



Tracking the Elusive Economy

BY DEAN LEWIS

There are only a few professionals who get paid in full whether they are right or wrong, among them politicians, weather forecasters and economists. With that caveat in mind, allow me to venture onto their turf and take a look at the state of the economy and our battered industry.

The Overall Picture

As reported in the Federal Reserve's September "Beige Book" economic summary, growth unexpectedly slowed from mid-July through August, with the second quarter's gross domestic product (GDP) advancing at an annual rate of 1.6 percent (revised downward from the earlier estimate of 2.4 percent). This follows a first quarter increase of 3.7 percent and the 2009 fourth quarter's 5.0 percent. While concern persists that this progressive cool-down portends a double-dip recession, most private-sector forecasts are expecting GDP to rise 2.6 percent overall for 2010—lackluster, but growth nevertheless.

The Construction Industry

While the Bureau of Labor Statistics (BLS) reported that the overall private sector added 67,000 workers in August, the National Association of Home Builders (NAHB) said in September that residential construction continued to shed jobs, falling 9,800 in August, following the loss of 15,400 jobs in July. The overall unemployment rate for construction rose to 22.5 percent in August, up from 20.7 percent in July.

This is, of course, due to the lowest level of sales of new and previously occupied homes in more than

a decade, despite very low mortgage rates. And, the worst foreclosure market since the 1930s has held down selling prices to less than the cost of building a new house.

As predicted, home sales declined following the expiration of the home buyer tax credit at the end of June. Yet, the Commerce Department reported that housing construction jumped 10.5 percent in August, as did applications for new permits (up 2 percent), although this was led by

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apartment and condo construction (up 32 percent) rather than the much larger single-family sector (up 4 percent). Longer range, IHS Global Insight projects that housing starts will nearly triple by 2012, to about 1.6 million units annually, and total home sales will increase 29 percent, to almost 6.5 million.

Home Remodeling

An increasingly bright spot in all of this is an accelerating home remodeling market. Both Harvard's Joint Center for Housing Studies (JCHS) and ServiceMagic (an Internet-based contractor screening and referral service) note that existing homeowners are opting in droves to stay put and fix-up versus trade-up. The trend should acceler-

ate into 2011, possibly spurred by the pending Home Star program.

The Window Industry

Window replacement in particular has shown impressive growth, according to ServiceMagic: up 81 percent this year as compared to the second quarter of 2009, second only to kitchen makeovers as the most popular remodeling project. Sunrooms also made an impressive turnaround, climbing 21 percent in the second quarter.

Per the 2009/2010 AAMA/WDMA U.S. Industry Statistical Review and Forecast, overall fenestration product demand appears to have bottomed out in 2009, after falling almost 45 percent during its five-year decline. Windows for new construction fell 67 percent, while those intended for remodeling and replacement held their own somewhat better, declining by 24.4 percent.

The study projects a somewhat tepid recovery in the demand for residential windows this year: a 10.5 percent increase overall, comprised of 33 percent for new construction, but a virtually flat one percent for replacement products, followed by gains of 21 percent, 45 percent and eight percent, respectively, in 2011.

We all need to be vigilant, agile and creative with business plans, manufacturing processes, technologies and marketing strategies—if we are to emerge on top of a newly vital and growing industry. ■

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