

WHAT'S IT COST?



Two central cost trends remained consistent in January compared to one year ago. Low energy prices and a sluggish global economy continue to push down the prices of many building products and materials while, at the same time, scarcity of skilled workers in key trades pushes labor costs higher. The net effect of these opposing forces has been that finished construction costs are increasing at a pace that is slightly higher than overall producer inflation and slightly lower than in 2015.

Evidence of the former trend came in the February 17 report on January's inflation from the Bureau of Labor Statistics (BLS). The producer price index (PPI) for inputs to construction fell 0.4 percent for the month and 2.7 percent from January 2015. The PPI for all goods used in construction fell 0.6 percent and 2.7 percent. A sub-index for energy declined 9.0 percent from December and 21 percent year-over-year. The BLS report also covered inflation for final demand, which includes goods, services and five types of nonresidential buildings that BLS says make up 34 percent of total construction. The PPI for final demand construction decreased 0.3 percent for January and increased 1.2 percent for the full year. That compares to a year-over-year hike of 1.8 percent from January 2014 to 2015.

Significant 12-month price changes in the costs of materials important to construction include a 35 percent drop in the price of diesel fuel, a 19 percent decline in steel mill product and copper and brass mill shape prices, an 18 percent decrease in aluminum mill shapes, and a 12 percent drop in lumber and plywood prices. Among the few costlier materials, cement rose 5.6 percent and flat glass 5.9 percent over the previous January.

Year-to-year changes in labor costs varied significantly by trade and were reflective of the relative supply of skilled craft workers. Costs declined two percent for plumbing contractors, but increased 1.2 percent for roofing contractors, 3.7 percent for concrete contractors and 5.4 percent for electrical contractors. According to the chief economist for the Associated General Contractors (AGC), Kenneth Simonson, the large increases in concrete and electrical subcontractors' rates are consistent with the September 2015 AGC Workforce Survey, in which 63 percent of respondents said their firms were having trouble filling positions for concrete workers and 60 percent for electricians.

Procurement professionals seem to have factored the trends in construction costs into their plans for 2016. Consultancy IHS and the Procurement Executives Group (PEG) reported on February 24 that the current IHS PEG Engineering and Construction Cost Index fell to 41.3 at year's end, down from 43.3 in November. A reading lower than 50 represents a downward pricing trend. The headline index has been below the neutral mark for 14 months. The current materials/equipment price index fell from 39.6 in January to 36.9 in February, which is the lowest mark in the four-year-old survey's existence.



PERCENTAGE CHANGES IN COSTS	Jan 2016 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	(0.3)	(0.6)	0.7
Producer price index (PPI) for finished goods	0.3	(0.1)	(0.2)
PPI for final demand construction	(0.3)	(0.6)	1.2
Costs by Construction Types/Subcontractors			
New warehouse construction	(0.1)	(0.2)	1.6
New school construction	(0.5)	(0.4)	1.6
New office construction	0.0	(0.9)	1.1
New industrial building construction	(0.3)	(0.1)	1.3
New health care building construction	(0.8)	(1.3)	(0.2)
Concrete contractors, nonresidential	0.5	0.6	3.7
Roofing contractors, nonresidential	0.1	0.4	1.2
Electrical contractors, nonresidential	(0.3)	(0.3)	5.4
Plumbing contractors, nonresidential	(0.8)	(0.9)	(2.0)
Construction wages and benefits	N/A	0.7	2.6
Architectural services	0.2	0.8	1.5
Costs for Specific Construction Inputs			
#2 diesel fuel	(7.9)	(31.5)	(34.6)
Asphalt paving mixtures and blocks	2.6	1.7	(3.5)
Cement	2.6	2.8	5.6
Concrete products	0.3	1.3	2.5
Brick and structural clay tile	0.5	(0.1)	1.1
Plastic construction products	(0.8)	(0.7)	0.0
Gypsum products	3.9	(0.1)	(2.2)
Lumber and plywood	0.2	(0.1)	(7.3)
Architectural coatings	(0.2)	(0.3)	(1.8)
Steel mill products	(0.3)	(6.2)	(19.2)
Copper and brass mill shapes	(1.6)	(9.4)	(17.6)
Aluminum mill shapes	0.6	(1.4)	(11.9)
Fabricated structural metal	(1.8)	(2.4)	(3.1)
Prefabricated metal buildings	(0.2)	(0.2)	(1.3)
Iron and steel scrap	10.8	(2.5)	(46.7)
<i>Source Bureau of Labor Statistics, Updated February 17, 2016</i>			
<i>Compiled by Ken Simonson, AGC Chief Economist</i>			