

2009 - good year for construction costs



Cost Consultants

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Construction Material Cost index fell by 13% over the past 6 months.

In line with global commodity prices, CanaData's total construction materials cost index has fallen by 12.7% over the past six months.

Since the summer of 2008, declines included: gasoline, -51.7%; asphalt, -49.5%; diesel fuel, -45.8%; concrete rebar, -32.9%; aluminum structural shapes, -7.2%; and steel structural shapes, -6.9%. Further upstream in the production process have been: petroleum and coal products, -43.8%; primary metal products, -15.9%; and chemicals and chemical products, -7.6%.

The few instances of material cost increases have been due to : (1) lag effect of production that lies downstream versus an earlier commodity price increase and/or (2) a currency adjustment, since the Canadian dollar has fallen from par value to about \$0.80 USD over the past year.

2009 Forecasts

In line with the above, 2009 will be a very good year for construction costs, offering a one-year window of bargains for owners undertaking projects. Construction material costs will start to gradually move higher again next year as world economic recovery picks up speed.

It is expected that residential construction material costs to range between 0.0% and +5.0% on average in 2009; non-residential building material costs to be -5.0% to 0.0%; and engineering material costs to come in at -10.0% to -5.0%. All three series should pick up

speed as government-backed infrastructure-stimulus packages are rolled out.

Construction Starts Statistics

Through the first quarter of 2009, non-residential construction starts in Canada are spiralling downward. According to CanaData's forecast, the 2009 total non-residential building starts is lowest since 1970. Federal, provincial and municipal governments are pushing for the infrastructure spending plans, while the private funded projects have been the most affected.

Québec has recorded some good starts strength in recreational buildings, bridges and especially power generating projects. The most dramatic declines have come in private office buildings and educational projects.

March brought surprisingly good news. According to CMHC, the seasonally adjusted annual rate of housing starts increased to 154,700 units in March from 136,100 units in February, mainly due to activity in Ontario and Quebec. The March increase in the housing starts is in contradiction of oversupply of housing in some Quebec markets.

The Outlook for Job-site Construction Activity

The prospects for privately-funded investment, which determines job-site construction activity levels, must be considered restrained until stock markets perk up on a sustained basis once again. This will occur about six months ahead of an improvement in net earnings. It is hard to foresee much of a profits pickup before the first quarter of next year.

For more information on any cost related subjects please email: info@emanagepro.com

Source: Reed Construction Data

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