

The Data DIGest

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Beige Book shows growing economy, mixed construction reports; housing rebounds

The **Beige Book**, a report released Wednesday by the Fed summarizing informal soundings of current business conditions taken by the 12 regional Federal Reserve Banks, "indicated that economic activity continued to expand from late November through early January. Eleven districts characterized activity as expanding with Atlanta, New York, and Richmond noting that the pace of activity had quickened since their last reports. The Cleveland District was less upbeat, characterizing economic activity in that district as mixed.... **Commercial real estate conditions** strengthened in most districts in December and early January. Real estate agents in the Dallas, New York, Richmond, San Francisco, and St. Louis districts reported that leasing activity increased--particularly for office space. Office leasing was especially brisk in Washington, D.C., and New York City...In other districts, vacancies were mixed--rates dipped in San Francisco, St. Louis, and most of the Kansas City District, but were generally unchanged in other areas. Adding to the positive tone, **commercial construction activity** was higher since the last Beige Book report--contacts in Atlanta, Chicago, Minnesota, Richmond, and St. Louis reported new industrial or office construction activity, while retail construction maintained a generally steady pace....Atlanta, Dallas, and San Francisco reported that **production of building materials** picked up... Philadelphia indicated that demand softened for lumber and wood products...St. Louis said that firms in the fabricated metal product, wood product, chemical, and apparel industries announced plant closings and layoffs....Increases in the **costs of building materials** were mixed by district. Modest to sharp price hikes were widely reported in Atlanta, Kansas City, and Minneapolis, but material prices were flat in Cleveland and New York, and eased somewhat in San Francisco."

The Beige Book noted double-digit increases in **hotel revenue per available room** in New England and New York City, as well as increased business or leisure travel in Florida and other markets. The Wall Street Journal reported Wednesday, "Hotels are rushing to position themselves for an expected surge in new developments over the next decade by improving their prototypes. InterContinental Hotels Group has offered up a new Holiday Inn design and created a new brand, Hotel Indigo, that aims to bring boutique-style elements to the masses." *Choice Hotels International will build a new midrange hotel chain, Cambria Suites, "which will break ground on its first property in about a year," according to Chief Executive Charles Ledsinger Jr.*

Housing starts rebounded to a seasonally adjusted annual rate of 2,004,000 in December, up 11% from November's 1,807,000 rate, the government reported Wednesday. For the year, starts climbed 6% to 1,953,000, with single-unit starts rising 7%, 2-4 unit starts jumping 23%, and 5+ unit starts dipping 4%. **Building permits**, which reliably indicate the level of near-future starts but are much less subject to weather vagaries, remained virtually unchanged in October through December at 2.02 million. That was also the average rate for all of 2004, a 7% rise from 2003. For the year, all categories of permits were up: single-unit, +7%, 2-4 units, +12%, and 5+ units, +3%. (Note: the single-unit permit total was revised after initial posting of the release.)

Another sign of the continuing strength of the **homebuilding** market came Tuesday from the National Association of Home Builders/Wells Fargo Housing Market Index. The index is derived from a monthly survey of builders that NAHB has been conducting for nearly 20 years. Builders report current sales of single-family homes, prospects for sales in the next six months and traffic of prospective buyers. Scores for each component are then used to calculate a seasonally adjusted index where any number over 50 indicates that a majority of builders view sales conditions as favorable. All three components of the index were off slightly in January, but remained close to the peak levels of last year: current single-family sales declined to 77, down from 78 in December; sales prospects for the next six months dropped from 80 to 78; and buyer traffic went from 52 to 50.

The **consumer price index** (CPI) for all urban consumers slipped 0.1% in December, seasonally adjusted, the Bureau of Labor Statistics (BLS) reported Wednesday. The index rose 3.3% in all of 2004, compared with a 1.9% gain in 2003. Both the drop in December and the acceleration for the year were largely a function of energy price swings. The "core" index, which omits energy and food prices, rose 0.2% in each of the last three months and 2.2% for the year, vs. a 1.1% rise in 2003. *The CPI for urban wage earners and clerical workers (CPI-W), which is used to adjust wages in many construction and other contracts, rose 3.4% in 2004.*

Real (net of inflation) **average weekly earnings** rose 0.5% from November to December, seasonally adjusted, BLS reported Wednesday. Average hourly earnings edged up 0.1%, average weekly hours expanded 0.3%, and the CPI-W dropped 0.1%. For the year, hourly earnings climbed 2.6% before inflation but fell 0.7% in real terms. **Hourly earnings in construction** rose 1.3% over the year, to \$19.35, 22% above the all-industry average for production or nonsupervisory workers, but fell 2% in real terms.

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