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Input costs outrun building PPIs in March; parking, mini-storage lead 'commercial' gains

The **producer price index** (PPI) for final demand in March, not seasonally adjusted, increased 0.2% from February and 2.3% year-over-year (y/y) from March 2016, the Bureau of Labor Statistics (BLS) reported on Thursday. *AGC posted* tables *and an* explanation *focusing on construction prices and costs. Final demand includes goods, services and five types of nonresidential buildings that BLS says make up 34% of total construction. The PPI for final demand construction, not seasonally adjusted, rose 0.2% for the month and 1.5% y/y. The* ***PPI for new nonresidential building construction****—a measure of the price that contractors say they would charge to build a fixed set of five categories of buildings—climbed 1.4% y/y. Increases ranged from 0.2% y/y for health care buildings to 0.5% for industrial buildings, 0.9% for schools, 2.3% for offices and 2.4% for warehouses. PPIs for new, repair and maintenance work on nonresidential buildings ranged from -0.5% y/y for electrical contractors to 0.5% for plumbing contractors, 2.4% for roofing contractors and 4.1% for concrete contractors. The* ***PPI for inputs to construction****—excluding capital investment, labor and imports—comprises a mix of goods (59%) and services (41%). This index increased 3.5% y/y, outpacing the increases in the PPIs for finished nonresidential buildings and implying a squeeze on profits unless contractors can pass on cost increases or improve productivity. (Average hourly earnings in construction—a measure of labor costs—also topped the rise in contractors' prices, increasing 2.4% y/y, BLS* reported *on April 7.) The PPI for all goods used in construction rose 4.4% y/y, as the sub-index for energy soared 30% y/y, while the PPIs for goods less food and energy and for services climbed 2.2% and 2.3% y/y, respectively.* ***PPIs for inputs to*** *seven types of* ***new nonresidential structures*** *had y/y increases ranging from 3.0% for educational and vocational structures to 6.1% for power and communications structures.* ***PPIs for inputs to new residential structures*** *rose 3.5% y/y for single-family and 3.9% for multifamily housing.* ***Materials*** *important to construction that had notable one- or 12-month price changes include diesel fuel, down 1.0% for the month but up 35% y/y; steel mill products, up 3.1% and 19%, respectively; copper and brass mill shapes, down 3.1% in March but up 17% y/y; aluminum mill shapes, up 1.5% and 8.8%; gypsum products, down 0.8% in March but up 7.6% y/y; and lumber and plywood, up 1.9% and 7.3%. Prices also jumped for several raw materials, implying possible further cost increases for contractors: iron and steel scrap, up 63% y/y; liquid asphalt, 54%; and copper base scrap, 15%.*

An AGC analysis *of Census Bureau* ***"commercial" construction spending*** *data* posted *on April 3 shows large differences in growth rates by category. The Census definition of commercial "includes buildings and structures used by the retail, wholesale and selected service industries." Four service categories (with 14 subcategories) collectively constitute* ***retail construction****: automotive (sales, service/parts and parking), food/beverage (food, dining/drinking and fast food), multi-retail (general merchandise, shopping center, shopping mall and other) and other commercial (drug store, building supply store, other stores, and assorted others). (Some subcategories included in category totals are shown in the AGC analysis but not in the Census tables.) In 2016, commercial construction spending totaled $71 billion, an increase of 11% from 2015 but 17% below the peak of $86 billion in 2007. The retail categories accounted for 57% of commercial construction spending and increased 10% from 2015 but were 35% below the 2007 peak. (AGC did not include farm construction—15% of 2016 commercial construction—in retail.) Of the 14 retail subcategories, 11 increased in 2016, but only* ***parking structures*** *reached a new high.* An October 2016 survey by NAIOP in found "nine out of 10 developers who responded indicated that…3.5 to 4.5 parking spaces per 1,000 square feet of office space has been adequate for the past decade," the Spring 2017 issue of Development reported. However, "respondents indicated that tenants have been asking for more parking recently. [The most common comment] was that increasing density of employees…is increasing parking requirements."

Warehouse construction *accounted for 28% of commercial construction in 2016 and jumped 22% from 2015 to a new high, the AGC analysis found, with the small* ***mini-storage*** *subcategory nearly doubling (up 96% from 2015 and 43% from prior peak in 2002).* "The self-storage industry has grown to about 50,000 sites nationwide after evolving from the moving-and-storage business in the Midwest and the South in the late 1960s, said Timothy J. Dietz, the president and chief executive of the Self Storage Association, an industry group," the New York Times reported on Thursday. "Nearly one-third are concentrated in Texas, California, Florida, Ohio and North Carolina." But New York City "is proposing to restrict the development of new self-storage buildings in some industrial areas in the boroughs outside Manhattan, as part of a broader strategy to save more land for manufacturing and industry. New York joins a small but growing number of communities, including San Francisco, Miami and Charleston, S.C., that have moved to restrict or curb the spread of self-storage buildings, seeking to strike a balance between the demands for more storage with the needs of communities for other things such as jobs, housing and grocery stores."

There were 169,000 ***construction industry job openings****, not seasonally adjusted, at the end of February, BLS* reported *on Tuesday in its monthly Job Openings and Labor Turnover Survey (JOLTS). Openings declined from 193,000 in February 2016. In contrast, the number of* ***hires*** *(315,000, not seasonally adjusted) increased from 298,000 in February 2016. These patterns (fewer end-of-month openings than a year earlier but more hires) also occurred in January, suggesting contractors had a slightly easier time filling positions than in 2016, when end-of-month openings exceeded the prior year every month.* ***Layoffs and discharges*** *dropped to 119,000, the lowest February level in the 17-year history of the series, while the 134,000* ***quits*** *were the most for February since 2006. The increased number of hires suggests that many workers who quit readily found other construction jobs.*