

Construction: So Battered It's Looking Forward to a Year of Flat Growth

By Matthew Scott, February 10, 2011

Architects saw a slight uptick in spending on building design and engineering services in 2010, and industry observers say that could be an indication that construction spending will see a corresponding increase in 2011. For two closely connected industries that have been in decline since 2006, recovering to a flat growth pattern would actually be an encouraging sign that the economy may indeed be turning the corner.

Billings and inquiries for private architectural and engineering services rose 0.4% in 2010. Scant, yes. But the revival of any sales growth, however modest, is welcome. After posting an increase of 12.11% in 2006, sales lost upward momentum as the housing crisis gripped the country. Architectural sales increased only 7.13% in 2007 and were up 4.07% in 2008 before losing 7.87% in a dismal 2009.

"If there are rising inquiries for proposed [architectural] projects, that means there are new commercial spaces that are going to be constructed," says Sageworks senior financial analyst Michael Lubansky.

Looks Like Relief

Lubansky says architectural billings and construction spending correlate with one another. When businesses have the confidence to design more buildings, that generally means they anticipate having money to spend building them. As a result, "In 2011, the decline in construction spending should be less or flat," Lubansky says.

That would be a relief for the construction industry, which has seen an even steeper decline in spending than architectural billings have since 2006. After posting an increase of 13.37% in 2006, nonresidential construction sales began to slide, rising only 6.31% in 2007 and 3.43% in 2008 before dipping into negative territory, losing a whopping 10.45% in 2009 and 13.80% in 2010.

Patrick Newport, U.S. economist for IHS Global, is also expecting construction spending to flatten out in 2011, an improvement over its performance in 2010. However, he says some areas will fare better than others, so although the overall numbers will look better, parts of the industry may still experience pain.

For 2010, Newport says, total construction declined 10.4%. Broken into segments, nonresidential construction fell 23.5%, followed by public construction, which was down 2.9% and residential construction, down 1.5%. The bad weather that has gripped the

nation during the first quarter of 2011 has delayed all building activities, which may bring down overall spending for the year. The ending of federal stimulus funding for infrastructure projects will also be a drag on overall growth.

However, single- and multi-family home construction is expected to improve, and commercial construction is likely to do better as the economy continues to add jobs. The final result will likely be minimal growth in 2011 -- but that will be far better than another yearly loss.