U.S. and Canadian HVAC Manufacturers
Combined Annual Sales Soar to Almost
$50 Billion in 2014

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Optimistic forecast for U.S. HVAC manufacturers

Among the world’s major developed and emerging nations, the U.S. economy is performing best as demonstrated in a surge in the value of the U.S. dollar.

The more expensive greenback handicaps U.S. domestic HVAC producers. Their prices of goods sold to foreign markets are becoming less competitive. Meanwhile, offshore competitors seeking U.S. customers are benefitting from a currency-induced reduction in import prices.

Regardless, U.S. producers of HVAC equipment can be optimistic about their potential sales over the next two years. They will see an ongoing cyclical improvement in construction and trends within the various types-of-structure that will give them a boost. The following sections highlight trends expected to impact the activity levels in the next two to three years.

Residential
The biggest ticket HVAC sales items—furnaces, cooling units, etc.—are in high-rise structures, which is fortuitous for the industry, since societal and demographic trends are pointing to stronger multi-unit residential construction starts relative to the single-family market segment.

The 2008-09 recession, with its accompanying tidal wave of foreclosures, made many individuals and families leery of undertaking a new single-family home purchase. Renting seemed the better option, which generally means extra demand for units in high-rise buildings. If ownership is still desirable, a condominium offers a cheaper entry-level option compared to a bungalow or plot of land in the suburbs.

Aging baby boomers are discovering the joys of high-rise living in the city. Leave the car in an underground parking garage and walk or take a taxi to shopping, dining, the theatre or a medical appointment. Young adults gaining their first job experience also appreciate residences in the midst of the downtown entertainment scene.

Urban crime used to be a deterrent to this lifestyle. However, law and order crackdowns make city centers safer places to visit and inhabit.

Mixed-use
As part of high-rise living, there has been a proliferation of mixed-use projects, especially in proximity to rapid transit stations.

Mixed-use projects include:
- Residential
- Office
- Retail
- Healthcare
- Hospitality

Leisure and hospitality is one sub-category of U.S. employment experiencing the most rapid build-up of hiring over the past two years. The year-over-year percentage change in jobs has consistently been close to +4 percent compared to a total-economy rate of increase that has struggled to reach +2 percent.
Mixed-use projects and rapid transit, side-by-side or on top of each other, define the term synergy. The second brings traffic to the first; the first assures ridership for the second. Politicians generally advocate rapid transit projects as a highly visible means to impress voters with the efforts being made on their behalf.

Rapid transit is also an easy pitch based on its cleaner environment connotations. Clusters of development that incorporate the live-work ideal, while reducing the carbon footprint from vehicular traffic, is a winning green strategy for municipal planners.

**Commercial offices**

Greater office and residential tower construction is being planned in some of the nation’s biggest cities, including New York (Hudson Yards), Tampa (Channel District) and Miami (Worldcenter Development). Forward thinking companies in the high-tech sector are providing work forces with attractive campus-like locations where they can both live and work (e.g., Amazon in downtown Seattle and Apple in Cupertino California).

**Retail**

The retail sector also appears on the verge of a new construction wave. The dramatic decline in the price of gasoline is freeing up money that consumers can spend on other goods and services. While the Internet is taking away some bricks and mortar construction, there is the impression that online retail sales may top out between 12 and 15 percent of the total. The progression from 0 to 7 percent happened quickly; from 7.0 to a current 9 percent has been slower.

All serious retailers must have an Internet presence to be successful. Many shoppers are taking advantage of online purchases. Additionally, consumers conduct online research about what products are available, which vendors have them in stock and how their prices compare.

Avid shoppers go to their preferred stores and take out a wallet, purse, credit or debit card. The physical act of shopping is not likely to disappear. For a majority of people, it’s a recreational activity. It’s what gets them out of the house in the evening or on the weekends.

**Arenas and stadiums**

HVAC manufacturers, take note of the large number of stadium and arena projects planned across the nation by teams in the NFL, NBA, NHL and major league baseball. Contract awards from these projects will be major revenue generators.

**Industry trends**

In the institutional category of construction, aging baby boomers guarantee work in the hospital/medical field will be strong for decades to come once the virtual moratorium on projects, due to uncertainty surrounding the introduction of Obamacare, ends.

Increases in school enrollments, driven by the grandchildren of the baby boomers out to the 2020s, will create more jobs at the level of elementary and secondary schools.

If President Obama realizes his wish to make attendance free, community colleges will receive a boost. Because of partisanship and requiring the backing of Congress, this is unlikely.
Construction at universities will be bankrolled by the generosity of former students. Successful alumni often like to shower their alma maters with financial gifts. The act of philanthropy is inspired when donors’ names are etched into new faculty buildings by ready-to-please administrators.

Manufacturing plant construction will benefit from a repatriation of jobs. In some overseas countries, there have been multifold increases in the cost of labor and/or the introduction of new workplace rules striving to bring health and safety standards closer in line with richer nations.

Low-cost energy—realized from the hydraulic fracturing of shale-rock—is providing U.S. manufacturers with an advantage. CMD’s industrial starts in 2014 were +16.5 percent over 2013. A further significant increase in current dollar (i.e., not adjusted for inflation) industrial construction is expected in 2015.

Environmental impact

It would be easy to assume the drop in the global price of oil will curb the world’s shift to greater fuel efficiency. Neither the technology wizards devoting their lives to the cause of energy efficiency, nor the environmental activists for whom this is their calling, are likely to let that happen.

It has long been known that carbon emissions from buildings are as pervasive, if not more so, than those from the tail pipes of motor vehicles traveling the nation’s roads and freeways. HVAC manufacturers will continue to face scrutiny over whether they are doing enough to purify the air we breathe.
2014 HVAC industry report
In 2014, U.S. and Canadian HVAC manufacturers combined annual sales soared to nearly $50 billion. Though the U.S. carries the load with $45 billion, Canada’s growth continues at a significantly higher rate.

U.S. HVAC manufacturers
- Total sales and shipments increased by 1.7 percent in 2014 versus 2013
- New orders increased by 5.4 percent
- Unfilled orders increased by 19.5 percent in 2014
- November 2014 was an impressive +30.7 percent over November 2013

U.S. HVAC 2014 | Sales/shipments and new orders

U.S. HVAC 2014 | Unfilled orders

Data source: Census Bureau.
Chart: CMD - CanaData.
Canada HVAC manufacturers

- Total sales and shipments increased by 10.4 percent in 2014 versus 2013
- New orders increased by +17.5 percent
- Unfilled orders increased by +12.3 percent in 2014
- October 2014 was an impressive +34.2 percent over October 2013
Summary
Currently, the biggest ticket HVAC sales items for manufacturers—furnaces, cooling units, etc.—are in high-rise structures. This aligns well with the trend in North America toward stronger multi-unit residential construction and mixed-use project starts.

“The 2008-09 recession, with its accompanying tidal wave of foreclosures, rendered many individuals and families leery about undertaking a new single-family home purchase,” said Alex Carrick, CMD chief economist. “Societal and demographic trends indicate stronger multi-unit residential construction starts relative to the single-family market segment, and that bodes well for the HVAC industry.”

The HVAC Industry Report included in this document provides an in-depth analysis into these and other topics—analysis of HVAC segments and regional spends, the top areas for growth and uncovering opportunities, and the areas where HVAC companies should be focusing resources next.

Visit www.cmdgroup.com for the latest on trends in the HVAC and construction industry.
Thank you.

For more information contact:
Anthony LaBorde, Director, Custom Analytics, CMD
678-918-1340 l anthony.laborde@cmdgroup.com

Mike Rieman, Director, Cookerly Public Relations
678-467-9297 l mrieman@cookerly.com

Deborah Reale, Senior Manager, Social Networking, CMD
404-409-4301 l deborah.reale@cmdgroup.com

Written by:
Alex Carrick, Chief Economist, CMD
Anthony LaBorde, Director, Custom Analytics, CMD

Edited by:
Ann E. Raach, Copy Writer, CMD

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