

SouthPoint

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08/22/2014

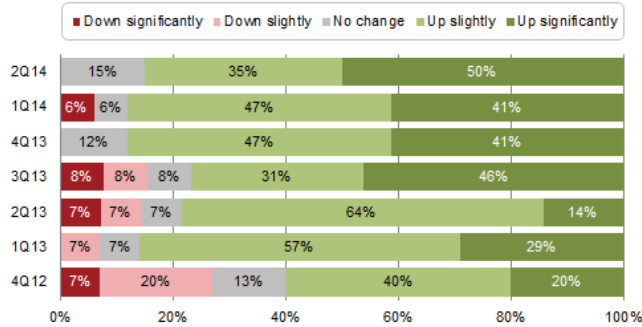
Southeast Commercial Construction Update: Activity Up from Last Year

At the national level, total nonresidential construction spending fell 2.78 percent between May and June but increased 4.6 percent from the year-earlier level. Because nonresidential construction projects tend to take place over longer time horizons, it's useful to aggregate the data by quarter to smooth out their short-term volatility. Doing so reveals that nonresidential spending increased slightly (just shy of 2 percent) between the first and second quarters of 2014 and that it increased by 6.7 percent from the second quarter in 2013.

Does the Southeast commercial construction picture align with the national one? The Atlanta Fed polls southeastern business contacts engaged in commercial construction each quarter to track and better understand regional trends in construction activity. The latest poll results appear to echo the national story, suggesting that a pickup in commercial construction activity was sustained through the second quarter of 2014.

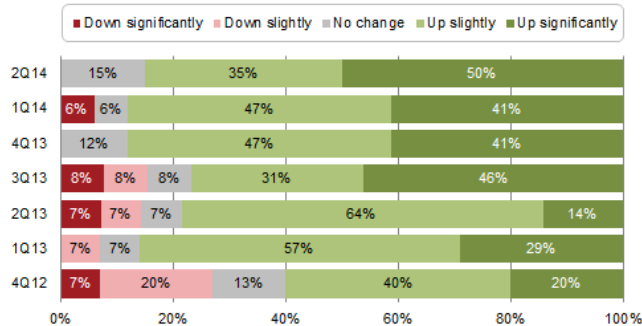
Most respondents indicated that the pace of nonresidential construction activity in the Southeast was either ahead of the year-earlier level or remained unchanged from the year-earlier level. All contacts reported that the pace of multifamily construction had increased from year-earlier levels (see the charts).

Pace of Nonresidential Construction Activity versus a Year Ago
(in square feet)



Source: Atlanta Fed business contact poll
Note: Totals may not sum to 100 percent due to rounding.

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Several comments from respondents help to illustrate these trends:

"More projects to go after in all markets, but competition is still very intense."

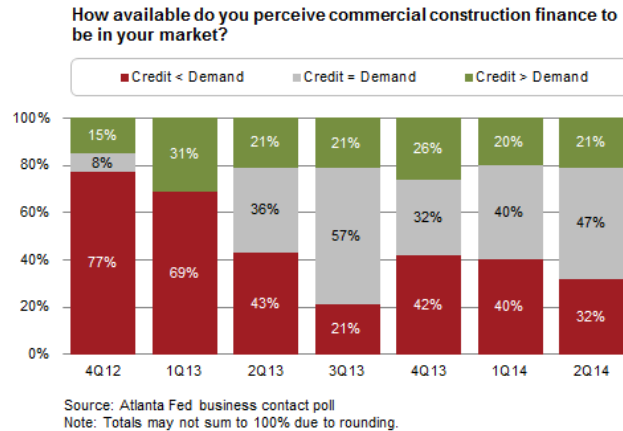
"Multifamily supply continues to grow at a strong pace."

"For the first time in six years we are beginning to see much larger projects in the healthcare, commercial and industrial markets."

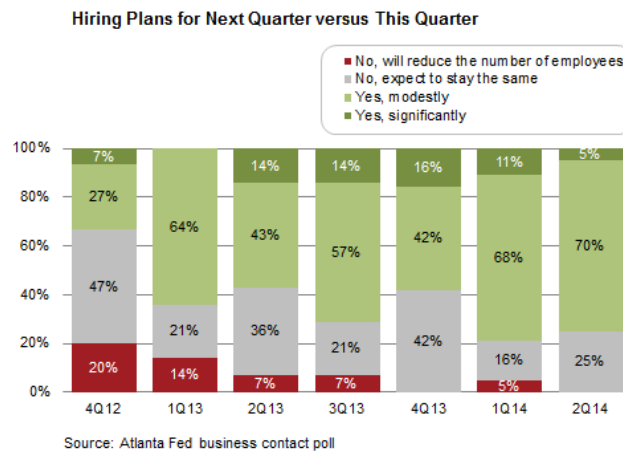
"Apartment construction remains at a high level and brings concerns that the market will become overbuilt. Each month it seems there are more announcements for new apartment projects."

Half of all respondents reported that backlog was greater than the year-earlier level; the other half indicated that backlog was similar to the year-earlier level. Although this response represents a drop from the last two quarterly measures of 89 percent and 76 percent, it is still an indication that the pipeline of future activity remains fairly robust.

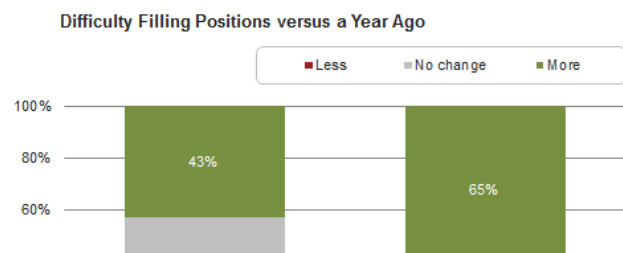
The number of respondents reporting that the amount of available credit met or exceeded demand continued to increase from earlier reports. Sixty-eight percent of contacts in the second quarter 2014 indicated that credit was sufficient, compared with 60 percent the previous quarter and 57 percent one year earlier (see the chart).

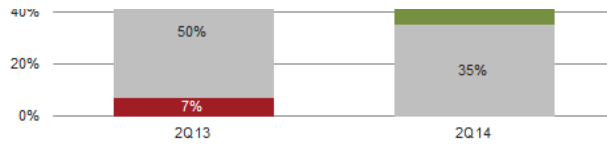


The majority of contacts reported that they plan to increase hiring during the next quarter. Seventy-five percent of contacts in the second quarter 2014 reported that they were planning to do modest to significant hiring, slightly down from 79 percent the previous quarter but up from 57 percent one year earlier (see the chart).



Compared with a year earlier, more contacts (roughly one out of three) indicated that they were having a difficult time filling positions (see the chart).

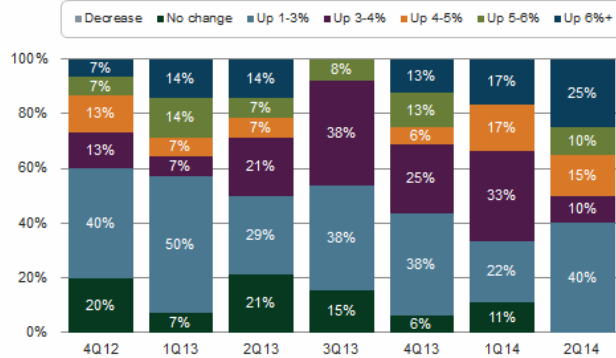




Source: Atlanta Fed business contact poll

All contacts reported some degree of upward pressure on labor costs. Sixty percent of contacts indicated that their labor costs had increased more than 3 percent from year-earlier levels. A growing share reported labor cost increases of 6 percent or more (see the chart).

Labor Costs versus a Year Ago



Source: Atlanta Fed business contact poll

The next poll will open on October 6, 2014. If you are a commercial contractor and would like to participate in this poll, please let us know by sending a note to RealEstateCenter@atl.frb.org.

Note: Second quarter 2014 poll results were collected July 7–16, 2014 and are based on responses from 20 business contacts. Participants of this poll included general contractors, subcontractors, lenders, developers, and material fabricators with footprints of varying sizes across the Southeast.



By Jessica Dill, senior economic research analyst in the Atlanta Fed's research department

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