construction and the Economy

By Kenneth D. Simonson

We've Been In Recession Since March

It's "official": a committee of academic economists under the auspices of the nonprofit National Bureau of Economic Research declared on Nov. 26 that the economy went into recession in March, exactly 10 years after the last recession ended. The committee relies on a mix of factors, rather than the popular rule-of-thumb of two quarters of decline in inflation-adjusted gross domestic product (real GDP). This recession was triggered by a sustained drop in industrial production (IP), which continues. New data show that IP peaked in June 2000 and has dropped 7% since then.

The Commerce Department's Bureau of Economic Analysis revised its estimate of third-quarter GDP to show that real GDP contracted 1.1% last quarter. Nonresidential private buildings accounted for nearly half the drop, and investment in utility structures also fell sharply.

The Federal Reserve's "Beige Book," released Nov. 28, summarized the results of a mid-November survey by economists. Regarding nonresidential construction and real estate, the report stated, "Leasing activity in the commercial real estate sector weakened further across all reporting districts. Increasing vacancy rates and softening rental rates were widely reported, except in the Philadelphia district, where rental rates remained relatively stable... Commercial construction was flat in most districts, (except)... Cleveland and Richmond..."

These confirmations of decline appear at the same time as the first hints that the economy may be ready to recover. The Beige Book detected a slowing of descent, if not yet a pickup in activity, in numerous sectors and regions.

The National Association of Realtors reported that existing-home sales increased 5.5 percent in October to a seasonally adjusted annual rate of 5.17 million units from a level of 4.90 million units in September. October's sales activity was 2 percent above the 5.07-million unit pace in October 2000. October sales of new single-family homes remained consistent with the previous five months, at a seasonally adjusted annual rate of 880,000. The Federal Housing Finance Board calculated that the average price for a single-family home increased to $218,600 in October, a one-year hike of nearly 9.4%, the largest in over a decade.

The GDP revision includes an estimate that real disposable personal income (personal income less tax and certain nontax payments, adjusted for inflation), swelled by federal income tax "rebates," rose by 3% last quarter, its strongest increase in over a year. These hard data on consumer wealth and income tend to be better predictors of spending than the monthly consumer confidence and sentiment surveys.

Most noteworthy was the Census Bureau's report that durable goods orders leaped 12.8% in October, more than offsetting September's 9.3% plunge. The numbers are somewhat hard to interpret, given the events since September 10 and unusually high orders for motor vehicles and military aircraft in October. Nevertheless, the report adds to the impression that nonresidential construction related to homebuying and vehicle production are poised to resume their growth.

Editor's Note: This is the first of a continuing series that will be published monthly in Interface *concerning the economy and its impact on the construction industry. This month's article is prepared by Kenneth D. Simonson, Chief Economist for the Associated General Contractors of America (AGC). Simonson started as AGC's chief economist on September 10(!). Previously, he spent three years as senior economic advisor in the Office of Advocacy of the U.S. Small Business Administration and 13 years as vice president and chief economist of the American Trucking Association. Simonson may be reached at simonsonk@agc.org.*