CONSTRUCTION FORECASTS | 2014

PART 2 $ Tracking Construction Cost Trends

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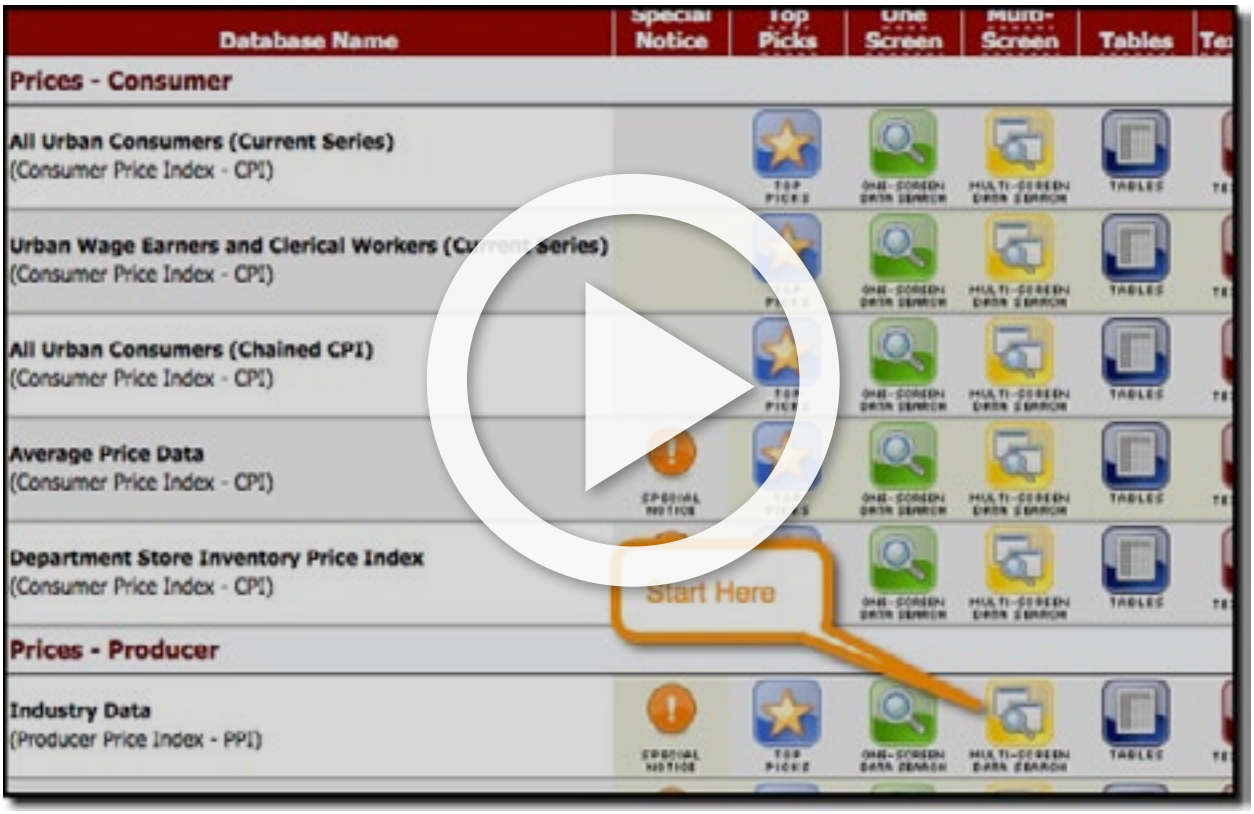
Construction costs over the long term are always trending up.

In the shorter term they can range from volatile to calm, depending on a litany of factors including market conditions, inflation, regulatory actions and unusual events. One detailed way to see trends in construction costs is to use the U.S. Census Bureau's Producer Price Indexes.

Using the agency's "Databases, Tables and Calculators by Subject page" you can filter Industry Data and Commodity Data to create your own custom view of construction price indexes. For example, use the multi-screen data search on the Industry Data line to begin selecting the parameters for your custom view. Within a few screens you can end up with your own custom page of historical price indexes related to construction, complete with graphs if you like. [Here's a video tutorial showing how to do it.]



BY USING INDUSTRY DATA SEARCH TOOLS YOU CAN CONSTRUCT CUSTOMIZED PRODUCER PRICE DATASETS AND GRAPHS.

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You can also download each of the resulting tables as spreadsheet files so you can slice and dice the numbers in ways that are meaningful to you and your business. Suppose, for example, you build industrial buildings. By using the BLS databases you could end up with The Producer Price Industry Data for “new industrial building construction.” This index includes historical price movement of typical products used in constructing industrial buildings. Once you have the data in your spreadsheet you could do a quarterly analysis to see if you can detect trends in the movement of the index. After discounting volatile movements, which tend to occur under unusual circumstances, you might be able to see typical price movements for each quarter over the past five years..

Suppose, for example, you build industrial buildings. Using the process above but only selecting series line item 236211 on the Industry Data page, means you end up with The Producer Price Industry Data for “new industrial building construction.” This index includes historical price movement of typical products used in constructing industrial buildings.

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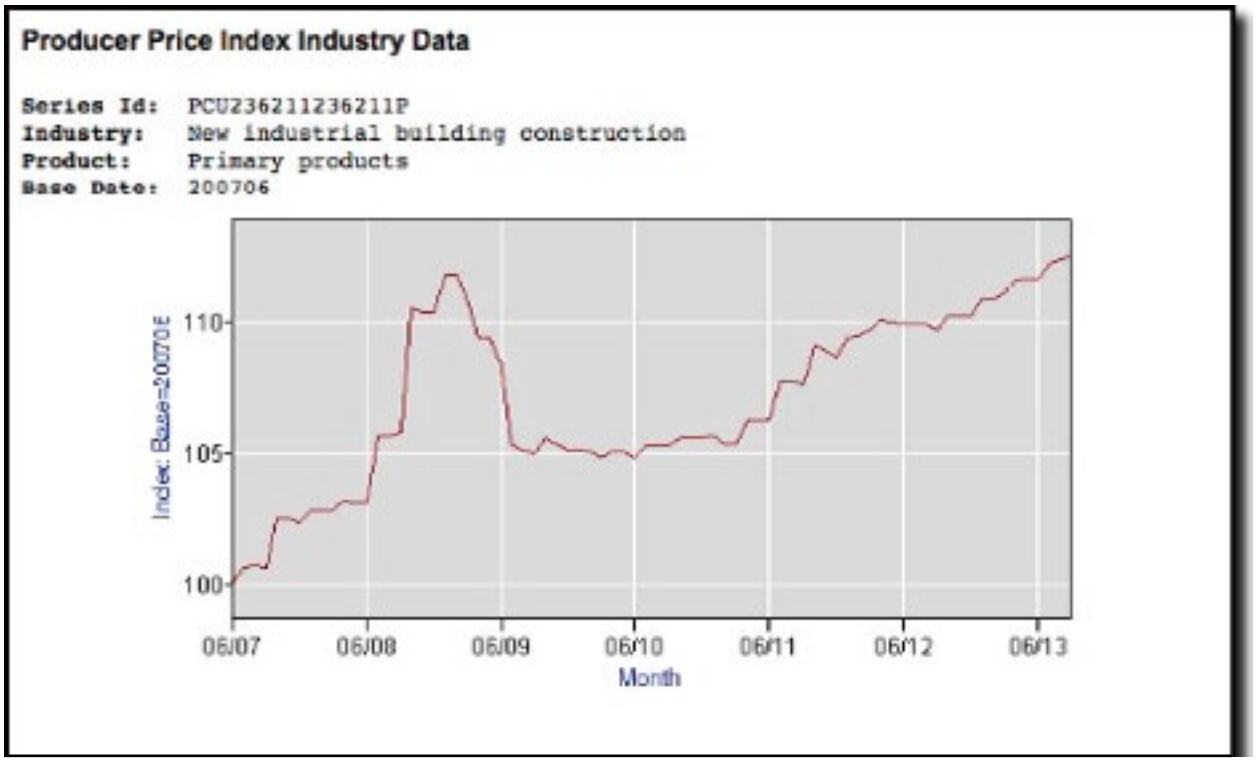
In this particular Producer Price Index for primary products used in industrial buildings, increases in prices were steeper between 2011 and 2012 and entered a leveling off period from June to September 2012. The amount of increases and decreases in the index over time provide a backward-looking trend line. Since the long-term trend is always up you can begin to gauge a typical rate of increase that might provide insight you could use to formulate cost multipliers when estimating projects in the near term.

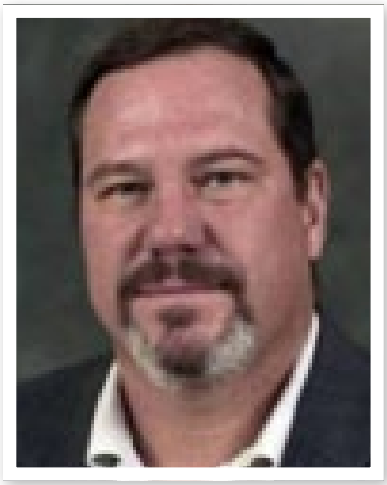


BESIDES BEING ABLE TO SEE CHANGES OVER TIME IN SPECIFIC PRODUCER PRICE PROFILES, YOU CAN FIND PLACES WHERE THERE WERE RAPID INCREASES AND RAPID DECREASES IN PRICES.

Along with the analysis from those who report on these kinds of trends, you can begin to detect issues that could affect the movement of costs in the sector.

Most builders who are constructing things where the construction project will span more than a month are interested in how much costs will escalate during the project.

The idea is to add a cost multiplier to the project cost to make up for increases over the project's lifetime.



CRAIG D. CAPANO, CPC

According to a paper authored by Craig D. Capano, CPC, and Saeed Karshenas, PhD, on the reliability of using economy-wide economic indicators to predict increases in construction costs, it's common for contractors to simply use experience and judgment when deciding how much of a cost multiplier to add.

Still, for those who delight in mathematical exercises Capano and Karshenas conclude that using the Engineering News Record's Construction Cost Index and Building Costs Index along with the Conference Board Coincident Index can increase insights into the "trends and rates of changing construction costs."

SAEED KARSHENAS, PhD

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For those who are not into graphing compilations of indices, or exploring linear regression, time-series and neural network models, there are people out there who are, and who spend their time assessing the probability of changes in construction costs. Here are some of the predictions for construction costs in 2014.

Ken Simonson, chief economist for The Associated General Contractors of America, speaking in a Reed Construction Data webinar, thought that inflationary pressures that could drive up the cost of materials were not imminent. Through the end of Q2 2013 construction costs had risen about 2.18% based on an average of six cost indexes.

KEN SIMONSON
Chief Economist, The Associated General Contactors of America

Charlie McCarren, construction materials analyst with IHS Global Insight in Washington, D.C. (as reported in Engineering News Record's 2Q Cost Report Confidence Survey), predicted gypsum wall board would go up 4.6% in 2014, softwood framing lumber would post a 3% increase and plywood would increase 4.9%. In the ENR 3Q cost report, IHS updated its 2014 predictions showing a 3.9% increase in gypsum prices for 2014, a 4.2% increase in lumber prices and a 5.4% increase in plywood prices. In the same report IHS predicted cement rising 4.4% next year.

CHARLIE McCARREN
Construction Materials Analyst, IHS Global Insight

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Marc J. Poskin, CPE, LEED AP BD+C, vice president of estimating with International Contractors, wrote last May that he thought overall cost escalation into 2014 and 2015 would be in the 2%-2.5% range.

MARC J. POSKIN, CPE, LEED AP BD+C
Vice President of Estimating, International Contractors

Many believe that structural steel and rebar prices in 2014 depend on what China does with production but John Anton, steel analyst at IHS, thought prices could rise in 2014 if construction improves and China cuts production.

More recently IHS is predicting a 1.6% increase in structural steel prices in 2014 and a huge 9.9% jump in rebar prices.

JOHN ANTON
Steel Analyst, IHS

Adding to the pessimism about steel, respondents to the ENR Construction Industry Confidence Index, or CICI, reported being uneasy about steel prices in the near future.

Overall though, when compared to Q2 2012 when the CICI was at 56, its Q2 2013 number of 69, a four percent increase over the previous quarter, shows optimism continued to rise.

The index slipped back a modest two points in the third quarter but that was not enough to spark any concern that confidence in the recovery was fading.

CONCLUSION

Predicting construction costs over the short term is far more difficult than looking at the historical record, noting the rate of increase over many years, averaging that, and arriving at a long-term percentage increase.

However, builders who take the time to do some of their own research, and then listen to the predictions of the experts, can increase their understanding of the factors that affect construction costs and even make their estimating more accurate.

Read Part 1, The Economist Overview.

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OTHER REFERENCES

U.S. Census Bureau's Producer Price Indexes: http://www.bls.gov/data/

Applying Accepted Economic Indicators to Predict Cost Escalation for Construction: http://ascpro0.ascweb.org/archives/cd/2003/2003pro/2003/Capano03.htm

Conference Board Coincident Index: http://www.conference-board.org/data/bcicountry.cfm?cid=1

Construction Cost Escalation: Trends and Predictions: http://www.iciinc.com/blog/construction_cost_escalation/