School and Public Construction Especially Strong; Office Vacancy at 15-Year Low

Construction on Continued Upward Track Over Next Five Years

The construction economy, riding a historic wave of expansion, is poised for new growth through the year 2002, reports William D. Toal, former senior economist for the Federal Reserve and current chief economist with the Portland Cement Association. Toal’s forecast was presented to a group of construction industry executives gathered for a briefing jointly hosted by Atlanta-based CMD Group and The Construction Specifications Institute during the institute’s 50th anniversary convention.

According to Toal, with the economy in its longest “non-inflationary” expansion on record, U.S. economic performance from a worldwide vantage point is “a sight to behold . . . a superstar . . . low inflation with strong economic growth.”

“How long can this miracle last, particularly with economic turmoil in the Asian markets of the world? Apparently longer than many analysts, including myself had thought,” Toal confessed. “Inflation has remained low, partly as a result of the Asian turmoil, despite strong steady growth. As a result, the Federal Reserve has not increased interest rates to date, as had been expected. Economic growth continues unabated.”

All of this is positive for the construction industry, predicts Toal. “After reaching new record highs in 1997, construction should expand by approximately 2 percent this year with only a mild 2 percent retrenchment expected next year. For now and for the foreseeable future these are, for the construction and construction materials industries, truly the best of times.”

Toal offered a sector-by-sector analysis of construction, as follows:

Private nonresidential construction has taken a small pause in its rebound. But the fundamentals for most areas of nonresidential construction remain positive. Office vacancy rates have dropped to under 10 percent, their lowest level in 15 years. Hotel construction may be about to correct slightly from extremely high levels. Industrial construction has slowed and may weaken further as the Asian
Basin situation hits manufactured exports.

Education is one of the strongest areas of construction, especially primary and secondary schools. The school-age population began to turn up at the beginning of this decade and is assured to continue to rise through the early years of the next century. As a result, this area of construction is up more than 20 percent and will remain strong for the foreseeable future.

Residential construction and housing starts have performed better than expected and continue to do so in early 1998. Demographic trends will continue to put some downward pressure on residential construction, particularly single-family construction. After holding fairly steady at high levels this year, expect residential construction to dip slightly next year before a quick rebound.

Public works construction, at 25 percent of total construction in place and growing, has been the workhorse leading to the new record levels of total construction activity. Along with the surge in construction of public schools and penal facilities, highway construction has trended upward through the

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mid-1990s as a result of the passage of major federal transportation legislation. This legislation increased highway and transit funding at the beginning of this decade. The U.S. Congress has passed legislation again increasing federal funding for transportation funding by more than 40 percent for the next six years. The president has signed the bill. Therefore, even if some weakness should occur in residential and private nonresidential construction, public construction will remain strong and provide a buffer.

“Summing up,” Toal says, “with continued economic and employment gains, low interest rates, construction sectors fundamentally in balance and new federal funding for transportation, newly achieved record levels of construction activity should continue and be surpassed.”

About the Authors
William D. Toal is the chief economist for the Portland Cement Association where he specializes in construction industry forecasting and modeling.

Portland Cement Association, from its Skokie, Ill., headquarters, conducts extensive research, market development and educational work on behalf of its members, which are cement companies in the United States and Canada. In Canada, operations are carried out by the Canadian Portland Cement Association, which is headquartered in Ottawa.

CMD Group, located in Norcross, Ga., is an assembly of companies whose common thread is their commitment to providing complete, relevant timely and accurate construction data.