



Construction & Materials Outlook

September 4, 2009

Ken Simonson, Chief Economist

AGC of America

simonsonk@agc.org



Current economic influences

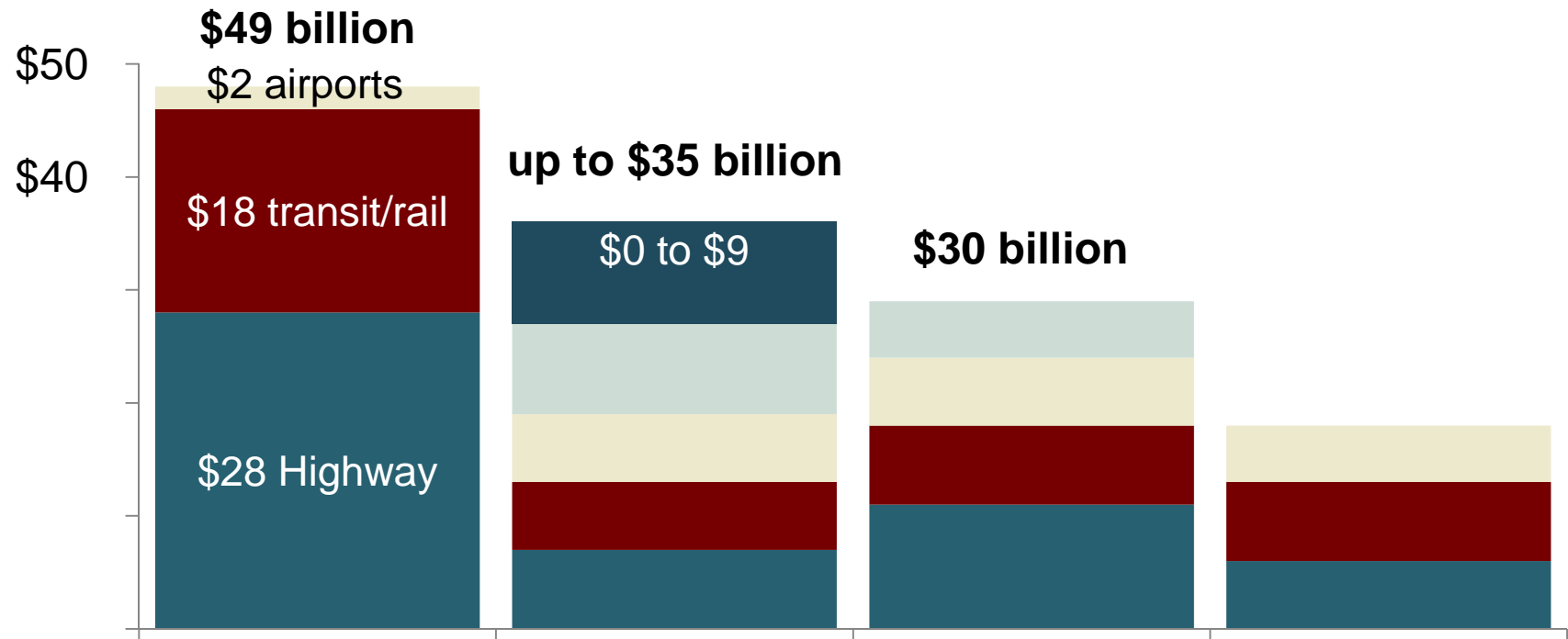


Economic stimulus package

Total : \$787 billion in spending increases, 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

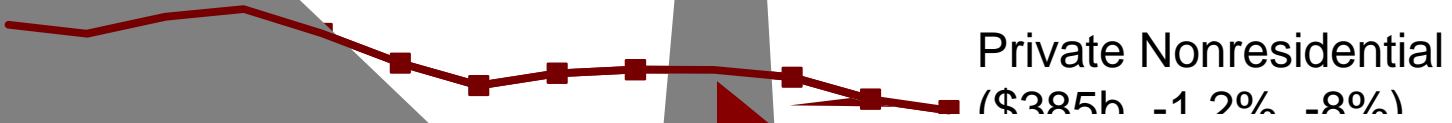
- **Jobs:** 28,500 per \$1 billion
 - 1/3 direct, onsite construction
 - 1/6 indirect, supplying industries
 - 1/2 induced by direct, indirect spending
- **GDP:** \$3.4 billion
- **Personal Earnings:** \$1.1 billion



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

(in billions of dollars, seasonally adjusted annual rate (SAAR))

Private Nonresidential (\$385b, 1-month change: -0.2%, 12-month change: -10%)



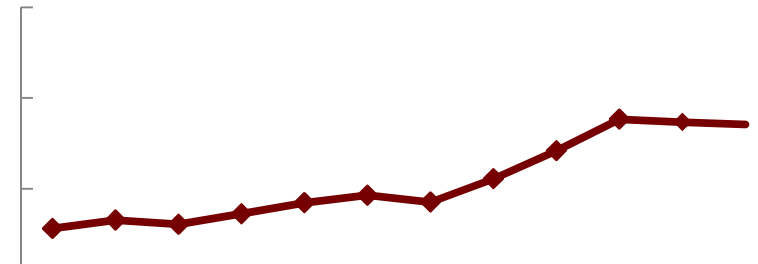


Nonres totals (billion \$, SAAR), share, 1- & 12-month change

	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	8			



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





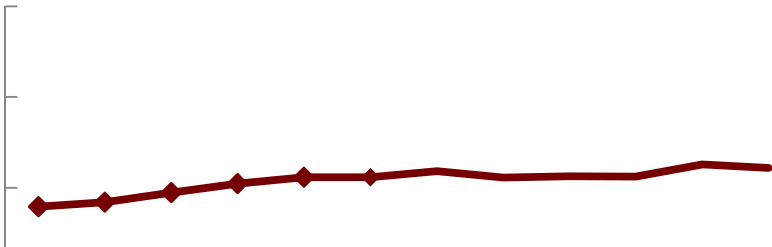


Producer price index (PPI) for construction vs. consumer price index, 2003-09

[

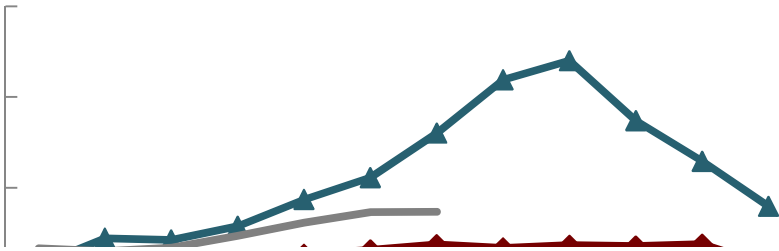


Producer price indexes, 1/07-7/09





Asphalt price indicators, 2007 - 2009







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

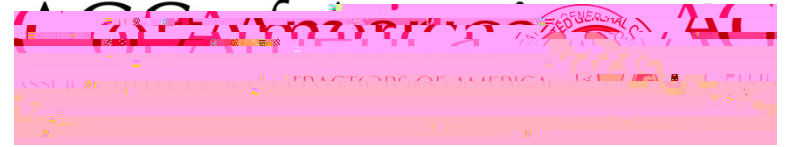






Summary for 2009

- Nonres spending: -3 to -7% (up: power, mfg., BRAC,



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)



AGC economic resources

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

- *The Data DI*Gest: 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
-