

Construction Cost Impacts



CONSTRUCTION™

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MATERIAL SUPPLY AND PRICING

As we approach the end of the fourth year since the U.S. construction industry began experiencing unparalleled volatility in materials costs, supply-chain bottlenecks, and a tight labor market, overall inflation rates and economic growth have cooled, while congestion at West Coast ports has eased. These changes have led some to assume that construction costs and completion times must also have improved. Unfortunately, this is not the case for many projects, materials, and subcontractors. As central banks continue their campaigns to slow inflation, both the U.S. and Europe are likely to avoid recessions. Using the annual-average over annual-average computation, the third quarter forecasts have been revised upward with expected real GDP to grow at an annual rate of 2.1 percent in 2023 and 1.3 percent in 2024. These annual projections are higher than the previous estimates of three months ago. Upward price pressure remains for many key construction materials. Although some materials have decreased in price recently, they are still year-over-year increase in the range of 7% - 9%. The economic slowdown is expected to continue into 2024. The CPI all-items index increased 3.7 percent for the 12 months ending September. The 2023 CPI is expected to average 4.3% and will lead to a push for higher wages.

PRIMARY CAUSES

The primary underlying causes of these issues include:

- **Labor shortages** – continuing issue of attracting and retaining workers
- **Raw material shortages** – shortage of one ingredient can stop or limit production.
- **Transportation issues** – demand for container shipping and trucking have outstripped supply, together with truck driver shortages.
- **Production times** – just-in-time production has been severely impacted.
- **Energy disruptions** – the rapid rise in the cost of diesel fuel.
- **Ukraine/Russia War** – both countries are major suppliers of base metals to the world market and the supply of these metal has been severely disrupted.

SUPPLY CHAIN IMPACTS (AS OF OCTOBER 2023*)

The supply chain has improved but there are still products that are in short supply, **cement and electrical transformers** as two examples. Even if materials are available, subcontractor bids are still short-lived. Managing supply chain has now become routine on project sites.

CURRENT COST IMPACTS ON CONSTRUCTION MATERIALS

Legend: Alert- Significant Impact Caution - Medium Level Impact Clear- Little to No Impact

	<i>COST IMPACT BASE JAN. 2023</i>	Anticipated Lead Time	Supply Chain Factors
Fabricated structural steel	Stabilized	Domestic Lead Times: 8 Weeks, Import Lead Times: 16-20 Weeks. Delivery Times: 1. Tubular products from mill to fabrication location after roll date:- +Truck: 2-3 Weeks +Rail: 3-5 Weeks, 2. Flat Products: 4 Weeks, 3. Long Products:- +Truck: 2-4 Weeks, +Rail: 5-6 Weeks.	<ul style="list-style-type: none"> • Tubular: Based on coil availability to roll tubular products from Once coil inventory is utilized, that rolling is closed. • Flat: Influenced by overall order volume that the mill has • Heavily influenced by mill inventories which are gradually building.
Reinforcement Bars	Stabilized	8 weeks	Average furnish and install at about: \$1.80/lb
Metal bar joists	Stabilized	4 - 8 weeks	No supply chain issues.
Concrete	Price increase by \$10/yd.	No lead time issues.	"The cost of delivery is slowly creeping up which of course gets factored into the per yard price. In addition to that, material cost have been going up at a steady pace. We sent out a letter a couple weeks back indicating that our price is increasing by \$10. As far as I know, that is the last increase of the year and do not anticipate another one until I believe April 2024." - Jacon Chu, Bradley Concrete.

Lumber	Stabilized	No lead time issues	No supply chain issues.
MDF	Stabilized	No lead time issues	No supply chain issues.
Domestic Plywood	Stabilized	No lead time issues	No supply chain issues.
Imported Plywood	Stabilized	No lead time issues	No supply chain issues.
Melamine	Stabilized	No lead time issues	No supply chain issues.
Insulation	Stabilized	4 weeks	No supply chain issues.
Drywall	>5% on Mud/Tape, >7% on Standard Drywall, >10% on Glass Matt	Lead times on mud/tape and standard products are still normal of 2-3 weeks but glass mat drywall products are more like 4-6 weeks.	No supply chain issues.
Joint Compounds	Stabilized	Easily Available	No supply chain issues.
Steel Components/Studs/Ceiling T's	Stabilized	4 weeks	No supply chain issues.
Ceiling Tiles	>5% M/M	Lead times are staying consistent for acoustical ceilings and specialty/wood ceilings.	No supply chain issues.
Flooring	Stabilized	4 - 10 Weeks	No supply chain issues.
Plumbing Fixtures	Stabilized		Slight impact on procurement of flush valve associated with closet.
Steel Piping	Stabilized	4 weeks	Slight impact with manufacturer delay in procuring products.
Polypropylene Piping	>0.5% M/M	3-4 weeks to 57 weeks depending on the size.	PVC is contingent on supply the trade partner actually has.
MEP Equipment	>1.5% M/M	Longer Lead Times	Slightly impacted due to inability to procure material, manufacturer / vendor issue.
Copper & Brass Products	<1.77% M/M Copper >1.5% M/M Brass	4 Weeks	No supply chain issues.
Nickel Products	<1.35% M/M	5 Weeks	No supply chain issues.