
PARTNERS IN PROGRESS
ALL IN
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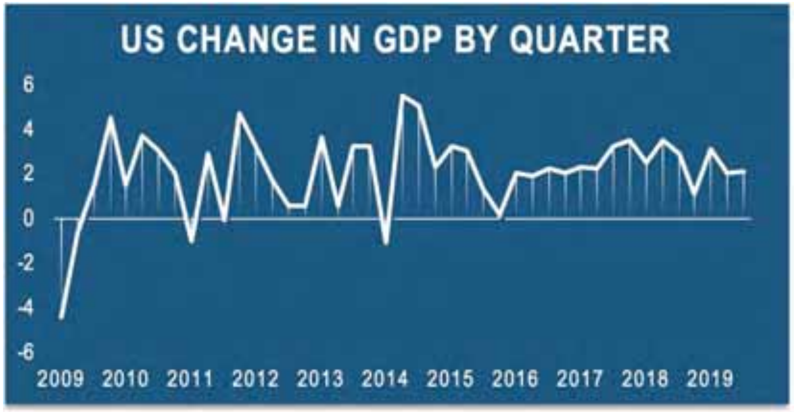
CONSTRUCTION ECONOMIC OUTLOOK - WEST

TRANSFORMING THE WORLDWIDE BUILDING AND CONSTRUCTION INDUSTRY
THROUGH REVOLUTIONARY INNOVATION

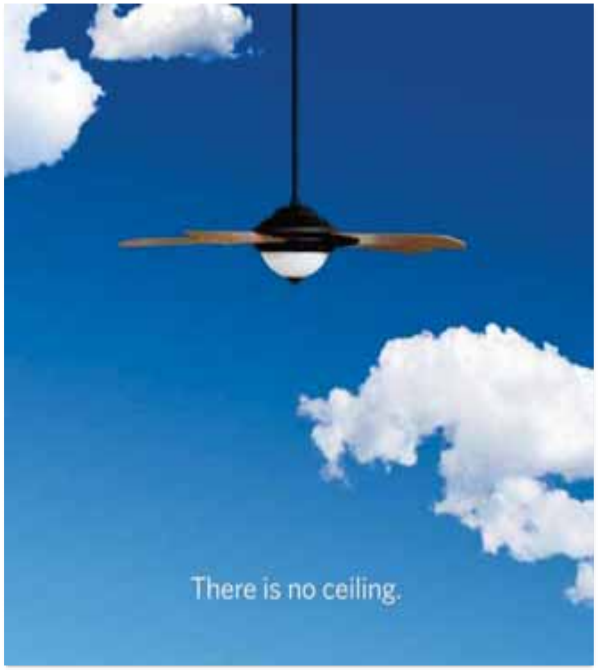
WHERE WE HAVE BEEN – LET THE GOOD TIMES ROLL



- The US Economy is in the midst of its longest expansion in history (127 months). The previous longest expansion was 120 months in the 1990s.
- Unemployment peaked in 2009 at 10%, fell below 5% in 2016, and is currently at a cycle low of 3.5%.
- Nonresidential construction has grown every year since 2011. The bottom in 2011 was 25% below the 2007 peak. Since then it has grown by 46% to be 10% above its previous peak in 2007. Through November 2019 non-res was up 3% on the year.
- Residential has grown since 2010 where it bottomed down 60% from peak. Since then it has increased by 116% though it is still 13% below its 2005 peak.

FORECAST: WE WILL SLOW DOWN – WHEN?

- We are currently in the longest economic expansion in US History. 127 months with average growth of 2.3% and employment growth of 1.1%. 2019 saw GDP growth of 2.3% below 2018's 2.9%.
- The fed forecast growth at 2.0% in 2020, 1.9% in 2021 and 1.8% in 2022.
- Economic forecasters feel the risk of a national economic recession have diminished.
- Positives for the economy include:
  - Favorable interest rates with low inflation
  - Strengthening housing market
  - Strong job creation late in the business cycle
  - Trade Agreements with Mexico-Canada and China
- Risk to the economy include:
  - Weakening manufacturing
  - Declining business investment levels
  - International tensions
  - Election year



Cover of the annual report of a publicly traded home builder prior to the great recession – fact check, there was a ceiling.

AIA CONSENSUS FORECAST:
CAUTIOUS BUT OPTIMISTIC – DEEP DOWNTURN NOT EXPECTED

	2020	2021
Nonresidential Total	1.5	0.9
Commercial Total	0.6	-0.2
Office	3.0	0.5
Retail and Other Commercial	-1.3	-0.9
Hotel	-0.7	-1.0
Industrial Total	0.3	0.5
Institutional Total	2.9	2.0
Health	3.4	3.5
Education	3.9	3.3
Religious	-1.9	-1.9
Public Safety	7.2	2.6
Amusement and Recreation	-1.8	-1.6

- Overall forecasters believe the growth of nonresidential construction will slow in 2020 and further slow in 2021. For reference, nonresidential construction grew 3.7% in 2018 and should grow around 2.5% in 2019.
- From a segment perspective, poorly performing segments such as retail and religious will continue to underperform.
- Hotel and Amusement/Recreation have performed well over the last five years but have slowed in 2019. These segments are forecast to slow further over the next two years.

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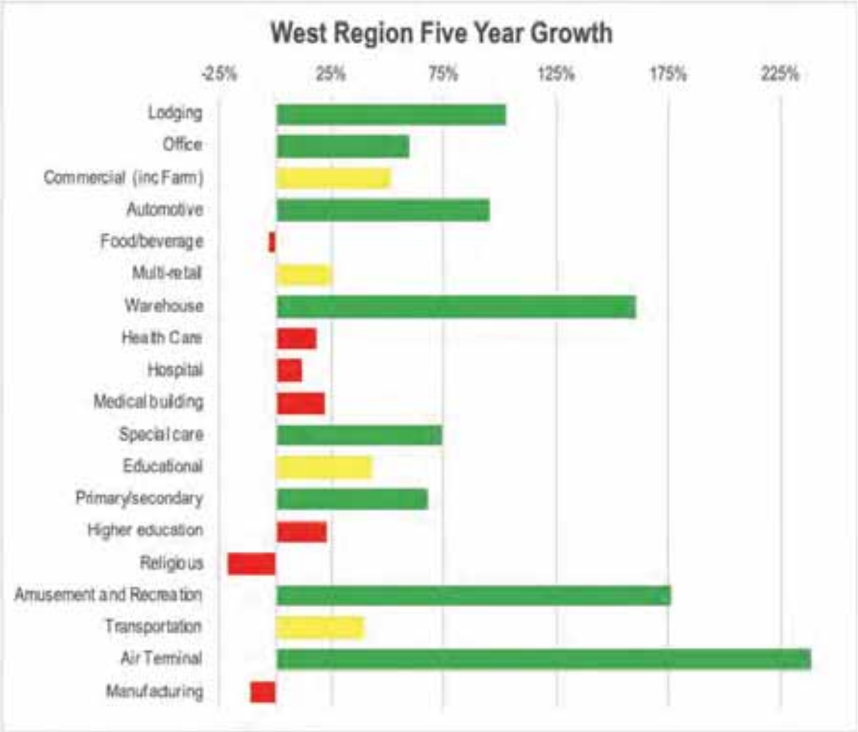
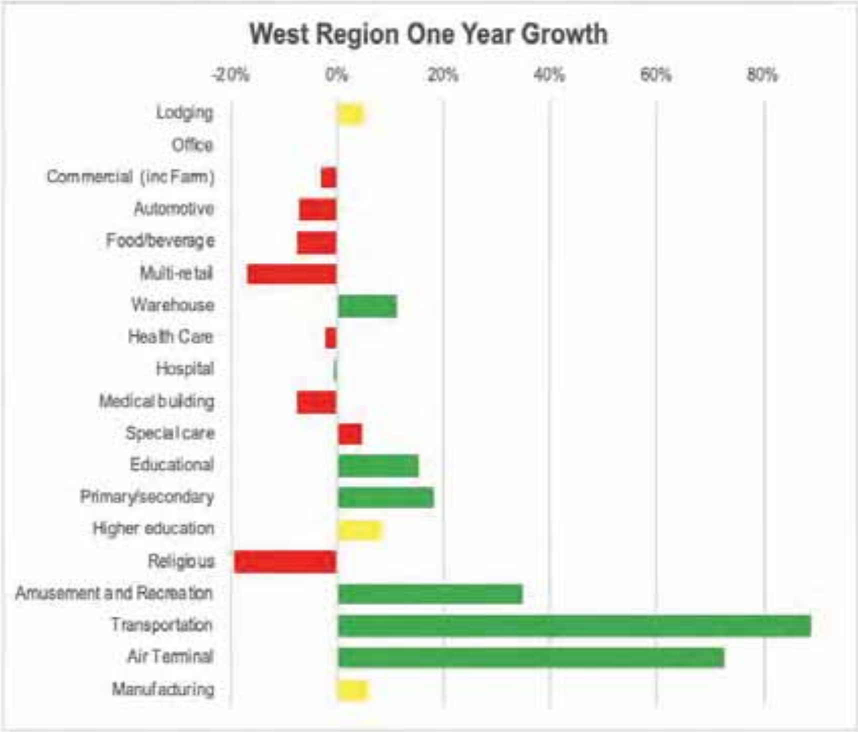
- Of the eight contributors to the consensus forecast, six are relatively consistent with the consensus forecast. Differences include:
  - Moody's is significantly more optimistic calling for 3.4% growth in 2020 and 5.4% growth in 2021 with all sectors growing in 2021. Note that Well Fargo is also bullish calling for 2.8% growth in 2020 and 3.6% growth in 2021.
  - Dodge is more pessimistic calling for 1.1% growth in 2020 with a decline of 5.9% in 2021 and all sectors declining in 2021.
  - Three of the eight forecasters are forecasting a drop in nonresidential construction in 2021 – Dodge -5.9%, FMI -0.2% and ABC -0.9%.
- The AIA billings and design contract index flipped between positive and negative for the first 3 quarters of 2019 indicating potential for a slowing market. The last quarter of 2019 saw both billings and design contracts turn consistently positive for October, November and December. This indicates risk of a broad downturn in 2020 is significantly reduced.

WEST HISTORICAL PERFORMANCE

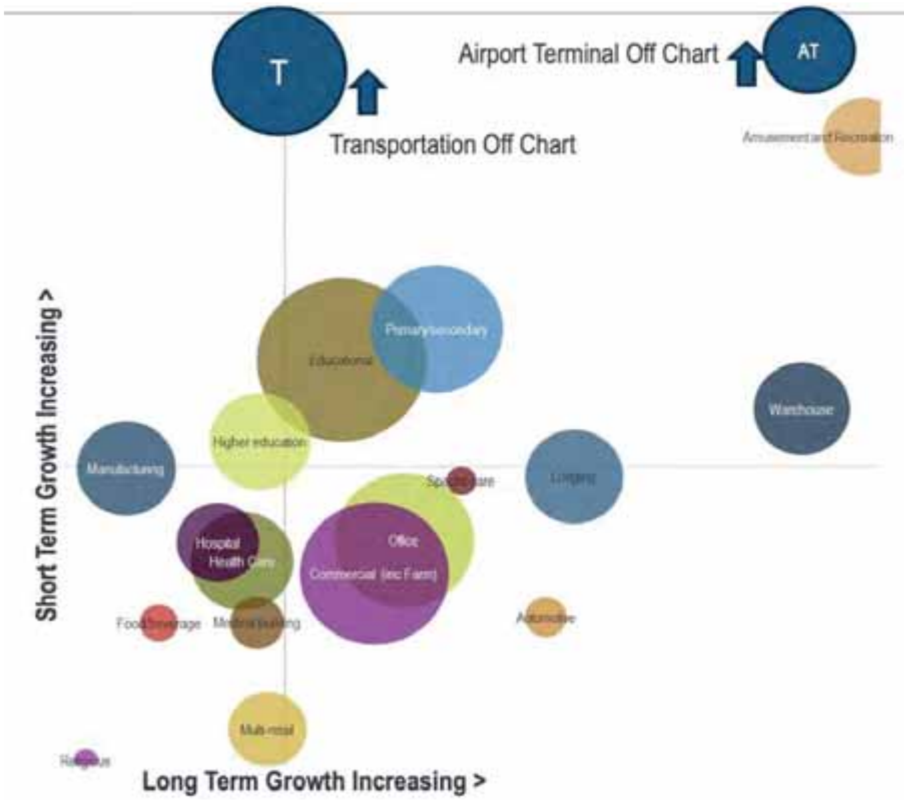
- Over the last five years total nonresidential construction put in place grew by 29%, near the national figure of 27%. Spending was up 6% in 2018 vs. a national gain of 5%.





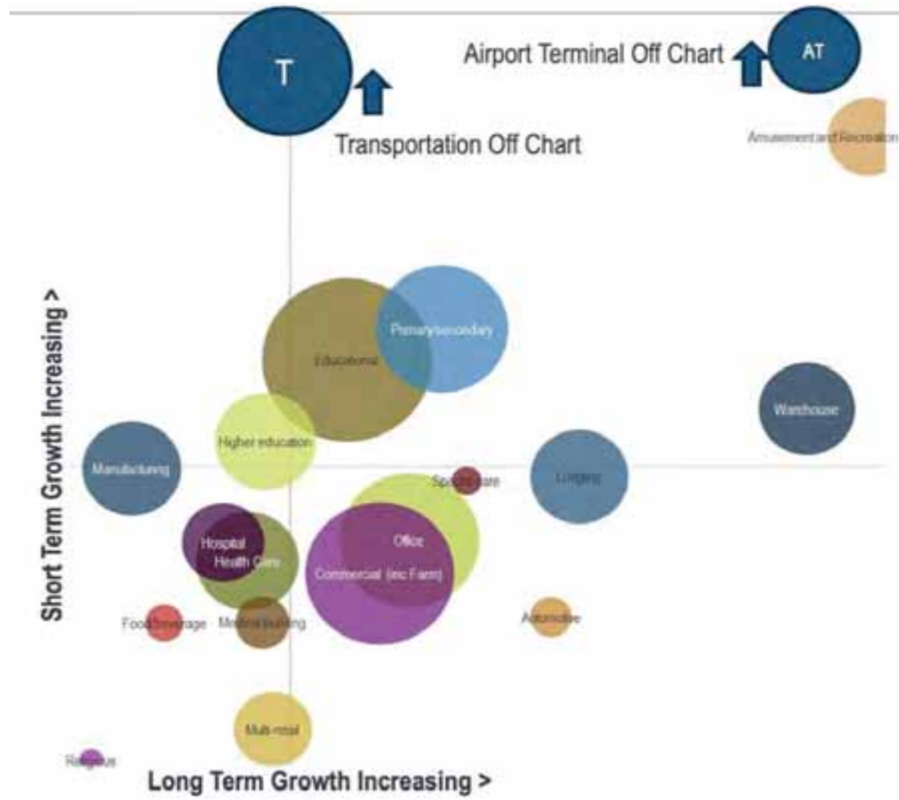
GROWTH TRENDS BY SEGMENT – WEST REGION

- Air terminals and Amusement/Recreation continue a long run of rapid growth. These are good sized markets with between 5.5 and 6.5 billion in annual spending representing around 4% of non-residential construction spending.
- The warehouse market has been very strong over the last five years even with slower growth in 2018. This is close to an $8 billion market in the west region annually.
- Primary/secondary education is a large market ($15 billion annually) which continues to see strong growth. Higher education is smaller ($9 billion) and has been growth at a rate about 1/3 that of primary/secondary. It should be noted in other regions higher education spending has been in decline.
- Office ($17 billion annually), lodging ($8 billion) and automotive ($1.4 billion) have grown rapidly over the last five years but slowed or shrank in 2018.



GROWTH TRENDS BY SEGMENT – WEST REGION

- Healthcare ($9 billion annually) grew at a pace below the overall western market for the last fie years and saw a slight decline in 2018.
- Manufacturing ($8 billion) has shrunk over the last five years but did see modest growth in 2018.
- Food/Beverage ($1 billion), Multi-retail ($5 billion) and Religious ($0.5 billion) have consistently underperformed the market over the long and short-term.



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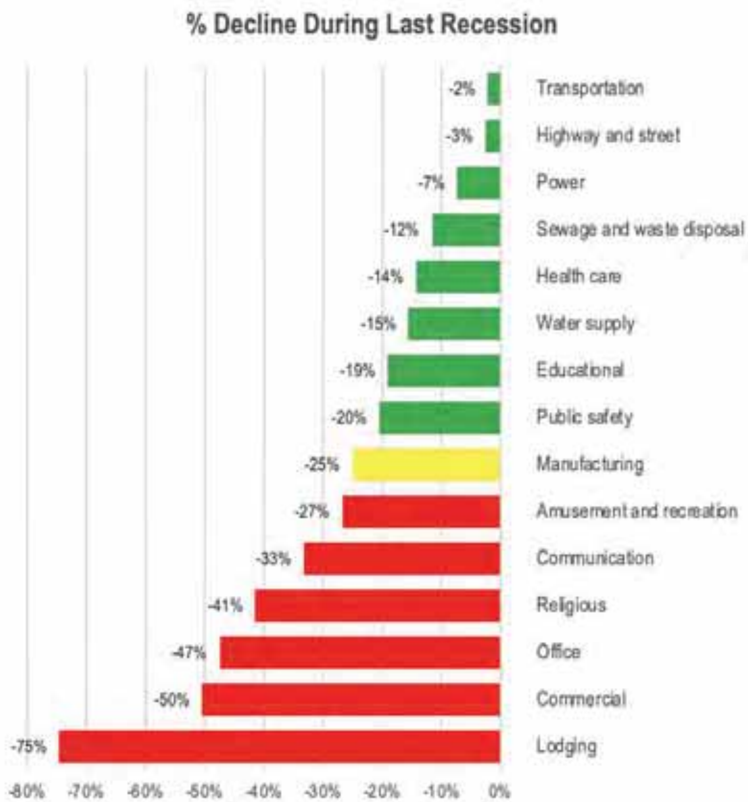
LESSONS FROM THE LAST DOWNTURN:
HOW ARE WE POSITIONED FOR THE NEXT?



- Lodging, Office, Automotive and Amusement and Recreation have all been very strong markets in the west over the last five years that may do poorly during the next downturn.
- Education (specifically primary/secondary) and transportation (specifically air terminals) have done well and will likely hold up during the next downturn.
- Healthcare has seen slow growth but will likely maintain that slow growth in a future downturn relative to the current hot markets which will decline.
- Warehouse has been strong and would typically decline during a downturn but may hold up better during a future recession due to ongoing e-commerce trends.
- Retail has seen poor performance relative to the market over the last five years and will likely perform very poorly during an economic downturn.

DISCUSSION

- What are the opportunities in the Market? What are we missing out on?

- What are the challenges in the market? What keeps you up at night?

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THANK YOU

Clark Ellis
Principal
CEllis@ContinuumAG.com
919.345.0873
@ClarkEllis
linkedin.com/in/clarkellis

Nate Scott
Principal
NScott@ContinuumAG.com
303.522.1465
@NateScott6
linkedin.com/in/nathan-scott


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