



# **Construction & Materials Outlook**

**February 17, 2010**

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**AGC of America**

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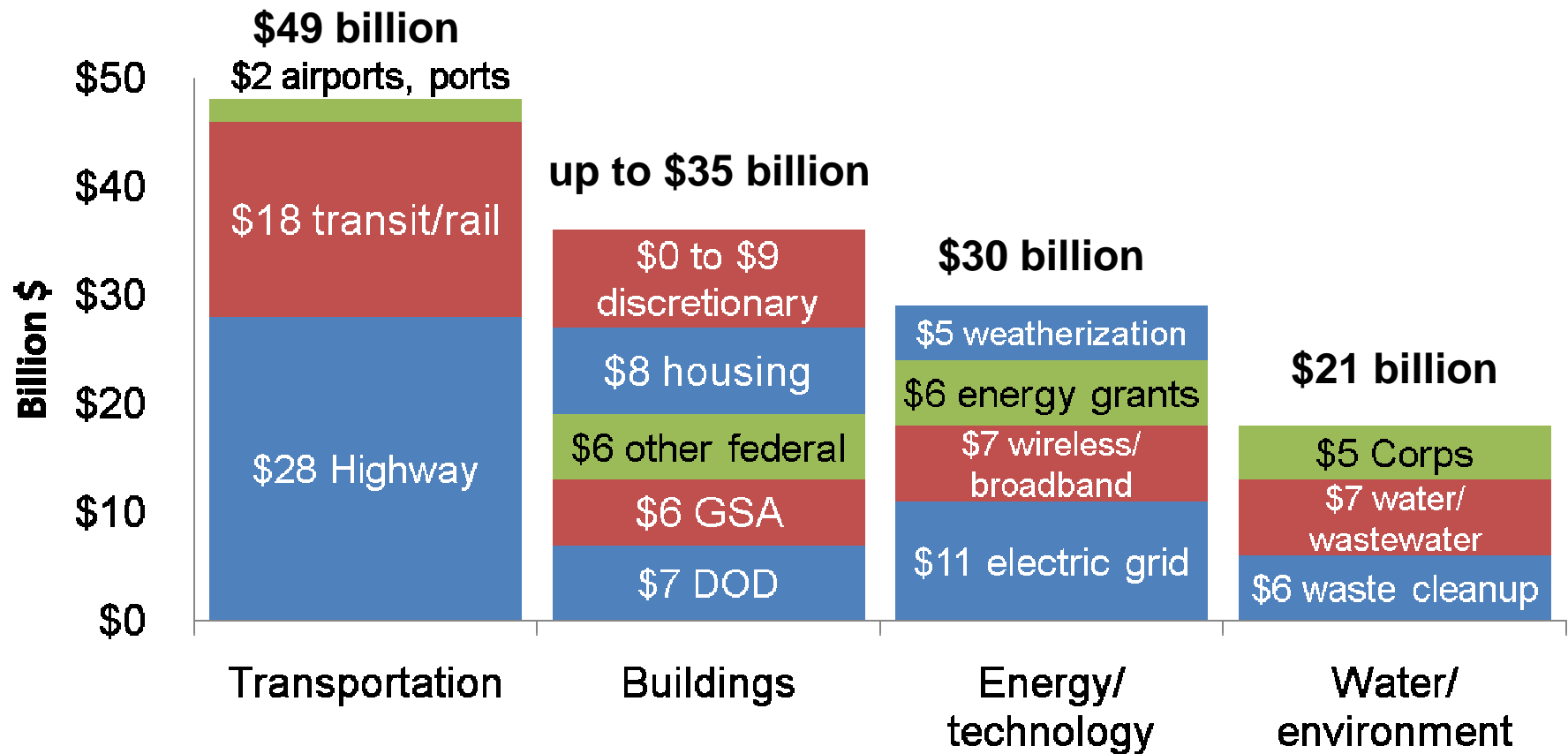


## Current economic influences

- GDP, personal income improving; not jobs
- Rising vacancies for office, retail, hotel
- Muni bond market is working, but not bank lending
- State/local tax shortfalls → deeper spending cuts
- Stimulus (details: [www.agc.org/stimulus](http://www.agc.org/stimulus))



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





## Stimulus tax provisions affecting construction

- \$8000 homebuyer tax credit, now extended to June '10
- “Build America” bonds
- Increased expensing – expired 12/31/09
- 5-year carryback of '08 (and '09) net operating losses
- Bonds for school construction, “recovery zones,” tribal areas, renewable energy, energy conservation
- Modified renewable energy, conservation credits
- 1-year delay (to 2012) in 3% withholding on gov. contracts



## 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...



## Economic impact of nonresidential construction

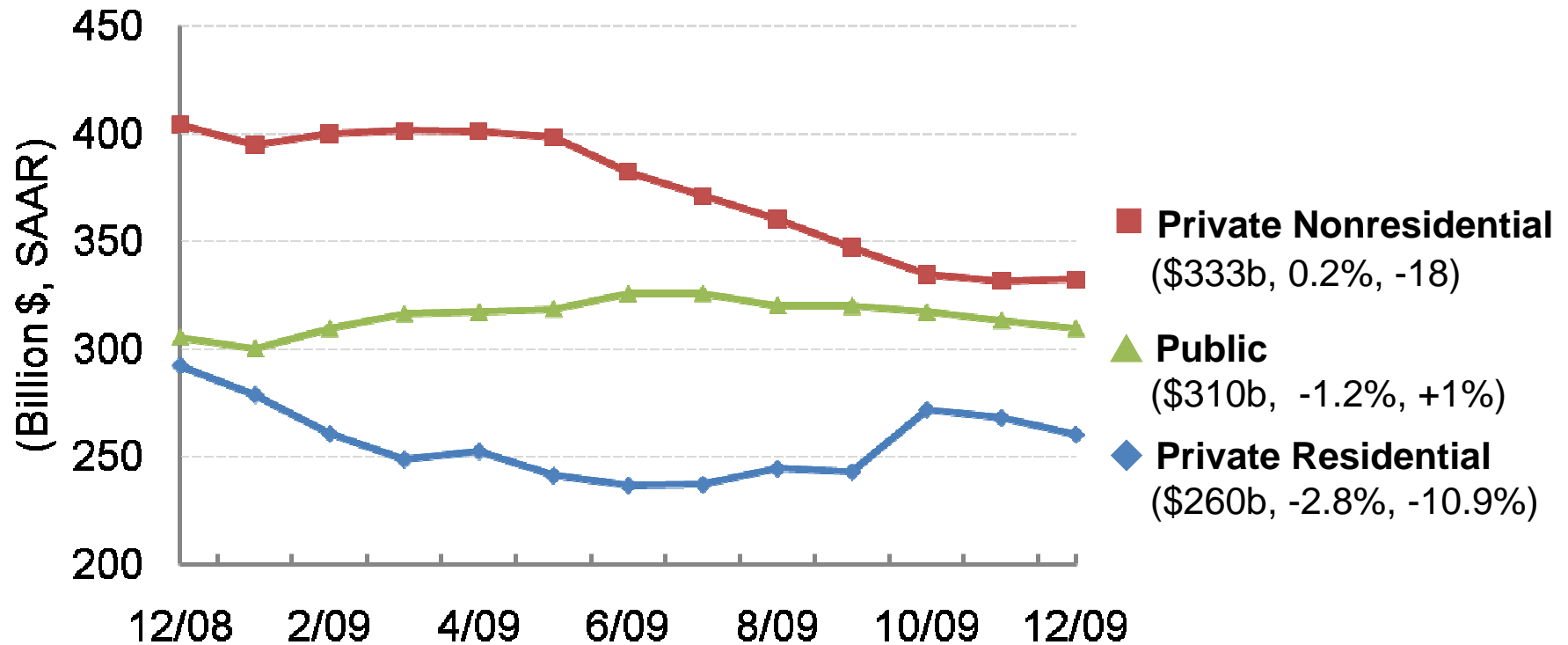
- **Jobs:** 28,500 per \$1 billion
  - 1/3 direct, onsite construction
  - 1/6 indirect (quarries, mfg., services)
  - 1/2 “induced” by spending from higher earnings of construction, indirect workers and owners
- **GDP:** \$3.4 billion
- **Personal Earnings:** \$1.1 billion



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

Billion \$, seasonally adjusted annual rate (SAAR)

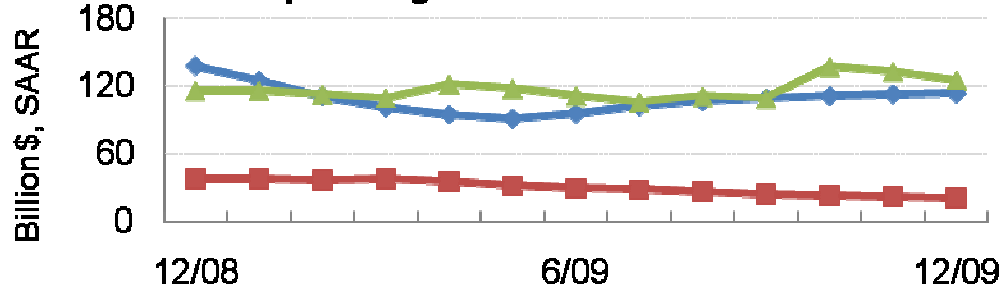
Dec.'09: \$903 billion, 1-month change: -1.2%, 12-month change: -10%





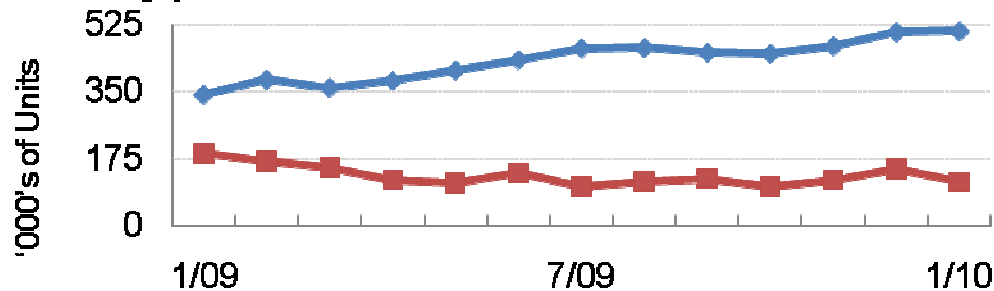
## Single-family (SF) vs. multifamily (MF)

### Construction spending



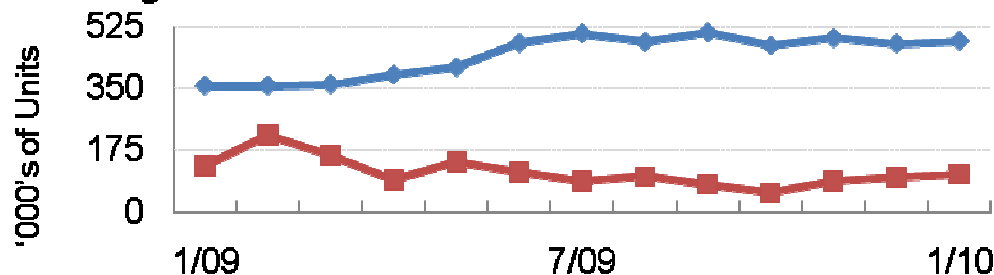
	vs. 11/09	vs. 12/08
◆ SF	1%	-18%
▲ Improvements	-6%	8%
■ MF	-4%	-45%

### Building permits



	vs. 12/09	vs. 1/09
◆ SF	0%	48%
■ MF	-23%	-40%

### Housing starts



	vs. 12/09	vs. 1/09
◆ SF	1%	36%
■ MF	9%	-18%





## Housing outlook

- **SF:** starts, permits should rise throughout '10
- **MF:** No improvement likely until '11
  - Rental demand hurt by job losses among would-be renters and by 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

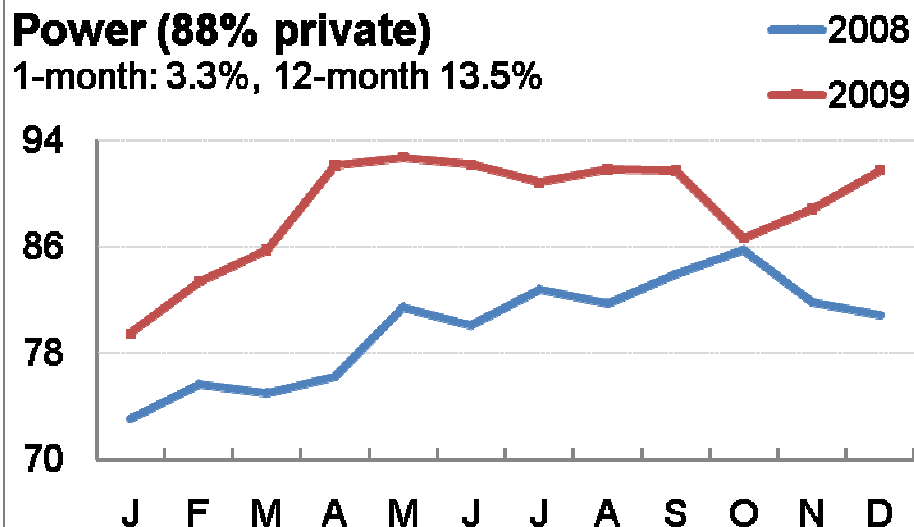
	12/09 Total	Share	vs. 11/09	vs. 12/08
Nonresidential	\$634 billion	100%	- 1%	- 10%
Educational	96	15	0	- 6
Power	92	14	+ 3	+ 14
Highway and street	84	13	- 2	+ 4
Manufacturing	63	10	- 5	- 11
Office	49	8	+ 2	- 26
Commercial	48	8	+ 1	- 35
Health care	45	7	+ 3	- 8
Transportation	35	6	- 2	+ 8
Sewage and waste disposal	25	4	- 3	- 4
Communication	20	3	+ 3	- 8
Lodging	17	3	- 8	- 46
Other (amusement; water, public safety; conservation; religious): 9% of total				



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

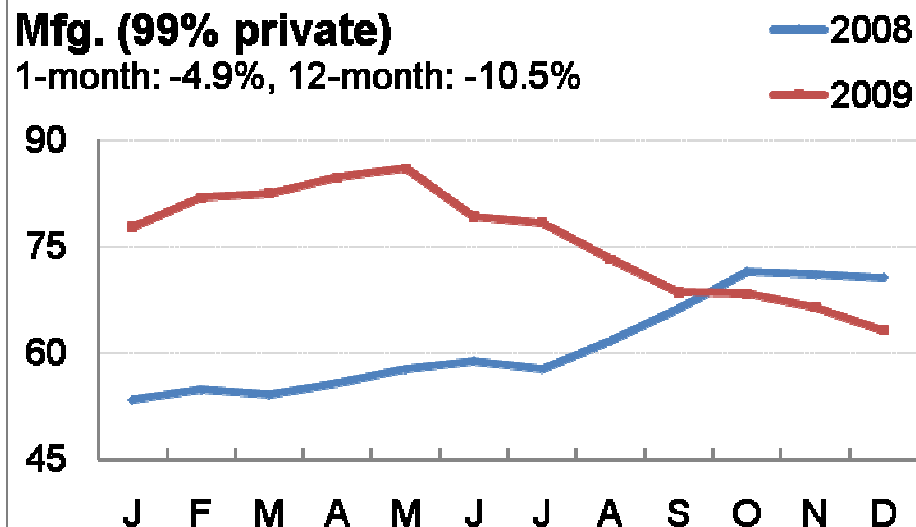
### Power (88% private)

1-month: 3.3%, 12-month 13.5%



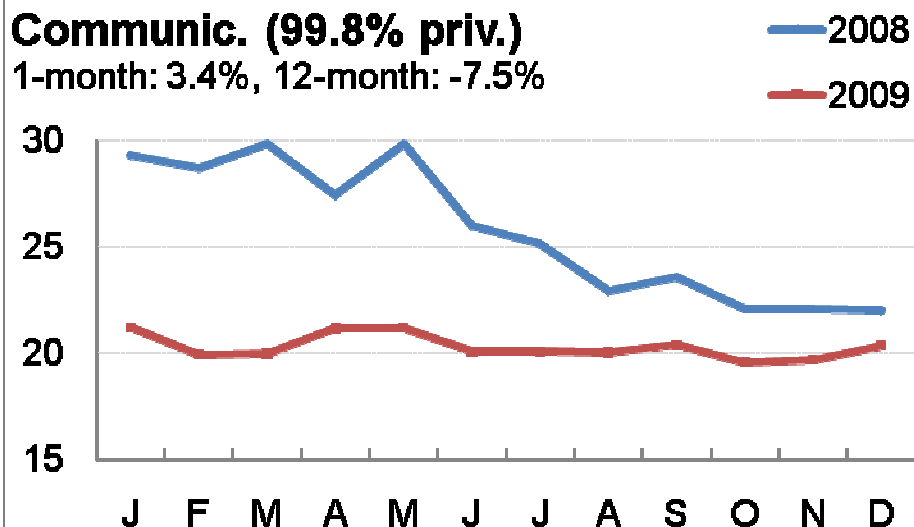
### Mfg. (99% private)

1-month: -4.9%, 12-month: -10.5%



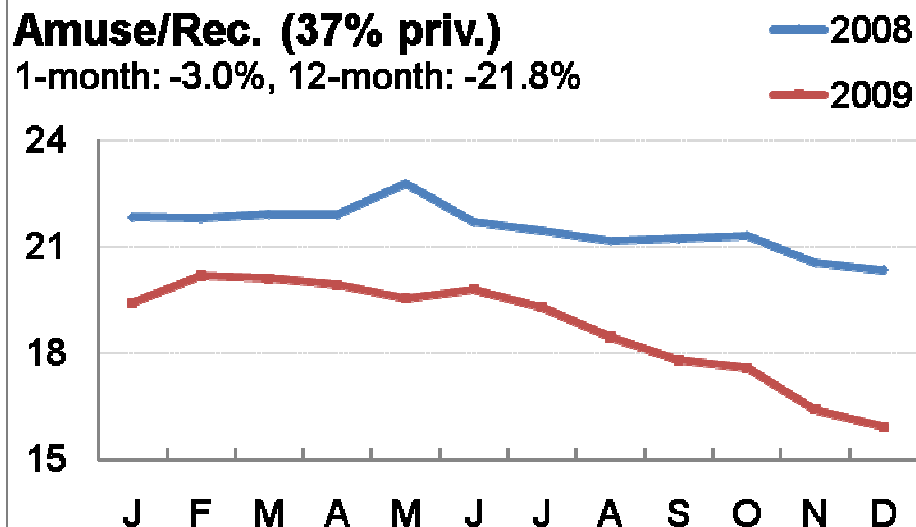
### Communic. (99.8% priv.)

1-month: 3.4%, 12-month: -7.5%



### Amuse/Rec. (37% priv.)

1-month: -3.0%, 12-month: -21.8%

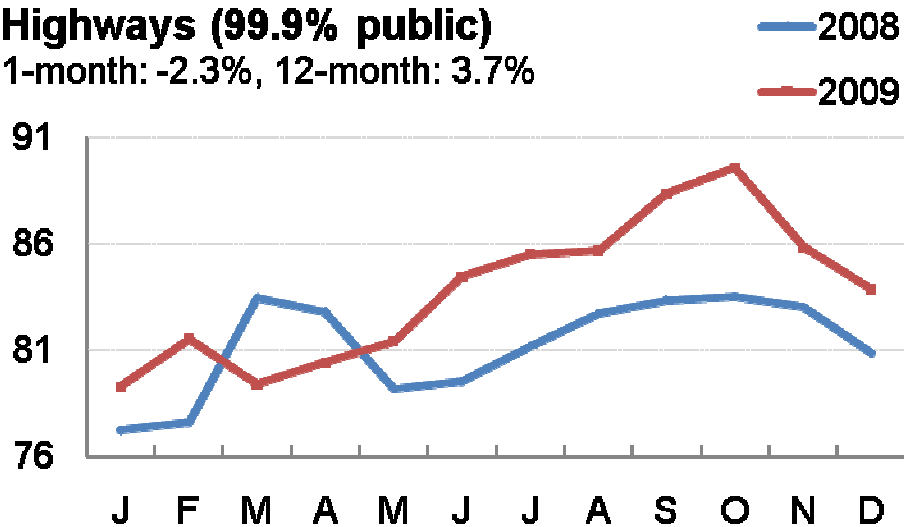




## Construction spending: public works (billion \$, SAAR)

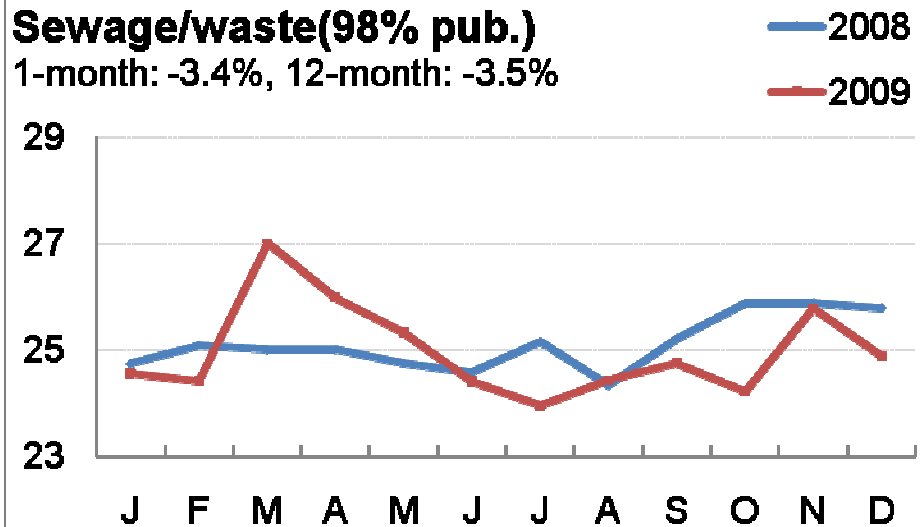
### Highways (99.9% public)

1-month: -2.3%, 12-month: 3.7%



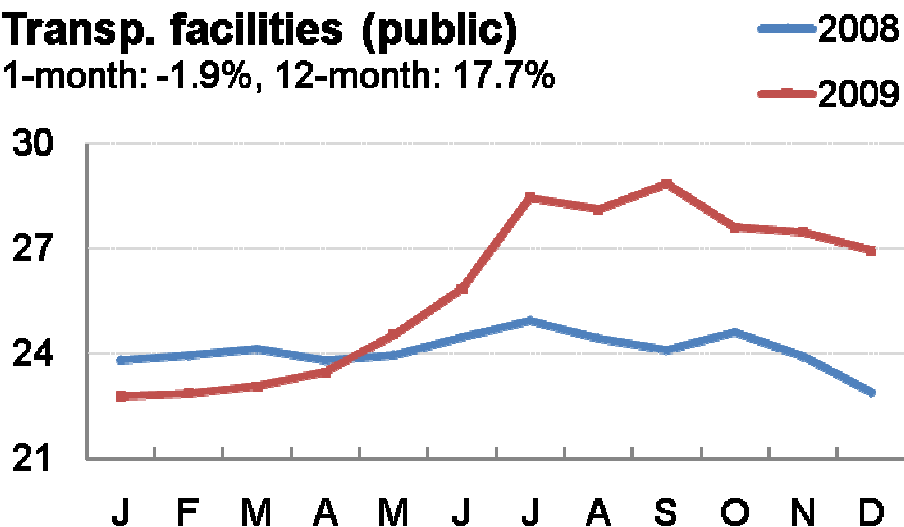
### Sewage/waste (98% pub.)

1-month: -3.4%, 12-month: -3.5%



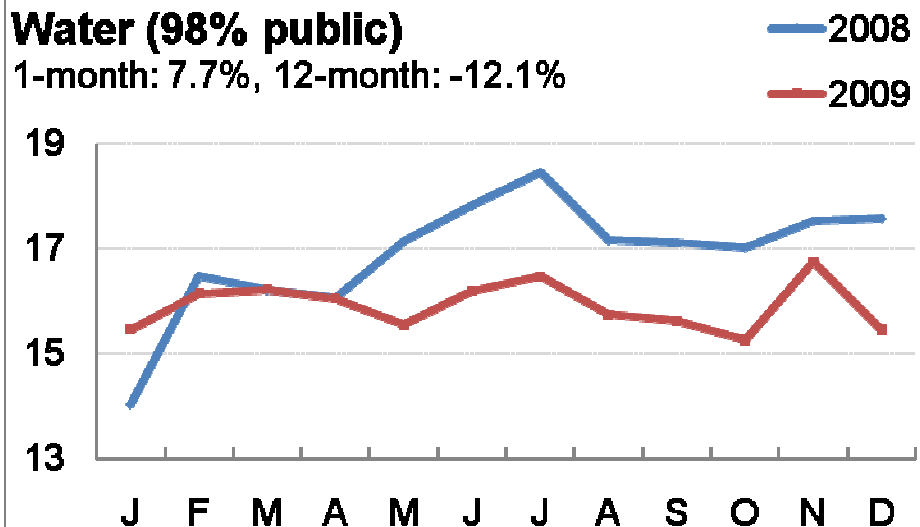
### Transp. facilities (public)

1-month: -1.9%, 12-month: 17.7%



### Water (98% public)

1-month: 7.7%, 12-month: -12.1%

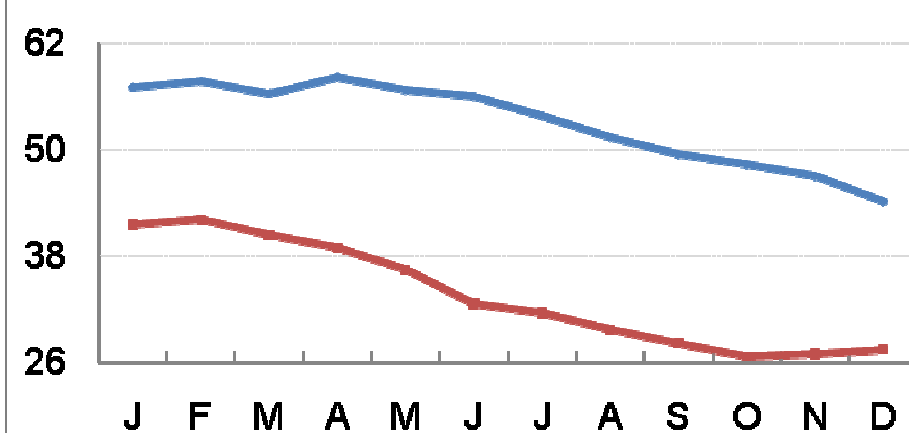




## Construction spending: developer-financed (billion \$, SAAR)

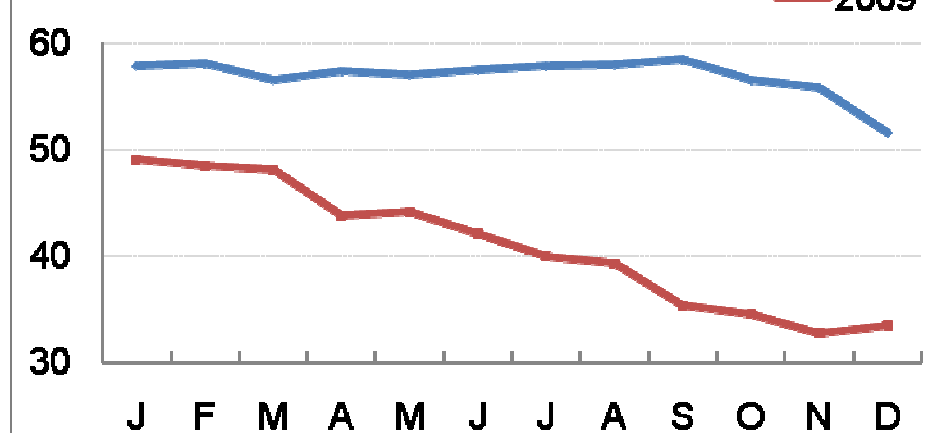
### Nonautomotive Retail

1-month: 1.9%, 12-month: -37.8%



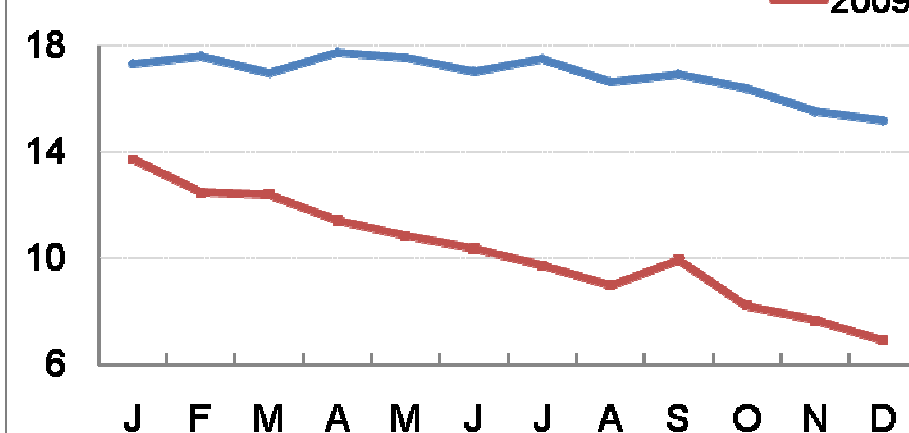
### Office (private)

1-month: 2.1%, 12-month: -35.2%



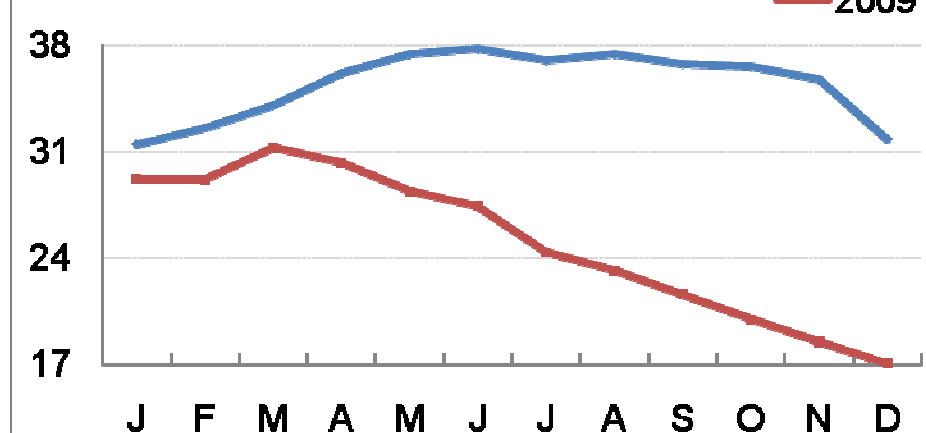
### Warehouses

1-month: -9.7%, 12-month: -54.5%



### Lodging (private)

1-month: -7.6%, 12-month: -46.3%

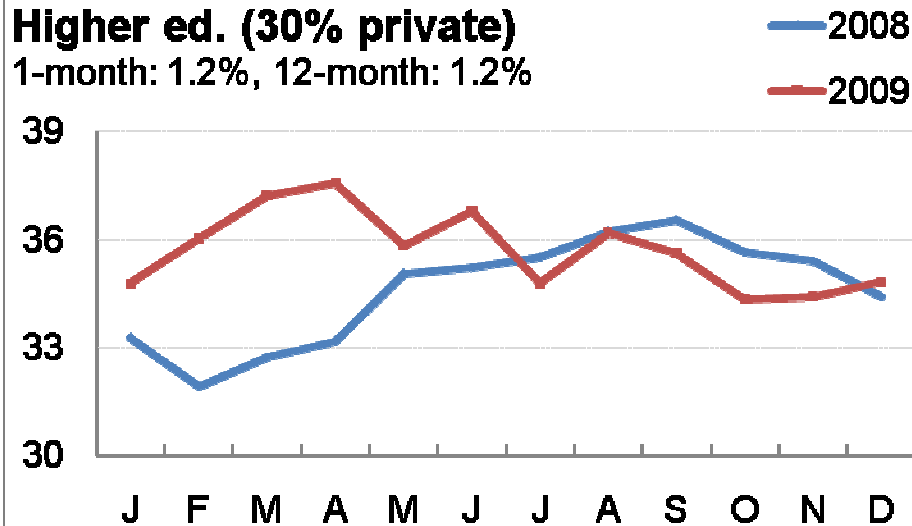




## Construction spending: institutional (private + state/local)

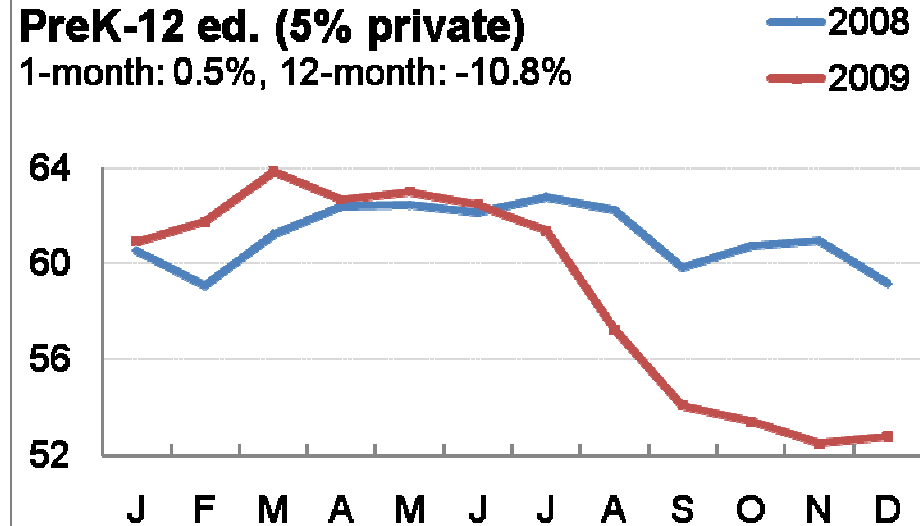
### Higher ed. (30% private)

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



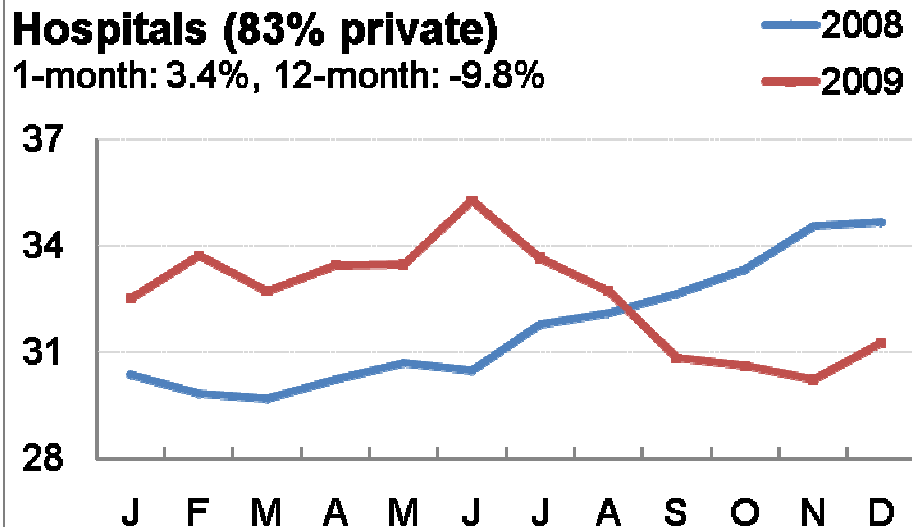
### PreK-12 ed. (5% private)

1-month: 0.5%, 12-month: -10.8%



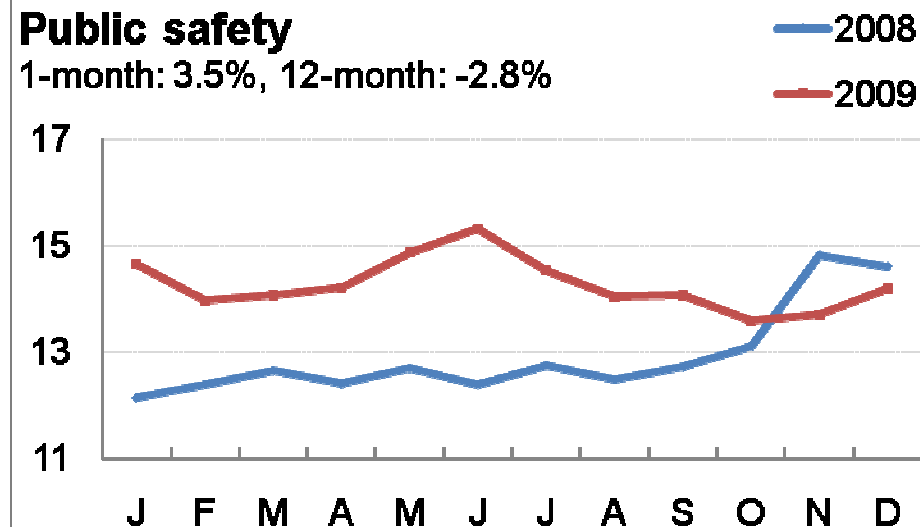
### Hospitals (83% private)

1-month: 3.4%, 12-month: -9.8%



### Public safety

1-month: 3.5%, 12-month: -2.8%

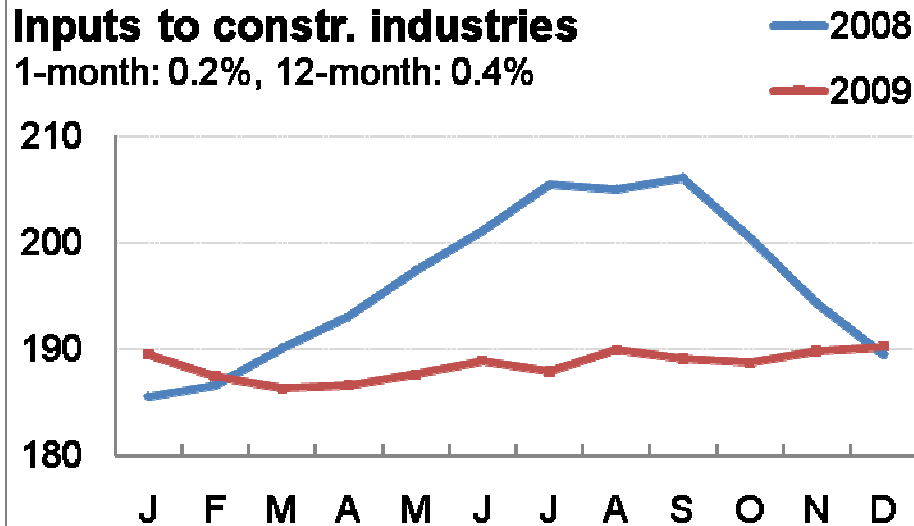




## Producer price indexes, 1/08-12/09

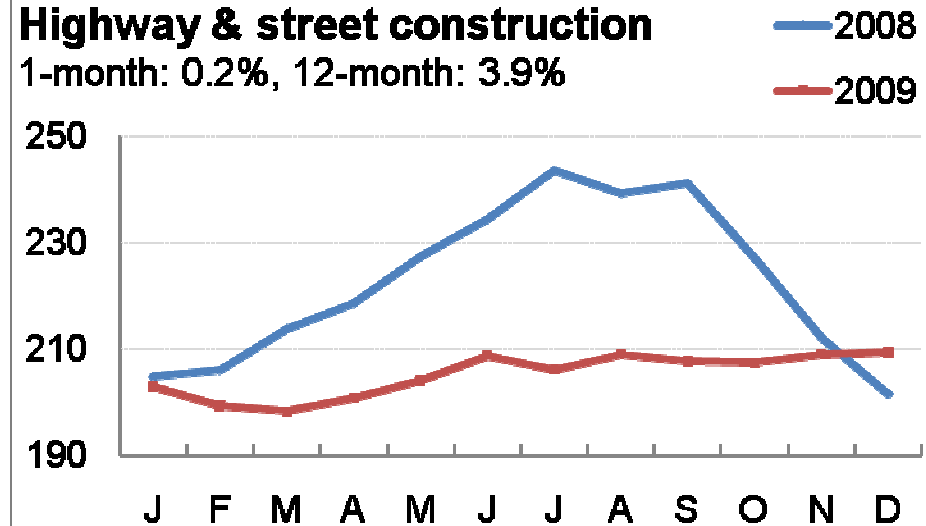
### Inputs to constr. industries

1-month: 0.2%, 12-month: 0.4%



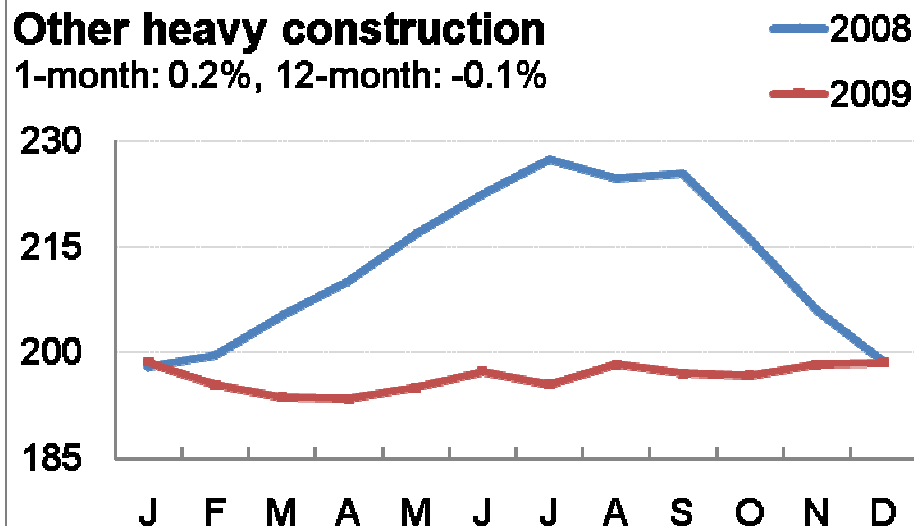
### Highway & street construction

1-month: 0.2%, 12-month: 3.9%



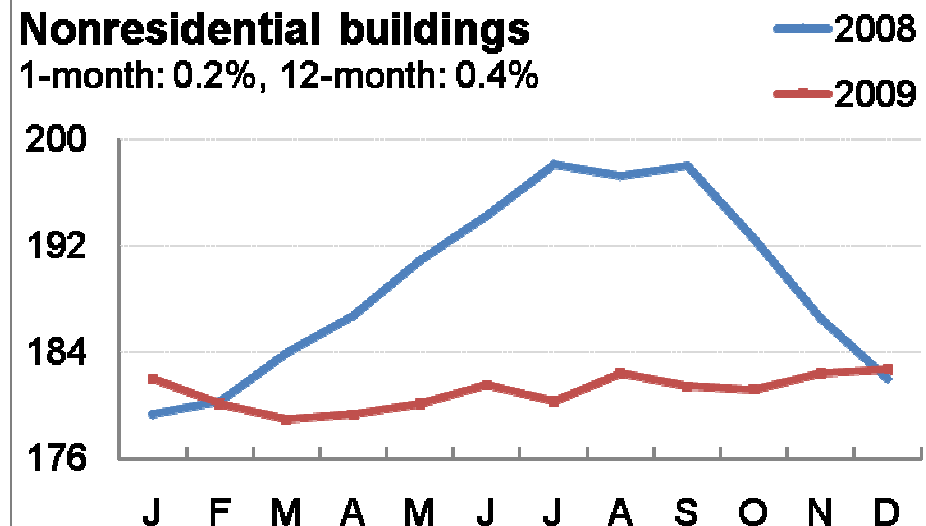
### Other heavy construction

1-month: 0.2%, 12-month: -0.1%



### Nonresidential buildings

1-month: 0.2%, 12-month: 0.4%

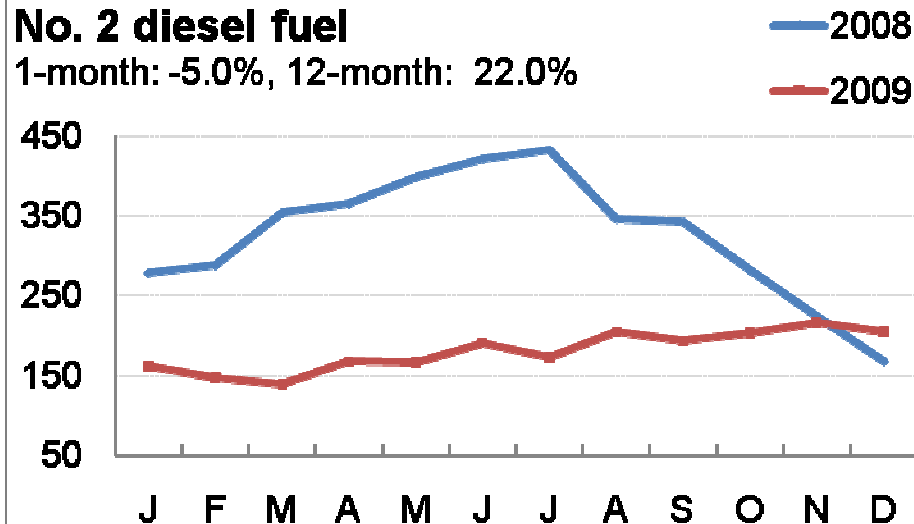




## Producer price indexes, 1/08-12/09

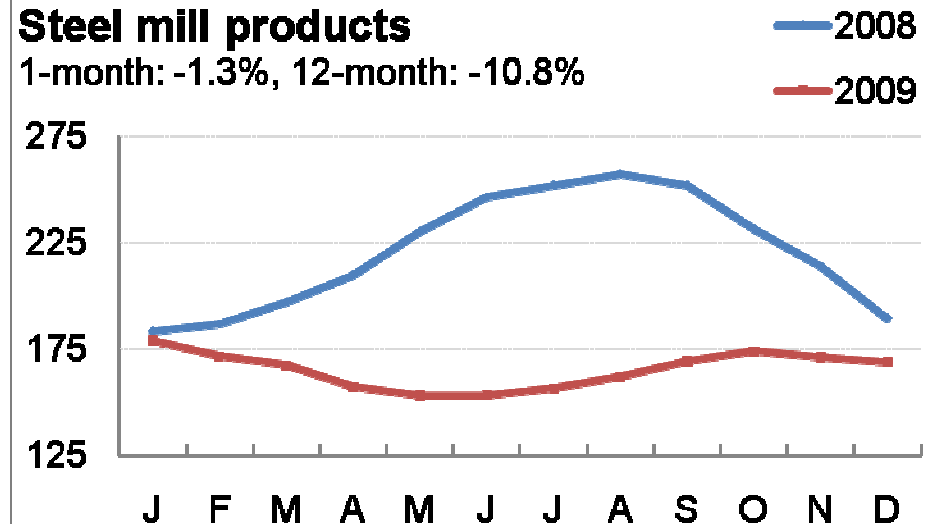
### No. 2 diesel fuel

1-month: -5.0%, 12-month: 22.0%



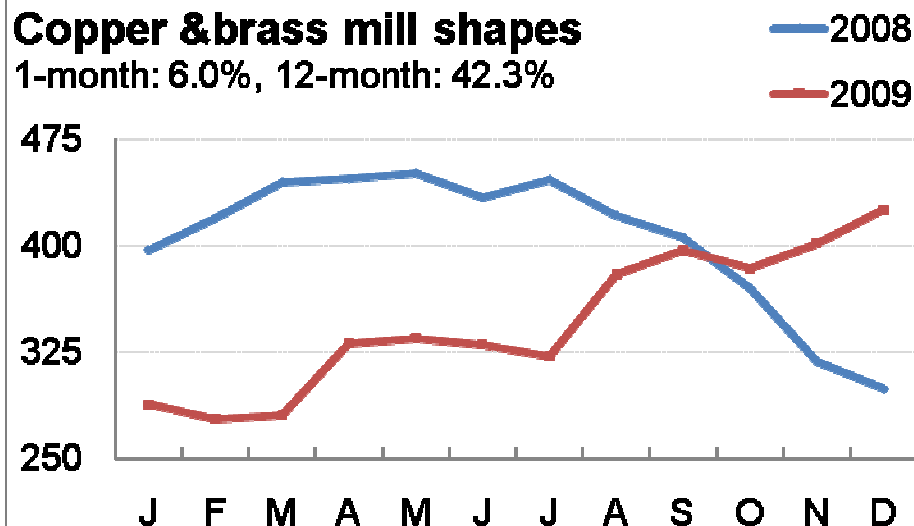
### Steel mill products

1-month: -1.3%, 12-month: -10.8%



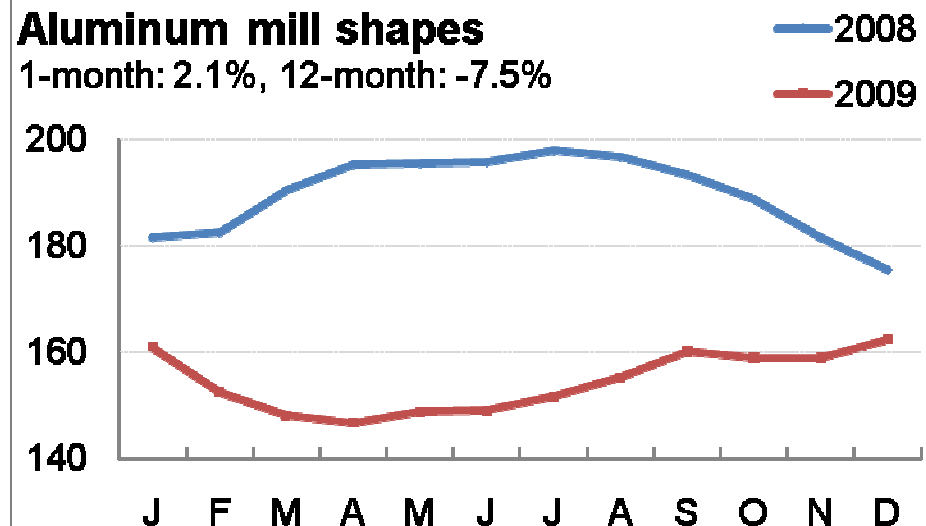
### Copper & brass mill shapes

1-month: 6.0%, 12-month: 42.3%



### Aluminum mill shapes

1-month: 2.1%, 12-month: -7.5%

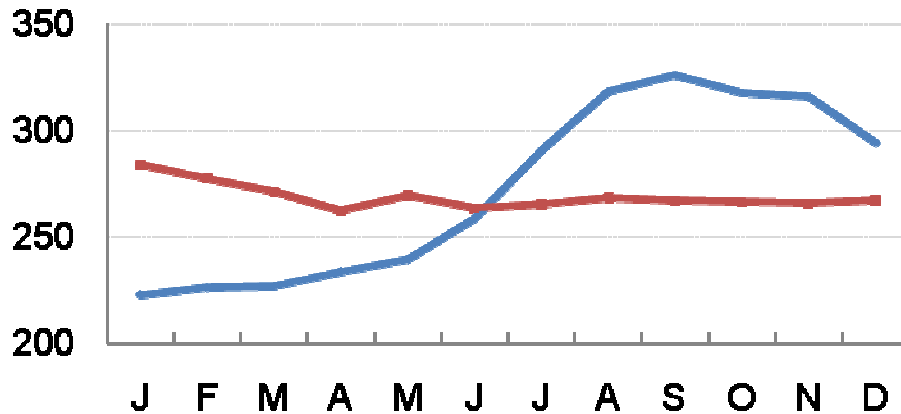




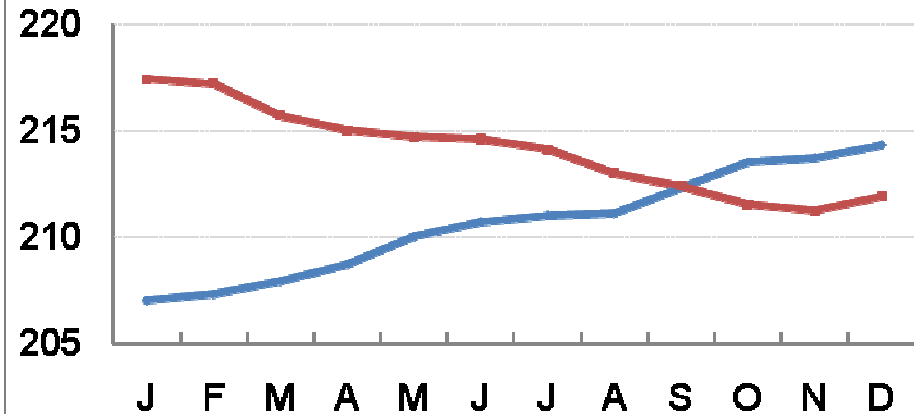


## Producer price indexes, 1/08-12/09

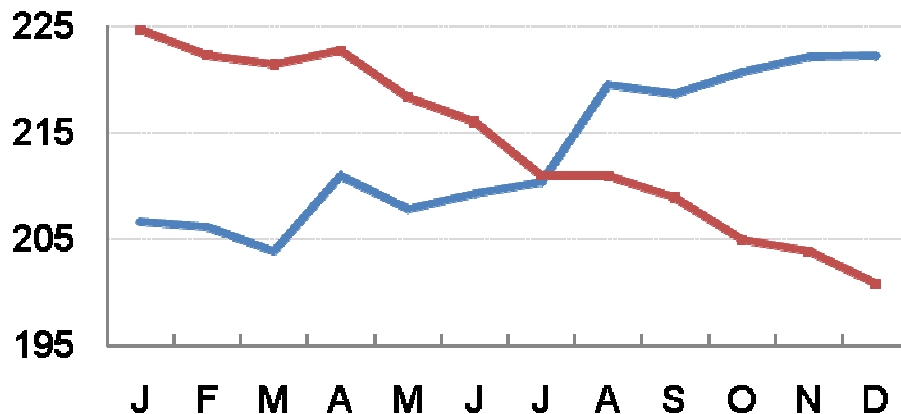
**Asphalt paving mixtures & blocks** — 2008  
 1-month: 0.5%, 12-month: -9.2%  
 — 2009



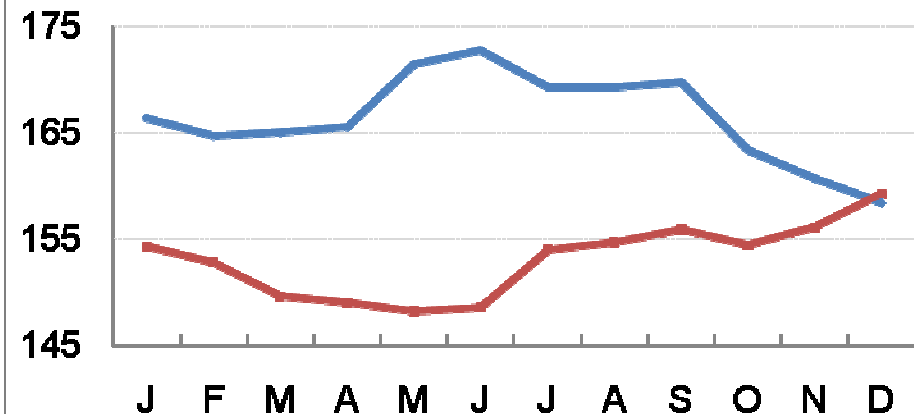
**Concrete products** — 2008  
 1-month: 0.3%, 12-month: -1.1%  
 — 2009



**Gypsum products** — 2008  
 1-month: -1.5%, 12-month: -9.6%  
 — 2009



**Lumber and plywood** — 2008  
 1-month: 2.0%, 12-month: 0.5%  
 — 2009





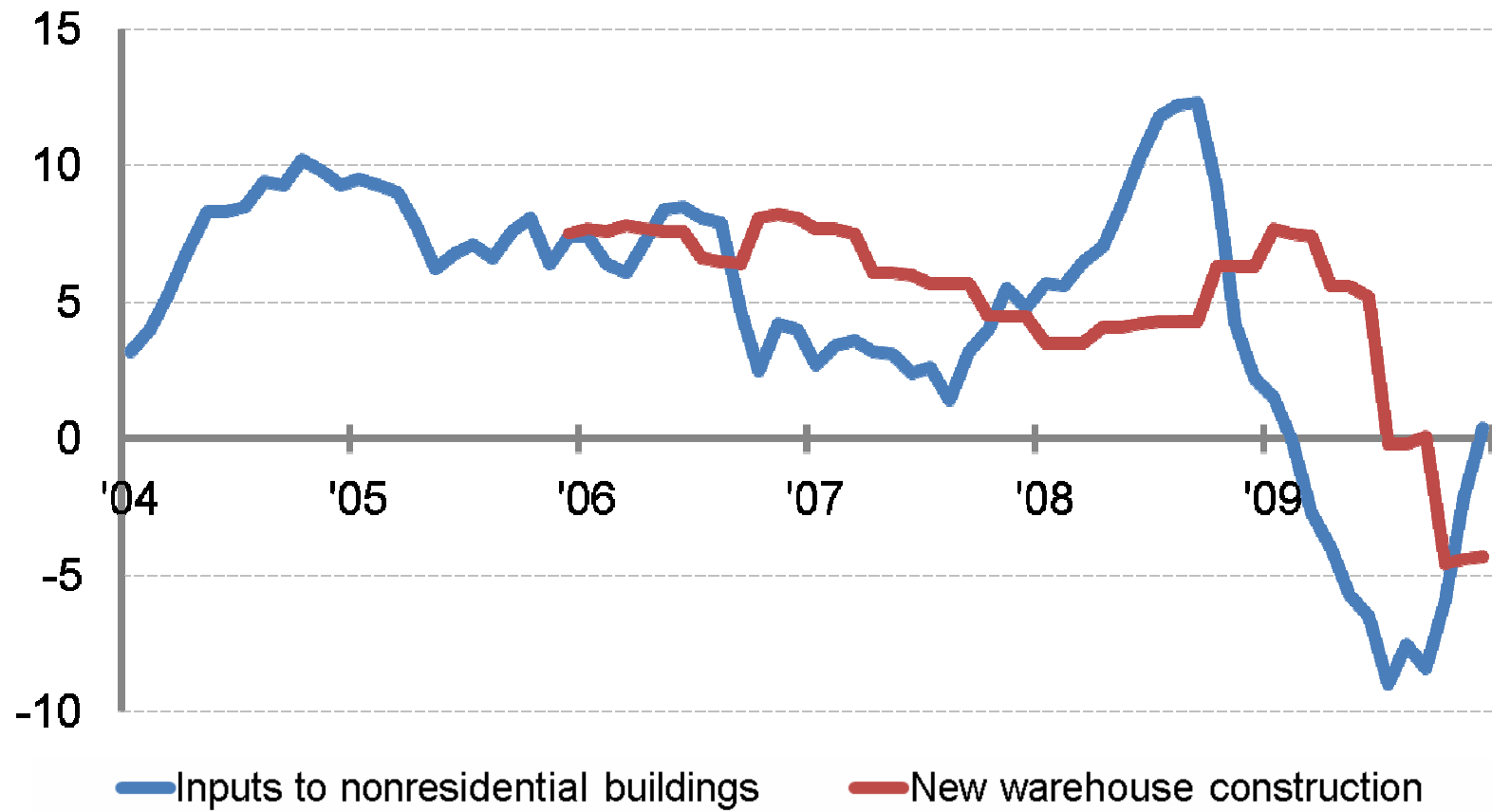
## Outlook for materials

- **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**



## Producer price index (PPI) for construction, 2004-09

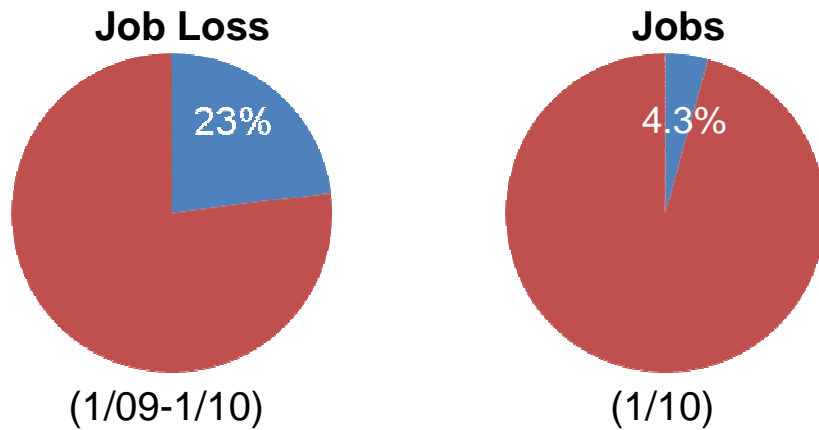
12-month % change



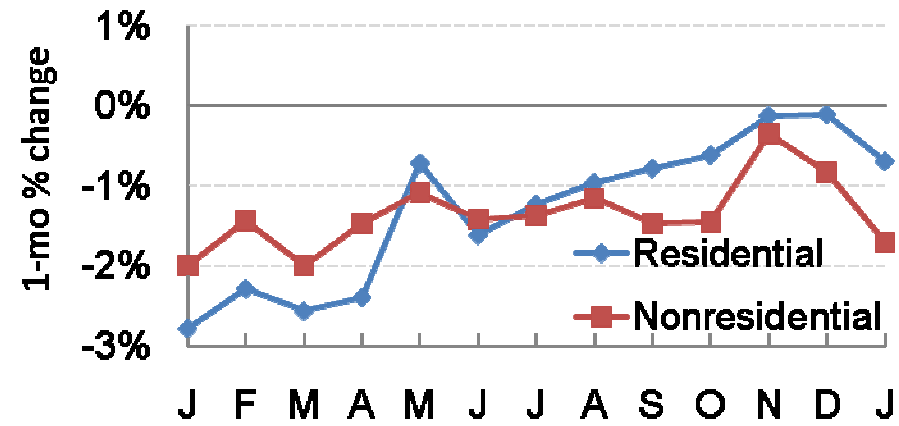


# Construction employment falls, wage increases shrink

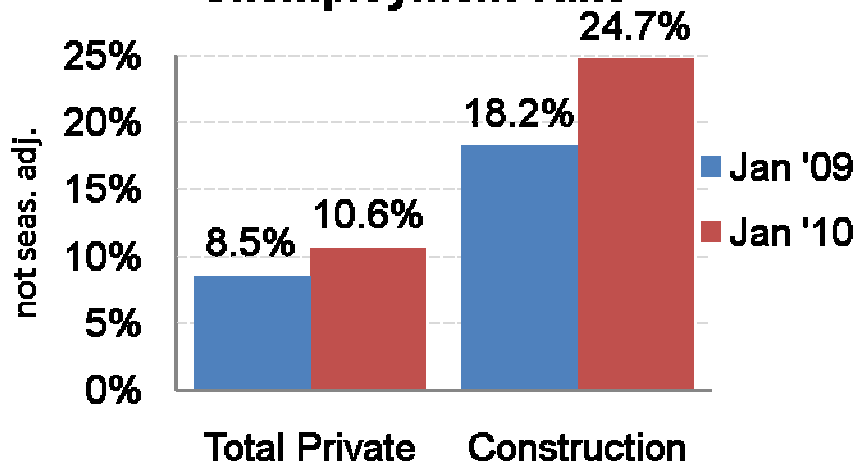
**Const. as % of Total Nonfarm**



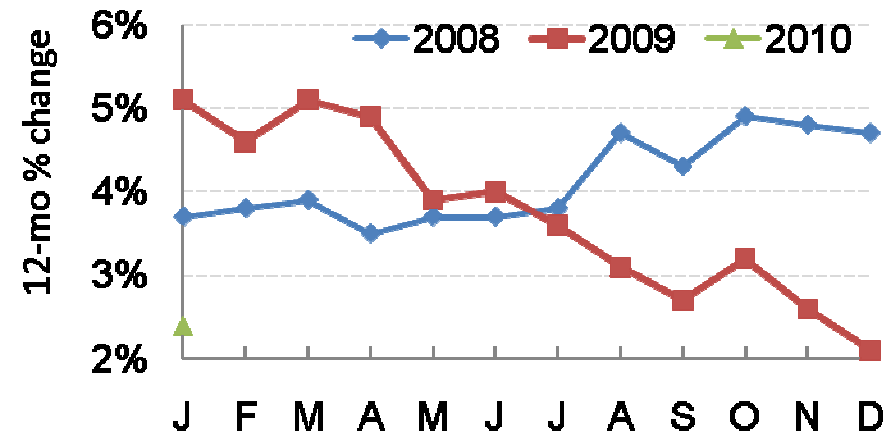
**1-Mon. % Change in Employment**



**Unemployment Rate**

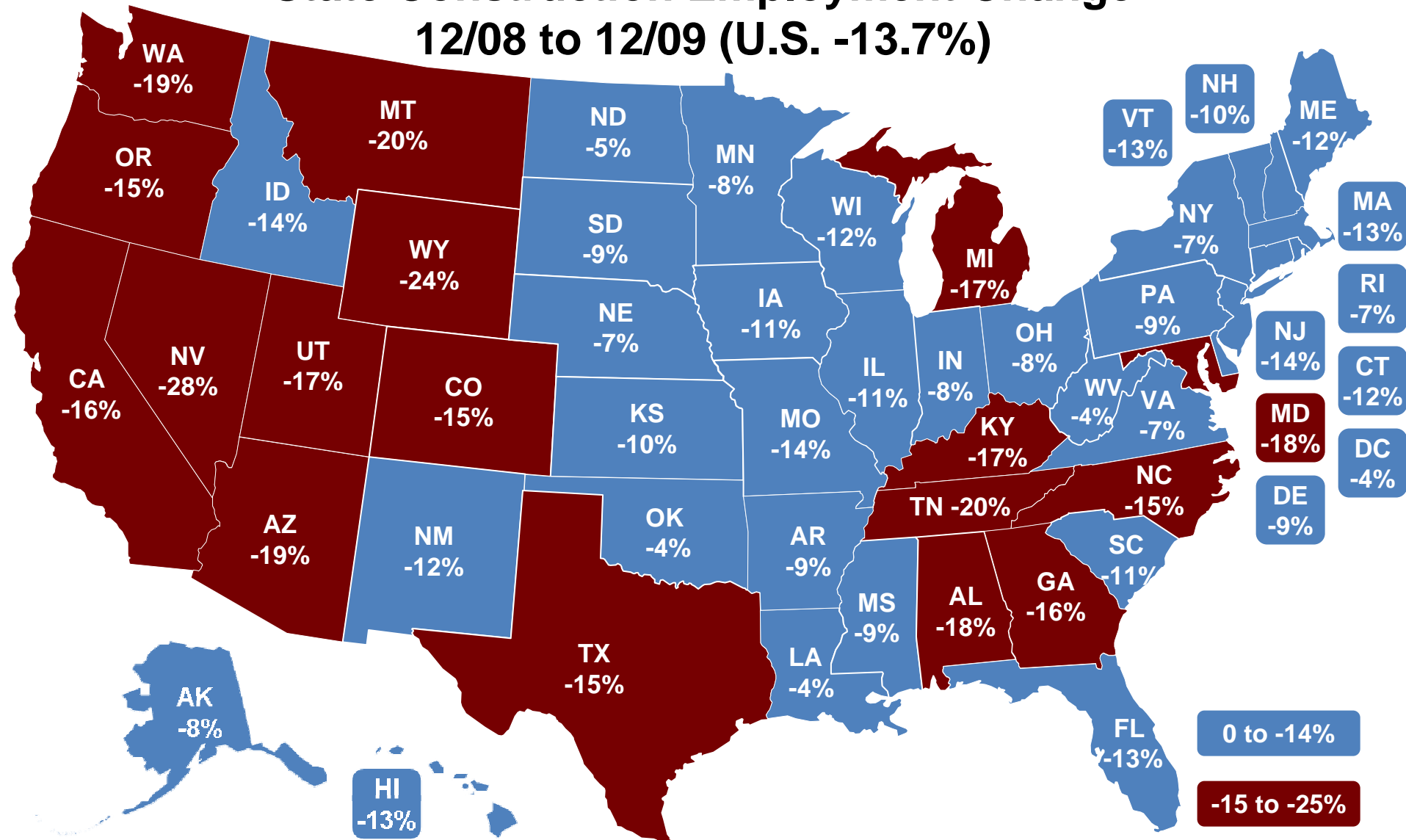


**Avg. Hourly Earnings in Construction**





## State Construction Employment Change 12/08 to 12/09 (U.S. -13.7%)





# 12-month % change in construction employment

## States (incl. D.C.)

1. Louisiana (-4%)
2. District of Columbia (-4%)
3. Oklahoma (-4%)
4. West Virginia (-4%)

## Metros

1. Harrisburg-Carlisle, PA (13%)
2. Springfield, OH (8%)
3. Columbus, IN (5%)
4. Tulsa, OK (3%)

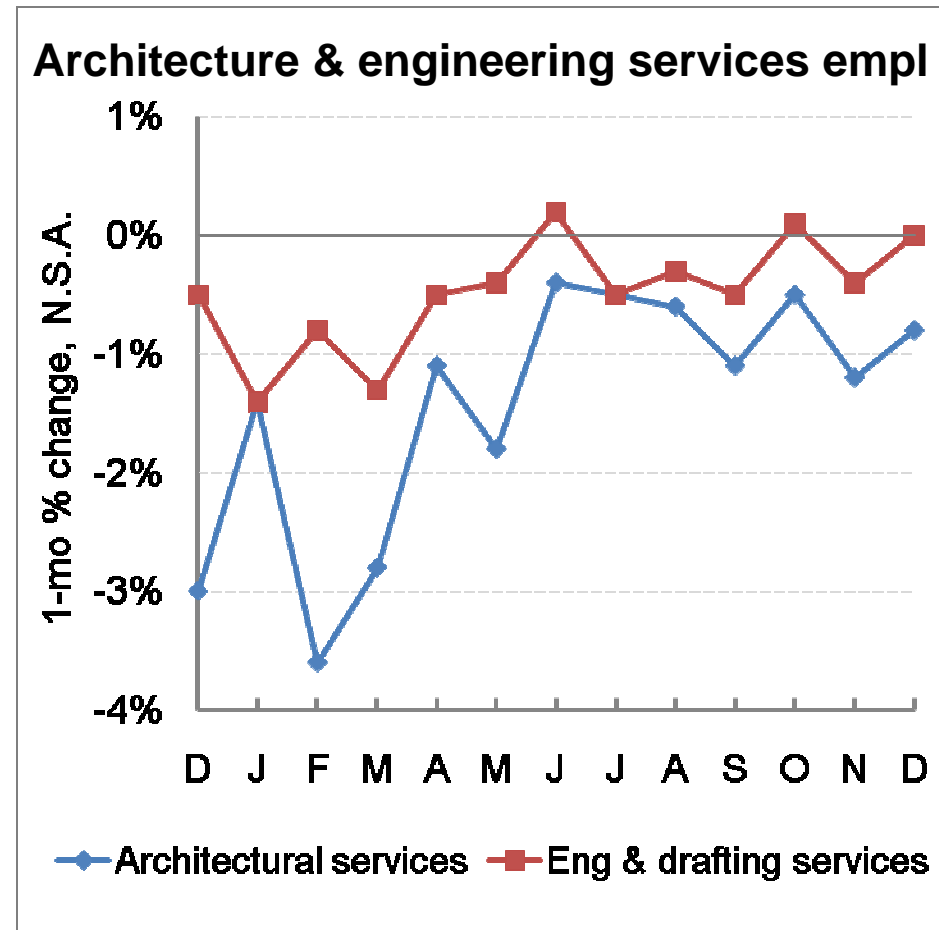
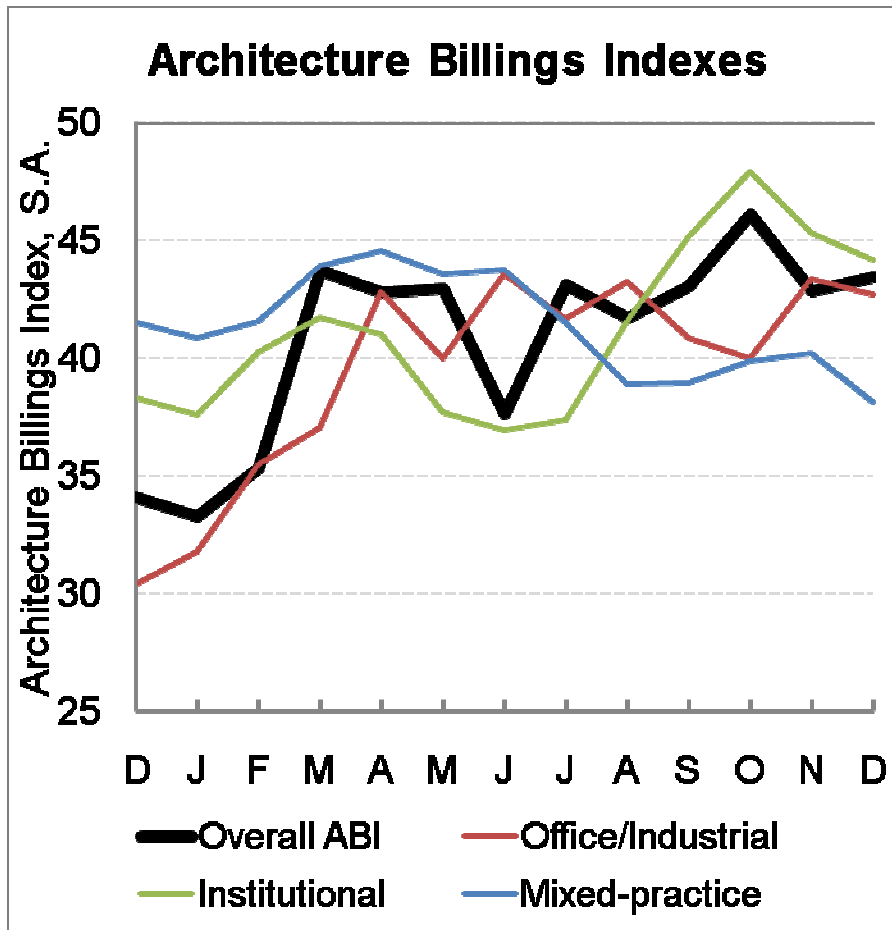
National Average (-14%)

49. Tennessee (-20%)
50. Wyoming (-24%)
51. Nevada (-28%)

335. Santa Fe, NM (-29%)
336. El Centro, CA (-36%)
337. Leominster-Fitchburg-Gardner, MA (-38%)



# Predictors of construction demand





## Summary for 2009

- Nonres spending: -5% (up: power, mfg., highways, stimulus; down: developer-, state & local gov-funded)
- Res: -27% (SF up in 2d half, MF down all year)
- Total res + nonres (full year 09 vs. 08): -12%
- Materials costs (Dec. 09 vs. Dec. 08): 0%
- Labor costs (Dec. 09 vs. Dec. 08): +2%





## 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: +3% or less



## AGC economic resources (email [simonsonk@agc.org](mailto:simonsonk@agc.org))

- *The Data DIGest*: weekly one-page email (sign up: [www.agc.org/datadigest](http://www.agc.org/datadigest))
- PPI tables: emailed monthly
- State and metro data
- Stimulus info: [www.agc.org/stimulus](http://www.agc.org/stimulus)
- Webinars (Jan. 28, May 6)
- Feedback on stimulus, credit, costs

### Data DIGest

AGC of America  
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA  
Quality People. Quality Projects.

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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