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'Bid price' PPI tops cost increases in 2019; ConstructConnect, Beige Book find mixed activity

For the first time since March, contractors' bid prices rose less from November to December (0.1%) than the cost of purchased materials and services (0.5%), based on an AGC [analysis](#) of **producer price indexes (PPIs)** [posted](#) by the Bureau of Labor Statistics on Wednesday. For 2019 as a whole, the **PPI for new nonresidential building construction**—a measure of the price that contractors say they would charge to build a fixed set of buildings—rose 3.8%, compared to 5.4% in 2018. Increases in 2019 ranged from 2.8% for new healthcare buildings to 3.2% for offices, 4.4% for schools, 4.5% for industrial buildings and 4.6% for warehouses. Increases in **PPIs for subcontractors'** new, repair and maintenance work on nonresidential buildings ranged from 3.4% for roofing contractors to 3.6% for electrical and plumbing contractors, and 4.7% for concrete contractors. The **PPI for inputs to construction**—excluding capital investment, labor and imports—increased 1.5% in 2019, compared to a 4.0% gain in 2018. This index covers both goods (56%) and services (44%). There were increases of 5.5% in the PPI for energy inputs to construction, 0.3% for nonenergy goods and 2.1% for services. Price changes turned negative in 2019 for some previously fast-rising inputs: steel mill products (-16% , vs. a 19% jump in 2018); gypsum products (-5.2% , vs. 4.0% in 2018) aluminum mill shapes (-4.4% , vs. 6.8% in 2018); and asphalt paving mixtures and blocks (-1.3% , vs. 10.5% in 2018).

Construction data firm ConstructConnect [reported](#) on Friday that the **value of construction starts**, not seasonally adjusted, fell 0.6% year-over-year (y/y) in December from December 2018 but increased 4.0% for the full year compared to 2018. Engineering (civil) starts leaped 81% y/y and 16% for the year. Nonresidential building starts slumped 25% y/y but rose 5.3% for the year, comprising commercial starts, -0.6% for the year; institutional, 1.3%; and industrial (manufacturing), 43%. Residential starts fell 8.5% y/y and 3.8% for the year, with single-family down 2.4% for the year and apartments down 6.8%.

"**Economic activity** generally continued to expand modestly in the final six weeks of 2019," the Federal Reserve [reported](#) on Wednesday in the latest "Beige Book," a compilation of informal soundings of business conditions in the 12 Fed districts, which are referenced by the name of their headquarters cities. "New **residential construction** expanded modestly. **Commercial real estate** activity varied substantially across districts....A few districts indicated that some businesses were passing along **tariff costs** to consumers—mostly in retail but also in construction." Construction comments cited by Fed districts included: **Boston:** [Boston-area commercial] construction activity was robust....In the Providence area, by contrast,...few new projects have been undertaken. **New York:** New multifamily construction starts have picked up across the district, while ongoing multifamily construction activity has remained brisk. New office and industrial construction has continued to weaken modestly. **Philadelphia:** Contacts reported continued strength in the industrial market, with ongoing demand for new construction...Most contacts remain optimistic about office...construction, but one noted that Philadelphia's construction activity has fallen slightly and may remain a bit below prior-year levels. **Cleveland:** Output price increases were most often reported by contacts in...construction industries because of persistent strength in demand. **Richmond:** [Commercial] construction remained strong across most types of properties, even though construction costs are high. **Chicago:** Nonresidential construction activity was little changed, and contacts again noted that rising costs were holding back growth. **St. Louis:** Construction contacts reported that prior price increases from tariffs on building materials, such as steel and aluminum, have now been passed on to consumers....The number of commercial construction projects increased moderately from October to November across most of the states in the district. A contact in Little Rock noted that they had never seen a construction boom as strong and as long-lasting as the current one. **Minneapolis:** Construction spending saw a notable uptick in November compared with a year earlier, according to an industry database, with increases seen in every district state except Wisconsin....Commercial permitting in the district's larger markets in November saw a modest increase overall compared with a year earlier, with Rapid City and Sioux Falls, S.D., continuing to see strong activity overall. **Dallas:** New development of retail space remained modest and was driven by grocery-anchored shopping centers. **San Francisco:** Some building materials producers reported lower prices over the reporting period, but others noted being able to charge higher prices following a pickup in construction activity....Demand for retail and office space in California weakened, with some reports noting little new construction. Commercial permitting also decreased in the Central Valley of California over the reporting period, though it remained stable in the Pacific Northwest. In contrast, demand for industrial spaces, like warehouses and distribution centers, remained elevated. Contacts noted that very low vacancy rates and increased leasing costs have spurred construction of new industrial spaces across the district. In the Pacific Northwest, public infrastructure construction also increased.

Household interstate moves are an indirect indicator of demand for several types of construction. On January 6, U-Haul [reported](#) that in 2019 Florida had the most "U-Haul moving trucks entering its borders versus exiting them, establishing a new No. 1 growth state for the first time in four years[, having] ranked second to Texas from 2016-18. [Texas,] North Carolina, South Carolina and Washington round out the top five growth states....California ranked 49th, and Illinois was 50th for the fourth time in five years,...with the largest net losses of U-Haul trucks crossing their borders....Alabama was the biggest year-over-year climber in the rankings, surging 36 spots to No. 6. Maryland took the largest tumble, backsliding 39 spots to No. 45."

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