

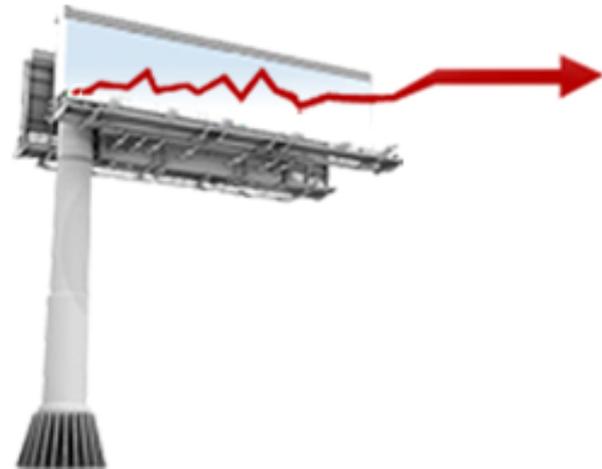
2009

MARKET INSIGHTS

W E B C A S T

“Have We Hit Bottom?”

January 27, 2009



Presented by:

AGC of America
THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
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 Reed Construction Data®

Moderator

Craig Roberts

Director of Product Management,
Reed Construction Data

- B.Sc - Queen's University
- M.B.A - Cornell University
- Over 10 years leadership experience in the industry
- Board of Directors, International Barrier Technologies Corporation



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Before We Begin ...

- **Technical issues**

- Try “F5” on your keyboard
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- Submit a question

- **Q&A Session**

- To send in questions, enter your text in the “Ask a question” box and click “Submit”
- Speakers will answer as many questions as they can in the allotted time

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Learning Objectives

- Review the U.S. economy, including employment, interest rates, gross domestic product; foreign trade, and construction starts.
- Understand & discuss historical data and key construction forecasts for all segments of the industry.
- Anticipate business opportunities, target growth markets, compare sales performance against market performance, and create more informed and successful sales and business plans.
- Understand impact of current market conditions and the new political administration, and how those will impact the performance of various construction sectors.



Speaker

Jim Haughey
Chief Economist,
Reed Construction Data



- 30 + years experience as a business economist
- 20 + years monitoring the construction industry
- Interviewed by NY Times, NPR, USA Today, CNN
- Graduate of the University of Michigan
- Has taught courses at:
 - University of Michigan
 - Ohio University
 - Michigan State University
 - University of Massachusetts

AIA Strategic Partner



Have We Hit Bottom ?

**Reed Construction Data
Associated General Contractors of America**

**January 27, 2009
Webcast**

Jim Haughey

Chief Economist

Reed Construction Data

<http://www.reedconstructiondata.com/market-insights/>



When Will We Hit Bottom?

- **Economy: late summer/early fall '09**
- **Total Construction spending: end of '09**
- **Residential starts: summer '09**
- **Residential spending: fall '09**
- **Nonresidential starts: fall '09**
- **Nonresidential spending: winter '10**
- **Add 1-2 months if Economic Stimulus II enactment is delayed beyond early March**



Economic Stimulus II

- Obama requests \$134.5 billion of new construction funds for 2009-10
Civil \$77.1 SF \$6.2 MF \$8.1 NR \$43.1
- Forecast assumes \$12-15 billion spent in 2009, about a 2% boost to NR spending after leakage to off-site costs and delays
- Substantial upside potential, mostly for 2010, if full plan enacted quickly



Credit Market Assumptions

- **Credit freeze is progressively thawing but...**
- **Worldwide financial de-leveraging will continue into 2010 which means:**
 - **Rate premiums for less than prime borrowers 3-6% now and 2-4% later this year**
 - **Depreciated collateral and income losses cause many recession weakened firms and consumers to lose access to credit**
 - **Credit problems set off deep recession but its course now depends on reducing surplus inventory**



Economic Outlook Summary

- **Peak GDP (2nd Q 2008) not regained until end of 2010 – then growth restrained by expensive credit**
- **Inflation drops to 1-2%; current period of falling prices ends in a few months**
- **Unemployment rate peaks at over 9.0% in 2010**
- **Investment spending, incl. construction, falls 15% from early 2007 through 2009**



U.S. GDP Growth Resumes in Nine Months

- Housing spurred slowdown from Dec '07 to June '08
- Continued by high oil prices in July and August
- Credit freeze recession began in Sep '08

Period	GDP Growth (%)
Q3 '03 - Q3 '07	3.4%
Q4 '07 - Q3 '08	0.7%
Q4 '08 - Q3 '09	-2.2%
Q4 '09 - Q4 '10	+2.3%



Only Gulf Coast not in Recession

Economic Activity Index – last three months (Nov) vs. year ago

• Gulf Coast	0.8%	TX 1.8% OK 1.1%
• New England	-1.8%	MA -1.2%
• Mid-Atlantic	-1.8%	NY -0.3%
• Plains	-2.5%	ND 3.0% MN -6.4%
• Rocky Mountains	-3.8%	NV -8.2% AZ -5.4%
• Pacific	-3.8%	OR -15.7% WA -10.2%
• South Atlantic	-4.1%	FL -4.0% GA -6.2%
• Great Lakes	-4.2%	MI -8.2% OH -4.3%

Source: Philadelphia Federal Reserve Bank



Recession Deeper in Housing Collapse States

		US	FL	AZ
Jobs	Last 12 Mos.	-1.5	-2.5	-3.1
Const. Jobs	Last 12 Mos.	-7.8	-10.4	-16.5
Housing Permits	Last 36 Mos.	-75.3	-84.1	-82.2
NR Const. Starts (\$)	Last 12 Mos.	21.0	-1.4	+16.2*

* Big road project



Recovery Watch

- **Consumer Confidence Index: Fell from 100 to 38 – needs to rise to 70 for several months before consumer spending will increase**
- **Inventory/Sales Ratio: Increased from 1.25 to 1.41 - needs to decline for several months before factories will recall workers**
- **Credit premium for less than prime borrowers: rose from 250 to 610 basis points (now 575) – need to drop to about 350-400 before borrowing to invest stops falling**

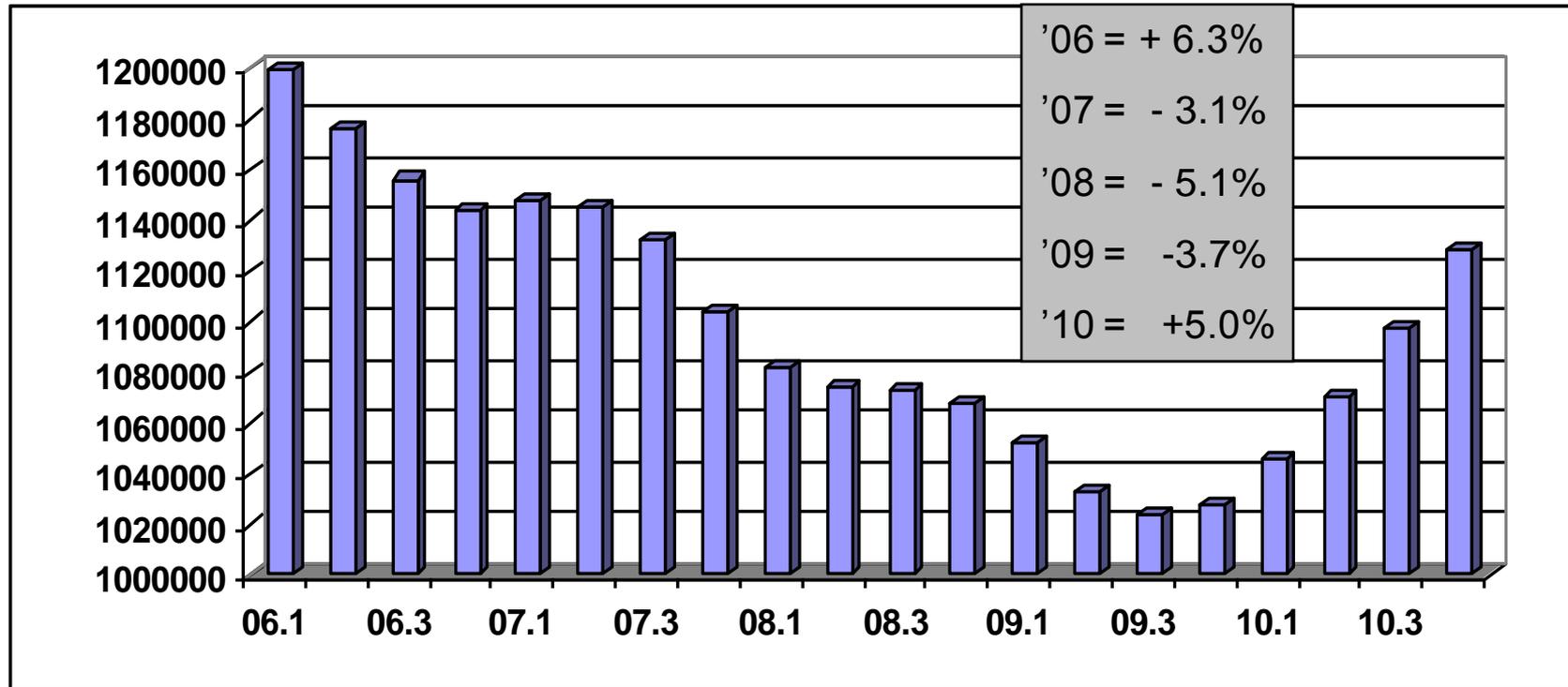


2009 Economic Environment for Construction

- Huge surplus of homes will worsen through spring - then ebb; commercial space surplus expands through 2009
- Cheaper to buy than build space
- Cheap credit for most is more than offset by expensive credit or no credit for the rest
- Negligible labor skill shortages; wage gains 1% lower the '08; 2.5% lower than '05-'07
- Project cost inflation (now temporarily near 0.0%) will be halved to 2-3%



U.S. Construction Spending Outlook (\$ millions, annual rate)



*Includes project cost inflation



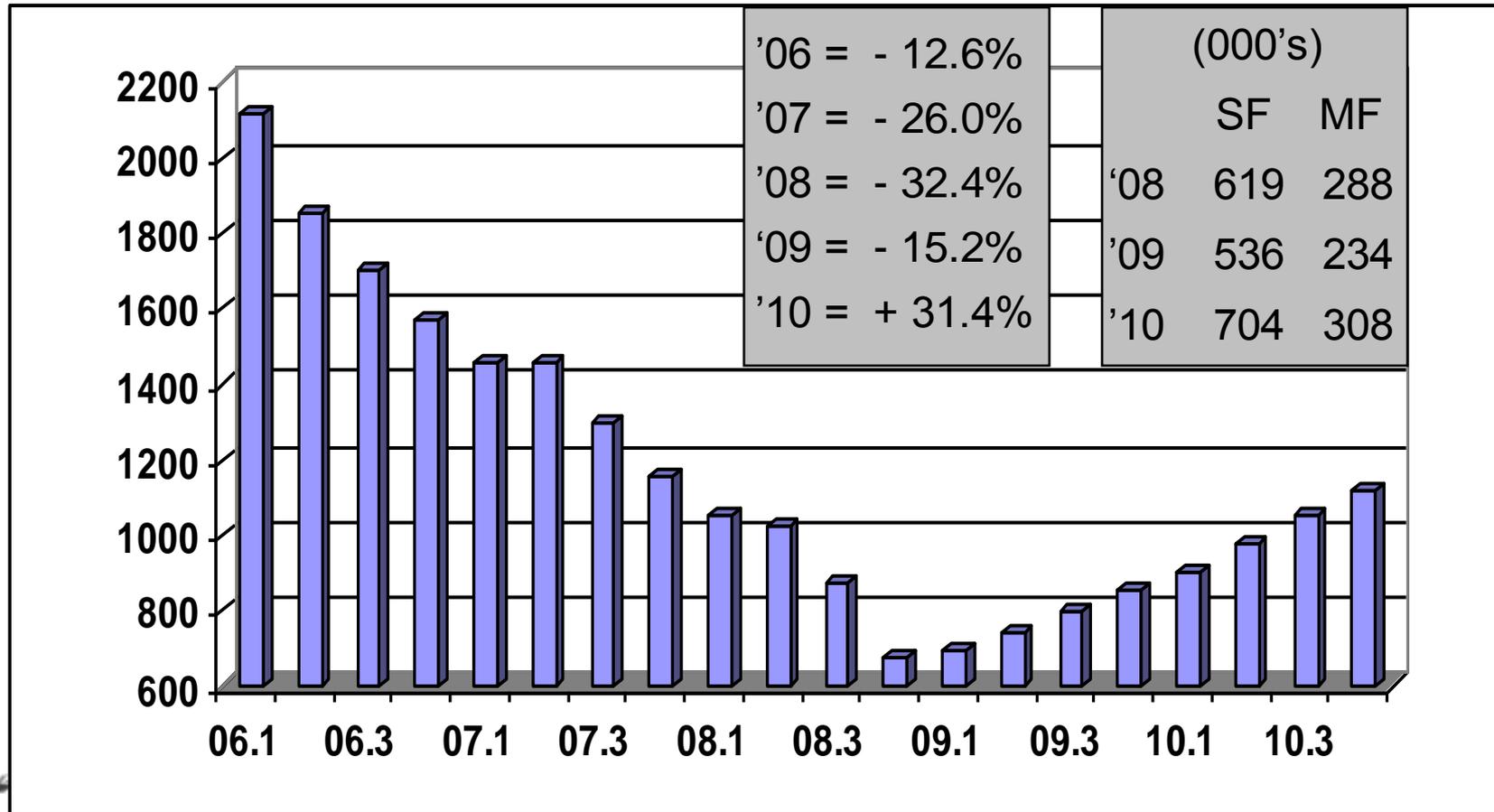
U.S. Construction Spending

Annual % change

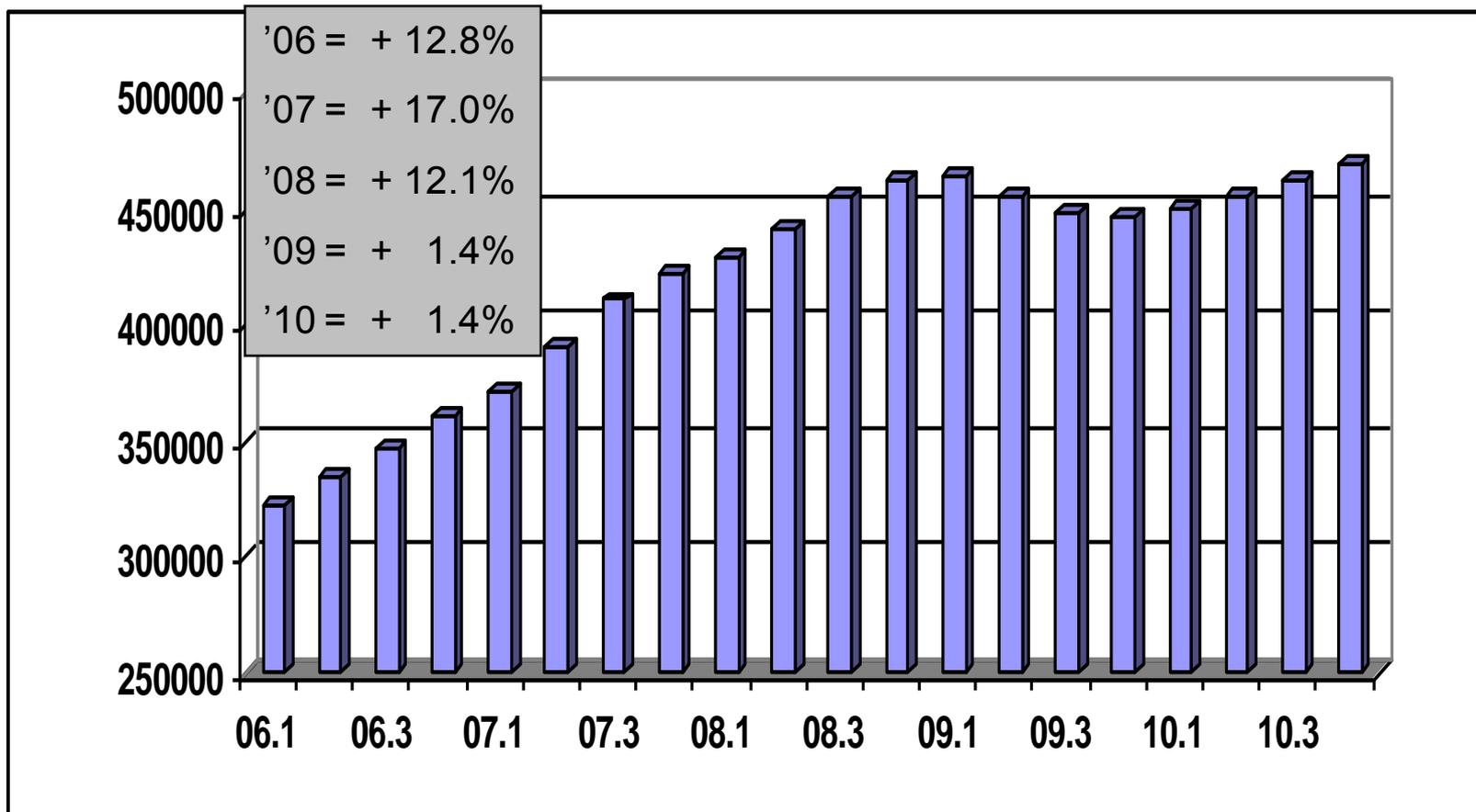
	2008	2009	2010
Nonresidential	12.1%	1.4%	1.4%
Residential	-26.6%	-2.8%	9.8%
Heavy	11.7%	0.2%	5.6%
Total	-5.1%	-3.7%	5.0%



U.S. Housing Starts Outlook (000's, annual rate)



U.S. NR Construction Spending Outlook (\$ millions, annual rate)



U.S. NR Building Starts Trends

Percent change in value of starts last 3 months (Dec) vs. year earlier

- **Commercial -9.6%** **Institutional 36.3%**
- **Office -29.9%** **Hospital +91.1%**
- **Retail -31.5%** **Education +20.6%**
- **Hotel -0.5%** **Public Safety +31.7%**
- **Amusement +160.7%** **Gov't Buildings +55.0%**



Commercial Construction Spending

- Retail is overbuilt
- Hotel boosted by destination hotels
- Office abrupt weakening due to finance industry layoffs

(% change)

	2008	2009	2010
Hotel	31	3	4
Office	13	2	1
Retail	-2	-9	-6
Total	8	-3	4



Commercial Investors' Perspective

- Existing space cheaper than new space
- Delayed or cancelled projects for a year
- Vacancy up in last year – worse in '09
 - Office 1.5 points to 16.2% - will rise to 19%
 - Retail 3.5 points to 13.5% - will rise to 17%
 - Hotel 1.0 points to 35% - will rise to 41%
- Rental rates started declining last summer - will drop 9% to late 2010



Institutional Construction Spending

(% change)

- Holds up better early in recession but weaker than commercial later
- More public funds boost healthcare

	2008	2009	2010
Health	8	1	7
Education	9	1	3
Public Safety	27	-2	-3
Total	15	5	0



Heavy Construction Spending

(% change)

- Largely insulated from private financial market
- Obama requests \$77 billion extra in 2009-2010
- Purchasing power of state and local tax receipts declining for nearly two years

	2008	2009	2010
Highway	6	4	6
Power	34	1	6
Water/ Sewer	0	4	7
Total	12	0	6



Speaker

Ken Simonson
Chief Economist,
AGC of America

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THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
Quality People. Quality Projects.



- 30 + years experience as a business economist
- Interviewed by The Wall Street Journal, USA Today, Business Week, and CNBC
- BA in economics from the University of Chicago, an MA in economics from Northwestern University, and has taken advanced graduate economics courses at the Université de Paris, Johns Hopkins and Georgetown.



Construction & Materials Outlook

AGC/Reed Construction Data Webinar

January 27, 2009

Ken Simonson, Chief Economist

AGC of America

simonsonk@agc.org



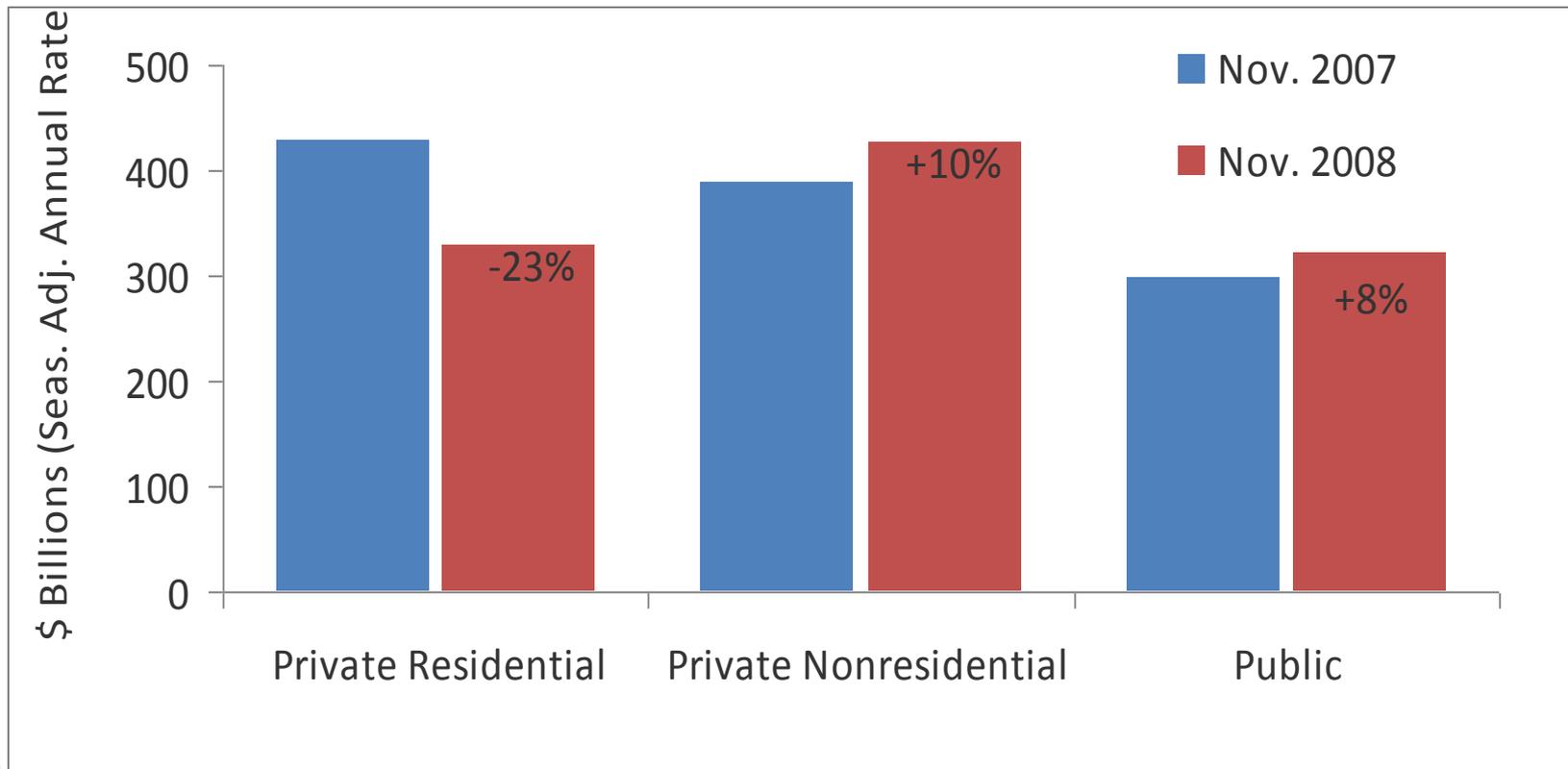
Current economic influences

- Credit market freeze affecting private, state and local borrowers
- Weak demand for income-producing properties
- Falling state spending
- No job growth, rising unemployment

Source: Author



The shifting construction market (total change November 2007 – November 2008: -3%)



Source: Census Bureau



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

- November construction spending (value put in place):
 - SF: -7% vs. October, -42% vs. 11/07
 - MF: -2% vs. October, -3% vs. 11/07
 - Improvements: -2% vs. October, +8% vs. 11/07
- December building permits:
 - SF: -12% vs. November, -49% vs. 12/07
 - MF: -7.5% vs. November, -52% vs. 12/07
- December housing starts:
 - SF: -13% vs. November, -49% vs. 12/07
 - MF: -20% vs. November, -45% vs. 12/07

Source: Census



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 '07 totals, share, 12-month change

	11/08 Total	Share	vs. 11/07
Nonresidential total	\$742 billion	100%	+9%
Educational	108	15	+ 5
Highway & street	84	11	+ 8
Commercial	81	11	-13
Manufacturing	77	10	+61
Power	77	10	+27
Office	77	10	+10
Healthcare	48	7	+ 7
Lodging	39	5	+17
Transportation	36	5	+ 7
Sewage & waste disposal	27	4	+ 2
Amusement	23	3	+ 2
Other (communication; water; safety; relig.; conservation):			
9% of total			



Public construction

(Seasonally adjusted at annual rate)

	11/08 Total \$322B	State/Local \$295B	Federal \$27B
Educational	89	87	2
Highway & street	84	83	1
Sewage & waste disposal	26	25	1
Transportation	26	23	2
Water supply	17	17	0.3
Office	16	10	6
Public Safety	14	10	4
Amusement & recreation	12	12	0.4
Power	11	11	0.7
Other (health care; residential; conservation; commercial)	\$27 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

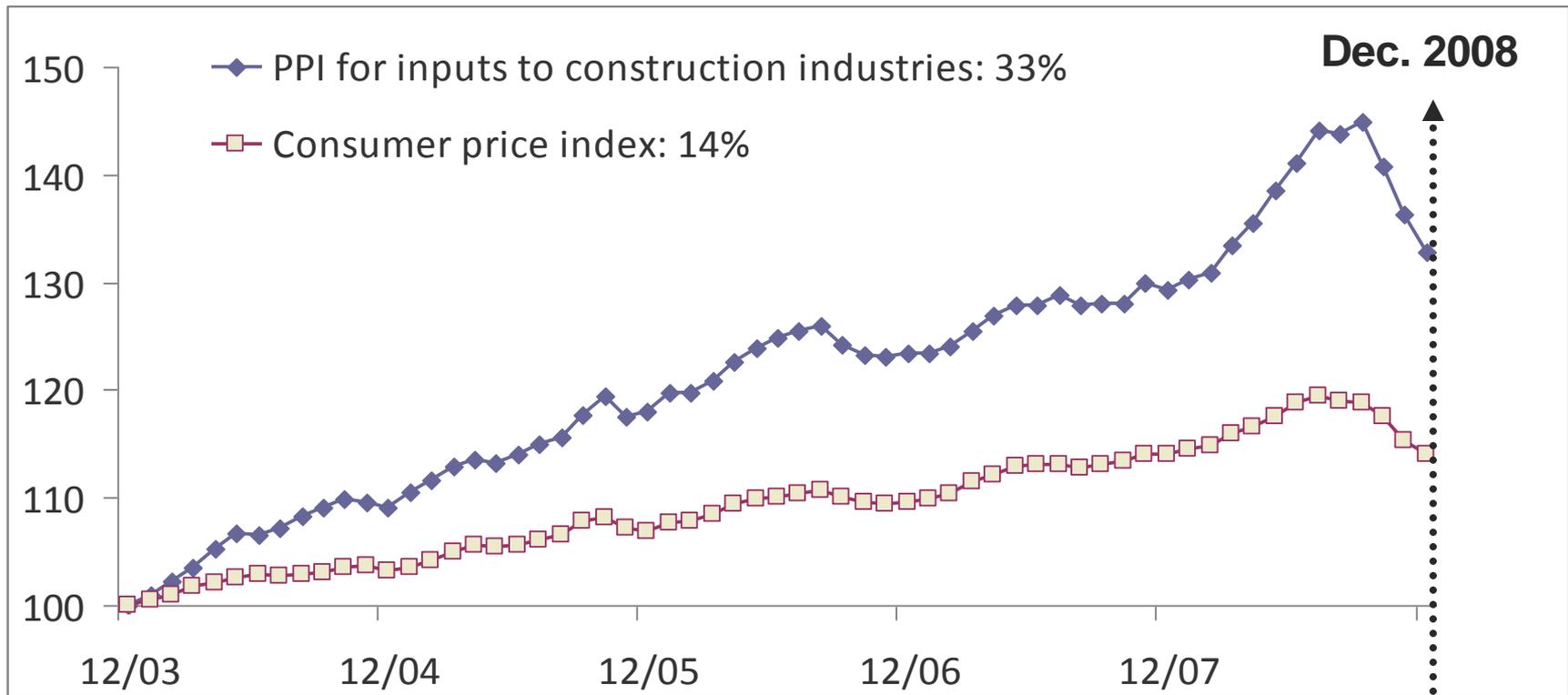
- Higher increases for construction inputs than for overall economy:

	12 mo.	12/04	12/05	12/06	12/07	12/08
Const PPI		9.1%	8.2%	4.6%	4.8%	2.7%
CPI-U		3.3%	3.4%	2.5%	4.1%	0.1%

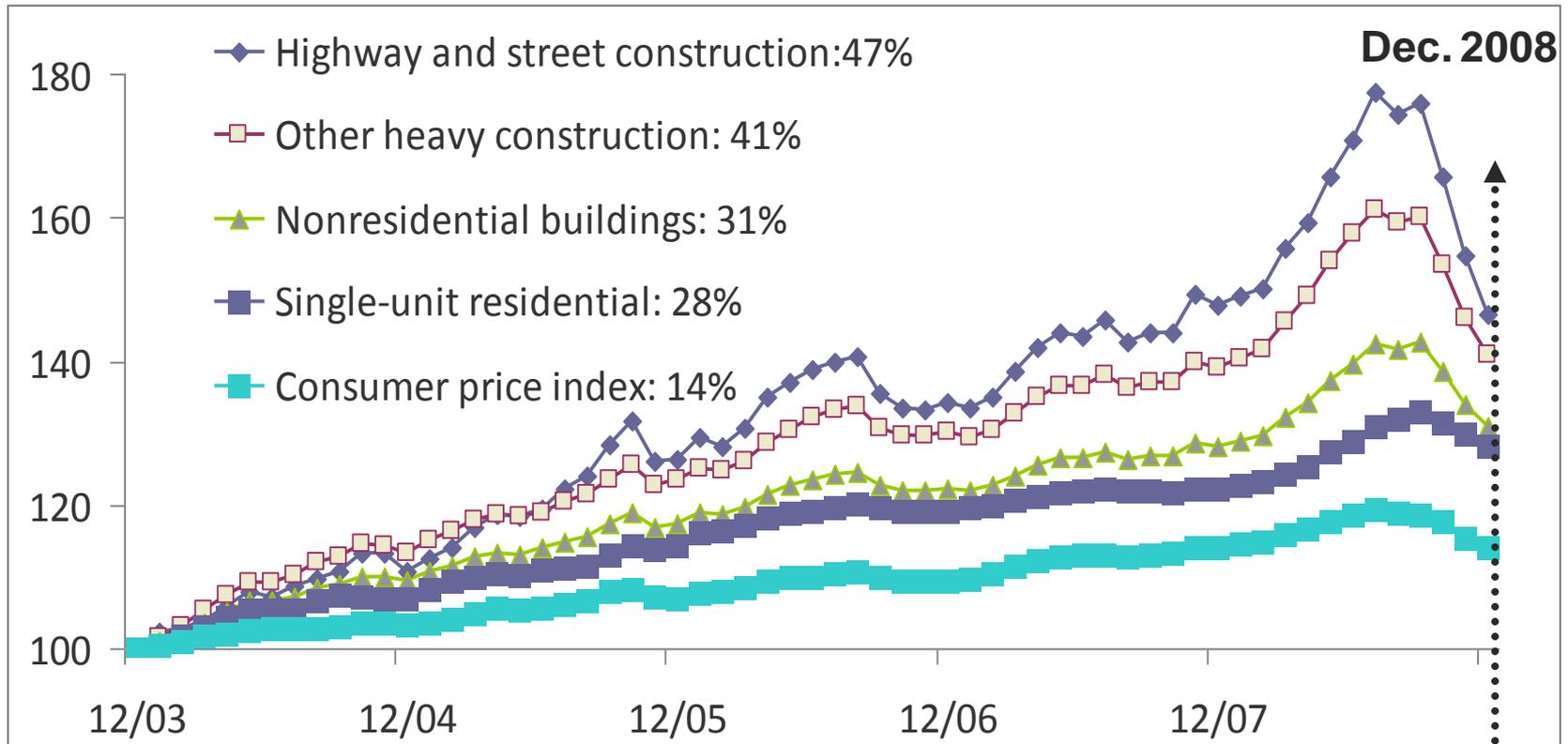
- Cumulative change double the CPI since 12/03:
 - Const PPI: 33%
 - CPI-U: 14%
- Producer price index drivers: steel, gypsum, diesel, asphalt, concrete, copper, plastics, aluminum, wood



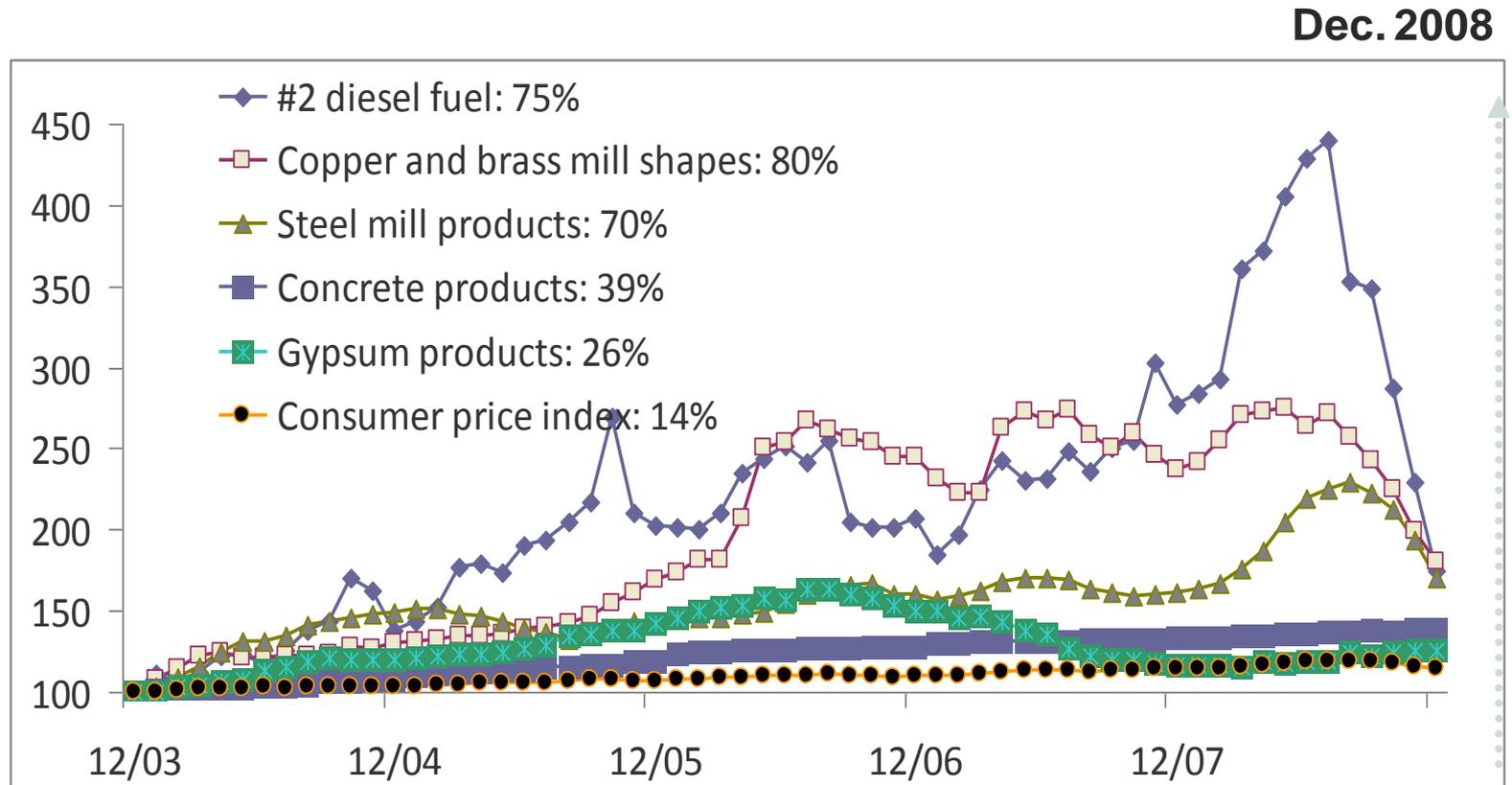
Change in Producer Prices for Construction vs. Consumer Prices, 2003 - 2008 (December 2003 = 100)



Change in Producer Prices for Construction Segments, 2003 - 2008 (December 2003 = 100)



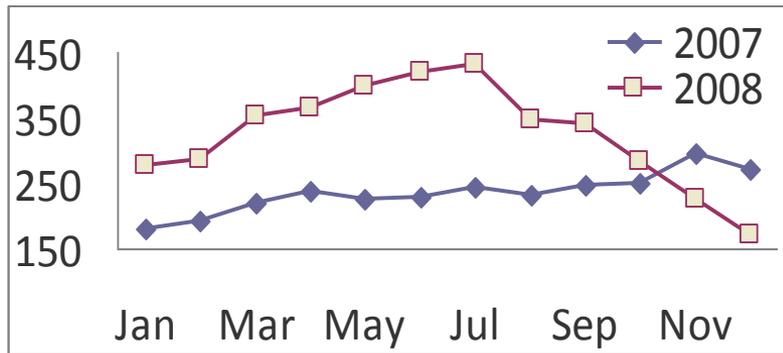
Change in Producer Prices for Major Construction Inputs, 2003 - 2008 (December 2003 = 100)



Producer Price Indexes, 2007 vs. 2008

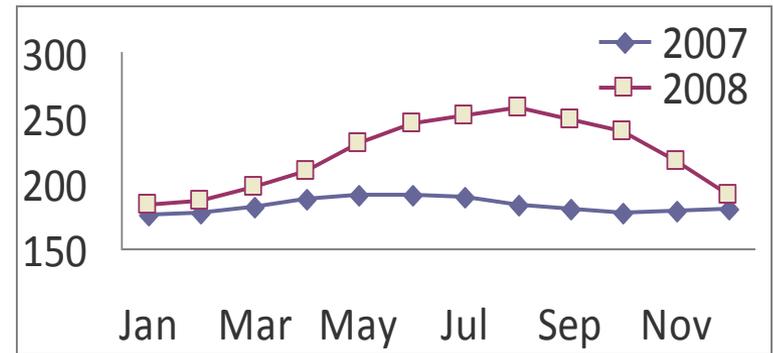
No. 2 Diesel Fuel

Change from 12/07-12/08: -37%



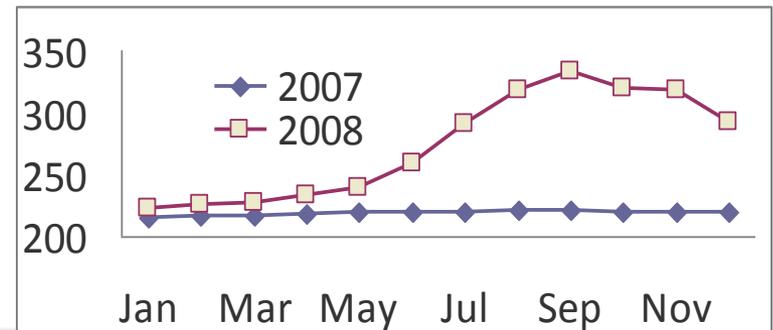
Steel Mill Products

Change from 12/07-12/08: 5%



Asphalt Paving Mixtures & Blocks

Change from 12/07-12/08: 33%

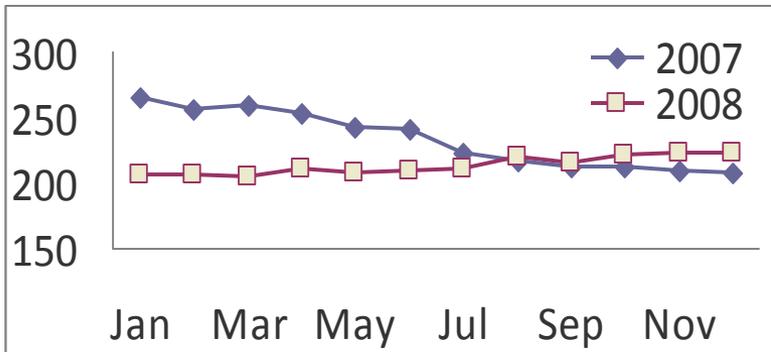


Source: BLS

Producer Price Indexes, 2007 vs. 2008

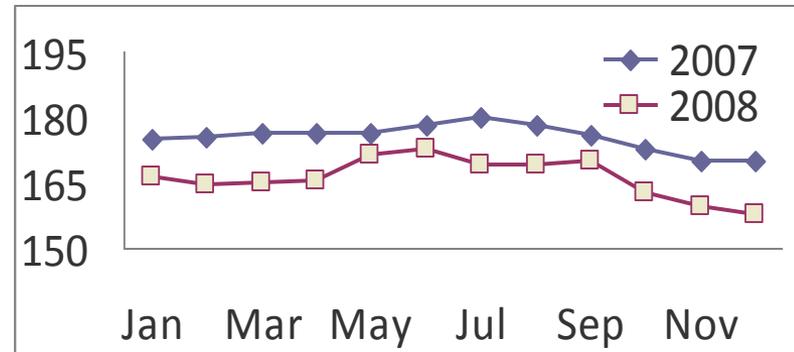
Gypsum Products

Change from 12/07-12/08: 7%



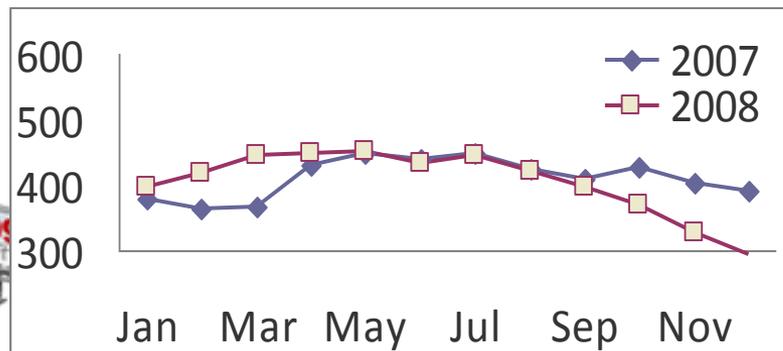
Lumber and Plywood

Change from 12/07-12/08: -7%



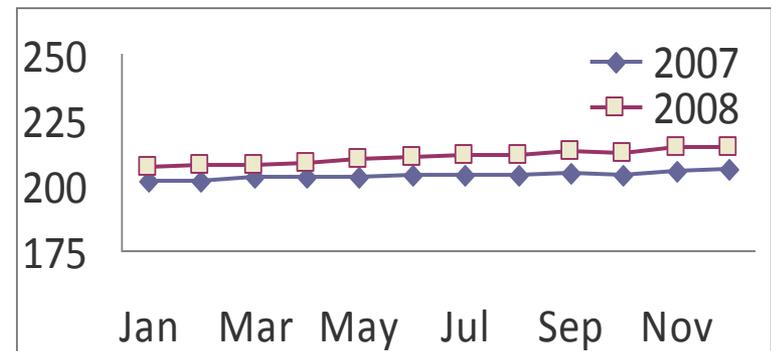
Copper & Brass Mill Shapes

Change from 12/07-12/08: -24%



Concrete Products

Change from 12/07-12/08: 4%



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%



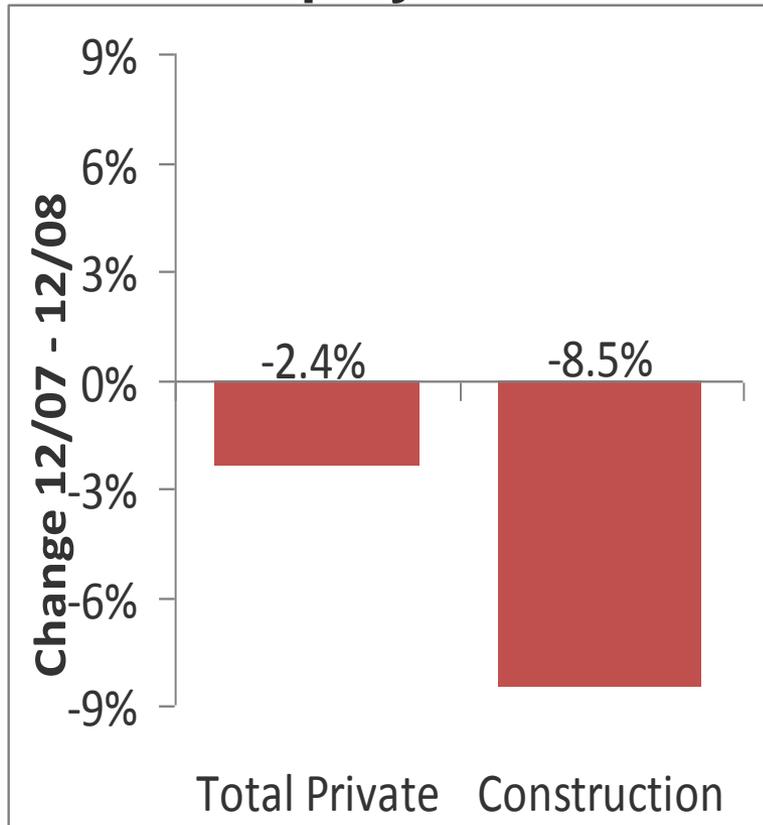
Outlook for materials (beyond 2009)

- 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 6-8% PPI increases, higher spikes

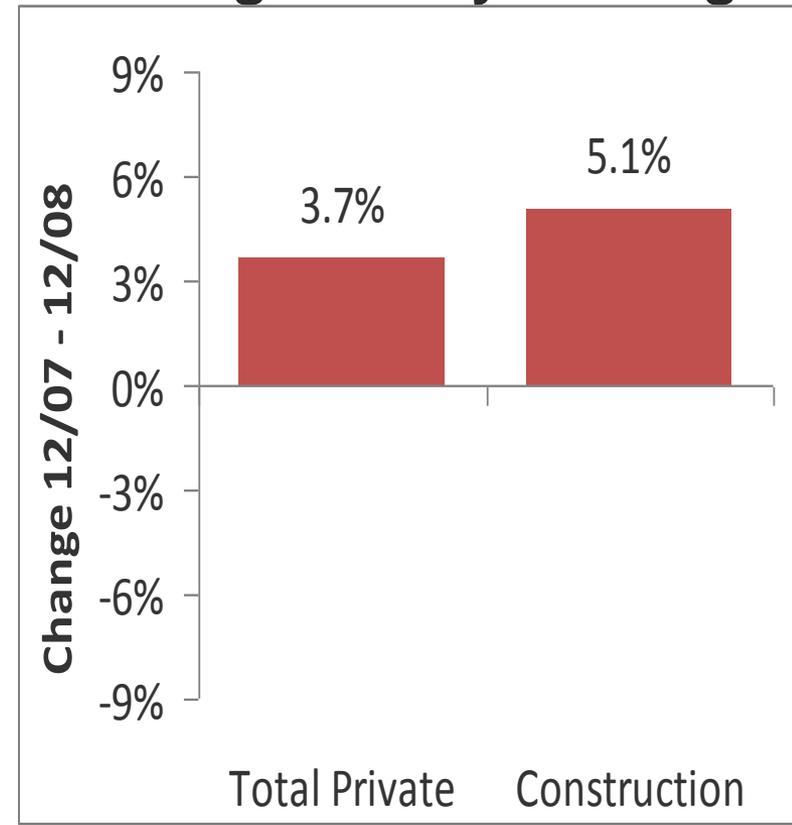


Construction jobs fall, but wages rise

Employment



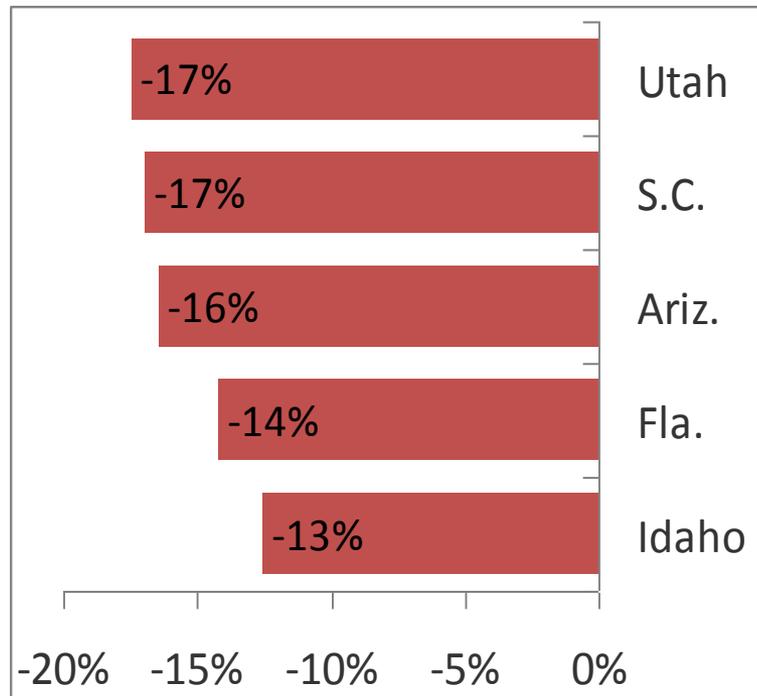
Average Hourly Earnings



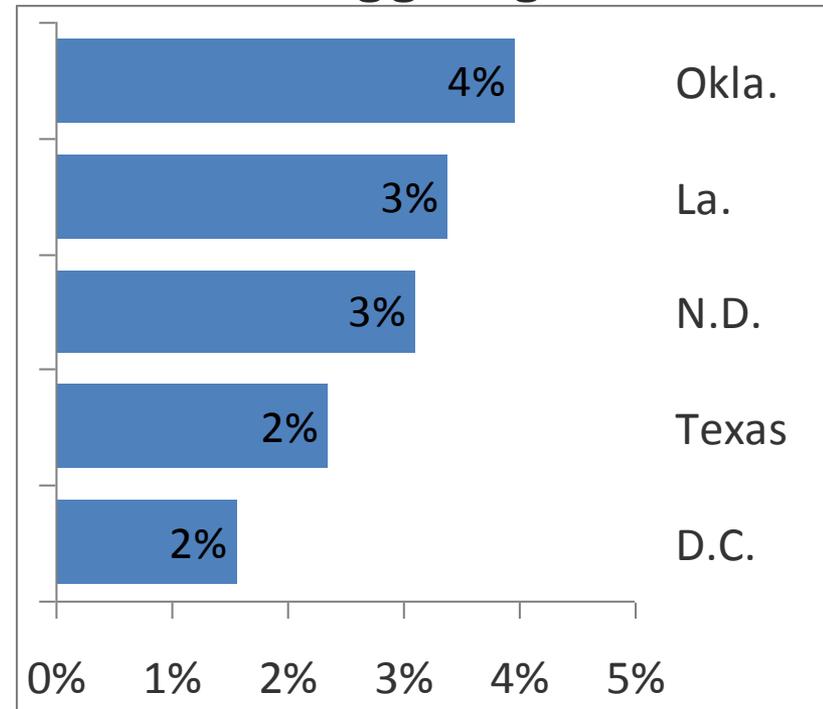
State construction employment, 11/07 – 11/08

(U.S. total: -7.8%)

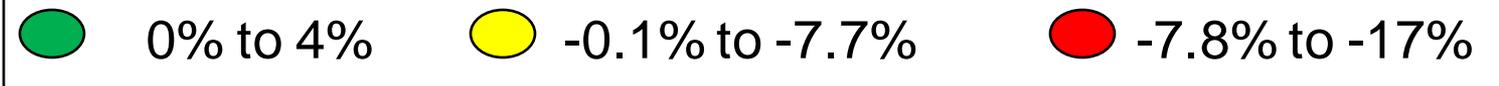
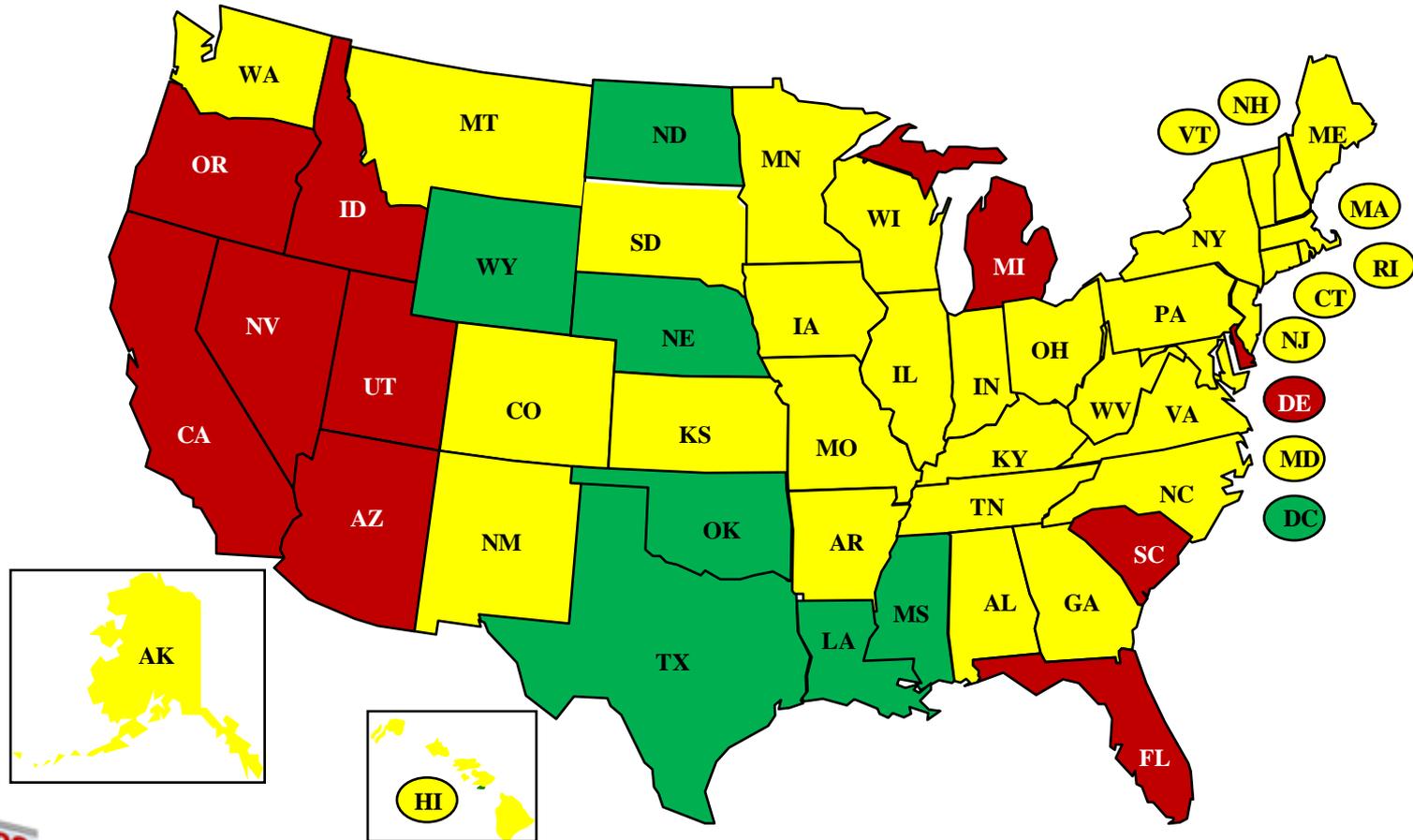
5 biggest losses



5 biggest gains



State construction employment, 11/07 – 11/08



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 +4.5%



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

- The Data DIgest: weekly one-page email
- PPI tables: emailed monthly
- State-specific stimulus estimates and fact sheets: [www.agc.org /factsheets](http://www.agc.org/factsheets)
- Webinars/Audioconferences
- Ken Simonson
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Ken Simonson



Jim Haughey

Questions & Answers

...we'll get to as many as we can...

For more insight and analysis of construction forecast trends, please visit Ken Simonson's blog at agc.org, and Jim Haughey's blog at reedconstructiondata.com



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