

What We Learned in September: Industry Retains Adequate Momentum as Federal Reserve Begins Lowering Rates

The Federal Reserve reduced the target range of the Federal Funds Rate by 50 basis points at its September meeting. The rate cut comes 30 months after this cycle’s first rate increases and at a time when both inflation and the labor market have cooled considerably. While the construction industry retains adequate momentum heading into the last quarter of 2024, lower borrowing costs and looser lending standards represent a welcome development for contractors, especially given rising cost pressures and shrinking profit margins.

Construction Spending Wavers

Nonresidential construction spending fell 0.2% in July and is up 5.9% over the past year. While Hurricane Beryl and the interruptions it caused in construction activity along the Gulf Coast in early July contributed to the monthly weakness, high interest rates likely deserve more blame. The private sector has appeared particularly weak in recent months as a result, with private nonresidential spending up 4.5% since July 2023.

Contractors Keep Hiring

Construction industry employment increased by 34,000 in August, the largest monthly gain since January 2023. The majority of those positions—28,300—were in the nonresidential segment. Despite easing labor constraints economywide, the construction industry unemployment rate fell to 3.2% in August, matching the lowest level on record.

Backlog Dips, Contractor Confidence Declines Again

ABC’s Construction Backlog Indicator fell to 8.2 months in August and is now exactly 1.0 month lower than at the same time last year. While contractors remain relatively upbeat about their sales and staffing levels, the Construction Confidence Index reading for profit margins fell below 50, indicating that a plurality of contractors now expect their margins to contract over the next six months.

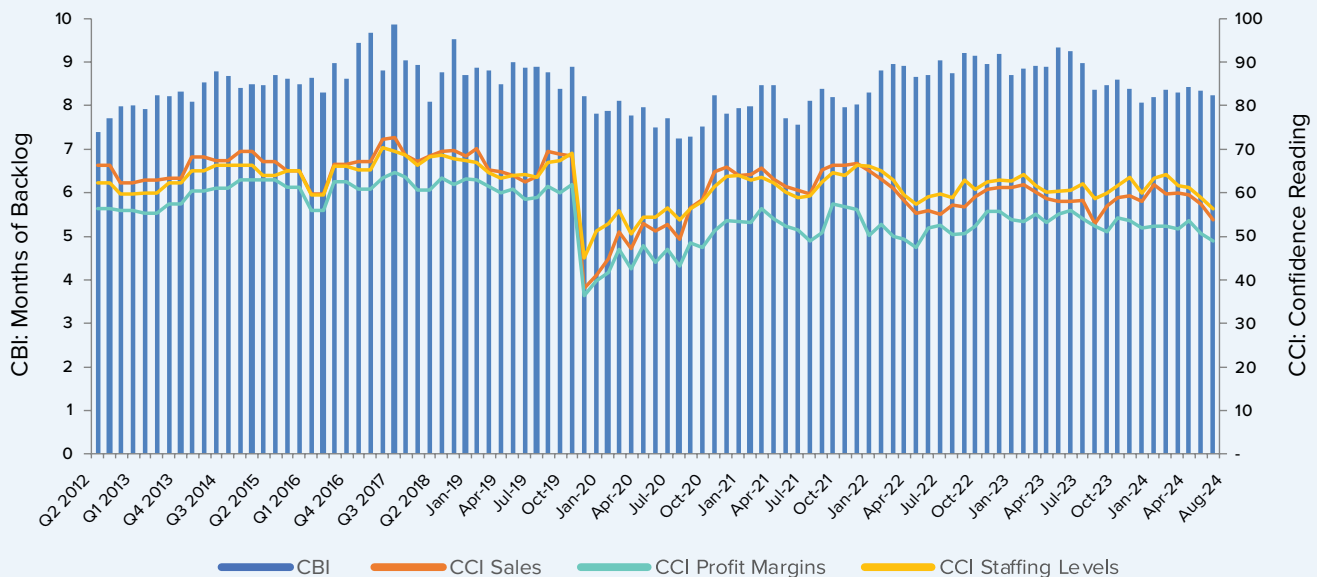
Materials Prices Down Year Over Year

Construction materials prices increased just 0.1% in August and are now down 0.7% over the past year. While much of the annual decline is due to lower energy prices, certain metal products have also seen significant year-over-year price reductions. This recent moderation is a welcome development for contractors, especially considering that materials prices are still up nearly 40% since the start of the pandemic.

Looking Ahead

Not only did the Federal Reserve begin reducing interest rates, but its September projections also suggest rates will fall faster than previously anticipated. That’s good news for contractors, especially those operating in private sector segments. At the same time, economic momentum is waning, and downside risks to the outlook remain firmly in place.

ABC Construction Backlog Indicator & Construction Confidence Index, 2012-August 2024



September 2024 Economic Overview		Values			Change From	
Construction Backlog Indicator (Months)*		Aug-24	Jul-24	Aug-23	Jul-24	Aug-23
Nationwide	8.2	8.4	9.2	-0.2	-1.0	
Middle States	7.7	7.2	8.4	0.5	-0.7	
Northeast	8.1	7.2	8.8	0.9	-0.7	
South	9.1	9.8	11.4	-0.7	-2.3	
West	7.4	8.6	8.3	-1.2	-0.9	
Construction Confidence Index**		Aug-24	Jul-24	Aug-23	Jul-24	Aug-23
Sales	53.8	57.4	58.1	-3.6	-4.3	
Profit Margins	49.1	50.6	55.8	-1.5	-6.7	
Staffing	56.4	58.8	60.7	-2.4	-4.3	
Spending (\$Millions)		Jul-24	Jun-24	Jul-23	Jun-24	Jul-23
Total Construction	\$2,162,683	\$2,168,990	\$2,027,412	-0.3%	6.7%	
Residential	\$952,897	\$956,915	\$885,096	-0.4%	7.7%	
Nonresidential	\$1,209,786	\$1,212,075	\$1,142,315	-0.2%	5.9%	
Amusement and recreation	\$39,771	\$39,992	\$36,648	-0.6%	8.5%	
Commercial	\$125,069	\$125,271	\$144,329	-0.2%	-13.3%	
Communication	\$28,198	\$28,409	\$28,058	-0.7%	0.5%	
Conservation and development	\$11,737	\$11,828	\$10,745	-0.8%	9.2%	
Educational	\$125,033	\$126,165	\$120,378	-0.9%	3.9%	
Health care	\$65,755	\$67,127	\$64,542	-2.0%	1.9%	
Highway and street	\$141,944	\$143,031	\$136,963	-0.8%	3.6%	
Lodging	\$23,235	\$23,370	\$25,347	-0.6%	-8.3%	
Manufacturing	\$237,022	\$236,856	\$196,863	0.1%	20.4%	
Office	\$99,755	\$99,147	\$96,880	0.6%	3.0%	
Power	\$143,315	\$143,522	\$130,338	-0.1%	10.0%	
Public safety	\$18,640	\$18,790	\$14,590	-0.8%	27.8%	
Religious	\$3,878	\$3,967	\$3,715	-2.2%	4.4%	
Sewage and waste disposal	\$45,707	\$45,475	\$41,280	0.5%	10.7%	
Transportation	\$68,665	\$67,696	\$64,128	1.4%	7.1%	
Water supply	\$32,062	\$31,429	\$27,510	2.0%	16.5%	
Private Nonresidential	\$737,154	\$740,203	\$705,453	-0.4%	4.5%	
Public Nonresidential	\$472,632	\$471,873	\$436,862	0.2%	8.2%	
Employment (Thousands)		Aug-24	Jul-24	Aug-23	Jul-24	Aug-23
All Industries	158,779	158,637	156,421	0.1%	1.5%	
Construction	8,280	8,246	8,052	0.4%	2.8%	
Residential building	951	946	923	0.5%	3.0%	
Nonresidential building	932	931	890	0.1%	4.7%	
Heavy and civil engineering construction	1,156	1,143	1,125	1.2%	2.8%	
Residential specialty trade contractors	2,417	2,416	2,381	0.0%	1.5%	
Nonresidential specialty trade contractors	2,824	2,810	2,733	0.5%	3.3%	
Construction Unemployment Rate	3.2%	3.9%	3.9%	-0.7pp	-0.7pp	
Average Hourly Construction Earnings	\$38.36	\$38.25	\$36.76	0.3%	4.4%	
Average Weekly Construction Hours	39.0	38.9	39.1	0.3%	-0.3%	
Job Openings and Labor Turnover Survey		Jul-24	Jun-24	Jul-23	Jun-24	Jul-23
Job Openings	248,000	299,000	351,000	-51,000	-103,000	
Hires	371,000	323,000	379,000	48,000	-8,000	
Total Separations	328,000	282,000	364,000	46,000	-36,000	
Layoffs and discharges	184,000	145,000	177,000	39,000	7,000	
Quits	135,000	119,000	169,000	16,000	-34,000	
Other separations	9,000	18,000	18,000	-9,000	-9,000	
Producer Price Index		Aug-24	Jul-24	Aug-23	Jul-24	Aug-23
Construction	321.0	320.8	323.2	0.1%	-0.7%	
Multifamily	153.0	153.0	152.5	0.0%	0.3%	
Nonresidential	162.0	161.7	163.4	0.2%	-0.9%	
Commercial	152.5	152.0	152.7	0.3%	-0.1%	
Healthcare	152.0	151.6	152.0	0.3%	0.0%	
Industrial	159.3	159.2	159.1	0.1%	0.1%	
Other nonresidential	160.3	160.1	162.1	0.1%	-1.1%	
Maintenance and repair	327.3	327.6	329.5	-0.1%	-0.7%	

Sources: U.S. Bureau of Economic Analysis; U.S. Census Bureau; U.S. Bureau of Labor Statistics; Associated Builders and Contractors.

* The [Construction Backlog Indicator](#) measures the average months of work under contract for ABC members.

** The [Construction Confidence Index](#) is a diffusion index where values above 50 indicate expectations of expansion over the next six months, while values under 50 indicate expectations of contraction.