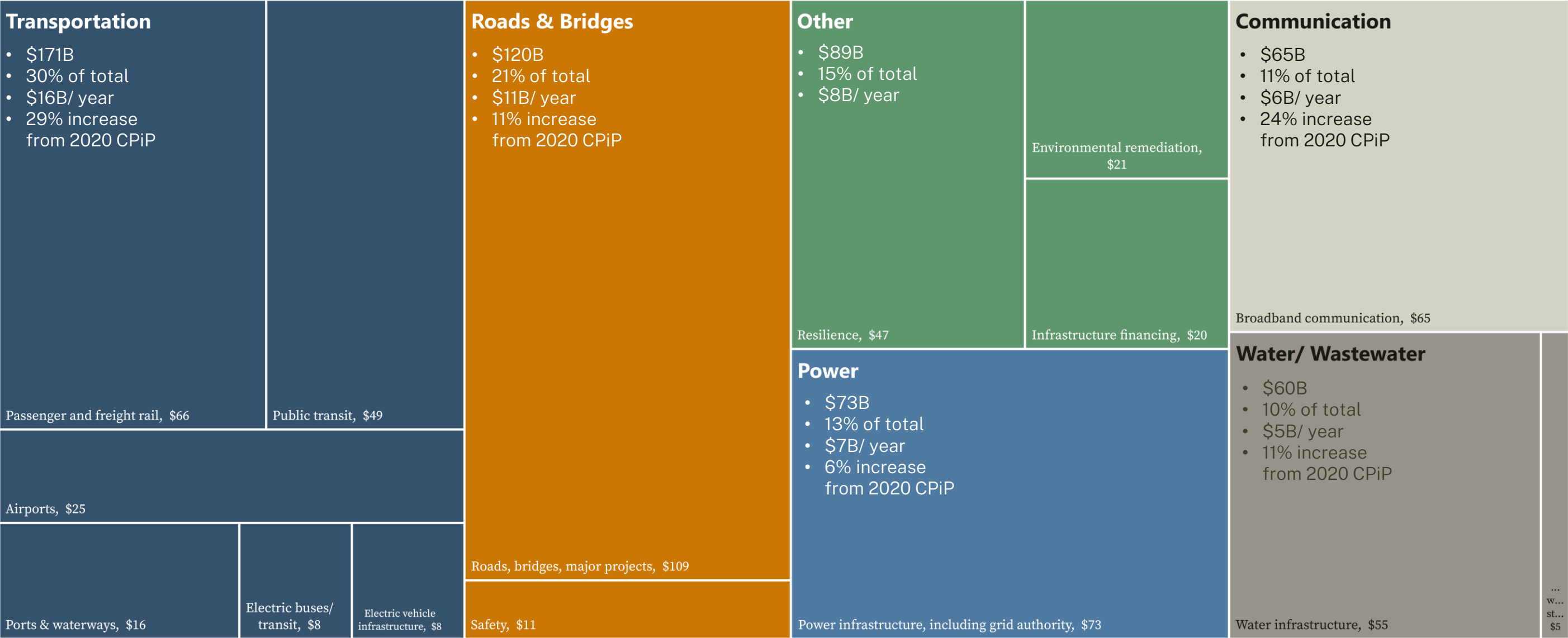
Indicators / Metricsx		Recessions Considered	Correct Predictions	False Positives	Prediction Strength*	Flag/Warning Timing	Risk Assessment / Trending					
PREDICTIVE INDICATORS												
Yield Curve Inversion		6	6	0	100%	<1-3 year	HIGH ↓					
New Home Sales		7	7	1	86%	<1-3 year	HIGH ↓					
Money Supply		8	7	1	75%	<1-3 year	HIGH ↓					
Unemployment Rate		7	5	0	71%	<1 year	MODERATE ↔					
Lumber Sales		3	3	1	67%	~1-2 year	LOW ↑					
U.S. Trade Balance (BOP % Change)		7	6	2	57%	~1-2 year	MODERATE ↑					
Months Supply of New Homes		8	4	0	50%	<1-1 year	HIGH ↑					
Copper Price (Doctor Copper)		8	7	3	50%	<1-4 year	MODERATE ↑					
Stock Market Performance		4	3	1	50%	<1 year	MODERATE ↑					
MBS Held by Banks		2	2	1	50%	<1-2 year	HIGH ↓					
Residential CPIP		7	4	1	43%	<1-2 year	HIGH ↓					
Rental Vacancy Rates		10	5	1	40%	<1-2 year	MODERATE ↔					
Manufactured Goods, New Orders		3	2	1	33%	<1 year	LOW ↑					
Consumer Confidence (OECD)		8	6	4	25%	~1-3 year	HIGH ↓					
Heavy Duty Truck Sales		8	6	5	13%	~1-2 year	HIGH ↓					
OTHER NON-PREDICTIVE INDICATORS / METRICS		<div><div>• Following the correlation between Federal Funds and yields on two-year treasuries, the Federal Reserve is likely nearing the last hikes in the cycle. Two-year treasury yields suggest that the Federal Funds rate tops out between 4.5% and 5% before stabilization. Fed Funds was increased 75 basis points from our Q4 report, rising from 3.75% to 4.25% (on the lower bound). The last meeting (Jan 31-Feb 1) only called for a 25-basis point hike, slowing pace from prior 2022 meetings. A few remaining smaller hikes are to be expected over the next quarter or two.</div><div>• Traditional recessionary factors (i.e., a fall in asset values/equities, rising unemployment, declining consumer expenditures) historically are most at risk soon after the top of rate hike cycles and recession becomes widely obvious as rates are cut.</div><div>• Currently 8 of the 15 predictive indicators are signaling recession (53%). This quarter a new signal/flag is raised with declining residential year-over-year CPIP actuals for November and December (2022 versus 2021). Additionally, price movement in copper and stocks suggest those risk measures have improved/eased since last quarter, but prices are likely to remain volatile. Still, however, the most important predictive indicator is the yield curve inversion at 100% historical accuracy, which recently hit new record levels – nearing (-85) basis points.</div><div>• Labor data remains challenging with low participation rates, layoffs announced daily and hiring remaining somewhat strong in leisure and hospitality, health care and government. Conversely, real personal income growth remains slightly negative (yoy), saving rates are at all-time lows and credit card spending continues to expand. Due to heightened interest rates and quantitative tightening, the extreme pace of money supply contraction is a significant concern going into 2023, impacting both domestic and international economies.</div></div>										
Nonresidential Buildings CPIP								Trending	UP			
Nonbuilding CPIP								Trending	UP			
Oil Price (WTI)								Trending	DOWN			
Search Engine Volume								Trending	DOWN			
Consumer Price Index (CPI)								Trending	DOWN			
Gross Domestic Product								Trending	UP			
Consumer Sentiment								Trending	DOWN			
PMI –	HMI –							ABI –	NRCI –	HCCI –		
Sahm Rule - are we in a recession today?								→ NO ←				

RESIDENTIAL VS. NON-RESIDENTIAL HISTORIC TRENDS



MORE THAN \$500 BILLION IN NEW FUNDING

Total Construction Spending Put in Place (US)
Billions of current dollars



NEW VS. OLD: CONSTRUCTION REFLECTS TRENDS

New Economy...

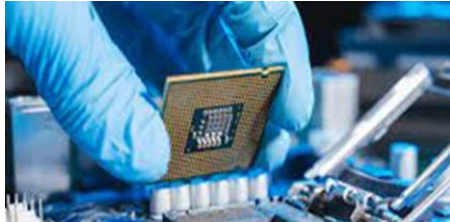
Life Sciences



Data Centers



Semiconductor Fabrication



Food & Beverage Manufacturing



Logistics



Intelligent Transportation Systems



Urban Mass Transit



Distributed Power



Old Economy...

Lodging



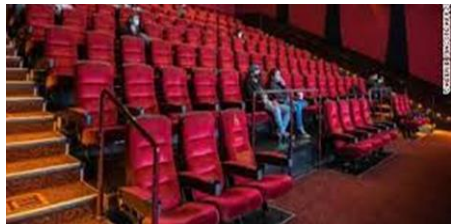
Shopping Centers/ Malls



Consumer Goods Manufacturing



Movie Theaters



Office



Sports/ Recreation



Amusement Parks



Textile Mills



FOLLOW THE PEOPLE

Single greatest indicator of construction activity is people

Population Movement by State

Total net migration 2020-21 and 20-year trend

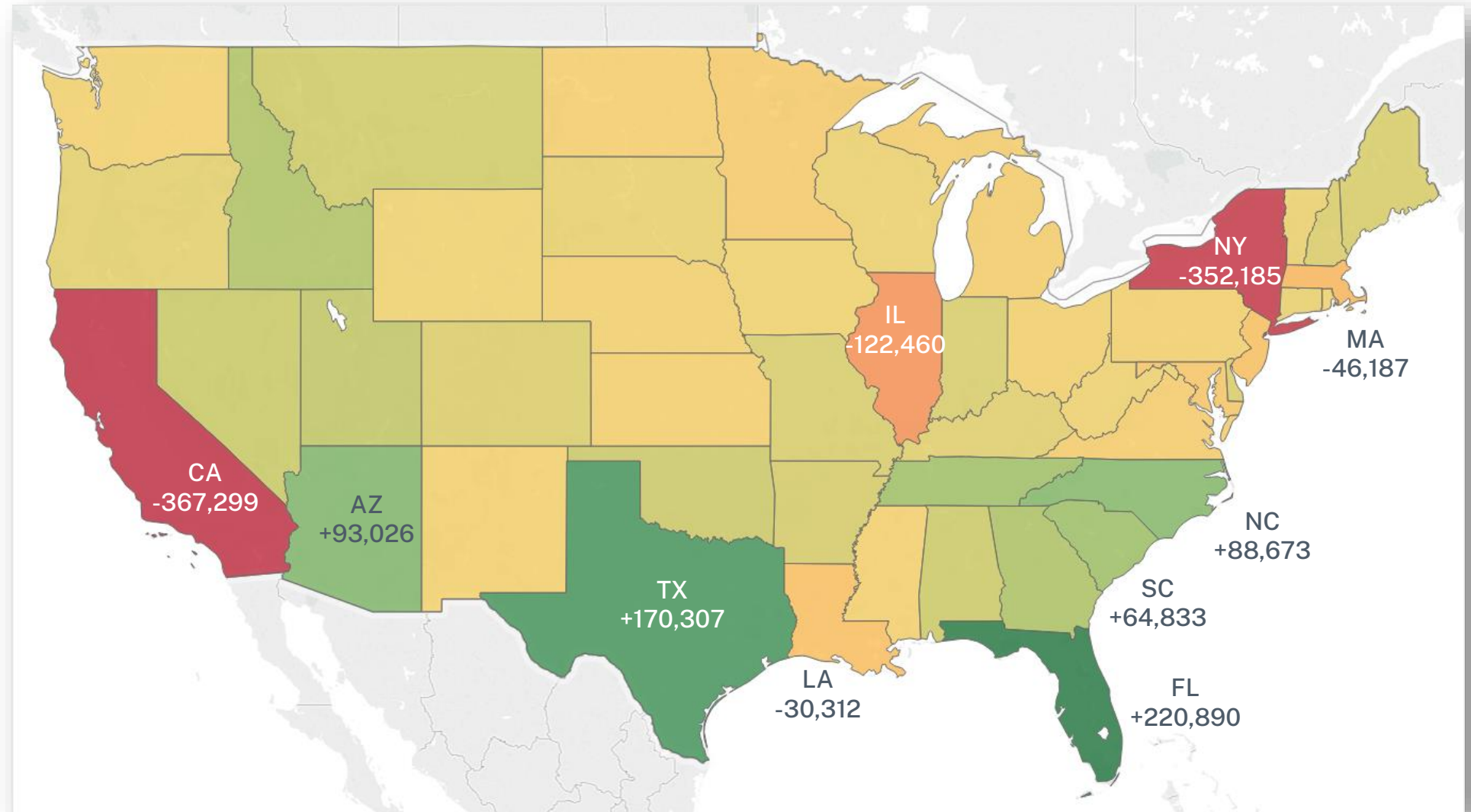
Texas had 5 of the top 10 largest-gaining counties in 2021

Los Angeles County had the largest population loss of any county in 2021

71% of counties experienced positive net international migration

Top 2 most populous counties:

- Los Angeles County, CA (9.8m)
- Cook County, Illinois (5.2m)



LABOR CHALLENGES

We don't have a labor "problem."

DANIEL J. B. MITCHELL
University of California, Los Angeles

Wage Pressures and Labor Shortages: The 1960s and 1980s

AS THE U.S. unemployment rate fell during 1988 and early 1989 into the 5-5.5 percent range, observers worried about upward pressure on wage inflation. The concern grew naturally out of the experience of the 1970s, when wage inflation accelerated whenever the unemployment rate fell into the 6-7 percent range. But while such concern is understandable, it may be misplaced. Imagine an economic historian painting the following broad picture of the American labor market.

After two back-to-back recessions, and some adverse developments in the legal climate for unions, a period of calm descended on the labor market. Wage and price inflation receded against a background of relatively high unemployment.

These conditions were the product of a number of factors, including the

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The Business Roundtable January, 1983

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N.Y. / REGION

Latest Construction Bottleneck: Shortage of Skilled Workers

By CHARLES V. BAGLI AUG. 15, 1999

John Carroll is among the most wanted men in New York.

A lean, red-haired electrician at a building project on 42d Street, Mr. Carroll and thousands of skilled construction workers like him are suddenly in short supply as the real estate boom finally ends what many in the industry describe as a brutal seven-year depression.

There are no unemployed workers at Mr. Carroll's union, the International Brotherhood of Electrical Workers, Local 3, where a short time ago many electricians were out of work for six months out of the year. Many are now working what they call "six 10's," or six days a week for 10 hours a day.

"Right now, there are no men on the bench," Mr. Carroll said. "Everybody's at full employment. You can more or less pick your job. I worked just about every day in July. I've been working for 11 years and I've never been able to quit."

Mr. Carroll is one of the many skilled workers who are in demand

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Solving manpower shortage requires fresh approaches

Talk to almost any contractor in virtually any part of the

country these days and you will hear about the manpower shortage

problem he is facing. The shortage is not just a local problem

projects are the same everywhere. The shortage is not just a

labor crunch has been a problem for many years. The shortage

now is the time to take a fresh look at the problem. The shortage

manpower shortage is a problem that has been around for

efforts by individuals and organizations to solve the problem.

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Labor Shortages – What do You do When You’ve Got the Work, but Nobody to do it?

April 1, 2000

Heavy Equipment Operator Jobs Faces Shortage of Skilled Labor for Construction Equipment Industry

Construction Equipment Industry is in need as the increasing demand for new construction calls attention to the equally increasing shortage of skilled labor workers to fill Heavy Equipment Operator Jobs.



CONTENT

Wanted: Skilled Labor

According to the latest numbers from the U.S. Bureau of Labor Statistics, Americans are hard at work. At last count, the total U.S. unemployment rate stood at the low 5 percent mark.

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Retiring Baby-Boomers = A Labor Shortage?

April 24, 2007 – January 30, 2008 RL33661

The unemployment rate in 2007 averaged just 4.6%, which is low by historic standards and suggests the presence of tight labor market conditions that are related to long-running demographic trends. The oldest members of the baby-boom generation turned age 60 at the end of 2006, and every year thereafter, more of this large birth-cohort will move into the ages when workers traditionally have retired. Consequently, the business community in particular has asserted that the future supply of labor will fall short of employer demand and that U.S. economic growth and competitiveness would be put in jeopardy.

Based upon a CRS analysis of the current employment patterns of baby-boomers across industries and occupations and of occupational employment projections within industries, many industries throughout the economy (e.g., insurance, manufacturing, mining, public administration, real estate, transportation, wholesale trade, utilities) appear to be highly dependent on baby-boom workers and to face the prospect of tightening labor market conditions as more of them move into the traditional retirement ages. Baby-boom dependent industries that seek both to replace all boomers who retire from occupations critical to their operations and to maintain their current level of production (e.g., in those fields could face the most intense competition for workers in the near term for services and health care services).

Workers are unlikely in the long run because companies can be expected to take various steps to offset the accelerating slowdown in labor force growth—although it appears few have yet adopted the labor shortage scenario is that firms must have more workers in the future to keep the economy to continue to grow. Proponents of this viewpoint thus are asserting that the labor force growth are closely and directly linked. But, the economy historically has expanded faster than the labor supply by more efficiently utilizing the available pool of

Construction worker shortage raising costs of new projects

Home > Business > Construction > Solutions to Labor shortages

Posted on: January 06, 2003

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Skilled Trades Seek Workers

Contractors, Unions Try Web, Schools; A 'Dirty Jobs' Role

By Anton Troianovski

Updated Aug 19, 2008 11:59 p.m. ET

(See Corrections and Amplifications item below.)

Even as the economy slumps and unemployment rises, refineries and export goods has many manufacturers scrambling to find enough skilled workers to plug critical jobs.

With the shortage of welders, pipe fitters and other workers, as more of them reach retirement age, unions and businesses are trying to figure out how to attract more workers.

Their challenge: overcoming the stigma of "dirty jobs," offer less status, money and college education, and that college is not always the best path to a good job.

To highlight the benefits of a skilled trade, the potential payoff of a career in a skilled trade is being promoted.

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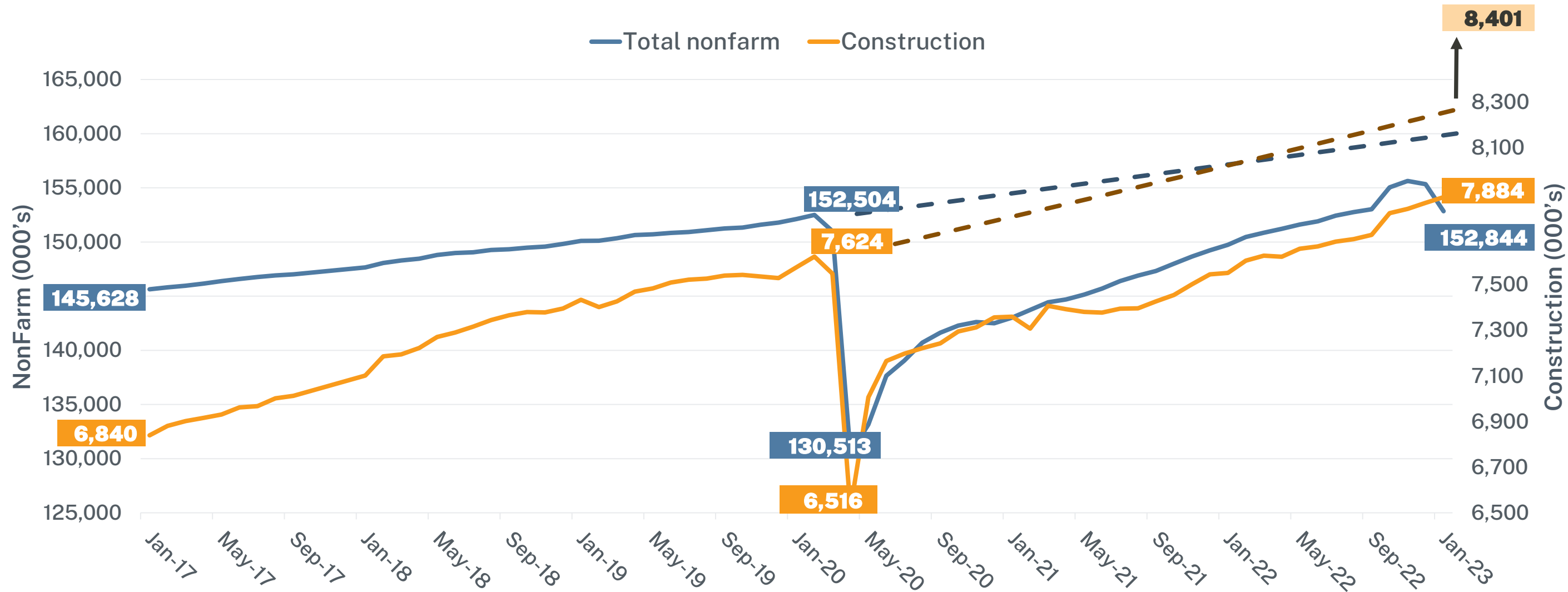
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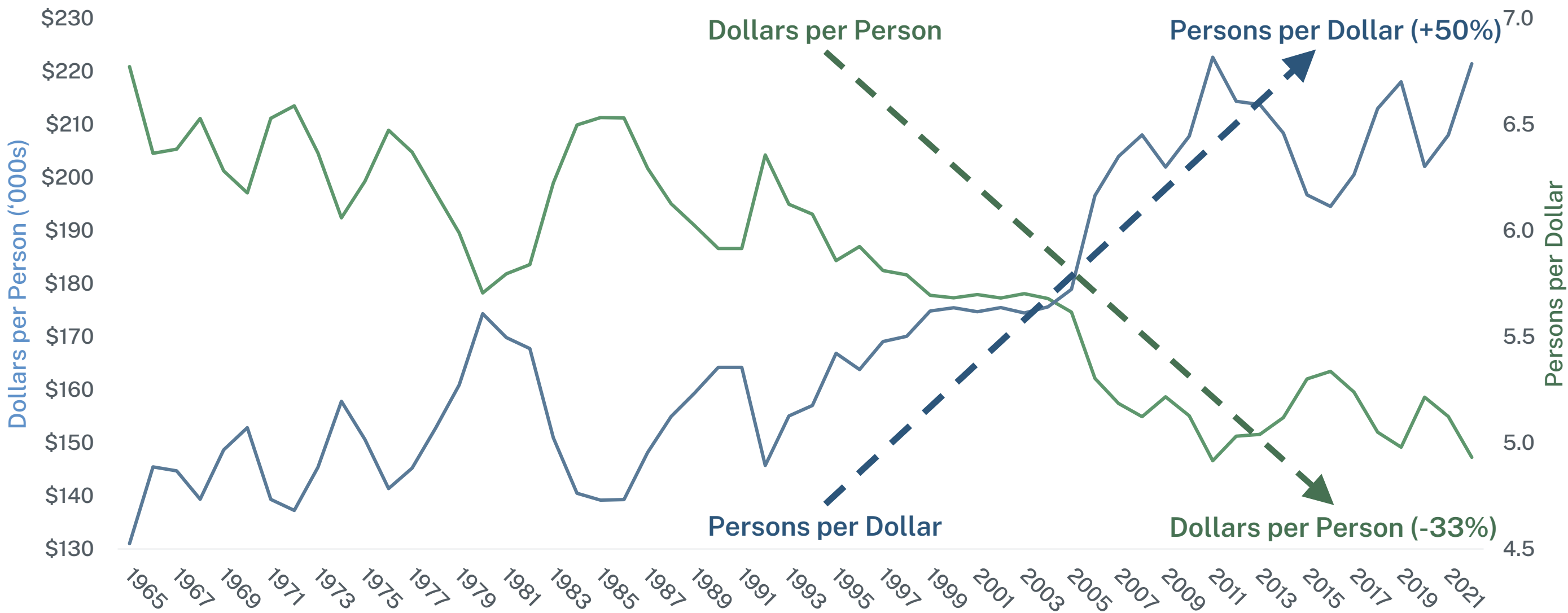
TOTAL EMPLOYMENT DOWN 5.6 MILLION FROM 10-YEAR TREND

Total trendline assumes 10-year average (2010-2020) annual growth rate of 1.52%
Construction trendline assumes 10-year average (2010-2020) annual growth rate of 3.33%



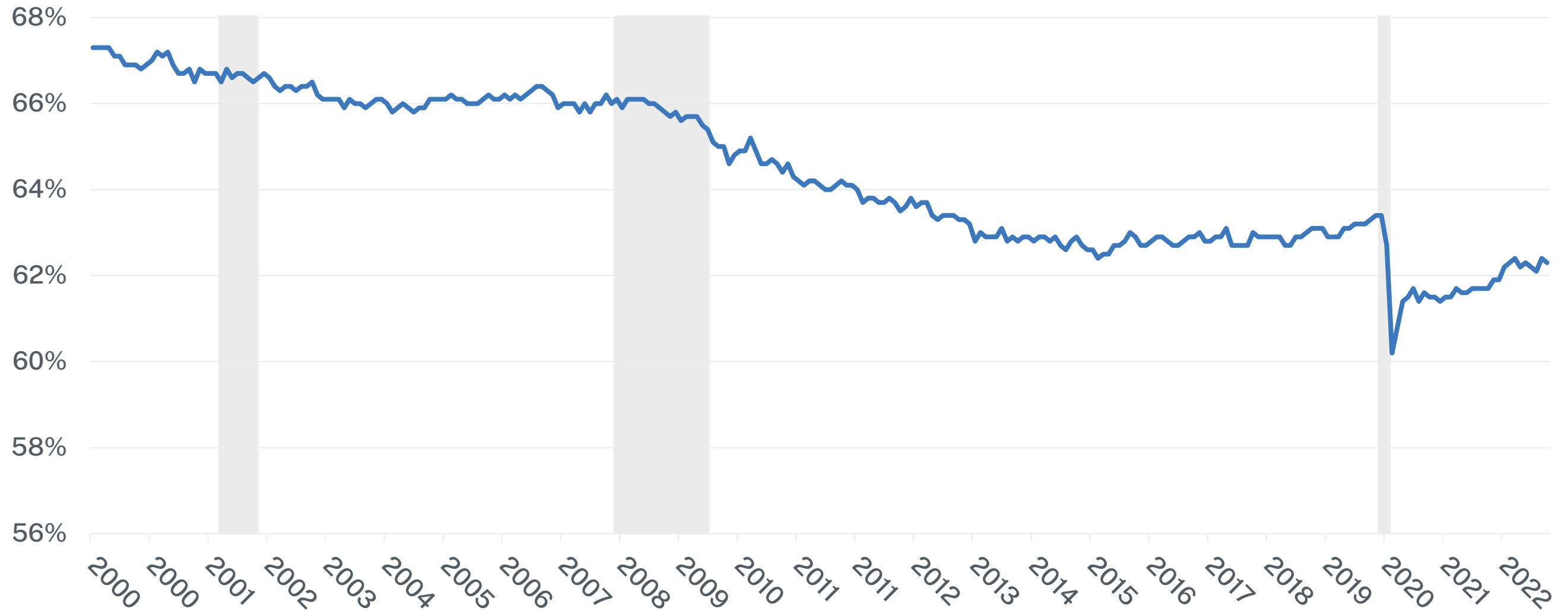
INCREASING PROJECT COMPLEXITIES DEMAND MORE LABOR... BUT MUST THEY?

Construction Employment vs. Construction Spending in the US
Constant Dollar Basis (2012)



PEOPLE ARE WORKING LESS

Labor Force Participation Rate



"NOBODY WANTS TO WORK ANYMORE..."

2022

According to a new survey released by TinyPulse, 1 in 5 executive leaders agree with this statement: "No one wants to work". These same leaders cite a "lack of response to job postings" and "poor quality candidates" when describing why

2014

What has happened to the work ethic in America? Nobody wants to work anymore. It has not always been that way. When I first started to work as a teenager, I saw people work hard.

2006

Q: I can't believe the bad luck I have had in trying to find someone to do some needed home improvements. It almost seems like nobody wants to work anymore and when they do work, they take no pride in what they do. How does one find a dependable worker?

1999

"Nobody wants to work anymore," Cecil said. "They all want to work in front of a computer and make lots of money."

1981

"Farming is my hobby now. But, these rocks — I hired two boys to clear the rocks off this land last week. But they just fooled around. They didn't want to work. Nobody wants to work anymore."

1979

"Nobody wants to work anymore."
— disgusted businessman

1969

Last Sunday, the first of the programs dealt with "how it feels to be poor" and the upcoming Sunday segment is called "Nobody Wants to Work Anymore." Talking about un-

1952

I heard somebody say the other day that everybody was getting too darned lazy and nobody wants to work anymore. That's the truth if I ever heard it.

1940

After mentioning the reduction of the \$85,000 a year laundry bill for Wisconsin General hospital by having the laundry done by Wau-pun prisoners, Gov. Heil said he wanted to lower taxes, "but the trouble is everybody is on relief or a pension — nobody wants to work anymore."

1937

ORCHARDISTS COMPLAIN OF SHORTAGE OF LABOR

Faced with a shortage of labor when unemployment is widespread, peach orchardists in York and Adams counties are complaining that "Nobody wants to work anymore." There is work, it is reported, for 15 to 25 peach pickers in every orchard in the two counties, but only two to five pickers are at work because of the unavailability of labor.

"Nobody, it seems, wants to work at peach or apple picking and packing," an Adams county fruit grower declared. He traveled York county

1916

Nobody Wants to Work.
"What about vegetables? Hasn't it been a good year for vegetables?" the dealer was asked.
"Well, as near as I can find out," he answered, "the reason for food scarcity is that nobody wants to work as hard as they used to. I asked a man who was in here the other day, why he didn't raise more live stock and make his own butter.
"Women don't want to make butter any more," he said, and then he asked: 'Do you know where prices would go if we raised more calves and pigs, and made more butter? They would go away down.'"

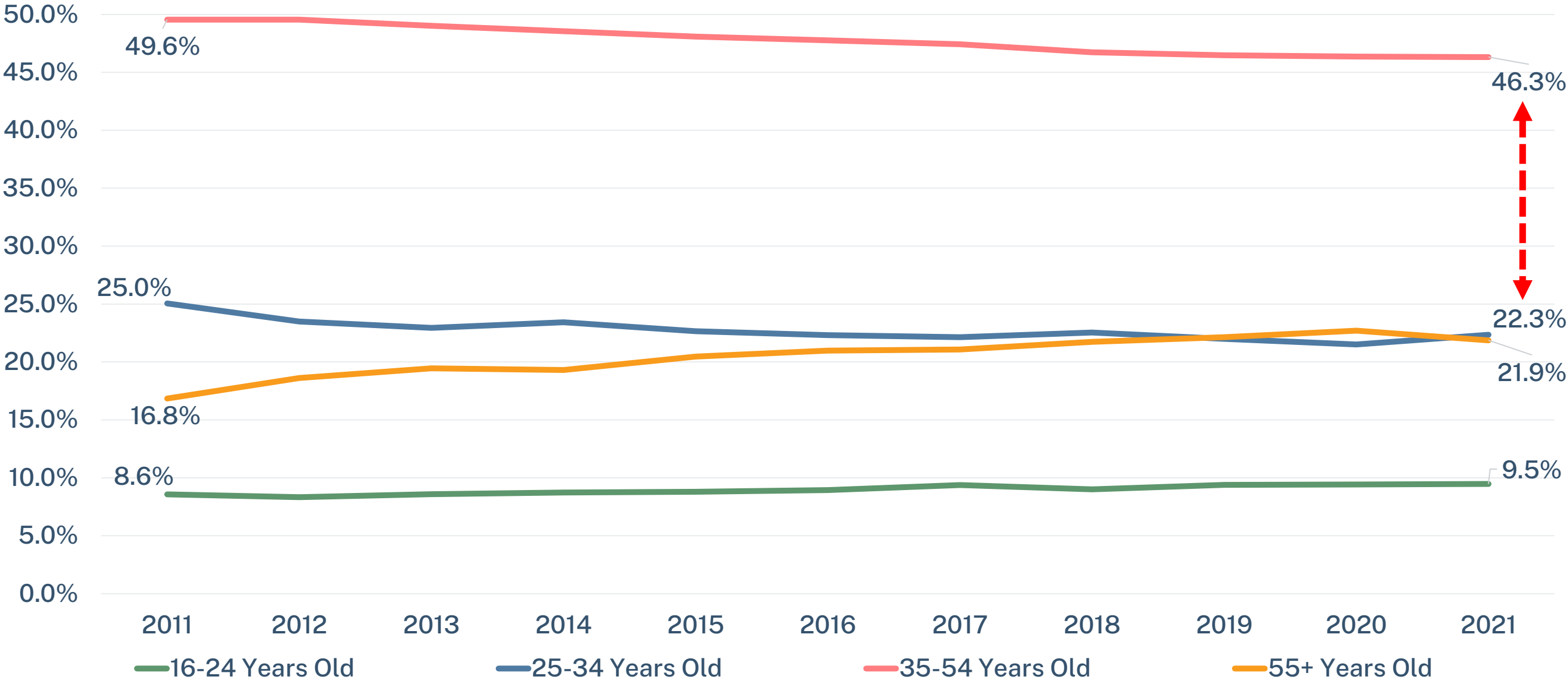
1905

Labor is scarce, high and very unreliable. None want to work for wages.

1894

WITH all the mines of the country shut down by strikers what will the poor editor do for coal next winter? It is becoming apparent that nobody wants to work these hard times.

CONSTRUCTION EMPLOYMENT DEMOGRAPHICS



TALENT SHORTAGES

“We have more work booked than we have teams to cover.”

The Pain is Real



93%

of respondents are experiencing talent shortages (compared to 89% in 2017).

Impeding Growth



>50%

of respondents reported that talent shortages are having a **high- to severe** impact on their companies.

Hard to Come By



1/3

of respondents reported that **Field Operations** positions are the most difficult positions to fill.

REDUCING EMPLOYEE TURNOVER SAVES CONTRACTORS MONEY

Estimated Cost of Employee Turnover for the Average US Contractor
Assumes a 250-person organization

21%

Estimated Voluntary
Turnover Rate

33%

Cost to Replace (of salary)

\$

Total Cost/
Savings

30%

Project
Management

50%

Field
Labor

\$93,370 \$34,810

Project
Management

Field
Labor

Other “hidden” costs...

- Loss of customers
- Loss of knowledge
- Loss of morale

Average Employee Engagement

16

27

\$492,994

\$310,157

\$803,151

\$372,857

Above Average Employee Engagement (12.5% estimated voluntary turnover rate)

8

16

\$246,497

\$183,797

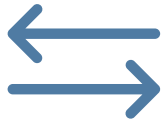
\$430,294



“Train people well enough so they can leave, treat them well enough so they don’t want to.”

—Richard Branson, Founder of Virgin Group

WHAT SHOULD WE BE CONSIDERING



Bulls and bears coexist



Geography



Less for more



Recruit the people you have

Thank you



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Cain Menard, Performance and Operations Consultant

Cain is a performance and operations consultant with a variety of experience in construction. He combines his background in field work and project management with strategic analysis and business analytics to help clients maximize productivity and minimize risk.

Cain’s expertise enables industry professionals to make data-driven decisions and implement changes that consistently improve margins. Prior to joining FMI, he held various roles in construction, including project controls and management, and interned with private equity and construction analytics firms. Cain earned a business degree from the University of Louisiana at Lafayette, a construction management degree from Louisiana State University, and an MBA from the University of Denver.

