There are plenty of reasons to feel good—not great, but good—about construction activity in 2013 and beyond.

**THIS YEAR HAS STARTED** with a different feel from last year. The pessimism regarding the construction economy is slowly slipping away.

In the quarterly AISC Business Barometer, which reflects the opinions of AISC fabricator members, words like “tough” are being replaced by words like “hopeful.” For the first time in years the term “profit margin” is being used in a positive sense. It may be too early to call it a trend. It is definitely too early to get excited. But an air of quiet, cautious optimism is being felt throughout the construction sector and the structural steel industry.

The question is why. It’s not because construction levels have returned to the boom levels of 2006 and 2007. In actuality, the building construction market has recovered only seven of the 62 points of market size that were lost between 2007 and 2010. It’s not because industrial, non-building construction has picked up the slack. It’s certainly not because the budget issues at the federal and state levels have been resolved or the fiscal cliff avoided (it was only delayed). And years of political fumbling have resulted in publicly funded construction decreasing 14% in 2012 at the federal, state and local levels. It’s not because the overall economy is expanding rapidly. In fact the U.S. GDP contracted by 0.1% in the fourth quarter of 2012 (a number that will probably be revised over the next several reporting cycles to show a slight gain). And it’s not because hope springs eternal as the days become longer.

But yet the indicators of an upturn are there. The AIA Architectural Billing Index has shown market expansion for the past six months, and the McGraw-Hill Dodge Momentum Index is pointing upward. The fourth quarter of 2012 showed the greatest strength of construction starts as a percentage of the annual total for the past 15 years. Construction employment is rebounding with 102,000 new construction jobs added over the past 12 months, returning to a level not seen since 2009. And we are hearing report after report of housing prices starting to inch back up and new home construction activity beginning to increase.

So why are we starting to see building construction gain momentum? There are several reasons.

First, employment is showing consistent growth. We are not back to the level of employment we were at before the recession, but there has been consistent, month-to-month positive growth since September of 2010, with 63% of lost jobs now recovered. We won’t see robust growth until we get back to the pre-recession level, but as we get closer to that level the rate of construction activity will pick up.

Second, consumer activity drives the U.S. economy, and consumer confidence, spending and borrowing are all increasing. Again, the increases are slow with some fits and starts, but they are pointing in the right direction.

Third, smart money is looking for a home. Interest rates remain depressed, the bond market is stagnant and many feel stocks are only going to slowly push past their recent peaks. (Note: I am writing this in late February; market conditions can change rapidly and this is certainly not investment advice.) Projects that were needed, designed and then shelved in 2008 at the start of the downturn are still needed in 2013 and are now being funded. Real estate investment activity is picking up in the traditional pattern of a recovery following a recession—an increase in activity in the sale of existing property followed by an increase in construction activity.

Fourth, the balance point between increasing rents and declining vacancies, where construction activity picks up, is being approached for many project types.

Fifth, the construction recession has continued long enough that business and demographic shifts have occurred that require new buildings rather than simply reoccupation of existing structures. The growth in web-based commerce is driving warehouse construction at the expense of filling existing retail facilities. Foreclosures and the loss of confidence in home ownership is driving apartment construction at the expense, at least initially, of single-family home construction. A generational desire for downtown jobs and residences in established large urban areas is manifesting itself in the form of decreasing downtown vacancy rates and the need for new urban office and apartment construction at the expense of the suburbs. At the same time, in mid-size urban areas without multi-modal mass transit systems, movement continues from the downtown areas out to the suburbs, resulting in downtown vacancies and suburban construction demand.

**Quiet, Cautious Optimism**

By John Cross, P.E.

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Finally, and maybe most importantly, project owners and developers have reached a point of not wanting to wait for the government to do something to address the economic lethargy of the country. Independent of their political persuasion, project decision makers have either consciously or unconsciously made the decision to move forward regardless of where the government is heading on budget and stimulus decisions. The years of political wrangling and gridlock have created a sense of the irrelevancy of government in the economic welfare of the country and more specifically in the financial decisions of individuals and companies considering construction projects. All one has to do to witness this trend is to keep an eye on the Wall Street Journal and the business section of various newspapers. Articles regarding potential government actions impacting the economy have moved from being headline articles above the fold to single-column discussions below the fold. This is not to say government policies won’t have an impact on the economy and the construction market—they still will—but they are no longer the primary driver of “go or no-go” project investment decisions.

Does this mean that the previous projection of a 6% growth in U.S. building construction is too cautious? The word on the street is that 2013 has started relatively strongly and, unlike prior years, it looks like activity will increase in the second half of the year. I’m not ready to increase my prediction yet, but I am quietly optimistic that 2013 is going to prove me wrong.

John will be presenting further details on the current state of the construction market at NASCC: The Steel Conference taking place April 17-19 in St. Louis. Learn more about the conference at www.aisc.org/nascc.