



Construction & Materials Outlook

March 9, 2009

Ken Simonson, Chief Economist

AGC of America

USA



Current economic influences

- Credit market freeze affecting private, state and local borrowers
- Weak demand for income-producing properties
- Falling state spending
- No job growth, rising unemployment
- Stimulus (details: www.agc.org/stimulus)



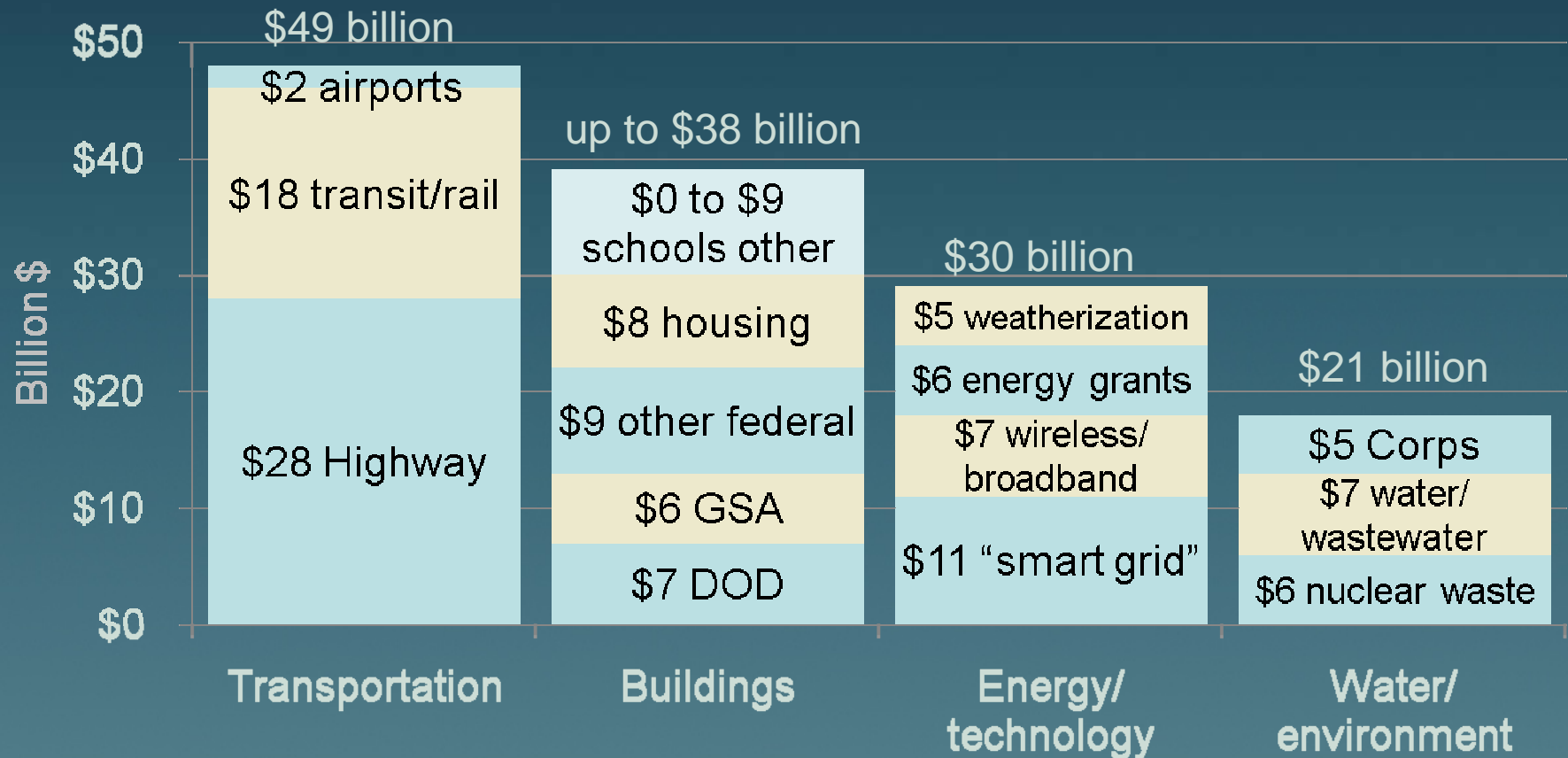
Economic Stimulus Package

Total of \$787 billion in spending and tax cuts

- **\$308 billion in appropriated spending**
- **\$269 billion in direct spending (refundable portion of tax credits, unemployment benefits, Medicaid reimbursement to states, etc.)**
- **\$211 billion in tax cuts**



Economic Stimulus Package





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 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



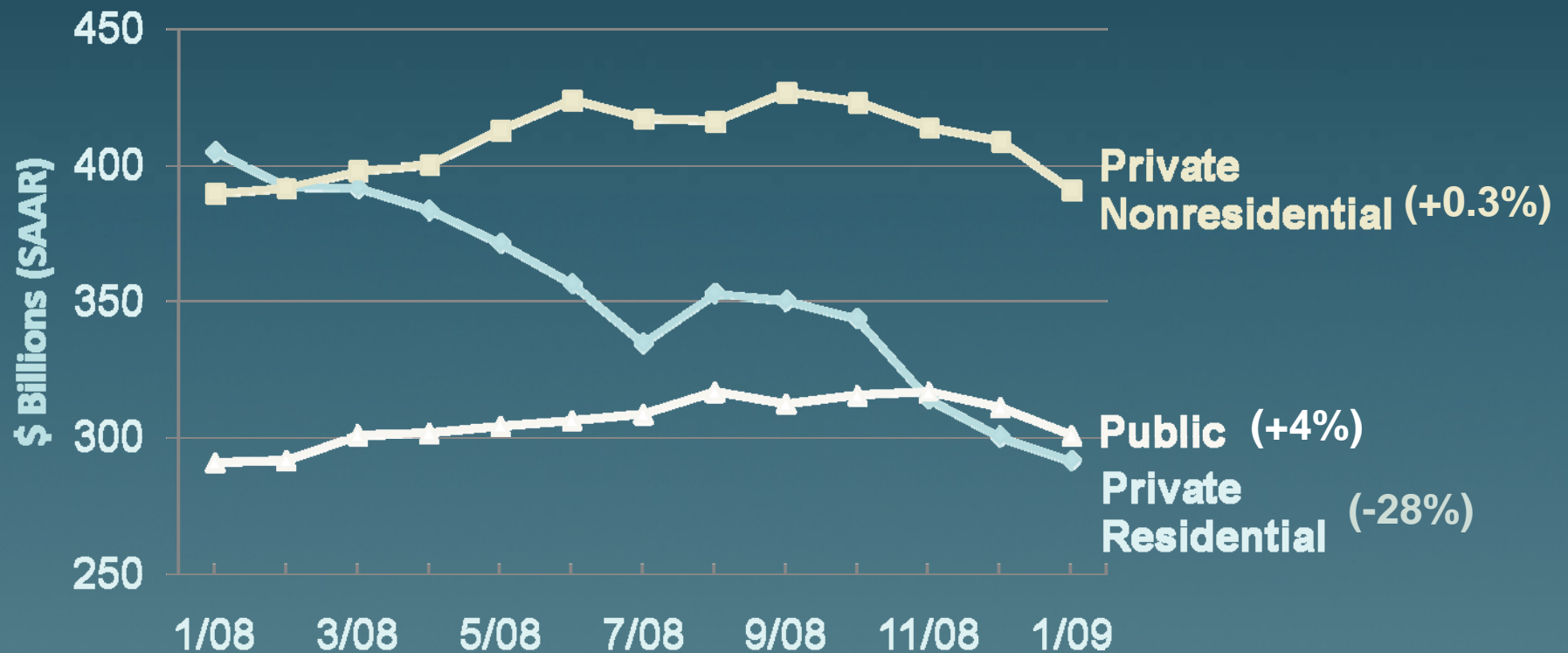
Stimulus timing, strings

- **Timing – highways**
 - States must obligate ½ of their total by June 30
 - States must obligate remainder by Feb. 17, 2010
- **Timing – other construction: language varies**
- **Conditions**
 - Davis-Bacon
 - Buy American
 - No E-Verify requirement or broad-based FAR
 - No project labor agreement mandate, but...



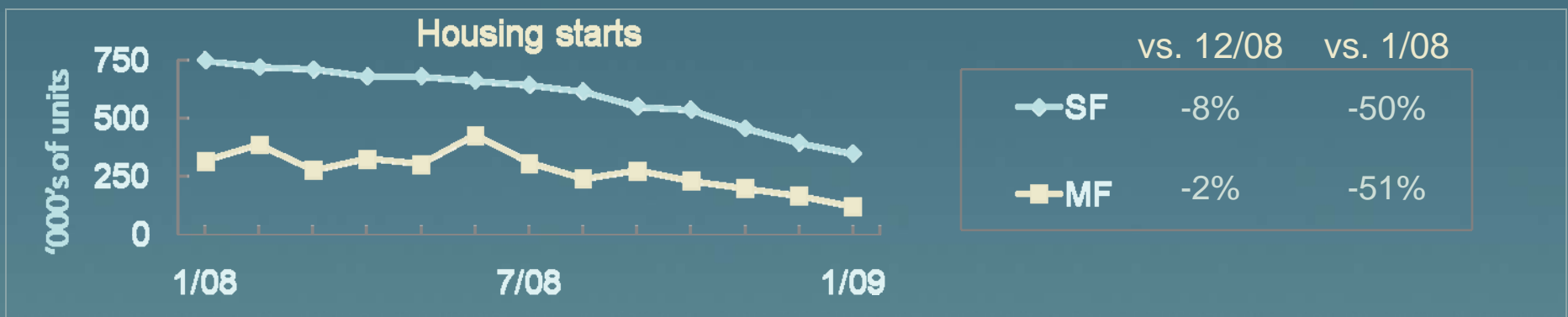
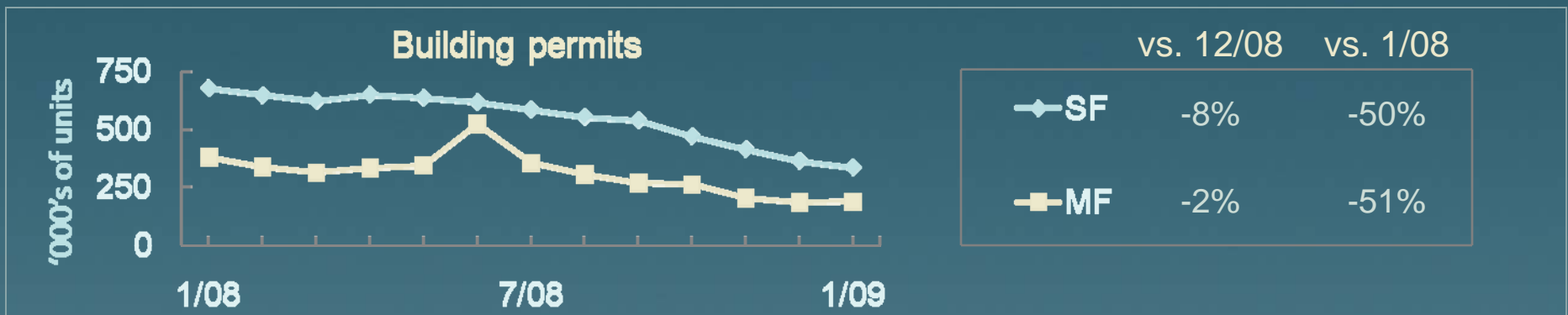
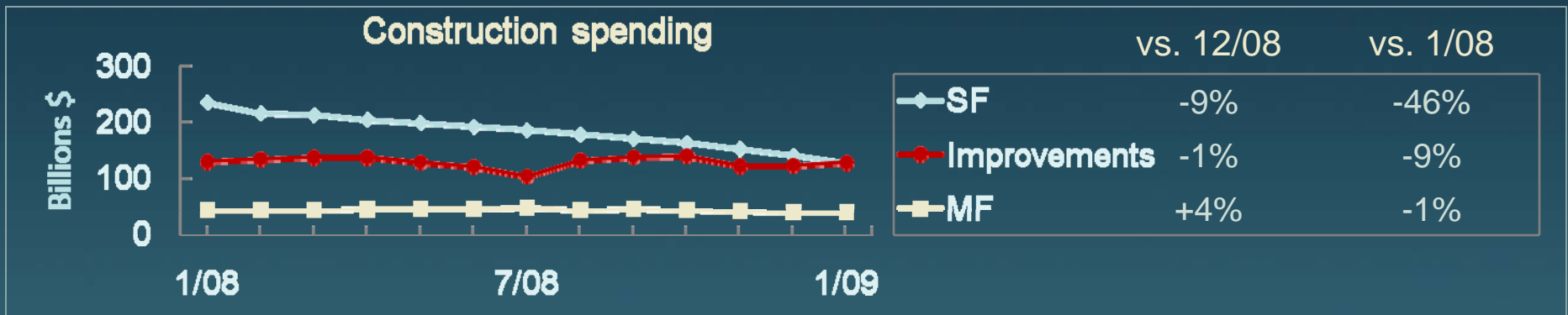
The shifting construction market (construction spending, seasonally adjusted annual rate)

Total change January 2008 – January 2009: -9%





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





Housing outlook

- **SF: No relief yet for decline in permits, starts or spending, but sales could pick up by mid-'09**
- **Starts won't improve until late-'09 at best**
- **MF: Rental construction cushioned the fall in condo starts but now many owners are trying to rent out houses and condos**
- **Foreclosures will add to inventories, drag down both sales and rentals**



Nonres totals, share, 1- & 12-month change

	1/09 Total	Share	vs. 12/08	vs. 1/08
Nonresidential total	\$687 billion	100%	- 4%	+ 2%
Educational	104	15	+ 1	+ 4
Highway and street	79	12	- 1	+ 6
Commercial	73	11	- 3	- 19
Manufacturing	73	11	0	+ 49
Power	68	10	- 12	+ 8
Office	68	10	- 2	- 4
Health care	46	7	- 5	+ 6
Lodging	32	5	- 5	0
Transportation	33	5	- 2	- 1
Sewage and waste disposal	26	4	- 4	+ 2
Amusement and recreation	21	3	- 3	- 9
Other (communication; public safety; relig.; conservation): 9% of total				



Public construction (seas. adj. annual rate)

	1/09 Total \$304 billion	State/Local \$277 billion	Federal \$27 billion
Educational	85	84	2
Highway and street	79	78	1
Sewage and waste disposal	25	24	
Transportation	23	21	2
Water supply	16	15	
Office	16	10	6
Public safety	14	9	4
Amusement and recreation	12	12	
Power	8	8	1
Other (health care; residential; conservation; commercial): \$24 billion			



Spending outlook for 2009

	Actual 2008	Forecast 2009
Residential	- 27%	- 2 to +2%
Nonresidential	+12%	- 3 to - 9%
Total	- 5%	- 1 to - 7%

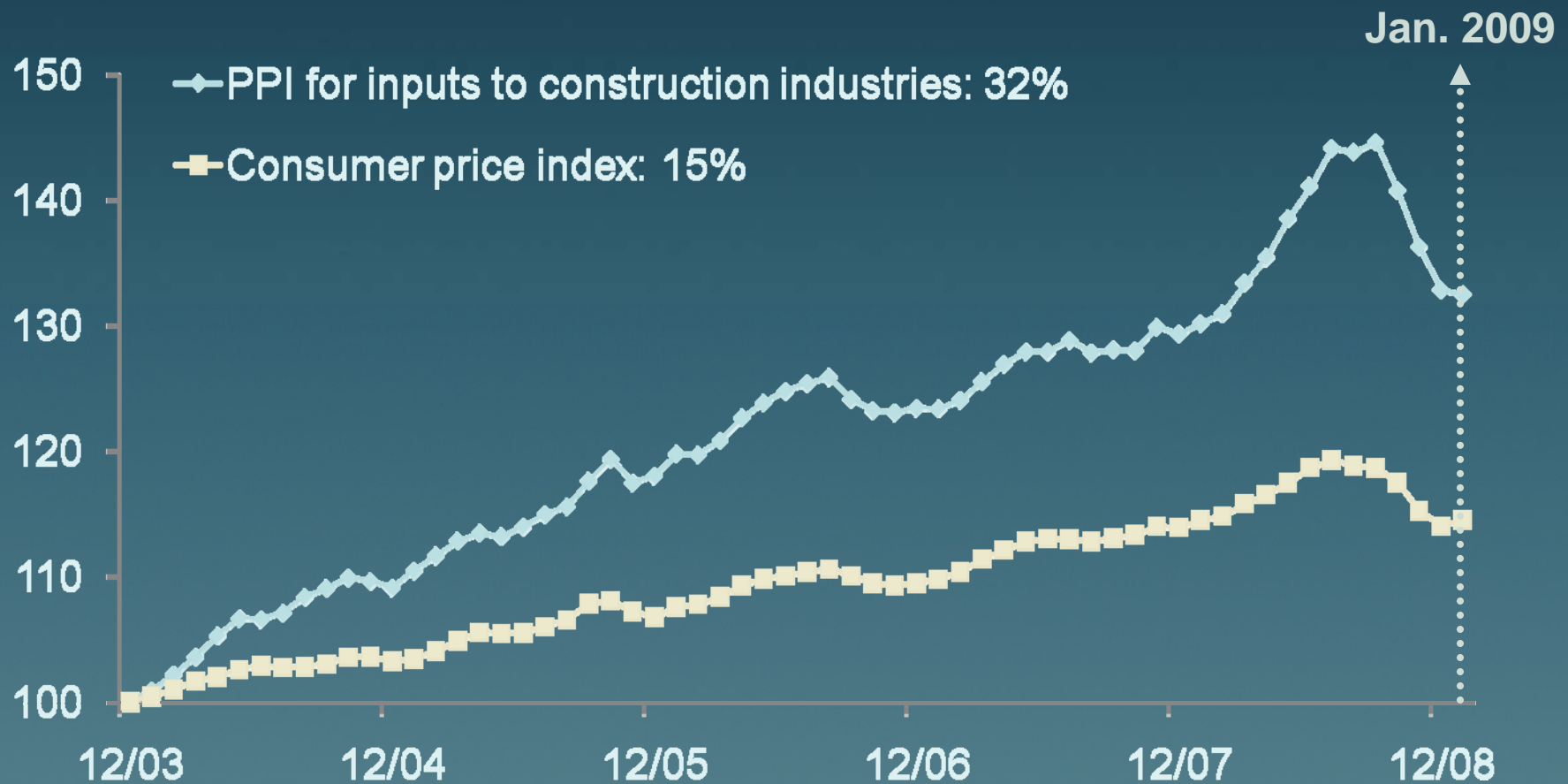


Materials and components

- Higher increases for construction inputs than for overall economy
- Cumulative change double the CPI since 12/03:
 - Const PPI: 32%
 - CPI-U: 15%
- Producer price index drivers: steel, gypsum, diesel, asphalt, concrete, copper, plastics, aluminum, wood



Change in Producer Prices for Construction vs. Consumer Prices, 2003 - 2009 (December 2003 = 100)

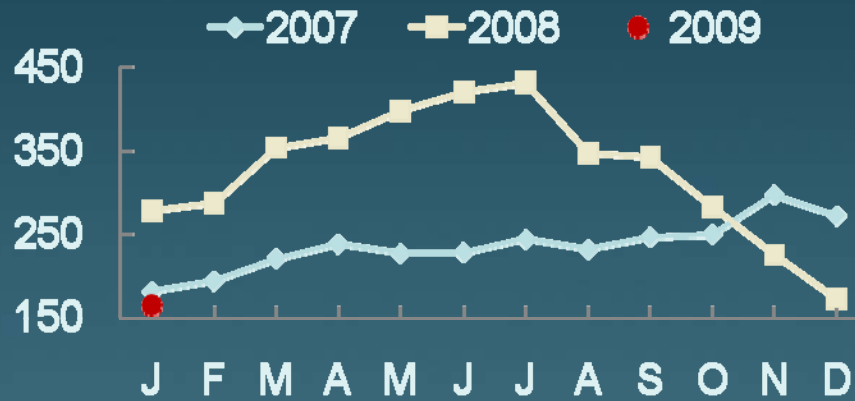




Producer Price Indexes, 2007 - 2009

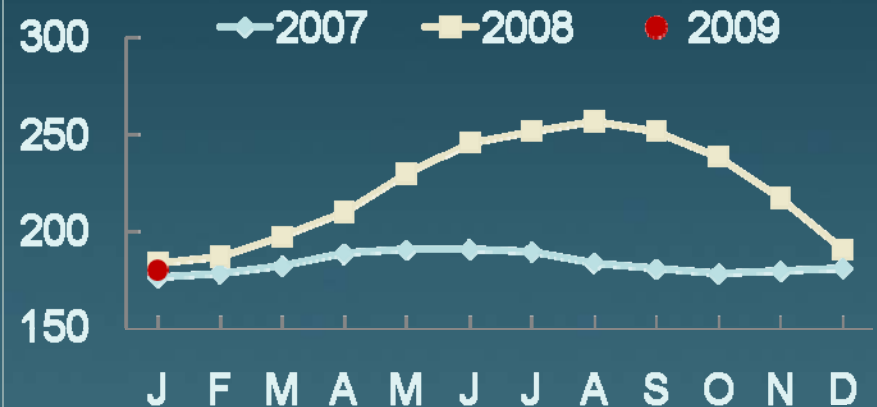
No. 2 Diesel Fuel

Change from 1/08-1/09: -41.0%



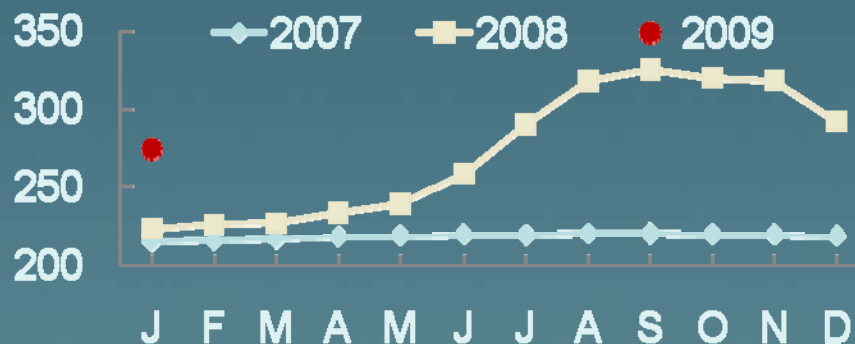
Steel Mill Products

Change from 1/08-1/09: -2.2%



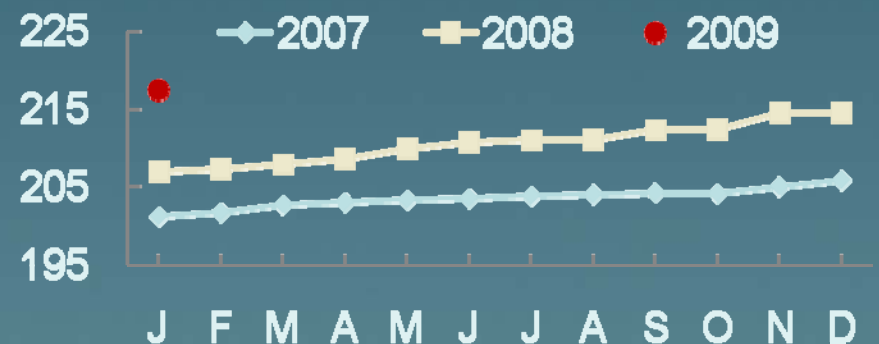
Asphalt Paving Mixtures & Blocks

Change from 1/08-1/09: 23.1%



Concrete Products

Change from 1/08-1/09: 5.0%





Outlook for materials in '09 compared to '08

- Lower average prices: diesel, asphalt, steel
- Possible increases: concrete, gypsum, copper, wood products
- Year-over-year PPI change: -4% to 0%

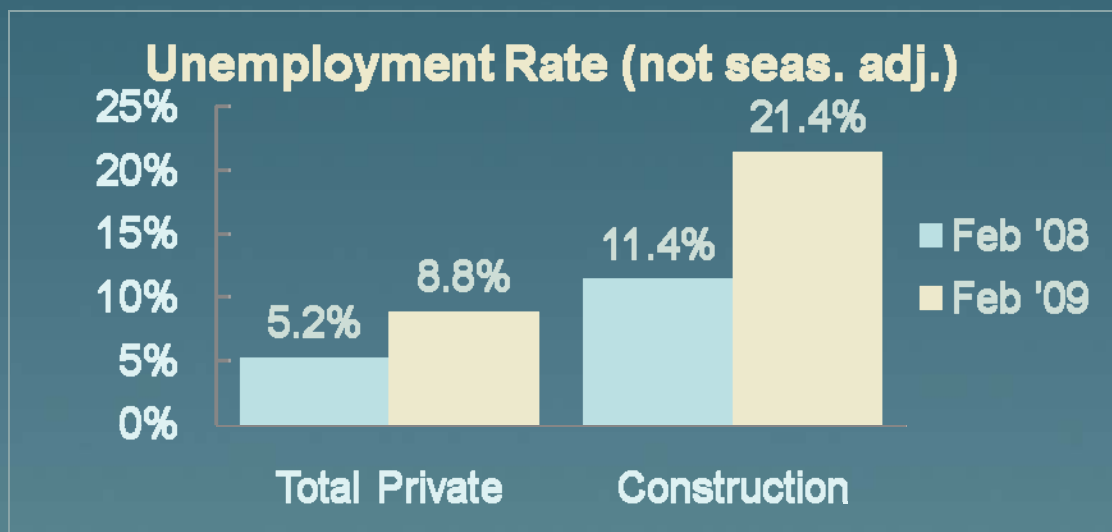
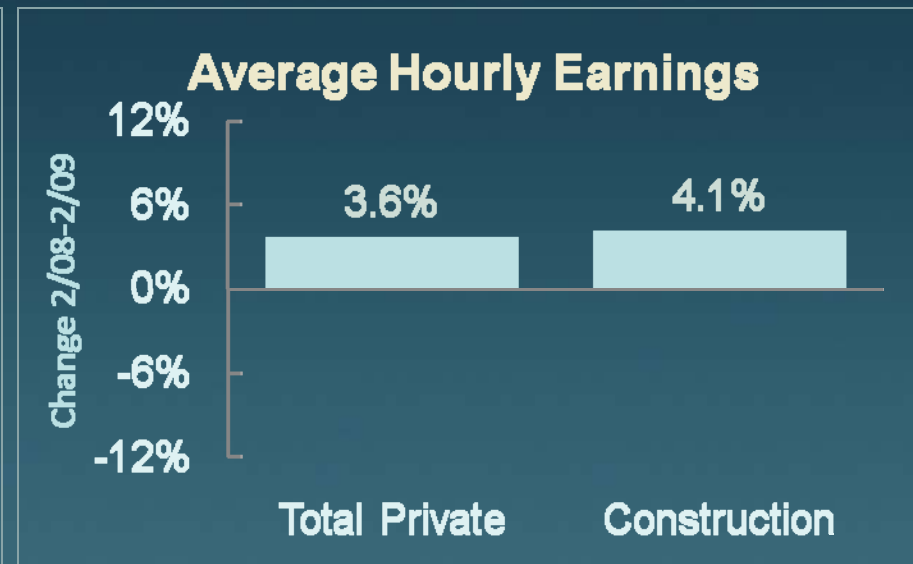
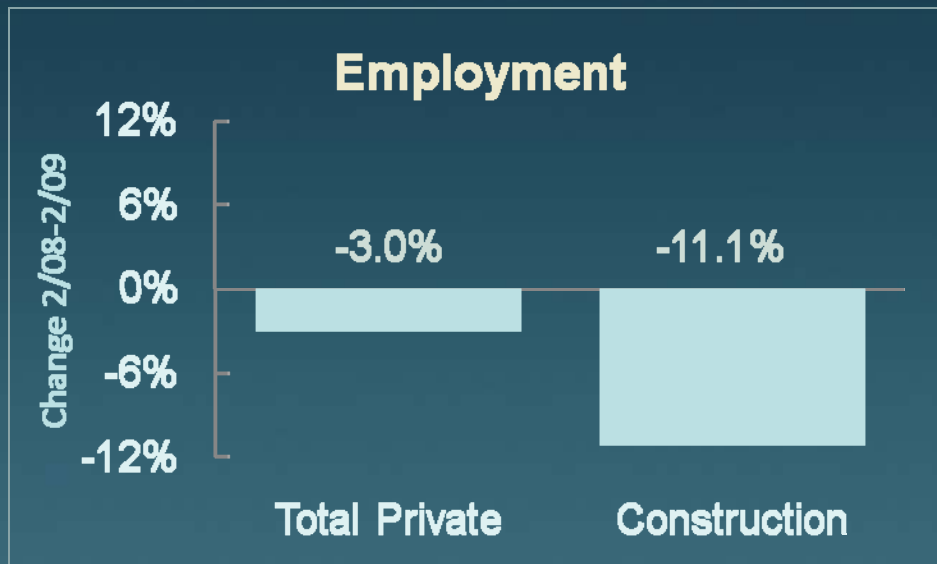


Outlook for materials (beyond 2009)

- **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**

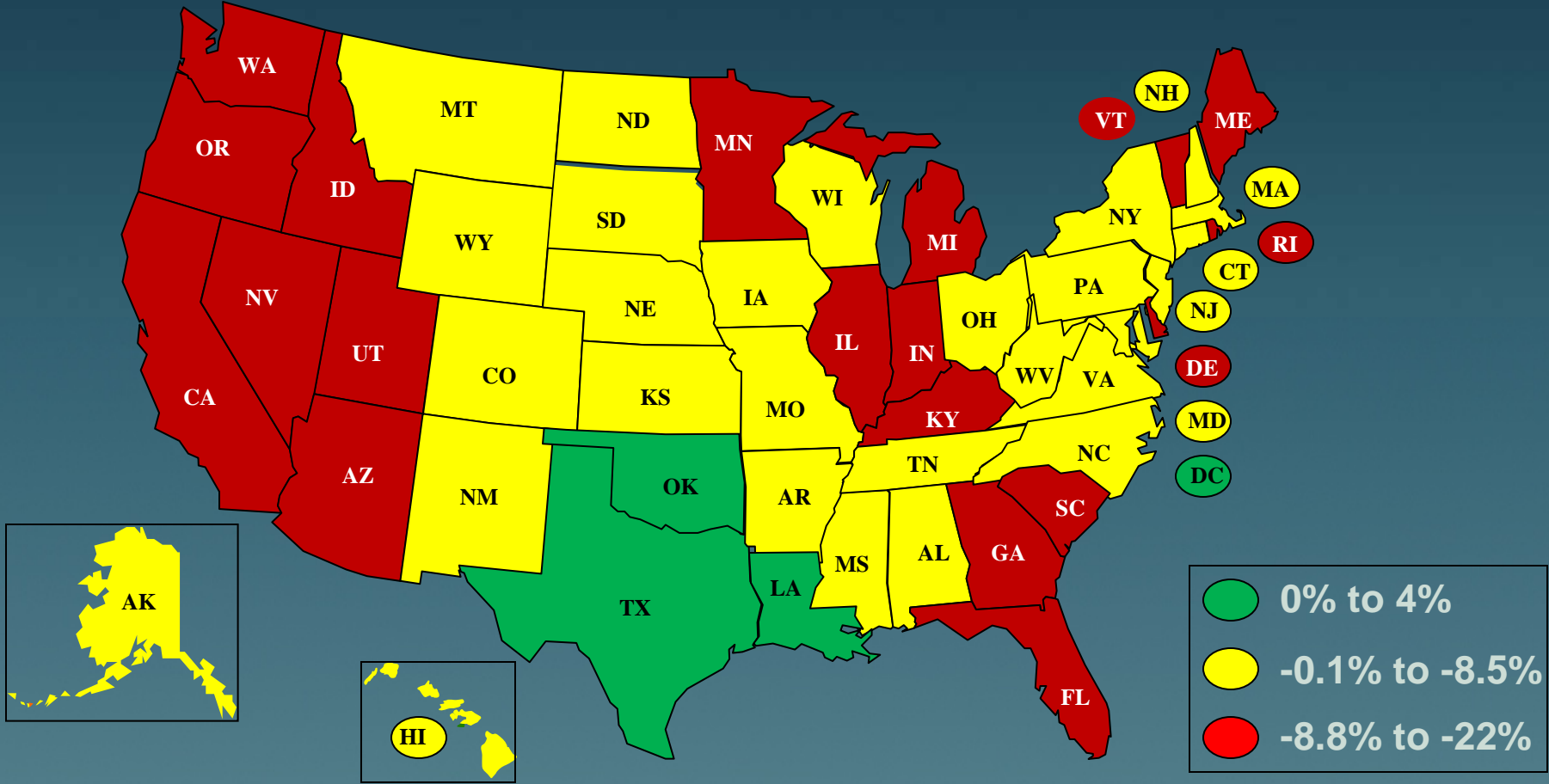


Construction jobs fall, but wages rise (seasonally adjusted)





State construction employment, 12/07 – 12/08





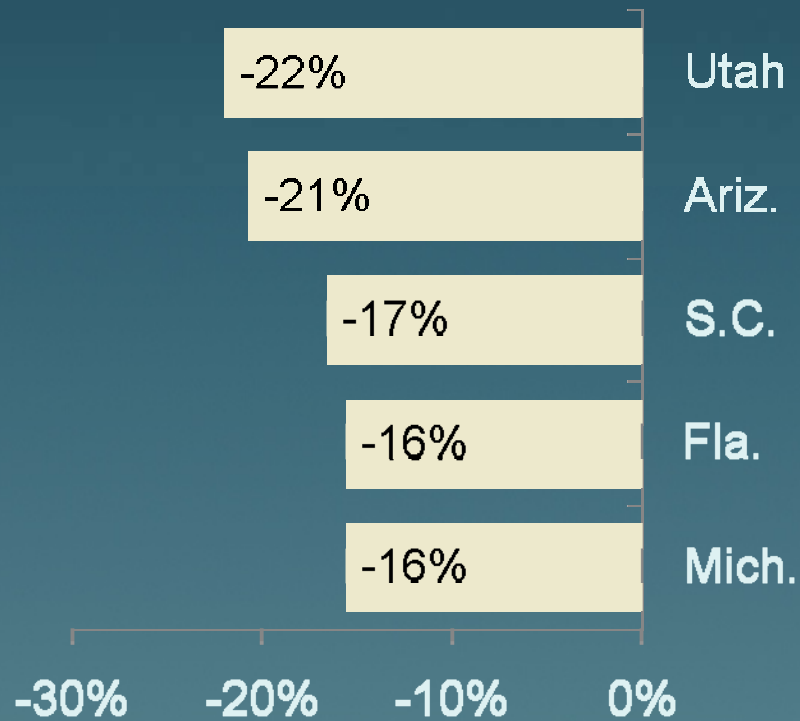
State construction employment, 12/07 – 12/08

AL - 4%	FL -16%	LA + 4%	NE - 1%	OK + 4%	VT -13%
AK - 1	GA -10	ME -10	NV -15	OR -13	VA - 6
AZ -21	HI - 8	MD - 6	NH - 8	PA - 5	WA -10
AR - 3	ID -15	MA - 9	NJ - 5	RI -12	WV - 6
CA -11	IL -13	MI -16	NM - 2	SC -17	WI - 7
CO - 5	IN -13	MN -10	NY - 5	SD - 5	WY - 1
CT - 8	IA - 5	MS - 1	NC - 7	TN - 4	
DE -11	KS - 3	MO - 1	ND - 1	TX + 1	
DC + 2	KY -12	MT - 8	OH - 9	UT -22	

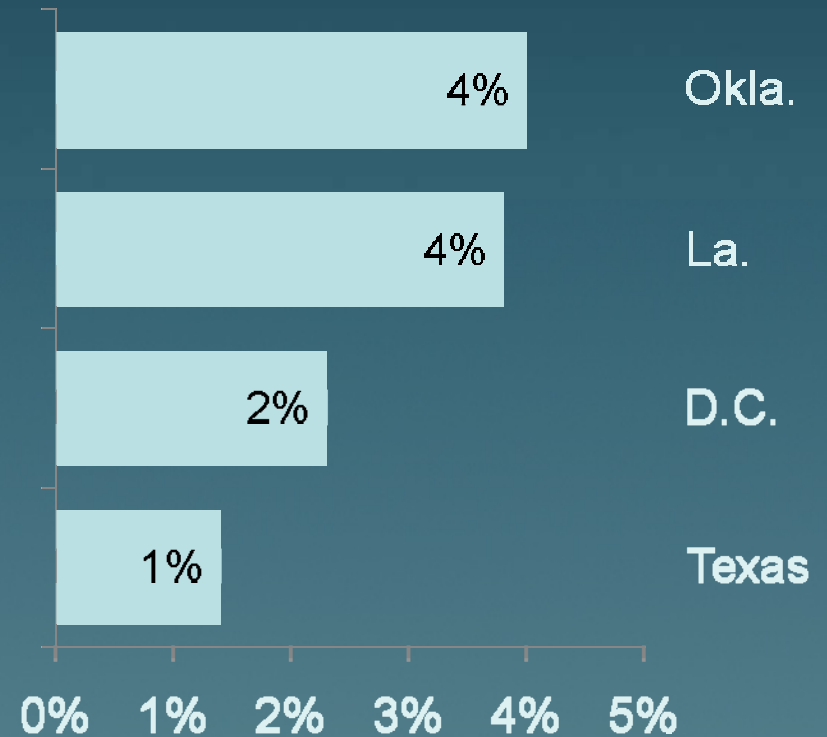


State construction employment, 12/07 – 12/08 (U.S. total: -8.5%)

5 biggest losses



States with gains





Summary for 2009

- Nonres spending: -3 to -9%
- 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%