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PPIs edge mostly higher; starts reports are mixed; union pay agreements trend up

The **PPI** for final demand in September, not seasonally adjusted, increased 0.2% from August and 0.7% year-over-year (y/y) from September 2015, the Bureau of Labor Statistics (BLS) reported on Friday. *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, edged up 0.1% for the month and 0.8% 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—rose 0.7% y/y. Changes ranged from 0.1% y/y for industrial building construction to 0.4% for schools, 0.5% for healthcare buildings, 1.1% for warehouses and 1.2% for office buildings. **PPIs for new, repair and maintenance work** on nonresidential buildings fell 1.7% y/y for plumbing contractors and rose 0.5% for electrical contractors, 1.3% for roofing contractors and 4.9% for concrete contractors. The **index for inputs to construction**—excluding capital investment, labor and imports—comprises a mix of 59% goods (including 5% for energy) and 41% services (including trade services, 26%; transportation and warehousing, 4%; and other services, 10%). The overall PPI for inputs to construction inched up 0.1% for the month and 0.8% y/y. The PPI for all goods used in construction rose 0.3% and 0.1%, respectively, as the sub-index for energy rose 3.9% for the month but declined 6.1% y/y, while the PPI for goods less food and energy was unchanged from August and up 0.9% y/y. The index for services dipped 0.3% in September but moved up 1.8% y/y. PPIs for inputs to seven types of new nonresidential structures were little changed, with y/y changes ranging from -0.4% for power and communications structures to 0.7% for commercial structures. The PPI for inputs to new single-family construction rose 1.6% y/y and for multifamily, 1.4%. **Materials important to construction** that had notable one- or 12-month price changes include diesel fuel, up 9.8% for the month but down 3.2% y/y; asphalt paving mixtures and blocks, -0.6% and 6.3%, respectively; cement, 0 and 5.4%; and lumber and plywood, -0.6% and 5.7%.*

*The **value of construction starts** decreased 2% from August to September at a seasonally adjusted annual rate, Dodge Data & Analytics reported on Tuesday. "The [5%] lift for nonresidential building in September came from the start of two very large office towers in New York, NY with a combined construction start cost of $3.5 billion, as well as eight large hospital projects that together summed to $2.2 billion. However, the housing sector lost momentum in September, pulling back [-8%] from August, which included groundbreaking for a number of very large multifamily projects. Nonbuilding construction also slipped [-2%] in September, following its improved August volume that included the start of a $3.0 billion pipeline upgrade in the [Southeast]. Through the first nine months of 2016, total construction starts on an unadjusted basis [trailed] the same period a year ago by 3%." Chief economist* Robert Murray *noted that "'the past two years have shown considerable volatility, reflecting in part when very large projects were entered as construction starts….Increasingly, it appears that 2016 is shaping up as a year when the overall level of construction starts is essentially holding steady. This is being supported by such economic factors as moderate job growth, generally healthy market fundamentals for commercial real estate, and the funding coming from state and local bond measures that have been passed in recent years.'…The 3% decline for total construction starts on an unadjusted basis during the first nine months of 2016 was due to a mixed pattern by major sector. Nonresidential building year-to-date [YTD] was down a slight 2%, with commercial building up 10%, institutional building even with last year, and manufacturing plants down 45%. Residential building [YTD] advanced 5%, with single family housing up 7% while multifamily housing was unchanged. Nonbuilding construction [YTD] fell 14%, with public works down 6% and electric utilities/gas plants down 29%."*

*Construction data firm ConstructConnect (formerly CMD, Reed Construction Data) reported on Tuesday that the **value of nonresidential construction starts**, not seasonally adjusted, was down just 0.2% y/y in September 2015, while the YTD total was up 11% from January-September 2015. Nonresidential building starts increased 15% YTD, with institutional starts rising 15%, commercial starts up 21%, industrial starts down 40% and miscellaneous starts up 89%. Heavy engineering (civil) starts climbed 3.7% YTD.*

***Collective bargaining agreements** in construction signed in January-September 2016 "continued the gradual, steady upward trend which began in 2011" for first-year increases, the Construction Labor Research Council reported. Agreements included first-year increases averaging 2.8% (vs. 2.5% in 2015), 2.8% in year two (vs. 2.7%) and 2.7% in year three (vs. 27%).*

*There were 184,000 **construction industry job openings**, seasonally adjusted, at the end of August, BLS reported on October 12 in its monthly Job Openings and Labor Turnover Survey (JOLTS). Openings amounted to 2.7% of combined employment plus openings. Both figures were the highest for August since 2006. In contrast, the 335,000 **hires** in August, seasonally adjusted, and the hiring rate (5.1% of monthly employment) were in line with monthly levels over the past decade. Together, the near-record openings and trendless hiring pattern are consistent with the results of a survey AGC released on August 31 in which 69% of the 1,459 responding contractors reported difficulty filling craft positions. The number and rate of **layoffs and discharges** in September, seasonally adjusted, are near the lowest levels in the 16-year history of the JOLTS data, suggesting contractors are trying to hold onto workers, a possible indication that they have a backlog of projects to complete.*