Dramatic Drop in Fuel Prices Starts To Affect the Markets

Annual price declines: 41% for diesel fuel, 42% for gasoline, 52% for crude, 25% for natural gas

The largest drop in energy costs in decades has to have an impact on construction costs and markets. But perhaps not as much as you may think.

“The impact of the drop in oil prices will be limited to a few specific markets, such as petrochemical plants, and it will be very regional,” says Robert Murray, chief economist for Dodge Data & Analytics. He still predicts that the dollar value of total construction starts will increase 9% to 10% this year. “The pullback in manufacturing is dampening growth but not causing a decline,” he says.

However, the downturn in the manufacturing sector will be severe. “We had a surge in petrochemical work last year and expected a slowdown in 2015, but now we expect that slowdown to be even stronger due to the drop in oil prices,” Murray says. That is also adding to the deferral of pipeline work. He predicts that, overall, the manufacturing sector will decline 25% this year. However, Murray points out that this downturn follows two very strong years of growth for the manufacturing market.

“When we look at major markets, we predict that non-residential construction will settle back to a 6% annual increase in 2015, after a 19% gain in 2014. However, if we exclude manufacturing, we would be looking at an 11% gain this year in the non-residential building market,” he says.

On the plus side, Murray believes lower oil prices will help boost consumer spending, which should have a positive impact on both the commercial building and homebuilding markets. “The drop in oil prices will have a mixed impact on construction, but, in net, we think it will be positive,” Murray says.

In addition, Murray says there are indications that oil prices have bottomed out. “The key to our forecast is the duration of the decline in oil prices and when they will stabilize. What we have seen in February and March is oil prices edging upward, and, as a result, we think the overall impact of lower oil prices on construction will be relatively small,” he says.

Anirban Basu, the chief economist for the Associated Builders and Contractors, agrees that the positive side of lower oil prices outweighs the negative side. “Lower energy prices are reducing the input cost of producers for most construction materials, especially the drop in diesel fuel prices on transportation costs. That’s good news for the industry because it shrinks overall costs,” says Basu.

“Lower fuel prices will reduce tax revenue for highway projects, but, on the other hand, those projects become cheaper to deliver,” he adds. “Also, lower fuel prices mean people will drive more, helping to boost gas-tax revenue. So, in the end, I think it’s a wash.”

Most state and local governments do not depend heavily on gas taxes to fund construction, he adds. “However, it may threaten future projects if the federal Highway Trust Fund becomes depleted. But, for now, with lower material costs, state and local governments will find it easier to push projects forward, given their limited budgets, he says.

“Falling interest costs combined with falling materials costs will be a boost for

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SOURCE: DATA SUPPLIED BY IHS GLOBAL INSIGHT

enr.com March 30/April 6, 2015 • ENR • 1
Lower oil prices will be a plus for overall economic growth.
The bottom line is that lower oil prices will be a boost to overall economic growth by stimulating consumer spending, says Anirban Basu, chief economist for the Associated Builders and Contractors. “Many markets will benefit, but oil-related sectors will suffer.”

Lower oil prices won’t have a big impact on construction materials prices.
Strong market demand will mostly offset lower energy costs, says Charlie McCarren, the economist who forecasts construction materials trends for IHS Global Insight. “It takes about six months for lower crude-oil prices to trickle down through the supply chain, and even then there will be a diminished impact.” He predicts that asphalt paving prices will decline only 4.1% this year, despite the forecast of a 52% drop in West Texas crude-oil spot prices.

The impact of lower oil prices on construction starts will be limited to a few markets.
The major impact of lower oil prices will be on the manufacturing sector, especially those related to petrochemical plants, says Robert Murray, chief economist for Dodge Data & Analytics. While he expects to see a pullback in the manufacturing sector, his forecast still looks for a 9% to 10% increase in the dollar value of overall construction starts in 2015. “The drop in oil prices will be focused on a few project types and be very regional,” he says.

construction. I have talked with several contractors, and they all say they have not seen any slowdown in the market,” says Basu.

The impact of lower oil prices on construction materials is more sketchy. Some will be hit, but other materials are not vulnerable to lower oil prices. And though some materials prices are falling, that has nothing to do with the drop in oil prices.

The obvious construction materials to reflect the massive drop in oil prices would be paving asphalt. Not so. “There is a major disconnect between falling oil prices and asphalt prices,” says Charlie McCarren, construction materials economist with IHS Global Insight. There are several components in the manufacturing of asphalt that blunt the impact of lower oil prices, such as using lighter crude oil, which reduces the asphalt by-product, McCarren says. “Asphalt may move in the same direction as oil, but it does not have the same volatility,” he says.

IHS Global Insight forecasts the spot price for West Texas crude oil will fall 52% this year. But the same forecast calls for only a 4.1% decline in asphalt paving cost. IHS expects asphalt prices to decline another 1.2% in 2016 before rebounding 4.2% in 2017 and 3.7% in 2018.

However, there is a time lag to take into account, McCarren warns. “It takes about six months for lower crude-oil prices to trickle down through the supply chain. That is one reason we have not seen much of a reaction in the producer price indexes yet,” he says.

“We have a big drop in input costs, but most material prices seem to be improving because there is no slowdown in demand,” says McCarren. “Material prices are just not driven by input costs, such as energy, but also by demand in the marketplace. The one sector we expect to see a pullback is manufacturing, but general demand is improving, and that will put a floor beneath prices,” he adds. As a consequence, lower input costs may result in larger profit margins for producers, rather than lower prices for contractors.

“We are not at a tipping point for most material prices yet. But by the end of the second quarter of this year, we think we may start seeing price declines for some materials,” McCarren says.

The dramatic 52% decline in crude-oil prices is overshadowing the 25% decline in natural-gas prices that IHS Global Insight is forecasting. However, the drop in natural-gas prices may be more significant for construction materials, says McCarren. “Most construction materials producers have moved away from oil, in favor of natural gas,” he says.

IHS Global Insight predicts that
natural-gas prices will rebound 7.3% next year and another 10.5% in 2017. Likewise, it forecasts that the spot price for West Texas crude oil will bounce back 30.8% next year, followed by another 16.8% gain in 2017. The prediction for the average U.S. gasoline price is more subdued: After an expected 41.7% decline this year, prices are predicted to rebound 9.9% in 2016 and another 5.0% in 2017.

IHS also recently released its latest Procurement Executive Group survey index. That PEG index dropped to 42.4%. It is a diffusion index, which measures when it drops below 50, more firms are reporting price declines than increases. However, it does not measure the magnitude of the declines, only the direction, says McCaren. In addition, the index was only created in 2011, so claims of a record low should be taken with a grain of salt, he says.

Prices for other construction materials also are falling, but the declines have little to do with lower oil prices. The Bureau of Labor Statistics’ producer price index for softwood lumber in February was down 4.5% from a year ago, which is mostly due to the soft rebound in housing.

Likewise, steel, aluminum and copper prices are down but, again, due more to market conditions than oil prices. There has been a great expansion of production capacity for commodities such as copper, aluminum and steel, and the global market is not strong enough to soak up the excess capacity,” says McCaren. “That is having a bigger impact on lower commodity prices than the recent drop in oil prices,” he adds.

Bucking the downward price trend has been cement, which is posting historically high price increases. In February, the producer price index for cement was 9.4% above a year ago; IHS predicts that will calm down to a year average 3.5% gain. The February PPI for ready-mix concrete was up 4.3% for the year. The PPI for gypsum-wallboard prices rose 3.4% in February, following a 4.6% gain the previous month, leaving prices 1% above a 2014’s level. The PPI for plywood prices is up 4.9% for the year.
For some construction projects—such as public paving work—the cost of fuel and freight is often tied to a price index. So, a drop in petroleum prices of 50% or more is neither good news nor bad news for contractors. For others, the news is seen as a mixed blessing. Prices inched up in February, but they still remain far lower than last year's levels. If low fuel prices continue, some experts predict, they will create an economic stimulus that will give consumers more cash—and, eventually, more money to find its way into new construction.

All this remains to be seen, though. Shale output has slowed, and after roughly 10 straight months of price declines, diesel fuel prices in February inched up 3.2% higher than January's but were still 41% lower than a year ago, according to the Producer Price Index. Diesel prices at the pump averaged $2.92 across the U.S. in mid-March, down 27% compared to a year ago, after falling to $2.83 in early February—its lowest since January 2010, according to the Energy Dept.

Firms working in the oil patch have seen drilling put on hold and equipment idled, while some refinery upgrades have continued as planned. Estimating is a bigger challenge, too. “We just got a six-year job where we estimated $4-a-gallon gas,” says Thad Pirtle, vice president of equipment for Evansville, Ind.-based Taylor Bros. “It’s really a throw of the dice.”

Falling prices already have produced mixed effects. Firms working in the oil patch have seen drilling put on hold and equipment idled, while some refinery upgrades have continued as planned. Estimating is a bigger challenge, too. “We just got a six-year job where we estimated $4-a-gallon gas,” says Thad Pirtle, vice president of equipment for Evansville, Ind.-based Taylor Bros. “It’s really a throw of the dice.”

Fleet managers say projects are certainly spending less on fuel but add that the drop in prices has hindered their ability to make strategic investments. Firms investing in alternative fuels, such as electric, propane and compressed-natural-gas vehicles, say they likely will take a break from these purchases this year as the drop in petroleum-oil prices now makes for a longer payback period.

“It gives us pause,” admits Marty Ozinga IV, president of Chicago-area concrete supplier Ozinga Bros. Inc. It operates four CNG filling stations and about 150 vehicles that run on CNG. “There is some general replacement of equipment that we are doing this year with diesel,” Ozinga says. “The low prices on diesel and oil are definitely part of the decision.”

Alternative-fuel experts say oil prices may be back on the rise. “I think we will see sales pick up next year as soon as oil prices start to increase,” said Stephie Yborra, director of market development for natural-gas group NGV America at the Green Truck Summit, held in early March in Indianapolis. “Don’t fall off the train,” he urged fleet managers.

Even with the sharp downturn in oil prices, the price spread between petroleum and alternative fuels is still favorable—though greatly diminished—compared to last year. According to the website CNGNow.com, the average per-gallon-equivalent price of CNG is $2.11, while diesel prices in the U.S. are expected to average $2.83 this year compared to $4 a gallon last year, EIA says. “We know it is going to go back up,” Yborra said, referring to petroleum-based fuels such as diesel, which powers most construction machines. “We just don’t know how quickly.”

Meanwhile, companies say they are continuing to make investments that lower their overall fuel costs. Newer, clean-diesel engines in both on-road and off-road machinery are proving to be more fuel-efficient, and less-critical upgrades can further reduce operating costs, say fleet managers. On heavy-duty trucks, even the lights can make a difference. “The fuel savings of moving from incandescent high-energy lights to LEDs is real money,” said Doyle Sumrall, managing director of the National Truck Equipment Association, at the Indianapolis summit. “It’s almost like turning off your truck for an hour or two a day.”

Cutting idle time is another industry focus, he added, noting that more firms are adopting technologies such as wireless telematics to help monitor their fuel usage. “Over 50% of the cost of fuel we use is from truck idling,” echoes Ozinga.

Those who rely on equipment values to secure bonding or asset-backed loans may be concerned about a glut of idle machines in the oil patch, but appraisers are less worried. Machines in oil-producing regions are at risk, but only 6% to 8% of all rented heavy equipment is exposed to pure oil-and-gas work, according to appraisal firm Rouse Asset Services. Further, the oil-and-gas sector accounts for only 10% of all rental revenue, its analysts say.

“If all this were to be wiped out, you might have 6% to 10% of equipment come to market that has to find other projects or is going to be off-loaded in the used-equipment markets,” explains Raffi Aharonian, managing director at Rouse.

“The exposure is rather low.”
Asphalt Prices Drop; Concrete Looks for Long-Term Role

By Aileen Cho and Jeffrey Rubenstone

Both asphalt and concrete advocates expect increases in paving activity overall, and both note that asphalt prices haven’t gone down in conjunction with oil prices as quickly as in the past. While asphalt will continue its paving prevalence, proponents of concrete contend that life-cycle costs and tight budgets may contribute to an increasing competitiveness with asphalt.

“Oil prices have been going down, and liquid-asphalt prices have finally gone downward,” says Jay Hansen, executive vice president at the National Asphalt Pavement Association. “Demand for asphalt paving is expected to continue to go up 5% in 2015 on the strength of private commercial [and] residential markets, mainly, and in states that approved user-fee increases for their programs.”

Ed Sullivan, chief economist for the Portland Cement Association, concurs that the effect of low oil prices is filtering into asphalt prices, but adds that it is “no-where near the degree that people might have expected.” The ratio between oil and asphalt prices is “tighter” when oil prices rise and less than when they fall, he notes.

While Sullivan expects asphalt prices will continue to ease, he says that, over the long term, “you’d expect the world economy to keep increasing its demands on oil. If there is tremendous paving activity, then asphalt prices won’t decline.”

But Hansen says, “When the price of oil was a $100 a barrel, we were competitive. The price of oil is now around $50, and we’re going to be even more competitive, and that’s the bottom line.”

Hansen says the shift by many companies from recycled fuel oil to natural gas has created an energy-related cost savings per ton of asphalt paving.

Scott Sounart, technical practice leader in pavement engineering for Kleinfelder, says cash-strapped municipalities are trying to avoid large-scale reconstruction in favor of maintenance when it comes to facilities such as parking lots.

Moreover, he adds, “state transportation departments are forced to have to wait” on major reconstruction projects, also due to funding uncertainties. “The fear is that roads are being allowed to deteriorate, and that may cause problems in the years to come,” he says. Down the road, higher demand for asphalt might then drive prices up.

Still, asphalt’s “first cost” remains lower than concrete’s, and, “for the clients we work with, it’s more prevalent. I think it will stay that way, regardless of oil prices,” Sounart says.

There is a recent example, however, of a state bucking the tradition. The Nevada Dept. of Transportation awarded an $83-million concrete contract last month to Fisher Sand and Gravel, although the contract was $3 million more than the low asphalt bid by Las Vegas Paving Corp. The state applied a life-cycle equivalency factor and anticipated that maintenance of asphalt paving would be three times the cost over 35 years, says Darin Tedford, NDOT assistant chief materials engineer.

For maintenance of existing roads, the traditional asphalt prevalence is a “detriment to the tax-paying public,” says Leif Wathne, executive vice president of the American Concrete Pavement Association. States that have an asphalt paving monopoly pay higher prices per ton but don’t leverage the competitiveness of a free-market dynamic.

The focus on so-called Band-Aid maintenance could include greater attention to concrete overlays, which have increased from nearly zero 10 years ago to about 15% for all repaving projects nationwide, Wathne adds. If DOTs encouraged healthy competition between concrete and asphalt overlays, “we could get something like 17% additional lane-miles with the same investment,” he says.
Firms Feeling the Drop in Oil
Drilling work slows in key regions, downstream projects continue, and contractors readjust

The fallout from a decline in oil prices has driven a recent decline in upstream oil-and-gas work for engineers and contractors. Still, big industrial projects continue downstream, and some contractors in some regions are hoping to take advantage of a glut of skilled labor.

Work along the Gulf Coast has already seen adjustments to lower oil prices, with large oil and gas projects shelved as their economics evaporated. Sasol Ltd. delayed a decision to invest in a $14-billion project next to an ethane cracker under construction in Lake Charles, La. (ENR 3/23/15 p.11), and other projects on the drawing board also are being put on hold.

“Anything tied directly to crude oil or direct derivatives, these projects have been pushed to the right and/or cancelled,” says Robert Connors, engineering and construction analyst with Stifel Equity Research. “Anything upstream-related or oil-related is seeing capex cut, and anything LNG-related is being deferred and/or cancelled. The reason for including liquified natural gas is that, while natural gas may be attractively priced in the U.S., they’re selling it to Asia, where it is pegged to oil prices.”

On the industrial side, projects using oil derivatives haven’t felt the worst of the drop in prices, and cheaper feedstock may actually bolster some projects. “You’re not going to see any cancellations with the five big ethylene-based crackers underway,” says Connors. “But there’s going to be less of a rush to build the next few.”

Major downstream Gulf Coast projects that continue may see unexpected benefits from a slowdown in oil-and-gas exploration. “You’re going to see craft labor rates in the Gulf Coast start to relax and start to help on project economics. A lot of guys from the oil patch are going to be out looking for work,” says Connors.

“There is a shock value that happens,” he says. “When oil gets cut in half, the first reaction from clients is, ‘Let’s wait to see volatility out.’ There is definitely a heightened caution across the industry.”

Far upstream, in the oil and gas fields of Colorado, the drop in prices has slowed work for oil-service engineering firms. The number of oil rigs operating along the Front Range of the Rockies has dropped by a third, to 44, in the past five months, according to Baker Hughes, an oil services company. The nine major drillers in the area have cut spending by nearly 30%.

But Colorado is a hot market that is only starting to cool. It’s likely the slowdown hasn’t been felt in the state yet because there was already so much work out there, says Scott Merritt, director of communications for the Rocky Mountains Chapter of the Associated Builders and Contractors. “Most of the contracting firms that do oil-and-gas work also have a pretty diverse client base,” he notes.

“Trying to keep people busy while maintaining profitable work, that’s a double whammy. The pie is getting smaller. So, firms are asked to work for a lower price.”

Rodgers expects his firm will feel the price drop eventually. “The easiest thing to slow down is new exploration … and that’s where we do see the budgets are [being] cut,” he says. “But there is still so much volume of work, between what’s new and what’s been re-permitted. There’s still plenty of work to be done.”

By Jeff Rubenstone with ENR Staff

STILL ON A drop in oil prices has slowed production, but work on Dow’s Freeport ethylene cracker rolls on.
Industry Executives Predict Market Growth Through 2016

Petroleum sector takes a tumble, but most believe the markets will remain healthy

The construction market has enjoyed steady growth for several years. Most industry executives believe this growth will continue through 2016. But one sector that has been leading the recovery, petroleum, has suddenly hit a roadblock as plummeting oil prices have resulted in project postponements.

The ENR Construction Industry Confidence Index for the first quarter shows that, of the 305 executives of large construction and design firms responding to the survey, a majority believe the market is growing. The CICI index moved up a point, to a record 78 on a scale of 100, in the first-quarter survey, an indicator of a growth market.

The CICI measures executive sentiment about the current market and reflects the respondents’ views on where it will be in the next three to six months and over a 12- to 18-month period. The index is based on responses to surveys sent out to more than 6,000 U.S. firms on ENR’s lists of leading contractors, subcontractors and design firms. The latest results are calibrated from a survey conducted from Feb. 19 to March 16.

Surveyed industry executives believe most market sectors measured by the CICI are now in growth mode. The index has risen steadily, as few firms now believe the market is in decline.

Survey respondents generally believe the overall market will continue to pick up steam over the next 18 months. For example, 60% say the current market is growing, up from 55% in the last quarter, and 67% believe the market will be in growth mode in three to six months, up from 61% in the fourth quarter.

The soon-to-be-released results of the latest Confindex survey from the Construction Financial Management Association, Princeton, N.J., shows growing optimism about 2015. CFMA polls 200 CFOs from general contractors, subcontractors and civil contractors. While a Confindex rating of 100 indicates a stable market, higher ratings show growth is expected. “Our Confindex rose by five points, to 137 [on a scale of 200], for the first quarter,” says Stuart Binstock, CEO of CFMA.

By Gary J. Tulacz

CFMA Sees Near-Term Growth

Binstock notes that the “financial conditions” component of the CFMA survey rose sharply in the fourth quarter, up 11 points to 127. Further, the “current confidence” component was up 10 points, to 139. “This indicates that our CFOs are
very optimistic about the near-term market,” Binstock says. However, he noted that the “overall business conditions” component was down four points, to 148, and the “year-ahead outlook” component was also down, to 133 from 135.

“Our four components are somewhat time-based,” notes Anirban Basu, CEO of economic consultant Sage Policy Group Inc., Baltimore, and CFMA economic adviser. The two components that look at the near-term markets are very strong, he says.

**Oil-Patch Blues**

For the CICI survey, execs were asked to assess current and future market prospects in general and in any of 15 market sectors in which they currently work. The big story is the sudden drop in the prospects for the petroleum market.

Petroleum has been the top or second-ranked market in the CICI survey for two years. However, in the first quarter, the petroleum-market CICI rating fell 24 points, to 51—marking an essentially flat market. Many executives are beginning to see projects put on hold, largely thanks to plummeting oil prices.

As part of the CICI survey, ENR asked participants whether the drop in oil prices has had an impact on their markets. Of survey respondents, 30.2% said oil price declines have had a negative impact on their markets. Further, 77% of firms working in the petroleum sector agreed that their markets have declined.

Among the other individual market sectors, the industrial process and manufacturing market, which was the top-regarded market in the last quarter, fell seven points, to a 69 CICI rating. The distribution and warehouse market fell five points, to a 69 rating.

Macroeconomics may be playing a role in these declines. “We have seen lower-than-expected numbers in several economic indicators, such as retail sales and housing starts, which is worrisome in the long term,” says Basu.

The growing strength of the U.S. dollar against other currencies also is a concern. “This could have a negative impact on construction in industries that rely heavily on exports,” Basu says. Overseas companies have been building U.S. plants to take advantage of cheap energy prices and a skilled and stable workforce. “These companies are now finding the price of investing in the U.S. rising sharply and may reconsider locating here, and some domestic companies may even locate new production facilities offshore,” says Basu.

While there are reasons to be wary about the market’s long-term prospects, the next year or so still looks bright. This quarter, 38.1% of CICI survey respondents said client’s access to funds for project financing was either “somewhat easier” or “much easier” over the past six months, down only slightly from last quarter, when that figure was 39.5%.

Industry executives are confident the market will remain strong over the next year to 18 months. “Even with the drop in oil prices and its impact on that sector, for the overall market, it’s full speed ahead,” Binstock concludes.
Executive Salary Increases Stall, While Bonuses Improve

By Bruce Buckley

Although Pauletich sees “intense competition for talent,” it is mostly at the staff level, rather than the executive level.

Tom Helbling, president of Helbling & Associates, Pittsburgh, says that, since the recession, he has seen companies develop more defined bonus programs, especially among midsize firms.

“Historically, the industry has been more discretionary,” he says. “The industry is taking the opportunity to have more definition in both short-term and long-term programs. They are trying to give employees more comfort.”

Helbling sees multi-family residential, hospitality and other dense urban development as the biggest drivers for executive searches. Although major metropolitan markets, such as New York City, Washington, D.C., and Los Angeles, are the biggest draw, there is widespread activity in most metro markets.

While residential is still hot, Helbling says he has seen significant contraction in the oil-and-gas market, as prices have fallen and projects have stalled.

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Finding Data On ENR.com

T
he three index tables on this page each represent various components of ENR’s two primary indexes. The Materials Price Index is the materials component of both cost indexes. The Common-Labor Index is the labor component of ENR’s Construction Cost Index, and the Skilled-Labor Index is the labor component of ENR’s Building Cost Index.

ENR publishes cost-index history tables in its First Quarter Cost Report. However, ENR’s website, ENR.com, will keep you current with historical data and monthly updates. Historical tables for all five of ENR’s cost indexes are posted at ENRconstruction.com/economics/historical_indices.

Also, going back to January 2008, all of ENR’s building-materials price tables—comprising items such as asphalt, portland cement, ready-mix concrete, plastic and concrete pipe, copper water tubing, lumber, drywall, structural steel and reinforcing bar—are posted in the archive section at ENR.com.

To find these materials price tables, go to the homepage of ENR.com and, on the right-hand side of the screen, click on the link marked “Archive.” Next, scroll down to the issue containing the table you need and click on the “View this entire issue” link, which will bring you to that issue’s table-of-contents page. Then, under the “Departments” or the “More from magazine” heading, click on the “Construction Economics” link.

The most comprehensive data on construction labor costs appear in ENR’s annual Third Quarterly Cost Report, which contains hourly union wage rates for 22 different construction trades in 34 cities and open-shop wage rates for eight trades in various regions. The current tables can be found in ENR’s most recent Third Quarterly Cost Report (10/06/14 p. 27).
By Tim Grogan

Inflation Picking Up Steam

Increases in lumber, steel and cement prices are driving ENR’s cost indexes

Although ENR’s indexes measure the costs of non-residential buildings, the recovery in the housing market is having a major impact on index movement. After a long decline, ENR’s 20-city average price for 2x4 lumber is up 5.7% this year, following just a 1% increase during the previous year. During the same period, ENR’s prices for structural steel has increased 2% over a year ago, while cement prices in the cost indexes rose 4.8%. This rebound in prices pushed ENR’s materials cost component in March up 3.1% for the year, compared to just a 0.6% increase the previous year.

As a result, the Building Cost Index is up 2.9% for the year, after increasing 1.7% last year. The Construction Cost Index (CCI) is up 2.8%, following a 2.6% annual increase in 2014.

The mechanics of what drives ENR’s indexes are explained below.

ENR began systematically reporting materials prices and wages in 1909, but it did not establish the CCI until 1921. The index was designed as a general-purpose tool to chart basic cost trends. Today, it remains as a weighted aggregate index of the prices of a constant quantity of structural steel, portland cement, lumber and common labor. This package of goods was valued at $100, using 1913 prices.

The original use of common labor in the CCI was intended to reflect wage-rate activity for all construction workers. In the 1930s, however, wage and fringe-benefit rates climbed much faster in percentage terms for common laborers than for skilled tradesmen. In response to this trend, ENR introduced, in 1938, its Building Cost Index (BCI) to weigh the impact of skilled-labor trades on costs.

The BCI labor component is the average union wage rate, plus fringes, for carpenters, bricklayers and ironworkers. The materials component is the same as the CCI’s. The BCI also represents a hypothetical package of these construction items, valued at $100 in 1913.

Both indexes are designed to indicate the basic underlying trends of construction costs in the U.S. Therefore, components are based on construction materials that are influenced less by local conditions; ENR chose steel, lumber and cement because they have a stable relationship to the U.S. economy and play a predominant role in construction.

As a practical matter, ENR selected these materials because reliable price quotations are available for all three, ensuring the index can be computed on a timely basis. While there may be some weaknesses in any index based on a limited number of components, ENR thinks a larger number of elements would increase the time lag between verifying prices and releasing the index. Also, an index with fewer components is more sensitive to price changes than one comprising many.

On the downside, the use of only a few cost components makes indexes for individual cities more vulnerable to source changes. These aberrations tend to average out for the 20-city indexes.

Since the indexes are computed with real prices, the proportion a given component has in the index will vary with its relative escalation rate. In the late 1970s, labor’s share of the index dropped because materials prices were in the grip of hyper-inflation. For example, in 1979, lumber prices increased 16%, cement prices increased 13%, and steel prices jumped 11%, but common and skilled labor rose 8%. These events resulted in materials gaining a larger percentage of the index.

In the original CCI, the components were weighted at 38% for labor, 38% for steel, 17% for lumber and 7% for portland cement. The shifting tide of inflation changed the weight of the CCI components to 81% for labor, 13% for steel, 5% for lumber and 1% for cement. This shift was less dramatic for the BCI, which now registers 66% for labor, 23% for steel, 9% for lumber and 2% for cement.

Neither index is adjusted for productivity, managerial efficiency, contractor overhead or profits. However, the indexes can get a fix on these factors.

As a rule, when productivity is low, the selling price will be relatively higher than the ENR index. When competition is sharp, the selling price of finished construction generally will fall below ENR’s indexes. •
Explaining the difference between the construction and building cost indexes

Enr.com March 30/April 6, 2015  •  Enr • 12

BUILDING COST INDEX HISTORY (1928-2015)

How enr builds the index: 68.38 hours of skilled labor at the 20-city average wage of bricklayers, carpenters and structural ironworkers, plus 25 cwt of standard structural-steel shapes at the mill price prior to 1996 and the fabricated 20-city price from 1996, plus 1,128 tons of portland cement at the 20-city price, plus 1,088 board-ft of 2x4 lumber at the 20-city price.
One city may report list prices, while another city may include discounts in its reported price for the same material.

**Are the cost indexes seasonally adjusted?**

No. This is an important point for index users to keep in mind. Wages, the most important component, usually affect the indexes once or twice a year. Cement prices tend to be more active in the spring, while pricing for fabricated structural-steel tends to have monthly adjustments.

Lumber prices, which are more dependent upon local pricing and production conditions, are the most volatile and can change appreciably from month to month. Declines in the indexes are most often the result of falling lumber and steel prices.

The study of an index movement for a period of less than 12 months can sometimes miss these important developments. Users of an index for individual cities should watch the timing of wage settlements, too. Stalled labor negotiations may keep the old wage rate in effect longer than a 12-month period, giving the appearance of a low inflation rate.

**Is it more accurate to use an index that is closest to my home city?**

No. The 20-city average index is generally more appropriate. Because that index has more elements, it has a smoother trend. Indexes for individual cities are more susceptible to price spikes.

**Are annual averages weighted?**

No. They are straight mathematical averages.

**Are the indexes verifiable?**

Yes. In the “Construction Economics” section, ENR’s national indexes are updated in the first week of each month, while the indexes for individual cities appear in the second issue of each month.

Prices for the indexes’ materials components can be found in the preceding month’s Construction Economics pages: Cement prices appear in the first issue, lumber prices in the third issue and steel in the fourth issue. Wage rates for all 20 cities are published in the Third Quarterly Cost Report. Readers can compute ENR’s indexes by multiplying the published prices and wages by the appropriate weights (shown in the tables below) and summing the results.

**Does ENR forecast its indexes?**

Yes. Once a year, ENR projects its BCI and CCI for the next 12 months in the Fourth Quarterly Cost Report. To reach its forecast, ENR incorporates the new wage rates called for in multi-year, collective-bargaining agreements and estimates for the cities in which new contract terms will be negotiated.

Further, ENR estimates the materials component by studying consumption forecasts as well as price trends.

**Does ENR change the weighting of the index components?**

No. The components are always multiplied by the same weights. However, a component’s share of an index’s total will shift with its relative escalation rate.

**Has ENR ever changed the makeup of the index components?**

Only once, in 1996. ENR was forced to switch from the mill price for structural steel to the 20-city average fabricated price for channel beam I-beams and wide flanges when ENR’s two sources for mill prices left the structural market.

**Does ENR revise the indexes?**

On some occasions, ENR must revise the indexes. For example, ENR revised its March 2004 indexes shortly after their initial publication to reflect the huge surcharges being placed on structural steel. Any revisions to the national indexes are published below. Any revisions to indexes for individual cities are published in the cost report at ENR.com.

**Is ENR’s cost data on the web?**

Yes. All ENR’s cost indexes, wage rates, material prices and cost-issue articles can be found at ENR.com.
The dollar value of total construction starts in Georgia is up 13% from a year ago, in line with regional trends for the South Atlantic, where overall starts are up 10% for the year, according to Dodge Data & Analytics. Georgia saw large annual gains of 79% for hotels, 41% for office buildings and 29% for highway construction.
Steel prices are starting to tumble. ENR’s 20-city average price for three types of structural steel declined 0.5% this month, following February’s 0.2% drop. Prices are now just 1.2% higher than a year ago. Likewise, ENR’s rebar price fell 0.9% in March and is only 1.6% above 2014’s level. Spot market prices tracked by Platts Metal Week also are showing weakness. Platts’ rebar price fell 3.7% in February, following a 2.4% decline the previous month. Platts’ steel-plate price dropped 8.3%, while its price for hot-rolled steel coil fell 9.0%. Both the plate and coil price cuts followed declines during the previous month.

ENR’s Materials Prices For March 2015

**ALUMINUM SHEET**
-1.1%
Prices dropped 0.5%, wiping out most of last month’s price increase.

**REINFORCING BAR**
-0.9%
Prices fell 0.9% in March, after holding steady for three months.

**STAINLESS-STEEL SHEET**
-0.4%
Prices dipped 0.4% in March, after increasing during the previous two months.

**WIDE FLANGE**
-0.6%
This month’s 0.6% decline is the third consecutive monthly price cut.

**20-CITY AVERAGE**

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**PLATTS® STEEL SPOT MARKET PRICES: FEB. 2015**

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**SOURCE:** DODGE DATA & ANALYTICS/ENR

**SOURCE:** PLATTS MCGRAW HILL FINANCIAL, REBAR SOUTHERN U.S.; PLATE PRICES U.S. SOUTHEAST AVERAGE; HOT-ROLLED COIL PRICES INDIANA.
### Structural Steel, Rebar, Building Sheet, Piling

For March 2015

City prices reflect quotes from single sources and can be volatile. They are not meant to be the prevailing price for a city. Data are a mix of list and transaction prices and may include ENR estimates. Do not compare prices between locations. Use city information to analyze national trends.

#### STANDARD STRUCTURAL SHAPES

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+ OR - DENOTES PRICE HAS Risen OR Fallen SINCE PREVIOUS REPORT. ALL PRICES ARE FOR WAREHOUSE OR CITY. STAINLESS-STEEL SHEET PRICES ARE FOR TYPE 304, 2B FINISH, .012-X 120-IN. STEEL PILES ARE HIGH-STRENGTH A522. SOME PRICES MAY INCLUDE TAXES OR DISCOUNTS. PRODUCT SPECIFICATIONS MAY VARY DEPENDING ON WHAT IS MOST COMMONLY USED OR MOST ACCESSIBLE IN A CITY. QUANTITIES ARE GENERALLY TRUCKLOADS.