

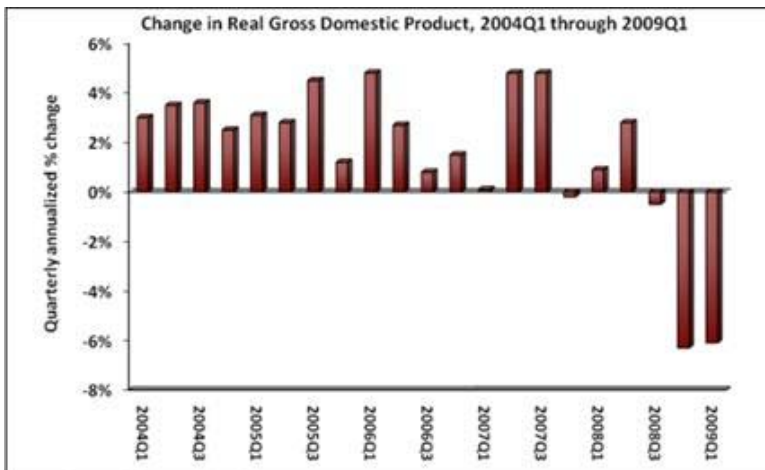


CONSTRUCTION ECONOMIC UPDATE

First Quarter GDP: Worse than Expected

"Once the broader economy begins to recover more fully, nonresidential contractors can expect revenue opportunities to become more apparent after a typical one to two year lag." -ABC Chief Economist Anirban Basu

Commercial and industrial investment fell an alarming 37.9 percent during the first quarter of 2009, according to the U.S. Commerce Department's April 29th release on the gross domestic product (GDP). Contributing significantly to the plunge in nonresidential fixed investment was a 44.2 percent annualized decline in output related to the construction of nonresidential structures. (See what this means below)



Source: Bureau of Economic Analysis

The first quarter's decline follows a loss of 9.4 percent during last year's final quarter. Investment in equipment and software was down 33.8 percent during the quarter following a 28.1 percent annualized decline during the fourth quarter of 2008. Real residential fixed investment declined 38.0 percent in the first quarter of 2009 following a 22.8 percent annualized loss during the previous quarter.

However, consumer spending increased 2.2 percent after declining 4.3 percent during the prior quarter. This is largely attributable to an improvement in sales of durable goods, which were up 9.4 on an annualized basis after declining 22.1 percent during the prior quarter. Exports were hammered, down 30.0 percent during the first quarter. However, the decline in imports was even more dramatic falling 34.1 percent. Meanwhile, government spending was down 3.9 percent during the first quarter due in part to a decline in national defense outlays.

Overall, real gross domestic product fell 6.1 percent during the first quarter of 2009 following a 6.3 percent decline during the previous quarter. The first quarter of 2009 represents the third consecutive quarterly decline of GDP.

What This Means

"There's more to the GDP report than meets the eye," said Associated Builders and Contractors (ABC) Chief Economist Anirban Basu. "At first blush, the report appears distinctly negative. After all, the consensus forecast for the first quarter of 2009 was that the GDP would decline in the range of 4 to 5 percent. Instead, the decline in GDP on an annualized basis was in excess of 6 percent.

"However, there were a number of positive indications in this GDP report, including evidence of a rebound in consumer spending," added Basu. "Consumers are apparently more confident than they appear, and this confidence translated into higher consumption of durable goods. This suggests that the ongoing recession may end just as many economists predict - during the latter stages of 2009.

"For commercial and industrial construction contractors, this represents the report's only bright spot," remarked Basu. "Nonresidential construction spending continues to be decimated by both the lack of available financing, and the lack of appetite for risk related to real estate development and investment.

"Once the broader economy begins to recover more fully, nonresidential contractors can expect revenue opportunities to become more apparent after a typical one to two year lag."

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