My economic forecast was right?

Of course it was! It was wrong?

Oh, well; mistakes happen.

LEADING OUT OF THE RECESSION

BY JOHN CROSS, P.E.

ACCOUNTABILITY IS AN INTERESTING CONCEPT— particularly when it comes to economic forecasts.

When forecasts are wrong they are never remembered or spoken of. But when forecasts are correct they are trumpeted as great triumphs of the dismal science of economics.

In the May issue of *Modern Steel*, this column forecast that employment would return to prerecession levels on July 4, an event that would result in "a point of inflection in the current growth rate" of building construction. As it turns out, U.S. full-time, non-farm employment did surpass prerecession levels. That happy event actually occurred a bit earlier than anticipated, in early June rather than on July 4, but the real question was whether it would trigger an uptick in the rate of building construction activity. And the answer is yes (!) and the truth is that I probably wouldn't be writing this column if the answer had been no. So much for accountability.

Change in Construction Volume Compared to the Same Quarter of the Prior Year
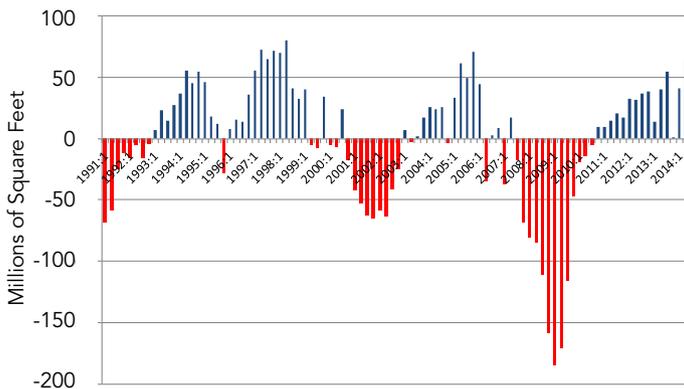
During the third quarter of 2014, the incremental growth of construction activity compared to the same quarter of the prior year spiked significantly. Construction starts on a square footage basis in the third quarter of 2014 are estimated to be 333 million sq. ft compared to 270 million sq. ft in the third quarter of 2013. This is a growth of 64 million sq. ft compared to a growth of 40 million sq. ft between the third quarter of 2013 to the third quarter of 2012. The bottom line is that the pace of the construction recovery is certainly quickening.

But the real question isn't whether this column was right or wrong. The real question is what we can learn about construction trends that will help us better manage future business cycles. Perhaps the most important trend to recognize in coming out of this recession is the sequence of recovery in different cons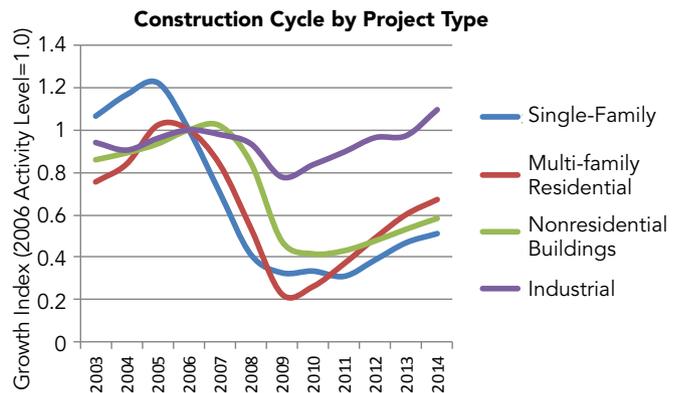truction segments. Conventional wisdom has always been that single-family housing leads the recovery of all other sectors (multi-family housing, commercial and industrial) in coming out of a recessionary period. The lead-lag relationship between single-family and commercial construction has been traditionally pegged at two years. But is that the case in this recession?

Construction Cycle by Project Type

The answer is no. It appears that in coming out of this recessionary period, single-family residential construction did not lead and that there is not a two-year lag between single-family recovery and nonresidential building recovery. The drivers coming out of this recession have been industrial activity and multi-family housing. Industrial construction did not dip as far as the other categories, declining only 21%, and is now running above the 2006 level. Multi-family housing did drop precipitously by 80% but has recovered a significant portion of that loss to be only 35% below 2006 levels. Both of these markets picked up sooner and stronger than either single-family housing (which remains down 50%) and nonresidential, which remains 42% below 2006 levels.

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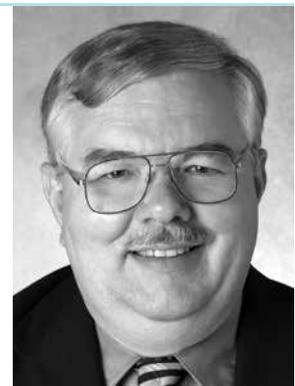
So where has industrial and multi-family residential recovery been the strongest? Industrial construction activity has been strongest in the Gulf states of Texas and Louisiana, who between them account for 25% of all industrial activity.

Industrial Activity by State

Multi-family Construction by State
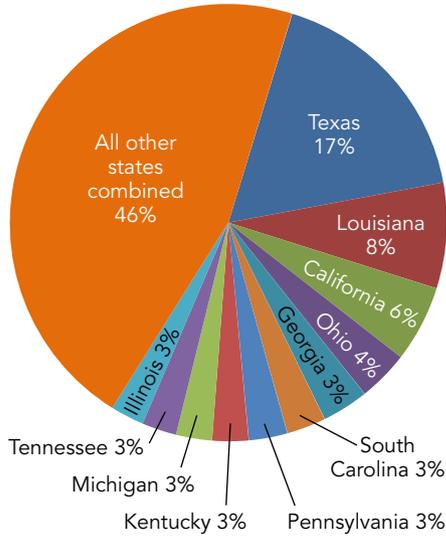
Multi-family housing has also been strongest in the Gulf Coast region, with Texas and Florida accounting for 24% of all construction activity.
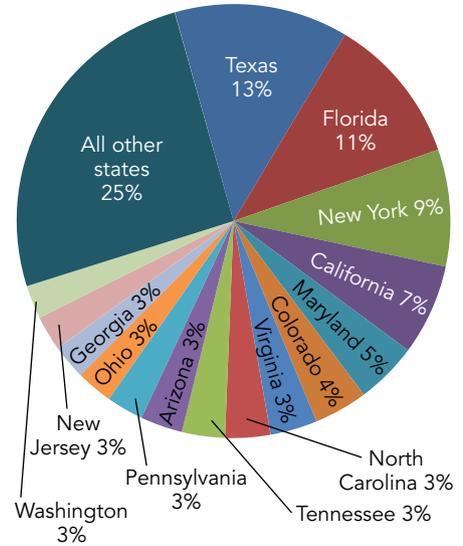
So what will the future bring? This is the time of year when the construction economists come out of their year-long hibernation and share their predictions for the coming year. So be sure to check this column next month for the 2015 construction forecast—for which will we be accountable. ■