Economic Outlook for California Construction

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Who We Are

- Affiliated with Fermanian Business School in San Diego, California
- Point Loma Nazarene University founded in 1902
- Institute conducts economic analysis, modeling, and forecasting
- Focuses on actionable conclusions for companies, non-profit organizations, and government agencies
- Staffed by ten professionals and assistants
- Core values are quality, objectivity, and integrity
California Construction Economy Topics

- Perspectives on the last 15 years
- Current situation
- Outlook through 2015
- Conclusions
California Construction
The Last 15 Years

- Expansion 1994-2005
- Devastating decline during past four years
Construction Spending Rises, then Falls Sharply
Billions of Constant (2009) Dollars

Sources: Construction Industry Research Board;
Housing’s Share of Construction Spending Shrinks

Percent

2005

- Total Residential Valuation: 11%
- Total Non Residential: 12%
- Heavy Cons. Public: 22%
- Public Buildings: 55%

2009

- Total Residential Valuation: 17%
- Total Non Residential: 31%
- Heavy Cons. Public: 24%
- Public Buildings: 28%

Sources: Construction Industry Research Board;
California’s Construction GSP Expands, then Contracts
Billions of Constant (2009) Dollars

Sources: Construction Industry Research Board;
California Construction
Current Situation

- 364,000 jobs lost in four years
- All segments down sharply
- Housing bottoming; nonresidential still dropping; public building weak
California Suffers Severe Construction Job Loss
Thousands of Jobs

Sources: Haver Analytics; California Employment Development Department;
All Major Building Segments Post Steep Spending Drops
Percent Change from Prior Peaks to 2009

Sources: Haver Analytics; California Employment Development Department;
California Construction Outlook

- **Housing**: Upturn, but constrained—overhang of foreclosed homes and limited finance
- **Nonresidential**: Recovery delayed until 2012—cyclical lags and refinancing problems
- **Public**: Relatively flat—fiscal pressures on federal, state, and local governments
Total Construction Spending Recovers, but Only to Two-Thirds 2002-06 Level
Billions of Constant (2009) Dollars

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Sources: Construction Industry Research Board;
Construction Spending Segments Move Higher, but All Below 2002-06 Levels
Billions of Constant (2009) Dollars

Actual
Forecast

Residential
Public
Nonresidential

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Sources: Construction Industry Research Board;
California’s Construction GSP in 2015 Still Off 30% from 2005 Peak
Billions of Constant (2009) Dollars

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Sources: Haver Analytics; PLNU
Construction 2015 Employment
Down 250,000 Jobs from 2005 Peak
Thousands

Actual
Forecast

Sources: Haver Analytics; California Employment Development Department;
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Recap—California’s Construction Industry

- Massive swings during past 15 years
- All segments are down sharply
- Housing will lead the recovery
- By 2015, Industry still a shadow of its 2002-06 levels
Conclusions/Recommendations

- The Goal: Achieve air quality standards and restore a healthy economy
- Side Effect of a Weakened Economy: Less air pollution
- Delaying Rule until 2015 would:
  - Give firms needed breathing room
  - Enable investments in new generation of equipment available by 2015