



## CONSTRUCTION ECONOMIC UPDATE

### Prices of Construction Materials Slip Lower in February

"Construction volumes continue to decline around the world, with the implication being that demand for construction materials will remain soft." —ABC Chief Economist Anirban Basu

Prices of construction materials continued their downward trend in February falling 0.6 percent, according to the March 17th producer price index (PPI) report by the U.S. Labor Department. This marks the fifth consecutive month of price decreases. Still, on a year-over-year basis, prices are up 0.5 percent from February 2008. (See [what this means](#) below)



Source: Bureau of Labor Statistics

Fabricated structural metal products prices have declined during each of the past four months, and were down 2.0 percent in February, but are still 6.7 percent higher than a year ago. Plumbing fixtures and fittings prices fell 0.6 percent from the previous month and are up 1.5 percent from February 2008. Prices for fabricated ferrous wire products continue to decline and were down 1.5 percent in February. Even with recent downward pressure on these prices, they are up 15.3 percent compared to a year ago, a reflection of the early months of 2008 when construction materials prices in general were soaring. Softwood lumber prices decreased for a sixth consecutive month, down 0.6 percent in February and 7.6 percent from a year ago. Asphalt felts and coatings prices went up by 6.2 percent in February after declining during the previous three months.

Crude energy prices decreased 8.5 percent in February after dropping by 8.1 percent in January. Natural gas prices were off nearly 18 percent. Crude petroleum prices, however, were up 2.5 percent and coal was up 2.2 percent. Overall, the nation's wholesale prices rose a modest 0.1 percent.

## What This Means

“Because of the Federal Reserve’s rapid expansion of money supply in recent months and the federal government’s massive prospective outlays, there are many economic observers who have now become fixated on the specter of future inflation,” said Associated Builders and Contractors (ABC) Chief Economist Anirban Basu. “However, deflationary pressures continue to dominate and ABC members have many other things to worry about before a resumption of inflationary pressures and higher materials prices.

"Construction volumes continue to decline around the world, with the implication being that demand for construction materials will remain soft," added Basu.

"Given the ongoing spread of economic weakness globally, ABC members should expect deflationary pressures to remain in force for months to come," said Basu. "There are exceptions to this, of course, including oil prices, which have been trending higher in recent weeks. This has little to do with growing demand and everything to do with promises of supply cuts by major oil producers.

"With the presence of declining construction input prices, this has become an advantageous moment for the federal government to be investing in infrastructure," stated Basu. "However, the advantages of falling construction materials prices may be more than offset by potential shifts in the public policies that shape the character and functioning of America’s labor markets."