



# INDUSTRY UPDATE

**National**   
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# HARSH REALITY COMBINED WITH HOPE

By Tom Nelson, Chairman, President & CEO



**A FEW WEEKS AGO,** I ran across a quote from Admiral James Stockdale, who was a Vietnam prisoner of war for 7½ years. It seems to apply to those of us in the building materials industry:

*“You must embrace reality and be brutally honest about the harsh facts of your situation. At the same time, you must maintain hope.”*

Our experience over the last five years is nothing like Admiral Stockdale’s, but it seems as though we have been held prisoner by the malaise of the general economy and the severe downturn of the housing sector.

The reality is 14 million Americans do not have jobs and millions of others are underemployed. The foreclosure problem still exists, and home buyers are having difficulty finding adequate financing. There is little confidence in any of our institutions.

Despite these facts, I believe we are bouncing along the bottom of the housing market. Delinquencies, which ultimately feed foreclosures, seem to have turned with a 12 percent year-over-year reduction in the rate of those behind in their payments by 90 days. U.S. home prices were higher in August for the fifth straight month, according to the Case-Shiller index.

Twice a year, the real estate firm, Trulia, conducts an online survey to gauge Americans’ view of homeownership. Despite all the negative news, 70 percent of Americans still say they want to own a home.

Of those surveyed, 80 percent who now own a home want to buy another house in the future. Sixty-nine percent of the Baby Boomers included in the survey say they are planning to buy another home. In addition, 59 percent of renters aspire to own their own home.

In previous columns, I’ve written about the Echo Boomers, who represent the generation born between 1981 and 2000. This generation (80 million strong) is larger than the Baby Boomers and is now at the age to start buying homes. They hold the largest potential for the housing industry.

Last month, I attended the fall meeting of the Policy Advisory Board (PAB) for the Harvard Joint Center for Housing Studies. Although not jubilant, the mood of industry representatives was more upbeat than it has been in years.

This “guarded optimism” is pegged to increasing demand for properties to rent and stabilizing home prices in some areas. Both are driving would-be homebuyers to begin looking.

A chain reaction seems to be occurring with investors buying foreclosed homes and placing them on the rental market. Newly formed households are moving into these homes, boosting rental fees. The “rent” verses “own” calculation now favors home ownership in many markets. That, in turn, gives home prices a boost. Some at the PAB meeting believe we are in the very early stages of a housing recovery. However, a sustained recovery may be several years away, not several months.

Eric Belsky, managing director for the Harvard Joint Center, indicated we would not need stunning job growth to begin seeing a housing recovery given the extremely low level of new single family homes for sale. In September there was a 6.6-month supply, representing only 163,000 units, the lowest on record. Maury Harris, a well-regarded chief economist for UBS, raised eyebrows at the meeting when he forecasted 800,000 housing starts in 2012 (900,000 by Q4 2012). Most PAB members have housing starts ranging between 600,000 and 700,000 units. The 700,000 forecast would be 20 percent higher than the current rate.

The markets hardest hit by the housing recession – South Florida, California and Arizona – have seen the inventory of homes available for sale drop by 40 to 50 percent. This likely will provide a positive lift for home prices in those states.

We still are slogging our way through the worst housing downturn in 60 years. As Admiral Stockdale reminded us, we are still facing the harsh realities and consequences of this unprecedented five-year housing downturn. There are, however, some strong reasons for hope. That’s something we’ve been anticipating for a long time.

In closing, I want to wish all of you a happy holiday season and a hearty wish for better times in 2012. As the late economist Rudi Dornbusch once said: “In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could.” May 2012 be the year for improvement to happen faster.

Finally, I hope to see you during the AWCI’s Convention and INTEX Expo in Charlotte, April 15-19. It is exciting for us to have the annual convention and show in our hometown. Charlotte is a great place to live, and I think you will agree – a great place to visit.

# CAUTIOUS BUT HOPEFUL

By Kurt Withrock, Director of Demand Planning and Management



## GYPSUM ASSOCIATION SHIPMENT DATA THROUGH 3RD QUARTER 2011

The Gypsum Association's Q3 2011 wallboard shipment data became available in mid-October. As many of you are aware, we now receive this information on a quarterly basis broken down by U.S. Census Region (no longer monthly and no longer by state). At this point, we'll applaud anything positive. The encouraging news is that Q3 2011 was 3 percent stronger than the previous quarter and also 3 percent stronger than Q3 2010. Chart A shows data for the last seven quarters.

Last year at this time we expected winter would most probably be difficult and shipments would likely start out at a slower pace than the 2010 total of 17.1 billion square feet (BSF). We also suggested housing starts would show some modest increase year over year in

2011, which would result in some incremental increase in wallboard demand. The first two parts were correct: we did start out marginally slower than the 2010 total and housing starts are projected to be marginally higher this year, with most 2011 estimates coming in around 590,000 starts vs. 585,000 for 2010.

What hasn't happened is an increase in wallboard shipments, but the Q3 numbers are a step in the right direction. We now project 2011 U.S. producers' shipments will finish between 16.8 and 17.1 BSF. We project Q4 shipments to be in line with Q3 or slightly higher.

## IS IT REALLY MORE OF THE SAME? SOME POSITIVE DATA POINTS

**Housing Starts** – The latest release from the U.S. Census Bureau showed September housing starts surging to an annualized rate of 658,000. That was the highest pace for starts since April 2010 and housing completions are also showing some upward movement. All four Census Regions gained month over month. We track a number of sources and the general consensus for 2012 puts housing starts in the 685,000-700,000 range with outliers both on the upside as well as the downside. That would equate to a 15–20 percent increase over 2011. As Tom Nelson mentioned in his

column, it appears we've hit bottom and we have some positive signs that give us hope going forward.

**NAHB Housing Market Index** – The October 2011 rose 4 points to stand at 18. Although still at a low level, this is the largest one-month gain in builder confidence since the April 2010 reading that was spurred on by the home buyer tax credit.

## New Home Sales and Inventory –

September 2011 data from the Census Bureau had inventory at just 163,000 units, 21 percent lower than one year ago and the lowest on record. Sales of new homes have consistently been around an annual rate of 300,000 for the better part of 18 months, equating to a workable supply of six and a half months.

## Housing Affordability Index –

This index gauges the ability of consumers to buy a home. A reading of 100 means a family earning the national median income can qualify

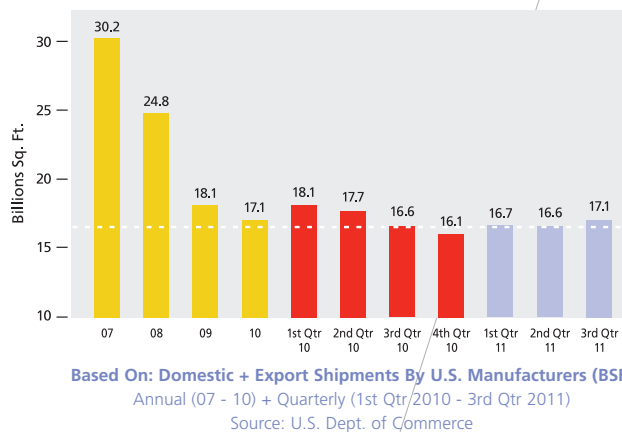
for a mortgage on a typical median-priced existing single-family home assuming a 20 percent down payment. The August index was at 183.7 and has been at this level or above for most of the last 12 months. In fact, the index has steadily climbed each of the last five years from a low of 106, the average in 2006 when housing starts topped 1.8 million!

**Mortgage Rates** – At the time of this writing, the national average on a 30-year fixed-rate mortgage was 4.1 percent. The average rate in 2006 was 6.3 percent.

## SHOULD WE VENTURE A FORECAST?

Obviously there are many unknowns as we approach 2012. Yes, we still have obstacles to overcome: stagnant job growth, potential for a new wave of foreclosures, tighter financing requirements, and political stalemate in Washington. Eventually we'll have a breakthrough and get back on track. Our instincts tell us it may be just around the corner. So while we expect 2012 will be basically flat, we do project the first year-over-year increase in shipment levels since 2005 will occur. Our forecast at this time is an increase in the range of 5-10 percent.

CHART A: U.S. PRODUCERS INDUSTRY SHIPMENTS  
(Annualized Pace)





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