



Special Report

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RAW MATERIAL PRICE INCREASES FACING THE ROOFING INDUSTRY

The U.S. roofing industry is unusually dependent on a number of raw materials that are experiencing dramatic and unprecedented price increases.

Most notable among these, of course, is crude oil. Asphalt, a crude oil derivative, is commonly used in a number of roofing materials, including built-up roof membranes, polymer-modified bitumen membranes and, of course, asphalt shingles. The price of asphalt is directly related to the price of crude oil.

In addition, a host of roofing materials use petrochemicals as key ingredients. These include polymers used in the manufacture of several single-ply membranes, as well as a key ingredient in the manufacture of board roof insulation. There is a direct and immediate effect on roofing material prices when oil prices increase.

The roofing industry also uses steel in a number of ways. There are metal panel roofs, of course, and metal shingles; steel is also used in any number of accessories for more traditional roof systems. These include such things as gutters, copings and counterflashings to name just a few. Worldwide demand for steel—especially in China and India—has contributed significantly to price pressures on steel.

Yet another factor facing the roofing industry is the difficulty in finding regular, reliable transportation. Roofing material manufacturing plants are located throughout the U.S. but cannot possibly serve every market without significant transportation costs. Some material is shipped by rail; most is shipped by over-the-road carriers. The trucking industry, of course, is affected directly by the cost of gasoline and diesel fuel; contributing to the problem is a shortage of truck drivers and a growing number of trucking firms that have been forced to close their doors.

All these factors make it extremely difficult for roofing contractors to bid significant roof projects with confidence—especially those that won't begin in the near future. In some markets, roofing contractors are literally facing the prospect of *daily* price increases for some materials.

NRCA has met with a number of roofing material manufacturers and other industry stakeholders. We are convinced the price increases are real, necessary and not likely to abate any time in the foreseeable future.

NRCA has advised its members to work as closely as possible with their suppliers *and* their customers. Our advice includes getting firm price commitments in writing whenever possible; letting their customers know, to the extent they can, what type of price increases to expect; and, whenever possible, to include price escalation provisions in their contracts.

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NATIONAL ROOFING CONTRACTORS ASSOCIATION

NRCA also believes escalation provisions in contracts serve the best interests of roofing contractors and their customers. Done properly, escalation clauses allow for a pass-through of price increases experienced by contractors, enabling contractors to maintain the level of profitability anticipated with an original bid.

Absent escalation clauses, roofing contractors must attempt to anticipate material prices at the time jobs commence and build those prices into bids they provide. It is unlikely a contractor will be able to predict those prices correctly. If a contractor overestimates them, the price of the job becomes inflated. If he or she underestimates them, the contractor can be penalized for causes beyond his or her control.

Another approach to handle the problem that is fair to owners and contractors is through the use of an allowance for certain materials. An owner and contractor would agree in their contract to an allowance to purchase the materials in question, and the amount of the stipulated allowance would be included in the contract. If the materials are obtained for an amount lower than the allowance, the owner receives a credit and the amount of the contract is reduced; if the cost of the materials exceeds the allowance, the contract amount is increased to the extent that the material cost exceeds the allowance.

It is likely an owner can always find a contractor who will offer a firm price without escalation provisions. However, if that contractor subsequently faces dramatic price increases, he or she may be tempted to find cost savings to avoid a financial disaster. And unscrupulous contractors can always find ways to cut corners. NRCA believes it is far better to work with professional contractors who are willing to share as much information as possible and work closely with their customers to ensure projects are completed in a satisfactory manner.

There is a good deal of additional information available about prices affecting building materials generally and the roofing industry in particular. Sources include the American Petroleum Institute (www.api.org); American Iron and Steel Institute (www.steel.org) and American Trucking Associations (www.gotrucking.com).

More information also is available by contacting the National Roofing Legal Resource Center at (847) 299-9092.