



Financial Week

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Construction spending up slightly in September; decline set for 2009

Economist sees 3% to 9% drop next year—no turnaround before 2010

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Non-residential construction increased slightly from August to September, led by increases in manufacturing construction.

The annual rate of spending on non-residential construction, which includes office buildings and shopping malls, increased 0.1% month to month and 8% year over year in September to \$716 billion, according to preliminary estimates released Thursday by the U.S. Commerce Department.

Manufacturing construction reached an annual rate of \$66.5 billion for the month, increasing 5.2% month to month and 54% year over year, to become the highest-growth sector of non-residential construction.

The annual rate of total construction expenditures in September amounted to \$1.06 trillion, a 0.3% decrease from August and 6.6% below September 2007. Year-to-date construction spending totaled \$807.3 billion, 6.2% less than the same period in 2007.

Spending on private construction in September reached an annual rate of \$751.7 billion, a 0.1% increase over August. The sector benefited from a 1.2% monthly increase in non-residential construction spending, which offset a 1.3% monthly decrease in residential construction.

Ken Simonson, chief economist with the Associated General Contractors of America, called the figures "limited good news," and noted that the data series is often revised both up and down from the preliminary numbers.

"I think over the next few months, we'll see a substantial decrease in non-residential construction," he said.

Mr. Simonson said he expects non-residential construction spending to drop 3% to 9% in 2009, with a possible turnaround in 2010, depending on the broader economic recovery.

The coming slowdown in non-residential construction will be the result of developers curtailing planned projects because they can't get financing, Mr. Simonson said. He added that they are also questioning the viability of retail projects during a consumer deceleration, and office projects amid a spike in corporate layoffs.

Spending on public building projects also fell in October, dropping to an annual rate of \$304.8 billion, 1.3% less than in August. Municipalities have slowed their construction as they defer bond issues in this uncertain market and face budget shortfalls.

"It's easier to put off building a new school or library than to lay off the teachers and librarians that are already working there," Mr. Simonson said.

The architectural billings index, whose moves usually foretell changes in non-residential construction spending nine to 12 months later, fell precipitously in September, to 41.4 from 47.6 in August. Any score below 50 indicates a decrease

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in architectural billings.

The continued slowdown promises to continue to drag on the general economy, since construction provides many high-paying jobs and supports businesses ranging from lenders to steel suppliers. The industry shed 35,000 jobs in September and has cut 686,000 positions over the past 12 months, although the majority of those jobs were in residential construction. Construction makes up about 10% of the gross domestic product.

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