2020 Construction Economic Forecast
SUMMARY
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This Construction Analytics Summary of the 2020 Construction Outlook is an excerpt from the complete Construction Analytics 2020 Construction Economic Forecast

Total of All construction spending in 2019 is forecast to decrease -0.2% to $1.305 trillion. For 2020, spending increases by 4.6% to $1.365 trillion.

U.S. Total Construction Spending Summary										
$ in billions % growth vs prior yr	Actual 2018		Forecast 2019		Forecast 2020		Forecast 2021		Forecast 2022	
Total Construction	**1307**	**3.3%**	**1305**	**-0.2%**	**1365**	**4.6%**	**1377**	**0.9%**	**1382**	**0.4%**
Residential	546	3%	521	-5%	552	6%	532	-4%	539	1%
Nonresidential Buildings	453	4%	455	0%	467	3%	473	1%	474	0%
Nonbuilding Infrastructure	308	3%	329	7%	345	5%	372	8%	369	-1%
Educational	97.8	1%	98.2	0%	104.0	6%	108.1	4%	110.5	2%
Healthcare	42.6	-1%	44.4	4%	49.3	11%	48.3	-2%	48.5	1%
Amusement / Recreation	27.9	5%	28.4	2%	26.5	-7%	25.0	-6%	24.0	-4%
Commercial / Retail	95.4	9%	83.9	-12%	81.0	-3%	76.5	-6%	80.2	5%
Lodging	31.5	10%	33.6	7%	32.6	-3%	30.3	-7%	28.6	-6%
Office	74.5	8%	80.0	7%	87.6	10%	90.9	4%	88.0	-3%
Manufacturing	70.8	0%	72.9	3%	73.3	1%	81.1	11%	80.7	0%
Other Nonres Bldgs	12.7	5%	13.1	3%	13.1	0%	13.1	0%	13.1	0%
Power	93.2	-3%	99.7	7%	96.0	-4%	96.4	0%	97.8	2%
Highway / Bridge / Street	91.1	2%	99.2	9%	105.5	6%	112.4	7%	106.7	-5%
Transportation / Air / Rail	51.4	12%	54.7	6%	65.3	19%	81.9	25%	82.9	1%
Sewer / Water / Conservation	47.5	7%	51.8	9%	55.9	8%	58.7	5%	60.1	2%
Communication	24.6	4%	23.6	-4%	22.6	-4%	22.4	-1%	21.9	-2%

Forecast includes U.S.Census Nov 2019 year-to-date spending as of 1-3-20
Forecast includes Dodge construction starts Dec data as of 1-21-20
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Nonresidential Buildings construction spending is forecast to finish 2019 at $455 billion, level with 2018. For 2020 the forecast is a gain of 3% to $467 billion. Educational and Commercial/Retail held down gains in 2019. Office (which includes data centers) and Lodging gained 7% each. Office, Healthcare and Educational all support growth in 2020.

Residential construction spending forecast is down 5% to $521 billion in 2019 and up 6% to $552 billion in 2020. New starts are recovering from a 10% drop in the 1st half of 2019 and are now expected down only slightly for 2019 after the latest three-month average starts were the highest ever. Residential spending peaked in Q1 2018 and dropped 11% to a low in July 2019. Although spending has since recovered half of that drop, growth in 2019 slowed to less than inflation. Residential construction volume in 2019 dropped 8%, the largest volume decline in 10 years. 2020 volume is forecast to increase 2%.

Non-building Infrastructure construction spending is forecast to increase 7% to $329 billion in 2019 and 5% to $345 billion in 2020. Transportation spending gets strong growth from three years of record new starts. Half of all transportation spending in 2021 comes from projects that started in 2017-2019. Both Public Works and Highway starts have been increasing modestly to reach new highs in 2019. Non-building Infrastructure projects have the highest share of multi-billion dollar projects that spread spending out over longer duration.
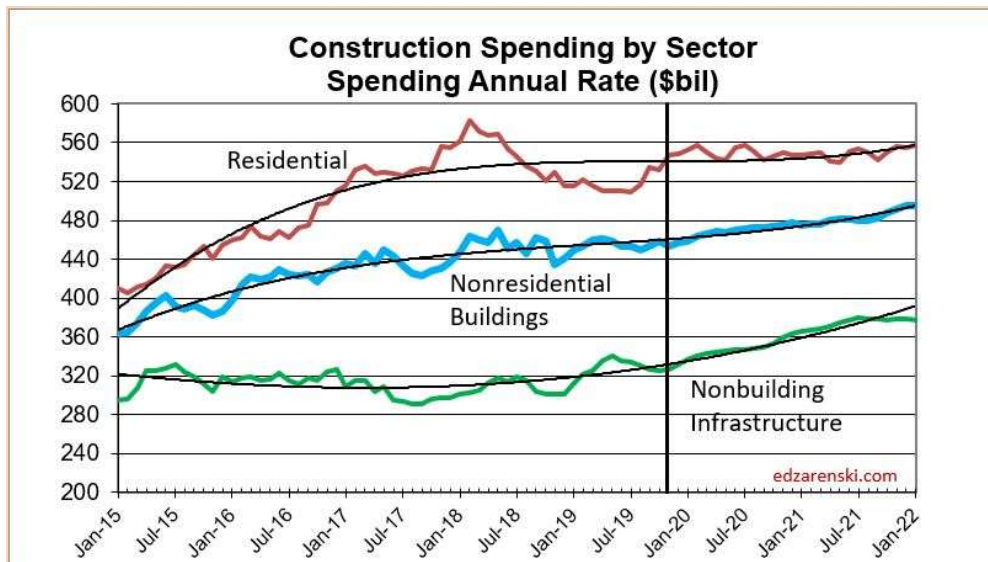
In July of the following year the spending data for the previous two years gets revised. Those revisions are always up, although some markets may increase while others decrease. So, even though the current forecast for 2019 spending is down -0.2% to $1.305 trillion, that will most likely increase to a net gain.

In October, Dodge Data forecast their 2019 construction starts to total $809 billion, down 1% from 2018. However, starts are always revised up in the following year. In just the last three years, nonresidential starts have been revised up by 7.5%/yr and residential starts by 2.4%/yr. I expect revisions will show 2019 starts increased by 3% to 4% over 2018. However, even with revisions, 2019 starts will post the slowest annual growth since 2011.

Dodge Data and Analytics new construction starts for November 2019 advanced to the highest seasonally adjusted annual rate ever, resulting in the three months Sep-Oct-Nov 2019 posting the highest 3-mo average ever, 10% higher than the total average for 2018. Several long duration projects started, so a lot of the spending from these new starts will occur in 2021-2022.

Dodge is forecasting 2020 starts down 4%. This forecast includes only 1% to 2% growth in new starts for 2021-2022.

Starting backlog, which increased 5% leading into 2020 is currently at an all-time high, up 20% since 2017. 80% of all Nonresidential spending within the year will be generated from projects in starting backlog. More than 20% of all spending in 2020 is from projects that started more than 3 years ago.

While a few markets will outperform in 2020 (transportation, public works, office), predicted cash flow (spending) from backlog is up only 1% to 2%. Long duration projects added to backlog and will spread spending out over the next few years. Current indications are that 2020 backlog will be up 4% for residential work, 6% for nonresidential buildings and 7% for infrastructure work.

- Starts increased 8%/yr. in 2016 and 2017, but only 4% in 2018.
- Starts are forecast to decline slightly in 2019 and 2020.
- Spending increased 9%/yr. from 2012 to 2016, then slowed to 4%/yr. in 2017 and 2018.
- Spending declined 1% in 2019 and is forecast up 4% for 2020 and 1% in 2021.
- Backlog reaches a post-recession high in 2020, up 20% from 2017, up 100% from 2013.

Since early 2018, jobs have been increasing while construction volume is declining. A declining volume of work does not support jobs growth. When volume of work decreases, jobs should also decrease. If jobs increase, then it results in more workers to produce the same amount of work. In other words, productivity is declining. This could result in one or more of these outcomes:

- Labor demand on hiring drives labor cost up by unexpected amounts.
- New labor coming into the workforce has less experience, lowering productivity.
- Contractors cannot meet schedules, extending project duration.
- Contractors work overtime to meet schedules, adding cost.

All scenarios either extend project duration or drive up the cost of projects or both, which could lead to some unforeseen inflation.

General construction cost indices and input price indices that don't track whole building final cost do not capture the full cost of inflation on construction projects. Residential and Nonresidential Buildings inflation indices developed by Construction Analytics are final cost **selling price** indices.

Nonresidential buildings inflation, after hitting 5% in both 2018 and 2019, is forecast for the next three years to fall from 4.4% to 3.8%, lower than the 4.5% average for the last 4 years.

Residential construction inflation in 2019 was only 3.6%. However, the average inflation for six years from 2013 to 2018 was 5.5%. It peaked at 8% in 2013 but dropped to 4.3% in 2018 and only 3.6% in 2019. Forecast residential inflation for the next three years is level at 3.8%.

Non-building infrastructure indices are so unique to the type of work that individual specific infrastructure indices must be used to adjust cost of work.

This link points to comprehensive coverage of the topic inflation. **Click Here for Link to a 20-year Table of 25 Indices**

This link points to articles related to the Construction Outlook for 2020. **Click Here for Link to Construction Economic Outlook 2020**

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