

# The Good, The Bad, & The Ugly

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Sage Policy Group, Inc.



On Behalf of  
Construction Executive  
2024 Q1 Construction  
Economic Update and  
Forecast

March 27, 2024

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# The Good

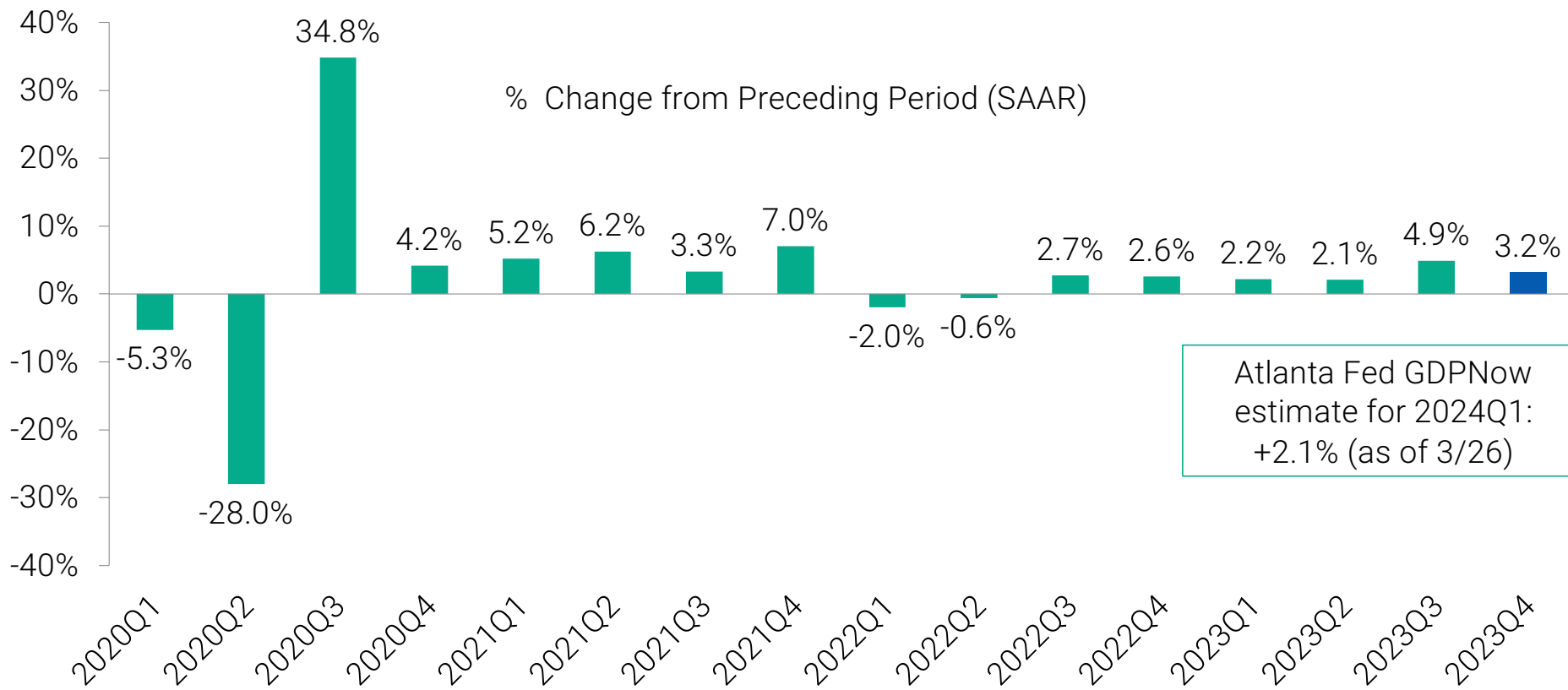
## Current Momentum

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# Where Eagles Dare

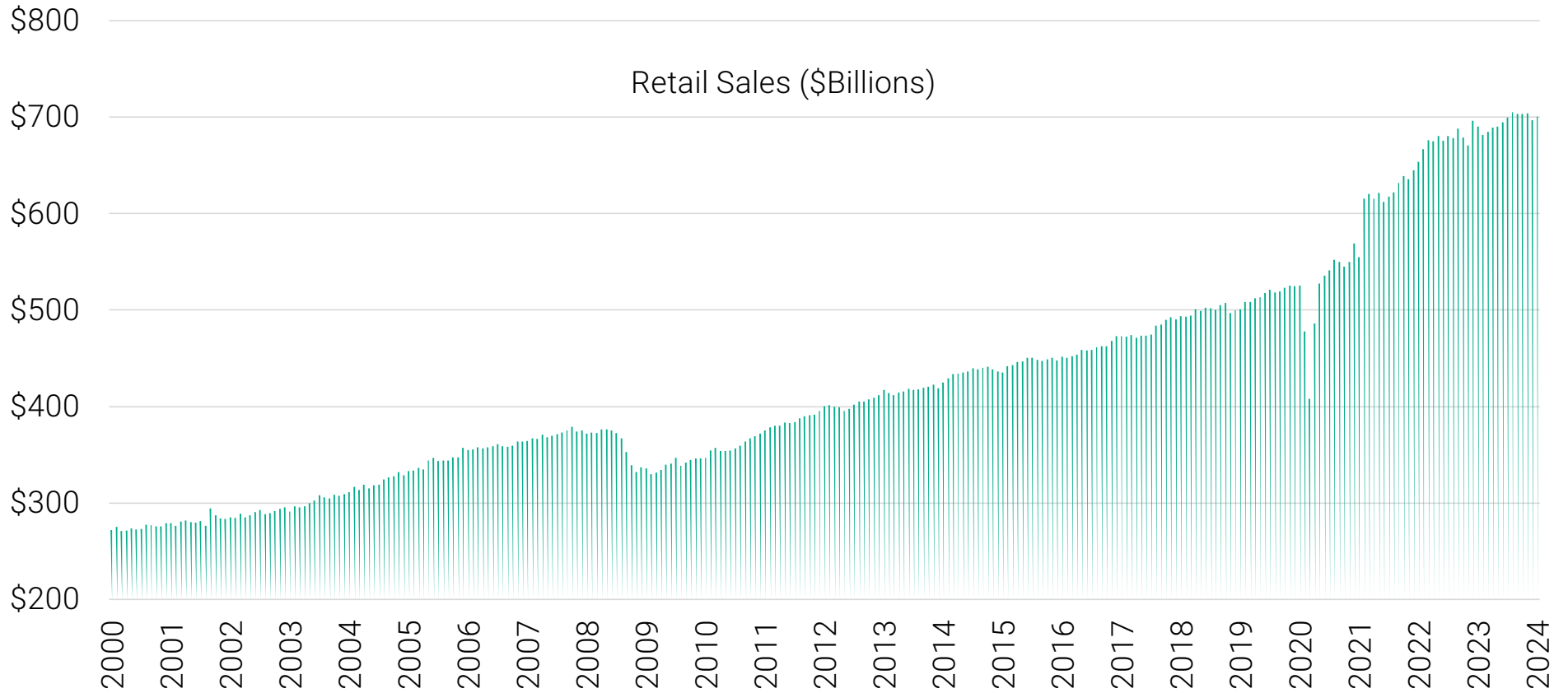
## U.S. Gross Domestic Product Growth, 2020 – 2023Q4



Source: U.S. Bureau of Economic Analysis \*2023Q4: 2<sup>nd</sup> estimate \*\*Where Eagles Dare was a 1969 film

# A Fistful of Dollars (a 1964 Film)

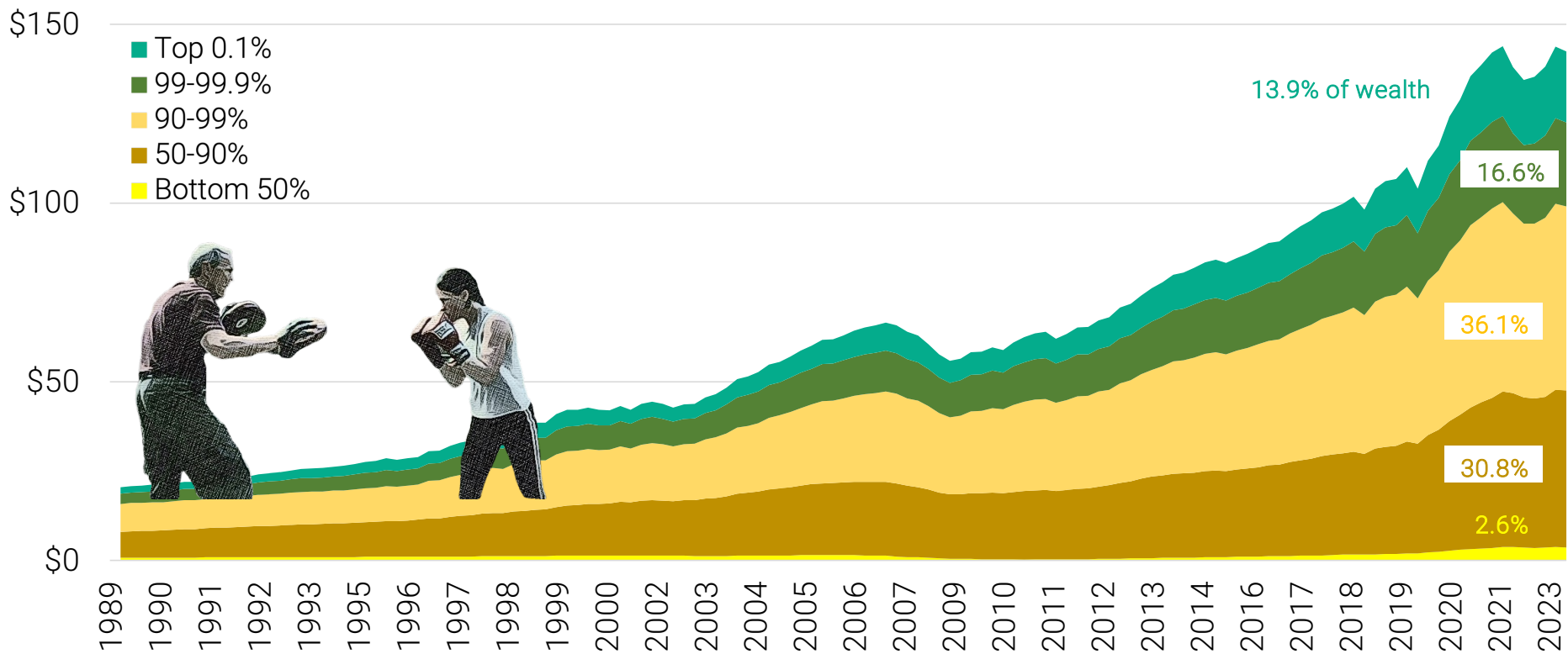
U.S. Retail Sales, 2000 – February 2024



Source: U.S. Census Bureau

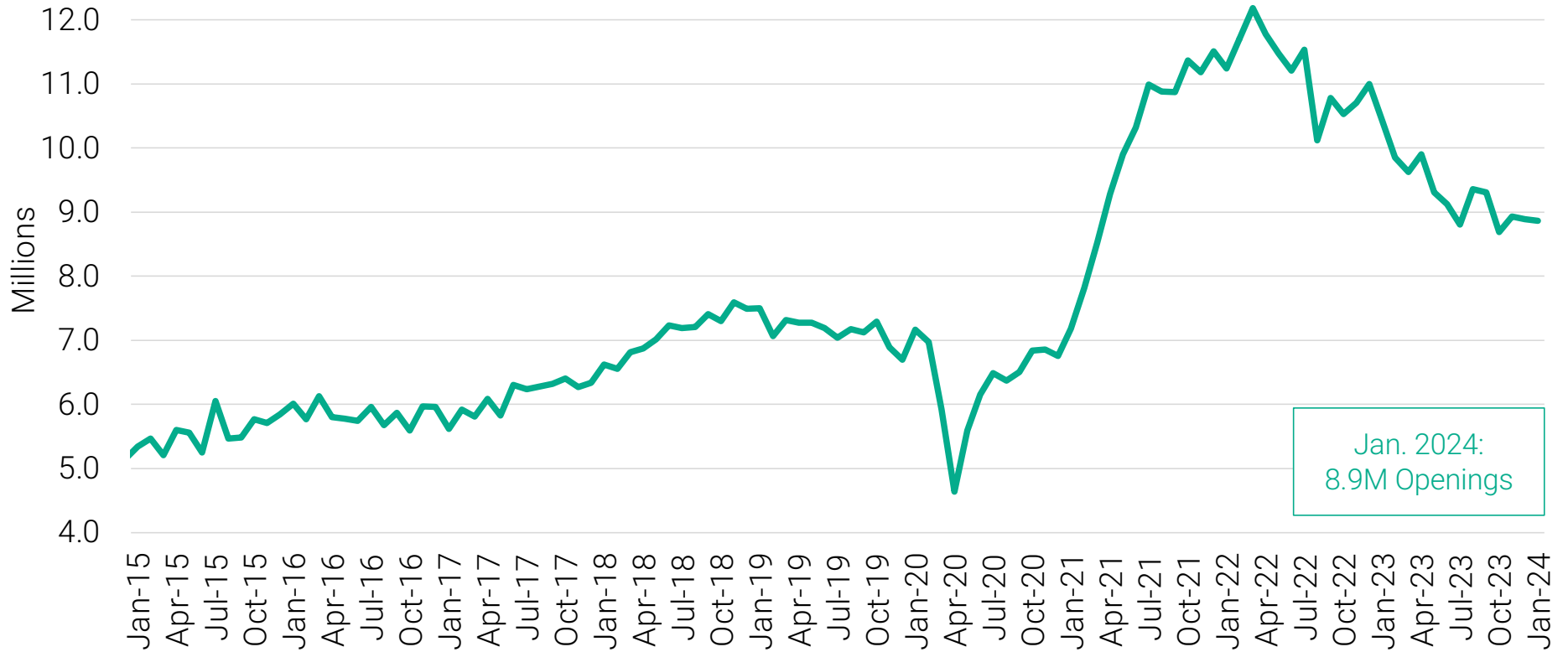
# Million Dollar Baby (a 2004 Flick)

U.S. Household Wealth by Wealth Percentile Group (\$ Trillions)



Source: Federal Reserve Board, Distributional Financial Accounts (DFAs)

# U.S. Job Openings, 2015 – January 2024



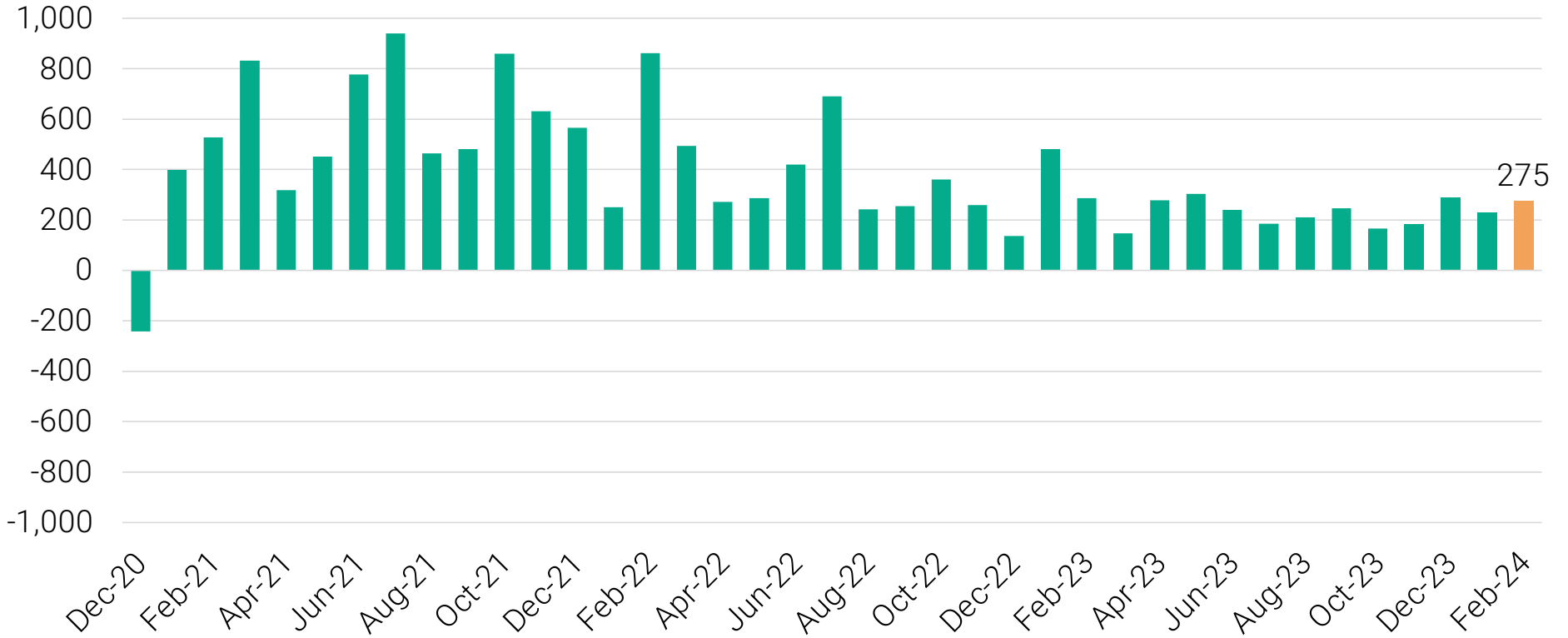
Jan. 2024:  
8.9M Openings

Source: U.S. Bureau of Labor Statistics

# U.S. Job Growth, Monthly

December 2020 – February 2024

1-M Net Change, 000s



Source: U.S. Bureau of Labor Statistics



# Employment Growth, 25 Largest Metros

February 2020 v. February 2024 % Change

Rank	MSA	%	Rank	MSA	%
1	Dallas-Fort Worth-Arlington, TX	10.7%	14	St. Louis, MO-IL	1.8%
2	Tampa-St. Petersburg-Clearwater, FL	9.6%	15	Seattle-Tacoma-Bellevue, WA	1.2%
3	Phoenix-Mesa-Scottsdale, AZ	9.5%	16	New York-Newark-Jersey City, NY-NJ-PA	0.8%
4	Orlando-Kissimmee-Sanford, FL	9.0%	17	Chicago-Naperville-Elgin, IL-IN-WI	0.1%
5	San Antonio-New Braunfels, TX	8.7%	18	Washington-Arlington-Alexandria, DC-VA-MD-WV	-0.2%
6	Charlotte-Concord-Gastonia, NC-SC	7.3%	19	Detroit-Warren-Dearborn, MI	-0.8%
7	Houston-The Woodlands-Sugar Land, TX	7.1%	19	Minneapolis-St. Paul-Bloomington, MN-WI	-0.8%
8	Miami-Fort Lauderdale-West Palm Beach, FL	6.5%	21	Portland-Vancouver-Hillsboro, OR-WA	-0.9%
9	Riverside-San Bernardino-Ontario, CA	6.3%	22	Boston-Cambridge-Nashua, MA-NH	-1.1%
10	Atlanta-Sandy Springs-Roswell, GA	6.2%	22	Los Angeles-Long Beach-Anaheim, CA	-1.1%
11	Denver-Aurora-Lakewood, CO	4.8%	24	Baltimore-Columbia-Towson, MD	-1.8%
12	Philadelphia-Camden-Wilm., PA-NJ-DE-MD	3.0%	25	San Francisco-Oakland-Hayward, CA	-2.3%
13	San Diego-Carlsbad, CA	2.4%			

Source: Bureau of Labor Statistics  
Current Employment Statistics (CES) Survey. Note: data are not seasonally adjusted.

U.S. % Change 2/2020 v. 2/2024: +3.6%



## Unemployment Rates, 25 Largest Metros, January 2024

Rank	MSA	%	Rank	MSA	%
1	Miami-Fort Lauderdale-West Palm Beach, FL	2.4%	11	San Antonio-New Braunfels, TX	3.8%
2	Baltimore-Columbia-Towson, MD	2.8%	11	St. Louis, MO-IL	3.8%
2	Washington-Arlington-Alexandria, DC-VA-MD-WV	2.8%	15	Dallas-Fort Worth-Arlington, TX	3.9%
4	Atlanta-Sandy Springs-Roswell, GA	3.0%	15	Detroit-Warren-Dearborn, MI	3.9%
4	Minneapolis-St. Paul-Bloomington, MN-WI	3.0%	17	Houston-The Woodlands-Sugar Land, TX	4.4%
6	Boston-Cambridge-Nashua, MA-NH	3.2%	18	New York-Newark-Jersey City, NY-NJ-PA	4.5%
6	Orlando-Kissimmee-Sanford, FL	3.2%	18	San Francisco-Oakland-Hayward, CA	4.5%
8	Tampa-St. Petersburg-Clearwater, FL	3.3%	20	Portland-Vancouver-Hillsboro, OR-WA	4.7%
9	Phoenix-Mesa-Scottsdale, AZ	3.4%	20	San Diego-Carlsbad, CA	4.7%
10	Charlotte-Concord-Gastonia, NC-SC	3.5%	22	Chicago-Naperville-Elgin, IL-IN-WI	4.8%
11	Denver-Aurora-Lakewood, CO	3.8%	22	Seattle-Tacoma-Bellevue, WA	4.8%
11	Philadelphia-Camden-Wilm., PA-NJ-DE-MD	3.8%	24	Los Angeles-Long Beach-Anaheim, CA	5.5%
			24	Riverside-San Bernardino-Ontario, CA	5.5%

Source: Bureau of Labor Statistics  
Local Area Unemployment Statistics (LAUS) program. Note: data are not seasonally adjusted

U.S. Unemployment Rate—Jan: 3.7% | Feb: 3.9%



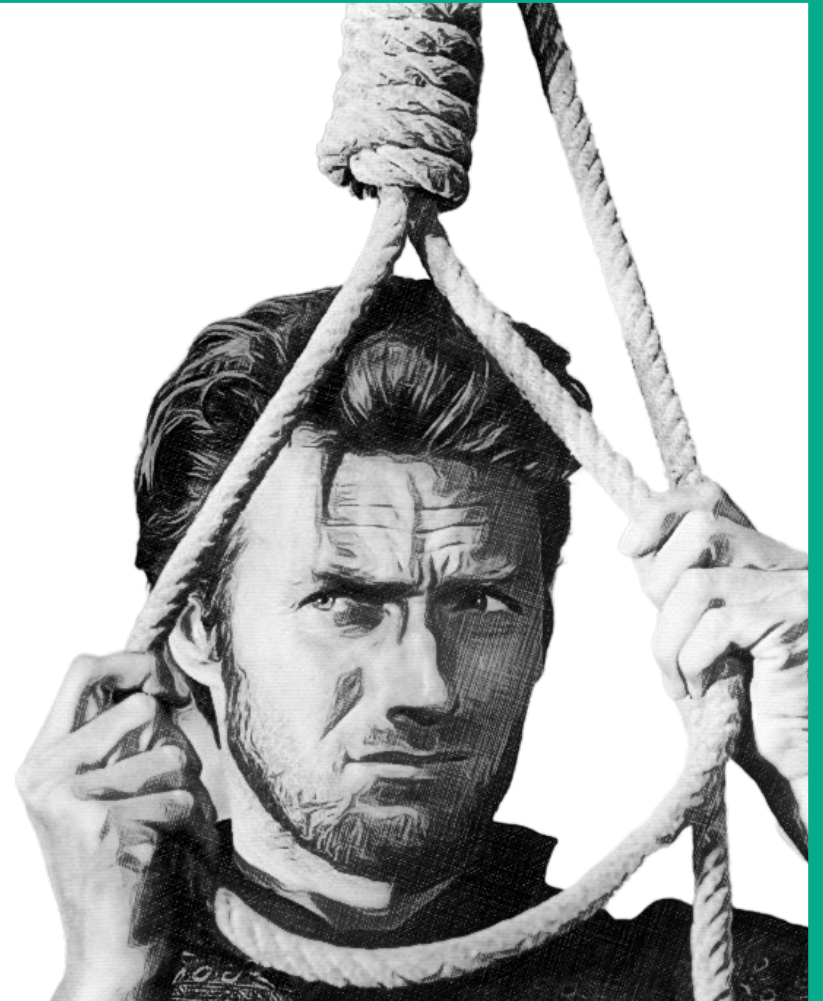
## POLL

Which of these is the leading challenge for your company today?

- Supply chain and/or materials issues
- Skills / worker shortages
- Insufficient demand for construction services
- Availability of financing for projects/project work
- None of the above

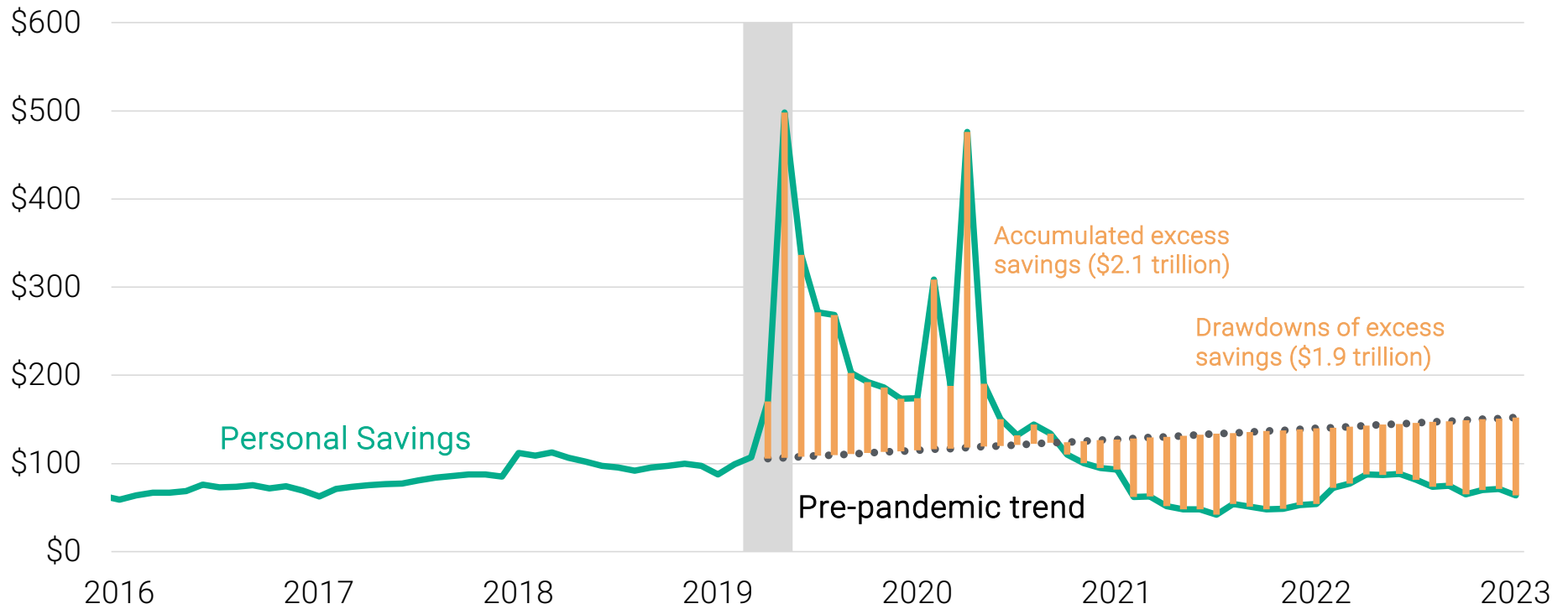
# The Bad

## Not Sustainable



# Drawdown of Pandemic Related Excess Savings

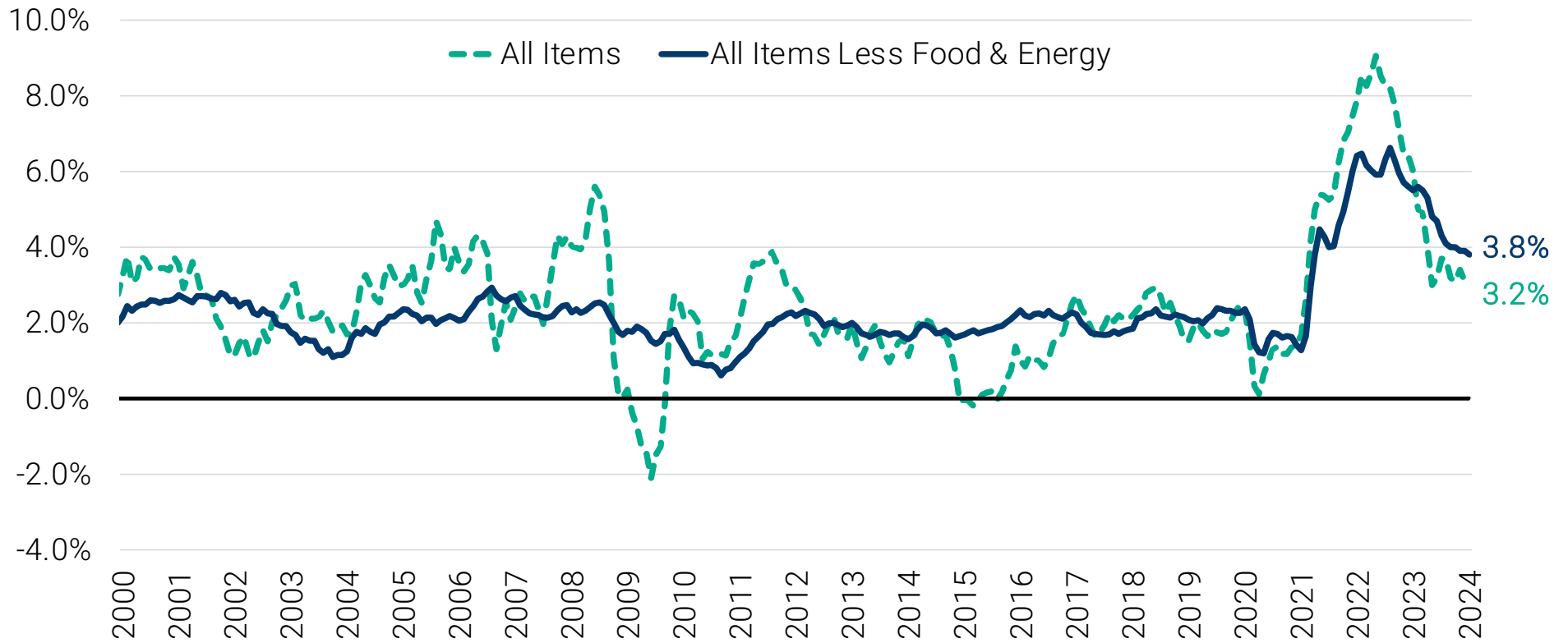
Aggregate Personal Savings Versus the Pre-pandemic Trend  
(Abdelrahman and Oliveira, Federal Reserve Bank of San Francisco)



Source: Federal Reserve Bank of San Francisco

# Consumer Price Index (NSA)

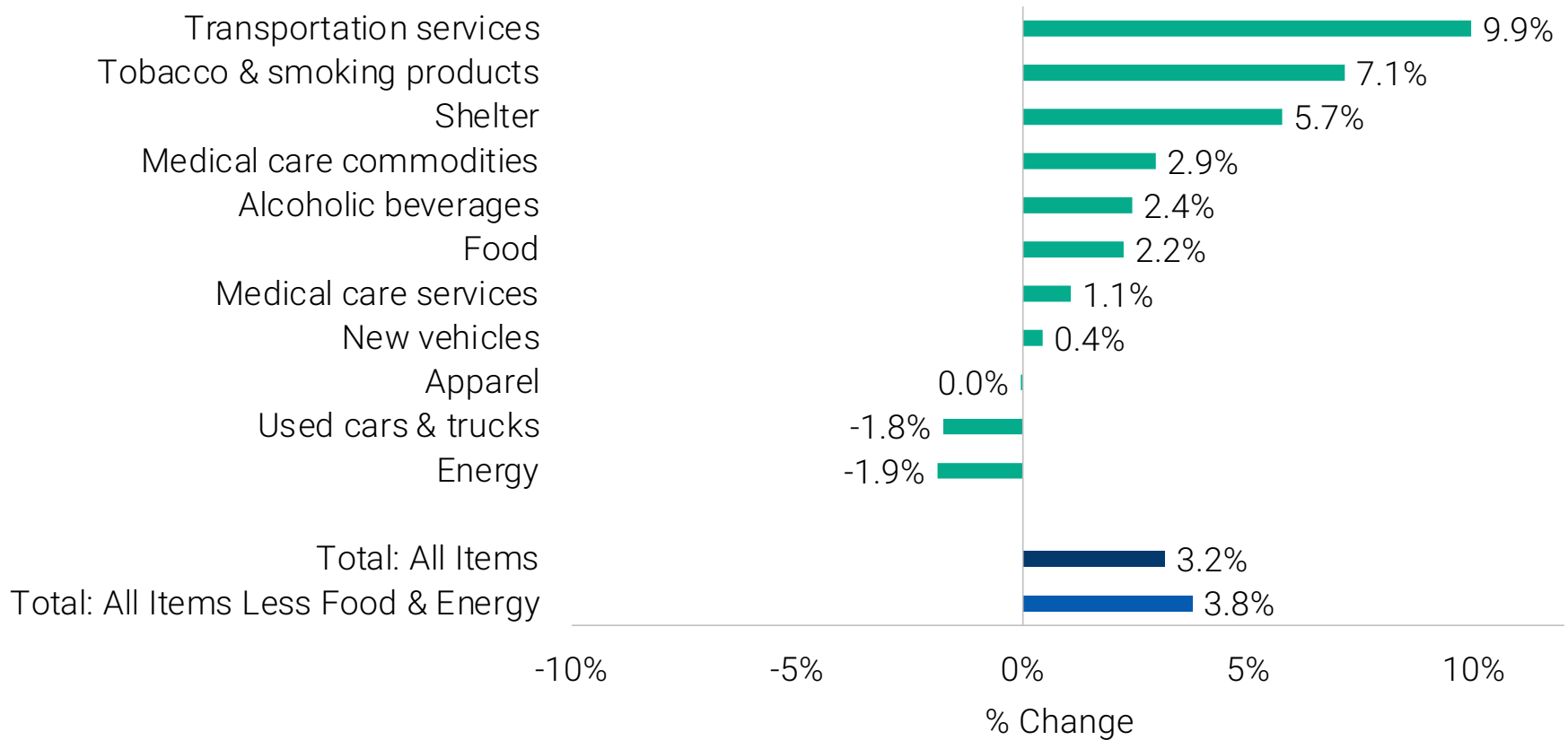
12-Month % Change, 2000 – February 2024



Source: U.S. Bureau of Labor Statistics

# Consumer Price Index, Select Categories (NSA)

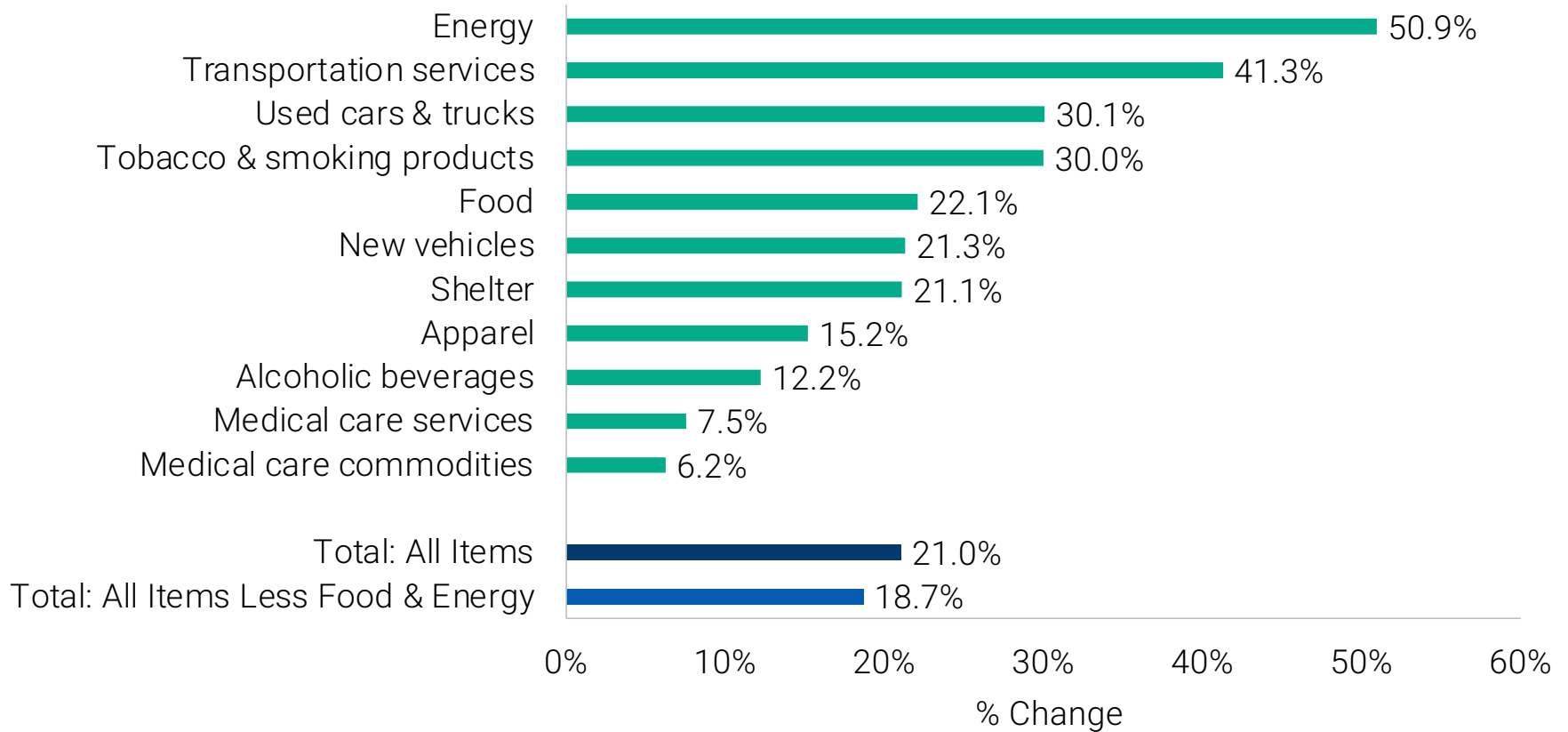
YOY % Change [February 2023 v. February 2024]



Source: U.S. Bureau of Labor Statistics

# Consumer Price Index, Select Categories (NSA)

% Change May 2020 v. February 2024

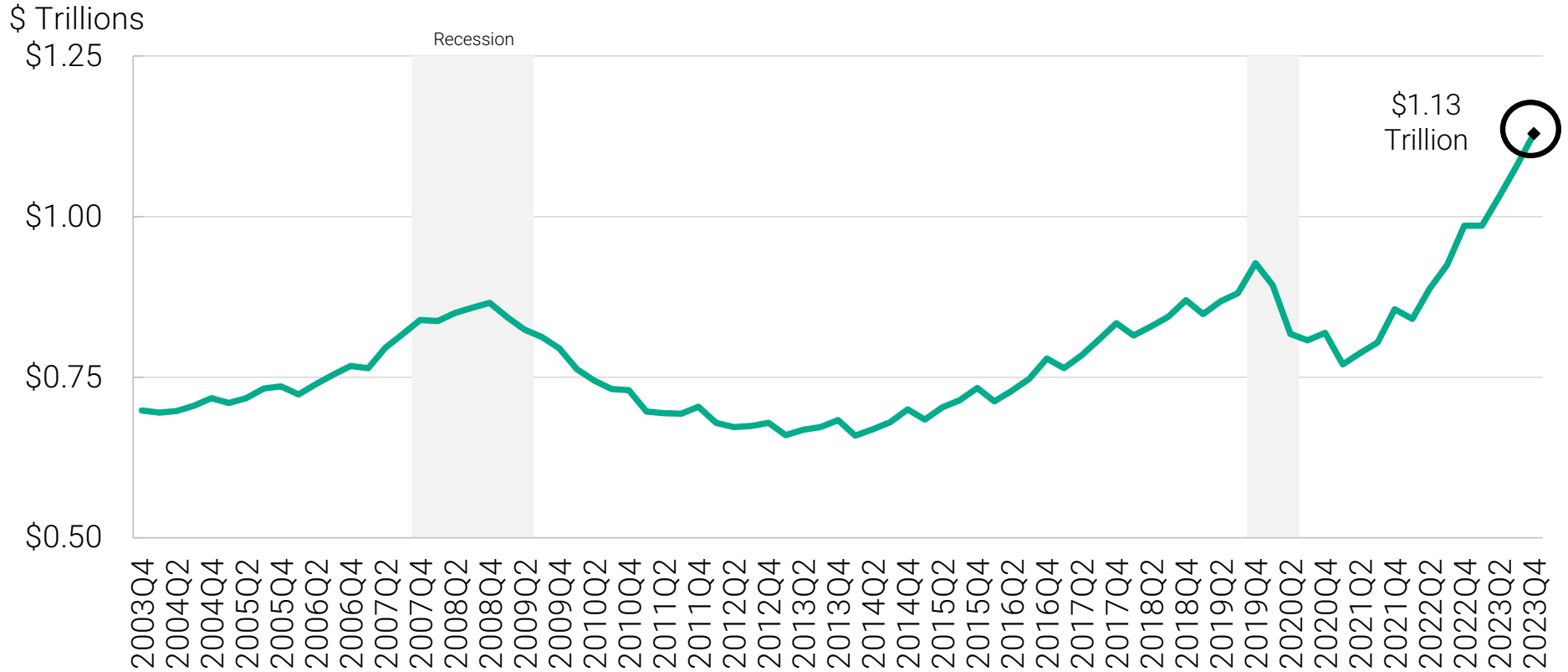


Source: U.S. Bureau of Labor Statistics



# For a Few Dollars More

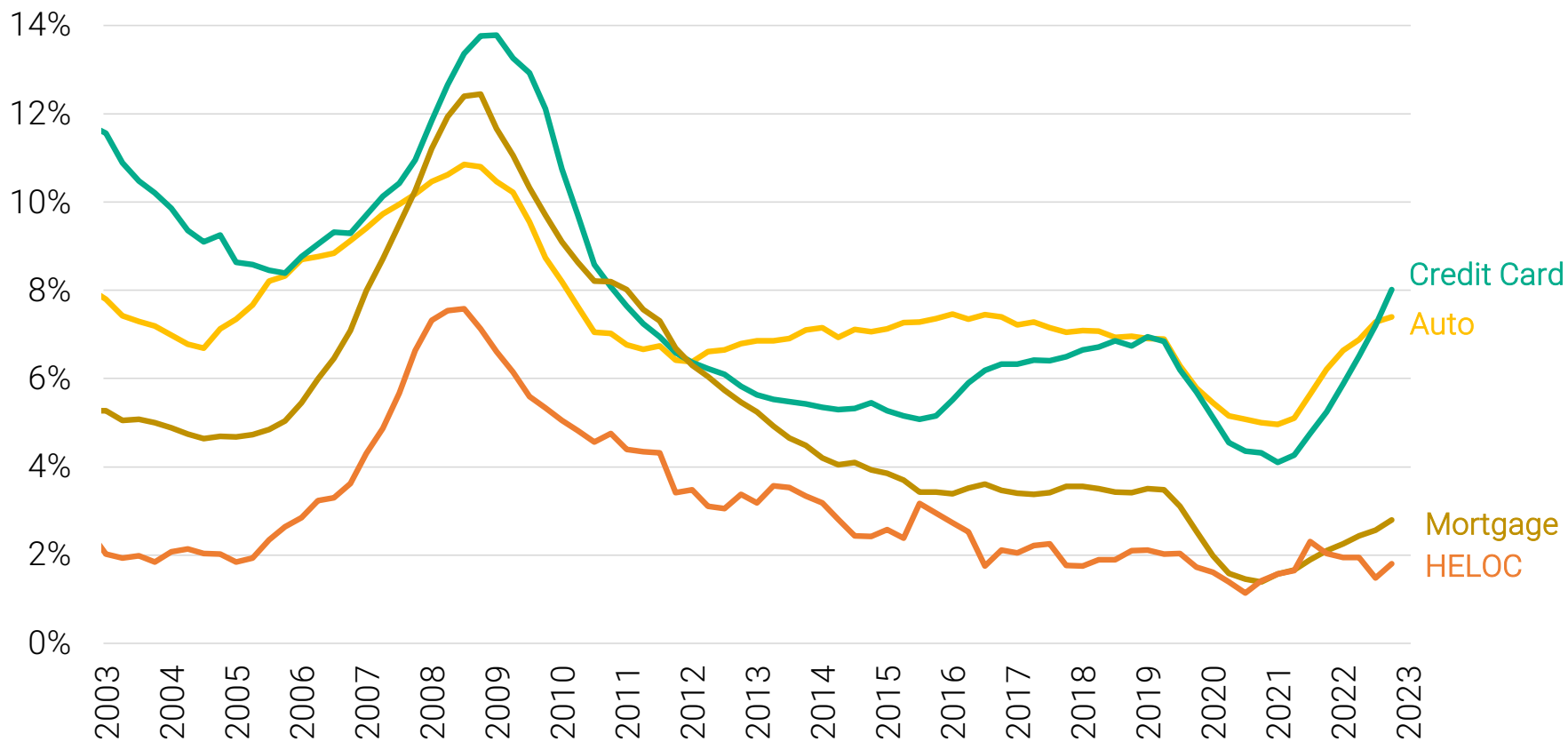
## U.S. Credit Card Debt, 2003 – 2023



Source: FRED; New York Fed Consumer Credit Panel/Equifax

## Heartbreak Ridge (a 1986 Film)

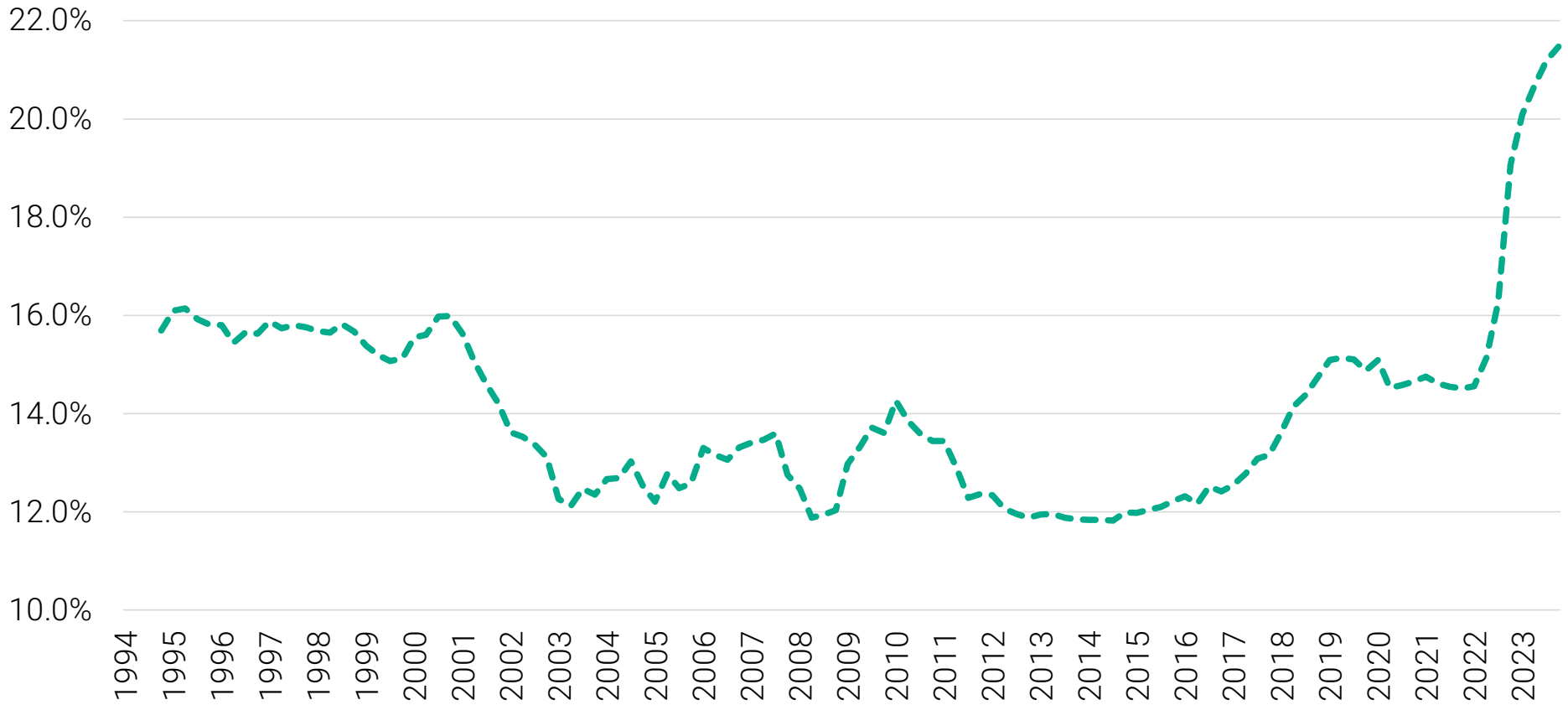
New Delinquent Balances (% of Balance 30+ Days Delinquent by Loan Type)



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax

# High Interest Grifter

## Commercial Bank Interest Rates On Credit Card Plans



Source: Board of Governors of the Federal Reserve System; \*High Plains Drifter was a 1973 film

## Heartbreak Ridge (a 1986 Film) II

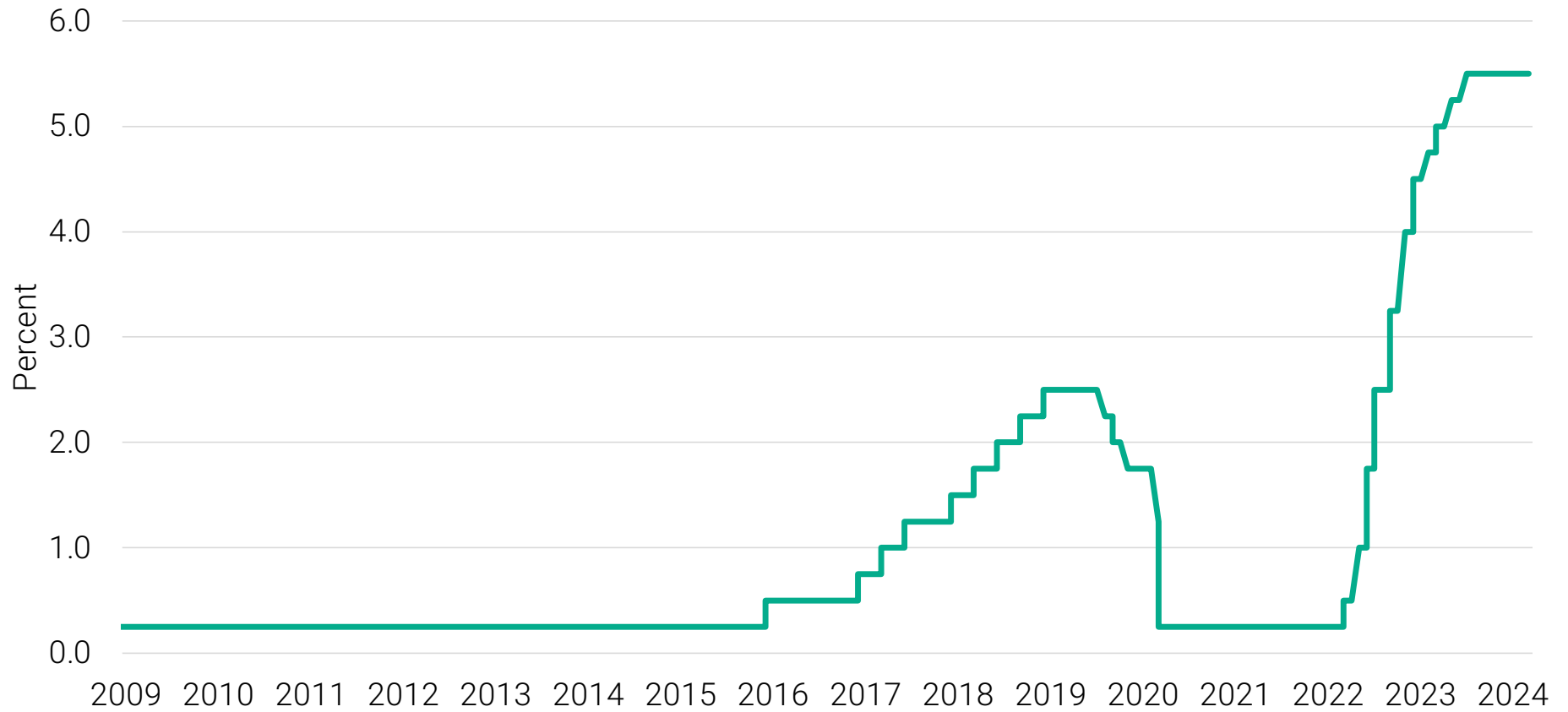
Net Percentage of Domestic Banks Tightening Standards for Credit Card Loans



Source: Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey on Bank Lending Practices

## Not So Sudden Impact (a 1983 Film)

Federal Funds Rate, Target Rate Upper Limit, 2009 – 2024



Source: Board of Governors of the Federal Reserve System

## Monetary Policy Lags

- “A large body of research tells us it can take 18 months to two years or more for tighter monetary policy to materially affect inflation.” - Raphael Bostic, President and Chief Executive Officer, Federal Reserve Bank of Atlanta
- Some reasons for the lag: how fixed people’s expectations are; the gradual response of investment (both business investment and consumer investment in durables/dwellings); long-term contracts (rent); gradual transmission from sectors of the economy immediately affected (ex. lending) to other sectors.
- In the meantime, higher rates reduce investment, slow hiring and wage growth, and eventually increase unemployment.

# Lend 'Em High (Hang 'Em High, 1968)

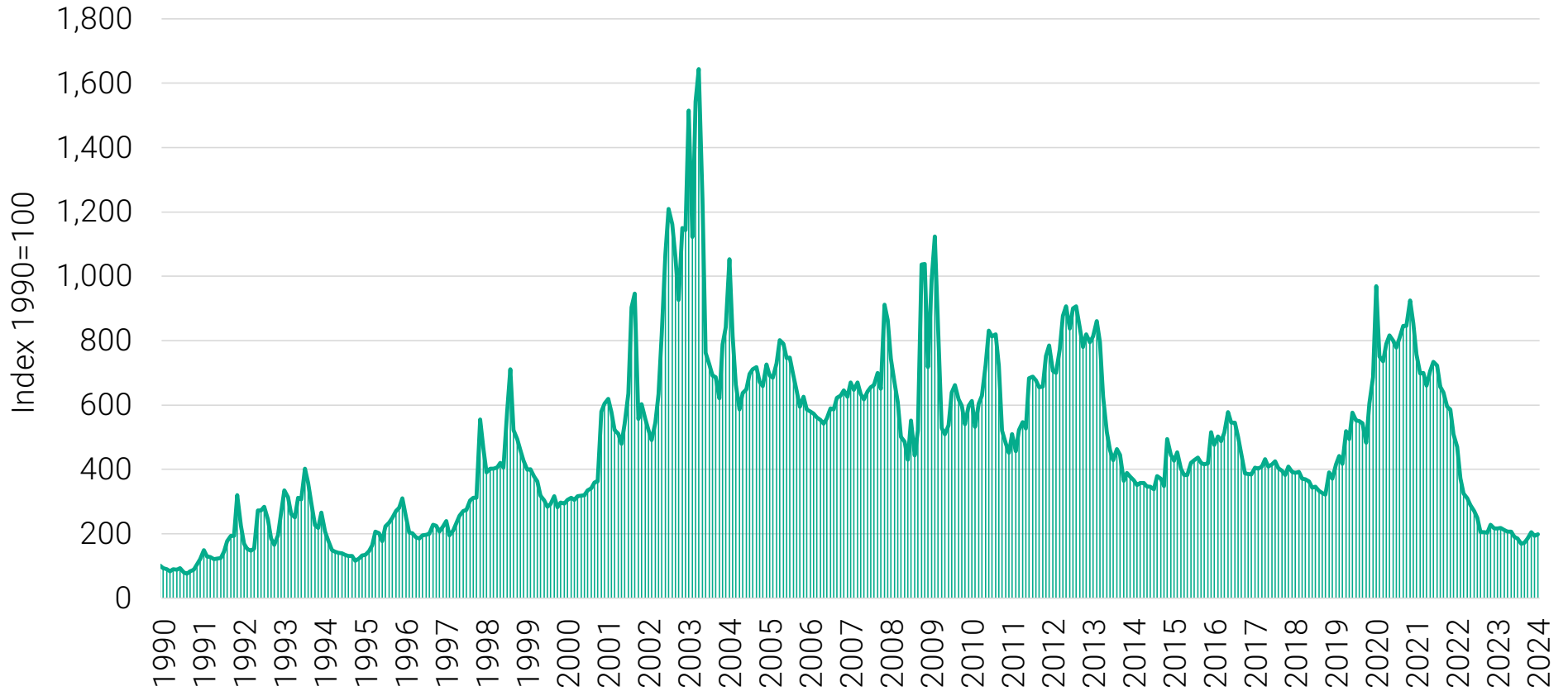
U.S. 15-Year & 30-Year Fixed Mortgage Rates, 1995 – March 2024\*



Source: Freddie Mac \*Week ending 3/21/2024

# U.S. Mortgage Loan Applications Composite Index

1990 – March 2024

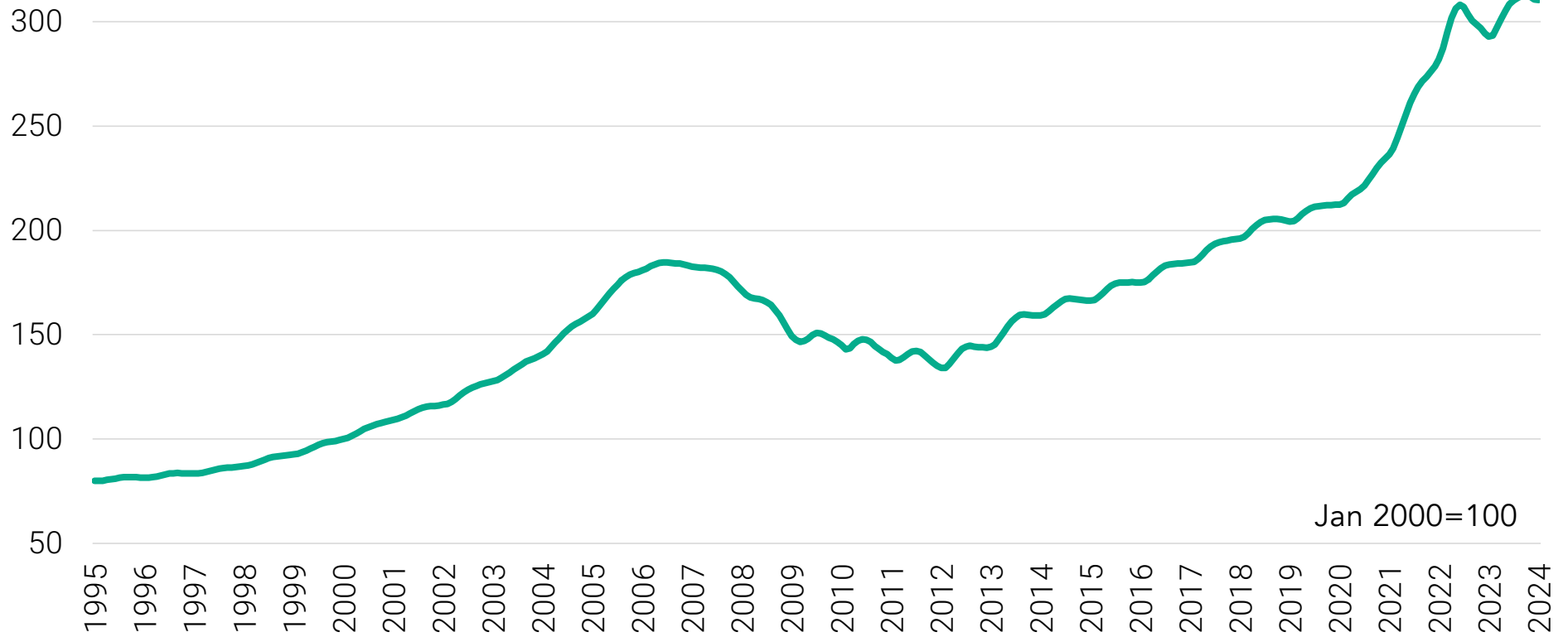


Source: Mortgage Bankers Association (MBA)



# S&P Case-Shiller Home Price Index

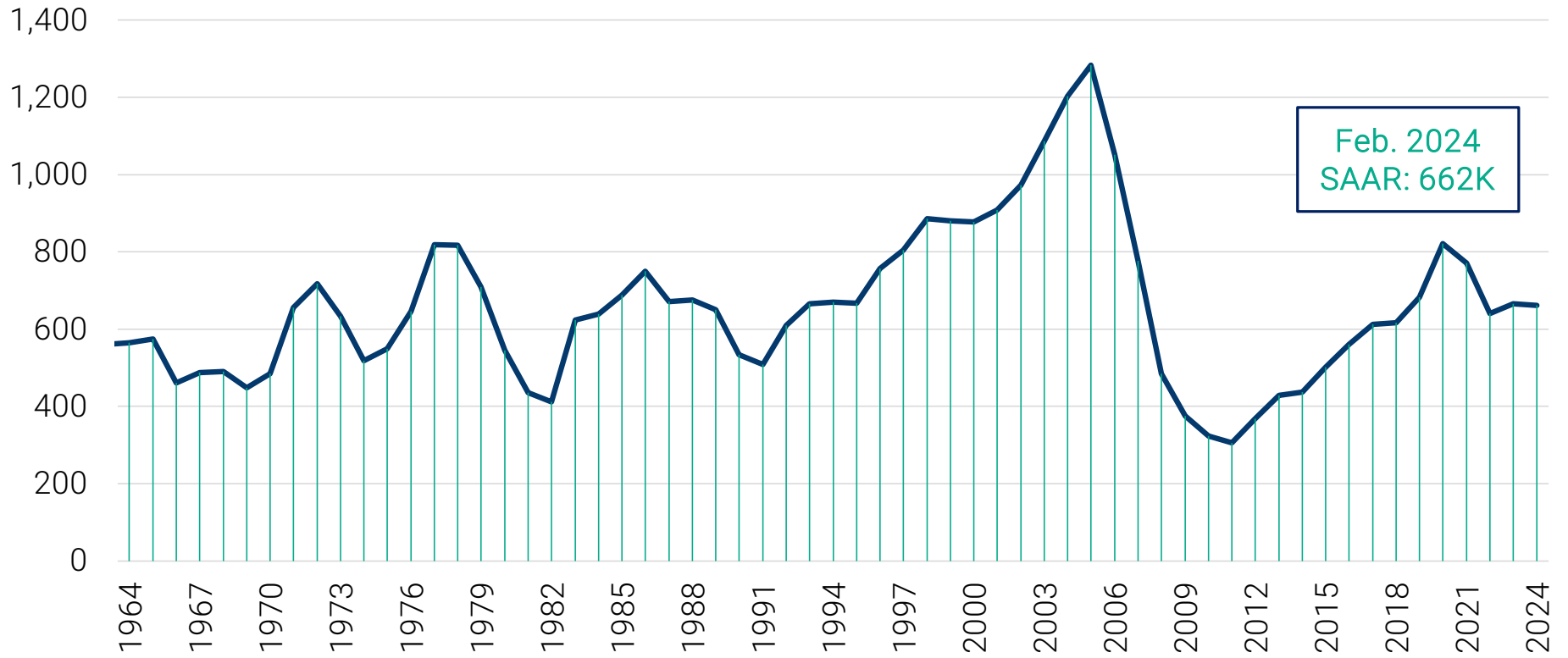
1995 – January 2024



Source: Standard & Poor's

# New Single-Family Houses Sold, 1964 – 2024

Thousands

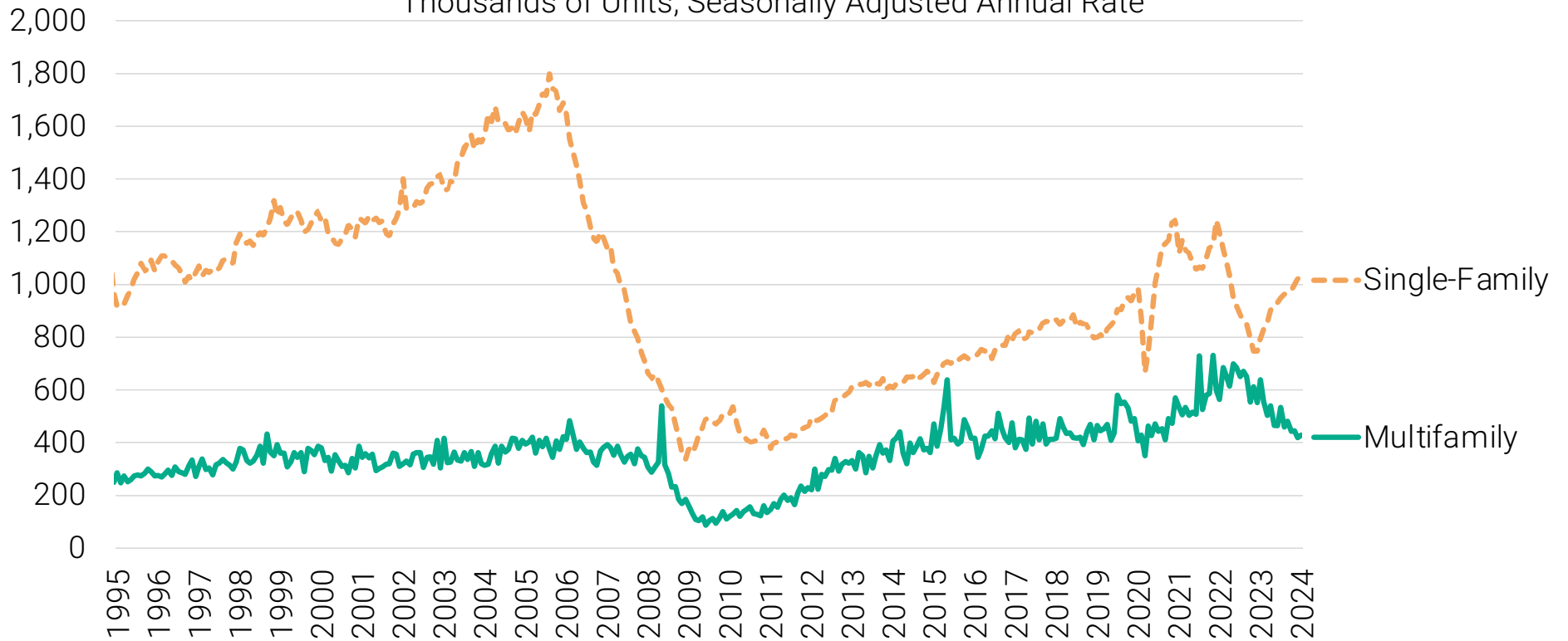


Source: U.S. Census Bureau Note: 1964-2023 data are not seasonally adjusted (NSA) total sales. 2024 data are seasonally adjusted annual rate figures.

# U.S. Residential Building Permits

1995 – February 2024

Thousands of Units, Seasonally Adjusted Annual Rate



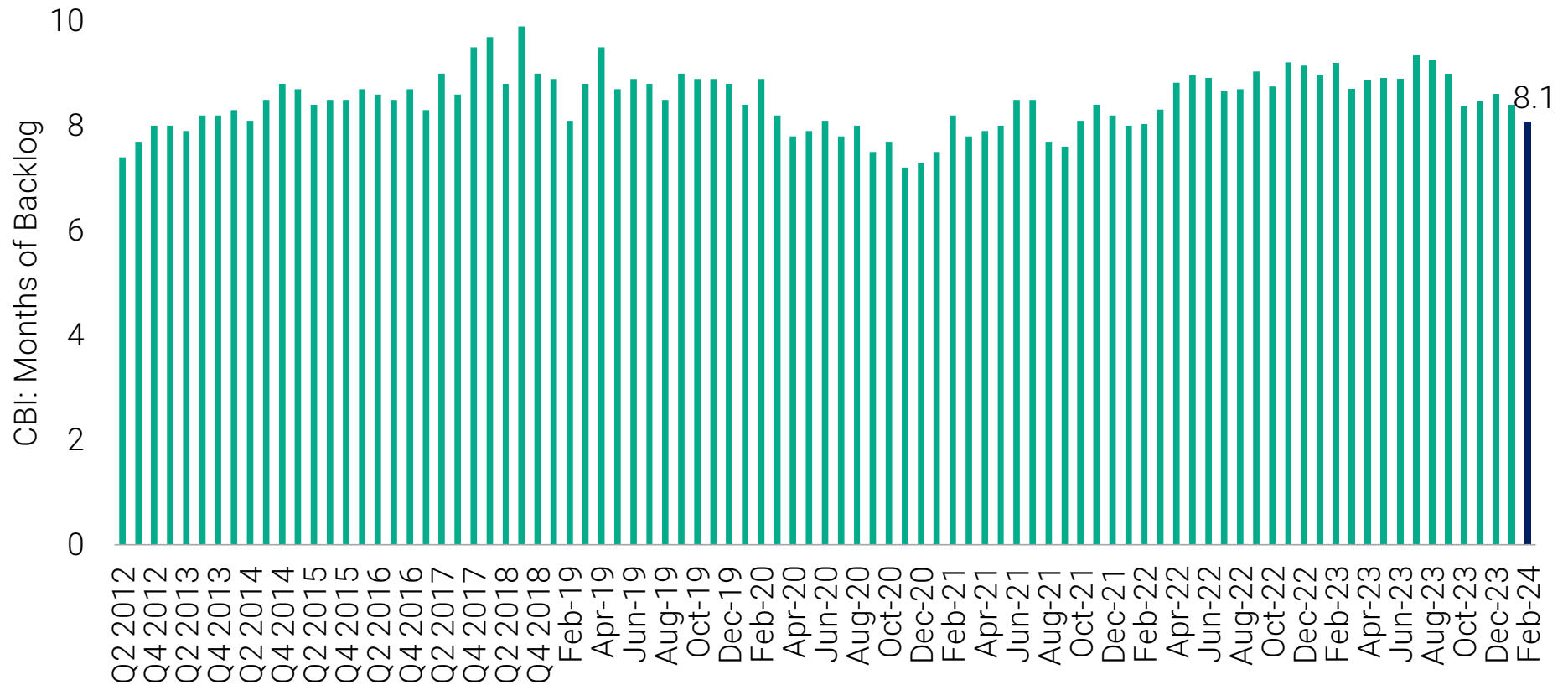
Source: U.S. Census Bureau

## POLL

Over the last three months, how has your company's backlog fared?

- It has risen considerably
- It has risen slightly
- It has remained about the same
- It has declined slightly
- It has declined considerably

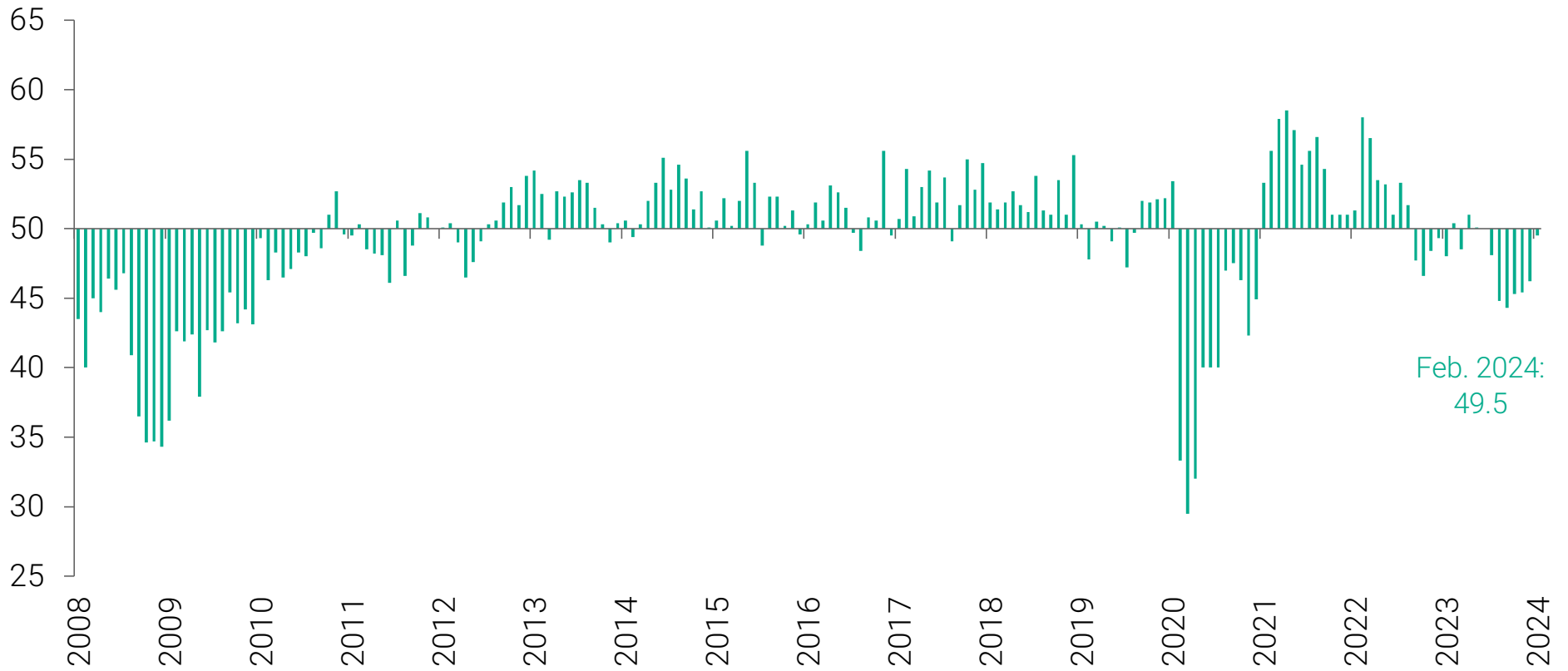
# ABC Construction Backlog Indicator, 2012 – February 2024



Source: Associated Builders and Contractors; Sage

# Architecture Billings Index

2008 – February 2024

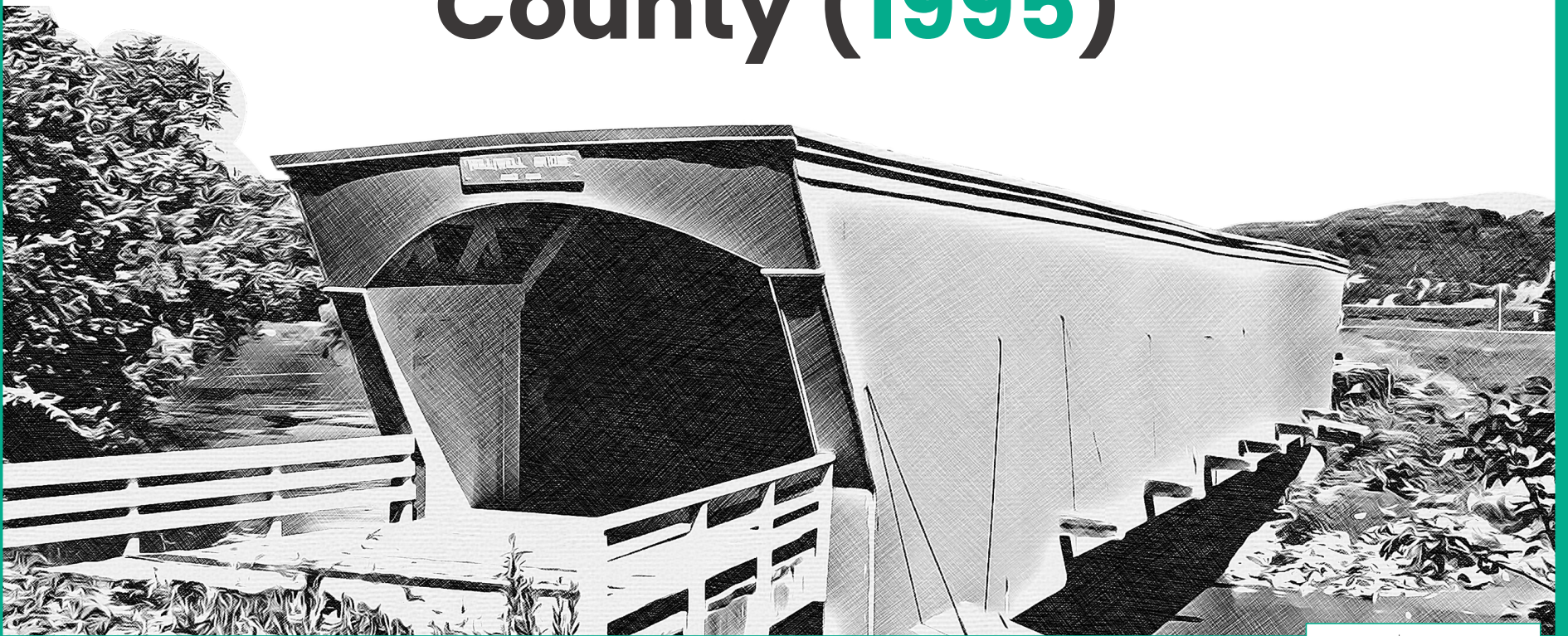


Feb. 2024:  
49.5

Source: The American Institute of Architects

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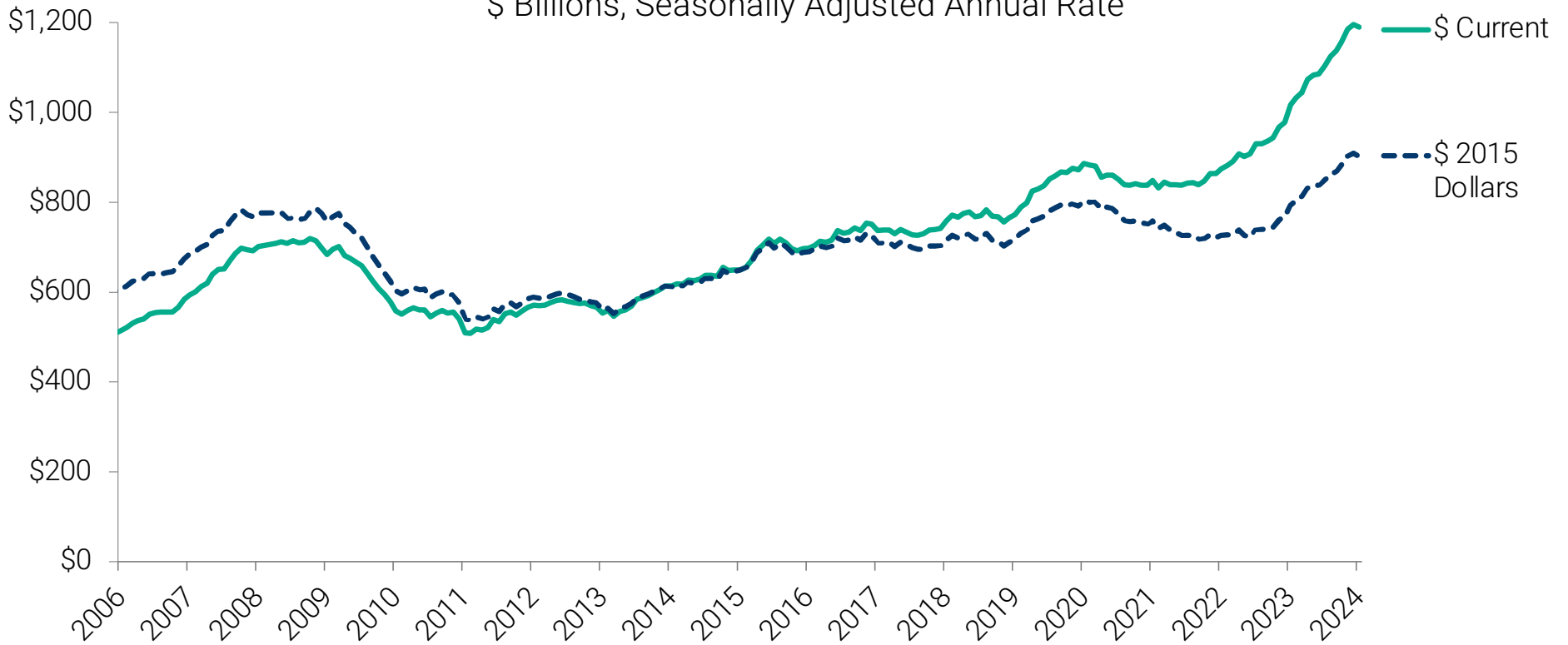
# The Bridges of Madison County (1995)



# Total Nonresidential Construction Spending

Current/Constant Dollars, 2006 – January 2024

\$ Billions, Seasonally Adjusted Annual Rate

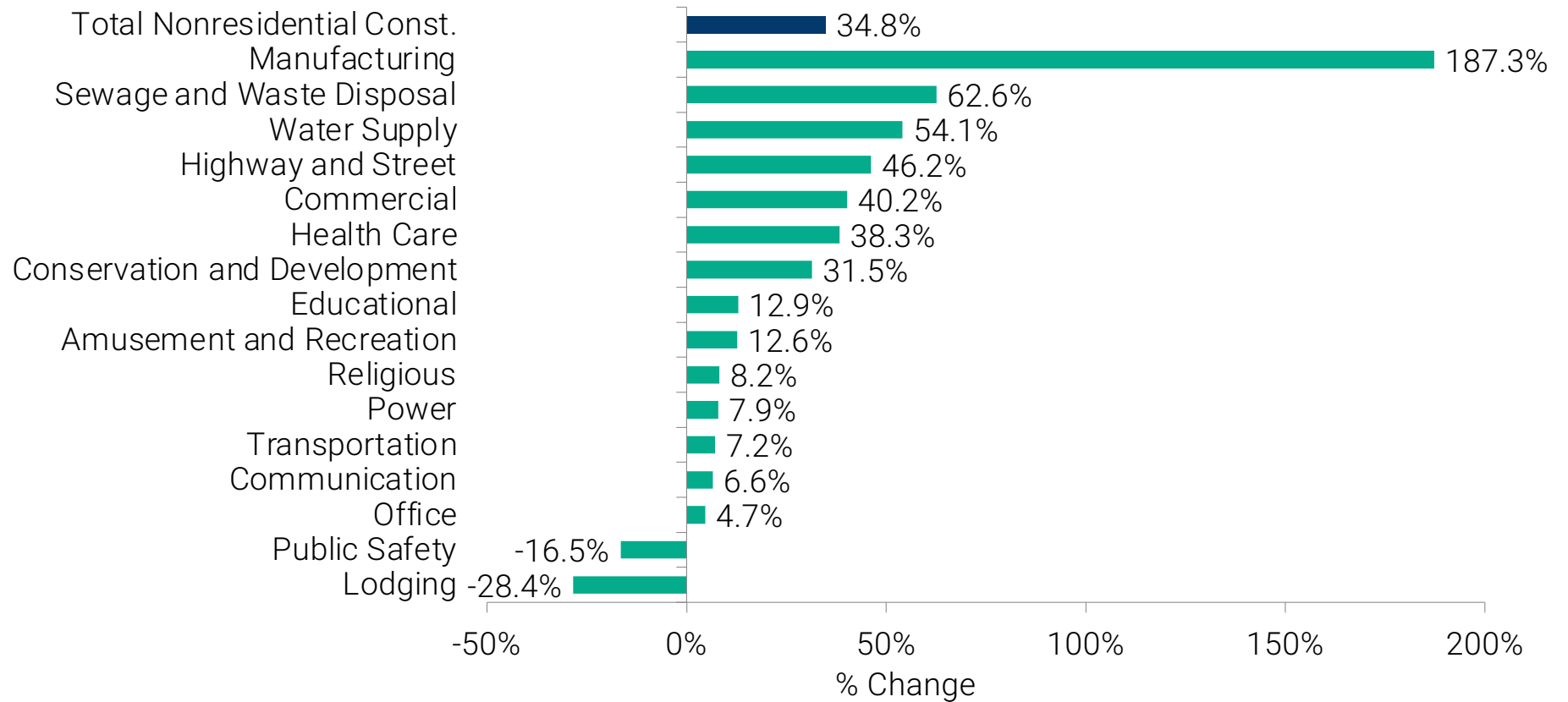


Source: U.S. Census Bureau; U.S. Bureau of Labor Statistics  
\*Adjusted with U.S. Bureau of Labor Statistics Consumer Price Index, All Urban Consumers, U.S. City Average



# Nonresidential Construction Spending by Subsector

February 2020 v. January 2024 (Current \$)



Source: U.S. Census Bureau

## POLL

Do you anticipate an unusually large number of project cancellations and/or postponements this year?

- Significantly higher than average year
- Slight uptick in postponements and cancellations
- Fewer postponements or cancellations
- About average number of postponements and cancellations

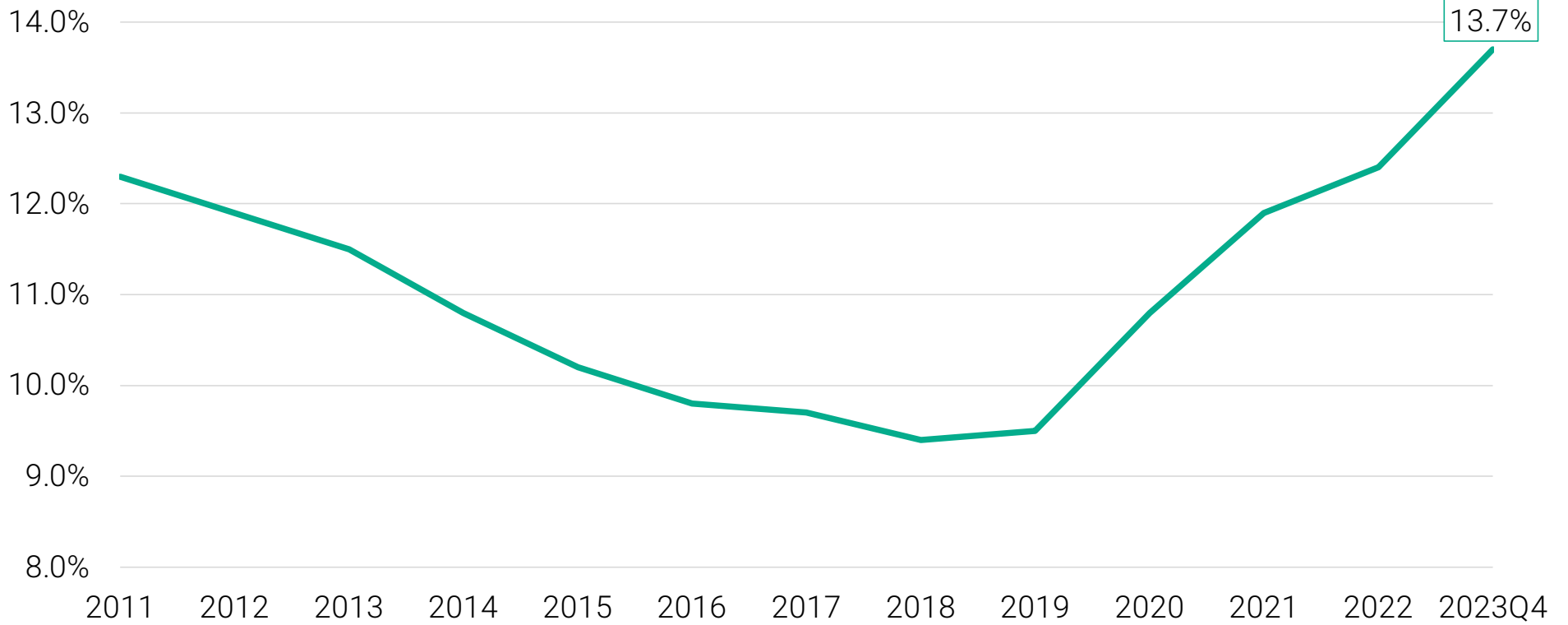


# The Ugly

## Office Market

# Every Which Way But Down

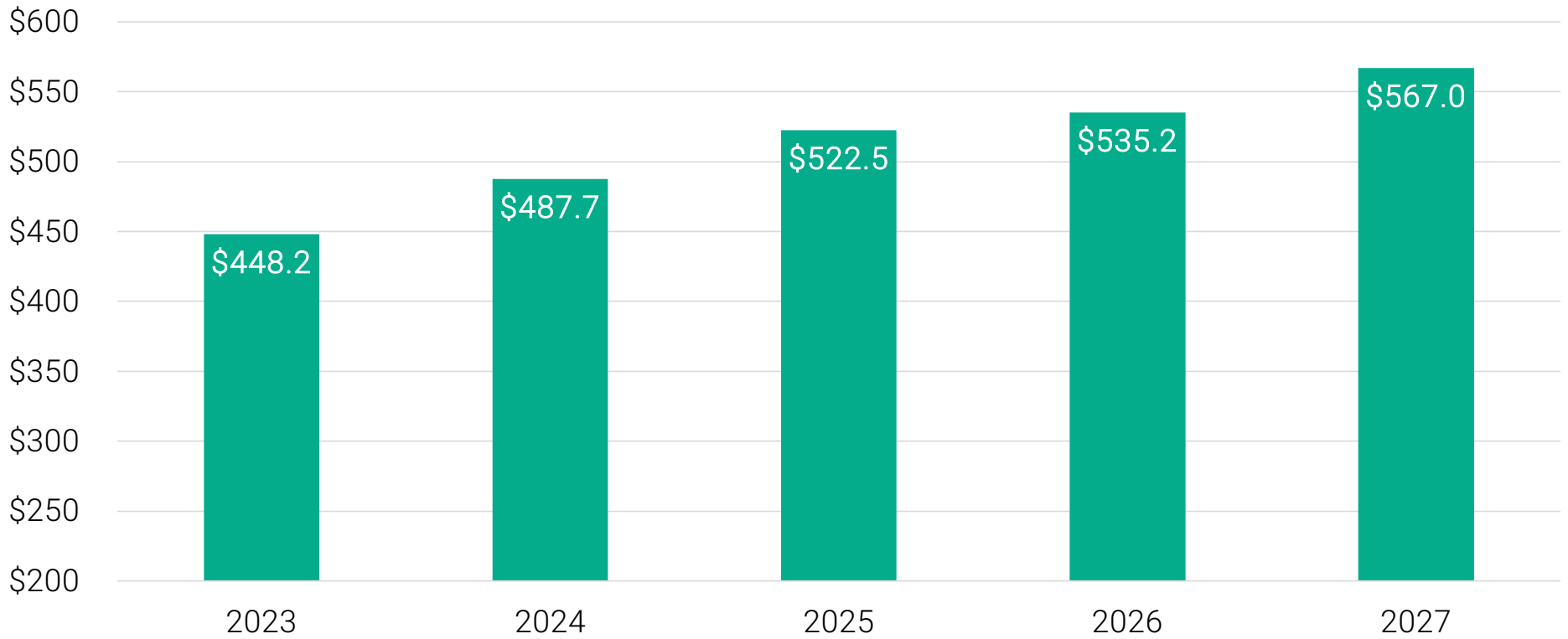
U.S. Office Vacancy, 2011 – 2023



Source: Costar; \*Every Which Way But Loose was a 1978 film

# CRE Debt Maturities: \$2.5 Trillion in the Next 5 Years

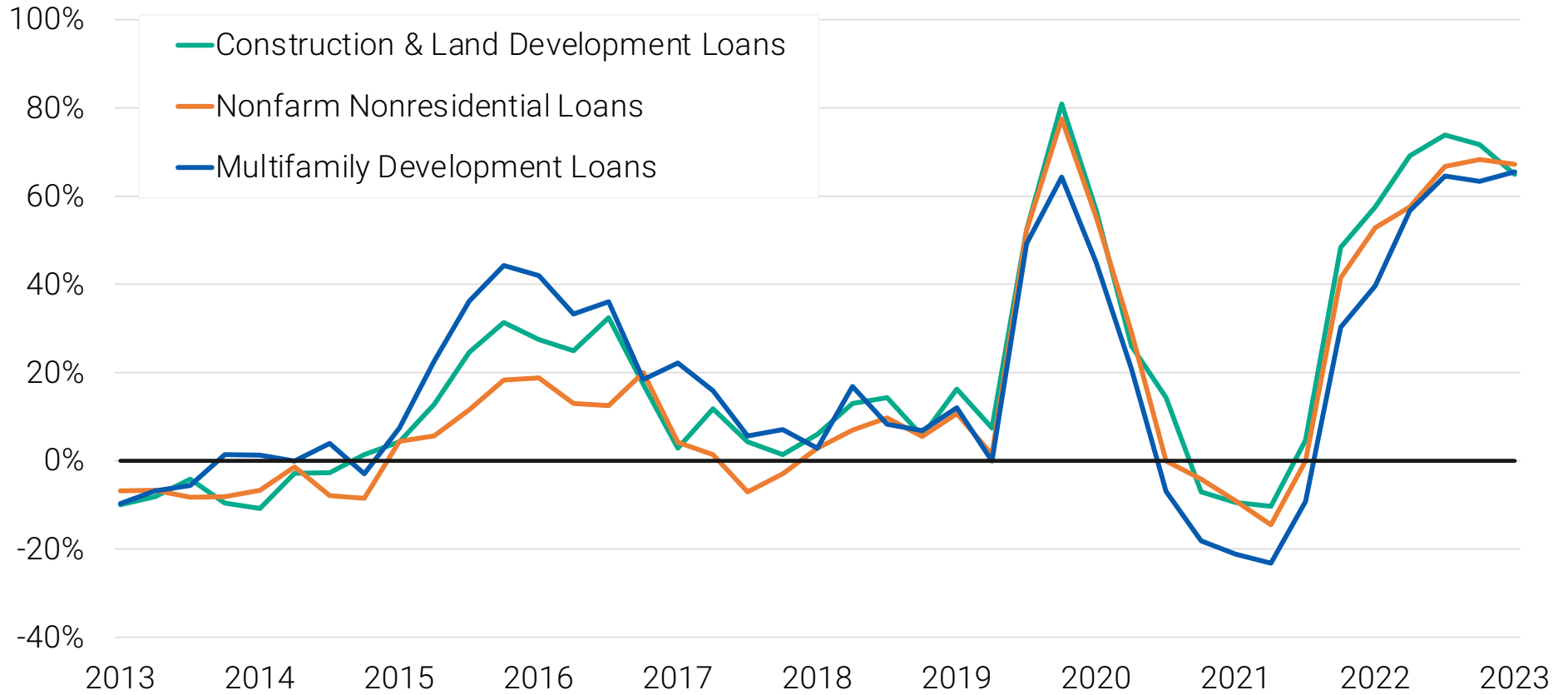
Maturing CRE Loans (\$Billions)



Source: Trepp analysis of Federal Reserve data

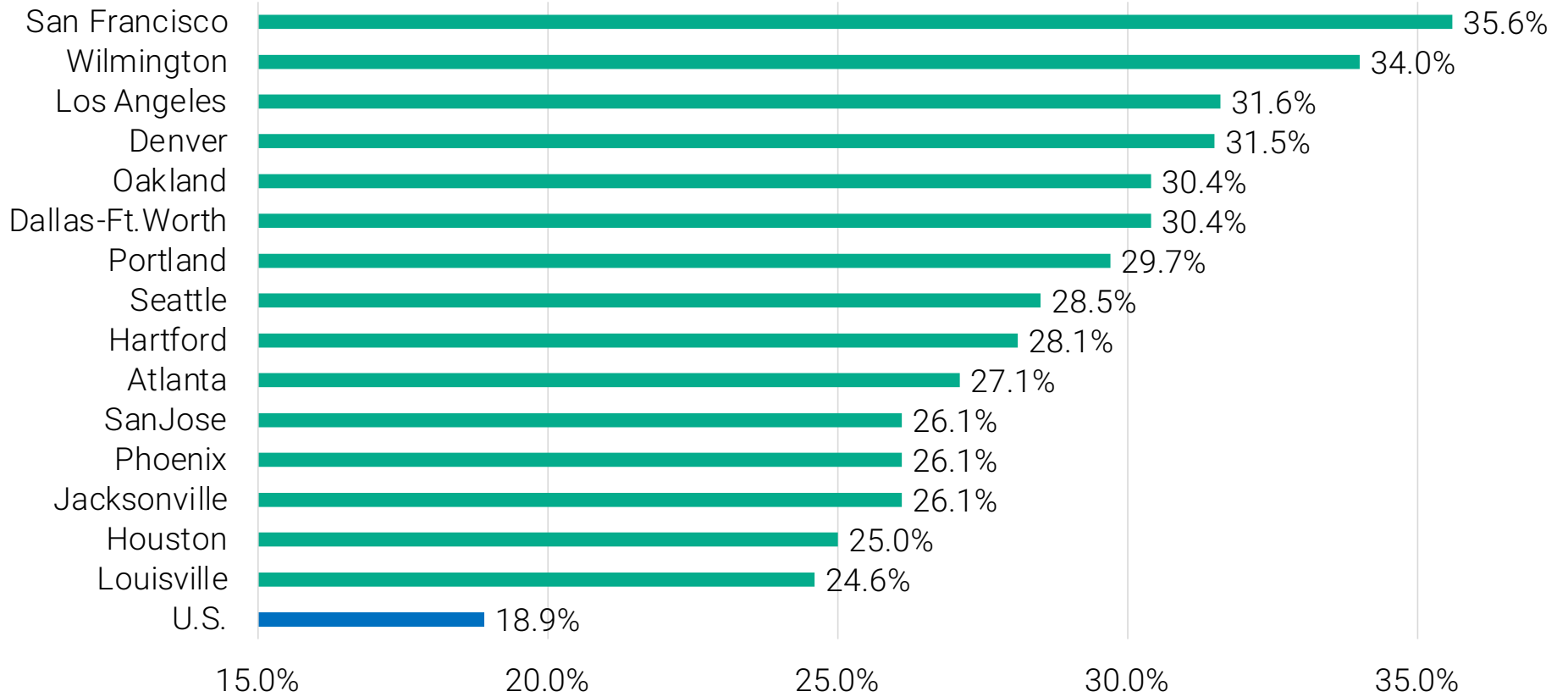
# Commercial Real Estate Lending Standards

Net Percentage of Domestic Banks Tightening Standards



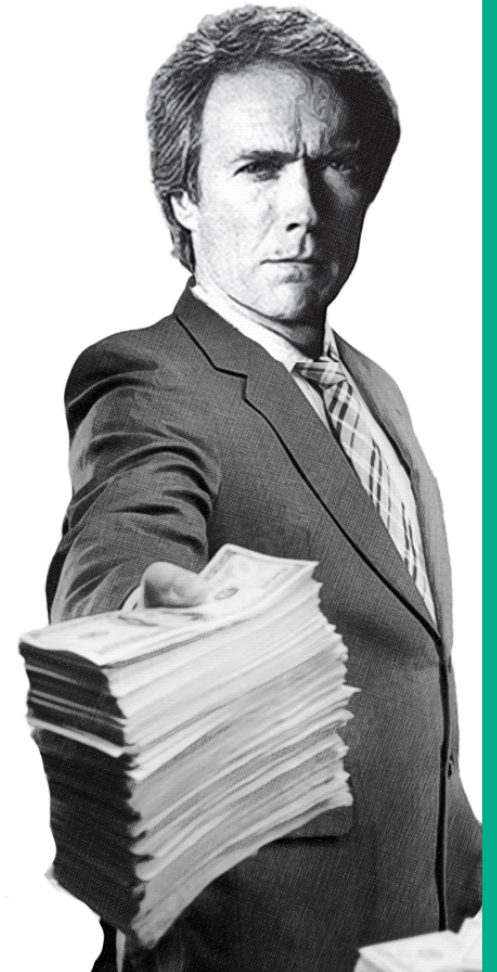
Source: Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey on Bank Lending Practices

# Highest Downtown Office Vacancy Rates, 2023Q4



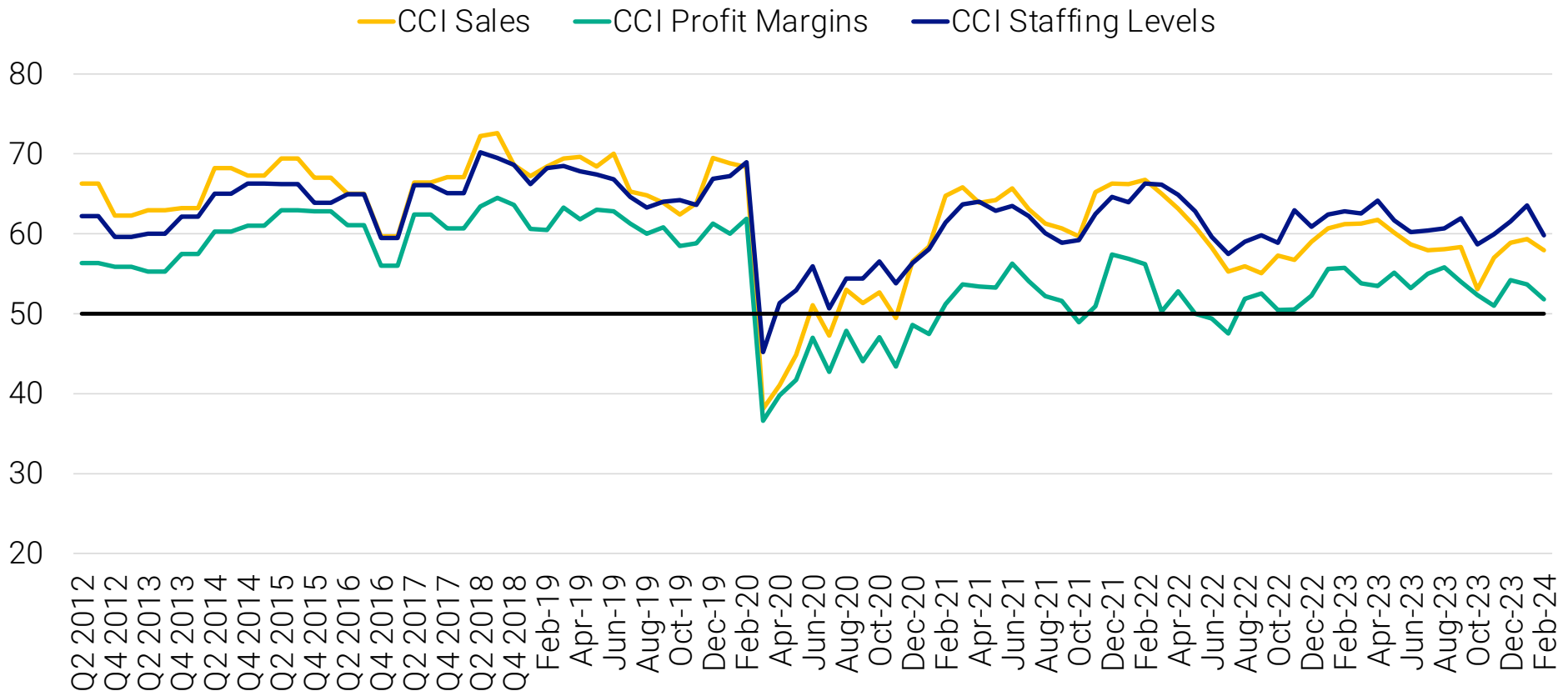
Source: CBRE

**Go Ahead,  
Make My Day**





# ABC Construction Confidence Index, 2012 – February 2024



Source: Associated Builders and Contractors; Sage

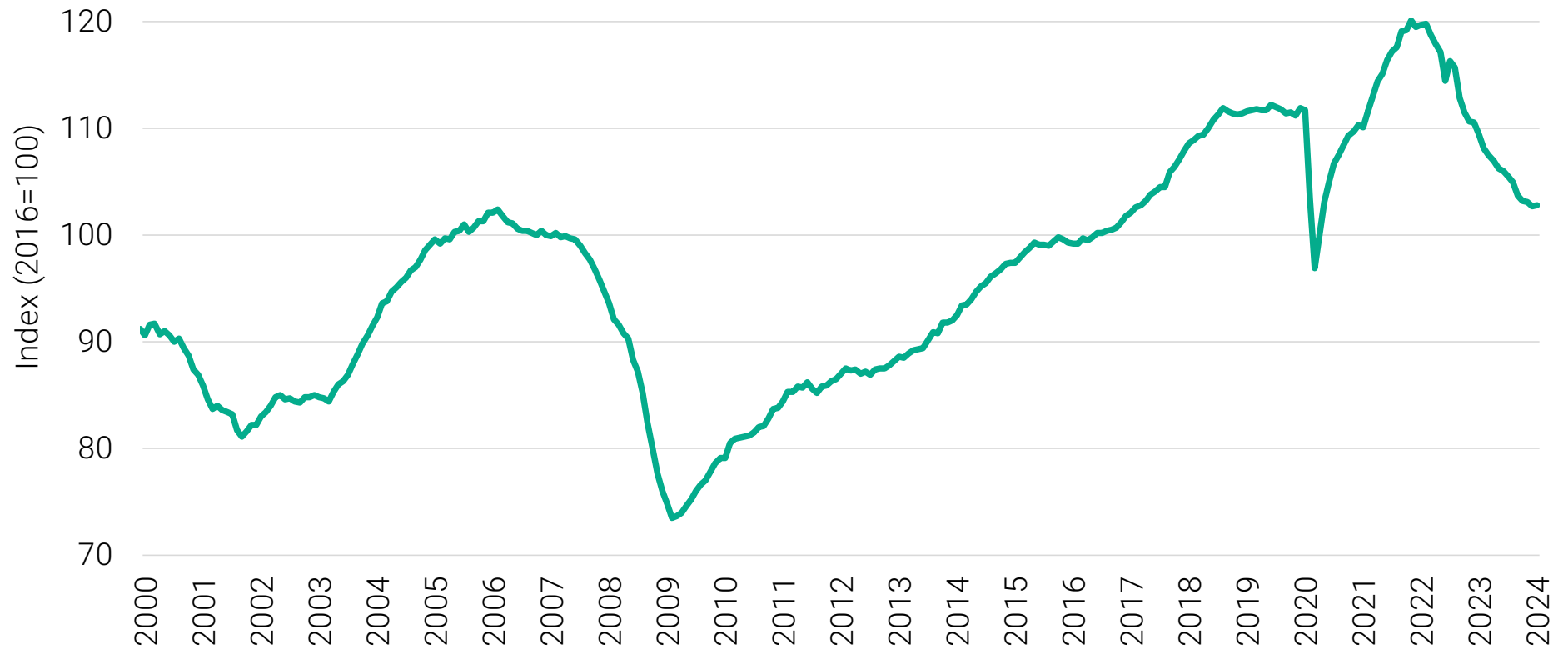
## POLL

Where do you expect your company's profit margins to be a year from now?

- Substantially higher
- Slightly higher
- About the same
- Slightly lower
- Substantially lower

# Conference Board: U.S. Leading Economic Index

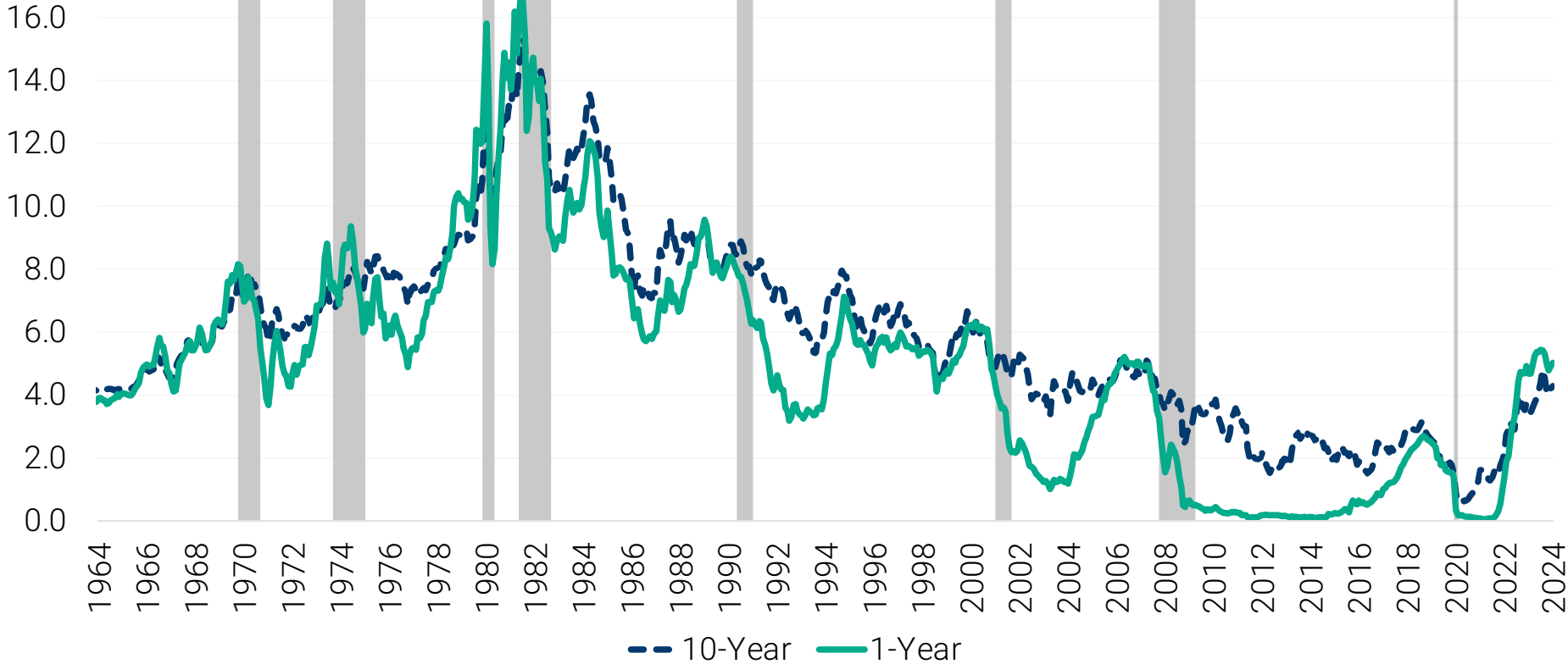
2000 – February 2024



Source: The Conference Board

# U.S. Treasury Yields : 10-Year v. 1-Year

1964 – March 2024



Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

## Go **Where You're Lookin'**, and Look **Where You're Goin'**

- We are a deeply indebted society currently facing high borrowing costs;
- That makes me pessimistic regarding the near-term outlook;
- Geopolitics and federal elections don't help – sources of additional concern, distraction, and risk;
- It will come nearly a year after I initially anticipated, but recession is coming in 2024.

# Thank You

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# Q&A

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