

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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January 5, 2009

Construction Spending Numbers Suggest the Government Has Stepped Up Activity

Normally a dull and dated report, there is something intriguing about today's release on November construction spending. Have government agencies already begun to accelerate public infrastructure construction in anticipation of a massive economic stimulus plan? It appears so.

But first, let's check out headline numbers. Overall spending on construction projects slipped another 0.6% in November, after falling 0.4% the prior month. Spending on building activity so far this year (Jan. thru Nov.) was 5.3% less than the equivalent period in 2007.

The main culprit dragging down building activity --- no surprise here ---has been residential construction, which fell 4.1% in November (down 22.8%, year over year). But what's really astonishing has been the declining role of residential building in the construction industry. Three years ago, spending on homebuilding made up more than 50% of all new construction activity. Now homebuilding accounts for a more miserly 31%.

The deterioration is even more dramatic if one looks at how much private builders have scaled back. Home construction accounted for 70% of all new private building activity in January 2006, but has since plummeted to 43%. The big players nowadays are companies building manufacturing facilities (up 62.3% over the year), power plants (34.4%), and lodging (20.1%). Yet, even with these increases, total private spending on construction has been sliding since March 2006, when it peaked at a \$962 billion annual

rate, to a \$756 billion pace in November 2008. In the process, more than three-quarters of a million construction workers lost their jobs.

But is the government already coming to the rescue of the building industry? Have federal and state agencies begun to speed up new construction, convinced the next Administration and Congress will provide the funds with the upcoming stimulus program?

That's certainly a plausible conclusion after looking at the numbers on new spending for public projects. Government sponsored construction in November jumped 1.4% in November, to a record \$322 billion annual pace. Expenditures on home building --- yes homes ---by federal, state and local governments rose 1.5% in November and now stand 11.5% greater than last year. Public non-residential construction also shot up to a record \$313.9 billion rate in November, up 1.4% from the previous month, and 7.8% versus last November. Leading the charge has been publicly-built office buildings, up 1.8% for the month and 35.7% from November 2007, and public safety construction which jumped 10.2% in November and 32.4% compared with the year ago level.

In fact, of the 12 different non-residential sectors under construction, government spending increased for 9 of them in the latest month (office, educational, public safety, amusement and recreation, power, highway and street, sewage and waste disposal, water supply, and conservation), compared with just 2 in October and 5 in September.

We don't want to make too much of these trends since they can bounce around quite a bit month to month. But it does appear to us that some governmental agencies are moving ahead with construction projects, confident that the checks from Washington to pay for all this activity will soon be in the mail.