MARCUM

Commercial Construction Index

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Construction Industry Outlook Positive in the Short-Term

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Beginning with this quarterly report, the Marcum Commercial Construction Index now includes data for New Nonresidential Building Construction, a special regional indicator introduced in November 2016 under the Bureau of Labor Statistics' Producer Price Index.
See page 4.

Long-Term Risks Remain

Economists, pundits, and most of America have been puzzling over what the election results from this past November will mean for the U.S., both in terms of public policy and economic performance. President Donald Trump has indicated that he plans to slash corporate and personal income taxes, renegotiate trade deals with U.S. partners, end commitments to follow certain environmental rules, follow through with his campaign promises on immigration reform, partially deregulate banking, and make it easier to tap into America's oil and natural gas reserves. He's also promised an infrastructure-led stimulus package and significant reforms to America's health insurance set-up.

Trump and his advisors believe these moves will supercharge the sluggish U.S. economy, which has failed to expand more than 3 percent or better since the middle of the last decade. Many economists have expressed skepticism regarding the wisdom of this package of economic promises, indicating that such policies could ramp up the national debt, initiate trade wars, speed global warming, and accelerate inflation.

For Trump and his administration, these appear to be speculative, longer-term problems. In the near-term, the U.S. economy is expected to enjoy added stimulus even as the country already approaches full employment. The stimulus the President promises will likely push prospective economic weakness back towards the end of the current decade, possibly beyond. When the next recession does arrive, however, it may be much deeper than it otherwise would have been.

For now, equity markets are ebullient. Some of the rise in stock prices was perfectly predictable. After all, if corporate taxes are reduced, corporate after-tax profits rise, all things being equal. That translates into healthier balance sheets and perhaps larger dividends, which renders holding U.S. equities more valuable.

But there's something more at work. Economists have a tough time accounting for the impact of so-called "animal spirits," but we know that psychology plays a role. CEO sentiment has seemingly improved markedly since the November 8 election. The notion among many is that America's period of stagnant growth is coming to an end. The next few years will be associated with faster economic growth and more inflation, which creates better opportunities for companies to boost corporate earnings. That altered expectation may translate into more business investment today as corporations seek positions to take full advantage of the faster growth to come.

Collectively, real estate developers appear to have bought into the story. The Architecture Billings Index rocketed in December, the month after the election, signaling more interest in adding to America's built environment. Planned public sector stimulus seems consistent with the notion that a period of more rapid construction spending growth is approaching over the next two years. The longer-term outlook is, of course, decidedly murkier, but perhaps that's always the case.

Questions regarding longer-term economic prospects revolve around the extent to which Trumpian policies will alter the structure of the U.S. economy. Recent years have delivered only soft economic growth and very little in the way of productivity growth. If planned infrastructure investments bolster productivity, the long-term may turn out to be much better

A New Year, new national leadership, new data and, hopefully, new insights await us all as we dig into this quarter's Marcum Commercial Construction Index. As is often the case, when there are big changes there are more questions than answers, and that is certainly true regarding the balance of 2017 and beyond. That said, based on our data and my everyday interaction with our Firm's clients and those that serve them, I can report a generally optimistic outlook for our industry in the near-term. The new administration is proudly pro-business, which helps, as does their bold-type commitment to large infrastructure improvements throughout the country. From roads and heavy highway to bridges and airports, that type of mandate can meaningfully move the needle for a segment of our industry that has dragged over the past year with zero or negative growth. And, when you compound the potential of that promise with the impressive, double-digit, 12-month growth figures many of the non-governmental sectors are showing, I think we have every right to be hopeful and excited for what's to come.

Here's to a great year,

Joseph Natarelli, CPA
National Construction Industry Group Leader, Marcum LLP

than many people presently foresee. Changes in entitlement policies might also induce more people to join the U.S. labor market, helping businesses to better support their staffing models and reducing reliance on a variety of government programs. That would help governments stretch each budget dollar a bit further, helping to alleviate some budgetary angst.

There are other considerations. In the past, infrastructure spending presumed government financing, but that's an increasingly shaky presumption. In a 10-page white paper posted on his campaign website, Donald Trump made private financing a cornerstone of his infrastructure ambitions. By offering $130 billion in federal tax credits to private investors backing infrastructure projects, President Trump envisions public-private partnerships as representing the key to building and maintaining the nation's infrastructure. That sounds promising, but will, of course, require congressional sanction and will be scrutinized from the perspective of actual budgetary impact.

Exhibit 1. *Nonresidential Spending, December 2016, Millions of Dollars, Seasonally Adjusted Annual Rate*

Subsector	December 2016	1-month % Change	12-month % ChangeChange
Nonresidential	**$708,244**	**-0.70%**	**4.60%**
Office	$75,796	1.00%	31.00%
Lodging	$27,316	-4.60%	19.90%
Amusement and Recreation	$22,791	-0.30%	13.00%
Conservation and Development	$7,836	-1.90%	12.80%
Commercial	$78,715	0.60%	12.00%
Health care	$41,899	0.60%	7.10%
Educational	$90,638	-2.10%	5.00%
Communication	$21,666	5.50%	2.60%
Highway and Street	$94,530	-0.60%	1.40%
Power	$93,545	1.20%	-0.10%
Water supply	$11,640	-1.80%	-0.30%
Public safety	$8,269	2.30%	-2.80%
Religious	$3,421	-6.50%	-3.10%
Manufacturing	$68,745	-3.30%	-5.90%
Transportation	$42,115	-1.40%	-6.50%
Sewage and Waste Disposal	$19,321	-5.70%	-18.00%

Source: United States Census Bureau

In January 2017, construction employment rose briskly in both residential and nonresidential categories. Nonresidential's contribution to industry job growth was particularly uplifting. Over the past year, nonresidential construction has accounted for roughly a quarter of total construction job creation. However, in January, nonresidential activities accounted for more than two-fifths of net new jobs. Moreover, the industry's unemployment rate surged to 9.4 percent. While it is tempting to suggest that this was due to a loss of seasonal construction employment, that cannot be a primary explanation since the total number of construction jobs expanded meaningfully in January. The better explanation is that more people have begun to look for work in the construction industry, perhaps in part because of indications from the new administration in Washington, D.C. that an infrastructure-led stimulus package is now in the works.

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Exhibit 2. *Construction Employment Growth in 20 Largest U.S. Metropolitan Areas, December 2015 v. December 2016, Not Seasonally Adjusted*

Rank	MSA	% Change	Rank	MSA	% Change
1	Tampa-St. Petersburg-Clearwater, FL	13.00%	11	Miami-Fort Lauderdale-Pompano Beach, FL	1.50%
2	Seattle-Tacoma-Bellevue, WA	6.40%	12	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD*	1.10%
3	San Francisco-Oakland-Fremont, CA	5.80%	13	Detroit-Warren-Livonia, MI*	1.00%
4	Phoenix-Mesa-Glendale, AZ	5.70%	14	San Diego-Carlsbad-San Marcos, CA	0.60%
5	St. Louis, MO-IL	4.90%	15	New York-Northern New Jersey-L. Island, NY-NJ-PA*	0.40%
6	Atlanta-Marietta, GA	4.50%	16	Washington-Arlington-Alexandria, DC-VA-MD-WV*	0.00%
7	Riverside-San Bernardino-Ontario, CA	4.10%	17	Chicago-Joliet-Naperville, IL-IN-WI	-0.50%
8	Boston-Cambridge-Quincy, MA-NH	4.00%	18	Los Angeles-Long Beach-Santa Ana, CA	-0.70%
9	Minneapolis-St. Paul-Bloomington, MN-WI*	2.70%	19	Baltimore-Towson, MD*	-1.40%
10	Dallas-Fort Worth-Arlington, TX*	2.10%	20	Houston-Sugar Land, TX	-5.00%

**Construction, Mining, and Logging are included in one industry; Source: Bureau of Labor Statistics*

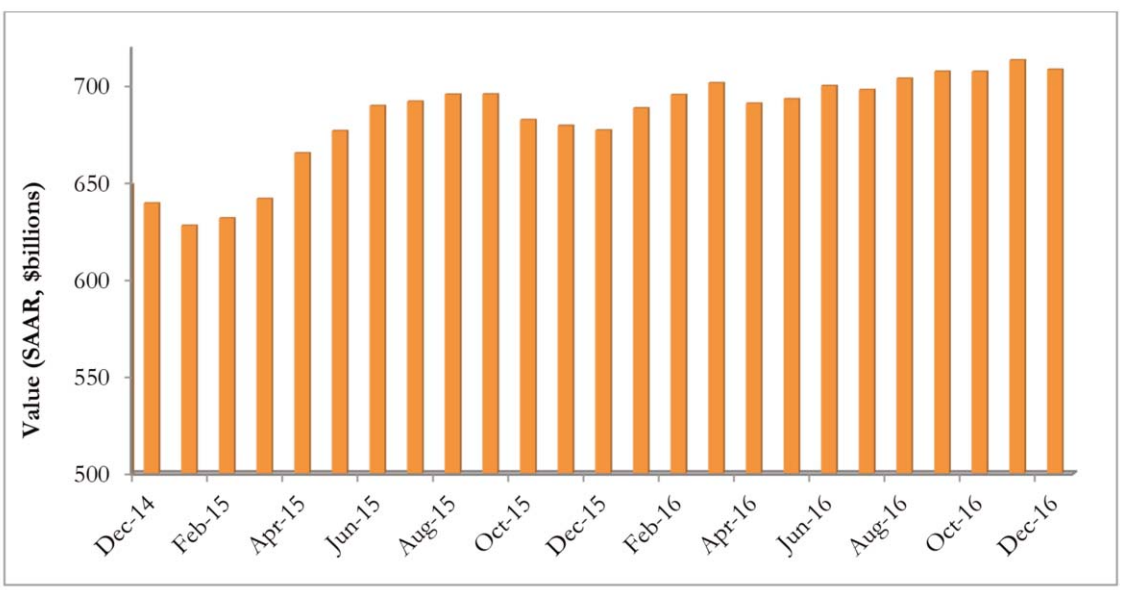
Looking Ahead

The economic outlook for 2017 appears benign. CEO confidence is high. With banks likely to face a slimmed down regulatory environment, more capital will be made available to enterprises of various sorts. This will not only translate into faster economic growth, but real estate and construction stand to be among the primary beneficiaries.

As always, there are risks to the economic environment. Asset prices of various types, whether stocks, office buildings, hotels, or apartment buildings, are elevated. It could be argued that mini-bubbles have already begun to form. At the same time, inflationary pressures are building, including in the forms of more rapid wage growth, healthcare costs, apartment rents, and fuel. Should inflationary pressures continue to build, interest rates may rise faster than is presently anticipated, which, in turn, could undermine high asset prices.

For now, threats to the outlook remain distant from the perspective of most economic actors. Consumer spending should be strong in 2017. Business investment should blossom this year. Expected increases in defense spending will provide even more support for an economy that has already been approaching full employment.

Exhibit 3. *Nonresidential Construction Spending, December 2014 through December 2016*



Sources: U.S. Census Bureau

Fourth Quarter 2016 Performance	Quarterly Values			% Change from	
Gross Domestic Product	**2016Q4**	**2016Q3**	**2016Q2**		
Overall Real GDP	1.90%	3.50%	1.40%	NA	NA
Nonresidential Fixed Investment in Structures	2.40%	1.40%	1.00%	NA	NA
Construction Spending, Seasonally Adjusted (in $millions)	**16-Dec**	**16-Nov**	**15-Dec**	**16-Nov**	**15-Dec**
Total Construction	$1,181,523	$1,184,434	$1,133,678	-0.20%	4.20%
Residential	$473,279	$471,374	$456,684	0.40%	3.60%
Nonresidential	$708,244	$713,060	$676,994	-0.70%	4.60%
Lodging	$27,316	$28,622	$22,781	-4.60%	19.90%
Office	$75,796	$75,069	$57,872	1.00%	31.00%
Commercial	$78,715	$78,243	$70,304	0.60%	12.00%
Health care	$41,899	$41,635	$39,129	0.60%	7.10%
Educational	$90,638	$92,626	$86,357	-2.10%	5.00%
Religious	$3,421	$3,659	$3,529	-6.50%	-3.10%
Public safety	$8,269	$8,085	$8,507	2.30%	-2.80%
Amusement and recreation	$22,791	$22,856	$20,175	-0.30%	13.00%
Transportation	$42,115	$42,725	$45,029	-1.40%	-6.50%
Communication	$21,666	$20,541	$21,124	5.50%	2.60%
Power	$93,545	$92,480	$93,655	1.20%	-0.10%
Highway and street	$94,530	$95,128	$93,258	-0.60%	1.40%
Sewage and waste disposal	$19,321	$20,483	$23,563	-5.70%	-18.00%
Water supply	$11,640	$11,853	$11,672	-1.80%	-0.30%
Conservation and development	$7,836	$7,984	$6,946	-1.90%	12.80%
Manufacturing	$68,745	$71,072	$73,093	-3.30%	-5.90%
Employment, Seasonally Adjusted (in thousands)	**17-Jan**	**16-Dec**	**16-Jan**	**16-Dec**	**16-Jan**
National Total Nonfarm	145,554	145,327	143,211	0.20%	1.60%
Construction	6,809	6,773	6,639	0.50%	2.60%
Residential building	762	753	717	1.20%	6.30%
Nonresidential building	753	750	752	0.50%	0.20%
Heavy and civil engineering construction	939	933	943	0.70%	-0.50%
Residential specialty trade contractors	1,921	1,910	1,838	0.60%	4.50%
Nonresidential specialty trade contractors	2,433	2,429	2,389	0.20%	1.90%
Producer Price Index [1]	**16-Dec**	**16-Nov**	**15-Dec**	**16-Nov**	**15-Dec**
Finished Goods (seasonally adjusted)	109.5	108.7	107.4	0.70%	2.00%
Inputs to Construction Industries	210	209.1	205.7	0.40%	2.10%
Nonresidential general contractors	103.9	103.8	102.9	0.10%	1.00%
New nonresidential building construction, National	112.1	112.3	111.5	0.20%	0.50%
New nonresidential building construction, Northeast	104.4	104.4	104.1	0.00%	0.30%
New nonresidential building construction, South	105.1	105.2	104.3	-0.10%	0.80%
New nonresidential building construction, Midwest	102.6	102.8	102.3	-0.20%	0.30%
New nonresidential building construction, West	104.6	104.7	103.9	-0.10%	0.70%

[1] *The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. All figures are indexed from a base year, that base year being different for each individual index.*

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Joseph Natarelli

Joseph Natarelli is the national leader of Marcum's Construction Industry Practice and partner-in-charge of the Firm's New Haven office. For more than a decade, he has served as a technical reviewer for the AICPA's Audit Risk Alert for Construction Contractors and the AICPA Accounting Guide – Construction Contractors. Joe has also chaired the annual AICPA National Construction Industry Conference.

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