

# Construction & Materials Outlook

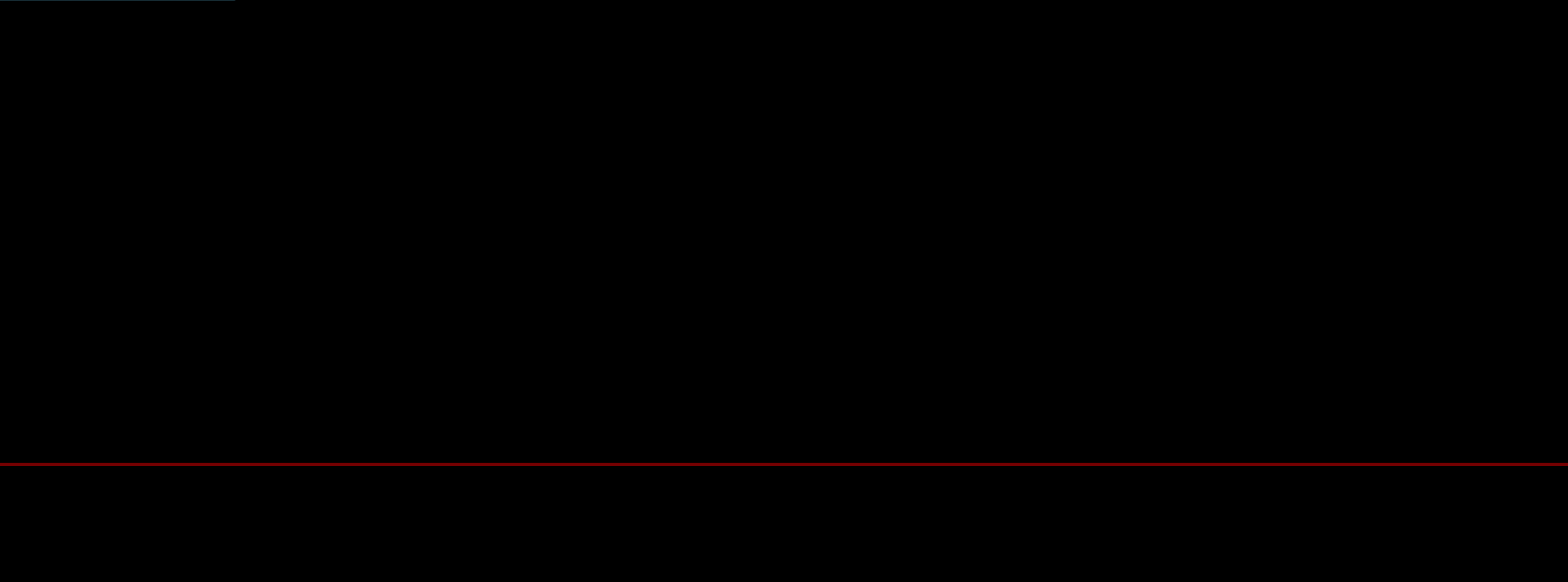
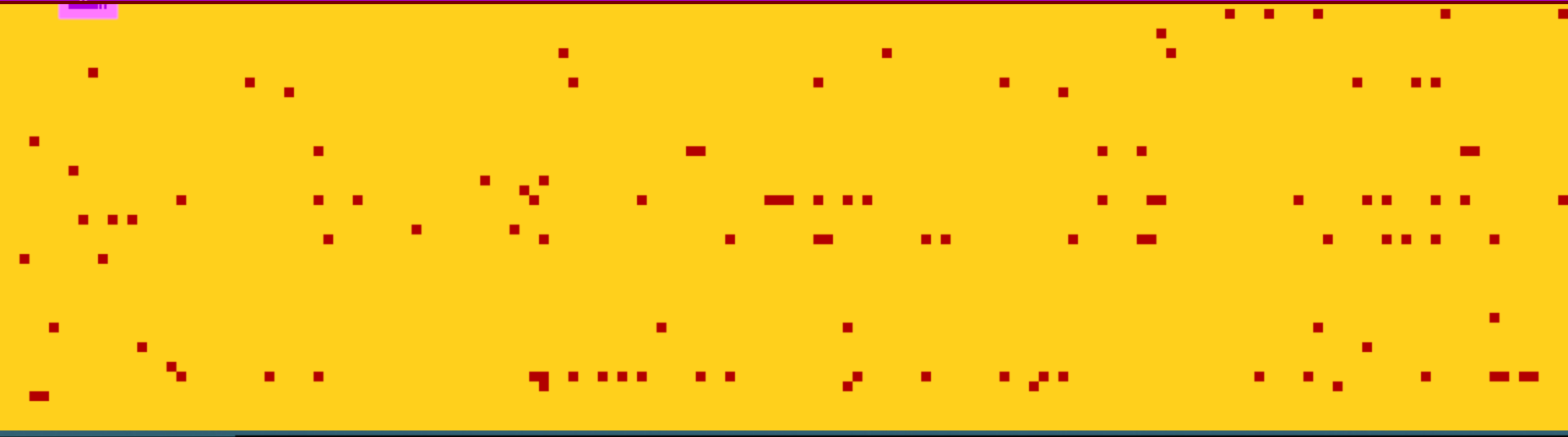
July 14, 2009

**Ken Simonson, Chief Economist**

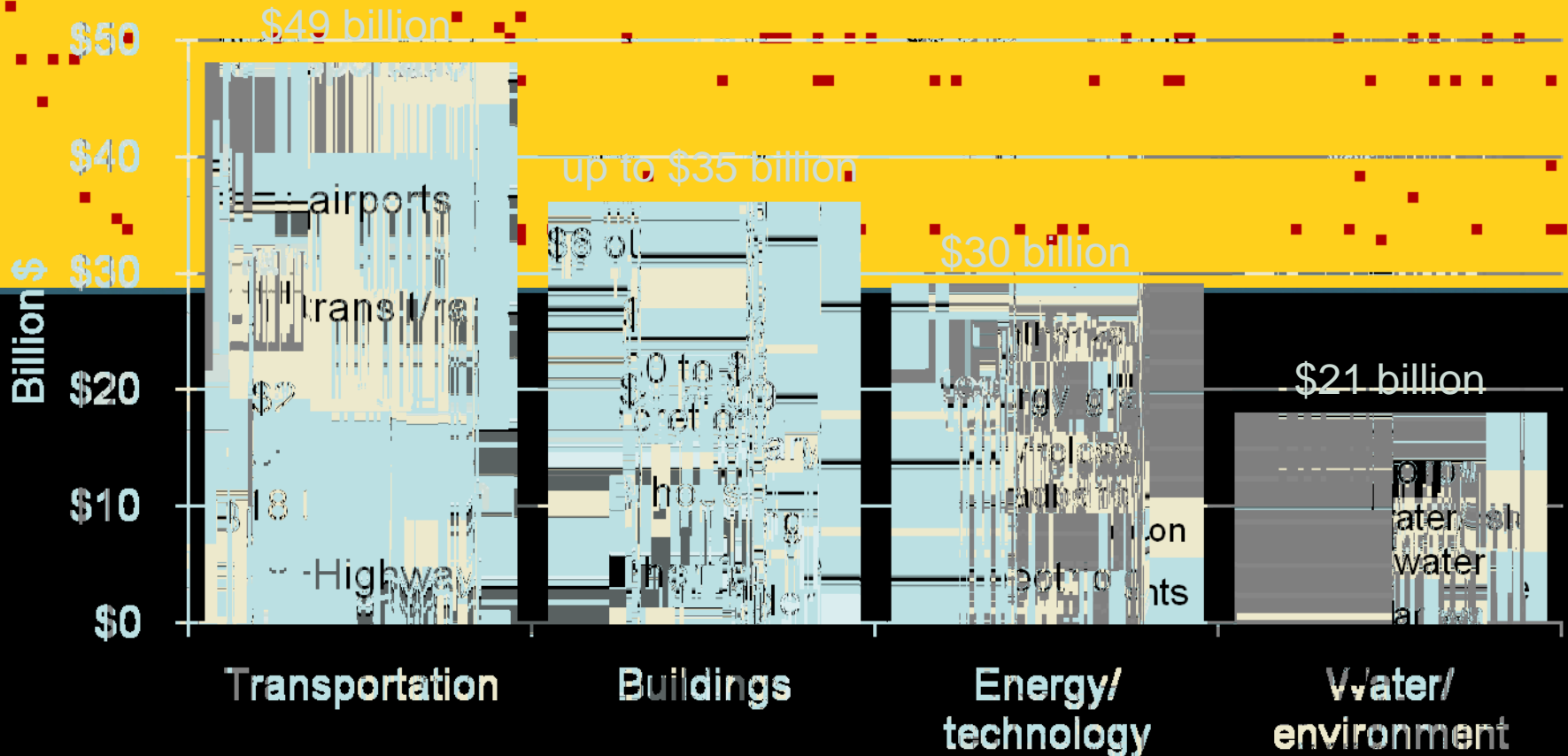
**AGC of America**

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# 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**

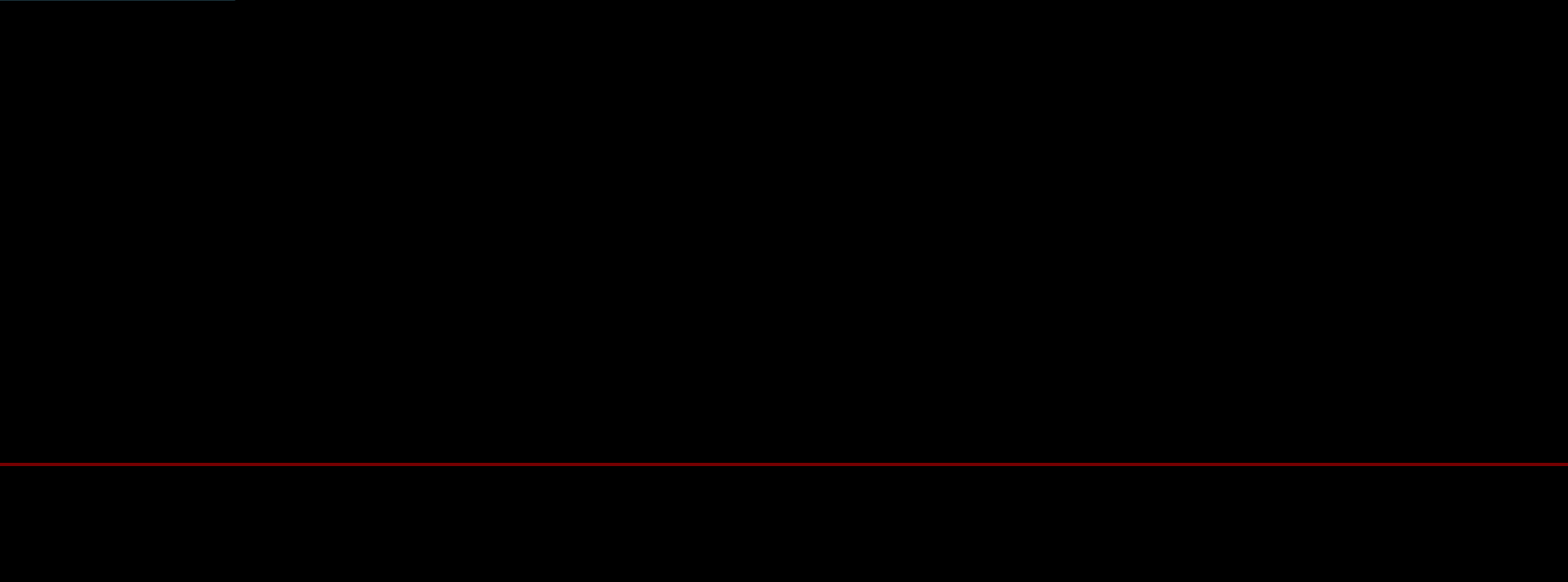
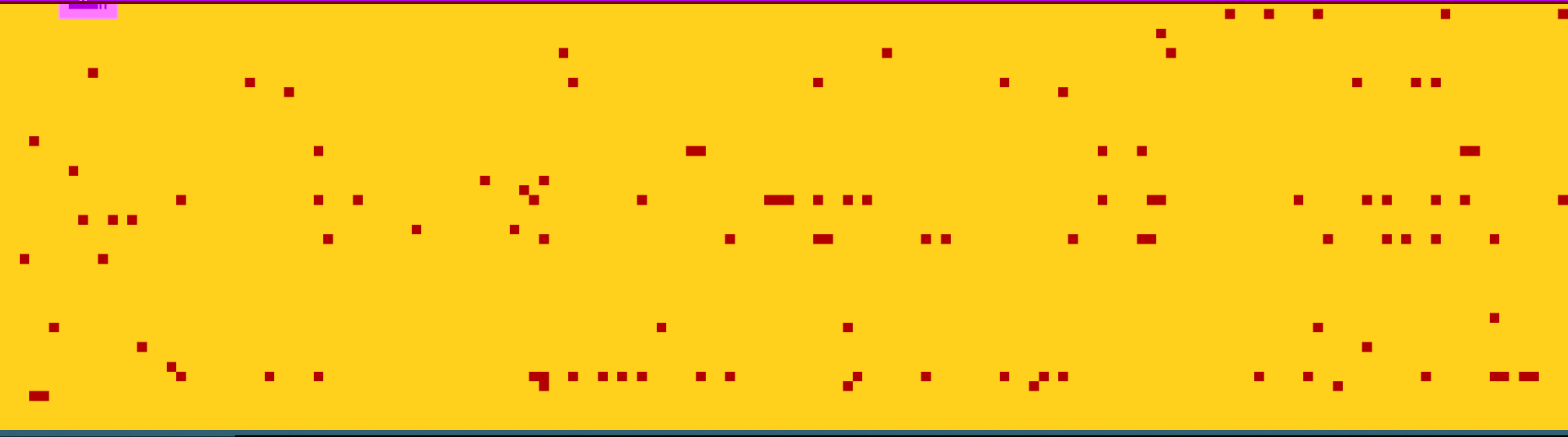
- Davis-Bacon
- Buy American
- Reporting requirements: jobs, executives' pay
- No E-Verify requirement or broad-based FAR
- No project labor agreement mandate, but...

## 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







## 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**









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



Source: BLS (CPI, PPI)

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

## Inputs to construction industries



## Highway & street construction



## Nonresidential buildings

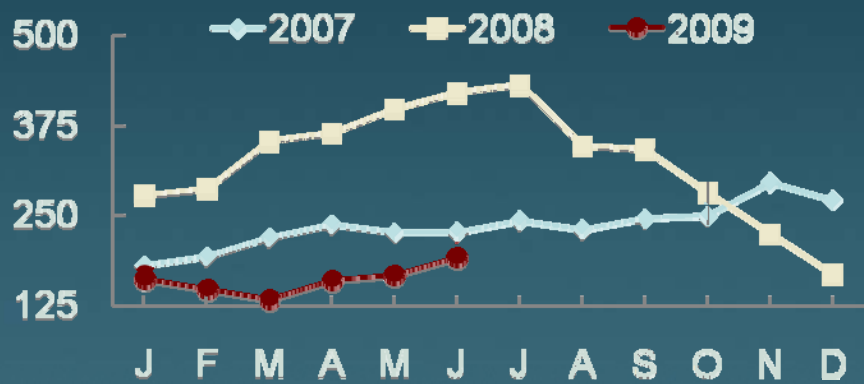




# Producer price indexes, 1/07-6/09

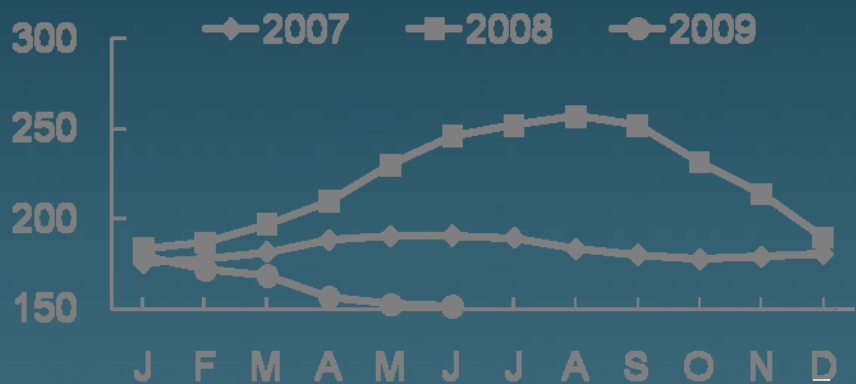
## No. 2 Diesel Fuel

1-month: 14.6%  
12-month: -54.6%



## Steel Mill Products

1-month: -0.7%  
12-month: -38.5%



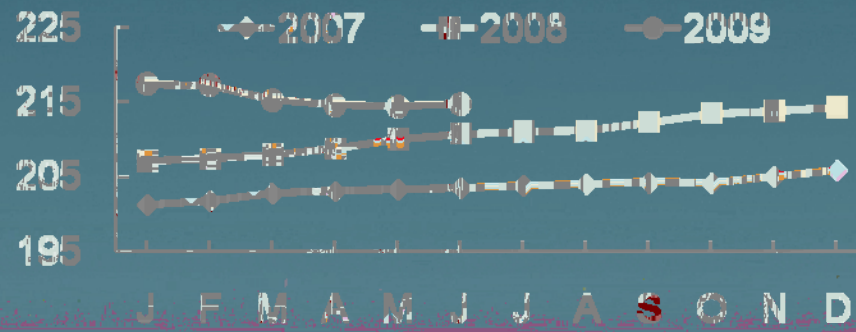
## Asphalt Paving Mixtures & Blocks

1-month: -0.6%  
12-month: 2.7%



## Concrete Products

1-month: 0.1%  
12-month: 1.9%







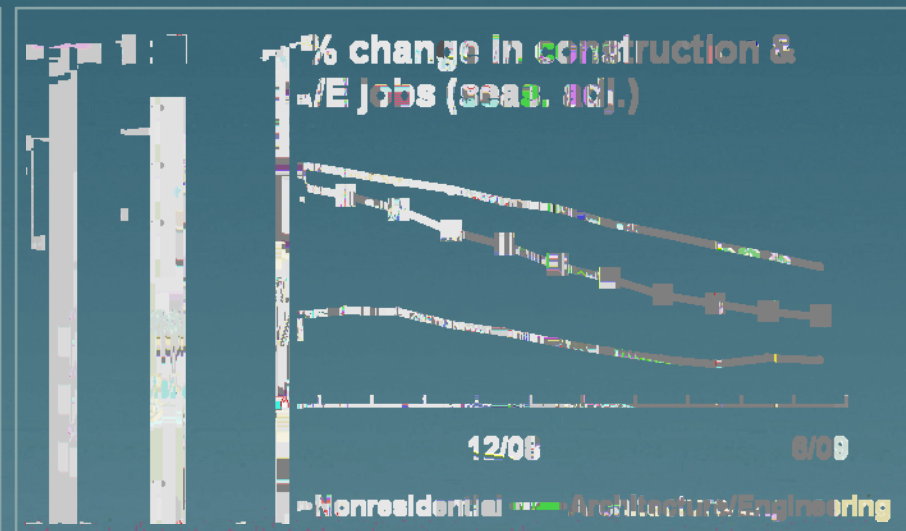
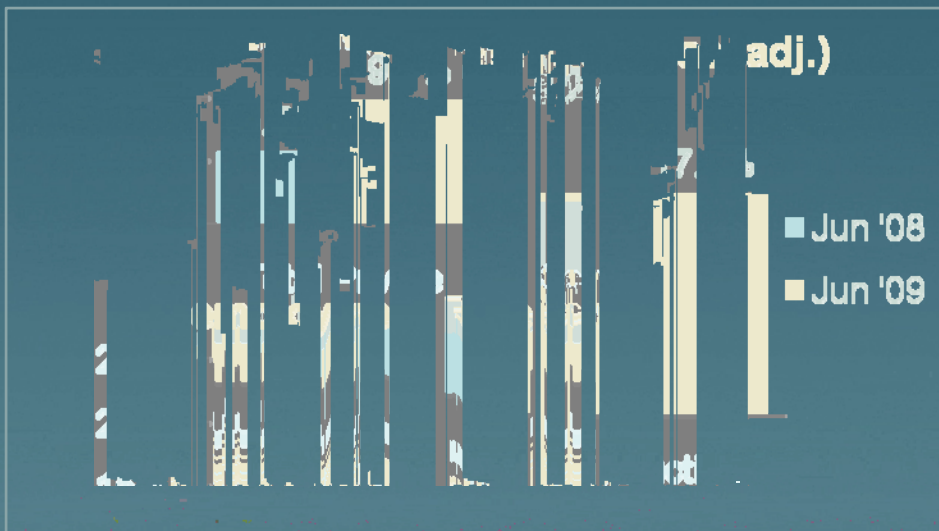
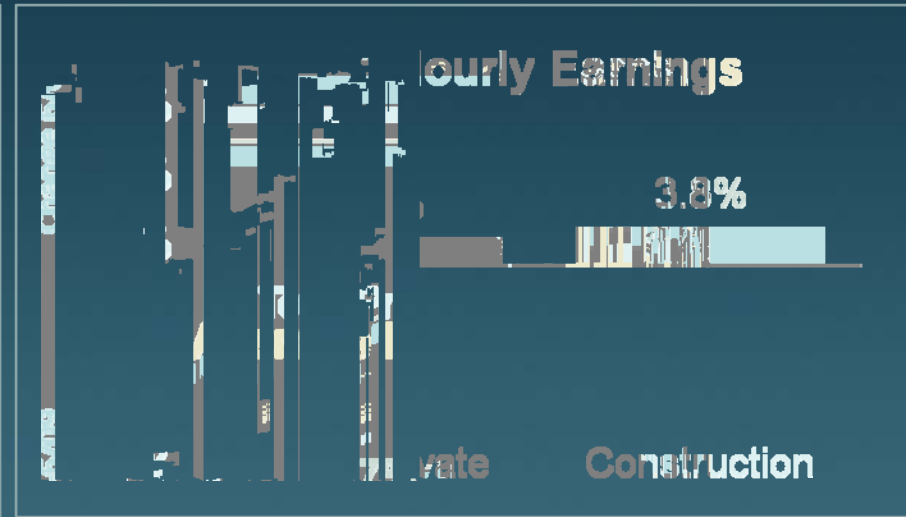
## Outlook for materials in '09 compared to '08

- 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





## 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