CONSTRUCTION OUTLOOK STEADY DESPITE STOCK MARKET CRASH

Experts predict 1988 construction activity will match last year’s pace, though the building market will be a mixed bag of good and bad areas.

What’s in store for the wall and ceiling industry for 1988—and beyond?

Most business leaders and economists claim you can expect about 18 months of continued good, steady times in the economy—and in construction—generally.

While all indicators are showing a construction industry that will at least match the 1987 performance, there are some strong and some weak segments.

Gross national product is expected to increase about 3.4 percent over the next 12 months, with consumer spending up 4.0 percent. The GNP projection represents a small but significant increase over last year, which was 3.1 percent, while consumer spending, possibly showing that the October stock market nosedive hasn’t scared anyone, will be nearly doubling, spending in 1987 was up only 2.1 percent.

In the non-residential construction area, wall and ceiling contractors will face a mixed bag, one that will change significantly with the region.

While industrial and retail construction are expected to bounce back, the other sectors may be down for 1988. Sectors like office construction, which has had a four-year boom, probably won’t be able to absorb excess capacity until sometime late next year. In this segment of the economy, 1989 looks better than 1988 (see Projection Box).

One of the construction markets expected to weaken somewhat this coming year is the commercial market. Although business investment is expected to rise in the neighborhood of 8.7 percent, most of this investment will be in equipment. Equipment is projected to jump 9.9 percent up from the 1.0 percent rise last year.

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Office construction, which had a four-year boom, probably won’t be able to absorb excess capacity until late 1989.

Wall and ceiling contractors experienced a healthy commercial market in 1987 which nearly equaled the previous year. But in 1988, a decline in commercial building of 5 percent may be ahead. Both offices and stores are experiencing higher than acceptable vacancy rates so a downward revision in new projects for these important categories is expected.

Nevertheless, other types of commercial building should fare better. “In spite of dire predictions,” says Gold Bond Building Products forecast, “office construction was off less than 1 percent in 1987. A 15 percent drop is likely next year to bring supply and demand more in balance and reduce vacancy rates. “New store construction was almost equal to last year, but a 5 to 10 percent decline seems likely in 1988,” the report said.

Prospects for factory, educational and church construction this coming year are good. Each registered gains in 1987 and should do even better in 1988. The regional picture for commercial buildings is less clear, though.

Areas which should have gains include the New England states, mid-Atlantic states and the states bordering the Great Lakes, where activity was brisk in 1987. The Southeast again should do well as in 1987, but the oil patch states-Texas, Oklahoma, and Louisiana-would do well to just arrest the decline suffered in the past three years. The western states were only a fair market for non-residential building in 1987, but should pick up somewhat in 1988.

New commercial construction alone will use close to four billion square feet of gypsum wallboard in 1988, making this market second in size only to the new home building for wallboard producers. Nearly another three billion square feet of gypsum wallboard will be consumed by the commercial renovation and remodeling market.

At the same time, significant sales increases are anticipated in EIF systems, particularly in commercial renovation and remodeling market.

Behind this surging is the expected increase of slightly over 7 percent in 1988 commercial renovation and remodeling markets as more and more building owners opt for renovation of their older stores and offices.

While less important to the wall and ceiling industry, factory rehabilitations have become a more active market in recent years. In this market area, EIFs and fireproofing play an increasingly important role. The huge inventory of all types of commercial buildings started in the late 1960s and early 1970s, and this assures a solid base for continuing year-to-year increases in commercial R&R activities into the 1990s.

Residential Market Strong

Wall and ceiling contractors who specialize in the residential market had a successful 1987 and will apparently confront another strong business year in 1988, both in new home building and in renovation and remodeling projects.

Total starts for new homes this coming year should slightly exceed 1.5 million units, down 7 percent from the projected 1.6 million units this past year. Single-family homes should account for two-thirds of the activity again next year.
Most areas of the country can expect modest declines, but judging from permit activity, a handful of markets will again do well in 1988. These areas include the Metropolitan New York area; Washington, D.C.; Charlotte-Gastonia, NC; Fort Lauderdale-Hollywood, FL; Detroit; Minneapolis-St. Paul; St. Louis; and Anaheim-Santa Ana, Ca.

The single family move-up market is expected to do well next year. This segment of the new housing market is wanting bigger homes with more amenities and higher quality, especially in bathroom and kitchen areas. Move-up candidates must be enticed with visible improvements not available in their existing homes, to get them to make the switch.

Often overlooked are the households of 19- to 25-year-olds, who are prime candidates for rental units. Recent studies have shown that these young households are willing to pay the higher rents for "semi-luxury" apartments. The supply of this type of unit, geared to younger occupants, is quite limited in many markets.

First-time buyers are always a challenge to the builder, because of limited financial resources. This makes such a market a prime candidate for wall and ceiling contractors who are lashed together with builders, possessing creative financing programs and strong ties to the money market.

New home building, of course, represents a tremendous market to industry contractors and the gypsum industry. Slightly more than half of the industry’s shipments—some 10 billion square feet—are destined for new home construction. So far in 1987, the average single-family unit is about 3 1/2 times larger and is using a correspondingly larger amount of gypsum wallboard.

Both mortgage interest rates and employment levels will be supportive for new housing next year. Unemployment is expected to remain at or near the 6 percent level and mortgages will ease about one percentage point from current levels to 10 percent.

## Residential Renovations Up

Similar to the commercial and industrial markets, renovations and remodeling opportunities in the residential sector are almost certain to pass the $100 billion level in 1988. Census Bureau data shows $91.3 billion were spent on renovation and remodeling in 1986, and this figure should easily hit $98 billion in 1987.

With used home sales running at a 3.5-million-unit rate, 1988 promises to be another banner year for residential R&R. In the last three months of 1987, because of higher mortgage rates, used home sales softened, but totals for 1987 should again exceed the 3.5 million sales.

As mentioned earlier, the sharp stock market decline (see sidebar story) hurt consumer confidence and resulted in buying cutbacks, such as new home sale cancellations or postponements. The resulting effect on renovation and remodeling activity should be positive, though. Homeowners will be more likely to stay where they are and make needed or desired improvements to their present homes.

Gypsum wallboard usage in the renovation and remodeling market next year will exceed 1.5 billion square feet. Most wallboard will be used for room additions and completing existing unfinished spaces, such as basements and attics. Only a small portion is used for repair work.

Another strong product in the residential replacement market is vinyl siding. More than 1 billion square feet of this product will be used to re-side existing homes in 1988. Usage has been growing by 10 percent or more, and is concentrated in the northeast quarter of the country. However, this product is now being used in virtually all the R&R markets throughout the U.S.

### What's the Stock Market Impact on Construction?

No doubt exists in anyone’s mind that October’s Black Monday stock market nosedive severely shook consumer buying confidence.

The residential new home market was the construction sector that felt the first and heaviest reaction, as potential home buyers in many cases put off buying plans until they could get a better idea of which way the economy’s direction is going.

In the investment community, a large element believes the country will have a reasonably good 1988, but after that will come the recession (mild?) or depression (severe?).

No one wants to be quoted too closely on stock market projections, on the understandable grounds that any series of predictions at this point could very well lead to a self-fulfilling prophecy. Generally, though, the opinion holds that no serious economic problems in 1989 or immediately thereafter are in sight. The American economy is strong: reminders on that subject don’t represent wordy pump-priming. The world economy, too, is in good shape.

American-based industry is lean and becoming more efficient. U.S. exports will start growing soon, and the U.S. market is becoming more competitive. The trade deficit is still a problem, but the fact is it has been essentially flat the past four years. The electronics industry, which crashed in 1984, is on a comeback.

As for the stock market, it seemingly has a mind of its own. Whereas it is possible for a weak economy to drag a strong stock market down, it is doubtful a weak stock market can drag a strong economy down. And no one sees serious trouble ahead—especially with a national election coming up.