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Beige Book Finds Construction Still Weak; Wages Cool; Hiring Up But Outlook Stays Dim

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"Reports from the 12 Federal Reserve Districts suggested continued growth in national economic activity during the reporting period of mid-July through the end of August, but with widespread signs of a deceleration compared with preceding periods," the Fed reported on Wednesday in the latest Beige Book, a summary of informal surveys of firms in each district (identified by its headquarters city). "Recent weakness [in manufacturing] was most notable for construction-related products, according to reports from Cleveland, Richmond, Chicago, Dallas, and San Francisco….Residential construction activity declined in most areas in response to weak demand. Cleveland, St. Louis, and Minneapolis were the exceptions to this pattern of declining activity, with reports from their contacts indicating that residential construction activity improved of late. Inventories of available homes rose in general, although the availability of new homes in Atlanta was held down by the slow pace of new home construction….Demand for commercial, industrial, and retail space generally remained depressed. Vacancy rates stayed at elevated levels in general and rose further in a few Districts, placing substantial downward pressure on rents. Asking rents continued to decline in parts of the New York and Kansas City Districts. High vacancies and negative absorption held nonresidential construction activity to the bare minimum in most Districts. A few Districts reported exceptions to weak conditions. Cleveland noted improved construction activity for industrial use and educational infrastructure; this raised overall activity above year-earlier levels and prompted modest hiring by builders. Chicago reported an increase in inquiries for commercial redevelopment and rising construction activity for public projects, but Richmond reported that state and local governments cut back on construction projects."

Wage and benefit settlements for construction union employees "so far in 2010 have resulted in an average first-year increase of $0.64 or 1.3%," the Construction Labor Research Council (www.clrcdata.org) reported last week. "These amounts are little changed from the average reported earlier this year and are considerably less than the averages at this time last year [$1.29 or 2.7%]. This year's results are characterized by the large number of wage and fringe freezes and even some reductions. No increase was negotiated in about one-quarter of contracts. There have also been fewer multi-year agreements. Average increase levels were higher in both the second and third years of new contracts with increases of 2.0% to 2.9% most common."

There were 3.0 million job openings on the last business day of July 2010, seasonally adjusted, or 2.3 per 100 employees (a rate of 2.3%), up from 2.9 million (2.1%) in June and 2.3 million (1.8%) in July 2009, the Bureau of Labor Statistics reported on Wednesday. Job openings in construction rose to 76,000 (1.3%) in July from 53,000 (0.9%) in June and 45,000 (0.7%) in July 2009-the lowest rate of openings among 12 sectors or industries. The overall hiring rate held steady from June to July at 3.3%, up from 3.1% in July 2009. The hiring rate in construction rose to 6.3% in July, up from 5.2% in June and 5.7% in July 2009. The overall rate of total separations (quits, layoffs and discharges, retirements and other) held at 3.4% in all three periods. Total separations in construction equaled 6.5% of employment in July, 5.6% in June and 7.0% in July 2009; thus, the gap between the rates of hiring and separations in construction narrowed sharply but still was negative. "[E]mployers expect a relatively stable [seasonally

adjusted fourth-quarter] hiring rate compared to Quarter 3 2010," Manpower Inc. reported on Tuesday, based on a quarterly survey of 18,000 U.S. employers in all industries. "The outlook is negative for employers in the construction and government sectors….[In all regions, construction] industry employers project a considerable decrease in staffing levels compared to July - September 2010."
More than two-thirds (68%) of the 369 contractors, equipment distributors and industry service suppliers who answered a quarterly email survey said they expect the economic downturn for the U.S. construction industry to last until the third quarter of 2011 or beyond, Wells Fargo Equipment Finance reported on Tuesday. Regarding "the level of construction activity in your local area," 29% said it was "much higher" or "somewhat higher," 32% "about the same," and 39% "somewhat less" or "much less." As to how effective the American Recovery and Reinvestment Act had been at preserving or creating construction jobs in the respondent's area, 28% rated the act "very effective" or "somewhat effective," 47% said it "has neither helped nor hurt," 11% said there was a negative effect, and 14% didn't know.
"There was little to cheer about in the second quarter numbers from bank holding companies when it comes to commercial real estate [CRE] lending," the CFO Newsletter (www.CFOCapitalPartners.com) wrote on Tuesday. "While banks generally reported overall improved asset quality, they noted that declines in the value of [CRE] assets continued to eat away at those improvements. The upshot of the numbers is that it looks like banks will continue to restrict their CRE lending for the near term. Even the upsides from the quarter were an indication of just how gloomy CRE markets are. For starters, according to the Federal Reserve's July 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices, most respondents reported no change in their bank's standards for approving CRE loans. In other words: standards can't be tightened much more than they are now. In the same survey, banks also reported that demand for CRE loans had continued to be light but had not decreased. Here too, read another way: demand is pretty much at an all-time low."

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