

RCT PRODUCT UPDATE BULLETIN

2nd Quarter 2013

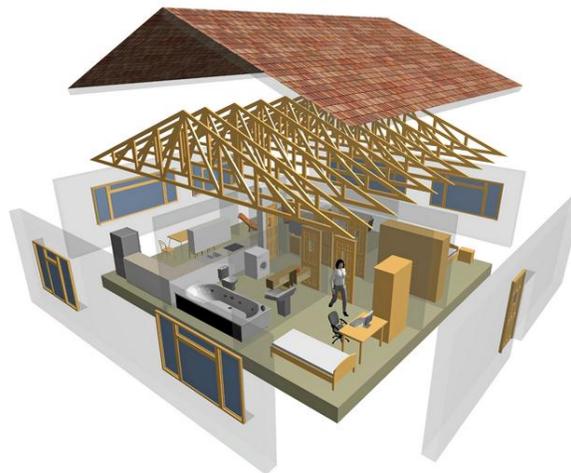
MSB is pleased to provide you with an overview of the updates and enhancements in the **2nd Quarter 2013 release of RCT**. This overview will provide you with an understanding of this quarter's changes in residential building costs as well as any enhancements to the Residential Component Technology[®] software.

To ensure that our clients receive the most current building material and labor costs, MSB's Data team continuously researches labor, material, and equipment costs (hard costs) plus mark-ups. Our research is extended to cover taxes and fringes (soft costs) for reconstruction work performed for the insurance industry in the United States and Canada. Research professionals monitor data from nearly 3,000 unique economies in the United States and over 100 in Canada.

The process includes monitoring demographics and econometric statistics, government indicators, localization requirements including market trends. Other factors in this process include:

- Wage rates for more than 85 union and non-union trades
- Over 100,000 line items of construction data
- Productivity rates and crew sizes
- Local cost concerns, such as building code requirements and other localized variables

In addition, we validate cost data by analyzing field inspection records, contractor estimates, phone surveys and partial and full loss claim information.



NOTE: The cost information in this bulletin is only intended to give you a *general sense* of reconstruction cost trends in North America. We do not advocate using these factors when adjusting renewal values for specific locations or across your book of business. The building material and labor cost trends presented in this bulletin are broad averages derived from our research of construction trades and building materials used in a typical, 2,400 square foot, single family, 2-story home and does not translate into the property specific localized, detailed results calculated by RCT.

For more information or explanation, please contact your sales consultant or account manager.

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U.S. QUARTERLY MATERIAL COST CHANGES

COPPER WIRE

0.5%

PLYWOOD

3.0%

LUMBER

3.0%

COPPER PIPE

0.8%

READY MIX

2.0%

FELT

0.3%

SHINGLES

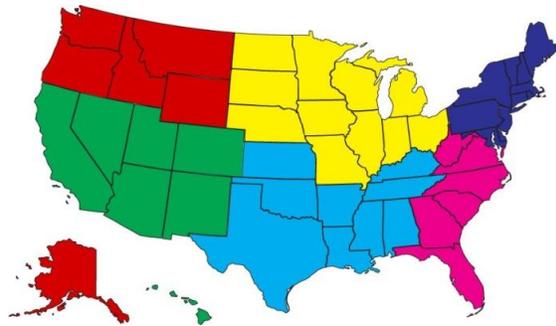
0.1%

INSULATION

0.8%

DRYWALL

4.5%



U.S. Regional Quarterly Cost Changes 2nd Quarter 2013 compared to 1st Quarter 2013

Northwest	0.87%
Southwest	0.73%
Northeast	0.58%
Southeast	0.57%
North Central	0.63%
South Central	0.78%

National Average: 0.70%

U.S. Regional RCT Cost Changes

Drywall prices pushed up 4.5% for the quarter, and are now 15.9% higher than this time last year. Due to a strengthening housing market, it is anticipated that there will be an increase in demand during 2013, which may cause more increases as the building and construction seasons ramp-up. These increases can be attributed to a manufacturers' increase in the first part of 2013. Future increases are forecasted as current inventories are depleted and replacement orders hit at these new elevated costs.

Plywood and lumber products have also continued gains with both pushing another 3.0% for the quarter. The strengthening housing market is also expected to continue to push more price increases into the market throughout the summer months.

The average change for U.S. building materials was 1.1% for the quarter. For labor, the average wage rate increased 0.4%, based on construction trade contracts that were renewed during the quarter. A snapshot of some of the most common elements MSB monitors is listed below.

US	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11	2Q11
Copper Wire	0.5	0.9	-4.4	-1.2	-1.2	-1.1	1.7	5.9
1/2" Plywood	3.0	5.4	6.7	6.1	3.7	1.7	-2.1	-3.0
2x4 Lumber	3.0	2.6	6.5	4.0	-0.9	0.0	1.1	1.7
1/2" Copper Pipe	0.8	-1.0	-2.7	0.1	0.4	0.3	3.0	6.8
Ready Mix	2.0	1.1	0.5	-1.7	1.3	1.6	-0.1	-0.4
Asphalt Felt 15#	-0.3	-0.5	1.3	0.2	-1.4	0.1	2.0	0.3
Asphalt Shingles 25yr, 3-tab	0.1	0.1	1.3	0.1	0.8	3.2	7.9	1.4
R-13 Fiber Batt Insulation	0.8	1.9	0.8	-0.1	0.6	1.3	1.9	3.0
1/2" Drywall	4.5	1.0	3.2	6.5	5.9	0.5	0.5	-0.2

*Aggregate Material Index of the nine most commonly used building materials – Residential
** This table represents the percent change from one quarter to the next period.

TECHNICAL SUPPORT: 1-888-370-8324 7 a.m. to 7 p.m. CT ♦ MSBHelpdesk@msbinfo.com

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CANADA

QUARTERLY MATERIAL COST CHANGES

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COPPER WIRE

1.6%



PLYWOOD

4.8%



LUMBER

3.8%



COPPER PIPE

2.0%



READY MIX

3.0%



FELT

0.6%



SHINGLES

0.6%



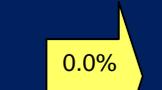
INSULATION

1.3%



DRYWALL

0.0%



Canada Regional Quarterly Cost Changes 2nd Quarter 2013 compared to 1st Quarter 2013

North	0.59%
West	-0.50%
Central	1.08%
Atlantic	0.59%
National Average:	0.54%

Canada Regional RCT Cost Changes

The first quarter of 2013 brought more increases on both plywood and lumber, with 4.8% and 3.8% quarterly increases. Increases for lumber are expected to continue throughout 2013, with strong projections on both trade demand and local usage. The inability to quickly receive lumber from the mills, either by truck or rail, has also played into recent increases. There are many mills frantically trying to bring more capacity online; however bringing these new facilities on-line, or increasing the capacity of existing facilities, is not an easy process. That being said, we could begin to see some relief in pricing brought on by increased production capacity as early as the 4th quarter of 2013.

The average change for Canadian building materials was 0.2% for the quarter. For labor, the average wage rate increased to 1.1% for the quarter, based on the construction trade contracts that were renewed during the quarter. A snapshot of the most common elements MSB monitors is listed below.

CANADA	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11	2Q11
Copper Wire	-1.6	-0.9	-0.8	-0.2	-0.5	-1.5	0.7	5.3
1/2" Plywood	4.8	7.2	7.7	3.2	1.5	1.5	-2.6	-3.7
2x4 Lumber	3.8	4.7	7.7	3.4	0.6	1.3	-1.1	-1.4
1/2" Copper Pipe	-2.0	-0.6	-0.3	0.4	-0.8	-1.0	-0.4	2.4
Ready Mix	3.0	3.4	-2.1	-1.5	2.7	3.3	-1.3	-1.6
Asphalt Felt 15#	-0.6	-0.7	0.6	-1.1	-0.8	0.0	1.0	0.0
Asphalt Shingles 25yr, 3-tab	0.6	0.9	0.5	-0.6	-1.2	0.3	2.2	0.5
R-13 Fiber Batt Insulation	1.3	0.5	0.5	0.4	0.1	0.3	0.7	1.1
1/2" Drywall	0.0	-1.3	-1.8	-1.6	-0.7	-0.9	-0.8	-0.5

*Aggregate Material Index of the nine most commonly used building materials – Residential
 **This table represents the percent change from one quarter to the next period.

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U.S. ANNUAL MATERIAL COST CHANGES

CANADA ANNUAL MATERIAL COST CHANGES

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RCT Software Updates for This Quarter

NOTE: MSB recommends a full program install whenever possible to ensure that you have the latest data and program enhancements.

Cost Data Changes

The second quarter 2013 cost data update reflects reconstruction cost changes in both labor and material. Standardized costs in this release reflect localized, updated costs, which represent the impact of emerging markets on construction cost trends, as required by economic trends.

Tax Updates for Canada

The following tax changes have been updated within RCT Mainstreet, Mobile Manufacturing Housing, High Value, and RCT 4.0:

British Columbia - Effective April 1, 2013, the province of British Columbia will eliminate the Harmonized Sales Tax (HST) rate of 12%. BC is going back to a 7% provincial (PST) tax and 5% Canadian government goods and services tax (GST) tax. The RCT Canadian tax rate has been updated in British Columbia to reflect the new GST and PST tax rates.

Prince Edward Island – Effective April 1, 2013, the province of Prince Edward Island will implement a Harmonized Sales Tax (HST) rate of 14%, which replaces the current PST rate of 10% and GST rate of 5%. The RCT Canadian tax rate has been updated in Prince Edward Island to reflect the new HST tax rates.

Quebec – Effective January 1, 2013, the province of Quebec updated the Quebec Sales Tax (QST/PST) rate to 9.975%. The current GST rate of 5% did not change.

Non-Cost Data Changes – Material Updates

The following new materials were added to RCT Mainstreet, Mobile Manufacturing Housing, High Value, and RCT 4.0:

- Faux Panel (Percent) (Exterior, Exterior Walls)
- Faux Panel, Custom (Percent) (Exterior, Exterior Walls)

Material Min/Max Value Updates have been made to RCT High Value and RCT 4.0:

- Hot Water Heater, Extra – 1Q13 max value = 25 – 2Q13 max value = 50

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