

# What's It Cost?

After years of relative stability, construction costs have begun to see upward volatility in several key categories. Steel, fuel and labor have all seen prices rise higher than the overall rate of inflation. In the case of steel and fuel, the increases are rebounds from cyclical lows. Given that incidence rate of those basic materials, and the continued short labor supply, construction prices should move higher faster than inflation over the next year.

The most profound change has occurred in the price of steel. From its recent cyclical high of \$750 per ton in 2011, steel prices fell steadily to a low of \$472/ton in 2015. The major cause for the rapid decline was the slowing of economic growth in China, while steel manufacturing capacity climbed – again due to China. Although the oversupply of steel still exists, tariffs on low-priced imports have driven prices up as much as 60 percent this year. Efforts by the Chinese government to stimulate the economy have also generated about ten percent more demand for steel rebar and structural shapes. The outlook is for steel prices to continue to increase, although much more slowly, through the end of 2016.

Oil prices have also bounced off of lows not seen since the recession. Large-scale reductions in rig counts, especially in shale plays, and production cutbacks in some oil-producing nations have produced a rally in prices of more than 90 percent. For construction, higher oil prices mean more expensive roofing materials, adhesives and sealants, paving materials and fuel. According to the Energy Information Administration's June 6 pricing release, the average price of diesel has jumped by 42 cents since February, to \$2.41 per gallon. Diesel prices are, however, still 50 cents lower per gallon than the same period in 2015.

Prices for products derived from oil are seeing steady monthly hikes. The price of asphalt shingles has increased three to five percent each of the past two months. Polyethylene sheet prices went up five percent in May and an expected four percent increase in resin costs should mean another five percent increase in sheeting in June.

These underlying spikes in basic materials are giving manufacturers and distributors the impetus to hold the line on increases thus far in 2016. With U.S. housing and commercial construction growing steadily, the odds are that similar price increases will be accepted by the market.

May's producer price index report reflected the strengthening supply and demand fundamentals. According to the June 15 report by the Bureau of Labor Statistics, the producer price index (PPI) for construction prices rose 0.1 percent in May over April and 1.9 percent for the full year. Because of a 26 percent year-over-year drop in energy prices, prices for all materials that go into construction were off 3.4 percent for the year; however, increases in the other key construction components nearly offset the energy price decline. Completed costs for all major building categories were up more than the rate of core inflation, ranging from a 1.2 percent increase in the costs of industrial buildings to a 2.7 percent hike in the cost of warehouses.



PERCENTAGE CHANGES IN COSTS	May 2016 compared to		
	1 mo.	3 mo.	1 yr.
<b>Consumer, Producer &amp; Construction Prices</b>			
Consumer price index (CPI-U)	4.0	1.3	1.0
Producer price index (PPI) for finished goods	0.3	0.5	(0.1)
PPI for final demand construction	0.1	1.0	1.9
<b>Costs by Construction Types/Subcontractors</b>			
New warehouse construction	0.1	1.2	2.7
New school construction	0.2	0.9	1.9
New office construction	0.2	1.1	2.1
New industrial building construction	(0.4)	0.3	1.2
New health care building construction	0.0	1.0	1.6
Concrete contractors, nonresidential	0.1	1.5	4.4
Roofing contractors, nonresidential	0.1	0.5	1.6
Electrical contractors, nonresidential	0.2	0.3	4.0
Plumbing contractors, nonresidential	0.1	0.9	(0.6)
Construction wages and benefits	N/A	0.1	2.6
Architectural services	(0.3)	1.0	2.3
<b>Costs for Specific Construction Inputs</b>			
#2 diesel fuel	17.6	27.1	(28.5)
Asphalt paving mixtures and blocks	(2.6)	(7.3)	(7.6)
Cement	0.3	3.1	4.7
Concrete products	(0.3)	1.3	3.0
Brick and structural clay tile	0.2	0.3	0.3
Plastic construction products	0.6	0.2	(1.1)
Flat glass	0.5	1.0	7.7
Gypsum products	(1.1)	3.4	2.1
Lumber and plywood	0.9	3.2	0.4
Architectural coatings	0.0	(0.9)	(1.4)
Steel mill products	4.6	7.2	(5.2)
Copper and brass mill shapes	2.0	3.2	(16.0)
Aluminum mill shapes	1.1	0.8	(7.9)
Fabricated structural metal	1.7	3.5	(2.4)
Iron and steel scrap	16.2	52.8	7.9
Source Bureau of Labor Statistics, Updated June 15, 2016 Compiled by Ken Simonson, AGC Chief Economist			