Data Digest

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Producer prices flatten in September; craft worker pay accelerates, PAS and CLRC report

Input prices and bid prices for construction were little changed from August to September, according to data the Bureau of Labor Statistics posted on Wednesday. The **producer price index** (PPI) **for material and service inputs to new nonresidential construction** edged up 0.1%, not seasonally adjusted, for the month and 0.4% year-over-year (y/y). Most inputs had modest changes for the month and y/y, with a few exceptions: the PPI for diesel fuel jumped 4.3% for the month (and 30% over three months) but tumbled 18.6% y/y; cement was up 0.7% and 10.8%, respectively; and ready-mix concrete rose 0.1% and 9.8%. Notable declines included the PPI for steel mill products (-3.7% and -12%, respectively); lumber and plywood (-0.5% and -14%); and truck transportation of freight (up 0.1% for the month but down 10% y/y). The index for **new nonresidential building construction**—a measure of prices that contractors say they would bid to erect a fixed set of buildings—rose 0.1% for the month and 3.8% y/y. Changes in **PPIs for new, repair, and maintenance work by subcontractors** were mixed: roofing contractors (-0.5% and 10.8%, respectively), plumbing contractors (0 and 7.1%), electrical contractors (0.1% and 4.1%), and concrete contractors (0 and -2.1%). AGC posted tables of construction PPIs.

"Merit-shop contractors anticipate **skilled-craft hourly wage increases** of 4.45% in 2023," compared to actual increases for 2022 of 5.10%, construction compensation data firm PAS reported on October 5. "These increases are across the board for all craft, contractor types, sizes, and regions of the country. WorldatWork reports 2023 actual construction increases at 4.4%. Historically, projected numbers from survey participants are slightly lower than the actual year-end figure. [The] data above reflects what contractors have given as an annual increase to their core employees. What is missing is the actual [y/y] change…due to increased market cost. This hidden change is a great example of potential pay compression…where new hires demand more pay than what existing employees are receiving….The overall change from 2022 to 2023 for all 30 craft positions combined was 6.9%, strong in all sectors except single-family residential. Laborers had the highest change from 2022 at 9.2%, followed by electricians at 7.1% and carpenters at 6.8%. The difference between the all-craft change (6.9%) and the 5.1% 2022 annual wage increase (and the forecasted 4.45% for 2023) is significant, as many firms most likely need to make further adjustments to keep their employees competitive in the market place."

The "first year of **new settlements** reached from January through September of 2023 (2023-Q3) **for union craft workers** in the construction industry had an average increase of 4.6%," up from 3.9% in 2022, the Construction Labor Research Council (CLRC) reported on Friday. "Total package increases have risen more in the past two years than in the decade prior (2011-2021). [Settlements grew by 1.5 percentage points] from 2021 to 2023-Q3 and by [1.8 percentage points] from 2020 to 2023-Q3. The settlements average tends to lag the cost of living since most union locals have multiyear agreements (most are three years in length). Those who negotiated prior to the surge in inflation appear to be catching up now during their 2023 negotiations, even though inflation has subsided. By the end of 2025, most unions will have negotiated new rates that reflect the impact of the jump in inflation. Because of this, CLRC projects that the steep growth in the size of increases will slow." Laborers, teamsters, and millwrights scored the largest first-year increases (5.8% each).

The Dodge Momentum Index rose 3% in September from August but slumped 5% y/y, Dodge Construction Network reported on October 6. The index "is a monthly measure of the initial report for **nonresidential building projects in planning**, shown to lead construction spending for nonresidential buildings by a full year." The commercial component fell 1% for the month and 12% y/y; the institutional component increased 9% and 12%, respectively.

"**Economic activity in the services sector** expanded in September for the ninth consecutive month," the Institute for Supply Management reported on October 6. Construction is among the 12 sectors (out of 18) that reported paying higher prices for materials and services, slower supplier deliveries (6 sectors), and increases in new orders (12) and employment (9), but is one of the few sectors reporting a decrease business activity (3 sectors) and order backlogs (6). **Items** significant for construction reported **up in price** include diesel fuel (3 months in a row), electrical components (32 months) and equipment, lumber (4), and polyvinyl chloride (PVC) products. Steel products were listed as **down in price** for the second-straight month**. Items** listed **in short supply** include construction materials and labor; electrical components (6 months); heating, ventilation, and air conditioning equipment (2); and transformers (13).