



CONSTRUCTION ECONOMIC UPDATE

Construction Inputs Rise Again in July

	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08
Construction Inputs PPI (1-mth % change)	0.6%	2.1%	1.2%	2.6%	1.8%	2.0%

Summary

Construction input prices climbed 2 percent in July, posting an 11.9 percent increase during the past 12 months, according to the U.S. Labor Department's producer price index (PPI) released August 19. This marks the largest year-over-year jump in the last 20 years.

Prices for fabricated structured metal products continued to grow, rising 1.6 percent in July and 10.1 percent during the past six months. Plumbing fixtures and fittings increased another 1.4 percent in July after reporting the same increase in June. Nonferrous wire and cable prices rose 1.8 percent in July, compared to a 2.8 percent drop in June, and fabricated ferrous wire products jumped 6 percent in July, bringing the total increase since July 2007 to 24 percent. Prices for softwood lumber saw their first decrease since February, falling 3.4 percent in July. Asphalt felts and coatings prices soared 12 percent in July compared to June, bringing the year-over-year increase to 27.9 percent.

Prices for crude energy materials rose 6.9 percent in July at a seasonally-adjusted rate, following an increase of 5.4 percent in June. In addition, natural gas prices rose another 7.8 percent in July after a 5.2 percent jump a month earlier. The total price for all finished goods increased 1.2 percent in July after rising 1.8 percent in June.

What's New

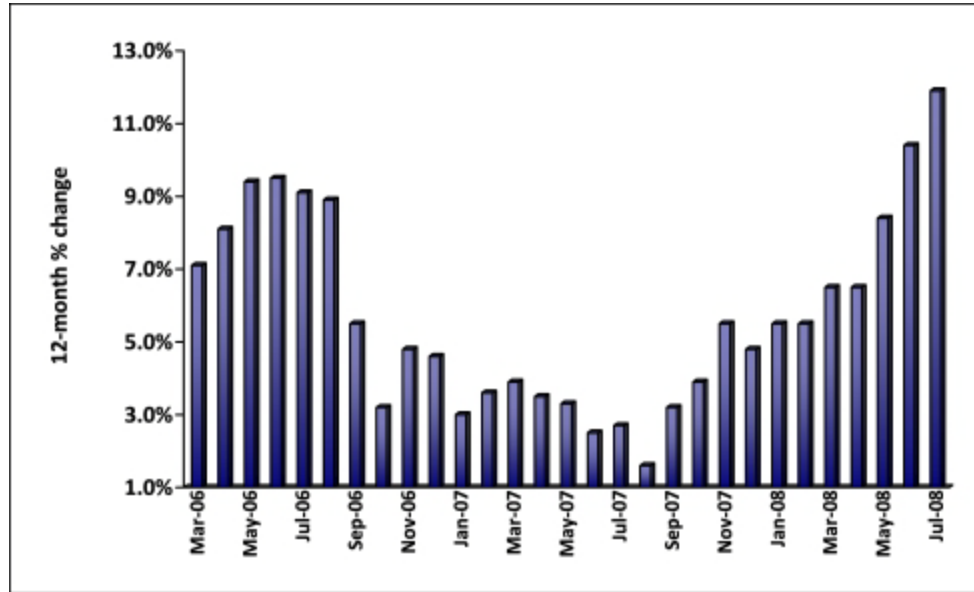
Despite recent declines in the prices of some key commodities, such as oil, producer price pressures are still apparent as participants in the supply chain strive to bolster margins while continuing to deal with past price increases. However, according to Associated Builders and Contractors Chief Economist Anirban Basu, "There is now light at the end of the commodity-price-spike tunnel as a number of factors that had conspired to boost commodity prices have now reversed.

"The dollar has been strengthening against a number of world currencies in recent weeks, including robust currencies such as the euro and yen," Basu said. "That has helped moderate the price of oil and its derivatives. Moreover, the world is now edging toward global recession, defined by the International Monetary Fund as a situation in which the world is expanding at a 3 percent rate or less. The slowing global economy will continue to place downward pressure on commodity prices, ushering in a period of greater optimism," Basu predicted.

"For contractors, this means that long-awaited relief from surging commodity prices may be at hand, if not this year, then next," Basu said. "That will permit many suspended commercial and industrial projects to move ahead, which should make 2009 a stronger environment for new commercial starts than many have been anticipating.

"Unfortunately, economic weakness is now apparent in many settings, which means the perfect combination of strong demand and more reasonable input prices will remain elusive," Basu cautioned. "Additionally, rapid appreciation of the dollar potentially would rob the U.S. economy of its current leading driver of growth: net exports."

Producer Price Index, Inputs to Construction Industries, March 2006 through July 2008



Source: Bureau of Labor Statistics

For more information, contact Gerry Fritz, fritz@abc.org