

# Outlook

by Daryl Delano

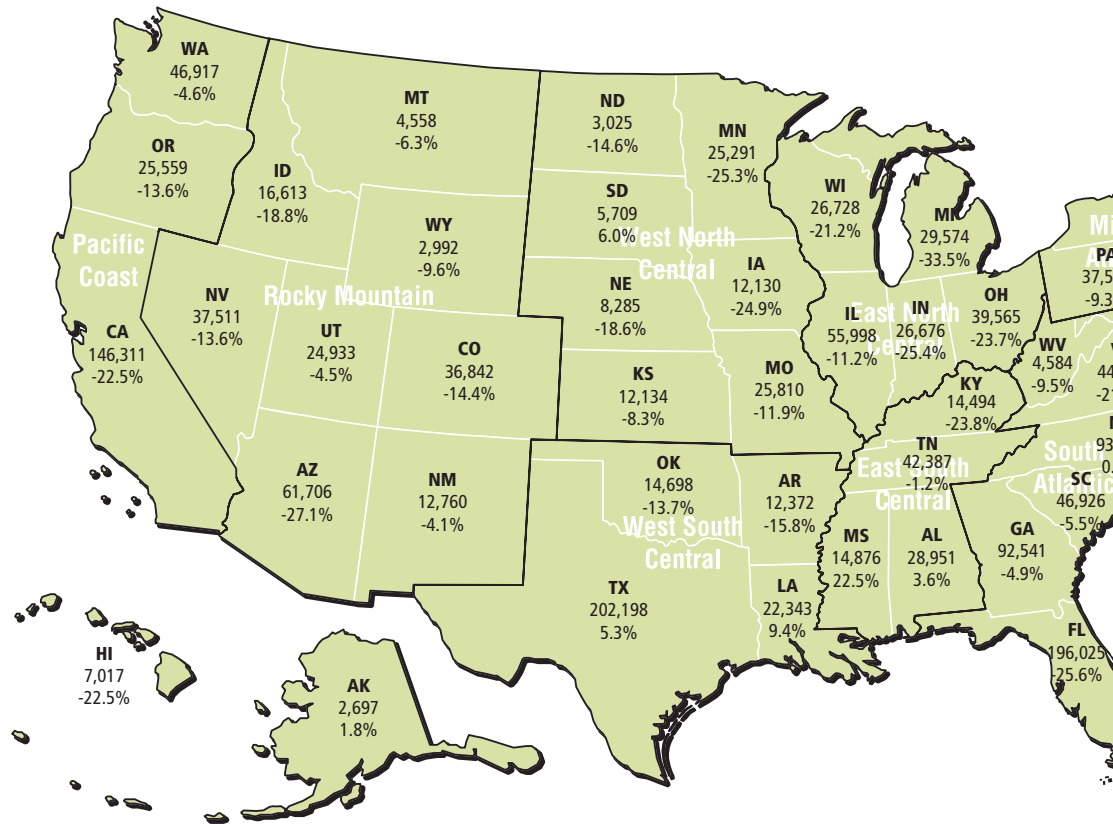


Daryl Delano has more than 25 years of professional experience in construction economics, labor economics, and macroeconomics. He has worked as a senior economist with Dodge Analytics, the research and consulting unit within McGraw-Hill Construction/Dodge.

### State Building Permit Trends

Through the first 11 months of 2006, there were 13.7 percent fewer permits issued nationwide for the future construction of new housing than during January-November 2005. The Northeast, Midwest, South, and West recorded substantially fewer permits last year than in 2005, with a -20.5 percent decline in the Midwest and a -17.7 percent drop in the West. Only seven states recorded more permits during the first 11 months of 2006 than during January-November 2005. Mississippi's 22.5-percent and Louisiana's 9.4-percent over-the-year growth rates were the best in the nation, attributable to rebuilding after Hurricane Katrina's devastation. Florida recorded a 25.6-percent plunge in the number of residential permits issued through November of 2006. Arizona (-27.1 percent) and California (-22.5 percent) also saw major declines. Texas, with 5.3-percent growth in housing permits through 11 months of last year, and North Carolina, with a slight 0.4-percent gain were exceptions.

## Building Permit Trends by State



## Pockets of strength in down housing market

Last year was undeniably one of emphatic "correction" in housing market demand and supply. As we entered the final month of 2006, total housing starts were off almost 13 percent from their year-earlier level, new single-family home sales were running more than 17 percent behind 2005's volume, and existing home sales were down nearly 10 percent.

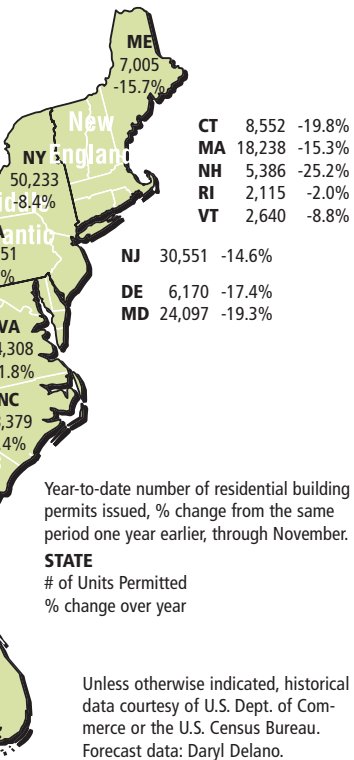
Fortunately for construction businesses, 2006 was a full-steam ahead year when it came to construction of most kinds of non-residential buildings and work on highway, bridge,

water, and sewer projects. Excluding residential work, overall construction spending increased almost 12 percent between 2005 and 2006. But with home/apartment/condominium construction still accounting for more than half of every dollar spent on new construction nationwide, last year's downturn in residential construction certainly took its toll on overall market activity.

Even in a down market, however, there are invariably pockets of strong activity and business opportunity — because, after all, local economic con-

ditions, demographics, and average price levels vary widely between states and even between areas within the same state. Building permit trends dramatically illustrate this point.

With 2006 data nearly complete, a total of 11 metropolitan areas in the nation had recorded an increase of 30 percent or more in the number of residential building permits they had issued during the year when compared to the total for January-November 2005. Seven of these 11 areas were in three contiguous states — Texas, Mississippi, and Alabama. These were also



Year-to-date number of residential building permits issued, % change from the same period one year earlier, through November.

**STATE**  
# of Units Permitted  
% change over year

Unless otherwise indicated, historical data courtesy of U.S. Dept. of Commerce or the U.S. Census Bureau. Forecast data: Daryl Delano.

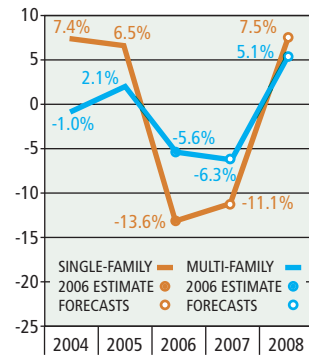
## Total Aggregates

Sold or Used by Producers in the U.S.

	First-9 mo. First-9 mo.		%
	2006	2006	
New England	68,700	68,910	0.3%
Mid Atlantic	196,400	190,300	-3.1%
East N. Cent.	375,700	380,800	1.4%
West N. Cent.	240,300	238,400	-0.8%
S. Atlantic	397,000	409,000	3.0%
East S. Cent.I	159,500	164,600	3.2%
West S. Cent.	260,400	251,600	-3.4%
Rocky Mtn.	249,500	265,500	6.4%
Pacific Coast	234,400	234,900	0.2%
Total U.S.	2,200,000	2,217,000	0.8%

Aggregates shipped from U.S. producers were up less than 1 percent during the first nine months of 2006 compared to same period in 2005. Production losses in the West South Central, Middle Atlantic, and West North Central states were offset by modest gains in much of the nation.

## Housing Starts



Through 11 months of 2006, total starts were running 12.5 percent below the year-earlier pace, with single-family construction faring much worse than multi-family building development. Permit trends suggest that the downturn is nearing a cyclical bottom, however, and prospects look good for a significant rebound, but not until 2008.

## Crushed Stone

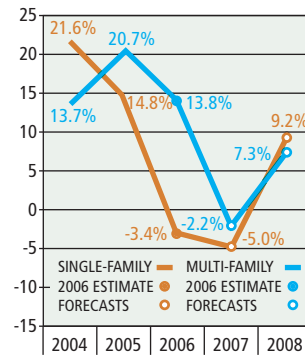
Production

	First-9 mo. First-9 mo.		%
	2006	2006	
New England	31,260	29,920	-4.3%
Mid Atlantic	141,500	136,900	-3.3%
East N. Cent.	206,600	211,200	2.2%
West N. Cent.	131,300	134,500	2.4%
S. Atlantic	325,600	334,000	2.6%
East S. Cent.	125,000	129,800	3.8%
West S. Cent.	163,800	157,700	-3.7%
Rocky Mtn.	46,600	50,100	7.5%
Pacific Coast	66,500	65,400	-1.7%
Total U.S.	12,460,000	12,570,000	0.9%

Nationwide mining of crushed stone increased slightly between the first nine months of 2005 and the same period in 2006. Offsetting moderate declines in the Northeast and on the Pacific Coast, were solid production gains elsewhere, especially in the Rocky Mountain states.

## Residential

Construction Spending



The number of dollars spent on single-family construction last year didn't fade nearly as badly as the decline in the actual number of units started, and double-digit spending growth continued for the increasingly upscale profile of multi-family condominium and apartment developments. This year's decline should be relatively small, with a solid recovery in spending all but a certainty during 2008.

## Sand & Gravel

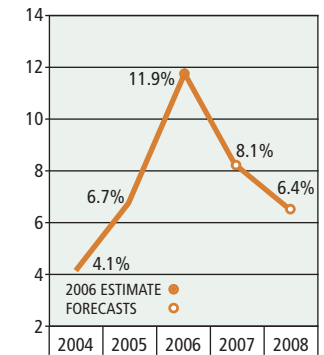
Production

	First-9 mo. First-9 mo.		%
	2006	2006	
New England	37,620	38,700	2.9%
Mid Atlantic	55,250	54,440	-1.5%
East N. Cent.	171,500	169,300	-1.3%
West N. Cent.	107,760	105,100	-2.5%
S.h Atlantic	72,000	75,400	4.7%
East S. Cent.	34,980	33,430	-4.4%
West S. Cent.	97,100	96,000	-1.1%
Rocky Mtn.	202,800	215,100	6.1%
Pacific Coast	167,800	169,300	0.9%
Total U.S.	955,000	963,000	0.8%

Mining of sand and gravel increased most sharply during the first nine months of 2006 in the South Atlantic and Rocky Mountain regions of the nation. However, declines in the Midwest and in the South Central regional segments held the nationwide over-the-year gain to less than 1 percent.

## Total Non-Residential

Construction Spending



Spending on non-residential building and infrastructure construction soared during 2006, even as the single-family residential market deflated. Through the first 10 months of last year, total spending for buildings and infrastructure construction work was 13.4 percent greater than the January-October 2005 total. However, somewhat less robust growth is likely this year and next.

states that were impacted in significant ways both directly and indirectly by the devastation of Hurricane Katrina.

Permit volume for the Gulfport-Biloxi, Miss., metro area, a community directly in the path of the Hurricane's destruction, was 98.6 percent higher through the first 11 months of 2006 than for the same period of 2005, while volume for nearby Pascagoula was up 48.5 percent. The other five areas in the three contiguous states that recorded permit growth of more than 30 percent included the following: Beaumont-Port Arthur, Texas;

Tuscaloosa, Ala.; Corpus Christi, Texas; Huntsville, Ala.; and Auburn-Opelika, Ala. Slower to bounce back in 2006 were Baton Rouge (+17.5 percent) and New Orleans (+11.2 percent).

Several other metro areas within a day's drive of the Hurricane's impact zone also saw a housing demand and new supply increase during 2006. The Houston metropolitan area recorded a 12.2-percent increase in the number of new housing units permitted during the first 11 months of last year to a total of almost 66,000, the best in the nation. Strong permit gains were also

recorded in smaller but fast-emerging communities such as Valdosta, Ga. (+24.3 percent), Mobile, Ala. (+24.0 percent), Austin, Texas (+22.1 percent), Raleigh-Cary, N.C. (+21.6 percent), and Charlotte, N.C. (+9.8 percent).

All of these gains were in marked exception to the rule for the 2006 housing market; nationwide, about 14 percent fewer residential units were permitted during the first 11 months of last year than during January-November 2005.