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# BUSINESS FIRST

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## Local contractors describe mixed outlook for near future

Projects in progress keep going, but volume in 2009 uncertain

Business First of Louisville - by [Brent Adams](#) Business First Staff Writer

Louisville-area general contractors have kept busy the past couple of years building hotels, churches, schools, hospitals and strip shopping centers.

Many of those projects have carried into the first quarter of 2008, but contractors are waiting to see how the rest of the year will unfold.

"It's a mixed outlook," said Pat Noonan, president of Louisville-based **Whittenberg Construction Co.**

Whittenberg is finishing construction on the downtown Fairfield Inn & Suites and SpringHill Suites hotels, and it recently finished construction of the new Harrison County Hospital.

It also is doing renovation and addition work at Floyd Memorial Hospital in New Albany and is building a medical building for Hardin Memorial Hospital in Elizabethtown, a replacement hospital and a pharmacy building at the University of Kentucky in Lexington, and a school in Rineyville, Ky.

No slowdowns -- yet

"Some people are kind of holding back and waiting to see what's going to happen (with the economy), and some are moving forward," Noonan added. "I guess you could say I'm cautiously optimistic that this looks like it will be a good year."

Mark Gillming, vice president and business leader for the Louisville office of Cincinnati-based **Messer Construction Co.**, said his company has not seen a slowdown in projects in 2008.

Messer has seven projects in the works, including the University of Louisville's Center for Predictive Medicine and Health Sciences Center, the Norton Brownsboro Hospital at Old Brownsboro Crossing, and a 600-soldier barracks at Fort Knox.

"For 2008, we're still looking pretty strong," Gillming said. "But for 2009, it's still pretty much up in the air."



Photo by Ron Bath

Construction work is under way on ZirMed Gateway Towers, which is located on West Market Street at Ninth Street in downtown Louisville.

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But architects with whom the company regularly works tell him that they're still receiving inquiries from clients interested in building. "If they're still busy, that's good for us," Gillming said.

#### Following a national trend

Noonan's and Gillming's observations fall in line with a forecast issued March 10 by Ken Simonson, chief economist for the Associated General Contractors of America, an Arlington, Va.-based trade organization.

"It's a very mixed picture, but hospital, university and (U.S. military) base-realignment projects will really contribute to construction employment in some communities," Simonson told Business First this week.

He added that power construction, including transmission lines and power plants, as well as energy projects, including fuel refineries and alternative fuels processors, will continue to grow while construction of retail centers, office buildings, religious structures and hotels are expected to slow.

Simonson blames a "cooling" economy for a slowdown in those projects.

"Lenders are becoming a lot pickier," Simonson said.

#### Materials costs present challenge

Noonan said his company continues to be challenged by high raw materials costs. Although lumber is at a five-year low, metals and plastics continue to increase in price.

Also, rising fuel costs erode Whittenberg's profit margins.

Simonson said contractors should expect that trend to continue. Diesel, copper and steel prices are expected to continue to accelerate throughout the year. Nonresidential and multiunit residential construction costs are expected to rise more than 5 percent in 2008 from 2007, he added.

Simonson said the price index for materials that go into a construction project rose 31 percent between January 2004 and February 2008, compared with a 15 percent increase in the consumer price index over that same period. "In the past few months we've seen that gap become even wider," Simonson said. "I would expect that we're going to see costs continue to accelerate."

Unstable steel prices also complicate the pricing of jobs and can erode profit margins, Gillming said. "Steel is more volatile than it has been in a year or a year and a half."

As with copper and other construction materials, steel prices will rise as worldwide demand increases, Simonson speculated.

#### Less demand for gypsum, cement

A decline in demand might mean lower prices for rock products.

Simonson said that fewer nonresidential and multifamily residential projects should lead to lower gypsum prices this year.

And the Portland Cement Association, a Skokie, Ill.-based trade group, said in a late March economic forecast that U.S. construction activity and cement consumption will face "significant declines" in 2008.

"High fuel prices, acceleration of home foreclosures, and the impact of the sub-prime crisis on credit standards are some of the current conditions that lead us to believe the economy is already in a recession," PCA chief economist Edward Sullivan said in a news release.

"Even when there is recovery later this year, it will not immediately affect the construction and cement industries," he added.

The decline is likely to plague concrete producers the rest of the year and into next year. "Nonresidential construction typically takes 18 months for recovery," Sullivan said in the release. "This implies further declines in 2009, coupled with a slowdown in public construction activity during the same period."

Gillming said he has seen gypsum prices decline locally, but he's not seeing relief from high gravel and cement prices because distributors are adding fuel surcharges that wipe out any savings from price declines.

**Workers might become harder to find**

Simonson said he expects labor shortages to increase in some trades in areas of commercial construction that have remained busy.

That would drive up average wage rates between 4.5 percent and 5.5 percent in 2008 and between 5 percent and 6 percent in 2009.

Kentucky appears to be bucking the national trend in construction employment, Simonson said.

According to the most recent U.S. Bureau of Labor Statistics report, issued March 28, Kentucky led the nation in nonresidential construction employment gains, with a 7 percent increase in February from a year earlier. That compares with a 3 percent decline nationwide.

"That is a big contrast," Simonson said. "I was really surprised to see that. "

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