



Economics Group

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Billings Show More Payback than Trend in January

Following a strong reading in December, billings contracted in January, registering a score of 49.5. The nonresidential sectors improved in January, while mixed and residential slipped during the month.

Billings Trend Still Suggests Positive Outlays

Total billings fell into contraction territory in January, but the weak reading follows a surge in December. The 6.1 drop in January, from 55.6 in December, was the largest since September 2008. We suspect the plunge into negative territory is largely payback from the prior month's solid reading rather than the start of a deleterious trend, especially given the spike in billing inquiries. The inquiry index reached a score of 60 in January, the highest monthly reading in five months.

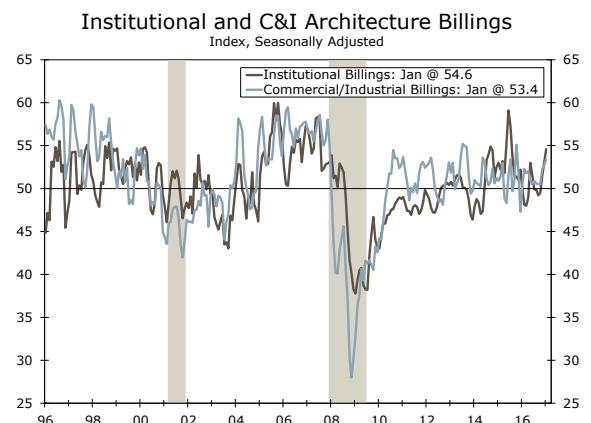
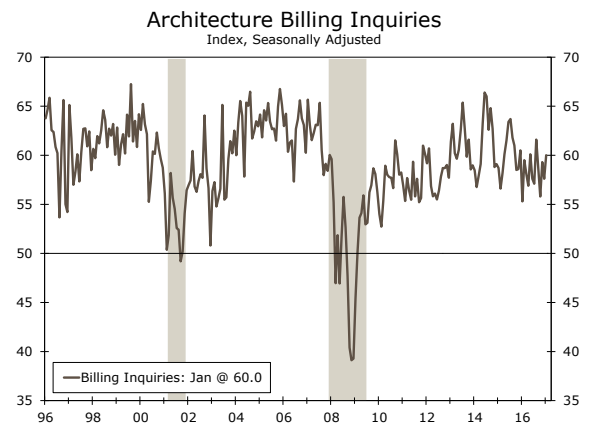
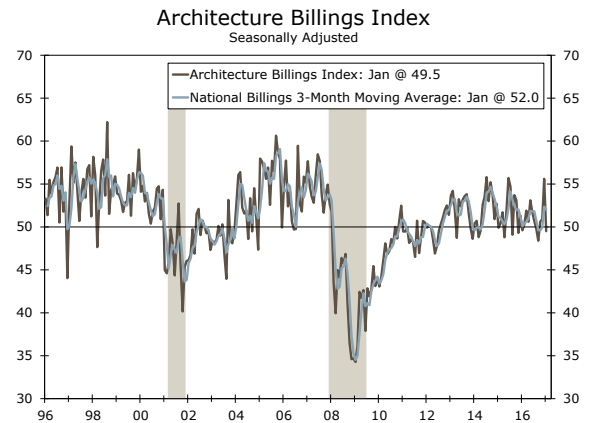
The three-month moving average shows billings posted a second-straight positive reading in January, following a soft patch from September through November, which was likely due to a pullback in activity due to election uncertainty. We also note that billings slipped below the 50 demarcation in January 2016 despite the seasonal adjustment.

Regional performance was mixed with activity improving in the Northeast, South, and West, while billings in the Midwest cooled a bit during the month. That said, the West is the only region in contraction territory, likely reflecting the slower pace of high-technology employment and pullback in venture capital. In January, the West registered its fourth-straight decline.

By sector, billings advanced in the nonresidential components including commercial/industrial and institutional, while mixed and residential (mostly multifamily) posted negative readings during the month. Billings for design services typically lead construction spending by about one year and provide useful clues into the trend in overall outlays.

As we wrote in our [2017 Private Construction Outlook](#) publication (available on our website), we expect overall nominal private nonresidential construction spending to grow about 4.5 percent in 2017, but the pace intimates a deceleration in activity, which is consistent with the moderation in 12-month lagged billings. The weaker reading in the residential component is consistent with the slower pace in multifamily housing starts.

The American Institute of Architects does not break out commercial and industrial, but activity in the sector is expected to remain strong during the year, but also show some moderation from a combined increase of 10.5 percent in 2016 to about 7 percent in 2017. For institutional, billings show a much stronger reading than what is expected during the year, especially as health care remains a hot topic as the Trump Administration and House GOP consider repealing and replacing the Affordable Care Act, which could impact hospital new construction. Although the details remain scant, uncertainty will keep developers on the sidelines. We expect nominal private institutional outlays to decline in 2017 and 2018. Overall private nonresidential construction outlays will also be tempered by softer commercial real estate operating fundamentals, a rise in materials costs and a shortage of skilled labor.



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