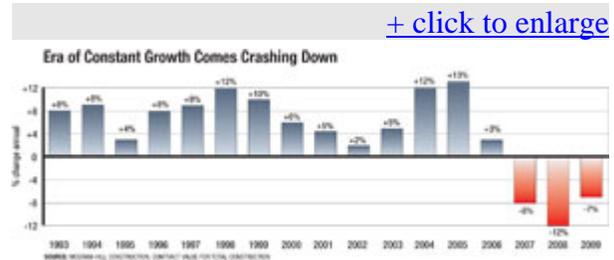


Finance & labor FORECAST 2009 All Sectors Go Negative Next Year As A Real Recession Rattles Markets 11/12/2008 [By Tim Grogan and Steve Setzer](#)

The housing contagion is starting to infect healthy nonresidential-building and public-works markets. The sub-prime mortgage virus has devastated the credit markets, causing sickness in the stock market and forcing the federal government to put virtually the entire financial system on life support. Given the economic backdrop, it is hard to find a pulse in this year's batch of construction industry forecasts for 2009.

McGraw-Hill Construction (of which ENR is part) is forecasting a 7.4% decline in construction starts in 2009, following declines of 12.4% this year and 8.0% in 2007. The U.S. Dept. of Commerce forecasts a 7.5% decline in total new construction put-in-place in 2009, following this year's 6.3% decline. The Portland Cement Association looks for construction put-in-place to fall 13.9% next year, after adjusting for inflation. FMI Corp. anticipates a 7.4% decline in total construction work next year. The National Association of Home Builders calls for housing starts to post their fourth consecutive year of double-digit declines, with another 16.2% drop in 2009.



The scary thing about these forecasts is that, to some degree, they all assume the best conditions. They assume that the \$700-billion federal financial bailout will thaw out the credit freeze, that there will be further fiscal stimulus and that all of the other economic “shoes” won’t drop. To a person, every economist interviewed by ENR admits the risk of inaccuracy in their forecast due to optimism.

“The steep declines we have seen in construction starts [which are a leading indicator to construction put-in-place] will translate into declines in construction spending next year that will at least match the 7% decline called for by the U.S. Dept. of Commerce and others,” says Robert Murray, chief economist for McGraw-Hill Construction.

Those declines could continue into 2010; Murray predicts construction starts will tumble another 7% next year. Three years of retreat will pull the dollar volume of total construction starts back to \$514.6 billion, its lowest level since 2002, according to MHC.

## FORECAST 2009

McGraw-Hill Construction Starts  
\$ millions (current dollars)

TYPE OF CONSTRUCTION	ACTUAL 2007	ESTIMATE 2008	FORECAST 2009	PERCENT CHANGE	
				07- 08	08- 09
TOTAL CONSTRUCTION	634,395	555,475	514,575	-12.4	-7.4
RESIDENTIAL	264,134	172,800	168,075	-34.6	-2.7
Single-Family Housing	201,194	128,775	126,650	-36.0	-1.6
Multifamily Housing	62,940	44,025	41,425	-30.1	-5.9
NONRESIDENTIAL	233,864	243,875	220,200	+4.3	-9.7
Office Buildings	32,151	31,850	27,675	-0.9	-13.1
Hotels and Motels	13,988	15,200	12,900	+8.7	-15.1
Stores and Shopping Centers	29,513	23,050	20,700	-21.9	-10.2
Other Commercial	24,101	19,700	17,700	-18.3	-10.2
Manufacturing	17,491	29,625	20,275	+69.4	-31.6
Educational Buildings	52,712	56,900	55,025	+8.0	-3.3
Health Care Facilities	24,028	26,675	25,975	+11.0	-2.6
Other Institutional Buildings	39,880	40,875	39,950	+2.5	-2.3
NONBUILDING CONSTRUCTION	136,397	138,800	126,300	+1.4	-9.0
Highways and Bridges	53,437	51,900	50,000	-2.9	-3.7
Environmental Public Works	37,026	36,900	35,200	-2.8	-4.6
Other Public Works	30,482	26,000	24,300	-14.7	-6.5
Electric Utilities	15,452	24,000	16,800	+55.3	-30.0

SOURCE: MCGRAW-HILL CONSTRUCTION.

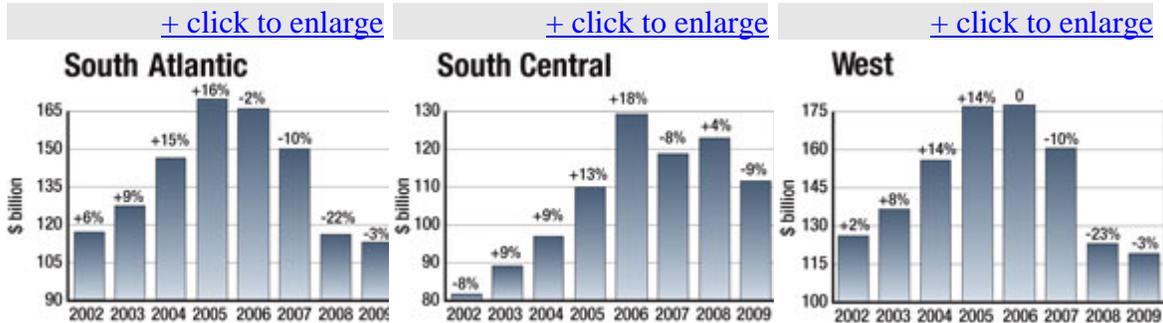
The most interesting part of the third year of declining volume is the new sectors hit. While the recession already has squeezed out most of the slack in the housing market, it is just starting to bite into the nonresidential sector. Murray predicts the dollar value of new residential construction starts will fall another 3% next year, but nonresidential

building work will tumble 10% in 2009 after a 4% gain in 2008. Perhaps more significantly, Murray believes nonbuilding construction also will fall 9% next year, which would mean that every major construction market would fall into the negative column in 2009.

“If I were modifying the forecast now, I would be inclined to say there is a downside risk to the commercial building markets,” says Murray. “But if Congress passes a fiscal stimulus package, the declines projected for public works may not be so severe.”

Murray admits this year’s forecast was difficult to fashion because economic events are moving so fast. “There has been a huge amount of money directed to thawing out the credit markets, and there is a growing sentiment to go ahead with a massive stimulus package,” Murray says. “But as of mid-November, we still don’t have a sense of how effective these steps will be.”

The two biggest market swings forecasted by Murray are in industrial and power work. He predicts manufacturing work will go from a 69% boom in 2008 to a 32% bust in 2009. Likewise, work for electrical utilities will go from a positive 55% in 2008 to a negative 30% next year.

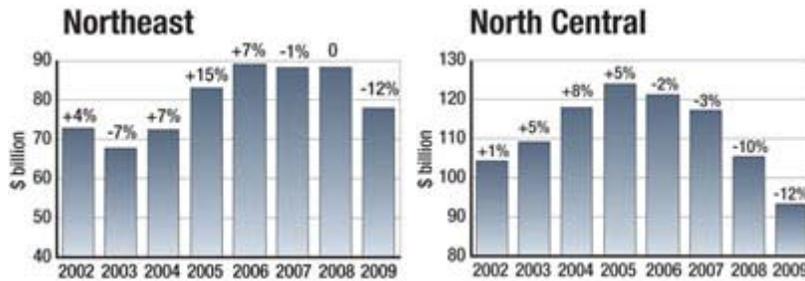


A once-strong market will see a further 7% decline in commercial and manufacturing work and a 2% drop in public buildings.

The region will be hit by a 26% decline in commercial and manufacturing work and an 8% drop in heavy and highway construction.

Housing in the western region will drop another 4% next year, combining with an 8% decline in the nonbuilding market.

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Housing, nonresidential and nonbuilding work are slumping, pulling total construction starts in the region 12% below 2008.

A 12% drop in construction starts will be the fourth consecutive annual decline in the economically hard-hit region.

SOURCE: McGraw-Hill Construction, Annual Starts

But those swings are not so much a sign of weaker markets as they are a retrenchment from an extremely strong 2008. “This year’s manufacturing numbers were pumped up by four massive additions to oil refineries totaling...

... more than \$14 billion,” says Murray. If you take that out, you do not have that spike and the resulting fall off in 2009, he notes.

Likewise, electric utility work will fall back from its extremely high level in 2008, but alternative-power markets such as wind and solar will stay brisk, says Murray. “If you are looking for any positive elements in the forecast, there is still a lot of momentum for construction related to renewable energy or green buildings.”

In times of economic stress, federal spending is the key to a recovery, and most forecasts assume a significant stimulus package from Congress early next year. But as of now, the outlook for federal construction programs is mixed.

Congress passed and President Bush signed appropriations bills providing funding for fiscal 2009 for Dept. of Defense and Dept. of Veterans Affairs programs, including substantial increases for military construction. DOD’s base realignment and closure program, which includes substantial funds for construction projects, received \$9.2 billion for 2009, up 18% from 2008. DOD family housing construction was hiked 39%, to \$1.4 billion, and other military construction got a 23% boost, to \$12.2 billion.

At VA, the major construction account was pared 14%, to \$923 million, but the department’s minor-construction program climbed 75%, to \$742 million.

## FORECAST 2009

U.S. Dept. of Commerce Construction Put-in-Place  
\$ billions (current dollars)

TYPE OF CONSTRUCTION	ACTUAL 2007	ESTIMATE 2008	FORECAST 2009	PERCENT CHANGE	
				07-08	08-09
TOTAL CONSTRUCTION	1,137.1	1,065.5	985.9	-6.3	-7.5
RESIDENTIAL	499.7	367.3	321.4	-26.5	-12.5
Lodging	28.7	35.9	28.0	+25.1	-22.0
Office	64.7	71.2	58.4	+10.1	-18.0
Commercial	88.8	84.4	63.3	-5.0	-25.0
Health Care	42.9	45.5	46.4	+6.1	+2.0
Educational	96.3	103.0	103.0	+7.0	0.0
Religious	7.5	7.1	6.7	-5.3	-5.6
Public Safety	9.9	12.4	13.0	+25.3	+4.8
Amusement and Recreation	21.7	22.8	21.0	+5.1	-7.9
Transportation	32.4	35.0	37.1	+8.0	+6.0
Communication	27.0	25.7	24.4	-4.8	-5.1
Power	53.4	69.4	76.4	+30.0	+10.1
Highway and Street	76.0	79.0	82.2	+4.0	+4.1
Sewerage and Waste Disposal	24.7	25.4	25.4	+2.8	0.0
Water Supply	15.6	16.7	17.0	+7.1	+1.8
Conservation and Development	5.2	5.2	5.6	0.0	+7.7
Manufacturing	42.6	59.6	56.7	+40.0	-4.9

SOURCE: U.S. DEPT. OF COMMERCE

FIGURES FOR 2008 ARE ESTIMATED. FEDERAL INDUSTRIAL INCLUDES WEAPONS R&D AND PRODUCTION; ATOMIC-WASTE ISOLATION AND REPROCESSING AND ENVIRONMENTAL CLEANUP; CONSERVATION AND DEVELOPMENT, AS WELL AS ELECTRIC POWER DAMS.

Congress was unable to agree on full-year spending levels for most other federal agencies and instead approved a continuing resolution that extends their funding only through March 6, 2009, generally at their fiscal 2008 levels. That part-year funding affects such important construction programs as federal-aid high-ways, Corps of Engineers water

projects, Environmental Protection Agency aid for wastewater treatment and drinking water facilities and General Services Administration federal buildings.

### Last Leg

While the funding crisis for highway work and commercial projects has been widely reported, the third leg of the stool that makes up national construction spending—government and institutional projects funded by long-term bonds—has received less attention. By all accounts, those markets are dead in the water in the near term, stalled by the collapse of the long-term bond market in recent months.

As a result, the ripple effect of delayed projects that rely on bond financing—state and municipal, university programs, K-12 schools and hospitals— could have a major impact on the construction outlook for 2009.

FORECAST 2009					
FMI: Construction Put-in-Place \$ millions (current dollars)					
TYPE OF CONSTRUCTION	ACCOUNT	ESTIMATE	FORECAST	PERCENT CHANGE	
	2007	2008	2009	07-08	08-09
TOTAL CONSTRUCTION	1,137,151	1,039,938	963,298	-8.6	-7.4
TOTAL RESIDENTIAL	499,650	371,942	345,937	-25.6	-7.0
Single-Family	306,972	199,532	179,578	-35.0	-10.0
Multifamily	49,997	43,997	41,797	-12.0	-5.0
Home Improvement	142,682	128,413	124,561	-10.0	-3.0
TOTAL NONRESIDENTIAL	462,635	481,621	421,375	+4.1	-12.5
Lodging	28,728	31,601	22,121	+10.0	-30.0
Office	64,731	67,320	52,510	+4.0	-22.0
Amusements and Recreation	21,719	22,588	20,103	+4.0	-11.0
Religious	7,447	6,702	5,697	-10.0	-15.0
Education	96,348	101,165	93,072	+5.0	-8.0
Health Care	42,882	45,455	42,728	+6.0	-6.0
Commercial	88,777	84,338	66,627	-5.0	-21.0
Manufacturing	42,644	50,320	52,333	+18.0	+4.0
Public Safety, Administrative	9,899	10,889	10,453	+10.0	-4.0
Transportation	32,420	35,014	32,913	+8.0	-6.0
NONBUILDING STRUCTURES	174,866	186,735	195,986	+6.8	+5.0

Conservation and Development	5,226	5,331	5,490	+2.0	+3.0
Highways and Streets	76,021	78,302	83,000	+3.0	+6.0
Sewers Systems	24,665	25,405	24,897	+3.0	-2.0
Power	53,371	61,910	66,863	+16.0	+8.0
Water supply	15,583	15,427	15,736	-1.0	+2.0

SOURCE: FMI CORP., RALEIGH N.C. HISTORICAL DATA IS COMPILED FROM BUILDING PERMITS, CONSTRUCTION-PUT-PLACE, CLARK REPORTS AND TRADE SOURCES ESTIMATE FOR 2008 AND FORECAST FOR 2009 BY FMI.

The collapse started in January 2008 and was completed in September and October, says Matt Fabian, managing director of Municipal Market Advisors, a Concord, Mass.-based municipal-bond-market research firm. Longer-term bonds, the kind typically used for construction projects, are the least attractive to buyers remaining in the bond...

.... market due to their perceived risk. “There is just no institutional demand of any size,” he says. As a result, interest rates have become prohibitive for all but the top-rated municipal borrowers.

Fabian says there is an unprecedented backlog of long-term project-related municipal debt waiting to come to market, but the market remains frozen. He estimates there is a backlog of more than \$120 billion of long-term bonds waiting to come to market, more than \$38 billion of which has been on hold since September.

Municipal issuers are waiting for the market to stabilize, but in the meantime, projects are being put on hold. The burning question for municipalities is, How long can this go on? Fabian says the market fundamentals suggest the prohibitive scenario could go on for six months, if not longer. “The situation we have could be permanent,” he speculates.



As a result, projects from Maine to California are being delayed due to the inability of states and municipalities to issue new bonds. In Florida, for example, new funding for city and municipal projects has ground to a halt. “Right now, nobody can issue new bonds,” says Jeannie Hagan, director of financial services for the Florida League of Cities. The cost of long-term project bonds has become prohibitive for cities with less-than-perfect credit, she says. “It’s pretty dire. Projects are definitely being put on hold,” she adds.

Cities in Florida hope they can wait for a solution, but Hagan acknowledges that the traditional bond markets may never come back as they were. “We really need some new solutions, but we’re not sure what they are,” she says.

Other examples of project delays in the last few weeks include:

- A vote by the the Board of Commissioners in Chatham County, N.C., to delay \$113 million of projects due to unfavorable bond markets. The delayed projects include a new middle school in northeast Chatham County, a judicial center and a joint project with Central Carolina Community College that involves new classrooms and a new library.
- A decision by the Highland Hospital Group, Charleston, W.Va., to indefinitely postpone an 80-bed replacement hospital in Kanawha City, W.Va. “With the bond market so unstable and interest rates jumping by more than 2% in the past few weeks, the project cannot be financed at this time,” says a Highland spokesman. “Construction was literally ready to go. We’re going to do this [project]; it’s just been pushed back.”
- A decision by the North Carolina Turnpike Authority to delay plans to issue \$600 million of bonds for the \$913-million, 18.8-mile Triangle Expressway in western Wake County and southeastern Durham County. Wake County Schools in North Carolina also postponed a \$21-million renovation project at the aging Wilburn Elementary School
- An announcement by Stanford University that it will delay unspecified projects in 2009 and possibly into 2010.
- A vote by officials of Athens-Clarke County, Ga., to indefinitely delay a \$221-million wastewater-treatment-plant bond issue. The bond would fund upgrades at three wastewater-treatment plants built more than 40 years ago.

### Big Push

Hagan, with the Florida League of Cities, is among the growing list of supporters for federal assistance. In an Oct. 15 letter to Federal Reserve Board chief Ben Bernanke, Florida Chief Financial Officer Alex Sink said local governments have been frozen out of the credit markets and asked that they be included in the Fed’s new Commercial Paper Funding Facility (CPFF). That facility, created in early October, is designed to help improve liquidity by funding a unit to purchase three-month unsecured and asset-backed commercial paper directly from eligible issuers.

FORECAST 2009					
PCA Construction Put-in-Place \$ billion (constant 1996 dollars)					
TYPE OF CONSTRUCTION	ACCOUNT 2007	ESTIMATE 2008	FORECAST 2009	PERCENT CHANGE	
				07-	08-

				08	09
TOTAL CONSTRUCTION	709.0	641.7	552.6	-9.5	-13.9
TOTAL RESIDENTIAL BUILDING	307.7	222.7	182.9	-27.6	-17.9
TOTAL NONRESIDENTIAL BUILDING	163.2	172.4	132.6	+5.6	-24.0
Industrial	26.9	33.3	24.1	+23.8	-27.6
Office	34.8	35.4	27.5	+1.7	-22.3
Hotels, Motels	17.6	21.4	14.3	+21.6	-33.2
Hospitals, Institutions	16.8	16.9	16.3	+0.6	-3.6
Religious and Miscellaneous	4.6	4.0	3.7	-13.0	-7.5
Educational	10.0	10.6	9.7	+6.0	-8.5
Commercial	46.2	44.1	31.3	-4.6	-29.0
PUBLIC UTILITY <sup>1</sup>	52.9	59.0	59.5	+11.5	+0.9
PUBLIC CONSTRUCTION	180.7	183.1	173.2	+1.3	-5.4
Buildings	71.9	74.8	70.0	+4.0	-6.4
Highways and Streets	47.8	46.7	45.0	-2.3	-3.6
Conservation	3.5	3.4	3.3	-2.9	-2.9
Sewer Systems	16.6	15.7	15.0	-5.4	-4.5
Water Supply	9.8	9.9	8.9	+1.0	-10.1
Military/Miscellaneous	6.3	7.4	7.1	+17.5	-4.1
SOURCE: PORTLAND CEMENT ASSOCIATION SKOKIE, ILL. 1= INCLUDES FARM BUILDINGS.					

“The tax-exempt municipal bond market represents an investment of more than \$2.3 trillion in our country’s infrastructure,” said Sink in the letter. “The credit crisis has caused the tax-exempt bond market to cease...”