

(I hope!)

# HAPPY NEW YEAR!

BY JOHN CROSS, P.E.

**THE HOLIDAY SEASON** has come to an end, we've said goodbye to 2014 and welcomed 2015—and on all of our minds is one simple question:

“What will the construction market look like for structural steel in 2015?”

Before answering that question, we need to take a step back and reflect for a moment on 2014. It was an interesting year, to say the least. The hard winter of the first quarter delayed construction starts, hampered transportation and depressed GDP. The second quarter showed evidence of a rebound, but it was unclear whether increasing construction activity was just the result of delayed first-quarter projects or actual growth in construction activity. The third quarter, coming on the heels of employment levels finally exceeding prerecession levels and GDP growth surpassing 3%, confirmed that the growth in construction was real. Final numbers are not yet in for the fourth quarter, but it looks like overall growth in construction starts measured on a square-footage basis between 2013 and 2014 will be 11%. Even though construction starts remain 38% below the peak in 2006/2007, this is a very healthy growth rate.

But the news for the structural steel industry in 2014 was even better. Much of the growth in construction during 2012 and 2013 was centered on residential construction, with nonresidential construction remaining dormant. During the second half of 2014, nonresidential construction, where structural steel has its strongest market share, began to rebound. When market share by project type is taken into account, the building construction market for structural steel, which represents about 40% of structural steel consumption in the U.S., did not grow by 11% in 2014, but by 16%.

So it was a happy holiday season for the structural steel industry—or was it?

According to the AISC Business Barometer, fabricator optimism going into 2015 dipped a bit in the fourth quarter. What does this dip mean going into 2015? First of all, a fourth-quarter dip in fabricator optimism is not unusual as the reported level of backlogs historically shows a decrease during this period. Second, the early onset of winter-like conditions over large sections of the country in mid-November brought back memories of the past winter and the difficult start to 2014. And third, while fabricators have seen an increase in workload, many are not yet confident that this trend will continue. The reports being heard from the field are that many fabricators are handling the increase in volume through overtime rather than bringing on additional staff.

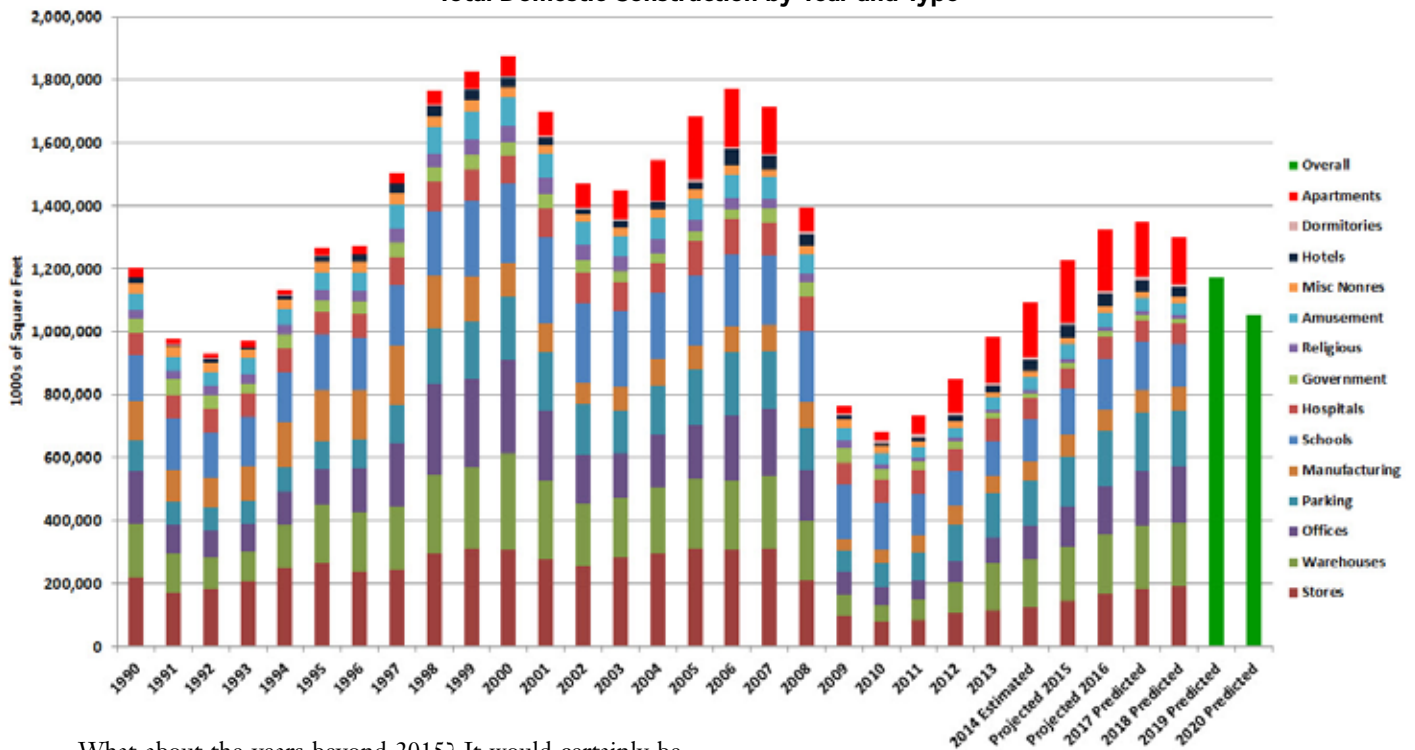
The good news is that building construction activity should continue to grow in 2015 and that growth will occur in both the multistory residential segment and the nonresidential segment of the market. Overall growth in 2015 should be in the range of 12%. Incrementally, this will increase the square footage of the prime market for structural steel by 135 million sq. ft to 1.2 billion sq. ft. The increase in nonresidential construction will result in a growth rate for structural steel consumption of 14% in the building market.

	Percent of Market	2014 to 2015 Growth
Stores and Restaurants	11%	18%
Warehouses (excluding manufacturer-owned)	14%	12%
Office and Bank Buildings	10%	27%
Parking Garages and Automotive Services	13%	12%
Manufacturing Plants, Warehouses, Labs	5%	13%
Schools, Libraries and Labs (non-mfg.)	12%	8%
Hospitals and Other Health Treatment	6%	4%
Government Service Buildings	2%	5%
Religious Buildings	1%	2%
Amusement, Social and Recreational Buildings	4%	13%
Miscellaneous Nonresidential Buildings	2%	10%
Hotels and Motels	3%	14%
Dormitories	1%	7%
Apartments and Condos	16%	12%
Year-over-Year Change in Constructed Sq. Ft		12%
Year-over-Year Change in Steel Sq. Ft		14%

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**Total Domestic Construction by Year and Type**



What about the years beyond 2015? It would certainly be nice to think that the growth seen in 2014 and anticipated in 2015 will continue unabated into the future and that the lofty construction volumes of 2006 and 2007 will again be attained. However, it must be remembered that construction activity is cyclical. If the individual project type cycles are analyzed over the past several economic cycles, it appears that the next peak in construction activity will come in 2017 or 2018. Construction levels at that time will be in the range of 1.35 billion sq. ft of construction starts or about 25% below the peak of 2006.

How reliable are these predictions? Construction volume in 2015 can be negatively impacted if the winter of 2015 is a replay of the winter of 2014. If international tensions increase, growth in China slides and the European economy regresses into another recessionary period, construction activity in the years following 2015 will be negatively impacted. But from what we've seen so far, 2015 looks quite promising. ■