Building Product Outlook

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Building Products Outlook: Another Positive Year Ahead

In the text below we discuss not only our outlook for various construction end-markets in 2018 but also recap 2017 both from an end-market and HY performance perspective. Overall, with macro data momentum continuing into the remaining weeks of 2017, we expect another year of positive growth across a majority of construction end-markets.

Residential R&R Market: Another Year Above Long-Term Trend

In 2018, we think the residential R&R market will grow about 5%, about 1% above its longer-term trend line of 4%. We think these numbers could be conservative as the economy is expected to accelerate in 2018 and recovery funding from Irma/Harvey could also provide a small tailwind.

New Residential Market: Path to Normalization Continues, SF Leads the Way

In 2018, we are estimating new residential construction should accelerate and grow at 6% y/y versus 2017 with the driver being solely from single-family construction (+10%) offset by multi-family construction down about 2%. With the general economy and many of the new residential construction metrics (i.e. permits, sentiment) also accelerating, we think 2018 should outperform 2017.

Infrastructure: Turnaround Ahead in 2018

2017 was a disappointing year for infrastructure spending but we think the market can get back to a more normal growth trajectory of +3% in 2018. With funding from the FAST Act in place, and constraints on the transmission mechanism (i.e. state level DOT delays) abating, the market should grow at least in-line with its longer-term growth rate.

Non-Resi (Commercial): Steady As She Goes

Given the favorable economic backdrop, and acceleration in residential construction, we expect another solid year for non-residential (commercial) construction +3.5% in 2018.

2017 Year In Review: Mostly In-Line

We discuss the performance of our *2017 one-stop Outlook* estimates in the pages below but on a summary level, the sub-market performances were mostly in-line with our expectations. In summary, we had estimated residential R&R would grow 4-5% a figure slightly below LTM figures reported by the JCHS at Harvard University of +6.4% y/y through 3Q17 (and projected at +6.3% for 2017). Based on YTD housing starts, new housing construction was +3.1% y/y (versus our +4%) with single and multi-family +8.7% and down -8.2% y/y, respectively. We were looking for single-family +7% and multi-family -1%. Non-residential construction (total) was +2.6% y/y through October 2017. Infrastructure spending was disappointing, down about 3% in 2017.

Overall, HY performance (in additional to the underlying equities) outperformed the broader market indices. 2017 marked another robust year for capital markets activity with total deal volume of $27bn in building products and $8bn in homebuilders, increases of 23.3% and 207% y/y, respectively.