Construction contracting to slip 3 percent in 1989

Sharp drops in office and other commercial construction, coupled with a gentler slide in the large residential sector, will reduce total 1989 construction contracting to $247.4 billion, a three percent decline from last year’s level.

In the first scheduled update to its 1989 Dodge/Sweet’s Construction Outlook, McGraw-Hill Information Services pointed to a glut of commercial space on the market and rising interest rates as the primary factors underlying the projected decline.

“The commercial building market is still laboring under the high vacancy rates produced by extensive overbuilding of offices, apartments and hotels earlier in this decade,” according to George A. Christie, the firm’s vice president and chief economist. “Correction of mid-1980s overbuilding is underway, but a further reduction in new 1989 construction to 700 million square feet is needed to hasten the return to balance and viability. A continuation of that depressed level of building next year will ready the commercial sector for recovery, led by apartments, in 1991.”

Single family homebuilding, which has been the buoyant force in the construction market for the last four years, will experience a downturn in 1989, a victim of rising interest rates.

“Responding to mounting inflationary pressures, the Federal Reserve has aggressively tightened credit. As the Fed turned up the heat, it was inevitable that the rise of nearly three percentage points in short-term rates since this time last year has recently begun to spill over into mortgages,” Christie said. “As this happens, homebuilding, as always, will be the first casualty.”

The McGraw-Hill economist now expects total housing starts to decline six percent this year.

The mandate to lower the federal budget deficit is acting as a restraint on the growth of public works construction. “The Department of Transportation’s budget for highway, mass transit and airport construction is up by a token $300 million of $18.2 billion,” he says.