Utah Department of Transportation - Central Preconstruction

Construction Cost Outlook and Recommended Inflation Projections – July 2014

Executive Summary – Construction Item Inflation:

	FY2015	FY2016	FY2017	FY2018	FY2019
High	***8.5%***	***9.0%***	***9.0%***	***7.5%***	***7.0%***
Recommended	***5.0%***	***5.5%***	***5.5%***	***4.5%***	***4.5%***
Low	***2.0%***	***2.0%***	***2.5%***	***1.5%***	***1.0%***

FY = Fiscal Year (July 1 to June 30)

FY2014 Recap:

- The UDOT Construction Cost Index (All Average Unit Bid Prices), which is generally regarded as the preferred measure of overall UDOT inflation, shows inflation decreased during CY2013 and the first half of CY2014.
  - CY2013: -2.1%
  - CY2014 through June: -3.2%
- The UDOT Construction Cost Index (Roadway, Surfacing & Structures), which uses more limited data, decreased in CY2013 and increased the first half of CY2014.
  - CY2013: -5.9%
  - CY2014 through June: +6.7%

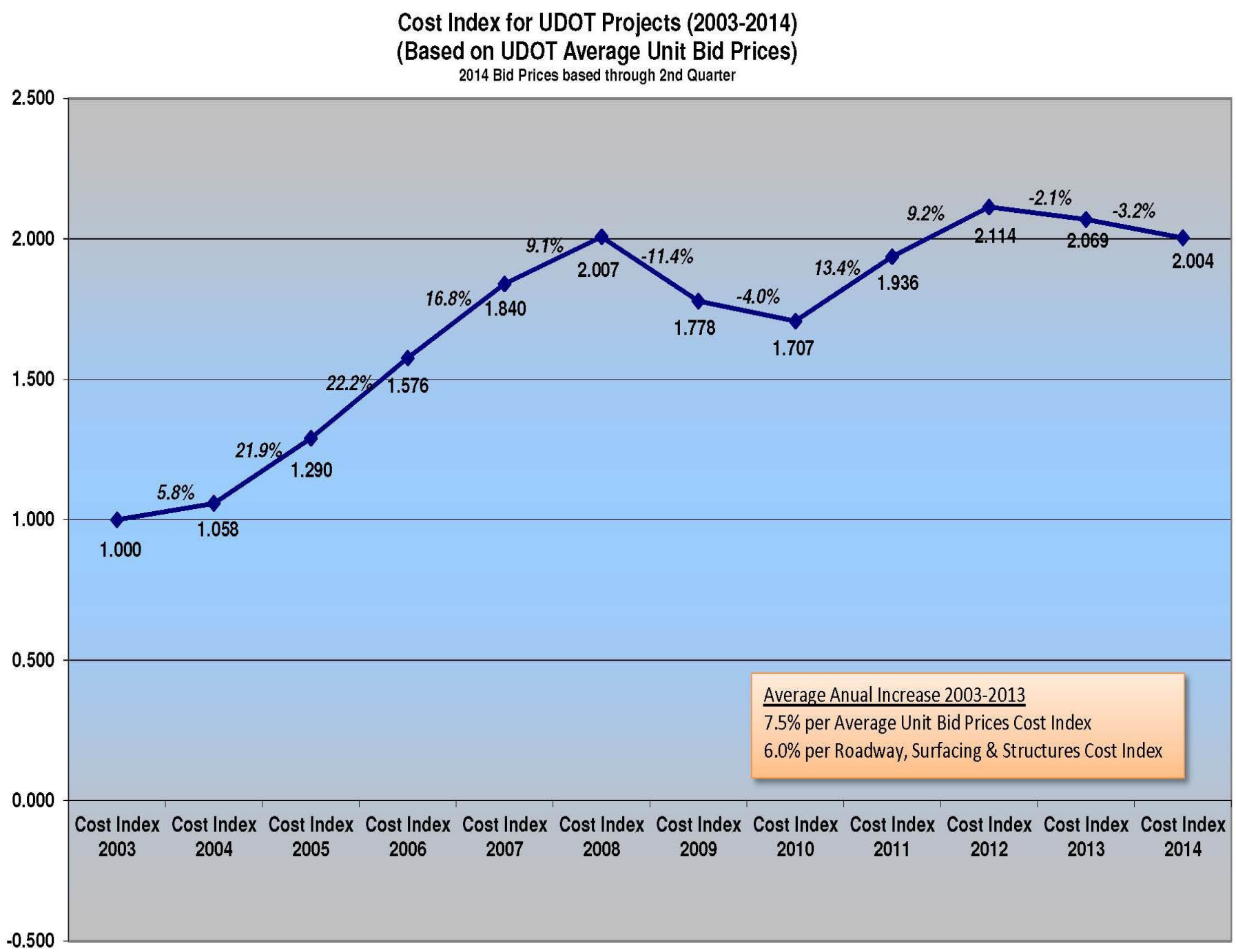
Recent Contributor to Inflation:

- Utah asphalt binder costs are the lowest or among the lowest in the Intermountain West in the first half of 2014[1].

FY2015 Projections Key Factors:

- Contractors will continue expanding their profit and overhead margins from historically depressed levels.
- "…the state (Utah) economy will not outperform the U.S. to the degree that it did following the Great Recession."[2]
- U.S EIA predicts oil and fuel prices to be flat to minor decrease through July 2015.[3]
- Materials Inflation: "The forecast is for building materials prices to rise modestly and then somewhat faster by late fall and beyond."[4]
- Utah construction employment should increase during 2014: +7.0%[2]
- Inflation in the UDOT construction market is more volatile than the rate for the rest of the economy. [5]
- Look for (U.S.) construction spending to rise by 15% this year…a solid improvement from 9.4% growth in 2013 and 2.4% in 2012.[6]
- AGC Forecast Trends: 2014-2017[7]
  - Materials cost increase: +1% to +3%
  - Labor costs increase: +2.5% to +5%; Labor supply shortages due to retirements, competition from other sectors, and fewer vets.
- Federal funding for UDOT projects will likely be flat. State funding will likely gradually increase.
- "Overall, the story remains much the same…since the beginning of the recovery—a mix of positive and negative trends that sustains some economic growth, but has been insufficient to yield a full recovery." [8]

[1]UDOT. *Asphalt Binder Index*. July 2014.
[2]Utah Economic Outlook 2014. http://gomb.utah.gov/wp-content/uploads/sites/7/2014/01/2014UtahEconomicOutlook.pdf
[3]US Energy Information Administration, *Short-Term Energy Outlook*, July 8, 2014.
[4]REED Construction Data. *Nonresidential Construction Materials Inflation Inches Higher in April*, June 2014.
[5]UDOT Estimate Support. *Comparison of CPI with UDOT Cost Indices*.
[6]The Kiplinger Letter. *Forecasts for Executives and Investors*. Vol. 91, No. 27. July 3, 2014.
[7]Associated General Contractors of America. *Construction Spending, Labor & Materials Outlook*. Simonson, Ken. May 19, 2014.
[8]EFR, Parsons Brinckerhoff. *Economic Review and Outlook: Implications for the US*. Lofti, Shayan and Heather Romani. May 2014


Cost Index for UDOT Projects (2003-2014)
(Based on UDOT Average Unit Bid Prices)
2014 Bid Prices based through 2nd Quarter
2.500
2.000
1.500
1.000
0.500
0.000
-0.500
1.000
5.8%
1.058
21.9%
1.290
22.2%
1.576
16.8%
1.840
9.1%
2.007
-11.4%
1.778
-4.0%
1.707
13.4%
1.936
9.2%
2.114
-2.1%
2.069
-3.2%
2.004
Cost Index 2003
Cost Index 2004
Cost Index 2005
Cost Index 2006
Cost Index 2007
Cost Index 2008
Cost Index 2009
Cost Index 2010
Cost Index 2011
Cost Index 2012
Cost Index 2013
Cost Index 2014
Average Anual Increase 2003-2013
7.5% per Average Unit Bid Prices Cost Index
6.0% per Roadway, Surfacing & Structures Cost Index