

Economy at a Glance

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Gap between increases in material costs & bid prices shrinks; still immense



Alex Carrick

Graph 2 shows that the gap between high year-over-year material cost increases, as captured in two Producer Price Index (PPI) series, and relatively restrained year-over-year bid price increases from a PPI is narrowing, but it remains immense.

The respective percentage-change figures in August, the latest month for which data is available, were +21% and +31% for materials, according to two

alternative PPI measures, but +5% for bid prices.

Interestingly, +5% isn't low. It's a match for the currently concerning rate of general price inflation as reflected in the all-items Consumer Price Index (CPI). But +5% appears mild next to +31% or +21%.

The journey to Graph 2 through this article showcases the latest inordinately large increases in material costs (Graph 1) and the history of price changes for 28 construction inputs (online here: <https://bit.ly/3naZPCL>). Also, Table 1 includes pricing results for some additional construction components, plus PPI compilations of materials going into certain types-of-structure.

In late Spring, early Summer, huge hikes in the price of softwood lumber caught everyone's attention. But that 'madness' has now passed. More sawmill capacity has been brought onstream, imports have been upped somewhat, the flurry of home renovation activity has eased with the onset of Fall and housing starts, after rising sharply, have leveled out.

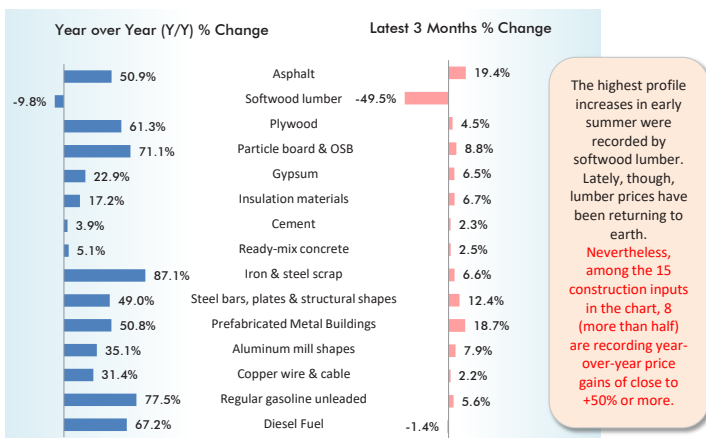
In Graph 1, softwood lumber prices are shown to have dropped by half (-49.5%) over the latest three months. As a result, media headlines have moved on to different subject matter. But that's surface coverage. There are plenty of other construction materials and components (including forestry products separate from softwood lumber) that are continuing to exhibit pricing strength.

The curves with recent 'mountain peaks' among the cluster charts include plywood, particle board, steel items, aluminum mill shapes, copper wire and cable, asphalt and gasoline.

There are also big year-over-year price increases for gypsum (+22.9%), insulation materials (+17.2%), heating equipment (+13.2%) and paints and coatings (+10.4%). Not too alarming, but still attention-worthy, are the y/y price increases for air conditioning equipment (+8.5%) and flat glass (+7.1%).

For more articles by Alex Carrick on the Canadian and U.S. economies, please visit: www.constructconnect.com/blog.

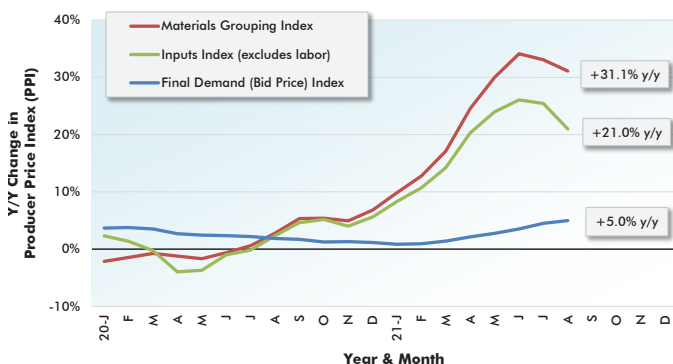
Graph 1: U.S. Construction Material Cost Changes From Producer Price Index (PPI) Series – August 2021



The highest profile increases in early summer were recorded by softwood lumber. Lately, though, lumber prices have been returning to earth. Nevertheless, among the 15 construction inputs in the chart, 8 (more than half) are recording year-over-year price gains of close to +50% or more.

Data source: Bureau of Labor Statistics (BLS) / Chart: ConstructConnect — CanaData.

Graph 2: U.S. Construction Bid Prices vs Material Input Costs



The gap between material cost increases year over year and bid prices year over year has diminished slightly but it still remains immense. The relatively restrained increase in the bid price index is being dictated by the desire to win contract awards in a tough competitive environment.

Data source: Producer Price Index Series (BLS)/Chart: ConstructConnect — CanaData.

Table 1: U.S. Producer Price Index (PPI) Results % Change in the August 2021 Index from:

	3 Years Ago	1 Year Ago	6 months Ago	3 months Ago	1 month Ago
Final Demand/Service/Commodity/Energy/Input:					
Final Demand Construction	12.9%	5.0%	4.7%	2.4%	0.2%
New warehouse building construction	13.6%	7.1%	6.9%	3.5%	0.2%
New school building construction	13.1%	3.4%	3.7%	2.6%	0.1%
New office building construction	13.2%	6.0%	4.8%	1.5%	-0.3%
New industrial building construction	15.5%	5.0%	4.9%	4.0%	1.1%
New health care building construction	11.7%	4.4%	4.7%	1.4%	0.6%
Architectural & engineering services	4.9%	3.3%	0.7%	0.2%	0.0%
Construction machinery & equipment	9.3%	5.4%	3.4%	2.5%	0.8%
Asphalt	-4.0%	50.9%	26.1%	19.4%	1.1%
Plastic construction products	32.6%	29.6%	22.2%	11.0%	3.0%
Softwood lumber	18.6%	-9.8%	-30.8%	-49.5%	-27.3%
Hardwood lumber	28.2%	44.3%	21.2%	5.9%	-0.3%
Millwork	23.1%	16.8%	9.8%	0.8%	-2.3%
Plywood	78.0%	61.3%	38.2%	4.5%	-11.5%
Particle board & oriented strandboard (OSB)	137.4%	71.1%	33.6%	8.8%	-8.9%
Gypsum	12.4%	22.9%	14.2%	6.5%	0.5%
Insulation materials	15.1%	17.2%	10.5%	6.7%	4.4%
Construction sand, gravel & crushed stone	13.5%	3.9%	1.9%	0.3%	-0.1%
Cement	8.0%	3.9%	3.1%	2.3%	0.6%
Ready-mix concrete	10.0%	5.1%	3.5%	2.5%	1.6%
Precast concrete products	17.3%	9.5%	5.9%	1.9%	0.5%
Prestressed concrete products	11.3%	9.5%	8.7%	5.5%	-1.1%
Brick (clay)	9.2%	4.5%	2.9%	0.6%	0.2%
Coal	-3.1%	2.7%	3.1%	0.1%	-0.5%
Iron ore	29.6%	23.9%	19.6%	18.8%	0.2%
Iron & steel scrap	37.1%	87.1%	16.1%	6.6%	-3.7%
Steel bars, plates & structural shapes	26.1%	49.0%	26.8%	12.4%	2.4%
Steel pipe & tube	42.6%	63.5%	42.8%	23.8%	9.2%
Fabricated structural metal products	32.9%	32.4%	25.0%	12.1%	3.2%
Prefabricated Metal Buildings	44.0%	50.8%	28.8%	18.7%	3.3%
Aluminum mill shapes	15.2%	35.1%	20.9%	7.9%	3.7%
Flat glass	9.3%	7.1%	4.6%	2.8%	-0.3%
Paints, architectural coatings	22.0%	10.4%	7.2%	5.8%	0.5%
Lighting fixtures	13.4%	5.9%	5.1%	2.3%	1.0%
Plumbing fixtures & fittings	10.9%	4.3%	2.1%	1.5%	0.8%
Elevators & escalators	9.7%	3.9%	2.8%	1.2%	0.2%
Heating equipment	19.5%	13.3%	11.0%	6.6%	2.8%
Air conditioning equipment	14.3%	8.5%	5.4%	2.7%	0.1%
Copper wire & cable	26.7%	31.4%	15.8%	2.2%	1.9%
Regular gasoline unleaded	7.5%	77.5%	36.6%	5.6%	-2.8%
Diesel Fuel	25.6%	67.2%	20.8%	-1.4%	-2.0%
Inputs to new construction					
Inputs to new residential construction	24.5%	21.0%	12.0%	3.2%	-1.4%
Inputs to new non-res construction	23.1%	21.4%	12.4%	4.0%	-0.1%
Inputs to commercial construction	23.0%	21.4%	12.9%	4.7%	0.4%
Inputs to healthcare structures	23.1%	20.3%	11.9%	3.9%	-0.1%
Inputs to industrial structures	24.1%	20.2%	12.1%	5.3%	0.8%
Inputs to highways & streets	19.3%	20.8%	12.7%	4.6%	0.6%
Inputs to power & communication structures	22.0%	22.1%	13.0%	3.9%	-0.2%
Inputs to educational & vocational structures	24.1%	20.1%	11.5%	3.1%	-0.5%
Construction materials (PPI 'Special Index')	31.9%	31.1%	19.3%	4.1%	0.1%

The 'final demand' indices (at top) reflect the prices paid by owners for the construction of projects. They include material, labor & markups.

The 'service', 'commodity' and 'energy' indices (in the middle section of the table) are based on 'factory-gate' sales prices. The 'input' indices (at bottom) reflect costs faced by contractors. They exclude capital investment (i.e., machinery & equipment), labor & imports.

The 'input' indices are built up from the 'service' (design, legal, transport & warehousing, etc.) 'commodity' and 'energy' indices.

Data source: Producer Price Index (PPI) series from Bureau of Labor Statistics (BLS) / Table: ConstructConnect — CanaData.