



2023

North America Engineering and Construction Industry Overview

Third Quarter Outlook



Economic Headwinds



International Conflict

- Russian/Ukraine War

Unstable Fiscal / Monetary Policies

- Inflation
- Interest rate increases
- Asset repricing

Workforce Challenges

- Labor shortage
- Slow wage growth
- Succession planning

U.S. Dollar Stability

- Export reductions
- World reserve currency status

Changing Regulations



- Compliance
- Environmental

U.S. Key Takeaways

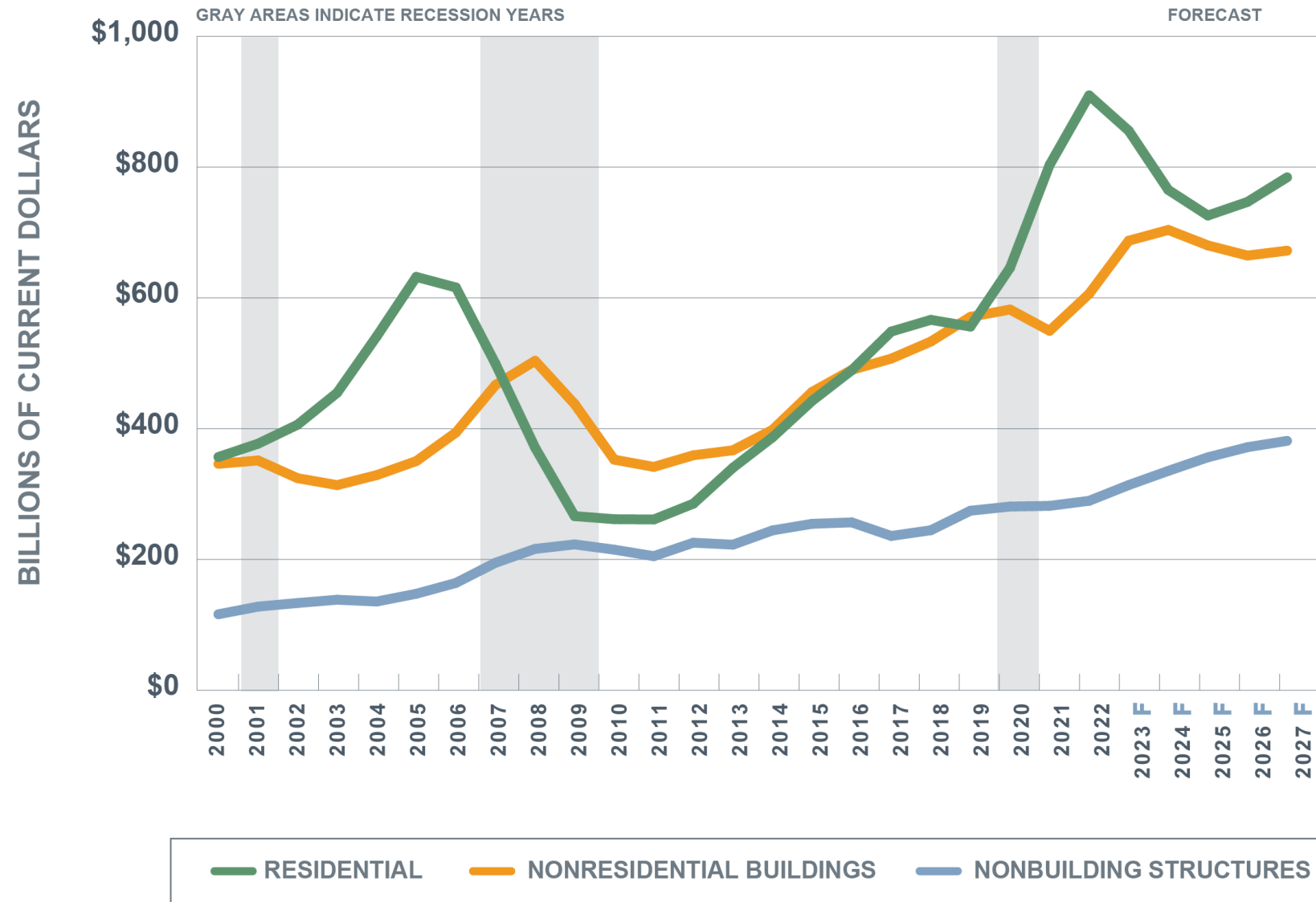
- Total engineering and construction spending for the U.S. is forecast to end 2023 up 3%, compared to up 11% in 2022.
- Exceptional growth across nonresidential buildings and nonbuilding structures will uphold industry spending in 2023.
- High-growth segments include multifamily, lodging, commercial, manufacturing, highway and street, sewage and waste disposal, water supply, and conservation and development.
- Single-family residential construction spending in 2023 is the only segment that will experience contraction from 2022 levels.
- Lower investment levels across single-family, multifamily and residential improvements are expected through 2025.
- Residential improvements, religious, public safety, communication and power construction are all expected to end the year with growth roughly in line with the rate of inflation.
- The latest Nonresidential Construction Index (NRCI) reflects the fifth quarter in a row of ongoing challenges, but also improving sentiment with the index at 49.8, up slightly from 48.0 in the second quarter.
- NRCI sentiment this quarter was improved due to increased optimism toward the overall U.S. economy and local factors impacting the economy and nonresidential industry where participants are operating their businesses.
- Also, material cost conditions have eased considerably. Backlog and productivity measures have shown some weakness. Although extremely close to the growth threshold, the index remains below 50 and reflects moderating engineering and construction opportunities ahead.

U.S. 2023 Segment Performance

2023/2022 Comparison

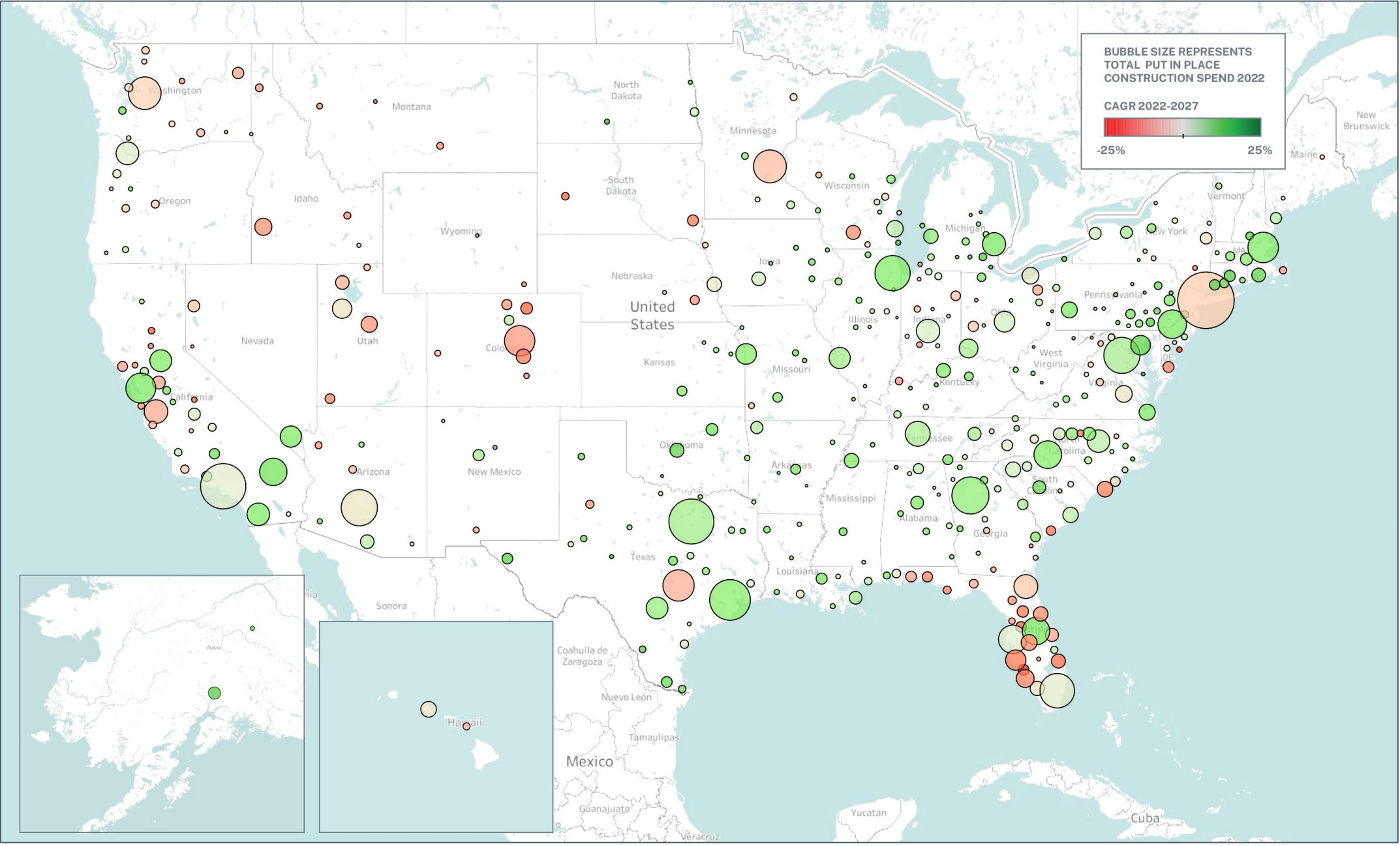
 <p>UP 5% or more</p>	<p>STABLE 0% to 4%</p>	 <p>DOWN Under 0%</p>
<ul style="list-style-type: none"> Multifamily Lodging Office Commercial Health Care Educational Amusement and Recreation Transportation Manufacturing Highway and Street Sewage and Waste Disposal Water Supply Conservation and Development 	<ul style="list-style-type: none"> Improvements Religious Public Safety Communication Power 	<ul style="list-style-type: none"> Single-family

Total Construction Spending Put in Place Estimated for the United States



Third quarter forecast is based on first quarter actuals and second quarter assumptions.
SOURCE: FMI FORECAST Q3 2023

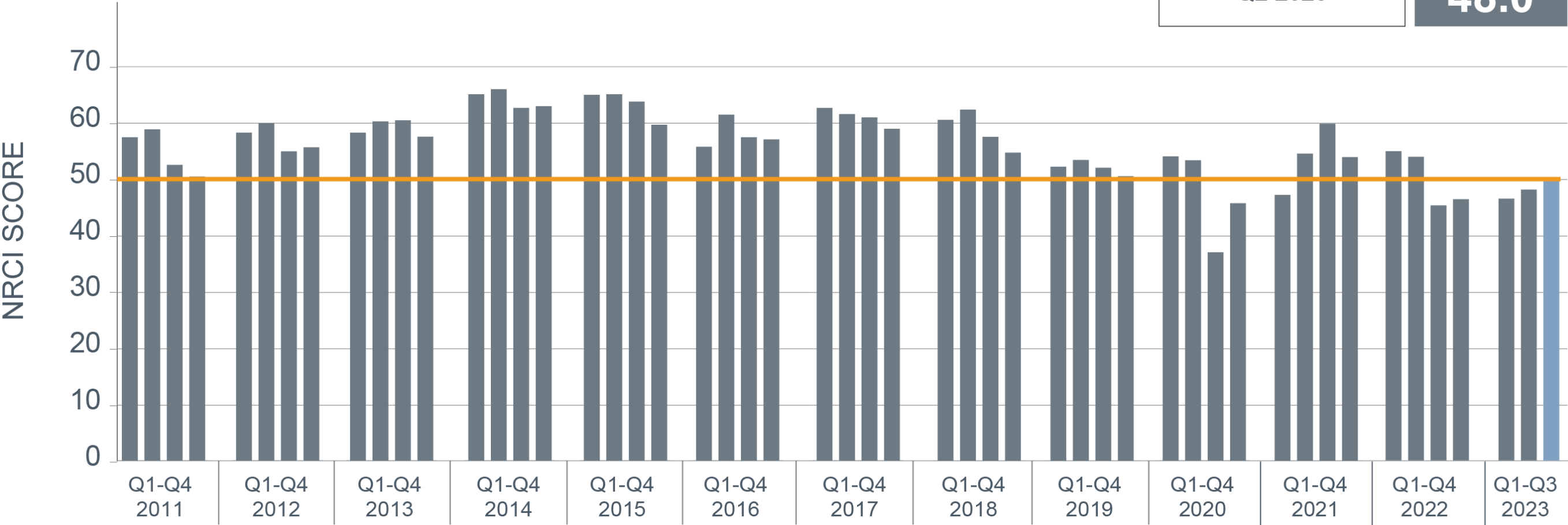
Total U.S. Construction Spending Put in Place 2022 and Forecast Growth (2022-2027) by Metropolitan Statistical Area



Nonresidential Construction Index (NRCI) Scores Since Inception Q1 2011 to Q3 2023

Scores above 50 indicate expansion, scores below 50 indicate contraction.

Q3 2023 <i>Survey Dates June 7-21</i>	49.8
Q2 2023	48.0



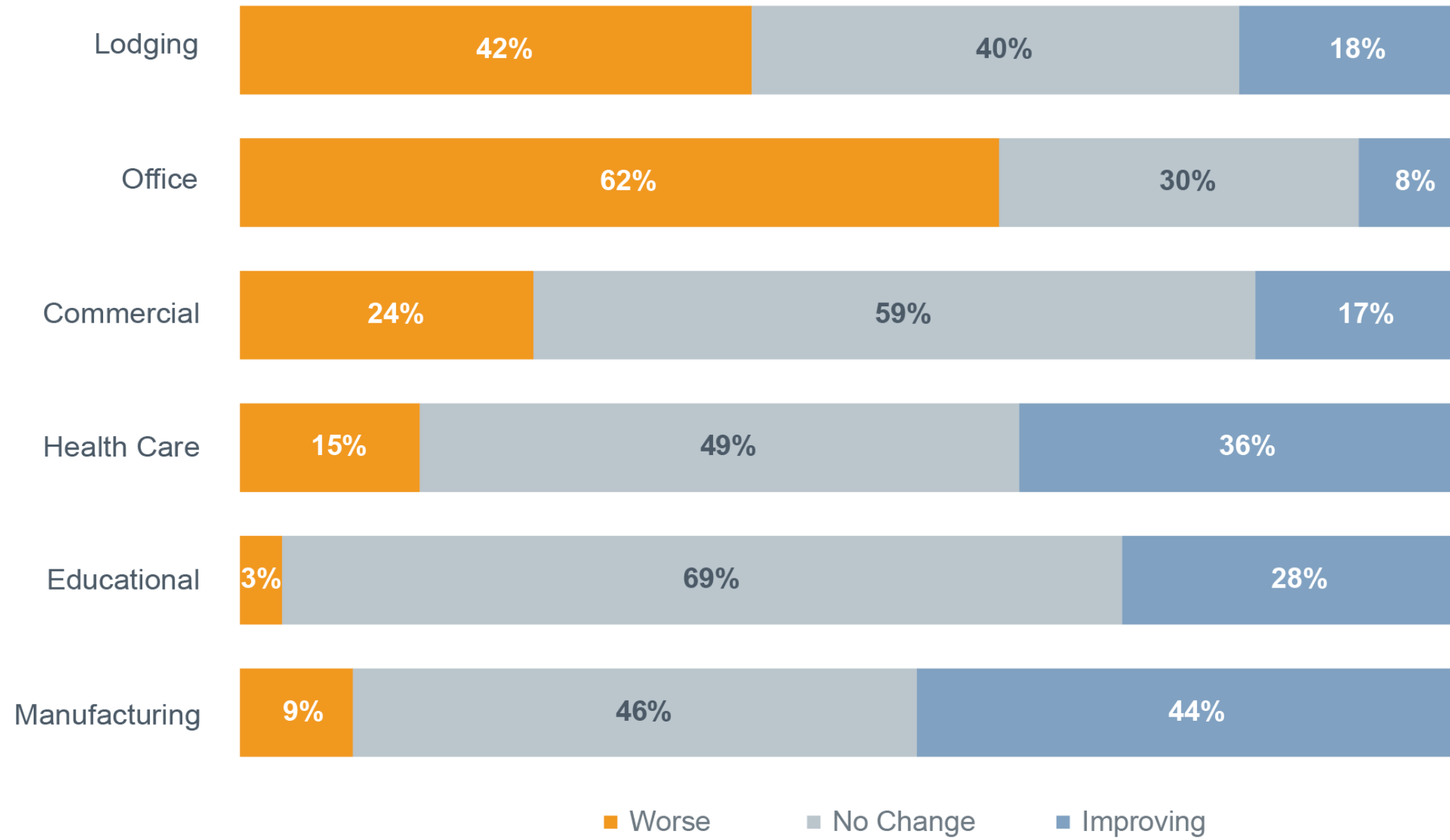
The data in the NRCI is presented as a sampling of construction industry executives voluntarily serving as panelists for this FMI survey. Responses are based on their experience and opinions, and the analysis is based on FMI's interpretation of the aggregated results.

Nonresidential Construction Index Movement (NRCI)

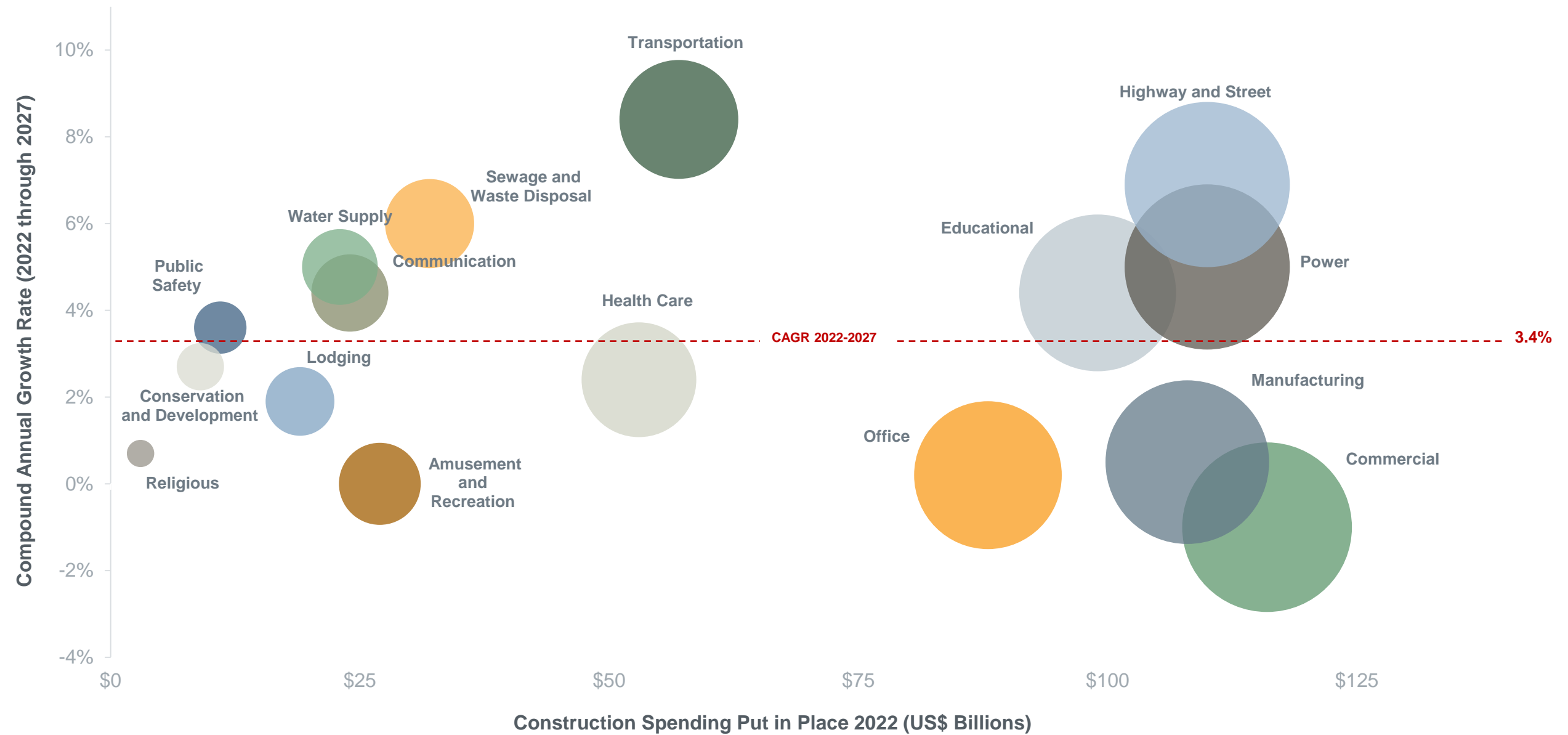
NRCI INDEX MOVEMENT		Q3 2023	Q2 2023
Overall U.S. Economy	↑	45.7	43.2
Economy Where We Do Business	↑	46.4	45.7
Our Engineering and Construction Business	↑	65.1	58.0
Engineering and Construction Where We Do Business	↑	54.3	48.1
Backlog	↓	57.2	58.0
Cost of Materials	↑	43.4	33.3
Cost of Labor	↑	21.1	20.4
Productivity	↓	47.6	50.6

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Perception of Change by Segment for Next Quarter



Total Nonresidential Construction Spending Put in Place 2022 and Forecast Growth (2022 through 2027) by Construction Segment

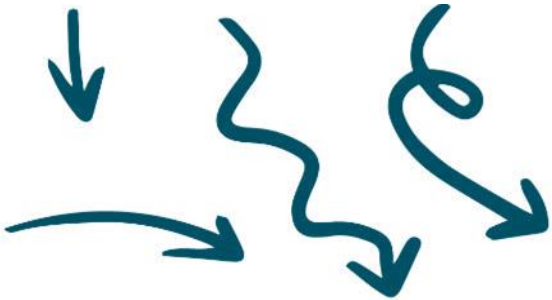
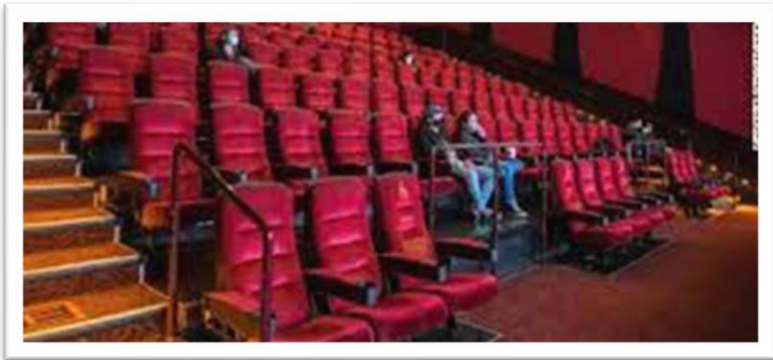
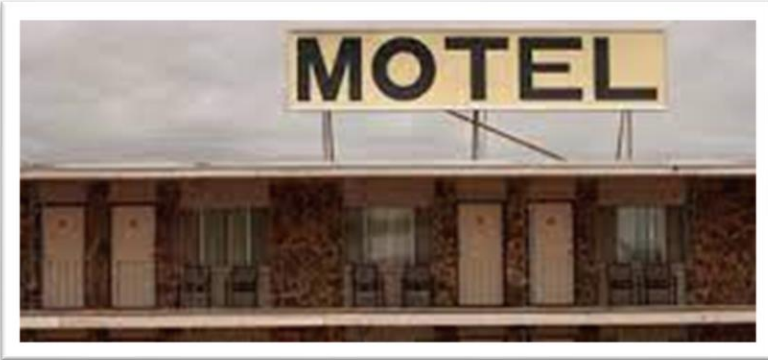


Throughout the value of construction put in place includes the cost of architectural and engineering work.

SOURCE: FMI FORECAST Q3 2023

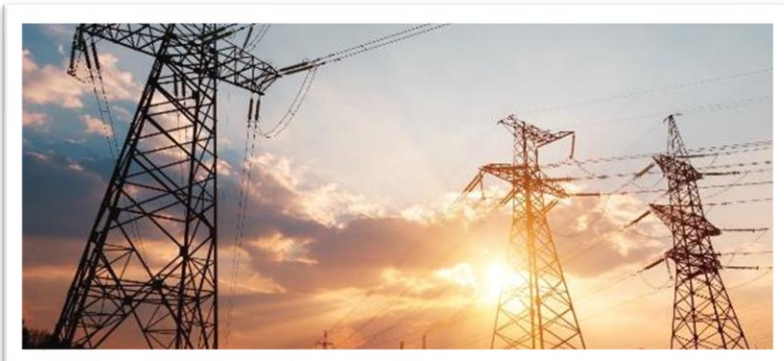
Our Evolving Economy

Old Economy Trends



Our Evolving Economy

New Economy Trends





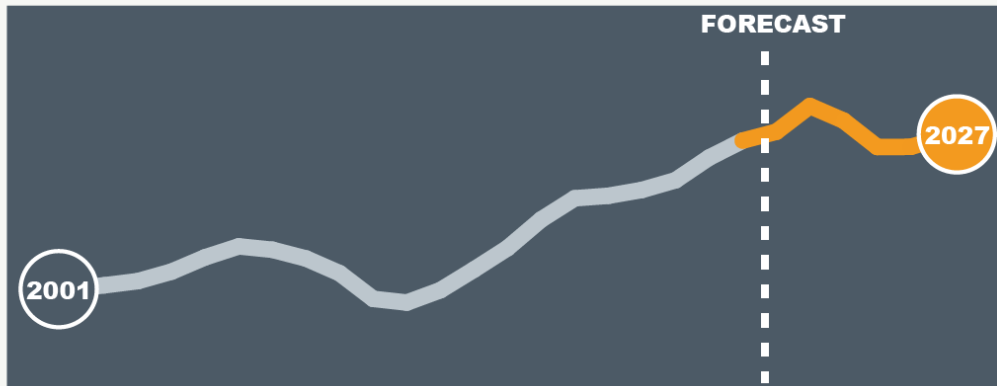
**Construction
Put in Place (by
Segment)**

Multifamily Residential



DRIVERS:

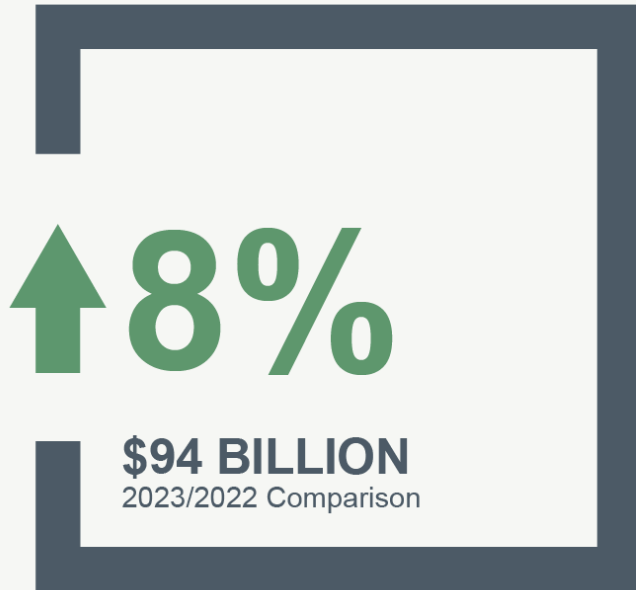
- Unemployment rate
- Core CPI
- Income
- Mortgage rates
- Home prices
- Housing starts
- Housing permits



2024	DWN	-6%	\$119 B
2025	DWN	-11%	\$106 B
2026	STA	0%	\$106 B
2027	UP	5%	\$111 B

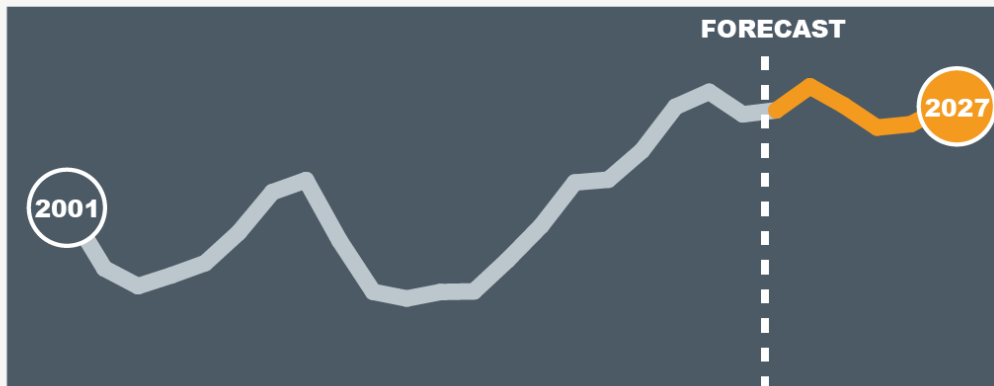
- Apartment rental rates have contracted in many large markets alongside a steadily increasing vacancy rate as new supplies continue to be added.
- A significant and growing wave of nearly 980,000 multifamily units in development is expected to come online over the next several quarters.
- Moderating or declining rent prices will assist with cooling national core inflation.
- Policies to support affordable housing will become a higher priority in select expensive markets.

Office



DRIVERS:

- Office vacancy rate
- Unemployment rate



2024	DWN	-5%	\$89 B
2025	DWN	-7%	\$83 B
2026	STA	1%	\$84 B
2027	UP	6%	\$89 B

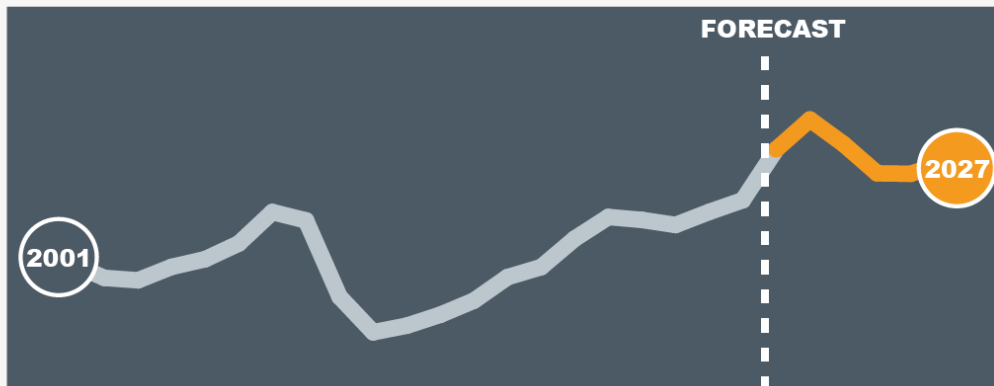
- High vacancies and sublease activity, rising unemployment and tighter lending standards all suggest ongoing difficulties for traditional office construction spending.
- Demand for the newest Class A office space has been upheld in most major markets while less desirable Class B/C office space is where vacancies are a problem.
- Increasing foreclosures and distressed sales will create investment opportunities for renovation or repurpose projects.
- Data centers, a subset of office, will continue to outperform traditional office investment, growing from just under 25% share of spend today to nearly 35% by 2027. Energy and land constraints will pull data center investment away from traditional hubs.

Commercial



DRIVERS:

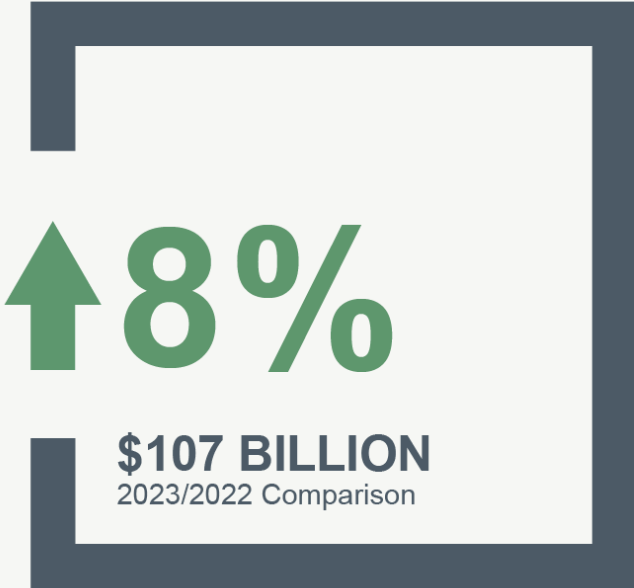
- Retail sales
- CPI
- Income
- Home prices
- Housing starts



2024	DWN	-8%	\$118 B
2025	DWN	-10%	\$106 B
2026	STA	0%	\$105 B
2027	STA	4%	\$110 B

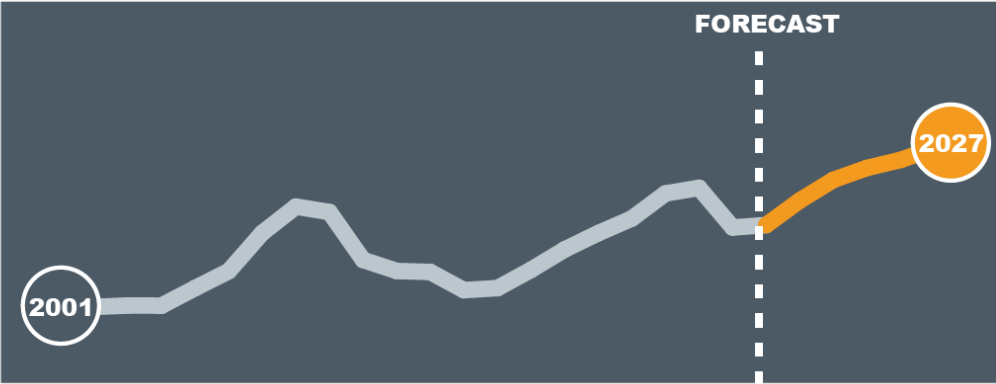
- Big-box stores are consolidating space and investing in e-commerce while demand for smaller and community retail accelerates a shift away from goods to service-led businesses.
- In efforts to uphold purchasing power, consumers will continue to increase e-commerce, discount and big-box retail shopping.
- Warehouse and distribution, a subset of commercial, has grown in recent years to represent more than 50% of the commercial segment. New warehouse investment is expected to slow because of recent aggressive expansion and anticipated economic headwinds.

Educational



DRIVERS:

- Population change younger than age 18
- Population change ages 18-24
- Stock markets
- Government spending
- Nonresidential structure investment



2024	UP	6%	\$113 B
2025	STA	3%	\$117 B
2026	STA	2%	\$119 B
2027	STA	3%	\$123 B

- Both public and private investment in educational construction will be strengthened by recent spending programs (e.g., Inflation Reduction Act) alongside increased tax collections, new bond measures and the Renew America’s Schools grant programs.
- Demand for higher education services will benefit from a weakened labor market, though capital investment will remain challenged due to strained budgets, higher operational costs and ongoing staffing challenges.
- Significant deferred maintenance and recent demographic shifts demanding new capacity additions will drive increased K-12 construction spending.

Questions to consider

- What is the outlook for your geographies, market segments and customers?
- Do you have an operationally superior organization?
- How are you addressing workforce and labor challenges?
- What does the future hold for your business?



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