FOR IMMEDIATE RELEASE
April 14, 2011

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GULF WIDENS IN MARCH BETWEEN SOARING CONSTRUCTION MATERIAL COSTS AND STAGNANT FINISHED BUILDING PRICES, PUTTING CONTRACTORS AT RISK OF FAILURE

New Producer Price Index Figures Show Double-Digit Annual Jumps for Diesel, Steel, Copper and Aluminum; Construction Association Officials Promote Plan to Help Industry Deal with Rising Costs, Low Demand

Contractors' financial position grew more precarious in March as prices for key materials escalated while prices construction firms charge for completed projects stayed flat, according to an analysis of producer price index figures released today by the Associated General Contractors of America (AGC). Association officials said contractors' inability to pass costs along imperils the industry's comeback and urged federal officials to act on a series of recovery measures the group outlined last month.

"Construction spending has sunk to 1999 levels, forcing contractors to keep bid prices down to win projects, despite huge price increases for key inputs," said Ken Simonson, the association's chief economist. "That steadily widening gulf threatens to put construction firms out of business and their employees out of work."

Prices for materials used in construction soared 2.0 percent in March and 6.9 percent during the past 12 months, while price indexes for finished buildings were flat for the month and year, the economist noted. He added that construction materials costs rose faster than the producer price index for finished goods, which climbed 5.8 percent from March 2010 to March 2011.

Simonson said price increases were most extreme for diesel fuel and metals. Diesel prices leaped 11 percent in March and 42.5 percent for the year; prices for copper and brass mill shapes sank 6 percent in March but still jumped 17 percent year-over-year; steel mill product prices increased 5.3 percent and 15 percent, respectively; and prices for aluminum mill shapes rose 1.9 percent and 12 percent, respectively.

"Shrinking demand for both public and privately financed construction is driving up the number of contractors bidding on projects and forcing contractors to hold the line on bid prices for all types of projects," Simonson noted. The producer price indexes for new office, industrial and warehouse construction rose 1 percent or less over 12 months and the index for new schools was up just 1.3 percent. A new Federal Highway Administration index for highway construction bid prices plunged 22 percent between 2008 and the end of 2010, he added.

Association officials said the new data demonstrates the urgency for public officials to act on a series of measures the group outlined last month in its recovery plan, "Building a Stronger Future." "Without stronger demand for construction, particularly private sector construction activity, economic growth will leave out a vital sector, stranding millions of workers," said Stephen E. Sandherr, the association's chief executive officer.

View the latest producer price index tables for construction here.