

Construction Industry Snapshot

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September 18, 2006
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AUGUST YEAR-TO-DATE CONSTRUCTION STARTS CLIMB 9.2%

Reed Construction Data announced today that the year-to-date value of construction starts through August 2006, excluding residential contracts, totaled \$185.0 billion. This figure is 9.2% higher than in the first eight months of 2005. Allowing for construction cost inflation, the real volume of new starts has increased about 2% so far in 2006, compared to the same period in 2005.

August starts were up 12.2% from July. Monthly construction starts are summarized from the Reed Connect database of all active construction projects in the United States. The month-to-month increase was partly seasonal, but also reflects a pickup in construction starts after small declines in the previous two months. August starts this year were 4.4% below the record level of starts last August.

The slowdown in residential starts has already begun to moderate project cost inflation in the balance of the construction market, especially for lumber, gypsum and plastic products. However, the slowdown will have only a marginal negative impact on the demand for non-residential space and structures. Similarly, the slowing of overall economic growth from 3.5% to 2.5%-plus is already moderating cost increases, especially for oil-based products and wages, but will not cause significant project cancellations.

Hotels, hospitals, educational facilities, retail buildings, highways and bridges continue to be the strongest growth markets. Hotel starts jumped 122% in August from an unusually weak July, while educational starts rose by a third in the same period. Factories and warehouses are the weakest markets for construction: starts are down 53% year to date from last year, although job-site construction spending continues to expand as last year's surge of starts is completed.

Heavy engineering starts are being restrained by 8% to 10% project cost inflation. Many projects, especially public projects, have been delayed, slowed or cancelled because the project budget, typically set several years before, will no longer build the full project. This restraint will ease over the next year as inflation slows and some of the unexpected huge state budget surpluses in the last fiscal year are added to construction funds.♦

Jim Haughey

VALUE OF UNITED STATES CONSTRUCTION STARTS – AUGUST 2006 YEAR TO DATE (REED CONSTRUCTION DATA)

	January-August 2006 (\$ millions)	% Change (Jan-Aug 06 vs Jan-Aug 05)
Hotel/Motel	\$8,572	102.4%
Retail	\$20,522	16.8%
Parking Garage	\$1,590	58.0%
Amusement	\$5,541	39.6%
Private Office	\$13,607	0.7%
Government Office	\$1,310	1.7%
Laboratory	\$1,831	43.5%
Warehouse	\$2,234	-52.3%
Miscellaneous Commercial	\$2,781	14.5%
COMMERCIAL	\$57,987	16.0%
INDUSTRIAL (Manufacturing)	\$3,813	-52.9%
Religious	\$2,670	-0.3%
Hospital/Clinic	\$13,208	25.5%
Nursing/Assisted Living	\$2,544	35.1%
Library/Museum	\$2,659	46.9%
Police/Courthouse/Prison	\$4,032	24.9%
Military	\$1,404	26.2%
School/College	\$37,488	16.6%
Miscellaneous Government	\$4,977	17.2%
INSTITUTIONAL	\$68,982	19.7%
Miscellaneous Non-residential	\$1,038	-3.7%
NON-RESIDENTIAL BUILDING	\$131,820	12.9%
Airport	\$1,221	-21.4%
Road/Highway	\$23,161	12.4%
Bridge	\$6,105	27.6%
Dam/Marine	\$556	-23.7%
Water/Sewage	\$12,990	-4.6%
Miscellaneous Civil	\$9,177	-19.6%
HEAVY ENGINEERING	\$53,210	0.9%
TOTAL NON-RESIDENTIAL	\$185,031	9.2%

Source: Reed Construction Data (RCD) and Property & Portfolio Research (PPR)
(www.ppr.info)/Table: Reed Construction Data – CanaData.

James Haughey, PhD, is Director, Research and Analytics and Chief Economist for Reed Construction Data. With 30 years experience in corporate, government, academic and consulting roles, Dr. Haughey is one of North America's foremost experts on the construction industry. His reports appear regularly in print, Web and newsletter publications.