

WHAT'S IT COST?



While the conversation surrounding inflation has shifted to signs of lower inflation in general – or disinflation – pricing for construction in recent has accelerated rather than slowed. As the Bureau of Labor Statistics (BLS) report on July inflation showed, inflation in the construction industry has decoupled from that of the general economy.

This increasing rate of construction inflation is showing up both in the overall trend for specific products and materials, and in the producer price index (PPI) for completed building types. A glance at the table below reveals that all major categories of construction components and buildings are costlier compared to 2016. And, while the short-term trend for some inputs are reversing, it's clear that the shortage of workers is beginning to impact building costs. This is not necessarily evident in wages as of July, but the higher costs suggest that lower productivity has started to push completed prices higher.

Year-over-year demand for non-residential construction is growing at a slower pace but is still seven percent higher than the first half of 2016. A consensus group of seven construction economists are still forecasting that non-residential construction will be between four and five percent higher for the full year. That will keep pricing pressure on manufacturers serving the U.S. market while growth is returning in most global markets. Surprising gross domestic product gains in Japan, China and Europe should keep demand for construction products elevated into 2018.

Increases ranged from 2.4 percent year-over-year for office buildings to 2.4 percent for health care buildings, 3.8 percent for schools, 4.1 percent for warehouses and 4.5 percent for industrial buildings. PPI changes for new, repair and maintenance work on nonresidential buildings ranged from 2.8 percent year-over-year for roofing contractors to 3.4 percent for electrical contractors, 3.5 percent for plumbing contractors and 3.7 percent for concrete contractors. The PPI for inputs to construction...increased 2.5 percent year-over-year. The PPI for all goods used in construction rose 3.0 percent year-over-year, as the sub-index for energy climbed 6.5 percent...

Major components used in construction that had significant increases over the past 12 months included copper and brass mill shapes (15 percent); steel mill products (10 percent); and gypsum products (9.9 percent). The largest year-over-year increase belonged to diesel fuel which jumped 20 percent from July 2016 (and 8.7 percent from June). Spikes since Hurricane Harvey have been between 30 and 50 cents per gallon, with no indication as of Labor Day when normal supply channels will be re-established with Gulf of Mexico refineries. Early indications are that products tied to polyester resins and polyethylene will spike; and demand should also skyrocket for products used for temporary measures, like plywood, lumber, wallboard and sheathing. Product allocations may present bigger medium-term problems than higher prices.



For owners and designers, the positive news is that recent pricing on products and materials has remained stable. Freight-sensitive components will likely see short-term spikes while diesel remains elevated but most manufacturers have either put their 2017 increases through (with varying levels of success) or plan few price hikes through the end of the year. The disruption from Harvey will be the wild card impacting manufacturers as the fall approaches.

PERCENTAGE CHANGES IN COSTS	July 2017 compared to		
	1 mo.	3 mo.	1 yr.
Consumer, Producer & Construction Prices			
Consumer price index (CPI-U)	(0.1)	(0.0)	1.7
Producer price index (PPI) for final demand	(0.1)	0.2	1.9
PPI for final demand construction	1.2	1.5	3.2
Costs by Construction Types/Subcontractors			
New warehouse construction	1.3	1.7	4.1
New school construction	1.7	2.2	3.8
New office construction	0.5	0.5	2.3
New industrial building construction	2.3	2.5	4.5
New health care building construction	1.4	1.7	2.4
Concrete contractors, nonresidential	1.4	1.9	3.7
Roofing contractors, nonresidential	0.0	0.8	2.8
Electrical contractors, nonresidential	1.6	1.9	3.4
Plumbing contractors, nonresidential	1.5	1.6	3.5
Construction wages and benefits	N/A	0.6	2.2
Architectural services	0.6	0.9	1.9
Costs for Specific Construction Inputs			
#2 diesel fuel	8.7	15.2	20.4
Asphalt paving mixtures and blocks	0.8	2.2	2.2
Cement	(0.1)	2.1	4.8
Concrete products	0.2	0.0	2.9
Brick and structural clay tile	(0.1)	0.6	1.8
Plastic construction products	0.1	0.3	1.4
Flat glass	(0.1)	(0.3)	0.3
Gypsum products	0.7	0.3	9.9
Lumber and plywood	0.0	0.3	5.2
Architectural coatings	0.6	1.3	1.1
Steel mill products	0.3	1.5	10.2
Copper and brass mill shapes	1.1	(1.2)	15.0
Aluminum mill shapes	(1.7)	(1.9)	7.4
Fabricated structural metal	0.4	4.7	3.6
Iron and steel scrap	(0.4)	(2.9)	20.3
Source Bureau of Labor Statistics, Updated August 10, 2017 Compiled by Ken Simonson, AGC Chief Economist			