

# Orange County Transportation Infrastructure Construction Cost Pressure Index, Fall 2024

Orange County Business Council

September 2024

# Orange County Transportation Infrastructure Construction Cost Pressure Index Model Components

- Economic Trends – State-level building permits and unemployment rate (Census and California Employment Development Department (EDD));
- Material Costs – Construction Aggregate, PCC Pavement, PCC Structural Concrete, Structural Steel and Bar Steel (Caltrans).
- Labor Costs – Localized construction wages of NAICS defined sectors provided by Bureau of Labor Statistics (BLS).
- Economic Conditions – Tight economy in 2002-2005 and slack economy in 2007-2011.

# Forecast and Range of Orange County Transportation Infrastructure Cost Increases by Index Value

- 2024 - Forecasted Index Value: 2
- 2025 - Forecasted Index Value: 3
- 2026 - Forecasted Index Value: 2
- 2027 - Forecasted Index Value: 2

Range of Cost Fluctuations by Index Score			
Index	Low	Medium	High
0	-17%	-9.5%	-2%
1	-2%	-0.5%	1%
2	1%	1.5%	2%
3	2%	4%	6%
4	6%	8.5%	11%
5	11%	25.5%	40%

# Cautious Optimism in the Face of Uncertainty

- Cost inputs (labor, materials) are rising while the macroeconomy is showing signs of softening;
- Going forward, labor costs may soften as national and state labor markets continue to weaken;
- Expected September rate cut to provide boost to housing demand;
- CCI rebounds from Q4 2023 drop, up 9.5 percent over last 12 months;
- Cost of Aggregate Base, PCC Pavement, and Structural Steel rise in 2024, PCC Structure and Bar Steel declines.

## Year-over-Year Changes in California Building Permits, California Unemployment Rate and Orange County Construction Labor Costs, 2017-2024

Year	California Building Permits	% change year-on-year	California Unemployment Rate	% change year-on-year	OC Construction Labor Costs (avg. annual wage)	% change year-on-year
2017	114,780	12.1%	4.8%	-12.9%	\$71,474	6.4%
2018	113,502	-1.1%	4.2%	-12.0%	\$74,669	4.5%
2019	110,197	-2.9%	4.1%	-3.4%	\$77,289	3.5%
2020	106,075	-3.7%	10.3%	153%	\$81,460	5.4%
2021	119,436	12.6%	7.3%	-28.9%	\$84,170	3.3%
2022	119,667	0.2%	4.2%	-42.4%	\$88,265	4.9%
2023	111,221	-7.1%	4.8%	13.3%	\$94,003	6.5%
2024*	93,888	-15.6%	5.3%	11.4%		

\*2024 values projected from year-on-year changes in quarterly data, 2<sup>nd</sup> quarter 2023 to 2<sup>nd</sup> quarter 2024.

\*\* 2023 values projected from year-on-year changes in quarterly data, 4<sup>th</sup> quarter 2022 to 4<sup>th</sup> quarter 2023.

# OCBC Infrastructure Construction Cost Forecast

- Systematic Risks – Russia-Ukraine War, Israel-Gaza Conflict, AI, Real Estate, Consumer Debt
  - Russia-Ukraine War continues; Israel-Gaza conflict potentially spreading in Middle-East.
  - Some office properties continue to see large price cuts; select housing markets showing weakness.

## OCBC OC Transportation Infrastructure Construction Cost Index Score, 2024-2027

Year	Index Score	Range of Cost Fluctuation
2024	2	1% to 2%
2025	3	2% to 6%
2026	2	1% to 2%
2027	2	1% to 2%

- Idiosyncratic Risks – not predictable and therefore not in model
  - Additional large downward revisions to labor market data may impact Fed policy decisions.
  - Despite rise in wages, consumer debt reaches new highs potentially impacting future spending.
  - Domestic and international instability due to political and economic uncertainty.

# Questions