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Industry Growth Predicted In Spite of Recession Fears

By James A. Merolla

CEG CORRESPONDENT

(Editor's note: This article originally appeared in the New England state supplement.)

Three out of four adults in this country think we are in a recession. Economists say we are sinking under the worst conditions and factors in 10 years.

The construction/contracting industry faces its own challenges through 2008, but, surprisingly, many of them are positive. In fact, many companies say they are thriving, even though the new housing industry has seen its bottom fall out and the federal government cannot supply various states with the kind of highway funding that once launched and completed the \$15 billion Big Dig and repaired Interstates throughout the land.

Construction Equipment Guide asked several companies how they were doing and to provide us with a general outlook through the remainder of 2008. All of them were positive, but realistic. Industry-wide, they have a firm handle on what they can control and what they must control.

Here are six specific outlooks for 2008 in the industry:

A Lot of Work, Diminished Labor

"Things are going great. We are still working, but do not have an abundant amount of back log. The positive is that we get to catch up on a lot of things we push off when we are busy," said Domenic J. Cavaliere, co-owner of Cavaliere Industries, in Stamford, Conn.

"The crushing and recycling division is very busy. I think we can easily keep three units busy this year. I don't know if it's the service, the machines or the quality of the material, we are producing."

Cavaliere is apprehensive about one salient factor, something all contracting industries have addressed:

"Labor pool," he said. "The pool is diminishing and if the industry is not proactive on training the future employees, we are not going to be left with much help."

Most experts have predicted that through a combination of baby boomers retiring from the construction industry and a lack of young talent, some one million jobs will be waiting to be filled nationwide.

"The other issue is the illegals [immigrant workers] providing the service with a much lower payroll and such," added Cavaliere, something the entire industry has to watch.

On the flip side, what is he most hopeful about this year?

"The recycling of waste products into a useable material," he said.

Again, nationwide, the trend of turning waste into profit is soaring.

Crane Work, Auctions Thrive

"In our industry segment, crane rental and service, demand continues to increase. We support major construction projects throughout North America with crawler cranes, tower cranes and hydraulic mobile cranes," said Paul Fioravanti, vice president and chief operating officer of The LJ Companies, based in Cranston, R.I.

"The largest issue for us is availability of new equipment. With more than \$50 million in new equipment planned for 2008 and 2009, we are poised to be able to serve the largest crane equipment needs in North America. We are most hopeful that demand for our services remains rigorous for the next decade, as much of the national infrastructure needs attention, namely bridges."

Recent studies by the American Society for Civil Engineers and the American Association for Transportation and Highway officials have pointed to the neglect under which highways and bridges are currently suffering.

"In addition, the major American cities continue to have corporate, hotel and hospitality and medical services buildings which are in the works," added Fioravanti.

Connecticut-based Petrowsky Auctioneers Inc. just keeps growing and growing and growing, no matter what the economic conditions.

"We saw a marked increase in sales and attendance at our auctions especially at our main facility in North Franklin, Connecticut," said Danny Anderson, sales manager of Petrowsky Auctioneers.

"We continually invest in our customers' future with the

installation of glass ramp doors in 2006, the enclosure of the mezzanine for Ring 2 activity, updated technology regarding live Internet bidding through Equipmentfacts.com and additional high definition screens detailing the lots being sold in 2007."

Anderson also pointed out that the robust growth of the Connecticut facility shouldn't overshadow success at its other auction sites in Ohio, New Jersey and Utah.

But as much as technology has helped, it may hurt the auction company down the road.

"The only apprehension we have for our industry in the future is that video technology and the Internet [shouldn't] eclipse the importance of the on-site human element of auctions," added Anderson. "It is absolutely necessary that auctions remain a vibrant marketplace teeming with people with common interests and goals. The large turnouts we have been witnessing at our Connecticut facility are a testament to the effectiveness of customer comfort and service."

In short, Petrowsky Auctioneers Inc. is very excited about the future. The auction industry thrives in all market climates and is extremely competitive. Petrowsky Auctioneers believes its investment in service will keep it in the front of the pack.

Petrowsky's goal is, "not to be the biggest, yet to be the best. We will continue to focus on expanding our seller base at all levels by soliciting and cultivating markets from all over the world," added Anderson.

High-End Development Selling

Another company doing "remarkably well," despite the national real estate picture is O'Neill Properties Group, based in King of Prussia, Pa.

O'Neill has built remarkable properties in Newport, R.I., and is in the planning stages of a huge waterfront hotel and condo development and pier for dozens of luxury yachts in Middletown, R.I.

"The Newport area has been featured several times over the course of the year for its resiliency in the otherwise slumping market, particularly for the area's success in the luxury residential market," said Beth Devine, a spokeswoman of O'Neill Properties Group.

"Carnegie Abbey had a wonderful sales season, with 95 percent of the standing inventory having been sold. Two additional specs are now being built, and the Carnegie Tower is progressing on schedule and 50 percent sold as we head into our busy season. Carnegie Abbey is beginning to mature and be recognized as a safe and good investment."

The credit crisis worries the company, however.

"We feel that the apprehension in our industry, and every other industry, is the fallout of the national credit crisis. We are insulated to a degree simply as a result of the level of affluence that we cater to," said Devine. "However, everyone from top to bottom is or will be affected in some way by the effects this crisis is having or will have on the economy."

On the flip side, the good signs continue for their major luxury condominium projects.

"We are encouraged, because we now have the recognition that Carnegie Abbey is a safe harbor for an investment. We are over the hump that this is a truly investment grade community, and we see that as our buyers build homes and occupy homes throughout the community," said Devine. "We also enjoy the support of our local townspeople who realize how our community helps them from an economic standpoint. We have the support of our local, state and federal legislators as well who have seen our plans for Aquidneck Island and are supportive of us as we move forward."

Highway Jobs Heavily Impacted

In Washington, D.C., inflation is causing uncertainty and a wary outlook among top national experts.

"Construction costs continued to outpace other inflation measures in February, while demand softened for some project types," Ken Simonson, chief economist of the Associated General Contractors of America (AGC), said in mid-March. Simonson was commenting on two new economic releases for February: producer price indexes (PPIs) from the Bureau of Labor Statistics (BLS) and housing permits from the Census Bureau.

"The PPI for inputs to construction industries — materials used in all types of construction plus items consumed by con-

tractors, such as diesel fuel — climbed 0.6 percent in February, compared to 0.2 percent for the PPI for finished goods and 0.3 percent for the consumer price index [CPI] before seasonal adjustment," Simonson observed. "That continues a trend since steel prices first jumped at the end of 2003. From December 2003 through February 2008, prices for these construction inputs have soared 31 percent, versus 15 percent for the CPI.

"That huge gap is especially troublesome for contractors on public projects," Simonson asserted. "Public agencies often rely on the CPI to project future costs but they are coming up short of the dollars needed to award contracts. The problem is most acute with highway projects, where the huge run-ups in diesel, asphalt, concrete and steel costs have pushed up the PPI by 50 percent since December 2003.

"In February, there were outsized increases in the PPIs for copper and brass mill shapes — 5.8 percent; hot-rolled bars, plates and structural shapes for rebar and structural steel — 3.5 percent and diesel fuel — 2.2 percent," Simonson noted.

"Still worse, all of these materials have risen even more since the PPI data was collected in mid-February. Recently, the Energy Information Administration reported that on-highway diesel costs \$3.97 a gallon nationally, up 69 cents in the five weeks since the PPI reporting date and up \$1.29 or 48 percent from a year ago.

"Meanwhile, demand is falling for multi-unit residential projects," Simonson added. "Census reported that multi-unit permits plunged 11 percent from January and 23 percent from February 2007. Demand for office, hotel and retail construction is reportedly weakening as well.

"Nevertheless, I do expect continued strength for hospital, university, power, energy and communication construction," Simonson concluded. "There is ongoing demand for these facilities, and their financing is generally more secure than for projects that depend on short-term rents."

AGC is the largest and oldest national construction trade association in the United States. AGC represents 33,000 firms, including 7,500 of America's leading general contractors and 12,500 specialty-contracting firms.

More than 13,000 service providers and suppliers are associated with AGC through a nationwide network of chapters.

FMI Predicts Growth

FMI, the nation's largest provider of management consulting and investment banking to the worldwide construction industry, recently released its 2008 U.S. Construction Overview. The report was hopeful for 2008, and commented on some interesting industry trends to keep a tab on this year.

The 2008 overview forecasts a 5.8 percent growth in construction for 2008, representing a reversal of 2007's 3.7 percent decline. FMI predicts construction spending will total \$1.21 trillion, roughly 9 percent of U.S. GDP.

All segments of residential construction are expected to decline, though at a far more manageable rate than in 2007. According to the report, non-residential construction will offset this decline: all commercial segments are anticipated to grow. FMI and other firms predict educational and healthcare buildings will experience especially strong growth.

Strength in the commercial construction market should continue through the long term, according to U.S. construction economists. However, inflationary pressure from tighter supplies, increased transportation fees and higher prices for raw materials persist, driving up building costs that could squeeze profits for contractors caught in the middle.

"Construction tends to follow a 20-year-cycle, but in most cases, commercial/non-residential construction doesn't boom and bust at the same time as residential. Residential has slowed in 2004, 2005 and 2006 and will be slow until the end of 2008. Then housing should begin a rebound," predicted Jeff Taylor, economist at Associated Builders and Contractors.

"Commercial construction will begin to slow down after 2008, but won't be as dramatic as residential because the market isn't nearly as speculative as the residential market, which tends to get ahead of itself. There will be a slowdown in some areas, but unless the consumer market falls hard, we won't see a meltdown in commercial construction," he said.

The U.S. Census Bureau currently expects healthcare to lead in construction growth, achieving double-digit growth rates through 2011. CEG