

Top 6 Factors Contributing to Rising Construction Costs in Today's Market

Insuring property has become challenging in recent years. Property owners and brokers have been increasingly burdened with rising property insurance premiums, increased scrutiny from underwriters, and calls for better exposure data. As if this wasn't enough, they also now need to keep pace with rising construction costs.

With vaccination rates increasing throughout the US, an economic resurgence looks to be taking form. Physically building up operations will be on the priority list, and while this is encouraging economic news for the construction industry, it is beginning to put pressure on pricing and project timing due to the corresponding upward demand for materials and labor.

Increased demand for materials globally and U.S. tariffs restricting the supply of many materials needed for construction are on the verge of creating the perfect storm. Labor and material components including lumber, steel, oil, and copper are some of the converging dynamics which have and should continue to impact the upward cost of construction in the U.S. in the coming months and beyond.

In light of these changes, plus the impending effects of President Biden's \$2 trillion infrastructure plan, the construction industry is shifting before our eyes. Below are six of the factors that contribute to rising construction costs in the U.S.

Oil

Crude oil prices have skyrocketed more than [80% since October 2020](#), which is critical since oil is integral to the construction industry. From manufacturing construction materials, to transportation and job site equipment operation, oil plays a primary role in the success of construction projects. As Americans begin to resume pre-pandemic behavior such as travel, crude oil prices could continue to rise throughout 2021.

Steel

U.S. steel prices are almost [70% higher than the global market price](#), even with both China and Europe's prices up [by over 80%](#) from their pandemic-induced lows. Even accounting for the 2018 steel tariff imposed by the U.S., it would still be cheaper to import steel than buy it from domestic mills. However, limited overseas supplies and shipping challenges are keeping U.S. imports at low levels, directly impacting the price of steel.

Copper

In the first quarter of 2021, [copper prices hit a 10-year high](#) in the U.S. The metal is used in many construction materials, including electrical wires and water pipes. Copper will be in even

higher demand in the coming years with the global push toward green energy and electric transportation technology. To put this in context, currently the average U.S. home uses 439lbs of copper, and a conventional automobile uses between [18 and 49lbs](#). A plug-in electric car uses 183lbs of copper, and a battery-operated electric bus uses 814lbs. The anticipated increase in demand is almost certainly going to impact the cost of copper in the coming years.

Lumber

The price of lumber, which is utilized in most U.S. home-building and commercial construction projects, is at an all-time high. It is— more than [twice the typical cost in 2021 compared to 2020](#). This is the result of increased residential construction and remodeling during the pandemic, reduced U.S. mill output, and the lumber tariff implemented on softwood lumber imports from Canada in 2017.

Labor

When unemployment topped out at just under 15% in 2020, unfilled construction jobs ranged between [220,000 and 330,000](#), which were at the same level prior to the pandemic. Skilled labor is difficult to find and contractors are paying a premium for it. The lack of skilled labor can also delay construction projects, which can also be costly.

Infrastructure Spending Plan

As we look forward, demand for all of the items mentioned above will almost surely be impacted further if President Biden's [\\$2 trillion infrastructure plan](#) is enacted, creating additional demand for labor and materials. The wide-ranging American Jobs Plan looks to improve transportation infrastructure, eliminate and replace 100% of lead piping across the U.S., build infrastructure for high-speed broadband coverage, modernize the U.S. electrical grid, and build and retrofit more than 2 million affordable and sustainable places to live.

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