

Construction Industry Snapshot

Prepared by Reed Construction Data

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CONSTRUCTION START TOTALS SEE CONSECUTIVE MONTHS OF DECLINE

Reed Construction Data announced today that the value of construction starts declined again in February 2008, continuing a trend of ebbing construction start totals that began in October and is likely to continue through much of 2008.

Reed Construction Data reported the year-to-date value of construction starts through February, excluding residential contracts, totaled \$39.2 billion, down 10.6% from the first two months of 2007.

February starts declined 12.7% month-over-month from January, more than the usual seasonal decline, but in line with the average 11.5% month-over-month change over the past five years. Nonetheless, Reed Construction Data believes that construction starts are progressively slowing and will continue to decline well into 2008.

The value of February commercial starts fell 30% from January, well more than the usual seasonal decline. This, coupled with the pattern of U.S. job losses in February, is typical of the onset of a recession.

The consensus economic outlook expects a two-quarter recession with the economy expanding again by the summer. Such a recovery will require something to boost buyer confidence. It could be cheaper energy, cheaper food, cheaper credit rates or, unfortunately, cheaper buildings related to the decline in construction starts.

The slowdown now underway in the overall economy has already weakened consumer spending and cut employment. In the construction market, this is reflected in the relatively high year-to-date starts declines for manufacturing (-61%), commercial space other than retail (-49%), offices (-48%) and warehouses (-38%).

By contrast, construction projects less sensitive to current economic conditions are among the few still rapidly expanding sectors. These include military facilities (+308%), public safety buildings (+66%), laboratories (+56%), water and sewer projects (+48%), religious buildings (+46%) and libraries and museums (+34%). These projects are being funded with public budget reserves, donations and investment earnings accumulated in the stronger economy during the last three years.

Institutional and heavy projects are generally insulated from any immediate impact of changing economic conditions because of their use of bond and tax funding rather than the short-term loans used by commercial developers. However, the slowdown underway for commercial buildings will eventually reach institutional and heavy projects as tax receipts and public budget balances fall after a weak period in the economy. ♦

Jim Haughey

James Haughey, PhD, is Director, Research and Analytics and Chief Economist for Reed Construction Data. With 30 years experience in corporate, government, academic and consulting roles, Dr. Haughey is one of North America's foremost experts on the construction industry. His reports appear regularly in print, Web and newsletter publications.

VALUE OF UNITED STATES CONSTRUCTION STARTS – FEBRUARY 2008 (REED CONSTRUCTION DATA)

	Jan-Feb 2008 (\$ millions)	% Change (Jan-Feb 08 vs Jan-Feb 07)
Hotel/Motel	\$1,895	-12.0%
Retail	\$3,888	-12.0%
Parking Garage	\$406	43.8%
Amusement	\$911	-5.3%
Private Office	\$2,676	-48.0%
Government Office	\$442	-14.5%
Laboratory	\$612	56.0%
Warehouse	\$332	-37.8%
Miscellaneous Commercial	\$588	-49.0%
COMMERCIAL	\$11,750	-24.5%
INDUSTRIAL (Manufacturing)	\$637	-61.4%
Religious	\$476	46.4%
Hospital/Clinic	\$3,024	-3.1%
Nursing/Assisted Living	\$409	-42.9%
Library/Museum	\$475	33.8%
Police/Courthouse/Prison	\$1,057	65.9%
Military	\$1,489	308.2%
School/College	\$7,352	-14.4%
Miscellaneous Government	\$666	-12.2%
INSTITUTIONAL	\$14,948	0.6%
Miscellaneous Non-residential	\$340	12.0%
NON-RESIDENTIAL BUILDING	\$27,675	-14.5%
Airport	\$36	-33.0%
Road/Highway	\$4,926	1.8%
Bridge	\$922	-47.7%
Dam/Marine	\$113	-19.5%
Water/Sewage	\$4,249	48.3%
Miscellaneous Civil	\$1,328	-29.7%
HEAVY ENGINEERING	\$11,574	0.2%
TOTAL NON-RESIDENTIAL	\$39,249	-10.6%

Source: Reed Construction Data (RCD) and Property & Portfolio Research (PPR) (www.ppr.info).
Table: Reed Construction Data – CanaData.