Notes on 1979 Construction

Construction Economist Sees a Leveling Off in Activity, But Still Attractive Prospects

There's a lot of talk that 1979 will be a year for a recession — and President's Carter’s wageprice voluntary limits, hiked interest rates at double digit figures, and a flattening of the rate of consumer savings at a dangerous 5% level represent the proper ingredients."

That was how construction economist Jefroy Warmer began analysis of where construction was headed in 1979.

"The 1978 rate of homebuilding of 2 million units can’t be sustained so that market will soften in 1979. Projections of 1.7 to 1.8 million starts seem reasonable, so contractors heavily involved in this area would be well served to investigate more carefully the modernization and rehab markets.

"There’s another reason for the homebuilding market still remaining reasonably attractive," Warmer explained. "With interest rates up, home owners will back away from 'moving up' and, instead, will take the least expensive route of fixing up the property."

With a 1979 construction contract total of $155.8 billion projected, some $113.1 billion will be in building construction. Of this, some $68.3 billion, a decline from 1978, is expected in 1979.

"Any hard prediction is virtually impossible for the next six months," Warmer said, "because the complexity of economic forces is more opaque than in any recent period. So much hinges on the money supply, the huge Eurodollar overhang, uncertainty on export revival — revival could cure a lot of problems — and how successful Carter’s anti-inflation moves are in the foreign market."

In recent polls, the majority of Americans expect some kind of recession this year — and they are holding onto their money. Christmas was good in 1978, but it wasn’t all that overpowering and more than a few merchants are left overstocked because of projected sales that never came.

"All in all," Warmer concluded, "the three year expansion in the construction industry is winding down. It’ll take some time before this shift catches up to wall and ceiling contractors — given their longer lag time on projects — but this does mark a good time for a contractor to begin serious management thinking about the new order of things.

"By that I mean, that construction will be somewhat altered from previous patterns. Contractors of all specialties are traveling more now than they ever have and I believe this trend will accelerate.

"Old markets and regions were stagnating well before this recent crunch, and they’ll be the last to feel large inflows of construction or speculative monies given the need by investors to find the safest and best return."

Summarizing, Warmer said the three-year construction boom is ending, a new five year period of slow growth is starting, 1979 will require some careful management by wall and ceiling contractors who should be using this time to prepare for new markets and challenges.
the figures contained in the survey tend to indicate work done in large tracts and similar developments. Also, the increasing percentage of modernization and rehab work, both as a percentage and as actual amount, shows that wall and ceiling contractors who took part in the survey are encountering a change in the composition of their work and marketing.

In 1976, contractors performed slightly more than $28 million worth of modernization work (15% of the total reported), and this component climbed to more than $44 million a year later. The 1977 total represents 17.5 percent increase over the previous year. New construction bounced back from some $161 million to $208 million for the 70 contractors surveyed.

Such a change confirms what individual contractors have noted that modernization work is increasing as the building community becomes more energy conscious and as inflation makes the option of rehabbing more attractive than new construction.

In any event, though, the figures show that IAWCC/GDCI contractors obtain the overwhelming proportion (82.5%) of their dollar income from new construction — and preliminary 1978 data show that this trend is continuing.

Numbers reported in the survey also show that wall and ceiling contractors — in contrast to a year ago — are now carrying comfortable backlogs. The average backlog for the survey contractors is running about $1.3 million, about 60% of the average annual volume.

The average volume was $1.8 million for wall and ceiling contractors who specialize in commercial-institutional-industrial work. Contractors with a heavier involvement in residential work do about $1.1 million worth of work each year.

With generally optimistic feelings about the coming year, wall and ceiling contractors also signalled that diversification is still alive and kicking.

Some 21 of the respondents indicated that they would become more involved in demountable partitions and steel framing during the coming year or two. Insulation work also got the nod from 25 contractors while fireproofing was mentioned by 11.

All in all, wall and ceiling contractors enjoyed a good business year in 1977, indications are that 1978 will prove even better — and most contractors are anticipating a reasonably good 1979.