



CONSTRUCTION ECONOMIC UPDATE

Private Nonresidential Construction Declines Slightly in July

	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08
Construction Spending (trillions)	\$1.08	\$1.09	\$1.09	\$1.09	\$1.09	\$1.08

Summary

Private nonresidential construction in July 2008 ended its monthly streak of consecutive record highs, according to the Sept. 2 construction spending report by the U.S. Department of Commerce. For the first time in seven months, activity fell 0.6 percent to \$416.8 billion, slightly down from the revised figure of \$419.8 billion in June, but 16 percent higher than the volume of construction spending recorded in July 2007.

Of the 16 subsectors of total nonresidential construction, 13 produced year-over-year gains, including manufacturing (up 56 percent), lodging (up 29.8 percent) and public safety (up 25.2 percent). From the period of June 2008 to July 2008, transportation spending led the way (up 3.8 percent) and public safety followed (up 3.2 percent).

By contrast, construction related to religious structures declined (down 14.8 percent) compared to twelve months earlier, communications-related construction also fell (down 2.1 percent) and commercial, such as retail construction, was lower (down 0.9 percent). On a monthly basis, from June 2008 to July 2008, five subsectors recorded declines in construction value, including manufacturing (down 5 percent), religious (down 2.5 percent), power (down 2.2 percent), communication (down 1.7 percent) and lodging (down 0.1 percent).

While July private nonresidential construction was 0.6 percent lower than June's tally, public nonresidential construction increased 1.4 percent. Still, dragging down the construction spending index was the private residential construction sector. Housing activity fell 2.3 percent since June 2008 and 27.5 percent since July 2007, marking its lowest level in seven years.

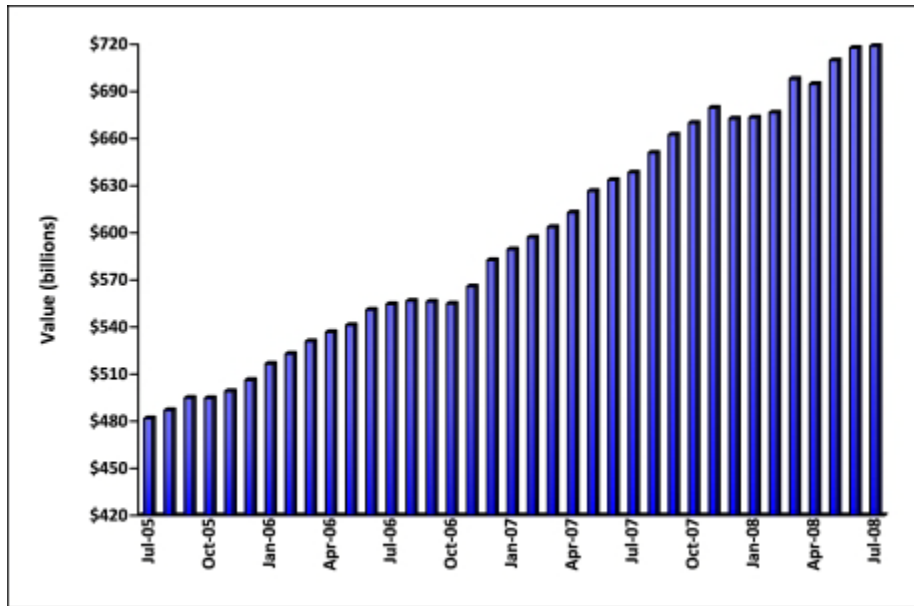
What This Means

A decline in the value of private nonresidential construction has been predicted for many months and it appears to have finally arrived. However, according to Associated Builders and Contractors (ABC) chief economist, Anirban Basu, "No one should infer too much from one data

release as the decline in private nonresidential construction in July is consistent with the notion of a still stuttering economy that is increasingly impacting nonresidential construction through a variety of mechanisms, including soft demand and a difficult financing environment.

"Because nonresidential construction activities typically lag the performance of the overall economy, it is quite likely that nonresidential construction spending will continue to be either flat or decline in future months, even in the event that the U.S. macroeconomy begins to pick up steam again," Basu said. "It is also worth noting that the global economy has begun to slow significantly in recent months, which threatens to diminish growth in the exports segment of the U.S. economy that has performed better than any other in 2008."

Total Nonresidential Construction Spending, July 2005-July 2008



Source: U.S. Department of Commerce

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