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Construction input costs outpace new building PPIs; more price hikes appear imminent

The **producer price index** (PPI) for final demand in January, not seasonally adjusted, increased 0.5% from December and 1.6% year-over-year (y/y) from January 2016, the Bureau of Labor Statistics (BLS) reported today. *AGC posted tables and an explanation focusing on construction prices and costs. Final demand includes goods, services and five types of nonresidential buildings that BLS says make up 34% of total construction. The PPI for final demand construction, not seasonally adjusted, climbed 0.3% for the month and 1.3% y/y. The* ***PPI for new nonresidential building construction****—a measure of the price that contractors say they would charge to build a fixed set of five categories of buildings—rose 1.4% y/y. Changes ranged from 0.8% y/y each for industrial and school building construction to 0.9% for health care buildings, 1.9% for office buildings and 2.0% for warehouses. PPIs for new, repair and maintenance work on nonresidential buildings ranged from 0.8% y/y for electrical contractors to 0.2% for plumbing contractors, 2.0% for roofing contractors and 4.1% for concrete contractors. The index for inputs to construction—excluding capital investment, labor and imports—comprises a mix of 59% goods (including 5% for energy) and 41% services (including trade services, 26%; transportation and warehousing, 4%; and other services, 10%). Indexes for inputs (as well as average hourly earnings in construction, which BLS reported on February 3 rose 3.2% y/y) increased more than for new buildings, implying a squeeze on profits unless contractors can pass on cost increases or improve productivity. The overall* ***PPI for inputs to construction*** *increased 0.7% for the month and 3.1% y/y. The PPI for all goods used in construction rose 1.0% for the month and 3.8% y/y, as the sub-index for energy soared 6.1% for the month and 29% y/y, while the PPI for goods less food and energy climbed 0.5% for the month and 1.5% y/y. The index for services rose 0.1% in January and 2.1% y/y.* ***PPIs for inputs to*** *seven types of* ***new nonresidential structures*** *had y/y increases ranging from 2.3% for educational and vocational structures to 5.3% for power and communications structures. The PPI rose 3.0% y/y for inputs to new single-family construction and 3.2% for multifamily construction inputs. Materials important to construction that had notable one- or 12-month price changes include asphalt paving mixtures and blocks, up 7.5% for the month but down 0.9% y/y; steel mill products, up 1.6% and 11%, respectively; copper and brass mill shapes, -1.1% and +20%; and diesel fuel, 2.2% and 35%.*

"Multiple [**building products**] **price increases** have been announced for January and February," investment analyst Thompson Research Group reported on Monday in its quarterly Building Products Survey of distributors. A 20% **wallboard** price increase was announced for January. Among survey respondents, 64% "expect at least a portion of the wallboard price increase to be accepted; 18% reported 'undecided.'" **Steel stud** suppliers announced "two price increases, 10% each for 2017, citing continued price increases from the steel mills….With the new administration's strong signal of levying more tariffs and anti-dumping duties on imported steel, steel stud price increases are looming in early 2017." Regarding a "January 2017 non-residential [**insulation**] price increase of 3%-9%--33% of respondents expect the increase to be 'successful'; 50% remain 'undecided.'" Recently, readers forwarded letters announcing April 1 price increases for **brick and mortar** in Alabama, "the first **ready-mix** increase we have seen in over five years" in St. Louis, and a larger increase in ready-mix in Wyoming. Readers are invited to send pricing letters to simonsonk@agc.org.

There were 148,000 ***construction industry job openings****, seasonally adjusted, at the end of December, BLS reported on February 7 in its monthly Job Openings and Labor Turnover Survey (JOLTS). Openings amounted to 2.7% of combined employment plus openings. Both figures were the highest for December, by far, since 2000. In contrast, the number of* ***hires*** *(388,000) and hiring rate (5.8 per 100 employees) were around the middle of the range of December openings since 2000. The surge in vacancies relative to hires may be a further sign that contractors want to hire more employees if they can find qualified workers.*

Pipeline construction *prospects continue to improve. On Monday, "Pennsylvania environmental regulators…approved permits for a $2.5 billion natural gas liquids pipeline project traversing 17 counties across the southern tier of the state," the Pittsburgh Post-Gazette reported, while The Hill reported, "A federal judge…denied a request to block construction of the Dakota Access Pipeline in North Dakota. Also on Monday, the Federal Energy Regulatory Commission granted approval for Rover Pipeline, LLC to begin tree clearing preparatory to construction. On February 3, Bloomberg reported, "Williams Cos. won U.S. approval to build its $3 billion [200-mile] Atlantic Sunrise natural gas pipeline expansion in the Northeast, ending a review that ran almost two years and forced delays in the project….The company said it plans to start construction on the main portion of the project in mid-2017, establishing a path for more gas to flow to markets along the Eastern Seaboard in time for the 2017-2018 winter heating season. Construction on another part of the project known as the Central Penn Line is scheduled to begin in the third quarter, allowing Williams to bring the entire capacity of the expansion into service in mid-2018….*A smaller, controversial gas project proposed by National Fuel Gas Co. in the Northeast also gained the agency's approval.*"*