

Construction Cost Impacts



CONSTRUCTION™

ISSUE 23 | DECEMBER 2023

MATERIAL SUPPLY AND PRICING

As we approach the end of the 4th 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 are beginning to reduce the volatility in bid pricing and there has been an improvement in the duration trade partners are prepared to hold their bids. 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 2.4 percent in 2023 and 0.9 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 3.1 percent for the 12 months ending November. 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 DECEMBER 2023*)

The supply chain has improvements, but there are still products that are in short supply, **copper, air sourced heat pumps, air handling units and electrical transformers as examples**. 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

COST IMPACT BASE
JAN. 2023

Anticipated Lead Time

Supply Chain Factors

	COST IMPACT BASE JAN. 2023	Anticipated Lead Time	Supply Chain Factors
Fabricated structural steel	>1.23% From March to December	8 weeks	There was a big valley in Sept/Oct, but prices have jump back up to the May plateau. Steel suppliers expects a small decline in Q1 2024 and more increases in Q2 2024 due to expected rate drops from the feds, which should trend construction upwards. 2024 will be an interesting (and likely unpredictable) year with the fed rates activity and it's an election year.
Reinforcement Bars	Increase	8 weeks	Cascade Steel Rolling Mills, Inc. will increase transaction price of all rebar, including coil rebar, by \$50/ton (\$2.50/cwt).
Metal bar joists	Stabilized	4 - 8 weeks	Same as October 2023.
Concrete	Increase	No lead time issues.	Effective February 1, 2024, CEMEX pricing for Ready Mix Concrete will increase by \$12.00 per cubic yard. CEMEX pricing will also increase for the following surcharges & fees: returned concrete fee: \$100 per cubic yard, Saturday Premium: \$9.50 per cubic yard, Short Load Premium: \$25 per cubic yard.

Lumber	Stabilized	No lead time issues.	Decrease in lumber, plywood and pressure treated items. Engineered lumber has seen some decrease but mostly remain unchanged.
MDF	Stabilized	No lead time issues.	Same as October 2023.
Domestic Plywood	Stabilized	No lead time issues.	Same as October 2023.
Imported Plywood	Stabilized	No lead time issues.	Same as October 2023.
Melamine	Stabilized	No lead time issues.	Same as October 2023.
Insulation	Stabilized	4 weeks	Same as October 2023.
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.	Same as October 2023.
Joint Compounds	Stabilized	Easily Available	No Supply Chain Issues.
Steel Components/Studs/Ceiling T's	Stabilized	4 weeks	Same as October 2023.
Ceiling Tiles	>5% M/M	Lead times are staying consistent for acoustical ceilings and specialty/wood ceilings.	Same as October 2023.
Flooring	Stabilized	4 - 10 weeks	Expecting price increase in January 2023.
Plumbing Fixtures	Stabilized	10-12 weeks	Commodity pricing is stable. PVDF - Flame resistant piping has 1 year lead time.
Steel Piping	Stabilized	4 weeks	No price increase.
Polypropylene Piping	>0.5% M/M	3-4 weeks to 42 weeks depending on the size/Supplier.	No price increase.
MEP Equipment	>1.5% Six Month Avg.	20-52 weeks	No price increase.
Copper & Brass Products	Stabilized	4 Weeks	Brass pricing has declined in last two months.
Nickel Products	Stabilized	5 Weeks	Same as October 2023.