

Cost Trend Update Bulletin, July 2019

CONSTRUCTION COST INDICES

The increase in construction costs in 2017 and 2018 continued through the first quarter of 2019 as seen in three of the four sources we use to track construction costs. Only the ENR index had lower year-on-year increases in comparison. Steel prices, a leading indicator of construction indices, stabilized at \$662 per metric ton in 2016, increased to an average of \$767 per metric ton in 2017, and jumped up to an average of \$907 per metric ton in 2018. In January 2019, steel dropped slightly to an average of \$872 per metric ton. In general, both more expensive raw materials and an increasing labor shortage are pushing costs higher. As wages continue to rise, more experienced individuals are entering the workforce, however there is limited availability of qualified individuals. The average construction wages for those paid on an hourly basis has increased to \$30 per hour.¹ On a yearly basis, total construction was 3.4% higher than in November 2017. The private sector saw a 2.3% increase from a year ago, while public work had a 7% boost. Non-residential construction in both markets experienced increases compared to this time last year.²

	2016	2017	2018	4/2018- 4/2019
ENR – Building Cost Index ²	+2.9%	+3.3%	+3.3%	+2.6%
FM Global* – U.S. Industrial Buildings Average ³	+1.6%	+1.2%	+5.2%	+5.2%
RSMMeans – 30-City Average ⁴	+0.8%	+4.0%	+5.5%	+5.6%
Marshall & Swift** – U.S. Average ⁵	0.0 to +0.9%	+2.7 to +3.7%	+3.2 to +6.0%	+2.6 to +5.5%

* FM Indices only ranges from Jan 2018 to Jan 2019.

**The range of change shown by Marshall & Swift represents different classes of construction.

EQUIPMENT COST INDICES

All three sources for equipment cost indices had significant increases in 2018, compared to the previous three years. This trend has continued into 2019.

	2016	2017	2018	4/2018- 4/2019
Marshall & Swift/Boeckh - Industrial Equipment Avg ⁵	+0.9%	+2.6%	+4.8%	+4.8%
U.S. Bureau of Labor Statistics - Producer Price Index for Finished Goods, Capital Equipment ⁶	+0.9%	+0.9%	+2.7%	+2.5%
FM Global*w - Industrial Equipment Composite ³	+0.0%	+1.2%	+2.8%	+2.8%

*FM Index only ranges from Jan 2018 to Jan 2019.

Take care when selecting an index to track the rate of cost change for your company's capital equipment. The three indices in the table above all track average capital equipment cost change percentages, and indicate the differences that have occurred over the past four years. Developers—as well as insurance brokers, underwriters and valuation consultants—can all recommend appropriate indices for your particular facilities. Select one that represents your capital equipment as closely as possible; there are significant differences between the average indices shown here and specific industrial-sector indices.

Always remember that cost indices are just average indicators of change; they are not absolutes, and there is no average building or average assemblage of equipment. After five to seven years, you should establish a new replacement cost basis by using a qualified valuation consultant.

SOURCES

1. Construction Drive, Q2 Construction costs up 5.6% this year. Kim Slowey, June 24, 2018
2. Engineering News-Record, *Monthly Construction Economics Report*
3. FM Global, Industrial Cost Trends
4. RSMeans, Construction Cost Indices, 30-City Average
5. Marshall & Swift/Boeckh, *Marshall Valuation Service*, Quarterly Cost Index
6. US Bureau of Labor Statistics, Producer Price Index for Finished Goods - Capital Equipment

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