

# STRUCTURAL BUILDING COMPONENTS MAGAZINE

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## Economic Environment

### How to Read the Tea Leaves for Profit & Peace of Mind by Al Schuler

*Do you know where to find free and reliable economic information on the Internet? Discover the best places to start your search here.*

In recent issues of SBC ([June/July](#) and [August](#)), I discussed volatility in commodities, what causes it and how to deal with it. Having economic benchmarks is the best single strategy to protect yourself from adverse effects of price volatility, and it is simply good common sense for anyone in business.

In this issue, we discuss readily available Internet sources that provide market intelligence, where to find them and how to use them in your business. Hopefully, these sources will provide you with market intelligence that will support loan applications, operating decisions, capital expenditures and investments in new technology. The list is not meant to be comprehensive, rather a list of sources that I have relied on throughout my professional career. The list includes both public and private sources in the U.S. and Canada. We will focus on free sites, but will also mention some of the more popular “fee based” services. Mention of any names does not constitute an endorsement, however.

For free information, the U.S. government is probably the best source for market statistics, while some financial institutions often provide forecasts and analysis. Trade journals provide excellent information on mill news such as additions, closures, technology and equipment upgrades, and personnel changes. There are trade journals for each sector, including lumber, panels and secondary industries like furniture, flooring, pallets, and structural building components (SBC Magazine). In addition, there are the associations that represent various sectors of the economy. Some examples include: National Association of Homebuilders (NAHB) for residential construction; National Association of Realtors (NAR) for the resale housing market; the Conference Board for consumer confidence; and the Institute for Supply Management (ISM) for their excellent “Report on Business,” which gives us a feel for current and near term business conditions focusing on the manufacturing sector.

## THE ECONOMY

The state of the economy is important to building component demand for how it affects construction investment decisions, both residential and non-residential. Investment decisions hinge on many considerations, but having confidence in the future is key, and being informed about key parameters instills confidence. The best free, one-stop shopping source for historical data on the economy that I have found is Economagic.com’s “Economic Time Series Page” ([see Table 1](#)). There is a wealth of information including a “most requested series” that includes

charts, graphs and links to original sources for GDP, population, consumption expenditures, unemployment rate, exchange rates, Federal Funds rate, oil prices and CPI. The site also includes regional economic data for each state down to the county level, many U.S. government sites including Federal Reserve, Census, BLS, IRS, Commerce, Labor and links to international data for Australia, Japan and Europe.

For the best snapshot of how the economy is performing, use the Bureau of Economic Analysis' (BEA) quarterly report on GDP which shows how each sector is performing at the national level ([www.bea.doc.gov/bea/newsrel/gdpnewsrelease.htm](http://www.bea.doc.gov/bea/newsrel/gdpnewsrelease.htm)). BEA's home site ([www.bea.doc.gov/](http://www.bea.doc.gov/)) also provides links to other economic information at the national, regional, international and industry level. For consumer confidence, try the Conference Board's monthly report that details various aspects of consumer confidence gleaned from a survey of 5,000 U.S. households ([www.conference-board.org/](http://www.conference-board.org/)). This same site provides a link to another survey report on "leading Economic Indicators" that forecasts future conditions. There is another "confidence survey," the Michigan survey of Consumer Sentiment, that includes a current and expectations segment ([www.sca.isr.umich.edu](http://www.sca.isr.umich.edu)). For business spending and confidence, try the Institute for Supply Management (ISM), ([www.ism.ws/ISMReport/index.cfm](http://www.ism.ws/ISMReport/index.cfm)). The home page provides links to the frequently quoted "Report on Business," which provides national coverage of the manufacturing sector, but there are also links to the non-manufacturing sector, and regional reports for nine regions. For business confidence, try Grant Thornton's semi-annual survey of 300 business owners and senior executives ([www.grantthornton.com/content/10328.asp](http://www.grantthornton.com/content/10328.asp)). Another valuable source of information is the Federal Reserve's monthly Industrial Capacity and Utilization report ([www.federalreserve.gov/releases/G17/Current/default.htm](http://www.federalreserve.gov/releases/G17/Current/default.htm)).

## HOUSING

Housing is important to component demand because 75 percent of wood products and an increasing share of steel and concrete are consumed by some form of housing activity including new home sales, starts, renovations and repairs. In addition, the torrid housing market during the past four years has supported consumer spending (via refinancing) through a recession (2001) and is a major reason the economy is doing so well today. The best site for monthly housing starts is ([www.census.gov/newresconst](http://www.census.gov/newresconst)). There are many excellent sources for analysis and forecasts of housing market trends. NAHB is a good example. A good site for general information on building construction technology trends, business and market news, and hot issues like mold is Hanley Wood's Builderonline ([www.builderonline.com](http://www.builderonline.com)).

For information on new home sales sold and units for sale, the Bureau of Census, Construction Report Series C-25 ([www.census.gov/const/www/newressalesindex.html](http://www.census.gov/const/www/newressalesindex.html)) is the best source, while their monthly "C-50" Report is a good source for residential repairs and alterations ([www.census.gov/const/www/c50index.html](http://www.census.gov/const/www/c50index.html)). Another excellent source for repairs and alterations data is the Harvard Joint Center for Housing Research ([www.jchs.harvard.edu/media/rai/index.html](http://www.jchs.harvard.edu/media/rai/index.html)). The Harvard site home page also provides a good source for other aspects of housing such as demographics, immigration and housing forecasts. For information on the resale market, including some good economic analysis, try NAR's site ([www.realtor.org/Research.nsf/files/EHS.pdf/\\$FILE/EHS.pdf](http://www.realtor.org/Research.nsf/files/EHS.pdf/$FILE/EHS.pdf)) which produces a monthly report that is issued following the release of the

data.

## NON-RESIDENTIAL CONSTRUCTION MARKETS

Non-residential construction includes both building and non-building construction such as bridges, highways, power transmission and sewage/waste disposal. Some building segments, such as hotels, motels, offices and stores—35 percent of all buildings—are heavy wood users. Other segments, including commercial, health care and educational are heavy users of concrete and steel. A good source for construction spending on non-residential markets is U.S. Commerce's monthly "Value of Construction Put in Place," Report C-30 ([www.census.gov/const/C30/release.pdf](http://www.census.gov/const/C30/release.pdf)). For forecasts of market trends in this area, a good fee-based source is F.W. Dodge ([www.fwdodge.com/Analytics/MarketTrends](http://www.fwdodge.com/Analytics/MarketTrends)).

## JOBS & WAGES

Demand for building components hinges on construction activity where affordability is the main economic driver. The demand for shelter is driven by demographic factors, but the decision to purchase shelter hinges on whether one can make the monthly payments. That depends on mortgage rates, house prices and your ability to pay including confidence in your future earnings stream. For employment, the most widely followed report is the monthly "Employment Situation" report produced by the Bureau of Labor Statistics ([www.bls.gov/news.release/empsit.toc.htm](http://www.bls.gov/news.release/empsit.toc.htm)). Business hiring trends can be found in the ISM report mentioned above and the Thornton survey.

## CONSUMER SPENDING & INFLATION

Consumer spending, two-thirds of the economy, is a major determinant of building component demand, through its impact on spending for repair and remodeling, new home sales and starts. For consumer spending, there are several good indicators: monthly retail sales ([www.census.gov/svsd/www/fullpub.html](http://www.census.gov/svsd/www/fullpub.html)); and the quarterly GDP report mentioned above. For retail inflation, use the monthly CPI, and for wholesale, use PPI ([www.bls.gov/news.release/ppi.toc.htm](http://www.bls.gov/news.release/ppi.toc.htm)). The Federal Reserve is the best source for historical information on interest rates while various financial institutions offer forecasts and analysis. Some good free sites are: Bank of Montreal ([www.bmo.com/economic/index.html](http://www.bmo.com/economic/index.html)); Bank of Nova Scotia ([www.scotiabank.com](http://www.scotiabank.com)); Bank of America ([www.bankofamerica.com](http://www.bankofamerica.com)); and TD Bank ([www.td.com/economics/](http://www.td.com/economics/)). I have found that the Canadian banks offer a wider range of free economic information than do their U.S. counterparts.

## INDUSTRY NEWS

We need to keep abreast of mergers and acquisitions, plant closures, additions/renovations and investment in new technology because it is useful in assessing demand/supply conditions and also to assess what competitors are doing. Trade journals are a relatively inexpensive source for this information and they exist in every sector, ranging from:

- Structural panels and engineered wood products: APA's [www.apawood.org](http://www.apawood.org); Panelworld's [www.panelworldmag.com](http://www.panelworldmag.com); and Wood Based Panels International [www.wbpionline.com](http://www.wbpionline.com)
- Lumber and panels prices: Random Length's [www.randomlengths.com](http://www.randomlengths.com); Madison's [www.madisonsreport.com](http://www.madisonsreport.com); and Crow's [www.crows.com](http://www.crows.com)
- Structural components: SBC Magazine ([www.sbcmag.info](http://www.sbcmag.info))
- Timber and sawmilling: ([www.timberprocessing.com/vserver/hb/display.cfm?MagazineKey=5](http://www.timberprocessing.com/vserver/hb/display.cfm?MagazineKey=5))

In addition, there are a number of forest product associations that provide market statistics and analysis: WWPA for western lumber, SFPA for southern pine, and APA for panels and EWPs. The associations charge for some services. Here are two additional business organizations that provide analysis of wood product markets for a fee: RISI in the U.S. ([www.resourceinfo.com](http://www.resourceinfo.com)); and Russ Taylor's Wood Markets Monthly in Canada ([www.woodmarkets.com](http://www.woodmarkets.com)).

## EXCHANGE RATES & INTERNATIONAL TRADE

Because wood products are increasingly traded internationally, we need to be aware of the direction of trade flows and where the exchange rate is headed and why. For example, today, almost 40 percent of the softwood lumber consumed in the U.S. is imported from Canada, Europe and South America. Canada exports over 80 percent of its OSB production to the U.S., and a good share of its CSP (softwood plywood). Two good trade data sites are the U.S. Foreign Agricultural Service ([www.fas.usda.gov/](http://www.fas.usda.gov/)) and Canada's Strategis ([www.strategis.ic.gc.ca](http://www.strategis.ic.gc.ca)). Historical exchange rate information can be found at ([www.federalreserve.gov/Releases](http://www.federalreserve.gov/Releases)) while financial institutions provide forecasts (see previous sections).

Conclusion Reading the tea leaves can be frustrating and confusing, but it is a necessary evil. A disciplined approach is recommended—set aside some time each week to devote to this endeavor. Given that most of you have a limited amount of time, here is my recommended short list of “must read” sites.

SECTOR	PARAMETER NAME/FOCUS	WEB SITE LOCATION
Economy	Economagic's economic information site	<a href="http://www.economagic.com">www.economagic.com</a>
Construction - Housing Construction - Nonresidential	Housing starts Housing analysis & forecast Value of nonresidential construction	<a href="http://www.census.gov/newresconst">www.census.gov/newresconst</a> <a href="http://www.nahb.org">www.nahb.org</a> <a href="http://www.census.gov/const/C30/release.pdf">www.census.gov/const/C30/release.pdf</a>
Jobs & wages	Employment situation	<a href="http://www.bls.gov/news.release/empsit.toc.htm">www.bls.gov/news.release/empsit.toc.htm</a>

Inflation & consumer spending	Current spending Current inflation Inflation forecast	<a href="http://www.census.gov/svsd/www/fullpub.html">www.census.gov/svsd/www/fullpub.html</a> <a href="http://www.bls.gov/cpi">www.bls.gov/cpi</a> <a href="http://www.bmo.com/economic/index.html">www.bmo.com/economic/index.html</a>
Industry news & Associations	Structural Building Components Magazine	<a href="http://www.sbcmag.info">www.sbcmag.info</a>
	Panels & EWP production	<a href="http://www.apawood.org">www.apawood.org</a>
	Lumber & panel prices	<a href="http://www.randomlengths.com">www.randomlengths.com</a>
	Lumber production	<a href="http://www.wwpa.org">www.wwpa.org</a> <a href="http://www.sfpa.org">www.sfpa.org</a>
Exchange rates & international trade	Federal reserve - exchange rates FAS - international trade	<a href="http://www.federalreserve.gov/Releases">www.federalreserve.gov/Releases</a> <a href="http://www.fas.usda.gov">www.fas.usda.gov</a>

TABLE 1. KEY ECONOMIC PARAMETERS (AND LINKS) FOR THE BUILDING COMPONENT INDUSTRY.

Today's economy is much more complex than in the past. This is due to globalization, which has changed the competitive landscape, creating new competitors for domestic and offshore markets.

**Editor's Note:** This article focuses on sources for national economic data. In a future issue, we will identify regional sources for economic information about local metro areas, states and even counties.

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[SBC HOME PAGE](#)

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