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What's It Cost? – November 2015

Reports from three research firms and the Bureau of Labor Statistics (BLS) showed that prices for construction products and materials remained below the overall rate of inflation while costs for labor rose at a faster pace through the first nine months of 2015. The impact of competition for labor and materials are likewise having opposite effects.

The October 14 BLS report showed that the producer price index (PPI) declined 0.7 percent in September and 1.1 percent during the prior 12 months. The PPI for final demand construction rose 1.8 percent compared to September 2014. Within the major nonresidential building categories year-over-year increases were fairly consistent with the overall inflation rate. Increases ranged from 0.2 percent for healthcare construction to 1.8 percent for schools, 1.9 percent for warehouses and industrial buildings, and 2.4 percent for offices.

Declines in energy costs from earlier in the summer and from last September held prices for most materials at or below the overall inflation level. The PPI for inputs to construction decline 1.3 percent, with energy falling 13 percent. As could be expected, prices for diesel fuel dropped 11 percent from August to September and 44 percent year-over-year. Stronger U.S. construction activity was overshadowed by slower global demand for many major materials, pushing steel mill products down 15 percent; copper and brass down 14 percent; aluminum down 12 percent and lumber and plywood down 11 percent. The only materials showing gains significantly above inflation were flat glass at 3.6 percent and cement at 6.3 percent.

Securities analyst Thompson Research Group (TRG) reported the results of its monthly survey of building products firms, finding that manufacturers have been unable to hold onto price increases imposed earlier in 2015. Here again, downward pressure from poor overseas markets caused manufacturers of steel studs, insulation, roofing and drywall to give back prices increases that were between five and 15 percent. Most manufacturers surveyed expected to reinstate prices increases early in 2016. The persistence of those increases will again hang on how well demand from markets outside the U.S. fares.

Competition for labor in the U.S. is experiencing the opposite dynamics. Labor is a factor that is independent of overseas markets except to the extent that immigration is encouraged or discouraged. The Construction Labor Research Council reported that local union wage and benefit agreements negotiated from January through September 2015 averaged 2.5 percent increases for the first year and 2.6 percent for the second and third years. Since 2011, the trend has been that multiple-year increases have remained mostly flat with the first year's increase. Rising competition for fewer workers could change that trend in 2016 or 2017.

The competition for skilled workers has begun to offset the stagnant or declining costs of materials, according to consultant Rider Levett Bucknall. The firm reported on October 2 that its 12-city Comparative Cost Index survey showed that "the national average increase in construction cost was approximately 1.15 percent" from April through June. Rider Levett Bucknall tracks the bid cost of construction, including the overhead and

profit of the general and specialty contractors, in addition to the labor and material costs. The U.S. year-over-year increase was 5.3 percent, up from 4.3 percent a year earlier.

Taken together, the reports paint a portrait of an industry where improved construction volumes are allowing labor to demand higher wages and contractors to increase their margins, while the prices for materials and building products remain under pressure from poor global conditions

PERCENTAGE CHANGES IN COSTS	Sept 2015 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	(0.2)	(0.3)	0.0
Producer price index (PPI) for finished goods	(0.7)	(0.5)	(1.1)
PPI for final demand construction	0.0	0.4	1.8
Costs by Construction Types/Subcontractors			
New warehouse construction	0.1	0.5	1.9
New school construction	(0.1)	0.3	1.8
New office construction	0.0	0.7	2.4
New industrial building construction	(0.2)	0.7	1.9
New health care building construction	(0.1)	(0.1)	0.2
Concrete contractors, nonresidential	(0.2)	0.0	2.9
Roofing contractors, nonresidential	0.1	0.4	1.2
Electrical contractors, nonresidential	0.2	1.8	3.8
Plumbing contractors, nonresidential	0.1	(0.1)	0.0
Construction wages and benefits	N/A	0.8	2.4
Architectural services	0.3	0.5	1.7
Costs for Specific Construction Inputs			
#2 diesel fuel	(11.4)	(15.5)	(44.2)
Asphalt paving mixtures and blocks	(1.0)	(0.3)	(5.1)
Cement	(0.4)	0.2	6.3
Concrete products	0.5	0.2	3.0
Brick and structural clay tile	(0.1)	(0.1)	2.1
Plastic construction products	0.1	(1.0)	(0.7)
Gypsum products	0.6	(0.6)	0.6
Lumber and plywood	(1.4)	(2.0)	(10.7)
Architectural coatings	(0.2)	(0.2)	(2.7)
Steel mill products	(0.8)	(2.4)	(14.9)
Copper and brass mill shapes	(0.8)	(9.0)	(13.7)
Aluminum mill shapes	(0.8)	(4.2)	(11.6)
Fabricated structural metal	(0.9)	(1.6)	(0.7)
Prefabricated metal buildings	0.4	(0.9)	(0.4)
Iron and steel scrap	(3.8)	(17.2)	(41.2)

Source Bureau of Labor Statistics, Updated October 14, 2015
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