



Residential Siding 2010

A Market-Focused Update



PrincipiaPartners

Residential Siding Market Data

This complimentary excerpt is from the industry report **Residential Siding 2010** published by Principia Partners in October 2010.

The entire report is available for purchase.

In addition to the Report, you may be interested in the exclusive **Market Model and Forecast Tool**. This interactive database is a "what if" scenario-building market projection tool that includes current data for the North American residential siding market. It is a powerful business planning resource, and is available as an incremental add-on to the complete Report.

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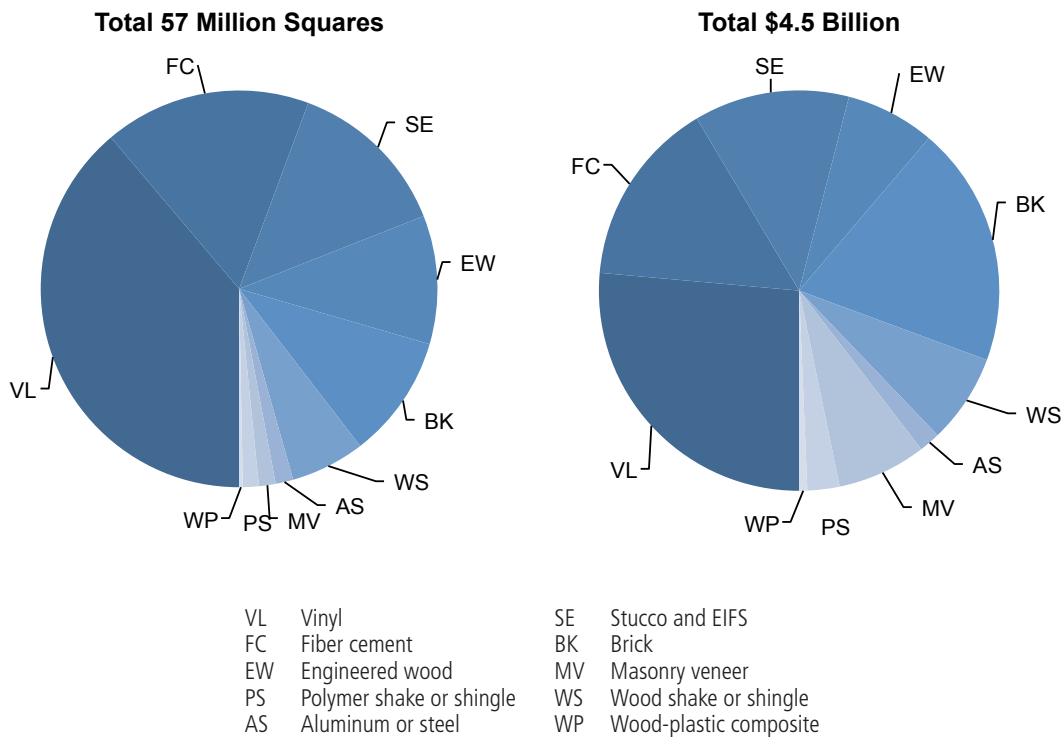
OVERVIEW

In 2009, North American siding demand reached 56.7 million squares valued at \$4.5 billion, down over 10 million squares and nearly \$1 billion from 2008 levels. Despite the positive first half 2010 results reported by vinyl siding suppliers, second half 2010 results are projected to taper off. Demand is expected to increase only 1% in 2010 to 57.2 million squares valued at \$4.6 billion. These figures represent factory gate revenues of siding materials including various types of siding materials such as vinyl, fiber cement, stucco, brick, wood lap and shake, engineered wood, metals, polymer shingles, masonry veneer, and wood-plastic composites.

Repair and remodeling spending on siding is impacted by the availability of consumer credit, interest rates, employment trends, and changes in levels of consumer confidence. With an estimated 25% of U.S. mortgages underwater, where home values are less than the remaining mortgage, equity loans are scarce and spending on siding is constrained.

Siding demand is primarily impacted by repair and remodeling spending as historically, 60 to 65% of siding volume depended on this construction type. However, due to the dramatic 70% decline in new housing starts from the 2005 peak to 2009, repair and remodeling accounted for 74% of demand in 2009. Ironically, since new residential construction is down so dramatically, it is this construction type that will drive future demand growth for siding through 2012 as it will increase faster than repair and remodeling spending.

Figure 1-01: North American Residential Siding Market by Product, 2009



MARKET REVIEW

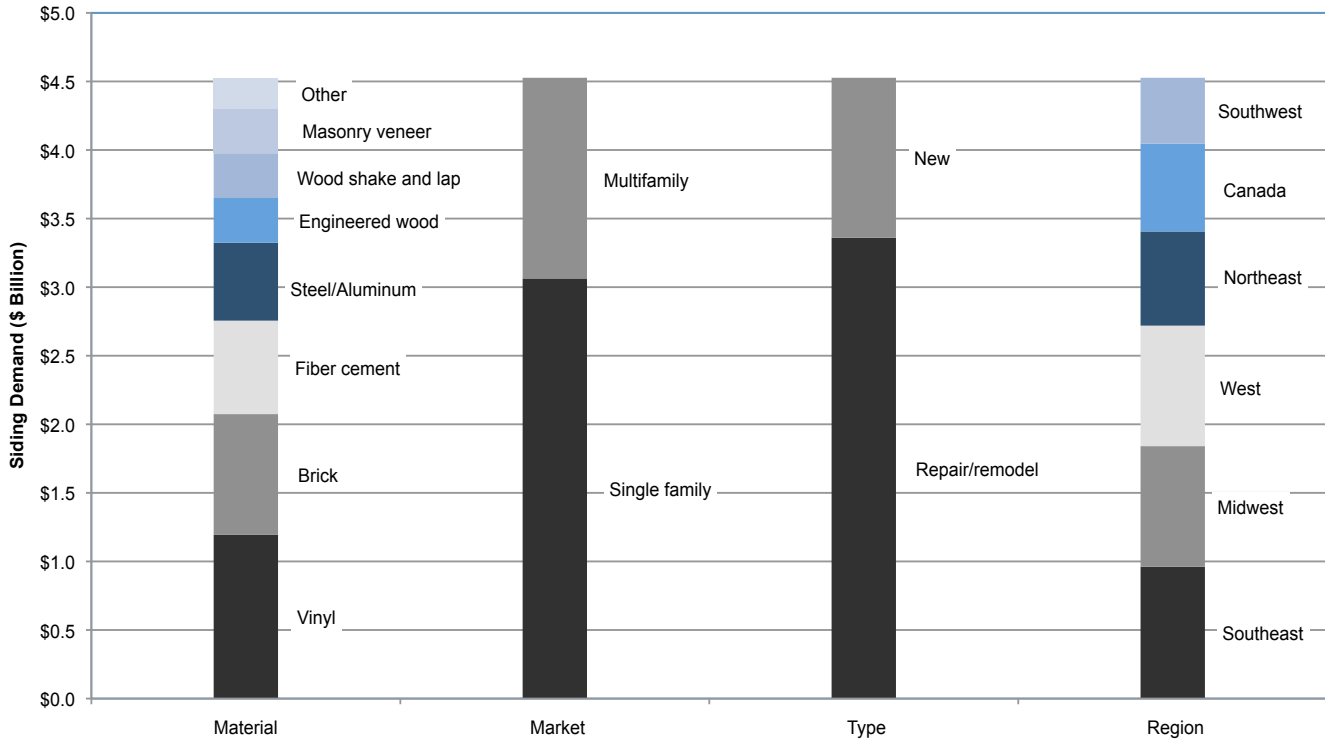
In 2009, demand for residential siding was 57 million squares, valued at over \$4.5 billion. The market experienced mixed pricing patterns. The per-square price for a few materials rose, while pricing for others declined resulting in an average price per-square varying widely, from \$54 for vinyl to \$422 for masonry veneer.

All siding products experienced a decline in both volume and value from 2008 to 2009. However, all products increased in unit shipments and value from 2009 to 2010 as the market recovered slightly.

Figure 1-02 presents the residential siding market by material type, market, construction type, and region.

All siding products increased from 2009 to 2010 as the market recovered slightly.

Figure 1-02: Residential Siding Demand Summary, 2009



Materials

Vinyl and brick together account for 45% of total siding market revenues, with 26% and 19%, respectively. Fiber cement, with James Hardie as the lead supplier, is a challenger to vinyl, and currently accounts for 15% of siding value. Engineered wood, with LP as the leading supplier is also growing share.

Market

Siding demand is split approximately 2/3 single family homes and 1/3 multifamily homes. The housing crisis affected both markets fairly evenly, but recovery is expected somewhat more quickly in the single family sector.

Type

Historically, the repair and remodeling accounted for 60 to 65% of siding demand; however due to the dramatic drop in new housing starts from 2006 to 2009, repair and remodeling value pushed up to 74% of demand in 2009.

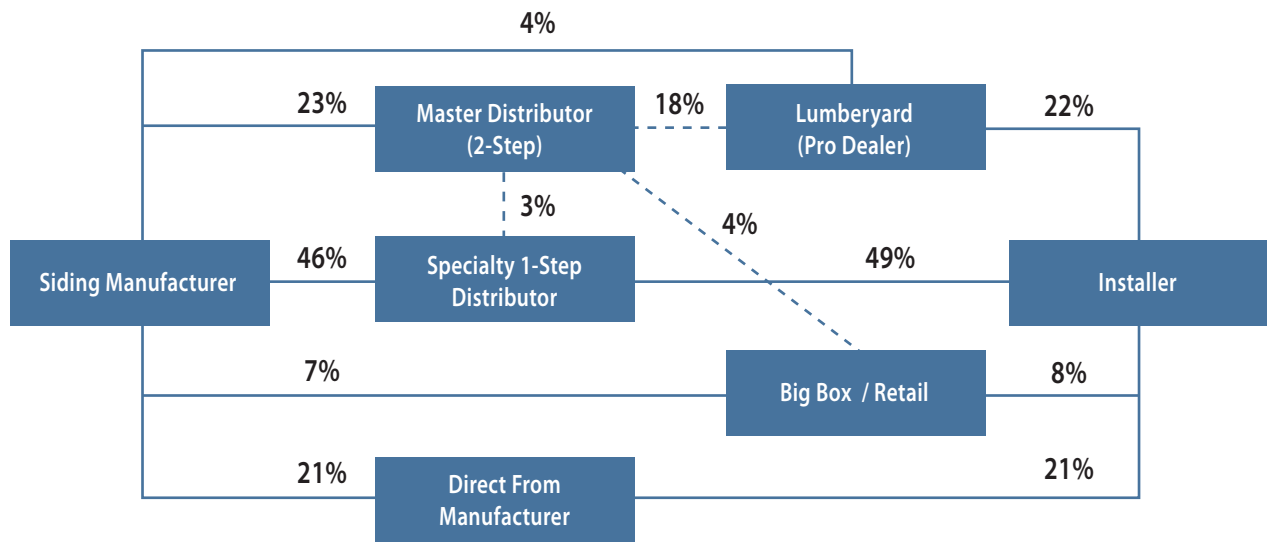
Regions

Siding demand closely follows existing housing stock distribution which in turn coincides with population density. The Southeast and Midwest were the two largest siding demand regions, accounting for 40% of demand combined.

Channels

Demand by distribution channel was similar to previous years with 1-step contributing the greatest sales at 44% of total distribution in 2009. 2-step followed at about 23% market share. 2009 experienced a growing trend in direct distribution based on key suppliers Alside, Royal and CertainTeed owning their own networks. Direct distribution accounted for 21% of siding product shipments and is projected to grow further from 2009 to 2012.

Figure 1-03: Distribution Channels for Residential Siding in North America



CHANNEL DYNAMICS

Vinyl has a long tradition of moving through specialty 1-step distributors and this continues to be the major outlet for the product. However, more recently, direct from manufacturer has become more prevalent. Direct shipments to builders diminished in 2009 for vinyl although, it is still an important route for larger production builders.

Some industry stakeholders wonder if the 2-step distribution model may become obsolete as the industry continues to consolidate. However, the fundamental problem remains in getting a full line from manufacturers to a fragmented group of end users, while holding as little inventory as possible to conserve working capital.

Brick also moves through 1-step distribution and direct. Brick 1-steppers are typically brick yards, stone yards or quarries and other masonry outlets. In addition, brick companies like Boral have their own distribution networks. Brick tends to be distributed regionally as long distance shipping costs can be prohibitive.

The traditional buy-sell relationship may be shifting toward a model in which the distributor is seeking to maximize its value and ensure a place in the channel by continually developing and offering enhanced services that reduce channel costs and/or increase channel efficiency.

Engineered wood typically moves the lumber channel, from 2-step to lumberyards nationally as does wood lap and shake. The other low volume siding products all move principally through 1-step distribution.

BUSINESS ASSESSMENT

The siding market is primarily affected by repair and remodeling spending. Historically, 60 to 65% of demand depended on this construction type. However, due to the dramatic 70% decline in new housing starts from the 2005 peak to 2009, repair and remodeling accounted for 74% of demand in 2009.

Ironically, since new residential construction is down so dramatically, it is this construction type that will drive future demand growth for siding through 2012 as it will increase faster than repair and remodeling spending.

Unlike some building repair projects, like roof replacement, siding is more frequently a discretionary spend and therefore more susceptible to changes in funding. That is, most consumers will repair a damaged roof or install extra insulation to save on energy costs before they will spend on siding as an appearance focused product.

As new construction continues its uneven and gradual recovery, the huge inventory in existing homes, especially older ones, will represent some additional demand in the repair and remodeling market for siding as they are sold off and homeowners make improvements. During the gradual yet fitful recovery under way, some siding products are faring better than others. Vinyl siding holds the single largest portion of total residential siding demand, but other materials continue to chip away its share.

The logo for PrincipiaPartners, featuring the word "Principia" in white and "Partners" in orange, set against a dark blue rectangular background.

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