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GOOD NEWS BURIED IN CONSTRUCTION SPENDING REPORT, AGC SAYS

Economist Simonson Cites Nonresidential Leap But Warns of Higher Costs, Spending Shortfalls

Washington, D.C.--"Nonresidential construction spending rose an impressive 1.3 percent in March and 12 percent compared to March 2007," Ken Simonson, Chief Economist for The Associated General Contractors of America (AGC), said today. Simonson was commenting on the March construction spending figures released by the Census Bureau on May 1. "The housing slump buried this news by dragging total spending down by 1.1 percent for the month and 3.4 percent for the year. Yet nearly every category of nonresidential spending continued to exceed year-ago levels."

"In addition, estimates for nonresidential spending in January and February were each revised up, suggesting that gross domestic product (GDP) may have grown a little more in the first quarter than the Bureau of Economic Analysis (BEA) said yesterday," Simonson added. BEA reported that real (net of inflation) GDP grew 0.6 percent, the same as in the fourth quarter of 2007.

"Both private and public nonresidential construction are still growing, although public spending is losing speed," Simonson observed. "Private nonresidential spending was up 15 percent from March 2007, whereas public spending grew 7.2 percent

"I expect a further slowdown in public spending as revenues flatten out or even shrink for highways, schools and other public projects," Simonson predicted. "On the private side, I expect ongoing vigor in spending on power, energy, communications, hospital, higher education and military base realignment-related projects to offset a likely retreat by office and retail construction.

"The biggest challenge for all nonresidential construction is runaway materials costs," Simonson warned. "Yesterday, a steel supplier told customers the price of rebar was rising another \$100 overnight, compounding increases of 40 to 70 percent earlier this year. The retail price of diesel fuel is now almost 50 percent higher than a year ago. Copper is close to its all-time high set in May 2006, and near-record prices for oil and natural gas may push up asphalt and plastics prices.

"It is essential that public budget-setting and contracting agencies recognize that construction costs have been rising at more than double the rate of consumer prices and seem sure to keep doing so," Simonson concluded. "With regard to highway construction, Congress must act immediately to prevent a huge drop in spending that will begin five months from today unless the Highway Trust Fund is replenished by the start of fiscal 2009."

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