Utah Department of Transportation - Central Preconstruction

Construction Cost Outlook and Recommended Inflation Projections – October 2018

Executive Summary – Construction Item Inflation (FY = Fiscal Year, July 1 to June 30):

<table>
<thead>
<tr>
<th></th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
<th>FY2022</th>
<th>FY2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>+9.0%</td>
<td>+8.0%</td>
<td>+7.0%</td>
<td>+6.5%</td>
<td>+6.5%</td>
</tr>
<tr>
<td>Recommended</td>
<td>+6.5%</td>
<td>+5.5%</td>
<td>+4.5%</td>
<td>+4.0%</td>
<td>+3.5%</td>
</tr>
<tr>
<td>Low</td>
<td>+5.0%</td>
<td>+4.5%</td>
<td>+3.5%</td>
<td>+3.0%</td>
<td>+2.5%</td>
</tr>
</tbody>
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(These percentage recommendations have been reflected in the Concept Cost Estimate Spreadsheet on the UDOT Estimator’s Corner website.)

FY2018 Recap - both UDOT cost indexes increased over the past 18 months:
- The All Average Unit Bid Prices UDOT Construction Cost Index is generally regarded as the preferred measure of overall UDOT inflation
  - CY2017: +14.8%
  - CY2018 through June: +4.0%
- The Roadway, Surfacing & Structures UDOT Construction Index uses more limited data
  - CY2017: +11.8%
  - CY2018 through June: +49.8%

Recent Contributors to Inflation:
- Utah’s tight labor market is putting upward pressure on wages, particularly in the construction industry.
- Diesel costs increased by 20.2% while UDOT’s Asphalt Binder Index increased 39.3% from September 2017 to September 2018.
- Highways and streets producer price index increased 7.5% from September 2017 to September 2018.
- Total put-in-place construction spending for the nation increased 4.4% from August 2017 to August 2018.
- Tariffs caused cost increases in some material costs. For example, the producer price index for steel increased 18.1% from September 2017 to September 2018.

FY2019 Projections Key Factors:
- Utah’s labor market will continue to be tight putting upward pressure on wages.
- Contractors and suppliers will likely maintain or continue expanding their profit margins because of solid growth in Utah’s construction market.
- National forecast trends
  - Total put-in-place construction spending for CY2019 +6%, CY2020 +4%, CY2021 +3%, and CY2022 +4% suggests that stability in construction is expected over the next four years.
  - Highway and street put-in-place spending for CY2019 +4%, CY2020 +3%, CY2021 +2%, and CY2022 +2%.
  - Employment cost index increasing from +2.9% for twelve months ending June 2018 to +3.6% in CY2019 and CY2020 and then +3.4% in CY2021 and CY2022.
- State highway funding is projected to increase $109 million in FY2019 and increase another $56 million in FY2020, but drop by $147 million in FY2021 from FY2020’s funding level. No additional federal funding is currently expected or included in these projections.