



ABC FORECASTS 2010 CONSTRUCTION ACTIVITY WILL SEE WINNERS AND LOSERS

WASHINGTON, D.C. – Associated Builders and Contractors (ABC) today released its 2010 economic forecast for the commercial and industrial construction industry. “While the industry battled the effects of the recession in 2009, expect 2010 to be a transitional but sluggish year on the road to recovery,” said ABC Chief Economist Anirban Basu.

“Through late 2008, the industry held up well, but 2009 was a year of retrenchment for many construction sectors, including those associated with private development and municipal projects,” said Basu. “Overall, the nonresidential construction industry has been impacted by a combination of financing constraints, massive job loss and a lack of confidence in local economies across the nation due to falling tax revenues.

“However, the financial crisis that began in 2007 and deteriorated significantly in September 2008 also led to the introduction of a variety of policies designed to jump-start the economy, including the American Recovery and Reinvestment Act of 2009 (ARRA), which is now beginning to support water/sewer and road resurfacing construction projects,” said Basu. “These segments are positioned to be among the big winners in 2010. Segments that are less closely aligned with federal spending are generally poised for another rough year in 2010.

“One of the bigger beneficiaries of the American Recovery and Reinvestment Act in 2010 will be the public sector. Public buildings – particularly courthouses and federal facilities in need of modernization – will receive a sizable increase next year due to stimulus funds reaching the market,” said Basu.

“Despite forecasts for a subdued economic recovery and a relative scarcity of nonresidential building construction during the next one to four years, rising construction costs will be an issue due to a number of global factors, including China’s increasing demand for construction materials,” said Basu. “Construction firms should prepare for 4 percent to 6 percent growth in construction costs per annum during the next several years, which is considerably slower than the two-year average for 2008 and 2009.

Year-to-Date Performance: 2008 – 2009* and 2010 Forecast

Indicator	2008	2009	2010	% Change 2009-2010
Construction Put in Place - (millions, seasonally adjusted annual rate) U.S. Census Bureau				
<i>Total Nonresidential</i>				
Lodging	35,818	23,060	20,100	-12.8%
Office	70,305	53,928	47,852	-11.3%
Commercial	84,942	53,827	46,582	-13.5%
Health care	47,699	47,933	48,500	1.2%
Educational	104,081	105,230	99,500	-5.4%
Power	81,801	90,489	92,328	2.0%
Manufacturing	61,269	73,582	59,600	-19.0%
Total Selected Industries	450,097	424,989	394,362	-7.2%
<i>Private Nonresidential</i>				
Lodging	35,379	23,006	20,014	-13.0%
Office	57,084	38,976	34,440	-11.6%
Commercial	81,495	49,861	43,184	-13.4%
Health care	39,101	37,178	37,634	1.2%
Educational	18,585	16,553	15,058	-9.0%
Power	68,702	76,233	80,758	5.9%

Manufacturing	60,784	72,980	59,181	-18.9%
Total Selected Industries	325,751	291,781	279,182	-4.3%
<i>Public Nonresidential</i>				
Office	13,222	14,953	13,412	-10.3%
Commercial	3,447	3,966	3,398	-14.3%
Health care	8,598	10,755	10,866	1.0%
Educational	85,496	88,677	84,442	-4.8%
Power	11,457	14,256	11,570	-18.8%
Total Selected Industries	122,220	132,607	123,688	-6.7%
Construction Employment (thousands, not seasonally adjusted)			U.S. Department of Labor	
Nonresidential	837.4	710.7	695.1	-2.2%
Residential	832.3	677.8	719.5	6.2%
Producer Price Index (base date: June 1986)			U.S. Department of Labor	
Inputs to Construction Industries – Index Value	197.2	189.1	193.1	2.1%
Gross Domestic Product (2005 \$billions)			U.S. Department of Commerce	
Real GDP	13,312	13,014	13,326	2.4%

* Latest Figures Available

The 2010 Outlook

We can now safely say that the recession is over. Thought to have begun in December 2007 and likely concluded during the late summer of 2009, this recession was in many ways the deepest since World War II and has impacted every state and every metropolitan area, some more than others.

ABC has been highly pessimistic regarding the health of the nonresidential construction industry in 2009. For the most part, these dire expectations were met despite the passage of a massive stimulus package in February. As ABC had predicted, contractors did enjoy some relief in the form of generally declining materials prices, but this did not fully offset the impact of diminished contracting opportunities, and many ABC members reported declining revenues and shrinking backlogs throughout calendar 2009. The major exceptions were those firms benefiting from federal project spending, working to help retool major manufacturing establishments, and involved in America's expanding energy complex.

Stimulus-related activity began to manifest itself first in ABC's proprietary Construction Backlog Indicator (CBI), which was exhibiting large increases in backlog among infrastructure-oriented firms as early as May 2009. Steadily, backlog has been translating into actual construction spending. This will continue well into next year and perhaps beyond, which is why infrastructure firms report the most rapid increase in backlog among the three industry groups ABC monitors.

The industry's general downturn has been neatly reflected in employment totals. During last year's forecast, ABC noted that "while nonresidential construction employment was down 4.7 percent on a year-over-year basis in October (2008), this level of job loss pales in comparison to what is likely to emerge over the next 12 months." Unfortunately, ABC's prediction was correct. During a recent twelve-month period, nonresidential building construction employment was down 13.3 percent while heavy and civil engineering construction was down 12.6 percent. The forecast for 2010 is for nonresidential construction employment to be down in the mid- to high single digits on a year-over-year percent change basis.

One of the more positive aspects for contractors has been declining construction materials prices. Relative to prior years, materials prices have been stable, permitting contractors to submit bids on long-term projects with greater confidence. Between August 2008 and August 2009, nonresidential building producer prices declined nearly 8 percent, with copper ore prices falling 32 percent and softwood lumber prices off 9 percent. The outlook is for materials prices to be roughly flat next year, though a sharp downturn in the dollar could generate increases even in the presence of a still weak U.S. construction economy.

Commercial, lodging and office construction spending will be off significantly next year as office vacancy rates continue to rise and hotel occupancy rates continue to fall. Though consumers have bounced back in meaningful ways in recent months, retail activity will

remain subdued and the appetite for new retail space will remain at extraordinarily low levels with the exception of rebounding big box store construction.

Construction related to manufacturing will decelerate sharply. Previous years have represented a period of brisk retooling activity and it is unlikely that this pace of investment can be sustained. ABC projects that construction related to manufacturing will be off 19 percent in 2010.

Institutional construction, including hospital construction, will be soft due to depleted state and local budgets and significant pressure to contain health care costs. However, state governments will continue to receive substantial support from the federal government over the next year, which will help stabilize capital budgets. Once federal support ebbs, institutional construction may weaken further in years to come.

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