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Assessment of the residential building and non-residential building industry health

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By now everyone has heard the "recession is over" and the economy is improving. Indeed, the construction industry as a whole has improved. However, the economic recovery's rising tide has not lifted all boats. This article reviews the health of the Residential Building and Non-residential Building sectors.

The Residential Building sector is booming with new construction, particularly single family homes, leading the charge. As noted in 2013 Dodge Construction Outlook, Midyear Update: "Residential building last year advanced a robust 31%, as single family homes joined the upturn already underway for multifamily housing."

The residential renovation industry has steadily improved but it is expected to lag behind new construction as measured by dollars spent in the future. In terms of dollars spent for construction put in place, new construction and renovations were roughly the same in 2012 (\$131,380,000,000 versus \$128,850,000,000). See FMI's Construction Outlook, 3rd Quarter 2013 Report. However, by 2017, new construction expenditures are expected to nearly double renovation expenditures (\$292,836,000,000 versus \$155,601,000,000). See FMI's Construction Outlook, 3rd Quarter 2013 Report.

The non-residential Building sector has seen decreases in construction spending each year ending only in 2012 when this sector, as a whole, increased by 5%. See FMI's Construction Outlook, 3rd Quarter 2013 Report. However, the industries within this sector varied wildly. For example, Lodging (25%) and Manufacturing (18%) fared best whereas Religion (-11%) and Communications (-1%) fared worst.

Moreover, it appears metropolitan areas, particularly Boston, have outperformed less developed areas. "In New England, we have seen an increase in the availability of work in the more metropolitan areas. Although there are more opportunities, the competition levels remain high as contractors look to build their backlogs," said Daniel Peck, a regional account executive for Travelers Bond & Financial Products Construction Services. "While not back to the level once enjoyed, our client base is experiencing stronger operating results year over year, which translates to improved financial results across our book of business. We continue to be pleased with how well our clients have successfully managed through this economic downturn, which has positioned them well for what we hope are ample opportunities in the near future."

Our observations suggest the public projects industry within the Non-Residential Building sector is concerning. The environment remains negative due to low profit margins caused by an excessive number of bidders and fewer projects being put out to bid. Inaccurate or incomplete bids present the biggest threat to players in this marketplace. Indeed, the number of bidding dispute matters we are handling on behalf of clients has skyrocketed.

Another challenge facing the construction industry is a reduced workforce. The recession drove scores of talented construction workers out of the industry. As noted in AGC's Data DiGest, Vol. 13, No. 37 (October 17-24, 2013):

Since September 2010 the number of unemployed construction workers has dropped by 767,000, not seasonally adjusted. But construction employment rose by only 328,000, implying that many experienced workers have left the industry for employment elsewhere.

If the growth of construction services outpaces the rate new workers replenish the industry, then a shortage of quality workers may lead to wage acceleration and increased construction costs. Anticipated higher interest rates may also present a challenge. If construction costs increase due to labor and interest rates, construction expenditures might decline. However, if the economy continues to improve, these increased costs might be absorbed and result in no negative impact.

As a whole, construction expenditures are, without question, increasing. This represents a drastically rosier picture than existed three years ago. However, not all construction industries have benefitted and the future still presents challenges.

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