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# **Construction & Materials Outlook**

**December 16, 2009**

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**AGC of America**

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## Current economic influences

- Muni bond market is working, 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))



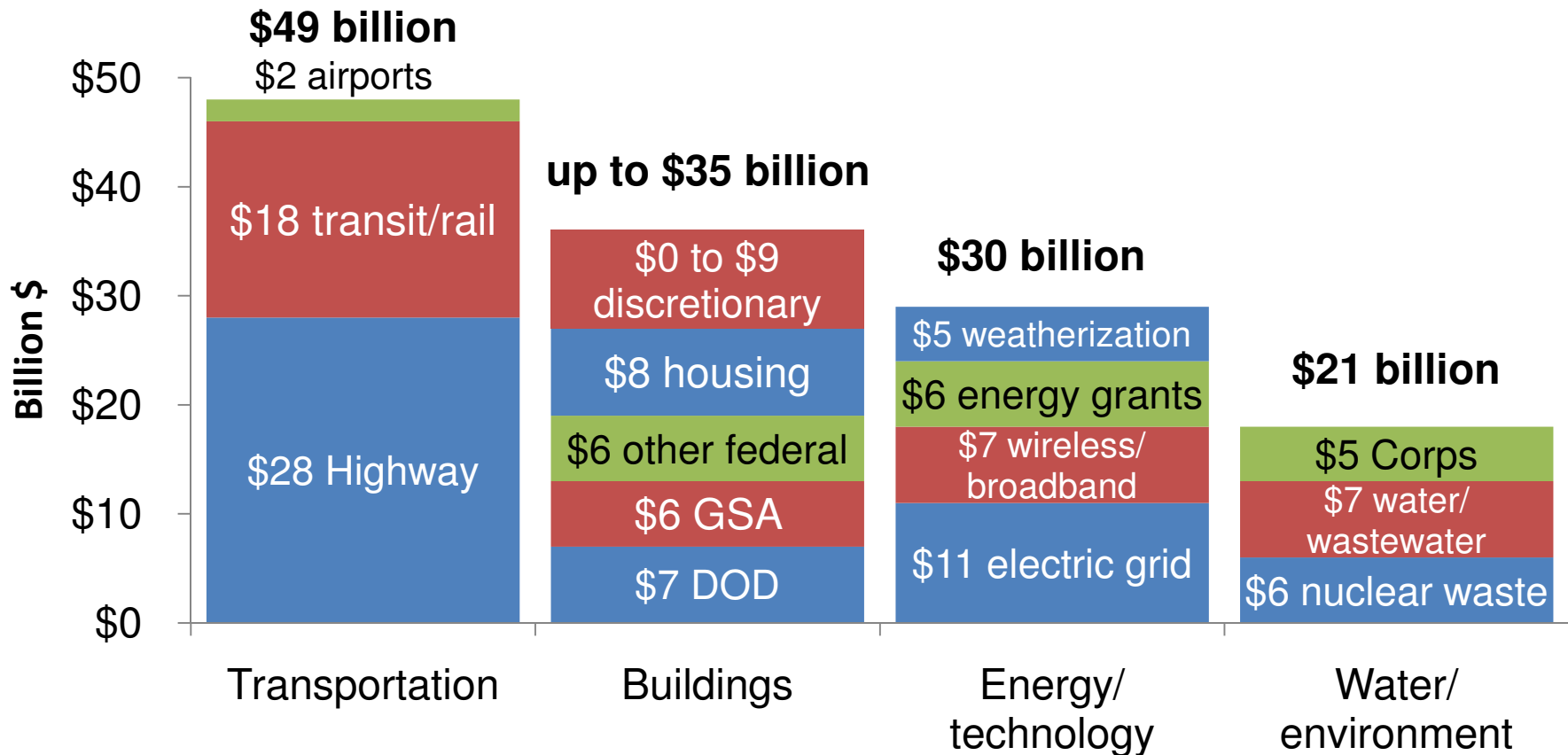
## Economic stimulus package

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 (~\$135 bil.)





## Stimulus tax provisions affecting construction

- 1-year delay (to 2012) in 3% withholding on gov. contracts
- Increased expensing
- 5-year carryback of '08 (and '09) net operating losses
- \$8000 homebuyer tax credit, now extended to June '10
- “Build America” bonds
- Bonds for school construction, “recovery zones,” tribal areas, renewable energy, energy conservation
- Modified renewable energy, conservation credits



## 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
  - No E-Verify requirement or broad-based FAR
  - No project labor agreement mandate, but...



## Economic impact of nonresidential construction

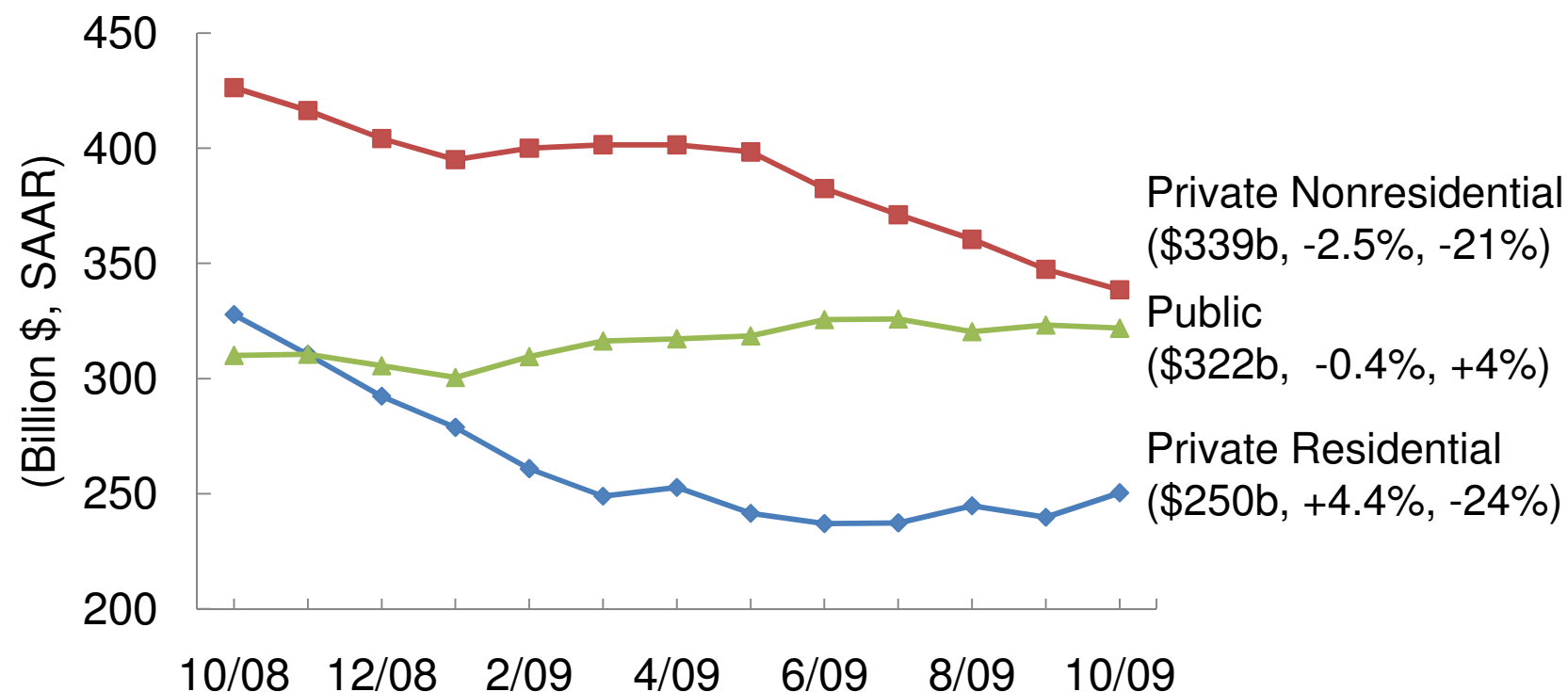
- **Jobs:** 28,500 per \$1 billion
  - 1/3 direct, onsite construction
  - 1/6 indirect, supplying industries
  - 1/2 induced by direct, indirect spending
- **GDP:** \$3.4 billion
- **Personal Earnings:** \$1.1 billion



## Construction spending by segment, 1- & 12-month change

Billion \$, seasonally adjusted annual rate (SAAR)

**Oct. '09: \$911 billion, 1-month change: 0%, 12-month change: -14%**

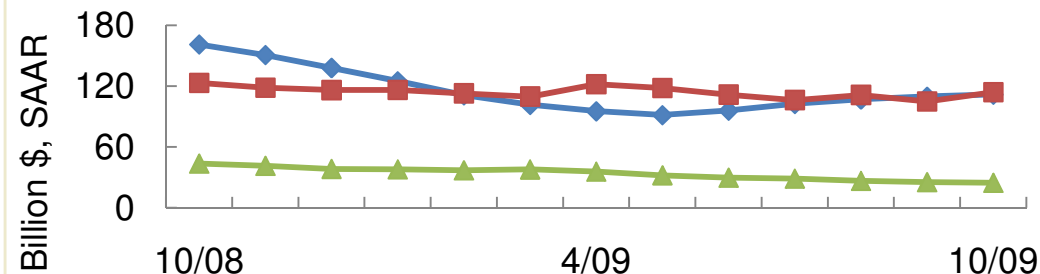






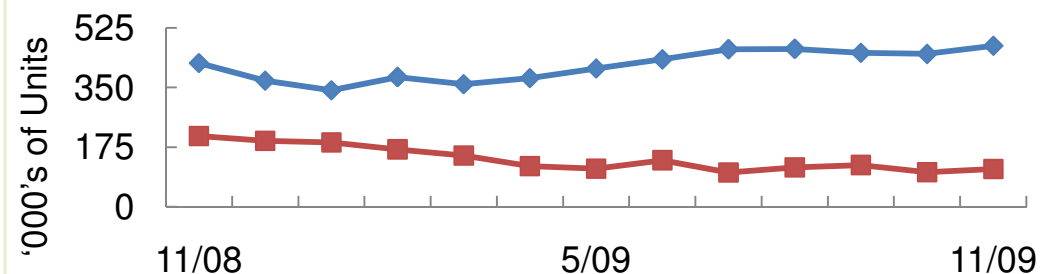
## Single-family (SF) vs. multifamily (MF)

### Construction spending



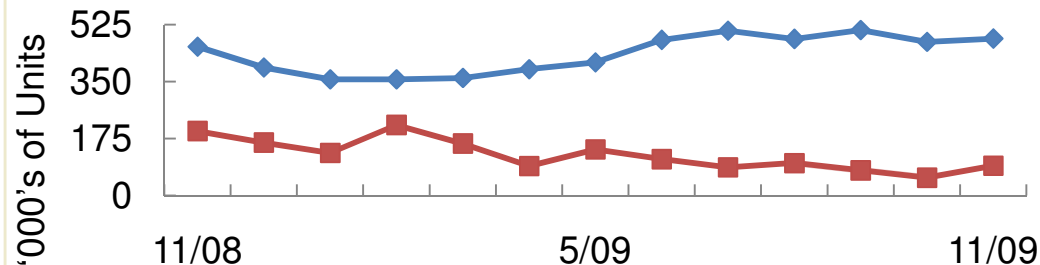
	vs. 9/09	vs. 10/08
SF	+1.9%	-31%
Improvements	+8.7%	-7%
MF	-2.1%	-44%

### Building permits



	vs. 10/09	vs. 11/08
SF	5%	12%
MF	9%	-47%

### Housing starts



	vs. 10/09	vs. 11/08
SF	2%	5%
MF	67%	-54%



## Housing outlook

- **SF:** starts, permits now rising steadily; 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 and by first-time homebuyer credit
  - Supply swelled by owners and who are trying to rent out houses and condos
  - Banks remain unwilling to lend to developers



## Nonres totals (billion \$, SAAR), share, 1- & 12-month change

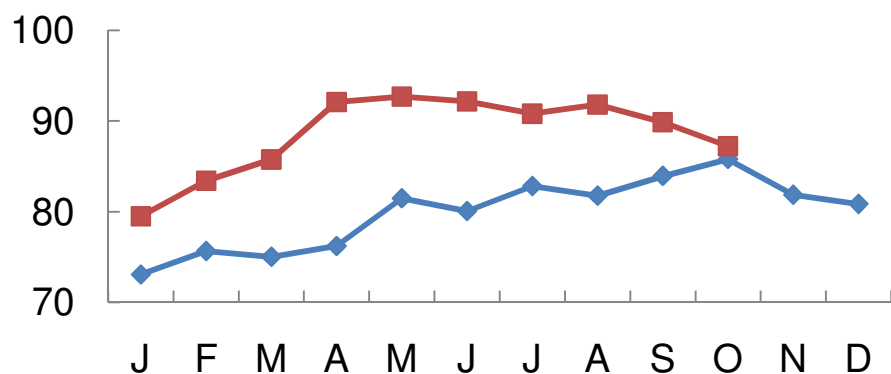
	10/09 Total	Share	vs. 9/09	vs. 10/08
Nonresidential	\$652 billion	100%	- 2%	- 11%
Educational	102	16	+ 1	- 3
Highway and street	87	13	0	+ 5
Power	87	13	- 3	+ 2
Manufacturing	67	10	- 2	- 6
Office	51	8	0	- 28
Commercial	50	8	- 3	- 38
Health care	46	7	- 1	- 6
Transportation	37	6	- 3	+ 8
Sewage and waste disposal	25	4	- 1	- 4
Lodging	20	3	- 6	- 45
Communication	19	3	- 5	- 12
Other (amusement; water; public safety; religious; conservation):	9% of total			



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

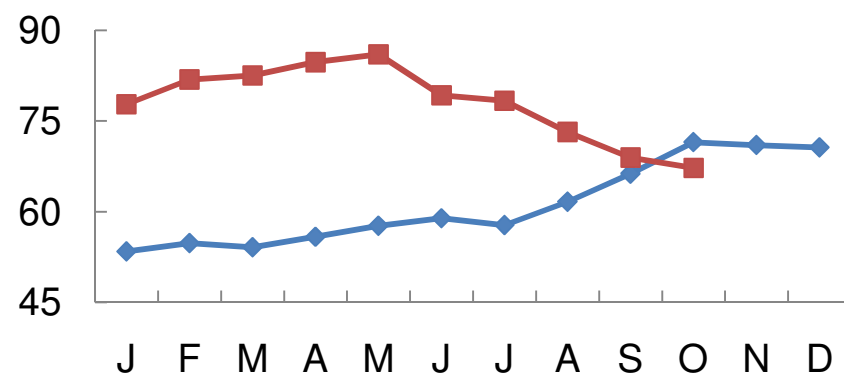
**Power (86% private)**      ◆ 2008    ■ 2009

1-month: -3.0%, 12-month 1.7%



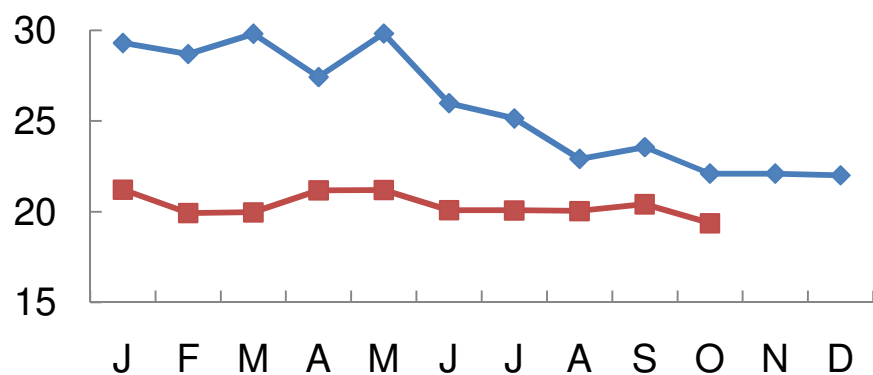
**Mfg. (99% private)**      ◆ 2008    ■ 2009

1-month: -2.5%, 12-month: -5.9%



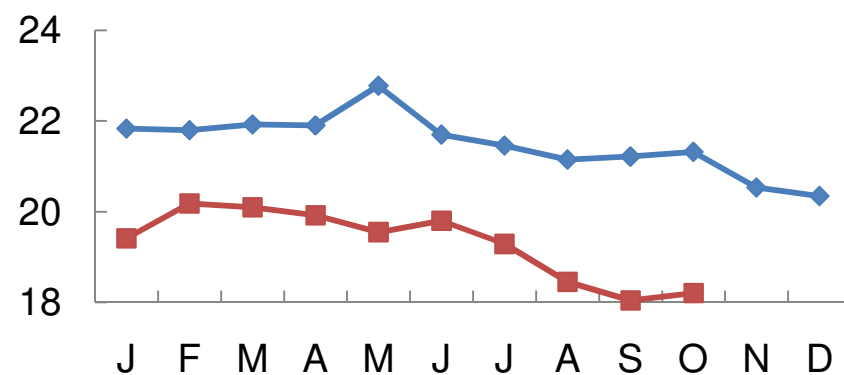
**Communic. (99.8% priv.)**      ◆ 2008    ■ 2009

1-month: -5.1%, 12-month: -12.4%



**Amuse/Rec. (36% priv.)**      ◆ 2008    ■ 2009

1-month: -0.9%, 12-month: -14.6%

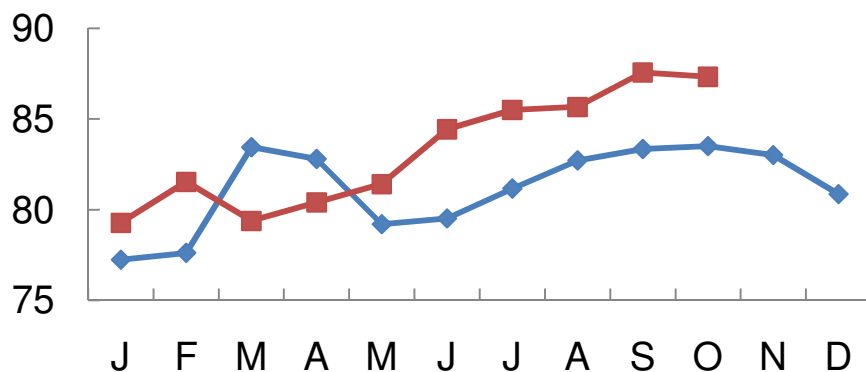




## Construction spending: public works (billion \$, SAAR)

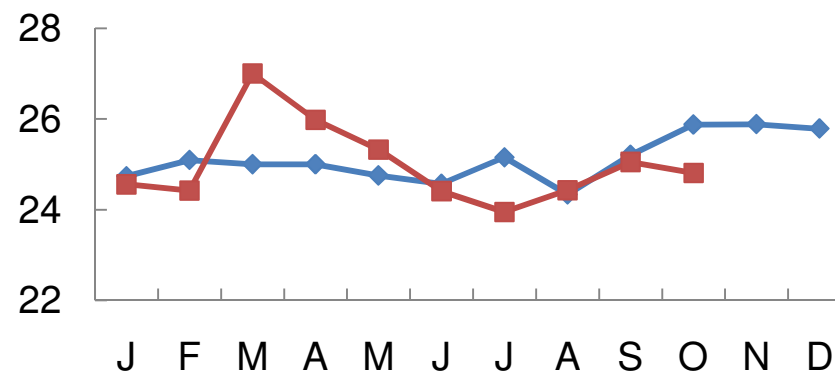
**Highways (99.9% public)**    ◆ 2008    ■ 2009

1-month: -0.3%, 12-month: 4.6%



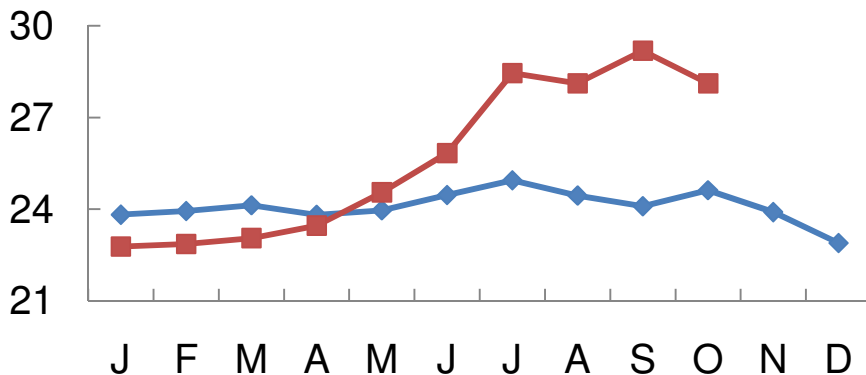
**Sewage/waste(98% pub.)**    ◆ 2008    ■ 2009

1-month: -1.0%, 12-month: -4.1%



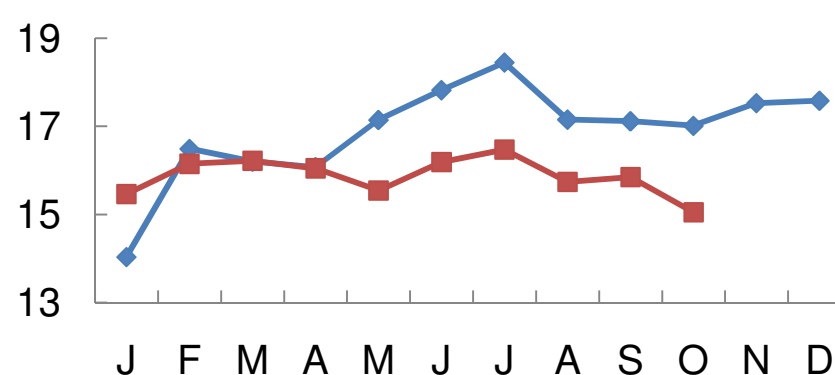
**Transp. facilities (public)**    ◆ 2008    ■ 2009

1-month: -3.6%, 12-month: 14.2%



**Water (98% public)**    ◆ 2008    ■ 2009

1-month: -5.1%, 12-month: -11.5%

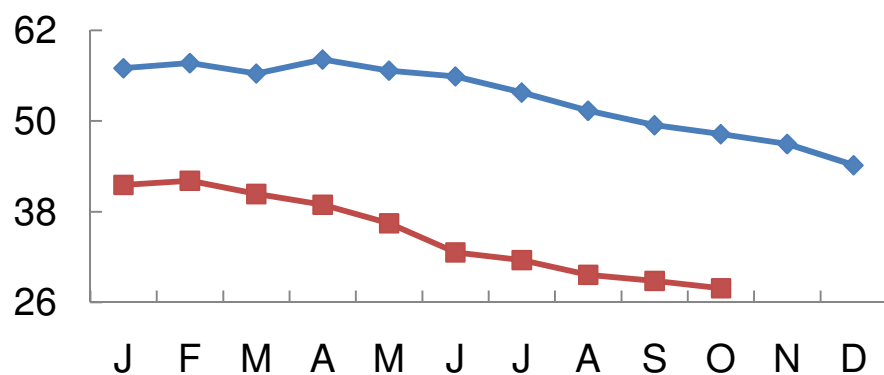




## Construction spending: developer-financed (billion \$, SAAR)

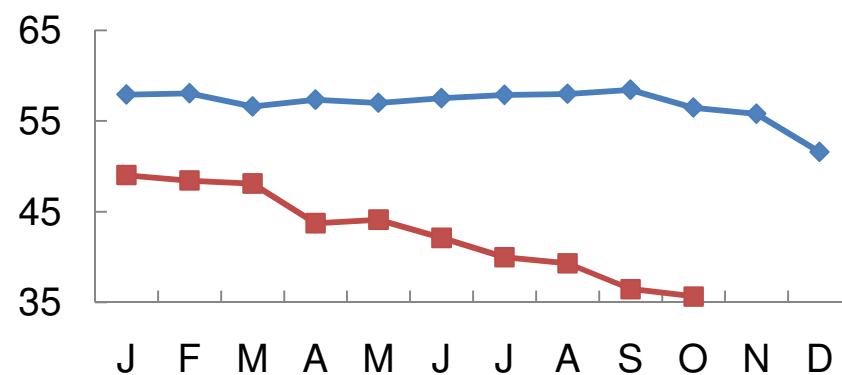
**Nonautomotive Retail**      ◆ 2008    ■ 2009

1-month: -3.3%, 12-month: -42.3%



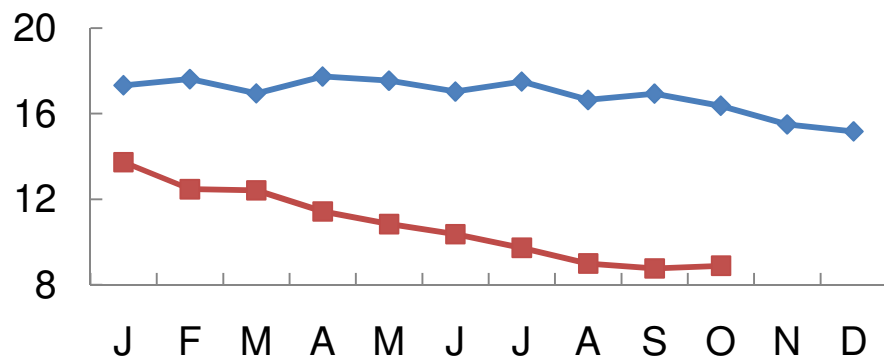
**Office (private)**      ◆ 2008    ■ 2009

1-month: -2.2%, 12-month: -36.9%



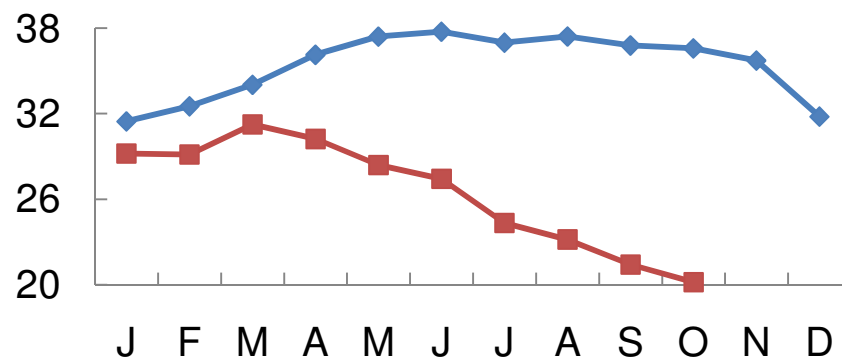
**Warehouses**      ◆ 2008    ■ 2009

1-month: 1.4%, 12-month: -45.7%



**Lodging (private)**      ◆ 2008    ■ 2009

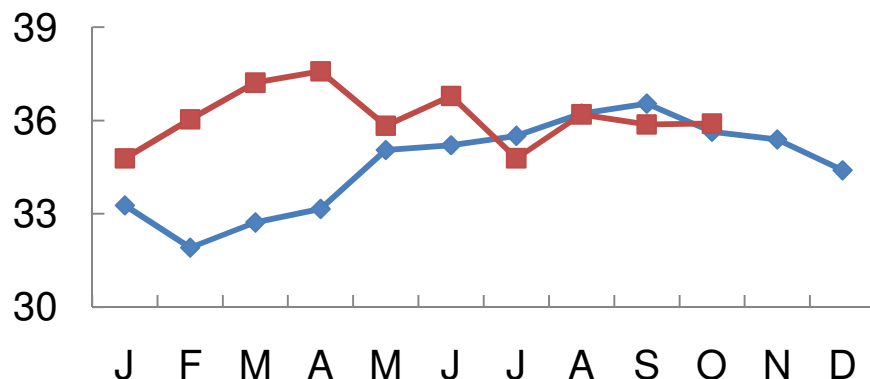
1-month: -5.8%, 12-month: -44.8%



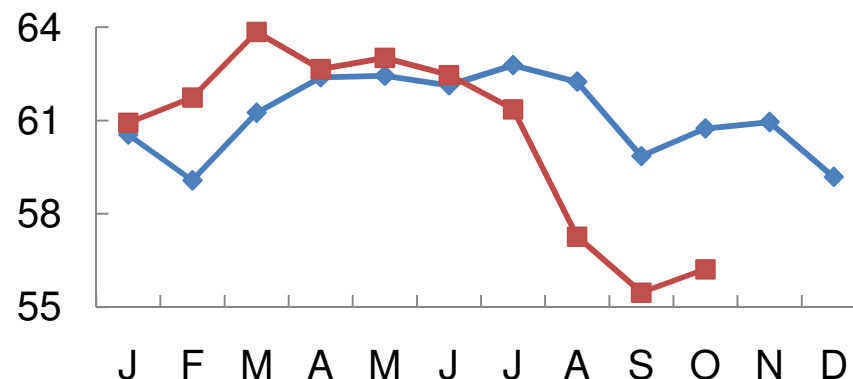


# Construction spending: institutional (private + state/local)

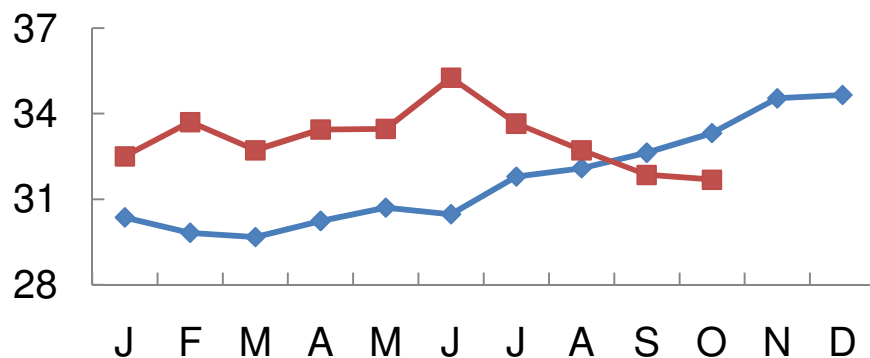
**Higher ed. (29% private)**    ◆ 2008    ■ 2009  
 1-month: 0.1%, 12-month: 0.7%



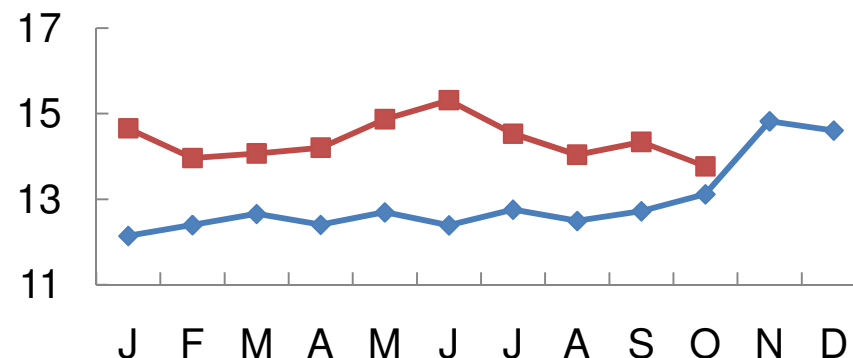
**PreK-12 ed. (5% private)**    ◆ 2008    ■ 2009  
 1-month: 1.4%, 12-month: -7.5%



**Hospitals (83% private)**    ◆ 2008    ■ 2009  
 1-month: -0.5%, 12-month: -4.9%

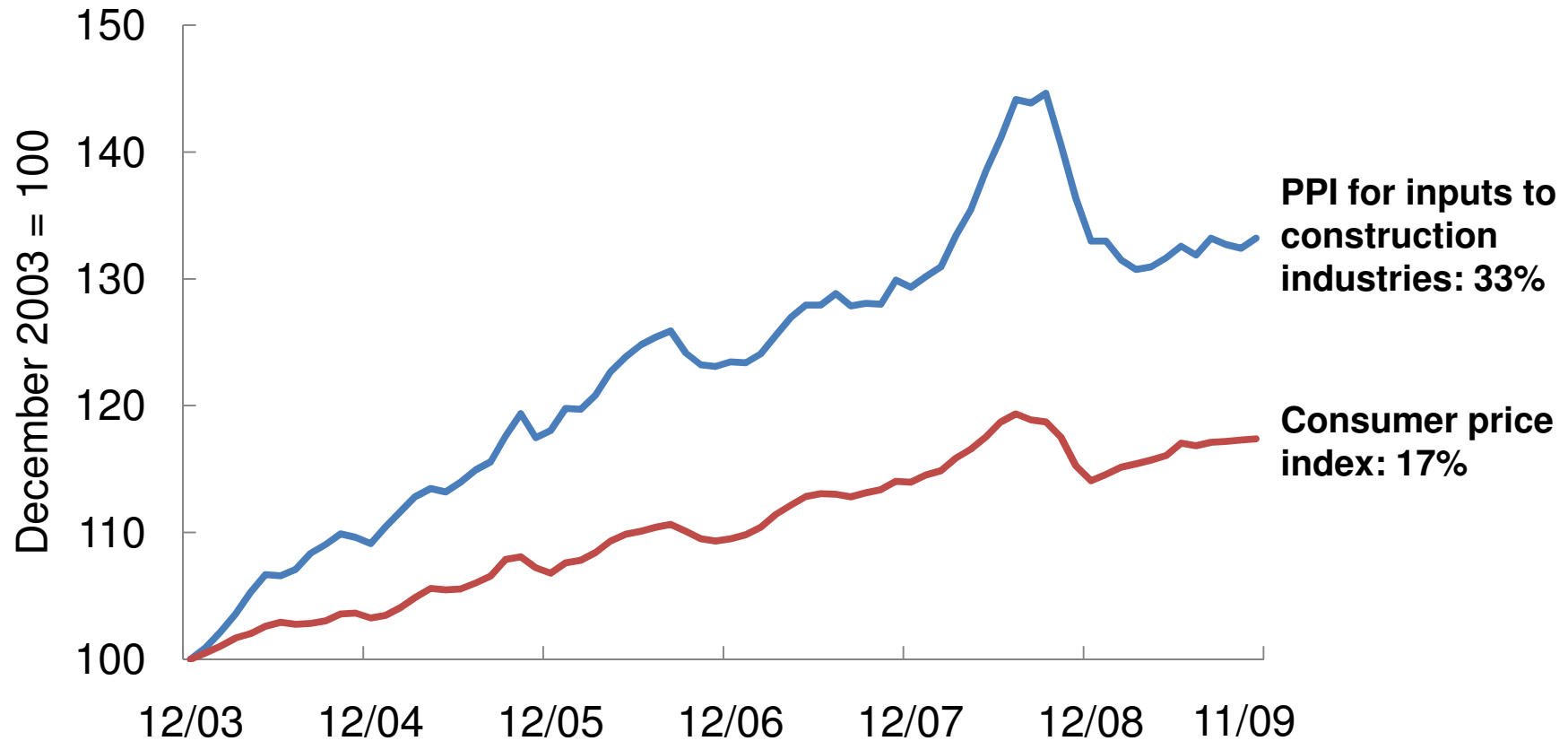


**Public safety**    ◆ 2008    ■ 2009  
 1-month: -4.0%, 12-month: 5.0%





## Producer price index (PPI) for construction vs. consumer price index, 2003-09



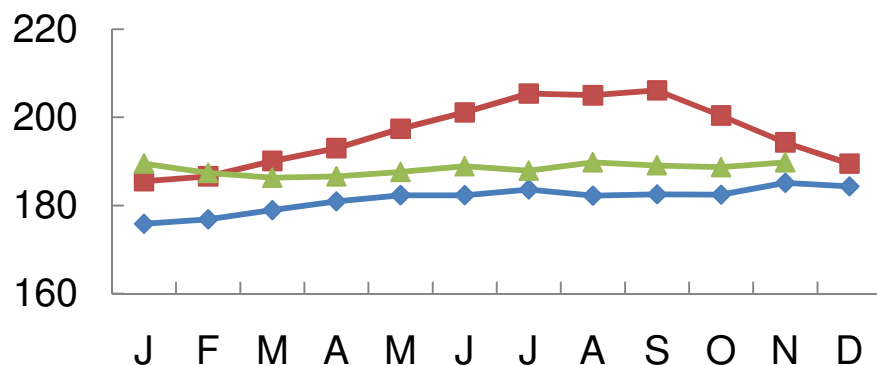




**Producer price indexes, 1/07-11/09**    **◆ 2007**    **■ 2008**    **▲ 2009**

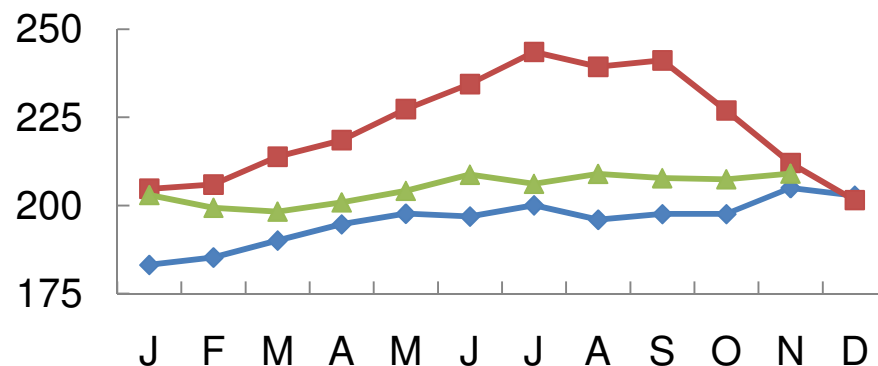
**Inputs to constr. industries**

1-month: 0.6%, 12-month: -2.3%



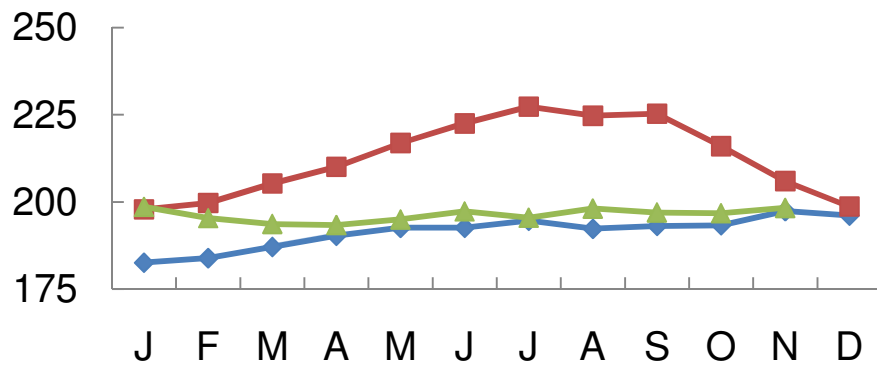
**Highway & street construction**

1-month: 0.8%, 12-month: -1.4%



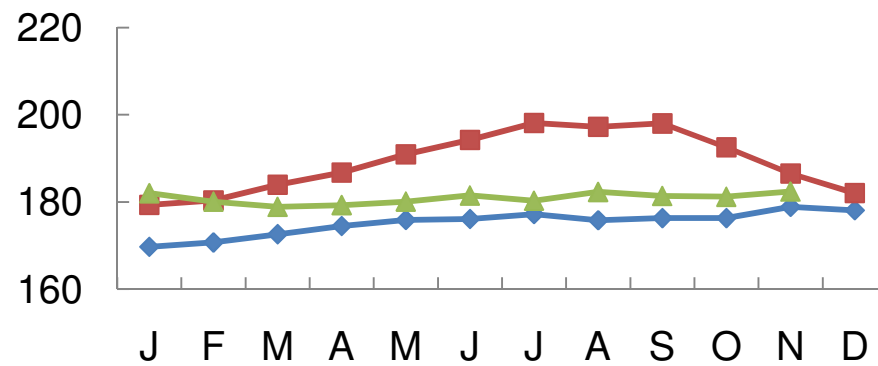
**Other heavy construction**

1-month: 0.8%, 12-month: -3.7%



**Nonresidential buildings**

1-month: 0.7%, 12-month: -2.2%

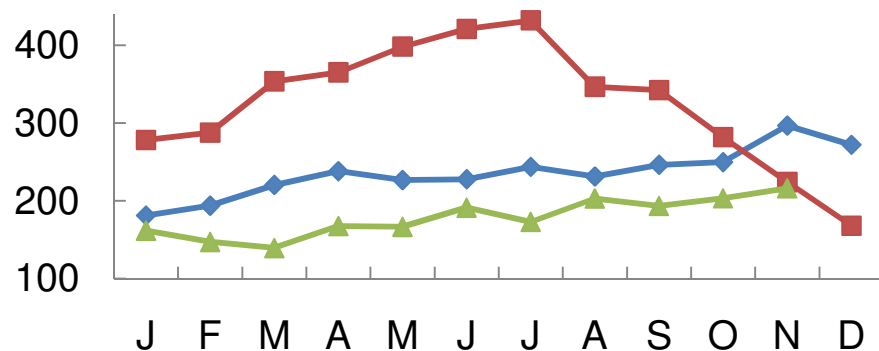




**Producer price indexes, 1/07-11/09**    **◆ 2007**    **■ 2008**    **▲ 2009**

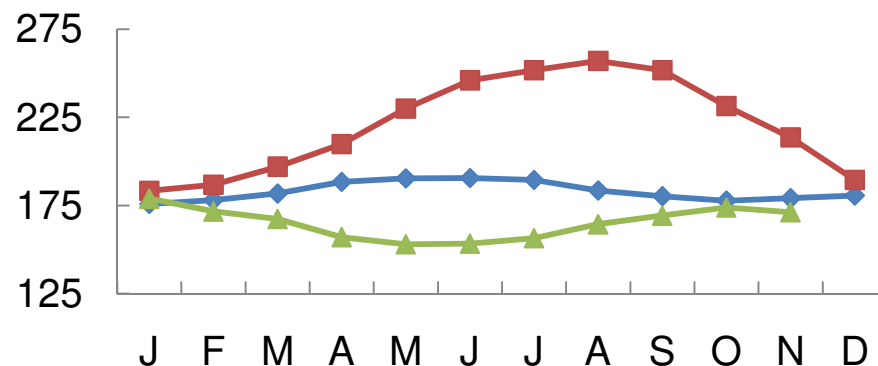
**No. 2 diesel fuel**

1-month: 6.3%, 12-month: -3.7%



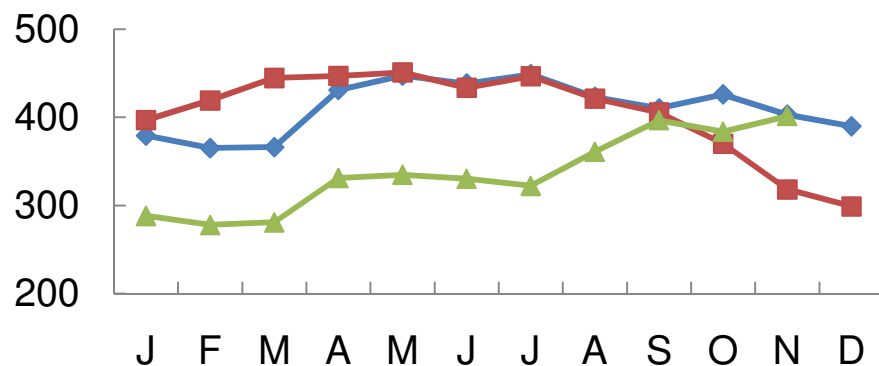
**Steel mill products**

1-month: -1.6%, 12-month: -19.9%



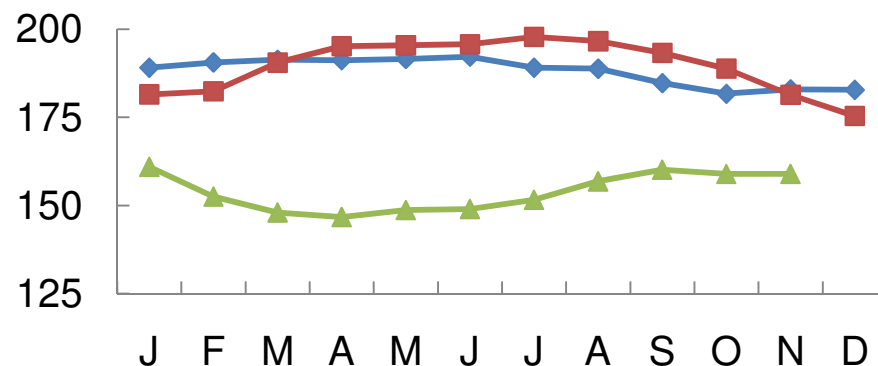
**Copper and brass mill shapes**

1-month: 4.6%, 12-month: 26.2%



**Aluminum mill shapes**

1-month: 0.0%, 12-month: -12.4%

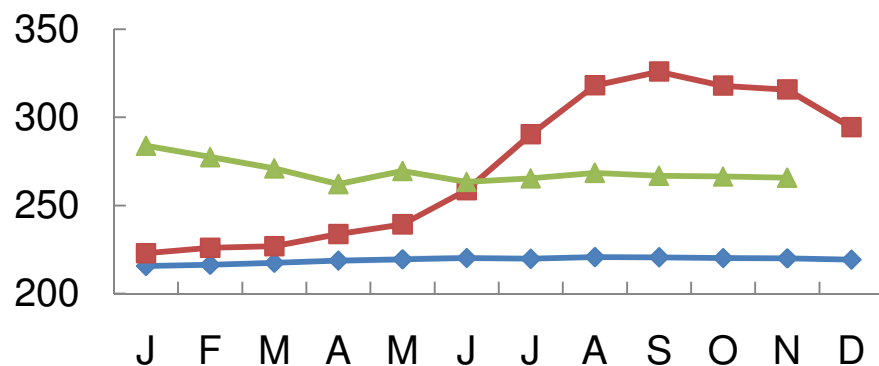




**Producer price indexes, 1/07-11/09**    **2007**    **2008**    **2009**

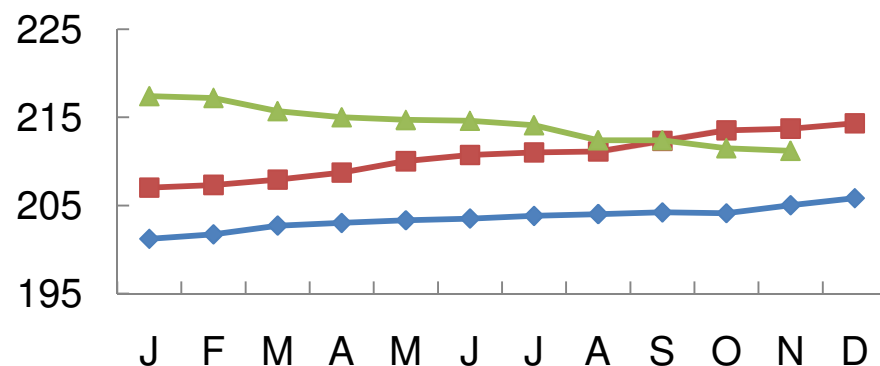
**Asphalt paving mixtures & blocks**

1-month: -0.3%, 12-month: -15.8%



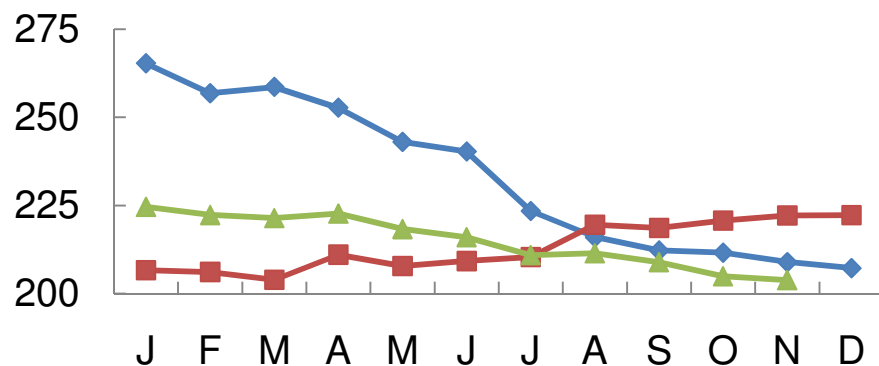
**Concrete products**

1-month: -0.1%, 12-month: -1.2%



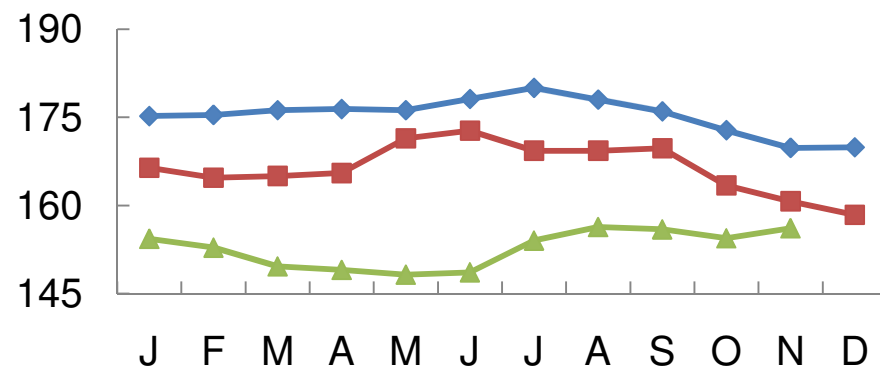
**Gypsum products**

1-month: -0.5%, 12-month: -8.2%



**Lumber and plywood**

1-month: 1.1%, 12-month: -2.9%





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

- Lower year-over-year average prices: diesel, copper, steel, aluminum, lumber
- Possible increases: concrete, gypsum, asphalt
- PPI change, Dec. '09 vs. Dec. '08: -4% to 0%
- A limited-time sale...

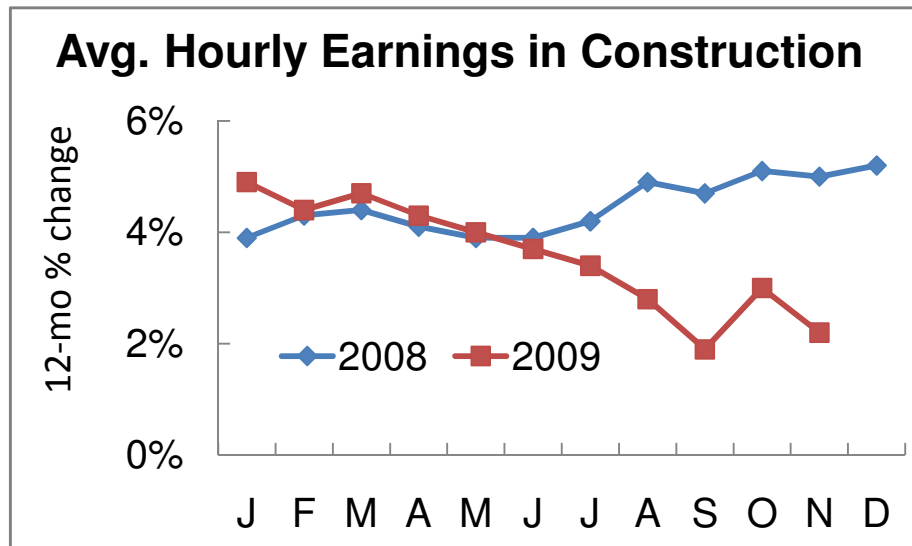
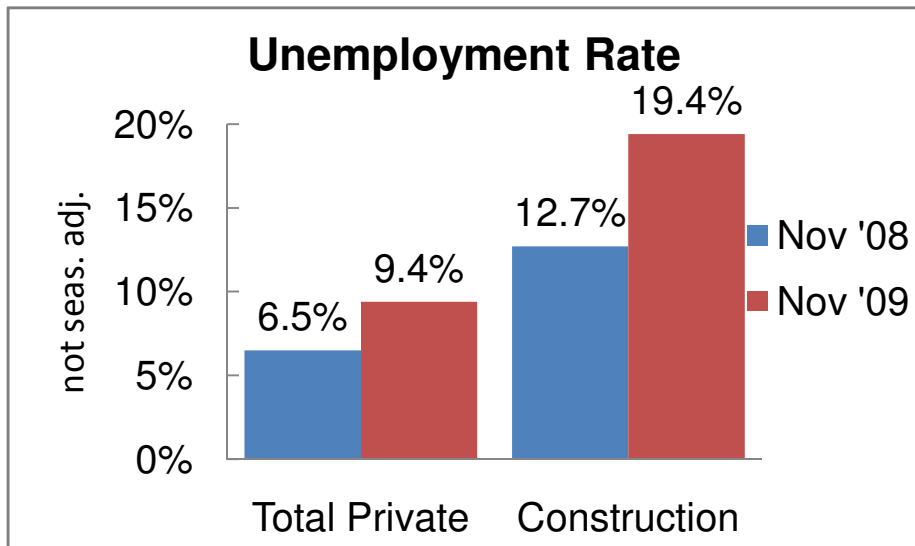
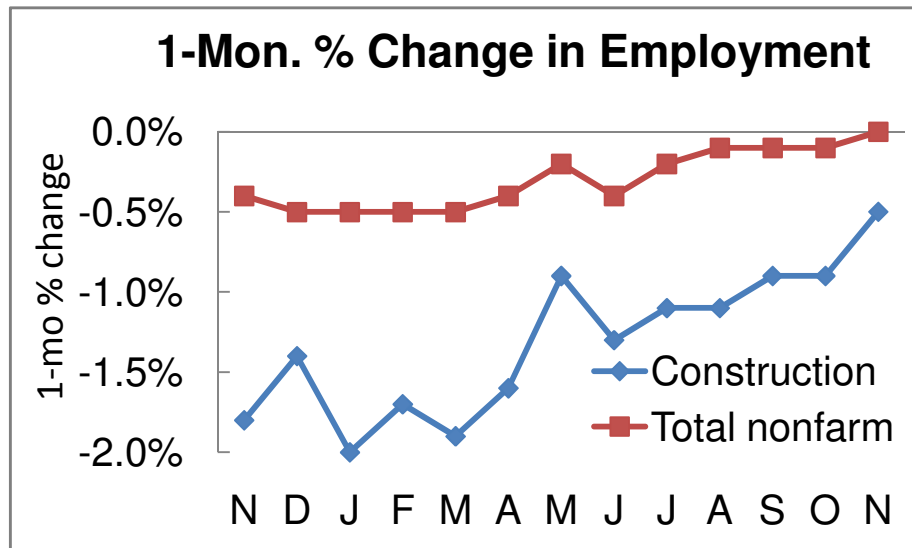
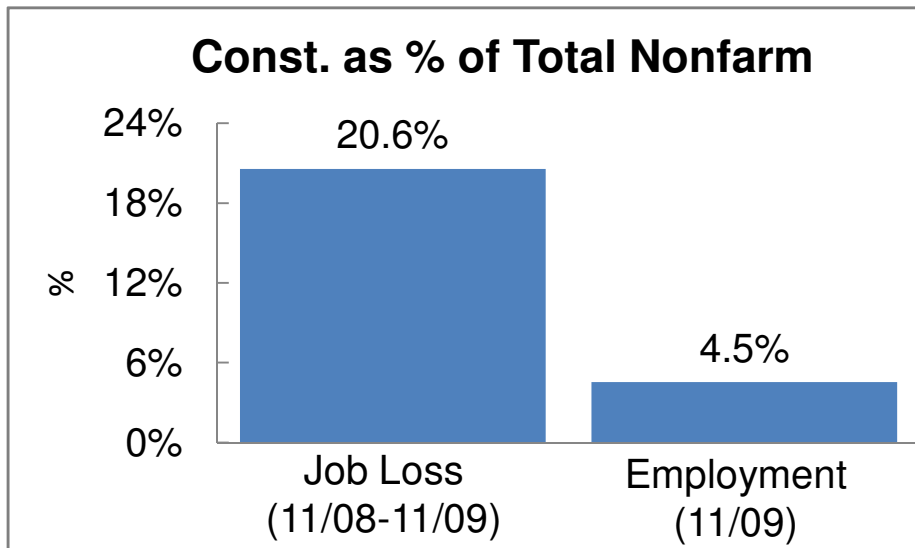


## Outlook for materials (beyond '09)

- **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**
- **Allow for 6 to 8% PPI increases, higher spikes**

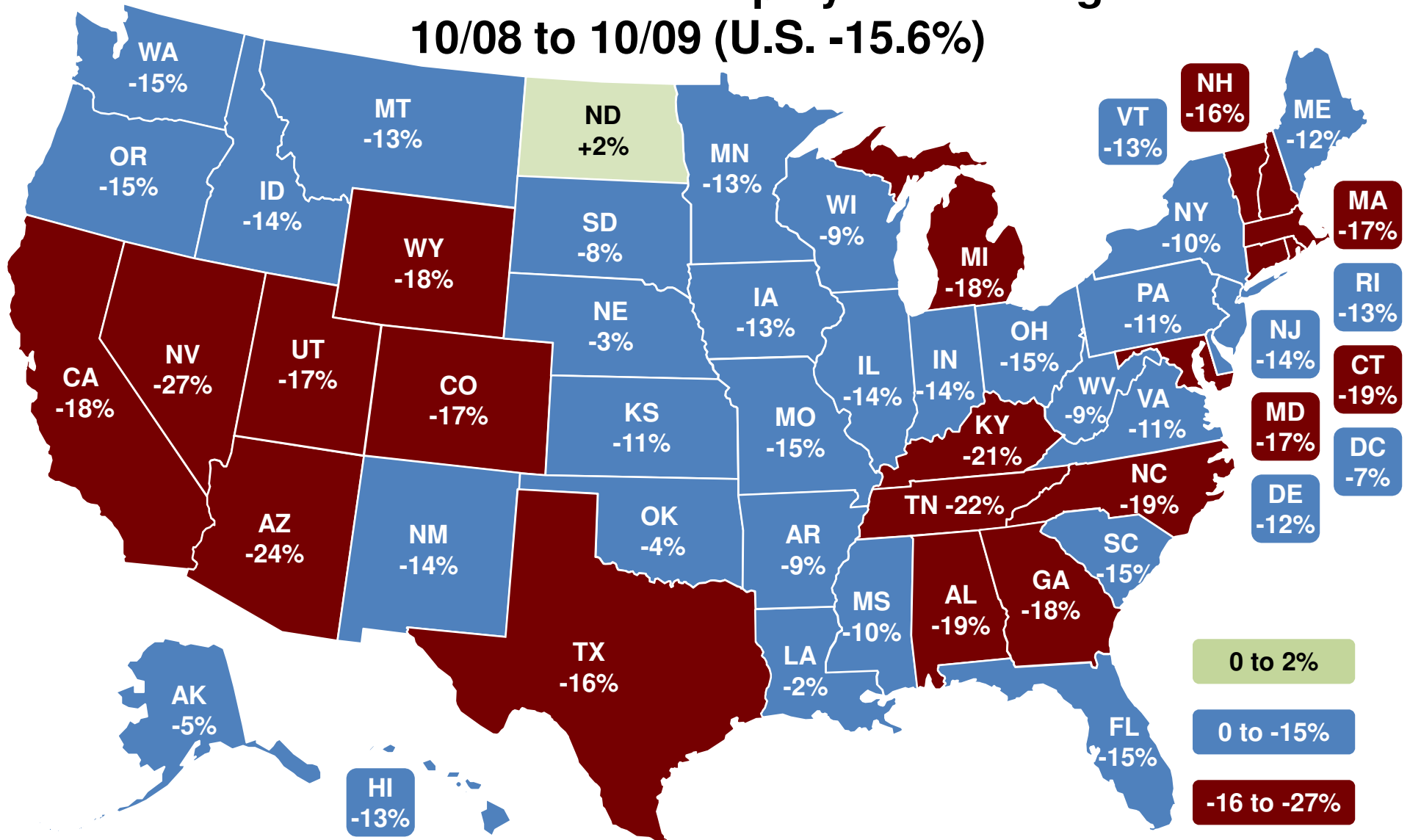


# Construction employment falls, wage increases shrink



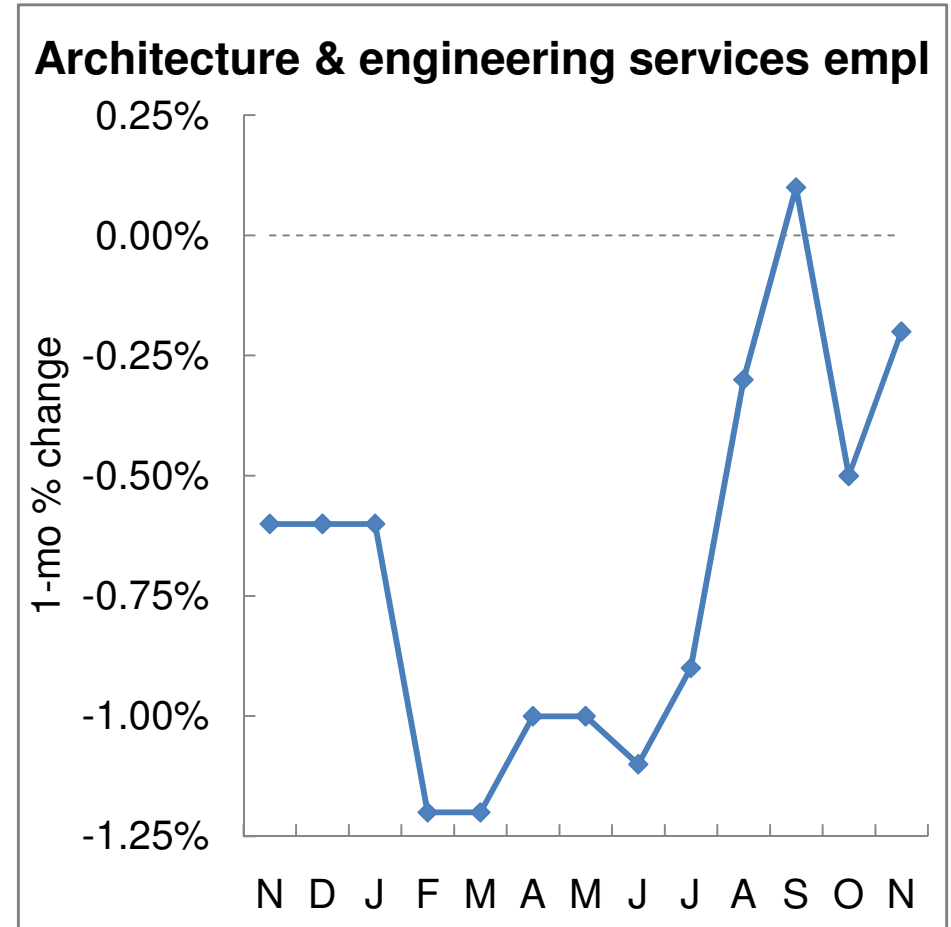
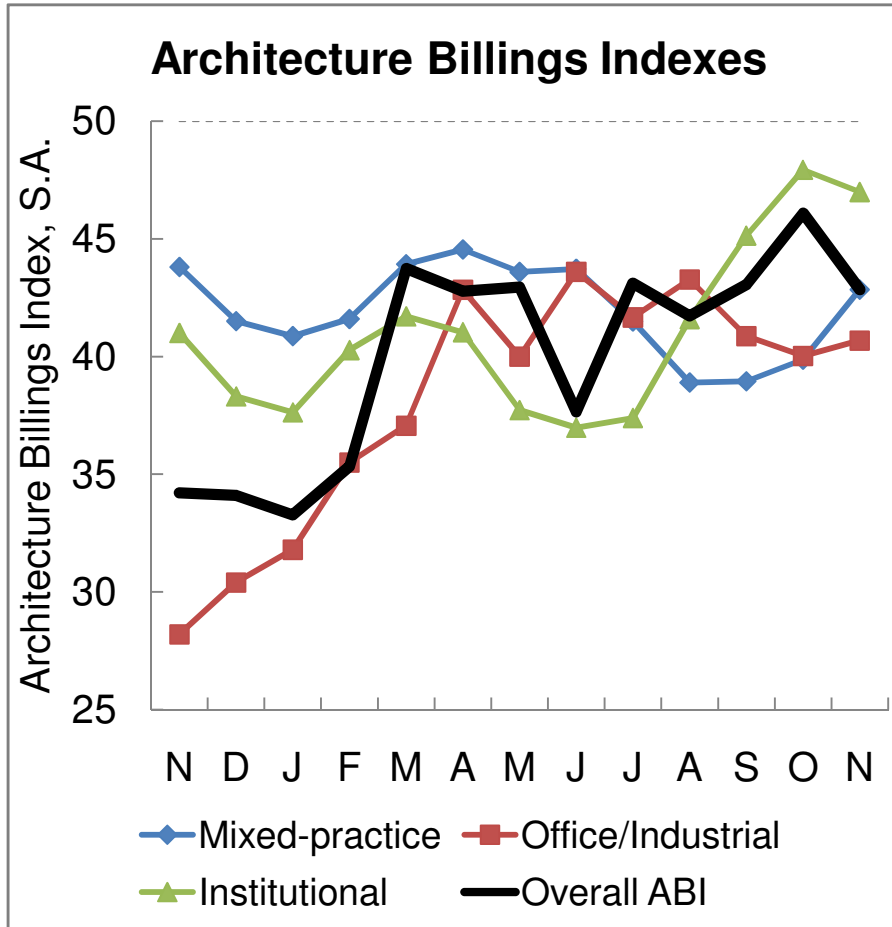


## State Construction Employment Change 10/08 to 10/09 (U.S. -15.6%)





# Predictors of construction demand



Source: American Institute of Architects, BLS





## Summary for 2009

- Nonres spending: -3 to -7% (up: power, mfg., BRAC, stimulus; down: developer-, state & local gov-funded)
- Res: -35 to -40% (SF up in 2d half, MF down all year)
- Total res + nonres (full year 09 vs. 08): -12 to -15%
- Materials costs (Dec. 09 vs. Dec. 08): -4% to 0%
- Labor costs (Dec. 09 vs. Dec. 08): +2% to +3%



## Summary for 2010

- Nonres spending: 0 to -5% (more stimulus put in place, maybe gains in retail, higher ed, hospitals)
- 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 (email [simonsonk@agc.org](mailto:simonsonk@agc.org))

- *The Data DIGest*: weekly one-page email (sign up: [www.agc.org/datadigest](http://www.agc.org/datadigest))
- PPI tables: emailed monthly
- State and metro data
- Stimulus info: [www.agc.org/stimulus](http://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 non-supervisory 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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