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Cost squeeze grows in October; AGC launches outlook survey; Dodge predicts starts will rise in 2021

A cost squeeze for contractors intensified in October as the producer price index (PPI) for inputs to new nonresidential construction increased for the sixth consecutive month (up 0.5% from September), while the PPI for new nonresidential building construction—a measure of the price that contractors say they would charge to build a fixed set of buildings—was unchanged from September, the Bureau of Labor Statistics (BLS) [reported](#) today. AGC [posted](#) tables showing PPIs relevant to construction. The “bid price” PPI has dipped 0.1% since April, while the new-construction input price index has increased 6.3%. The input price index for new residential construction rose even more since April: 10.6%, driven in part by a 46% jump in the PPI for lumber and plywood over six months and 45% over 12 months (although that index declined 3.4% from September to October). Over 12 months, the PPIs for inputs to new residential construction climbed 8.2%; inputs to new nonresidential residential construction, 2.2%; and “bid prices”, 1.3%. Items in addition to lumber and plywood that are important to construction with large 1- or 12-month changes include: copper and brass mill shapes, down 0.6% for the month but up 11% year-over-year (y/y); paving mixtures and blocks, -0.4% and -5.1%, respectively; aluminum mill shapes, -3.7% and -6.5%; steel mill products, 1.4% and -8.0%; and diesel fuel, 0.6% and -15%.

AGC launched its 2021 AGC of America/Sage Hiring and Business Outlook [Survey](#) on Wednesday. Contractor readers are invited to share their experiences and expectations regarding project demand, employment, the pandemic, technology, and other items.

Total U.S. construction starts will increase 4% in 2021, following an estimated 14% decrease in 2020, Dodge Data & Analytics predicted in its 2021 **construction outlook**, [released](#) on Tuesday. “The dollar value of starts for residential buildings will increase 5% in 2021, nonresidential buildings will gain 3%, and nonbuilding construction will improve 7%,” stated Chief Economist Richard Branch. “Only the residential sector, however, will exceed its 2019 level of starts, thanks to historically low mortgage rates that boost single-family housing.” Regarding specific segments, Dodge predicts: The dollar value of **single-family housing starts** will be up 7% in 2021 and the number of units will grow 6%. [**Multifamily**] dollar value will drop 1% while the number of units started falls 2%...The dollar value of commercial building starts will increase 5% in 2021. **Warehouse construction** will be the clear winner as e-commerce giants continue to build out their logistics infrastructure. **Office starts** will also increase due to rising demand for data centers (included in the office category) as well as renovations to existing space. **Retail and hotel activity** will languish. In 2021, institutional construction starts will increase by a tepid 1% as growing state and local budget deficits impact public building construction. **Education construction** is expected to see further declines in 2021, while **healthcare starts** are predicted to rise as hospitals seek to improve inpatient bed counts. The dollar value of **manufacturing plant construction** will remain flat in 2021. Declining petrochemical construction and weak domestic and global activity will dampen starts, while a small handful of expected project groundbreakings will level out the year....**Public works construction starts** will be flat over the year. Electric utilities/gas plants will gain 35% in 2021, led by expected groundbreakings for several large LNG export facilities and an increasing number of wind farms.

Construction starts (dollars) plummeted 30.5% y/y from October 2019 to October 2020 and 20% year-to-date, data firm ConstructConnect [reported](#) today. **Nonresidential building starts** fell 43% y/y and 33% year-to-date (institutional, -35% and -16%, respectively; commercial, -52% and -34%; industrial [manufacturing], -32% and -69%). **Engineering** (civil) starts sank 40% y/y and 18% year-to-date. **Residential starts** fell 13.5% y/y and 5.0% year-to-date (apartment, -61% and -27%; single-family, 17% and 5.7%).

The Dodge Momentum Index fell 1.8% in October from the revised September reading, Dodge [reported](#) on November 6. The index “is a monthly measure of the first (or initial) report for nonresidential **building projects in planning**, which have been shown to lead construction spending for nonresidential buildings by a full year. The commercial component of the Momentum Index lost 4.4% over the month, but the institutional component gained 3.3%. The Momentum Index has struggled to make consistent gains since passing its post-pandemic low in June....Even with this month’s gain, the institutional component of the Momentum Index remains well below levels seen prior to the pandemic as state and local entities come to grips with the widening budget chasm.”

In a negative sign for **office construction** demand, “Corporate tenants put a record 42 million square feet of space on the market in the second and third quarters, according to data firm CoStar Group Inc.,” the [Wall Street Journal](#) reported on Wednesday. “That increased the total sublease space in the U.S. to roughly 157 million square feet, or 1.7% of the total office inventory. It is the highest rate since CoStar began measuring it in 2005.”

There were 229,000 **job openings in construction**, not seasonally adjusted, at the end of September, down 31% from the 333,000 openings in September 2019, BLS [reported](#) on Tuesday in its latest Job Openings and Labor Turnover Survey (JOLTS) release. September was the seventh consecutive month in which openings declined y/y, in most cases by more than 20%. **Hires** in September totaled 369,000, down 16% y/y. **Layoffs and discharges** plunged 55% y/y to 101,000, the smallest monthly total in the 20-year history of the series. **Quits** shrank by 16% y/y to 169,000.

Data DIGest is a weekly summary of economic news. Sign up [here](#). Editor: Ken Simonson, Chief Economist, AGC, ken.simonson@agc.org.

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