

Construction registers another dropoff in May

NEW YORK -- July 5, 2006 -- The Commerce Department reported Monday that building activity dropped 0.4 percent in May to a seasonally adjusted annual rate of \$1.206-trillion following a 0.2 percent decline in April.

It marked the first time in more than three years that construction spending had fallen for two consecutive months. May represented the biggest one-month decline since a 0.7 percent fall in September 2004.

The softness in construction is just one of several signals of slowdown that the economy was sending in the spring under the impact of rising gasoline prices, higher interest rates and a cooling housing market.

Analysts said it could get the Fed to think twice before raising the federal funds rate yet again. Last Thursday, the Federal Open Market Committee raised the funds rate for the 17th consecutive time, pushing it to 5.25 percent.

Bear Stearns economist John Ryding said in a research note that, "If other June data also paint a picture of moderation ... ahead of the August FOMC meeting, the Fed may want to pause to see whether the slowdown is temporary or not."

He added: "However, inflation readings remain elevated and we still see the Fed raising the funds rate to 5.5 percent at some point in the third quarter."

Encouraged by the possibility of less Fed action, the stock market rose strongly in light trading on Monday ahead of the July 4 holiday. In an abbreviated session yesterday that ended at 1 p.m. EDT, the Dow Jones industrial average rose 77.80, or 0.7 percent, to 11,228.02.

The Standard & Poor's 500 advanced 9.99, or 0.8 percent, to 1,280.19, while the Nasdaq composite index increased 18.34, or 0.8 percent, to 2,190.43.

Housing demand has been dropping as mortgage interest rates rise. But this is likely to be offset in part by strength in nonresidential building and government building projects, experts said.

Ken Simonson, chief economist for the Associated General Contractors of America, noted that private nonresidential construction was down in May from April but still well ahead of the May 2005 level.

"Private nonresidential construction appears to have plenty of momentum for the rest of 2006 and into 2007," he said. "A variety of manufacturing, energy and power, hospital and retail projects will lead the way. Office construction is picking up in some markets."

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