



# Construction & Materials Outlook

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## Current economic influences

- Muni bond market has improved since September, but not bank lending
- Rising vacancies for office, retail, hotel
- Tax revenue shortfalls → deeper spending cuts
- No job growth, rising unemployment
- Stimulus (details: [www.agc.org/stimulus](http://www.agc.org/stimulus))



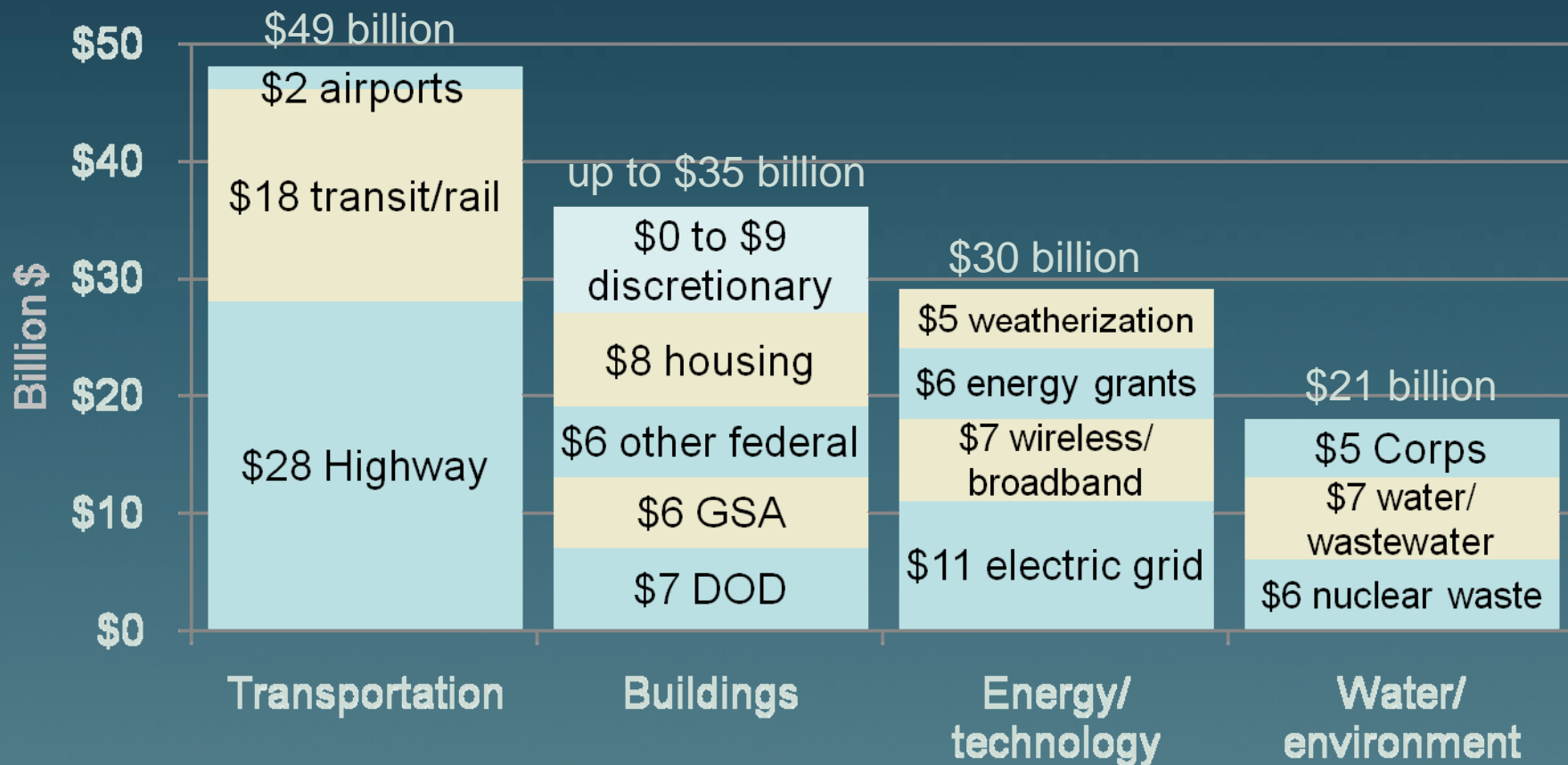
## Economic stimulus package

**Total : \$787 billion in spending increases, 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 2008 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

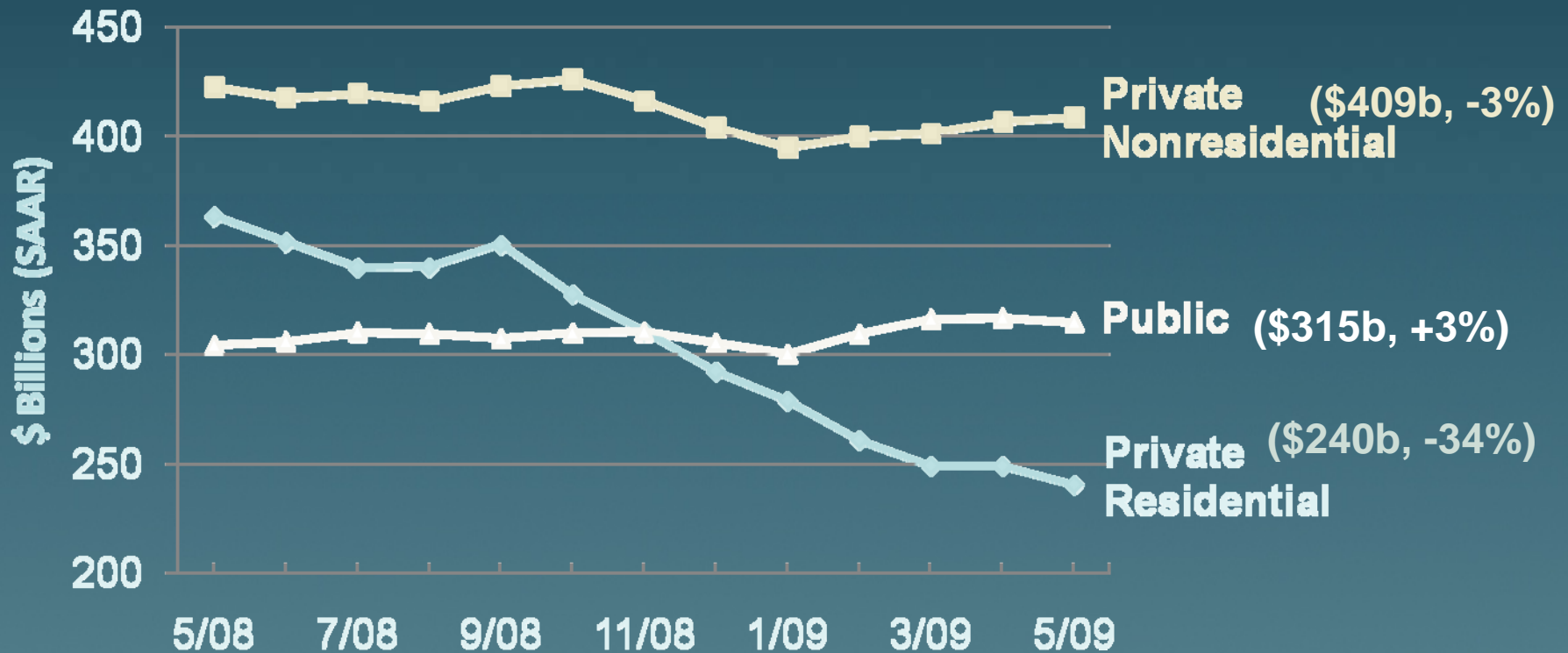
- **Jobs:** 28,500 per \$1 billion
  - 1/3 direct, onsite construction
  - 1/6 indirect, supplying industries
  - 1/2 induced by direct, indirect spending
- **GDP:** \$3.4 billion
- **Personal Earnings:** \$1.1 billion



# The shifting construction market

(construction spending, seasonally adjusted annual rate)

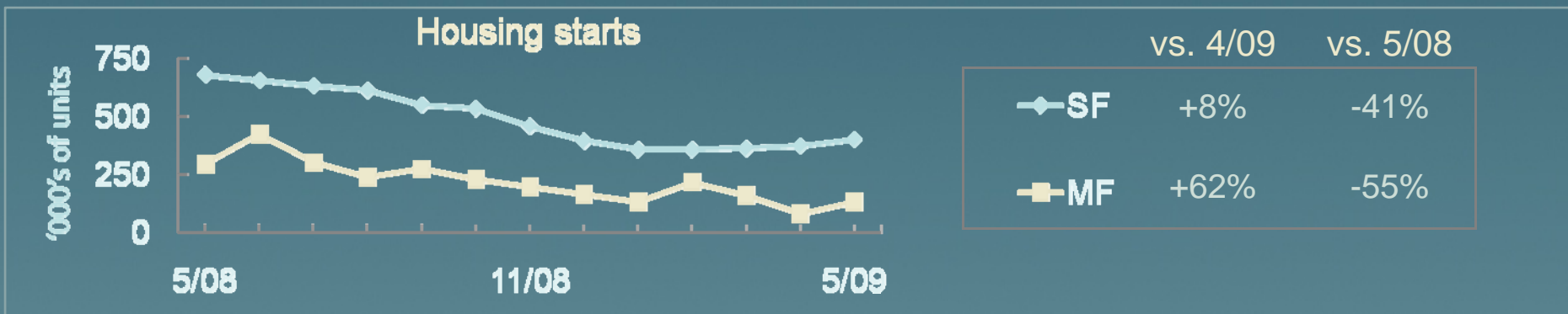
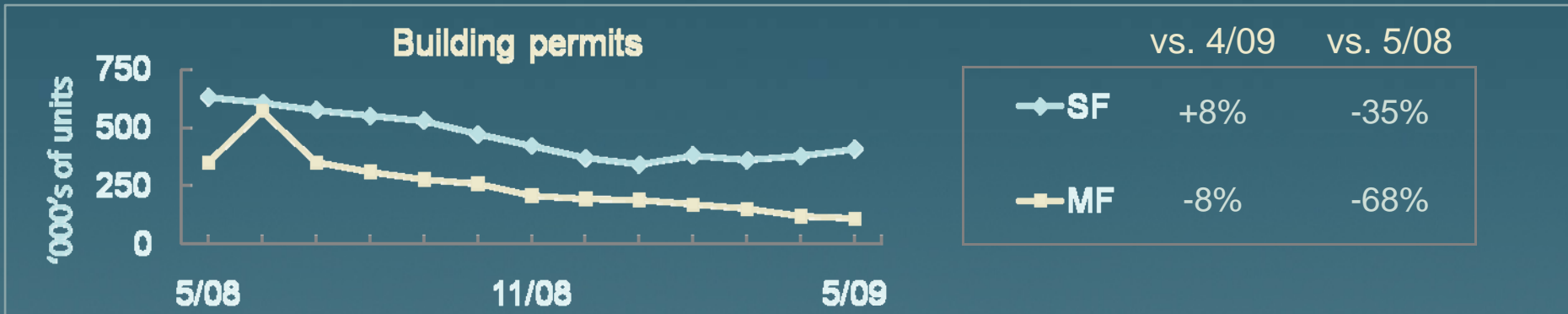
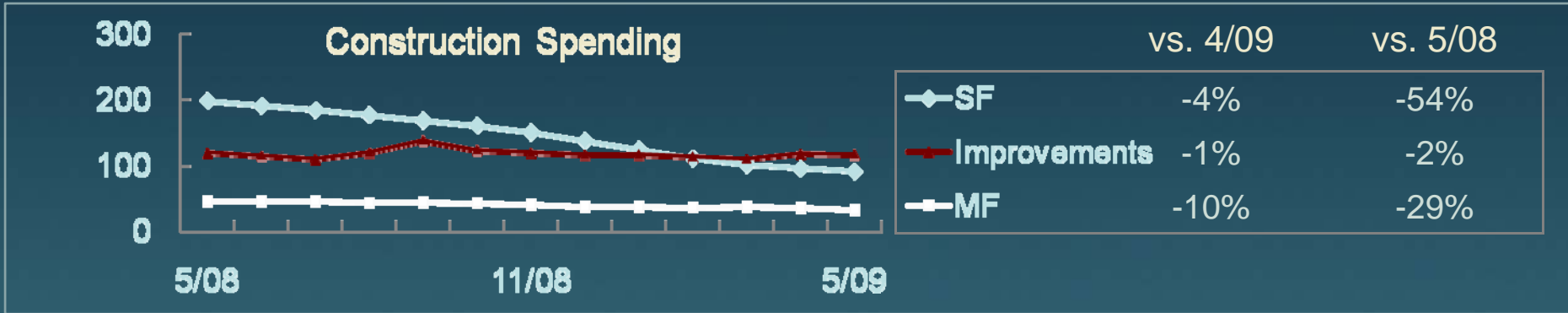
May 2009: \$964 billion, 12-month change: -12%







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





## Housing outlook

- **SF: starts, permits in May hit 6-mo highs; totals should begin to top year-ago figures in late '09**
- **MF: No improvement likely until '11**
  - Rental demand hurt by job losses among would-be renters
  - Supply swelled by owners who are trying to rent out houses and condos
  - Banks remain unwilling to lend to developers



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

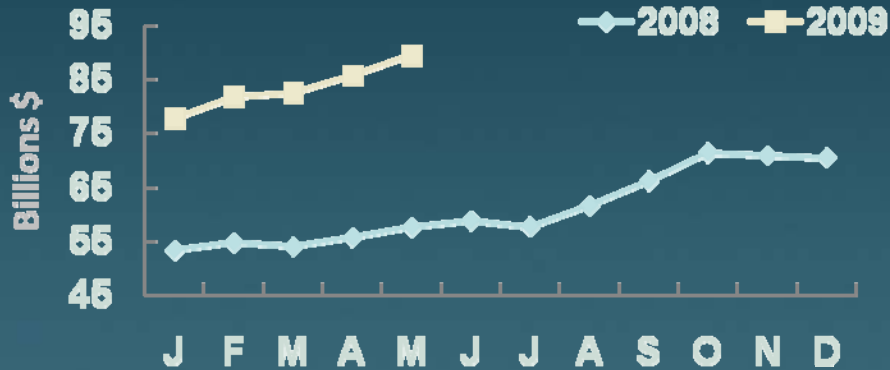
	<b>5/09 Total</b>	<b>Share</b>	<b>vs. 4/09</b>	<b>vs. 5/08</b>
<b>Nonresidential total</b>	\$717 billion	100%	0%	0%
Educational	109	15	+ 1	+ 4
Power	92	13	+ 2	+ 13
Manufacturing	89	12	+ 4	+ 55
Highway and street	79	11	- 1	- 1
Commercial	64	9	- 5	- 28
Office	61	9	- 1	- 12
Health care	48	7	0	+ 2
Transportation	34	5	+ 1	+ 1
Lodging	31	4	- 3	- 18
Sewage and waste disposal	26	4	0	+ 6
Communication	21	3	0	- 29
Other (amusement/recreation; water; public safety; relig.; conservation): 7% of total				



# Construction spending: industrial, heavy

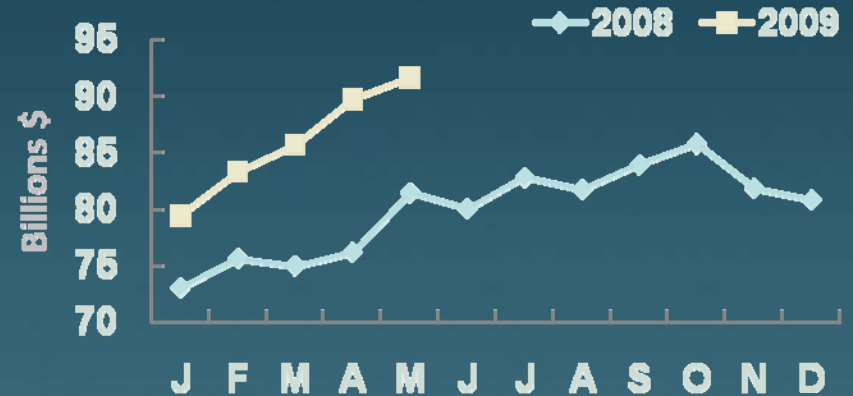
## Manufacturing

1-month: 4.3%  
 12-month: 55.2%



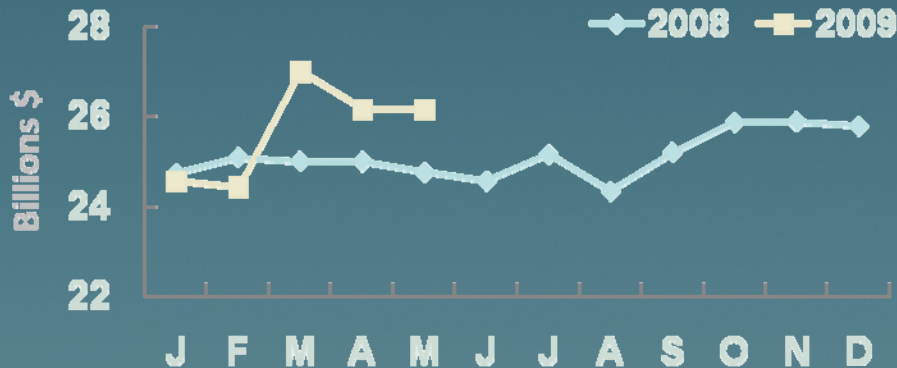
## Power

1-month: 2.1%  
 12-month: 12.6%



## Sewage/Waste Disposal

1-month: 0.0%  
 12-month: 5.7%



## Transportation

1-month: 1.4%  
 12-month: 1.3%

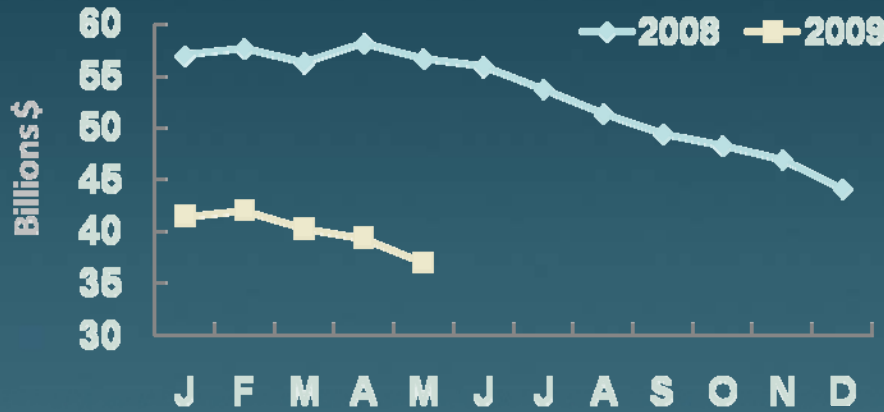




# Construction spending: developer-financed

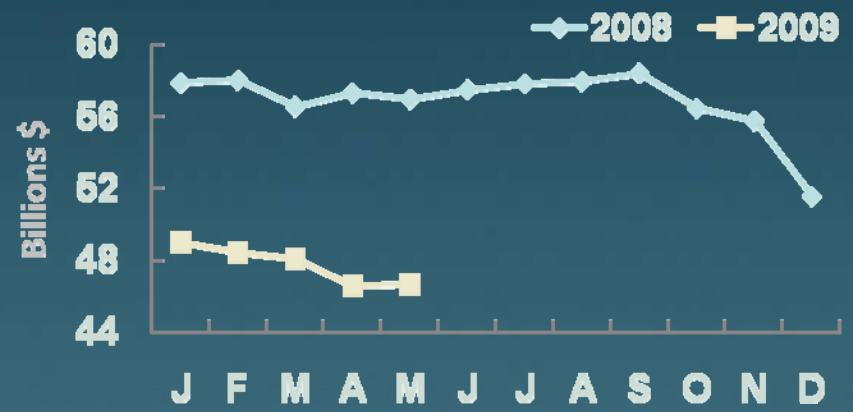
## Nonautomotive Retail

1-month: -6.0%  
 12-month: -34.6%



## Office (private)

1-month: 0.1%  
 12-month: -18.2%



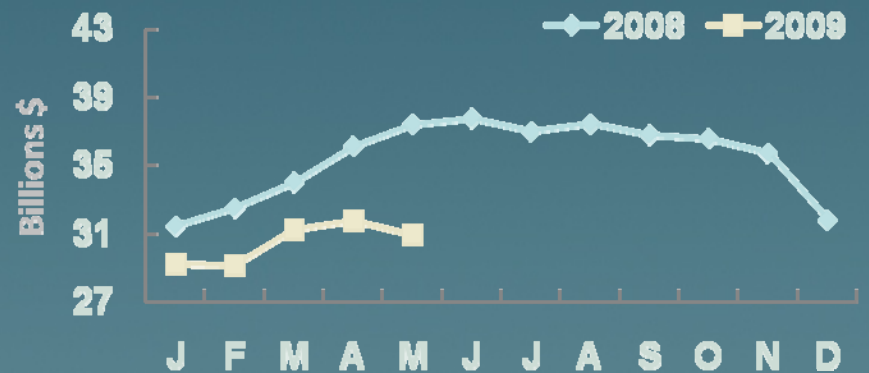
## Warehouses

1-month: -6.0%  
 12-month: -36.5%



## Lodging (private)

1-month: -2.6%  
 12-month: -17.3%

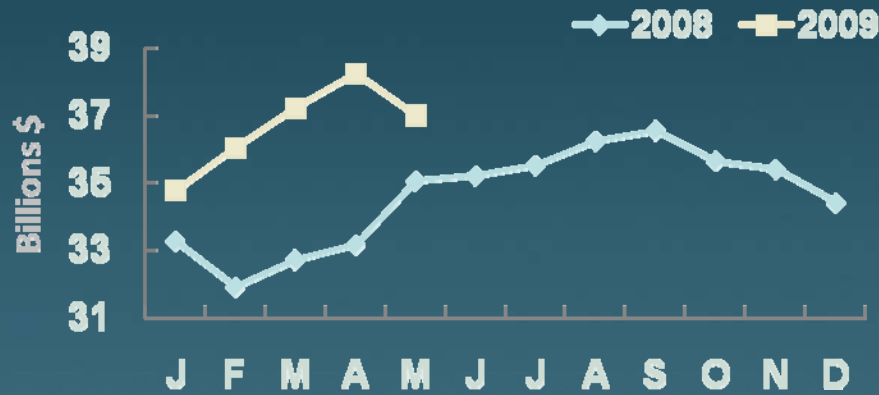




# Construction spending: institutional (private + state/local)

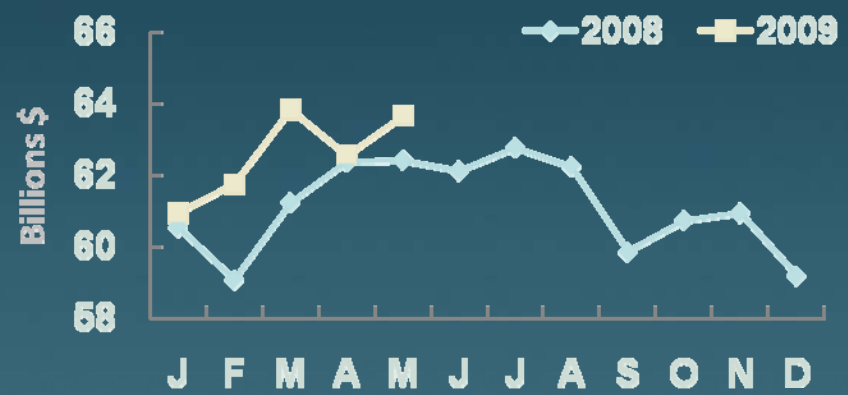
**Higher Ed.**

1-month: -3.2%  
 12-month: 5.6%



**Primary/Secondary Ed.**

1-month: 1.8%  
 12-month: 2.0%



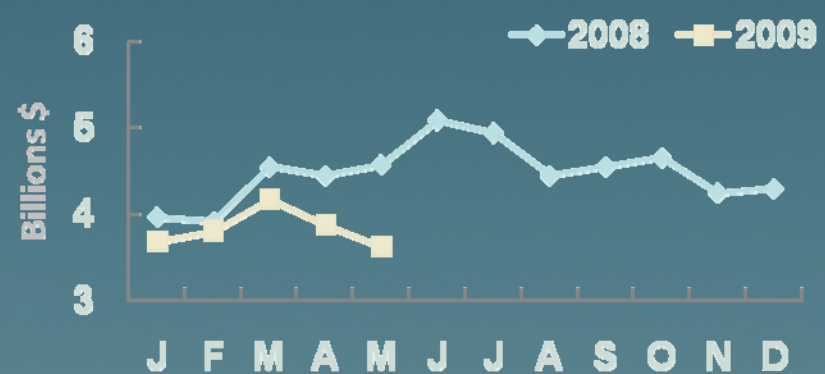
**Hospitals**

1-month: 2.0%  
 12-month: 11.7%



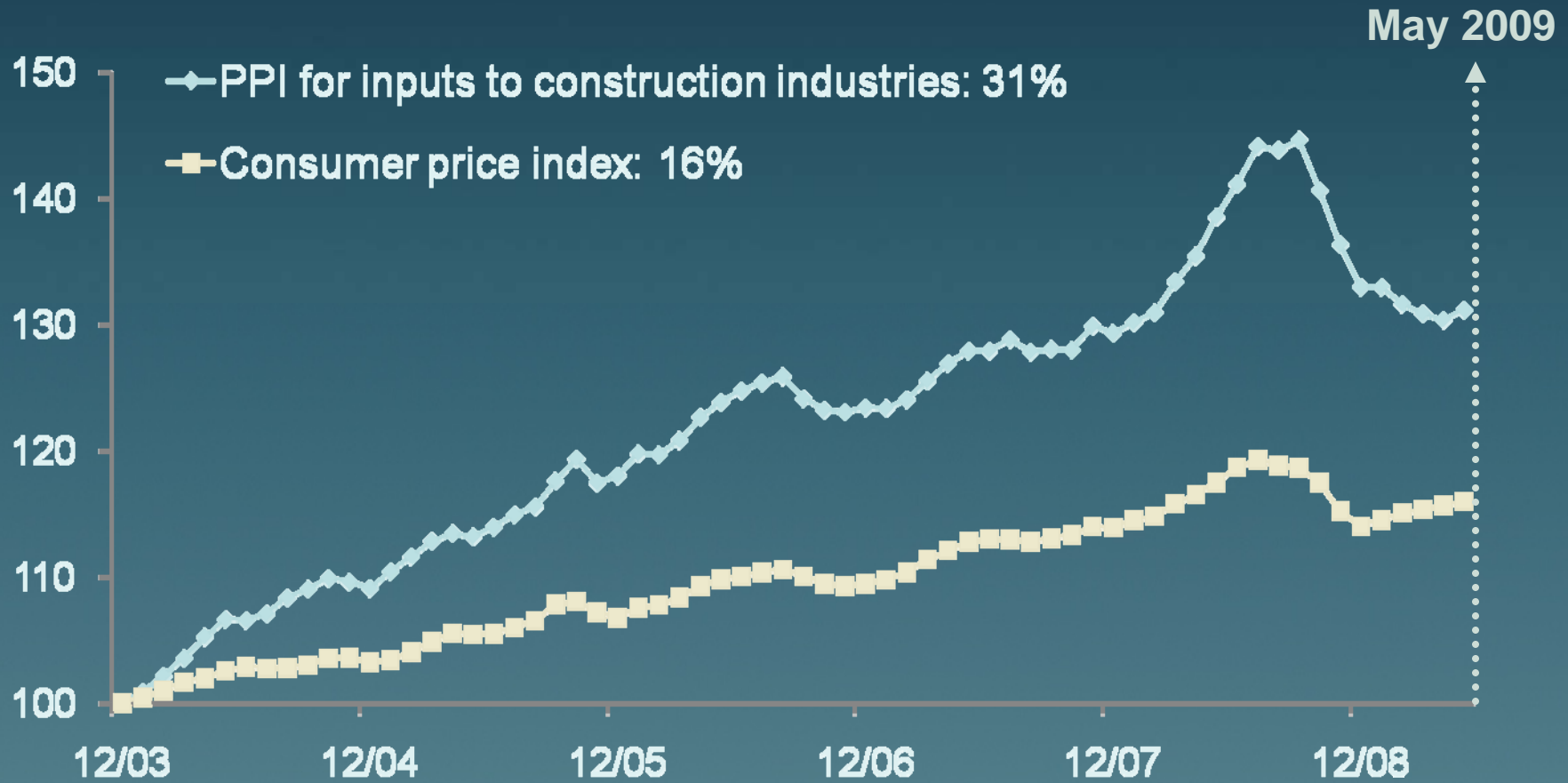
**Special Care**

1-month: -6.5%  
 12-month: -20.7%





## Change in producer prices for construction vs. consumer prices, 2003 - 2009 (December 2003 = 100)

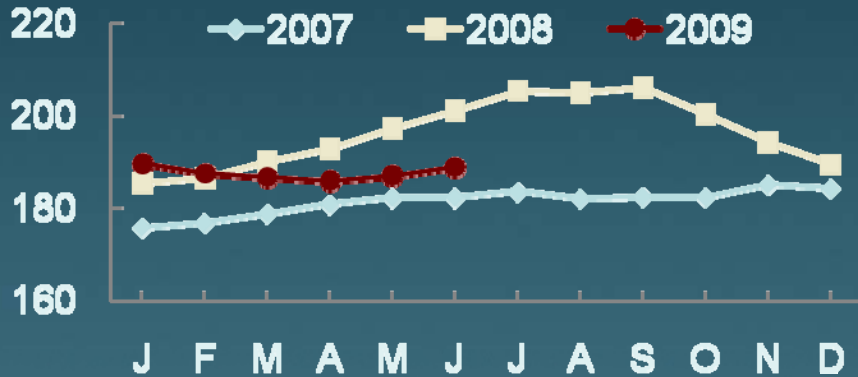




# Producer price indexes, 1/07-6/09

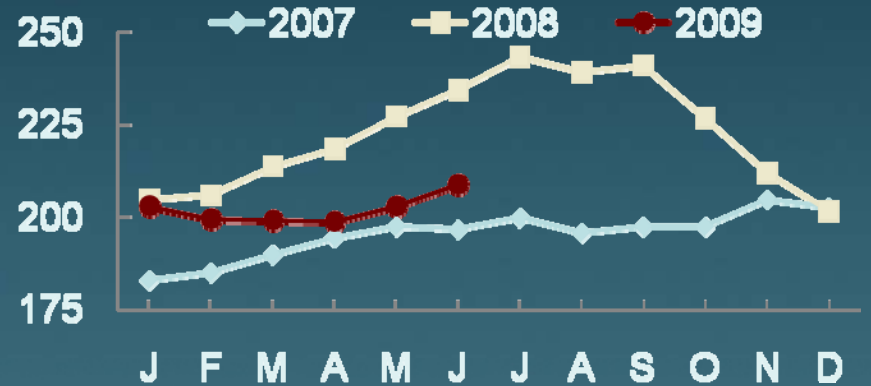
**Inputs to construction industries**

1-month: 1.0%  
 12-month: -6.1%



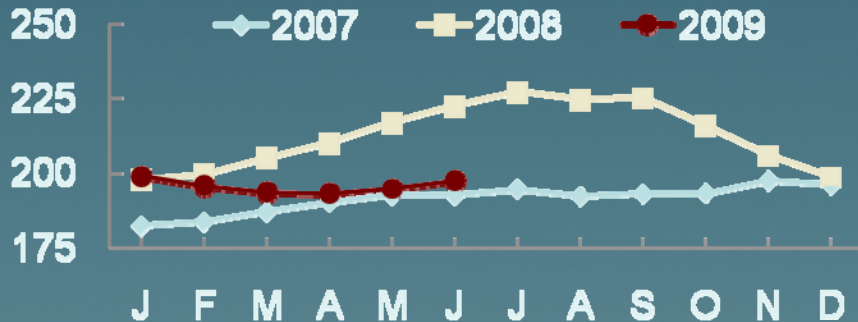
**Highway & street construction**

1-month: 3.0%  
 12-month: -11.0%



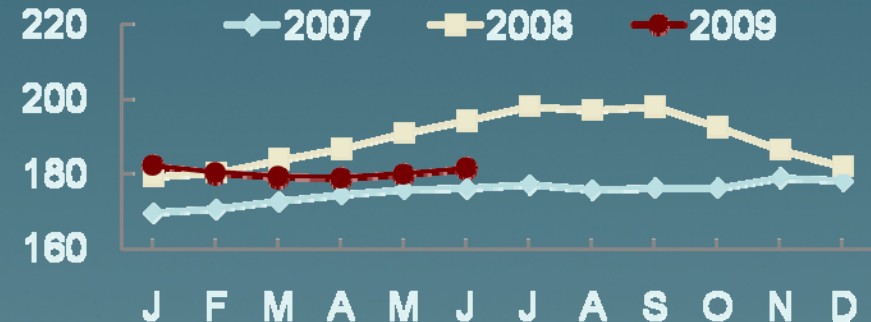
**Other heavy construction**

1-month: 1.4%  
 12-month: -11.4%



**Nonresidential buildings**

1-month: 0.9%  
 12-month: -6.6%













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

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

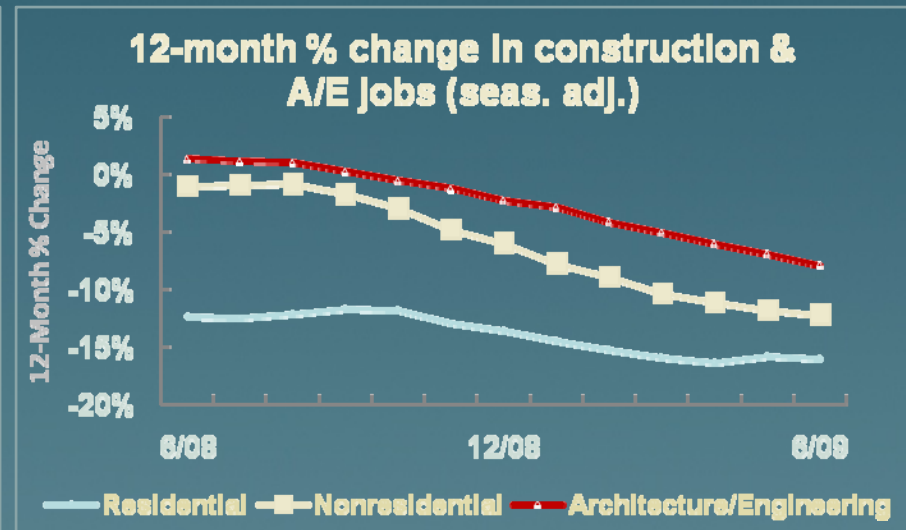
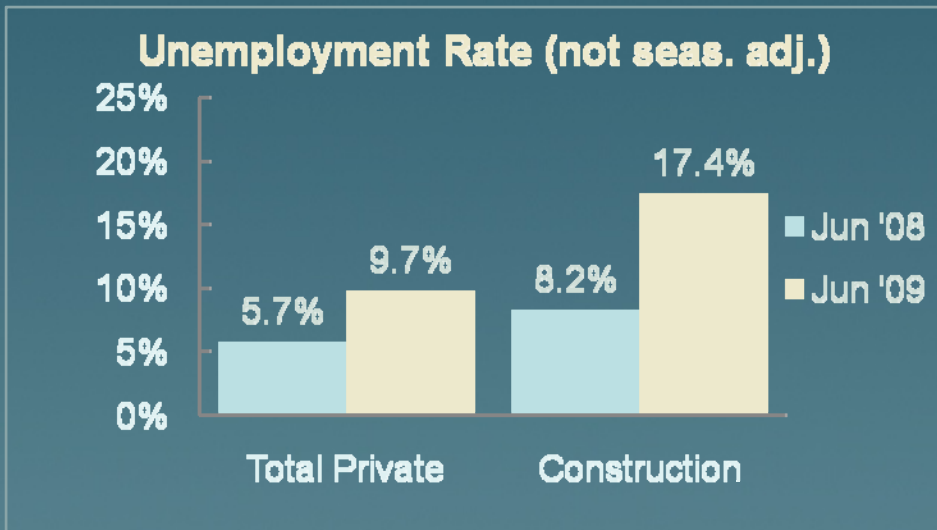
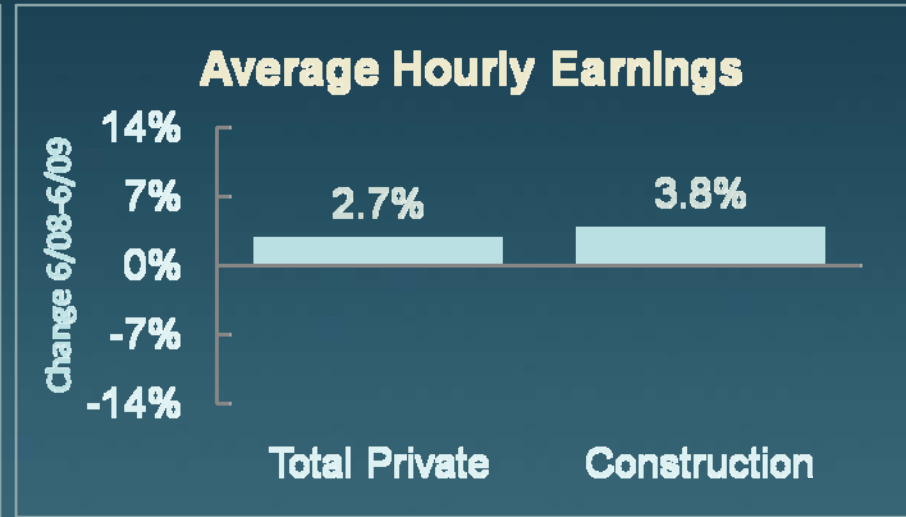
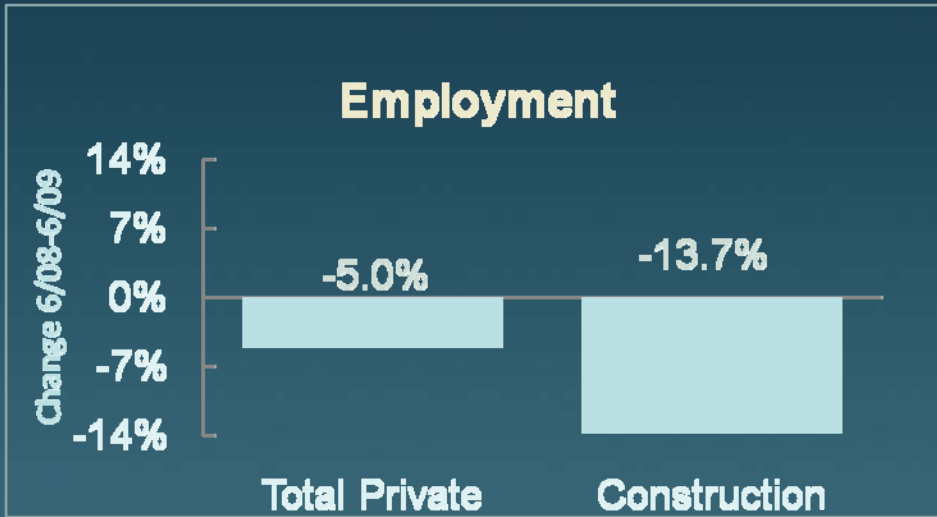


## **Outlook for materials (beyond '09)**

- **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**

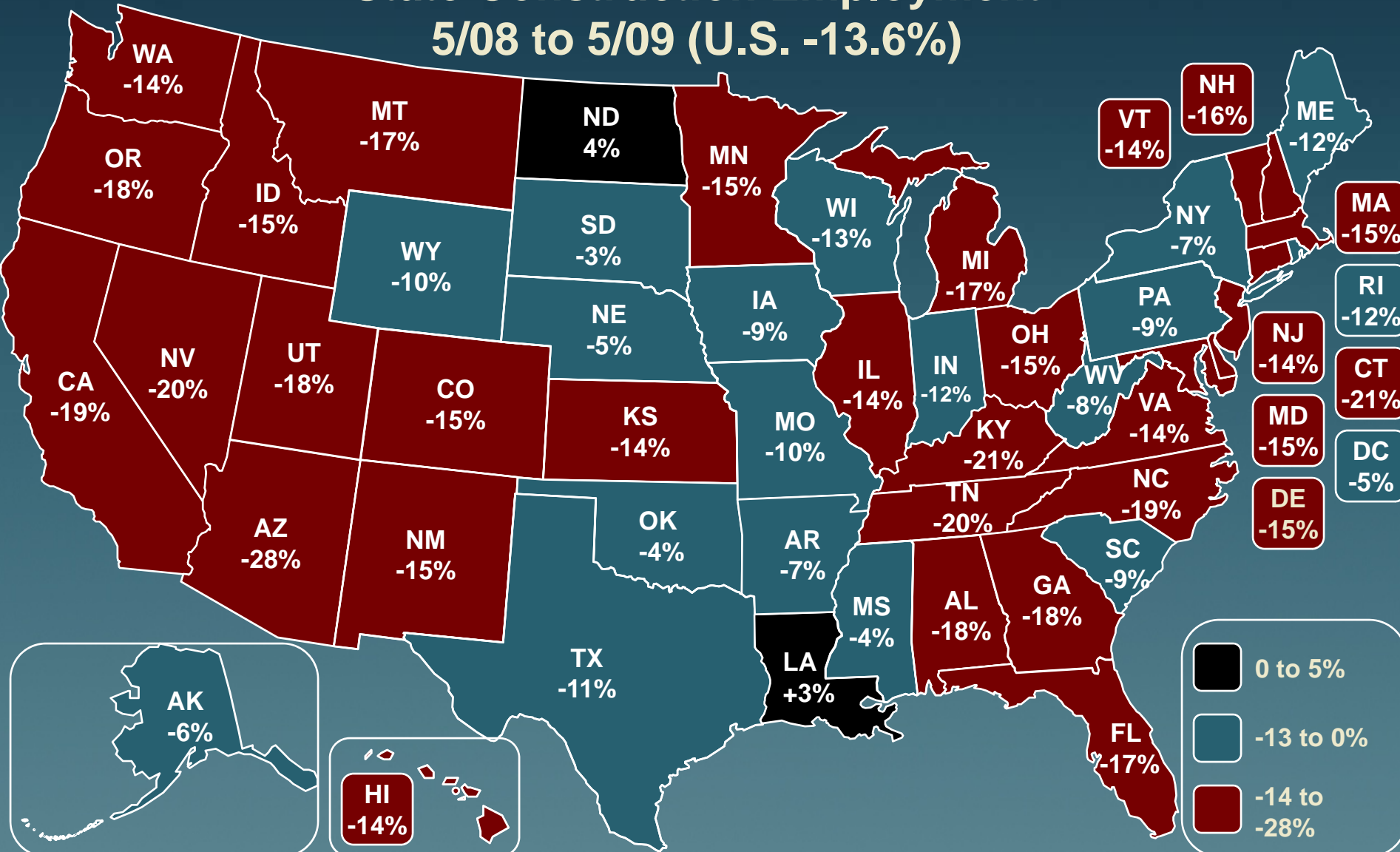


# Construction employment falls, but wages rise





# State Construction Employment 5/08 to 5/09 (U.S. -13.6%)





## Summary for 2009

- **Nonres spending: -3 to -9% (up: power, BRAC, stimulus; down: private, state & local gov-funded)**
- **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% (more stimulus put in place, maybe gains in retail, higher ed, hosp)**
- **Res: +5 to +10% (SF up, 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 and metro data**
- **Stimulus information: [www.agc.org/stimulus](http://www.agc.org/stimulus)**
- **Webinars (next: Thurs., 7/23 , 2-3:30 PM ET)**
- **Feedback on stimulus jobs, credit market**