In construction, public spending picks up slack in private sector

Posted Friday, Jul. 29, 2011   5 Comments   Print   Reprints   Share   Like 0

BY MITCHELL SCHNURMAN
mschnurman@star-telegram.com

For all the complaints about government spending and the national debt, realize this: It has helped keep a big chunk of the construction business afloat, even in fiscally conservative Texas.

Look around Dallas-Fort Worth today, and most of the big construction projects were awarded by the public sector and financed with public debt. That often happens in the wake of a deep recession because private businesses pull back while city, state and federal governments continue to invest for the long term.

Those trends have been exaggerated in the past five years after residential real estate hit record highs and then collapsed. Office and retail construction fell just as sharply, at least in North Texas. Today,
precious few cranes can be seen on the landscape.

Meanwhile, construction spending has doubled for highways, bridges, sewage systems and the like, helped in part by federal stimulus funds. Schools and colleges have remained one of the strongest categories through the recession and shaky recovery. And hospitals have been an important growth sector.

Consider the big deals that have made local headlines: $2.1 billion for the North Tarrant Express highway project, $1.9 billion to renovate terminals at Dallas/Fort Worth Airport, $1 billion for the DFW Connector, almost $1.3 million for Parkland Hospital in Dallas, $800 million for a new hospital at the University of Texas Southwestern Medical Center at Dallas.

Dallas Love Field is doing a $519 million renovation. The University of Texas at Arlington spent $126 million on an engineering building that opened this year, and construction is under way on its $78 million College Park Center.

"I'd hate to think about where we'd be without these public projects," said Raleigh Roussell, president of TEXO, an industry association that represents commercial contractors in 62 counties in North Texas.

He said up to 20 percent of construction workers in the area remain unemployed despite the public spending push. That's how much the private sector has fallen.

Example: In North Texas in 2008, more than $1.1 billion in construction contracts went to build offices and banks; two years later, that category totaled $183 million, said Roussell, citing data compiled for his group by McGraw-Hill Construction.

Imagine a submarket falling by 84 percent.

Contracts for streets and highways are moving in the other direction. They totaled nearly $1.3 billion in 2008, and McGraw-Hill forecasts more than $2.7 billion for 2011, Roussell said.

As with most economic trends since the recession, Texas appears to be holding up better than most other states and the nation as a whole — with a big assist to public spending.

Construction employment didn't start to shrink until December 2008, 20 months after the national decline began. The state started to add construction jobs in October and has held relatively steady this year. Still, Texas has 85,400 fewer construction workers than three years ago, according to the Bureau of Labor Statistics.

That's a decline of 12.6 percent — significant but far better than the U.S. Nationwide, construction employment has fallen by 28 percent in the past four years, a loss of almost 2.2 million workers.

Construction accounts for a bigger share of jobs in Texas (5.6 percent vs. 4.2 percent nationwide) and has been a big factor in our growth story for decades.

"We may be doing better than other parts of the country, but we're used to a much more robust construction market," Roussell said.

Total construction spending in the U.S. has declined four years in a row and was down 7 percent through May, the Census Bureau reports.

"That's unheard of," said Michael Davis, branch chief for construction expenditures at the bureau.

And it illustrates the depth of the Great Recession and the need for public spending to combat it.

During recessions in the early '80s and '90s, construction fell for two consecutive years. Since 1995, annual construction grew consistently until the nationwide total peaked at more than $1.2 trillion in March 2006. It was down to $753 billion by May.

Private residential construction took the big hit from the housing bust: It fell from $683 billion nationwide
to $229 billion in just over five years. Over the same time, public construction grew by 10 percent even after a recent pullback in that category.

The Census Bureau doesn't report current local and state numbers for construction, but private research firms McGraw-Hill and Reed Construction Data compile their own figures on new contracts and spending. Their measures vary but tell much the same story.

In Texas, construction spending in the private sector fell 13 percent from 2008 to 2010, while public construction grew 14 percent, said Bob Rundgren, manager of quality data for Reed. The most growth was in civil construction, which includes roads and bridges.

Data on North Texas compiled by McGraw-Hill reveal more details. There have been steep drops in construction of stores, restaurants, hotels and warehouses. The big-volume contracts -- and dollars -- came from school districts, cities and public hospitals over the past two years.

What happens when that spigot gets turned down? Many giant projects, especially the highway expansions, were years in the making and will continue to lift the economy for a while. But the politics and economics in Washington, Austin and city halls dictate a retreat.

Budget cuts are coming to almost every part of government, and officials risk a backlash if they borrow too much. Some contraction is already evident.

State and local spending on education fell by 28 percent nationwide, or $25 billion, since the peak, the Census Bureau said. North Texas is projected to show a similar decline in education construction, and it has a fast-growing population.

On Friday, new GDP numbers showed that the U.S. economy slowed to a crawl in the first half of the year. Among the reasons analysts cited were the wind-down of the federal stimulus last year and a sharp reduction in spending by states and cities in 2011.

For almost two years, some vocal critics have been calling for government to shrink and let the private sector take over. That's coming soon enough, for better or worse.

Mitchell Schnurman's column appears Sundays and Wednesdays. 817-390-7821

Looking for comments?
David's Tree Service
David's Tree Service, David Bland Owner
817-706-9965. Insured/2M Police

Micro Metro
We come to you!
Malware/Security/Repair $49/hr.
1st 1/2hr. Free with Ad!

Lesikar Construction
Residential and Commercial 817-738-2177

Garage Door Brokers
Wholesale to the public since 1994. Lifetime Warranties on Springs!

Hudson Tree Service
Low cost tree service. Free Estimates! 817-927-8167

David's Tree Service
David's Tree Service, David Bland Owner
817-706-9965. Insured/2M Police

Micro Metro
We come to you!
Malware/Security/Repair $49/hr.
1st 1/2hr. Free with Ad!

Lesikar Construction
Residential and Commercial 817-738-2177

Garage Door Brokers
Wholesale to the public since 1994. Lifetime Warranties on Springs!