

# Construction Cost Trends for 2009

Source: US Department of Labor, Producer Price Index

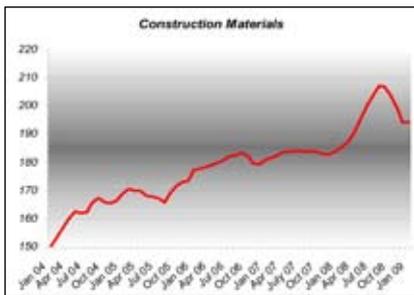
Contributed By: BNI® Building News

Construction costs moderated in Q4 of 2008 with overall yearly increases in the 5% range. Housing starts are off and residential construction is down approximately 30%. The remaining commercial sectors still show signs of strength but cannot offset the housing disaster. The inventory of foreclosed homes still ex-

ists, until these are sold off and a significant reduction in builder inventories is realized, look for a continued overall slump in construction spending. Construction is still down by 6-7% and federal spending programs will not be felt until later on this year. Look for this year to be soft for construction.

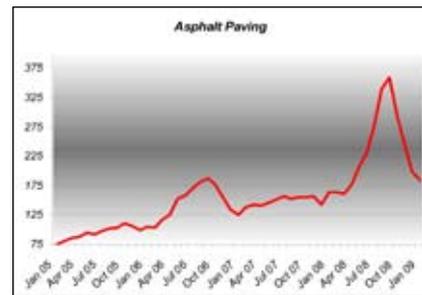
## CONSTRUCTION MATERIALS

Lumber's continued slide, joined by a sharp decrease in steel, is beginning to offset last year's materials gains. The rate of inflation has dropped sharply in the last two months to an annual rate of 6% (from 10% in December 2008). Again, look for seasonal increases in Q2 and Q3. Material prices are continuing to moderate.



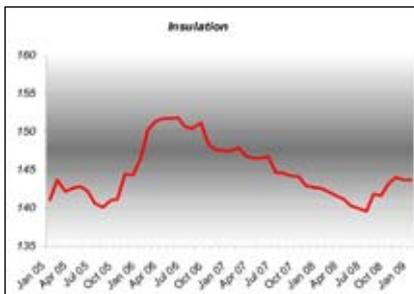
## ASPHALT

After record increases in asphalt in August and September, we saw a sharp downturn mirroring the decrease in the price of oil and we expect additional decreases in 2009. Now that the worldwide demand for petroleum has slackened, the decreases have been in the 30-35% range in just the last 4 months. As long as the volatility remains in oil, look for asphalt to continue on its roller coaster.



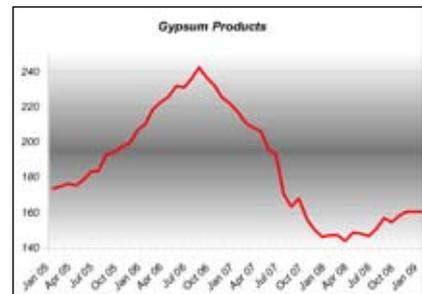
## BATT INSULATION

The downturn in insulation prices continues to follow housing. Prices are down to flat from last year and again, only a vibrant housing market could bring back increases. Insulation prices were down 1% in 2008 and down 3% since 2006.



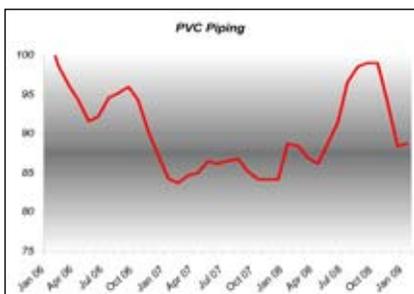
## GYPSUM BOARD

The housing slowdown continues but gypsum wall board seems to be moderating. This could be due to plant closures or contracted production. After record prices in 2006 and drops of almost 40% in 2007 through 2008 we now see this construction component seeking its own level.



## PVC PIPING

After record prices in 2006 and a decline in the housing market, we felt that PVC pipe would go the way of lumber. A runaway oil industry in Q1 and Q2 of 2008 showed that this petroleum-based component had a mind of its own and we saw spikes reminiscent of 2006. With the sudden dive in the price of oil, we are now seeing a complete reversal. PVC pipe is down 15% since 2006 and even after the dramatic Q3 rally in 2008 it is flat for 2008 overall.



## DUCTILE IRON PIPE

After steady increases in 2006 through 2007 and large increases in 2008, prices seem to be moderating for this infrastructure product. Ductile iron pipe increases for the last two years have been due primarily to demand and the ever-increasing price of iron ore. Now that there is a pronounced slowdown in the demand for ore, we will see if this translates into reduced prices for this type of pipe. Ductile iron pipe was up over 20% for 2008 and 40% since 2006.

