

economics

## OPTIMISM BREEDS OPTIMISM

BY JOHN CROSS, P.E., LEED AP

Construction starts are slowly on the rise, propelled by private projects—and the power of positivity.

**THE ROLE OF “CONSTRUCTION ECONOMIST”** and the word “pessimist” have become synonymous over the past four years of economic uncertainty.

While economists who focus on the general economy are debating the cause of the “Great Recession” and the strength of the current recovery, construction economists continue to talk about “bumping along the bottom,” single-digit growth rates, continued depression in the construction job market and a peak in the next construction cycle that’s 25% below the level of construction activity in 2006 and 2007. Clearly the construction sector, particularly building construction, continues to lag the general economy.

But not all is doom and gloom. We may still be *in* the woods, but we are no longer *lost* in the woods. There *are* signs of improvement in building construction activity.

Building construction volumes measured in square footage of construction starts in 2011, as tracked by AISC, actually increased by 5% over starts in 2010. AISC tracks a combination of starts that includes all non-residential building construction, defined as structures under roof, and residential construction five stories and taller. This is the first increase in construction starts since 2006. It’s not quite time to break out the champagne, but growth is growth!

And on top of the 5% growth recorded in 2011, construction activity in the first quarter of 2012 was up 12% compared to the similar reporting period in 2011.

Even more significant is the growth in privately funded projects. Privately funded projects accounted for 71.5% of building

construction starts in the period from 2000 to 2008. That percentage dropped to 60% in 2009 and 2010. Last year saw private construction climb to 64%, and every indication is that this sector will continue to grow in 2012. This means that the bread and butter of building construction activity, privately funded construction, actually grew 9% in 2011, while publicly funded construction fell 4%. Certainly publicly funded construction is important to the health of the construction industry, but long-term growth is dependent on privately funded projects, and growth in that sector is encouraging.

A significant portion of privately funded growth has occurred in the warehouse sector. Warehouse construction, which includes data centers, grew by 25% between 2010 and 2011 and is trending at an additional 20% in 2012. Between 2009 and 2011, ware-

house construction represented 9% of the building construction market, while in 2012 this segment now represents 13% of domestic building construction. More importantly, reports indicate that a significant portion of this growth is in speculative warehouses supported by financing from real estate investment trusts that have been inactive in financing new projects over the past several years.

There has also been growth in the mid- and high-rise segment of the market. From a low of 16% in 2009, buildings greater than 4 stories now represent 28% of construction starts. This segment is showing a 25% increase between 2010 and 2011 and is a bellwether to greater overall construction growth.

If construction economists are pessimistic by nature, structural steel fabricators are becoming increasingly optimistic. Each quarter, AISC conducts a survey of member fabricators to take the pulse of the construction and steel fabrication markets from a variety of perspectives, including both regional and project type trends. The goal of the survey is to act as a barometer, providing a leading indicator of business conditions. Based on the performance of the individual firms and their perspectives on the marketplace, measures of current business conditions and future (looking forward six months) business conditions are developed. Historically, the future projection has provided an accurate view of business conditions six months in advance.

While the measures of both current and future business conditions remain in the range between fair and good, there has been a steady increase in both indices since the beginning

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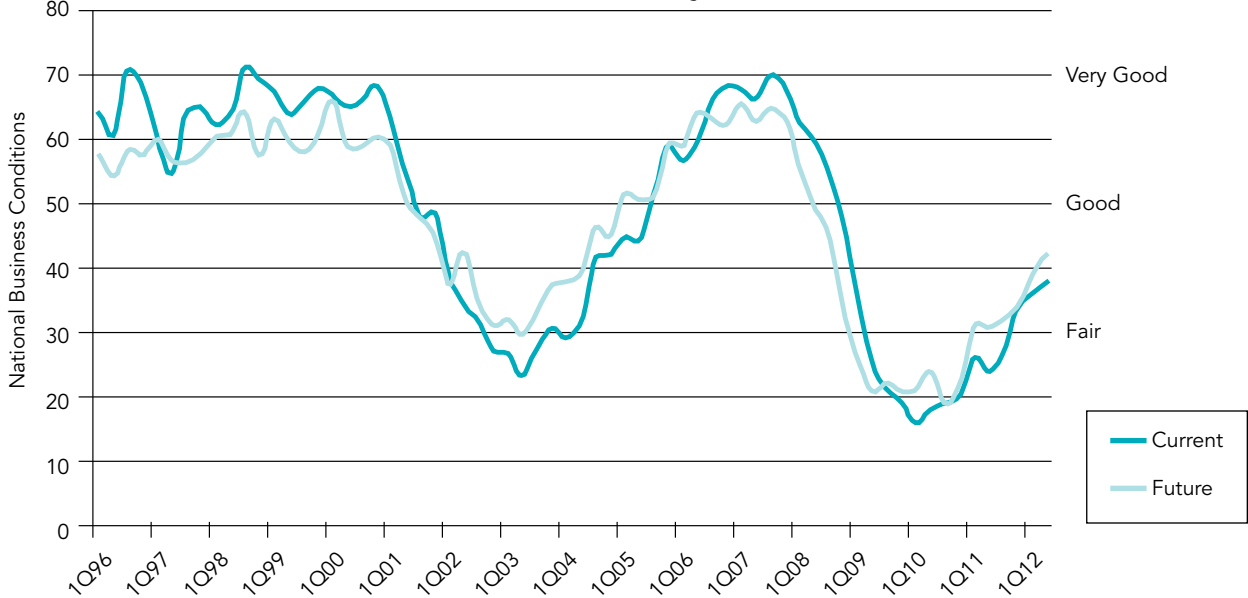
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**Current and Future Business Conditions as Tracked by the AISC Business Barometer**



of 2010 and the future index remains above the current index. The clear message from AISC member fabricators is one of optimism. Business conditions are not yet “good” but they are rebounding toward that level.

There is a basis for optimism in the construction marketplace. Building construction activity is on the increase as experienced by fabricators in the field and documented in the square foot-

age of construction starts. Does this mean that the construction industry is out of the woods? No, but at least the point has been reached along the trail to recovery where the light of the clearing is visible. Experience teaches us that optimism breeds optimism, and optimism is a welcome change in the current world of building construction.

**MSC**