

# Cost Trend Update Bulletin, December 2019

## CONSTRUCTION COST INDICES

Through the first three quarters of 2019, we are seeing construction costs fall back, even to a point below historical average increases from some of the sources. All four indexes show annualized increases for 2019 between -0.6% and +2.1%. 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 July 2019, steel dropped slightly to an average of \$660 per metric ton for the month and has been on a consistent downward trend in 2019. Overall, this represents a decrease in steel prices of 27.2% to-date in 2019 from the 2018 average price and decrease of 34% from the 2018 high of \$1000 per metric ton.<sup>1</sup> With regards to labor, wages continue to rise and more experienced individuals are entering the workforce, however, there is a limit to the availability of qualified individuals. The average wages for those working in construction have increased at an annual rate of 3.7% over the last 12 month period.<sup>2</sup>

	2016	2017	2018	2019
ENR – Building Cost Index <sup>3</sup>	+2.9%	+3.3%	+3.3%	+1.3%
FM Global* – U.S. Industrial Buildings Average <sup>2</sup>	+1.6%	+1.2%	+5.2%	-0.6%
RSMMeans – 30-City Average <sup>4</sup>	+0.8%	+4.0%	+5.5%	+2.1%
Marshall & Swift – U.S. Average <sup>5</sup>	+0.5%	+3.2%	+4.6%	+0.2%

Note: The range of change shown by Marshall & Swift represents the median of different classes of construction. 2019 numbers for both Construction and Equipment are annualized rates of increase based upon data from the first 9 months of 2019.

\*FM Index only ranges from Jan 2019 to Jul 2019, annualized.

## EQUIPMENT COST INDICES

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

	2016	2017	2018	2019
Marshall & Swift/Boeckh - Industrial Equipment Avg <sup>5</sup>	+0.9%	+2.6%	+4.8%	+1.1%
U.S. Bureau of Labor Statistics - Producer Price Index for Finished Goods, Capital Equipment <sup>6</sup>	+0.9%	+0.9%	+2.7%	+0.9%
FM Global* - Industrial Equipment Composite <sup>7</sup>	+0.0%	+1.2%	+2.8%	+3.1%

\*FM Index only ranges from Jan 2019 to Jul 2019, annualized.

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. MEPS (International), Ltd, All carbon steel products composite price and index
2. US Bureau of Labor Statistics, Employment Cost Index, Wages and Salaries for Private industry workers in Construction, 12-month percent
3. Engineering News-Record, *Monthly Construction Economics Report*
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
7. FM Global, Industrial Cost Trends

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