



# The 1975 Forecast— Limited Optimism For Improvement

## Most Contractors, Suppliers See Construction Slowdown Until at Least Mid-Year

It appears that wall and ceiling contractors might be facing an improving but still mixed business year in 1975 with the first six months especially critical.

In a spot check of contractors and suppliers around the country, DIMENSIONS heard most contractors express a limited optimism for a pick-up in construction activity over 1974—but, as one Indiana contractor said, “That isn’t saying much.”

Most see construction volume down for the first six months, with the indicators signalling upturn around mid-year as federal monies and lower interest rates take effect.

But it will take time for the interest rates to fall to a level that will spur new construction. This,

combined with the Federal government’s paring of construction spending for fiscal 1975, makes for a rather grim outlook for the first half of 1975.

### Stagflation to Continue

When the expected upturn does develop much of the dollar gain will reflect the on-going problem of double-digit inflation and has led many construction industry experts to call for another round of “stagflation” where prices continue to increase at the same time that business activity is depressed.

This means that contract awards should receive only a modest dollar increase for 1975 while actual physical volume and starts shrink in most construction market segments.

“But the demand is still there for construction,” said one industry supplier, “and when the money becomes available the activity will start up again. By the second quarter—if there is a monetary easing—a general advance in both housing and non-residential building could be underway.”

Such reasoning parallels the economic forecast made recently by George A. Christie, vice President and chief economist for McGraw-Hill Information Systems Company, at the company’s annual Building Products Executive Conference in Washington, D.C.

A leading authority on the construction market, Christie predicted a recovery of the housing market and a 1975 construction contracts total of \$102.1 billion, up 8 percent in dollar value over the expected 1974 level of \$94.8 billion.

When the upturn in construction begins, Christie said, “The place to look for earliest improvement will be in housing,” and that this should happen at the beginning of 1975.

### Start at Low Level

“Recovery of housing in 1975,” Christie said, “will begin from a very low level, and its progress will be handicapped by a shrunken and disorganized homebuilding industry.”

Consequently, there will be a limited expansion during the first half of the year, he said, with a “potential for acceleration” in the year’s second half “if and when” there is a move to greater monetary ease.

He predicted that nonresidential construction contracts would total \$32.5 billion in 1975, some 4 percent below this year’s level; residential building would reach

## Steel Shortage is Over?

If, as a contractor, you notice that it’s much easier to get delivery on steel products than it has been for some time now, the loosening up of the market is for real.

But, the Institute for Scrap Iron and Steel told DIMENSIONS, the loosening up is only temporary. The steel industry’s capacity problem is a long term problem and probably will continue until about 1980.

“What you’re seeing now,” said a steel industry representative, “is the result of the fall-off of steel purchases by the appliance, automotive, and housing industries. Once the economy cranks up again, starting late in 1975, market demands will put strains on the steel industry’s inadequate capacity.”

Some housing experts see the homebuilding industry getting up to about 1.8 million housing starts by 1976—at 5,000 pounds of steel per house:

When economic activity does return to normal, combined with an undiminished world wide demand for steel, steel mills will do as they did before; put production emphasis on higher profit items.

Consequently, it is expected that items such as rebars and light gauge metals will adjust to market realities, i.e., the prices will increase.

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\$41.3 billion, a 12 percent gain, and nonbuilding construction would come to \$28.3 billion next year, 17 percent over the 1974 total.

Increase or not, many wall and ceiling contractors in the interim are watching their backlogs shrink and their costs increase. In addition, the commercial market which had been holding its own as well as could be expected began a fourth quarter slide in 1974 and this trend is expected to continue until late spring.

### **Commercial Starts Up**

Now there is a distinct possibility of an upsurge in apartment starts and commercial development.

Boosting this outlook are the many deferrals of construction starts on manufacturing facilities which were originally scheduled for 1974. This surge will be extended it is felt, into 1975.

In addition, hospital construction is expected to show physical gains in 1975 as demand for medical facilities continues unabated.

In the face of mixed forecasts, gypsum producers are estimating

that 1975 sales will run more than 15-billion feet of gypsum board. Thanks to diversification of the product, gypsum producers are no longer lashed so tightly to the fluctuations of the residential market.

An industry spokesman pointed out; "Housing starts are now at a rate of only 50 percent compared to a year ago and fortunately we don't follow that residential curve so closely any more. If we followed it as we did some 5 or 10 years ago, we'd be in serious trouble.

"As it is, gypsum sales were off only about 10 percent as of September 1, 1974."

### **Competition in Steel**

People in the metal framing business are also optimistic about an improvement in the last half of the year. "It's not a panic situation as it was last year," said a mid-West manufacturer. "We're getting back now to a normal competitive situation where price, quality and delivery can mean the difference."

The general sales manager for a

Southern steel frame and stud manufacturing firm observed: "The first six months of 1975 will probably be down compared to the same period in 1974 on the basis of total business sold—but inflation will hide the dip because of a bigger dollar figure.

"But federal initiatives in pumping money into the construction industry should have an impact toward the end of the second quarter. The demand is already there: it's been waiting for the money."

A mid-western lime supplier is prepared for mixed business conditions during the first half of 1975 with a definite upturn starting in June or July. "Government money will make the difference," the spokesman said. "Right now, though, the market is following no set pattern—in one area it's flat on its back while in another area it's booming.

While this may be true, the general consensus among wall and ceiling contractors is that too many regions could use a little more boom rather than a little back.