Construction Cost Trends for 2014

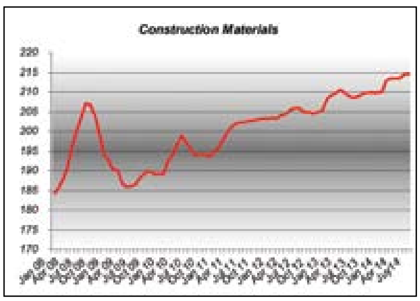
Source: US Department of Labor, Producer Price Index

Contributed By: BNi® Building News

Housing is showing slow but encouraging signs of recovery in many parts of the country. Asking prices for homes are up and are being realized with some markets actually getting above asking price. Nevertheless, adjusted starts of single-family homes are up at an annually adjusted rate of about 650,000 units, just 8% over last year – a far cry from last year's 20% increase over the prior year, and even further away from the lofty heights of 2006. Commercial and public construction are mixed. Public is down again from last year and commercial is up. Office vacancy is now at a 20% rate on a national level with some exceptions, which should dampen office construction. Corporate America is still amassing cash and until they start spending it, the construction industry will continue on a lethargic path.

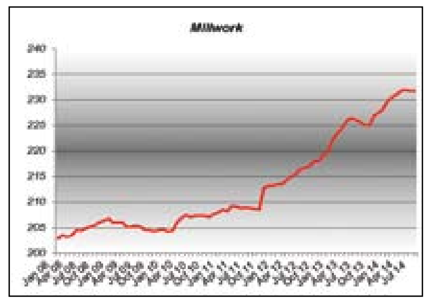
CONSTRUCTION MATERIALS

Construction material costs are rising slightly, 1% for the year (down from 2%). Lumber and cement prices are up 3+% compared to last year and steel is down. Copper and precious metals are down for the second straight year, so keep an eye on some sort of adjustment. Even though it seems that inflation has gone away, watch out for significant increases in individual commodity prices; some are up over 8% this year. Clearly it's a mixed market.



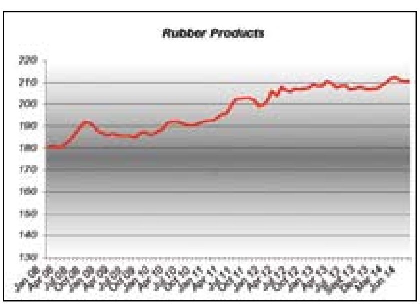
MILLWORK

Same story, just a year later. We now see millwork prices outpacing the rest of the components by a slight bit, with increases in the 3-4% range. Following both the housing upturn and the increasing price of lumber, millwork is now up about the same as last year, but still below the rate of 2012 which was 4-5%.



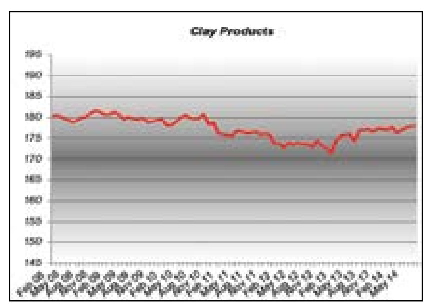
RUBBER AND RUBBER PRODUCTS

After a somewhat flat year in 2013, the price of rubber products has ramped up slightly by 2%. It's hard to tie this material to other commodities but it may be related to the price of crude, which could add some volatility to the price of rubber.



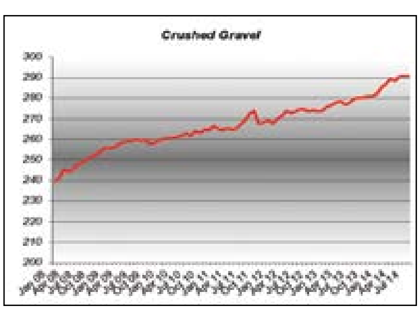
CLAY AND CERAMIC

Same story: three years running. Clay and clay products still seem to be trading in a very tight range. They are flat to down since last year and flat over the last six years. An improved public works sector would positively affect this commodity, but we don't see any signs of this happening yet.



SAND & GRAVEL

After moderating in 2013 with gains of 1-2%, sand and gravel started to climb upward with gains of close to 5%. This component returned to its average over the last ten years. The highway and public works portion of demand has not grown but the price of fuel is up and gravel is susceptible to it. Commercial construction doesn't seem to have much of an effect.



LIMESTONE

After six years of flat prices, limestone moved up with 2-3% increases in 2013. But since then limestone has flattened out again and seems to be developing into and extremely stable component.