

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.

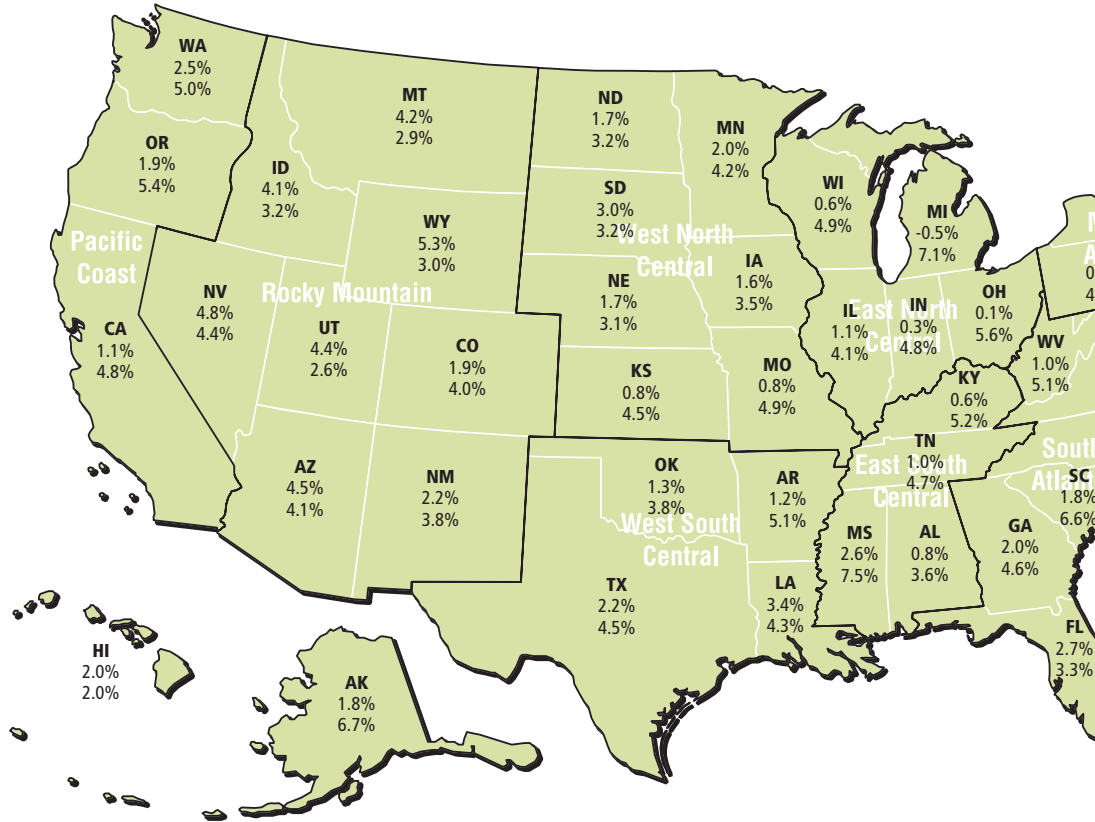
Employment Trends by State

Total employment in the U.S. increased by 1.4 percent from December 2005 to December 2006, but there were eight states that recorded job growth of 3.0 percent or more last year. Leading the way were — Wyoming, Nevada, Arizona, Utah, Montana, and Idaho, — which all saw total employment rise by more than 4 percent between 2005 and 2006. Michigan was the only state, where employment fell 0.5 percent on an annual average basis of measure.

The national unemployment rate this past December stood at 4.5 percent. Five states recorded unemployment rates of 3 percent or less during the final month of 2006, with the 2.0 percent rate recorded by Hawaii and the 2.6 percent jobless level in Utah being the lowest in the nation. Mississippi (7.5 percent) and Michigan (7.1 percent) had the highest rates of joblessness in the nation as 2006 drew to a close.

Florida continues to enjoy the healthiest overall labor market trends conditions.

Employment Trends by State



Economic growth strengthened during the final months of 2006

The resilience of the U.S. economy was demonstrated once again during 2006. Following growth of only 2.6 percent during the second quarter and an even weaker 2.0 percent during the third quarter, the nation's Gross Domestic Product (GDP) increased at a solid 3.5-percent annualized rate during the final quarter of last year.

An acceleration in consumer spending from a 2.8-percent annualized growth rate in the third quarter to

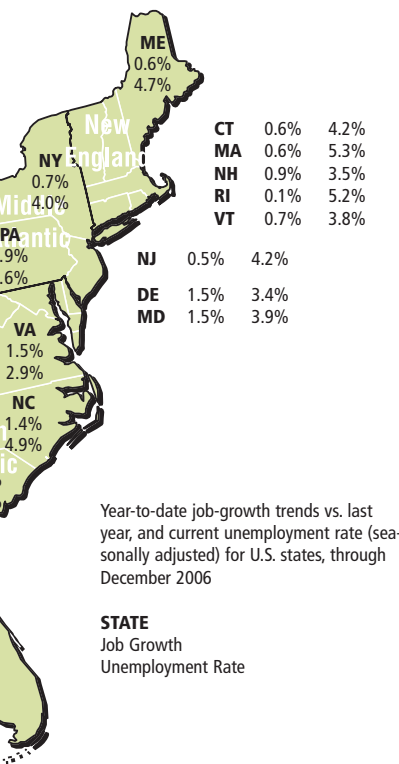
4.4 percent during the final quarter of the year was an important driver of the GDP improvement. So was the international trade sector of the economy, as surging export demand propped up U.S. production growth. Exports expanded at a 10.0-percent annualized rate during the final three months of 2006, while the value of imports actually fell by 3.2 percent. This improving balance in the nation's foreign trade accounts contributed a net 1.6 percentage point to

the overall 3.5-percent growth in U.S. GDP during the final quarter of 2006.

There were plenty of other parts of the government's latest GDP report, however, that amply demonstrate the challenges still facing the U.S. economy during 2007. The residential investment component of GDP, declined at an annualized rate of 19.2 percent during the most recent quarter — just on the heels of 11.1-percent and 18.7-percent plunges during the second and third quar-

ters of last year.

Residential activity measured in the GDP accounts has now declined for five consecutive quarters, and the full-year 2006 retrenchment in residential investment (4.2 percent) was the most severe in the past 15 years. In total, residential investment subtracted 1.2 percentage point from GDP growth during the final six months of 2006 and has been a net drag on the economy in every period since the third quarter of 2005.

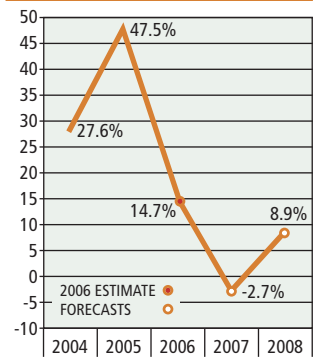


Year-to-date job-growth trends vs. last year, and current unemployment rate (seasonally adjusted) for U.S. states, through December 2006

STATE
Job Growth
Unemployment Rate

#2 Diesel Fuel

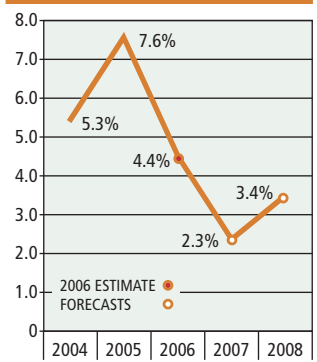
% change vs. previous year



Diesel fuel users were paying 2.3 percent more in December 2006 than during December 2005, despite the dramatic surge in prices during the spring and summer. Prices ended the year 18.9 percent lower than in August. The annualized increase was still large, but 2007-2008 inflation should average much less than during 2003-2006.

Mining

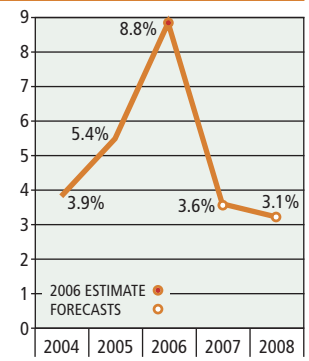
Machinery & Equipment



Prices for U.S.-manufactured mining machinery and equipment rose more slowly last year than in 2004-2005. The December 2006 price index was 3.8 percent higher than at the close of 2005. Greater stability in oil and gas prices should continue to moderate demand and push inflation lower still during 2007 and 2008.

Limestone

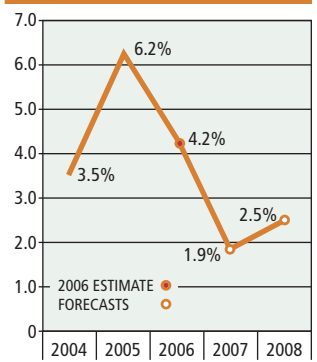
Crushed & Broken



This past December's average nationwide price for crushed and broken limestone was a steep 10.1 percent higher than in December 2005. With energy prices easing, however, stone prices showed little change during the final four months of 2006. Price increases should moderate this year and next.

Construction

Machinery & Equipment



The U.S. Department of Labor's price index for construction machinery increased 0.5 percent during the second half of 2006. The annualized gain was 4.2 percent, the smallest increase in three years. Inflation rates during the next two years should be more in line with the long-term annual average of just more than 2 percent.

Construction Spending

by Sector

News about construction activity during 2006 was dominated by headlines documenting the severely declining fortunes of the formerly high-flying residential sector. But, at the same time, most parts of non-residential and non-building/infrastructure construction were faring well enough to make 2006 another reasonably good year for aggregate construction activity.

Official (but still preliminary) U.S. Commerce Department data on the value of construction work completed during 2006 shows that dollars spent for residential buildings declined by 1.7 percent when compared to cumulative spending for the 12 months of 2005. This downturn followed exceptional residential spending growth in both 2004 (18.6 percent) and 2005 (13.6 percent). At the same time, spending for non-residential construction was 13.3 percent greater last year than in 2005, after recording moderate growth of 4.1 percent in 2004 and 6.7 percent during 2005.

% change in value of construction put in place

	2005	2006
Total Construction	10.5%	4.8%

	2005	2006
Total Residential	13.6%	-1.7%
Single-Family Residential	14.8%	-4.7%
Multi-Family Residential	20.7%	16.5%
Residential Improvements	9.0%	0.3%

	2005	2006
Total Non-residential	6.7%	13.3%
Office	7.0%	14.4%
Automotive	11.9%	-1.4%
Food/Beverage	-1.5%	-6.5%
General Merchandise	8.8%	-6.9%
Shopping Centers/Malls	32.4%	49.0%
Drug Stores	-7.6%	2.7%
Building Supply Stores	-0.2%	9.7%
Commercial Warehouses	9.2%	13.2%
Mini-Storage	17.8%	-27.9%
Lodging	4.6%	52.1%
Health Care	7.5%	14.1%
Educational	5.3%	6.6%
Religious	-4.6%	4.1%
Sports	3.1%	11.2%
Fitness	21.9%	40.5%
Social Centers	-38.0%	-8.2%
Performance/Mtg Centers	36.1%	-24.6%
Movie Theaters/Studios	2.6%	-6.1%
Public Safety	11.1%	10.6%
Manufacturing	30.6%	19.8%
Air Transportation	-4.9%	-10.9%
Land Transportation	9.4%	17.3%
Communication	7.1%	14.5%
Power	-1.2%	10.1%
Highway and Street	9.0%	14.9%
Sewage & Waste Disposal	7.8%	17.1%
Water Supply	5.9%	10.9%
Conservation & Dvlpmnt	9.4%	15.8%

Source: U.S. Commerce Department

In addition, business investment in structures (primarily non-residential commercial, industrial, and institutional buildings) slowed more than anticipated during the final three months of 2006. Following gains that averaged 14.2 percent during the prior four quarters, some slowdown was inevitable during the final months of last year. But the subdued 2.8-percent growth rate recorded in this component of GDP was a major disap-

pointment, and represents a disturbing deceleration in trend that bears watching in the months ahead.

On balance, though, the U.S. economy did remarkably well during 2006 to shake off the housing slump, a severe downturn in motor vehicle production, and (for most of the year) high oil prices.

The nation recorded a full-year GDP growth of 3.4 percent, even better than the 3.2-percent gain realized during the course of 2005.

However, current consensus GDP predict a weakening economic economy, with forecasts centering around 2.7 percent, largely because of the continued, but lessening, drag from the housing sector.

But odds of a near-term recession have diminished in recent months (to less than 20 percent), thanks to the positive trends evident in much of the fourth-quarter GDP report.