

The Data DiGest

Ken Simonson, Chief Economist, Associated General Contractors of America

Phone: 703-837-5313 • Fax: 703-837-5407 • simonsonk@agc.org

PPI rises overall but is mixed for construction; ABI, Reed institutional sectors improve

The **producer price index** (PPI) for finished goods climbed 0.4% in October, not seasonally adjusted, the Bureau of Labor Statistics (BLS) reported on Tuesday. *The PPI for inputs to construction industries, a weighted average of materials used in every type of construction, including diesel fuel and other items consumed by contractors, fell 0.2% for the month and 5.8% compared to October 2008. As usual, there was wide variation in PPIs for different inputs. The PPI for diesel fuel jumped 5.1% for the month but fell 28% year-over-year; steel mill products, 2.7% and -25%; plastic construction products, 0.3% and -1.8%; concrete products, -0.4% and -0.9%; aluminum mill shapes, -0.7% and -16%; gypsum products, -1.9% and -7.2%; copper and brass mill shapes, -3.3% and 3.7%. PPIs for new nonresidential buildings, which include contractors' overhead and profit, generally fell for the one- and 12-month periods: industrial buildings, -0.1% and -4.5%; office, -0.2% and -3.4%; warehouses, -1.1% and -4.6%. But the PPI for new school construction rose 0.7% and 1.6%. PPIs for nonresidential building subcontractors were mixed: plumbing contractors, 1.1% and 1.5%; electrical, 0.8% and -2.5%; roofing, 0.3% and 3.2%; and concrete, -1.3% and -1.6%.*

The **Architecture Billings Index** (ABI), which measures the number of architecture firms with increases in billings minus the number with decreases compared to the prior month, registered 46 in October, up from 43 in September and a 14-month high, but still below the breakeven level of 50, the American Institute of Architects reported today. Subindexes by practice segment, which are calculated as three-month moving averages, rose from 45 to 49 for institutional practices but were virtually unchanged for residential, commercial/industrial and mixed practices. *The index is a rough indicator of future demand for building construction.*

The value of new nonresidential construction starts in October rose 6.5% from September (3%, seasonally adjusted) but fell 3% compared to October 2008, Reed Construction Data reported on Thursday, based on data it compiled. "Heavy/engineering starts increased 17% from September, more than the usual seasonal rise, [mostly due to] a surge in bridge and miscellaneous civil projects," Chief Economist Jim Haughey said. Nonresidential building starts were 22% higher than in October 2008 and 2% higher than in September, which was "about a 3% drop after seasonal adjustment. The commercial sector continues to be much weaker than the institutional sector. The monthly average for commercial starts in the last four months is about the same as in the previous nine months from the beginning of the credit-freeze recession through June. By contrast, institutional starts are 44% higher."

Construction spending in September totaled \$940 billion at a seasonally adjusted annual rate, up 0.8% from the downwardly revised August estimate but 13% lower than in September 2008, the Census Bureau reported on November 2. The three major components diverged for the month and year-over-year. Private residential construction jumped 3.9% for month but fell 27% year-over-year; public construction, 1.3% and 6.1%; and private nonresidential, -1.8% and -15%. Of the 11 **private nonresidential segments** that Census includes in its press release, all were negative for the month except education (0.4%, -14% year-over-year) and only two were positive year-over-year: manufacturing, -2.9% and 11%; and power, -2.7% and 4.8%. The developer-financed segments were sharply lower: office, -1.1% and -33%; commercial (retail, wholesale and farm), -1.2% and -36%; and lodging (hotels and resorts), -1.7% and -37%. Of the two major **public categories**, educational slipped 0.1% for the month but rose 3.8% year-over-year, while highways and street construction climbed 1.0% and 2.8%. **Private residential segments** also split: new single-family, 2.4% and -35%; new multi-family, -4.1% and -41%; and improvements to existing single- and multi-family, 7.2% and -13%.

Nonfarm payroll employment fell by 190,000 in October, seasonally adjusted, BLS reported on November 6, worse than in September but less than one-third of the decrease early in the year. **Construction employment** fell by 62,000 (-1.0%) in October and 1,100,000 (-15.6%) from October 2008. As in the past several months, nonresidential construction (building, specialty trade contractors, and heavy and civil engineering) fell at a greater rate than residential (building and specialty trades), -1.3%, vs. -0.6%. **Average hourly earnings** rose 2.9% over the past 12 months in construction and 2.3% for all private sector production or nonsupervisory workers. The **unemployment rate** was 18.7% in construction, not seasonally adjusted, highest of any industry and nearly double the overall rate of 9.5% (10.2%, seasonally adjusted).

Industrial production in manufacturing slipped 0.1% in October, the Federal Reserve reported on Tuesday. **Capacity utilization** in manufacturing was unchanged at 67.6%, far below the 1972-2008 average of 79.6%. *With current output and factory utilization both low, demand for manufacturing construction is likely to remain weak. Production of construction supplies fell 1.2% in October and 1.1% in September.*

New orders from U.S. manufacturers (excluding semiconductor manufacturing) rose 0.9% in September, seasonally adjusted, reversing an 0.8% decline in August, Census reported on November 3. **Orders for construction materials and supplies** rose 0.5% in September and 0.3% in August. *The often-volatile orders for construction machinery soared 47% after dropping 17% in August.*