

SPECIAL Report



NATIONAL ROOFING CONTRACTORS ASSOCIATION
March 2004

STEEL PRICE INCREASES

Dear Member:

A combination of increased global demand and a weak U.S. dollar is putting unusual price pressures on a number of products used in roof system construction, most notably steel and aluminum. Because we expect to see increased demand for roofing work this year, we think it is prudent for all roofing contractors to be aware of the potential for material availability problems and extreme price volatility.

Steel Prices

Steel prices already have increased about 30 percent in the past few months, and some experts are predicting another 20 percent increase before the price settles. U.S. steel manufacturers have announced a \$30 per ton surcharge to cover the increased costs, and U.S. steel mills have announced a metal price increase of \$60 per ton to be effective April 1. We have heard reports in other construction trades of suppliers being forced to default on contracts because they were unable to provide materials at previously quoted prices.

These price increases are attributable to several factors. First, there is increased global demand for steel products. China, especially, is buying more prime steel and scrap steel. Second, the weak U.S. dollar makes U.S.-produced steel more attractive to foreign buyers. And third, steel companies are facing rapidly increasing costs, especially transportation and energy. The same kind of price pressures applies to aluminum and copper.

In addition, we have heard reports of new construction projects being delayed because of steel availability issues. Members should work closely with general contractors and/or roof consultants to be certain of construction scheduling.

Transportation Costs

Virtually all roofing material manufacturers and distributors are facing increased costs associated with transporting their materials, and many have announced new pricing programs to offset those increases. These increases are attributable to new regulations from the U.S. Department of Transportation, shortages of qualified drivers and higher energy costs.

Scheduling and confirming delivery times now become more important than ever as some suppliers will either charge for delay time, not guarantee specific delivery times or both.

Insurance Costs

As we have reported separately, general liability insurance costs are expected to increase again this year though not as dramatically as in the past few years. We have been told to expect premium increases in the neighborhood of 8 percent to 10 percent for general liability insurance and 10 percent to 15 percent for umbrella coverage. Workers' compensation insurance will increase as a rule, but the increases will be driven by individual states' requirements.

Some contractors, however, are likely to receive premium increases that are much more substantial. Contractors who are most vulnerable for significant increases are those who do a fair amount of residential construction and who operate in states where insurance is particularly troublesome, most notably California and New York.

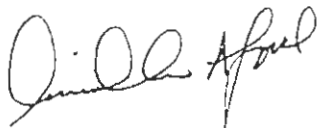
Recommendations

As always, the best strategy for a roofing contractor is to work with the very best suppliers and communicate with them as much as possible. Work with roofing material manufacturers and distributors to understand the likelihood and timing of price increases. Talk to them about delivery of materials and what changes to expect. Get in touch with your insurance agent or broker at the earliest opportunity to find out what your options will be when your policy renews.

In addition, you may want to consider including language in your contracts and proposals to protect you in the event of unforeseen or unusual price increases not contemplated in your bid or price. Samples of such language are included with this report.

And call us if you have questions or need more information.

Sincerely,

A handwritten signature in black ink, appearing to read "W. A. Good". The signature is fluid and cursive, with a long horizontal stroke at the end.

William A. Good, CAE
Executive Vice President

**POSSIBLE PROVISIONS TO INCLUDE IN
PROPOSALS TO ADDRESS VOLATILE
PRICING OF STEEL PRODUCTS**

The roofing industry is currently experiencing price volatility with steel products. Because of market fluctuations, the prices of these products are subject to sudden, significant changes and firm prices cannot be obtained from suppliers. If there is an increase in the price of steel products charged to the contractor subsequent to making this proposal/contract, the price set forth in this proposal/contract shall be increased to reflect the additional cost to the contractor. Contractor will submit written documentation of the increased charges.

Because of extreme volatility in steel prices, the price set forth in this proposal/contract applied only to orders for steel products that are ordered and paid for within _____ days of the date of this proposal/contract. All other orders shall be subject to change based upon changes in the price of steel products charged to [roofing contractor's firm].

[Roofing contractor's firm] shall perform the work described at the price quoted subject to the following adjustment: in the event that the price of any materials to be used in this work should increase _____ percent or greater from the price at which the material was available in the roofing contractor's locality at the time of submission of this proposal/contract, then the price quote shall be increased to reflect the additional cost of the material to the roofing contractor.

Because of the extreme price volatility regarding steel products, the price quoted in this proposal is valid only for orders placed and paid for within the next _____ days. If there is an increase in the price paid by the roofing contractor for steel products, the amount of this proposal/contract shall be similarly increased to reflect the increased costs to obtain materials.

[Roofing contractor's firm] shall perform the work described herein at the price quoted provided that in the event the price to the roofing contractor for any materials to be used in this work shall increase _____ percent or greater than the price relied upon by the roofing contractor in preparing and submitting the price quote, then the owner/general contractor agrees that the price quote shall be increased to this same extent.