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# Construction & Materials Outlook

Textura Economic Issues Luncheon

AGC Convention, Honolulu, March 16, 2012

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# Current economy and construction outlook

- GDP, personal income, jobs: growing, but slowly
- Continuing problems for office, retail
- Power, mfg., warehouse/distribution, hospitals will grow
- Apartments should boom; single-family still a mystery
- Federal, state, local cuts will continue
- Materials costs not extreme but will outpace CPI



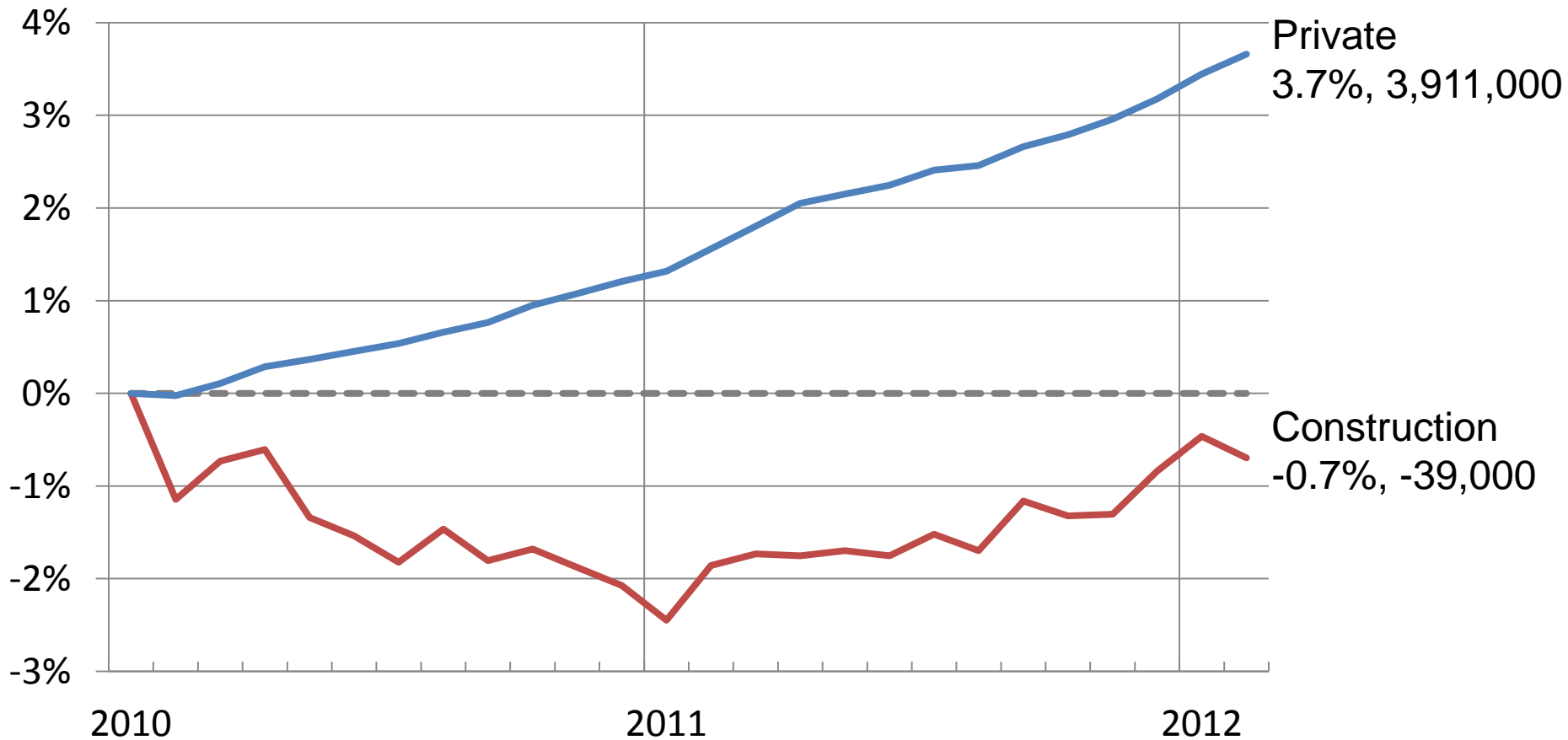
# Federal funding sources and outlook

- Stimulus, base realignment, Gulf Coast hurricane work: all ending or tapering off
- Highway, transit funding OK until 3/31, then ??
- Fiscal Year 2012 appropriations for construction down 6% (\$7 billion) from FY2011 levels
- Debt ceiling agreement implies more spending cuts but no disruption of interest rates or credit availability



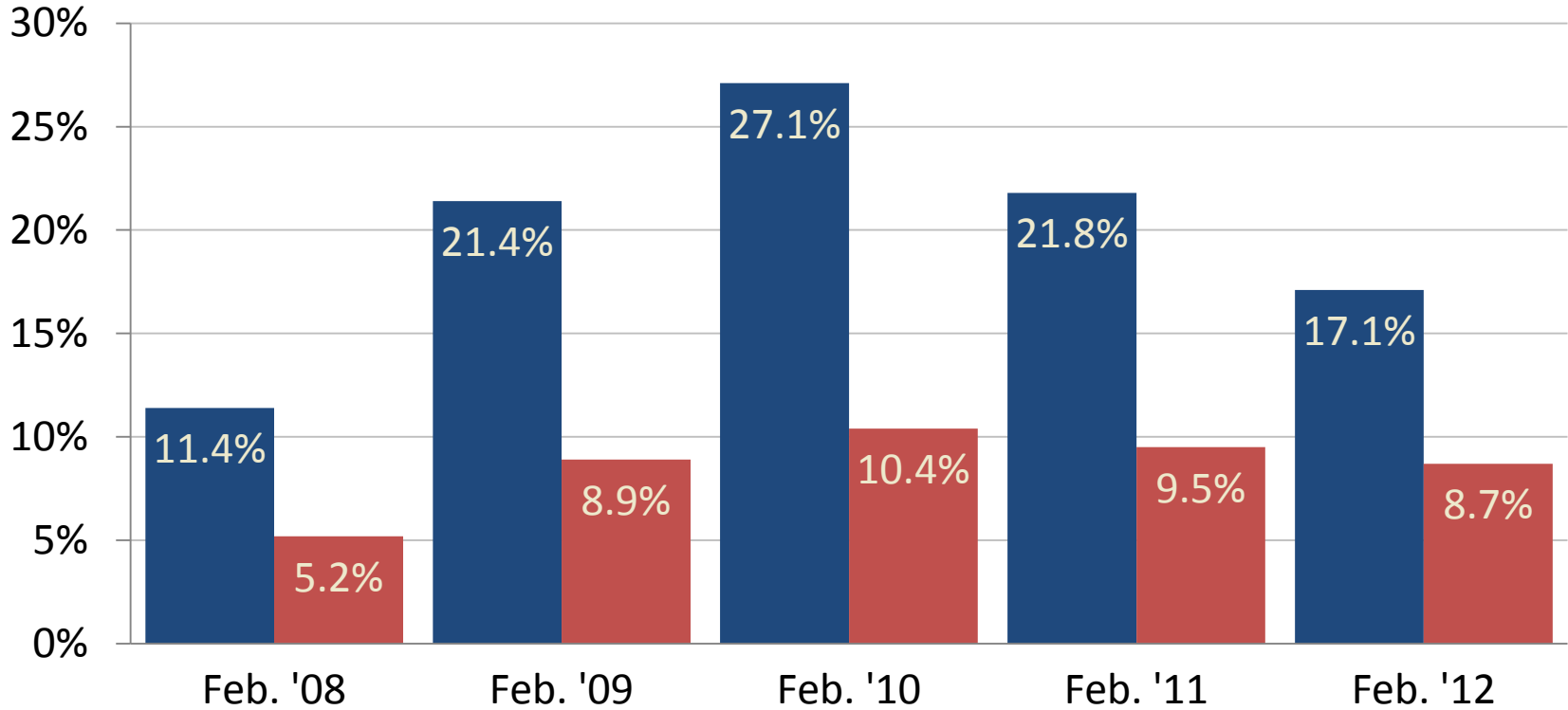
# Construction vs. private employment, 1/10-2/12

(seasonally adjusted, cumulative % change since Jan. 2010)





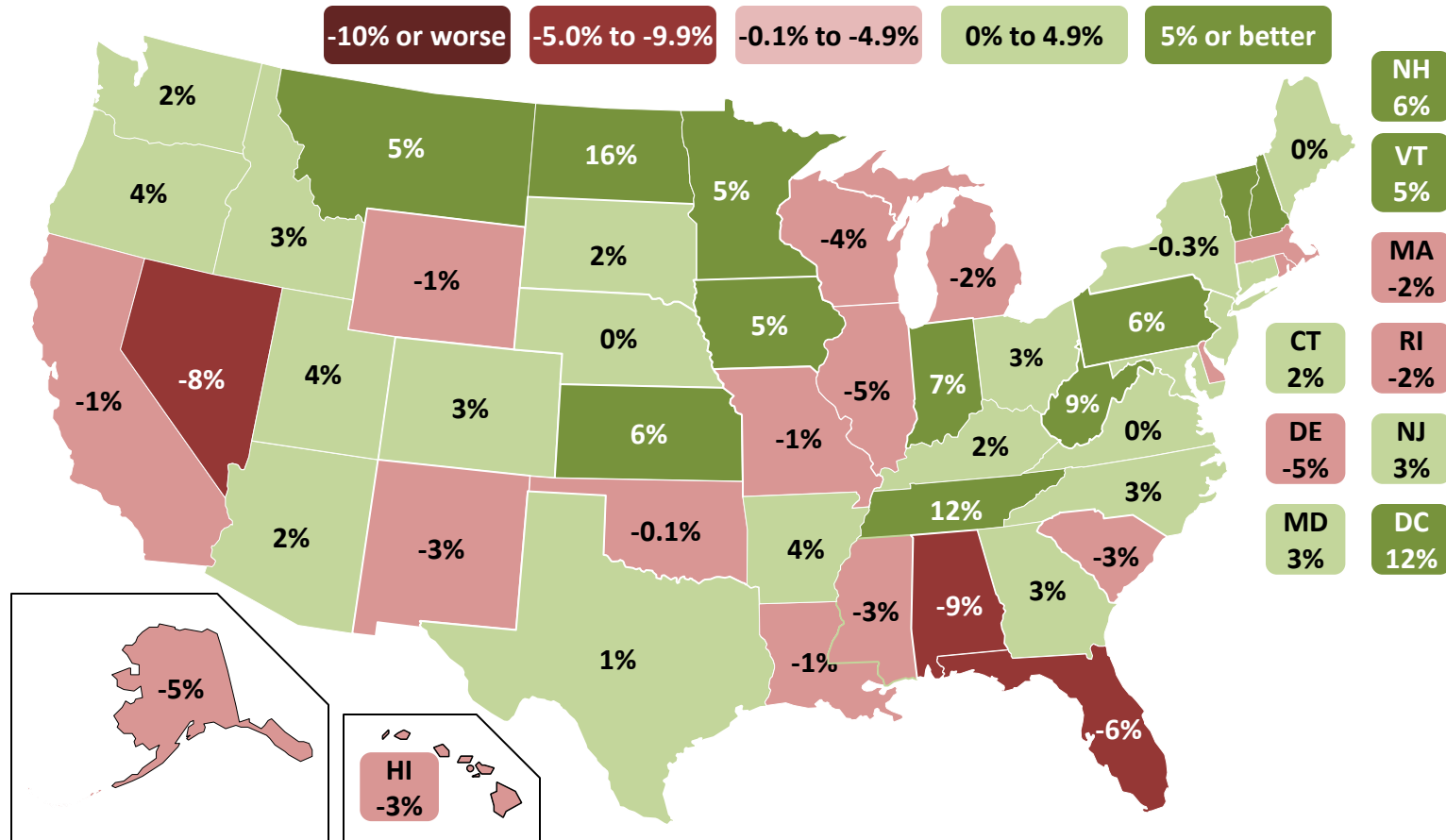
## Construction unemployment rates, February 2008-February 2012



not seasonally adjusted, ■ construction ■ total

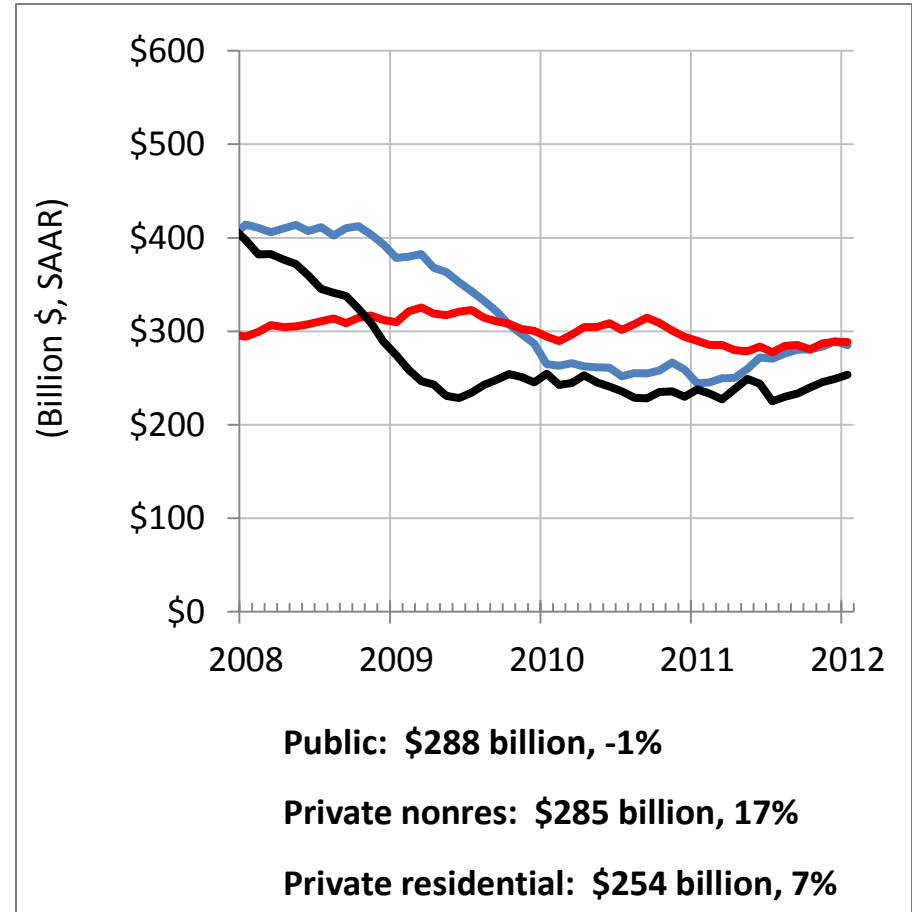
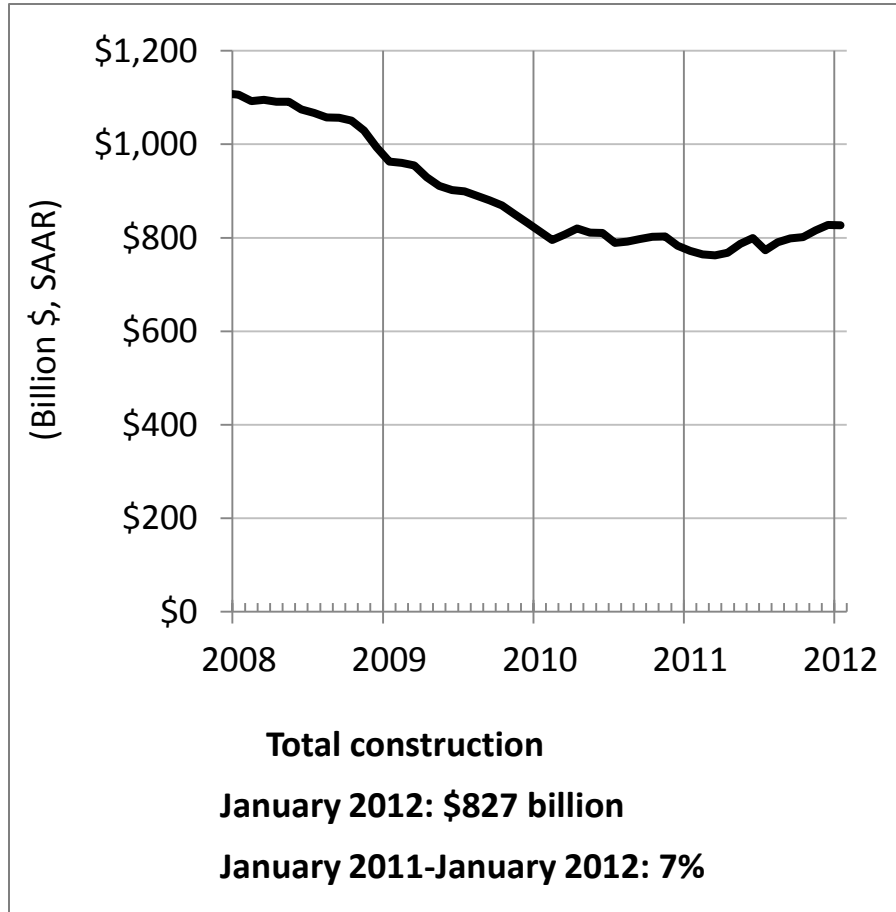


# State construction employment change (U.S.: 2.0%) 1/11 to 1/12 (seasonally adjusted)

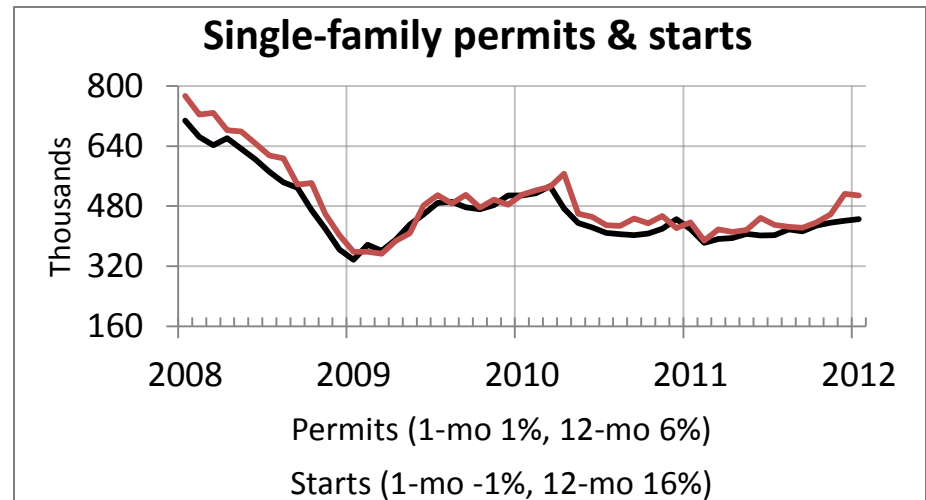
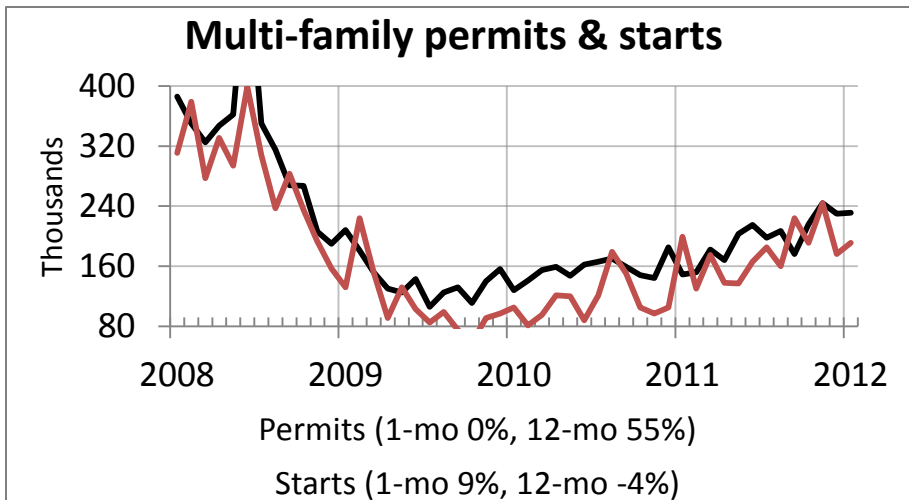
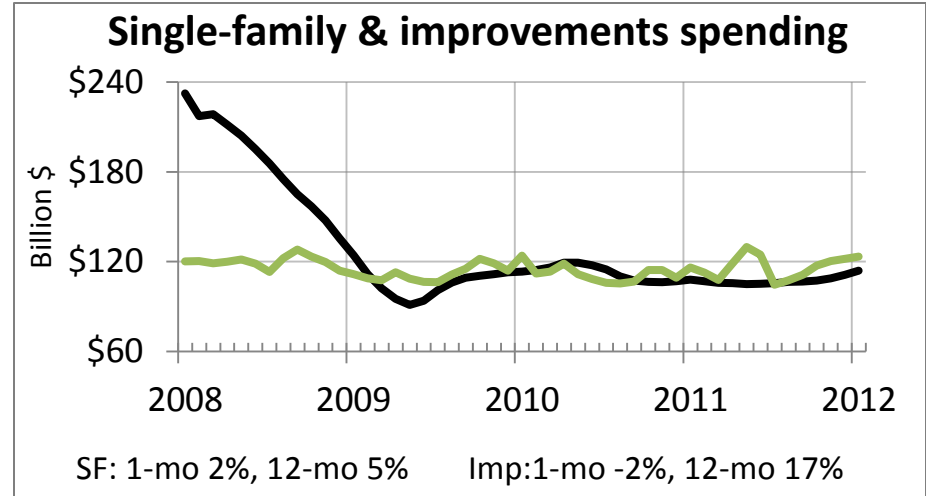
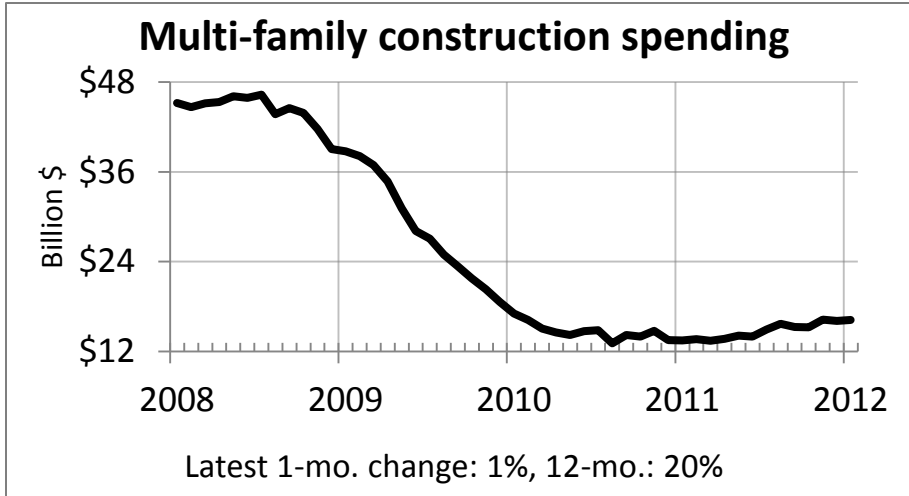


# Construction spending: trend, latest level, 12-mo. change

Seasonally adjusted annual rate (SAAR), 2008-January 2012



## Single- vs. multi-family, 2008-11, seasonally adjusted annual rate (SAAR)



# Housing outlook

- SF: starts, permits are at low point, should rise gradually
- MF: Upturn has begun, should accelerate in '12 and '13
  - Rental demand should rise as more people get jobs
  - Condo market continues to have large overhang
  - Government-subsidized market likely to worsen

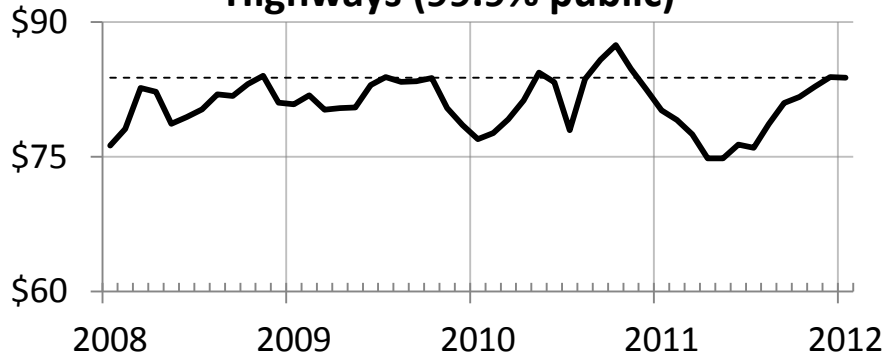
## Nonres totals (billion \$, SAAR), share & 12-month change

	<u>1/12 Total</u>	<u>Share</u>	<u>1/11-1/12</u>
<b>Nonresidential (priv.+federal+state/local)</b>	<b>\$566 billion</b>	<b>100%</b>	<b>8</b>
<b>Power (incl. oil &amp; gas struc., pipelines)</b>	<b>100</b>	<b>18</b>	<b>24</b>
<b>Educational</b>	<b>87</b>	<b>15</b>	<b>6</b>
<b>Highway and street</b>	<b>84</b>	<b>15</b>	<b>5</b>
<b>Commercial (retail, warehouse, farm)</b>	<b>43</b>	<b>8</b>	<b>8</b>
<b>Health care</b>	<b>41</b>	<b>7</b>	<b>10</b>
<b>Manufacturing</b>	<b>41</b>	<b>7</b>	<b>38</b>
Transportation	35	6	-7
<b>Office</b>	<b>34</b>	<b>6</b>	<b>1</b>
Sewage and waste disposal	24	4	0
<b>Communication</b>	<b>18</b>	<b>3</b>	<b>1</b>
<b>Amusement and recreation</b>	<b>16</b>	<b>3</b>	<b>2</b>
Other (water, public safety; lodging; conservation; religious): 8% of total			-6



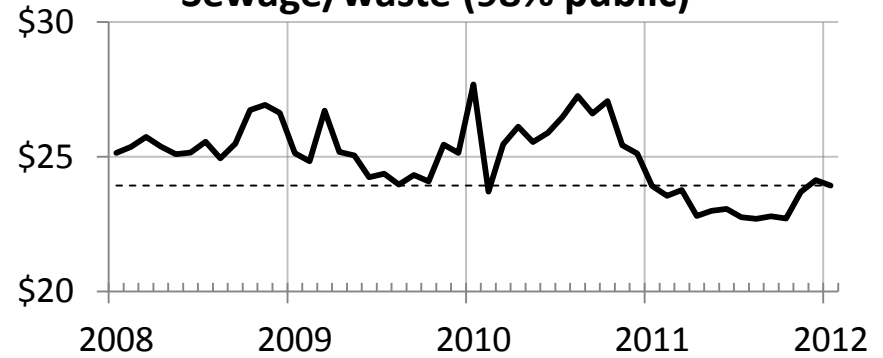
## Construction spending: public works (billion \$, SAAR)

**Highways (99.9% public)**



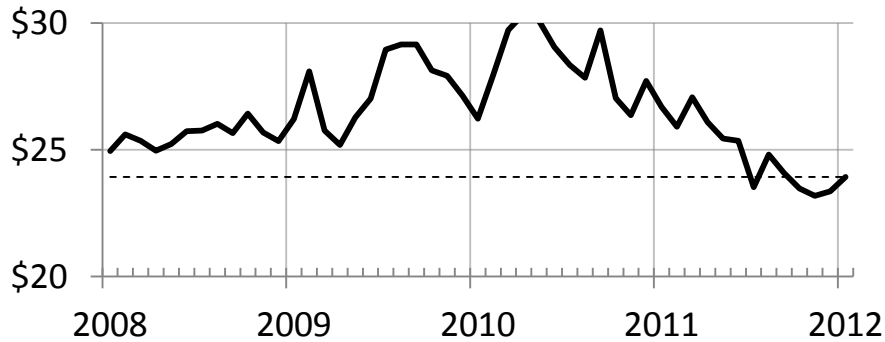
Latest 1-mo. change: -0.1%, 12-mo.: 5%

**Sewage/waste (98% public)**



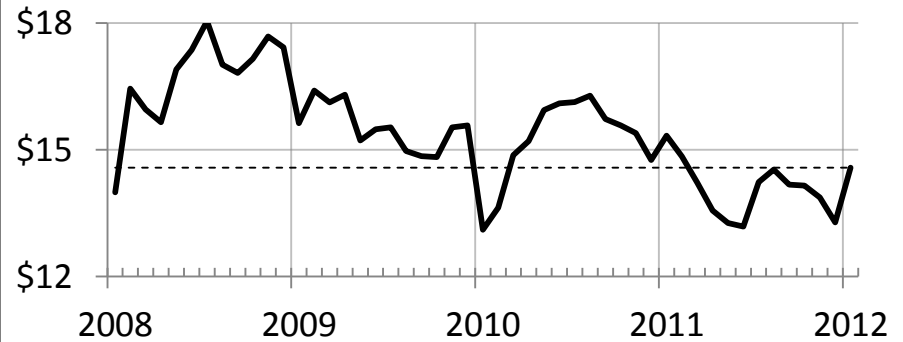
Latest 1-mo. change: -0.8%, 12-mo.: 0%

**Public transportation facilities**



Latest 1-mo. change: 2.5%, 12-mo.: -10%

**Water supply (96% public)**

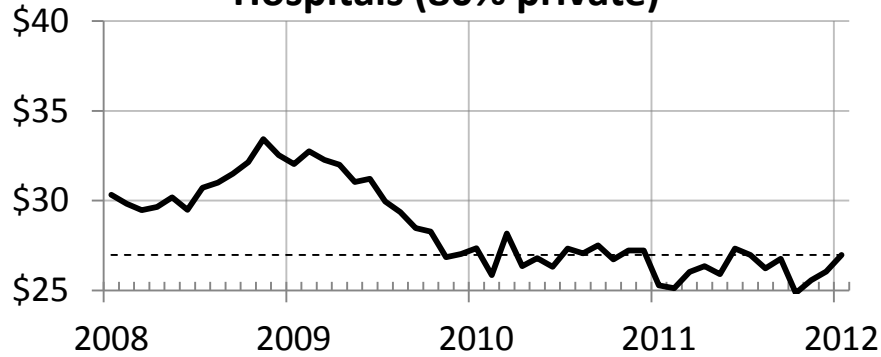


Latest 1-mo. change: 9.7%, 12-mo.: -5%



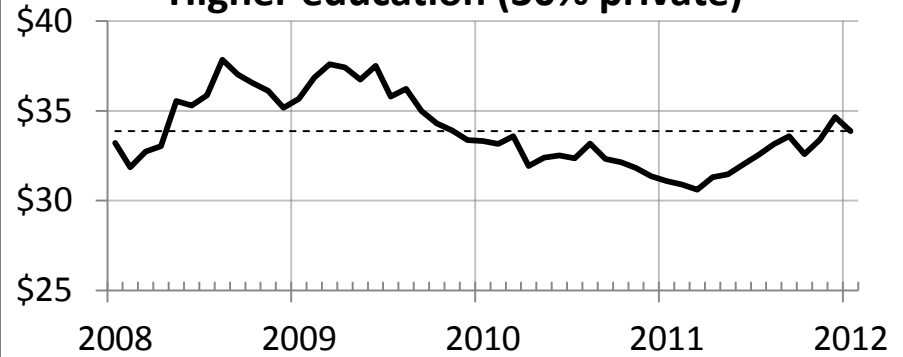
# Construction spending: institutional (private + state/local)

**Hospitals (80% private)**



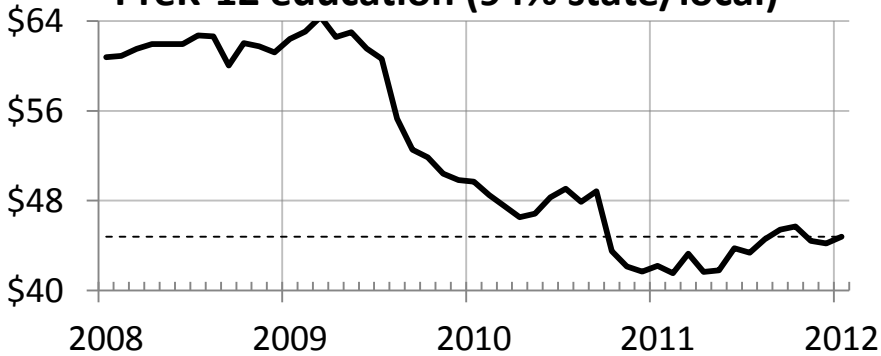
Latest 1-mo. change: 3.6%, 12-mo.: 7%

**Higher education (30% private)**



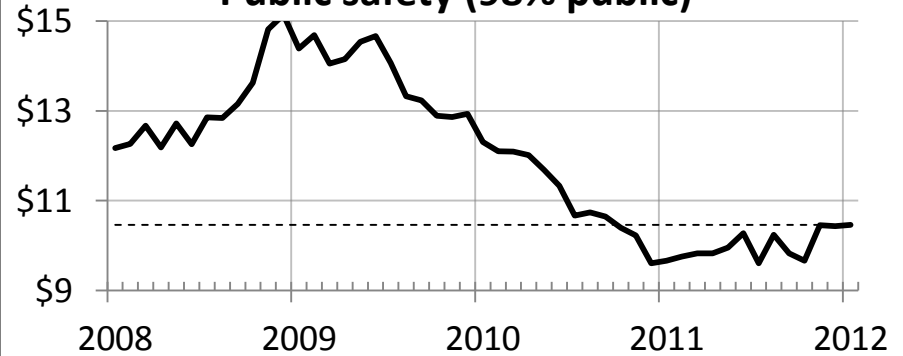
Latest 1-mo. change: -2.3%, 12-mo.: 9%

**PreK-12 education (94% state/local)**



Latest 1-mo. change: 1.4%, 12-mo.: 6%

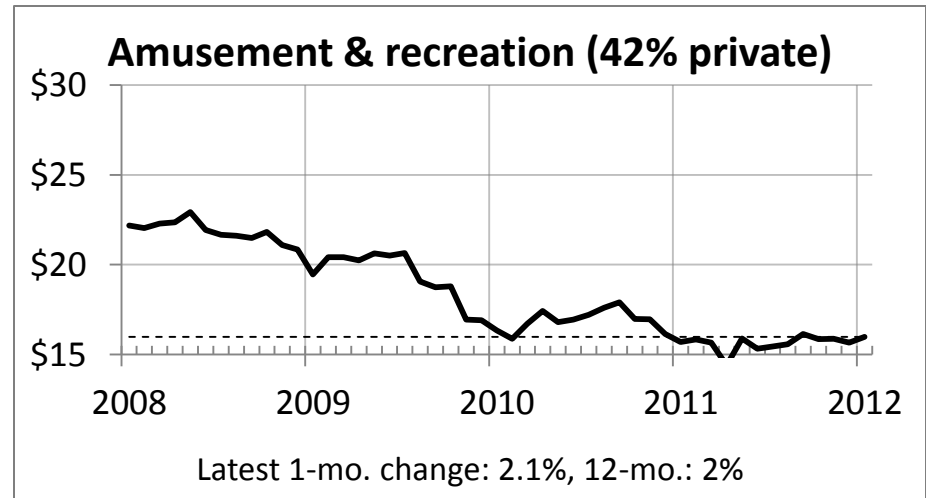
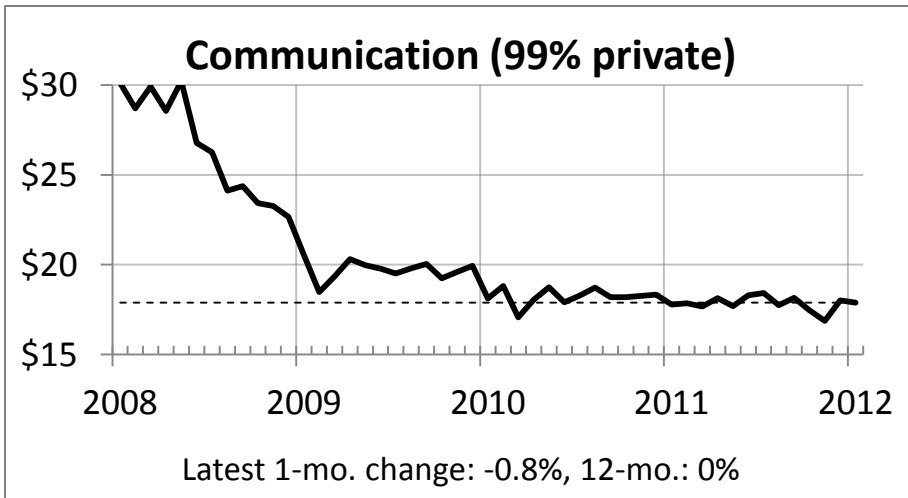
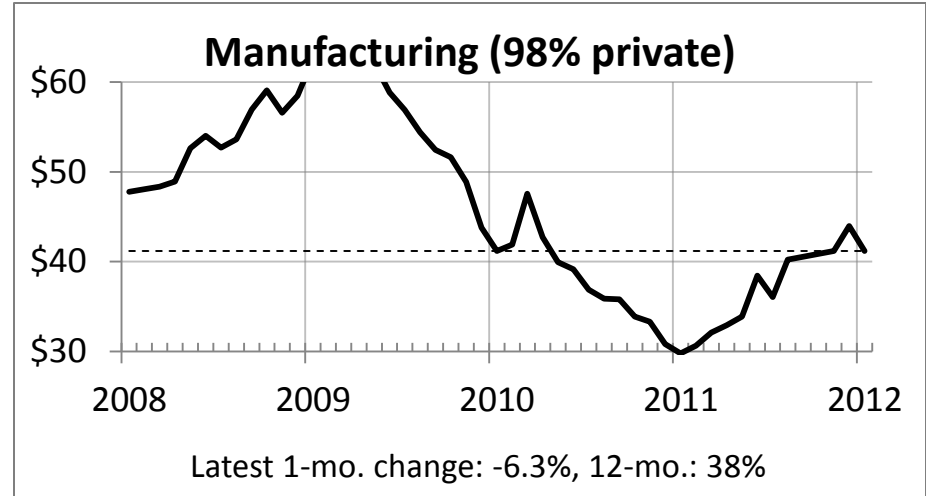
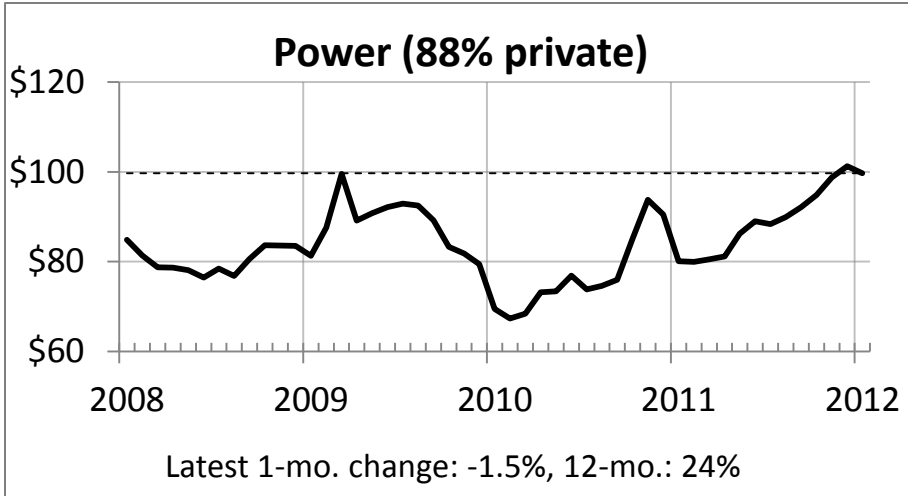
**Public safety (98% public)**



Latest 1-mo. change: 0.3%, 12-mo.: 8%

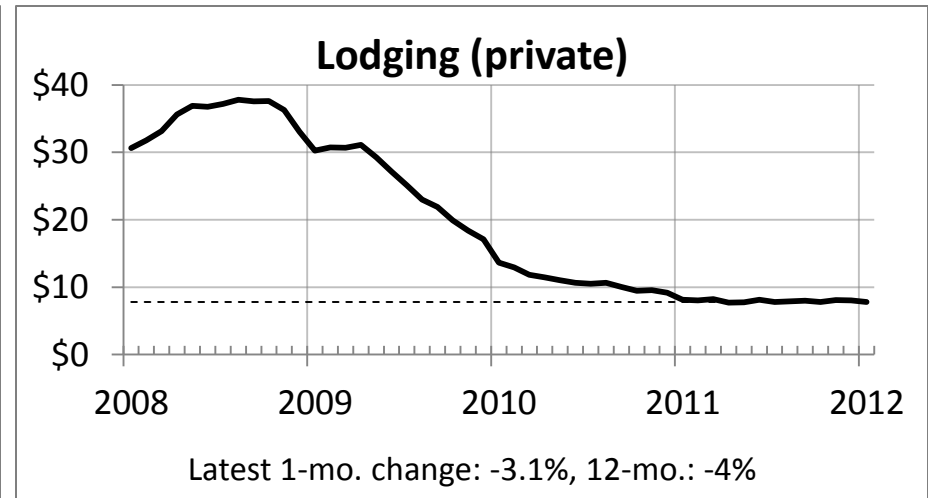
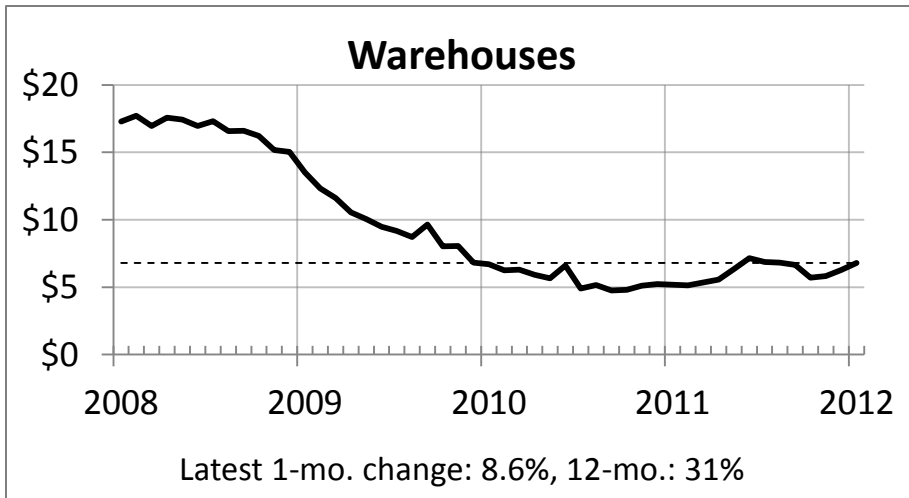
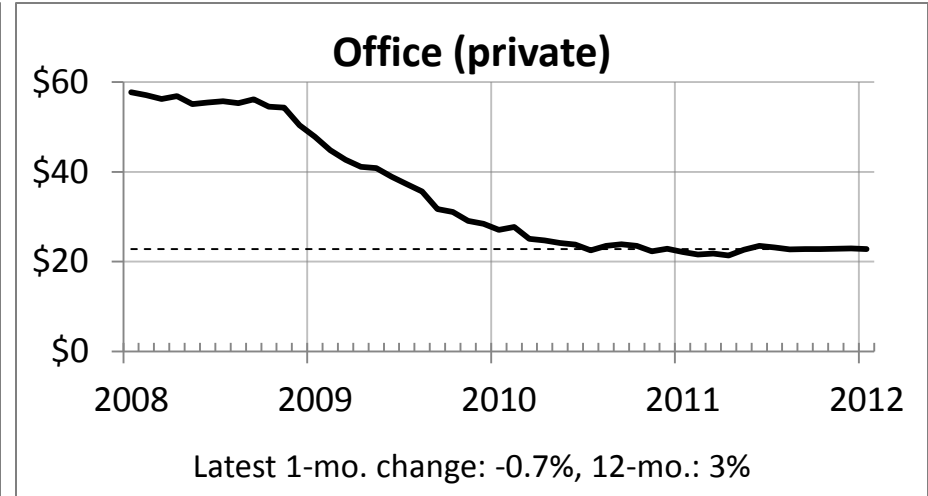
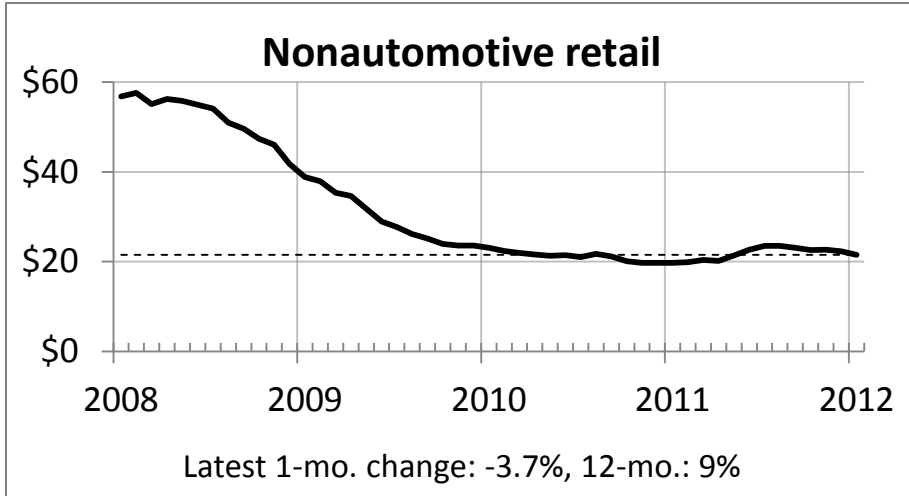


## Construction spending: industrial, heavy (billion \$, SAAR)

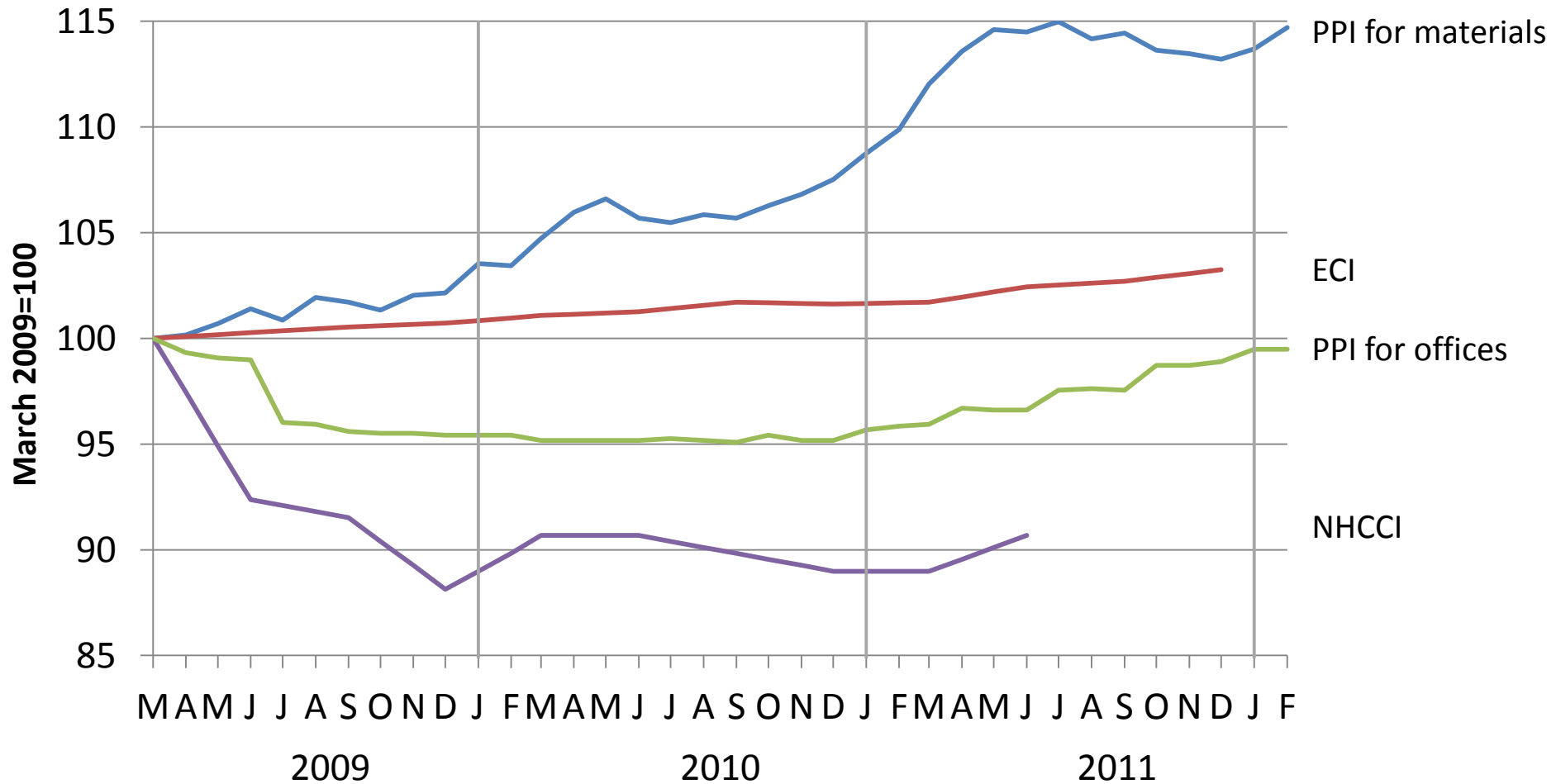




## Construction spending: developer-financed (billion \$, SAAR)



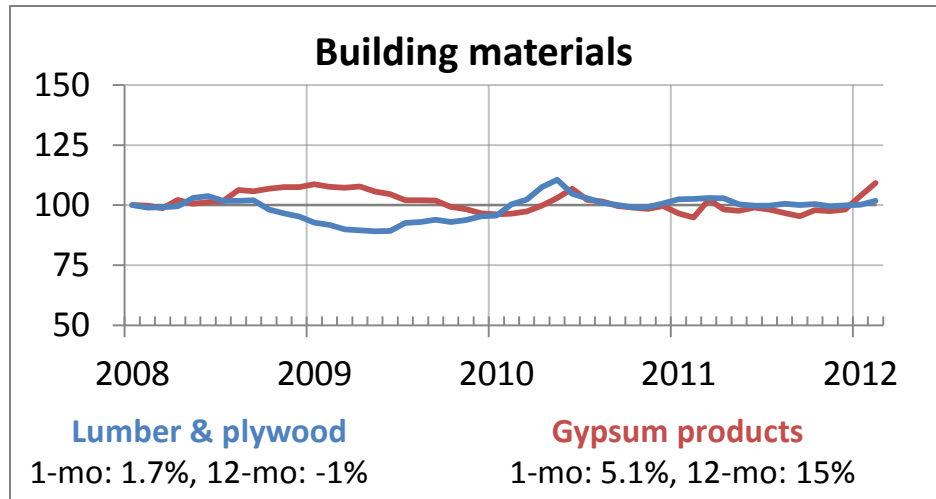
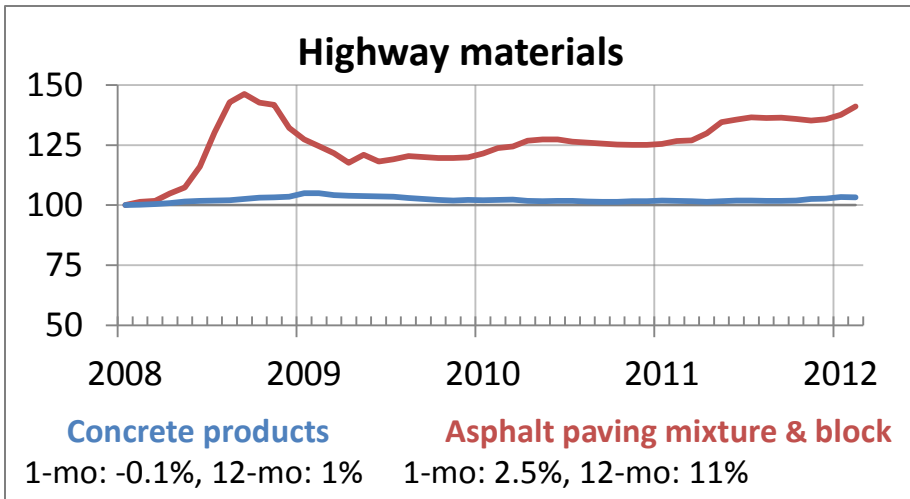
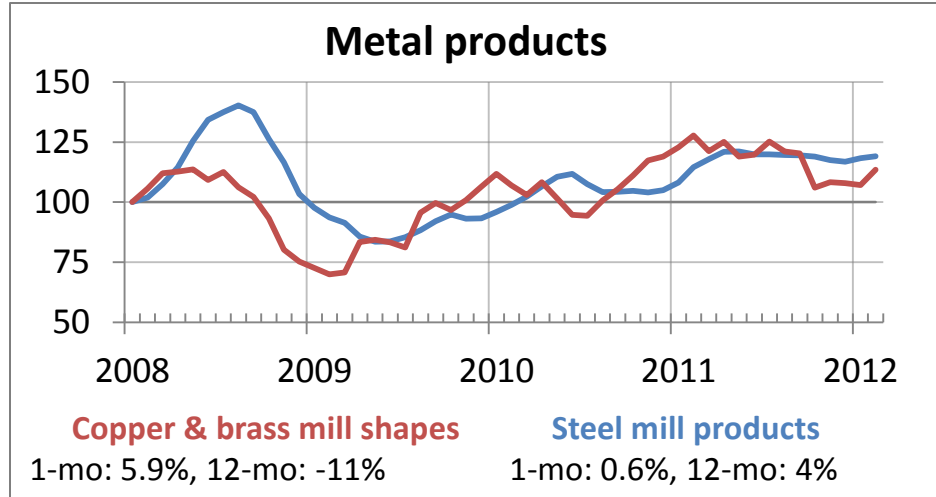
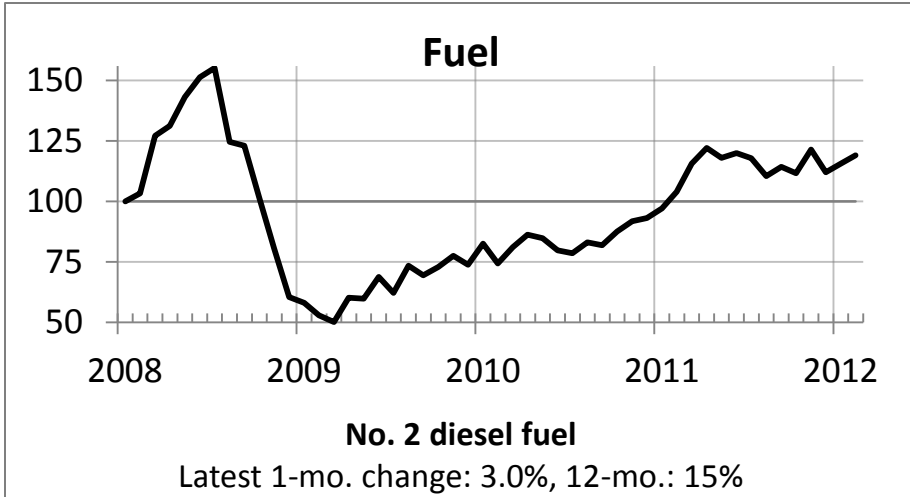
# Materials & labor costs vs. office & highway bid prices



Source: Author, based on Bureau of Labor Statistics for Producer Price Indexes (PPIs) and Employment Cost Index (ECI); Federal Highway Administration for National Highway Construction Cost Index (NHCCI)



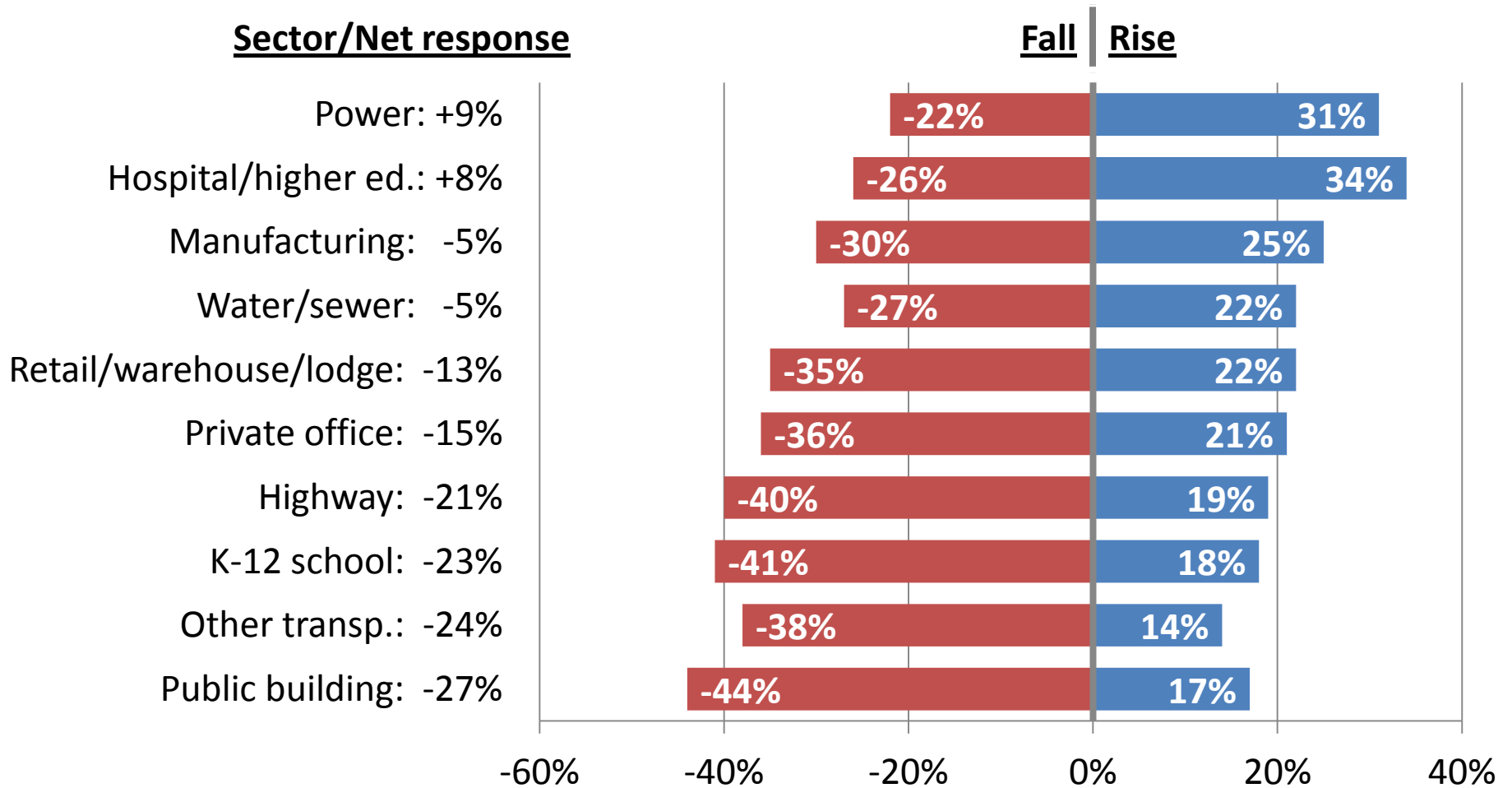
# Producer price indexes for key inputs, 1/08-2/12 (January 2008=100)



# 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
- Expect 5-6% Dec-Dec PPI increase but periods of 6 to 9%

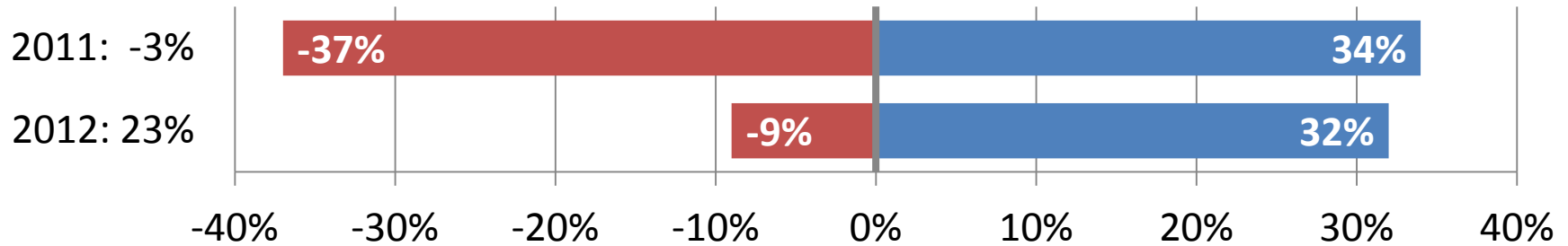
# % of contractors who expect 2012 dollar volume of projects to:



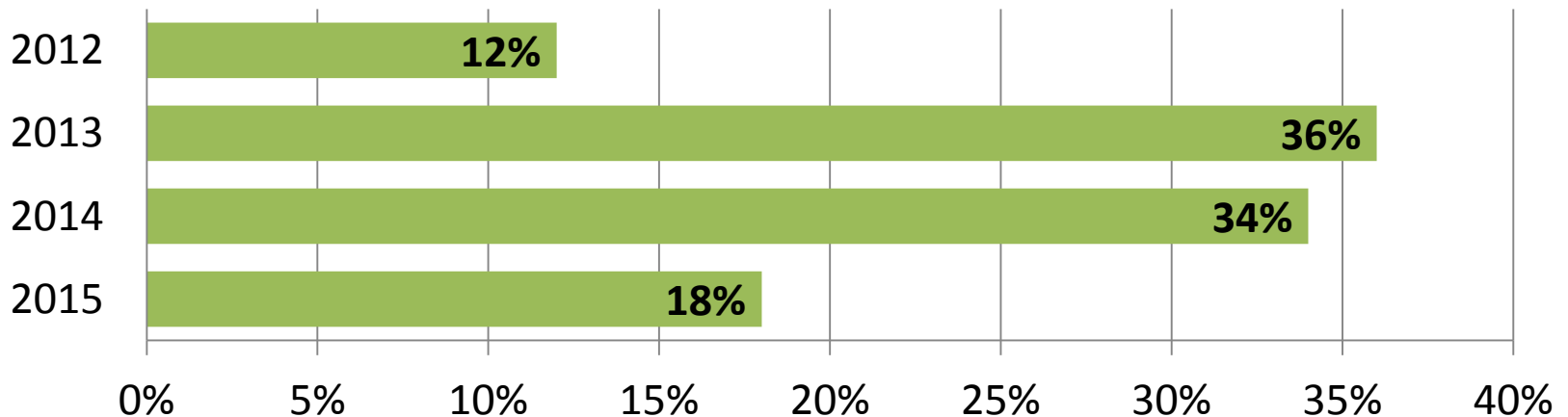
## % of contractors hiring vs. laying off in 2011-12:

Year/Net response

Layoffs | Hiring



## When do contractors expect the construction market to improve again?



## Summary for 2012

- Private nonres spending: +10 to +15% (more power, pipelines, mfg., warehouse, hospitals, maybe higher ed)
- Public: 0 to -5% (highways, educational 0%, other transp. -5%; continued weak state-local spending)
- Res: +5% to +15% (SF and imp. up a bit, MF very strong)
- Total construction spending: +5 to +12%
- Materials costs: +4% to +9%; +5 to +6% Dec.-Dec.
- Labor costs: +1.5% to +2.5%

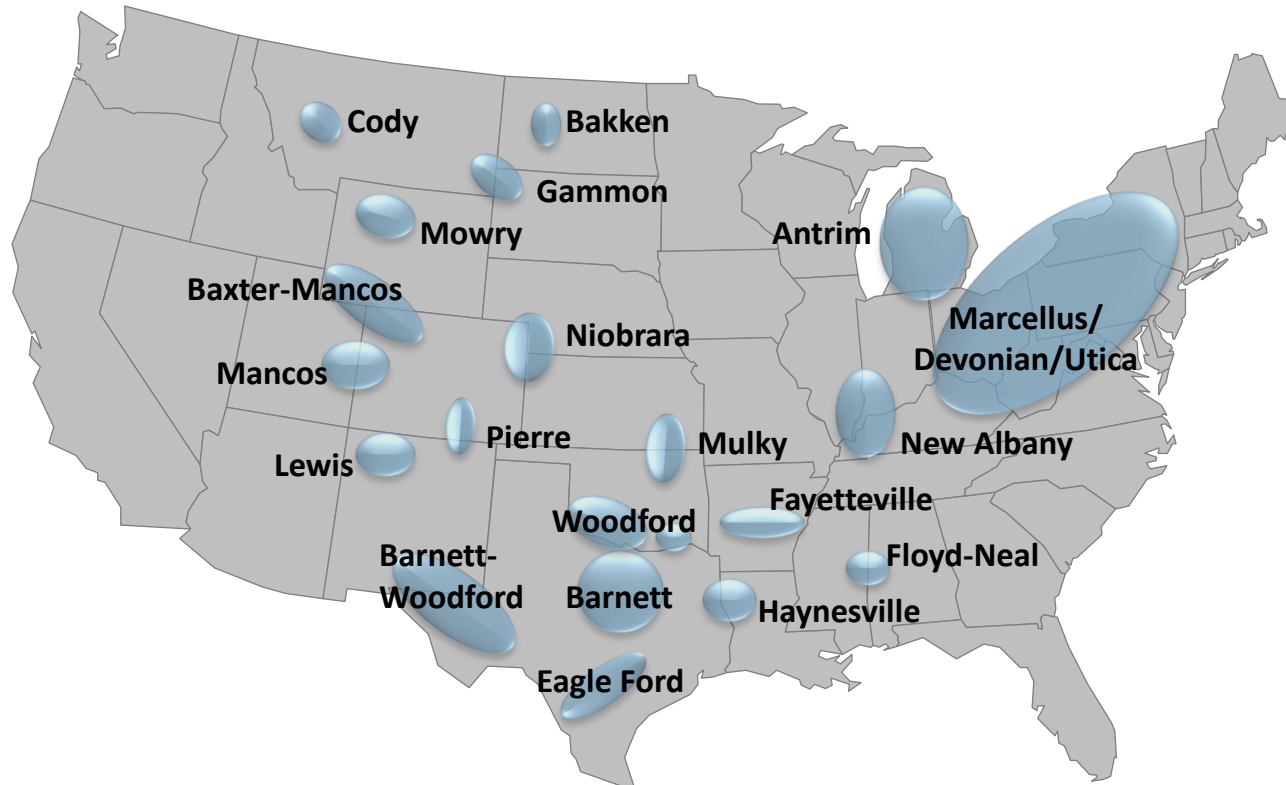


## Trends: 2013-2017

- Total construction spending: +6% to +10% per year
  - less housing, retail; declining public spending
  - new drivers: shale-based gas & oil; Panama Canal widening; more elderly & kids, fewer young adults
- Materials costs: +3% to +8% (vs. 2% to 3% for CPI)
- Labor costs: +2% to + 4%
- Bid prices: +2% to +5%



# The Shale Gas Revolution



EIA: 2011

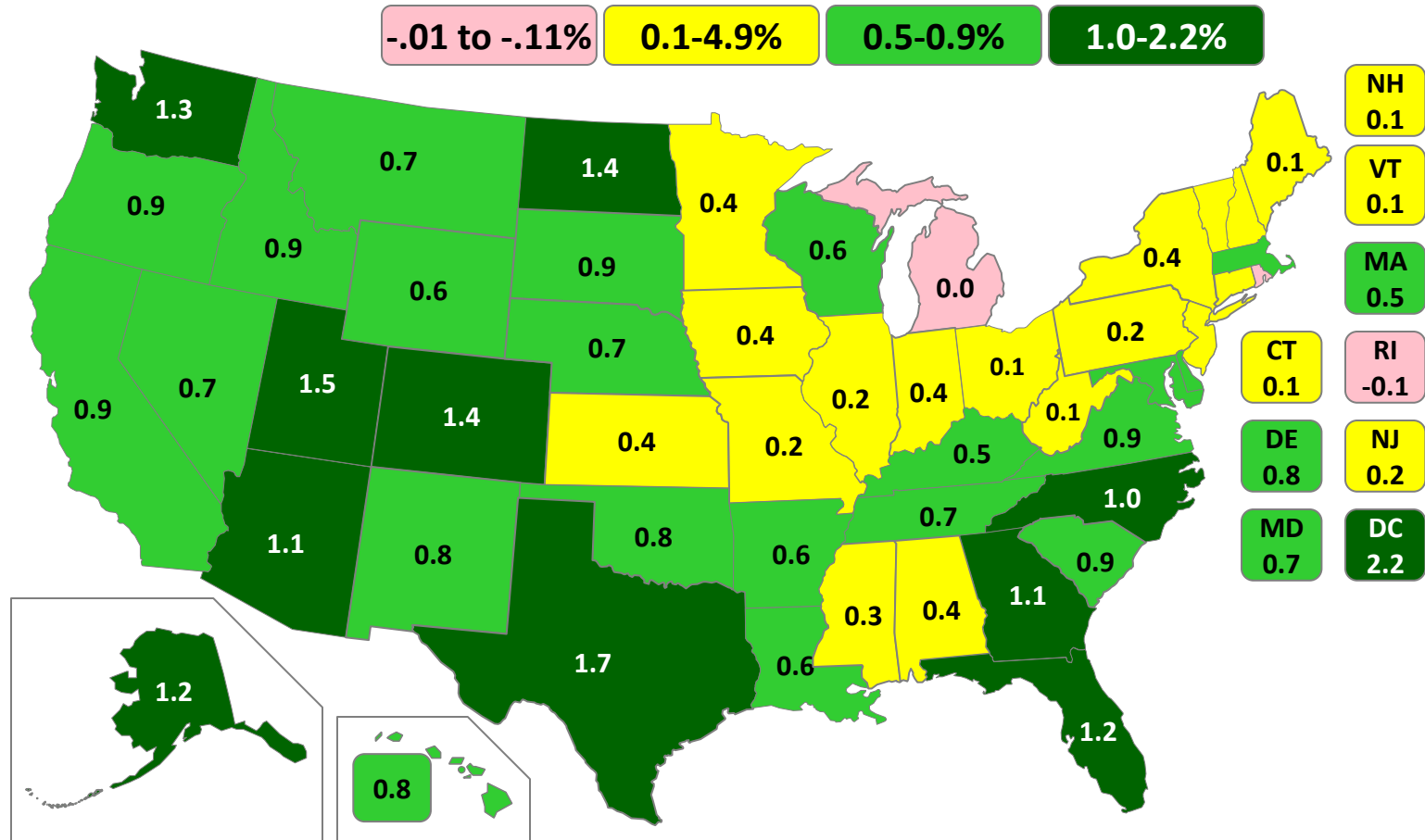
**862** TCF shale

**2,543** TCF total

**67% INCREASE**  
in just three years



# State population % change, July 1, 2010 to July 1, 2011 (U.S.: 0.73%)





# AGC economic resources

(email [simonsonk@agc.org](mailto:simonsonk@agc.org))

- *The Data DIGest*: weekly 1-page email (subscribe at: [www.agc.org/datadigest](http://www.agc.org/datadigest))
- 5 monthly press releases: national, state, metro employment; spending; PPI
- State and metro data, fact sheets
- Website: <http://www.agc.org/Economics>



## 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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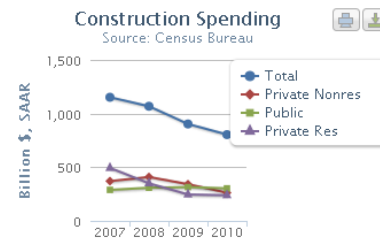
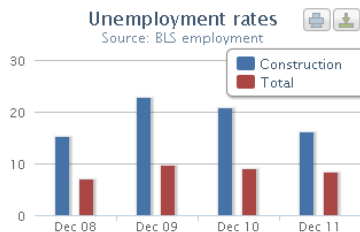


# Construction Economics

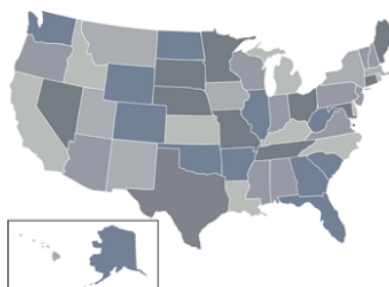
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## Construction Economics



## State and Local Information



## Latest News

**JAN 6 2012** [Construction Employment Increases by 17,000 in December](#)

Construction employment increased in December by 17,000 driven by gains in nonresidential construction employment, according to an analysis of new federal employment data released today by AGC

## Contact Us

### Economics

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## AGC's Chief Economist



[Kenneth D. Simonson](#) has been Chief Economist for the Associated General Contractors of America, the leading national construction trade association, since 2001. He provides insight into the economy and what it implies for construction and related industries through frequent media interviews, presentations and The Data DIGest, his weekly one-page e-newsletter.

