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Building input costs outpace bid prices in November; highway costs climb; more hikes announced

The monthly and year-over-year (y/y) increase in construction input costs in November exceeded the rise in contractors' bid prices, according to BLS data posted on Tuesday. The producer price index (PPI) for material and service inputs to new nonresidential construction climbed 0.9% for the month and 22.1% y/y, while the PPI for new nonresidential building construction—a measure of the price that contractors say they would bid to build a fixed set of buildings—increased 0.3% from October and 12.4% y/y. There were double- or even triple-digit percentage increases y/y in PPIs for numerous inputs: steel mill products, 2.4% for the month and 142% y/y; diesel fuel, 81% y/y despite declining 2.9% in November; aluminum mill shapes, 2.3% for the month and 41% y/y; copper and brass mill shapes, 1.5% and 38%, respectively; plastic construction products, 1.5% and 33%; gypsum products, 0 and 21%; insulation materials, 0.6% and 17%; truck transportation of freight, 1.0% and 16%; asphalt felt and coatings, 2.8% and 16%; architectural coatings, 0.6% and 12%; and lumber and plywood, 3.5% and 12%. There were smaller but nevertheless unusually large y/y increases for construction machinery and equipment, up 0.3% for the month and 9.1% y/y; flat glass, 0.3% and 8.4%, respectively; concrete products, 0.7% and 8.4%; asphalt paving mixtures and blocks, -0.5% and 6.2%; and brick and structural clay tile, 0 and 6.0%. Bid prices, as measured by PPIs for new buildings and subcontractors, rose 0.1% for the month and 9.7% y/y for new school building construction; 0.5% and 11%, respectively for health care buildings; 0.2% and 12% y/y for offices; 0.8% and 15% for industrial buildings; and -0.3% and 20% for warehouses. PPI increases for new, repair, and maintenance work by subcontractors amounted to 1.0% for the month and 8.5% y/y for plumbing contractors; 0.7% and 9.5%, respectively, for electrical; 0.5% and 9.6% for roofing; and -0.3% and 17% for concrete contractors. AGC posted tables and graphs of construction PPIs.

Highway construction costs increased 6% in the second quarter (Q2) of 2021, following a 3% increase in Q1, according to the National Highway Construction Cost Index, posted on Tuesday by the Federal Highway Administration. "The NHCCI is a measure of the average change over time in the prices paid by State transportation departments for roadway construction materials and services." Because the index declined in Q3 and Q4 of 2020, the y/y increase is only 4% since Q2 2020.

Prices for construction inputs continue to increase. USG notified customers on December 1 that, effective January 3, its prices will increase 30% on all wallboard products; glass-mat products, 50%; cement board and glass mat tile backer, 15%; interior finishing and bead and trim products, 10%. CertainTeed Gypsum made a similar announcement on November 15. Seaman Corp. announced on November 17 that, effective January 1 it will increase prices for FiberTite roof systems: membranes, 5-6%; standard fasteners and plates, 7%; induction welded plates, 30%; all accessories, 5-10%. Concrete supplier Silvi notified customers that in addition to previously announced price increases of $5 per cubic yard on January 1, 2022 and a further $7 in July, "we are going to increase our freight from $250.00 to $300.00 on 1/1/22, which is the equivalent of $5.00 per yard."

Construction starts, not seasonally adjusted, increased 2.4%, from October to November but declined 1.6% year-to-date for the first 11 months of 2021 combined compared to the January-November 2020 total, data firm ConstructConnect reported today. Nonresidential starts gained 1.7% for the month but slipped 1.6% year-to-date. Nonresidential building starts edged up 0.5% for the month but decreased 3.9% year-to-date, with commercial starts down 6.7% year-to-date, institutional starts down 11%, and industrial [manufacturing] starts up 43%. Heavy engineering (civil) starts rose 3.7% for the month and 2.1% year-to-date (including road/highway, 6.5%; water/sewage, 10%; power and other miscellaneous, 2.6%; bridges, -16%; dams/marine, -4.4%; and airports, -16%). Residential starts climbed 3.1% for the month and 16% year-to-date (single-family, 18%, and apartments, 8.4%).

The Architecture Billings Index (ABI), which the American Institute of Architects calls “a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months,” slipped from 54.3 in October to a 10-month low of 51.0 in November but remained above the breakeven mark of 50, AIA reported on Wednesday. The ABI is derived from the share of responding architecture firms that report a gain in billings over the previous month less the share reporting a decline in billings, presented on a 0-to-100 scale. Any score above 50 means that firms with increased billings outnumbered firms with decreased billings. “The period of elevated billing scores nationally, and across the major regions and construction sectors seems to be winding down for this cycle,” said AIA Chief Economist Kermit Baker. Scores by practice specialty (based on three-month moving averages) all declined but topped 50 for the 10th time in a row: mixed practice, 56.9 (down from 58.2 in October); commercial/industrial, multifamily residential, 51.4 (down from 53.9); commercial/industrial, 50.5 (down from 54.4); and institutional, 50.1 (down from 50.6). The design contracts index decreased to 55.8 from 58.0 in October. The inquiries index fell to a 10-month low of 59.4 from 62.9.

“Landlords filled 17 million square feet of additional real-estate space in open-air shopping centers last quarter, a 49% increase from 2019, according to commercial real-estate services firm CBRE Group Inc.,” the Wall Street Journal reported today. “That marks a 10-yer high for net absorption, or total space occupied minus what has been vacated….Retailers are using their existing stores as distribution and fulfillment hubs, a strategy that is paying off as it becomes difficult to find industrial space for last-mile warehouses.”

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