

Machinery, E&C and Waste

Construction: starts 'start' year on weak note with some Megas breaking ground

Industry Overview

Non-res construction starts fall in January

According to ConstructConnect, dollar volume of construction starts (ex-resi) in January was \$56.5bn, up 60% MoM but down 9% YoY. The rebound from December is mostly attributed to mega projects breaking ground, albeit could not keep pace with the size/scale of the comp a year ago. Recall, starts finished 2023 up 4%, albeit we recognize other data sources (i.e., square footage) were more negative for 2023.

Bifurcation is the word: some verticals up vs some down

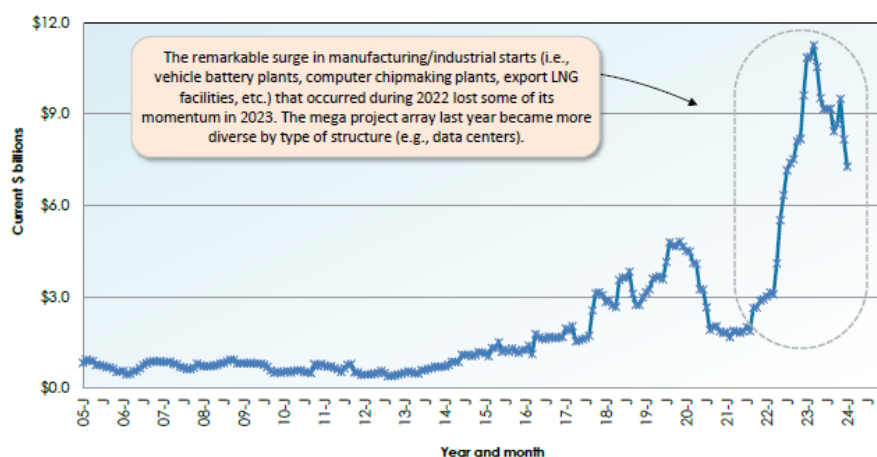
While the second derivative is slowing, there is clear bifurcation in the construction market continuing to play out to start 2024. Strength observed in heavy engineering (+47% YoY: highways, bridges, water). That said, higher rates likely weigh on Commercial (-13% YoY: private office, hotels, warehouses) and tough comparatives on industrials (-60%) – elevated historically yet are losing momentum (see exhibit 1). We are hosting Martin Marietta CEO this week – gauging moving pieces to construction in '24-25.

Mega projects break ground in Jan but tough comps hit

Why do mega projects (i.e. projects in excess of \$1bn each) matter? Contributed 26% of non-res starts and helps offset higher rate pressure. January was a rebound for megas from a slow December (only 1 broke ground) with 5 'megas' breaking ground totaling \$15.9bn including an oil development site, bridge replacement, Industrial campuses. That said, the comp was difficult with 3 megas in Jan '23 summing \$14.6bn, including \$10bn LNG export facility in TX. ConstructConnect cites the likelihood of LNG projects being greenlit going forward is uncertain given the pause to grant export permits.

Exhibit 1: U.S. Industrial/Manufacturing Construction Starts (2005 - Present)

Industrial starts have been down YoY following its bumper growth throughout 2022 to early-2023



Source: ConstructConnect

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Glossary

LNG = liquefied natural gas
Megas = mega projects

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