

Machinery, E&C and Waste

Construction: non-res starts still holding given shift to heavy vs light construction

Industry Overview

Non-res construction starts continue to hold at high levels

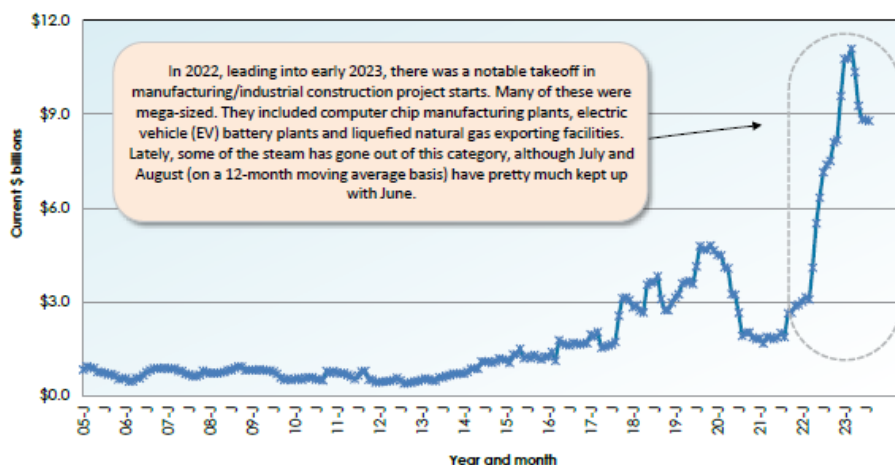
Non-residential construction cycle concerns were rampant just a few months ago (lending, rates, etc) yet the end market appears rather stable heading into 1H24 given the spending shift towards heavy construction sectors vs light construction sectors. According to ConstructConnect data, August non-res starts were flat YoY and +6% YTD (note: 2022 was a record for starts). The strength continues to come from heavy engineering (+20% YTD) and institutional (+11% YTD). Higher rates are likely weighing on commercial side (-3% YTD) with weakness in warehouses (-33%), retail/shopping (-14%), and private office (-1.4%), partially offset by strength in government offices (+32%), amusement (+27%), and hotels (+8%). Industrial starts are down -14% YTD given the very difficult comps yet remain elevated historically (see exhibit 1).

Mega projects remain a mega factor - not drying up yet

Value of non-res starts as of August is \$417bn (+6% YTD), largely due to the record number of mega projects (i.e., projects in excess of \$1bn each) that broke ground in 2023 (which were also relatively larger in size). There have been 22 mega projects worth \$70.7bn YTD compared to 19 mega projects worth \$58.1bn during the same period last year. More specifically, August had two mega projects this year worth \$2.5bn each: a 6mn-square-foot data center in Georgia, and a 2mn-square-foot manufacturing plant in North Carolina. This followed July 2023 with 7 mega projects summing to \$18.1bn. While its fair to wonder if the pace of mega projects breaking ground starts to slow in coming months, it is helping support PIP (put-in-place) spending against higher rate backdrop.

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

Industrial / manufacturing starts have been down YoY following its bumper growth of over 200% in 2022



Source: ConstructConnect

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Non-res = non residential

Aug = august

PIP = put in place

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