

Economic Update

Building Materials Subcommittee Meeting

1/8/2017

Orlando, FL

Highlights

Concrete

- Ready-mix concrete barely outpaced inflation in 2016, rising 3%
- Prices have been volatile in some regions recently, quickly rising 4% in the Midwest and Northeast at the end of 2016.
- Prices for these commodities are forecast to rise in 2017, but not to the levels recorded in 2016.
- Price disruptions would abound if the U.S. pulled out of NAFTA, adversely affecting American end-users
- Trump's infrastructure plan would also increase demand for, and thus prices of, concrete products.
- Large companies are leveraging heavily to acquire more companies to bolster ability to service more projects.

Gypsum

- After three steep price increases at the outset of 2011, 2012, and 2013, gypsum prices appear to have hit a natural price ceiling.
- Increased demand for new construction continues to drain the pool of available installers, making it more difficult for buyers to bargain for better rates.
- We will be watching closely to see if producers attempt to push yet another January/February price increase through for the fourth consecutive year.

Softwood Lumber

- Global softwood lumber production and trade set a record high for the second consecutive year in 2016 due to strong Chinese demand and the continuing domestic housing recovery.
- Softwood lumber prices have fallen recently but will accelerate in 2017.
- Timber ETFs and futures have risen by 10% in the two months since the general election
- Based on price fluctuations seen ahead of the 2006 softwood lumber agreement, prices could rise by 15% to 30% before a new agreement is reached (if it is).
- Trump comments regarding tariffs and trade in general are adding to uncertain, though House Speaker Paul Ryan said last week that the House will not vote to increase tariffs
 - NOTE: Trump can only institute or raise tariffs by issuing an executive order in rare circumstances

Asphalt

- Rising oil prices will put upward pressure on asphalt prices in 2017.
- Crude oil prices increased by 86% in 2016

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- Reason to believe this will continue: OPEC recently agreed to a supply cut after glutting the market to make U.S. producers unprofitable.
- Prices may increase even more if a large-scale, federal infrastructure investment program is passed by Congress.

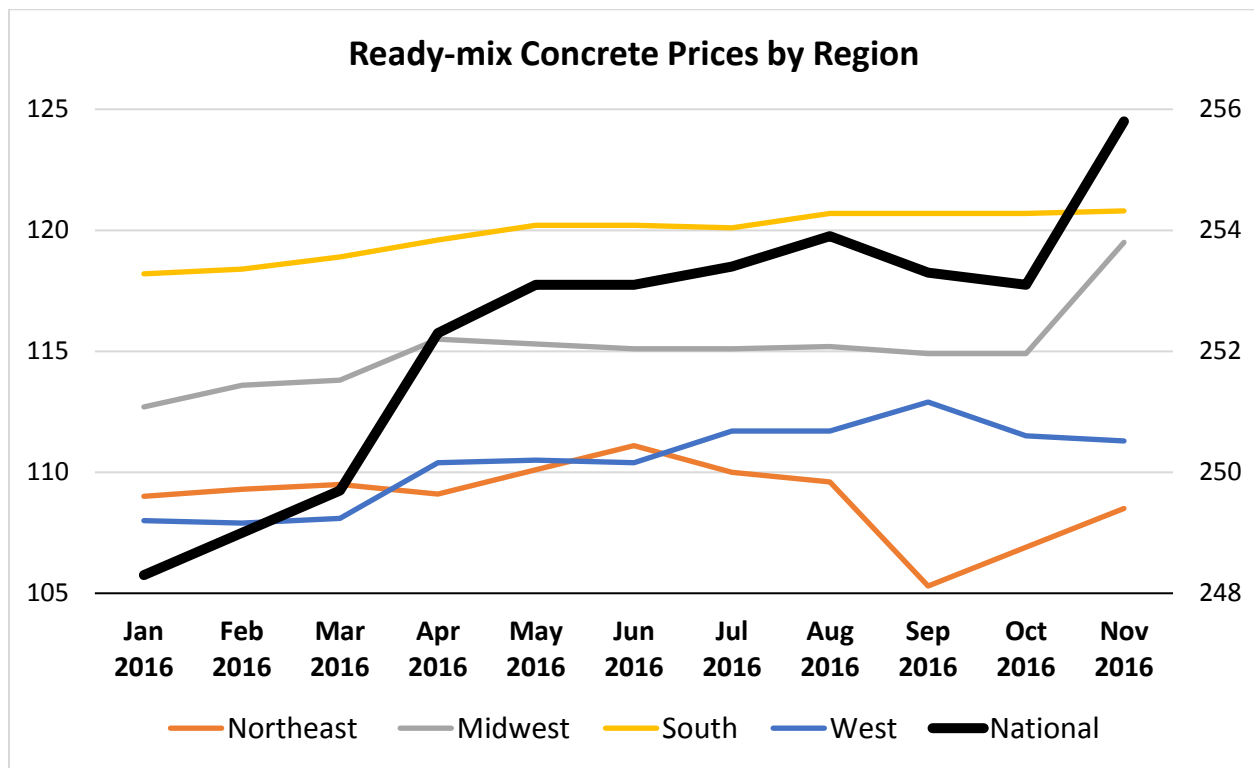
Copper

- Copper prices continue to hover around 5-year lows.
- International stockpiles remain high after growing over the course of the price decline.
- It appears as though copper prices have settled into a “new normal” for the foreseeable future.

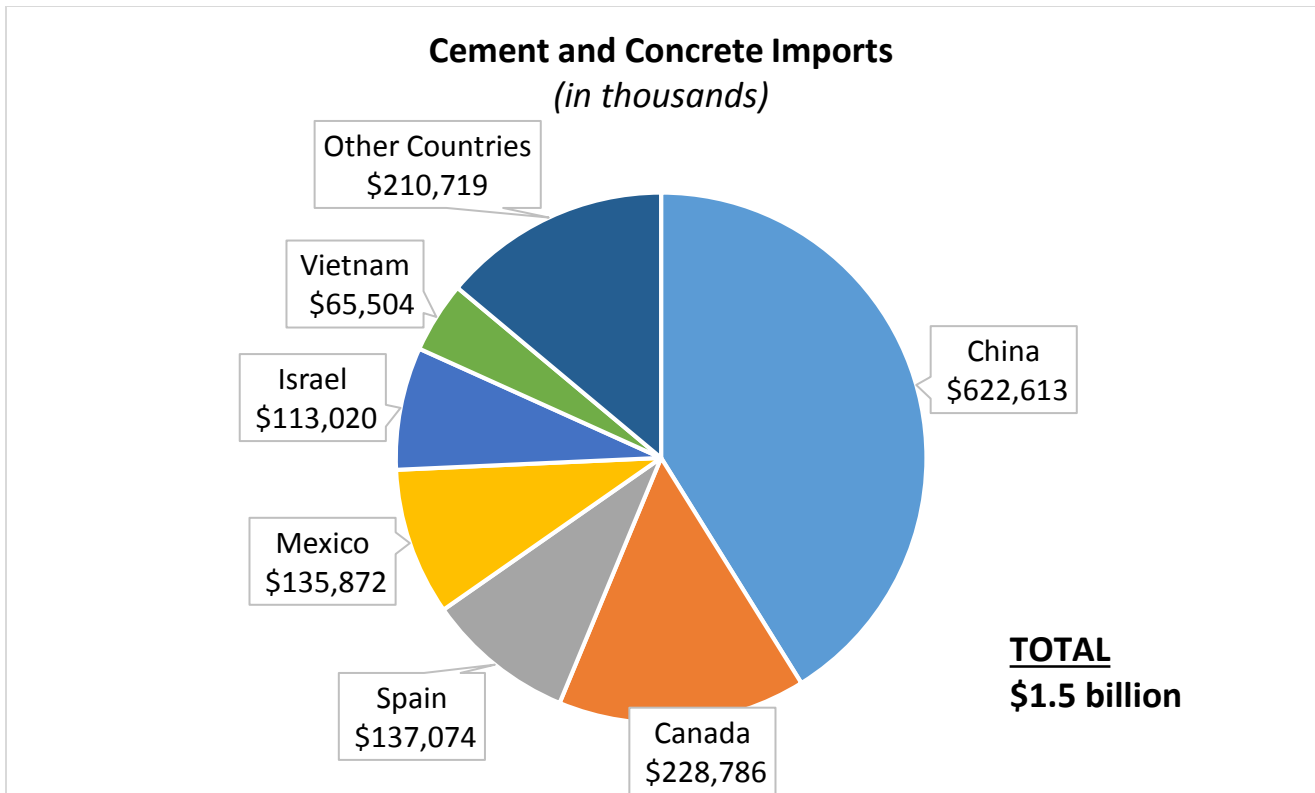
Full Details

Concrete

Ready-mix concrete is roughly 3% more expensive than it was one year ago, modestly outpacing inflation. While the 12-month trend is positive, prices have been relatively volatile since August 2016. Builders in the Midwest and Northeast, for example, experienced price increases of 4% in a two-month period ending in November 2016.

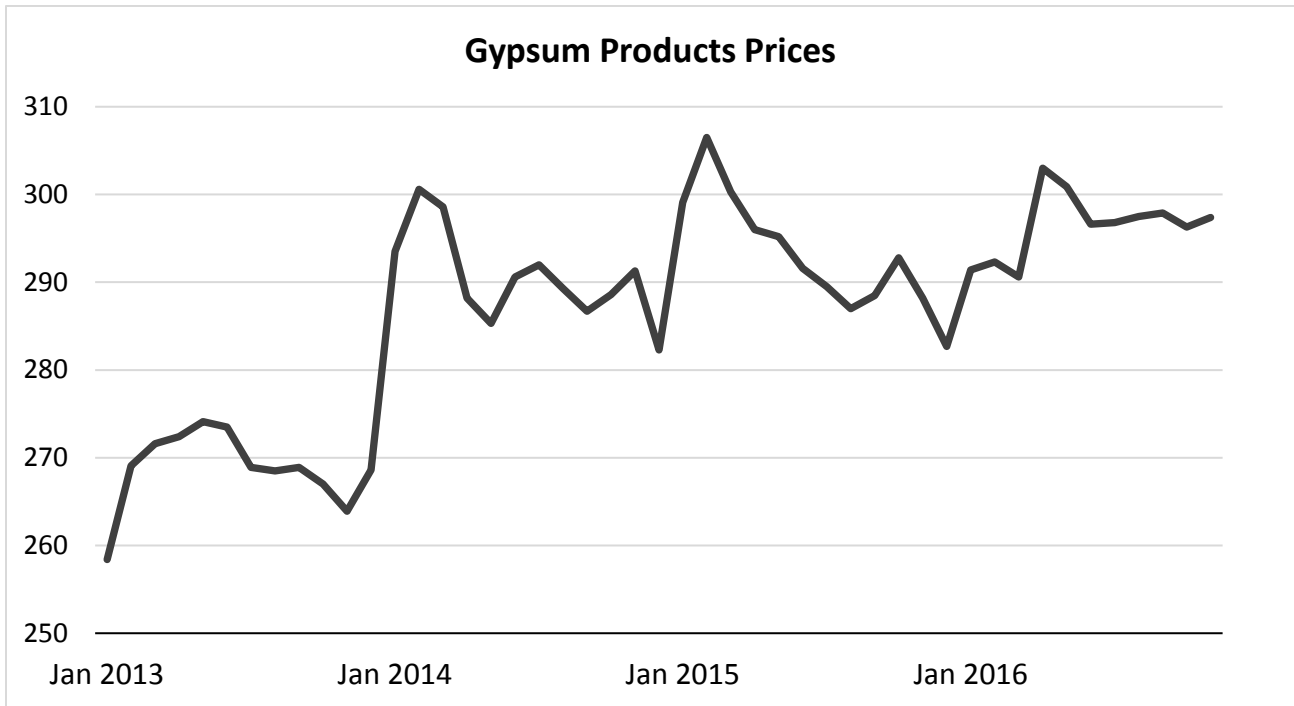


Prices of cement and concrete products will likely rise in early 2017 in preparation for possible tariffs imposed on imports from Mexico, Canada, and China. Any further rise will depend on congressional action, which appears unlikely as Speaker Ryan indicated in an interview on January 5th, 2017. The charts below give a quick breakdown of cement and concrete imports by country.



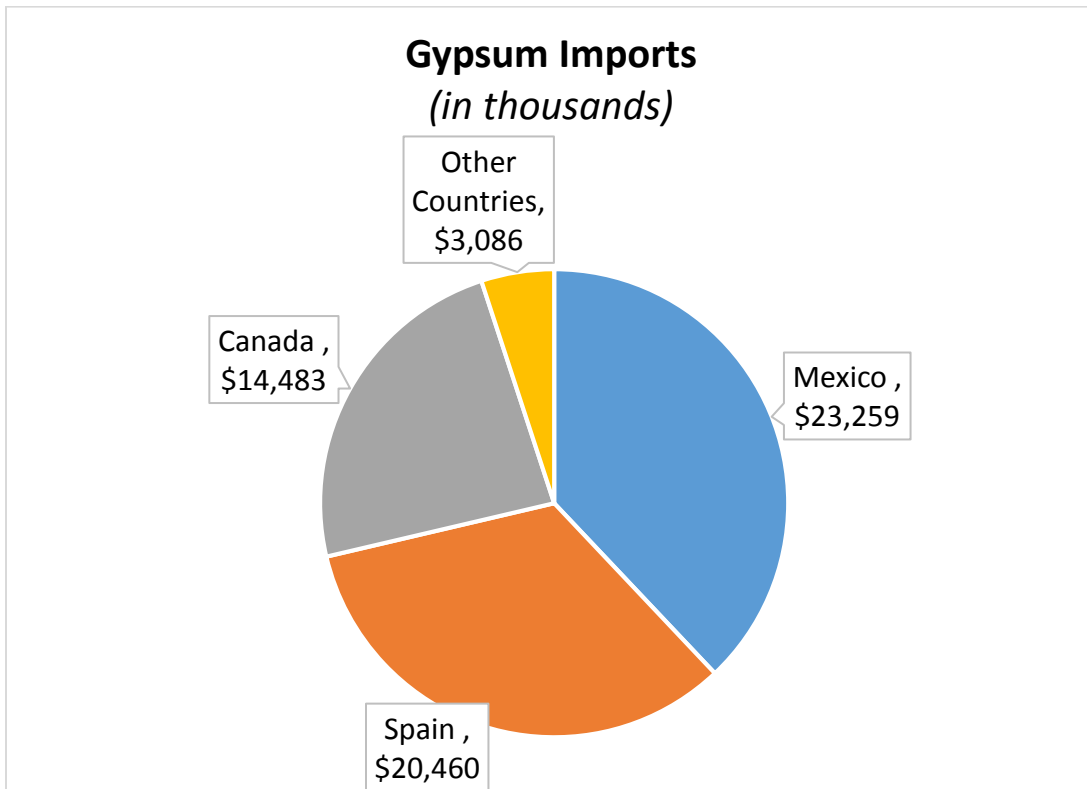
Gypsum

Although gypsum prices remain historically high, they have been stable under an apparently natural price ceiling for the last 6 months. We will be watching closely to see if producers attempt to push yet another January/February price increase through for the fourth consecutive year. If such a spike does not materialize, there is no reason to believe the product should become more expensive over the remainder of 2017.



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Gypsum is so ubiquitous in home construction that suppliers rarely face falling demand that forces them to compete on price. In other words, because no practical replacement exists for gypsum in the manufacture of drywall, the home construction and remodeling industry is especially vulnerable to price fluctuations in this vital component.

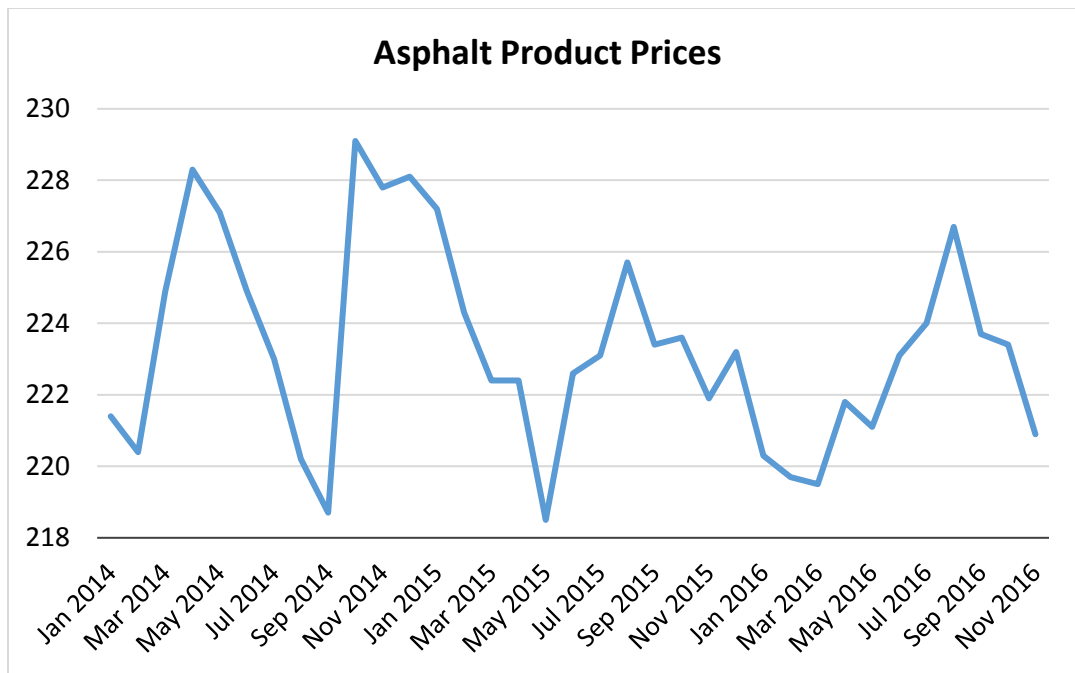


Rising costs for the finished product are also matched by increases in the cost of installation. Rising demand for new construction is draining the pool of available installers, making it more difficult for buyers of both the product as well as the service to bargain for better rates.

Asphalt and Asphalt Shingles

Asphalt and derivative products prices continue to display bizarre behavior. The price of oil—the primary component of asphalt—has risen by 20% since August’s midyear board meeting and by a staggering 86% over the last 12 months. And yet, prices paid for asphalt shingles have declined 2.5% over the same period.

Over the long term, however, asphalt and petroleum prices have moved in sync more often than not. As demand for asphalt products and the price of crude oil continue to climb, asphalt products will undoubtedly see a rebound in prices. Prices may increase even more if a large-scale, federal infrastructure investment program makes its way to President Trump’s desk in the next year (something he repeatedly called for on the campaign trail).

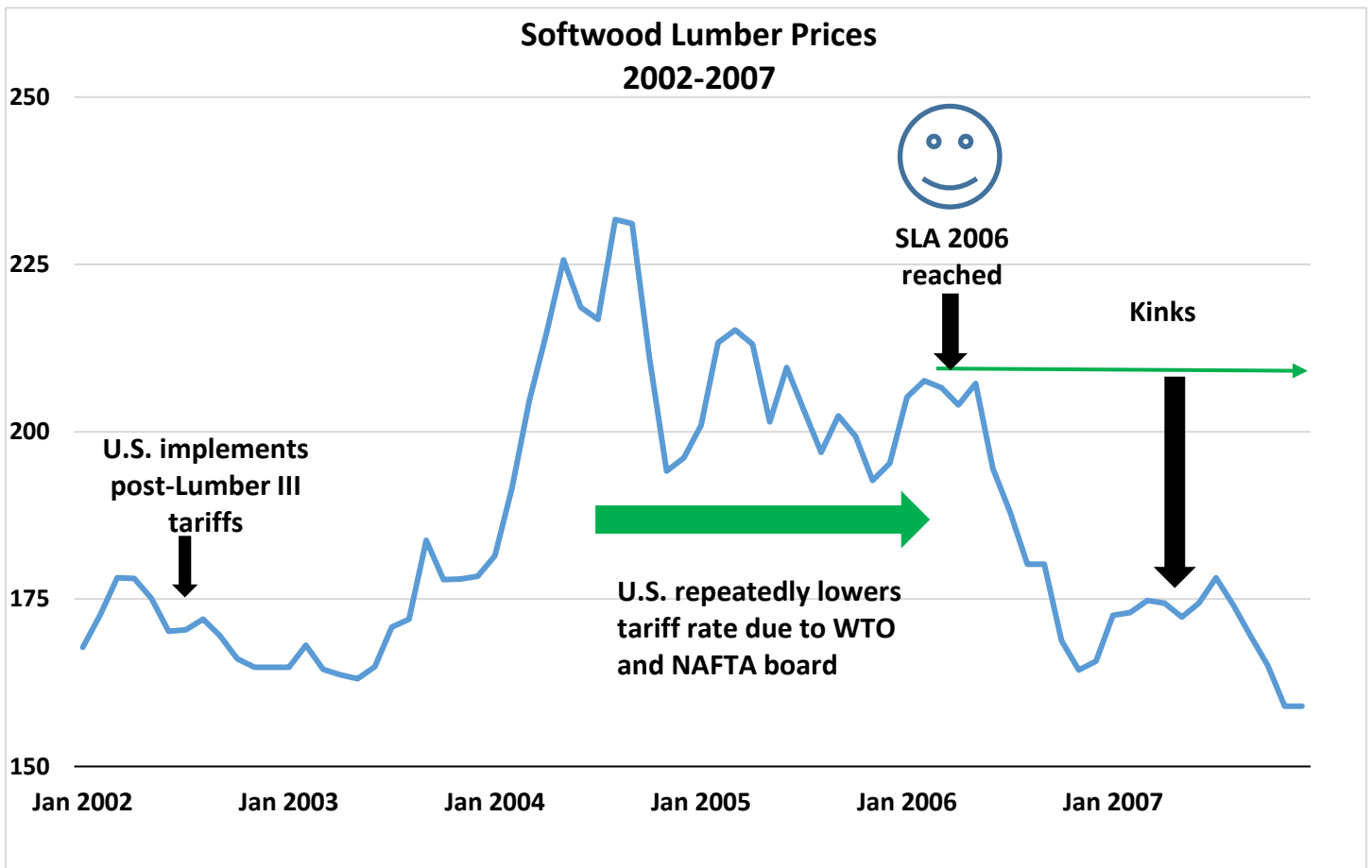


Softwood Lumber

Global and domestic demand effects

Global softwood lumber production and trade set a record high for the second consecutive year in 2016. In 2015, softwood lumber trade increased 10% to set the former record. This past year, that figure rose to nearly 14%. Strengthening demand is due in large part to record demand from China which, in the second and third quarters of 2016, imported the most softwood lumber on record. U.S. demand has been the other key driver, as the housing recovery has continued, albeit at a moderated pace.

The one-year litigation grace period contained in the Softwood Lumber Agreement of 2006 ended in October 2016 and court battles started in earnest shortly thereafter. Surprisingly, and contrary to most forecasts which had predicted a sharp price increase at the end of 2016, prices paid for softwood lumber have actually fallen 3.6% since August. If history is any guide, however, this trend should reverse course as trade litigation enters domestic and international arbitration. As seen below, duties, tariffs, and thus, prices tend to go up when an agreement expires. Conversely, they have fallen when agreements are reached.



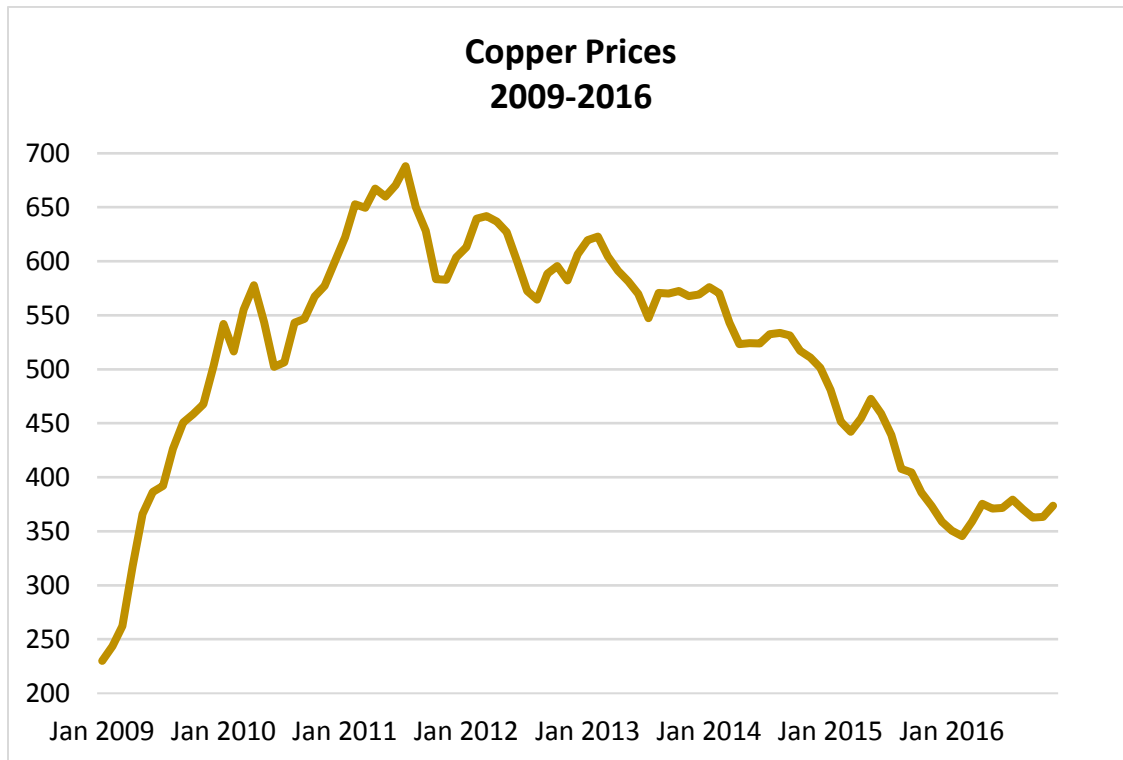
Indeed, the futures and ETF markets are predicting a similar response. The graph below shows the price trend of the world's largest timber ETF, up 10% since Donald Trump's presidential victory. These point to general sentiment that higher import prices are more likely than not.



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Copper

Copper—one of the most critical metals used by construction industries—remains available at historical low price levels. In spite of constant, strong demand, copper prices have hovered around 5-year lows throughout 2016.



Copper costs appear stable in the short-term, since stockpiles, particularly in Chile, remain historically elevated. The conclusion of this section from the August 2016 document still holds: “Copper may instead settle into a ‘new normal’ of lower pricing, could prevail for the foreseeable future.”