



Construction & Materials Outlook

Federation of Tax Administrators

Providence, October 22, 2012

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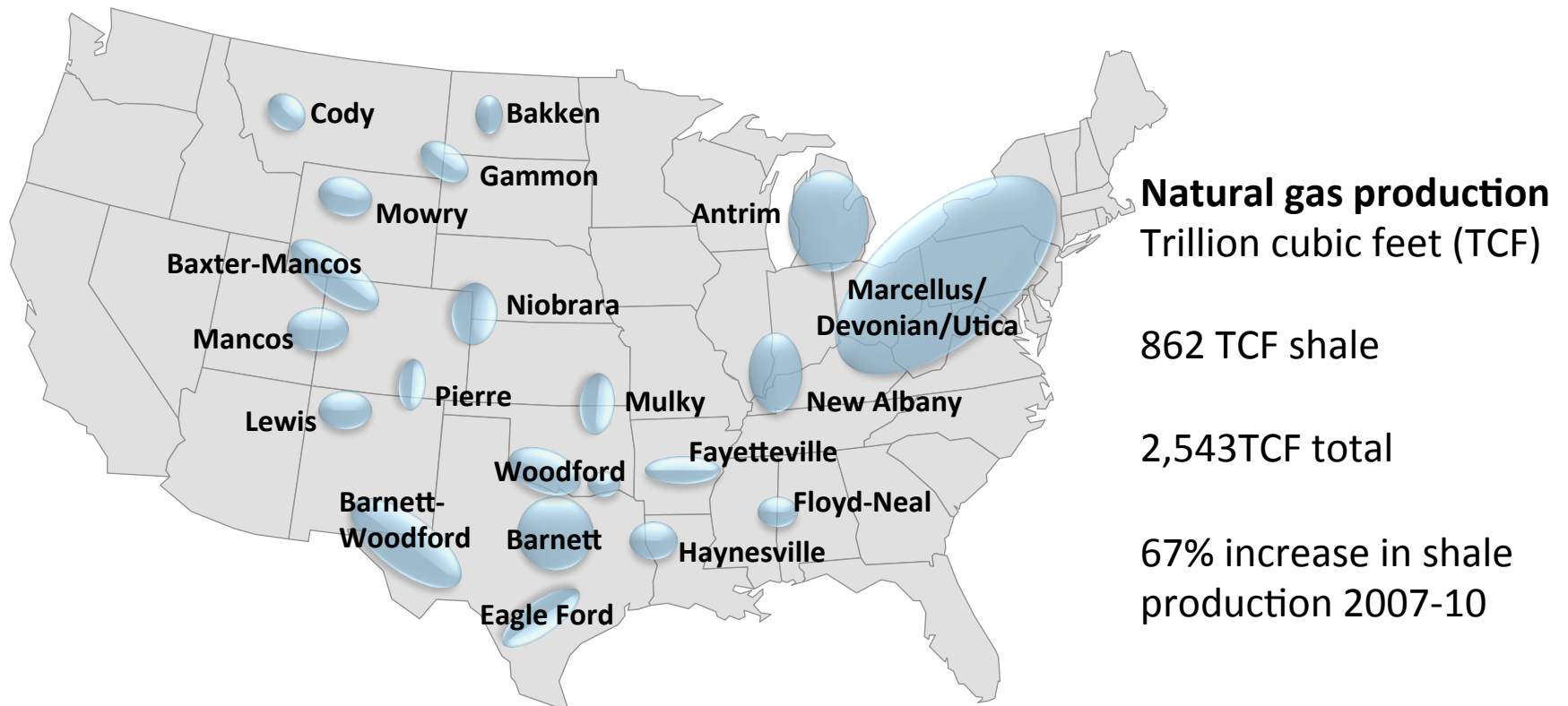


Current economy; construction outlook

- GDP, personal income, jobs: growing, but slowly
- Office, retail up due to remodeling, not starts
- Power, mfg., warehouse/distribution, lodging will grow
- ‘Shale gale,’ Panama Canal expansion driving new activity
- Apartments should boom; single-family still a mystery
- Federal, state, local construction cuts will continue
- Unemployment dropping but only because workers leave
- Materials costs not extreme but will outpace CPI



One (or many) bright spot(s): the shale 'gale'



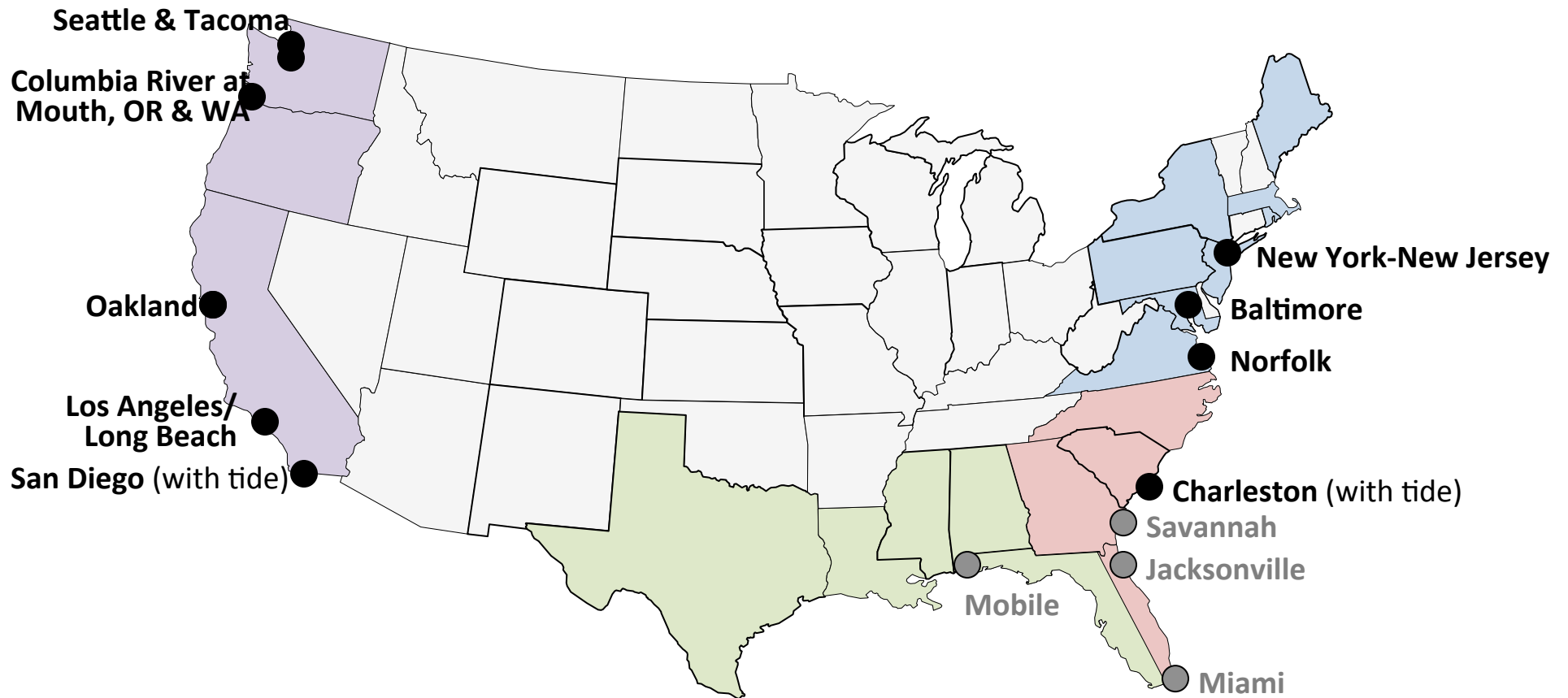


Shale's direct and indirect impacts on construction

- Onsite: Each well requires access road, site prep, pad, storage pond, support structures, pipes
- Nearby: Products, water require trucking, rail, pipeline, processing
- Local spending by drilling firms, workers, royalty holders
- Orders for fracking sand, drills, compressors, pumps, pipe, tanks, trucks, rail equipment, processing facilities
- Downstream: Petrochemical, power, steel plants; LNG export terminals, fueling stations; LNG-powered vehicles
- Losers: coal; maybe wind, solar, nuclear & suppliers



U.S. Post-Panamax Ready Ports



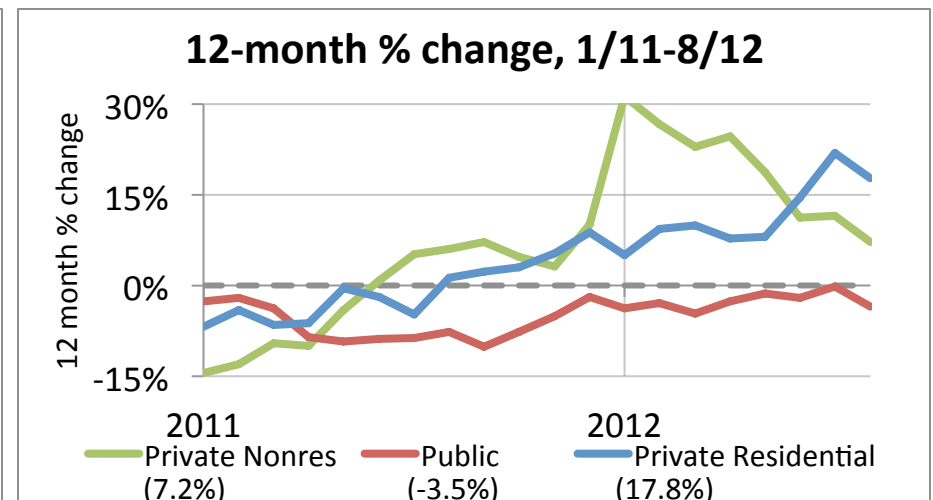
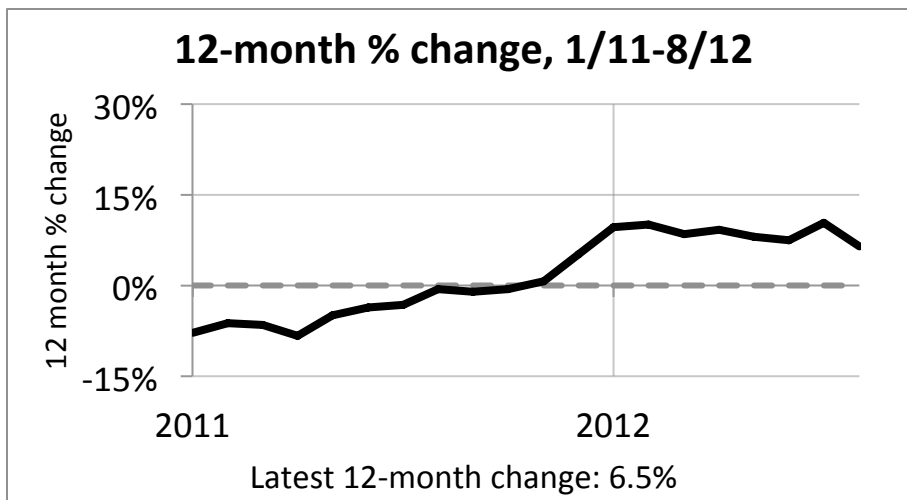
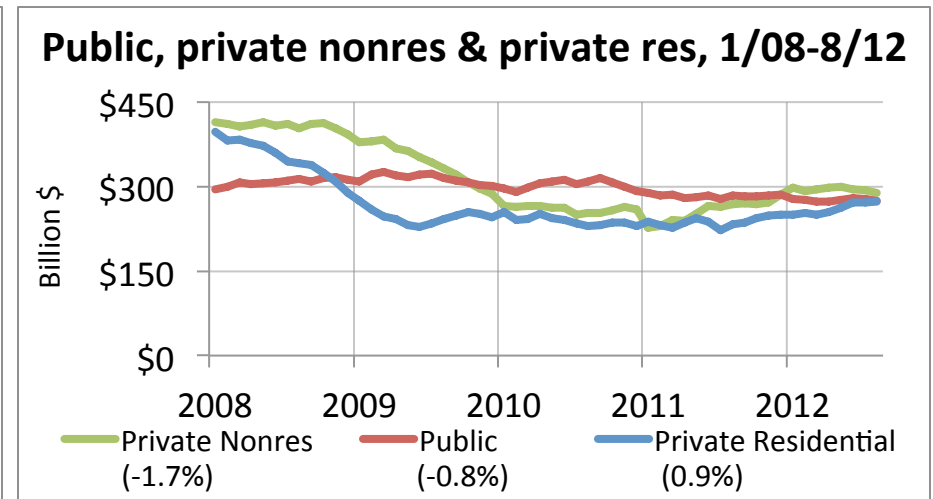
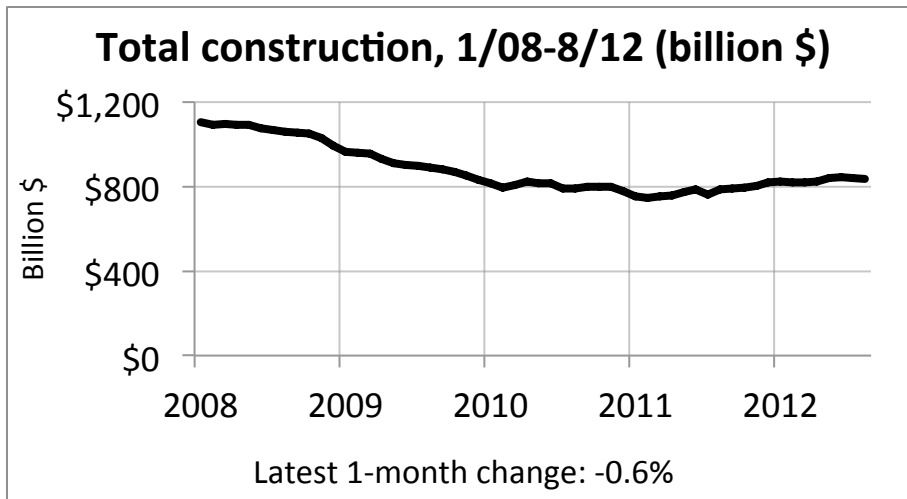


Panama Canal expansion's impacts on construction

- Ports: investing in dredging, piers, cranes, land access
- Nearby: Storage, warehouse, trucking, rail facilities
- Possible bridge, tunnel, highway improvements
- Possible changes in inland distribution, manufacturing



Construction spending (seasonally adjusted annual rate—SAAR)





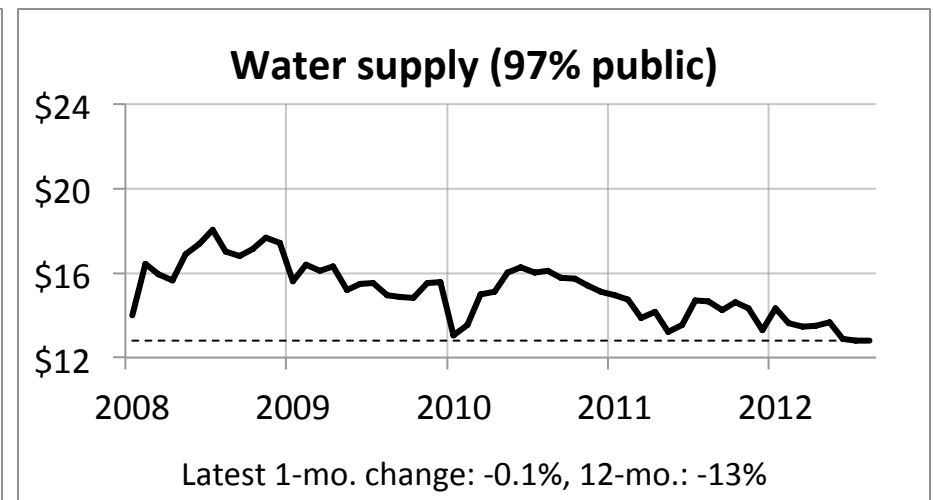
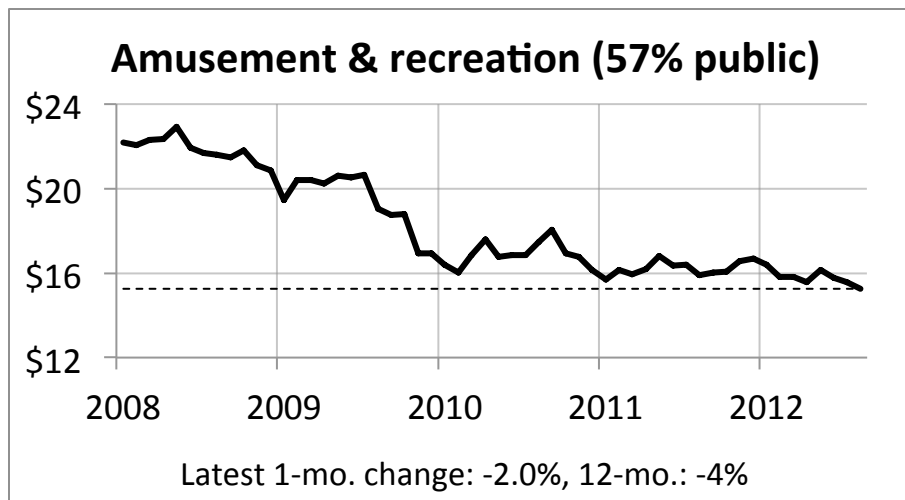
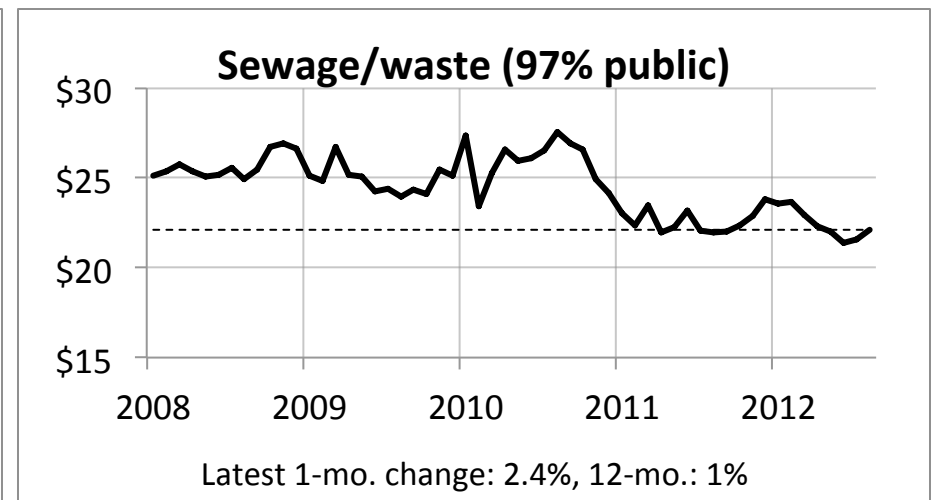
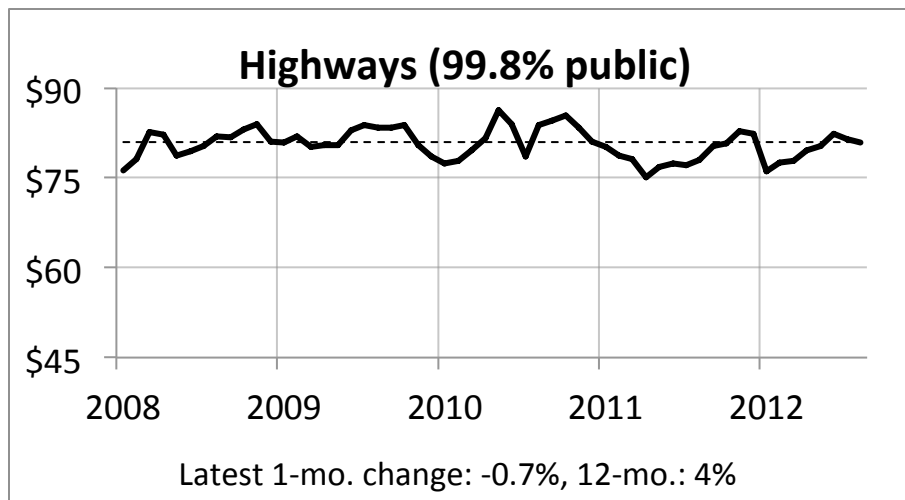
Nonres totals (billion \$, SAAR), share & 12-month change

| | <u>8/12 Total</u> | <u>Share</u> | <u>8/11-8/12</u> |
|---|----------------------|--------------|------------------|
| Nonresidential (priv.+federal+state/ local) | \$557 billion | 100% | 2% |
| Power (incl. oil & gas struc., pipelines) | 85 | 15 | 12 |
| Educational | 85 | 15 | -2 |
| Highway and street | 81 | 15 | 4 |
| Manufacturing | 48 | 9 | 6 |
| Commercial (retail, warehouse, farm) | 46 | 8 | -2 |
| Health care | 41 | 7 | 3 |
| Transportation | 37 | 7 | 4 |
| Office | 36 | 6 | 3 |
| Sewage and waste disposal | 22 | 4 | 1 |
| Communication | 17 | 3 | -4 |
| Amusement and recreation | 15 | 3 | -4 |
| Other (water, lodging; public safety; conservation; religious): 8% of total | | | -5 |

Source: Census Bureau construction spending report

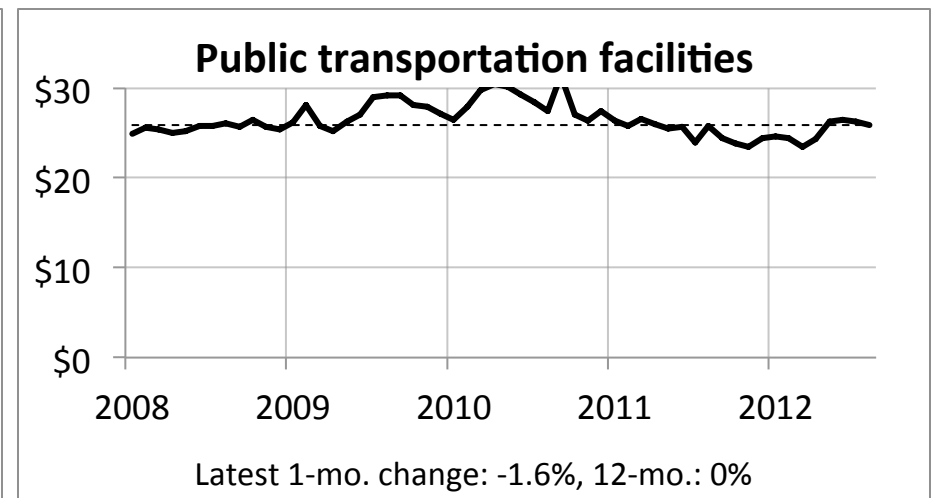
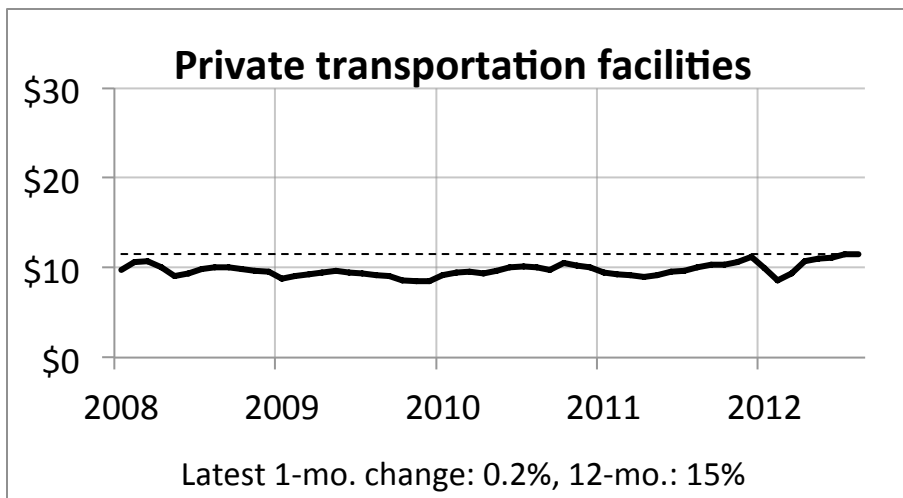
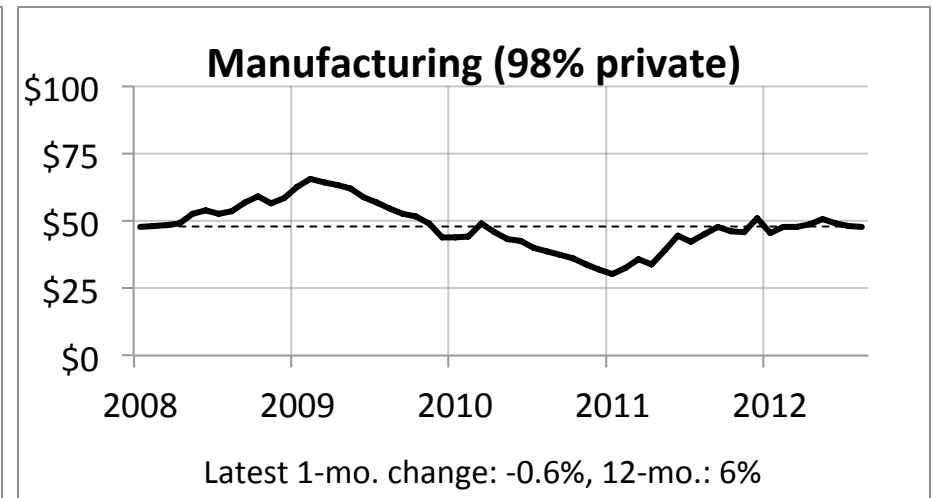
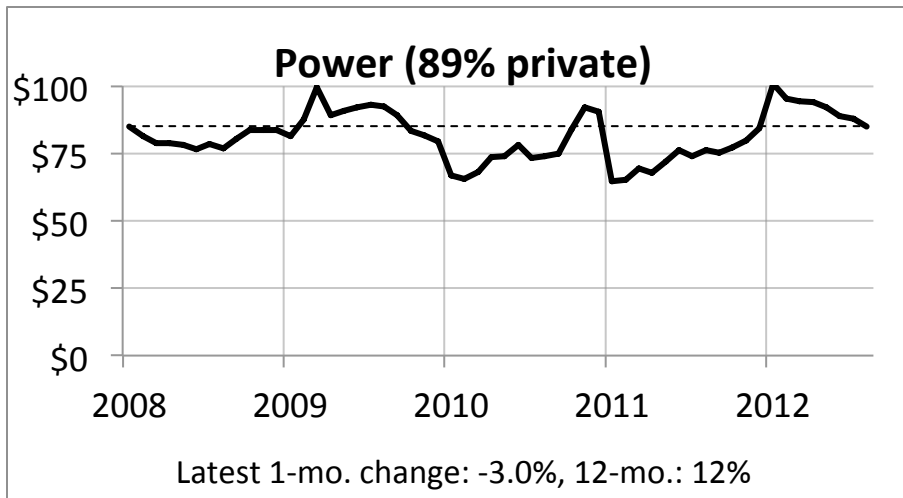


Construction spending: public works (billion \$, SAAR)



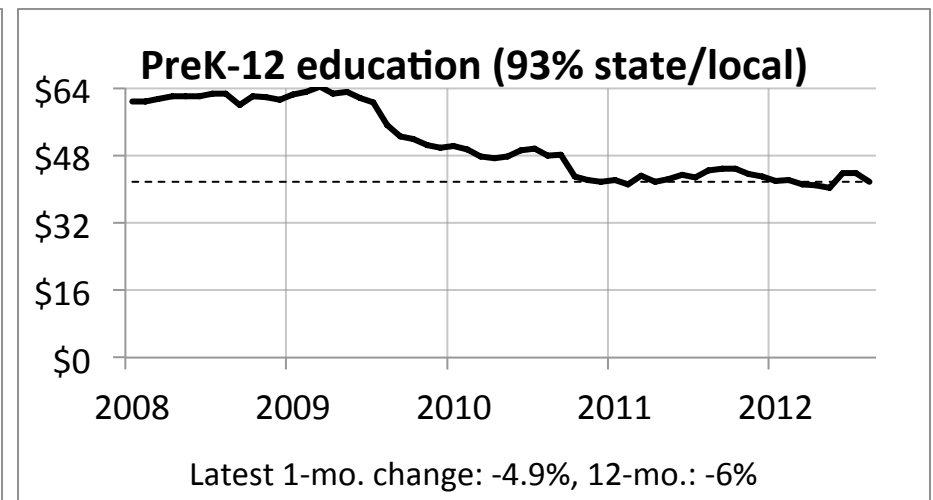
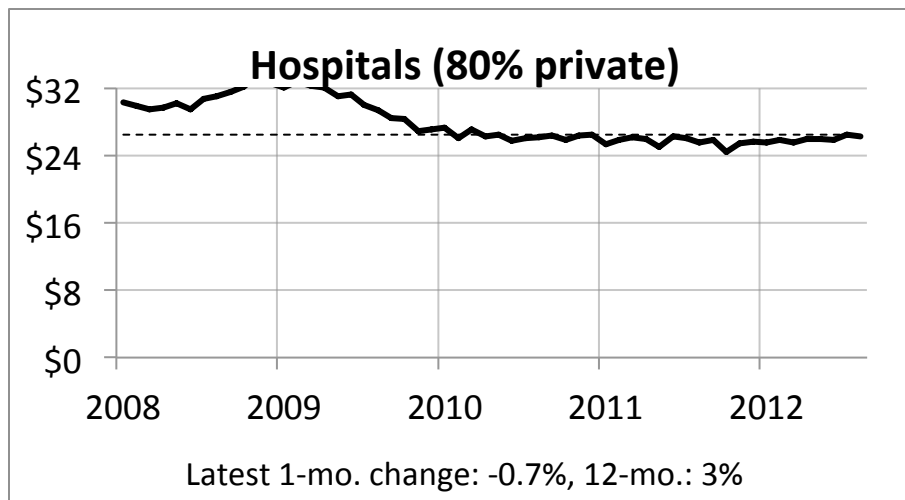
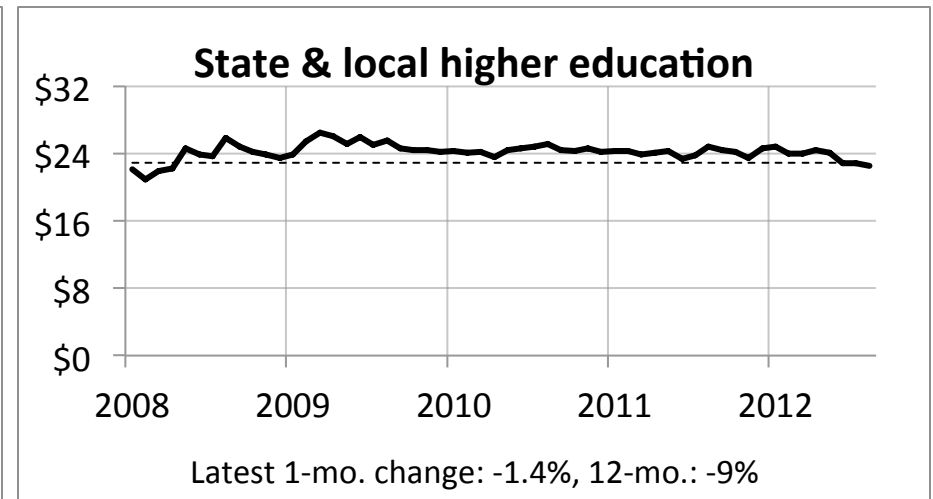
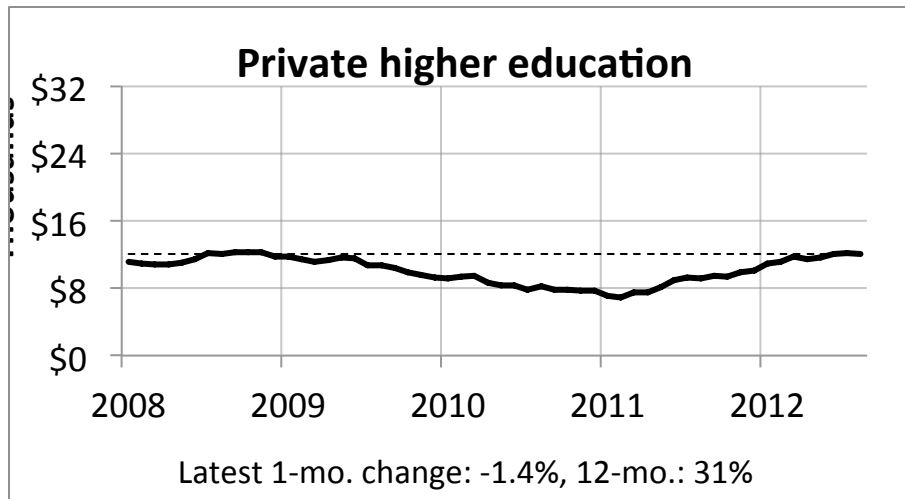


Construction spending: industrial, heavy (billion \$, SAAR)



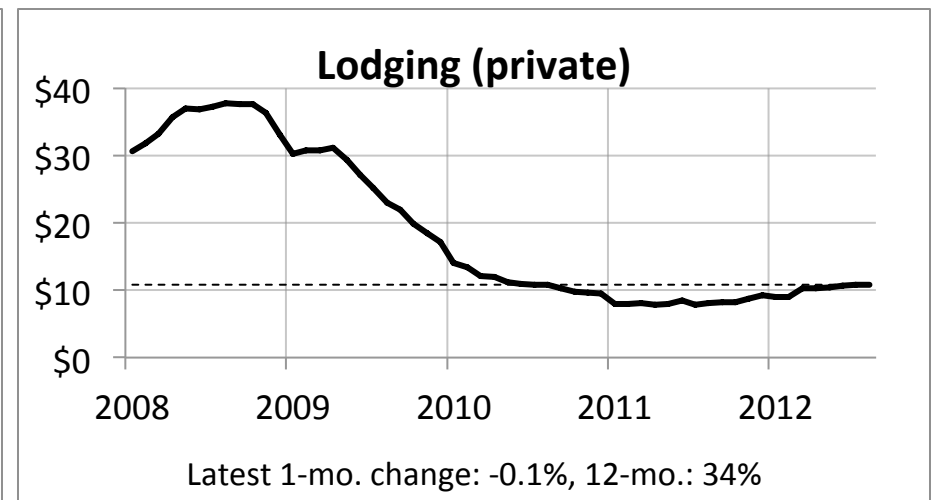
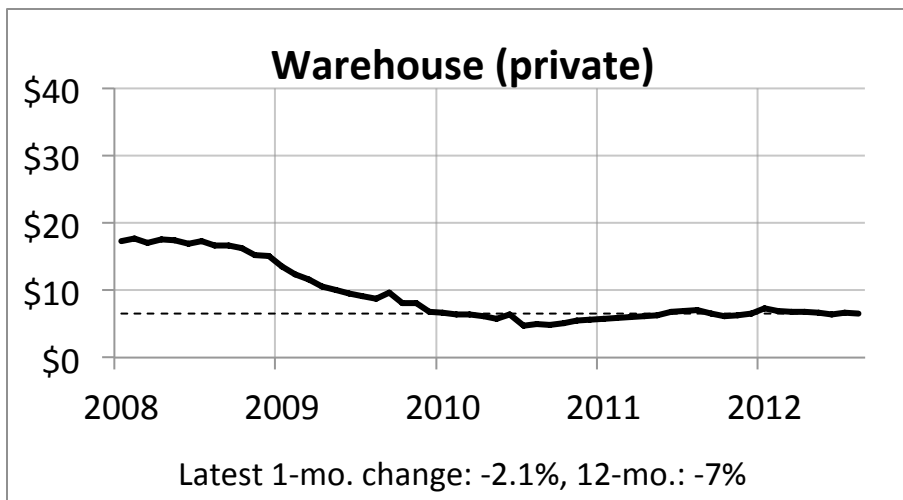
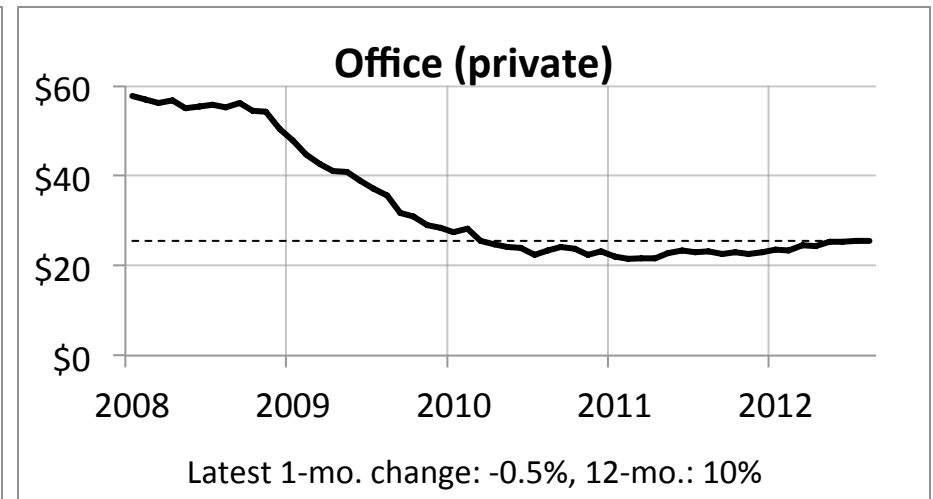
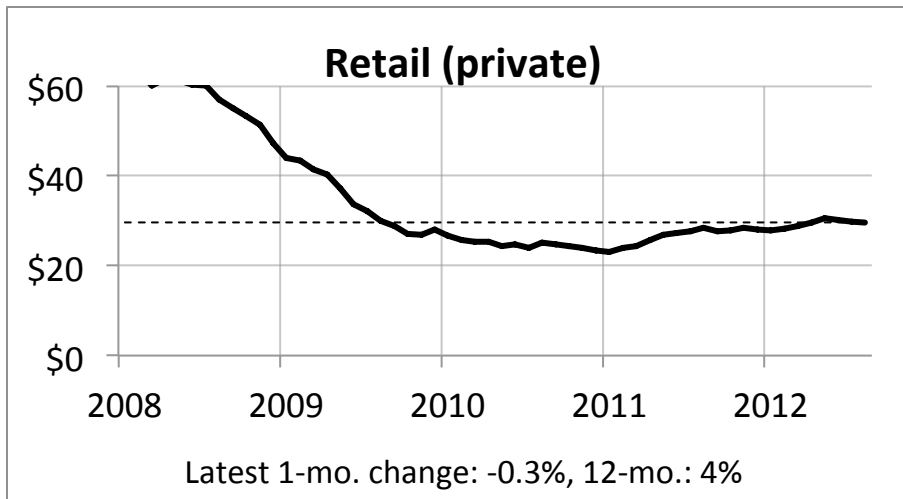


Construction spending: institutional (private + state/local)



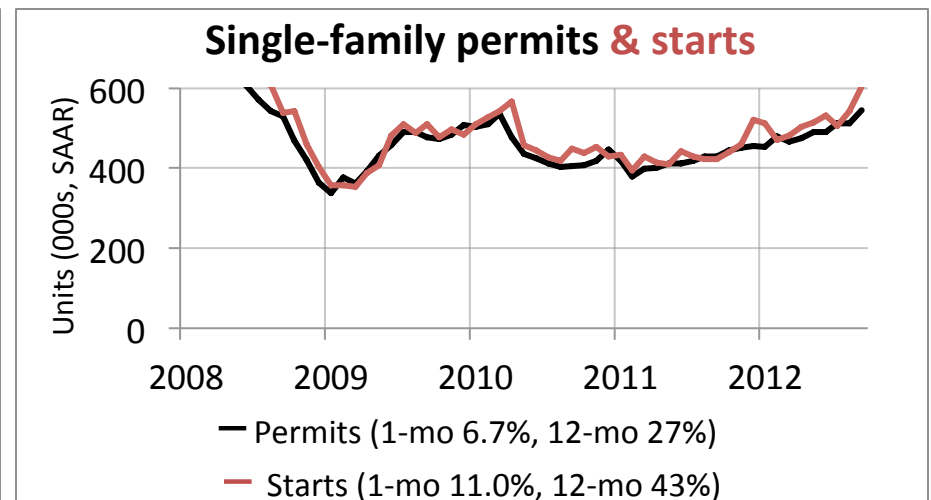
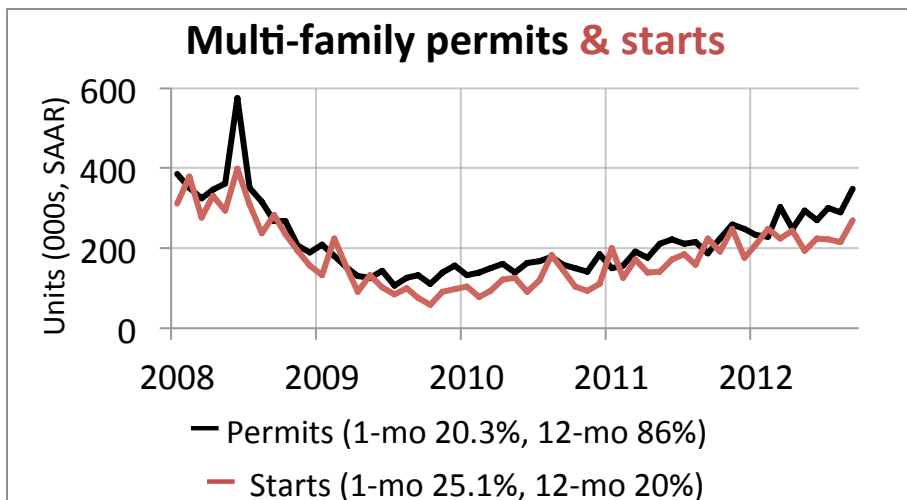
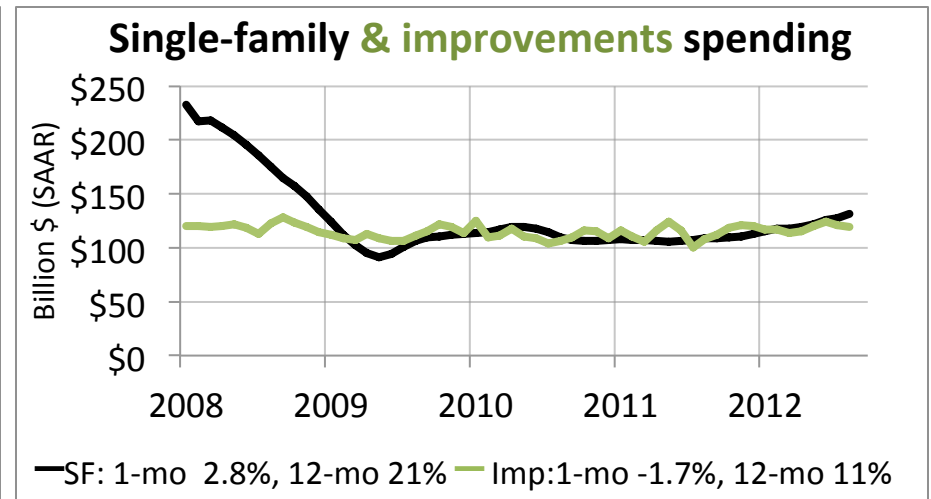
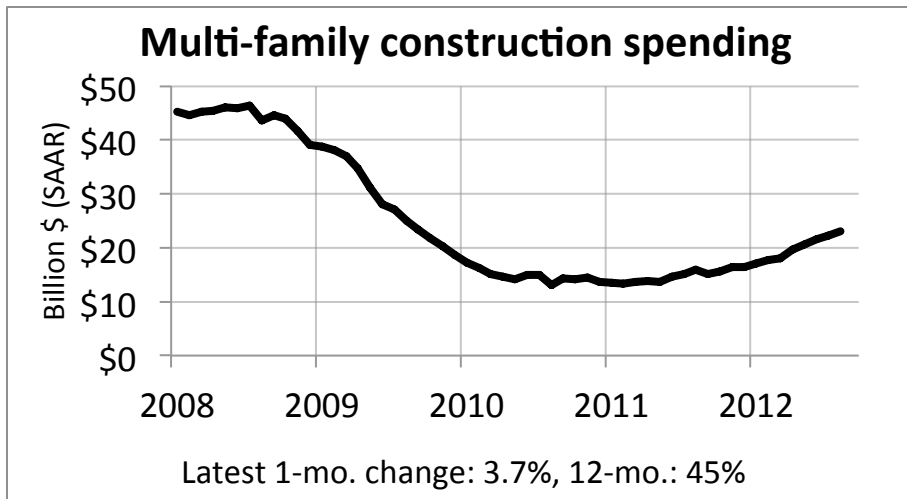


Construction spending: developer-financed (billion \$, SAAR)





Priv. residential spending, permits, starts: single- & multi-family, 2008-12





Housing outlook

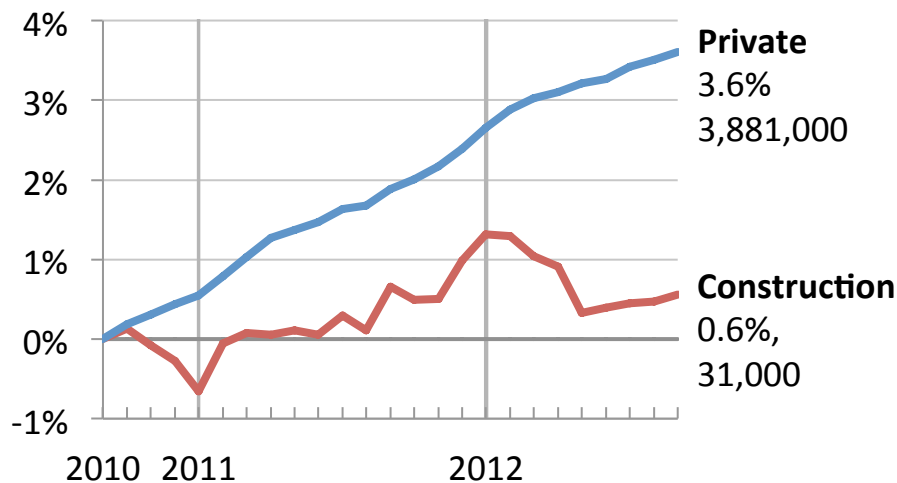
- SF: improvement so far but distressed and ‘shadow’ inventory will depress prices, limit new construction
- MF: Upturn should last throughout 2012 and 2013
 - Vacancy rate is now at 10-year low; rents are up
 - Rental demand should rise as more people get jobs
 - But condo market continues to have large overhang
 - And government-subsidized market likely to worsen
- The big mystery: Have preferences changed to favor renting, close-in locations (=> more MF, less SF)?



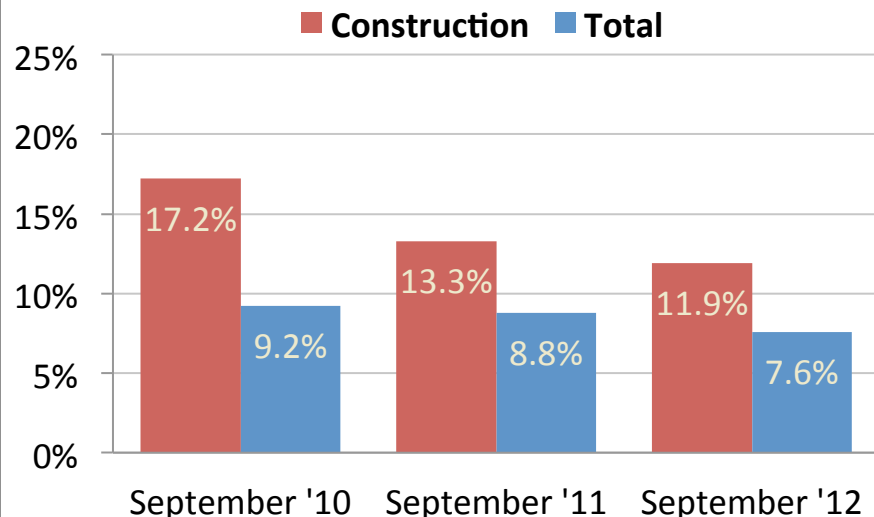
Construction vs. overall (un)employment, 9/10-9/12

- Private sector added jobs since 2010, construction only since 1/11
- Unemployment fell but construction added few jobs in 2 years
- Thus, workers are leaving for other sectors, school, retiring

Construction vs. private employment, 9/10-9/12
 (seasonally adjusted, cumulative % change since 9/10)

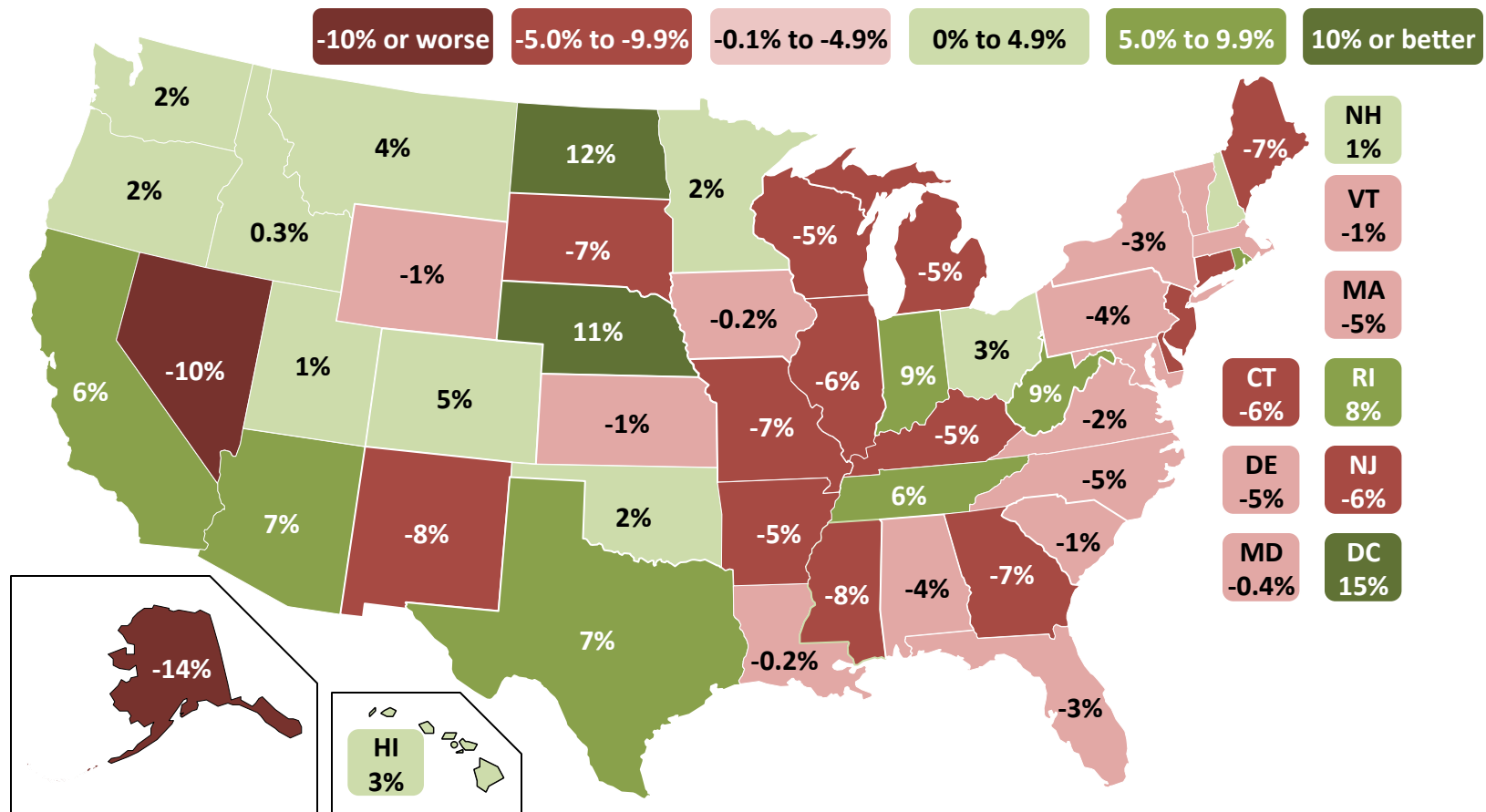


Unemployment rates
 (September 2010-September 2012)



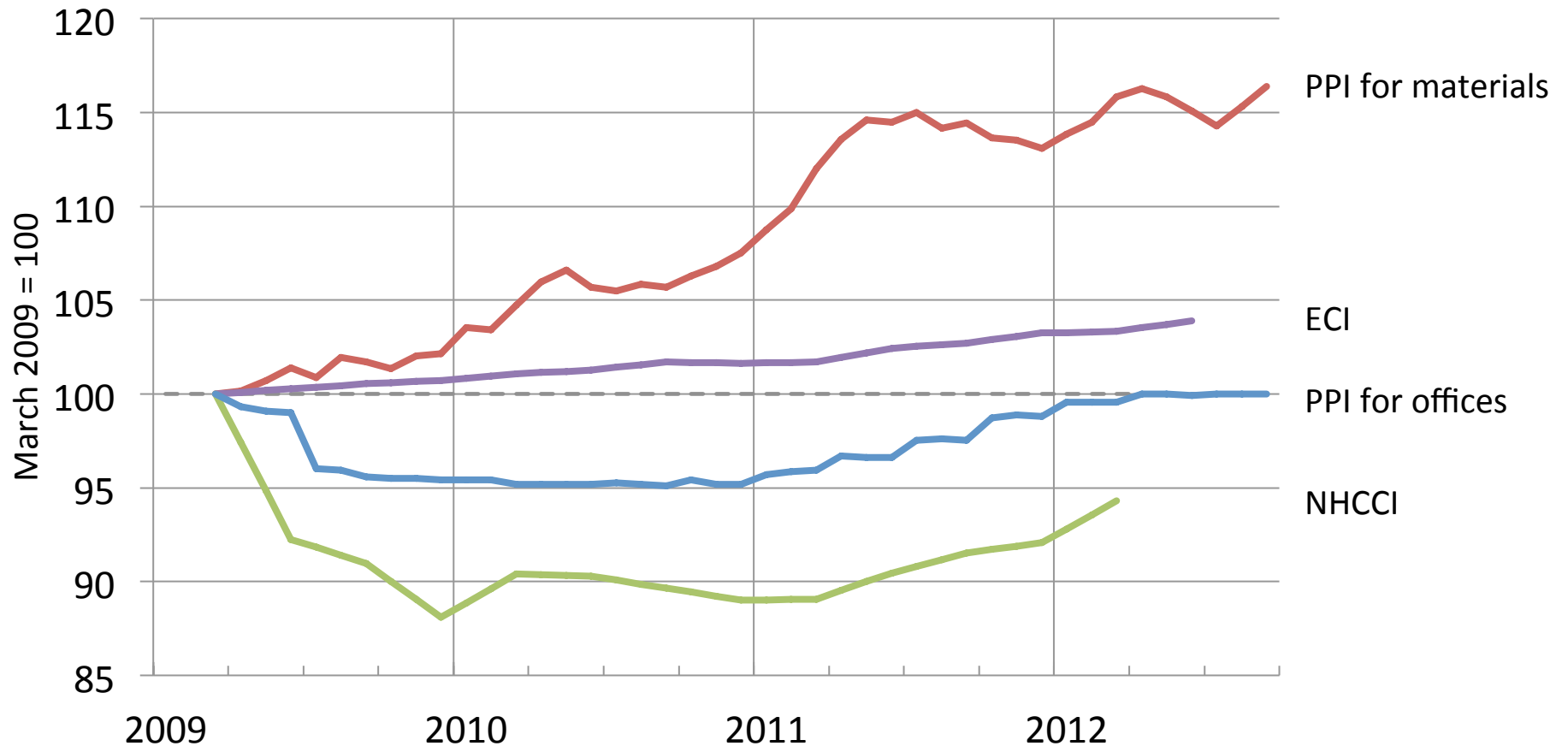


State construction employment change (U.S.: 0.4%) 8/11 to 8/12 (seasonally adjusted): 20 + DC up, 30 down



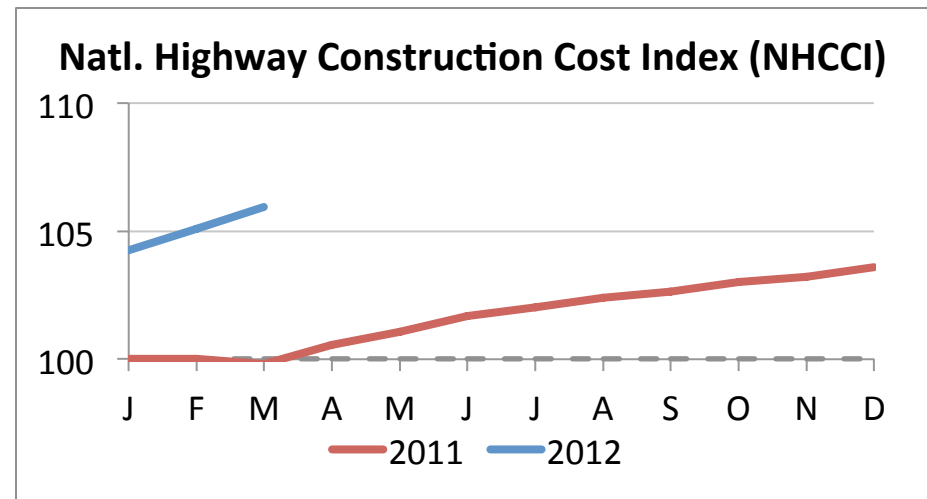
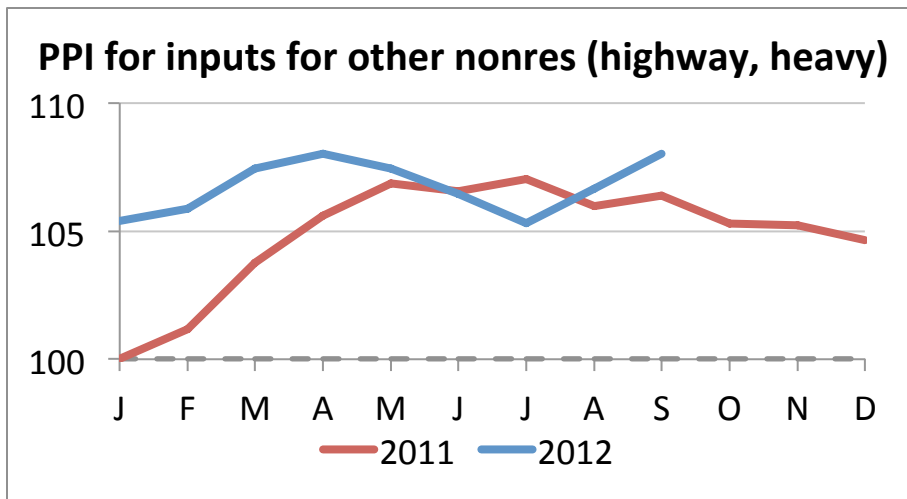
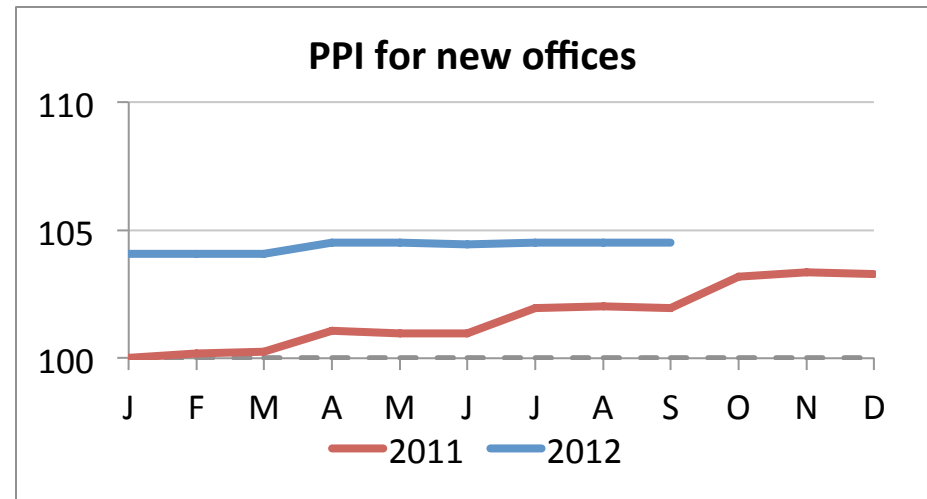
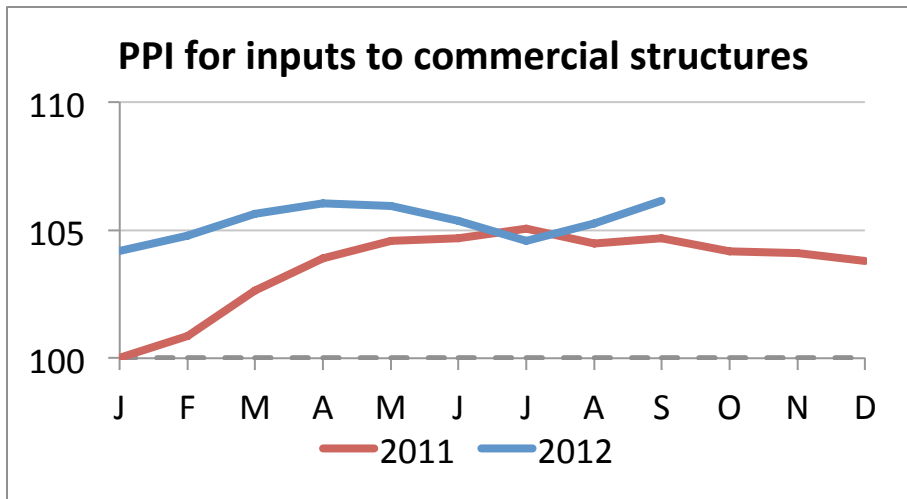


Material & labor costs vs. office & highway bid prices, 3/09-9/12



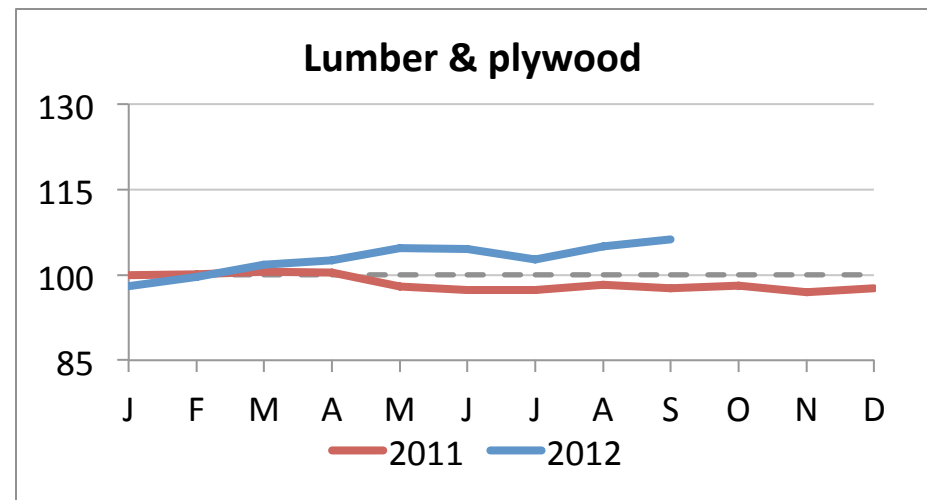
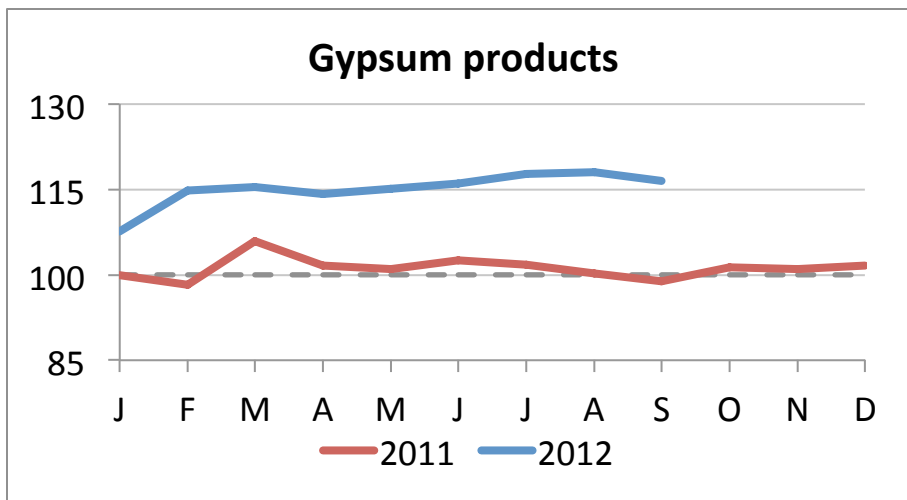
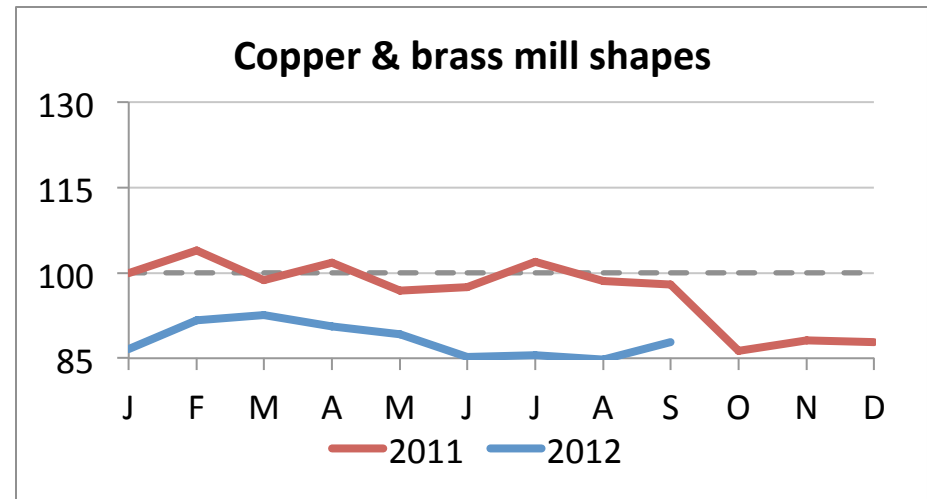


PPIs for inputs vs. bid prices, 1/11-9/12 (January 2011=100)



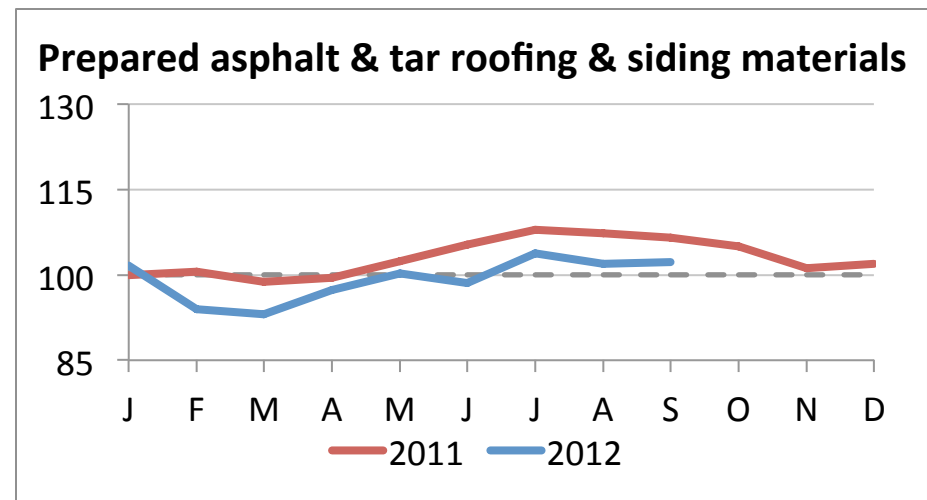
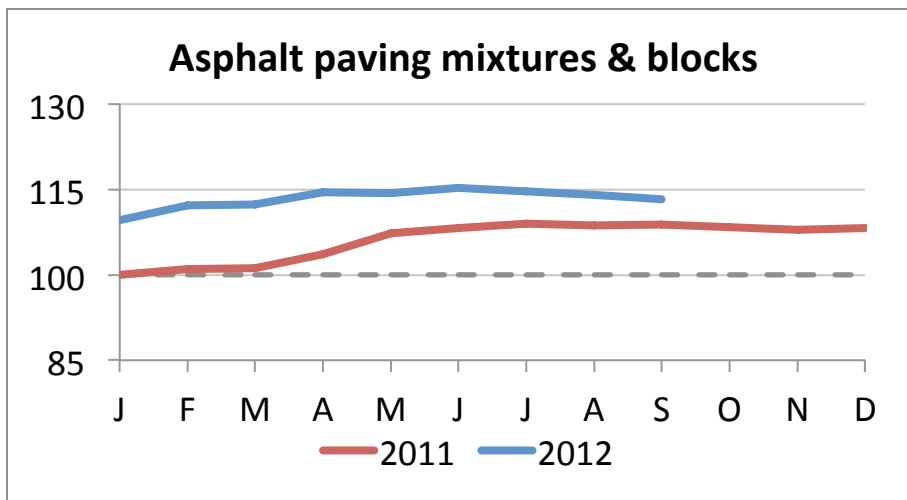
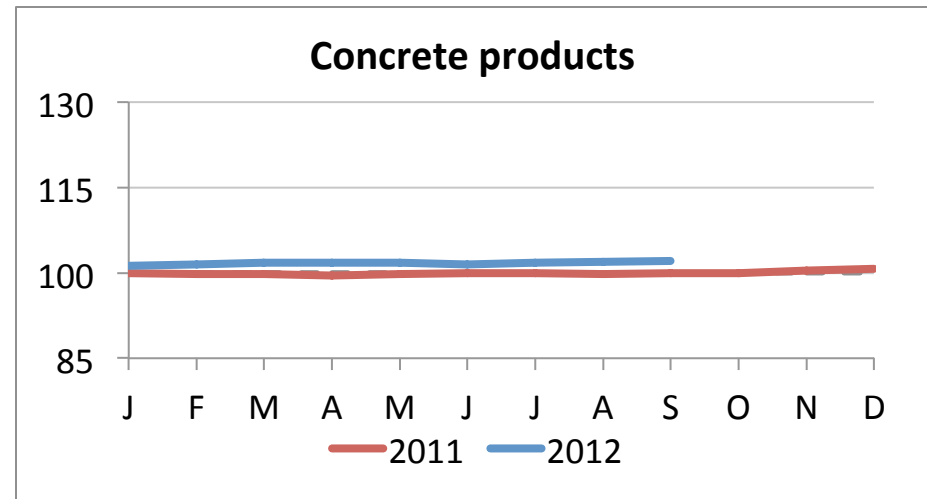
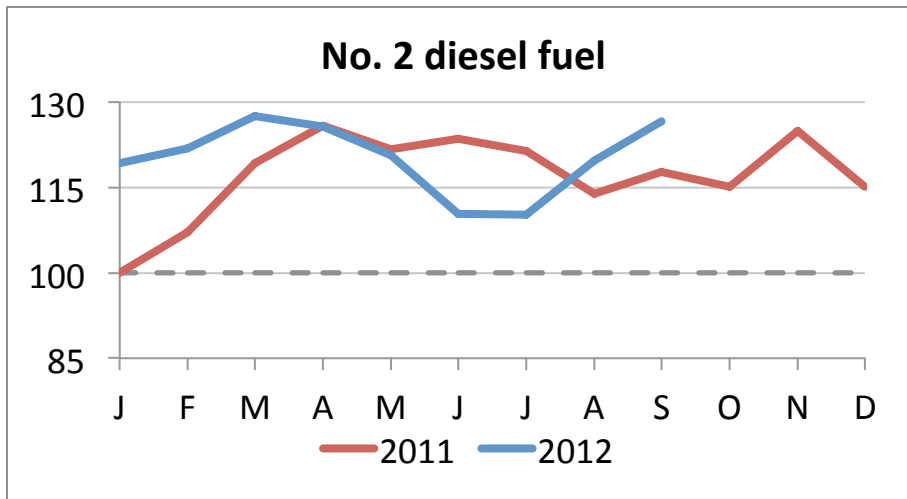


Producer price indexes for key inputs, 1/11-9/12 (January 2011=100)





Producer price indexes for key inputs, 1/11-9/12 (January 2011=100)





Outlook for materials

- 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 2-4% Dec-Dec PPI increase but volatility still a risk



Summary for 2012

- Private nonres spending: +10 to +15% (more power, pipelines, mfg., warehouse, hospitals, maybe higher ed)
- Public: -2 to -5% (highways, educational 0%, other transp. -5%; continued weak state-local spending)
- Res: +10% to +15% (SF and imp. up a bit, MF very strong)
- Total construction spending: +5 to +9%
- Materials costs: +2 to +4% Dec.-Dec.
- Labor costs: +1.5% to +2.5%



Trends: 2013-2017

- Total construction spending: +6% to +10% per year
 - less housing, retail; declining public spending
 - new drivers: shale-based gas & oil; Panama Canal widening; more elderly & kids, fewer young adults
- Materials costs: +3% to +8% (vs. 2% to 3% for CPI)
- Labor costs: +2% to + 4%
- Bid prices: +2% to +5%

AGC economic resources

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Data DIGest

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Sept. 24-Oct. 2, 2009
Vol. 9, No. 33

Construction job losses remain heavy, widespread; homebuilding rises, nonres sinks

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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 nonsupervisory 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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Construction Economics

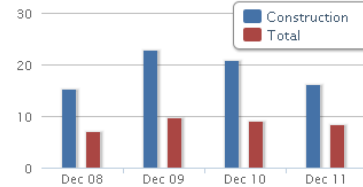
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Construction Economics

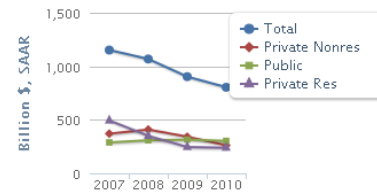
Unemployment rates

Source: BLS employment

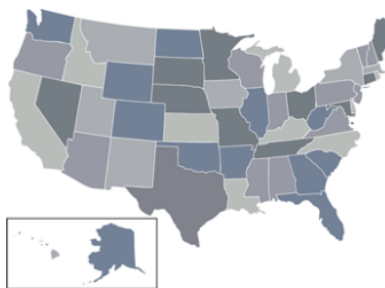


Construction Spending

Source: Census Bureau



State and Local Information



Latest News

JAN 6 2012 Construction Employment Increases by 17,000 in December

Construction employment increased in December by 17,000 driven by gains in nonresidential construction employment, according to an analysis of new federal employment data released today by AGC

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AGC's Chief Economist



Kenneth D. Simonson has been Chief Economist for the Associated General Contractors of America, the leading national construction trade association, since 2001. He provides insight into the economy and what it implies for construction and related industries through frequent media interviews, presentations and The Data DIGest, his weekly one-page e-newsletter.