economics

LOOKING FORWARD TO 2013

BY JOHN CROSS, P.E.

"The farther backward you can look, the farther forward you are likely to see."
—Winston Churchill

THE HEAT OF SUMMER is diminishing, the first hints of fall are in the air, the London Olympics are over, the baseball season is drawing to a close, football fever is growing and construction economists are preparing their predictions for the coming year.

For the construction industry in general and the structural steel industry in particular, 2012 is a closed book. The projects that will start during the final months of 2012 are already designed and financed. There will be no October surprises that cause a sudden jump in construction activity. And those projects that are projected to start in the fourth quarter are unlikely to be placed on hold, as they have already endured a marketplace buffeted by negativism and uncertainty.

Based on the level of construction starts through the second quarter of 2012, it's likely that 2012 will end with a building construction growth rate near 11%. This includes all non-residential structures under roof and any residential structures (apartments, condominiums, hotels and dormitories) that are greater than four stories in height. Through the second quarter, reported starts are running 13% ahead of 2011, but it is anticipated that the pace of starts will slow through the remainder of the year as there has been a decrease in the momentum of new project starts. So 2012 will show more growth than the initial predictions of an 8% growth rate. It is important to recognize that a significant portion of this growth is coming from the residential sector, which has grown by 75%, while traditional non-residential construction has grown by only 7%.

John Cross is an AISC vice president. He can be reached at **cross@aisc.org**.

Changing Expectations

This year will be recognized as the year that the mood in the industry changed from one of expectation ("When will the boom times return?") to one of acceptance that the construction levels will remain relatively low for the next several years ("This is the new normal"). There can be no question that activity remains far below the boom times of 2006 and 2007, so the question that must be asked is, "Is this indeed the new normal?" The answer to that question would clearly seem to be "Yes" as far as 2013 is concerned. Next year will show growth in the building construction market in the same 10% to 15% range as experienced in 2012, but it will not accelerate to levels necessary to recover to pre-recession levels anytime in the foreseeable future. Growth percentages are following the patterns of recent construction cycles but from a much lower level.

The "new normal" is not the level of construction activity experienced in 2010, but rather a construction cycle following a historic growth pattern from a new low. The result will be a 2015 or 2016 peak in this cycle that is 25% below the peak of 2006 and 2007. The good news is that we are the growth side of the cycle; the bad news is that activity levels will remain low compared to the last 25 years. Companies that have adjusted their operations by a combination of downsizing and increased efficiency to be profitable in 2011, and 2012 will welcome this growth as their margins will rise, while companies that have been simply attempting to hold on will not see a growth in demand great enough to return them to profitability.

Trends, Continued

The dominant trends of 2012 will continue to drive (or retard) building construction in 2013:

- Anemic overall construction growth as GDP growth remains in the 2% range and job creation remains stuck in low gear
- A declining level of publicly financed projects, including schools, government buildings, stadiums and public safety facilities
- Some growth will occur in office construction in central business districts where vacancy rates are falling, but little or no office construction will take place in suburban areas where vacancy rates are hovering near 25%
- A flattening out of growth in the construction of big-box stores by retailers now focusing on smaller boutique stores in urban areas
- Continued growth in warehouse construction driven by online retailing and increased imports, as the value of

competing currencies is driven down as a result of a European recession and a slowdown in Chinese growth

- Continued strong growth in the multi-story housing rental sector driven by changing housing preferences among the younger generation, who prefer urban renting to suburban ownership
- Limited growth in the healthcare sector, including treatment facilities, as uncertainty surrounding health care funding diminishes
- Some upward impetus driven by catch-up demand for replacement facilities resulting from projects being put on hold in the 2008-to-2010 period

These trends will play out differently in different sections of the US. Growth will be greatest in energy-producing regions, including areas where shale oil is prevalent, and port regions while lagging in more traditional urban centers.

Will the election of 2012 will impact this forecast? Probably not. It is unlikely that the implementation of the policies proposed by either party or their candidates would occur rapidly enough to significantly impact the building construction market for 2013. The impact of the 2012 election on construction activity will be felt long-term based on the dynamic interplay of job growth, the business climate, a level import/export playing field, the wise management of governmental debt and spending levels and a diminishing sense of economic uncertainty in the general population.

Bottom line: 2013 is going to look and feel a lot like 2012. MSC

Change in Construction Starts through Second Quarter 2012, Compared to 2011

	2011 to 2012 Change
Stores	24%
Warehouses	58%
Office	7%
Parking and Automotive	31%
Manufacturing	-1%
Schools	-14%
Healthcare	-16%
Government Service	-7%
Religious Buildings	-13%
Amusement	4%
Hotels and Motels	23%
Dormitories	35%
Apartments and Condos	102%