Construction Industry to Remain Steady, But at a High Level; United States Is World’s Largest Market for Second Year in a Row


According to the McGraw-Hill Construction Information Group annual construction Outlook ’99 forecast, this year’s market will see a mixture of strengthening and weakening construction sectors, which will allow total construction in current dollars to essentially stay steady with its 1998 volume. 1998 marked the construction industry’s seventh straight year of expansion, leading to the continued strength predicted for 1999, despite no overall growth.

“The Asian crisis is slowing the U.S. economy, but so far strong domestic growth is affecting the widening trade gap,” says David Wyss, chief economist for Standard and Poor’s/DRI. “The recent rise of the yen is beginning to ease the crises in emerging markets. The Federal Reserve’s aggressive interest rate cuts are helping to steady the construction industry.”

Public works and utilities sectors are predicted to climb 7 percent, which is largely due to the heightened level of highway and bridge projects coming from the new federal transportation bill, as well as other federal funding initiatives for fiscal year 1999. Single family dwelling units will retreat 7 percent, which translates into a 5 percent drop in dollar terms. The decline will be the result of slower income growth and sagging consumer confidence, mildly depressing homebuyer demand.

“Amidst a more sluggish business climate, the construction industry will continue to benefit from an enhancement amount of public funding, low interest rates and supportive, demographics,” explained Robert Murray, vice president of economic affairs for the McGraw-Hill Construction Information Group. “Notwithstanding concerns over the economy, funding for construction projects should remain generally available, particularly from public sources.”

The Highlights

As author of this annual study, Construction Outlook, Murray has spearheaded the preparation of the McGraw-Hill Construction Information Group’s construction industry forecast for more than 10 years. The following are the main points for 1999’s construction market:

- Income properties will rise 3 percent, helped by a further increase for office construction as well as a slight gain for multifamily housing. The slower economic environment in 1999 will contribute to decreased contracting for stores, warehouses and hotels.

- Manufacturing building will stabilize close to its 1998 level; having already experienced most of its retrenchment due to this year’s weakened industrial sector.

- Institutional building will advance 4 percent, helped by renewed growth for school construction amidst the ongoing need for more classroom space. Public buildings will rebound in 1999 with the help of federal money for courthouse projects, while the health facilities category stabilizes after its brief correction in 1998.

- Amusement-related construction will slip from its recent strength, as both sports arena and theater projects ease back from the robust levels of the past two years.

That’s the forecast for this year, but what did we accomplish last year?

Business Is Booming

Despite the world’s economic turmoil, the construction industry is booming. With Asia leading the way, the world will spend more than $3 trillion on construction in 1998. Among the 150 largest national markets, the United States was in first place for the second
year in a row, and is on pace to reach a record level of $652 billion.

Overall, construction accounts for about 10 percent of the world's economy, and is one of the largest and most important part of every nation's economy. The World Market Overview, including country-by-country construction spending breakdowns, was compiled by Engineering News-Record.

"Construction is a driving force in many economies around the world. Countries are seeking to improve their infrastructure and the quality of life of their citizens, leading to the potential for tremendous opportunities for the construction industry," said Howard Stussman, editor-in-chief of Engineering News-Record. "Our goal in compiling this information was to help construction professionals around the world see where the areas of boom and bust are, and find out specifically where they can benefit from growth in specific sectors."

The view in various dominant markets is distinctly different. The growth in the United States was led by residential construction, making up about 46 percent of total construction, while public construction also has been expanding. In China, construction is being fueled by continuing foreign direct investment, increasing privatization of state-owned industry and allowing massive public works projects. Japan's economic problems have had a significant negative impact on its construction market. Total construction activity declined by more than 11 percent in 1997 measured in yen, and was flat in 1998. While private sector construction is expected to hold steady or drop slightly in 1999, public sector construction for that year may fall as much as 13.4 percent.

The information for Engineering News-Record's report was compiled from a range of sources to ensure the greatest accuracy. As opposed to other available construction market figures, ENR has provided total construction spending as it relates to each country's gross domestic product, rather than solely the "value added by construction" information generally required by the World Bank and International...
Monetary Fund. Value added generally only includes labor costs, marketing and basic overhead and profits. Thus, the steel, cement and other construction-related industries are counted separately and not included in other analyses, but are included in ENR’s.

According to ENR’s analyses, the top 10 construction markets in the world are the United States (at number one), followed by Japan; Germany; China; the United Kingdom; Brazil; France; Italy; Korea, Republic; and Canada.

In addition, ENR provided the following regional overviews:

With a construction market nearing the $1 trillion level, Europe is struggling with unification and a staggering Russian economy.

In Asia, several of its biggest markets have been in economic turmoil but many construction firms are remaining bullish on the regions long-term prospects.

Latin America has been a vibrant market for several years. Many in the industry are now holding their breath over Brazil’s economic fate.

The long-term slump in oil prices in the Middle East has taken its toll on petroleum projects, but moves by many oil-producing nations to diversify their economies are producing new opportunities for construction.

Always a small and difficult market, Africa is showing signs of developing through privatization of natural resources and infrastructure.

The U.S. construction market’s strength shows no sign of fading, while Canada flexes its own muscle.

Tourism and industrial work in the are strong in the Caribbean while science projects are heating up in Antarctica.

About the Author
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