



MANUFACTURING CLIMBS, UTILITIES AND RETAIL SALES DROP; PPI FALLS OVERALL BUT NOT FOR CONSTRUCTION

By Ken Simonson

The Institute for Supply Management Index (ISM) reported, "In May, non-manufacturing business activity increased at the strongest rate since August 2000." Construction, however, was among the few industries reporting contraction of business activity and reduction in employment. Construction was listed among several industries reporting the highest rates of increase in prices paid in May and the highest rates of "feeling that their inventories were too high." Many of the products reported up in price are used in construction: copper and copper products (listed for the third straight month), diesel fuel (third time), drywall (second), lumber (fourth), PVC pipe and fittings (third), roofing shingles, steel and steel products (fourth). The information is based on data compiled from monthly replies to questions asked of more than 370 purchasing and supply executives.

Industrial production at factories, mines, and utilities rose a seasonally adjusted 0.2% in May, the 5th straight monthly increase, the Federal Reserve reported. The cumulative increase since December is about 2%, but the index remains 1.6% below its May 2001 level.

Manufacturing production rose 0.2% for the month, but utility production dropped 0.9%. The production index for construction supplies rose 0.4% in May, following a revised 0.8% drop in April (originally estimated at -0.3%) and now stands almost 4% above the low of November and 0.3% above the year-ago number.

Capacity utilization inched up to 75.5% in May from 75.4% in April but remains far below the 1967-2001 average of 81.9%. Capacity utilization of utilities fell for the month and year as utilities added 5% to capacity in the last 12 months. In contrast, manufacturing capacity has risen only 0.9% in the past year.

The Bureau of Labor Statistics reported that the producer price index for finished goods dropped 0.4% in May, seasonally adjusted, after falling 0.2% in April. Over the past 12 months the PPI has plunged 2.7%. Excluding food and energy costs, the "core" PPI was unchanged in May and up only 0.1% since May 2001. BLS said, "The index for materials and components for construction edged up 0.1% in May, following a 0.3% advance in the preceding month. In May, rising prices for plastic construction products, gypsum products, fabricated structural metal products, fabricated ferrous wire products, plumbing fixtures and brass fittings, and hardwood lumber slightly outweighed declining prices for plywood, softwood lumber, nonferrous wire and cable, asphalt felts and coatings, and millwork." The PPI for construction machinery and equipment rose 0.2% for the month, seasonally adjusted, and 0.4% (unadjusted) from May 2001.

The Fed released its "Beige Book" compilation of market conditions reported in interviews conducted in each of the 12 districts. Only the Mid-Atlantic (Richmond) district reported an increase in commercial real estate, "mainly in the office segment," but even that bank said, "Construction in the commercial real estate sector was generally flat, although a smattering of 'build to suit' projects was reported." For the rest of the country, the book's summary said, "Most Districts continued to report weak commercial real estate markets, with high vacancy rates and lower rental rates."

The Senate's proposed bill to provide backstop insurance for terrorist-caused claims should encourage high-profile construction projects to go forward that are currently stalled by lack or unaffordability of coverage.

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.