

**MCGRAW-HILL CONSTRUCTION PRESS STATEMENT  
VICE PRESIDENT, ECONOMIC AFFAIRS COMMENTARY RE: BROAD IMPACT OF  
THE ECONOMY ON CONSTRUCTION**

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***Recent Financial Market Events—the Broad Impact on Construction***

The upheaval in the financial markets during September has altered the financial landscape, which will affect funding for construction projects and in turn construction activity.

The situation with the financial markets continues to be fluid, particularly regarding the shape of the \$700 billion mortgage buyout proposal. Given the sense of urgency coming from Treasury Secretary Paulson and Fed Chairman Bernanke, Congress is anticipated to pass some measure with revisions to the Treasury proposal, including oversight of the process by which the distressed mortgage securities are purchased. The expectation is that the purchased securities will increase in value as the housing market begins to improve in 2009 and beyond, which would allow them to be resold and decrease the potential cost of the bailout from \$700 billion to something less. The key, of course, is that the decline in home prices comes to an end, and we don't expect to see that until 2009 at the earliest.

The steps taken to provide stability to the financial markets will require time. The lending environment for commercial projects will probably grow even more difficult in the near term, before some credit easing begins to take hold, perhaps in the latter half of 2009. This means that the downturn in construction starts shown by commercial building in 2008, particularly for stores and warehouses, will grow more widespread in 2009, dampening offices and hotels as well. This had been our expectation prior to this September's events; if these steps are successful, a rebound in commercial construction could occur earlier than expected, perhaps as soon as 2010 or 2011.

The institutional structure types, such as schools and hospitals, respond in a lagged manner to shifts in the economy and lending conditions. We expect to see a loss of momentum for 2009, given the deterioration in state and local fiscal health, although funding already raised through the bond market should help the initial stage of a construction slowdown remain gradual. In other words, the response to September's financial turmoil is expected to be delayed and diffused. The same applies for public works, and a near-term plus for that sector is that Congress recently transferred \$8 billion from the general fund to shore up the Highway Trust Fund. As for single-family housing, the steps to stabilize the financial markets, if successful, should help to stabilize homebuilding in 2009, although at a very, very low level.

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As vice president, economic affairs for McGraw-Hill Construction for over 15 years, Robert A. Murray determines the broad forecast pattern used by the company's information products, and he functions as the company's chief economic spokesperson. He is the author of the widely circulated *Construction Outlook*—a seminal reference for the industry—and he serves as anchorman for the company's prestigious Construction Industry Executive Outlook Conference held in Washington, DC, each October. He also conducts a series of construction outlook seminars every spring and fall in various cities across the U.S. and Canada. Mr. Murray received his bachelor's degree from Princeton University, and he holds both an M.B.A. and a Master's degree in economics from Columbia University.

Mr. Murray will provide a deeper analysis—by market sector and by geographic region-- at the [2009 Construction Outlook Executive Conference](#) in Washington, DC on October 23<sup>rd</sup>. His annual Construction Outlook report will be available the same day.

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