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The Data DIGest

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PPI jumps for month but falls from year ago; Reed, CEA, Fed differ on activity levels

The **producer price index** (PPI) for finished goods rose 1%, not seasonally adjusted (1.7%, seasonally adjusted) in August, but dropped 4.3% over 12 months, the Bureau of Labor Statistics reported today. *The PPI for inputs to construction industries climbed 1.1% for the month but fell 7.4% from August 2008. Three items accounted for much of the up-and-down movement: the PPI for diesel fuel jumped 17% for the month but fell 41% over 12 months; steel mill products, 6.8% and -36%; and copper and brass mill shapes, 11% and -14%. PPIs for finished nonresidential buildings, which are intended to capture contractors' labor, overhead and profits as well as materials costs, rose for warehouses, 0.1% for the month and 1.4% over 12 months; offices, 0.2% and 2.9%; schools, -0.5% and 7.3%; and industrial buildings, -0.2% and 0.1%. But these indexes are based on contractors' estimates for hypothetical projects, not actual competitive bids, and may not reflect the deep discounting that contractors and owners alike report is occurring on projects.*

The ***value of new nonresidential construction contracts*** *jumped 13% in August but was down 13% for the first eight months of 2009, compared to the same period in 2008, Reed Construction Data reported on Thursday, based on its own data compilation. The largest gains in August were for the "stimulus-targeted markets"—bridges, dams and marine, water/sewage and highways—plus miscellaneous commercial and amusement, Chief Economist Jim Haughey reported. "The starts report does not yet clearly show the stimulus impact on building markets although education, library/museum and government offices all posted…gains in August….Both manufacturing and miscellaneous civil starts remained very high in August due to energy-related projects including power generation and distribution, oil and gas field facilities and refinery retrofitting to produce cleaner fuels."*

The President's Council of Economic Advisers (CEA) reported on Thursday, "As of the end of August, $151.4 billion of the original $787 billion [**American Reinvestment and Recovery Act** (ARRA)] has been outlaid or has gone to American taxpayers and businesses in the form of tax reductions….This analysis indicates that the ARRA and other policy actions caused employment in August to be slightly more than 1 million **jobs** higher than it otherwise would have been. *We estimate that the Act has had particularly strong effects in manufacturing, construction, retail trade and temporary employment services." The report estimates $16.5 billion has been spent through August on "**government investment outlays**...spending on infrastructure, health information technology, research on renewable energy and other forms of direct spending excluding transfers. Also included here are tax credits for particular types of private spending, such as weatherization or research and experimentation, since these credits are functionally similar to the direct government spending….the construction industry, where job losses have moderated substantially despite the fact that the recession has in many ways been centered in residential real estate, could suggest a role for the Recovery Act spending in infrastructure and the First-Time Homebuyer Tax Credit. Some of the moderation of job losses in this sector presumably also reflects other policy actions, such as the Administration's programs to help distressed homeowners and the Federal Reserve's efforts to support the mortgage market."* The report also estimates each sector's "cyclicality" or response to change in total employment. *"The cyclicality factors indicate that construction and information are the most procyclical major sectors. Construction employment rises 1.76% for a 1% gain in total employment. As a result of cyclicality along with the "rising tide" effect of stimulus helping all industries proportionally, the report estimates construction has added 133,000 jobs or 13% of the 1,040,000 total employment gains from ARRA.* "Of course, these figures are only estimates. One factor that could cause the distribution of job creation to differ from its normal cyclical pattern is the unusual nature of the recession. *For example, the fact that the recession has been unusually concentrated in construction may mean that the fraction of jobs saved or created by fiscal stimulus in this recession that are in construction is different than it usually would be."*

"Reports from the 12 Federal Reserve Districts indicate that **economic activity** continued to stabilize in July and August," the Fed reported on Wednesday in the latest Beige Book, a summary of informal soundings of business conditions. The districts are referred to by the name of their headquarters city. "Relative to the last report, Dallas indicated that economic activity had firmed, while Boston, Cleveland, Philadelphia, Richmond and San Francisco mentioned signs of improvement." *The Beige Book was also a bit more upbeat about* ***homebuilding*** *but not about conditions in* ***nonresidential construction and real estate****. Residential "construction remained at low levels overall, although Chicago and Dallas reported a small increase in activity. Reports on commercial real estate markets indicated that demand for space remained weak and that construction continued to decline in all Districts. Atlanta, Philadelphia, Richmond and San Francisco reported that vacancy rates increased, while rates held steady in the Boston and Kansas City Districts and were mixed in New York. Boston, Dallas, Kansas City, Philadelphia and Richmond commented that the demand for space remained weak. Commercial rents declined according to Boston, Chicago, New York, Philadelphia and Richmond. Rent concessions were reported in the Richmond and San Francisco markets and Richmond noted that some landlords had postponed property improvements in an effort to conserve cash. Construction remained at very low levels, with modest improvements noted in* ***public construction*** *in the Chicago, Cleveland and Minneapolis Districts."*

