

Utah Department of Transportation - Central Preconstruction

Construction Cost Outlook and Recommended Inflation Projections – August 2016

Executive Summary – Construction Item Inflation:

	FY2017	FY2018	FY2019	FY2020	FY2021
High	+7.0%	+7.5%	+7.0%	+7.0%	+6.5%
Recommended	+4.5%	+5.0%	+4.0%	+4.0%	+3.5%
Low	+2.0%	+2.5%	+2.0%	+2.0%	+2.0%

FY = Fiscal Year (July 1 to June 30)

FY2016 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 increased during CY2015 and the first half of CY2016.
 - CY2015: +2.0%
 - CY2016 through June: +3.3%
- The UDOT Construction Cost Index (Roadway, Surfacing & Structures), which uses more limited data, increased in CY2015 and the first half of CY2016.
 - CY2015: +4.0%
 - CY2016 through June: +41.4%

Recent Contributors to Inflation:

- Utah's construction industry continues to experience a shortage of skilled workers which has increased construction labor costs.¹
- Slightly lower diesel fuel costs² and a -26% decline in UDOT's asphalt binder³ index.
- Total construction spending for CY2015 was +11%.⁴

FY2017 Projections Key Factors:

- Contractors and suppliers will likely continue expanding their profit margins because of solid growth in Utah's construction market.⁵
- U.S. Energy Information Administration predicts that regular gasoline fuel prices will continue to decrease before trending up in the first half of CY2017 and diesel fuel prices will continue to increase through CY2017.²
- AGC annual average forecast trends, CY2016 through CY2017:⁴
 - Total construction spending forecast for CY2016 is +6% to +9% and for CY2017 is +5% to +7%.
 - Construction goods and services producer price index increasing from -2% in CY 2015 to 0% to +2% annually through CY2017.
 - Construction employment cost index increasing from +2.2% in 2015 to +3% to +4% in CY2016 and +3% to +4.5% in CY2017.
- Federal funding has increased due to passage of a long term funding bill and state funding has remained stable for UDOT projects over the past year.

¹ Madison, Rachel, "Ground Breaking: Utah's construction industry is facing challenges and growth in equal measure," Utah Business, July 29, 2016, <http://www.utahbusiness.com/ground-breaking-utahs-construction-industry-facing-challenges-growth-equal-measure/>.

² *Short-Term Energy Outlook*, U.S. Energy Information Administration, July 12, 2016, <http://www.eia.gov/forecasts/steo/>.

³ *Asphalt Binder Index*, UDOT, July 2016, <http://www.udot.utah.gov/main/?p=100:pg:0:::1:T,V:1726>.

⁴ Simonson, Ken, *Construction Spending, Labor & Materials Outlook*, Associated General Contractors of America, June 14, 2016,

<http://meetings.agc.org/fic/wp-content/uploads/sites/12/2016/06/Construction-Materials-Outlook.pdf>.

⁵ "2016 Economic Outlook," Utah Construction & Design, March 21, 2016, <http://utahcdmag.com/2016/03/2016-economic-outlook/>.

Future Projections for UDOT Construction Cost Index (2003-2021) (Based on UDOT Average Unit Bid Prices)

2016 Bid Prices based through 2nd Quarter

