



## Stock Market Plunge Means Construction Jobs Could be Postponed; Construction Insurance Premiums Rise

By Ken Simonson

The plunge in the stock market at the time of this writing has apparently had little direct effect on construction firms, few of which are publicly held. And the concomitant drop in interest rates has made borrowing for construction projects less expensive for firms that are good enough credit risks. But the stock market retreat may have made more public companies unable or unwilling to undertake construction.

The *Wall Street Journal* has reported that "Businesses in New York, Washington, and other large cities are finding it increasingly difficult to obtain workers' compensation insurance for their employees, as insurance companies more closely monitor their accumulation of risk exposure in urban areas."

Premiums in nearly all lines have increased by an average of 10% to 50%, according to a new survey by the Council of Insurance Agents and Brokers ([www.ciab.com](http://www.ciab.com)). The survey also found that "Terrorism coverage is scarce, and particularly hard for property, general liability and umbrella coverages... Small, medium, and large commercial accounts throughout the U.S. continue to experience rate increases from 10% to 50%, with the

largest increases (20% to 50%) hitting medium and large accounts... Carriers continue to tighten terms and conditions with...much higher deductibles, more coverage exclusions and 'fewer things to negotiate'...96% of broker respondents reported mold exclusions added to property and construction renewals, and 71% say pollution exclusions are added at renewal." The median increase for construction risks is 30-50%.

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 Bureau of Labor Statistics (BLS) estimates that real earnings (average weekly earnings after adjustment for price changes) rose by 0.6% from May to June, seasonally adjusted, and by 3.6% from June 2001, indicating that wage earners continue to experience a lift in buying power. Real average weekly earnings of construction workers (not seasonally adjusted) rose 0.7% from June 2001 to June 2002. Their average hourly earnings rose from \$18.22 to \$18.72 over that period, without seasonal or price adjustment.

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."

*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](mailto:simonsonk@agc.org).*