

The Economy and the Regional Construction Market

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- 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

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And

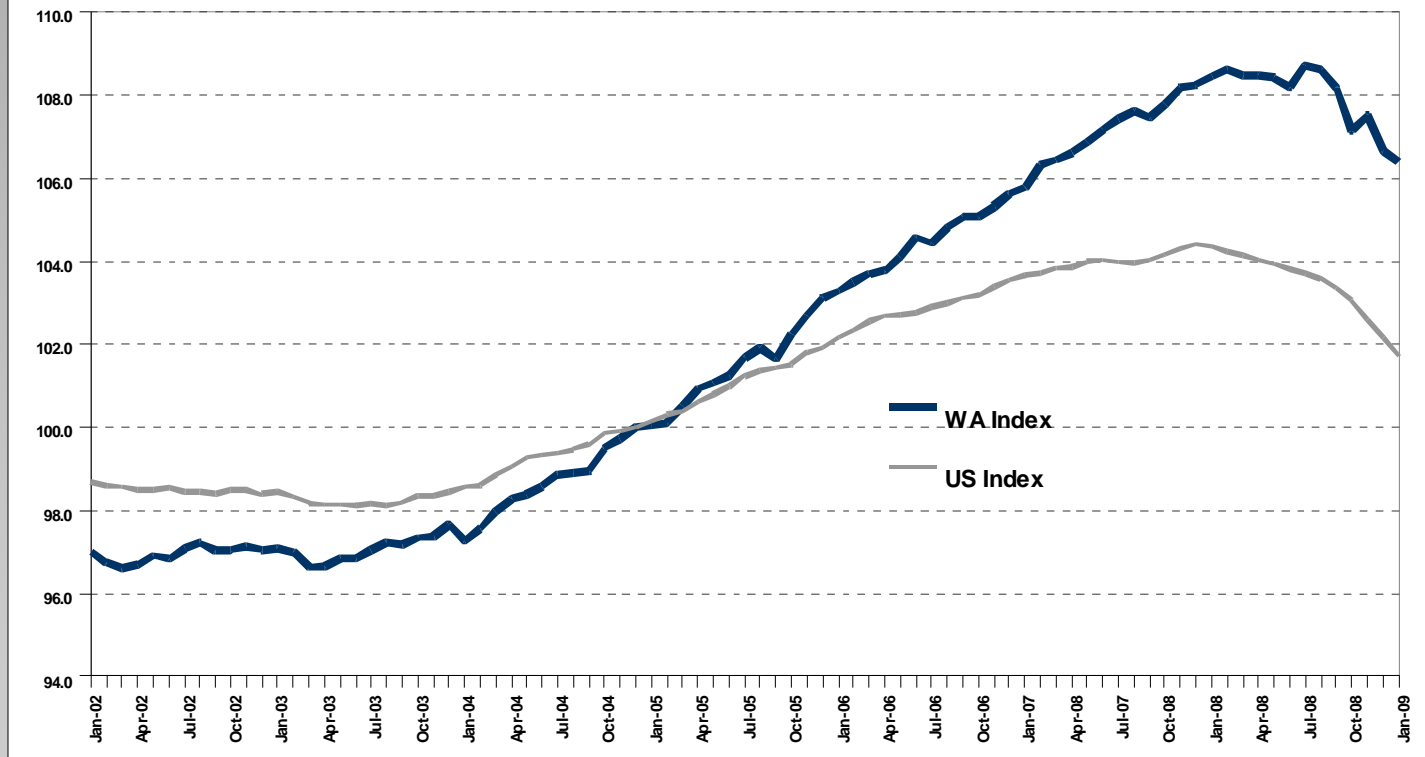
- **You want to know the outlook for construction**

Worst recession since the 1950s

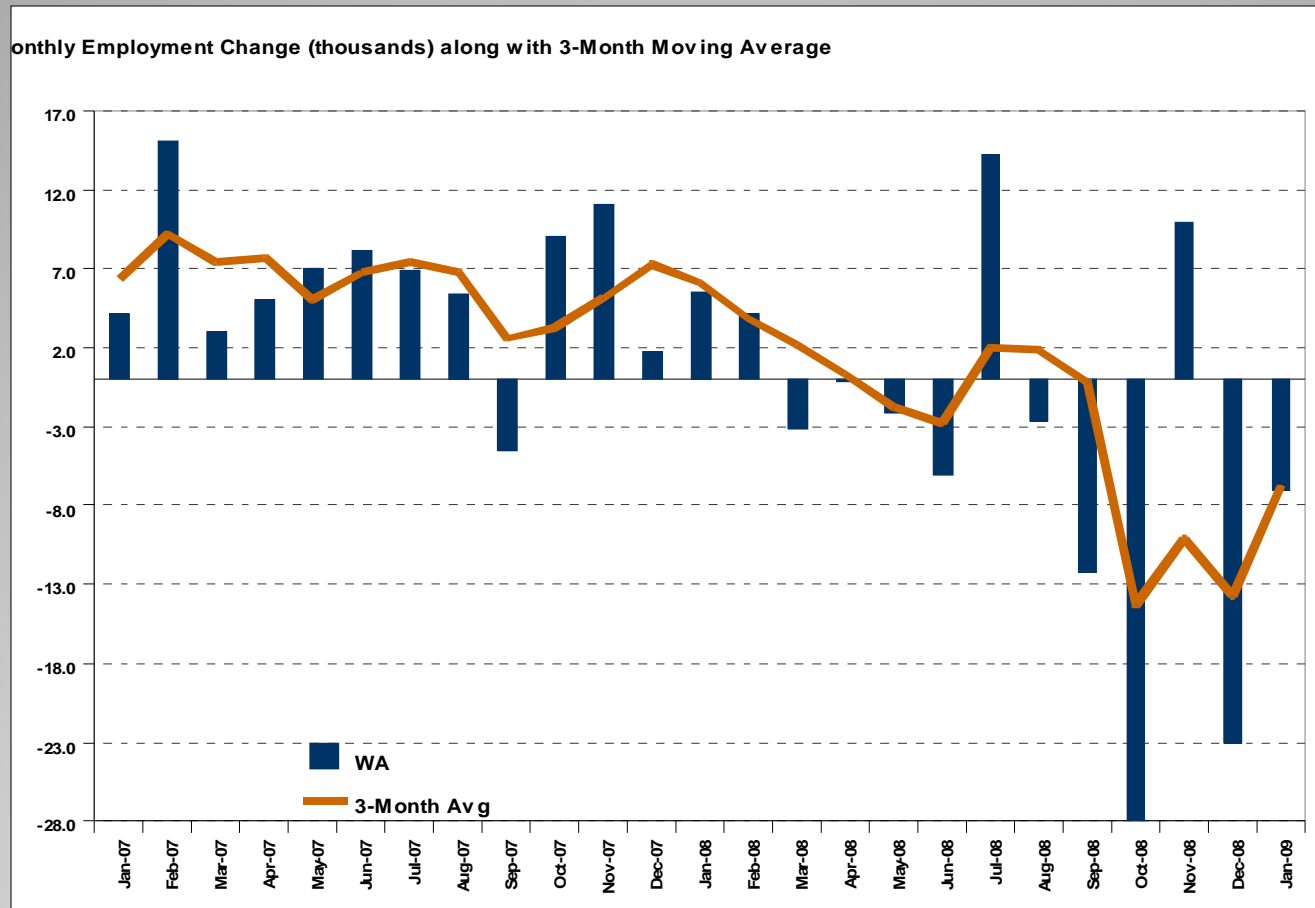
To quote WWU economist Paul Storer
“that crashing sound is our models”

Worst recession since the 1950s

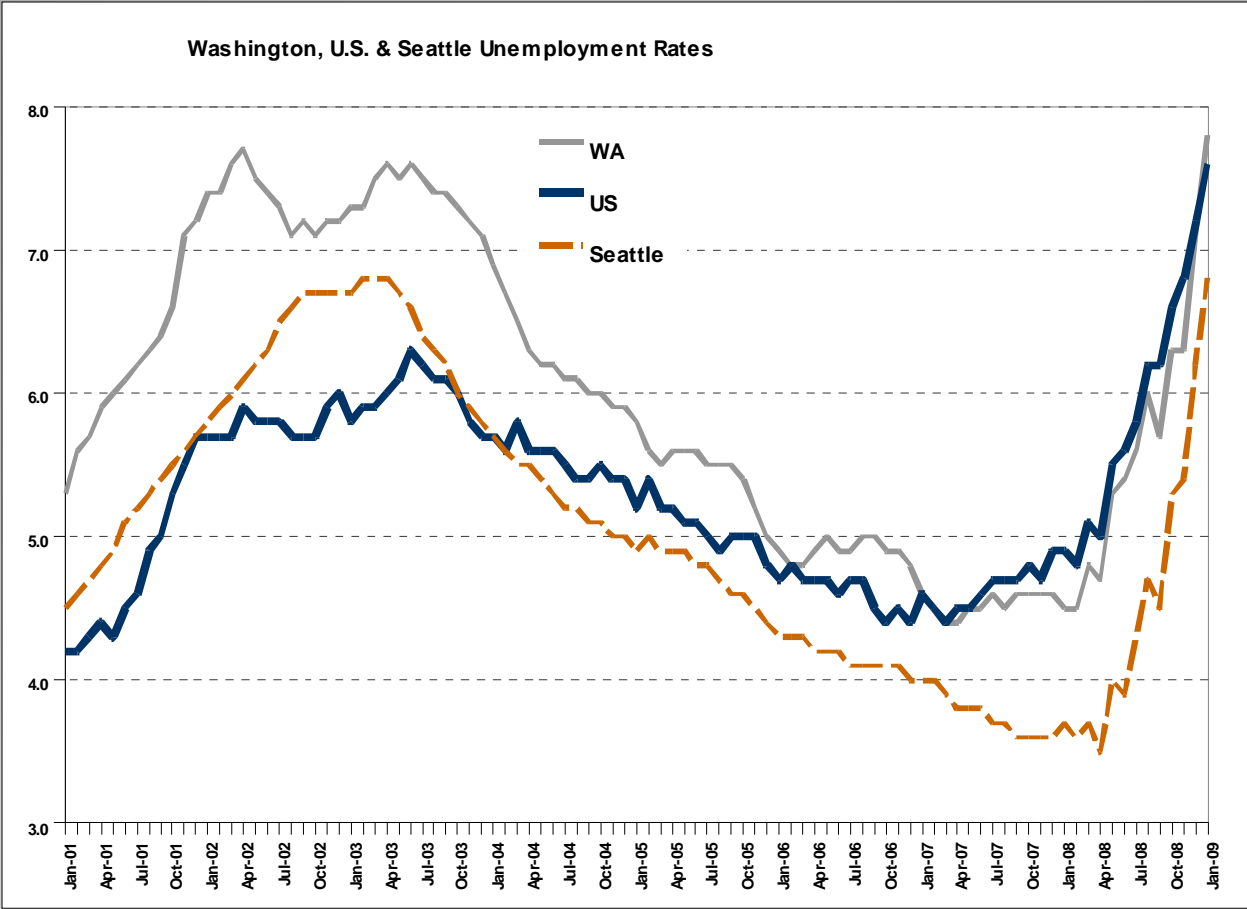
Washington & U.S. Employment
(Index, Dec 2004 = 100)



Employment



Employment Growth



Unemployment Rates

Year over Year Change by Industry - Seasonally Adjusted
January 2008 to January 2009 (Change in 000s)

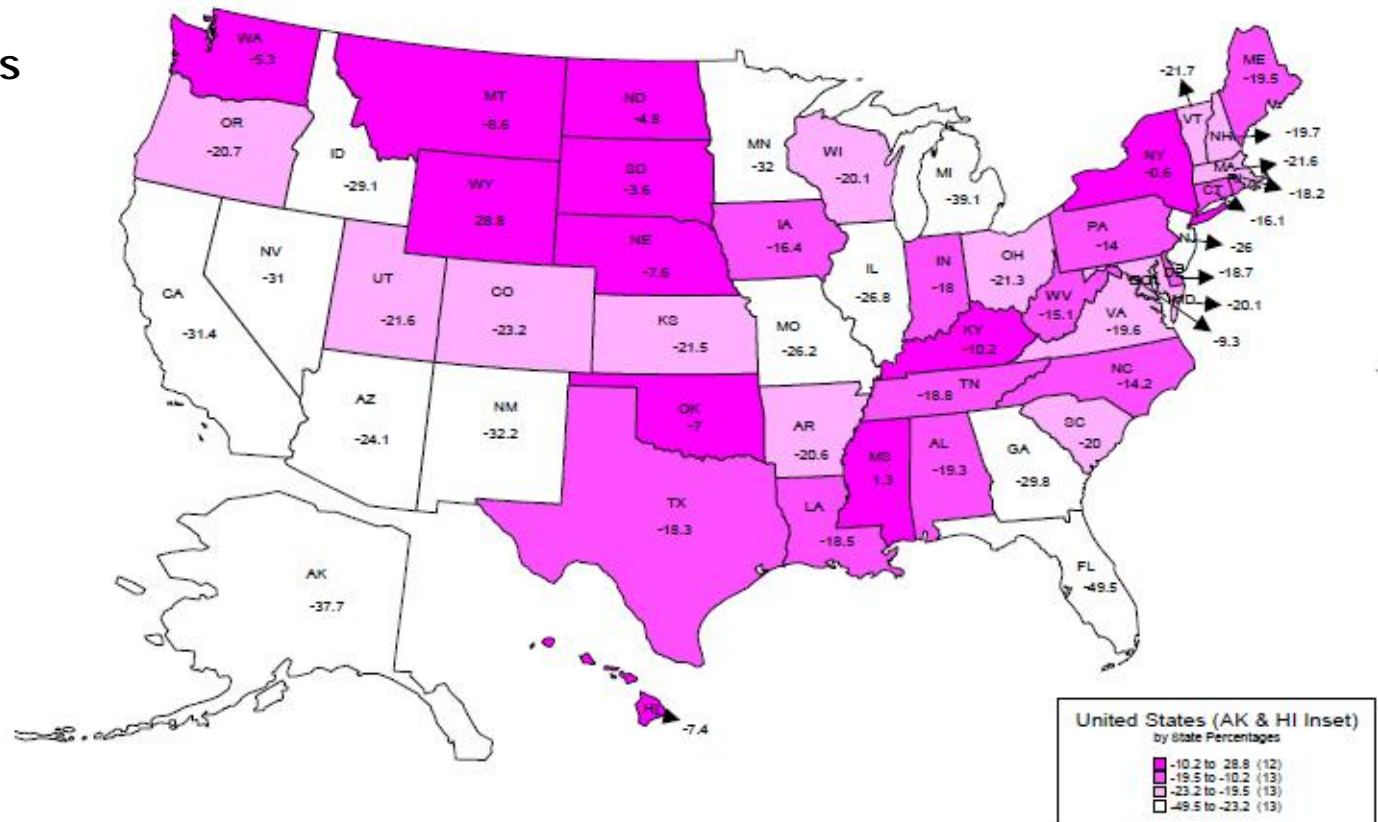
Total Nonfarm	-56.0
Government	9.0
Education and Health Services	8.6
Aerospace Products and Parts Manufacturing	2.1
Information	0.2
Other Services	0.0
Leisure and Hospitality	-0.5
Mining and Logging	-0.6
Transportation, Warehousing and Utilities	-2.2
Wholesale Trade	-3.7
Financial Activities	-5.9
Professional and Business Services	-6.4
Manufacturing	-16.7
Retail Trade	-17.1
Construction	-20.7

Employment Change by Industry (Jan '09/Jan '08)

Housing Crisis

- Deepened in 2008; worse than 2007
- US average down 18.2% in 2008
- Smaller decrease in units in CA than 2007

Percent Change from 2006-2007 of New Privately-Owned Housing Units Authorized by State



Source: Census

Housing Units Authorized

	US	WA	OR	ID	CA
Dec-07	1,380,470	44,944	21,773	12,706	104,788
Dec-08	892,771	28,398	12,207	7,281	61,222

Percent Change

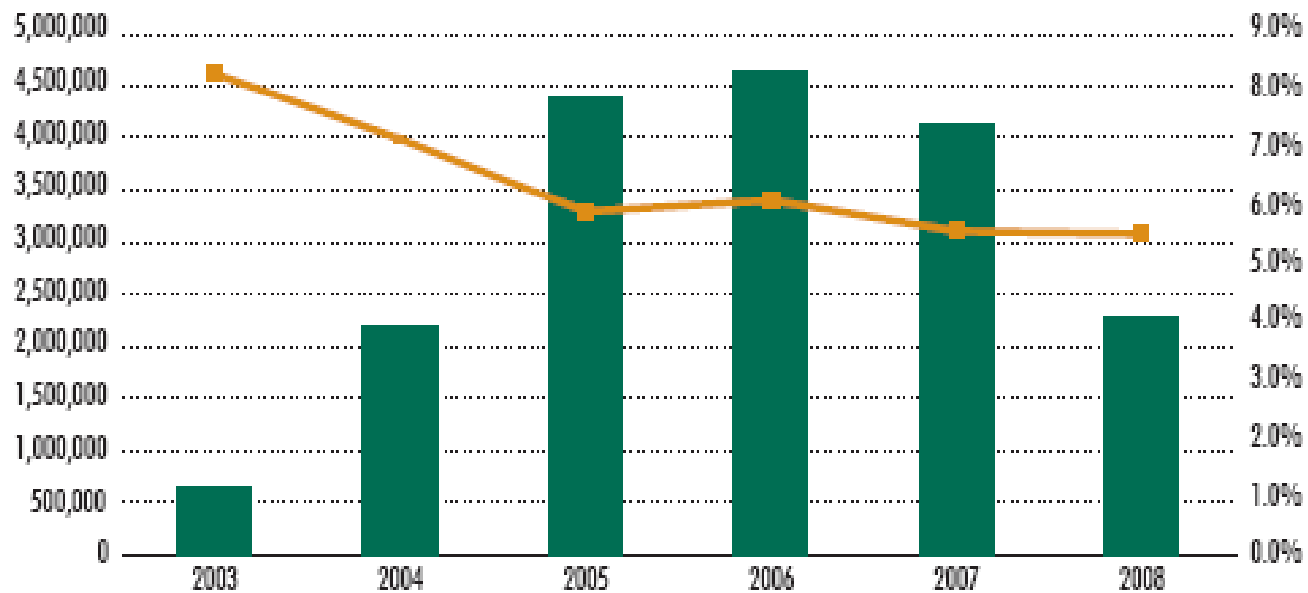
	US	WA	OR	ID	CA
	-35%	-37%	-44%	-43%	-42%

Housing units authorized

Little change in industrial market vacancy; Construction slowing (CBRE 2008Q4)

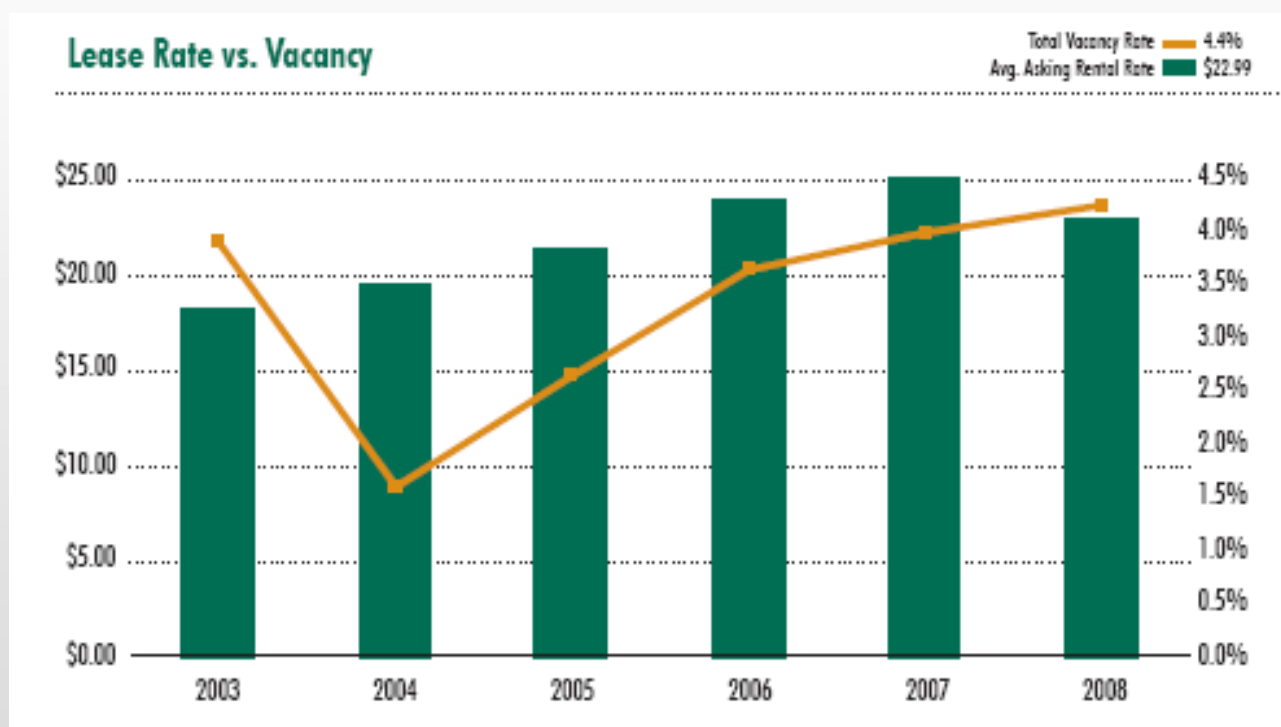
New Construction vs. Vacancy

Total Vacancy Rate 5.5%
Sq. Ft. Under Construction 2,272,893



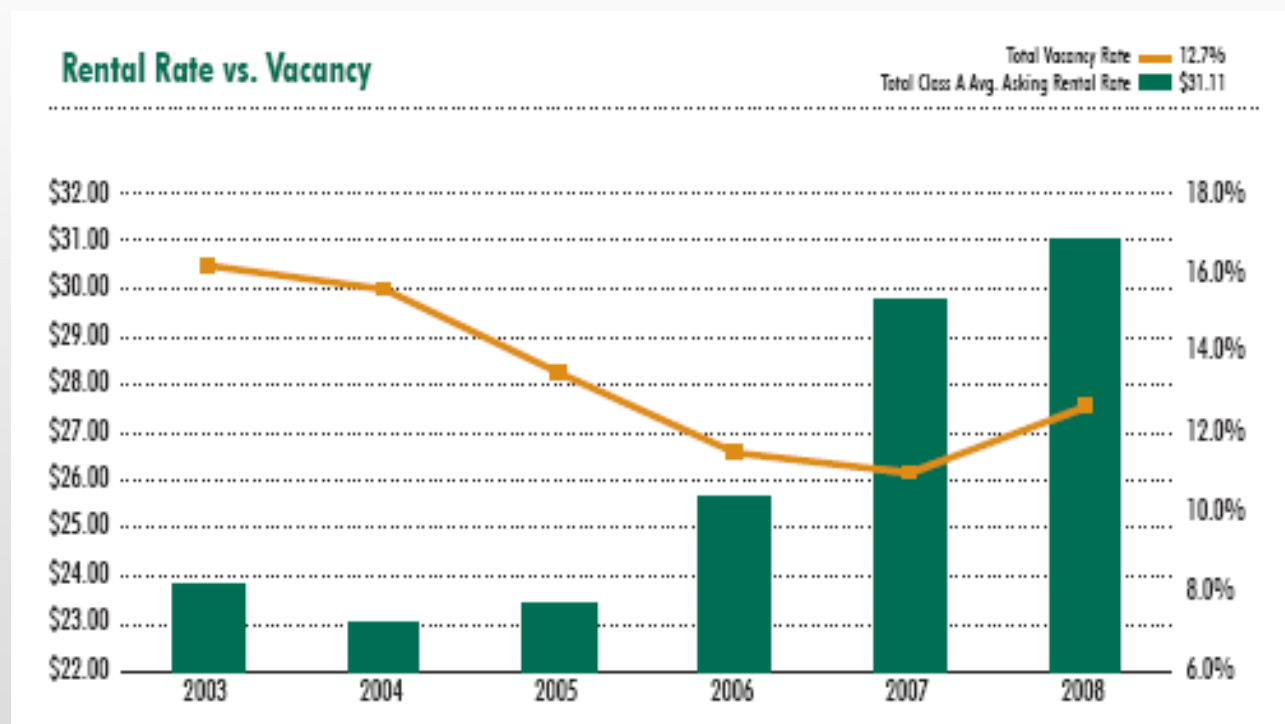
Non-residential construction

- Vacancy rate trending up in retail projects; slight slowing of construction (CBRE 2nd 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)



Non-residential construction

- 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)

**Blue Chip Forecasters also gloomy
– but not as gloomy as the Fed**

- 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.

What's in the Obama stimulus package?

**Stimulus package is too small because it is
only 1/3 of the drop in GDP**

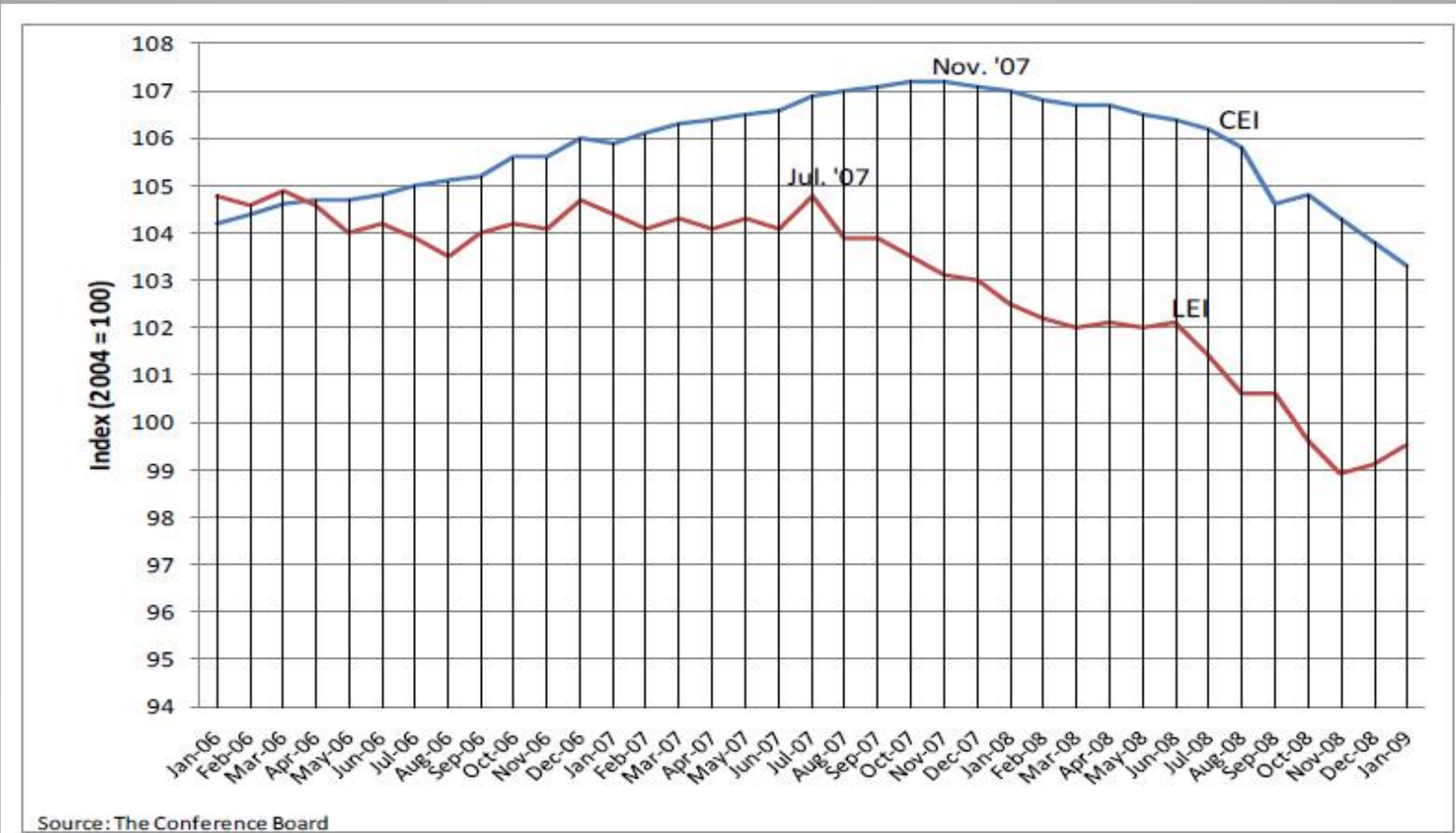
Krugman's Comment

- **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 clean up (*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)

What's in the Obama stimulus package?

- 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

Non-residential outlook

- 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?