

## MATERIAL AVAILABILITY AND ESCALATING PRICES LIKELY TO PLAGUE INDUSTRY THROUGH 2005

A combination of raw-material shortages and unusually severe weather has put roofing industry suppliers and contractors in a particularly precarious position with regard to availability and pricing of roofing materials. The availability of some materials is a growing concern, and prices of components used in the manufacture of roofing materials are likely to continue to escalate. The problem is attributable to a number of factors:

- Worldwide demand for construction materials is at a record high with no signs of slowing down. China, for example, will consume 50 percent of the world's production of cement this year and one-third of the world's steel. India is the second-largest consumer of cement. Both countries are expected to have robust economies next year.
- Oil prices are at record levels, and many construction materials—and virtually all roofing materials—are made from derivatives of crude oil. The supply of oil also has been affected by hurricanes in the Gulf of Mexico; the region accounts for 25 percent of U.S. oil production. In addition, the supply of asphalt has been tenuous for more than a year owing to political instability in Venezuela. And recently, oil production has been disputed in Nigeria, the largest crude oil producer in Africa.
- The hurricanes that have hit Florida and Alabama have spiked demand for all construction materials, including roofing products and, of course, plywood and oriented strand board (OSB).

### MDI Availability: A Special Problem

Of particular interest is the current shortage of diphenylmethane-diisocyanate (MDI), which is one of the principal ingredients used to manufacture polyisocyanurate roof insulation. MDI currently is manufactured by four multinational chemical companies and is derived from benzene. The price of benzene has roughly doubled since January 2004. The polyiso industry consumes about 360 million pounds of MDI annually, and it represents a significant portion of the cost of making the product.

MDI also is used, by the way, in a number of other products used in roofing. These include OSB, EPDM, and many coatings and adhesives.

Worldwide demand for MDI has increased by 18 percent thus far in 2004—well beyond what industry experts had expected. Demand is expected to remain strong during 2005, as well, and MDI is being produced at near-capacity levels. One additional MDI manufacturing plant is scheduled to open in 2006—in China—and another in North America in 2008. It is, therefore, likely that we will see continued availability issues for at least another two years.

(over)

## Other Price Pressures

Roofing contractors should expect to address price pressures from other sources, as well. For example, employer-sponsored health-insurance premiums rose by an average of 13 percent in 2004 across all industries after an 11 percent increase in 2003. And workers' compensation and general liability insurance have experienced double-digit increases during the past three years.

In addition, suppliers tell us shipping costs are increasing dramatically caused in part to new regulations from the Department of Transportation that effectively reduce the capacity of drivers by imposing limits on the number of hours they can work. That problem has been exacerbated by the need to get construction materials to parts of the country damaged by hurricanes.

## NRCA Recommendations

1. It is especially important to work closely with your suppliers to get the best and most current information about pricing and availability that can then be reflected in your proposals, purchase orders and contracts. Delivery times for many products now exceed one month.
2. Whenever possible, place your orders early. Obviously, planning is crucial—especially on large, fixed-price contracts.
3. Keep your customers well-informed of this situation, and discuss material availability, pricing and timing of orders with them. In some cases, it may make sense to take delivery earlier than usual to ensure material availability and obtain firm pricing. Include a contract provision that reflects how you have agreed to handle the problem.
4. Consider including contract provisions intended to reflect market conditions. That way, you will not be caught in a situation where you cannot perform the contract when required by the general contractor or owner because either the necessary materials are not available or, if a job has been delayed, you no longer can obtain the materials at the prices originally contemplated. No damage for delay clauses can be particularly problematic in a market of volatile material costs.

NRCA also can help you find more background about all the information contained in this report. In addition, the National Roofing Legal Resource Center (NRLRC) has sample contract provisions available that may help; they are available by contacting Alison LaValley, NRLRC's executive director, at [alavalley@nrca.net](mailto:alavalley@nrca.net) or by calling NRCA InfoExpress at (866) 275-6722. As always, please let NRCA know how it can help.