

Markets in Focus

Q3 2023

CONSTRUCTION

Economic Overview &
Market Update

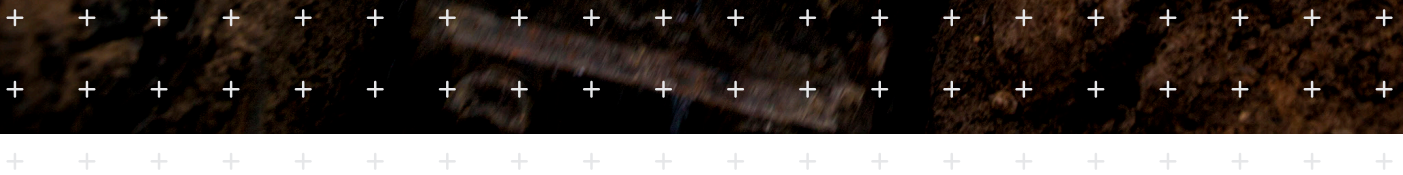


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CONSTRUCTION ECONOMIC OUTLOOK

The IMA National Construction Group gathers to assess construction economic data, combining it to uncover insights that may impact construction firms' risk and insurance strategies. Picture the construction economy as the last car on a roller coaster of the economy. As the last car, we get insights into where the general economy is moving. While the general economy is declining, the construction economy is still increasing. This result is due to the lag time from when projects are started compared to when they are finished, and the owners are still spending money. Conversely, there are times when the overall economy is increasing, and the construction economy is still declining.

To get a well-rounded picture of the current state of the construction economy, we look at construction spending, labor, and cost of construction materials, followed by indicators that will give insight into future expectations. Our future state indicators include backlog, construction starts, ConstructConnect's Project Stress Index and Expansion Index, and the Architectural Billings Index.

While the general economy is declining, the construction economy is still increasing.

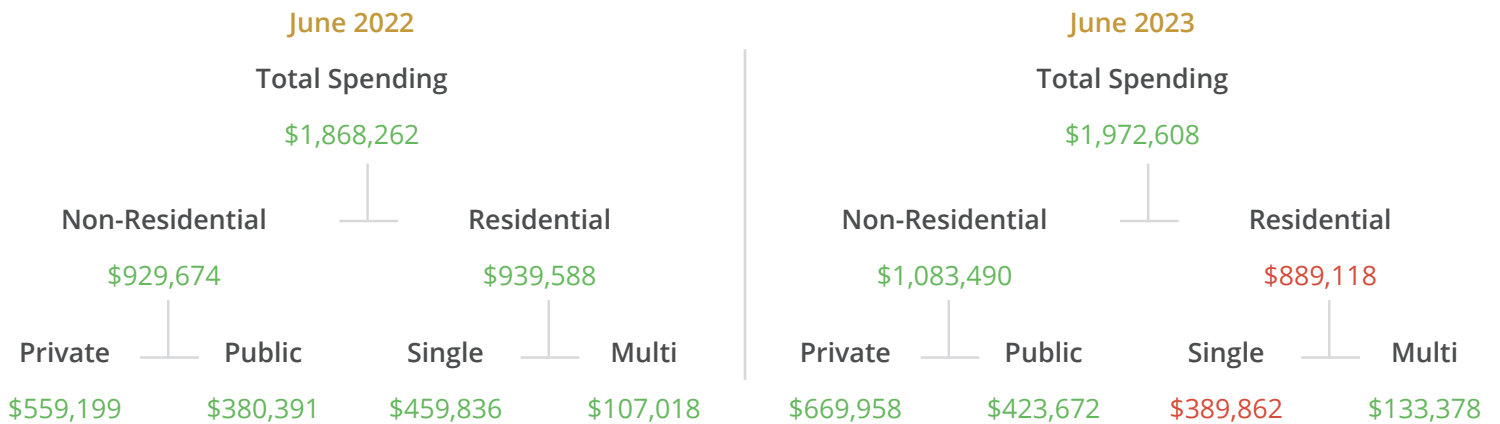


CONSTRUCTION ECONOMY CURRENT STATE

We build what we call the Construction Spending Tree, starting with Total Construction Spending and breaking it out into various components. Analyzing spending in these critical areas is essential because only some contractors will benefit from total expenditures in each area.

ANNUAL SPEND RATE - YOY

IN MILLIONS



Source: US Consensus Bureau. Data as of July 31, 2023. Available September 1, 2023 [census.gov/construction](https://www.census.gov/construction)

Total construction spending rate is up 5.5% year-over year as of July 2023.

This spending continues a two-year trend of an increasing spending rate for overall construction. It is important to note that the spending we see today is because something was planned, designed, permitted, and started in previous years.



RESIDENTIAL SPENDING

While total construction spending has been increasing for the last twenty-four months, residential spending is down 5.4% year-over-year as of July 2023.

This number is deceptive regarding residential spending. Two distinct narratives emerge when we differentiate between Private Single Family and Private Multifamily spending. Private Single Family spending is a heavyweight percentage of overall residential spending, down 15%. Conversely, the multifamily spending rate is up 24% year-over-year.

Contractors catering to Private Single Family projects have fewer projects to bid and work on. Multifamily projects continue to have a higher rate of owners spending in this area. Apartments comprise a large part of the Private Multifamily.

Residential Spending	July 2022	July 2023	Percent Change
Total Residential	\$939,588	\$889,118	-5.4%
New Private Single Family	\$459,836	\$389,862	-15.2%
New Private Multifamily	\$107,018	\$133,378	+24.6%

In Millions of Dollars
 Source: U.S. Census Bureau. Data as of July 31, 2023. Available September 1, 2023

NONRESIDENTIAL CONSTRUCTION SPENDING

The nonresidential spending rate is up 16.5% year-over-year, which helps to lift the overall Total Construction spending rate to its 5.5% increase. Only spending in the religious sector is less than a year ago. All other sectors, including office projects, enjoy higher spending.

CONSTRUCTION BACKLOG INDICATOR

Type of Construction	July 2023	July 2022	Percent Change
Total Construction	1,972,608	1,869,262	+5.5
Residential	889,118	939,588	-5.4
Nonresidential	1,083,490	929,674	+16.5
Lodging	23,009	19,337	+19.0
Office	98,675	90,059	+9.6
Commercial	128,131	125,416	+2.2
Healthcare	60,464	54,513	+10.9
Educational	112,150	101,661	+10.3
Religious	3,090	3,126	-1.2
Public safety	13,241	12,269	+7.9
Amusement and recreation	32,438	29,982	+8.2
Transportation	63,103	58,220	+8.4
Communication	24,709	24,585	+0.05
Power	116,113	109,478	+6.1
Highway and street	128,726	115,052	+11.6
Sewage and waste disposal	39,865	33,696	+18.3
Water supply	27,270	24,799	+10.0
Conservation and development	10,994	9,520	+15.5
Manufacturing	201,511	117,961	+70.8

Source: U.S. Census Bureau, September 1, 2023

LODGING

According to Lodging Econometrics (L.E.), renovation and brand conversion activity in the U.S. continues to boom in early 2023, reaching record project counts of 1,953 hotels/253,533 rooms for a 38% year-over-year increase by projects and a 37% year-over-year increase by rooms. L.E. expects renovation and conversion activity to continue into 2023 as owners spend to align their hotels with current brand standards or look elsewhere for new brand identification.¹

L.E. expects renovation and conversion activity to continue into 2023.



WHAT THIS MEANS FOR YOU

- + It is essential to review the "Damage to Existing Structure" limit on your Builder's Risk Coverage.
- + Work with your owner and broker to determine the proper limit for Delay in Start-up (DSU) limits. Depending on the time of year and location, a hotel project's lost business income potential could be significant.
- + Know that capacity for frame projects is still limited, and multiple carriers in a quota share insurance structure are needed to insure projects that exceed \$15M in value.
- + Key Coverages to Consider:
 - **Builder's Risk Coverage** – designed to pay for damage to those materials that will become a permanent part of the structure while in transit, in a lay-down yard, and the structure itself while it is in construction.
 - **Delay in Start-up Costs (DSU)** – includes the additional cost, sometimes referred to as soft costs, which are incurred because of a covered cause of loss resulting in a delay in the project. These costs could include redesigning, re-permitting, and higher interest rates on the loan due to the market. This coverage is designed to replenish business income loss and other costs because of a covered cause of loss resulting in the project's delay.

HIGHWAY & STREET + SEWAGE & WASTE DISPOSAL

Previously passed congressional spending bills getting through design, qualifying, and multiple governmental approvals are now showing up in the construction spending numbers.

Federal government funds come with federal conditions. The Equal Employment Opportunity Commission (EEOC) has held hearings on discriminatory practices and lack of diversity in the construction industry. They also put forth their proposed Strategic Enforcement Plan and stopped taking comments as of February 2023.

EEOC's proposed Strategic Enforcement Plan (SEP) specifically calls out the construction industry for a lack of diversity. There has been a string of EEOC lawsuits and settlements between the EEOC and construction firms since May of 2022; the most recent included a default judgment of \$2.7M.



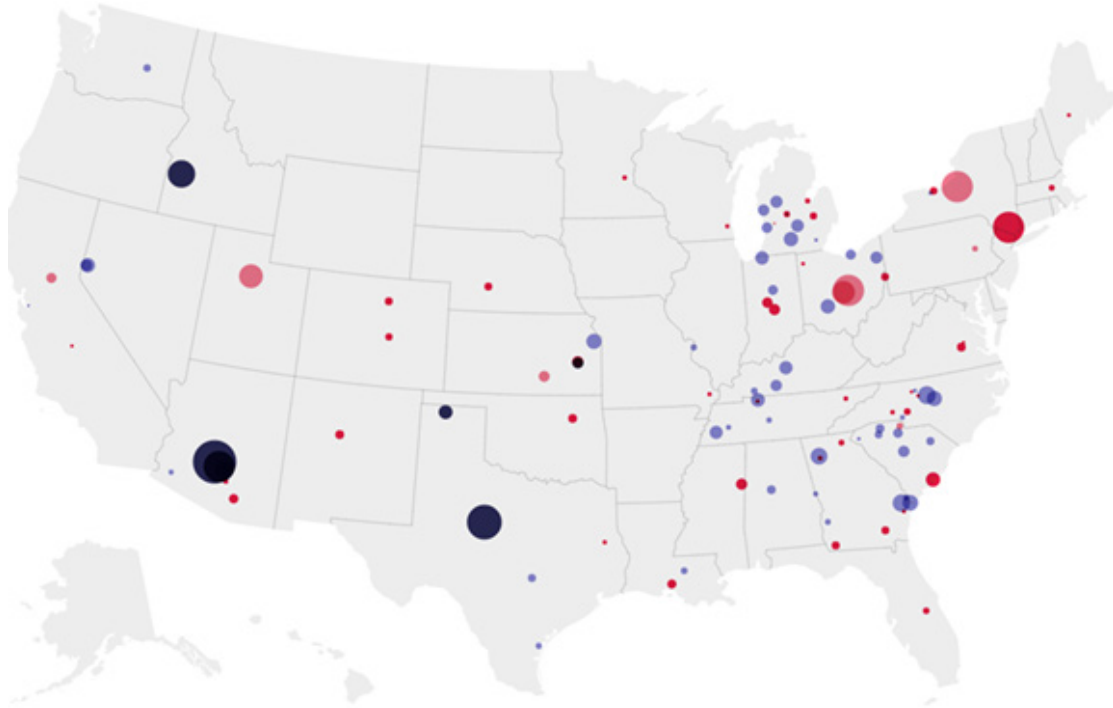
WHAT THIS MEANS FOR YOU

- + Be alert for a much more aggressive EEOC and the increased probability of investigating following a complaint.
- + Be prepared for unannounced visits to project sites after filing a complaint and more investigations and time spent answering questions from the EEOC.
- + Focus on areas you can mitigate the risk of an EEOC complaint or investigation. [Click here to learn more.](#)
- + We recommend Employment Practices Liability insurance for contractors. The value of these policies includes assistance in navigating EEOC complaints and access to pre-qualified defense firms. If an employer receives a notice from the EEOC, promptly report it to the Employment Practices Liability insurer to avoid a late reporting provision which could nullify coverage.



MANUFACTURING

Manufacturing spending is up 70% over last year. This is due to the Government Chips Act and congressional spending bills. Construction Dive maps out where these major manufacturing facilities are being built are located, and parts of the country are not part of the manufacturing renaissance, California specifically given its size and population.



Source: Obando, S. and Himmel, J. "Construction's Manufacturing Boom: Mapping the biggest facilities underway in the U.S.," Construction Dive, August 7, 2023 & August 21, 2023.

WHAT THIS MEANS FOR YOU

- + The ability to bond large projects becomes increasingly important as inflation and congressional spending packages increase the number of megaprojects. This could reduce the number of contractors eligible to compete for the projects, thus creating a barrier to entry.
- + Large projects tend to have longer construction times and increase the susceptibility to weather impacts. Parametric insurance is an increasingly viable product to address the financial costs of weather delays, including triggers for heat.
- + The size and importance of the project magnifies the financial consequences associated with design responsibility. The adequacy of professional liability limits should be evaluated with larger projects.



PUBLIC SPENDING

The first wave of spending is starting to occur because of the various congressional spending bills based on the federal government. Public spending includes spending by city, county, state, and federal governmental entities. Public spending accounts for 21.7% of total construction spending.

TOTAL PUBLIC SPENDING

IN MILLIONS

July 2022	July 2023	Percent Change
\$380,391	\$423,672	+11.4%

Source: Fred, Economic Data St. Louis Fed, July 2022-July 2023

Today, the Public Spending Rate comprises the same percentage of overall spending as it did two years ago. The total dollar amount year-over-year is up 11.4%.

We anticipate these numbers will increase over the next two years. With the government becoming a more extensive construction owner, contractors familiar with operating within this space should do well.

Projects funded by federal dollars, in addition to the efforts of the EEOC, include additional conditions. Two are Build America, Buy America, and changes to the Davis-Bacon Act by the current Administration.

The total dollar amount of Public Spending year-over-year is up 11.4%.

BUILD AMERICA, BUY AMERICA (BABA)

BABA is part of the \$1.2 trillion Infrastructure Investment and Jobs Act passed in 2021. It applies to all federally funded infrastructure projects. To be eligible as to be labeled Made in America, a product must be produced within the United States, with at least 55% of its component costs originating from domestic manufacturing.²

Construction materials include:

- + Non-ferrous metals
 - + Plastic and polymer-based products, which include polyvinylchloride, composite building materials, and polymers used in fiber-optic cables
 - + Glass, including optic glass and optical fiber
 - + Fiber-optic cable, including drop cable
 - + Lumber
 - + Engineered wood
 - + Drywall
- +

WHAT THIS MEANS FOR YOU

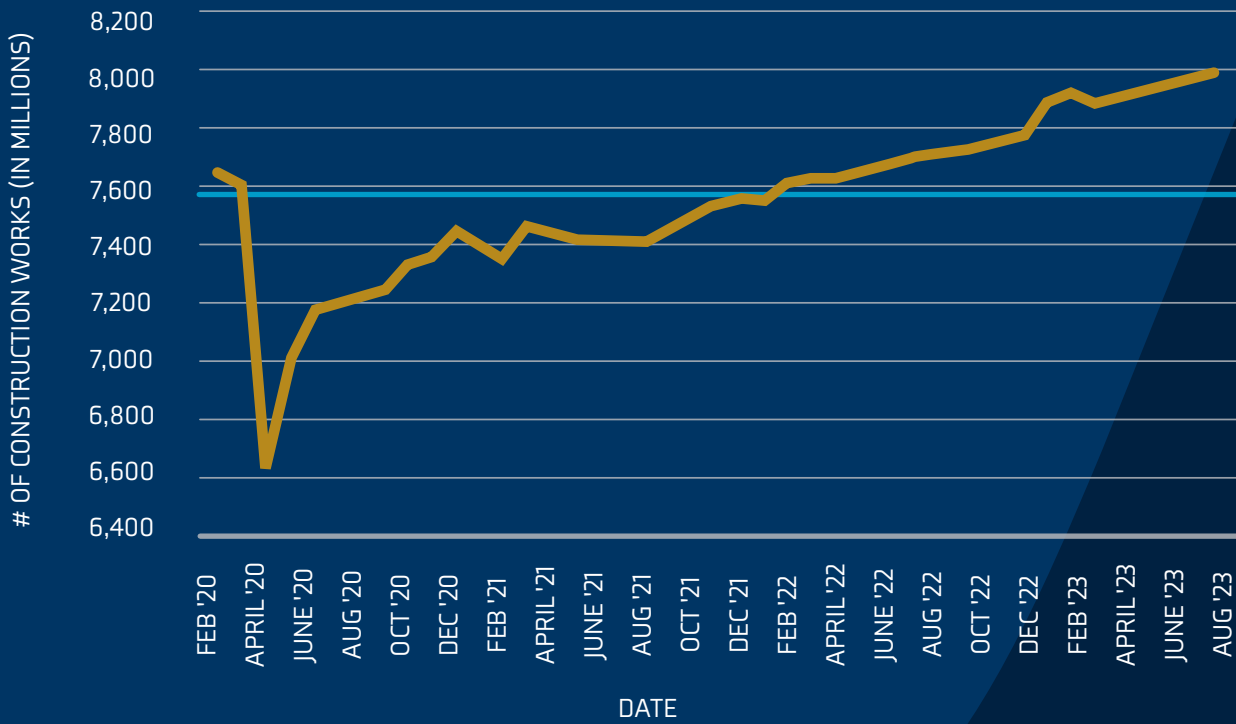
- + Sourcing materials may cost more. Builder's risk claims are valued at the time of loss. If material costs are higher than what is contemplated at the time the policy limits were set, then the limits may be understated. Connect with your broker to ensure you have adequate limits to cover a loss.
- + Sourcing materials may take longer. Set conservative completion times when structuring the builder's risk policy to alleviate unexpected higher costs associated with the extension of the policy and actual flexibility of extension.
- + Large projects require more time to align insurance capacity due to the need to involve multiple insurance facilities for one project. Abundance of information and time will allow for the best result in coverage and price.

Davis-Bacon Act will see change effective October 23, 2023, related to the wage rate paid to most workers in a particular classification. [Learn more about the Davis-Bacon Act Change.](#)

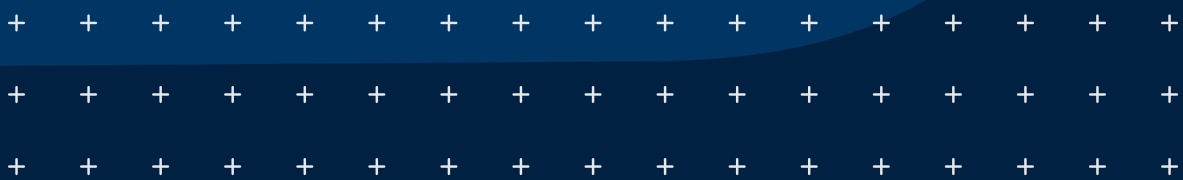
EMPLOYMENT

There are nearly 8,000,000 construction workers working in the United States as of July 2023. Before the pandemic, there was an all-time high of 7,600,000 construction workers employed in the industry. Most states recognized contractors as essential employees except for a few states in the Northeast.

NUMBER OF CONSTRUCTION WORKERS IN THE U.S.
2020-2023



Source: U.S. Census Bureau through August 2023





The significance of the construction labor information provided by the U.S. Census Bureau and analyzed by the Association of Building Contractors is the 5.2% wage increase from over a year ago. Wages continue to outpace all other private-sector industries. With the advent of more federally funded construction projects and the changes to the Davis-Bacon Act, there is strong reason to believe wages will continue to increase.

On average, including part-time workers, construction workers work 38.9 hours a week compared to their counterparts in All other Private Industries at 34.3 hours per week. This trend of increasing weekly hours has been a phenomenon for several years as the construction industry grappled with a lack of skilled labor.



WHAT THIS MEANS FOR YOU

Be aware of continued physical and mental stress for skilled workers.

- + Work comp accident rates potentially increase with new, unskilled inexperienced workers and with the “tired worker.”
- + A strategic approach to loss prevention using data is essential. IMA’s Construction Loss Prevention group has anticipated this demand and developed new tools.
- + Take note that construction worker suicide rates are 6x more significant than that of the average population. IMA is committed to finding ways to help our clients improve their workers' "Mental Fitness."

MATERIAL PRICE

Input costs stayed flat from May to June and are down from a year ago. However, input costs are significantly up from three years ago with the recent trend line starting to decrease. Over a year ago, the one input that is up is construction machinery equipment at nearly 8%.

PRODUCER PRICE INDEX, JUNE 2023

| | 1-Month
% Change | 12-Month
% Change | Change Since
Feb 2020 |
|--|---------------------|----------------------|--------------------------|
| INPUTS TO INDUSTRIES | | | |
| Inputs to Construction | 0.0% | -4.9% | +38.3% |
| Inputs to Multifamily Construction | +0.1% | -2.0% | +37.1% |
| Inputs to Nonresidential Construction | 0.0% | -4.5% | +39.2% |
| Inputs to Commercial Construction | +0.1% | -2.5% | +39.7% |
| Inputs to Healthcare Construction | 0.0% | -2.4% | +39.1% |
| Inputs to Industrial Construction | +0.1% | -2.0% | +34.7% |
| Inputs to Other Nonresidential Construction | 0.0% | -5.2% | +39.0% |
| Inputs to Maintenance and Repair Construction | -0.1% | -5.8% | +36.5% |
| COMMODITIES | | | |
| Adhesives and Sealants | 0.0% | +5.6% | +34.2% |
| Brick and Structural Clay Tile | 0.0% | 0.0% | +25.0% |
| Concrete Products | +0.6% | +11.3% | +31.6% |
| Construction Machinery and Equipment | 0.0% | +7.9% | +25.1% |
| Copper Wire and Cable | -3.3% | -7.3% | +27.7% |
| Crude Petroleum | -5.9% | -42.6% | +37.7% |
| Fabricated Structural Metal Products | -0.7% | -2.0% | +51.4% |
| Gypsum Products | -0.7% | +2.5% | +41.3% |
| Hot Rolled Steel Bars, Plates, and Structural Shapes | -0.5% | -10.8% | +56.7% |
| Insulation Materials | -0.3% | +7.7% | +38.1% |
| Iron and Steel | -2.5% | -16.2% | +65.3% |
| Lumber and Wood Products | -0.4% | -10.0% | +26.5% |
| Natural Gas | -5.3% | -76.8% | +23.0% |
| Plumbing Fixtures and Fittings | +0.3% | +2.3% | +17.1% |
| Prepared Asphalt, Tar Roofing and Siding Equipment | +1.9% | +3.1% | +39.5% |
| Softwood Lumber | -1.3% | -20.8% | +16.4% |
| Steel Mill Products | -0.6% | -18.0% | +83.9% |
| Switchgear, Switchboard, Industrial Controls Equipment | +1.5% | +9.5% | +37.1% |
| Unprocessed Energy Materials | -5.0% | -50.9% | +50.1% |

Source: U.S. Bureau of Labor Statistics

WHAT THIS MEANS FOR YOU

- + It is important to remember when it comes to property damage claims, the claim is valued at the time of loss. Insurance policy limits for the property value are set at the beginning of the policy inception date. Inflation can render those limits inadequate if not careful.
- + The cost of construction equipment is 7.9% higher than last month and 25% higher than a year ago. In the event of a loss, the cost to replace a piece of equipment with like kind and quality could be significantly more than what limit was set in the policy. Work with your broker to ensure your policy is updated to account for an increased cost.



CONSTRUCTION ECONOMIC OUTLOOK FUTURE STATE

We turn the lens to the future state after providing insight into the current state. Luckily, the industry has several factors that allow us to look at what we can expect going forward.

BACKLOG

Often, the backlog can be referenced in the current state. However, we put it in the future state because it tells the story of how much work is under contract still yet to be done.

The Association of Builders and Contractors calculates the figure. On average, contractors have almost nine months' worth of work under contract to be completed. Contractors tend to feel satisfied if the figure is eight months or greater.

Larger contractors have longer backlogs. This is not a complete surprise, as construction projects are increasing in value and larger contractors either have the bonding and/or the capability of managing those projects.

The overall backlog number of 8.9 months has held steady for the last three months. Although the figure has flattened out, the industry is still at elevated levels. This is a positive for future spending.



CONSTRUCTION BACKLOG INDICATOR

| | June 2023 | May 2023 | June 2022 | 1-Month Net Change | 12-Month Net Change |
|----------------------------|-----------|----------|-----------|--------------------|---------------------|
| Total | 8.9 | 8.9 | 8.9 | 0.0 | 0.0 |
| INDUSTRY | | | | | |
| Commercial & Institutional | 9.0 | 9.2 | 9.4 | -0.2 | -0.4 |
| Heavy Industrial | 6.4 | 7.2 | 7.7 | -0.8 | -1.3 |
| Infrastructure | 11.2 | 9.3 | 7.9 | +1.9 | +3.3 |
| REGION | | | | | |
| Middle States | 8.9 | 7.5 | 8.3 | +1.4 | +0.6 |
| Northeast | 8.7 | 8.0 | 8.2 | +0.7 | +0.5 |
| South | 9.5 | 10.9 | 10.0 | -1.4 | -0.5 |
| West | 8.4 | 9.1 | 9.0 | -0.7 | -0.6 |
| COMPANY SIZE | | | | | |
| <\$30 Million | 8.2 | 8.2 | 8.6 | 0.0 | -0.4 |
| \$30-\$50 Million | 8.2 | 9.1 | 8.0 | -0.9 | +0.2 |
| \$50-\$100 Million | 10.7 | 9.7 | 8.5 | +1.0 | +2.2 |
| >\$100 Million | 13.5 | 14.1 | 13.6 | -0.6 | -0.1 |

Source: Associate Builders and Contractors, June 2023



CONSTRUCTCONNECT'S PROJECT STRESS INDEX

ConstructConnect has a database of projects, and they have recently created the Project Stress Index. This index gives us insight into the quality of the construction backlog.

Key observations include:

- + The number of Delayed or On-hold jobs is lower than a year ago.
- + Although higher than a year ago, abandoned projects have decreased.
- + This downward trajectory defies expectations in today's rising interest-rate environment and may indicate the industry's strength and resilient demand for construction work.

The Project Stress Index would suggest the almost 9 months of backlog for the construction industry is on solid footing.

PROJECT STRESS INDEX: U.S. CIVIL AND BUILDING PROJECTS

Level of civil and building construction projects that are delayed, on hold, and abandoned



Source: ConstructConnect, data through July 1, 2023

SUBCOMPONENT INDEXES OF THE PSI

| | Year Ago | Week Ago | Latest | Year Ago | Week Ago |
|------------------|--------------|--------------|--------------|--------------|--------------|
| Bid Date Delayed | 127.3 | 114.1 | 122.1 | -4.1% | +7.0% |
| On Hold | 139.0 | 112.2 | 105.8 | -23.8% | -5.7% |
| Abandoned | 104.8 | 101.6 | 108.7 | +3.7% | +6.9% |
| TOTAL | 123.7 | 109.3 | 112.2 | -9.3% | +2.6% |

Source: ConstructConnect. Project Stress Index. July 3, 2023

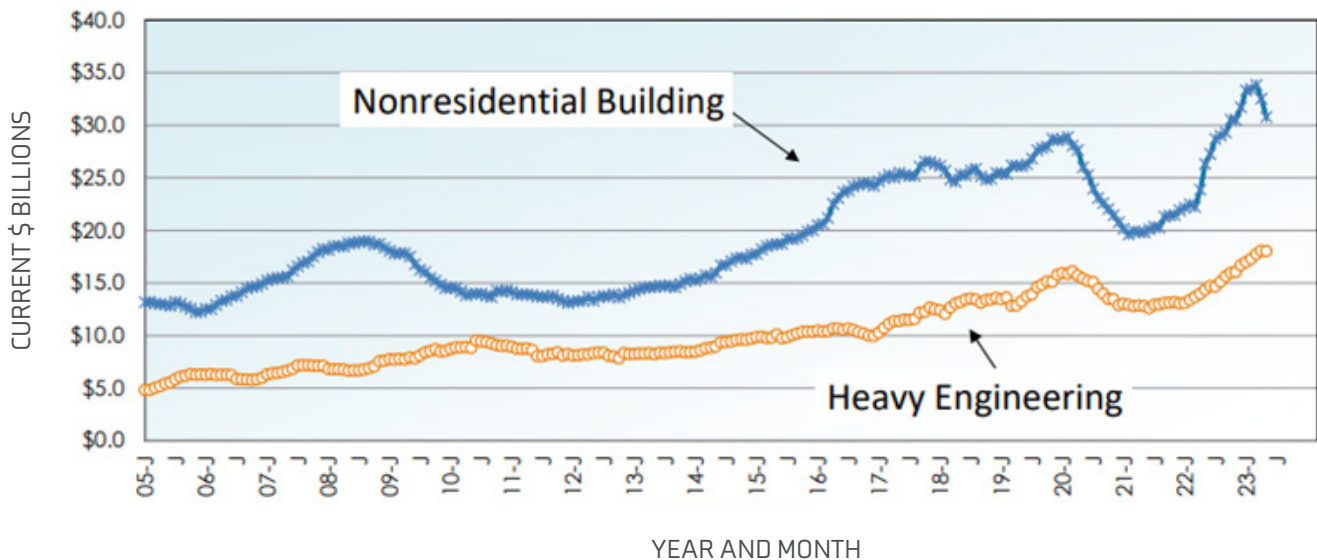
CONSTRUCTION STARTS

Construction Starts refers to the total project value at the project's start date. Construction Spending is the total project value spread over the project's scheduled duration from start to finish.³ For example, at a rate of slightly over a trillion dollars in nonresidential spending, the current state of spending reflects projects initiated around three years prior.

The construction spending curve for single-family housing starts can be spread over 9 to 12 months.

The spending for mega projects starts would be spread out over several years. The focus is analyzing construction starts to predict spending trends over the next two to three years.

Below is a chart showing Trailing Twelve Month (TTM) Nonresidential Construction starts compared to Heavy Engineering starts as of July 2023. Over the past year, there has been a decline in nonresidential construction starts, while heavy engineering projects have been increasing. This shift is attributed to the impact of Congressional spending bills from 2021, which are beginning to affect construction starts.



Source: ConstructConnect Construction Industry Snapshot, August 2023

There has been a decline in nonresidential construction starts, while heavy engineering projects have been increasing.

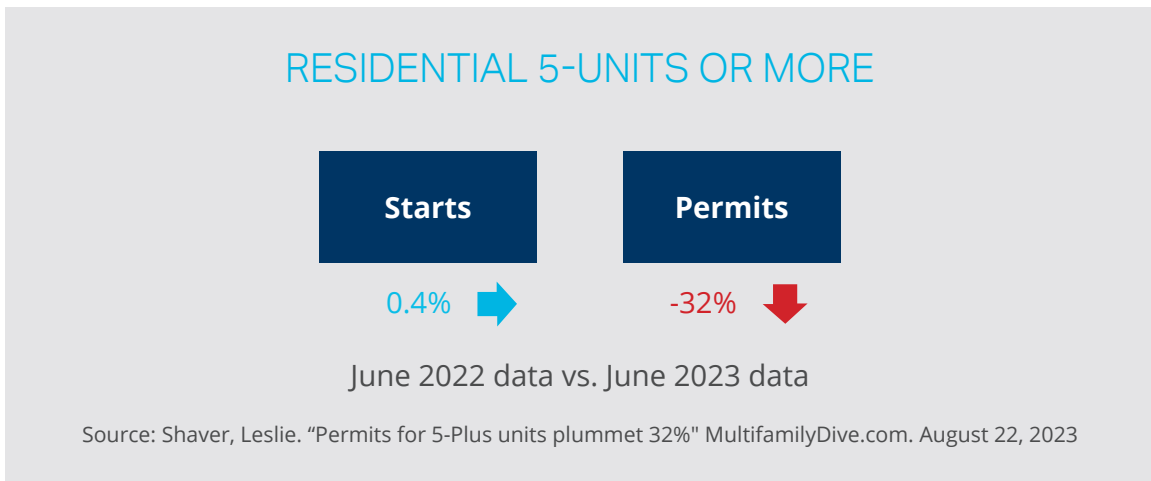
VALUE OF UNITED STATES NONRESIDENTIAL CONSTRUCTION STARTS

| | Jan-Jul 2023
(\$ billions) | % Change Jan-Jul 23
vs Jan-Jul 22 |
|--|-------------------------------|--------------------------------------|
| Hotel/Motel | 6.820 | +6.0% |
| Retail/Shopping | 9.159 | -13.6% |
| Parking Garage | 1.131 | -10% |
| Amusement | 5.670 | +30.9% |
| Private Office | 11.739 | -22.4% |
| Government Office | 9.634 | +33.1% |
| Laboratory | 1.613 | -33.6% |
| Warehouse | 11.642 | -35.8% |
| Miscellaneous Commercial* | 11.661 | +32.3% |
| COMMERCIAL (big subset) | 69.070 | -7.1% |
| INDUSTRIAL (Manufacturing) | 53.572 | -16.6% |
| Religious | 0.692 | +24.7% |
| Hospital/Clinic | 13.477 | -14.8% |
| Nursing/Assisted Living | 1.421 | -50.5% |
| Library/Museum | 2.117 | +5.4% |
| Fire/Police/Courthouse/Prison | 7.130 | +59.6% |
| Military | 11.249 | +127.4% |
| School/College | 54.228 | +19.6% |
| Miscellaneous Medical | 4.390 | -49.8% |
| INSTITUTIONAL | 94.706 | +11.7% |
| Miscellaneous Non-residential | 4.199 | -8.5% |
| NONRESIDENTIAL BUILDING | 221.547 | -2.8% |
| Airport | 6.112 | +38.3% |
| Road/Highway | 63.503 | +19.5% |
| Bridge | 15.598 | -5.3% |
| Dam/Marine | 6.672 | +60.4% |
| Water/Sewage | 28.627 | +13.5% |
| Miscellaneous Civil (power, pipelines, etc.) | 25.659 | +73.2% |
| HEAVY ENGINEERING (Civil) | 146.171 | +23.6% |
| TOTAL NONRESIDENTIAL | 367.719 | +6.2% |

Source: ConstructConnect.com, Construction Industry Snapshot, Value of United States Nonresidential Construction Starts, June 2023

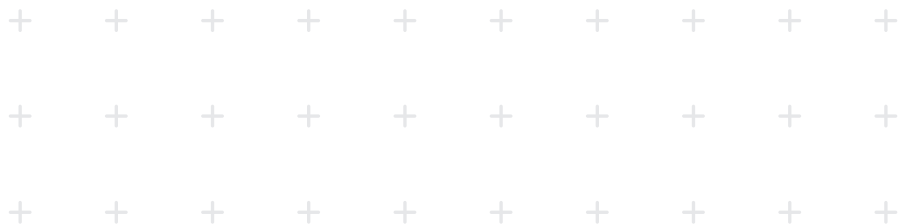
The trailing-twelve month trend and the figures above through the first seven months of the year, implies there will be more spending in the future for heavy engineering and public works. The real concern is the sectors associated with private spending given the negative starts through the first seven months of 2023. This includes a 7% decrease in commercial starts and a 16% decrease in Industrial starts. This decline in private sector construction starts will lead to reduced future spending in both the commercial and nonresidential sectors, raising concerns about the overall state of private sector spending.

Multifamily rarely gets broken out when construction starts. Data from the U.S. suggests that through June of this year, construction starts are flat compared to the previous year. Permits for June 2023 are down by a third compared to 2022.⁴ This permit decrease is an early indicator of potential future declines in construction starts.



Multifamily housing is experiencing strong spending, up 24% compared to the previous year. However, we anticipate a slowdown in multifamily construction, driven by factors like higher interest rates, increased insurance costs impacting project feasibility, and more stringent commercial loan scrutiny by regional banks. Despite the high demand for living spaces, the economic challenges and various headwinds are causing a cautious outlook for apartment construction.

Multifamily housing is up 24% compared to the previous year.



Construction starts vary by state. In California, heavy engineering civil starts have increased by 39%, while Texas has seen a 50% increase in construction heavy engineering starts over the first five months.⁵ These states, along with others like Massachusetts and Alaska, are experiencing significant opportunities for projects.

2023 YTD RANKING OF TOP 20 STATES BY \$ VOLUME OF HEAVY ENGINEERING/CIVIL CONSTRUCTION STARTS

| | Jan-Jul 2023 | % Change vs Jan-Jul 22 |
|--------------------|------------------|------------------------|
| 1. Texas | \$21,191,347,631 | +50.5% |
| 2. California | \$12,658,434,593 | +39.0% |
| 3. Florida | \$8,045,869,441 | +49.8% |
| 4. New York | \$6,884,350,212 | +4.7% |
| 5. Illinois | \$5,743,188,657 | +19.7% |
| 6. Pennsylvania | \$5,218,187,688 | +21.9% |
| 7. Michigan | \$5,048,692,116 | +28.5% |
| 8. Ohio | \$4,262,337,106 | +15.1% |
| 9. Georgia | \$3,874,909,925 | +71.0% |
| 10. Alaska | \$3,850,852,678 | +564.6% |
| 11. Wyoming | \$3,399,182,267 | +114.5% |
| 12. North Carolina | \$3,195,573,432 | -10.7% |
| 13. Minnesota | \$3,072,112,507 | -21.0% |
| 14. Virginia | \$2,826,271,564 | +10.1% |
| 15. Wisconsin | \$2,762,653,261 | -1.1% |
| 16. Massachusetts | \$2,709,460,005 | +69.9% |
| 17. Indiana | \$2,701,024,145 | -13.9% |
| 18. Louisiana | \$2,587,801,649 | +9.0% |
| 19. Oregon | \$2,525,007,782 | +34.9% |
| 20. Washington | \$2,456,438,381 | -27.0% |

Source: ConstructConnect. 2023 YTD Ranking of Top 20 States by \$ Volume of Heavy Engineering/Civil Construction Starts

However, when shifting the focus to the nonresidential sector, Texas is up by 50% in heavy engineering but only marginally in nonresidential starts. This disparity in nonresidential starts raises concerns about future private sector spending. The three largest states—Texas, California, and Florida—have flat or negative private sector

spending starts in the first seven months. This situation is particularly worrying for contractors working in this space and in these states. While spending will not completely dry up, the spending rate and prospects for contractors might be impacted in 2024 or early 2025 in those states.

U.S. YEAR-TO-DATE REGIONAL STARTS

| | Jan-May 2023 | % Change vs Jan-May 22 |
|----------------|------------------|------------------------|
| Texas | \$25,123,697,091 | -25.0% |
| California | \$9,096,478,172 | -9.4% |
| New York | \$7,825,338,982 | -0.4% |
| Florida | \$7,078,085,880 | -15.5% |
| Ohio | \$6,611,947,743 | +109.3% |
| Indiana | \$5,742,519,121 | +36.4% |
| North Carolina | \$5,120,873,665 | -1.7% |
| Kansas | \$4,965,405,898 | +556.4% |
| Pennsylvania | \$4,009,766,575 | -13.4% |
| Alabama | \$3,965,281,612 | +21.7% |
| Georgia | \$3,899,917,950 | +9.4% |
| Arizona | \$3,829,696,618 | +71.9% |
| Maryland | \$3,391,257,846 | +30.0% |
| Virginia | \$3,169,071,132 | +17.6% |
| Massachusetts | \$2,931,794,835 | +7.3% |
| Illinois | \$2,756,489,411 | -22.3% |
| Tennessee | \$2,685,256,907 | -2.5% |
| Colorado | \$2,496,535,881 | +63.4% |
| Michigan | \$2,257,882,179 | -31.2% |
| Washington | \$2,067,578,304 | +27.8% |

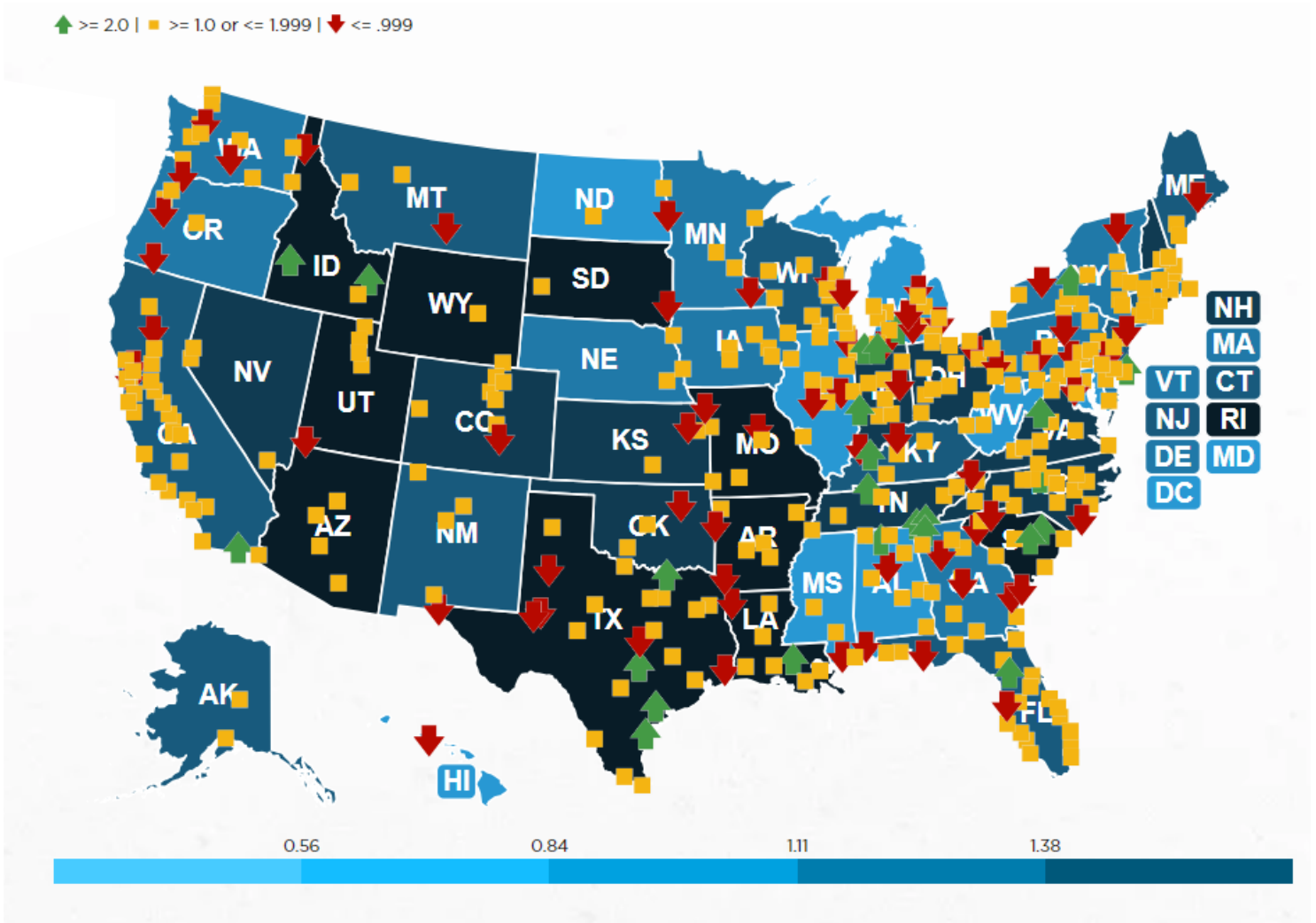
Source: ConstructConnect, US Year-to-date regional starts, Nonresidential Construction

CONSTRUCTCONNECT EXPANSION INDEX

ConstructConnect developed an "Expansion Index" to evaluate projects in the planning stage by comparing the value of current-month planning projects to those of the same month in the previous year. If the ratio is over 2.0, it indicates an increasing market potential. An index value of 1/0 indicates a market potential is flat or declining. Less than 1 suggests declining market potential.

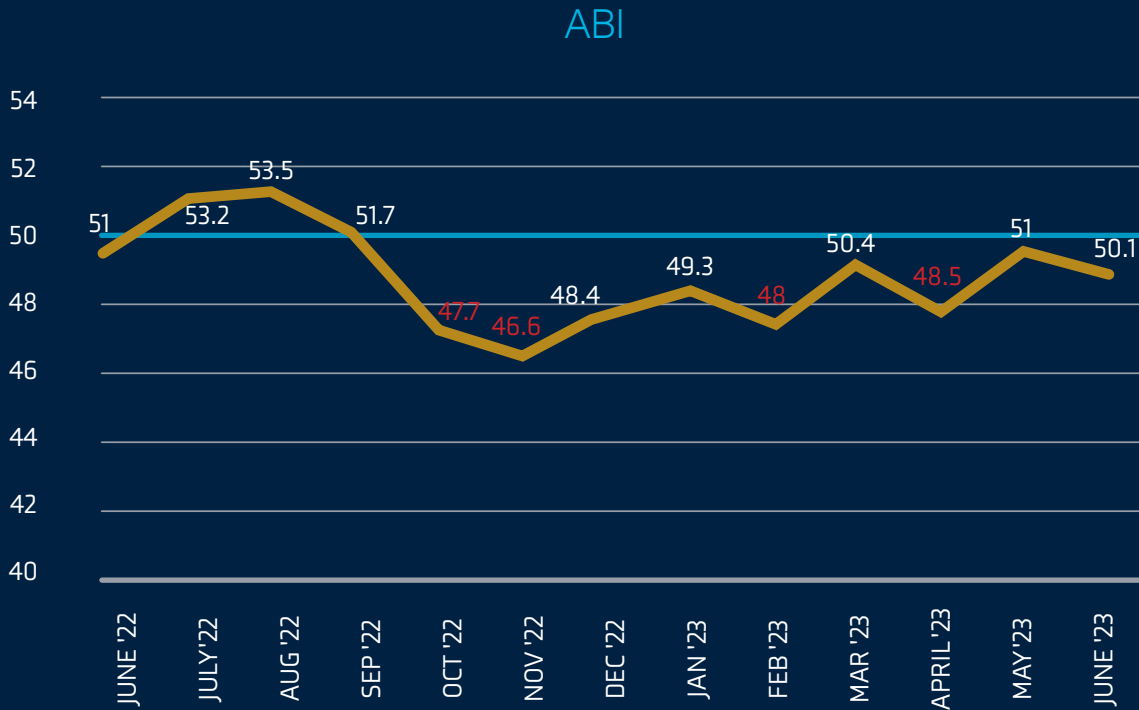
Most of the markets in America are either flat or declining in the dollar value of projects. This early indicator of construction starts would eventually lead to construction spending.

UNITED STATES - JULY 2023 EXPANSION INDEX



AIA ARCHITECTURAL BILLINGS INDEX

The Architectural Billing Index (ABI) is a leading indicator in the construction industry. The ABI, surveyed by the American Institute of Architects (AIA), measures whether architects are billing more or less than the previous month. If the index is above 50, it indicates growth, while below 50 suggests a decline.



Source: AIA Architecture Billings Index, July 10, 2023

It is concerning the ABI has been hovering mostly below or around 50 for nine consecutive months, indicating a lack of consistent growth in architectural billings. This lack of growth can be attributed to architects not producing as many project plans and design concepts, which could impact future construction starts. The ABI predictions is a leading indicator to construction stars which in turn affects construction spending.

IN SUMMARY

The current state of construction is healthy, with total construction spending up 5.5% and Nonresidential spending up 18.1%. All categories of Nonresidential spending are up, with Manufacturing projects up 79% over last year. The industry backlog calculated by the Association of Building Contractors is 8.9 months. ConstructConnect's Project Stress Index would suggest the quality and firmness of the backlog are sound.

Spending from public sector projects is starting to show up in the overall spending figures. This is due to multiple spending bills by Congress in 2021 and 2022. Those spending bills and changes within the Administration's agencies have resulted in compliance risk for contractors. **These include:**

- + A more aggressive EEOC toward the construction industry
- + Changes to the Davis-Bacon Act
- + Build America, Buy America

In projecting the future state of construction, we rely heavily on construction start data. Construction starts signal the beginning of construction spending over time for the project.

The data is consistent that heavy engineering/public sector starts have begun to increase, suggesting greater construction spending for these types of projects in the future.

Conversely, private sector construction starts are down through the first seven months of this year, suggesting a lower spending rate in those projects tied to private spending. Single-family housing spending is down from the prior year, with higher interest rates remaining the predominant headwind. Institutional investors building single-family homes for rent provide a shot at spending.

Construction starts are flat through six months of this year for multifamily. More concerning, permits for multifamily are down by a third for the same period. This gives us concern about apartment spending headed into the second half of 2024.

Lastly, the flat-to-decline overall impression presented by ConstructConnect's Expansion Index, coupled with the AIA's Architectural Billing Index flat to the negative trend line for the last nine months, supports concerns the rate of private sector construction spending will be a challenge in the later portion of 2024.



Sources:

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- 3 Zarenski, E. (2021). *ABI – DMI – CBI Leading Indicators*. Construction Analytics. <https://edzarenski.com/2021/05/01/abi-dmi-cbi-leading-indicators/>
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- 5 ConstructConnect. (2023). *Construction Industry Snapshot: 2023 YTD Ranking of Top 20 States by \$ Volume of Heavy Engineering/Civil Construction Starts*.



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FOR ANY QUESTIONS, PLEASE REACH OUT TO:



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