

Construction slump spreads

1Q GDP lowered to 0.1%

For the components that matter in the GDP add-up, construction spending was lower than we assumed in today's report and takes our GDP forecast down by one tenth, to 0.1% QoQ annualized. Perhaps more importantly, we are now seeing increasing evidence that the slump in residential construction has spread to the private non-residential sector and it is even impacting building at the state and local government level.

Residential recession continues apace

The upside surprise (-0.3% MoM versus -1.0 consensus and -1.2% ML) was all in the improvement component, which does not factor into the GDP calculation. Private residential construction of single family homes fell 5.7% MoM in February, more than double our forecast, and net revisions were lower. Multi-family homes fell 0.3% MoM; a bit less than expected. In all, these data took our 1Q residential forecast down by 0.6ppts, to -24.6%, which would be very little improvement from the shockingly deep 25.2% slump seen in the fourth quarter.

No rebound in nonres

We had anticipated that commercial construction activity would improve in February after two disappointing months of declines, but were disappointed. Private nonresidential construction actually fell -0.1% MoM and as a result we are now tracking a mere 0.8% QoQ increase in 1Q, down from 2.5% previously. This is quite a precipitous slump from this recent high-flying sector, which posted almost 13% growth in 2007. The 3-month annualized rate is now running in negative territory for the first time since 2005.

Tighter S&L budgets take toll on public building

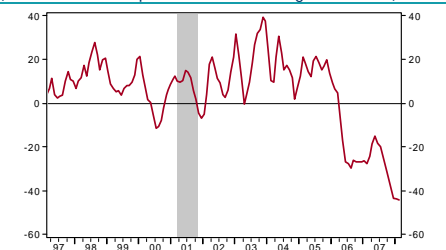
Public construction rose 0.4%, but this was less of a rebound than we had expected so also implies less government outlays in 1Q (0.8% QoQ annualized versus 0.9% previous).



Sheryl King +1 212 449 2527
Economist
MLPF&S
sheryl_king@ml.com

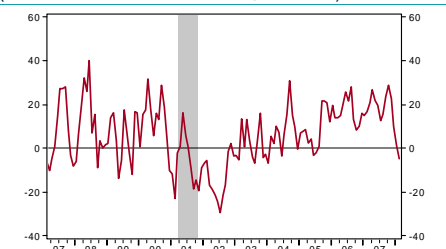
David A. Rosenberg +1 212 449 4937
North American Economist
MLPF&S
david_rosenberg@ml.com

Chart 1: No let-up in residential recession...
(Construction PiP pvt. res. new housing, 3m ann %)



Source: Census Bureau, Merrill Lynch

Chart 2: Slump spreads to nonres
(Non-residential construction PiP, 3m ann%)



Source: Census Bureau, Merrill Lynch

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