

# What's It Cost?

Data on prices has begun to show some consistent lift as the third quarter ended. Demand for construction nationally is pinching labor supply and is giving manufacturers the confidence to test the market with price increases. Consumer prices are nudging above the one percent level and wages are consistently up 2.5 percent or more year-over-year. Yet for all the talk of inflation beginning to trend towards “normal” levels, an examination of year-over-year changes in September shows that prices are more stable overall than in a number of years.

Since 2008, there have been two major swings in the price of oil and energy that have induced big deltas in the prices of oil-related or energy-intensive materials. October marked two full years since the collapse of the oil price and the impact is noticeable in the lack of a severe outlier among the basic materials and products. Even after an apparent agreement by OPEC producers is factored in, the price associate with oil should not swing the cost of construction materials dramatically.

At the micro level, manufacturers of products as diverse as cement, plastics, steel and sealants have announced plans to increase prices by between two and six percent in the coming months. Companies like Dow Chemical, Owens Corning, Simpson Strong-Tie, and Tremco are counting on forecasts of another five to six percent growth in commercial/institutional construction in 2017. The outlook for housing is a double-digit gain in the number of units built in 2017, which should embolden makers of drywall, studs and shingles to also bump prices. None of these gains is guaranteed to hold and none seem likely to begin a run higher for materials.

Except for energy prices, most inputs for construction have been within a tight range over the past 12 months. Even the more volatile energy categories have seen prices swing five or six percent in either direction – shifts that are small compared to the changes that occurred in energy prices in 2008 or 2014.

The Producer Price Index (PPI) for final demand in September increased 0.2 percent from August and 0.7 percent from September 2015, the Bureau of Labor Statistics (BLS) reported on October 14. That compared with increases in the Consumer Price Index of 0.3 percent and 1.5 percent respectively. Within the construction industry, final demand inflation was 0.1 percent for the month and 0.8 percent year-over-year. The PPI for inputs to construction, which is more heavily weighted toward the materials and products that go into construction, also rose by 0.1 percent in September from August, and 0.8 percent from 2015 to 2016. Few materials experienced unusual swings and most of those were materials heavily reliant upon the price of oil and diesel, which rose 9.8 percent for the month (although prices fell 3.2 percent year-over-year). Other year-over-year increases that exceeded five percent included asphalt paving mixtures (6.3 percent), cement (5.4 percent) and lumber and plywood (5.7 percent).



PERCENTAGE CHANGES IN COSTS	Sept 2016 compared to		
	1 mo.	3 mo.	1 yr.
<b>Consumer, Producer &amp; Construction Prices</b>			
Consumer price index (CPI-U)	0.3	1.2	1.0
Producer price index (PPI) for final demand	(0.3)	0.7	(0.2)
PPI for final demand construction	(0.6)	(0.4)	0.8
<b>Costs by Construction Types/Subcontractors</b>			
New warehouse construction	0.2	(0.4)	1.1
New school construction	0.3	(1.1)	0.4
New office construction	(0.2)	(0.3)	1.2
New industrial building construction	0.3	(0.5)	0.1
New health care building construction	(0.2)	(0.8)	0.5
Concrete contractors, nonresidential	(0.1)	1.1	4.9
Roofing contractors, nonresidential	0.0	(0.1)	1.3
Electrical contractors, nonresidential	0.4	(1.7)	0.5
Plumbing contractors, nonresidential	(0.2)	(1.0)	(1.7)
Construction wages and benefits	N/A	0.9	2.7
Architectural services	0.0	0.2	1.8
<b>Costs for Specific Construction Inputs</b>			
#2 diesel fuel	9.8	6.8	(3.2)
Asphalt paving mixtures and blocks	(0.6)	0.3	(6.3)
Cement	0.0	0.4	5.4
Concrete products	(0.1)	0.4	3.2
Brick and structural clay tile	0.1	(0.2)	(0.1)
Plastic construction products	(0.2)	(0.2)	(0.2)
Flat glass	(0.2)	0.0	3.8
Gypsum products	0.1	0.6	3.3
Lumber and plywood	(0.6)	1.7	5.7
Architectural coatings	(0.1)	(0.1)	0.8
Steel mill products	(0.5)	3.1	1.1
Copper and brass mill shapes	(1.9)	3.3	(4.7)
Aluminum mill shapes	(0.3)	0.3	0.1
Fabricated structural metal	0.3	1.3	1.1
Iron and steel scrap	(4.6)	(11.7)	(0.1)
<i>Source Bureau of Labor Statistics, Updated October 14, 2016</i>			
<i>Compiled by Ken Simonson, AGC Chief Economist</i>			