



Economics Group

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Architecture Billings Falter in September

Registering its second-straight reading below the break-even threshold, billings for architectural services fell to 48.4 in September. Commercial billings advanced during the month, while other components contracted.

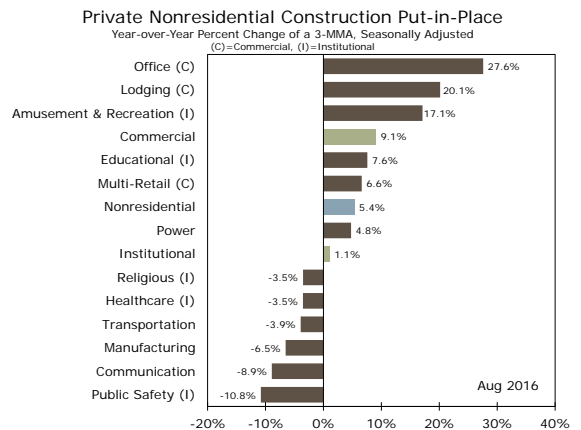
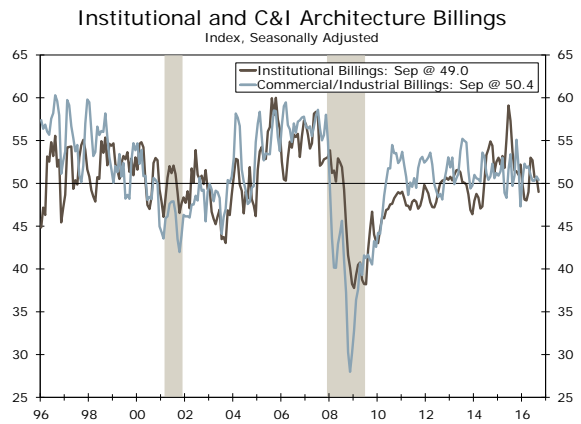
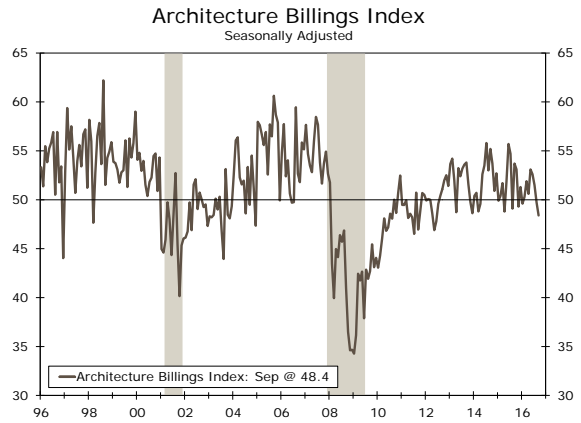
Noise in Monthly Data Muddles Construction Message

Architecture billings (ABI) for construction projects, which typically lead construction spending by 9 to 12 months, fell for the second consecutive month in September to 48.4 from 49.7 in August. The score is the lowest since April 2015 (top graph). The three-month moving average also slipped during the month, falling 1.4 points to 49.9 in September. Weakness was broadly based across segments, with residential, institutional and mixed billings all posting contractionary readings, while commercial/industrial remained just above the threshold at 50.4. On a regional basis, billings in the Northeast and West both recorded three-straight monthly scores below the breakeven threshold, while the South and Midwest remained in expansion territory.

The weak September billings score is consistent with lackluster readings in construction starts and the Dodge Momentum Index (DMI), which delivered mixed readings earlier in the year. For the DMI, which measures nonresidential projects in planning, the 4.3 percent decline in September follows five months of gains but is also likely payback from the influx of large projects in August. Notwithstanding the monthly weakness, the trend continues to suggest upward momentum. Indeed, the commercial/industrial component of ABI remained positive (middle graph).

Construction starts as reported by Dodge Data & Analytics fell 2 percent in September, following a 22 percent jump in August. Here again, the nonresidential building component advanced during the month, increasing 5 percent to a \$282.3 billion annual rate. The starts release also noted volatility due to the start of large projects. September's increase is marked by a jump in office starts, reflecting two noteworthy projects, 3 Hudson Yards (\$2.0 billion) and One Vanderbilt Tower (\$1.5 billion). Given the start of these two sizeable projects, we will likely see some pullback in the nonresidential component in the coming month. Institutional also rose during the month, increasing 8 percent.

Activity in nonresidential starts is important to note as data from the series is used as a key input in the monthly value of construction put in place. Speaking of the value of nonresidential construction put in place, we continue to expect private nonresidential outlays to increase in the mid-single digits this year and advance around 4 percent in 2017. Much of the gains this year continue to be concentrated in commercial building, which is up more than 9 percent year over year on three-month moving average basis (bottom chart). On the back of higher education, education building spending continues to lift institutional outlays, while the trend in transportation, communication and manufacturing remain weak. On a year-ago basis, residential outlays are up, but spending on single-family units fell 1.5 percent in August.



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