The Economy and the Regional Construction Market

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Worst recession since the 1950s

- Employment falling, financial market chaos continues
- Extraordinary policy measures taken by both the Fed and the new President
- State budget is being debated by the Legislature and Governor
Worst recession since the 1950s
— Employment falling, financial market chaos continues
— Extraordinary policy measures taken by both the Fed and the new President
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And

You want to know the outlook for construction

Worst recession since the 1950s
To quote WWU economist Paul Storer "that crashing sound is our models"

Worst recession since the 1950s
Washington & U.S. Employment
(Index, Dec 2004 = 100)

Employment
Employment Growth
Unemployment Rates

Washington, U.S. & Seattle Unemployment Rates

[Graph showing unemployment rates over time for Washington, U.S., and Seattle.]
### Employment Change by Industry - Seasonally Adjusted
January 2008 to January 2009 (Change in 000s)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Change (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Nonfarm</td>
<td>-56.0</td>
</tr>
<tr>
<td>Government</td>
<td>9.0</td>
</tr>
<tr>
<td>Education and Health Services</td>
<td>8.6</td>
</tr>
<tr>
<td>Aerospace Products and Parts Manufacturing</td>
<td>2.1</td>
</tr>
<tr>
<td>Information</td>
<td>0.2</td>
</tr>
<tr>
<td>Other Services</td>
<td>0.0</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>-0.5</td>
</tr>
<tr>
<td>Mining and Logging</td>
<td>-0.6</td>
</tr>
<tr>
<td>Transportation, Warehousing and Utilities</td>
<td>-2.2</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>-3.7</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-5.9</td>
</tr>
<tr>
<td>Professional and Business Services</td>
<td>-6.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-16.7</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>-17.1</td>
</tr>
<tr>
<td>Construction</td>
<td>-20.7</td>
</tr>
</tbody>
</table>
Housing Crisis

- Deepened in the PNW in 2008; worse than the US average decline in 2008
- Smaller decrease in units in CA in 2008 than in 2007

Source: Census
### Housing Units Authorized

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>WA</th>
<th>OR</th>
<th>ID</th>
<th>CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-07</td>
<td>1,380,470</td>
<td>44,944</td>
<td>21,773</td>
<td>12,706</td>
<td>104,788</td>
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<tr>
<td>Dec-08</td>
<td>892,771</td>
<td>28,398</td>
<td>12,207</td>
<td>7,281</td>
<td>61,222</td>
</tr>
</tbody>
</table>

### Percent Change

<table>
<thead>
<tr>
<th></th>
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<th>ID</th>
<th>CA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-07</td>
<td>-35%</td>
<td>-37%</td>
<td>-44%</td>
<td>-43%</td>
<td>-42%</td>
</tr>
</tbody>
</table>
Little change in industrial market vacancy; Construction slowing (CBRE 2008Q4)

Non-residential construction
• Vacancy rate trending up in retail projects; slight slowing of construction (CBRE 2\textsuperscript{nd} half 2008)

Non-residential construction
• Office building vacancies had been falling prior to 2008 – developers responded – just in time for a severe downturn (CBRE 2008Q4)
Most recent indicators are dismal
Unemployment will rise to 8.5 to 8.9% in 2009, not the 7.1 to 7.6% the Fed’s Board of Governors expected in 10/08
Economy will shrink 1.3 to 1.8% in 2009, rather than returning to positive territory by mid-year and finishing the year with a bit of growth as previously expected

Fed Chair Bernanke, Feb. 17
A poll on February 4-5 for the monthly Blue Chip Economic Indicators February newsletter scaled back forecasts for second-half growth from those made in January but continued to predict the United States will come out of recession in 2009.

The Blue Chip economists now forecast a 0.8 percent gain in third-quarter U.S. gross domestic product, down from the 1.2 percent gain they estimated in January. Fourth-quarter growth is seen at 2.0 percent rather than 2.2 percent.

(from Reuters 2/10/09)
What’s in the Obama stimulus package?

- Estimated cost $787B
- 74% of that in Fiscal 2009 and 2010, but only $34.8B in appropriations by end of FY09 (September)
- $130B in construction spending
  - *Engineering News-Record* 2/14
- Will the reduced payroll deductions make much of an impact on consumer spending? Or are we waiting for states and municipalities to start spending their shares?
- How fast will the “shovel ready” projects turn into payrolls and purchase of concrete and steel by the people in this room?
- Medicine offered for our economic woes matches the prescription offered by Dr. Keynes, but many issues about implementation to watch. Fed and Treasury remain key.
Stimulus package is too small because it is only 1/3 of the drop in GDP
What’s in the Obama stimulus package?

- **Washington**: $500M for state and local road projects (on top of $3B the state intends to spend over the next 2 years); $4B total includes $2.06B for Medicaid and $1.8B for Hanford cleanup (*The Olympian* 2/13)
- **Oregon**: $1.78B total according to *Sen. Ron Wyden* (*Portland Business Journal* 2/17)
- **Idaho**: $0.6 to $1B, unclear for what uses (*AP story* 2/17)
Ken Simonson, Associated General Contractors of America: architecture billings index dropped to a historic low in January (Percent of firms with higher or lower billings compared to prior mo.)

- BUT firms with commercial/industrial practices moved up slightly from record lows of previous 3 months
- Value of construction starts up Jan ’09/Jan ’08; highway starts up due to public works managers taking advantage of lower asphalt prices and “suddenly more competitive bidding.”

The Outlook
The Outlook
Leading indicators turn up
Banks are now able to borrow from each other

The spread (inter-bank rate vs. Treasuries) indicates the premium banks have to pay to borrow from each other

(Slide from Arun Raha presentation at SU 2-16-09)

Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through February 2, 2009
But lending to businesses and consumers has eased only modestly

(Slide from Arun Raha presentation at SU 2-16-09)

Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey, data through January 2009 survey
Wells Fargo survey of 900 construction contracting and equipment distribution companies

- 43% of construction companies and 39% of equipment distributors foresee less activity in non-residential construction
- Comparable figures for residential construction are 55% and 48%
- Survey package conducted before nature of stimulus package was known
2009 will be a year of overall decline in national economic activity, with growth resuming during 2010

Some possible glimmers of a turnaround in most recent data, but 2-3 mo. of upticks would provide a more reliable signal

Budget cuts by governments in PNW will add to the payroll losses among major private sector employers

Public projects may be the only expanding construction sector until it is clear that the economy has turned around

Consensus View?