Construction & Materials Outlook

September 23, 2011

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AGC of America

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Current economy and construction outlook

- GDP, personal income, jobs: weak gains should improve
- 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
- Little inflation; price spikes for oil, metals should fade

Source: AGC

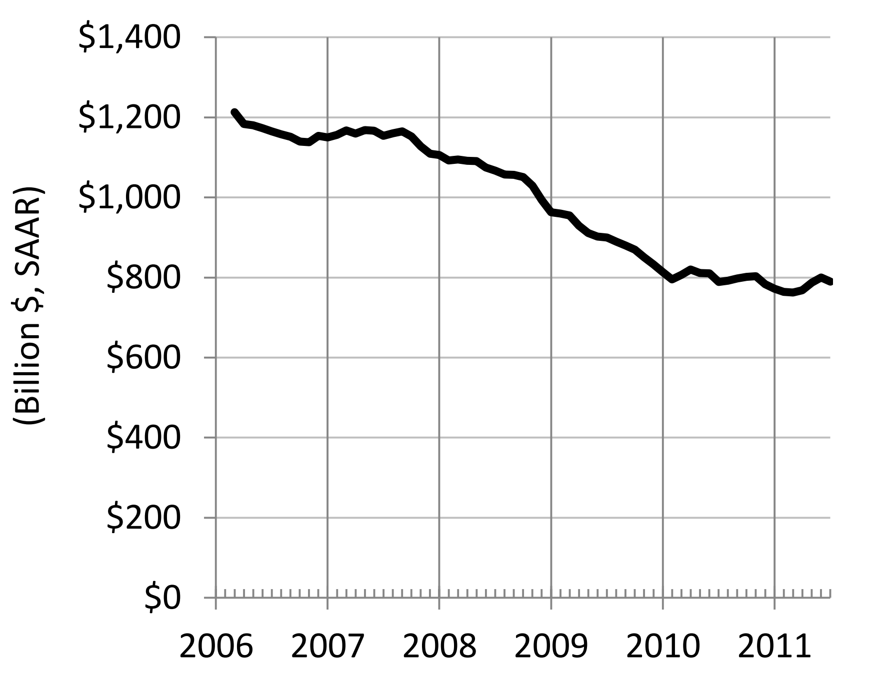
Federal funding sources and outlook

- Stimulus, base realignment, Gulf Coast hurricane work: all ending or tapering off
- Highway, transit funding OK until early 2012, then ??
- Debt ceiling agreement implies more spending cuts but no disruption of interest rates or credit availability
- American Jobs Act: $50 billion for transportation (+ $10 billion Infrastructure Bank); $30 billion for schools—but enactment appears unlikely

Source: AGC

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

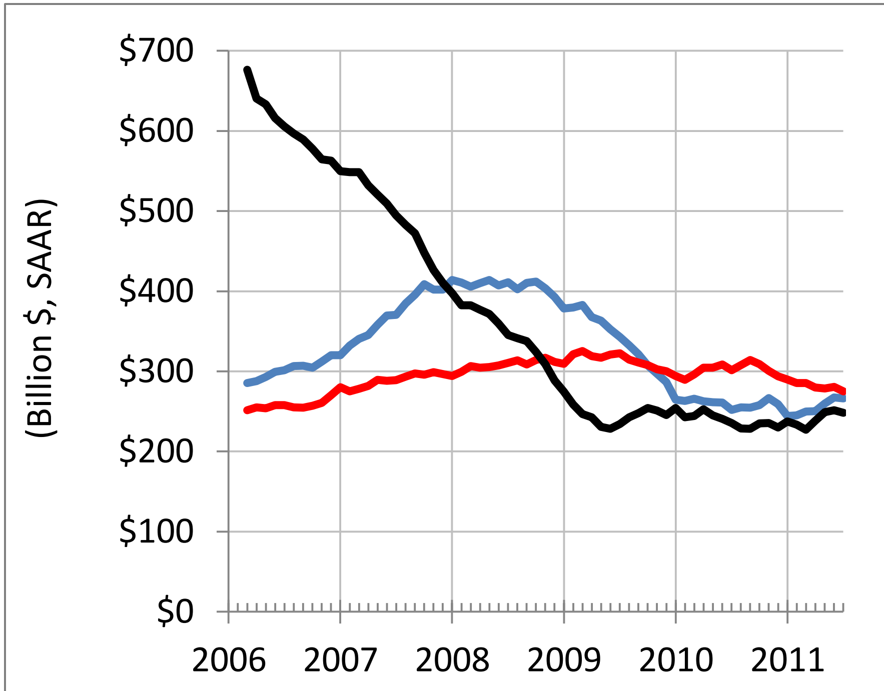
Seasonally adjusted annual rate (SAAR), March 2006-July 2011



Total construction

July 2011: $790 billion

July 2010-July 2011: 0%



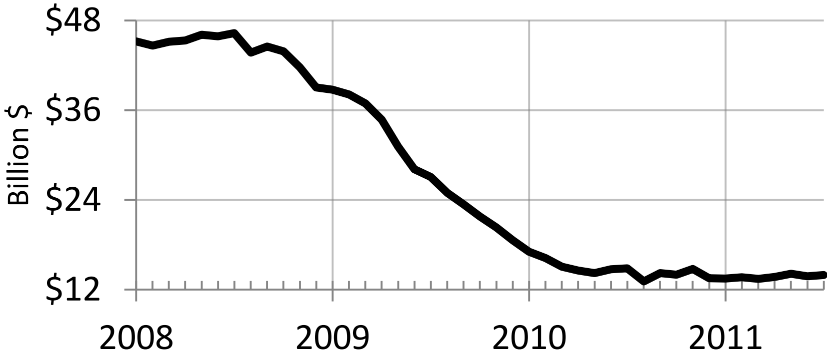
Public: $275 billion, -9%

Private nonres: $266 billion, 6%

Private residential: $248 billion, 5%

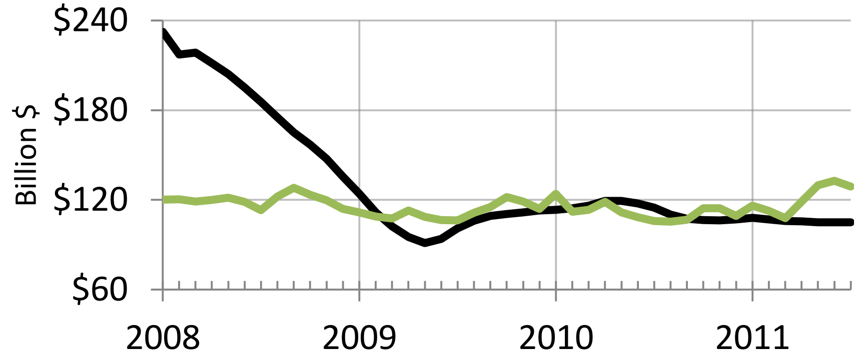
Single- vs. multi-family, 2008-11, seasonally adjusted annual rate (SAAR)

Multi-family construction spending



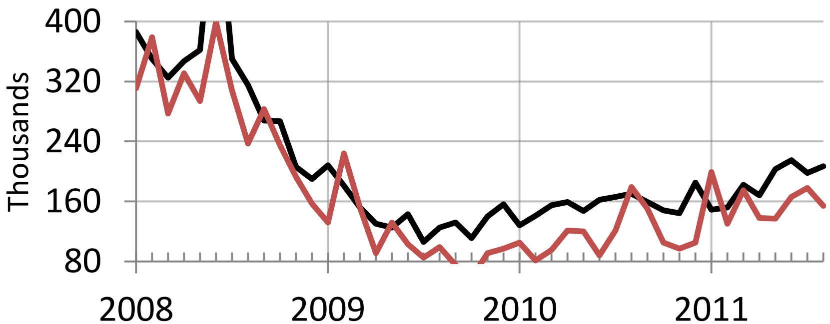
Latest 1-mo. change: 1%, 12-mo.: -6%

Single-family & improvements spending



SF(1-mo 0%, 12-mo -8%), Imp(1-mo -3%, 12-mo 22%)

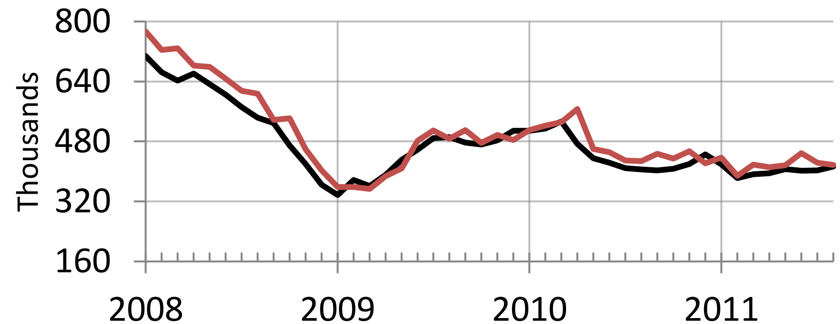
Multi-family permits & starts



Permits (1-mo 5%, 12-mo 22%)

Starts (1-mo -13%, 12-mo -14%)

Single-family permits & starts



Permits (1-mo 2%, 12-mo 2%)

Starts (1-mo -1%, 12-mo -2%)

Source: Census Bureau construction spending, housing starts reports

Housing outlook

- SF: starts, permits should rise gradually by late ’11
- MF: Upturn has begun, should accelerate in ’12
  - Rental demand should rise as more people get jobs or move to military base realignment sites
  - Condo market continues to have large overhang
  - Government-subsidized market likely to worsen

Source: Author

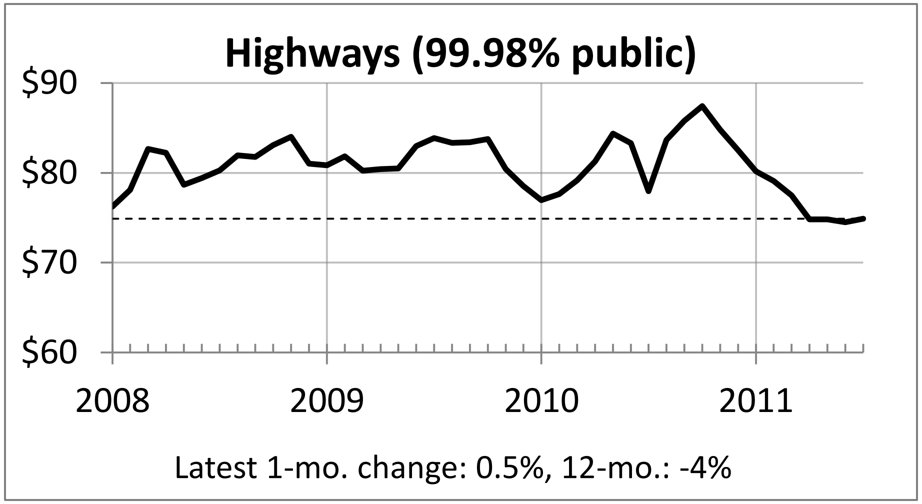
Nonres totals (billion $, SAAR), share & 12-month change

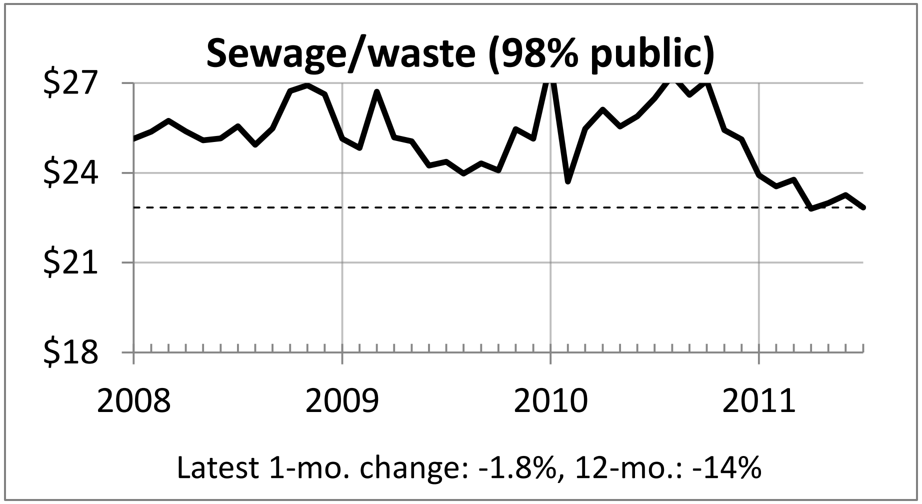
	7/11 Total	Share	7/10-7/11
Nonresidential (priv.+federal+state/local)	$527 billion	100%	- 2
Power (incl. oil & gas struc., pipelines)	**81**	**15**	**+ 19**
Educational	84	16	- 10
Highway and street	77	15	- 4
Commercial (retail, wholesale, farm)	**40**	**8**	**+ 15**
Health care	39	7	**+ 1**
Transportation	38	7	- 8
Manufacturing (incl. data centers)	32	6	- 5
Office	34	6	- 3
Sewage and waste disposal	24	5	- 14
Communication	**18**	**3**	**+ 1**
Amusement and recreation	16	3	- 9

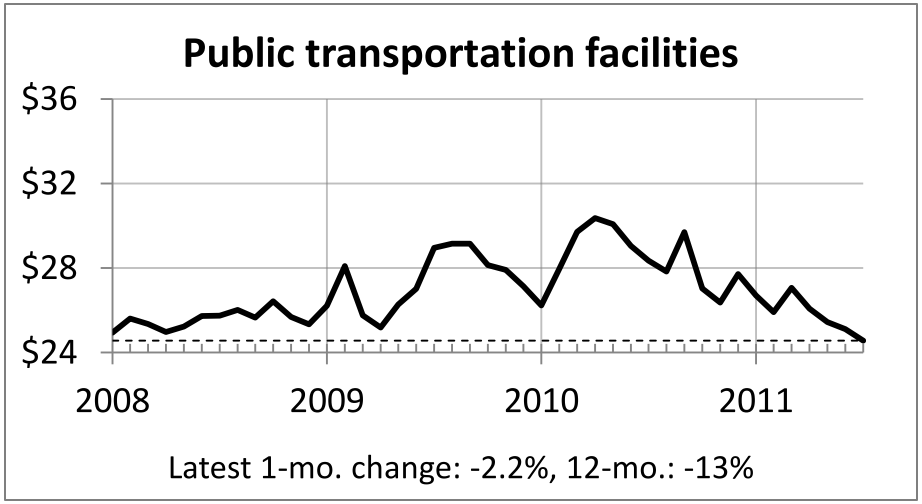
Other (water, public safety; lodging; conservation; religious): 8% of total

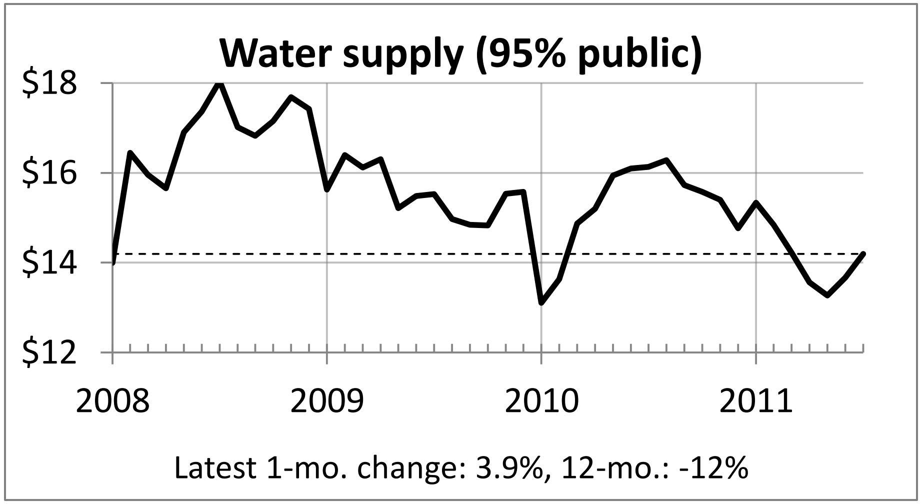
Source: Census Bureau construction spending report

Construction spending: public works (billion $, SAAR)



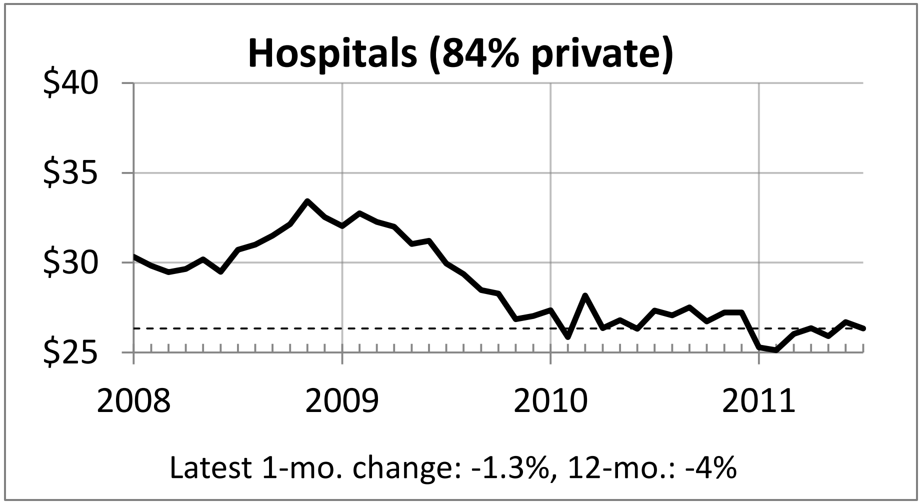


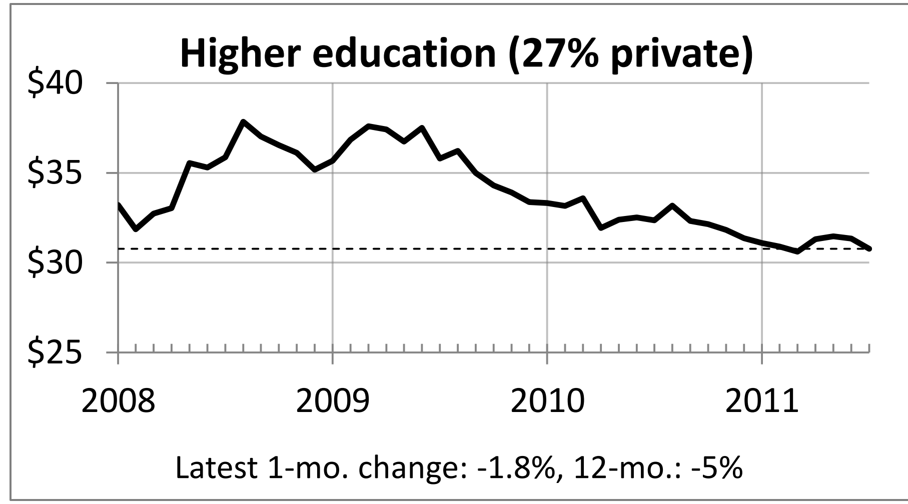


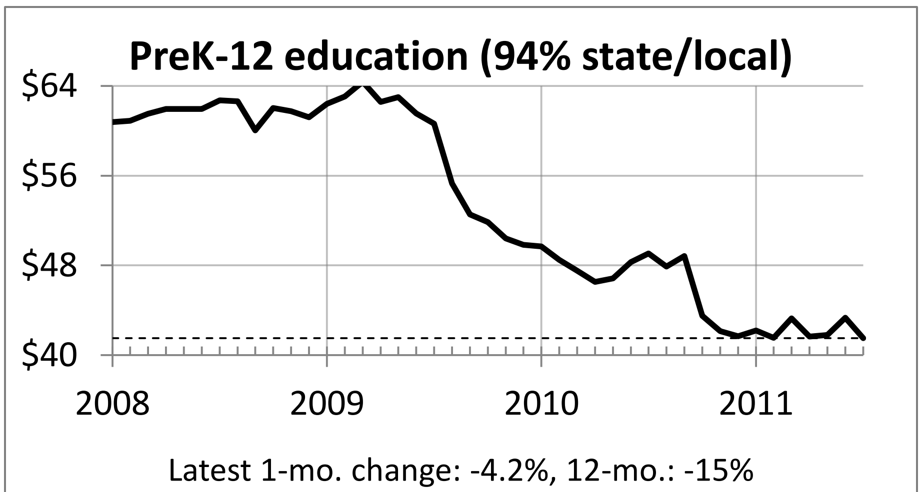


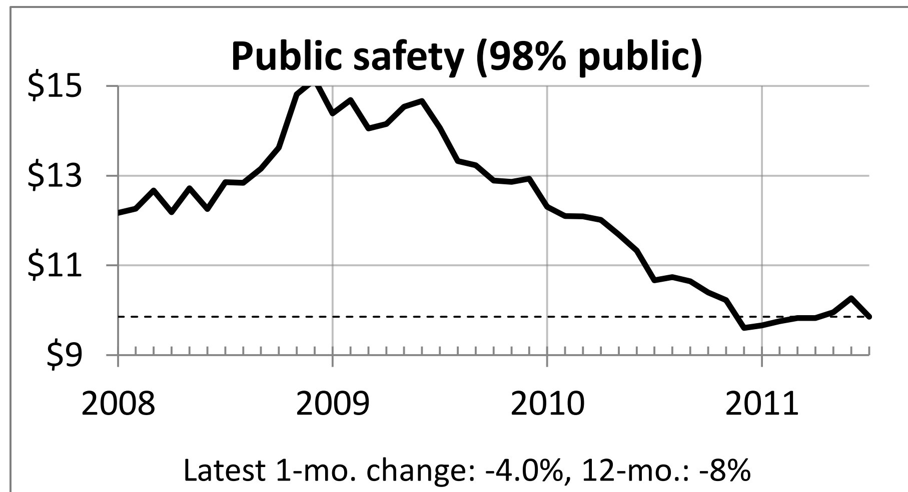
Source: Census Bureau construction spending reports

Construction spending: institutional (private + state/local)



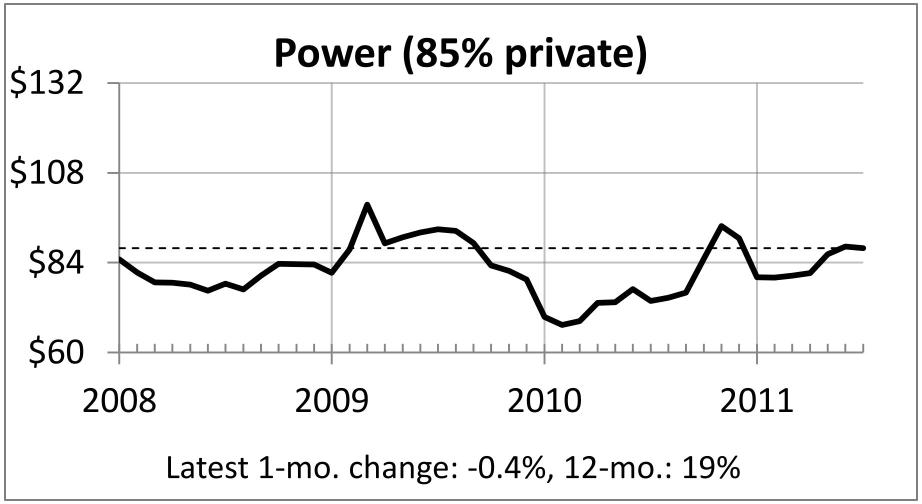


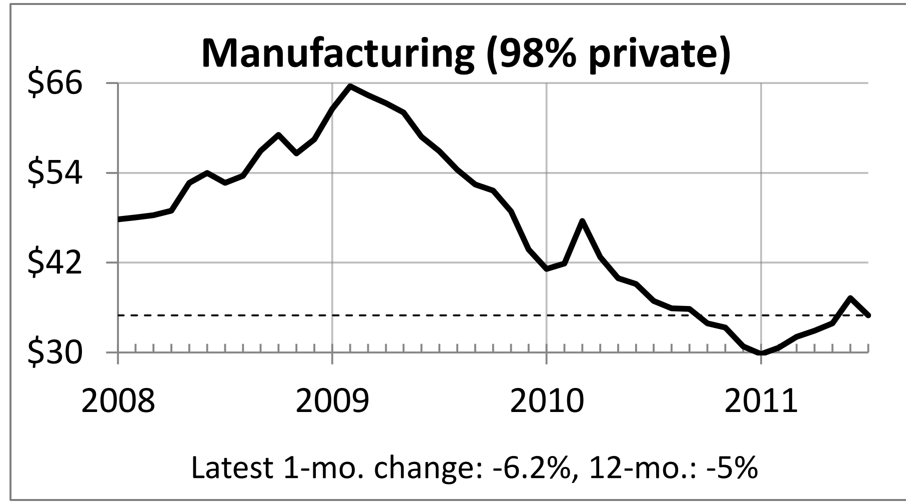


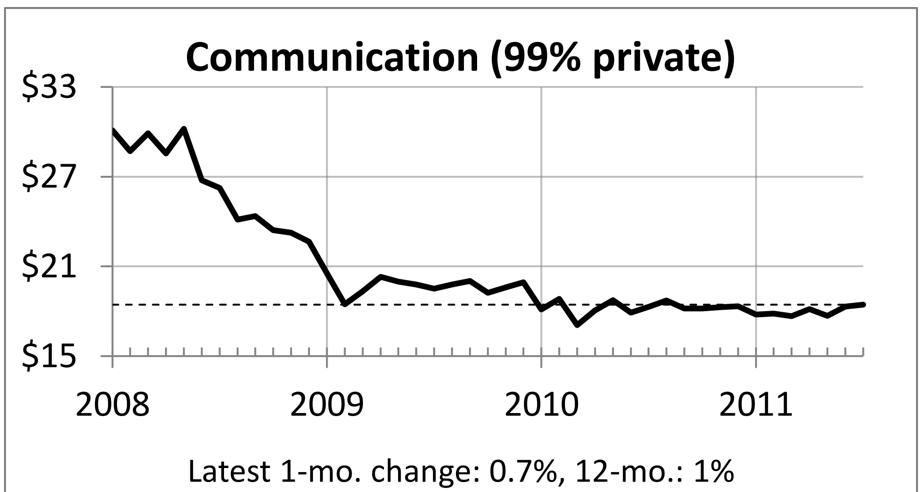


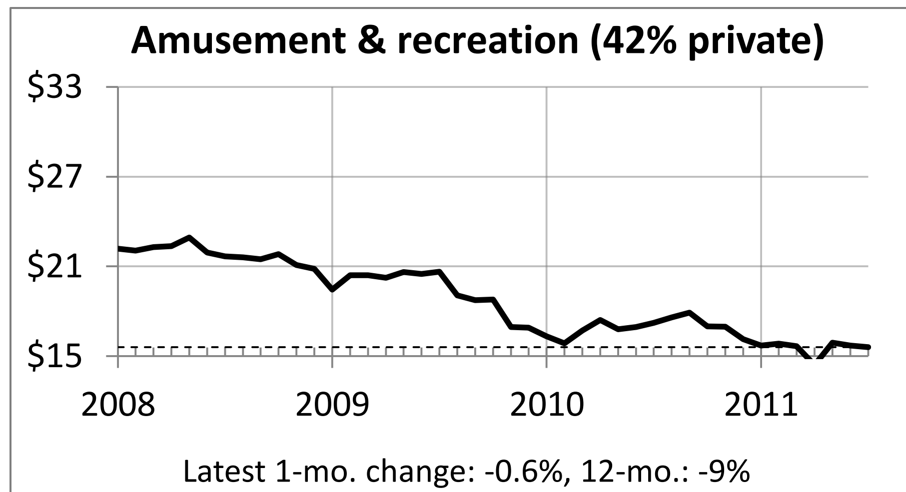
Source: Census Bureau construction spending reports

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

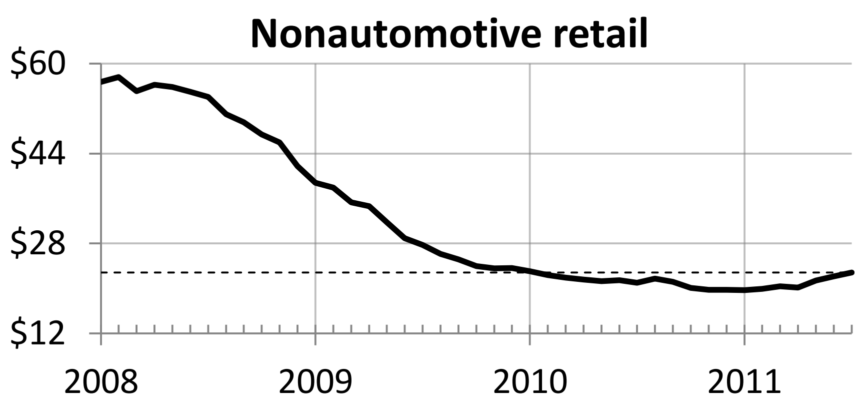




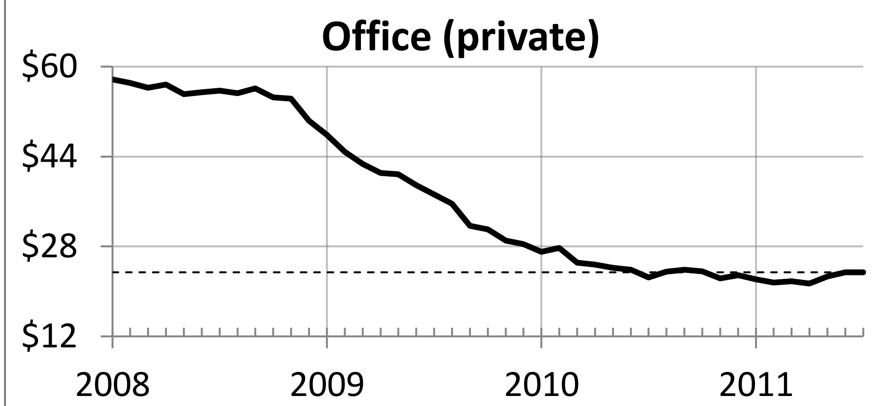




Construction spending: developer-financed (billion $, SAAR)

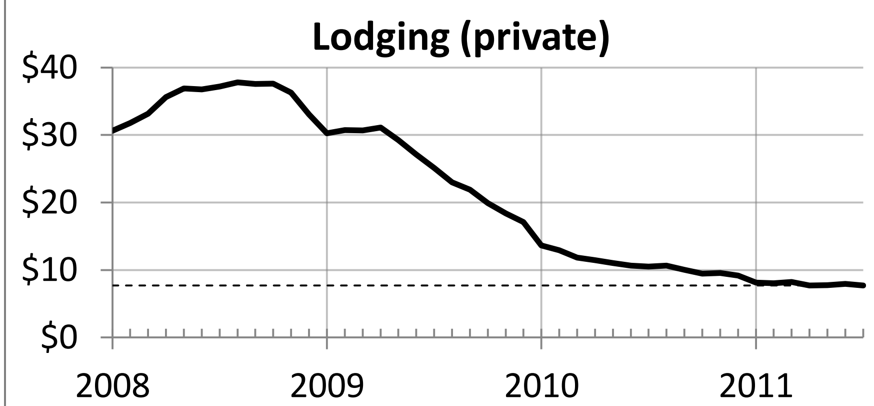


Latest 1-mo. change: 3.1%, 12-mo.: 9%



Latest 1-mo. change: 0.1%, 12-mo.: 4%

Latest 1-mo. change: -3.2%, 12-mo.: 32%



Latest 1-mo. change: -2.9%, 12-mo.: -27%

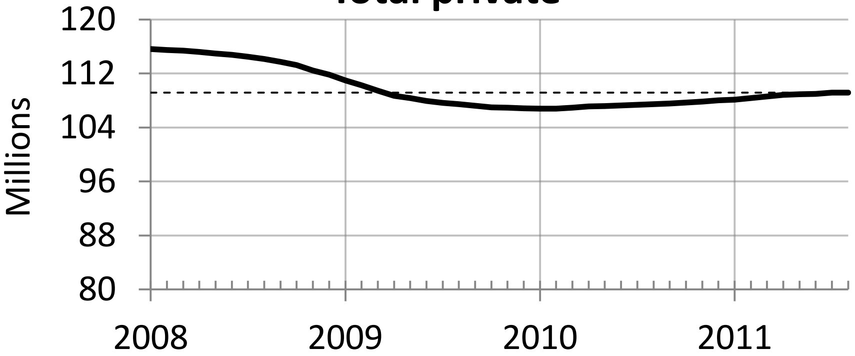
Source: Census Bureau construction spending reports

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

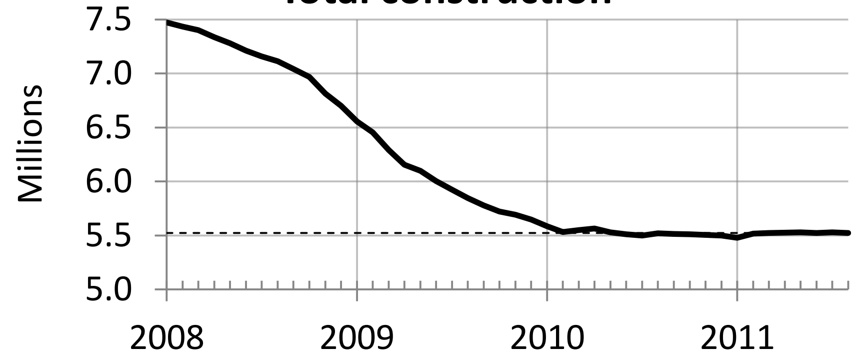
Construction and total private employment, 2008-August 2011

Total private



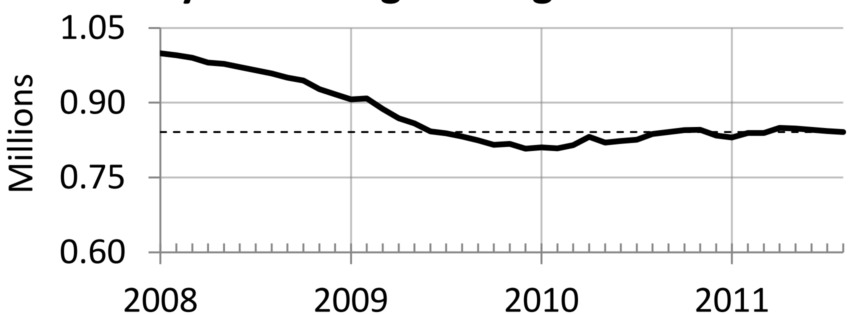
Latest 1-mo. change: 0.0%, 12-mo.: 1.6%

Total construction



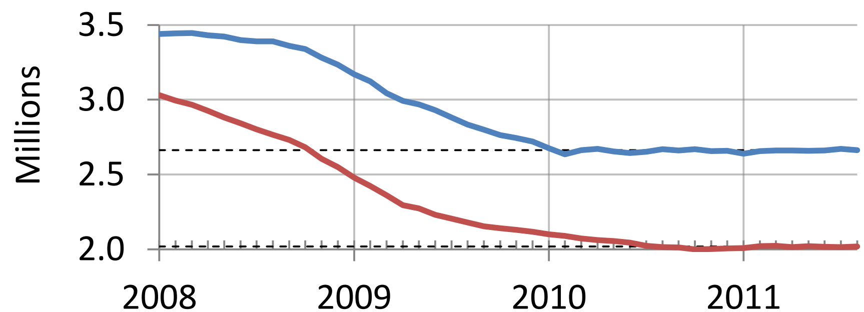
Latest 1-mo. change: -0.1%, 12-mo.: 0.1%

Heavy & civil engineering construction



Latest 1-mo. change: -0.2%, 12-mo.: 0.5%

Building + specialty trade contractors

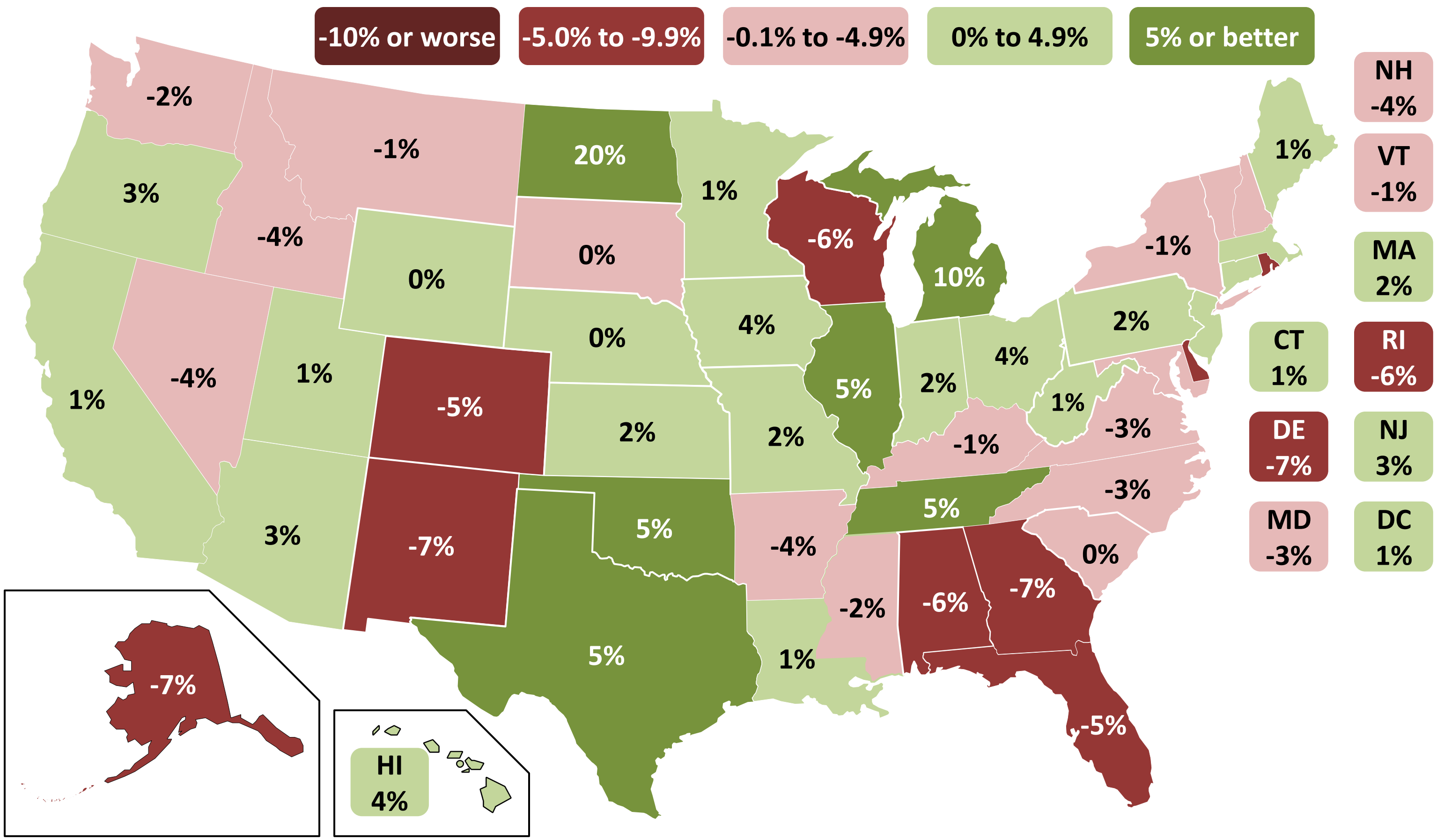


Nonresidential
1-mo: -0.3%, 12-mo: -0.2%

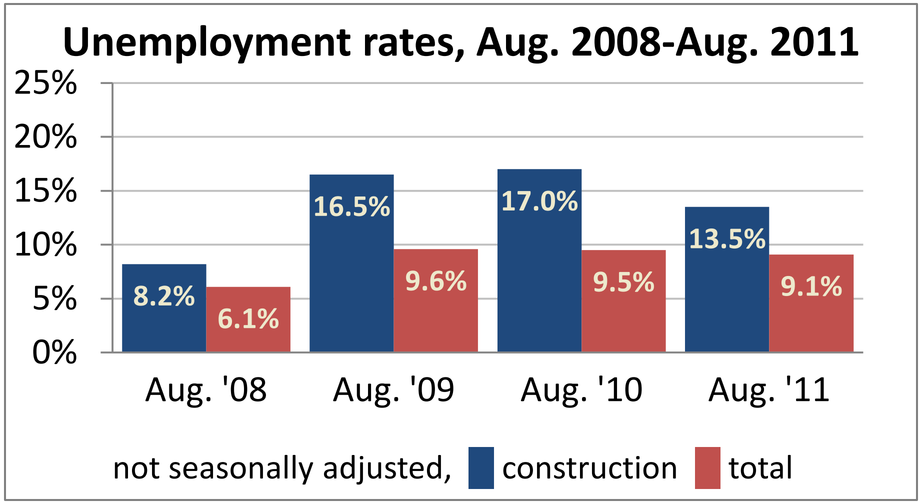
Residential
1-mo: 0.2%, 12-mo: 0.2%

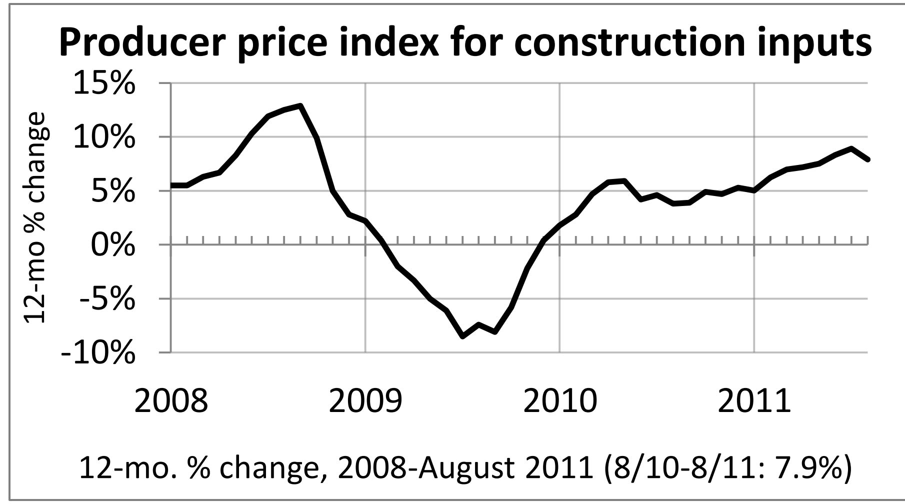
State construction employment change (U.S.: 0.1%)

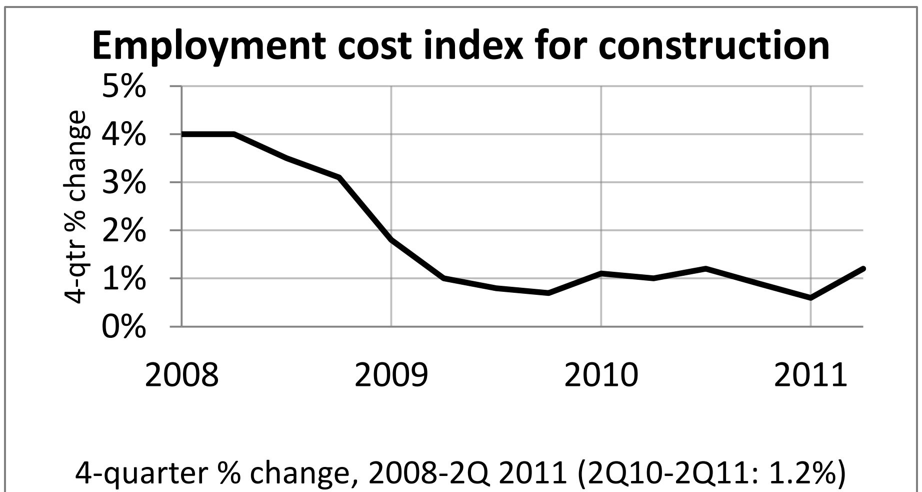
8/10 to 8/11 (seasonally adjusted)

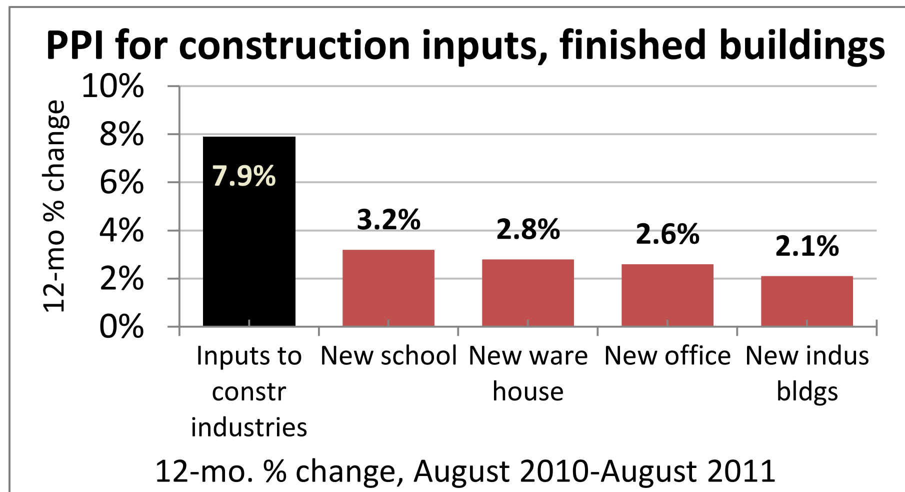


Construction employment, wages, costs and output prices



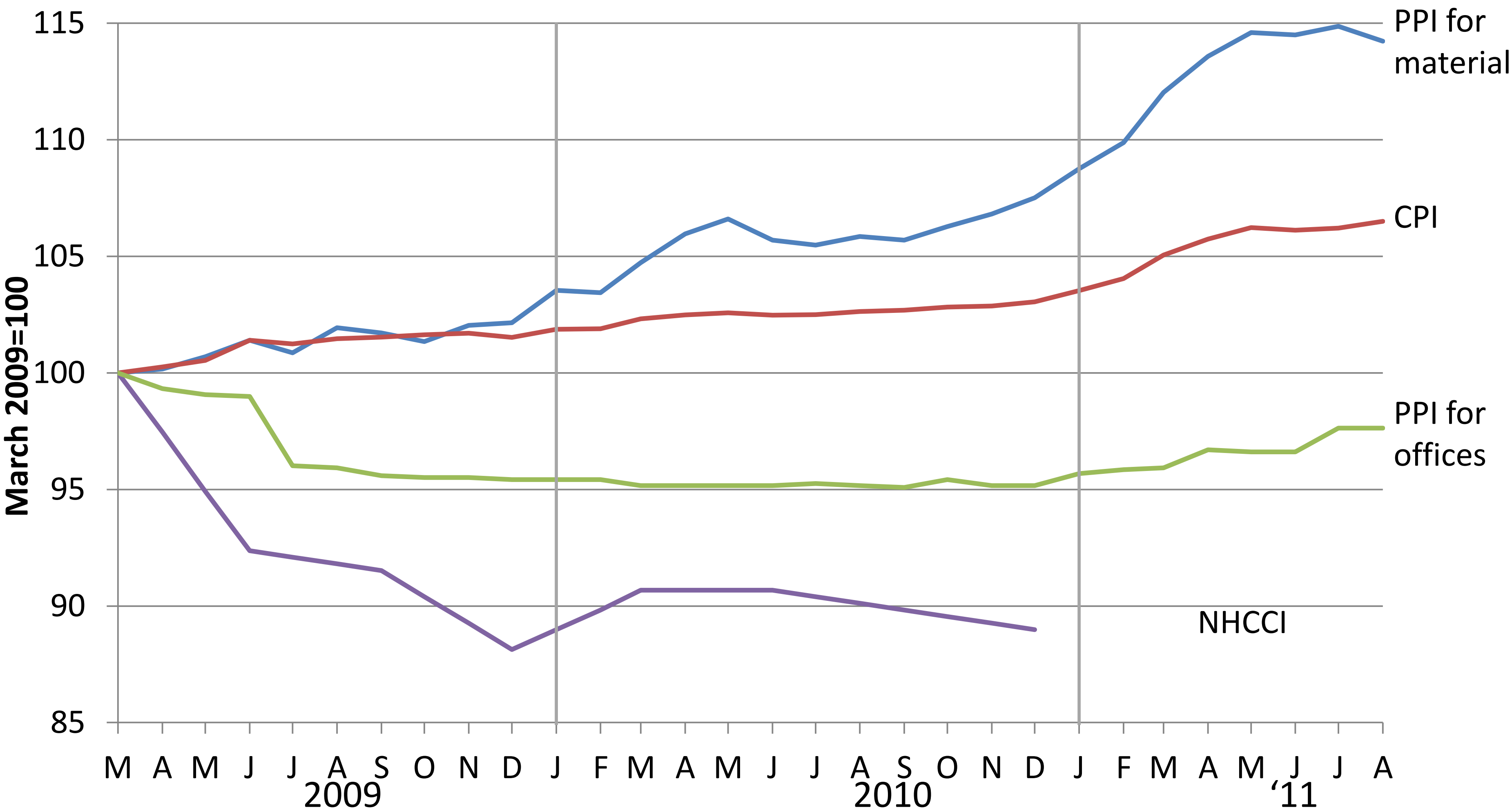






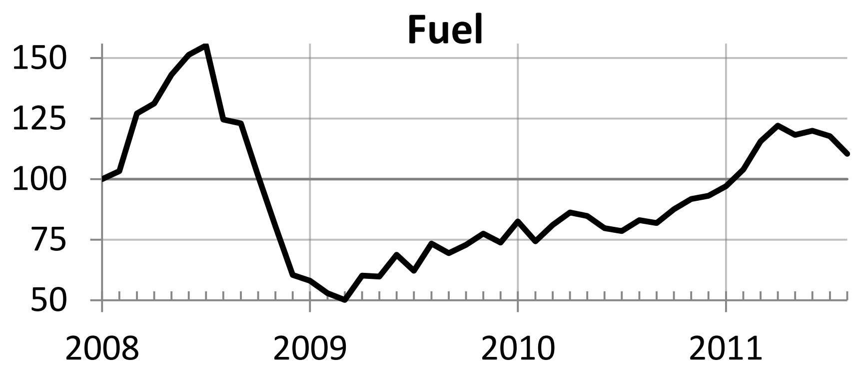
Source: BLS employment, employment cost index, producer price index (PPI)

Construction materials costs vs. new offices, highways, CPI



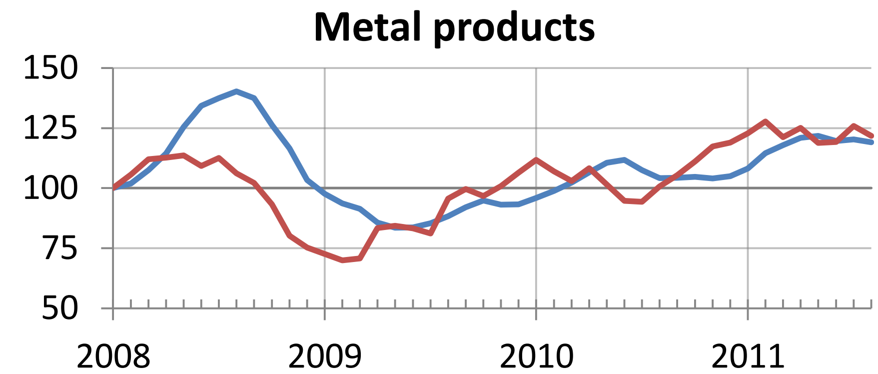
Source: Author, based on Bureau of Labor Statistics (consumer & producer price indexes--monthly), Federal Highway Administration (National Highway Construction Cost Index--quarterly)

Producer price indexes for key inputs, 1/08-8/11 (January 2008=100)



No. 2 diesel fuel

Latest 1-mo. change: -6.2%, 12-mo.: 33%

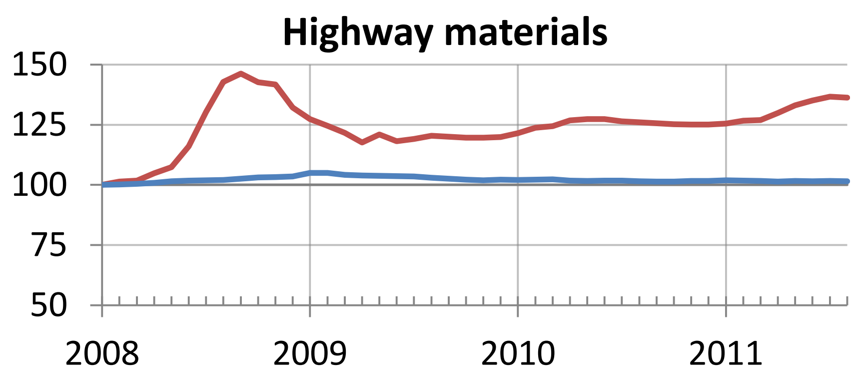


Copper & brass mill shapes

1-mo: -3.3%, 12-mo: 21%

Steel mill products

1-mo: -1.0%, 12-mo: 14%

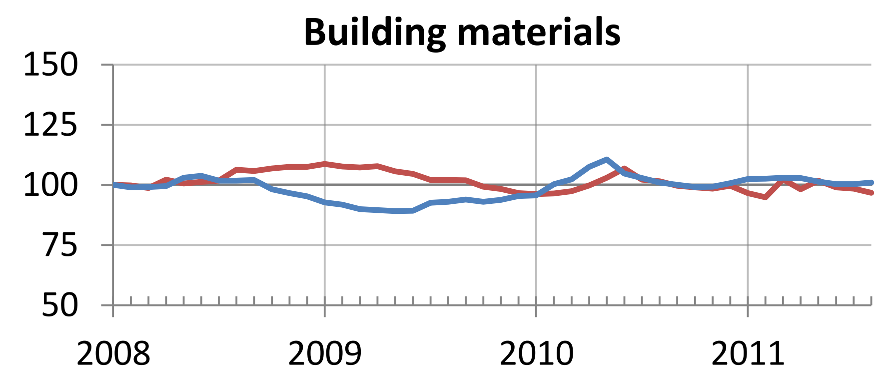


Concrete products

1-mo: -0.1%, 12-mo: 0%

Asphalt paving mixture & block

1-mo: -0.3%, 12-mo: 8%



Lumber & plywood

1-mo: 0.7%, 12-mo: 0%

Gypsum products

1-mo: -1.7%, 12-mo: -5%

Source: Author, based on BLS producer price index reports

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 periods of 6 to 9% PPI increases

Source: Author

Summary for 2011

- Private nonres spending: -2 to +2% (more power, pipelines, mfg., warehouse; maybe hospitals, higher ed)
- Public: -5 to -10% (less stimulus, BRAC, hurricane work; continued weak state-local spending)
- Res: 0 to +5% (SF up a bit, MF accelerating)
- Total construction spending: 0 to -5%
- Materials costs: +4% to +9%; +5 to +6% Dec.-Dec.
- Labor costs: +1.5% or less

Source: Author

Annual projections: 2012-2016

- Total construction spending: +6% to +10%
- Materials costs: +3% to +8%
- Labor costs: +2% to + 4%
- Bid prices: +2% to +5%

Source: Author

AGC economic resources

(email simonsonk@agc.org)

- *The Data DIGest*: weekly 1-page email (subscribe at: www.agc.org/datadigest)
- PPI tables: emailed monthly
- State and metro data, fact sheets
- Webinars (10/13 with Reed, AIA)
- Feedback on activity, 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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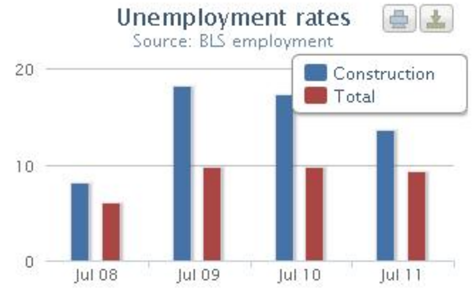
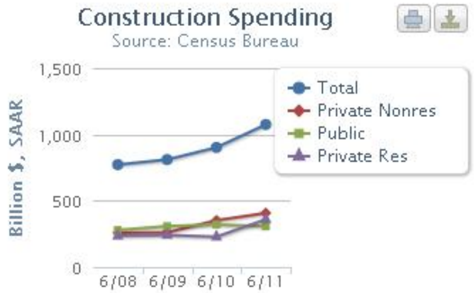
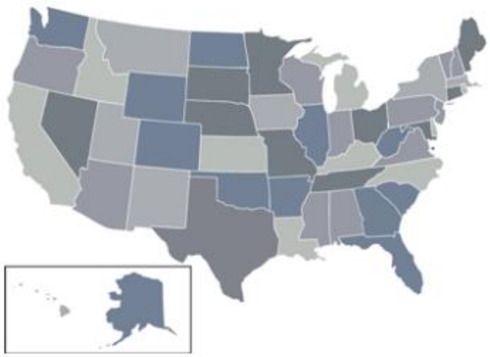




State and Local Information



SEP 14 2011

Prices of Key Construction Materials Fall in August, Even as Annual Materials Cost Increases

The amount contractors pay for a range of key construction materials declined in August, but contractors continue to be squeezed as materials cost increases have outstripped the price of finished buildings over the past year, according to an analysis of producer price index figures released today by AGC.