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All indications are that 2012 will improve, with 2.4%-6% increase forecasted in construction spending

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On any given day of any given week in 2011 you could have asked design and construction professionals what their forecast for future construction is and you would be met with a wide variety of opinions. The nonresidential construction industry has been on a virtual roller coaster since 2007. Industry forecasters are projecting an overall decline in nonresidential construction spending of approximately 5.6% by the end of 2011. The good news is that all indications are 2012 will improve with an approximate 2.4%-6% increase forecasted in construction spending. While construction trends in both residential and non-residential segments vary substantially from region to region, the New England construction market, which has been stronger than many market segments in the U.S., looks to remain stable with growth projected.

Recently the Associated Builders and Contractors (ABC) released its 2012 economic forecast for the U.S. commercial and industrial construction industry. "ABC's analysis of construction trends indicates 2012 will be a year of gradual progress as advances in private construction are partially offset by ongoing declines in publicly financed construction." said ABC chief economist Anirban Basu.

"Nonresidential construction spending is expected to grow 2.4% in 2012 following a 2.4% decrease in 2011" Basu said. "The pace of recovery in the nation's nonresidential construction industry remains soft and 2012 is positioned to be a year of slow gain. The first half of 2012 may be particularly challenging, a reflection of the soft patch in economic activity experienced during much of the first half of 2011." Basu continued.

The ABC also participates in a semi-annual Consensus Construction Forecast, a panel of leading non-residential construction forecasters assembled by the AIA (American Institute of Architects) that includes McGraw-Hill Construction, IHS-Global Insight, Moody's ecomomy.com, Reed Business Information, FMI and ABC.

In a July 2011 article published by Kermit Baker, PhD, Hon AIA, and chief economist for the AIA Consensus Forecast panel, he said"Consumer and business confidence is poor and the overall economy has yet to pull out of the downturn that began in 2008, which both add to the general sense of anxiety and uncertainty in the real estate market."

"Spending on renovations of existing buildings has remained strong, but the depressed demand for new construction isn't likely to improve until next year, led by the commercial sector: offices, retail and hotels"

AIA Consensus Construction Forecast goes on to say "The culprits behind the 2011 construction-spending decrease include lenders that have been "extremely reticent" to finance construction projects, budget shortfalls at all levels of government, a depressed housing market, the "ripple effect" of overbuilding, and rising costs of key construction materials"

Despite these factors and expectations of a subpar 2011 for the design and construction industry, the survey projects a 6.4% increase in spending in 2012.

Although construction financing practices on commercial real estate loans from mid-2007 through the end of 2009 and into 2010 experienced dramatic tightening, indications are that lending standards for these types of loans began moving back towards neutral in 2011. The forecast is that even though lending standards are not becoming more restrictive they remain very tight by historical standards.

Beyond lending practices energy and construction materials costs will greatly influence the recovery of construction growth progress in 2012. Reed Construction Data, U.S. chief economist Bernard Markstein, recently reported that construction materials price index remained fairly flat. Markstein reported "Energy prices continue to be a major driver of construction costs. In the 11 months starting in August of last year through June of this year, diesel fuel prices rose every month except one (May). From July 2010 through June 2011 prices rose 53% on a seasonally-adjusted basis. However, in August and July diesel prices fell 5.9% and 2.1%, respectively. Meanwhile, prices were up 39.4% from September 2010 through September 2011, but down 7.3% from three years earlier. Higher energy prices are showing up in related product prices like plastic resins and materials prices, which have increased every month but two this year. For September, they were up 3.1% after falling 2.2% in August. Since September of last year, they were up 16.2%, and since September 2008, 7.8%. One positive on the energy front is industrial natural gas prices, which have generally been falling for the last three years. With advances in technology and discovery of new reserves, the outlook is for natural gas prices to remain relatively low for the next several years even as demand is likely to ramp up. In September, industrial natural gas prices edged down 0.6% and were down 1.4% from a year earlier, and down 36.8% from September 2008."

Markstein added "Slow economic growth worldwide and the generous surpluses of both production capacity and labor continue to keep construction materials price inflation contained. Recent strength in the U.S. dollar in response to the Euro debt crisis has been another positive holding down commodity prices for U.S. buyers. The pricing environment will remain weak for materials suppliers for the next six to twelve months. Little change in the price index is expected, with a few monthly price declines possible."

With most of the construction industry authorities forecasting positive growth progress in 2012, Fulcrum Associates is excited to agree with the indications. Concluding a very strong 2011, we are pleased to have a solid backlog of projects and prospects in a variety of market sectors that will continue well into 2012.

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