



Construction & Materials Outlook

September 4, 2009

Ken Simonson, Chief Economist

AGC of America

simonsonk@agc.org



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)



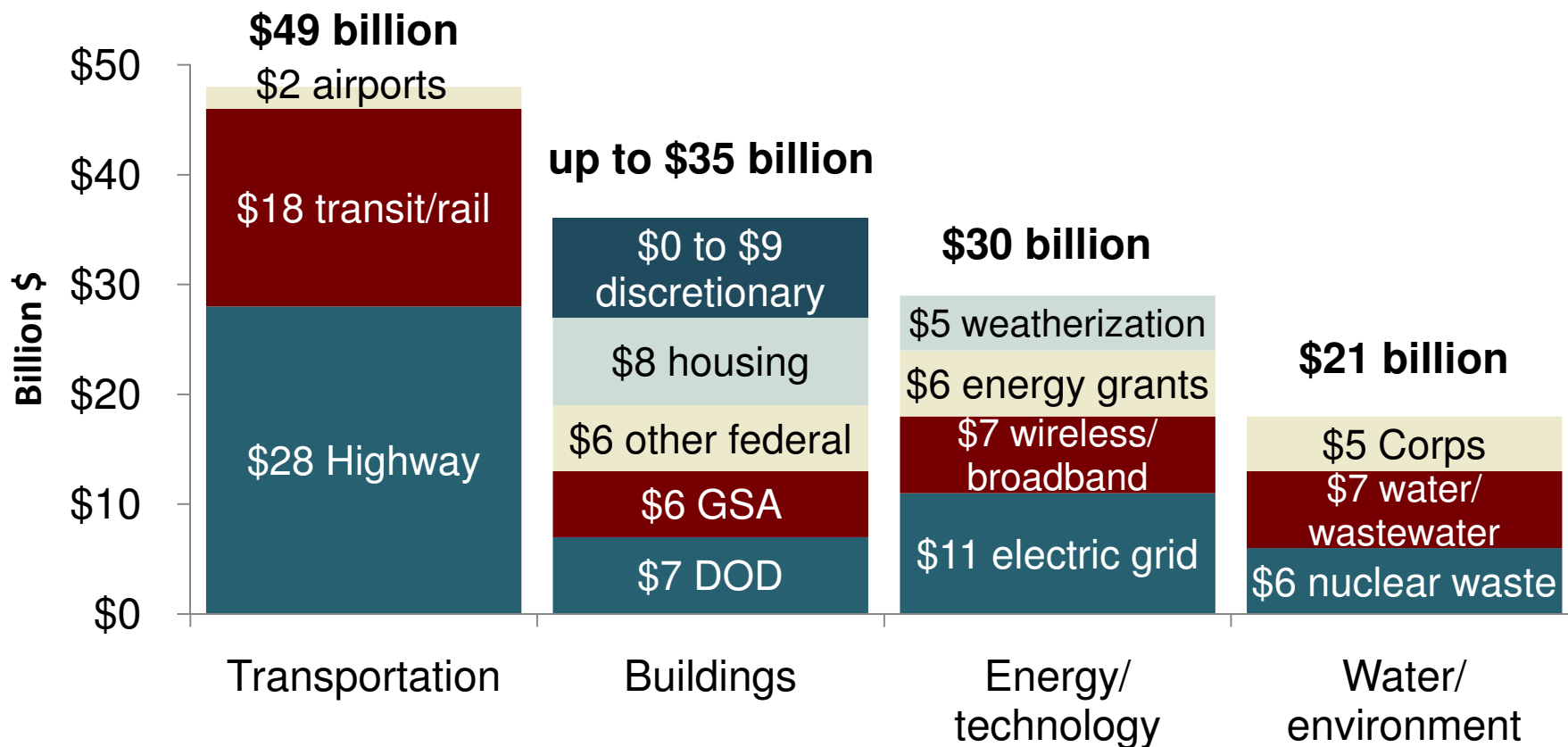
Economic stimulus package

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
- 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**
 - 70% of highway money obligated
 - Other agencies: many announcements, few awards
- **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

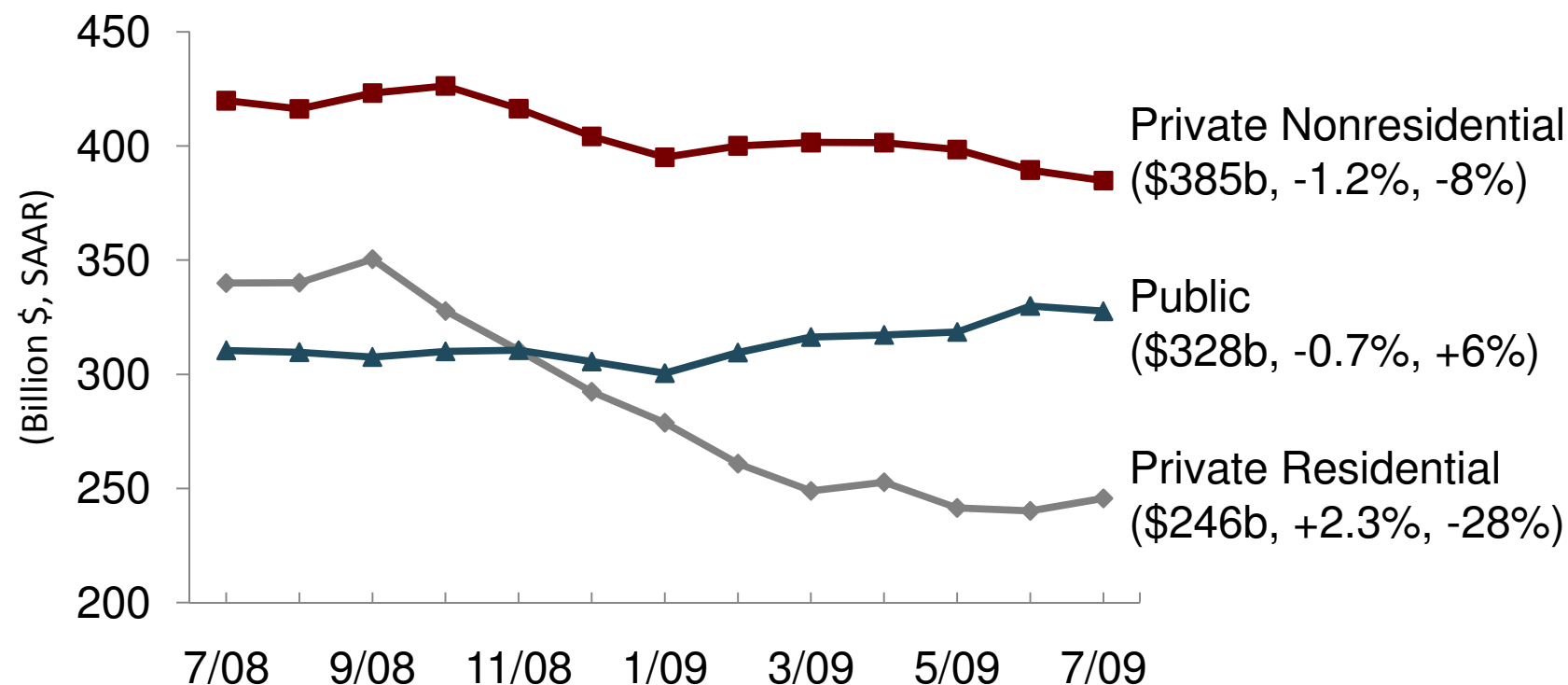
- **Jobs:** 28,500 per \$1 billion
 - 1/3 direct, onsite construction
 - 1/6 indirect, supplying industries
 - 1/2 induced by direct, indirect spending
- **GDP:** \$3.4 billion
- **Personal Earnings:** \$1.1 billion



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

Billion \$, seasonally adjusted annual rate (SAAR)

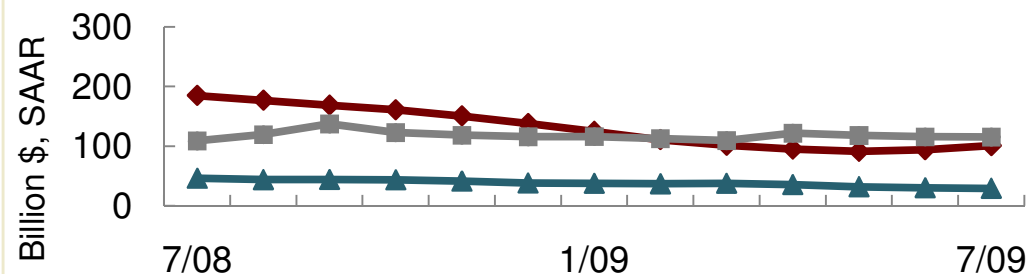
July '09: \$958 billion, 1-month change: -0.2%, 12-month change: -10%





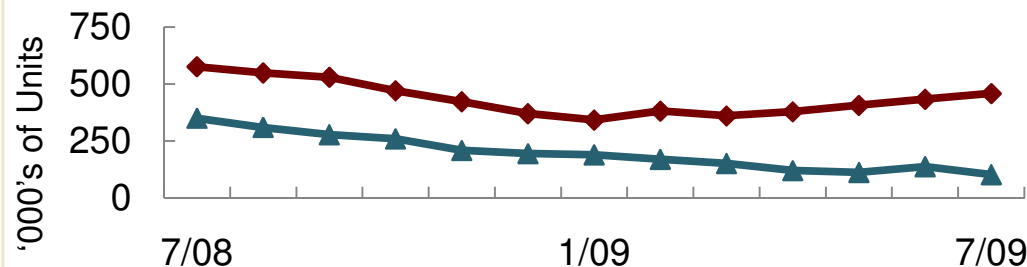
Single-family (SF) vs. multifamily (MF)

Construction spending



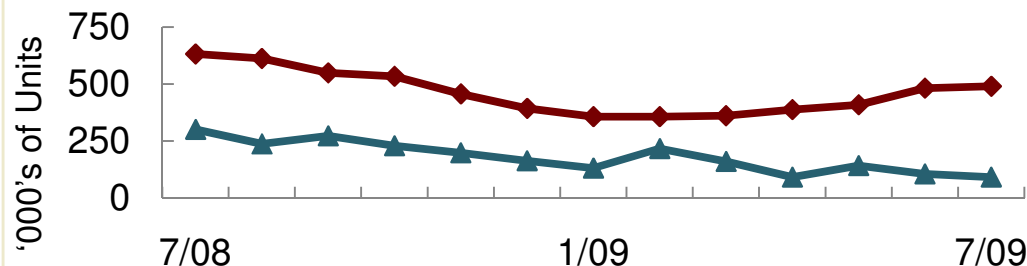
	vs. 6/09	vs. 7/08
SF	+7%	-45%
Improvements	0%	+6%
MF	-3%	-37%

Building permits



	vs. 6/09	vs. 7/08
SF	+6%	-20%
MF	-26%	-71%

Housing starts



	vs. 6/09	vs. 7/08
SF	+2%	-23%
MF	-13%	-70%



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
 - Supply swelled by owners 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

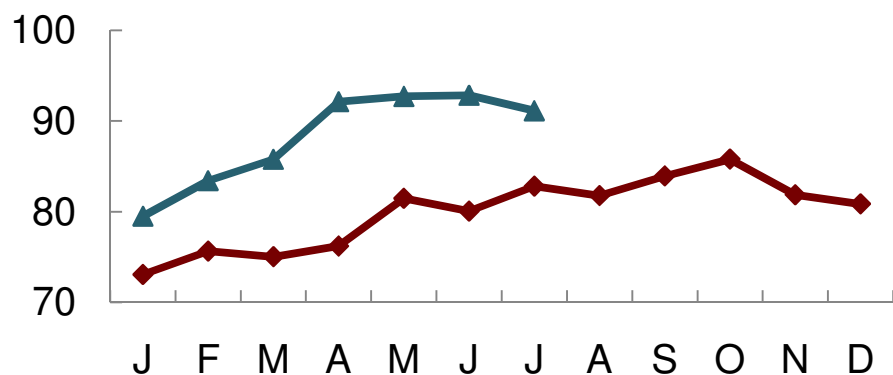
	7/09 Total	Share	vs. 6/09	vs. 7/08
Nonresidential	\$704 billion	100%	- 1%	- 3%
Educational	108	15	- 1	+ 2
Power	91	13	- 2	+ 10
Manufacturing	85	12	+ 1	+ 47
Highway and street	84	12	- 1	+ 3
Office	59	8	- 1	- 18
Commercial	58	8	- 2	- 32
Health care	50	7	- 1	+ 2
Transportation	35	5	0	+ 2
Sewage and waste disposal	25	4	- 2	+ 1
Lodging	24	3	- 8	- 35
Amusement and recreation	20	3	- 1	- 6
Other (communication; water; public safety; relig.; conservation):	9% of total			



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

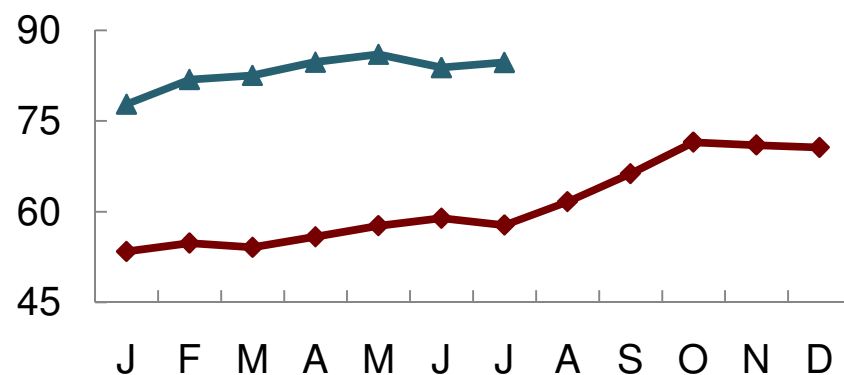
Power (86% private) ◆ 2008 ▲ 2009

1-month: -1.8%, 12-month 10.0%



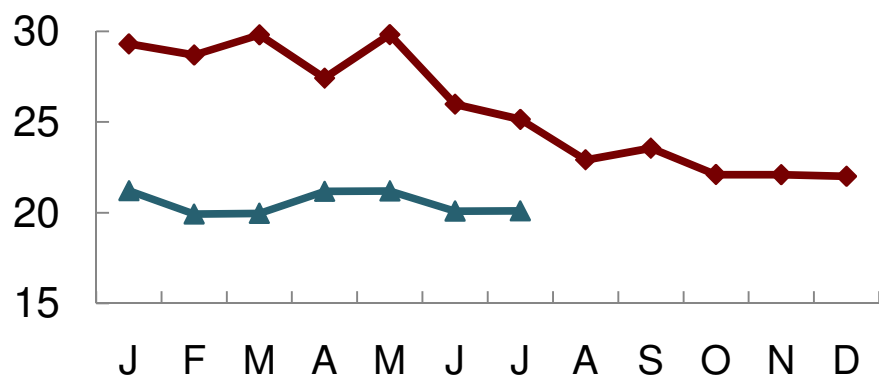
Mfg. (99% private) ◆ 2008 ▲ 2009

1-month: 1.0%, 12-month: 46.5%



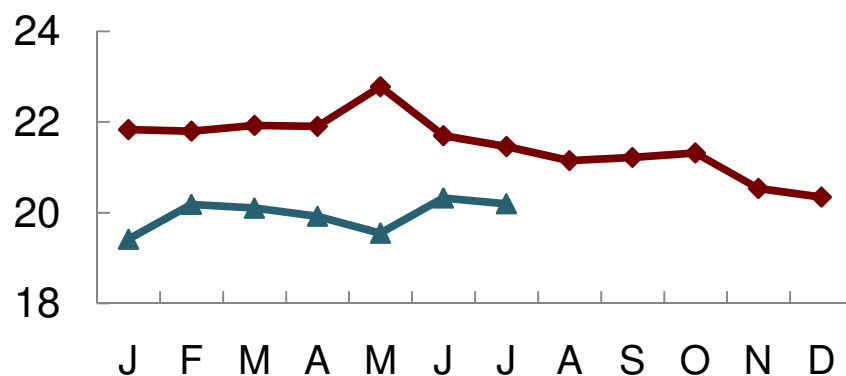
Communic. (99.9% priv.) ◆ 2008 ▲ 2009

1-month: 0.0%, 12-month: -20.1%



Amuse/Rec. (41% priv.) ◆ 2008 ▲ 2009

1-month: -0.6%, 12-month: -5.9%

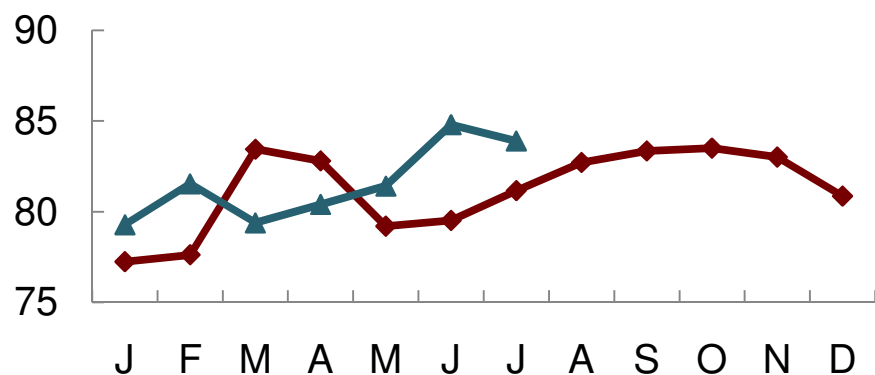




Construction spending: public works (billion \$, SAAR)

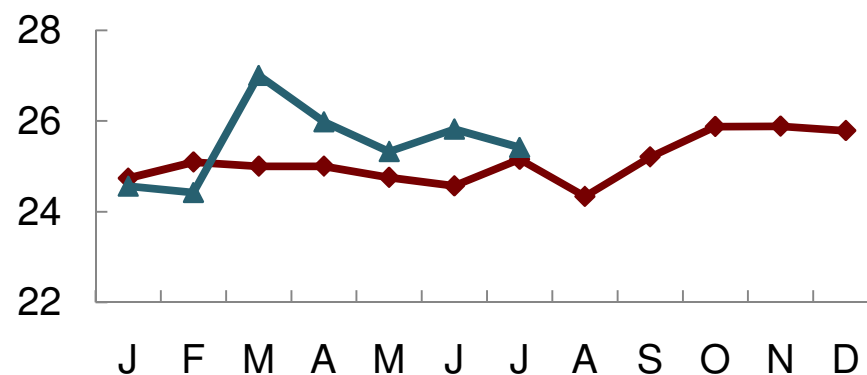
Highways (99.9% public) ◆ 2008 ▲ 2009

1-month: -1.1%, 12-month: 3.4%



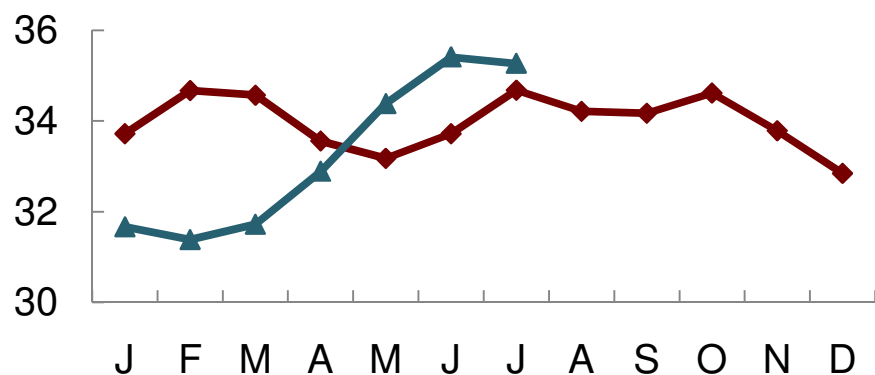
Sewage/waste(99% pub.) ◆ 2008 ▲ 2009

1-month: -1.6%, 12-month: 1.0%



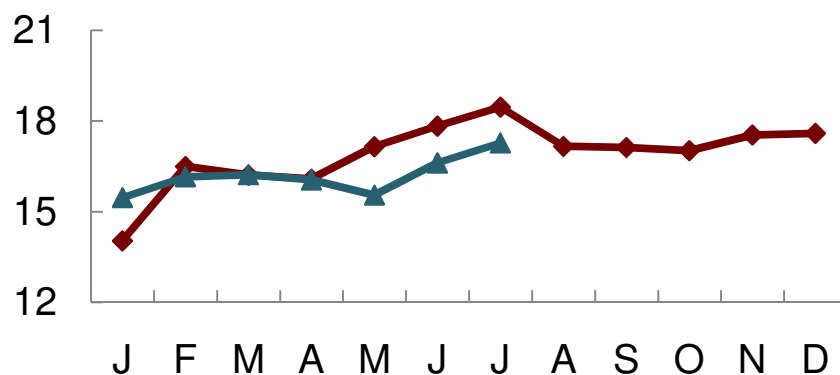
Transp. (73% public) ◆ 2008 ▲ 2009

1-month: -0.4%, 12-month: 1.7%



Water (98% public) ◆ 2008 ▲ 2009

1-month: 4.0%, 12-month: -6.4%

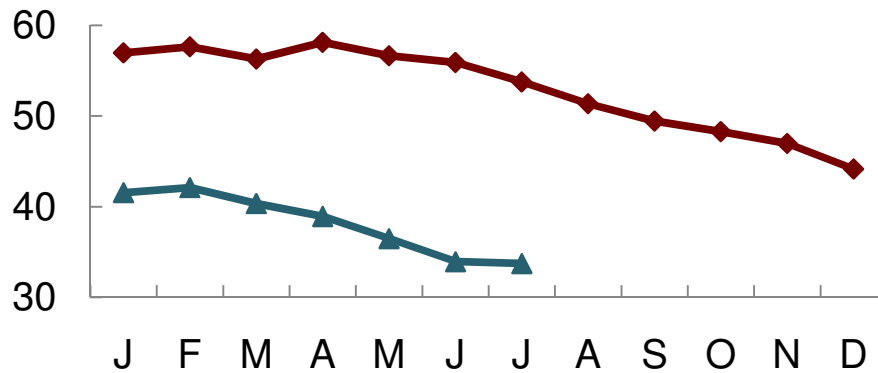




Construction spending: developer-financed (billion \$, SAAR)

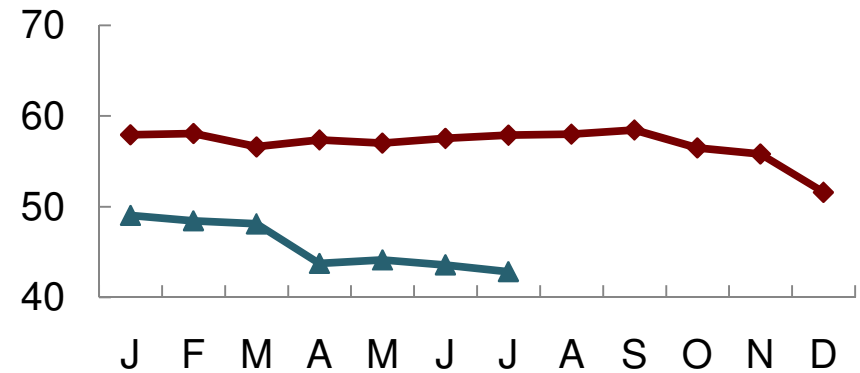
Nonautomotive Retail 2008 2009

1-month: -0.6%, 12-month: -37.3%



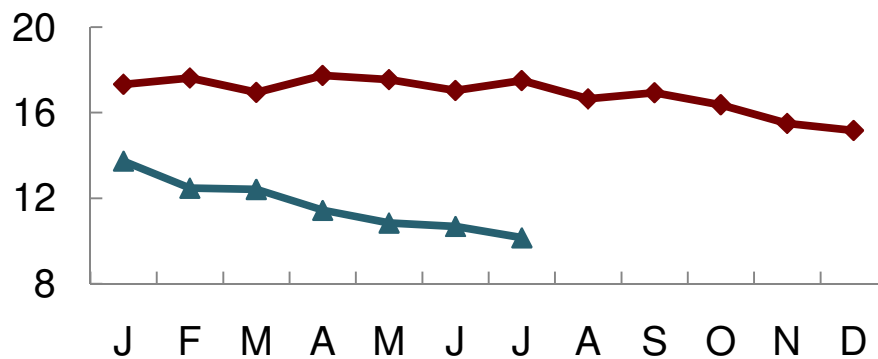
Office (private) 2008 2009

1-month: -1.7%, 12-month: -26.0%



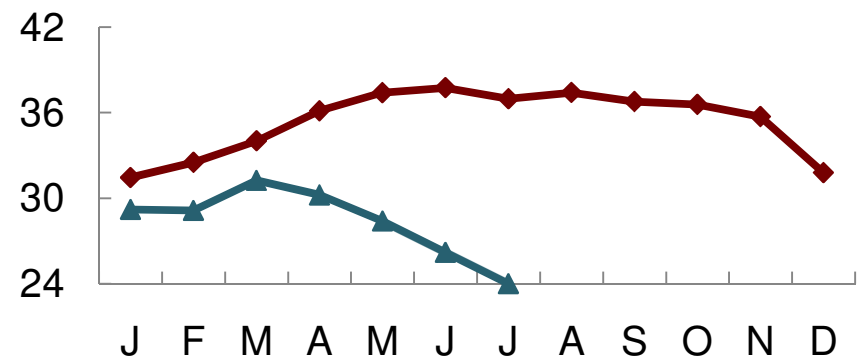
Warehouses 2008 2009

1-month: -5.0%, 12-month: -42.0%



Lodging (private) 2008 2009

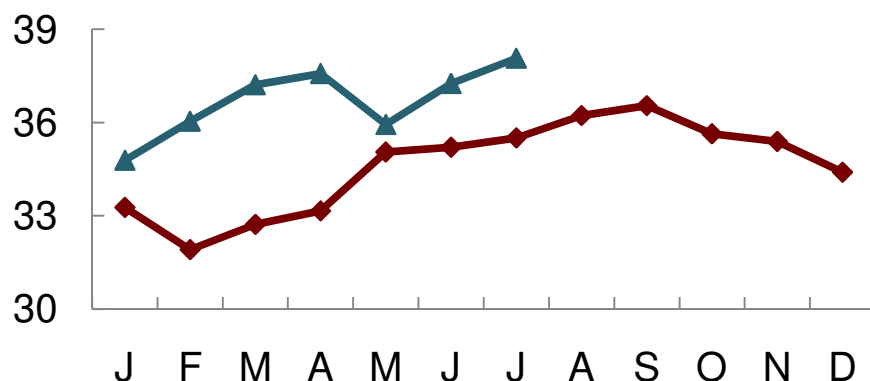
1-month: -8.4%, 12-month: -35.1%



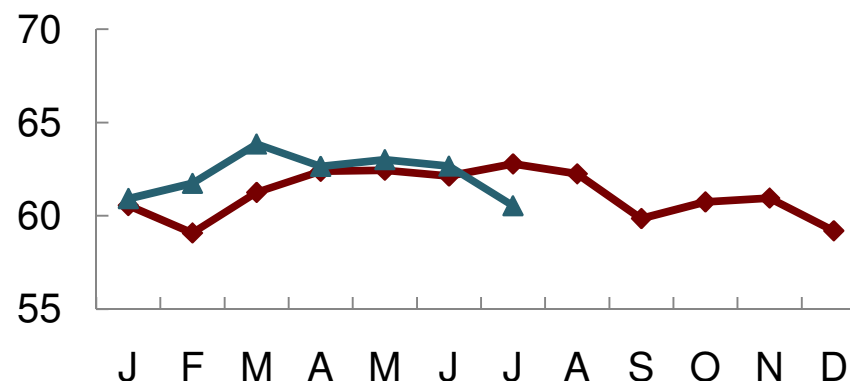


Construction spending: institutional (private + state/local)

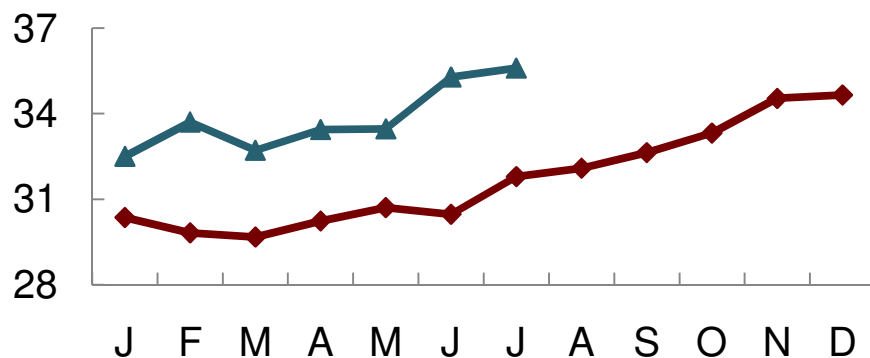
Higher ed. (29% private) 2008 2009
 1-month: 2.2%, 12-month: 7.2%



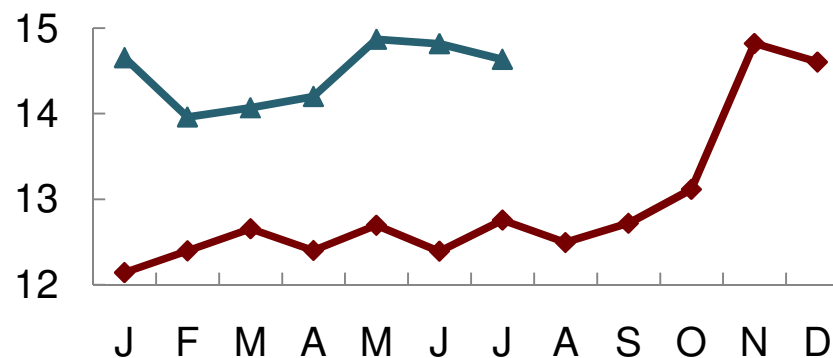
PreK-12 ed. (5% private) 2008 2009
 1-month: -3.4%, 12-month: -3.6%



Hospitals (83% private) 2008 2009
 1-month: 0.9%, 12-month: 11.9%

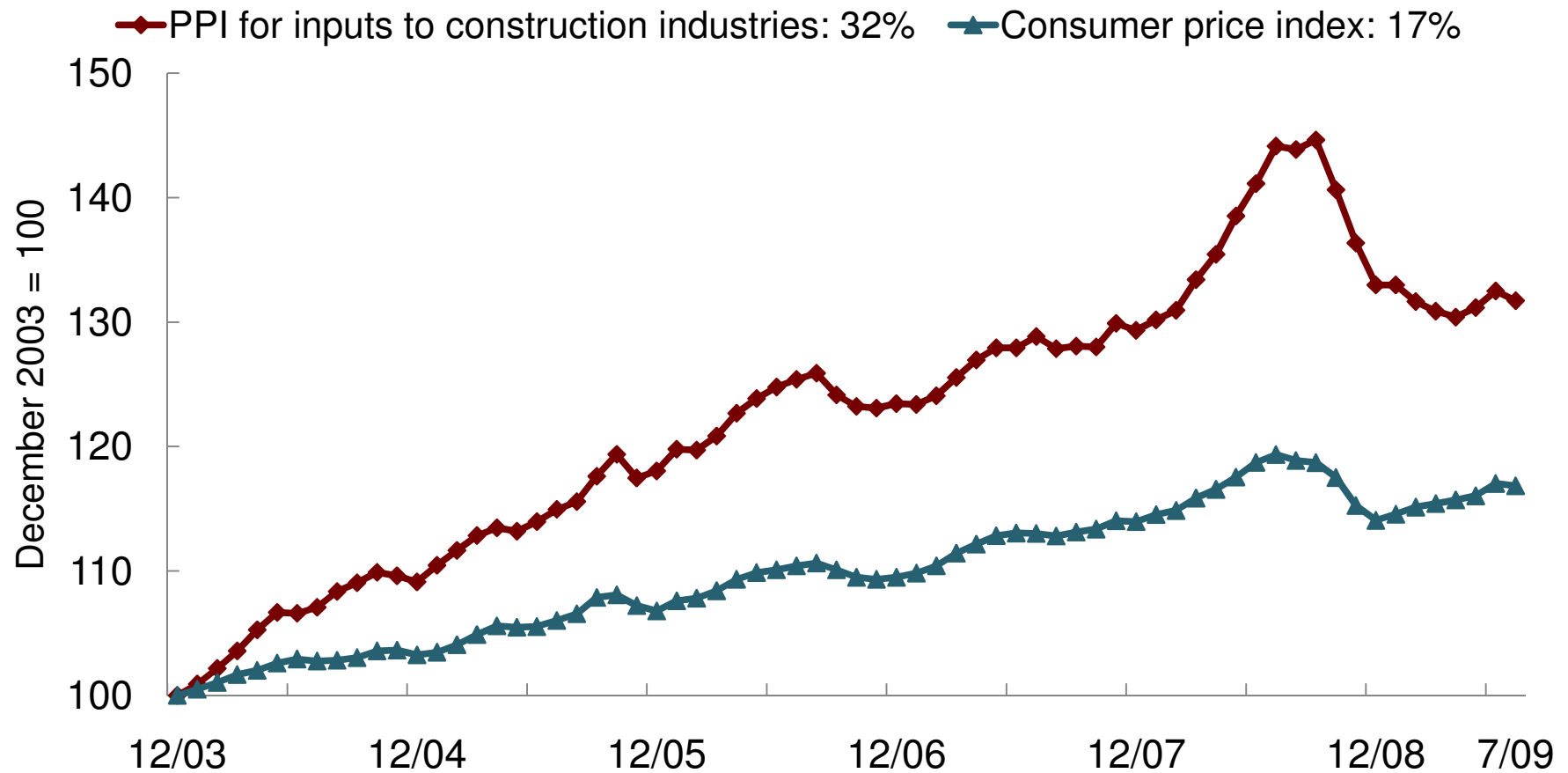


Public safety 2008 2009
 1-month: -1.2%, 12-month: 14.8%





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

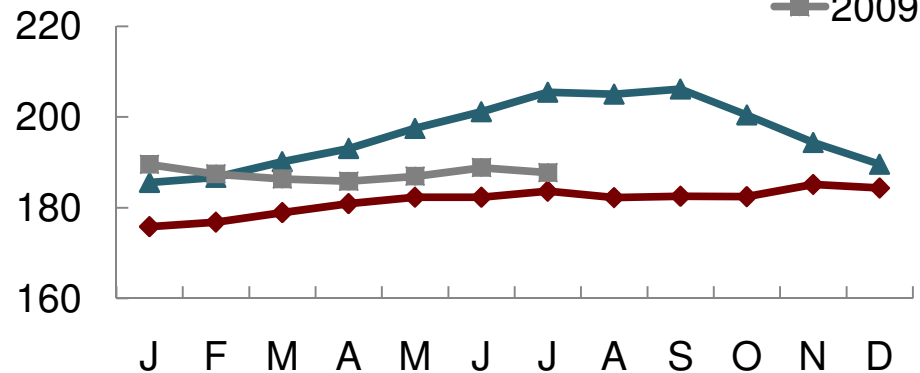




Producer price indexes, 1/07-7/09

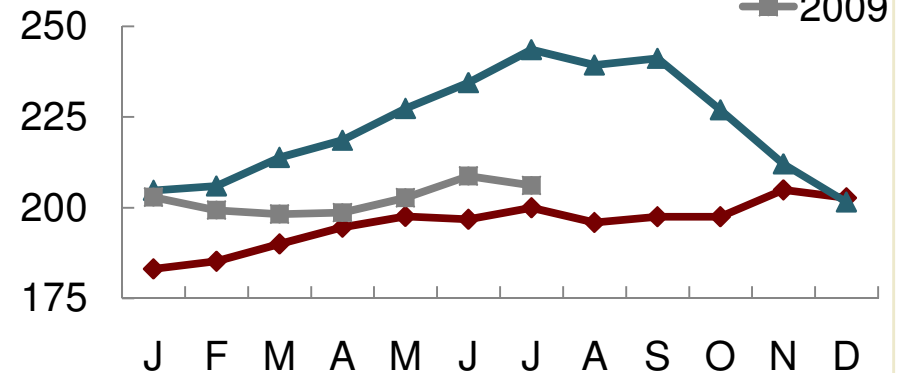
Inputs to constr. industries

1-month: -0.6%, 12-month: -8.6%



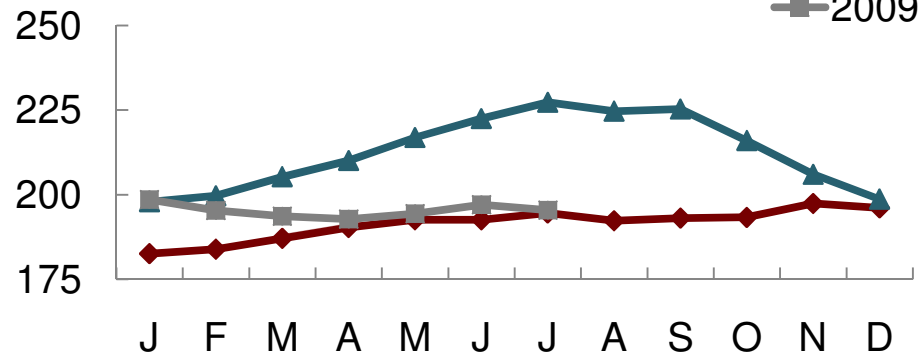
Highway & street construction

1-month: -1.2%, 12-month: -15.4%



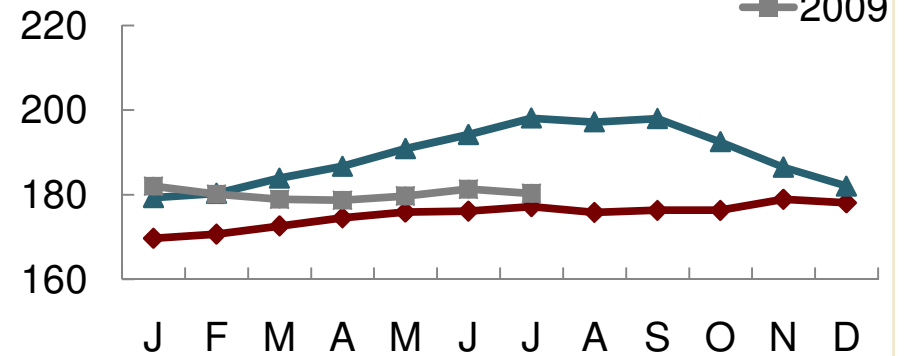
Other heavy construction

1-month: -0.8%, 12-month: -14.0%



Nonresidential buildings

1-month: -0.6%, 12-month: -9.0%

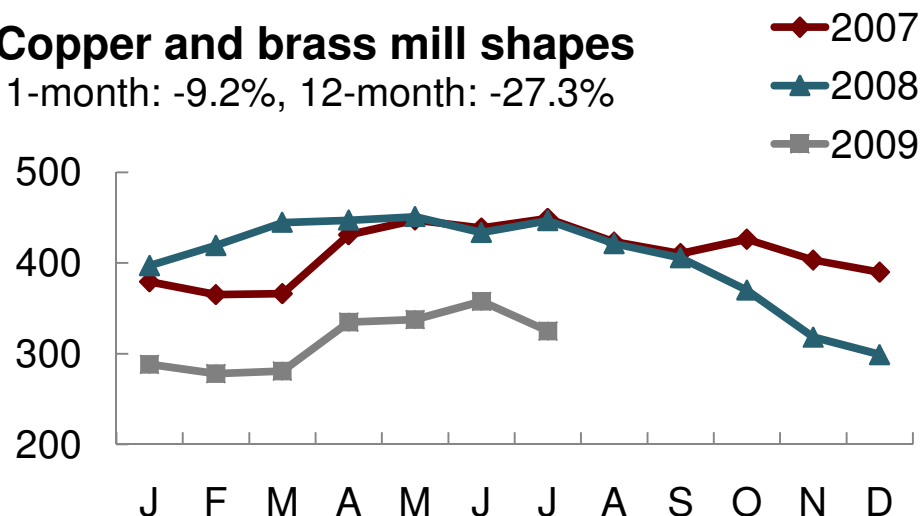




Producer price indexes, 1/07-7/09

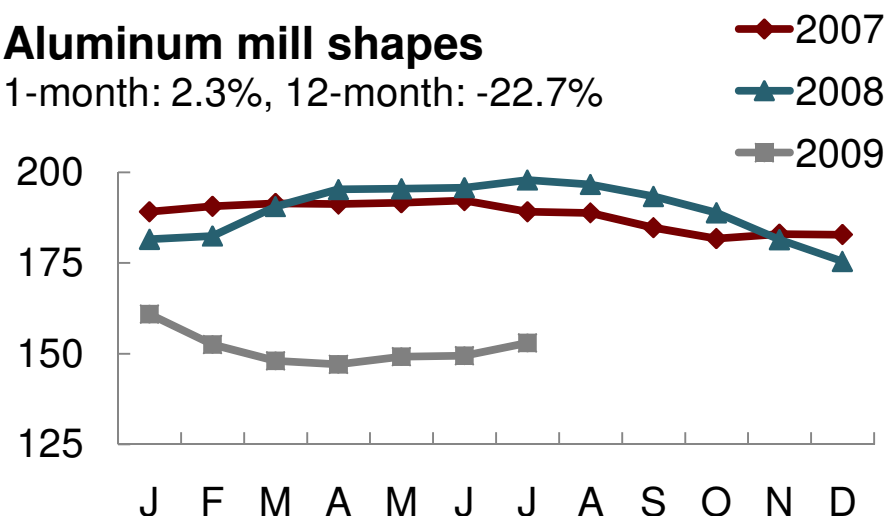
Copper and brass mill shapes

1-month: -9.2%, 12-month: -27.3%



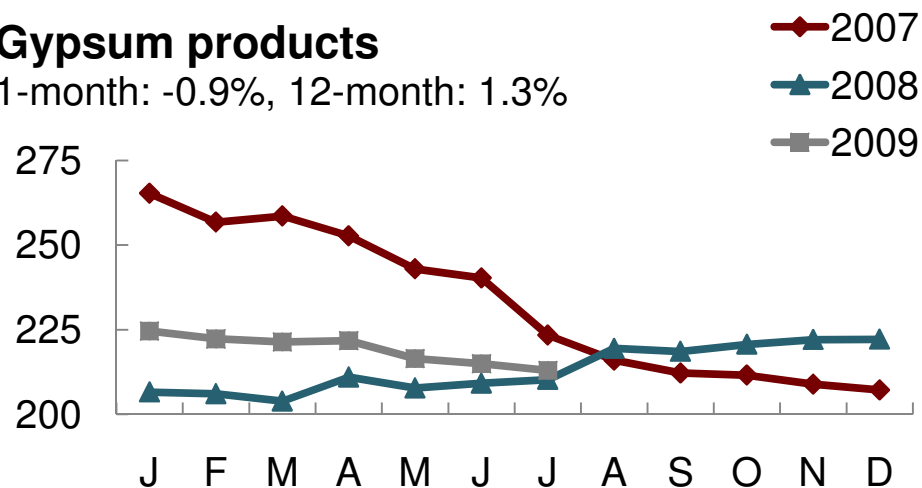
Aluminum mill shapes

1-month: 2.3%, 12-month: -22.7%



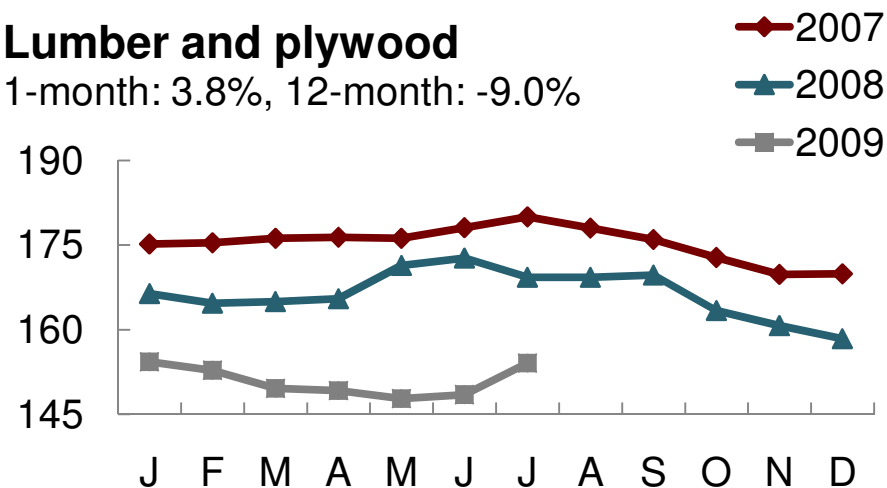
Gypsum products

1-month: -0.9%, 12-month: 1.3%



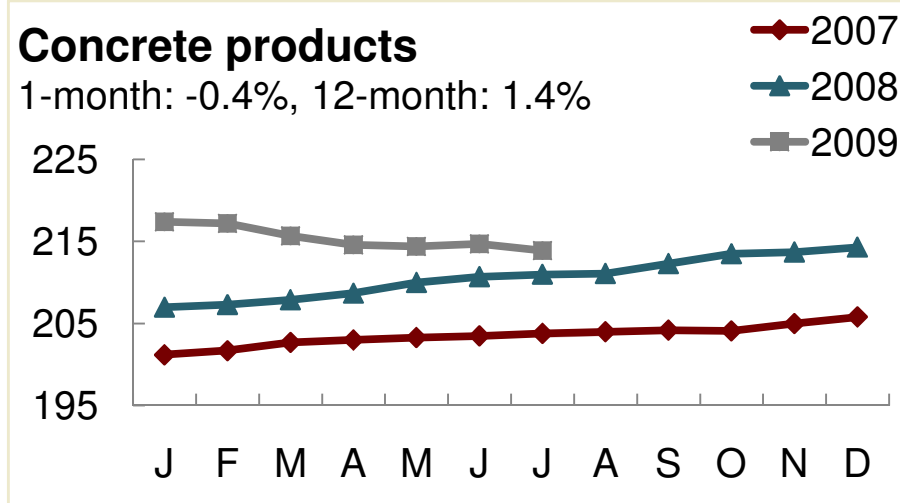
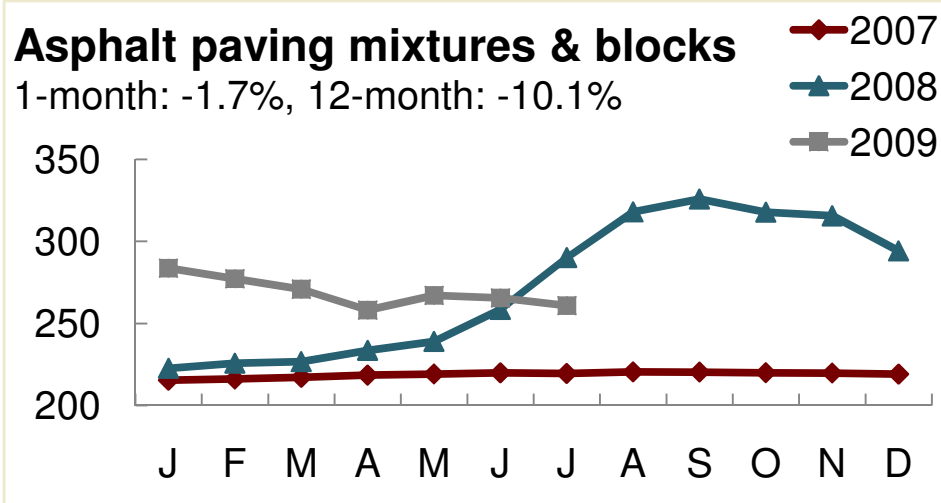
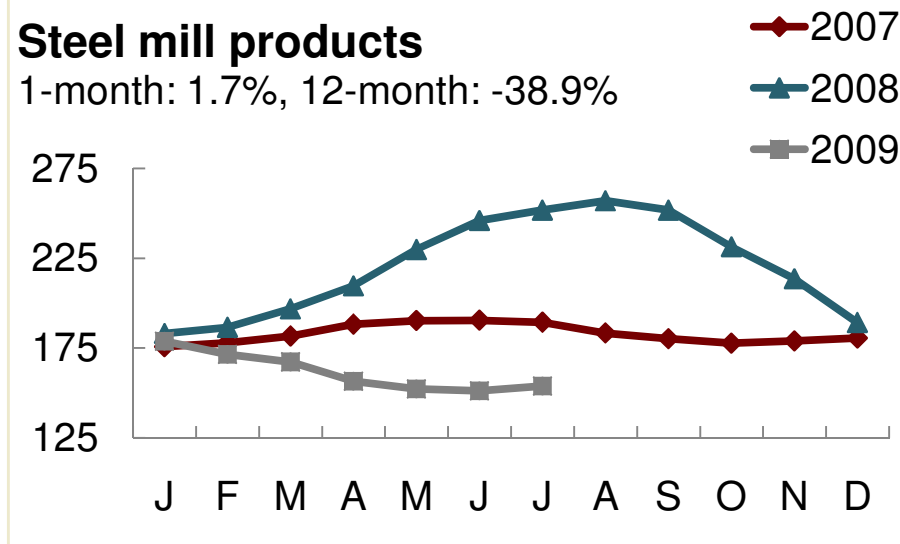
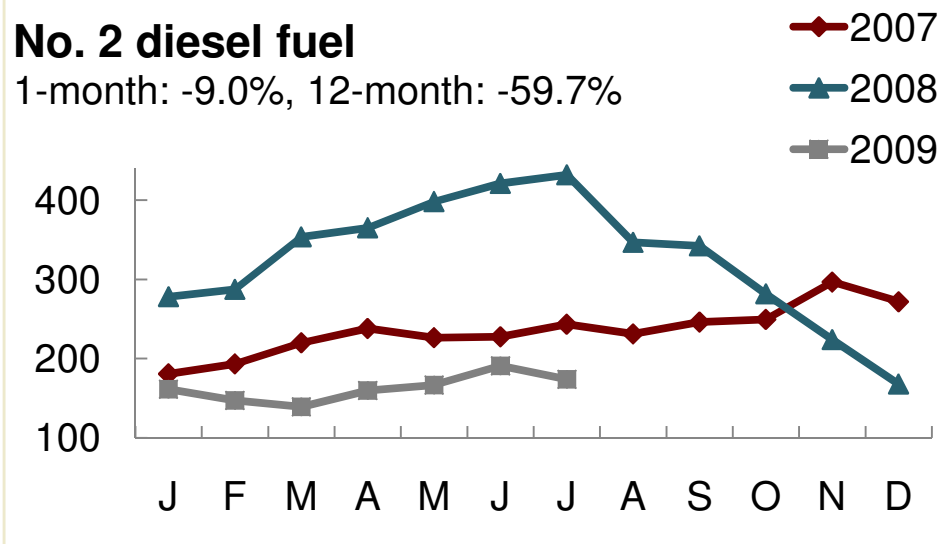
Lumber and plywood

1-month: 3.8%, 12-month: -9.0%





Producer price indexes, 1/07-7/09

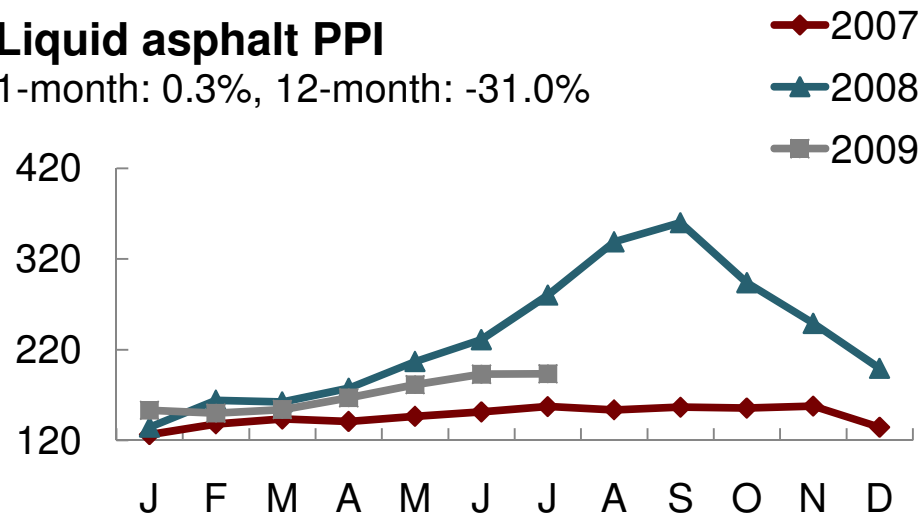




Asphalt price indicators, 2007 - 2009

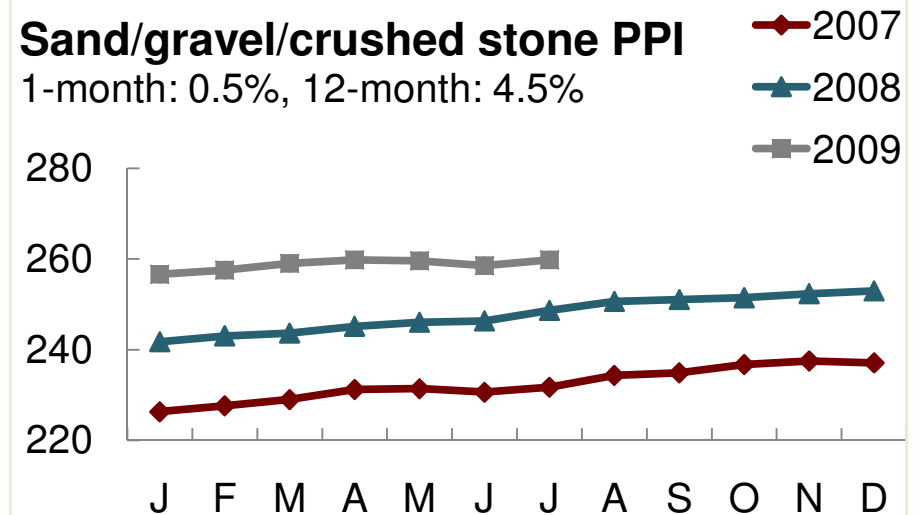
Liquid asphalt PPI

1-month: 0.3%, 12-month: -31.0%



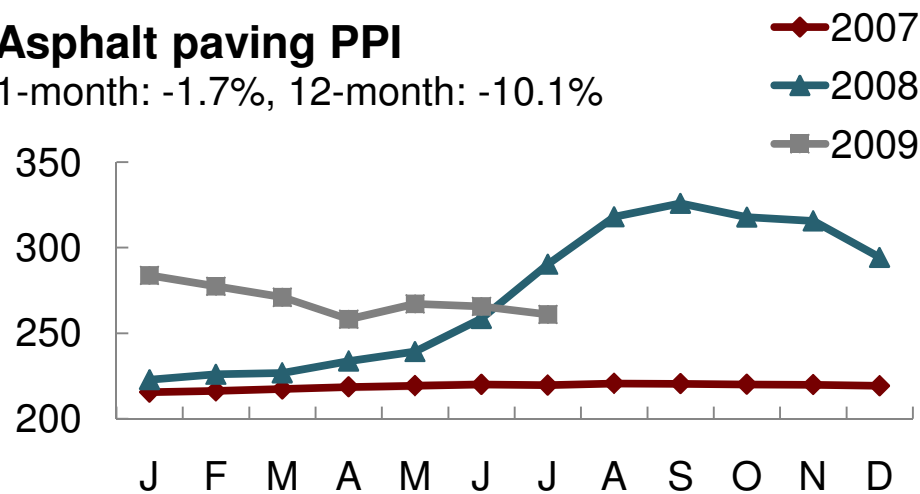
Sand/gravel/crushed stone PPI

1-month: 0.5%, 12-month: 4.5%



Asphalt paving PPI

1-month: -1.7%, 12-month: -10.1%





Outlook for materials in '09 compared to '08

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

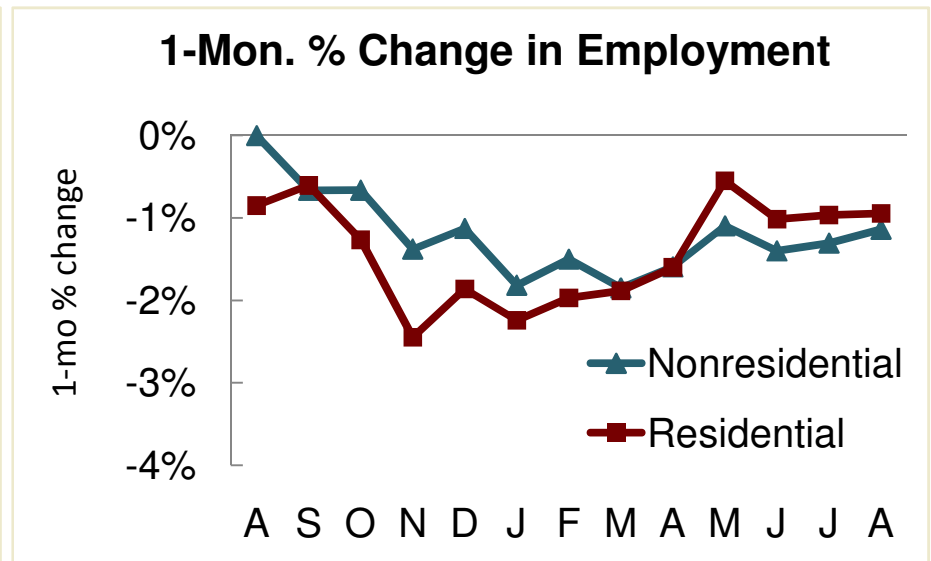
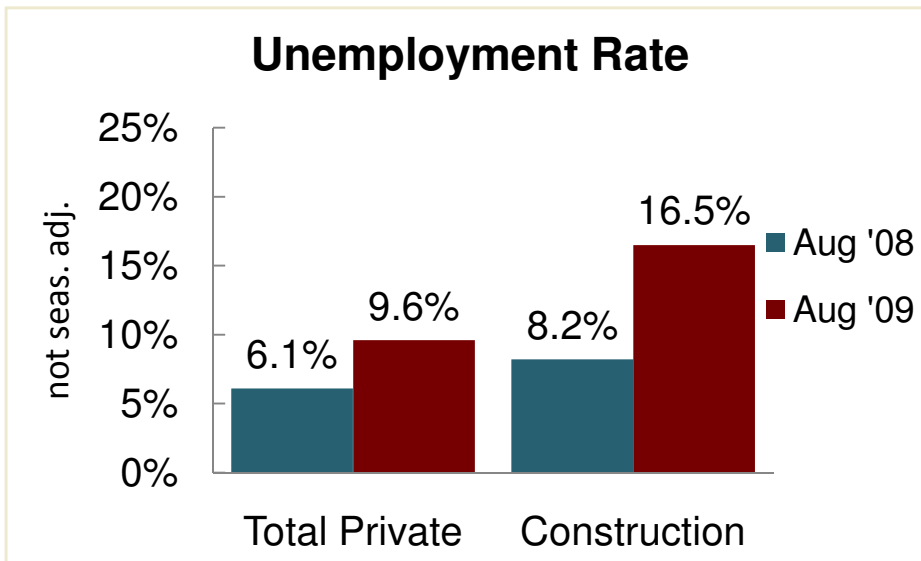
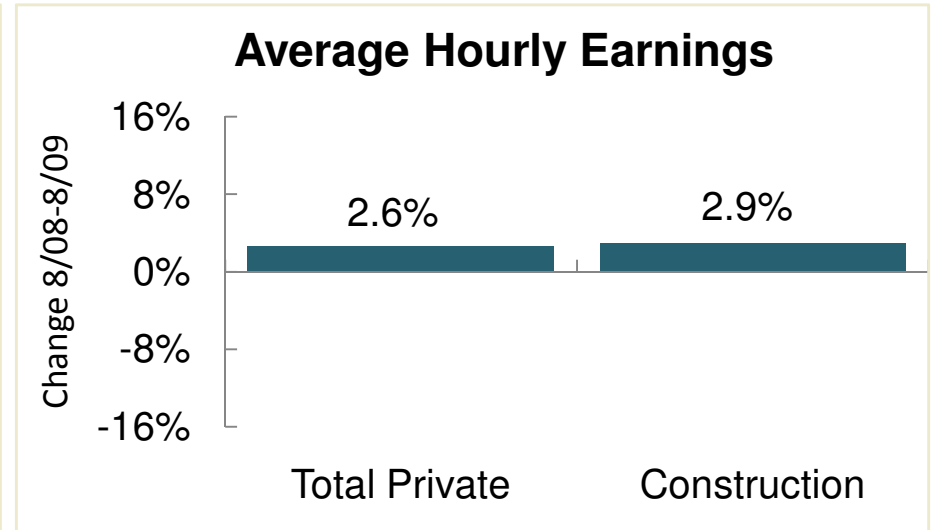
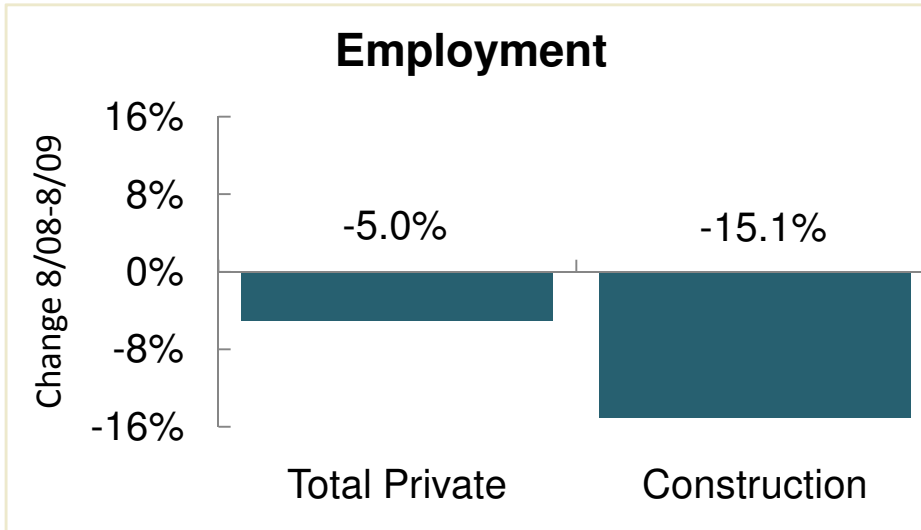


Outlook for materials (beyond '09)

- **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**

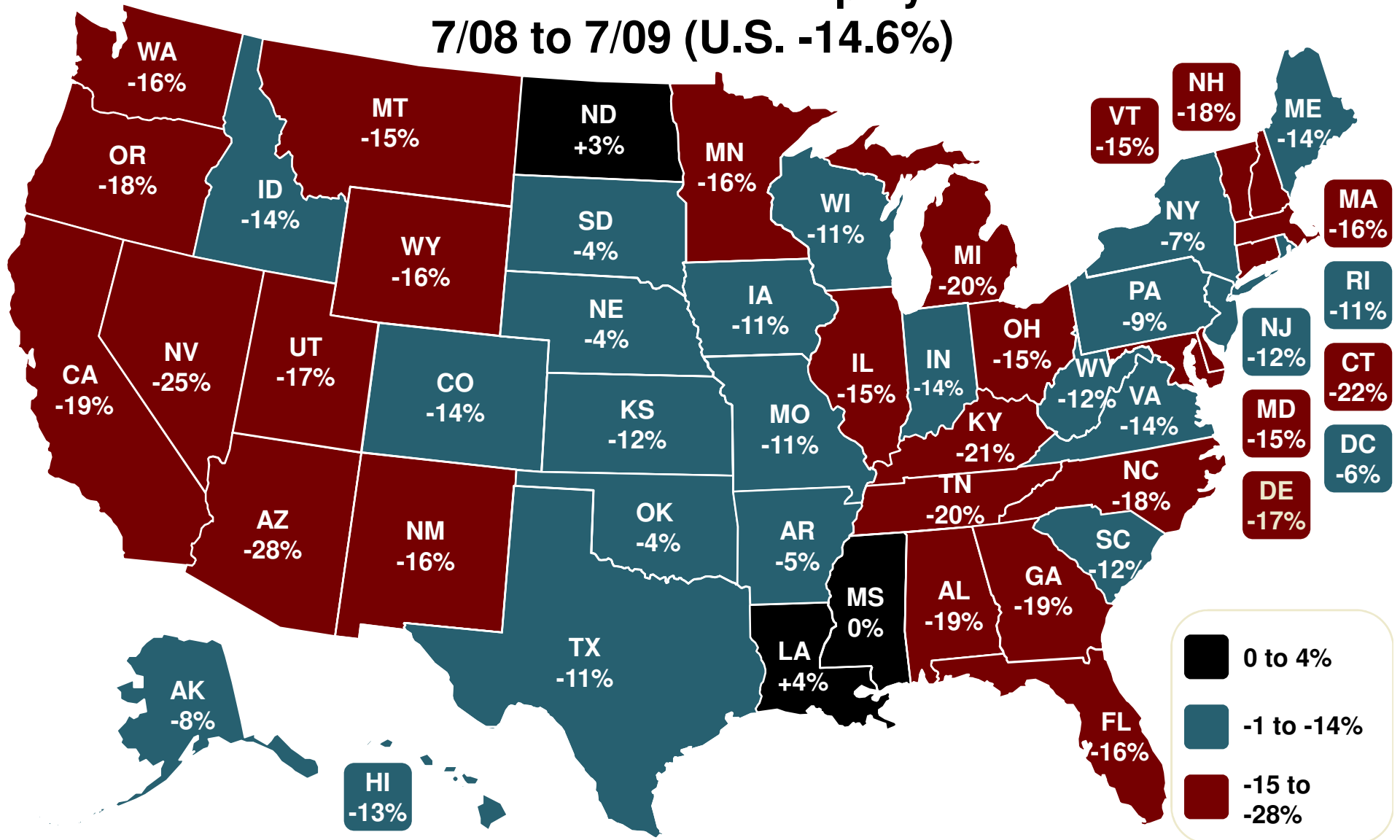


Construction employment falls, but wages rise





State Construction Employment 7/08 to 7/09 (U.S. -14.6%)





Summary for 2009

- Nonres spending: -3 to -7% (up: power, mfg., BRAC, stimulus; down: developer-, state & local gov-funded)
- Res: -30 to -40% (SF up in 2d half, MF down all year)
- Total res + nonres (full year 09 vs. 08): -12 to -18%
- Materials costs (Dec. 09 vs. Dec. 08): -4% to 0%
- Labor costs (Dec. 09 vs. Dec. 09): +3% to +4%



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

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

- *The Data DIgest*: weekly one-page email
- PPI tables: emailed monthly
- State and metro data
- Stimulus information: www.agc.org/stimulus
- Webinars (next construction outlook: 10/22)
- Feedback on stimulus jobs, credit market