

WSDOT Market Analysis

December 2008

This market analysis is based on a review of published information including the following sources: American Road and Transportation Builders Association (ARTBA); Associated General Contractors (AGC); Bloomberg; and the Engineering News Record (ENR).

- **Asphalt** prices decreased further during the fourth quarter from their third quarter highs as the onset of winter weather largely stopped paving operations. By the end of the quarter, prices were just slightly higher than June 2008 levels. Prices are not expected to drop much further and should heat up in the spring when demand increases. Asphalt prices are now controlled more by refinery production than by crude oil prices.

“Asphalt paving prices have started to weaken after the sharp drop in oil prices, which have fallen more than 50% from their peak earlier this year. ENR’s 20-city average price for asphalt paving oil fell for the third consecutive month. However, recent declines are still working against record highs, leaving prices 14% above December 2007’s level. Prices for asphalt cutback and rapid-set emulsion are still 5% and 8% higher than a year ago, despite recent cuts.” ENR, Construction Economics,” December 1, 2008.

- **Concrete** prices are expected to decline slightly. Cement prices increased just 1% in 2008 as demand for construction materials continued to decrease.

“Cement prices showed little movement during the last six months, after producers rolled back prices 1% last April. However, ENR’s 20-city average price for type-one portland cement increased 1.5% this month to \$101.79 a ton. Despite the year-end rally, cement prices are up less than 1% from a year ago.” ENR, “Construction Economics,” November 3, 2008.

- **Fuel** prices, which set records during the summer, fell during the fourth quarter to levels not seen since prior to Hurricane Katrina. Diesel fuel prices continue to remain higher than prices for gasoline however they have fallen sharply from peak prices this summer. Analysts are optimistic that OPEC production cuts and economic growth will cause prices to increase later in the year.

“The downward trend of the past 13 weeks continued at the national level and in most regions of the country. The national average price for regular gasoline slipped 4.0 cents to 165.9 cents per gallon, 133.9 cents below the price a year ago and the lowest price since February 16, 2004. The price is now 245.5 cents below the all-time high set on July 7 of this year. For the eleventh week in a row, diesel prices fell in all regions of the country. On the West Coast, the average price plunged 11.8 cents to hit 230.3 cents per gallon. Once again, that drop was the largest of any region and consequently, for the third week in a row, the price on the West Coast was the lowest of any region.” EIA, “This Week in Petroleum,” December 17, 2008.

“Analysts expect oil prices to rise through the year to \$70 a barrel in the fourth quarter as demand improves and OPEC production curbs announced this month take hold. The U.S. economy may return to growth in the second half of 2009, reviving consumption in the world’s largest energy user.” Bloomberg, “Oil Set for Rebound as Record Drop Spurs OPEC Cuts,” December 30, 2008.

Lumber and plywood prices, which have rapidly declined due to the housing market, have gone lower than what analysts say mills can absorb. Lumber prices should remain low throughout the year. Mills are continuing shutdowns, and if they are successful in bringing supply in line with demand, lumber prices should stop their decline and could increase slightly later in the year.

“The depressed housing market continues to undercut lumber prices. ENR’s 20-city average price for pine 2 X 4s fell another 1.5% this month, dropping prices 4.0% below a year ago. Likewise, prices for fir 2 X 4s declined 0.8% this month, bringing fir prices 5.4% below a year ago. However, ENR’s price for the most commonly used species of 2 X 4s rebounded 0.3% this month, following two months of steep declines, leaving this price just 1.0% below 2007’s year-end value.” ENR, “Construction Economics, December 15, 2008.

- **Steel** prices that spiked during the third quarter decreased during the fourth quarter and will continue to decrease during the first half of 2009. The U.S. economic downturn has affected the global economy, reducing demand for steel and other construction materials on a global scale. Steel producers are scrambling to cut production rates, but these actions are not expected to stabilize prices until later in the year.

“It’s safe to say that the only direction for steel in the next six months is down,” says John Mothersole, an economist with Washington, D.C.-based forecasting firm IHS Global

Insight. Structural-steel prices peaked in the third quarter of this year at \$1,094 a ton, which was \$465 higher than the third quarter of 2007. However, the rapid deterioration in both the domestic and global markets, especially demand for scrap metal from China, has pushed structural-steel prices back 15% this quarter, says Mothersole. He predicts prices will decline another 20% by the second quarter of next year before firming.” ENR, “The 2008 4Q Cost Report, Recession knocks out inflation in 2009,” December 22, 2008 – Tim Grogan.

- **Highway Materials & Construction** prices increased during 2008 while prices for other types of construction decreased. This was mainly due to summer price spikes for asphalt, steel and diesel fuel. Lower crude oil prices as well as a reduced construction market bringing more bidders to state jobs should work to reduce costs in 2009.

“The cost of highway and street construction materials was up 15.1 percent in October 2008 compared to the same month last year. During the same time period, inflation, as measured by the consumer price index, was 3.7 percent. Over the last five years, between 2003 and 2008, the price of highway and street construction materials has risen 76.5 percent.”
ARTBA, “Highway Construction Producer Prices,” November, 2008.

“The U.S. financial crisis spread rapidly to the rest of the world during the second half of the year, slowing the global economy and rolling back construction inflation in Europe, Asia, the Middle East and North America. In particular, the economic slowdown in China has taken away one of the main drivers of global construction inflation as China’s once voracious appetite for raw materials evaporates.” ENR, “The 2008 4Q Cost Report, Global Financial Crisis and Recession Is Knocking Down Inflation Worldwide,” December 22, 2008 – Peter Reina and Tim Grogan.