

## ***News Release***

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### **Extra Dose of Caution Advised for 2003 Strategic Planning**

*PCA Issues Outlook for the Construction and the U.S. Economy*

SKOKIE, Ill. – Ed Sullivan, chief economist for the Portland Cement Association, has advised its members that the total construction market will continue to decline in 2003. Despite gains in residential and public sector construction activity, a significant lack of nonresidential construction handicaps the forecast.

Additionally, Sullivan has expressed reservations of a moderate growth in GDP unfolding in 2003 and has not ruled out a consumer retrenchment.

“PCA urges member strategic planning groups to add an extra dose of caution into its 2003 plans,” warned Sullivan.

#### Residential Construction Outlook

PCA expects single-family building activity to remain strong. Favorable interest rates positively contribute to this forecast but are offset by price appreciation in many markets. Single-family building starts reached 1.47 million units in September 2002 – the highest level of activity since 1978.

The positive news from multi-family unit construction is due strictly to the popularity of condominiums, while apartment unit vacancy rates are now at a relatively high 8.9 percent. Like single-family units, condominiums sales are benefiting from a favorable interest rate. Increases in young and low-income populations in some metropolitan areas have produced some growth in this market.

#### Nonresidential Construction Outlook

Sullivan predicts a dismal year for nonresidential construction, on par with the struggling 2002 numbers. A chief culprit is the nearly 46 percent year-to-date decline in industrial construction activity, which relies heavily on manufacturing. PCA expects construction activity to decline nearly 18 percent during 2003 with a recovery not expected until mid-2004.

Office building construction is off 29 percent from 2001 levels. Vacancy rates, overbuilding, and the tech bust have resulted in a surplus of office space. PCA suggests the process for office space recovery will require several stages beginning with a "demand recovery" that is not anticipated until well into 2004.

Furthermore, there is a surplus of retail space and a severe price competition among retailers contributing to a year-to-date 8.3 percent decrease in this sector. Retail sales growth strategies including tactics such as customer relationship management indicate a continued curtailing of new retail construction.

#### Public Construction Outlook

Year-to-date, public construction is running 4.8 percent above 2001 levels. Public construction activity, primarily funded by local and state governments, is expected to remain level in 2003. However, 48 state governments are facing

severe budget constraints that will likely result in numerous project postponements. However, the federal government may intervene with a state bail out program. Additionally, lags in previously approved construction activity should keep activity levels solid.

#### U.S. Economic Outlook

Sullivan has determined that consumers are the only buyers keeping moderate growth in the economy a reality. Reductions in interest rates by the Federal Reserve Board will likely benefit consumers only. A small interest rate decrease is unlikely to fuel rejuvenation in other sectors of the economy.

PCA continues to believe that the moderate growth scenario will unfold – but at a much slower pace than previously advised and with a heightened assessment on the downside risk of a consumer retrenchment. “There is little doubt that the downside risks to moderate economic growth during 2003 have heightened significantly,” said Sullivan.

Overall construction activity, with the exception of single family and public sector spending, will remain near current depressed levels.

Based in Skokie, Ill., the Portland Cement Association represents cement companies in the United States and Canada. It conducts market development, engineering, research, education, and public affairs programs.

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