



# Construction & Materials Outlook

**AGC Building Division/PIAC Meeting**

**Hot Springs, VA, June 12, 2009**

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## Current economic influences

- Muni bond market has improved since September, but not bank lending
- Rising vacancies for office, retail, hotel
- Falling state and local spending
- No job growth, rising unemployment
- Stimulus (details: [www.agc.org/stimulus](http://www.agc.org/stimulus))



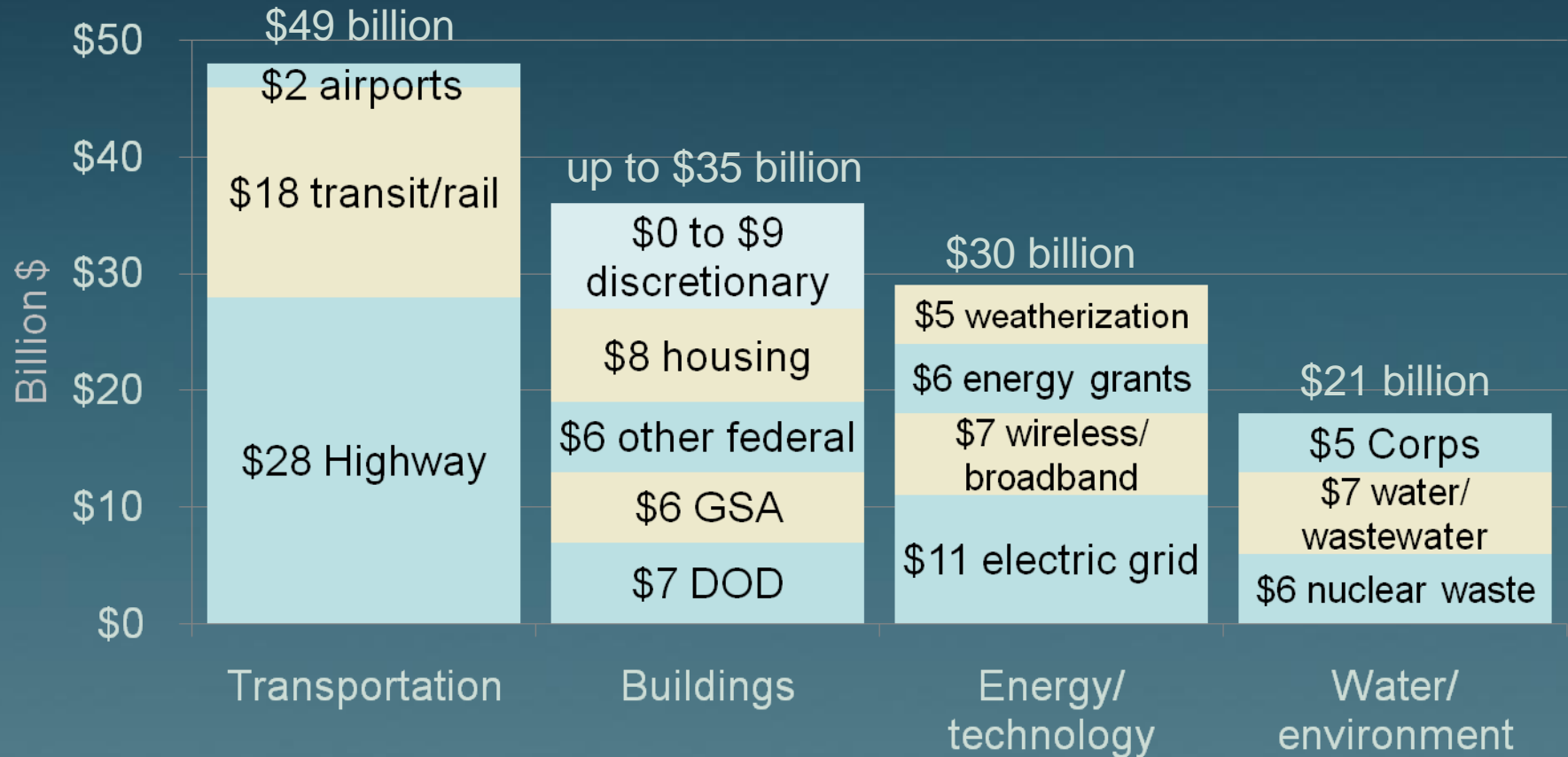
# Economic Stimulus Package

**Total of \$787 billion in spending and tax cuts**

- **\$308 billion in appropriated spending**
- **\$267 billion in direct spending (refundable portion of tax credits, unemployment benefits, Medicaid reimbursement to states, etc.)**
- **\$212 billion in tax cuts**



# Construction-Related Stimulus Funding (Total \$135+ billion)





# Stimulus tax provisions affecting construction

- 1-year delay (to 2012) in 3% withholding on gov. contracts
- Increased expensing
- Net operating loss: 5 year carryback of NOL for small business (<\$15 mil. in gross receipts)
- Qualified school construction bonds
- “Build America” bonds
- Bonds for “recovery zones,” tribal areas, renewable energy, energy conservation
- Modified renewable energy, conservation credits



# Stimulus timing, strings

- **Timing**
  - Highway bid lettings, some projects underway
  - Agencies have announced many projects or grants
- **Conditions**
  - Davis-Bacon
  - Buy American
  - Reporting requirements: jobs, executives' pay
  - No E-Verify requirement or broad-based FAR
  - No project labor agreement mandate, but...



## Economic Impact of Nonresidential Construction

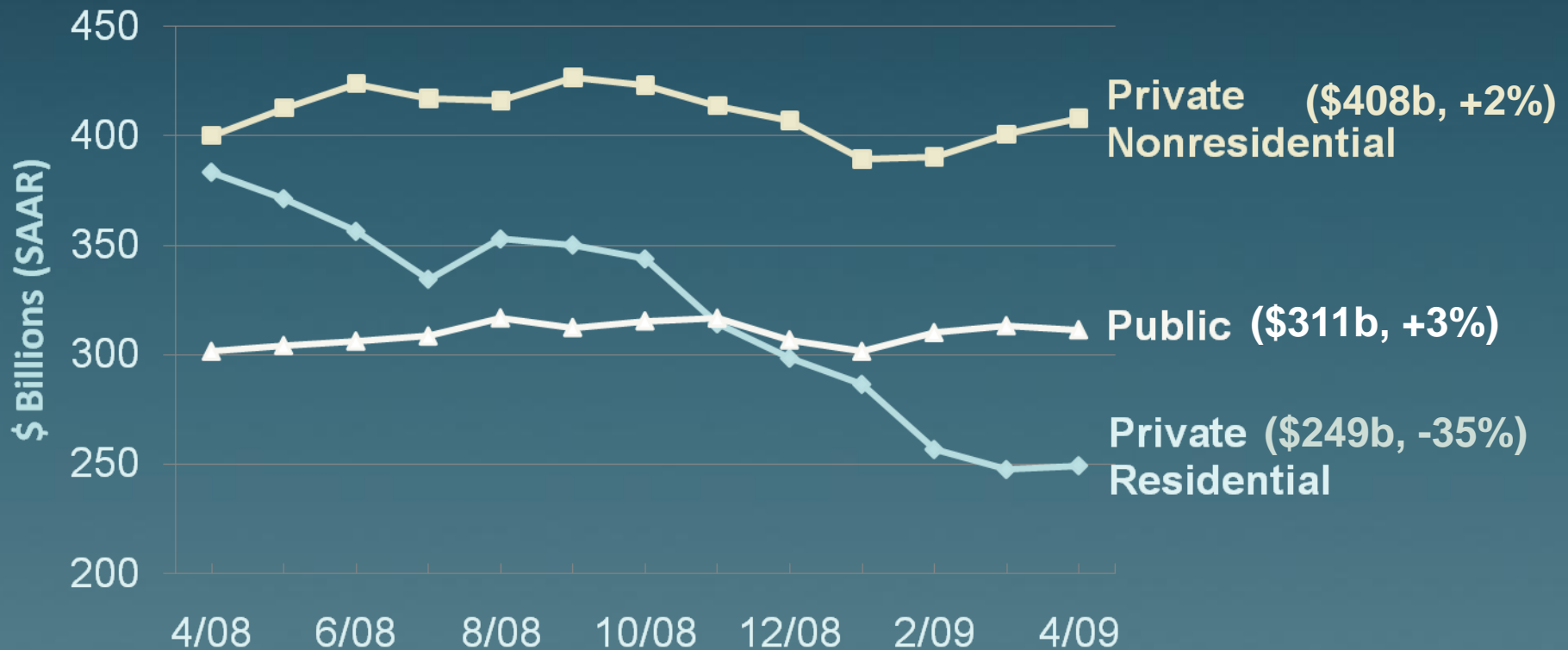
- **Jobs:** 28,500 per \$1 billion
  - 1/3 direct, onsite construction
  - 1/6 indirect supplying industries
  - 1/2 induced by direct, indirect spending
- **GDP:** \$3.4 billion
- **Personal Earnings:** \$1.1 billion



# The shifting construction market

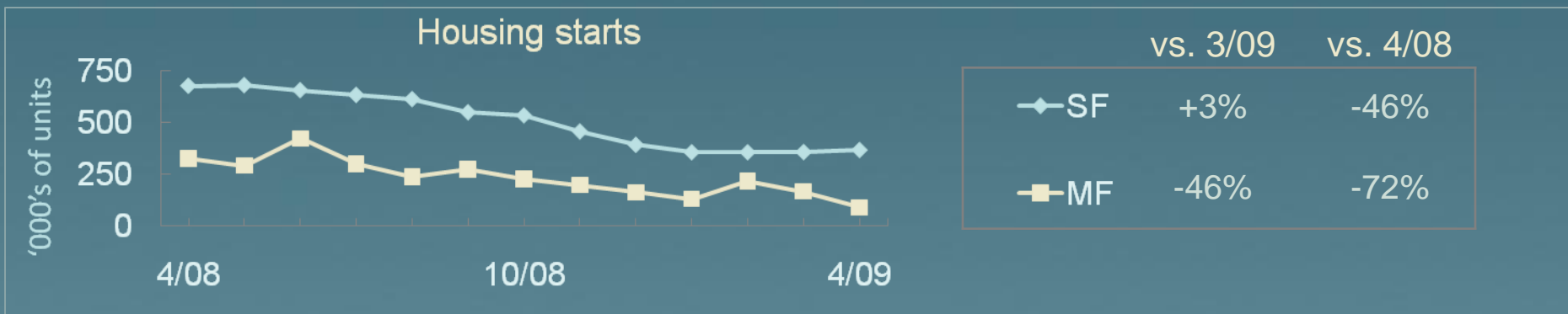
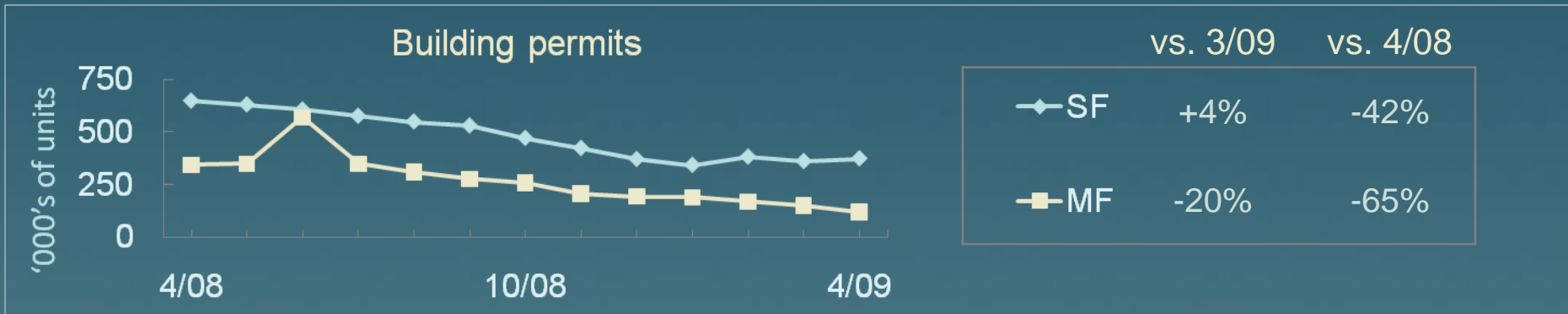
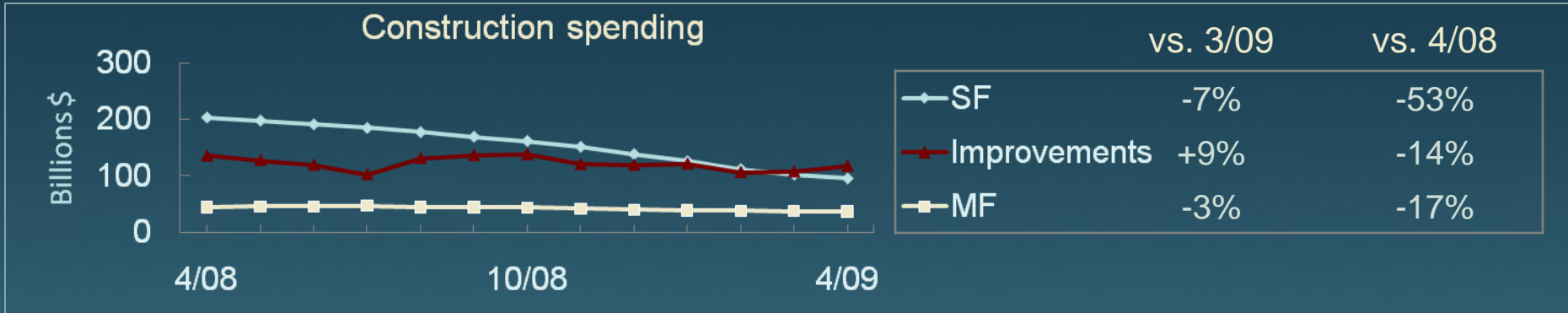
(construction spending, seasonally adjusted annual rate)

April 2009: \$969 billion, 12-month change: -11%





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





## Housing outlook

- **SF: No end yet to decline in permits, starts or spending, but sales should pick up in 2<sup>nd</sup> half**
- **Starts should begin to rise in late '09**
- **MF: Rental market hurt by job losses among would-be renters and by who are trying to rent out houses and condos**
- **No improvement likely until '11**



## Nonres totals, share, 1- & 12-month change

	4/09 Total	Share	vs. 3/09	vs. 4/08
<b>Nonresidential total</b>	\$712 billion	100%	+ 1%	+ 3%
Educational	107	15	- 2	+ 3
Manufacturing	89	13	+ 4	+ 70
Power	83	12	+ 7	+ 26
Highway and street	79	11	+ 1	0
Commercial	69	10	- 3	- 24
Office	64	9	- 1	- 10
Health care	47	7	0	+ 4
Transportation	34	5	+ 2	- 4
Lodging	33	5	+ 2	- 9
Sewage and waste disposal	26	4	- 2	+ 4
Amusement and recreation	21	3	0	- 10
Other (communication; water; public safety; relig.; conservation): 9% of total				



# Public construction (seas. adj. annual rate)

	<b>4/09 Total</b> \$311 billion	<b>State/Local</b> \$288 billion	<b>Federal</b> \$23 billion
Educational	89	87	2
Highway and street	79	78	1
Sewage and waste disposal	26	25	
Transportation	24	22	2
Office	16	11	5
Water supply	15	14	
Public safety	13	10	3
Power	12	11	1
Amusement and recreation	12	11	
Other (health care; residential; conservation; commercial): \$25 billion			

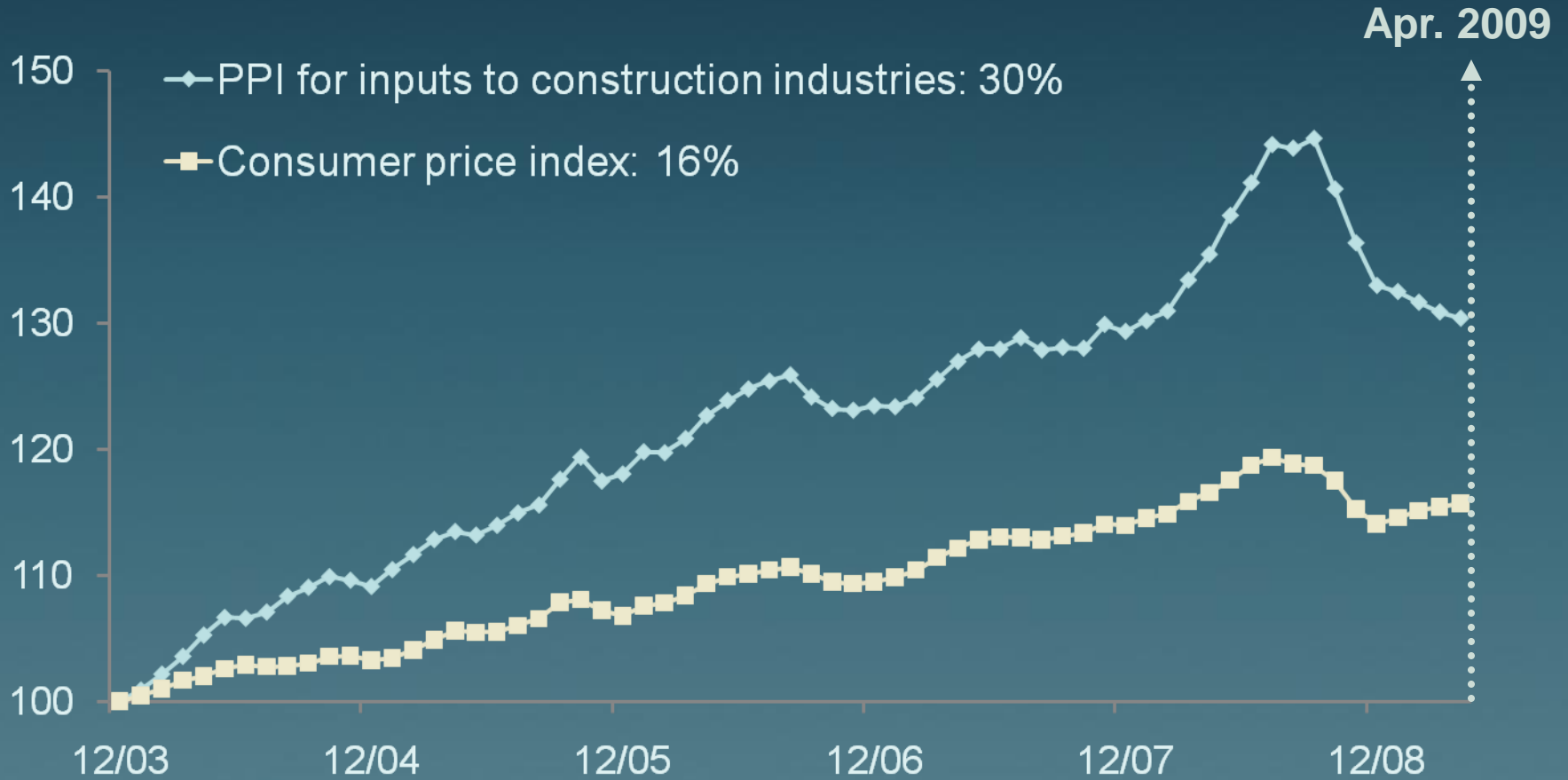


# Spending outlook for 2009

	<b>Actual 2008</b>	<b>Forecast 2009</b>
<b>Residential</b>	<b>- 27%</b>	<b>- 2 to +2%</b>
<b>Nonresidential</b>	<b>+11%</b>	<b>- 3 to - 9%</b>
<b>Total</b>	<b>- 6%</b>	<b>- 1 to - 7%</b>



## Change in Producer Prices for Construction vs. Consumer Prices, 2003 - 2009 (December 2003 = 100)











## Outlook for materials in '09 compared to '08

- **Lower average prices: diesel, copper, steel, aluminum**
- **Possible increases: concrete, gypsum**
- **Year-over-year PPI change: -4% to 0%**
- **A limited-time sale...**



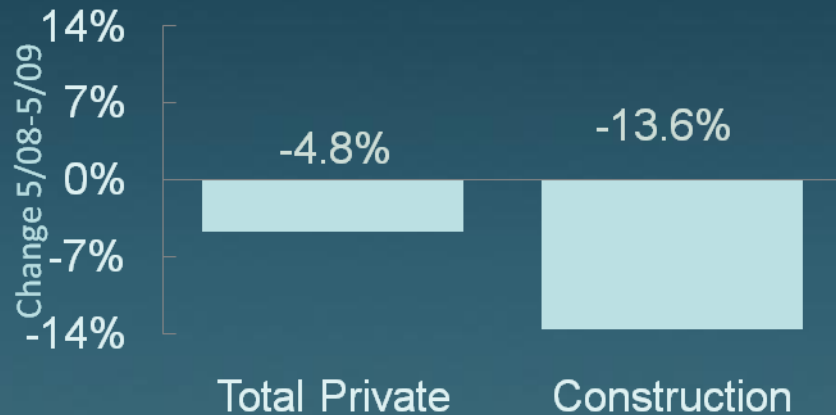
## **Outlook for materials (beyond 2009)**

- **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**
- **Expect 6 to 8% PPI increases, higher spikes**

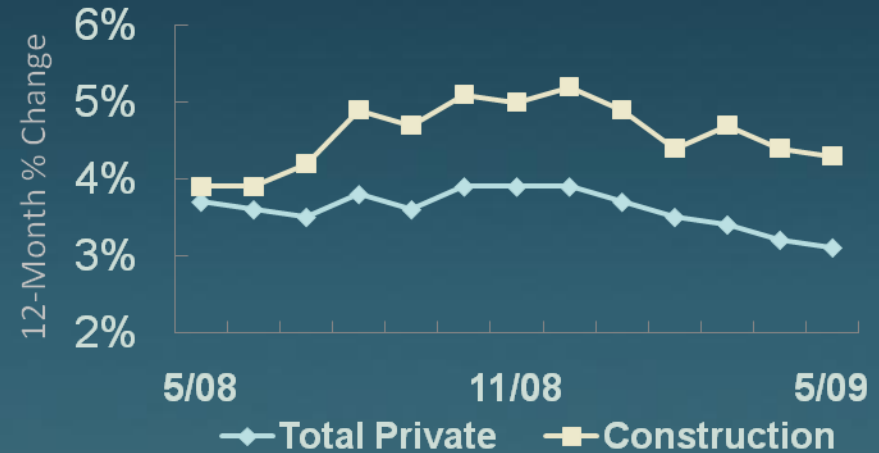


# Construction jobs fall, but wages rise (seasonally adjusted)

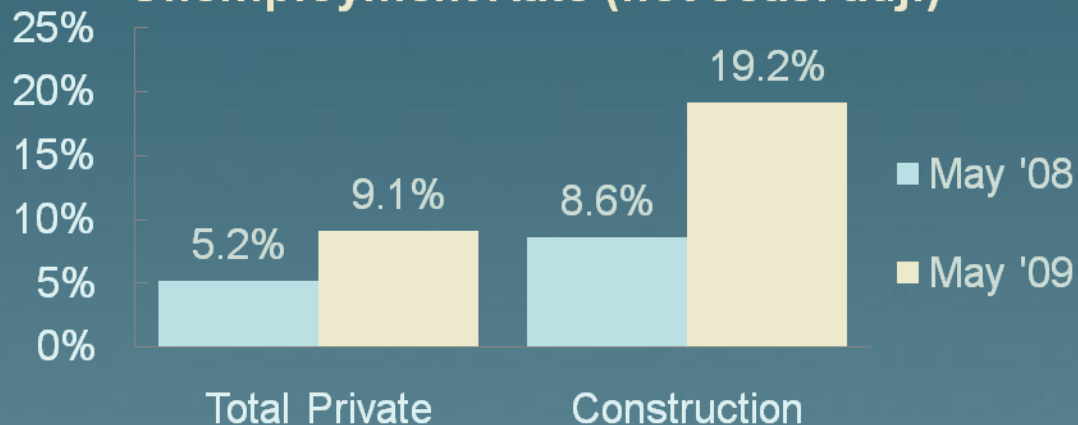
### Employment



### Average Hourly Pay

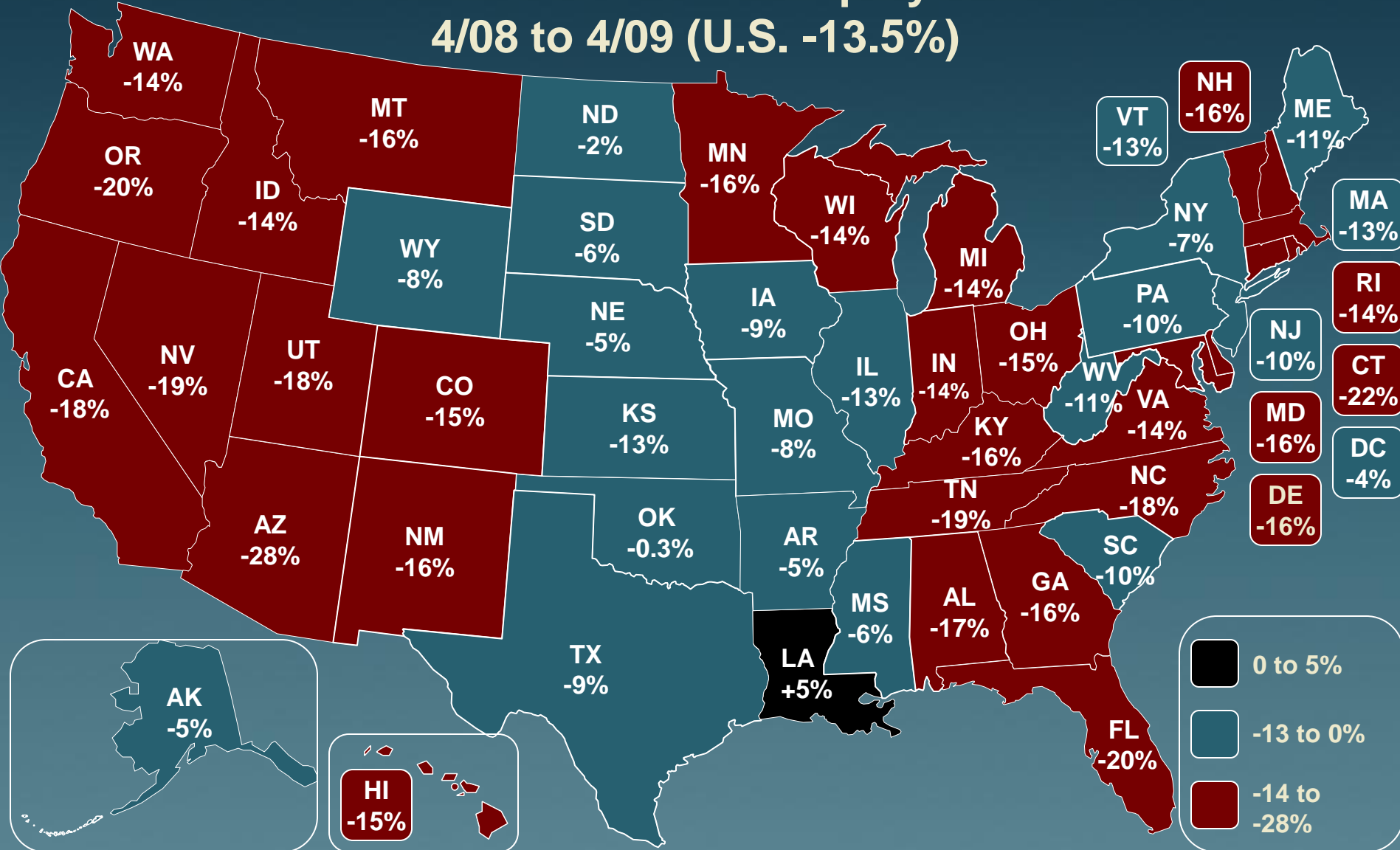


### Unemployment Rate (not seas. adj.)





# State Construction Employment 4/08 to 4/09 (U.S. -13.5%)





## Summary for 2009

- Nonres spending: -3 to -9%
- Res: -2 to +2% (SF up in 2d half, MF down all year)
- Total construction spending: -1% to -7%
- Materials costs: -4% to 0%
- Labor costs: +3% to +4%



## Summary for 2010

- **Nonres spending: 0 to -5%**
- **Res: +5 to +10% (SF up all year, MF down all year)**
- **Total construction spending: -4% to +2%**
- **Materials costs: 0% to +8%**
- **Labor costs: +3% or less**



# **AGC economic resources (sign up by email to [simonsonk@agc.org](mailto:simonsonk@agc.org))**

- **The Data DIgest: weekly one-page email**
- **PPI tables: emailed monthly**
- **State-specific stimulus estimates and fact sheets: [www.agc.org/stimulus](http://www.agc.org/stimulus)**
- **Webinars/audioconferences**
- **Member emails on stimulus jobs, credit market**