



Construction & Materials Outlook

Washington, July 2, 2010

Ken Simonson, Chief Economist

AGC of America

simonsonk@agc.org

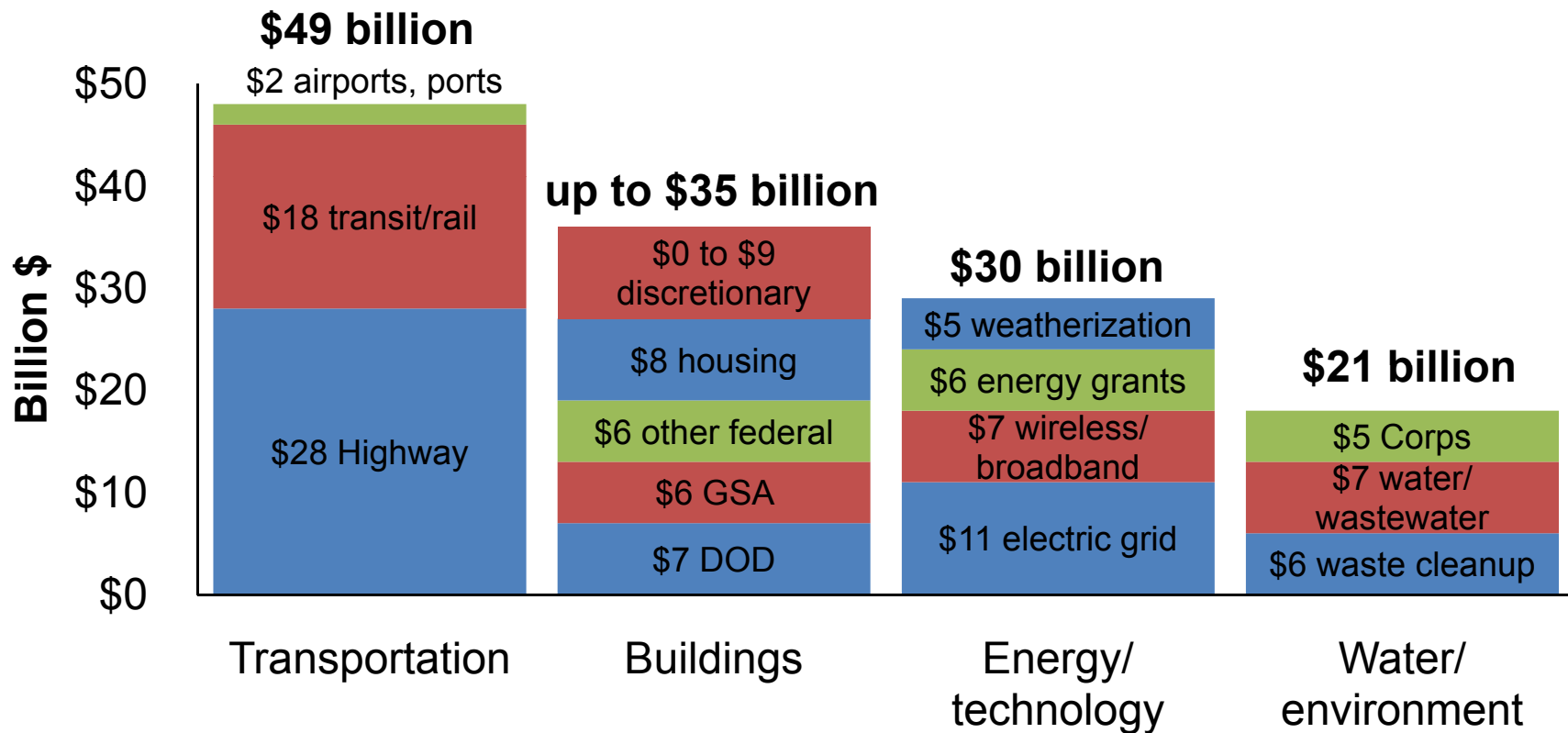


Current economic influences on construction

- GDP, personal income: steady but modest gains
- No improvement in office, retail, hotel rent/vacancy
- Muni bond market is working, but not bank lending
- State/local tax shortfalls → deeper spending cuts
- Too early to assess effects of health care law
- Stimulus (details: www.agc.org/stimulus)



Construction-related stimulus funding (~\$135 bil.)





Stimulus timing, strings

- **Timing – road \$ spent fast; other \$ delayed due to:**
 - New programs had to be designed
 - Agencies didn't have enough personnel
 - Buy American terms stopped use of funds
- **Other factors**
 - Davis-Bacon
 - Reporting requirements: jobs, executives' pay
 - No E-Verify requirement or broad-based FAR
 - No project labor agreement mandate, but...



'09-'10 tax changes affecting construction

- 5-year carryback of '08 (and '09) net operating losses
- 6.2% payroll tax credit for workers hired 3/18-12/31/10
- “Build America” bonds—now extended
- Bonds for school construction, “recovery zones,” tribal areas, renewable energy, energy conservation
- Modified renewable energy, conservation credits
- \$8000 homebuyer tax credit—mixed impact



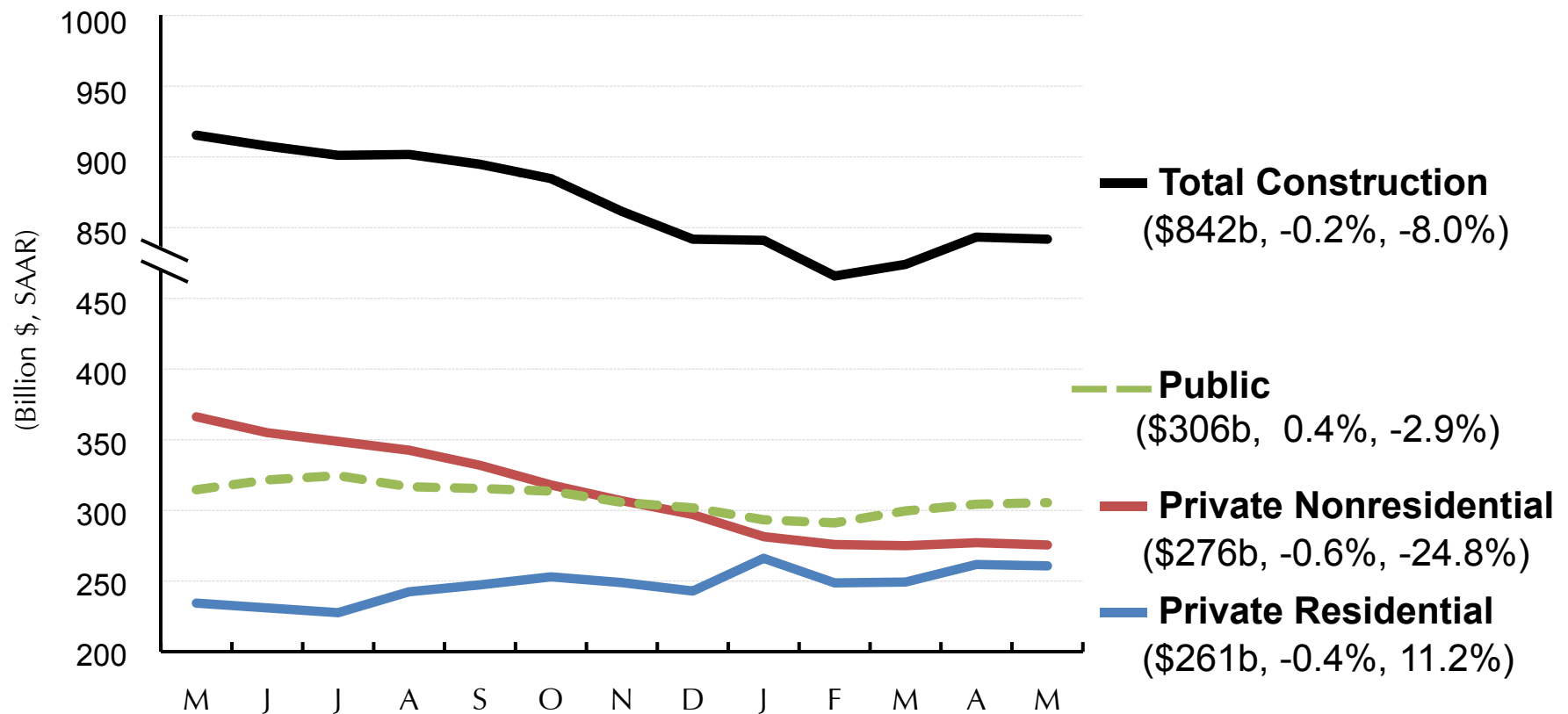
Economic impact of nonresidential construction

- **Jobs: 28,500 per \$1 billion**
 - 1/3 direct, onsite construction
 - 1/6 indirect (quarries, mfg., services)
 - 1/2 “induced” by spending from higher earnings of construction, indirect workers and owners
- **GDP: \$3.4 billion**
- **Personal Earnings: \$1.1 billion**



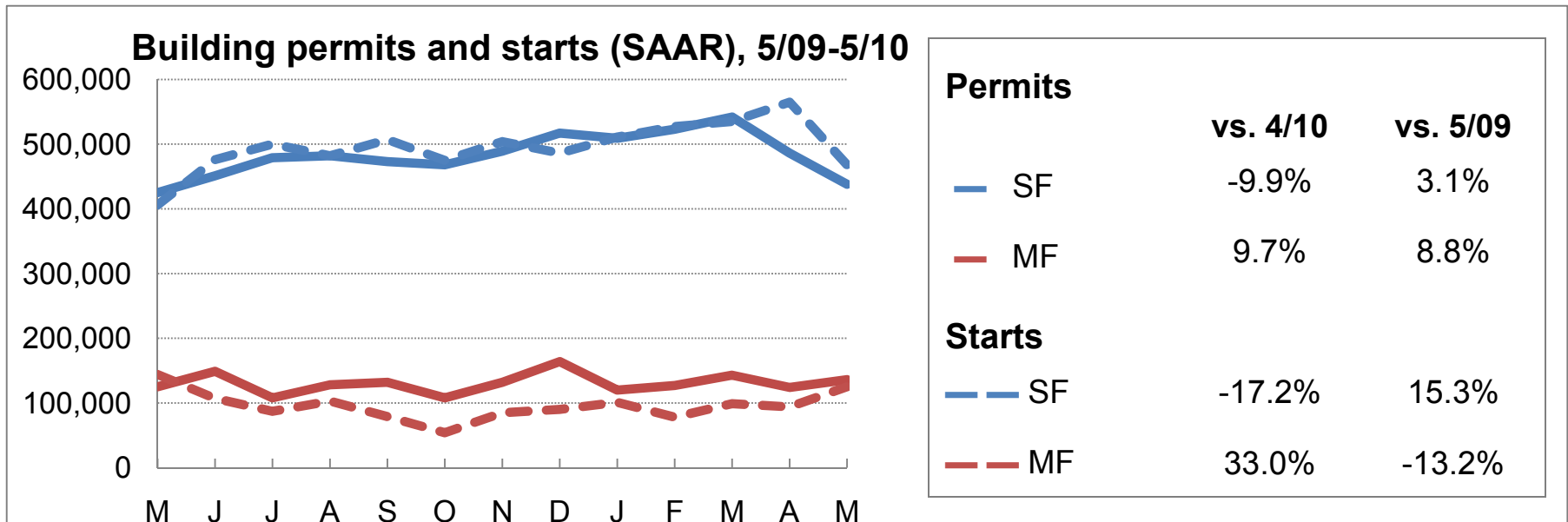
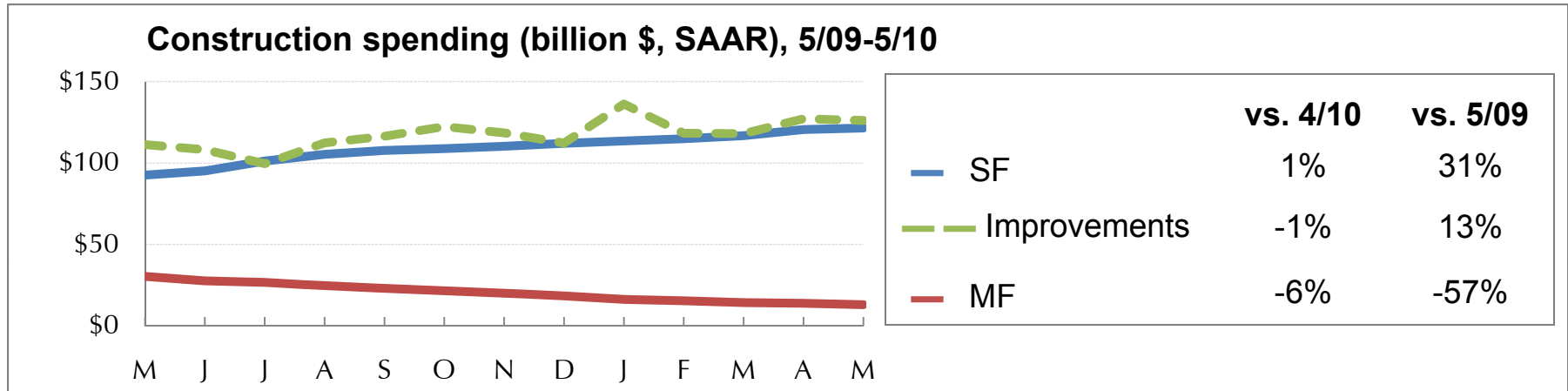
Construction spending by segment, 1- & 12-month change

Seasonally adjusted annual rate (SAAR), 5/9-5/10





Single-family (SF) vs. multifamily (MF)





Housing outlook

- **SF:** starts, permits should rise in rest of '10 & '11
- **MF:** Close to bottom; no big gains likely until '11
 - Rental demand should improve as impacts fade from renters losing jobs or using first-time homebuyer credit
 - Supply swelled by owners and banks who are trying to rent out houses and condos
 - Banks remain unwilling to lend to developers



Nonres totals (billion \$, SAAR), share, 1- & 12-month change

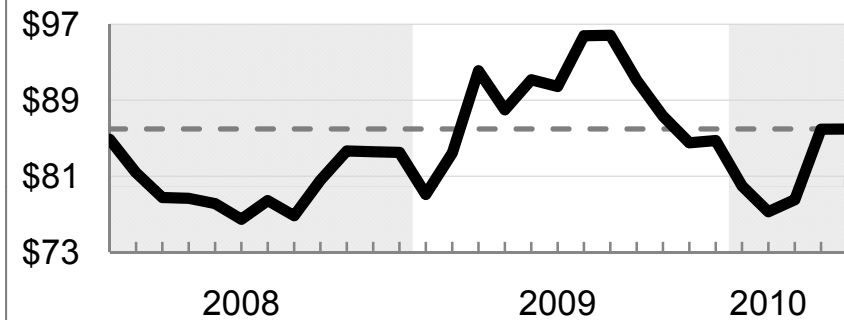
	<u>5/10 Total</u>	<u>Share</u>	<u>1 Month</u>	<u>12 Month</u>
Nonresidential	\$572 billion	100%	0%	- 15%
Educational	88	15	- 1	- 19
Power	86	15	0	- 6
Highway and street	83	15	+ 3	+ 6
Manufacturing	44	8	- 2	- 31
Transportation	42	7	- 2	+ 14
Commercial	40	7	0	- 32
Health care	40	7	0	- 15
Office	37	6	- 2	- 34
Sewage and waste disposal	26	5	+ 2	+ 5
Communication	19	3	+ 2	- 7
Amusement and recreation	16	3	- 3	- 18
Other (water, public safety; lodging; religious; conservation): 9% of total				



Construction spending: industrial, heavy (billion \$, SAAR)

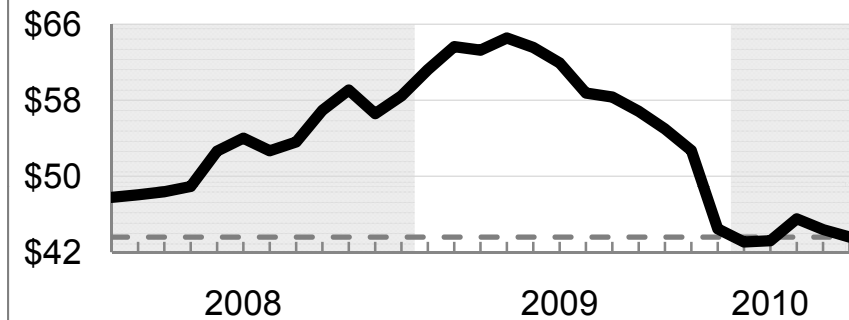
Power (89% private)

1-month: 0.0%, 12-month: -5.7%



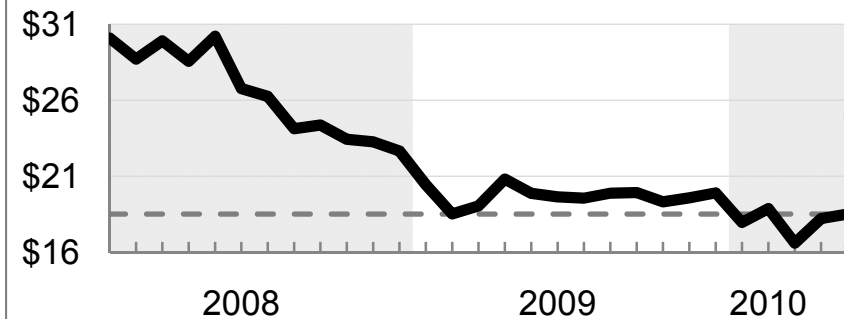
Manufacturing (99% private)

1-month: -1.8%, 12-month: -31.4%



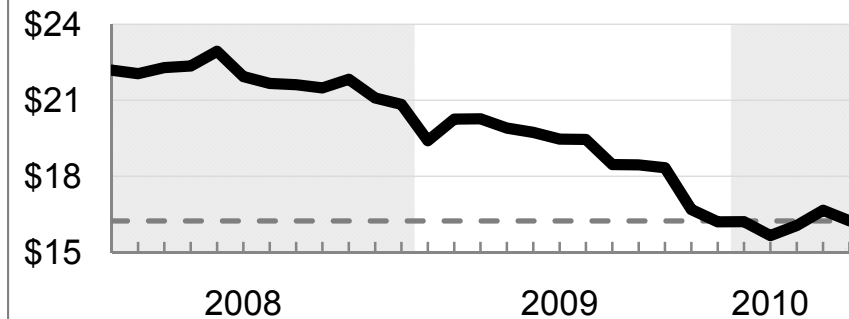
Communication (99.5% private)

1-month: 1.6%, 12-month: -6.9%



Amusement & recreation (38% private)

1-month: -2.5%, 12-month: -17.7%

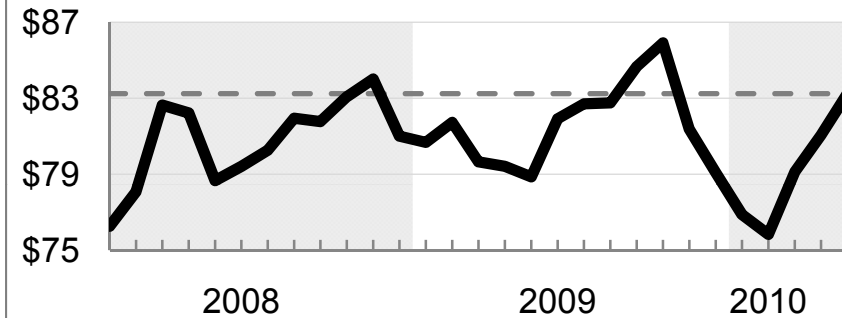




Construction spending: public works (billion \$, SAAR)

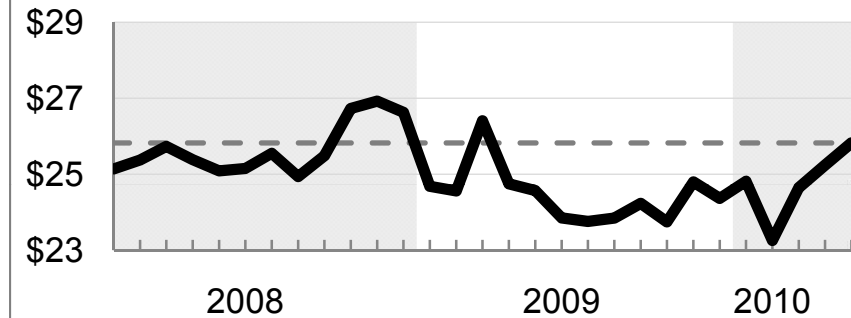
Highways (99.8% public)

1-month: 2.7%, 12-month: 5.6%



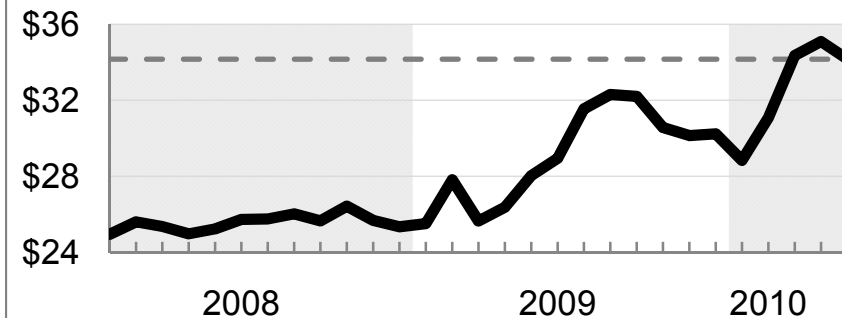
Sewage/waste (99% public)

1-month: 2.3%, 12-month: 5.1%



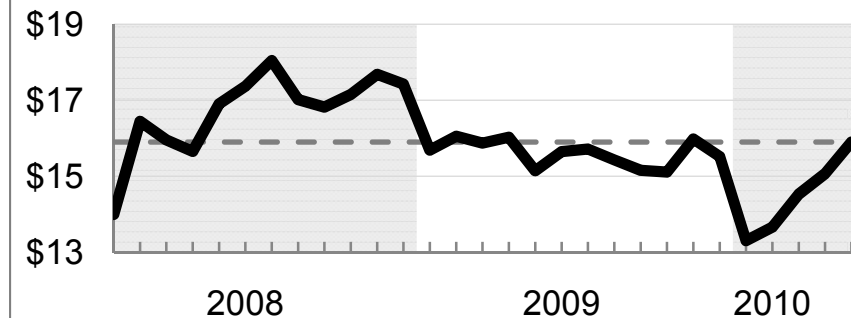
Transp. facilities (public)

1-month: -2.6%, 12-month: 21.9%



Water (97% public)

1-month: 5.5%, 12-month: 5.0%

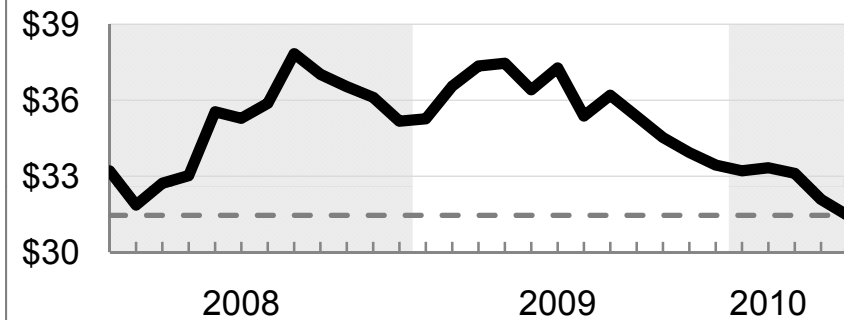




Construction spending: institutional (private + state/local)

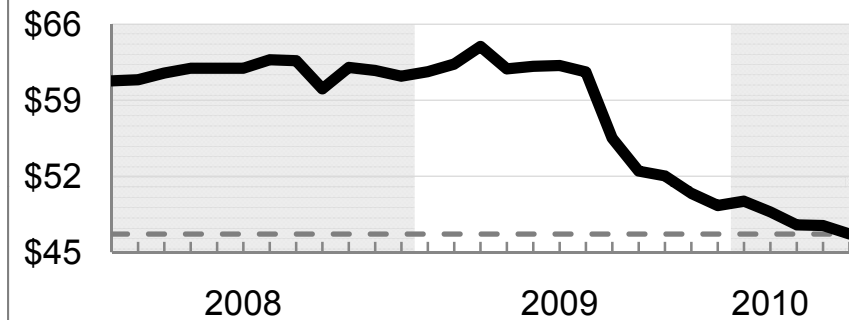
Higher education (27% private)

1-month: -2.0%, 12-month: -13.6%



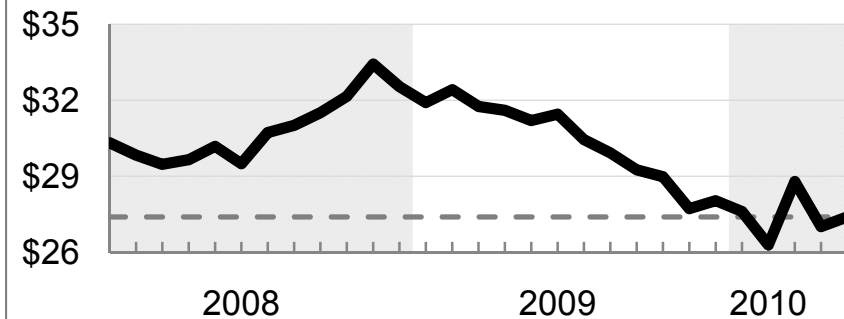
PreK-12 ed. (5% private)

1-month: -1.6%, 12-month: -24.9%



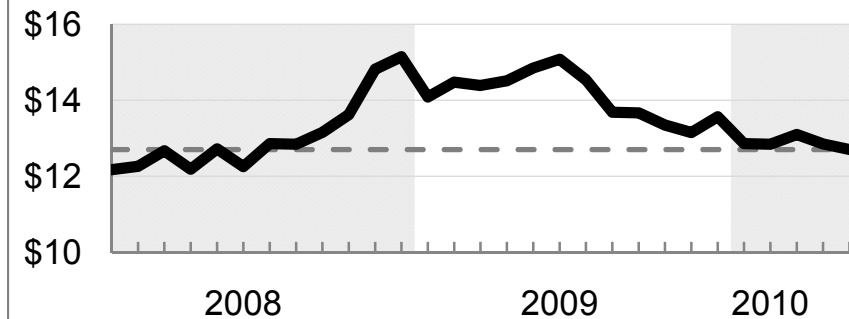
Hospitals (84% private)

1-month: 1.4%, 12-month: -12.2%



Public safety

1-month: -1.2%, 12-month: -14.4%

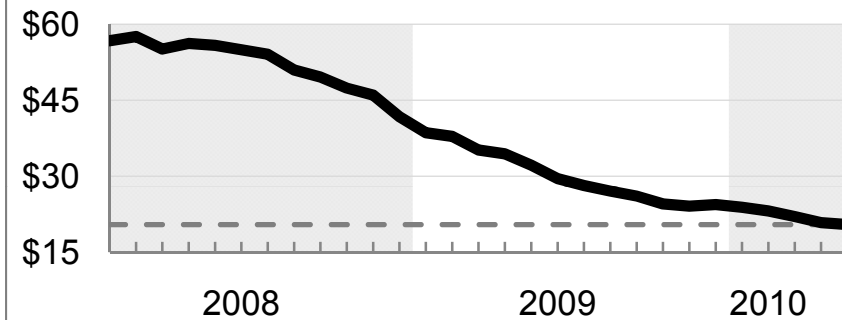




Construction spending: developer-financed (billion \$, SAAR)

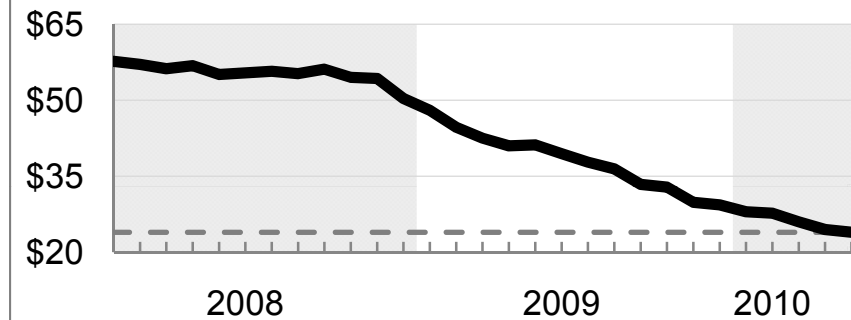
Nonautomotive retail

1-month: -1.8%, 12-month: -36.4%



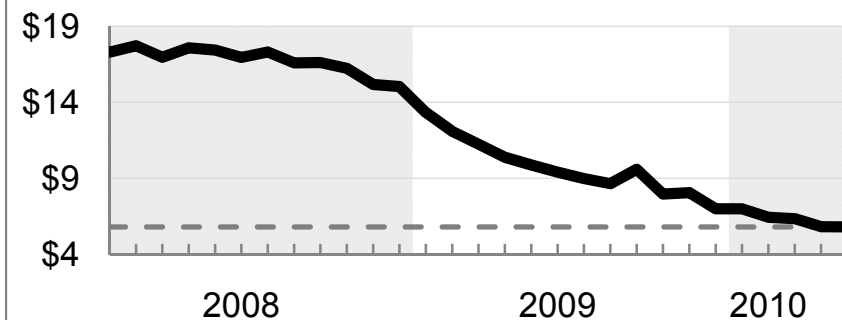
Office (private)

1-month: -2.2%, 12-month: -41.9%



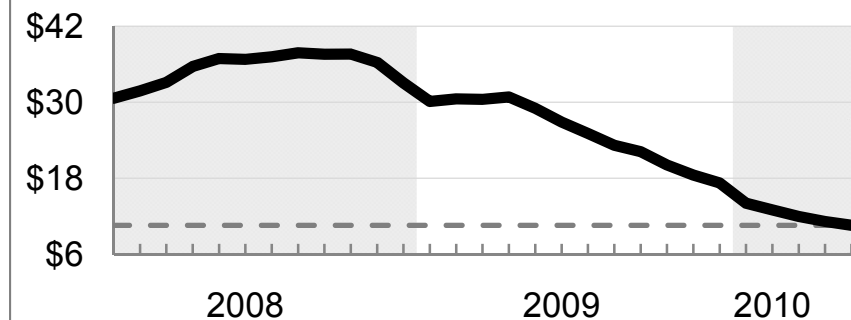
Warehouses

1-month: -0.2%, 12-month: -41.3%



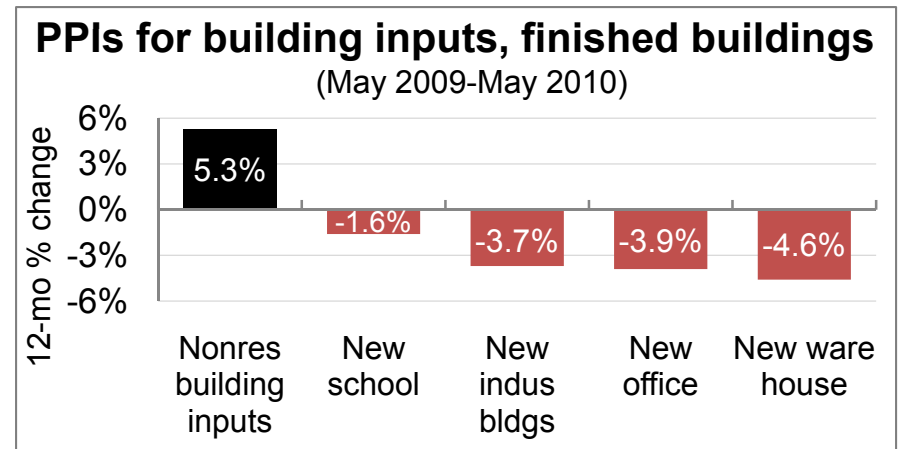
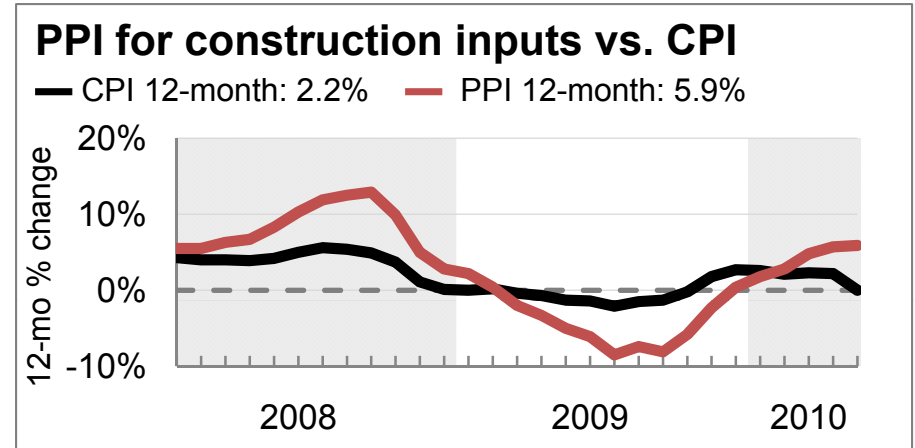
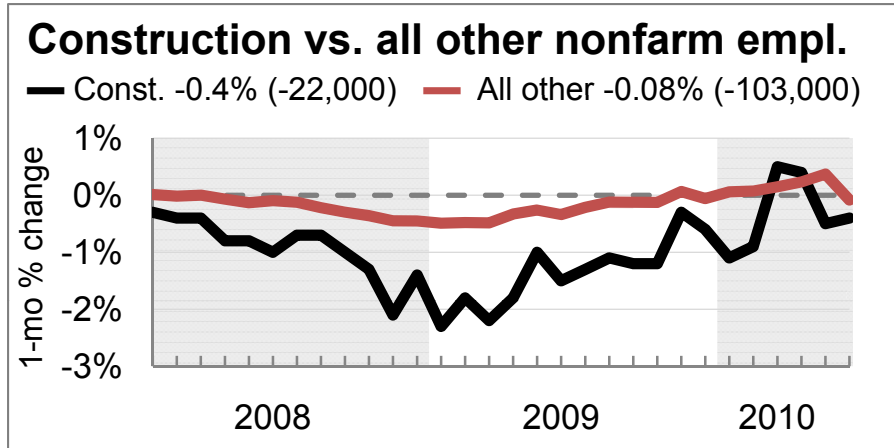
Lodging (private)

1-month: -5.6%, 12-month: -63.6%





Construction employment, wages, costs and output prices

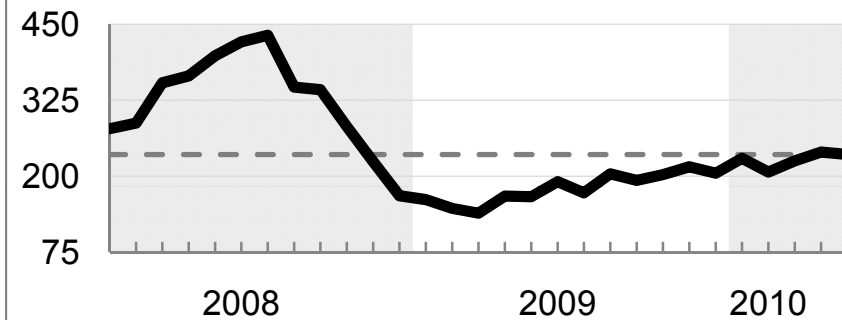




Producer price indexes, 1/08-5/10

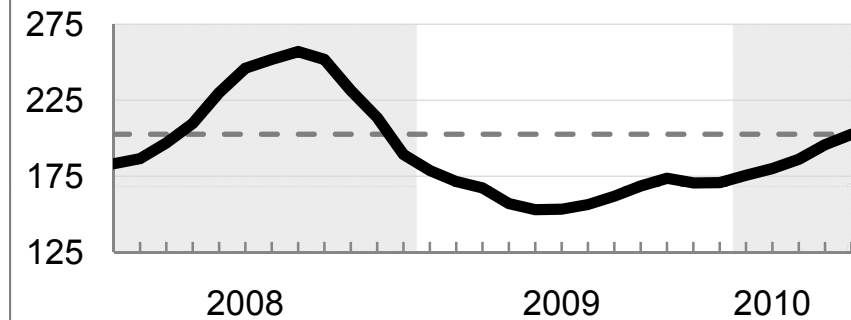
No. 2 diesel fuel

1-month: -1.8%, 12-month: 41.6%



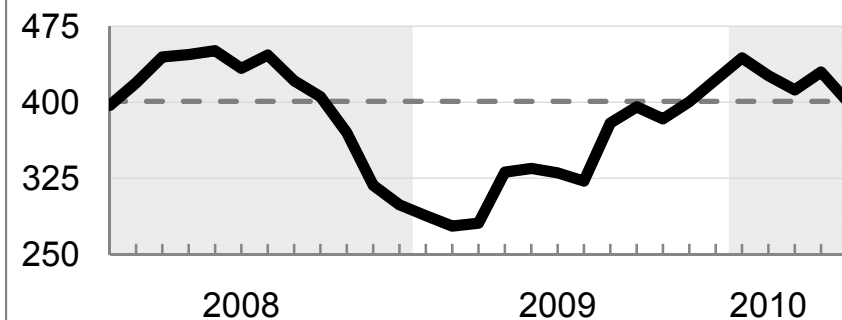
Steel mill products

1-month: 3.5%, 12-month: 32.4%



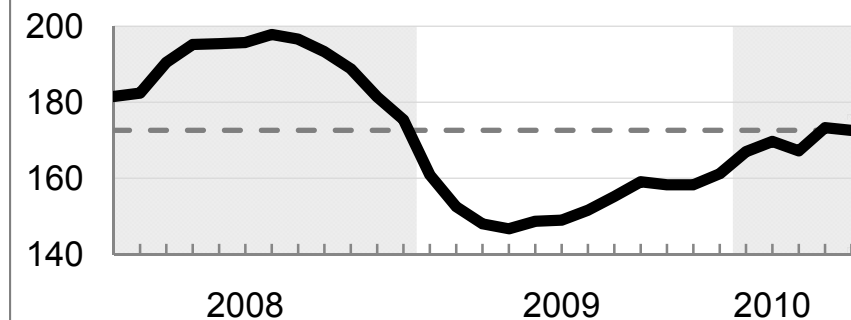
Copper & brass mill shapes

1-month: -6.8%, 12-month: 19.7%



Aluminum mill shapes

1-month: -0.4%, 12-month: 16.1%

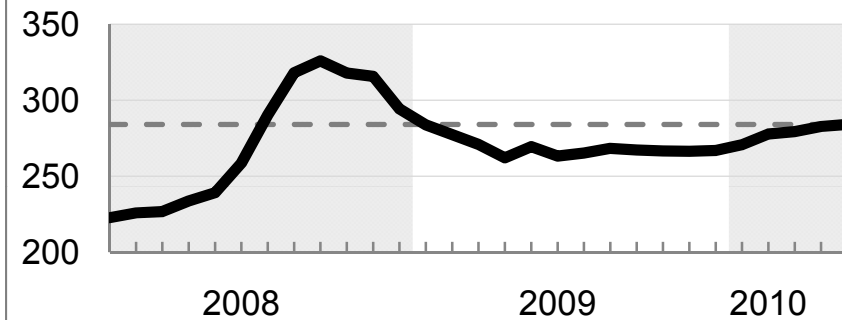




Producer price indexes, 1/08-5/10

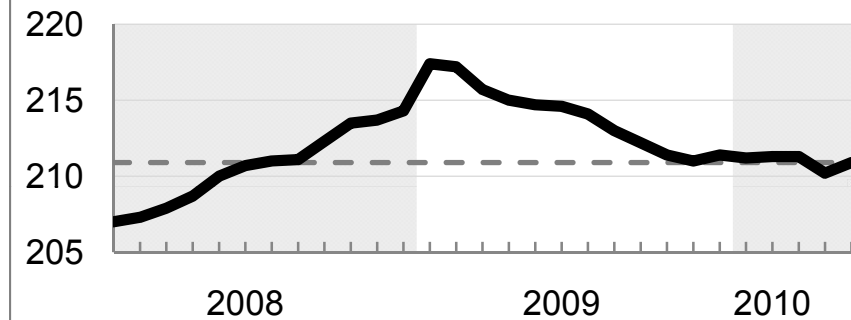
Asphalt paving mixtures & blocks

1-month: 0.5%, 12-month: 5.4%



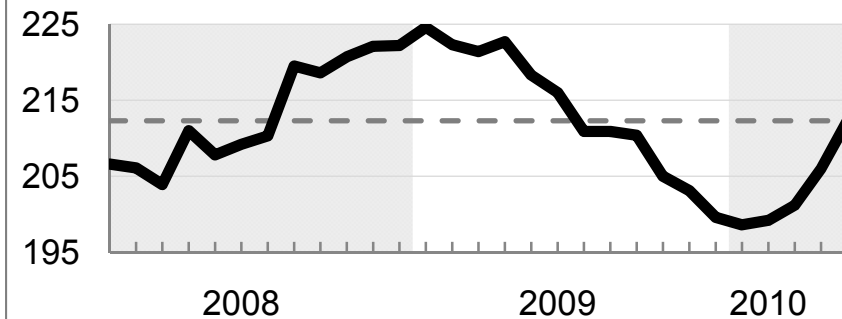
Concrete products

1-month: 0.3%, 12-month: -1.8%



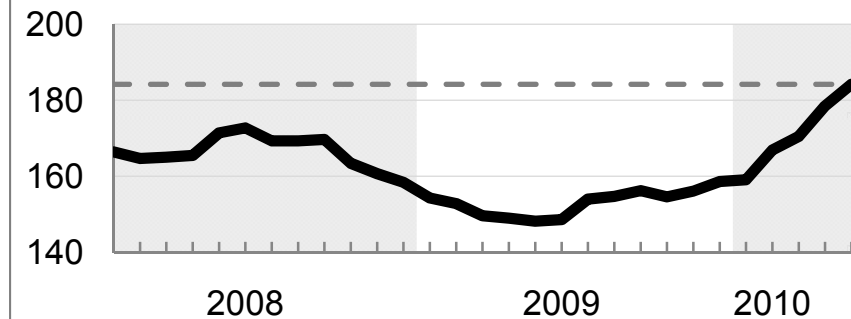
Gypsum products

1-month: 3.1%, 12-month: -2.7%



Lumber and plywood

1-month: 3.2%, 12-month: 24.3%



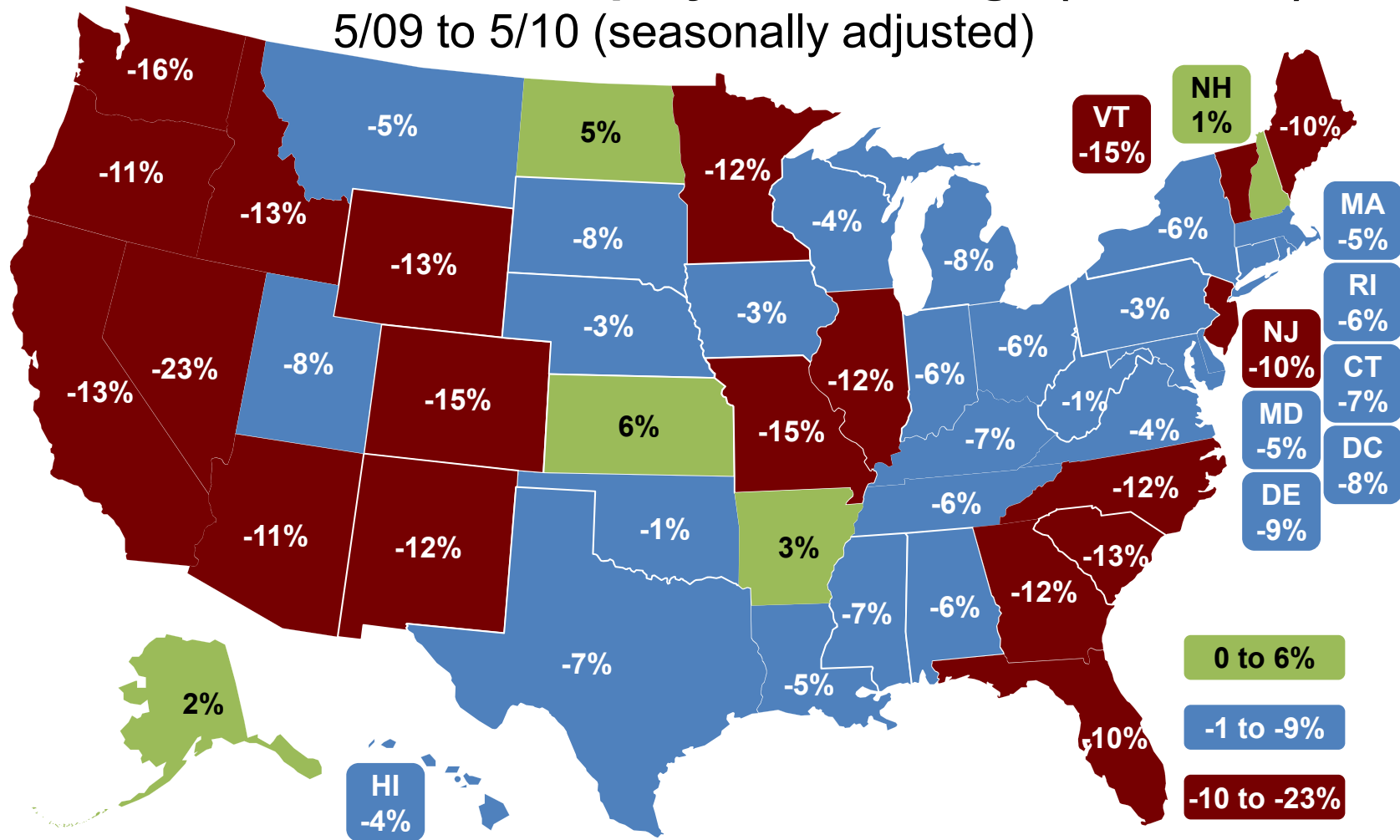


Outlook for materials

- **Industry depends on specific materials that:**
 - are in demand worldwide
 - have erratic supply growth
 - are heavy, bulky or hard to transport
- **Construction requires physical delivery**
- **Thus, industry is subject to price spurts, transport bottlenecks, fuel price swings**
- **Allow for 6 to 8% PPI increases esp. after 2010**



State Construction Employment Change (U.S.: -9%) 5/09 to 5/10 (seasonally adjusted)





Change in construction employment, 5/09-5/10

States (incl. D.C.)
(seasonally adjusted--SA)

1. Kansas (6%)
2. North Dakota (5%)
3. Arkansas (3%)

Metros
(not seasonally adjusted--NSA)

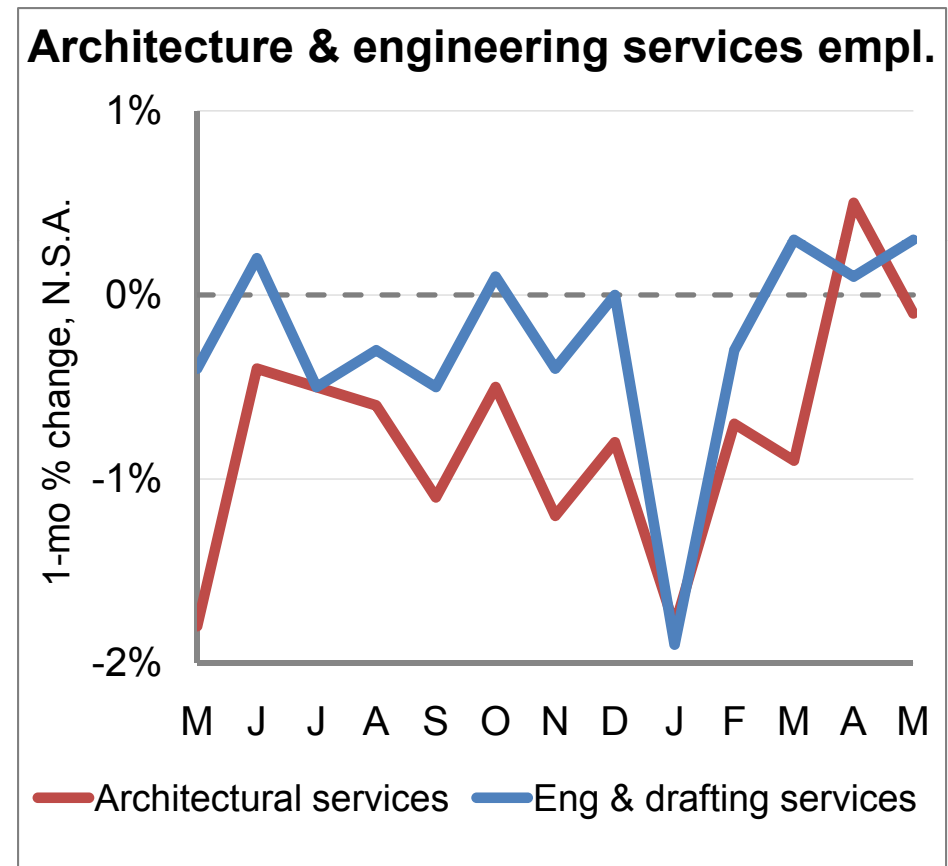
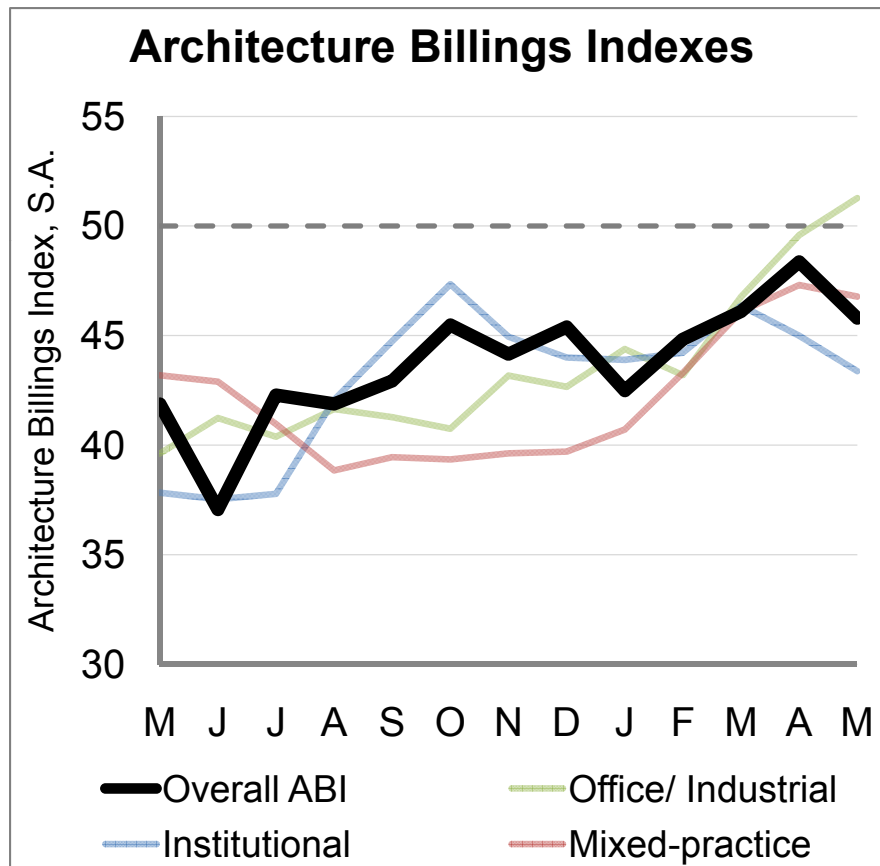
1. Eau Claire, WI (17%)
2. Haverhill-North Andover-Amesbury, MA-NH (11%)
3. Bismarck, ND (8%)
3. Grand Forks, ND-MN (8%)

National Average (-9% SA, -8% NSA)

- | | |
|-----------------------|----------------------------|
| 49. Missouri (-15%) | 335. Pascagoula, MS (-31%) |
| 50. Washington (-16%) | 336. Flagstaff, AZ (-32%) |
| 51. Nevada (-23%) | 337. Chico, CA (-33%) |



Predictors of construction demand





Summary for 2010

- Nonres spending: 0 to -5% (more stimulus put in place, maybe gains in retail, higher ed, hospitals)
- Res: +5 to +10% (SF up, MF down all year)
- Total construction spending: -4% to +2%
- Materials costs: 0% to +8%
- Labor costs: +2.5% or less



Summary for 2011

- Nonres spending: 0 to +5% (less stimulus; weak state-local; more retail, hotel, higher ed, hospitals)
- Res: +5 to +10% (SF up, MF leveling off)
- Total construction spending: +3 to +7%
- Materials costs: 3% to +8%
- Labor costs: +3% or less



AGC economic resources (email simonsonk@agc.org)

- *The Data DIGest*: weekly 1-page email (sign up: www.agc.org/datadigest)
- PPI tables: emailed monthly
- State and metro data
- Stimulus info: www.agc.org/stimulus
- Webinars
- Feedback on stimulus, credit, costs



Data DIGest

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Sept. 24-Oct. 2, 2009
Vol. 9, No. 33

Construction job losses remain heavy, widespread; homebuilding rises, nonres sinks

 **Download the one-page Data DIGest**

City-by-City Construction Employment, August 2009 and 2008

Seasonally adjusted nonfarm payroll job losses in September totaled 263,000, barely half the average of the last 12 months, the Bureau of Labor Statistics (BLS) reported on Friday. (Seasonal adjustment takes into account normal monthly variations in weather and numbers of work days.) *But construction, particularly nonresidential, continued to hemorrhage jobs. Construction lost 15% of its September 2008 jobs in the last 12 months, compared to 4% for the entire nonfarm economy. September losses totaled 51,000 in nonresidential building, specialty trade, and heavy and civil engineering construction combined, nearly the monthly average loss of 54,000 over the past 12 months. Residential building and specialty trade contractors shed a combined 13,000 jobs in September, barely a third as many as the monthly average over the 12-month span. One faintly positive sign was that **architectural and engineering services employment**, a harbinger of future demand for construction, rose for the first time in 15 months, albeit by only 500 jobs (0.04%). Average hourly earnings in construction tumbled 16 cents to \$22.45 in September, bringing the 12-month change to 36 cents or 1.6%, compared to 2.5% for all private-sector production or nonsupervisory employees. The overall unemployment rate climbed to 9.5% in September, not seasonally adjusted (9.8%, seasonally adjusted) from 6.0% a year earlier. *The unemployment rate in construction, 17.1%, not seasonally adjusted, again topped every other industry and was up from 9.9% a year earlier.**

For the eighth month in a row, all 372 metro areas had higher unemployment rates in August than a year earlier, BLS reported on Wednesday. (Seasonally adjusted industry and metro unemployment rates are not available.) Of the 369 areas reporting nonfarm payroll employment, 356 had year-to-year losses, 11 had gains and two were unchanged. The largest percentage gains were in Sandusky, Ohio, 2.7%; Hot Springs, Arkansas, 2.6%; Kennewick-Pasco-Richland, Washington, 2.5%; Jonesboro, Ark., 1.9%; and McAllen-Edinburg-Mission, Texas, 1.5%. *If sustained, these gains can lead to more demand for construction. AGC compiled a list of 337 areas, including divisions and subdivisions of the 34 largest metros, for which BLS provided construction employment figures (combined with mining and logging in metros where employment in these industries is small). Construction employment fell over the past 12 months in 324 of these locations, rose in eight and was unchanged in five. The largest 12-month percentage construction employment gains were in Columbus, Indiana, 14% (combined data); Anderson, Ind., 6% (combined); Tulsa (construction only); Longview, Wash. (combined) and Baton Rouge (construction only), 3% each. The worst construction job losses were in Reno-Sparks, Nevada, -35% (construction only); Duluth, Minnesota-Wisconsin, -33% (combined); Tucson, -31% (construction only); Wenatchee-East Wenatchee, Wash., -30% (combined); and Redding, California, -28% (combined).*

Construction in Chicago will not get a boost from the Olympics. The International Olympic Committee today awarded the 2016 Games to Rio.

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Ken Simonson, Chief Economist, Associated General Contractors of America
Phone: 703-837-5313 • Fax: 703-837-5407 Email: simonsonk@agc.org