



MANAGEMENT CONSULTING • INVESTMENT BANKING
for the ENGINEERING and CONSTRUCTION INDUSTRY

2011 FMI Forecast

Looking Ahead: Signs of Emergence

In the 4th quarter of 2008, the NRCI (FMI Nonresidential Construction Index) was only 34.1. Now, at 60.8 for the 1st quarter 2011, it appears markets are emerging from wherever it is that they go to “hunker down.” The Great Recession officially ended in June 2009 according to the Business Cycle Dating Committee of the National Bureau of Economic Research, although that news wasn’t announced until September 2010. Few would have believed it in 2009 anyway, but now we have significant signs the recession clouds are beginning to clear over the construction economy.

Construction Markets

For 2011, and likely into 2012 and beyond, we can expect a significant decline in federal and municipal construction projects as the federal government and states go into budget repair mode. The hope is that private owners will begin to come back into the market. However, the transition will not be smooth.

Nonresidential construction will dip another 2% after falling 15% in 2010. Some of this change can be accounted for in lower prices, so actual physical construction put-in-place may be higher than for 2010. Three of the largest components of the nonresidential construction sector will continue to struggle in 2011, commercial, lodging and office construction. Of the three, commercial construction may be the strongest as the unemployment numbers begin to level off, and the residential sector slowly returns in some areas of the country.

Education construction will continue to weaken, especially K-12, as states roll back spending on everything. This will cause challenges across the country especially in areas where the population is growing the fastest. There are still some federal funding programs directed at schools that will help offset the loss and make it easier to sell bonds, but it will be tough to get higher school budget passed in 2011.

Although the health care construction market has been in decline in 2010, it will remain at a historically high level. Hospital construction will allow the segment to maintain its volume. Special care construction will help drive future growth. Nonetheless, there are major concerns to watch in this sector, chief among them will be how the contentious fight over the Healthcare bill will affect the markets.



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Transportation construction is expected to recover in 2010. The size of the market should double between 1999 and 2013 if bills pass for rail and airport construction. As in other areas of the economy, the need is there, but the money is not easy to find. High-speed rail has yet to catch on, and there will be a continuing debate about its cost effectiveness. It will be helped by another \$2.5 billion in addition to the \$8 billion in federal stimulus “down payment for high-speed and intercity passenger rail.”

U. S. Construction Markets Overview

While improving, our forecast indicates that it will be 2014 before put in place construction starts to approach the peak levels of 2007. Of course, there are pockets of health and counter-trending companies. However, a slow recovery does not mean inactivity in the industry. On the contrary, construction firms must work harder to position their firms for changing markets. Business development is once again becoming a major area of focus. Those efforts do not just include finding new customers and maintaining relationships, both important initiatives, construction industry firms need to be greener, employ new technologies like BIM on a broader scale, be more productive and be ethical and more collaborative in their business dealings.

FMI Nonresidential Construction Index (NRCI) Scores
Since Inception of NRCI: Q4, 2007 to Q1, 2011
(Scores higher than 50 indicate expansion, below 50 indicate contraction.)

