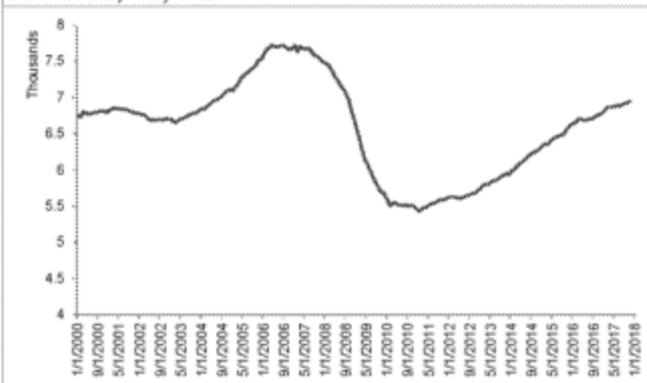




and framing (including roofing costs) were the top two cost line-items at about 22% and 15%, respectively, of the overall cost of an average single-family house. Land prices continue to increase given they are a residual of housing price movements. Some commentary was made surrounding this issue by homebuilders participating at our 2017 Building Conference (link to our equity teams notes here: [DB's 2017 Building Conference: Notes and Conclusions](#)). As an example, Toll Brothers commented that CA-based land sellers saw homebuilders' margins expanding and have re-rated their land prices higher. As shown in Figure 17, the *Random Lengths Lumber Composite* is also accelerating with recent readings in the index at \$458/bdft, an increase of 27.6% y/y. Homebuilders continue to be able to pass along inflationary pressures to consumers but it is a dynamic worth monitoring given the steady and wide-spread material/labor inflation likely to be seen in 2018, and already growing pressure on affordability.

Figure 16: Construction Industry - # of Employees – Seasonally-adjusted



Source: Deutsche Bank, Bureau of Labor Statistics

Figure 17: Random Lengths Lumber Composite



Source: Deutsche Bank, Random Lengths, Bloomberg Finance LP

Infrastructure: Getting Back On Track in 2018

2017 Disappointing Year, 2018 Looks More Promising

The infrastructure market – specifically highways, bridges, roads and transportation – had a disappointing year in 2017. Coming into 2017, expectations were running high that the newly-elected President Trump could drive through an infrastructure stimulus, but this was not the case. According to the construction-put-in-place series, YTD infrastructure spending was \$110bn, a decline of about 3% versus the same period in 2016. However, the outlook for spending remains positive with 2018 likely to show growth closer to its longer-term trend line of ~3%. During DB's 2017 Building Conference, there were some interesting anecdotes from the management team of Martin Marietta – producers of aggregates and heavy building materials – whom commented that the industry's underperformance was not only due to the impact of weather (i.e. storms, rainfall) but also bottlenecks at state-level DOTs. Due to years of budgetary constraints, staffing is short and unable to deal with the planning and approval process to vet and execute projects. Management for Martin also noted that DOTs have also begun to hire third-party engineering firms to alleviate some of these issues and accelerate approvals. The funding levels remain stable and favorable with the Fixing America's Surface Transportation (FAST) Act signed into law on 12/4/15, the first long-term federal funding bill in over a decade. While the absolute amount of spending did not increase substantially, the bill provides for \$305bn to be spent across 5 years (2016 – 2020) on a number of infrastructure initiatives (annual CAGR of 2.5% until 2020). Depending on the ability of Trump and Congress to pass tax reform, there is also some decent optionality that an infrastructure stimulus can be passed in 2018.