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Construction & Materials Outlook

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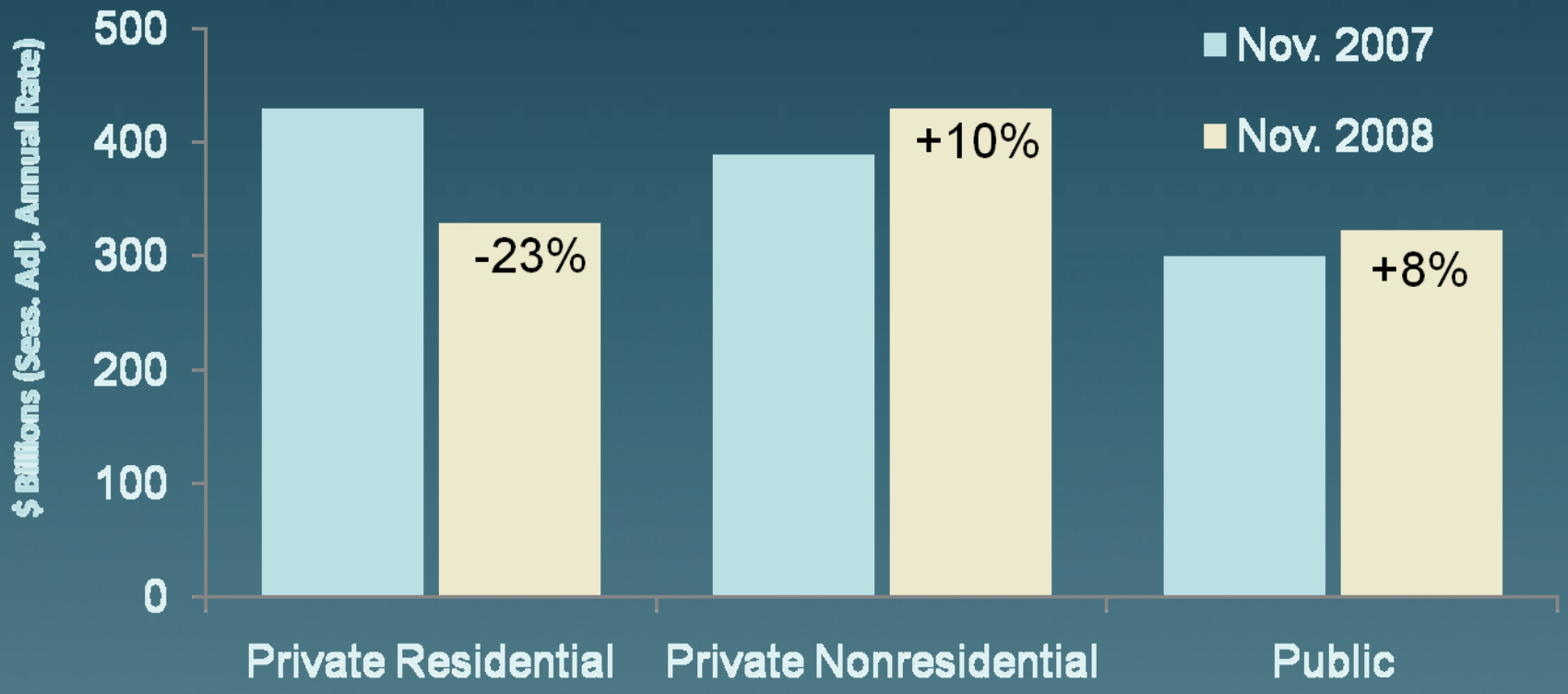
Current economic influences

- Credit market freeze affecting private, state and local borrowers
- Weak demand for income-producing properties
- Falling state spending
- No job growth, rising unemployment

Source: Author

The shifting construction market

(total change November 2007 – November 2008: -3%)



Source: Census Bureau

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

- **November construction spending (value put in place):**
  - SF: -7% vs. October, -42% vs. 11/07
  - MF: -2% vs. October, -3% vs. 11/07
  - Improvements: -2% vs. October, +8% vs. 11/07
- **December building permits:**
  - SF: -12% vs. November, -49% vs. 12/07
  - MF: -7.5% vs. November, -52% vs. 12/07
- **December housing starts:**
  - SF: -13% vs. November, -49% vs. 12/07
  - MF: -20% vs. November, -45% vs. 12/07

Source: Census

Housing outlook

- SF: No relief yet for decline in permits, starts or spending, but sales could pick up by mid-‘09
- Starts won’t improve until late-‘09 at best
- MF: Rental construction cushioned the fall in condo starts but now many owners are trying to rent out houses and condos
- Foreclosures will add to inventories, drag down both sales and rentals

Source: Author

Nonres ’07 totals, share, 12-month change

Nonresidential total	11/08 Total $742 billion	Share 100%	vs. 11/07 +9%
Educational	108	15	+ 5
Highway & street	84	11	+ 8
Commercial	81	11	-13
Manufacturing	77	10	+61
Power	77	10	+27
Office	77	10	+10
Healthcare	48	7	+ 7
Lodging	39	5	+17
Transportation	36	5	+ 7
Sewage & waste disposal	27	4	+ 2
Amusement	23	3	+ 2

Other (communication; water; safety; relig.; conservation): 9% of total

Source: Census Bureau

Public construction
(Seasonally adjusted at annual rate)

	11/08 Total $322 billion	State/Local $295	Federal $27
Educational	89	87	2
Highway & street	84	83	1
Sewage & waste disposal	26	25	1
Transportation	26	23	2
Water supply	17	17	0.3
Office	16	10	6
Public Safety	14	10	4
Amusement & recreation	12	12	0.4
Power	11	11	0.7

Other (health care; residential; conservation; commercial) $27 billion

Source: Census Bureau

Spending outlook for 2009

	Actual 2008	Forecast 2009
Residential	- 27%	- 2 to +2%
Nonresidential	+12%	- 3 to - 9%
Total	- 5%	- 1 to - 7%

Source: Census (2008); Author (2009)

Materials and components

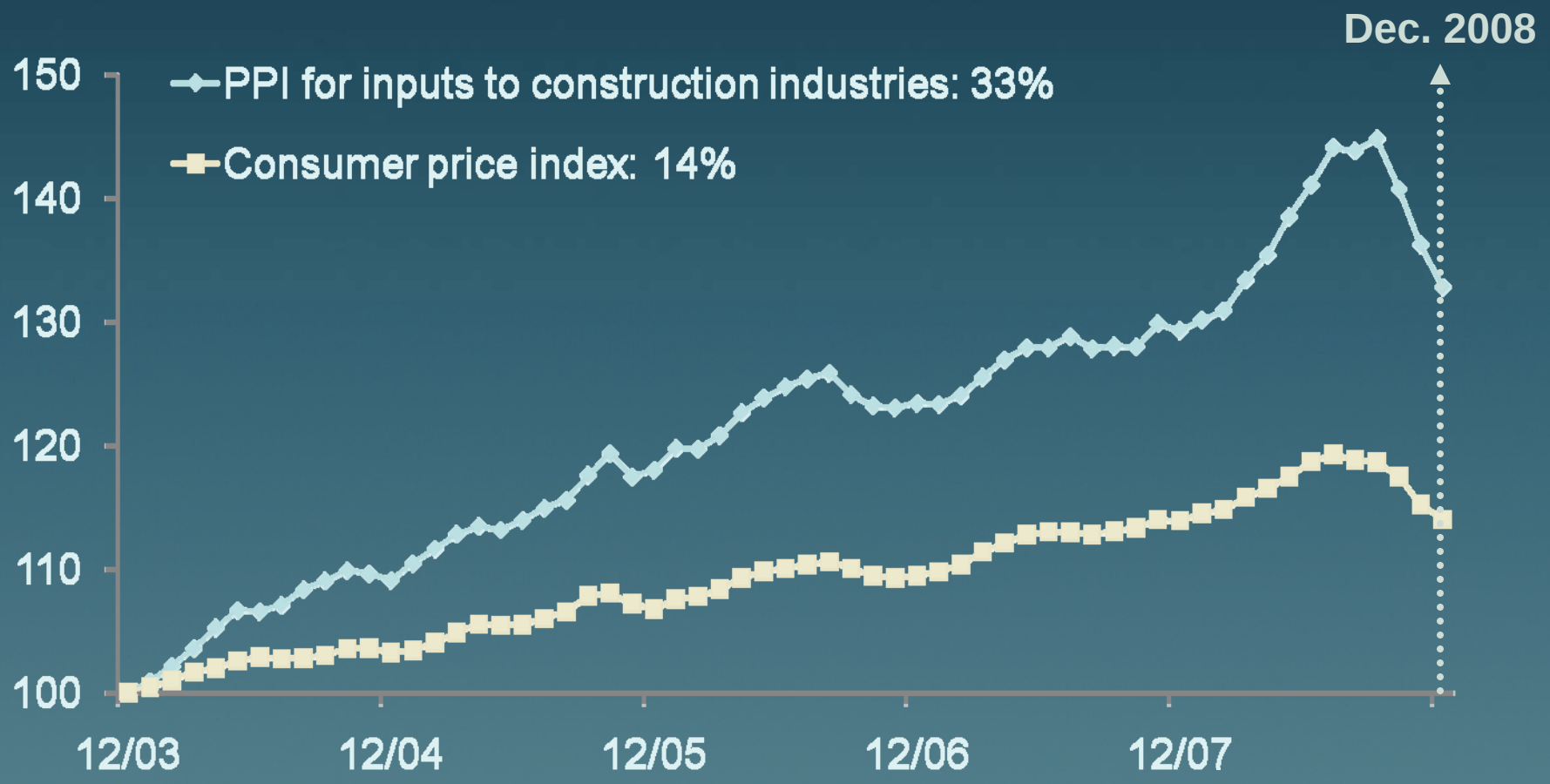
- Higher increases for construction inputs than for overall economy:

12 mo. to:	12/04	12/05	12/06	12/07	12/08
Const PPI	9.1%	8.2%	4.6%	4.8%	2.7%
CPI-U	3.3%	3.4%	2.5%	4.1%	0.1%

- Cumulative change double the CPI since 12/03:
  - Const PPI: 33%
  - CPI-U: 14%
- Producer price index drivers: steel, gypsum, diesel, asphalt, concrete, copper, plastics, aluminum, wood

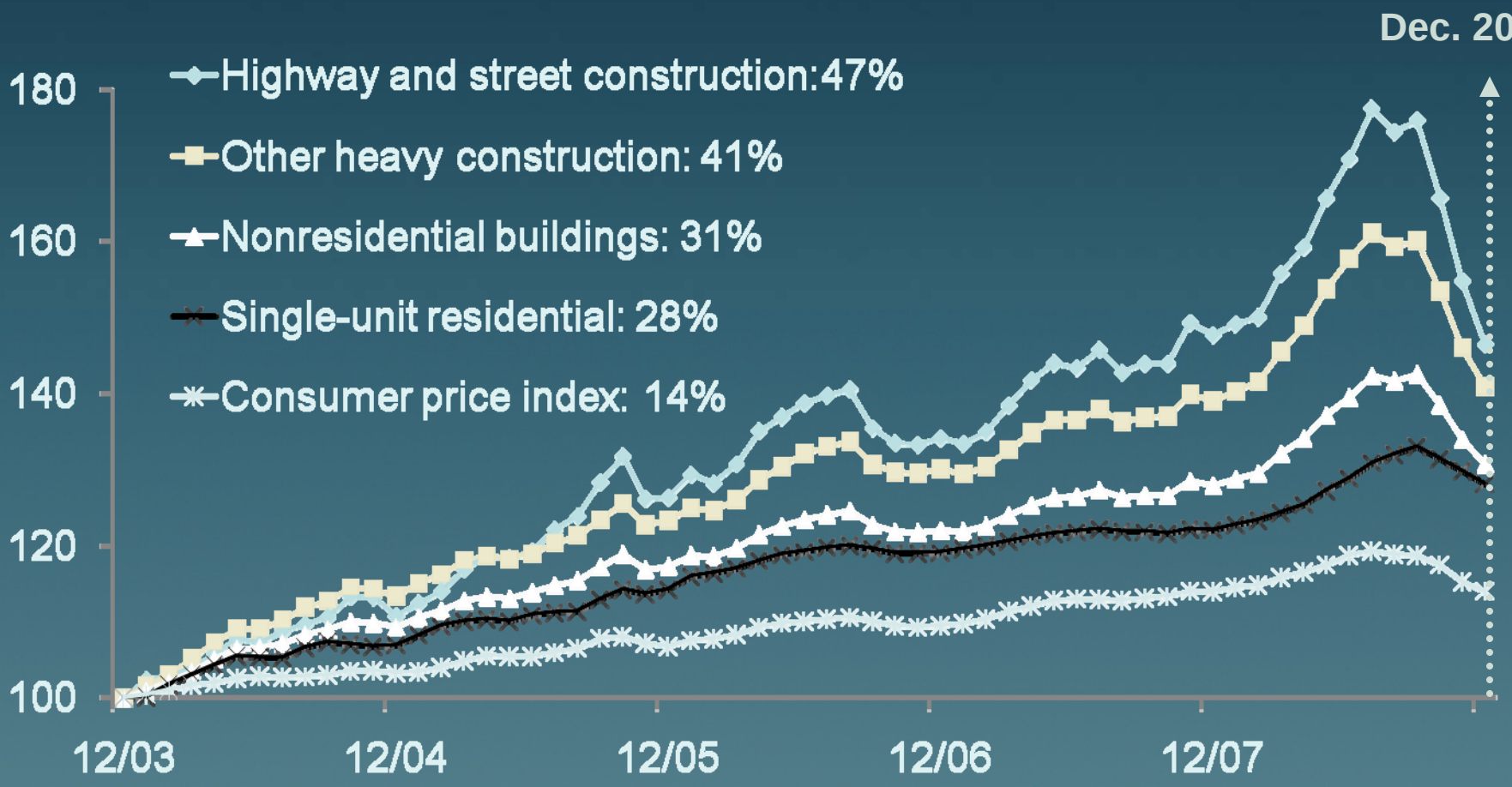
Source: BLS (CPI, PPI)

Change in Producer Prices for Construction vs. Consumer Prices, 2003 - 2008 (December 2003 = 100)



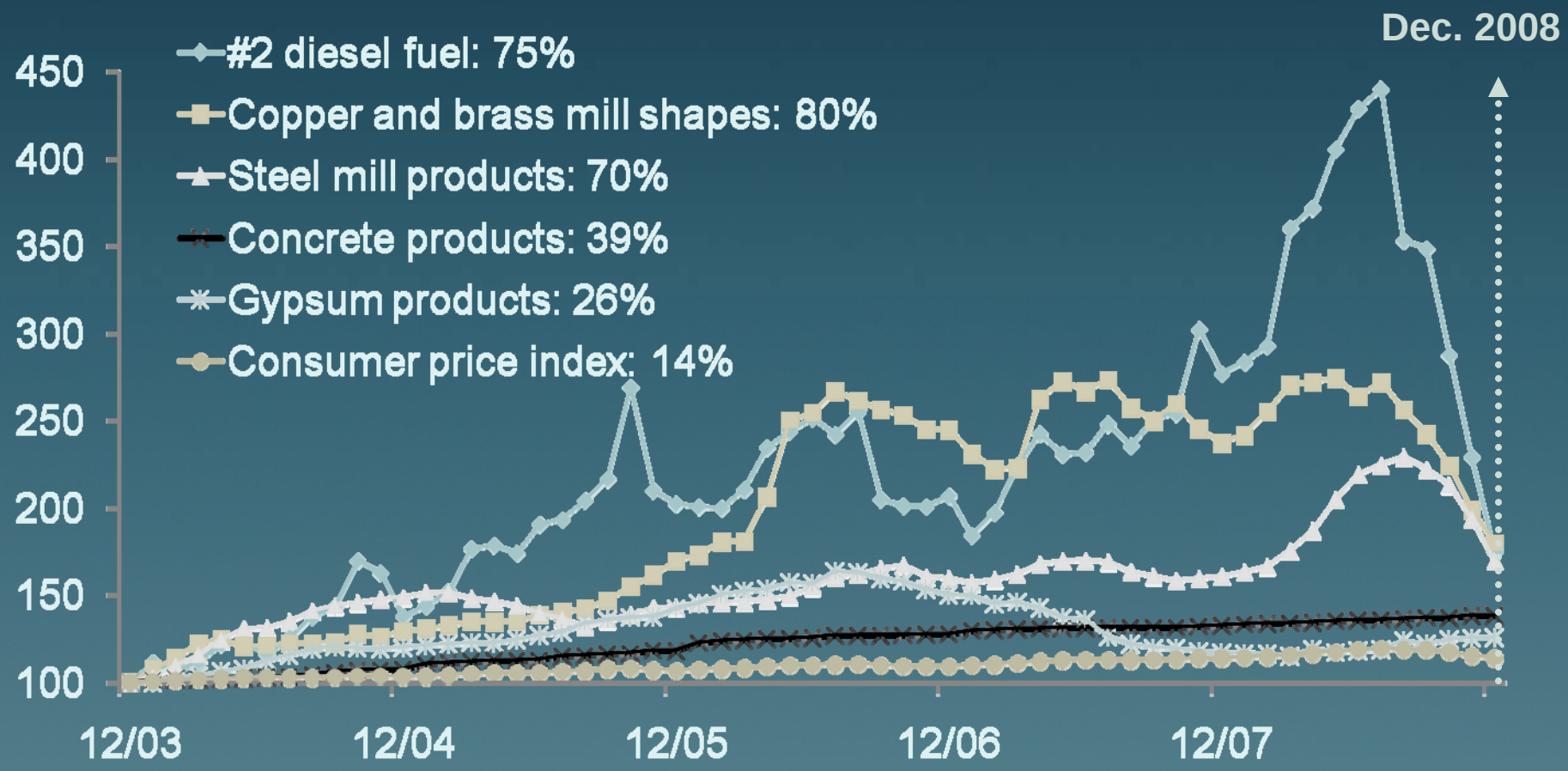
Source: BLS (CPI, PPI)

Change in Producer Prices for Construction Segments, 2003 - 2008 (December 2003 = 100)



Source: BLS (CPI, PPI)

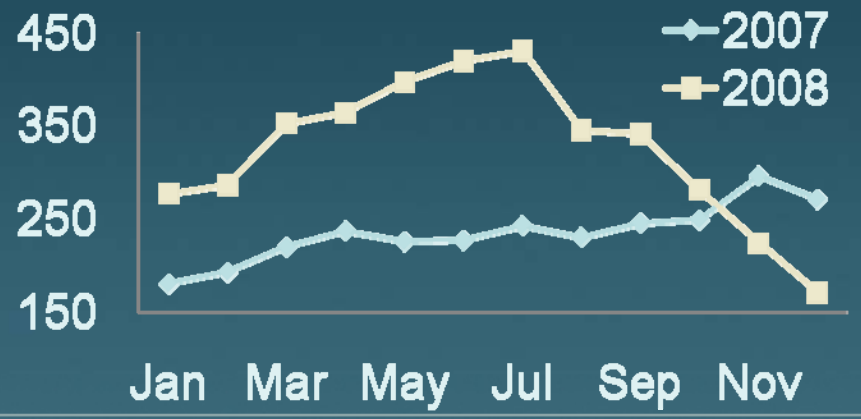
Change in Producer Prices for Major Construction Inputs, 2003 - 2008 (December 2003 = 100)



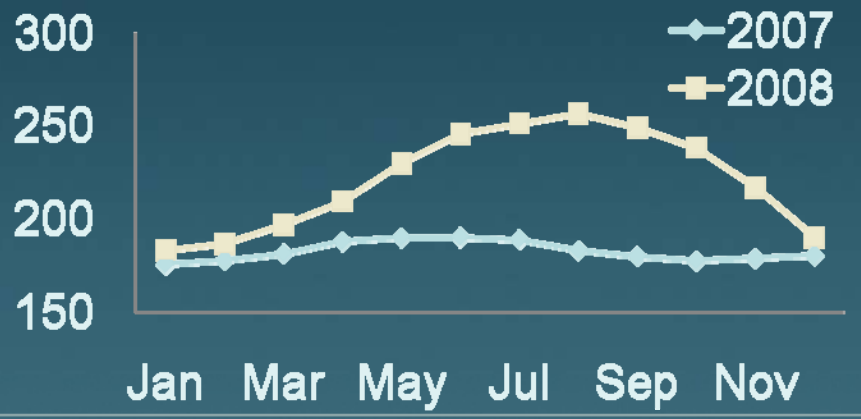
Source: BLS (CPI, PPI)

Producer Price Indexes, 2007 vs. 2008

No. 2 Diesel Fuel
Change from 12/07-12/08: -37%



Steel Mill Products
Change from 12/07-12/08: 5%

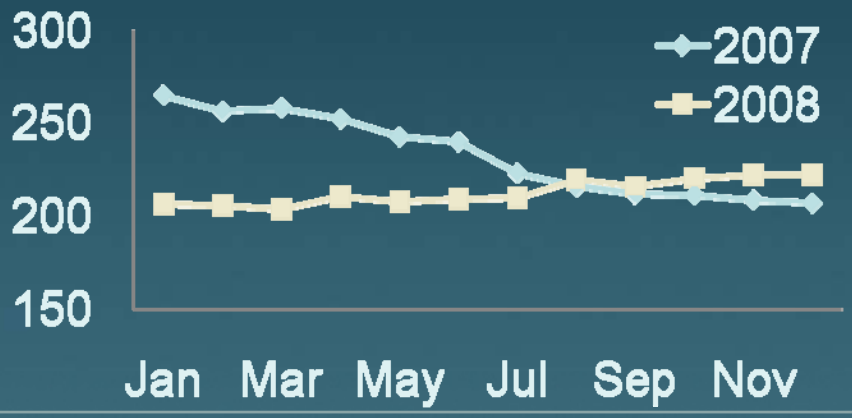


Asphalt Paving Mixtures & Blocks
Change from 12/07-12/08: 33%

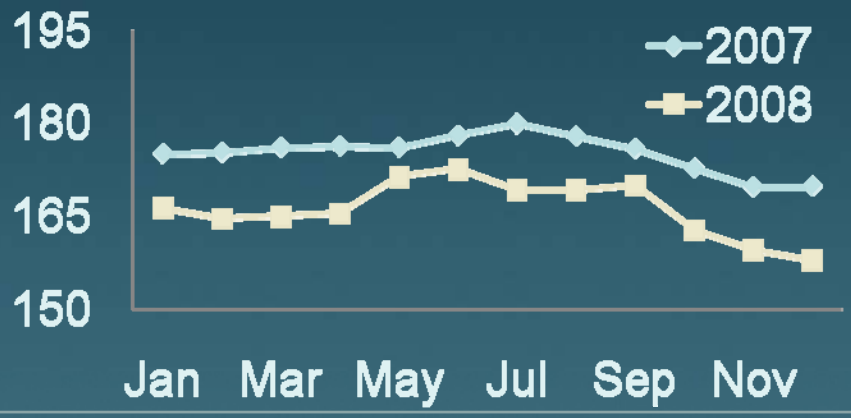
Source: BLS

Producer Price Indexes, 2007 vs. 2008

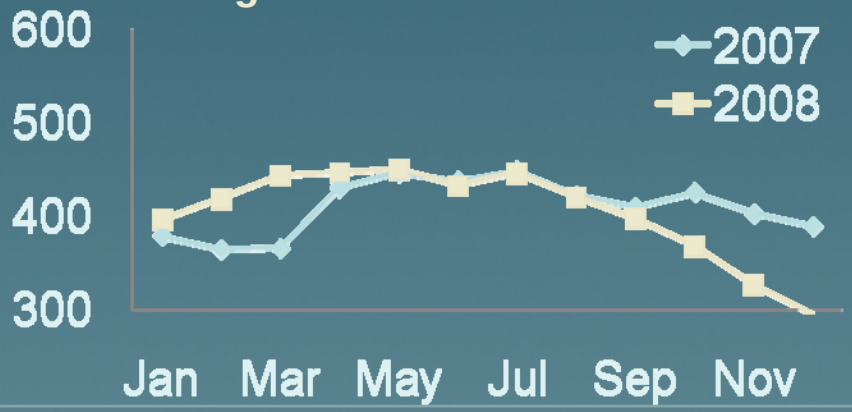
Gypsum Products
Change from 12/07-12/08: 7%



Lumber and Plywood
Change from 12/07-12/08: -7%



Copper & Brass Mill Shapes
Change from 12/07-12/08: -24%



Concrete Products
Change from 12/07-12/08: 4%

Outlook for materials in ‘09 compared to ‘08

- Lower average prices: diesel, asphalt, steel
- Possible increases: concrete, gypsum, copper, wood products
- Year-over-year PPI change: -4% to 0%

Source: Author’s forecasts

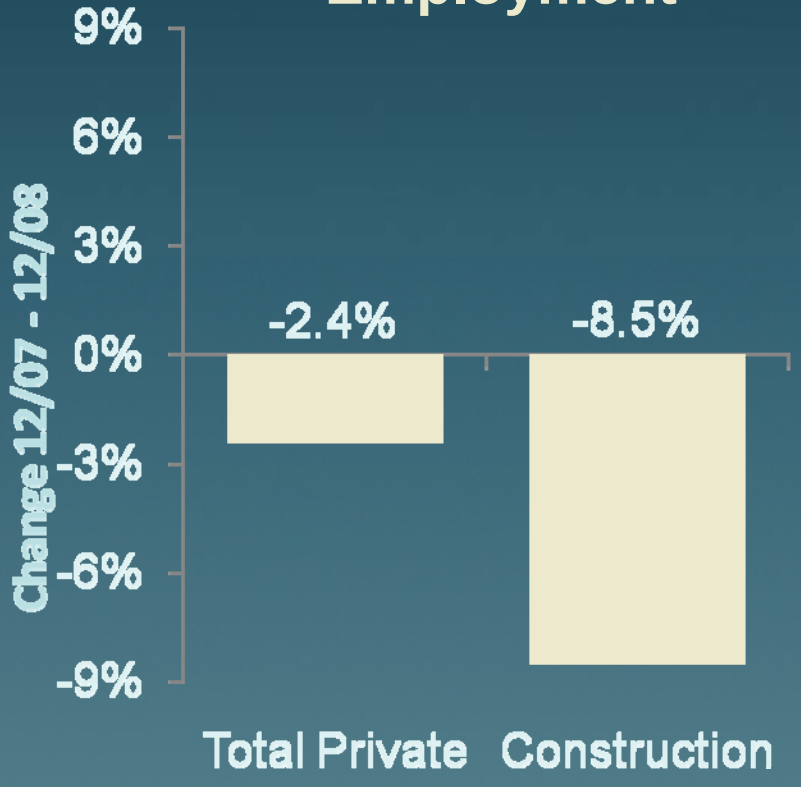
Outlook for materials (beyond 2009)

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

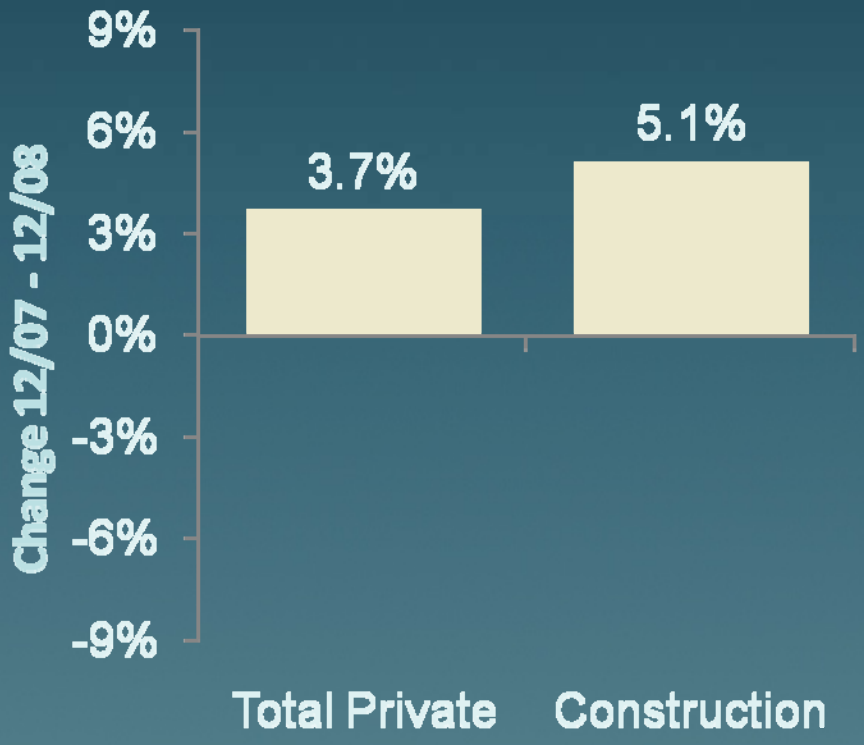
Source: Author's forecast

Construction jobs fall, but wages rise

Employment



Average Hourly Earnings

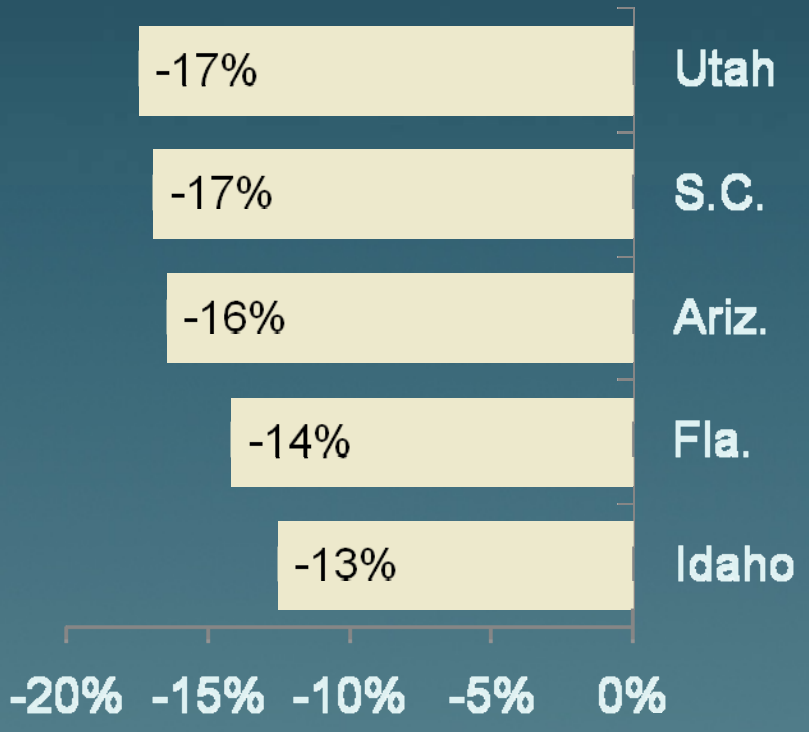


Source: BLS

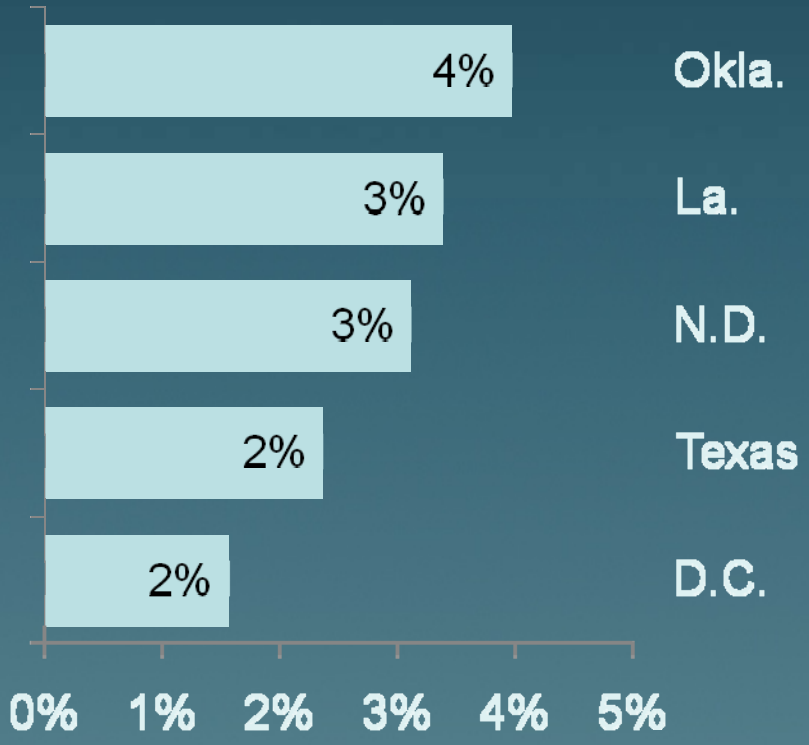
State construction employment, 11/07 – 11/08

(U.S. total: -7.8%)

5 biggest losses

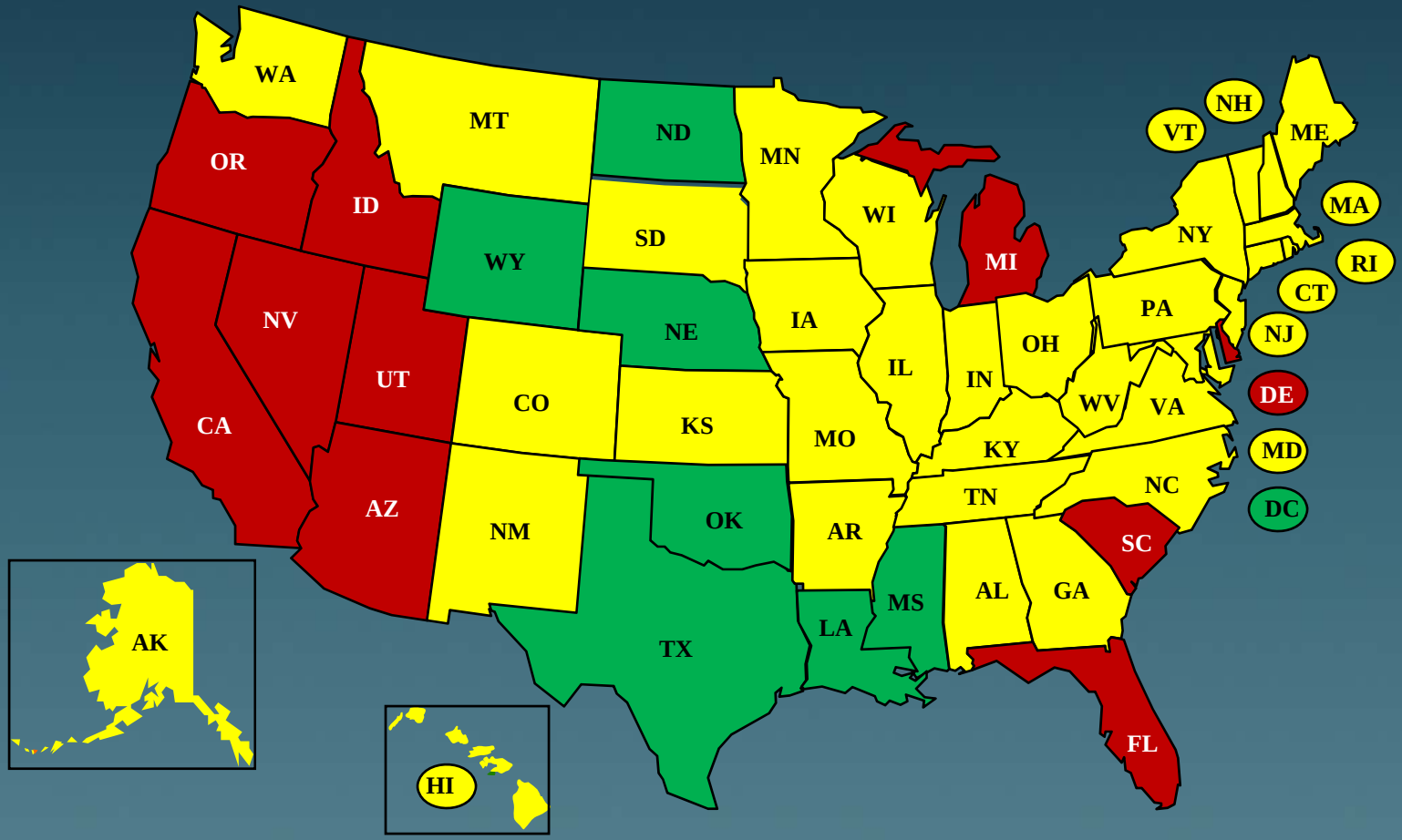


5 biggest gains



Source: BLS

State construction employment, 11/07 – 11/08



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 +4.5%

AGC economic resources (sign up by email to simonsonk@agc.org)

- The Data DIGest: weekly one-page email
- PPI tables: emailed monthly
- State-specific stimulus estimates and fact sheets: www.agc.org /factsheets
- Webinars/Audioconferences

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