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## Spending slips in May but rises year-to-date; surveys find divergent material prices

*Construction spending in May totaled \$1.143 trillion at a seasonally adjusted annual rate, down 0.8% from April but up 2.8% year-over-year, the Census Bureau **reported** on Friday. Monthly levels for January-April were revised up by \$18-23 billion (1.6-2.0%), and levels for 2014 and 2015 were also revised. Unusually mild winter weather and extremely rainy weather in parts of the country in May might have thrown off monthly totals. Combined January-May year-to-date (YTD) spending was 8.2% higher than in the same months of 2015. **Public construction** dropped 2.3% for the month but climbed 3.8% YTD. The largest public component, highway and street construction, dipped 0.2% for the month but increased 6.9% YTD. The other major public segment, educational construction, tumbled 5.4% for the month but rose 8.6% YTD. **Private residential spending** was flat in May but increased 9.9% YTD. New multifamily construction gained 1.8% for the month and 24% YTD; new single-family construction fell 1.3% from April but increased 12% YTD; and residential improvements rose 1.4% and 2.0%, respectively. **Private nonresidential spending** decreased 0.7% for the month but increased 9.2% YTD. By subsegment, in descending order of May size, power (electric power plus oil and gas pipelines and field structures) declined 0.2% for the month but increased 9.4% YTD; manufacturing, -1.9% and 0.8%, respectively; commercial (retail, warehouse and farm), -1.8% and 8.6%; office, -0.4% and 27%; and health care, 0.5% and 5.0%.*

*Three recent surveys of **construction materials prices** indicate a variety of trends. On June 30, distributor New South Construction Supply **reported**, “Unlike the past several months, few manufacturers of construction materials that we distribute increased prices in June or announced price increases for July. Some manufacturers who previously indicated they would increase prices in June and July will not increase prices as their costs for raw materials did not increase as expected. **Wire rod** manufacturers were unable to push through another price increase in June. As a result..., concrete reinforcing wire mesh manufacturers who had said they would increase prices in July due to the pending June wire rod price increase have indicated they will not increase prices in July....It appears that **rebar** prices have stabilized and should remain at current levels through July and even into August. GCP Applied Technologies... announced they will increase prices by 5% on July 1st on most of their **waterproofing, air & vapor barriers, and wall flashing products**. [Southern yellow pine] and spruce **lumber** prices increased nearly every week in May, primarily due to high demand, however; prices began to move down in June and are now 2 to 4% less than what they were at the end of May....**Polyethylene sheeting** manufacturers do not plan to increase prices in July as they had previously indicated. Resin manufacturers will try to get a \$.04 [per pound] price increase in July. If the price increase holds, expect poly sheeting manufacturers to increase prices by the first part of August.”*

*In a quarterly survey of building products distributors and manufacturers, released on June 30, investment research firm Thompson Research Group **reported**, “All of this month’s [steel stud] survey respondents expected the June and July price increases to be accepted. For the 15% price increase in August, feedback is mixed. 1/3 of respondents expect the price increase to go through while 1/3 of respondents each expressed skepticism and remained ‘undecided’....For the 10-15% **wallboard** price increase in March/April, distributor feedback varies depending on geographic locations....distributors in the western regions reported strong pushback..., while distributors located in the northeast, south and midwest reported seeing at least a portion of the increase going through. 17% of survey respondents this month reported a complete acceptance of the March/April price increase, while 50% reported a partial acceptance, 17% reported a failed increase and the balance remained ‘undecided’. We also survey distributors to gauge market’s interest in a mid-year wall price increase—feedback is mixed,” with 45% each listed as undecided or expressing “skepticism as to another increase. Contacts in western regions, where pricing was less successful, appear to be more open to a second price increase attempt.... All [insulation] survey respondents reported that price was flat sequentially in the month....acceptance of the January residential insulation price increase has been mixed, although the nonresidential insulation price increase appears to have been accepted...The early read on the potential success of an August 5% **ceiling tile** industry increase has been positive....Pricing of LED [lighting] continues to go down as component costs continue to decline.”*

*Consultancy IHS and the Procurement Executives Group (PEG) **reported** on June 29 that “construction costs fell once again in June....The headline current IHS PEG **Engineering and Construction Cost Index**...registered 48.1 this month, down from 49.3 in May. The headline index has been consistently below the neutral mark [in which a reading higher than 50 represents upward pricing strength; below 50, downward pricing strength] for the past 18 months....This month, the current **materials/equipment price** index fell below the neutral mark. The sub-index registered 48.4 in June, showing that costs are once again falling, which has been the general condition in markets since January 2015. [Seven of the 12] components in the materials and equipment index show falling prices. Two components saw prices remain unchanged. Fabricated structural steel prices increased relative to May. However, both ready-mix concrete and copper-based wire and cable prices are not rising as broadly as they were last month....The current **subcontractor labor** index also fell in June. The sub-index has been moving down since the beginning of the year and at 47.6, it recorded its second month below the neutral mark.”*