(Based on Third Quarter 2006)

Carolinas AGC Construction Barometer™
Growing Contractor Optimism Permeates the Carolinas

The Carolinas AGC Construction Barometer advanced sharply in 3 rd quarter 2006, **rising 3.9%** for the **second-strongest gain** ever recorded by the index in its 9-year history. The current 2.91 Barometer value is just below the mid-year 2003 all-time high.

Just about every business yardstick captured within the quarter 3 index moved upward, and measures not advancing still remained constant. In short, there's virtually no bad news to report on the commercial construction industry business landscape-- on the contrary, **there's a ton of good news!**

The Barometer's qualitative side posted the strongest gains, rising 9.4% on **strengthening labor market trends, stronger business conditions, and an improved outlook for financing availability** in 2007. Business and Economic trends surged a remarkable 16.5% on falling construction industry materials and equipment costs, rising expectations concerning the strength of the upcoming construction season, and growing optimism that materials costs, equipment costs, and labor costs will all remain stable.

The qualitative side also showed **improved financial market conditions** (up 6.3%) and **strengthening employment and labor conditions** (up 5.8%). Contractors reported easier short-term credit availability, continuing strength in the availability of long-term credit arrangements, and stable borrowing costs; this trend is expected to remain throughout the year. Employment and Labor market conditions advanced 5.8% on the qualitative side, reflecting **stable labor costs** , widespread availability of skilled labor, and **growing expectations that skilled labor will remain plentiful** for the duration of 2007. Moreover, skilled labor wage rates are expected to advance only modestly during the year.

On the Barometer's quantitative side, there's very little news to report since most business indicators remained unchanged from 2nd quarter 2006. There was a slight increase in Employment and Labor Market conditions (up 1.1%) offset almost exactly by a small negative change in the Business and Economic indicators segment (down 0.9%). The increase in Employment and Labor market conditions followed slightly stronger contractor demand for new workers in 2007, while the deterioration in Business and Economic conditions is completely attributable to reports of seasonal year-end slowing business activity in the closing months of 2006.

State vs. State Comparison: NC Up 4.5% ; SC U p 2.6%

The statewide Barometer ä **trends are just about identical across the 2 Carolinas** , with a moderately stronger growth trend occurring in North Carolina than in South Carolina . North Carolina reflects a 17.4% growth in Business and Economic conditions, while South Carolina shows a slightly smaller rate of growth at 14.6%. In both cases, however, strengthening business conditions follow from increased contractor **optimism regarding projected industry growth** in 2007, and stable construction materials and equipment prices.

The only differences-- and minor at that-- between the 2 states for 3 rd quarter occur in the quantitative series, where NC shows a 0.2% gain while SC is down a slight 0.6%: **SC contractors expected a greater decline in winter construction** activity than their NC counterparts. Financial market activity is slightly different within the 2 states: SC contractors reported moderate growth in the volume of new construction loan approvals, while NC contractors reported a slight drop.

Regional Economic Highlights

Heartland NC : Labor Cost Inflation on the Horizon? (Up 2.2%)

Though basic construction trends in the Heartland region follow the same statewide trends, the curious statistic in 3 rd quarter relates to the wide distance between the percentage gain in the Barometer ä 's Business and Economic trends (up 19.1%) and the Employment and Labor Market indicators (up only 2.2%). In most Carolinas regions, these numbers are more closely aligned, with stronger business growth associated with rising hiring activity. In the Heartland, however, **hiring plans remain virtually unchanged from earlier 2006** ; and contractors reported increasing trepidation that increased business activity could lead to **worker shortages and rising wage rates** by mid-year 2007.

Eastern NC : Big Gains Down East (ENC Up 7.6%)

The Eastern NC region experienced **the largest percentage gain in Barometer scores** for 3 rd quarter. Like all other Barometer regions, the Eastern territory's strongest advance occurred across the Business and Economic trends segment on growing contractor optimism regarding expected industry growth in 2007. Unlike other regions, however, Eastern contractors reported **significantly better credit market conditions** , with increased loan approvals, better short- and long-term financing offers, and heightened expectations that credit market conditions would continue to improve in 2007.

Western NC : West Prepares for Winter (WNC Up 4.7%)

Western contractors also reported **significantly improved business conditions** , but the rate of increase in the overall Barometer score was constrained by **falling economic indicator values** on all 3 quantitative categories. Breaking with the trend observed across all other regions for the quarter, the West experienced a 6.8% drop in Employment and Labor market conditions, a 5.9% drop in Business and Economic trends, and a 2.2% drop in Financing Availability. **Weaknesses may be largely weather-related** , however, as quantitative data in all 3 categorical areas leading the downturn can be traced to expectations for 4 th quarter business activity. It appears that Western contractors are anticipating a cold, wet winter; followed by an active construction season in 2007.

Upstate SC: Business Improves (USC 3.6%)

Upstate SC contractors expect **sharply stronger business conditions** for 2007, leading the region's aggregate Barometer score upward by 3.6%. Slowing short-term business activity in the region was offset in 3rd quarter by both **strengthened Employment and Labor market conditions** (up 11.2%) and rising Financing Availability (up 11.5%). Contractors reported a ready supply of skilled labor, no upward pressure on wage rates, and rising expectations that labor will remain widely available at reasonable cost throughout the 2007 season. Financial market conditions in the Upstate improved due to **falling credit costs** , widespread reports of easier credit availability, and growing contractor optimism that interest rates will fall in 2007.

Lowcountry SC : Labor Availability Deteriorating? (LSC up 0.1%)

In the Lowcountry, strengthening Business and Economic conditions (up 11.3%) in 3 rd quarter were tempered by **increasingly tight labor market conditions** , where the Employment and

Labor market trends segment of the Barometer fell 8.8%. Although **labor costs remained unchanged** from 2 nd quarter 2006, contractors reported moderate tightening in available skilled workers. Given reports of increasingly difficult hiring conditions in the region, contractors anticipate slightly higher wage rates in 2007-- a contrast to the labor cost stability expected elsewhere in the Carolinas . Lowcountry contractors also continue to report **tightening credit market conditions** , with both short- and long-term commercial credit more difficult to arrange, and rising commercial borrowing costs. In spite of these reported credit market difficulties, however, Lowcountry contractors reported no change in the volume of new loan approvals granted in 3 rd quarter from levels reported earlier in 2006.