



News Release

ABC CONSTRUCTION FORECAST PREDICTS “SLOW PROGRESS” IN 2011

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WASHINGTON, D.C. – Associated Builders and Contractors (ABC) today released its 2011 economic forecast for the U.S. commercial and industrial construction industry. “The period of rapid improvement in spending levels did not begin in 2010, and will not happen in 2011,” said ABC Chief Economist Anirban Basu.

“ABC’s forecast of nonresidential construction spending for next year suggests that total spending will be 0.1 percent less than 2010 levels. Privately financed construction levels are projected to decline 0.2 percent while publicly financed construction levels are projected to be virtually flat. The bottom line is the nonresidential construction recession is largely over, but 2011 will be associated with grudgingly slow progress,” said Basu.

“To the extent that there has been recovery in nonresidential construction, it has been concentrated in segments closely tied to federal funding and the stimulus package passed in February 2009 in the midst of the recession,” Basu said. “For example, five nonresidential construction categories monitored by the U.S. Census Bureau have experienced rising spending levels from the same time last year, including conservation and development, water supply, sewage and waste disposal, and highway and street, and transportation.

“In contrast, 11 nonresidential construction sectors have experienced year-over-year declines in spending, a reflection of the lack of available capital to finance growth and investment,” said Basu. “The deepest downturns registered in construction were related to lodging, manufacturing, office and commercial. ABC expects that the lack of access to capital will continue to deter economic progress in 2011, and is forecasting 1.7 percent GDP growth next year despite ongoing federal stimulus funding and the expectation of a more expansive monetary policy.

“The roughly flat expectations for spending are reflected in ABC’s nonresidential construction employment forecast. After losing about 50,000 jobs in 2010, ABC does not see nonresidential building employment rebounding until 2012. However, ABC predicts that residential construction employment will grow substantially as the number of housing starts will expand by roughly 25 percent,” Basu said.

Year-to-Date Performance: 2009 – 2010 and ABC's 2011 Forecast

Indicator	2009	2010	2011*	% Change 2010-2011
Construction Put in Place – (millions, seasonally adjusted annual rate) U.S. Census Bureau				
<i>Total Nonresidential</i>				
Lodging	\$25,474	\$11,653	\$10,814	-7.2%
Office	\$52,717	\$36,225	\$34,413	-5.0%
Commercial	\$55,042	\$41,112	\$38,645	-6.0%
Health care	\$45,111	\$40,038	\$40,338	0.7%
Educational	\$102,907	\$87,650	\$85,897	-2.0%
Power	\$89,405	\$79,568	\$83,944	5.5%
Manufacturing	\$58,513	\$39,025	\$34,342	-12.0%
Total All Industries	\$654,207	\$557,867	\$557,242	-0.1%
<i>Private Nonresidential</i>				
Lodging	\$25,350	\$11,051	\$10,256	-7.2%
Office	\$37,904	\$22,858	\$21,716	-5.0%
Commercial	\$51,286	\$38,393	\$36,089	-6.0%
Health care	\$35,651	\$29,843	\$31,000	3.9%
Educational	\$16,800	\$13,275	\$14,500	9.2%
Power	\$77,622	\$66,542	\$71,025	6.7%
Manufacturing	\$57,976	\$38,313	\$33,715	-12.0%
Total All Industries	\$347,759	\$259,214	\$258,716	-0.2%
<i>Public Nonresidential</i>				
Office	\$14,813	\$13,366	\$12,698	-5.0%
Commercial	\$3,756	\$2,719	\$2,556	-6.0%
Health care	\$9,460	\$10,195	\$9,338	-8.4%
Educational	\$86,107	\$74,375	\$71,397	-4.0%
Power	\$11,783	\$13,026	\$12,919	-0.8%
Total All Industries	\$306,448	\$298,653	\$298,526	0.0%
Construction Employment (thousands, not seasonally adjusted) U.S. Department of Labor				
Nonresidential	726.2	676.2	677.2	0.2%
Residential	639.6	579.8	726.9	25.4%
Producer Price Index U.S. Department of Labor				
Inputs to Construction Industries – Index Value	188.6	196.2	203.3	3.6%
Gross Domestic Product (2005 billions of dollars) U.S. Department of Commerce				
Real GDP	12,880.6	13,353.4	13,587.1	1.75%

*= Data predictions by ABC Chief Economist

The 2011 Outlook

The national recession that began in December 2007 ended in June 2009. Nonresidential construction typically lags the overall performance of the U.S. economy by 12 to 24 months. Even as the broader U.S. economy entered a period of substantial decline in 2008, nonresidential construction volumes continued to expand and grew 9 percent that year. Eventually, the weakness of the overall U.S. economy, coupled with a deep financial crisis and accompanying credit crunch, wreaked havoc on all sectors of nonresidential construction. According to U.S. Census Bureau data, nonresidential construction spending declined 9 percent in 2009 and ABC projects that spending will fall 14.7 percent this year.

The good news is the period of deep decline in U.S. nonresidential construction spending is over. The bad news is this appears to represent stagnation, with overall construction volumes mired at or near bottom-of-the-cycle levels. In other words, by remaining near 2010 levels, 2011 construction spending is positioned to be nearly a quarter less than 2008 totals.

Viewed from another perspective, the expectations for 2011 represent a stark contrast from what occurred in 2010. As a year, 2010 was a period of widely variable performance between construction segments as sectors powered by the availability of federal stimulus funds experienced growth, and privately financed activities buckled under the weight of depleted capital availability and excess supply. Next year, the variable in performance between segments will be far diminished, at least in terms of percentage changes in spending volumes.

In terms of segments poised to experience construction spending growth in 2011, ABC projects that power will lead the way, with spending rising by an anticipated 5.5 percent. Segments positioned for decline include those that are closely linked to state and local government spending. With many states and localities trimming both operating and capital budgets, the expectation is that construction volumes in the education category will slip next year.

ABC expects that 2012 will be better for privately financed construction. Credit conditions will improve by that point as large, well-capitalized banks become more aggressive in their pursuit of industry market share. Finally, certain leading indicators have turned the proverbial corner, including ABC's Construction Backlog Indicator, which has been indicating a steady improvement in the commercial and industrial construction outlook.

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