construction and the Economy

Existing Home Sales Stay Strong

By Ken Simonson

The National Association of Realtors reports that existing-home sales set a record in 2001, edging out the 1999 total, despite a slight dip in December. The median selling price, $151,400, was up 8% from December 2000, and the inventory of homes for sale was down to a low 4.2 months. These figures have several implications. They suggest that the pace of new home building should remain brisk, as indicated by the Census Bureau's report that building permits rose by 5% in December. Both the high median sales price and the high number of transactions will help sustain the revenue base of local governments, which rely heavily on property taxes and to a degree on transactions taxes. The rapid turnover helps a variety of businesses besides real estate agencies, including appraisers, lenders, title companies, landscapers, remodeling, decorating, furniture, and moving firms. Collectively, these industries will support modest increases in commercial construction and provide employment to workers in construction occupations.

The rise in home sales occurred even though mortgage rates rose about 40 basis points from November to December. Rates have retreated a bit since then, which should help sales further.

In contrast to the good news on property tax receipts, nearly every state government is facing significant shortfalls in revenues, often in combination with unanticipated spending increases for security and unemployment relief. This combination is forcing governors and legislatures to freeze planned tax cuts and spending. In Maryland, Gov. Parris Glendenning proposed a capital budget that would not fund any new projects and would cause state funds for school building and renovation to fall by nearly 50%.

The record bankruptcies of Enron and Kmart are having multiple impacts on construction. Both failures may trigger large payouts by surety bonding companies used by construction firms and by their reinsurers, further tightening a surety market already harmed by the destruction of September 11. The Enron collapse may force further power plant cancellations as independent power producers find capital harder to get. Calpine, for instance, recently said it would complete 29 projects underway but cancel 37 others it had planned.

According to the Census Bureau, construction lost 12,000 jobs in 2001 and will lose 85,000 in 2002, 58,000 in 2003, and 38,000 in 2004. The construction losses stem from declines in the hardest-hit industries — travel, tourism, dining, and recreation. Hardest hit, in percentage terms, are Las Vegas, Myrtle Beach, New York, Reno, and Atlantic City.

Construction has a disproportionate share of nonemployee businesses (mostly sole proprietorships) compared to other industries and is likely to be more affected by policies with implications for the self-employed, such as individual tax changes. Nonemployee construction businesses climbed by 4% in 1999, to 1.99 million, or 12% of all non-employee firms.

Editor's Note: This is the third 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, 2001. 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.*