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PSA - IAEO January 2015 Infrastructure Update

Fiscal Year 2015 Funding

On Dec. 16, President Obama signed into law an omnibus appropriations package that will fund the federal government for the remaining nine and a half months of Fiscal Year 2015 (FY15). The impact on key infrastructure sectors is as follows:

Transportation:

Transit spending was disappointing as the package reduces funding for AMTRAK by $90 million and provides no funding for the President's requested high speed rail project.

The package is essentially status quo for roads, highways and aviation:

The Federal Highway Administration's Obligation Limitation remains unchanged from FY14 at $40.256 billion.

Funding for the Transportation Infrastructure Finance and Innovation Act (TIFIA) also remains unchanged at $1.0 billion.

However, in another disappointing development, funding for Transportation Investment Generating Economic Recovery, or TIGER Discretionary Grant program for National Infrastructure Investments, was decreased by over 16% to $500 million, down from $600 million in FY14.

Funding for the Federal Aviation Administration budget was unchanged as $2.6 billion was allocated for Facilities and Equipment and $3.350 billion was allocated for the Airport Improvement Program.

Water:

The package will fund the Clean Water and Drinking Water State Revolving Fund programs at levels equal to FY14: $1.449 billion for clean water programs and $907 million for drinking water.

The package will fund the Environmental Protection Agency (EPA) at $8.14 billion — a $60 million cut from the FY14 enacted level. The bill also reduces EPA staffing to numbers equal to those in 1989.

$2.2 million was allocated for EPA to hire staff and continue to support the recently authorized Water Infrastructure Finance and Innovation Authority (WIFIA) loan program.

The package does not include an expected policy rider to stop the EPA from developing and implementing the Waters of the U.S. proposed rule. It does, however, include a rider forcing EPA and the Army Corps of Engineers to withdraw a controversial “interpretive” rule that is intended to clarify agricultural conservation practices deemed exempt from Clean Water Act dredge-and-fill permits. Critics say the interpretive rule is rife with legal problems and other flaws. EPA has stated that it intends to finalize the Waters of the U.S. rule in April 2015. Since Republicans control both the House and Senate, there is a possibility that they will push through legislation to halt the proposed rule, but that bill would need enough votes to override a likely veto from the President.

The package also will fund Clean Water Act Section 106 grants at the FY14 enacted level of $230 million, which includes a $17.8 million monitoring set aside. Key funding for the EPA will include $47 million to support enhanced real-time monitoring of coastal and estuarine water quality related to areas affected by extreme weather events and $91 million to support cleanup of leaking underground storage tanks, which can also be used to address groundwater contamination.

The National Water Quality Assessment program is funded at $59.46 million. USGS funding also includes $34 million for the USGS National Streamgage Program and $2.6 million for the National Groundwater monitoring Network.

Funding for the U.S. Army Corps of Engineers is largely unchanged as it will receive $5.483 billion, of which $1.64 billion is for construction, a 1% decrease, and $3 billion is for operations and maintenance, a 1.6% increase.

Source: Water Environment Federation

$163 Billion Needed Annually to Fix Nation's Aging Surface Transportation System

The "2015 Bottom Line Report" on transportation investment needs, released by the American Association of State Highway and Transportation Officials and the American Public Transportation Association, estimates that to meet current demand it will require an annual capital investment over six years by all levels of government in the amount of $120 billion in the nation's highway and bridge network and $43 billion in America's public transportation infrastructure. To meet the combined surface transportation needs, it would require an investment of $163 billion investment per year in surface transportation over a six year period. Despite those dramatic investment needs, currently only $83 billion is invested in roads and bridges, while just $17.1 billion is invested in public transit.

"The top priority for every state transportation department is to keep America's surface transportation system operating safely and efficiently," said AASHTO Executive Director Bud Wright. While the new report highlights a major gap between what is needed and what is actually spent, Wright said that aiming for a more robust investment level "could target the backlog of repair and rehabilitation projects across the country. Workers would benefit – as would the entire U.S. economy."

The report found about 64,000 structurally deficient bridges are still operating across the country. That is after that category shrank by 43 percent from 1994 to 2013 following a major federal infrastructure spending package and state efforts to target older bridge structures.

[A highway bridge is classified as structurally deficient and requiring some kind of maintenance or upkeep if its deck, superstructure, substructure or culvert is rated in "poor" condition. This rating does not mean the bridge is unsafe. All bridges undergo regular inspections and if a bridge is determined to be hazardous it is closed.]

"There is little disagreement about the value of transportation," said Wright. "The key is reaching consensus on Capitol Hill. We hope this report will help decision-makers better understand what's at stake in deciding on a long-term, sustainable stream of revenue to support transportation infrastructure."

The full Bottom Line Report is available at: http://bottomline.transportation.org/

Transportation Hurdles Ahead In 2015 for Congress

According to the Capitol Hill reporter *Roll Call*, "Congress faces far-reaching policy and spending choices that will put members under both time and political pressure in the New Year. Will there be enough time to accomplish all that needs to be done, or will decisions be postponed in favor of short-term expedients?

Here are some of the issues that are likely to be contentious in 2015:

- Unmanned aerial systems: Members of the House Transportation and Infrastructure Committee let Federal Aviation Administration officials know at a Dec. 10 hearing that they're fed up with the agency's slowness in devising a rule to integrate unmanned aerial vehicles into the nation's airspace.

Congress may take some of these decisions into its own hands if the FAA doesn't act quickly enough. Some members see the UAV industry's vast potential being stymied by the FAA's inaction.

- How to pay for airport expansion and upgrades: The airlines and the airports are fighting a protracted battle over whether Congress should raise the $4.50 passenger facility charge to $8.50. Increasing the charge would give airports more capital to invest in expansion and improvements of facilities. The airlines contend that there's no reason to raise airport-related taxes and that airports have "abundant" revenue from other resources.

- Export-Import Bank: Congress has continued the bank's authority only through June 30, so it must decide whether it makes sense to help subsidize foreign airlines' purchases of Boeing planes and other American manufactured goods.

- There's the perennial puzzle of how to pay for highways, bridges, and mass transit systems, since the revenues collected from excise taxes on gasoline and diesel fuel are projected to fall short of the money needed. The current surface transportation authorization expires on May 31.

- Finally we can't ignore the unhappy record of 2014 as a year full of unprecedented events in aviation – especially the threat of the Ebola outbreak to air travel (a threat which seemed bigger at first than it turned out to be) and the July 17 shooting down of a Malaysia Airlines plane with 298 people on board. 2015 may present policy makers with new crises in aviation and other transportation modes."

Continued Construction Industry Growth Forecast in 2015

Associated Builders and Contractors (ABC) forecasts a steady and ongoing economic recovery for the U.S. commercial and industrial construction industries in 2015. The reasonably brisk industry recovery in 2014 should continue in 2015, with momentum especially growing in segments closely related to the current American energy and industrial production resurgence.

“ABC forecasts nonresidential construction spending will expand by roughly 7.5 percent next year,” said ABC Chief Economist Anirban Basu. “The segments that will experience the largest growth in construction spending in 2015 include power (e.g. natural gas-related construction), lodging (leisure and business spending), office space (professional services employment creation) and manufacturing (rebounding industrial production).

“The public sector will see far more sluggish growth in construction spending,” Basu warned. “However, this fits a multi-year pattern with private nonresidential spending exceeding public nonresidential spending by 28 percent in 2014, up from 15.6 percent in 2013.

“There are always issues, of course, including compensation costs that will rise more quickly per worker next year than in years past,” Basu cautioned. “This will be particularly apparent in areas like Louisiana and Northern California, places that have experienced significant economic growth recently. Additionally, while material price inflation has been suppressed, it may accelerate in 2015. Last year, prices were suppressed due to a combination of factors, such as softer growth in most of Europe and Asia, rising energy production here in the U.S., and a stronger dollar. Some of these factors might not be as prominent next year, so the stage could be set for price increases close to 3 percent.

“Taking into account current economic momentum, especially in the form of employment growth, ongoing accommodative monetary policy and increased growth in consumer spending, further stoked by falling gasoline prices, 2015 should be a decent one for the U.S. economy,” said Basu. “Contractors should continue to experience a lengthening backlog and the industry should continue to see increases in nonresidential construction spending and employment growth.”

Year-to-Date Performance: 2013, 2014 and ABC's 2015 Forecast

Indicator	2013	2014*	2015*	% Change 2014-2015
Construction Spending (millions, seasonally adjusted annual rate) - U.S. Census Bureau				
Total Nonresidential				
Lodging	$13,585	$16,180	$18,963	17.2%
Office	$37,620	$44,489	$51,474	15.7%
Commercial	$50,992	$55,920	$61,568	10.1%
Health Care	$41,484	$38,681	$39,532	2.2%
Educational	$77,996	$77,197	$76,965	-0.3%
Power	$90,639	$109,605	$134,705	22.9%
Manufacturing	$47,945	$53,234	$60,101	12.9%
Total All Industries	$568,561	$606,102	$650,954	7.4%
Private Nonresidential				
Lodging	$13,133	$15,653	$18,359	17.3%
Office	$29,785	$36,748	$44,282	20.5%
Commercial	$48,743	$54,337	$60,272	10.9%
Health Care	$30,347	$28,717	$29,779	3.7%
Educational	$16,736	$16,232	$15,852	-2.3%
Power	$78,549	$97,198	$121,570	25.1%
Manufacturing	$47,226	$52,734	$59,873	13.5%
Total All Industries	$304,937	$340,796	$379,306	11.3%
Public Nonresidential				
Office	$7,835	$7,828	$7,192	-8.1%
Commercial	$2,249	$1,641	$1,296	-21.0%
Health Care	$11,137	$9,965	$9,753	-2.1%
Educational	$61,261	$60,967	$61,113	0.2%
Power	$12,090	$12,581	$13,135	4.4%
Total All Industries	$263,624	$265,784	$271,648	2.2%
Construction Employment (thousands, not seasonally adjusted) -U.S. Department of Labor				
Nonresidential Building	673.2	690.4	713.2	3.3%
Residential Building	613.5	664.8	685.4	3.1%
Producer Price Index - U.S Department of Labor				
Inputs to Construction Industries – Index Value	217.1	220.9	228.6	3.5%
ABC' s Construction Backlog Indicator (CBI)				
National Index (in months)	8.2	8.4	9.1	8.1%
Gross Domestic Product (2005 billions of dollars) - U.S Department of Commerce				
Real GDP	2.2%	2.3%	2.8%	N/A

*= Data predictions by ABC Chief Economist

Consumer Sentiment Highest in Eight Years

According to the Thomson Reuters/University of Michigan Consumer Sentiment Index, consumer confidence reached its most favorable level in the December

2014 survey since the last cyclical peak was set in January 2007. The gains over the past several months have been primarily due to improving job and wage prospects, and more recently, to falling gasoline prices. Consumers held the most favorable long-term prospects for the national economy in the past decade. Importantly, the 2014 gains in jobs and wages were widespread across all population subgroups and regions. Overall, the data point toward a gain of about 3.0% in real consumer expenditures during 2015.

Favorable Job Expectations

Consumers reported hearing more positive economic developments in December than any other time in the last thirty years. Most of the news was dominated by job gains as well as declines in gasoline prices. Nearly two thirds of all consumers thought the economy had recently improved, and most impressively, half expected the economy to avoid a recessionary downturn during the next five years, the most favorable reading in ten years. When specifically asked about prospects for the national unemployment rate during the year ahead, in the past three months consumers have held the most favorable outlook during the past 30 years.

Higher Income Gains Expected

The best news on personal finances was that consumers anticipated a significant increase in their incomes during 2015. Consumers expected an annual income gain of 1.7% in December, up from 1.1% in the prior three months and the highest level recorded since 2008. Expected wage gains were especially large among those under age 45, with a median anticipated income gain of 4.7%, up from 2.9% in last December's survey.

Consumer Sentiment Index

The Sentiment Index was 93.6 in the December 2014 survey, up from 88.8 in the November and 82.5 last December. This was the highest level of the Sentiment Index since 96.9 was recorded in January 2007. The Current Conditions Index rose to 104.8 from 102.7 one month ago and 98.6 one year ago. The Expectations Index rose to 86.4 in December from 79.9 in November and 72.1 last December.

Source: Richard T. Curtin • Director, Thomson Reuters/University of Michigan Surveys of Consumers

States Report Moderate Improvements in Fiscal Conditions

According to the Fall 2014 Fiscal Survey of States conducted by the National Association of State Budget Officers (NASBO), moderate growth and stability is projected for state budgets in fiscal 2015. General fund spending and revenue are projected to increase for the fifth consecutive year, based on states' enacted budgets. In contrast to the period immediately following the Great Recession, consistent yea-rover-year growth has helped states steadily increase spending, reduce taxes and fees, close budget gaps and minimize mid-year budget cuts. More and more states are moving beyond recession induced declines, but spending growth is below average in fiscal 2015, as it has been throughout the economic recovery. Additionally, states face rising costs in critical areas of the budget, such as Medicaid and higher education, which continue to outpace inflation as well as general fund revenue growth. Overall, states are in a better position than they were a few years ago, but as the economy continues along a trajectory of slow growth, fiscal challenges are likely to persist from rising spending demands and limited gains in revenue collections.

Forty-three states enacted higher general fund spending levels in fiscal 2015 compared to fiscal 2014. Aggregate spending levels are also expected to rise in fiscal 2015, although by less than the historical average. This means that for most states, spending growth will be limited. General fund spending surpassed pre-recession highs for the first time in fiscal 2013, and is expected to end fiscal 2015 9.4 percent above the pre-recession peak, without adjusting for inflation. Additionally, most states have surpassed pre-recession revenue and spending levels, a key milestone in resuming long-term budget growth. However, it has taken states many years to recover, and with budget growth still below average in fiscal 2015, difficult spending decisions are likely to remain for states.

You can select here for the Full Report.

GOP Control of Senate Improves Legislative Outlook for Pipelines

The ascent of Republicans to majority status in the Senate in 2015 means the pipeline industry will be able to play more effective defense against Obama administration regulations it opposes and more effective offense behind energy legislation it supports.

House Republicans passed several narrow, pipeline-friendly bills in 2013-14 which died in the Democratic-controlled Senate. That was true of H.R. 1900, a pipeline-permitting bill, which would have forced federal agencies to abide by timeframes when considering applications. That bill passed the House 252-165 in late 2013.

Sen. Lisa Murkowski (R-AK), who becomes chairman of Senate Energy in 2015, will likely move quickly on the permitting bill if the House, as expected, passes it quickly, again, at the start of the new year. That bill is just one of 30 pieces of legislation that the House Republicans packaged into one bill called H.R. 2 in September. The bill passed with only Republican support. Besides H.R. 1900, H.R. 2 included pro-energy provisions dealing with LNG exports, the Keystone

XL pipeline, state authority to regulate fracking, offshore oil and gas leasing and other provisions.

Source: Pipeline & Gas Journal, December 2014

Latest Economic Indicators at a Glance

Annual Employment Report

Nonfarm payroll employment rose by 252,000 in December, and the unemployment rate declined by 0.2 percentage point to 5.6 percent. Job gains occurred in professional and business services, construction, food services and drinking places, health care, and manufacturing.

Incorporating revisions for October and November, which increased total nonfarm payroll employment by 50,000, monthly job increases have averaged 289,000 over the past 3 months. In 2014, job growth averaged 246,000 per month, compared with 194,000 per month in 2013.

Construction Employment

The U.S. construction industry added 20,000 jobs in November, with nonresidential construction contributing 4,900 of them. October's overall construction estimate was revised downward from 12,000 to 7,000 net new jobs and nonresidential construction lost 2,100 jobs in October, after revisions.

"Nonresidential construction added nearly 5,000 jobs in November and the outlook remains positive," said Associated Builders and Contractors Chief Economist Anirban Basu. "It is important to note that the greatest constraint on nonresidential job growth may no longer be a lack of demand for construction services, but rather a lack of supply of sufficiently skilled workers. Growing demand for human capital coupled with tighter labor markets strongly suggests that industry wage pressures will expand in 2015, perhaps to the extent that margins will be rendered too thin for many firms, even in the face of rising demand for services.

"While the national construction unemployment rate expanded from 6.4 percent to 7.5 percent on a non-seasonally adjusted basis in November, this is primarily due to seasonal factors," Basu explained. "The construction unemployment rate has historically expanded during the colder months of the year, and November's figure should not be seen as a cause for concern.

"The U.S. economy has shifted into a higher gear," said Basu. "A combination of surging stock prices, lower energy costs, rising consumer confidence, solid job creation, and improvement in the quality of jobs being added has helped move the economy closer to a sustained 3 percent rate of growth. For the most part, this represents good news for the nonresidential construction industry."

According to the Bureau of Labor Statistics' household survey, the national unemployment rate remained unchanged at 5.8 percent in November. The labor force once again expanded in October, growing by 119,000 persons. After shrinking in August and September, the labor force has now expanded in consecutive months. The labor force participation rate remained unchanged at 62.8 percent in November.

Consumer Confidence

The Conference Board Consumer Confidence Index®, which had declined in November, improved in December. The Index now stands at 92.6 (1985=100), up from 91.0 in November. The Present Situation Index rose to 98.6 from 93.7, while the Expectations Index decreased to 88.5 from 89.3 in November.

Says Lynn Franco, Director of Economic Indicators at The Conference Board, "Consumer confidence rebounded modestly in December, propelled by a considerably more favorable assessment of current economic and labor market conditions. As a result, the Present Situation Index is now at its highest level since February 2008 (Index, 104.0). Consumers were moderately less optimistic about the short-term outlook in December, but even so, they are more confident at year-end than they were at the beginning of the year."

Gross Domestic Product (GDP)

Real gross domestic product -- the value of the production of goods and services in the United States, adjusted for price changes -- increased at an annual rate of 5.0 percent in the third quarter of 2014, according to the "third" estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 4.6 percent.

Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.3 percent in November on a seasonally adjusted basis. Over the last 12 months, the all items index increased 1.3 percent before seasonal adjustment.

The gasoline index posted its sharpest decline since December 2008 and was the main cause of the decrease in the seasonally adjusted all items index. The indexes for fuel oil and natural gas also declined, and the energy index fell 3.8 percent. The food index rose 0.2 percent with major grocery store food groups mixed.

The index for all items less food and energy increased 0.1 percent in November.

The shelter index rose 0.3 percent, and the indexes for medical care, airline fares, and alcoholic beverages also rose. In contrast, the indexes for apparel, used cars and trucks, recreation, household furnishings and operations, personal care, and new vehicles all declined in November.

The all items index increased 1.3 percent over the last 12 months, a notable decline from the 1.7 percent figure from the 12 months ending October. The index for all items less food and energy has increased 1.7 percent over the last 12 months, compared to 1.8 percent for the 12 months ending October. The food index has risen 3.2 percent over the span. However, the energy index has declined 4.8 percent over the past 12 months, with the gasoline and fuel oil indexes both falling over 10 percent.

Producer Price Index

The Producer Price Index for final demand fell 0.2 percent in November, seasonally adjusted. This decrease followed a 0.2-percent rise in October and a 0.1-percent decline in September. On an unadjusted basis, the index for final demand advanced 1.4 percent for the 12 months ended in November, the smallest 12-month increase since a 1.2-percent rise in February 2014.

Productivity and Costs

Nonfarm business sector labor productivity increased at a 2.3 percent annual rate during the third quarter of 2014, as output increased 4.9 percent and hours worked increased 2.5 percent. (All quarterly percent changes in this release are seasonally adjusted annual rates.) From the third quarter of 2013 to the third quarter of 2014, productivity rose 1.0 percent as output and hours worked increased 3.1 percent and 2.1 percent, respectively.

Factory Orders

New orders for manufactured durable goods in November decreased $1.7 billion or 0.7 percent to $242.3 billion. This decrease, down three of the last four months, followed a 0.3 percent October increase. Excluding transportation, new orders decreased 0.4 percent. Excluding defense, new orders decreased 0.1 percent.

Transportation equipment, also down three of the last four months, led the decrease, $0.9 billion or 1.2 percent to $75.5 billion.

Employment Cost Index

Compensation costs for civilian workers increased 0.7 percent, seasonally adjusted, for the 3-month period ending September 2014. Wages and salaries (which make up about 70 percent of compensation costs) increased 0.8 percent, and benefits (which make up the remaining 30 percent of compensation) increased 0.6 percent.

Civilian Workers

Compensation costs for civilian workers increased 2.2 percent for the 12-month period ending September 2014. In September 2013, the increase in compensation costs was 1.9 percent. Wages and salaries increased 2.1 percent for the 12-month period ending September 2014, compared with 1.6 percent in September 2013. Benefit costs increased 2.4 percent for the 12-month period ending September 2014, compared with a 2.2 percent increase for the 12-month period ending September 2013.

Private Industry Workers

Compensation costs for private industry workers increased 2.3 percent over the year. In September 2013 the increase was 1.9 percent. Wages and salaries increased 2.3 percent for the current 12-month period ending September 2014. In September 2013 the increase was 1.8 percent. The increase in the cost of benefits was 2.3 percent for the 12-month period ending September 2014. In September 2013, the increase in the cost of benefits was 2.0 percent. Employer costs for health benefits increased 2.6 percent over the year. In September 2013 the increase was 2.7 percent.

Among occupational groups, compensation cost increases for private industry workers for the 12-month period ending September 2014 ranged from 1.8 percent for service occupations to 2.4 percent for natural resources, construction, and maintenance occupations and production, transportation, and material moving.

Among industry super sectors, compensation cost increases for private industry workers for the current 12-month period ranged from 1.4 percent for construction to 4.3 percent for information.

State and Local Government Workers

Compensation costs for state and local government workers increased 2.1 percent for the 12-month period ending September 2014, compared with 1.7 percent for September 2013. Wages and salaries increased 1.6 percent for the 12-month period ending September 2014, compared with 0.9 percent in September 2013. Benefit costs increased 3.0 percent in September 2014. In September 2013, the increase was 2.9 percent.

Real Earnings

Real average hourly earnings for all employees rose 0.6 percent from October to November, seasonally adjusted. This result stems from a 0.4 percent increase in average hourly earnings combined with a 0.3 percent decrease in the Consumer Price Index for All Urban Consumers (CPI-U).

Real average weekly earnings increased by 0.9 percent over the month due to the increase in real average hourly earnings combined with a 0.3 percent increase in the average workweek.

Real average hourly earnings increased by 0.8 percent, seasonally adjusted, from November 2013 to November 2014. This increase in real average hourly earnings, combined with a 0.3 percent increase in the average workweek, resulted in a 1.1 percent increase in real average weekly earnings over this period.

Construction Spending

Construction spending during November 2014 was estimated at a seasonally adjusted annual rate of $975.0 billion, 0.3 percent below the revised October estimate of $977.7 billion. The November figure is 2.4 percent above the November 2013 estimate of $952.5 billion.

During the first 11 months of this year, construction spending amounted to $884.6 billion, 5.7 percent above the $836.9 billion for the same period in 2013

Spending on private construction was at a seasonally adjusted annual rate of $697.7 billion, 0.3 percent above the revised October estimate of $695.7 billion. Residential construction was at a seasonally adjusted annual rate of $352.7 billion in November, 0.9 percent above the revised October estimate of $349.6 billion. Nonresidential construction was at a seasonally adjusted annual rate of $345.0 billion in November, 0.3 percent below the revised October estimate of $346.1 billion.

In November, the estimated seasonally adjusted annual rate of public construction spending was $277.3 billion, 1.7 percent below the revised October estimate of $282.0 billion. Educational construction was at a seasonally adjusted annual rate of $62.1 billion, 2.5 percent below the revised October estimate of $63.8 billion. Highway construction was at a seasonally adjusted annual rate of $85.7 billion, 0.3 percent above the revised October estimate of $85.4 billion.

Nonresidential Construction Spending

Nonresidential construction spending fell 1 percent on a monthly basis in November, but has still managed to expand 4 percent on a year-over-year basis according to the January 2nd release from the U.S. Census Bureau. Spending for the month totaled $617 billion on a seasonally adjusted, annualized basis. Moreover, the government revised the October spending figure up from $611.8 billion to $622.9 billion.

“November’s drop in nonresidential construction spending ends four consecutive months of spending growth, but represents only a minor dip in the industry’s momentum,” said Associated Builders and Contractors Chief Economist Anirban Basu. “November’s figure would have represented a continuation of nonresidential spending’s steady recovery were it not for a sizable upward revision to October’s data (+$11.1 billion). Through the first 11 months of 2014, nonresidential spending is up 6.6 percent from the same point in 2013 and with only December’s spending data yet to be revealed, it is a near certainty that yearly nonresidential spending will top the $600 billion mark for the first time in the past five years.

“Conditions remain conducive to continued construction spending growth,” said Basu. “Both the quantity and quality of job growth continues to improve, which will fuel the ongoing recovery in office-related spending. The dip in oil prices may provide the strongest headwind for construction spending growth. Not only will inexpensive fuel greenlight construction projects that may otherwise be stalled, it also serves to boost consumer spending. This in turn may lead to more construction starts, specifically in the lodging and amusement and recreation categories.”

Construction Materials Prices

Construction input prices fell again in November, down 0.8 percent for the month, according to the Dec. 12 producer price index (PPI) release by the Department of Labor. Prices have fallen in five of the past six months but still are 0.6 percent higher on a year-over-year basis. Inputs to nonresidential construction fell 1.1 percent and are unchanged from the same time last year.

“Although there are times when deflation can be a reflection of declining demand for goods and services, the deflation happening now in an array of commodities should be viewed positively—both from the perspective of the broader economy and for nonresidential construction,” said Associated Builders and Contractors Chief Economist Anirban Basu.

“A confluence of factors have combined to hammer away at key commodity prices in recent weeks, including a stronger U.S. dollar, evidence of growing financial difficulties in China, ongoing economic weakness in Europe, and softening emerging world economies in Russia and Brazil,” said Basu. “At the same time, U.S. production of certain key commodities continues to expand, including oil and natural gas. As a result, construction materials prices are now in retreat. These factors imply that materials prices are unlikely to surge higher in early 2015.

“The domestic economy continues to benefit from the falling input prices,” said Basu. “Gasoline prices below the $3 mark in all 48 contiguous states has bolstered consumer confidence and the declining input prices will improve contractor margins and push ahead many construction projects that would otherwise be stalled."

Crude energy materials prices fell 3.7 percent in November and are 11.1 percent lower than one year ago. Natural gas prices fell by 7.7 percent for the month and are unchanged on a year-over-year basis. On a monthly basis, natural gas prices have now fallen in eight of the previous nine months; however, on a yearly basis, natural gas prices have risen every month for the past two years. Overall, the nation's final demand prices as measured by, the PPI, fell by 0.2 percent in November.

The following materials prices increased in November.

- Prices for plumbing fixtures expanded 0.2 percent in November and are up 3.1 percent on a year-over-year basis.
- Concrete products prices expanded 0.5 percent in November and are up 4.3 percent on a yearly basis.
- Fabricated structural metal product prices grew 0.1 for the month and have expanded 1.6 percent on a year-over-year basis.
- Prices for prepared asphalt, tar roofing, and siding expanded 1.6 percent for the month and 1.9 percent on a year-ago basis.

Seven of the 11 key construction inputs did not experience price increases for the month.

- Iron and steel prices fell 2 percent in November and are down 1.4 percent from the same time last year.
- Steel mill products prices fell 0.3 percent for the month but are 2.1 percent higher than one year ago.
- Softwood lumber prices fell 1.9 percent for the month but are 0.7 percent higher than one year ago.
- Natural gas prices shed 7.7 percent in November and are unchanged from one year ago.
- Crude petroleum prices fell 3.2 percent in November and are down 17.8 percent from the same time last year.
- Crude energy materials prices fell 3.7 percent in November and are 11.1 percent lower year over year.
- Nonferrous wire and cable prices fell 0.7 percent on a monthly basis and 0.5 percent on a yearly basis.

<u>Retail Sales</u>

U.S. retail and food services sales for November, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $449.3 billion, an increase of 0.7 percent from the previous month, and 5.1 percent above November 2013. Total sales for the September through November 2014 period were up 4.7 percent from the same period a year ago. The September to October 2014 percent change was revised from +0.3 percent to +0.5 percent.

Retail trade sales were up 0.7 percent from October 2014, and 4.9 percent above last year. Auto and other motor vehicle dealers were up 9.5 percent from November 2013 and non-store retailers were up 8.7 percent from last year.

New Residential Sales

Sales of new single-family houses in November 2014 were at a seasonally adjusted annual rate of 438,000. This is 1.6 percent below the revised October rate of 445,000 and is 1.6 percent below the November 2013 estimate of 445,000.

The median sales price of new houses sold in November 2014 was $280,900; the average sales price was $321,800. The seasonally adjusted estimate of new houses for sale at the end of November was 213,000. This represents a supply of 5.8 months at the current sales rate.

New Residential Construction

Privately-owned housing units authorized by building permits in November were at a seasonally adjusted annual rate of 1,035,000. This is 5.2 percent below the revised October rate of 1,092,000 and is 0.2 percent below the November 2013 estimate of 1,037,000.

Single-family authorizations in November were at a rate of 639,000; this is 1.2 percent below the revised October figure of 647,000. Authorizations of units in buildings with five units or more were at a rate of 367,000 in November.

Privately-owned housing starts in November were at a seasonally adjusted annual rate of 1,028,000. This is 1.6 percent below the revised October estimate of 1,045,000 and is 7.0 percent below the November 2013 rate of 1,105,000.

Single-family housing starts in November were at a rate of 677,000; this is 5.4 percent below the revised October figure of 716,000. The November rate for units in buildings with five units or more was 340,000.

Privately-owned housing completions in November were at a seasonally adjusted annual rate of 863,000. This is 6.4 percent below the revised October estimate of 922,000, but is 4.5 percent above the November 2013 rate of 826,000.

Single-family housing completions in November were at a rate of 596,000; this is 2.9 percent below the revised October rate of 614,000. The November rate for units in buildings with five units or more was 256,000.

U.S. Trade Balance

Goods and services deficit was $39.0 billion in November, down $3.2 billion from $42.2 billion in October, revised. November exports were $196.4 billion, $2.0 billion less than October exports. November imports were $235.4 billion, $5.2 billion less than October imports.

The November decrease in the goods and services deficit reflected a decrease in the goods deficit of $3.3 billion to $58.3 billion and a decrease in the services surplus of $0.1 billion to $19.3 billion.

Year-to-date, the goods and services deficit increased $22.3 billion, or 5.1 percent, from the same period in 2013. Exports increased $60.0 billion or 2.9 percent. Imports increased $82.4 billion or 3.3 percent.