

# Sorting Out the Outlook for Construction and Materials

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## Current economic influences

- Slow real GDP growth (0.7-2.5%)
- Low inflation (CPI change 1-3%)
- Moderate job growth, low unemployment (avg. 130,000 jobs/mo., 4.5% unem rate)
- Rising real wages, personal income (2%)
- Worries about housing, falling dollar

# The shifting construction market

<u>Segment</u>	<u>2006</u>	<u>5/07</u>
Total (tril. \$, SAAR)	\$1.19	\$1.18
% of total		
Private residential	54%	47%
New SF	35	28
New MF	4	4
Improvements	14	15
Private nonres.	25	29
Public	21	24

## Housing outlook

- SF: No end yet to decline in permits, starts or spending
- Don't expect upturn before 2<sup>nd</sup> Q of '08
- MF: Rental construction cushioned the fall in condo starts but now many owners are trying to rent out houses and condos

## Nonresidential '06 totals (\$545 bil.) & shares

Educational	\$86 billion	16%
Commercial	\$76 billion	14%
Highway & street	\$72 billion	13%
Office	\$55 billion	10%
Healthcare	\$40 billion	7%
Power	\$39 billion	7%
Manufacturing	\$34 billion	6%
Transportation	\$27 billion	5%
Sewage & waste disposal	\$23 billion	4%
Communication	\$21 billion	4%
Amusement & recreation	\$18 billion	3%
Lodging	\$18 billion	3%
Other	\$36 billion	7%
(water; public safety; religious; conservation)		

## Highway and street

- 13% of '06 total; +8% YTD '07 vs. '06
- Boosted by 8/05 passage of SAFETEA-LU
- OMB projects big deficit starting 10/08
- 2007: +6-9% (flatter fuel tax receipts, slight relief on materials costs)
- 2008: 0-5% (depends on receipts, costs)

## Transportation facilities

- 5% of '06 total; +9% YTD '07 vs. '06
- Driven by growth in passengers & freight
- Slower economic growth in 2007 implies less expansion
- 2007: +4-6%

## Materials and components

- Persistently higher increases for construction inputs than for overall economy:

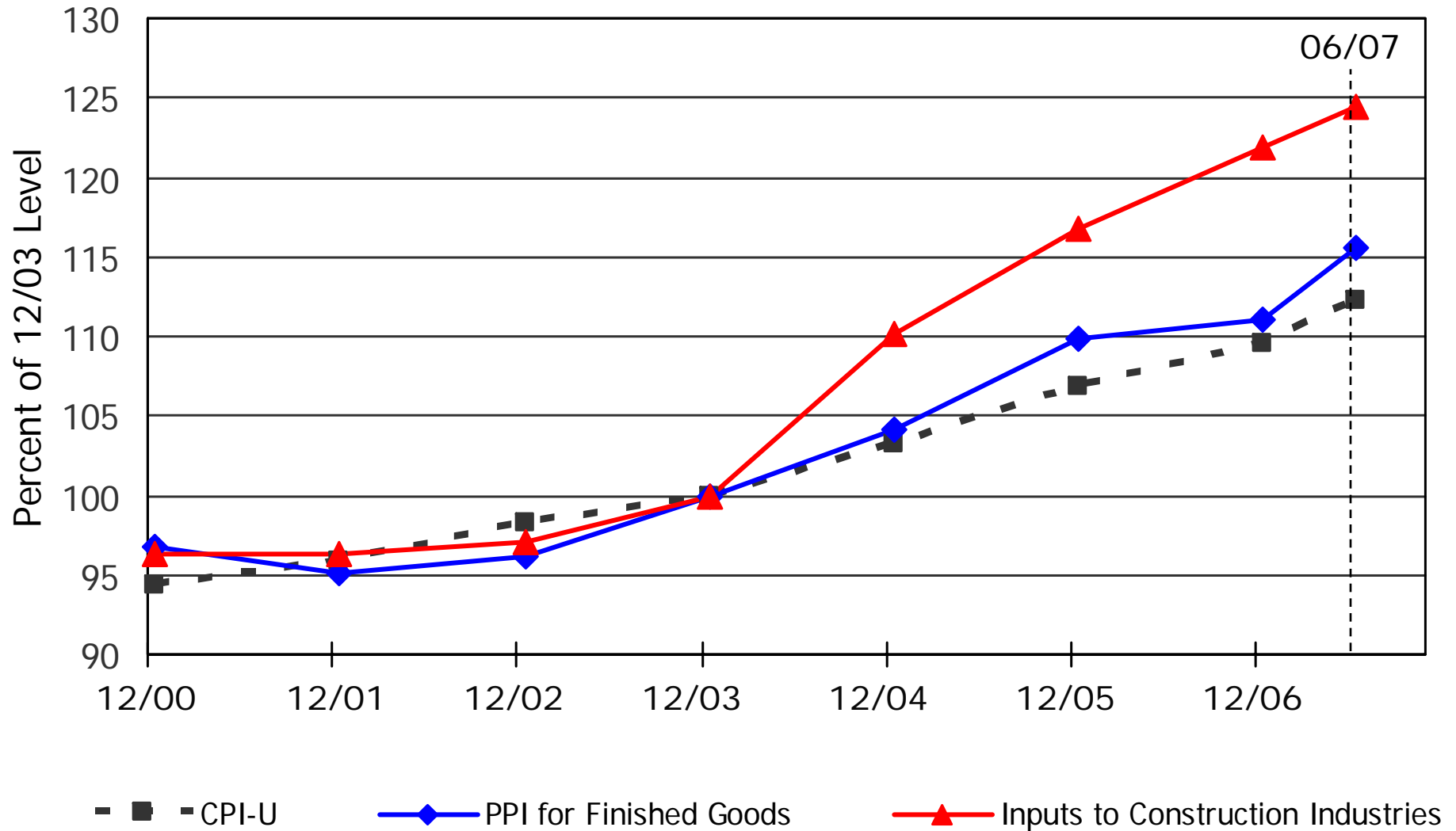
12 mo. to:	<u>12/04</u>	<u>12/05</u>	<u>12/06</u>	<u>6/07</u>
Const PPI	9.1%	8.2%	4.6%	2.6%
CPI-U	3.3%	3.4%	2.5%	2.7%
Cumulative from 12/03 to:				
Const PPI		18%	23%	26%
CPI-U		7%	9%	12%

- PPI drivers: steel, gypsum, diesel, asphalt, concrete, copper, plastics, aluminum



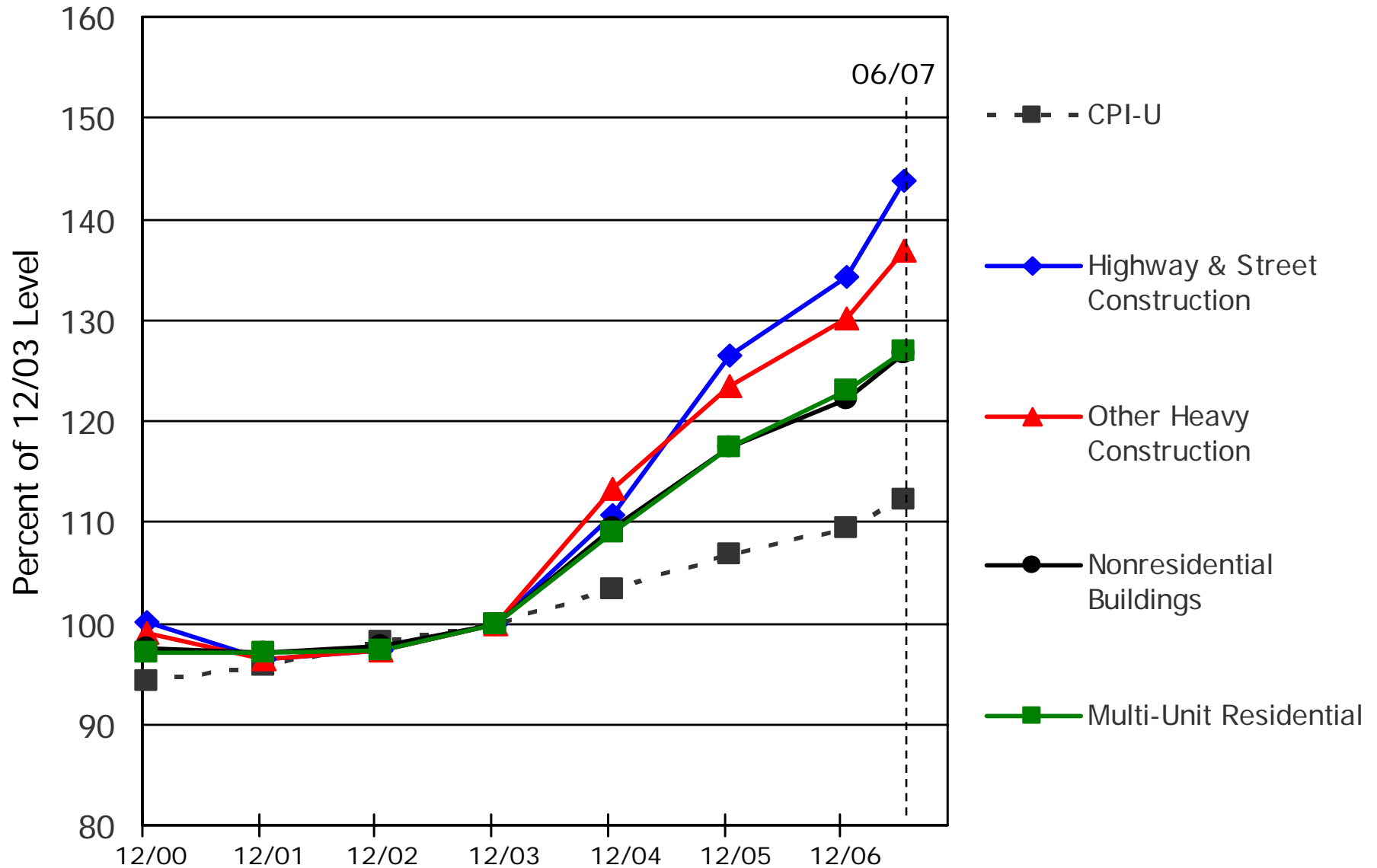
# Cumulative Change in Consumer, Producer & Construction Prices

(All PPIs = 100 in 12/03)



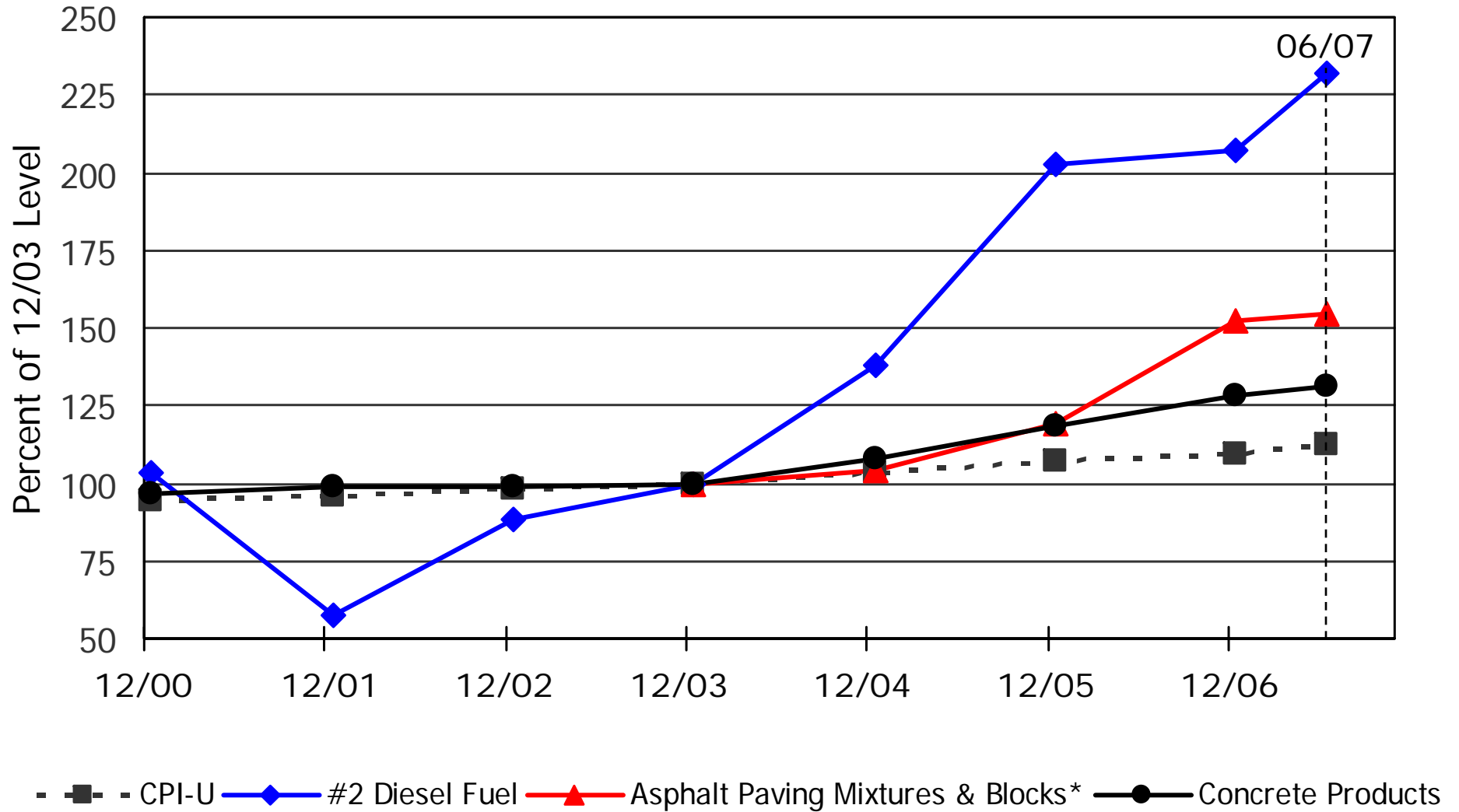
# Cumulative Change in PPIs for Construction Types

(All PPIs = 100 in 12/03)



# Cumulative Change in PPIs for Selected Highway Inputs

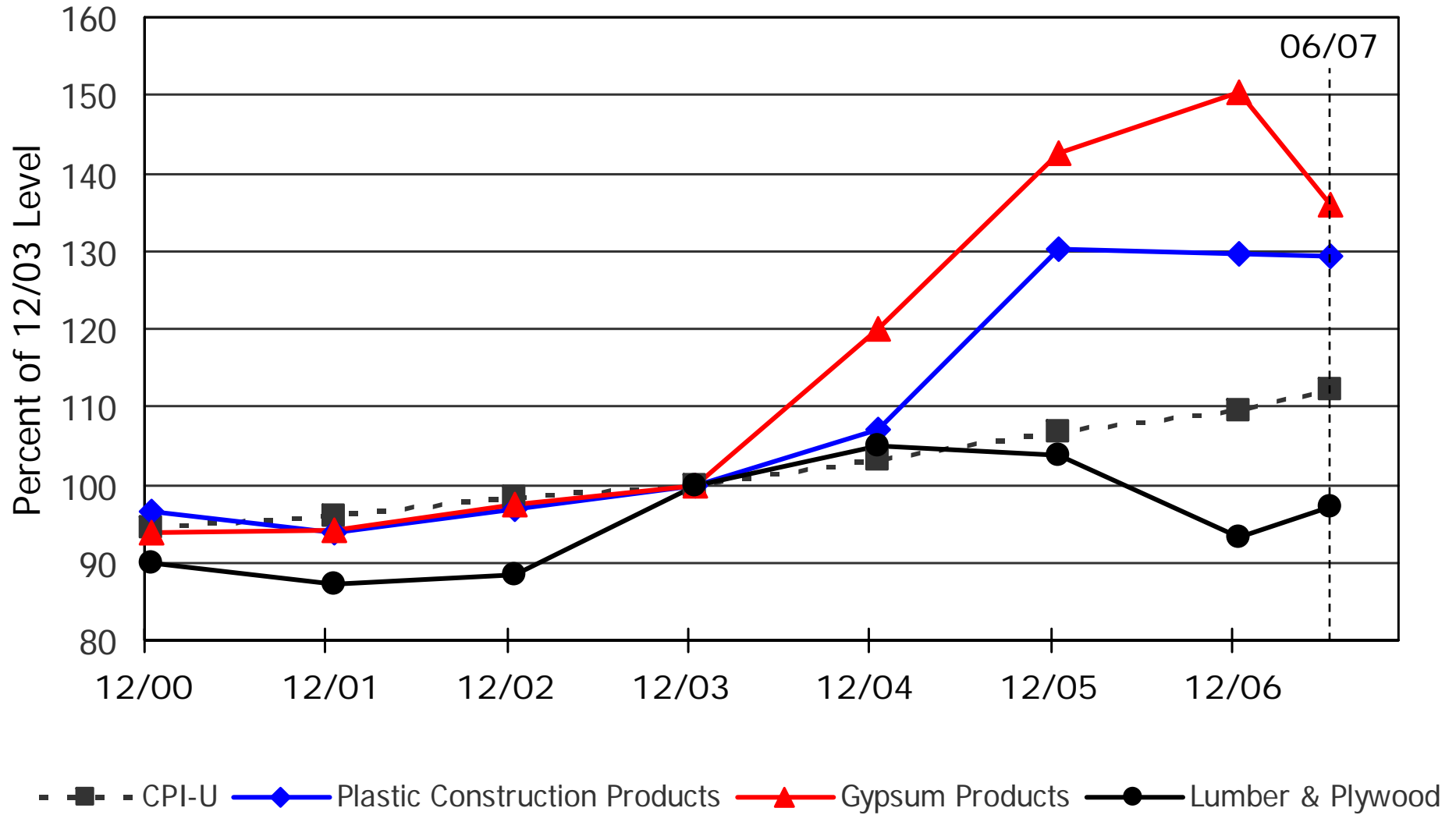
(All PPIs = 100 in 12/03)



\*Asphalt Paving Mixtures & Blocks Series Not Available Before 2003

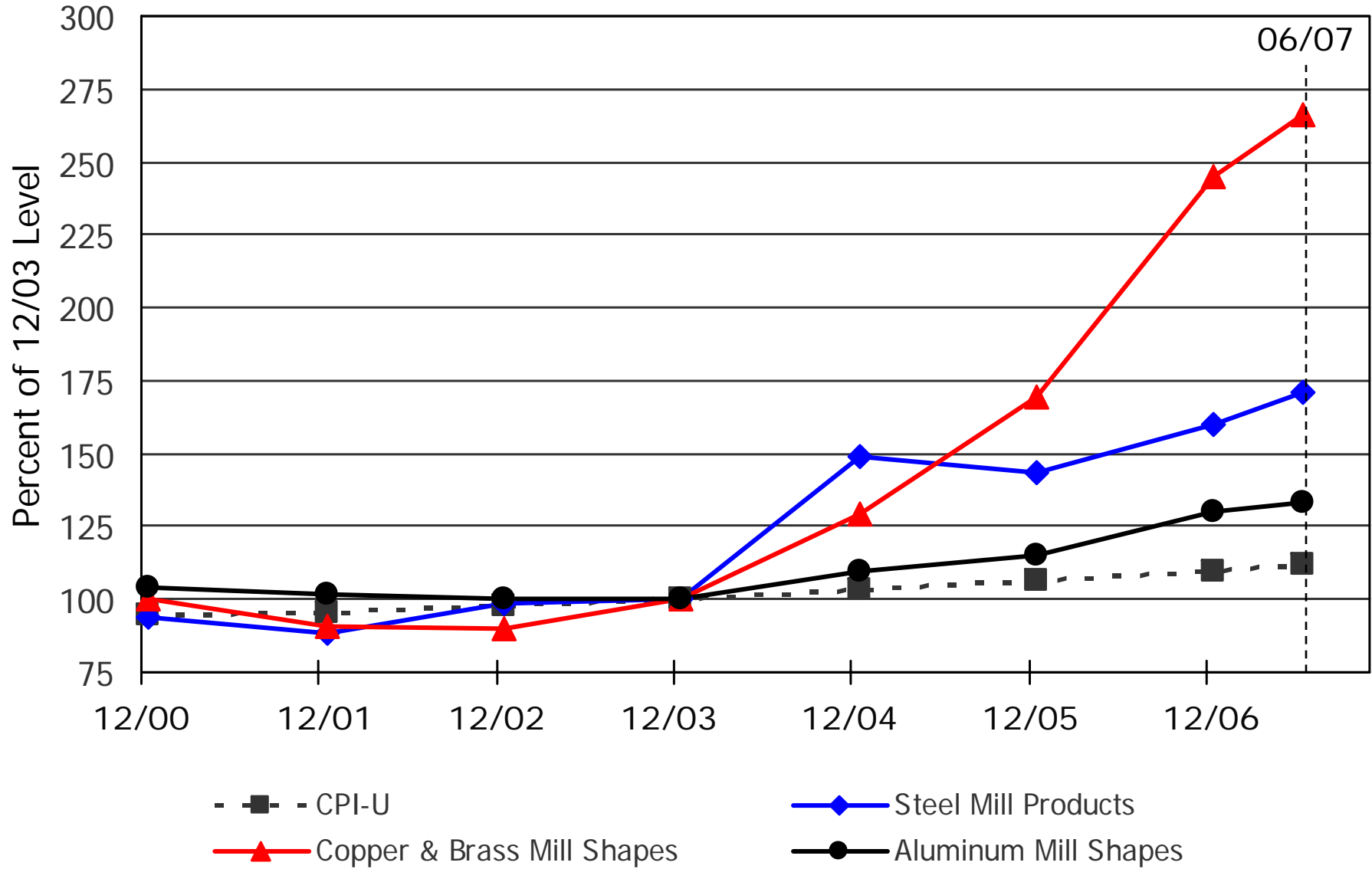
# Cumulative Change in PPIs for Selected Building Inputs

(All PPIs = 100 in 12/03)



# Cumulative Change in PPIs for Selected Metal Products

(All PPIs = 100 in 12/03)



## Outlook for materials (3-6 months)

- Falling prices: wood, gypsum products; perhaps plastics
- Likely to rise: diesel, asphalt, copper
- No shortages but longer lead times for some items
- Year-over-year PPI change: 4-6%

## Outlook for materials (1-5 years)

- Growth in construction activity = same growth in demand for materials
- Materials are in worldwide demand, with uncertain supply growth (e.g., copper, oil)
- Construction requires physical delivery
- Thus, industry is subject to price spurts, transport bottlenecks, fuel price swings
- Expect 6-8% PPI increases, higher spikes

## Construction labor costs, availability

Average hourly wages, 6/06-6/07: +4.6%

- Construction employment change: -0.1%

- Residential construction : -3.5%

- (resid. building & specialty trades)

- Nonresidential construction: +2.6%

- (nonres. building & specialty trades,  
heavy & civil engineering const.)

- Architectural, engineering services: +3.7%
- Nonfarm total: jobs +1.5%, wages +3.9%



## Construction labor outlook (12/07 vs. 12/06)

- Full-year decline in res. employment: 4-6%
- Some transferability to nonres. (cement, elec., plumbing, wallboard, not carpentry)
- Full-yr. rise in nonres. employment: 2-4%
- Wage increase: 5% (partly due to greater proportion of nonres., hence higher-paid)

## Summary for 2007

- Total const. spending: -3% to +1%  
Res: -10% to -15% (huge drop in new SF;  
MF and improvements down slightly)  
Nonres: +9-14% (led by energy & power,  
hospitals, lodging)
- Materials costs: +6-8% Dec.-Dec.
- Labor costs: +5-6% Dec.-Dec.

# The Key Role of Construction in Missouri's Economy

- The industry **employed 152,200 workers** in June 2007, 5% of the state's total nonfarm employment of 2,798,800 and an increase of 2% from one year before.
- Construction **contributed \$11 billion to state GDP** of \$226 billion in 2006.
- **Annual pay** in 2005 in construction averaged \$41,643, 13% more than the private sector average of \$36,205.
- **Small business** is big in construction. Missouri had 17,050 construction establishments (locations) in 2005, of which 91% employed fewer than 20 workers. In addition, Missouri had 44,741 construction firms without employees, mainly sole proprietorships, in 2005.
- Missouri's **population** grew 0.8% from July 2005 to July 2006, 28th fastest of all states; the national growth rate was 1%. Population growth affects the demand for many types of construction.

# 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
- *Construction Inflation Alert*: twice yearly
- Podcasts: [www.agc.org/podcast](http://www.agc.org/podcast)
- State-specific emails (timing varies)



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