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Cement shortage hits US housing boom

Construction demands in China are one factor crimping global cement supplies and affecting 29 US states.

By **Daniel B. Wood** | Staff writer of The Christian Science Monitor

LOS ANGELES - Somewhere in China today, a dam is being built and it's ruining Bill Feltz's day.

"It's hurting us, no question," says Mr. Feltz, vice president of production for Anderson Concrete, a leading Central Ohio concrete firm. "The Chinese are building dams and roads and Olympic venues, so they are using more cement than they make." The extra demand is driving up the prices for the rest of the world, he says, so "here in Columbus, Ohio, a significant portion of that is coming out of our pockets."

Feltz says his company's profits may drop more than 10 to 15 percent this year, even though they try to pass extra costs - as much as 25 percent - to their customers. So far, he hasn't had to turn any customers away. From Connecticut to Florida, Texas to Michigan, and across the Southwest, shortages have become so severe that construction is being halted or slowed, leaving a growing number of roads, stadiums, and patios unfinished. The countrywide shortage of cement - the crushed limestone, calcium, and silicon powder used to bind concrete - could leave a significant pothole in the US economy.

"It's a very big deal," says Ryan Puckett, spokesman for the Portland Cement Association (PCA), a trade group that represents cement companies in the United States and Canada. The US has long imported about 25 percent of its cement, he says, much of which comes from China. With major Chinese construction projects moving ahead - from rural dams to urban skyscrapers - a fourth of the world's population is now using far more than it exports.

The worldwide shortage began to be felt across Asia first, then hit the shores of Florida last year. Since the US construction season began last spring, shortages have been declared in 29 states. Even though 114 US-based mills are running at 100 percent capacity seven days a week, they aren't keeping pace with demand. For companies who use the cement to mix the concrete they sell to customers, that means scheduling problems, layoffs, fewer profits, and concerns about the future.

"It's impacting customers, employees, company profits, and building projects all over the US," says Puckett. Delays and canceled projects are reported from retirement condo projects in Florida to housing developments in Phoenix to casino building in Las Vegas. "Everywhere there is construction, there are cement customers lined up without enough supply to keep them happy," he says.

The limited number of barges and shipping lines to bring the imported cement to US shores is adding to the problem. The demand for rebuilding in Iraq, and building projects from Hong Kong to Singapore, have significantly diverted supply ships to those countries. The supplies that are making it to US ports have been bottlenecked by transportation woes, observers say.

"One of the major issues [we] have faced this year is significant delays with the Union Pacific's system," says Lance Latham, spokesman for Ash Grove Cement Company, the fifth-largest cement manufacturer in the US, which recently announced plans to build a \$250 million plant about 40 miles north of Las Vegas. "With one half of the world cement supply tied up in China, it's been difficult for the California producers to supply southern Nevada. [Union Pacific] Railroad didn't anticipate the economic growth occurring across the country and was caught shorthanded."

Mr. Latham and others say the current shortage is exposing both the shipping and US production limitations as problems that need to be addressed by public policymakers before the US economy is more deeply affected. The building of the Ash Grove plant will help alleviate a 23-million-ton gap between domestic production and consumption, but it won't be online until 2007 or 2008. The PCA estimates that a total of only 15 million tons of extra US capacity has been planned before 2010.

Some construction companies have already planned for shortages until 2005. Although raw materials needed for cement are not in short supply, both the cost and the regulations surrounding the construction of new mills to mix the cement are significant hurdles, observers say.

"The permitting process can take years because of regulations and the fact that many communities don't want a mill in their backyard," says Anderson's Feltz.

To help alleviate the problem, some contracting and homebuilding associations are pressuring the federal government to temporarily lift a ban on cement imported from Mexico. Such tariffs - now at 40 percent but recently as high as 80 percent - began 14 years ago amid US accusations that Mexico was unfairly competing with US companies by selling below cost.

Until demand abroad abates, shipping improves, or America ramps up production to alleviate dependency on foreign sources, continued shortages here are expected to sock smaller consumers and slow the US housing market - both by delays and higher prices. Completion time for a home in some key markets has increased about two months (now eight to 10 months) as cement prices have jumped home costs

by \$5,000 to \$7,000.

"What is problematic is the unknown," says Feltz. "We make a long-term contract with someone for a given price and then, unforeseen by us, our cement prices go up. That leaves us taking the hit."

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