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## Construction Material Prices Rise Again: A New Twist On An Old Story

While construction materials price acceleration may seem like nothing new, the context in which the most recent round of price increases takes place is vastly different. The latest round of increases takes place at a time when the U.S. economy is hardly expanding and residential and nonresidential construction momentum is slowing. According to producer price index data, construction materials price increases remain less volatile than in the last five years. For instance, between March 2004 and March 2005, producer prices for construction materials rose 8.6 percent collectively. In contrast, between March 2007 and March 2008, producer prices rose 2.7 percent. Still, this figure represents acceleration from past periods while the economy is slowing.

It doesn't end there. Construction sand, gravel and crushed stone prices are up 8 percent according to the Bureau of Labor Statistics, and ceramic floor and wall tile is up 5 percent. While annual percentage increases still generally fall short of the peak increases sustained earlier in the decade, most commodity and material prices never declined, which means prices have never been higher. For instance, copper prices recently reached roughly \$4 a pound- an all-time record. Relentless increases in the price of steel are causing project cancellations across the country. Steel prices rose 40 percent to 50 percent since December and industry executives believe prices have not yet peaked.

To explain the most recent spate of price spikes, analysts have pinpointed the usual suspects, including China, India, Dubai investor speculation, politically oriented supply interruptions and the weak U.S. dollar. For the most part, these explanations are accurate, but are relevant to varying degrees depending on the commodity or material.

Given the significant political content embedded in the cost of construction materials, predicting prices is largely guesswork. That said contractors might receive some relief next year if the Federal Reserve begins to tighten monetary policy by increasing interest rates, thereby supporting the value of the dollar and limiting import price growth. Of course, that also could negatively impact an upturn in nonresidential construction.

One thing for certain, with the Hurricane Season underway and the potential for a number of hurricanes making landfall, there is no question we could be feeling the consequences of these price increases in our wallets.

**Source: Construction Executive Magazine**