

### Editor's Message



#### Commodity Price Shifts: Going Away or Here to Stay? by Daniel Holland

*The main focus of this year's WTCA Legislative Conference was talking to our Congresspeople about raw material cost increases.*

As I write this, the WTCA Legislative Conference and Board meetings are taking place in Washington, D.C. Many of our industry's key people are here to talk with our government representatives about our raw material cost increases, which are partly attributable to governmental intervention in the market. We are all experiencing extreme uncertainty about how best to control our costs as we purchase the raw materials we use. We are also making our views known on other topics that affect our businesses such as tax relief, trucking regulations, OSHA regulations and labor rules.

Given the current market conditions, I will look at this topic of commodity inflation from a more broad perspective and how one might deal with the effects on business. First, it is painfully obvious that our costs for the raw materials that we use are changing in ways that we did not expect over a year ago. Given this, prudence suggests we review our business models to see what is still working and what, if anything, needs to be fixed if we are going to maintain reasonable profitability.

Next, if we determine that change is warranted, how should we change our business models? This decision depends on what we believe about the future of our raw material costs. If raw material costs are going to come back down in the near future, we may prove that these past increased costs have very little impact on our profitability and we can stay the course we have previously set. If raw material costs are going to remain at current levels for an extended period of time, these increased costs have a very big impact on our profitability, and we most likely need to address this immediately in order to attain our desired profit margin when our bids are accepted. In my opinion, the bottom line business model changes will depend on what one believes about the future of raw material prices.

I personally believe that we are seeing a fundamental and possibly a permanent change in commodities and their cost levels. The primary fact that leads me to this conclusion is the sustained weakness in the U.S. dollar relative to other currencies. International trade law and world events are affecting particular commodities acutely, but all commodity costs in the U.S. are increasing as material is diverted away from U.S. customers to those in recovering and growing markets like Japan, Europe and China. This is a classic economics 101 supply-demand problem playing out in every primary raw material that we purchase.

What then can one do? Foremost, we must accept the reality that lumber, concrete, steel and oil will cost at least as much and maybe more in the next 6 to 12 months. The business model that we have used in the past, which depends on commodity costs falling as much as they rise in cycles that are fairly predictable, is in my opinion a business model of the past. The temptation may be to NOT change as we are so accustomed to seeing the trends of the past as we believe such trends to be the norm. Let me suggest that the norm may become what we are seeing today.

If I am correct, the great news for many is that U.S. industries that produce basic commodities will continue to enjoy profit margins and volumes that they haven't seen in a long time.

---

[SBC HOME PAGE](#)

Copyright © 2004 by Truss Publications, Inc. All rights reserved. For permission to reprint materials from SBC Magazine, call 608/310-6706 or email [editor@sbcmag.info](mailto:editor@sbcmag.info).

The mission of Structural Building Components Magazine (SBC) is to increase the knowledge of and to promote the common interests of those engaged in manufacturing and distributing of structural building components to ensure growth and continuity, and to be the information conduit by staying abreast of leading-edge issues. SBC will take a leadership role on behalf of the component industry in disseminating technical and marketplace information, and will maintain advisory committees consisting of the most knowledgeable professionals in the industry. The opinions expressed in SBC are those of the authors and those quoted solely, and are not necessarily the opinions of any of the affiliated associations (SBCC, WTCA, SCDA & STCA).