PSA - IAEO February 2016 Infrastructure Update

FHWA Notices Clear FAST Act Highway Funds for States in Fiscal 2016

The Federal Highway Administration issued the formal apportionment notice and other documents that let states begin using funds allocated to their highway programs under the Fixing America's Surface Transportation Act. The agency's Jan. 8 issuance of the formal documents, http://www.fhwa.dot.gov/legsregs/directives/notices/n4510802/, clears the way for states to now begin tapping that money for the fiscal year that ends Sept. 30.

In all, the FHWA said, the FAST Act provides $39.727 billion in federal-aid highway funding, of which the agency set aside $3.5 million for safety-related activities. That leaves $39.724 billion to be distributed to the states in 2016, under the allocation formula that lets states control 92 percent of the FAST Act's highway funds, up from $37.798 billion last year.

The state-by-state apportionments, http://www.fhwa.dot.gov/legsregs/directives/notices/n4510802/n4510802_t1.cfm, show how much each can spend in federal funds in seven categories that include the largest – the National Highway Performance Program – and the new category of the National Highway Freight Program.

A related notice, http://www.fhwa.dot.gov/legsregs/directives/notices/n4520240/, spells out the limits on how much contract authority each state has for this year. The highway program's overall obligation limitation has risen from $40.256 billion in fiscal 2015 to $42.361 billion this year.

The FHWA has set up a FAST Act website, http://www.fhwa.dot.gov/fastact/presentations.cfm that include presentations on its features, along with the funding notices.

Source: AASHTO Journal

More FAST Act Program Details

The American Association of State Highway and Transportation Officials (AASHTO) has established an information portal with detailed information. This is a regularly updated resource on implementation of the Fixing America's Surface Transportation (FAST) Act. The portal contains AASHTO's program-by-program breakdown of the authorization and links to various information about the Act from USDOT resources. Be sure to visit and bookmark this important resource: http://fast.transportation.org/Pages/default.aspx.

Hyperloop Enters the Transportation Market

Originally proposed by Elon Musk in 2013, the Hyperloop is emerging globally as the fifth mode of modern transportation. Hyperloop Transportation Technologies, Inc. (HTT) (hyperloop.global) will be breaking ground in 2016 on a five mile fully operational track in Quay Valley, California.

The Hyperloop consists of a pod hovering in a low-pressure, low-resistance tube. The internal air pressure will be augmented to mimic that of a high altitude aircraft. The low pressure allows for the pods to accelerate to speeds of up to 760 mph. The systems are designed with consideration for a ground- level footprint. The entire system is built on pylons, decreasing cost to acquire land and generating an autonomous environment, secured from ambient weather conditions. Engineered pylons render the structure earthquake stable and virtually crash proof. Hyperloop systems will be self-sustained and powered by top mounted photovoltaic panels or other renewable energy systems.
To find out more, visit www.hyperloop.global .

Flint Michigan Drinking Water Disaster

The Flint, MI disaster is but one example of the critical state of America's aging water and wastewater infrastructure.

According to the city's Request for Presidential Disaster Assistance, "On April 25, 2014, the City of Flint switched from the Detroit Water System (DWSD) to water from its own water treatment plant drawn from the Flint River as its primary water source. The different characteristics of the water resulted in leaching of lead from lead pipes in the city's water infrastructure into the water supply. Increased exposure to lead can cause immediate negative health effects. However, the main health concerns are long-term effects in children such as developmental and cognitive delays, and behavioral disorders. Increased water lead levels and elevated blood lead levels in young children were observed in the City of Flint and confirmed by the State Chief Medical Executive. '

The city estimates that it will initially need $41,000,000 for 90 days of emergency water distribution, and the one-year supply of filters, cartridges, and water test kits; and $54,619,500 to repair damaged lead service lines on private property. And this is just the beginning. Damage assessments conducted by the City of Flint with the Genesee County Equalization Department concluded that the total potential damages to the City of Flint water distribution infrastructure is estimated at $712,800,000. And this does not begin to address the human toll caused by the disaster.

2016 TIGER Discretionary Grants

On December 18, President Obama signed the 2016 Omnibus Appropriations Act into law, appropriating $500 million for an eighth round of the Transportation Investment Generating Economic Recovery (TIGER) competitive grant program. Similar to previous rounds of TIGER, the Department of Transportation (DOT) is authorized to award up to $500 million to road, rail, transit and port projects that will have a significant impact on the Nation, a metropolitan area, or a region. Further information on the eighth round will be made available within the coming months.

Annual *Public Works* Funding Forecast Survey Results

Every fall, *Public Works* magazine asks its readers about their budgets and funding challenges for the coming year. Last year's survey found that the outlook was starting to improve for public works budgets.

Their 2016 economic forecasts for cities/states are more favorable than last year.

O&M: One-quarter have more to spend on operations and maintenance (O&M) than they did in 2015, and almost two-thirds (62%) say their budget is about the same as last year. Ten percent of respondents have less money in their O&M budgets.

Capital improvement plans: When asked about capital spending, 24% of respondents have more funding than last year, more than half (53%) have about the same, and 18% have less funds. Last year's percentages were 27%, 47%, and 17%, respectively. The biggest increase is once again those whose budgets remain the same, a 6% uptick.

You can read the full article at http://www.pwmag.com/budgeting/2016-public-works-budget-forecast_o_1.aspx .

Construction Firms Forecast Public and Private Markets to Grow in 2016

Seventy-one percent of construction firms plan to expand their payrolls in 2016 as contractors expect a range of public and private markets to grow, according to

The 2016 Construction Hiring and Business Outlook report released by Sage Construction and Real Estate and the Associated General Contractors.

71 percent of firms say they will increase their headcount in 2016. In most cases, however, that hiring will only lead to modest increases in the overall size of firms. Sixty-three percent of firms report their planned hiring will increase total headcount between 1 and 25 percent while 8 percent report they will expand their headcount by more than 25 percent this year

Contractors expect a mix of private and public sector market segments will drive demand for construction in 2016. As measured by the net positive reading – the percentage of respondents who expect a market segment to expand versus the percentage who expect it to contract – respondents are most optimistic about the outlook for retail, warehouse and lodging (21 percent net positive). Respondents were also positive about the outlook for hospital (19 percent net positive), private office (19 percent), multifamily residential (14 percent) and higher education (13 percent) construction. And they are optimistic about the prospects for K-12 school (12 percent) and public building (12 percent) construction, particularly in contrast to last year when contractors were generally pessimistic about all public construction market segments.

Construction firms continue to cope with shortages of available workers. Seventy percent of firms report they are having a hard time finding either salaried or craft professionals. And 69 percent of respondents predict that labor conditions will remain tight, or get worse, during the next twelve months.

Firms are responding to worker shortages by increasing pay and/or benefits. Forty-nine percent of respondents report they have increased base pay rates, 30 percent report they are providing incentives and/or bonuses and 23 percent report they have increased their contributions to employee benefits to retain or recruit workers. And nearly half of firms report they plan to increase their investments in training and development compared to 2015

Please select https://www.agc.org/news/2016/01/06/seventy-one-percent-construction-firms-plan-expand-headcount-2016-contractors-expect for more information on the Outlook report.

President's 2017 Budget Proposal Summary for Infrastructure

The Obama Administration's 2017 budget proposal, released on Tuesday, calls for a new oil tax to fund transportation infrastructure, cuts water programs, and puts increased emphasis on cybersecurity. Click https://www.whitehouse.gov/omb/budget for more information.

The budget fully funds highway and transit levels authorized in the FAST Act and increases TIGER grants from $500 million to $1.25 billion. It decreases funding for the Airport Improvement Program from $3.35 billion to $2.9 billion, but offsets the cut by raising the cap on Passenger Facility Charges collected by airports.

The plan also includes $320 billion over ten years in new spending for “21st Century Clean Transportation Plan Investments,” including $18 billion in Fiscal Year 2017 for transit, high-speed passenger rail, freight projects, and pollution reduction and climate mitigation strategies. The program would be funded by a new $10-per-barrel tax on oil.

Funding for the Army Corps of Engineers is reduced by 22 percent, to $4.6 billion. The Corps' operations and maintenance account falls by 14 percent to $2.7 billion, and the construction budget is cut by 40 percent to $1.1 billion.

The budget reduces funding for water programs, cutting the State Revolving Fund programs for wastewater and drinking water from $2.9 billion to $2.67 billion; it also calls for a 35-percent increase in federal funding to enhance cybersecurity, both private and public, as part of a new Cybersecurity National Action Plan, setting aside $19 billion for FY17.

The proposal includes a number of tax code changes of interest to ACEC Member Firms, including permanent extensions of the renewable energy tax credits and the Section 179D energy-efficient commercial buildings tax deduction. The President is once again proposing to increase the small business threshold for the use of cash accounting from $10 million to $25 million.

The budget would also modify the 3.8 percent net investment income tax (NIIT) in the Affordable Care Act (ACA). Currently, the NIIT only applies to the income of S corporation shareholders, partners, and LLC members who do not work at the business. The budget proposal would apply the NIIT to pass-through owners who are actively involved in running the business, which would represent a significant tax increase on many engineering firm owners.

Source: ACEC Last Word

Obama Proposes $10 Per Barrel Oil Tax to fund Transportation Initiatives

President Obama is proposing a $10 per barrel oil tax, to be phased in over five years, that is intended to pay for transportation initiatives, including new rail corridors, highway projects, pilot projects for self-driving cars and other technologies the administration would consider to be part of a “clean transportation” system.

The White House announced this week that the budget to be presented to Congress next week will include an “oil fee” that would raise “the funding necessary to make these new investments, while also providing for the long-term solvency of the Highway Trust Fund to ensure we maintain the infrastructure we have."

Republicans quickly came out swinging against it:

"Once again, the president expects hardworking consumers to pay for his out of touch climate agenda," House Speaker Paul Ryan said in a statement. He said it was "little more than an election-year distraction" and that it would be "dead on arrival in Congress."

Senate Finance Committee Chairman Orrin Hatch (R-Utah) said in an email to the Washington Post that "this is a backdoor gas tax hike and it'll be hard-working American families that will have to foot the bill every time they go to the pump."

The oil tax, which would work out to about 24 cents a gallon when fully in place, would create an incentive for the private sector to use oil products more efficiently, thus reducing the amount of climate-changing carbon dioxide released into the atmosphere. It is thus seen as a "two-fer" by those in support of the measure.

"Gasoline taxes haven't been raised in 25 years, so actually rather than being radical, this proposal is simply returning to standard practice in place since the Eisenhower years of funding of transport infrastructure through small fuel taxes," said Paul Bledsoe, an independent energy consultant in Washington who worked as a climate aide in the Clinton White House.

The White House said it would also again propose business tax reform. As part of that reform, lower corporate tax rates would encourage a one-time surge in federal revenues from previously untaxed profits currently being held overseas, generating funds that would help pay for the infrastructure program.

The administration said it would devote $20 billion of what is raised to expand transit systems in cities, suburbs and rural areas; make high-speed rail a viable alternative to flying in major regional corridors and invest in new rail technologies; modernize the nation's freight system; and expand the Transportation Investment Generating Economic Recovery (TIGER) program launched in 2009 to support local projects. The budget would also use roughly $10 billion per year in revenues for shifting how local and state governments design regional transportation projects.

Source: ***Road & Bridges*** *magazine*

Fiber Optic Networks Experience Huge Growth

The number of homes in the United States directly connected to fiber optic networks continues to grow – 13 percent in 2015, reports the Fiber to the Home Council (FTTH) survey.

More than 12.3 million homes in the U.S. are connected to fiber, said Michael Render, president of RVA, LLC, the research firm conducting the survey which is based on information provided by North American broadband service providers.

“It is the second biggest year for fiber expansion since fiber technology became available,” Render continued. “In 2015 nearly 3 million new homes were passed (homes in locations where they can be connected to fiber), and currently 26 million homes are passed and fiber connectivity is being marketed to them.”

The study found that almost 20 percent of all true fiber connections are in the U.S. Further, the study reports there is almost a 50 percent “take” rate of homes passed – that is households accepting the opportunity to be fiber connected.

“That is a very high take rate by world standards,” said Render. “The industry is poised for substantial growth over the next five years.”
With faster speeds and better reliability, fiber sells itself,” said Heather Burnett Gold, FTTH Council president.

“Happy consumers,” said the survey report, “mean more growth. Most of the FTTH growth is driven by consumer experience and word of mouth. FTTH consumers report higher than 50 percent satisfaction with fiber than with DSL or cable. Faster speeds and reliability of service drive consumer satisfaction.”

Broad growth

On a broader scope, the survey cites nearly 34 million homes in the U.S., Canada, Mexico and the Caribbean are passed and being marketed for fiber to the home. Canada’s growth is accelerating with 2.4 million homes marketed.

Looking ahead, the reports says providers of fiber broadband have their sights set on symmetrical and gigabit service in the U.S. and Canada. “More than half of the 1,000-plus service providers in North America expect to offer gigabit within five years,” the survey found. FTTH isn’t limited to urban areas as a surprising number of small rural communities are boasting fiber networks superior to big-city dwellers. These “private” networks serve areas where the big carriers don’t go and include fiber to businesses which allows the cities to compete with metropolitan areas for new business.

The FTTH survey does not include business connections, but the FTTX (fiber to anywhere) is another huge growth area as both large and small businesses find high-speed fiber is necessary to compete in today's markets.

For more information visit the FTTH Council Americas at http://www.ftthcouncil.org/ .

Latest Economic Indicators at a Glance

Annual Employment Report

Total nonfarm payroll employment rose by 151,000 in January, and the unemployment rate was little changed at 4.9 percent. Job gains occurred in several industries, led by retail trade, food services and drinking places, health care, and manufacturing. Employment declined in private educational services, transportation and warehousing, and mining.

Construction Employment

The U.S. construction industry's unemployment rate rose to 8.5 percent in January, the highest level since March of 2015.The unemployment rate across all industries shed a tenth of a percentage point and now sits at 4.9 percent, the lowest level since February of 2008.

The construction industry added 18,000 net new jobs in January and 264,000 over the past twelve months, a 4.2 percent increase. The nonresidential construction sector added only 2,900 jobs in January after adding 16,200 jobs in December (revised downward from 16,400 new jobs) and 17,100 new jobs in November.

January's nonresidential figure was hampered by jobs losses in the nonresidential specialty trade contractor subsector, which lost 2,400 jobs for the month. The residential sector added 20,100 net new jobs, while the heavy and civil engineering segment lost 5,200 jobs.

"The headline for January is that the U.S. economy added 151,000 jobs and overall unemployment fell to 4.9 percent, but the more interesting and important information can be found beneath the surface," said ABC Chief Economist Anirban Basu. "Unlike the balance of the economy, which was associated with declining unemployment in January, construction's unemployment rate swelled by a full percentage point during the month.

"However, one could still view the report as positive from the perspective of the typical contractor," said Basu. "Contractors have been wrestling with shortfalls in appropriately trained workers. The implication is that more people are beginning to realize there are growing opportunities to find work in the industry. It is also likely that the rising unemployment rate is a reflection of large numbers of dislocated energy workers now looking for work in occupations where their skill sets translate.

"There are also reasons to place less weight on weakness in nonresidential job creation in January," said Basu. "First, seasonal factors wreak havoc on construction data this time of year. Second, much of the weakness was in heavy and civil engineering, which by most accounts can look forward to a brighter future, given recent federal funding commitments. For now, the nonresidential construction recovery remains in place, but there are indications that cracks are forming in the ongoing economic recovery, and that those cracks could widen further as the year progresses."

- Nonresidential building construction employment expanded by 5,300 jobs in January and is up by 12,100 jobs or 1.7 percent on a year-over-year basis.
- Residential building construction employment expanded by 7,500 jobs in January and is up by 28,900 jobs or 4.2 percent on a year ago basis.
- Nonresidential specialty trade contractors lost 2,400 jobs for the month but employment in that category is up by 95,800 jobs or 4.2 percent from the same time one year ago.
- Residential specialty trade contractors added 12,600 net new jobs in January and have added 120,600 jobs or 7.0 percent since January 2015.
- The heavy and civil engineering construction segment lost 5,200 jobs in January but is up by 7,100 positions or 0.8 percent on a year-over-year basis.

Consumer Confidence

"Consumer confidence improved slightly in January, following an increase in December," said Lynn Franco, Director of Economic Indicators at The Conference Board. "Consumers' assessment of current conditions held steady, while their expectations for the next six months improved moderately. For now, consumers do not foresee the volatility in financial markets as having a negative impact on the economy."

Consumers' appraisal of current conditions was relatively flat in January. The percentage saying business conditions are "good" was virtually unchanged at 27.2 percent, while those saying business conditions are "bad" declined slightly from 18.9 percent to 18.5 percent. Consumers' assessment of the labor market was modestly more positive. The proportion claiming jobs are "plentiful" decreased from 24.2 percent to 22.8 percent, while those claiming jobs are "hard to get" declined to 23.4 percent from 24.5 percent.

Consumers' optimism about the short-term outlook improved somewhat in January. The percentage of consumers expecting business conditions to improve over the next six months rose from 14.5 percent to 16.2 percent, while those expecting business conditions to worsen edged down from 10.8 percent to 10.3 percent.

Consumers' outlook for the labor market was also slightly more optimistic. Those anticipating more jobs in the months ahead increased from 12.4 percent to 13.2 percent, while those anticipating fewer jobs decreased slightly from 16.8 percent to 16.5 percent. The proportion of consumers expecting their incomes to increase improved from 16.3 percent to 18.1 percent. However, the proportion expecting a reduction in income increased from 9.5 percent to 10.8 percent.

Gross Domestic Product (GDP)

Real gross domestic product -- the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production, adjusted for price changes -- increased at an annual rate of 0.7 percent in the fourth quarter of 2015, according to the "advance" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 2.0 percent.

Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1 percent in December on a seasonally adjusted basis. Over the last 12 months, the all items index increased 0.7 percent before seasonal adjustment.

The indexes for energy and food both declined for the second month in a row, leading to the decline in the seasonally adjusted all items index. The energy index fell 2.4 percent as all major component energy indexes declined. The food index fell 0.2 percent as the index for food at home decreased 0.5 percent, led by a sharp decline in the index for meats, poultry, fish, and eggs.

The index for all items less food and energy rose 0.1 percent in December, its smallest increase since August. The index for shelter continued to rise, and the indexes for medical care, household furnishings and operations, motor vehicle insurance, education, used cars and trucks, and tobacco also increased in December. However, a number of indexes declined, including those for apparel, airline fares, personal care, new vehicles, and communication.

The all items index rose 0.7 percent over the last 12 months, compared to the 0.5 percent 12 month increase for the period ending November. The food index rose 0.8 percent over the last 12 months, though the index for food at home declined. The energy index fell 12.6 percent, with all its major components decreasing. The index for all items less food and energy increased 2.1 percent over the last 12 months.

Producer Price Index

The Producer Price Index for final demand advanced 0.1 percent in January, seasonally adjusted. Final demand prices decreased 0.2 percent in December and advanced 0.4 percent in November. On an unadjusted basis, the final demand index declined 0.2 percent for the 12 months ended in January.

Productivity and Costs

Nonfarm business sector labor productivity decreased at a 3.0-percent annual rate during the fourth quarter of 2015, as output increased 0.1 percent and hours worked increased 3.3 percent. (All quarterly percent changes in this release are seasonally adjusted annual rates.) From the fourth quarter of 2014 to the fourth quarter of 2015, productivity increased 0.3 percent. (See table A.) Annual average productivity increased 0.6 percent from 2014 to 2015. (See table C.)

Labor productivity, or output per hour, is calculated by dividing an index of real output by an index of hours worked of all persons, including employees, proprietors, and unpaid family workers.

Unit labor costs in the nonfarm business sector increased 4.5 percent in the fourth quarter of 2015, reflecting a 1.3-percent increase in hourly compensation and a 3.0-percent decrease in productivity. Unit labor costs increased 2.8 percent over the last four quarters.

Factory Orders

New orders for manufactured durable goods in December decreased $12.0 billion or 5.1 percent to $225.4 billion. This decrease, down four of the last five months, followed a 0.5 percent November decrease. Excluding transportation, new orders decreased 1.2 percent. Excluding defense, new orders decreased 2.9 percent.

Transportation equipment, also down four of the last five months, led the decrease, $10.1 billion or 12.4 percent to $71.3 billion.

Employment Cost Index

Compensation costs for civilian workers increased 0.6 percent, seasonally adjusted, for the 3-month period ending in December 2015 Wages and salaries (which make up about 70 percent of compensation costs) increased 0.6 percent, and benefits (which make up the remaining 30 percent of compensation) increased 0.7 percent.

Civilian Workers

Compensation costs for civilian workers increased 2.0 percent for the 12-month period ending in December 2015. In December 2014, compensation costs increased 2.2 percent. Wages and salaries increased 2.1 percent for the current 12-month period, unchanged from the 12-month period ending in December 2014. Benefit costs increased 1.7 percent for the 12-month period ending in December 2015. In December 2014, the increase was 2.6 percent. (See chart 2 and tables A, 4, 8, and 12.)

Private Industry Workers

Compensation costs for private industry workers increased 1.9 percent over the year, slowing from the December 2014 increase of 2.3 percent. Wages and salaries increased 2.1 percent for the current 12-month period. In December 2014, the increase was 2.2 percent. The increase in the cost of benefits was 1.3 percent for the 12-month period ending in December 2015, lower than December 2014 when the increase was 2.5 percent.

Employer costs for health benefits increased 3.0 percent over the year. In December 2014, the increase was 2.4 percent. Among occupational groups, compensation cost increases for private industry workers for the 12-month period ending in December 2015 ranged from 1.4 percent for natural resources, construction, and maintenance occupations to 2.6 percent for production, transportation, and material moving occupations.

Among industry supersectors, compensation cost changes for private industry workers for the current 12-month period ranged from -1.4 percent for information to +2.6 percent for other services, except public administration.

State and Local Government Workers

Compensation costs for state and local government workers increased 2.5 percent for the 12-month period ending in December 2015. In December 2014, the increase was 2.0 percent. Wages and salaries increased 1.8 percent for the 12-month period ending in December 2015, and in December 2014 the increase was 1.6 percent. Benefit costs increased 3.5 percent in December 2015, higher than in December 2014 when the increase was 2.9 percent.

Real Earnings

Real average hourly earnings for all employees increased 0.1 percent from November to December, seasonally adjusted. This result stems from no change in average hourly earnings combined with a 0.1-percent decrease in the Consumer Price Index for All Urban Consumers (CPI-U).

Real average weekly earnings increased 0.1 percent over the month due to the increase in real average hourly earnings combined with no change in the average workweek.

Real average hourly earnings increased 1.8 percent, seasonally adjusted, from December 2014 to December 2015. This increase in real average hourly earnings combined with a 0.3-percent decrease in the average workweek resulted in a 1.6-percent increase in real average weekly earnings over this period.

Construction Spending

Construction spending during December 2015 was estimated at a seasonally adjusted annual rate of $1,116.6 billion, 0.1 percent above the revised November estimate of $1,116.0 billion. The December figure is 8.2 percent above the December 2014 estimate of $1,031.6 billion.

The value of construction in 2015 was $1,097.3 billion, 10.5 percent (±1.2%) above the $993.4 billion spent in 2014.

Spending on private construction was at a seasonally adjusted annual rate of $824.0 billion, 0.6 percent below the revised November estimate of $828.8 billion. Residential construction was at a seasonally adjusted annual rate of $429.6 billion in December, 0.9 percent above the revised November estimate of $425.8 billion. Nonresidential construction was at a seasonally adjusted annual rate of $394.4 billion in December, 2.1 percent below the revised November estimate of $403.0 billion.

The value of private construction in 2015 was $806.1 billion, 12.3 percent above the $717.7 billion spent in 2014. Residential construction in 2015 was $416.8 billion, 12.6 percent above the 2014 figure of $370.0 billion and nonresidential construction was $389.3 billion, 12.0 percent above the $347.7 billion in 2014.

In December, the estimated seasonally adjusted annual rate of public construction spending was $292.5 billion, 1.9 percent above the revised November estimate of $287.1 billion. Educational construction was at a seasonally adjusted annual rate of $69.4 billion, 0.5 percent below the revised November estimate of $69.8 billion. Highway construction was at a seasonally adjusted annual rate of $95.4 billion, 9.4 percent above the revised November estimate of $87.2 billion.

The value of public construction in 2015 was $291.2 billion, 5.6 percent above the $275.7 billion spent in 2014. Educational construction in 2015 was $67.3 billion, 6.8 percent above the 2014 figure of $63.0 billion and highway construction was $89.6 billion, 6.7 percent above the $84.0 billion in 2014.

Nonresidential Construction Spending

Nonresidential construction spending dipped for a second consecutive month, falling 0.4 percent on a monthly basis in December, according to analysis of U.S. Census Bureau data released today by Associated Builders and Contractors (ABC). Nonresidential construction spending totaled $681.2 billion on a seasonally adjusted, annualized basis. November's nonresidential construction spending estimate was revised lower by 0.6 percent to $683.7 billion.

For a second consecutive month, 12 of 16 nonresidential subsectors experienced spending decreases on a monthly basis. Private nonresidential spending dipped 2.1 percent for the month, while public sector spending expanded 2.2 percent.

"December's estimate is a bit unnerving not only because it represents a second consecutive month of spending decline, but also because unusually warm temperatures should have helped to translate into better spending performance," said ABC Chief Economist Anirban Basu. "A number of leading indicators suggest that nonresidential construction spending performance will remain choppy moving forward, both for the broader economy and the nation's nonresidential construction segment, including the Baltic Dry Index, the Conference Board's Index of Leading Economic Indicators and the Architecture Billings Index.

"This is not to suggest that the nonresidential recovery will end in the near term," said Basu. "Most firms continue to report healthy backlog and hiring remains aggressive, implying that many firms are staffing up in order to perform on forthcoming contractual opportunities. However, private credit is beginning to tighten and becoming more expensive. Consumer delinquencies are edging higher and corporate bond defaults have been climbing. Accordingly, many contractors may experience a slowdown in backlog accumulation in 2016, with the 2017-2018 economic outlook remaining decidedly murky."

Only four of 16 nonresidential construction sectors experienced spending increases in December on a monthly basis:

- Spending in the highway and street category expanded by 9.6 percent on a monthly basis and 11.7 percent on a yearly basis.
- Communication-related spending increased 4 percent month over month and 37.2 percent year over year.
- Sewage and waste disposal-related spending expanded 1.3 percent for the month, but fell 9.7 percent from the same time last year.
- Spending in the amusement and recreation category climbed 0.5 percent on a monthly basis and 9.2 percent on a year-over-year basis.

Spending in 12 of the nonresidential construction subsectors fell in December on a monthly basis:

- Spending in the power category fell 0.3 percent from November 2015, but is 7.6 percent higher than in December 2014.
- Commercial-related construction spending fell 0.6 percent for the month and 3.2 percent for the year.
- Educational-related construction spending fell 0.8 percent on a monthly basis, but expanded 10 percent on a yearly basis.

- Transportation-related spending fell 0.8 percent month over month, but expanded 2.3 percent year over year.
- Lodging-related spending was down 1.3 percent for the month, but is up 29.1 percent on a year-ago basis.
- Spending in the office category fell 1.8 percent from November 2015, but is up 16.6 percent from December 2014.
- Water supply-related spending fell 2.9 percent on a monthly basis and 6.6 percent on a yearly basis.
- Health care-related spending fell 3.2 percent month over month, but is up 0.4 percent year over year.
- Spending in the religious category fell 4.1 percent for the month and 1.7 percent for the year.
- Public safety-related spending declined 4.6 percent for the month and 7.4 percent for the year.
- Manufacturing-related spending fell 7.2 percent from November 2015, but is 19.6 percent higher than in December 2014.
- Conservation and development-related spending declined 9.9 percent on a monthly basis and is 8 percent lower on a yearly basis.

Construction Materials Prices

Construction input prices fell by 0.6 percent during January 2016 according to an analysis of the Bureau of Labor Statistics Producer Price Index released today by the Associated Builders and Contractors (ABC). Construction input prices are down 2.7 percent from January 2015 and have now decreased on a year-over-year basis for 14 consecutive months.

The implication is that global deflationary forces have now been in place for well over a year, which has translated into growing volatility in many regional economies and in financial markets. Prices for inputs to nonresidential construction have behaved similarly, falling 0.8 percent on a monthly basis and 2.7 percent on an annual basis. Inputs related to energy—e.g., crude petroleum, natural gas, and unprocessed energy materials—plummeted again in January, contributing heavily to overall construction input price declines.

“A set of extraordinary circumstances has contributed to the ongoing decline in nonresidential construction input prices,” said ABC Chief Economist Anirban Basu. “Global commodity prices have been trending lower for months with limited, sporadic exception. The end of China’s construction bonanza has certainly contributed. Decreased demand for inputs to construction ranging from copper to iron ore has served to flood global markets with excess supply, leading to falling prices. Significant oil production among OPEC and non-OPEC nations alike has collided with flat demand, helping to push energy prices lower.

“With Russia and Brazil remaining in recession and with the Chinese economy continuing to slow, input prices are likely to remain low for quite some time,” said Basu. “While it is possible that prices will begin to rise, increases are likely to be gradual absent some coordinated action by producers to limit supply. Falling input prices certainly carry positives, but there are also large risks involved. Corporate bond defaults are up, particularly in the U.S. energy sector. Job losses continue among energy workers and several states are already in recession. These factors alone are unlikely to drive the economy into recession, but rising defaults could make capital more difficult to access going forward, which could limit construction starts."

Four key input prices expanded in January on a monthly basis:

- Nonferrous wire and cable prices expanded 2.1 percent on a monthly basis, but fell 5.2 percent on a yearly basis.
- Iron and steel prices grew by 1.1 percent month-over-month, but have declined 22.3 percent year-over-year.
- Softwood lumber prices expanded 0.7 percent for the month, but fell 7.2 percent on an annual basis.
- Prices for prepared asphalt and tar and roofing and siding products increased by 0.5 percent on a monthly basis, but are down 2 percent on a year-over-year basis.

Seven key input prices remained flat or declined on a monthly basis:

- Crude petroleum prices plunged 23.1 percent from December 2015 and are down 38.6 percent from January 2015.
- Unprocessed energy material prices fell 10 percent on a monthly basis and 26.4 percent on a yearly basis.
- Natural gas prices shed 3.5 percent for the month and are down 31 percent for the year.
- Fabricated structural metal prices products fell 0.9 percent month-over-month and 1.9 percent year-over-year.
- Prices for steel mill products fell 0.3 percent on a monthly basis and are down 19.2 percent on a yearly basis.
- Prices for plumbing fixtures and fittings fell 0.2 percent for the month and are up only 0.8 percent from the same time one year ago.
- Concrete product prices remained unchanged on a monthly basis, but have expanded 2.5 percent year-over-year.

Retail Sales

U.S. retail and food services sales for January, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $449.9 billion, an increase of 0.2 percent from the previous month, and 3.4 percent above January 2015. Total sales for the November 2015 through January 2016 period were up 2.5 percent from the same period a year ago. The November 2015 to December 2015 percent change was revised from down 0.1 percent to up 0.2 percent.

Retail trade sales were up 0.3 percent from December 2015, and up 3.1 percent from last year. Sporting goods, hobby, book and music stores were up 9.1 percent from January 2015 and nonstore retailers were up 8.7 percent from last year.

New Residential Sales

Sales of new single-family houses in December 2015 were at a seasonally adjusted annual rate of 544,000. This is 10.8 percent above the revised November rate of 491,000 and is 9.9 percent above the December 2014 estimate of 495,000.

The median sales price of new houses sold in December 2015 was $288,900; the average sales price was $346,400. The seasonally adjusted estimate of new houses for sale at the end of December was 237,000. This represents a supply of 5.2 months at the current sales rate.

An estimated 501,000 new homes were sold in 2015. This is 14.5 percent above the 2014 figure of 437,000.

New Residential Construction

Privately-owned housing units authorized by building permits in January were at a seasonally adjusted annual rate of 1,202,000. This is 0.2 percent below the revised December rate of 1,204,000, but is 13.5 percent above the January 2015 estimate of 1,059,000.

Single-family authorizations in January were at a rate of 720,000; this is 1.6 percent below the revised December figure of 732,000. Authorizations of units in buildings with five units or more were at a rate of 442,000 in January.

Privately-owned housing starts in January were at a seasonally adjusted annual rate of 1,099,000. This is 3.8 percent below the revised December estimate of 1,143,000, but is 1.8 percent above the January 2015 rate of 1,080,000.

Single-family housing starts in January were at a rate of 731,000; this is 3.9 percent below the revised December figure of 761,000. The January rate for units in buildings with five units or more was 354,000.
Privately-owned housing completions in January were at a seasonally adjusted annual rate of 1,057,000. This is 2.0 percent above the revised December estimate of 1,036,000 and is 8.4 percent above the January 2015 rate of 975,000.

Single-family housing completions in January were at a rate of 693,000; this is 1.4 percent below the revised December rate of 703,000. The January rate for units in buildings with five units or more was 351,000.

U.S. Trade Balance

The goods and services deficit was $43.4 billion in December, up $1.1 billion from $42.2 billion in November, revised. December exports were $181.5 billion, $0.5 billion less than November exports. December imports were $224.9 billion, up $0.6 billion from November.

The December increase in the goods and services deficit reflected an increase in the goods deficit of $1.3 billion to $62.5 billion and an increase in the services surplus of $0.1 billion to $19.2 billion.

For 2015, the goods and services deficit was $531.5 billion, up $23.2 billion or 4.6 percent from 2014. Exports were $2,230.3 billion, down $112.9 billion or 4.8 percent. Imports were $2,761.8 billion, down $89.7 billion or 3.1 percent.