



Employment Drops in Heavy Construction; Airports Defer Construction

By Ken Simonson

"Construction employment decreased by 37,000 in March, after seasonal adjustment," according to the Bureau of Labor Statistics (BLS). Virtually all the job losses (36,000) were in heavy construction. Seasonally adjusted construction employment has been seesawing in the past several months but has dropped by 149,000 (2%) since March 2001. During that time, employment in special trade contractors has decreased by 2%.

The Commerce Department's Bureau of Economic Analysis (BEA) reports that real (that is, inflation-adjusted) gross domestic product in the first quarter shot up 5.8% at a seasonally adjusted annual rate. But construction was left out of the party. Nonresidential structures declined for the fourth straight quarter, plunging 20% from the end of 2001 in real terms at a seasonally adjusted annual rate. Over the past year, investment in nonresidential structures has fallen 18%, from \$346 billion at the start of 2001 to \$285 billion last quarter. Private investment in residential structures in the same period rose

6%, from \$427 billion to \$456 billion, while government investment in structures and equipment also rose.

One category of spending that appears to be holding up for consumers (but not businesses) is air travel. Discount airlines serving mainly discretionary travelers reported gains or modest declines in travel from February to March, while airlines used heavily by business travelers continued to report decreases of 5-15%. Airport and business-travel-related construction is likely to remain down until these figures rise.

The Fitch bond rating service recently released an assessment of airport construction at 64 U.S. airports (see www.fitchratings.com for the full report, including details on each airport.) The report's summary states, "...every airport in the nation has modified or is reviewing its capital improvement plan...many capacity projects are being deferred in the short term, but almost none have been cancelled....The quantitative backlog of capacity and improvement projects is \$85 billion and growing; the federal government could have fewer resources to grant to airports as federal deficits return; and there is a potential funding gap for the new federally funded security requirements."

During the first quarter of 2002, prices for materials and components for construction advanced at a 0.8% seasonally adjusted annual rate, following a 2.1% rate of decline during the prior quarter.

The Institute for Supply Management (ISM) surveys show reports of higher prices for diesel fuel and steel. Some contractors also report that steel vendors have warned them of substantial price increases, and trucking companies have said they will impose fuel surcharges on deliveries.

The producer price index for finished goods jumped 1.0% in March, propelled by a 5.5% rise in energy costs. But the energy cost increase appears poised to reverse. The price of West Texas Intermediate (or "benchmark") crude oil on the New York Mercantile Exchange dropped the equivalent of 6 cents per gallon in mid March. Diesel and asphalt prices should fall similarly. Although major economies appear to be starting to recover, global oil demand is probably not high enough to sustain current crude oil and product prices unless there is a prolonged interruption in supply. The run up that has occurred in these prices appears to be related to supply cutoffs by Venezuela (following the political upheavals) and Iraq.

Editor's Note: This series on the economy and its impact on the construction industry is published monthly in Interface. This month's column is prepared by Kenneth D. Simonson, Chief Economist for the Associated General Contractors of America (AGC). Before joining AGC, Simonson 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.