



26 May 2018



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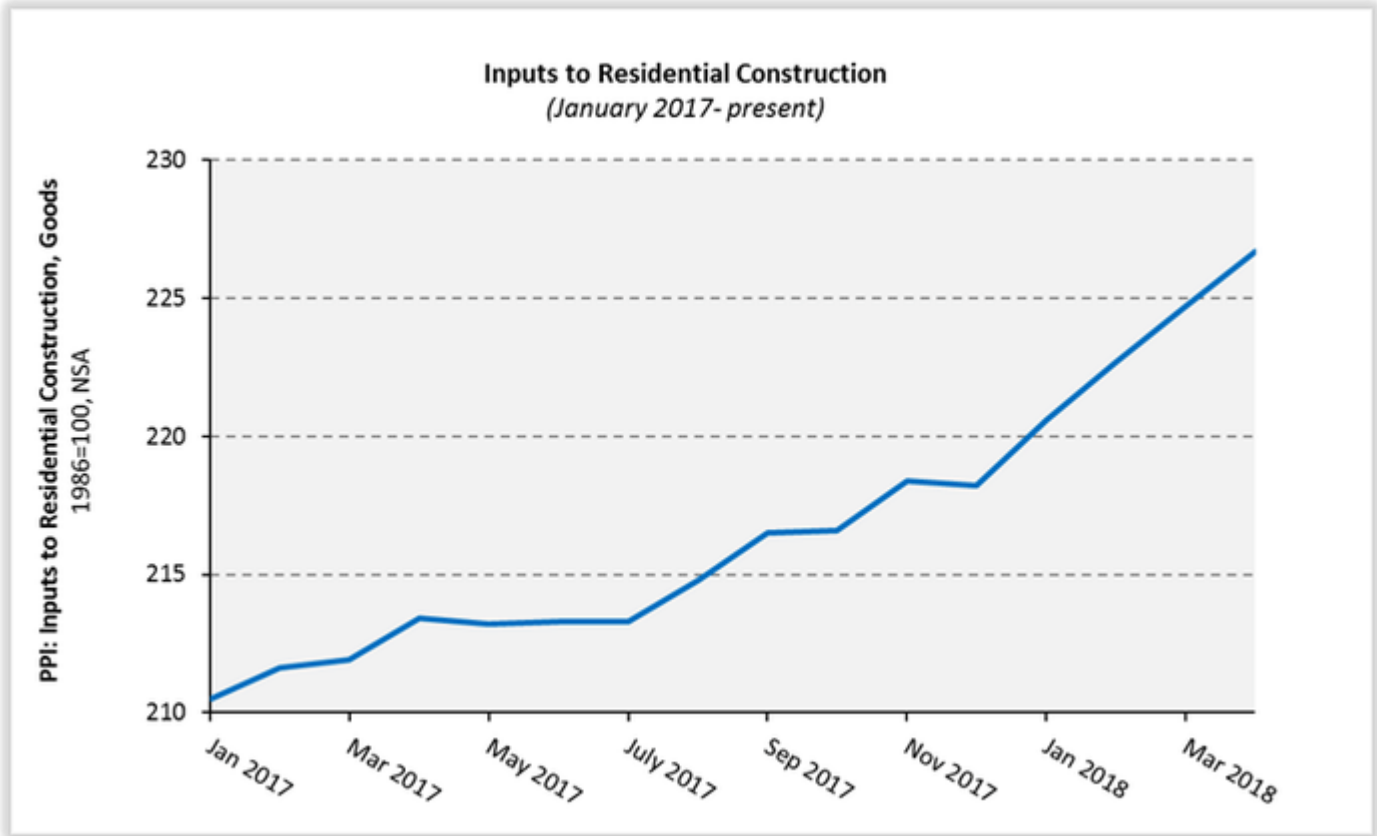
## **Cost of Residential Construction Inputs Already Up 4% in 2018**

BY [DAVID LOGAN](#) ON [MAY 9, 2018](#) • (1)

The prices of most building materials increased in April, according to the latest Producer Price Index (PPI) [release](#) by the Bureau of Labor Statistics. Oriented strand board (OSB) led price increases, up 7.1% since March (not seasonally adjusted). The indexes for ready-mix concrete (+0.6%), gypsum products (+0.1%), and the aggregate index for goods inputs to residential construction (+0.9%) also edged higher. Softwood lumber prices fell 1.9% month-over-month, according to the report.

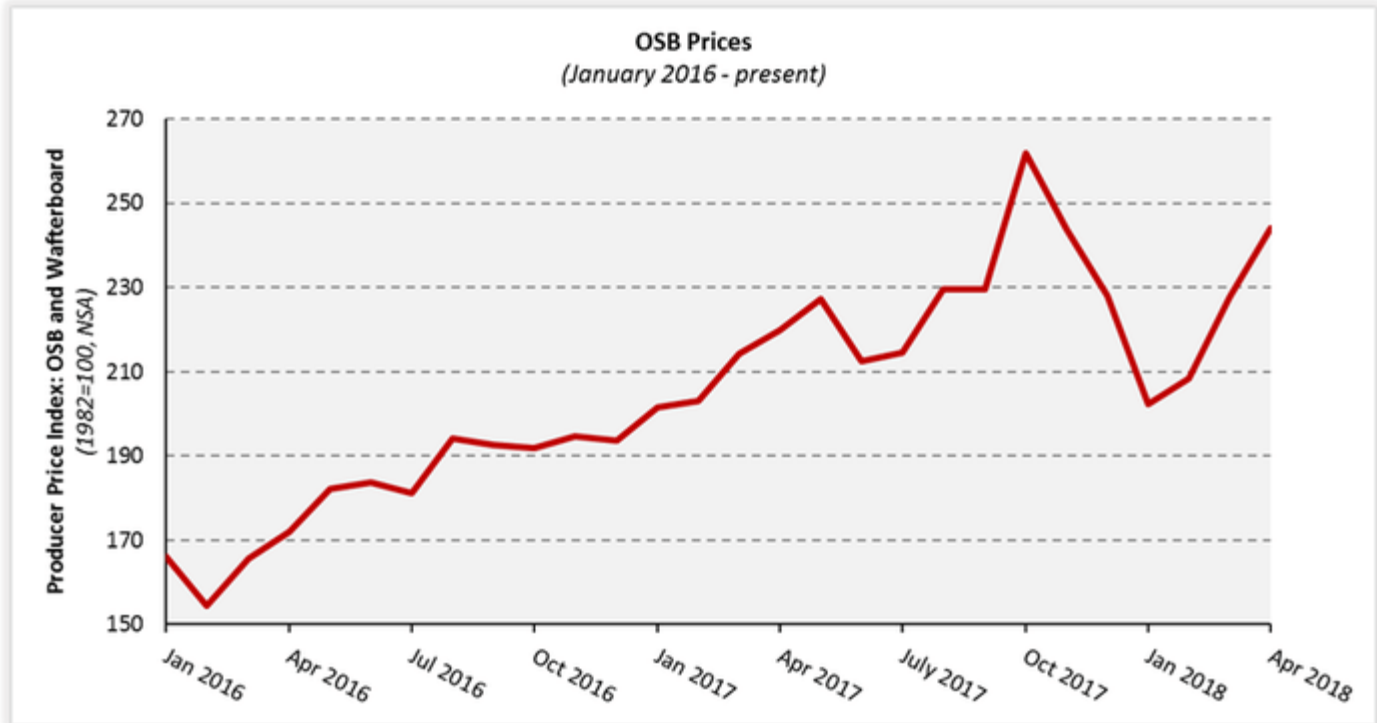
The 0.9% increase in prices paid for residential construction inputs (goods) was the fourth consecutive monthly increase. The index has risen 3.9% over the first four months of 2018 and sits 6.2% higher than it did in April 2017. Since January 2017, the index for prices paid for goods inputs to residential construction has only declined twice—in May and December of 2017—each time falling just 0.1%.

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The 7.1% increase in OSB prices follows March's 9.3% gain. After a three-month downward trend, OSB prices have risen 20.6% over the past three months.

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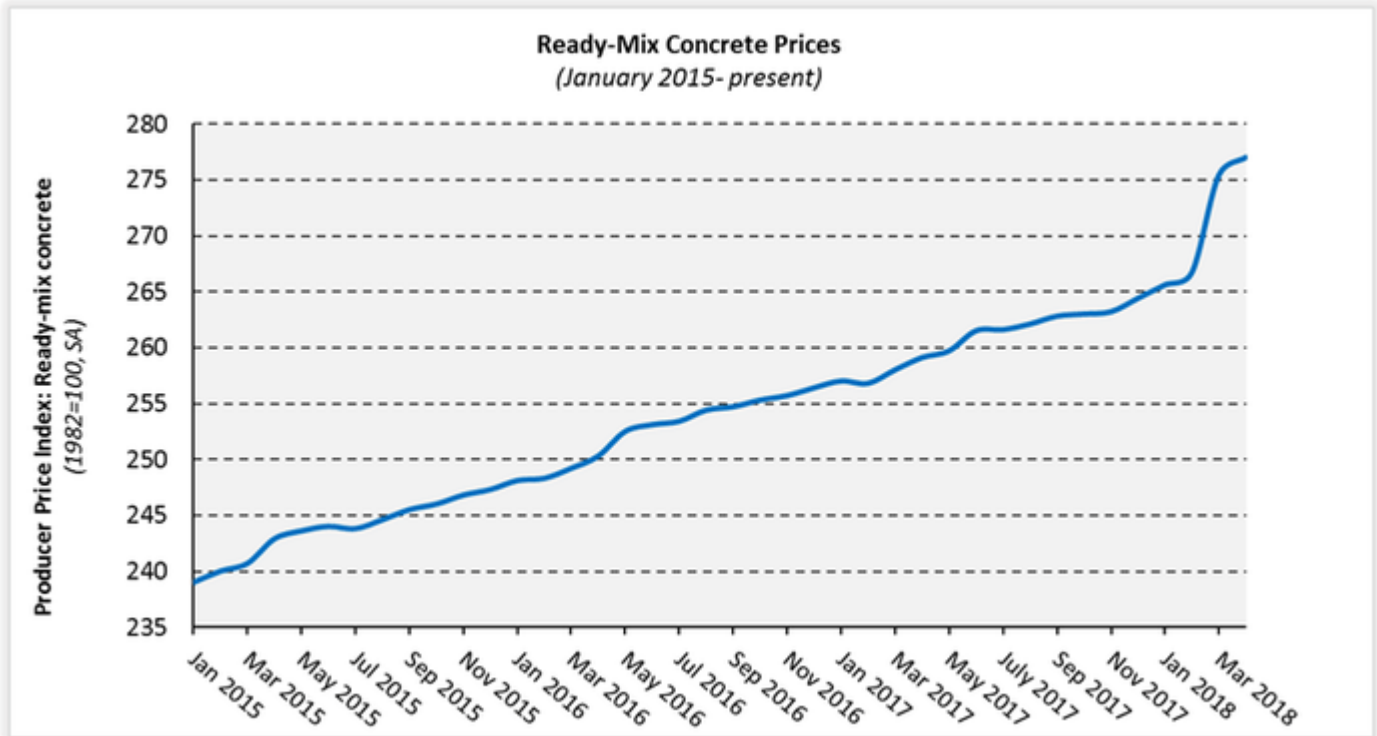
Due to methodology, OSB and softwood lumber data in the PPI tend to lag market conditions. According to Random Lengths, the price of softwood lumber actually rose 3.5% in April. The increase will likely be captured in next month's PPI release.

Two important factors drive disparities between price changes builders have experienced and the PPI index changes:

1. The producer price index tracks prices paid by wholesalers, distributors, and retailers rather than what those businesses charge customers.
2. The index does not include prices paid for Canadian products as it does not include imports (just as the consumer price index does not reflect prices paid for exports).

After a relatively steep increase in March, ready-mix concrete (RMC) prices ticked up by 0.6% over the month (seasonally adjusted). This month's increase was much more in line with the historical norm, as shown below.

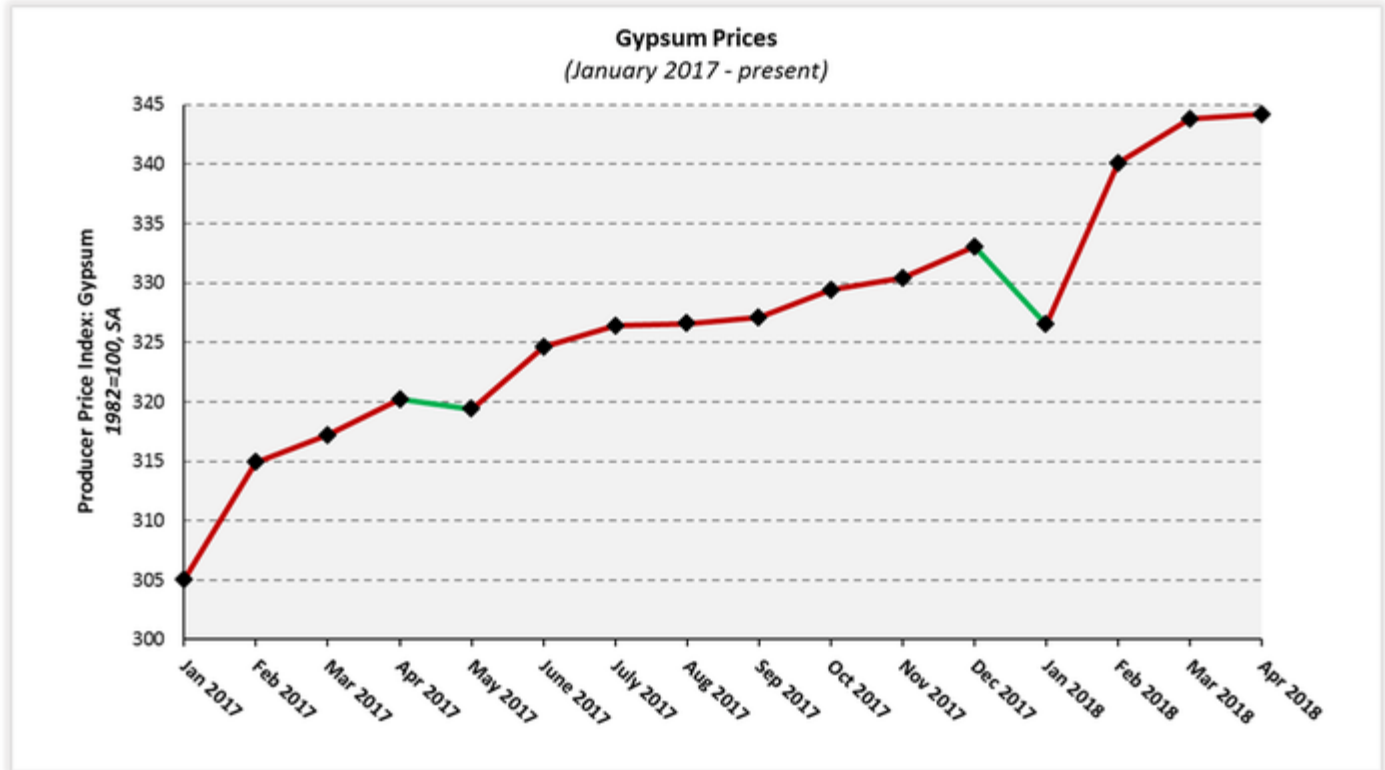
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Since the end of the Great Recession, the RMC price index (SA) has increased 0.2% each month, on average. Over the last 15 years, the month-over-month change in the index has exceeded 1% just 18 times.

BLS also reported that prices paid for gypsum products were essentially flat in April (+0.1%, seasonally adjusted). Although price increases have moderated since the 4.2% jump in February, gypsum prices are 3.3% higher than they were to at the beginning of 2018.

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Richard P. Vlosky, Ph.D.  
 Director, Louisiana Forest Products Development Center  
 Crosby Land & Resources Endowed Professor of Forest Sector Business Development  
 Room 227, School of Renewable Natural Resources  
 Louisiana State University, Baton Rouge, LA 70803  
 Phone (office): (225) 578-4527; Fax: (225) 578-4251; Mobile Phone: (225) 223-1931  
 Web Site: [www.LFPDC.lsu.edu](http://www.LFPDC.lsu.edu)



President, Forest Products Society; President, WoodEMA i.a.

