



Construction & Materials Outlook

December 1, 2010

Ken Simonson, Chief Economist

AGC of America

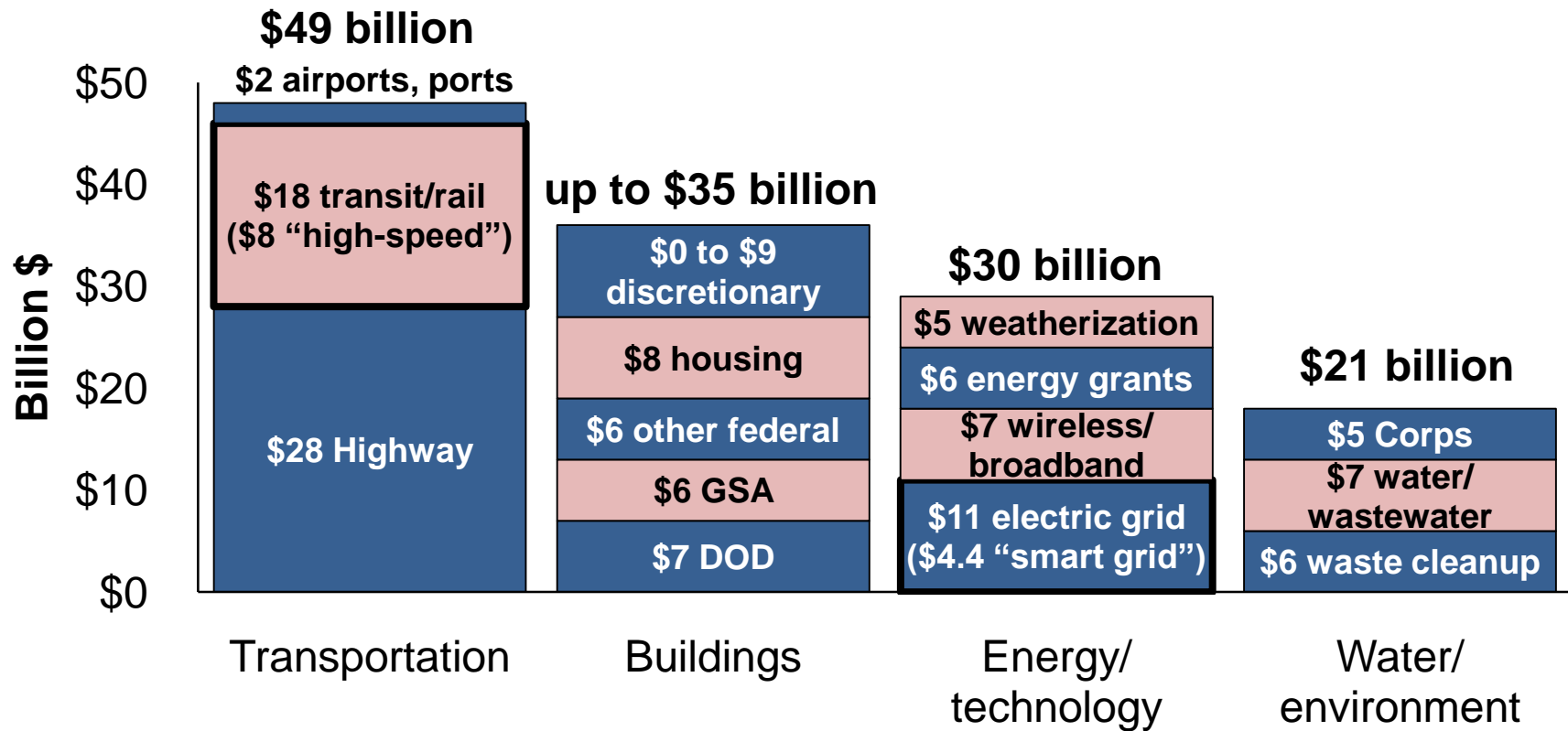
simonsonk@agc.org



Current economic influences on construction

- GDP, personal income: steady but modest gains
- No upturn in office, retail, warehouse rent/occupancy
- Loans for developers remain tight-to-unavailable
- State/local tax shortfalls → deeper spending cuts
- 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



'09-'10 stimulus tax changes affecting:

- contractors' cash flow

- 5-year carryback of '08, '09 net operating losses
- 6.2% payroll tax credit for workers hired 3/18-12/31/10

- demand for construction

- Build America bonds: cheaper financing; more projects?
- \$8000 homebuyer tax credit: mixed impact

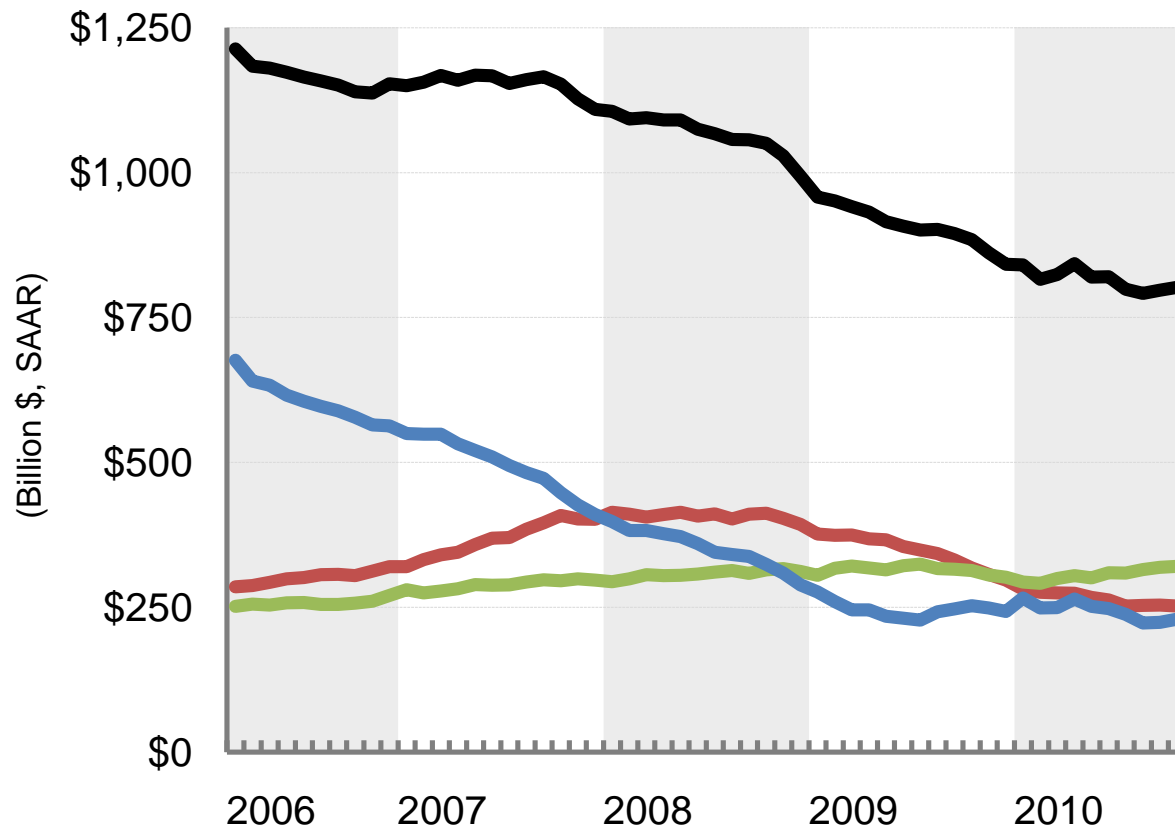


Economic impact of nonresidential construction

- **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, level and 12-month change

Seasonally adjusted annual rate (SAAR), March 2006-October 2010



Total Construction
(\$802 billion, -9%)

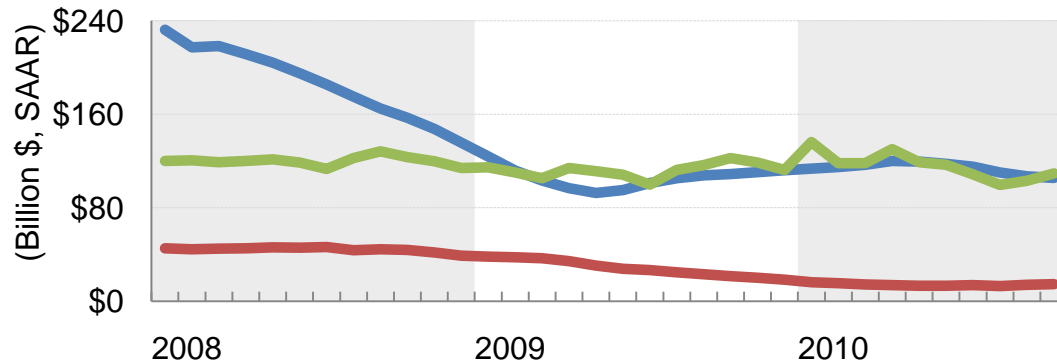
Public
(\$321 billion, 2%)

Private Nonresidential
(\$252 billion, -21%)

Private Residential
(\$230 billion, -9%)

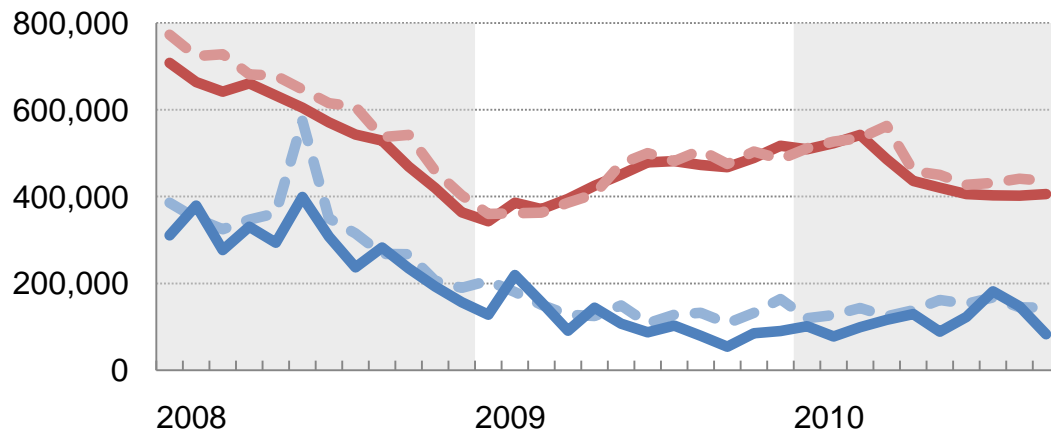
Single- vs. multi-family, 2008-10, seasonally adjusted annual rate (SAAR)

Construction spending (2008-October 2010)



	12-month
Single-family	-3%
Improvements	-11%
Multi-family	-33%

Building permits and starts (2008-October 2010)



Permits	12-month
Single-family	-13%
Multi-family	33%
Starts	
Single-family	-8%
Multi-family	54%



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 rise as more people get jobs or move to military base realignment sites
 - Condo market continues to have large overhang
 - Banks remain unwilling to lend to developers



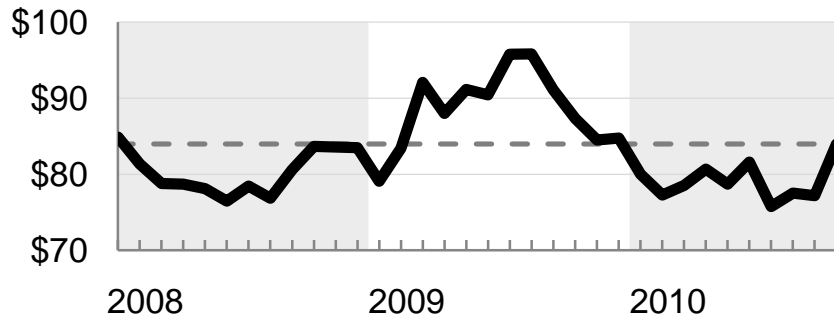
Nonres totals (billion \$, SAAR), share & 12-month change

	<u>10/10 Total</u>	<u>Share</u>	<u>10/09-10/10</u>
Nonresidential	\$562 billion	100%	- 10%
Educational	88	16	- 8
Highway and street	87	16	+ 1
Power	84	15	- 4
Health care	40	7	- 8
Transportation	40	7	+ 1
Commercial	39	7	- 15
Office	35	6	- 26
Manufacturing	35	6	- 37
Sewage and waste disposal	27	5	+ 13
Amusement and recreation	18	3	- 2
Communication	18	3	- 8
Other (water, public safety; lodging; conservation; religious): 9% of total			

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

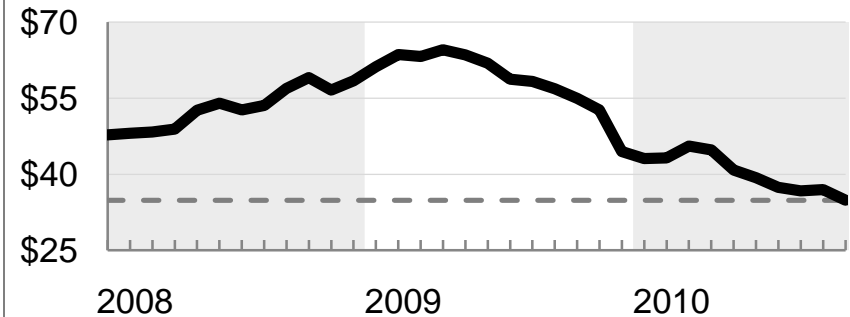
Power (82% private)

1-month change: 8.8%, 12-month: -4%



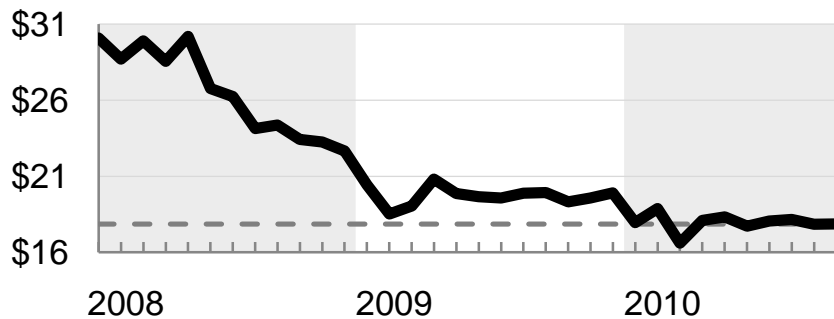
Manufacturing (97% private)

1-month change: -5.7%, 12-month: -37%



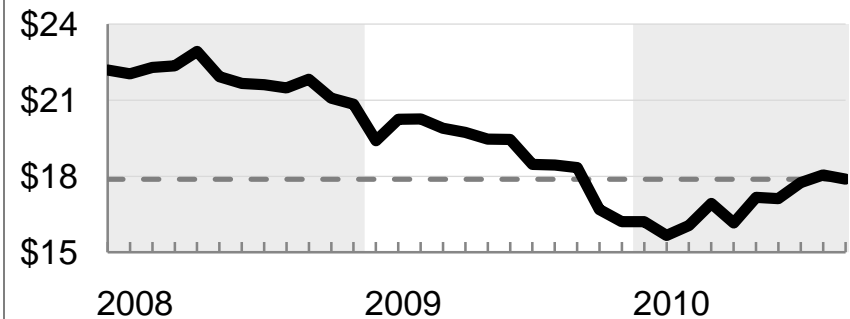
Communication (98% private)

1-month change: 0.1%, 12-month: -8%



Amusement & recreation (34% private)

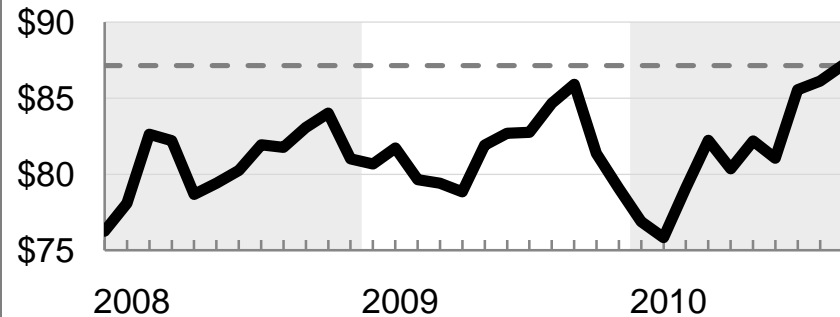
1-month change: -1.0%, 12-month: -2%



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

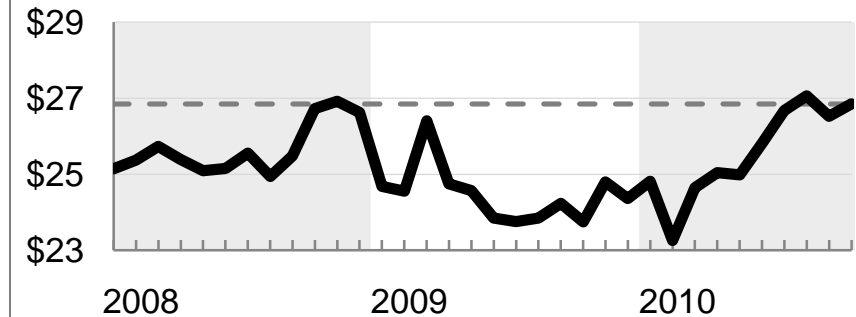
Highways (99.9% public)

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



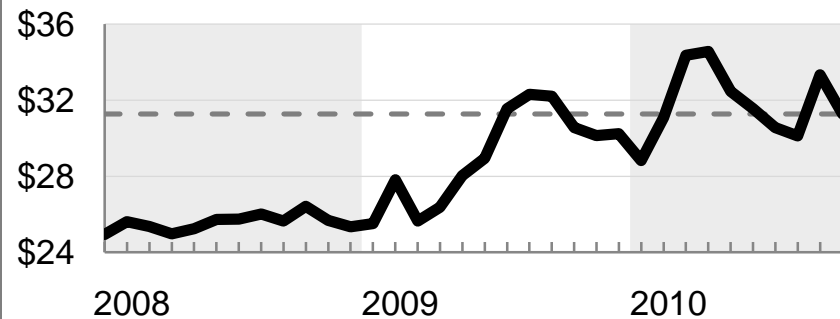
Sewage/waste (99% public)

1-month change: 1.2%, 12-month: 13%



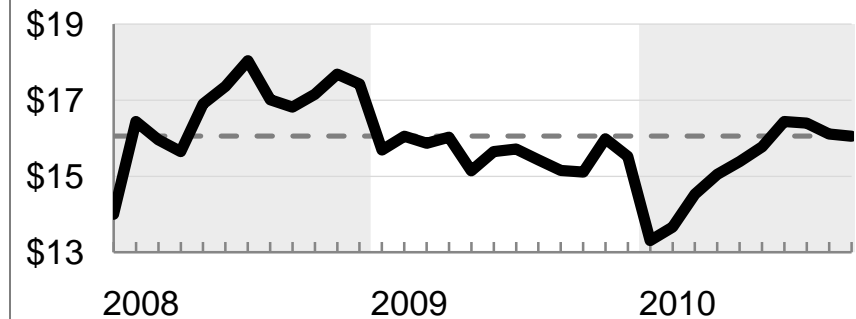
Transp. facilities (public)

1-month change: -6.2%, 12-month: 2%



Water (97% public)

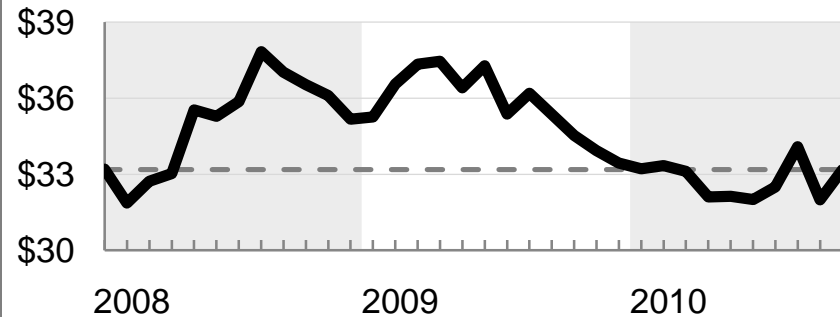
1-month change: -0.4%, 12-month: 6%



Construction spending: institutional (private + state/local)

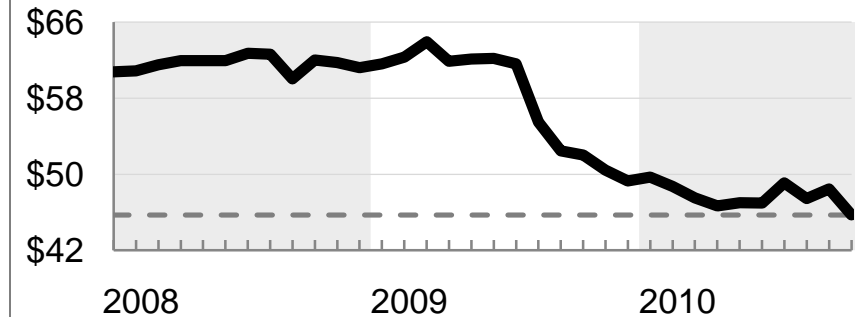
Higher education (25% private)

1-month change: 3.7%, 12-month: -4%



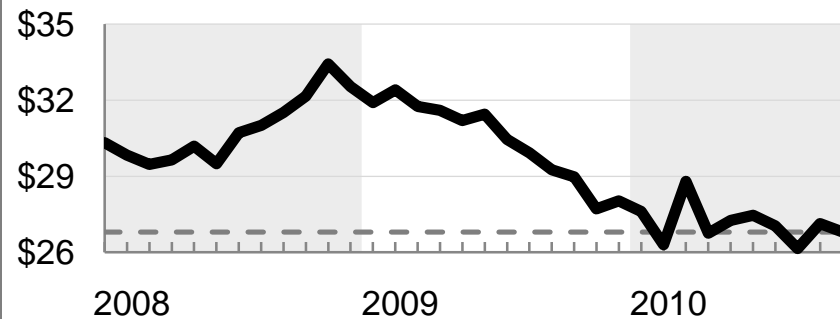
PreK-12 ed. (4% private)

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



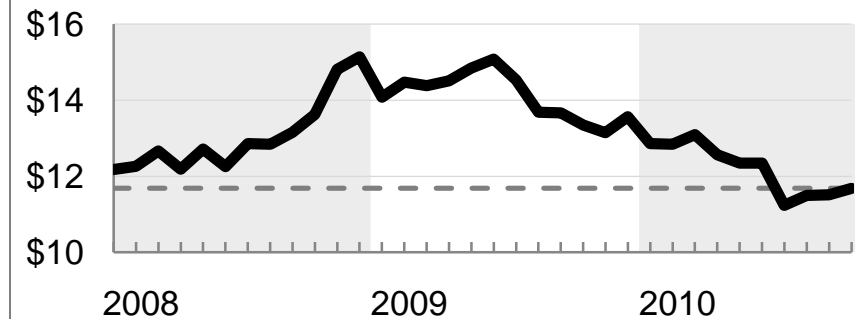
Hospitals (82% private)

1-month change: -1.2%, 12-month: -8%



Public safety

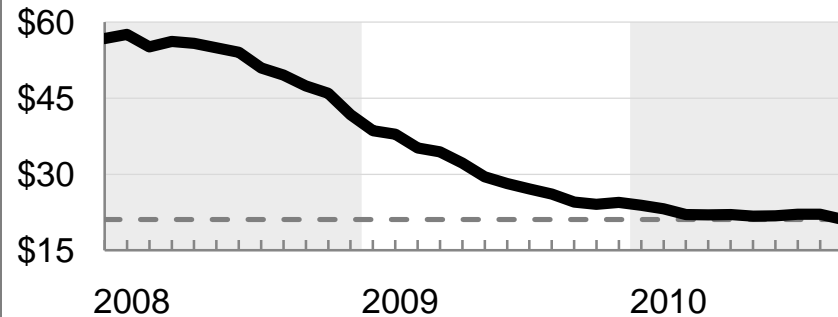
1-month change: 1.5%, 12-month: -12%



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

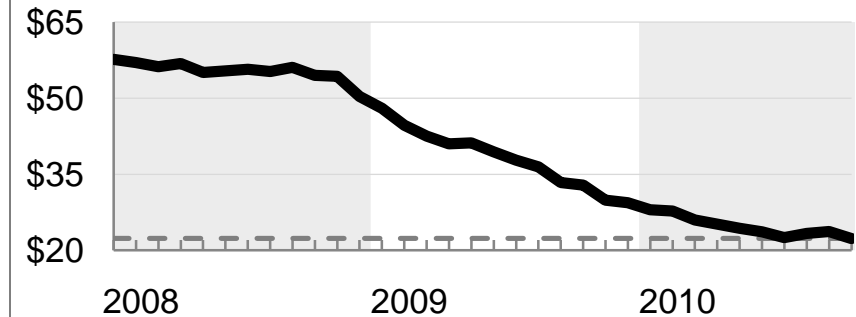
Nonautomotive retail

1-month change: -4.6%, 12-month: -14%



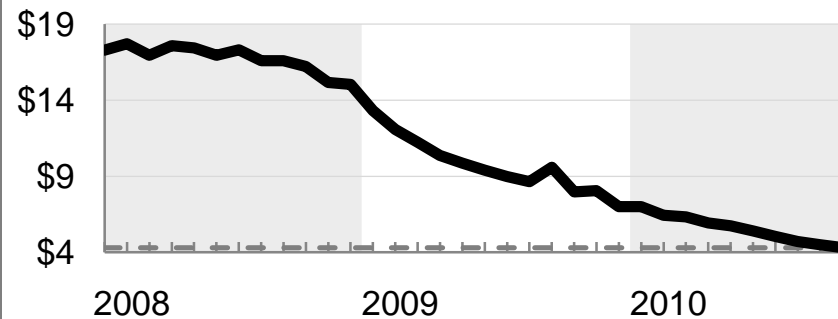
Office (private)

1-month change: -5.8%, 12-month: -32%



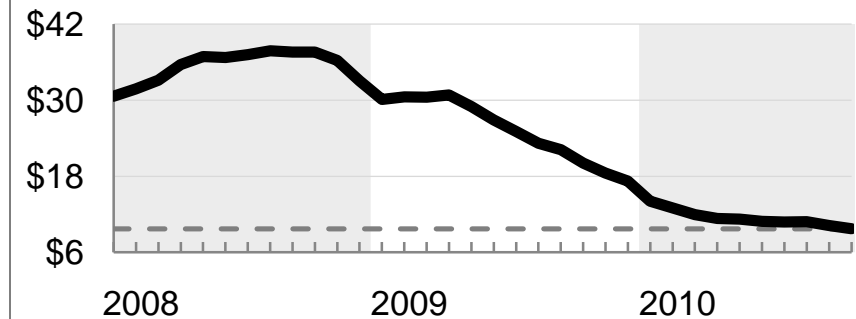
Warehouses

1-month change: -4.4%, 12-month: -46%



Lodging (private)

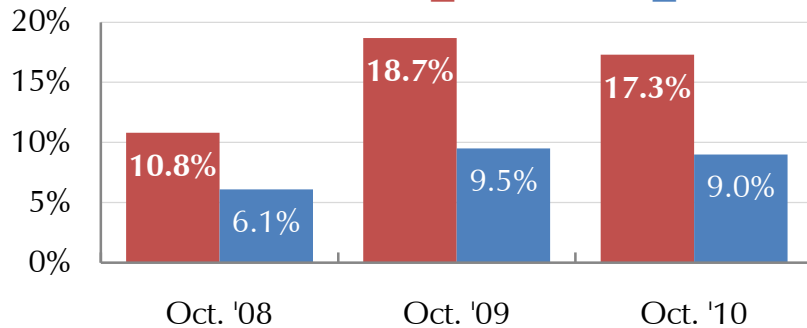
1-month change: -5.2%, 12-month: -52%



Construction employment, wages, costs and output prices

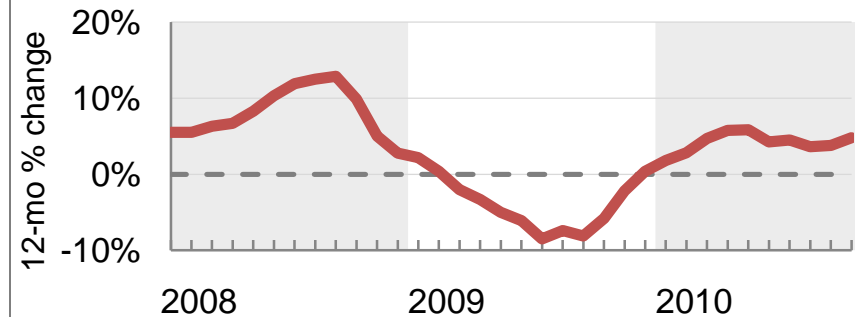
Unemployment rates, Oct. 2008-Oct. 2010

not seasonally adjusted, ■ construction ■ total



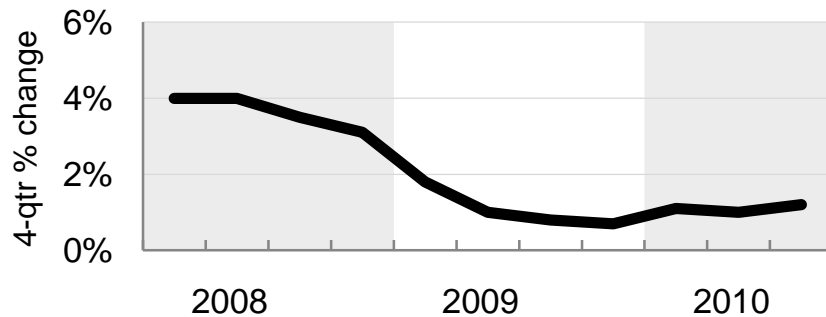
Producer price index for construction inputs

12-month % change, 2008-Oct. 2010 (10/09-10/10: 4.8%)



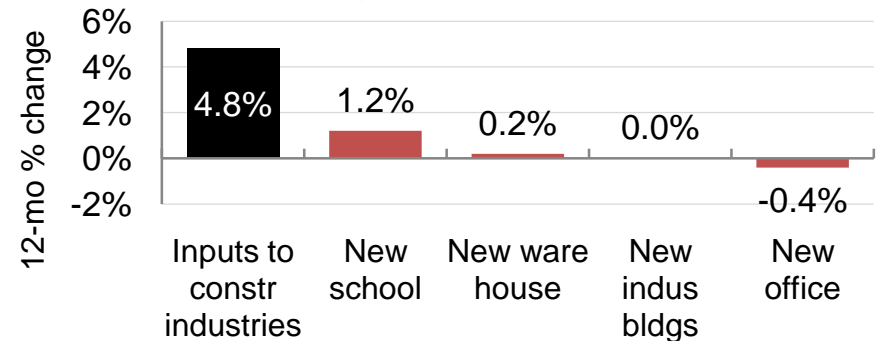
Employment cost index for construction

4-quarter % change, 2008-3Q 2010 (3Q09-3Q10: 1.2%)



PPI for construction inputs, finished buildings

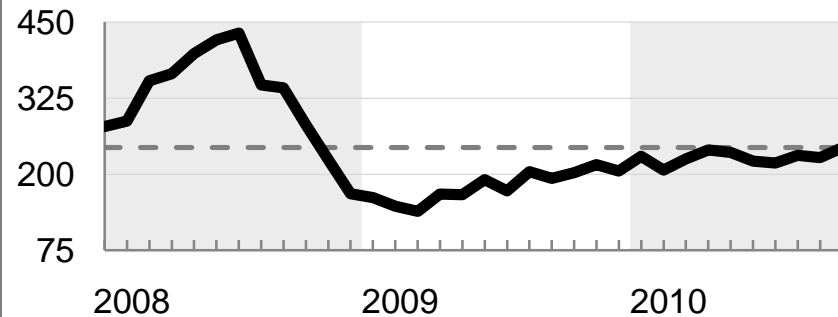
12-month % change, October 2009-October 2010



Producer price indexes, 1/08-10/10

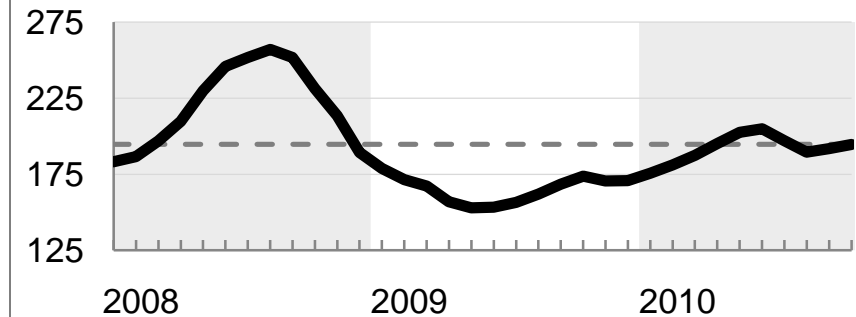
No. 2 diesel fuel

1-month change: 7.2%, 12-month: 20.3%



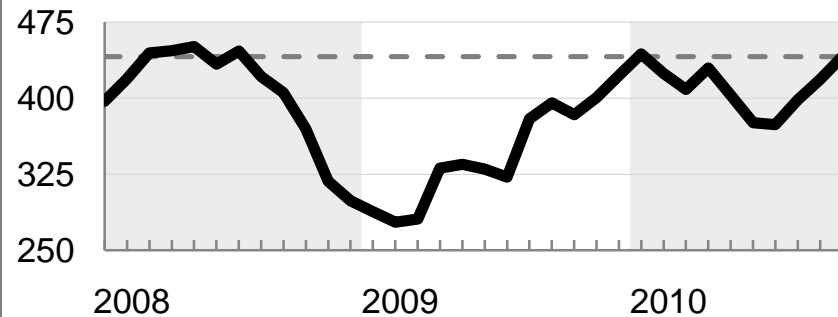
Steel mill products

1-month change: 1.4%, 12-month: 12.0%



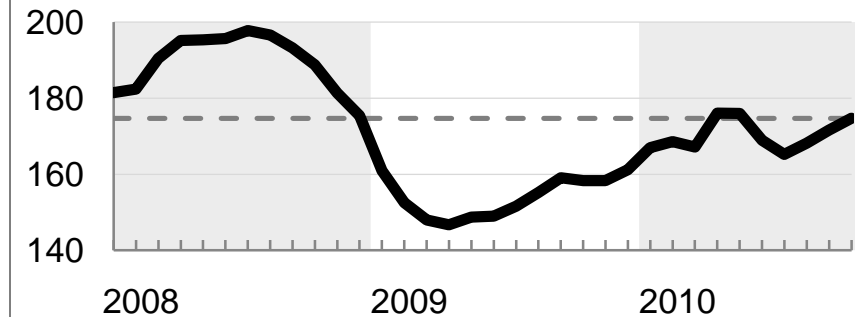
Copper & brass mill shapes

1-month change: 5.4%, 12-month: 15.0%



Aluminum mill shapes

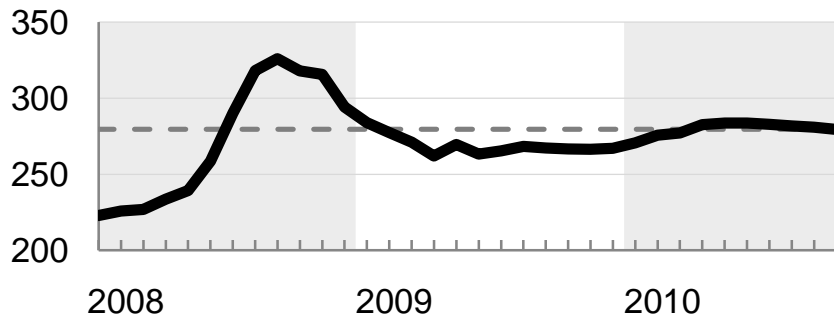
1-month change: 1.8%, 12-month: 22.1%



Producer price indexes, 1/08-10/10

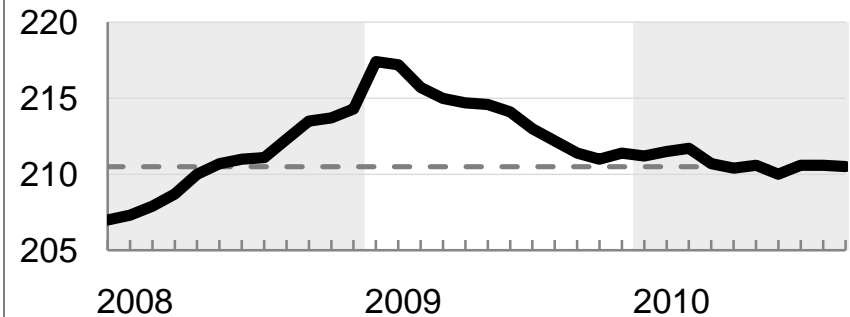
Asphalt paving mixtures & blocks

1-month change: -0.5%, 12-month: 4.8%



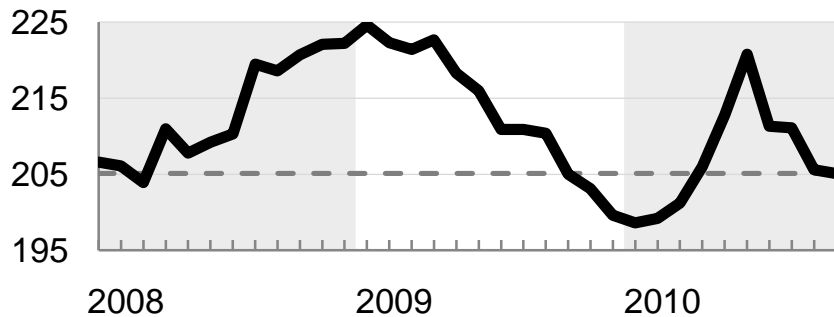
Concrete products

1-month change: 0.0%, 12-month: -0.4%



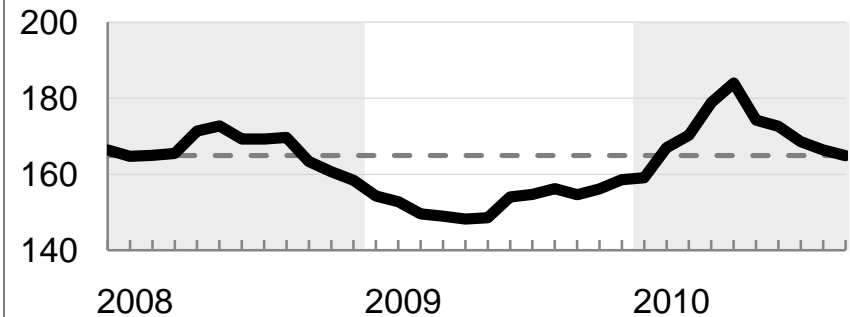
Gypsum products

1-month change: -0.2%, 12-month: 0.0%



Lumber and plywood

1-month change: -0.9%, 12-month: 6.7%





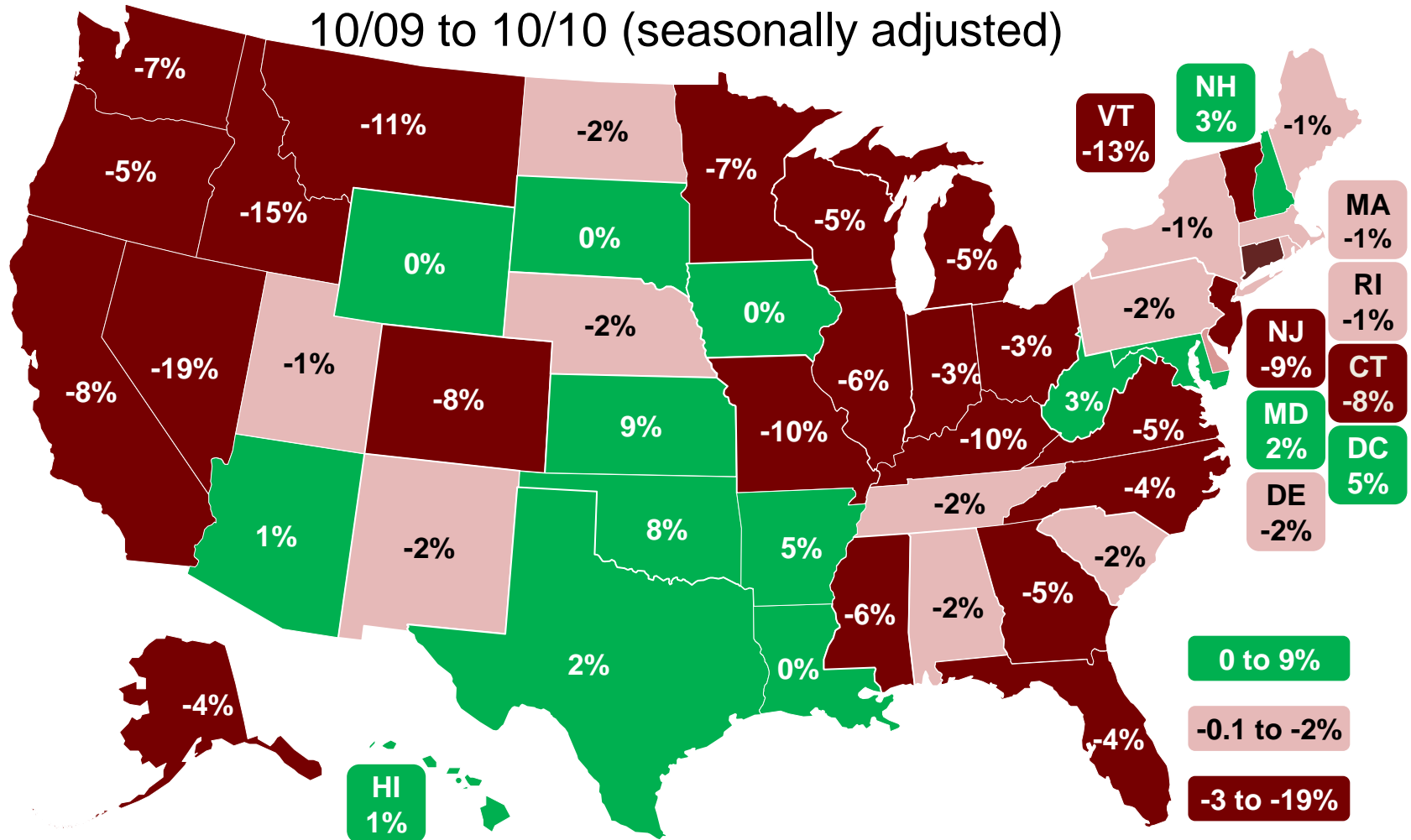
Outlook for materials

- **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 after 2010**



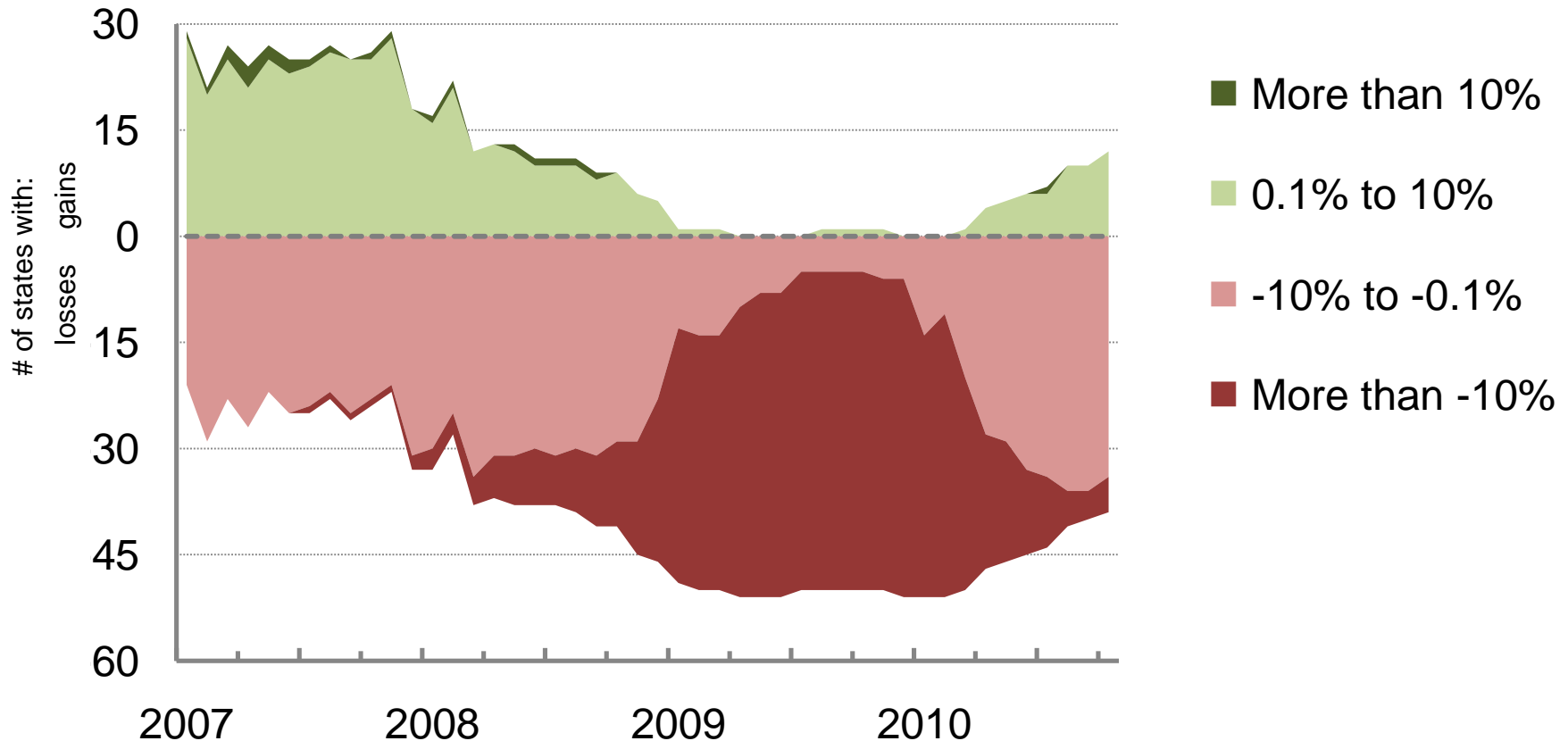
State Construction Employment Change (U.S.: -2%)

10/09 to 10/10 (seasonally adjusted)



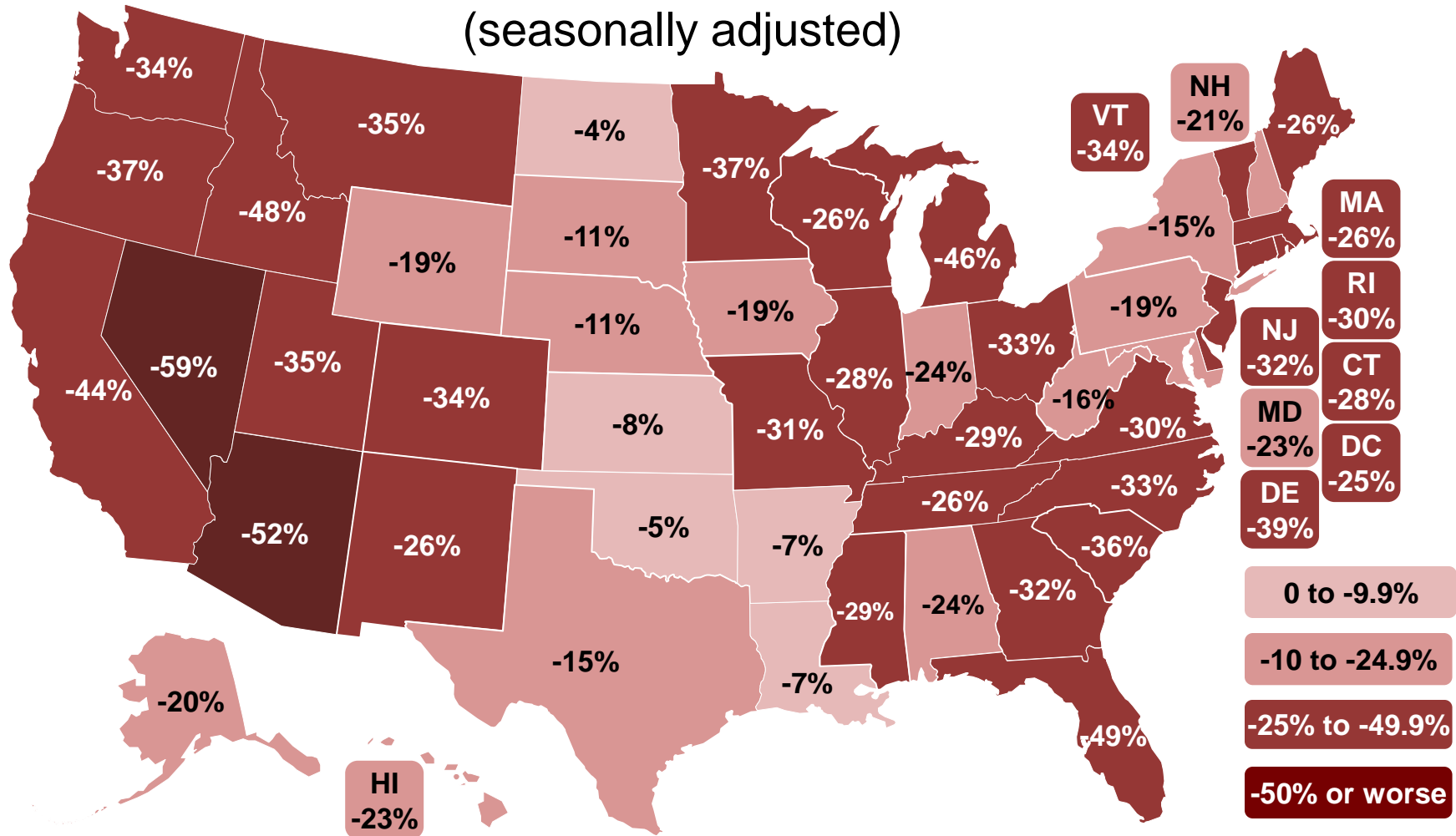
Number of states with 1-year gains or losses in construction employment

January 2007 to October 2010 (seasonally adjusted)

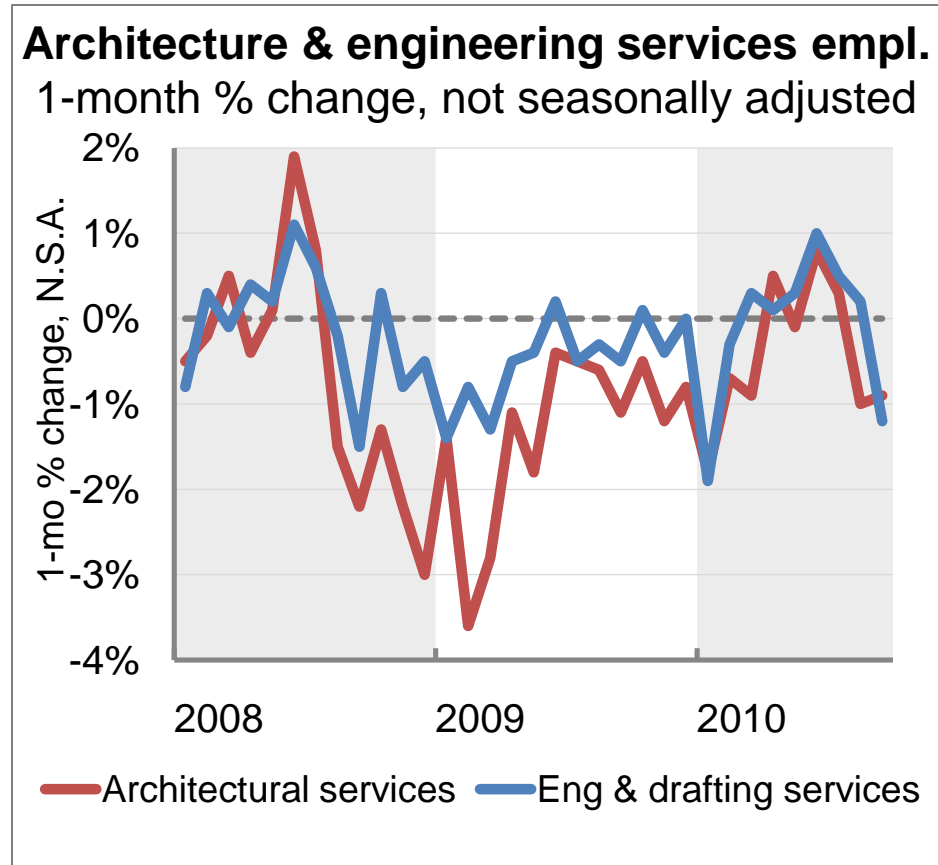
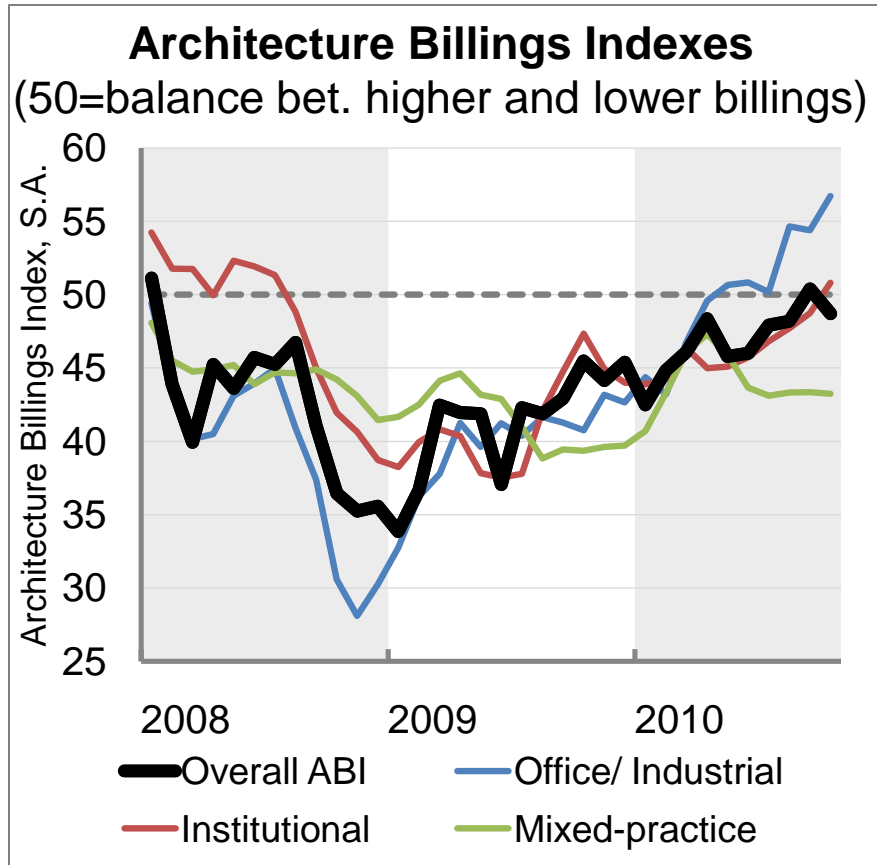




State construction employment change from peak (US: -27%) (seasonally adjusted)



Predictors of construction demand





Summary for 2010

- Nonres spending: -15% (more stimulus put in place, maybe gains in retail, higher ed, hospitals)
- Res: +2 to -2% (SF up, MF down all year)
- Total construction spending: -10% to -12%
- Materials costs: +3% to +5%
- Labor costs: +1.5% 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: +2.5% 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, fact sheets
- Stimulus info: www.agc.org/stimulus
- Webinars
- 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.

The Data DIGest is a weekly summary of economic news; items most relevant to construction are in italics. All rights reserved.



Subscribe to Data DIGest
Ken Simonson, Chief Economist, Associated General Contractors of America
Phone: 703-637-5313 • Fax: 703-637-5407 Email: simonsonk@agc.org