THE OUTLOOK FOR WALLBOARD

BY MIKE MCGOVERN
Huge Gypsum Industry Investments Will Improve Drywall Availability

Drywall has been one of the most talked about products in the building industry this year. It’s been the focus of hundreds of television and newspaper reports: it’s been covered extensively in the building trade press; it’s been written about in The Wall Street Journal and The New York Times; and it’s on the minds of builders across the country.

The reason for all the attention is obvious to anyone in the building industry: There hasn’t been enough drywall to meet customer needs. According to research from USG Corporation, Chicago, demand for wall board in 1999 is projected to exceed 30 billion square feet (an all-time industry record). The previous record for wallboard demand was set in 1998 (28.2 billion square feet). In fact, the industry has set new records for wallboard shipments every year since 1993. Fueling this sustained — and unprecedented — demand for wallboard are two overriding factors: the strength of the housing market and the continued expansion of the repair and remodel (R&R) market.

USG expects new housing starts to reach 1.65 million in 1999, which would represent an increase of 2 percent over 1998 starts. Also of note is the fact that the percentage of single-family vs. multifamily homes is up in 1999, and average new home square footage is also expected to increase. Both factors translate into more drywall. So, even though housing starts are expected to rise 2 percent in 1999 compared to 1998, drywall demand resulting from new housing is expected to increase by approximately 5 percent. Recent growth in commercial construction markets is also impacting demand.

The other primary factor driving demand is the thriving R&R market. At the time this was being written, drywall sales for R&R applications were projected to increase 10 percent in 1999 compared to 1998. And during the previous five-year period (1993 to 1998), R&R wallboard demand increased by more than 30 percent. With the nation’s building stock continuing to age, R&R is expected to remain robust at least through 2005.

To provide some scope as to how this affects the gypsum industry, figure that every percentage point increase in R&R activity translates into 100 million square feet of increased wallboard demand annually. That’s enough drywall to build 12,000 new single-family homes.

But enough statistics.

The questions customers are asking USG go beyond that. Builders want to know why gypsum board manufacturers can’t meet demand (record housing and R&R levels or not), and they want to know whether they’ll be able to get enough drywall to meet their needs in coming months.

“Flat Out” Production

The fact is, USG and other gypsum board manufacturers are going “flat out” to produce as much gypsum board as possible. During the first six months of 1999, the gypsum board industry oper-
ated at 100-percent capacity utilization. That means every gypsum board plant in the country was producing as much drywall as possible seven days a week, 24 hours a day.

To put that in perspective, other manufacturing sectors consider 85 percent to 90 percent capacity utilization as going “flat out.” In effect, the gypsum board industry is operating significantly beyond what most businesses would consider maximum long-term production capacity. The effort to meet market demands is certainly there.

And, as most builders know, the gypsum industry isn’t alone when it comes to material availability issues. The record housing market has created an increased demand for a range of building products, including insulation, brick, roofing, cement and lumber. In many markets, finding qualified labor is an even bigger concern. According to a recent National Association of Home Builders survey, 75 percent of builders across the country have experienced labor shortages in their markets.

### New Capacity

Even at 100-percent-capacity production, however, the gypsum industry hasn’t been able to fully meet the booming demand for drywall. This year, record quantities of board were imported from both Canada and overseas to meet skyrocketing U.S. needs. To more fully meet domestic demand, gypsum board manufacturers are currently adding new production capacity at a pace unequaled in the history of the business.

Manufacturers actually began ramping up production capacity as early as 1995. That year, USG began upgrading and modernizing its existing plants (resulting in a 7 percent increase in its production capacity). In 1996, USG announced plans to build a new $110 million wallboard plant in Bridgeport, Ala. Competing wallboard manufacturers also announced significant expansion plans to increase their capacities.

Since it takes approximately two years to plan, construct and optimize a new wallboard facility (and a capital investment of anywhere between $50 million and $120 million), major new wallboard capacity additions that were announced in the mid-1990s have only recently come online. USG’s Bridgeport plant, with the capacity to produce 700 million square feet of wallboard annually, began production in spring 1999. Start-up of the plant was completed in record speed, and it is now operating at three shifts, producing 415 feet of drywall a minute. To further meet current demand, USG also delayed the scheduled closing of its high-cost, 90-year-old gypsum plant in Plasterco, Va. Originally scheduled for closing in May 1999, the plant stayed open until this month.

Overall, the gypsum industry is increasing wallboard production by 3.1 billion square feet in 1999. In 2000, another
4.2 billion square feet of capacity will come on line, including two new USG plants in Aliquippa, Pa., and Rainier, Ore., and two new lines in USGS Plaster City, Calif., and East Chicago, Ind., plants. In 2001, an additional 3.7 billion square feet of wallboard production is scheduled to start up. In total, the wallboard industry is investing more than $1.4 billion in new capacity (capital investments announced and/or completed between 1998 and 2001), which will increase wallboard production by approximately 30 percent—or about 11 billion square feet.

Short-Term Outlook

While the 30 percent increase in drywall production by 2001 is expected to address the industry’s long-term capacity requirements, the more immediate question for builders is whether or not they’ll be able to get enough drywall to meet construction needs over the next three to six months.

USG anticipates that demand for wallboard will remain strong throughout 2000. Most industry analysts expect new housing starts in 2000 to stay at the same level or be slightly lower than 1999 figures. R&R growth is also expected to be about the same as it is in 1999—booming! Industry analysts are expecting double-digit growth year for R&R in 2000. Suffice it to say, construction markets should be very healthy in 2000.

So, will the increases in gypsum board capacity brought on line in 1999 and those to come this year be enough to meet continued strong demand? According to forecast research conducted by USG and industry analysts, the outlook is positive. As 2000 progresses, USG anticipates industry capacity utilization to gradually decrease from the 100 percent rate of the first six months of 1999. Translation: Wallboard will be increasingly available, though that’s not to say that seasonal delays will be eliminated entirely.

“Next Generation” Drywall

Another benefit of the gypsum industry’s investment in new capacity comes from the fact that most new state-of-the-art wallboard plants will be producing a more environmentally friendly drywall. For instance, USG’s new wallboard plants in Bridgeport and Aliquippa and USG’s new wallboard line in East Chicago will be producing drywall made entirely from byproduct gypsum and recycled paper. Instead of using mined gypsum rock to make Sheetrock Brand Gypsum Panels, these new USG utilities will utilize 100 percent synthetic gypsum (a byproduct of power plant pollution controls). And, as has been industry practice for many years, the paper facing on the front and back of each drywall panel will be made from 100 percent recycled paper.

The use of synthetic gypsum is not new to the industry. More than 15 percent of USG’s Sheetrock brand panels are already made using synthetic gypsum. The new facilities recently opened and under construction by USG and other manufacturers will significantly boost that percentage in coming years.

Suffice it to say, 21st century wallboard will be more environmentally friendly, better performing than ever . . . and available to everyone!

About the Author

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