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Infrastructure Advocacy
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PSA - IAEO September 2014 Infrastructure Update

Transportation Funding Extension Finally Passes

President Barack Obama has signed into law $10.8 billion in temporary funding for highway and transit construction.

The extension signed in August will keep the Highway Trust Fund solvent through May, 2015 when lawmakers will again be challenged to come up with longer-term funding solutions.

The Trust Fund is the primary source of federal aid to states for surface transportation projects. Its money comes from the taxes paid on gasoline and diesel fuel. But revenue hasn't been keeping up with demand because people are driving less and vehicles are burning less fuel.

Administration officials stated that the fund would have run out of money by late August unless Congress had acted.

The eleventh hour extension relieved many, coming mere hours before the Transportation Department said it would need to begin cutting payments to states for any federally-funded highway work, putting hundreds of thousands of jobs at risk.

The bill raises revenue from a controversial budget technique called pension smoothing, as well as boosting customs fees; the money then gets funneled into the Highway Trust Fund, which can no longer maintain program funding at status quo levels on an 18.4 cents-per-gallon gas tax. This is the 10th short-term extension of the program in the past five years.

Road and concrete interests were not particularly happy with the bill, as they have long pushed for an increase in the gas tax and a longer-term funding plan.

PSA-IAEO will continue to push for the formation of a National Infrastructure Bank and other private funding mechanisms to augment public transportation infrastructure funding.

Construction Economists Optimistic About 2014 Commercial and Industrial Growth

Associated Builders and Contractors (ABC) Chief Economist Anirban Basu, American Institute of Architects (AIA) Chief Economist Kermit Baker and National Association of Home Builders (NAHB) Chief Economist David Crowe provided a collaborative economic forecast combining their expert economic analysis on leading, present and lagging economic indicators.

"A combination of low interest rates; wealth effects stemming from a booming stock market and rising home prices; surging energy production; and expanding industrial output has helped position the U.S. economy for more rapid growth during the next several quarters," said ABC Chief Economist Anirban Basu. "This will lead to more robust recovery in the U.S. nonresidential construction industry, which has also been aided by stable materials prices and improving commercial real estate fundamentals. ABC predicts 7 percent nominal nonresidential construction growth in 2014, despite ongoing challenges in the public construction segment."

"We continue to have an optimistic outlook for the commercial and industrial sectors for the rest of this year and into 2015," said AIA Chief Economist Kermit Baker, PhD, Hon. AIA. "However, until we see state and local governments ramp up spending for new education, health care and public safety structures there likely won't be a widespread acceleration in spending for the entire industry."

"Economic pick-up in the second quarter was coupled with a return in housing construction," said David Crowe, chief economist for NAHB. "We expect continued modest growth in housing construction as employment rises and more household formations take place. However, continued tight supplies of labor and land will put upward pressure on new home prices."

Congress Enacts Water Resources Reform and Development Act

Congress has enacted the massive Water Resources Reform and Development Act (WRRDA), which included a scaled-back Water Infrastructure Finance and Innovation Authority (WIFIA). A House-Senate conference committee had been working since last October to mesh conflicting WRRDA bills. Both houses overwhelmingly approved the conference bill in May, and President Obama signed it into law on June 10.

The $12.3-billion WRRDA, the first bill of its kind since 2007, broadly authorizes Army Corps of Engineers water infrastructure projects. Appropriations committees would decide on actual funding levels later. The final WIFIA chapter authorizes the EPA and Corps of Engineers each to offer $175 million in low-interest loans over five years for water and wastewater infrastructure projects expected to cost at least $20 million, or $5 million for water systems serving 25,000 or fewer people.

Based on an expected 10-to-1 leveraging ratio, if fully funded, EPA and the Corps together could offer $3.5 billion worth of loans over the course of the five-year pilot. They will select loan recipients through a nationwide competitive process. The program would function separately from the existing state revolving fund (SRF) programs.

EPA will offer WIFIA loans for projects to carry out "repair, rehabilitation or replacement" of a community water system or treatment works, construct brackish seawater or desalination infrastructure, and enhance a water system's energy efficiency, as well as any project eligible for assistance through the SRFs.

The House-Senate conferees reduced the size of the WIFIA program and added several conditions. They denied funding if a state intends to award an equal or greater amount of SRF funding for the project in a given year. They also inserted a provision requiring 15 percent of each year's WIFIA appropriation be reserved to fund small community water system projects.

The American Water Works Association (AWWA), Water Environment Federation (WEF) and Association of Metropolitan Water Agencies (AMWA) praised WIFIA's passage, although Congress limited funding to 49 percent of project costs and prohibited tax-exempt financing for the remaining portion.

NAM and U.S. Chamber Rally Support for Export-Import Bank

The National Association of Manufacturers (NAM) and U.S. Chamber of Commerce has given voice to the more than 200,000 employees at 3,400 companies who depend on the U.S. Export-Import (Ex-Im) Bank by announcing a coalition focused on protecting jobs and competitiveness and urging Congress to act swiftly to reauthorize the bank before its charter lapses on September 30. Among the first steps taken by the coalition is the release of a letter from more than 800 companies and associations of all sizes showing the tremendous breadth and depth of support for the effort.

“The Ex-Im Bank is critical to leveling the playing field in a fiercely competitive global economy where many foreign export credit agencies offer generous terms to our competitors,” said Jay Timmons, president and CEO of the NAM. “Reliable access to export financing is vital to our global competitiveness, particularly in today’s unsettled financial environment. Manufacturers in the United States can’t afford to be defenseless in the global marketplace. Allowing the Ex-Im Bank to shut its doors would be a gift to foreign producers overseas and would result in the loss of exports, manufacturing and jobs here in the United States.”

“This letter shows the overwhelming support for the Ex-Im Bank from American companies of every size, sector and state,” said Thomas J. Donohue, president and CEO of the U.S. Chamber of Commerce. "With Americans overwhelmingly focused on the need to create jobs and grow our economy, business owners are understandably perplexed by the inside-the-Beltway campaign against the Ex-Im Bank. In particular, the thousands of small businesses that depend on the bank to be able to access foreign markets are stunned at the threat that Washington could let its charter lapse. However, we won't let that happen."

Securing reauthorization of the Ex-Im Bank is one of the business community's top legislative priorities for the year. The bank's support is especially important to small and medium-sized businesses, which account for nearly 90 percent of the bank's transactions.

Latest Economic Indicators at a Glance

Annual Employment Report

Nonfarm payroll employment rose by 142,000 in August, and the unemployment rate was little changed at 6.1 percent. Employment rose in professional and business services and in health care.

Construction Employment

The U.S. construction industry added 22,000 jobs in July, according to the Bureau of Labor Statistics' Aug. 1 preliminary estimate. June's report was also upwardly revised to show a gain of 10,000 jobs in the industry. Nonresidential construction added 6,600 jobs in July, with heavy and civil engineering adding 2,500 of those jobs. This represents a significant improvement from June when the nonresidential construction industry added just 100 jobs.

"Economic news continues to improve as the U.S. economy has now added more than 200,000 jobs a month for six consecutive months, the first winning streak of this type since 1997," said Associated Builders and Contractors Chief Economist Anirban Basu. "While nonresidential construction's cycle tends to lag that of the overall economy by roughly a year, gains in momentum for the U.S. economy mean that nonresidential construction is poised for better times ahead. While the 6,600 nonresidential jobs added last month may hardly seem Earth-shattering, it's important to note that the U.S. economy only expanded by around 1 percent during the first six months of the year. The renewal of economic momentum remains in its infancy, but this momentum will gradually translate into an acceleration of nonresidential employment creation."

The national construction unemployment rate fell to 7.5 percent on a non-seasonally adjusted basis in July. "July's construction unemployment rate represents the lowest figure since November 2007, the month before the recession began," said Basu. "The rate of unemployment is even lower in certain rapidly expanding states, including North Dakota, Texas and Louisiana, which are wrestling with too few construction workers, not too many."

Consumer Confidence

The Conference Board Consumer Confidence Index®, which had increased in July, improved further in August. The Index now stands at 92.4 (1985=100), up from 90.3 in July. The Present Situation Index increased to 94.6 from 87.9, while the Expectations Index edged down to 90.9 from 91.9 in July.

Says Lynn Franco, Director of Economic Indicators at The Conference Board: "Consumer confidence increased for the fourth consecutive month as improving business conditions and robust job growth helped boost consumers' spirits. Looking ahead, consumers were marginally less optimistic about the short-term outlook compared to July, primarily due to concerns about their earnings. Overall, however, they remain quite positive about the short-term outlooks for the economy and labor market."

Gross Domestic Product (GDP)

Real gross domestic product (GDP) increased at an annual rate of 4.2 percent in the second quarter of 2014. Corporate profits increased $154.9 billion (8.0% at a quarterly rate) in the second quarter.

Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in July on a seasonally adjusted basis. Over the last 12 months, the all items index increased 2.0 percent before seasonal adjustment.

The all items index posted its smallest seasonally adjusted increase since February; the indexes for shelter and food rose, but were partially offset by declines in the energy index and the index for airline fares. The food index rose 0.4 percent in July, with the food at home index also rising 0.4 percent after being unchanged in June. The decrease in the energy index was its first since March and featured declines in the indexes of all the major energy components.

The index for all items less food and energy increased 0.1 percent in July, the same increase as in June. Along with the shelter index, the indexes for medical care, new vehicles, personal care, and apparel all increased in July. Along with the index for airline fares, the indexes for recreation, for used cars and trucks, for household furnishings and operations, and for tobacco all declined in July.

The all items index increased 2.0 percent over the last 12 months, a slight decline from the 2.1 percent figure for the 12 months ending June. The index for all items less food and energy rose 1.9 percent over the last 12 months, the same figure as for the 12 months ending June. The energy index has increased 2.6 percent, and the food index has risen 2.5 percent over the span.

Producer Price Index

The Producer Price Index for final demand rose 0.1 percent in July, seasonally adjusted. This increase followed a 0.4-percent advance in June and a 0.2-percent decline in May. On an unadjusted basis, the index for final demand climbed 1.7 percent for the 12 months ended in July.

Productivity and Costs

Nonfarm business sector labor productivity increased at a 2.3 percent annual rate during the second quarter of 2014. From the second quarter of 2013 to the second quarter of 2014, productivity increased 1.1 percent as output and hours worked rose 3.2 percent and 2.0 percent, respectively.

Factory Orders

New orders for manufactured durable goods in July increased $55.3 billion or 22.6 percent to $300.1 billion. This increase, up five of the last six months, was at the highest level since the series was first published on a NAICS basis in 1992, and followed a 2.7 percent June increase. Excluding transportation, new orders decreased 0.8 percent. Excluding defense, new orders increased 24.9 percent.

Transportation equipment, also up five of the last six months, drove the increase, $56.6 billion or 74.2 percent to $133.0 billion.

Employment Cost Index

Compensation costs for civilian workers increased 0.7 percent, seasonally adjusted, for the 3-month period ending June 2014. Wages and salaries (which make up about 70 percent of compensation costs) increased 0.6 percent, and benefits (which make up the remaining 30 percent of compensation) increased 1.0 percent.

Civilian Workers

Compensation costs for civilian workers increased 2.0 percent for the 12-month period ending June 2014. In June 2013, the increase in compensation costs was 1.9 percent. Prior values for this series, which began in June 1982, ranged from 1.4 percent to 7.5 percent. Wages and salaries increased 1.8 percent for the 12-month period ending June 2014, compared with 1.7 percent in June 2013. Benefit costs increased 2.5 percent for the 12-month period ending June 2014, compared with a 2.2 percent increase for the 12-month period ending June 2013.

Private Industry Workers

Compensation costs for private industry workers increased 2.0 percent over the year. In June 2013 the increase was 1.9 percent. Wages and salaries increased 1.9 percent for the current 12-month period ending June 2014, the same as June 2013. The increase in the cost of benefits was 2.4 percent for the 12-month period ending June 2014, primarily due to increases in the cost of retirement plans. In June2013, the increase in the cost of benefits was 1.9 percent. Employer costs for health benefits increased 2.7 percent over the year. In June 2013 the increase was 2.6 percent.

Among occupational groups, compensation cost increases for private industry workers for the 12-month period ending June 2014 ranged from 1.1 percent for service occupations to 2.4 percent for natural resources, construction, and maintenance occupations.

Among industry supersectors, compensation cost increases for private industry workers for the current 12-month period ranged from 1.1 percent for leisure and hospitality to 4.6 percent for information.

State and Local Government Workers

Compensation costs for state and local government workers increased 2.0 percent for the 12-month period ending June 2014, compared with 1.8 percent for June 2013. Wages and salaries increased 1.3 percent for the 12-month period ending June 2014, compared with 1.0 percent in June 2013. Benefit costs increased 3.2 percent in June 2014. In June 2013, the increase was 3.3 percent.

Real Earnings

Real average hourly earnings for all employees was unchanged from June to July, seasonally adjusted. This result stems from an unchanged average hourly earnings, combined with a 0.1 percent increase in the Consumer Price Index for All Urban Consumers (CPI-U).

Real average weekly earnings was unchanged over the month due to both the real average hourly earnings and the average workweek being unchanged.

Real average hourly earnings was unchanged, seasonally adjusted, from July 2013 to July 2014. The unchanged real average hourly earnings, combined with a 0.3 percent increase in the average workweek, resulted in a 0.3 percent increase in real average weekly earnings over this period.

Construction Spending

Construction spending during July 2014 was estimated at a seasonally adjusted annual rate of $981.3 billion, 1.8 percent above the revised June estimate of $963.7 billion. The July figure is

8.2 percent above the July 2013 estimate of $906.6 billion. During the first 7 months of this year, construction spending amounted to $535.4 billion, 7.9 percent above the $496.3 billion for the same period in 2013.

Spending on private construction was at a seasonally adjusted annual rate of $701.7 billion, 1.4 percent above the revised June estimate of $692.2 billion. Residential construction was at a seasonally adjusted annual rate of $358.1 billion in July, 0.7 percent above the revised June estimate of $355.6 billion. Nonresidential construction was at a seasonally adjusted annual rate of $343.6 billion in July, 2.1 percent above the revised June estimate of $336.6 billion.

In July, the estimated seasonally adjusted annual rate of public construction spending was $279.6 billion, 3.0 percent above the revised June estimate of $271.5 billion. Educational construction was at a seasonally adjusted annual rate of $63.5 billion, 1.6 percent above the revised June estimate of $62.5 billion. Highway construction was at a seasonally adjusted annual rate of $84.8 billion, 6.9 percent above the revised June estimate of $79.3 billion.

<u>Nonresidential Construction Spending</u>

Nonresidential construction spending expanded strongly in July, growing 2.5 percent on a monthly basis and rising a robust 8.6 percent on a year-over-year basis according to a Sept. 2 release from the U.S. Census Bureau. Spending for the month totaled $617.8 billion on a seasonally adjusted, annualized basis. The government also revised upward a somewhat disappointing June nonresidential construction spending estimate from $589 billion to $603 billion and the estimate for May from $606 billion to $611 billion.

“Today’s encouraging report provides further evidence that a vigorous nonresidential construction recovery is finally at hand,” said Associated Builders and Contractors Chief Economist Anirban Basu. “Increased job growth, booming energy production, expanding industrial production and normalizing capital markets are all contributing to nonresidential construction’s renewed momentum and confidence among developers and other significant consumers of construction services is high, signaling ongoing recovery.

"The economy is recovering rapidly enough to improve real estate conditions in meaningful ways without triggering a shift in the Federal Reserve’s still accommodative policy making,” said Basu. “Both stock and bond markets have been rallying of late, which has helped to generate wealth and lower borrowing costs simultaneously, an ideal situation for construction. Progress has been particularly apparent in power and industrial segments, with year-over-year construction spending up 26 percent in the power category and 24 percent in manufacturing.”

<u>Construction Materials Prices</u>

Overall, construction materials prices inched higher in July and are up 2 percent year over year, according to the Aug. 15 producer price index (PPI) release by the U.S. Department of Labor.

Nonresidential construction materials prices were flat for the month and are just 1.4 percent higher than at the same time one year ago.

“The weakening of economies in Europe, Japan and elsewhere has reduced demand for construction materials on a global basis, helping to offset the impact of geopolitical strife in commodity-rich areas,” said Associated Builders and Contractors Chief Economist Anirban Basu. “Oil and other commodity prices have actually been falling in recent days as additional bad economic news emerges from Germany, France, Italy and other major economies.”

Crude energy materials prices fell 6.3 percent in July and are 1.7 percent lower than one year ago. Natural gas prices fell by 5.7 percent in July and have now fallen in four of the past five months on a monthly basis. On a year-over-year basis, natural gas prices have expanded by more than 10 percent for each month of 2014. Overall, the nation’s final demand prices, as measured by the PPI, expanded by 0.1 percent in July and are up 1.7 percent year over year.

“While the harsh winter helped to lift energy prices during the initial quarter of 2014, a cool and pleasant summer has helped to usher them in the opposite direction,” said Basu. “From a monetary policy perspective, the 1.7 percent year-over-year gain in overall final demand prices bodes well for those who would prefer to see the Federal Reserve continue its soft-on-inflation policymaking. During previous months, final demand price gains were in the range of 2 percent on a year-over-year basis. The July data will help to assuage inflation-related fears.”

The following materials prices increased in July:

- Softwood lumber prices expanded 3.4 percent and are 9.5 percent higher than one year ago.
- Prices for plumbing fixtures expanded 0.9 percent in July and are up 2.8 percent on a year-over-year basis.
- Concrete products prices expanded 0.4 percent in July and are up 3.6 percent on a yearly basis.
- Steel mill products prices rose 0.1 percent for the month and are 3.9 percent higher than one year ago.
- Fabricated structural metal product prices grew 0.2 for the month and have expanded 1.3 percent on a year-over-year basis.
- Nonferrous wire and cable prices grew 0.6 percent on a monthly basis, but are down 0.8 percent from July 2013.

Five of the 11 key construction inputs did not experience price increases for the month:

- Prices for prepared asphalt, tar roofing, and siding declined 4.2 percent for the month and are down 9.1 percent on a year-ago basis.
- Iron and steel prices remained flat in July and are up 3.2 percent from the same time last year.

- Natural gas prices shed 5.7 percent in June but are 16.4 percent higher than one year ago.
- Crude petroleum prices fell 8 percent in July on both a monthly and a yearly basis.
- Crude energy materials prices fell 6.3 percent in July and are 1.7 percent lower year over year.

Retail Sales

U.S. retail and food services sales for July, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $439.8 billion, virtually unchanged from the previous month, and 3.7 percent above July 2013. Total sales for the May through July 2014 period were up 4.2 percent from the same period a year ago. The May to June 2014 percent change was unrevised from +0.2 percent.

Retail trade sales were virtually unchanged from June 2014, and 3.4 percent above last year. Health and personal care stores were up 7.3 percent from July 2013 and auto and other motor vehicle dealers were up 6.4 percent from last year.

New Residential Sales

Sales of new single-family houses in July 2014 were at a seasonally adjusted annual rate of 412,000, according to estimates released jointly today by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 2.4 percent below the revised June rate of 422,000, but is 12.3 percent above the July 2013 estimate of 367,000.

The median sales price of new houses sold in July 2014 was $269,800; the average sales price was $339,100. The seasonally adjusted estimate of new houses for sale at the end of July was 205,000. This represents a supply of 6.0 months at the current sales rate.

New Residential Construction

Privately-owned housing units authorized by building permits in July were at a seasonally adjusted annual rate of 1,052,000. This is 8.1 percent above the revised June rate of 973,000 and is 7.7 percent above the July 2013 estimate of 977,000.

Single-family authorizations in July were at a rate of 640,000; this is 0.9 percent above the revised June figure of 634,000. Authorizations of units in buildings with five units or more were at a rate of 382,000 in July.

Privately-owned housing starts in July were at a seasonally adjusted annual rate of 1,093,000. This is 15.7 percent above the revised June estimate of 945,000 and is 21.7 percent above the July 2013 rate of 898,000.

Single-family housing starts in July were at a rate of 656,000; this is 8.3 percent above the revised June figure of 606,000. The July rate for units in buildings with five units or more was 423,000.

Privately-owned housing completions in July were at a seasonally adjusted annual rate of 841,000. This is 3.7 percent above the revised June estimate of 811,000 and is 8.0 percent above the July 2013 rate of 779,000.

Single-family housing completions in July were at a rate of 635,000; this is 6.2 percent above the revised June rate of 598,000.

The July rate for units in buildings with five units or more was 199,000.

U.S. Trade Balance

Total July exports of $198.0 billion and imports of $238.6 billion resulted in a goods and services deficit of $40.5 billion, down from $40.8 billion in June, revised. July exports were $1.8 billion more than June exports of $196.2 billion. July imports were $1.6 billion more than June imports of $237.0 billion.

In July, the goods deficit decreased $0.2 billion from June to $60.2 billion, and the services surplus was virtually unchanged at $19.6 billion. Exports of goods increased $1.8 billion to $138.6 billion, and imports of goods increased $1.5 billion to $198.8 billion. Exports of services increased $0.1 billion to $59.4 billion, and imports of services were virtually unchanged at $39.8 billion.

The goods and services deficit increased $1.1 billion from July 2013 to July 2014. Exports were up $8.1 billion, or 4.3 percent, and imports were up $9.2 billion, or 4.0 percent.

Sources: Associated Builders and Contractors (ABC), National Association of Manufacturers, Waterworld Magazine, American Institute of Architects, National Association of Home Builders (NAHB)