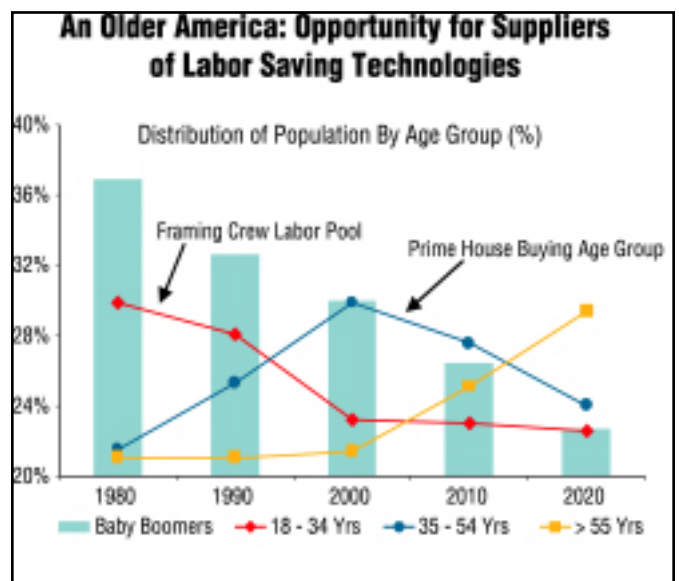


Economic Environment

"A Golden Opportunity for Component Manufacturers" by Al Schuler

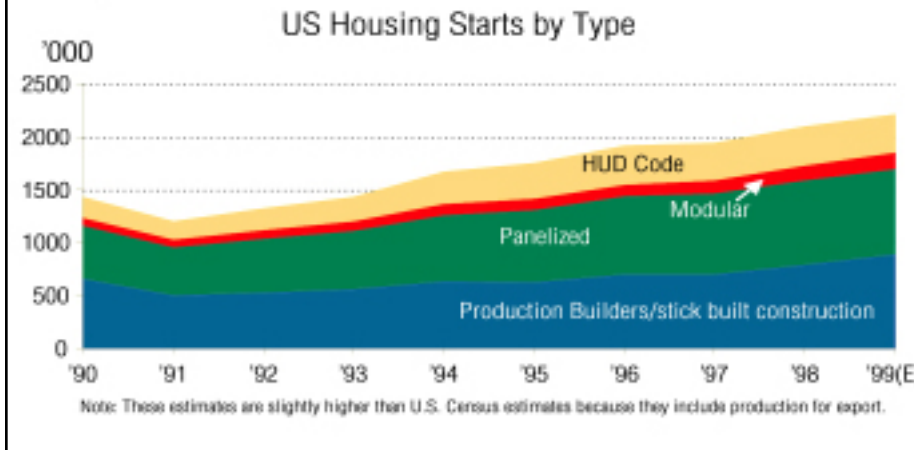
Demographic shifts, as depicted in Figure 1 below, will result in long term or structural changes to the construction labor pool. In essence, we will see fewer young people, and this will force the construction industry to escalate its search for and adoption of labor saving materials and construction techniques. In the short term (next one to two years), low unemployment rates/tight labor markets, rising fiber costs and higher interest rates will reinforce these trends. The beneficiaries will be suppliers of building materials and construction techniques that help the industry to reduce labor costs.

In this installment of "Economic Environment," we will focus on changing demographics and their implications for suppliers of labor saving technologies. In future issues, we will look at equally important implications for housing demand as the prime house buying age group or "cohort" (35 - 54 year olds) shrinks when we move into the next millennium. The largest and most influential demographic force in America during the past two decades has been the Baby Boomers (born between 1946 and 1967). The housing market has been great the past few years and should remain so for awhile longer due in large part to the fact that baby boomers are now in the prime house-buying age cohort. (Note that interest rates and the economy are also factors in the health of the housing market.) Due to the sheer size of the baby boomer population, they have a major impact on the economy whenever they move into a new age cohort. So, what happens when the baby boomers start retiring? It's not all bad news for housing, but we'll save that topic for another time.



To get a preview of how an aging population can affect the building construction industry, we can look to Japan. Due in part to a restrictive immigration policy, Japan's demographic profile is similar to the State of Florida. The Japanese housing industry has been adopting more efficient "Western style" platform frame construction techniques, in lieu of traditional post and beam construction, due in large part to a critical shortage of construction labor. In addition, factory built housing is becoming more popular and we are seeing a growing use of factory built components as noted by Tom Rogers in his article, ["Japanese Truss Market—Fertile Ground Ready for Growth."](#) (WOODWORDS, December 1999).

Manufactured homes and use of prefab components gain share from “stick-built” construction.



Demographics will also play an important role in the U.S. because the population is aging. Smaller numbers in the generations that followed the Baby Boomers, mean fewer young people for framing crews and the construction labor pool in general. Furthermore, as interest rates trend upward over the next 12-18 months (in response to a reinvigorated world economy), inventory/ carrying charges will increase, forcing builders to reduce site construction

time even more. In addition to higher construction labor costs, shortages of young people could result in a reduction in the quality of framing crews, precipitating the need for more “goof proof” products such as those your industry manufactures and distributes—floor, wall and roof components—which include floor trusses, I-joists, wall panels, corners and tees, stairs, truss headers, LVL, glulam, roof trusses, etc. Figure 2 on page 41 shows how builders are responding to the demographic trends by shifting away from labor intensive “site built”/production housing to more automated building techniques.

These same trends are driving demand for labor-saving engineered wood products as described above. The bulk of “production/site built” housing is in the South where labor costs are generally lower than many other U.S. regions. However, as labor construction costs increase, the South will increasingly adopt labor saving technologies such as roof and floor trusses and other engineered products. This trend takes on added significance because the South accounts for almost 50% of U.S. housing demand.

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