

# Construction Industry Snapshot

Prepared by Reed Construction Data

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## Construction Starts Drop in September

Reed Construction Data (RCD) announced today that the year-to-date value of construction starts through September 2008, excluding residential contracts, totaled \$221.3 billion, a 2.8% drop versus the same period last year. Summer-quarter starts were 5.9% above last summer largely due to record-high starts in August. September starts fell 15% from August but matched the starts totals last July, August and September. Some of this decline is the initial negative impact of the credit freeze, but most of the expected damage from the credit problem is yet to come this fall.

The value of construction starts each month is summarized from RCD's database of all active construction projects in the United States, excluding single-family homes. Missing project values are estimated using RSMeans' building cost models.

The credit freeze has soured the economic outlook, with a decline in Gross Domestic Product (GDP) now expected from the third quarter of 2008 through the first quarter of 2009. The peak-to-trough decline in GDP is projected to be about 0.5%. This is slightly more than during the 2001 recession, but only half of the decline in the recession of the early 1990s and far less than the deep recession of the early 1980s. This forecast assumes that the credit problems are confined to financial markets within a few weeks and no longer block access for normal operating loans for credit-worthy firms.

The construction spending consequences are more severe. The impact is the combination of the temporary loss of credit access that is now stalling building activity plus the reduced space needs in a now weaker economy in 2008 to 2010. Private commercial construction gets the initial and largest impact because of the project-by-project borrowing model used by developers.

Public construction is insulated from most of the initial impact, but will begin to weaken within a few months when tax revenue shortfalls force spending cutbacks. The negative impact will be last and least for institutional construction that is largely funded from accumulated reserves, usage fees and investment earnings. ♦

*Jim Haughey*

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

	Jan-Sep 2008 (\$ millions)	% Change (Jan-Sep 08 vs Jan-Sep 07)
Hotel/Motel	\$9,136	-14.3%
Retail	\$20,045	-18.4%
Parking Garage	\$2,152	26.7%
Amusement	\$4,940	16.1%
Private Office	\$16,012	-11.9%
Government Office	\$4,717	90.3%
Laboratory	\$3,016	23.4%
Warehouse	\$2,109	-29.2%
Miscellaneous Commercial	\$4,064	24.8%
<b>COMMERCIAL</b>	<b>\$66,190</b>	<b>-6.1%</b>
<b>INDUSTRIAL (Manufacturing)</b>	<b>\$4,142</b>	<b>-43.9%</b>
Religious	\$2,536	-0.8%
Hospital/Clinic	\$16,964	14.0%
Nursing/Assisted Living	\$2,993	-24.5%
Library/Museum	\$2,450	32.6%
Police/Courthouse/Prison	\$5,622	6.0%
Military	\$4,497	14.8%
School/College	\$45,614	2.6%
Miscellaneous Government	\$4,480	21.3%
<b>INSTITUTIONAL</b>	<b>\$85,156</b>	<b>5.6%</b>
Miscellaneous Non-residential	\$1,548	-17.7%
<b>NON-RESIDENTIAL BUILDING</b>	<b>\$157,037</b>	<b>-2.1%</b>
Airport	\$1,634	9.9%
Road/Highway	\$26,366	-1.8%
Bridge	\$6,313	-27.8%
Dam/Marine	\$1,428	45.7%
Water/Sewage	\$17,412	-7.3%
Miscellaneous Civil	\$11,067	7.3%
<b>HEAVY ENGINEERING</b>	<b>\$64,220</b>	<b>-4.4%</b>
<b>TOTAL NON-RESIDENTIAL</b>	<b>\$221,257</b>	<b>-2.8%</b>

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

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.