

Building Materials Prices and Outlook

International Housing Association
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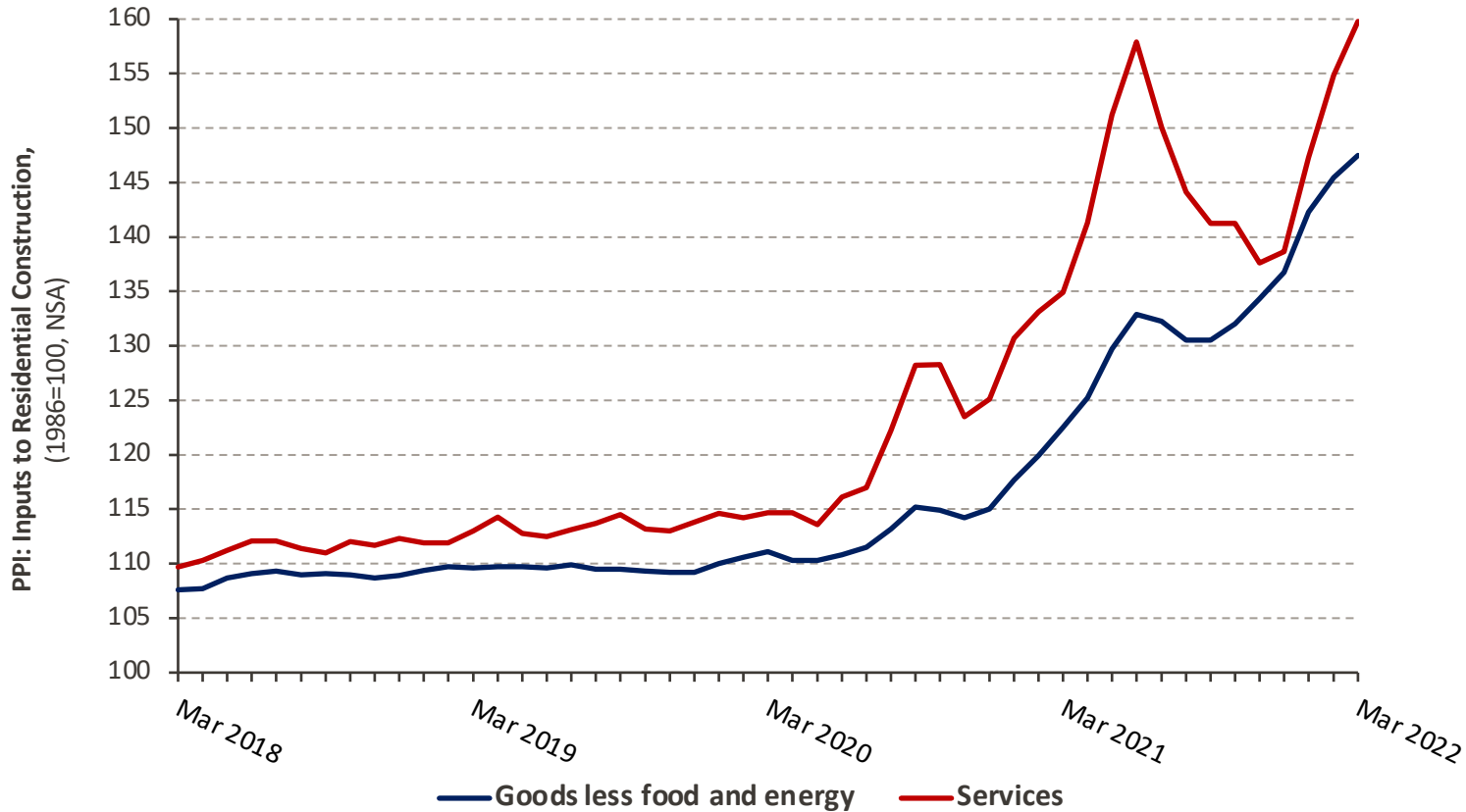


Building Materials Prices and Trends



Price of Inputs to Residential Construction

Goods and services

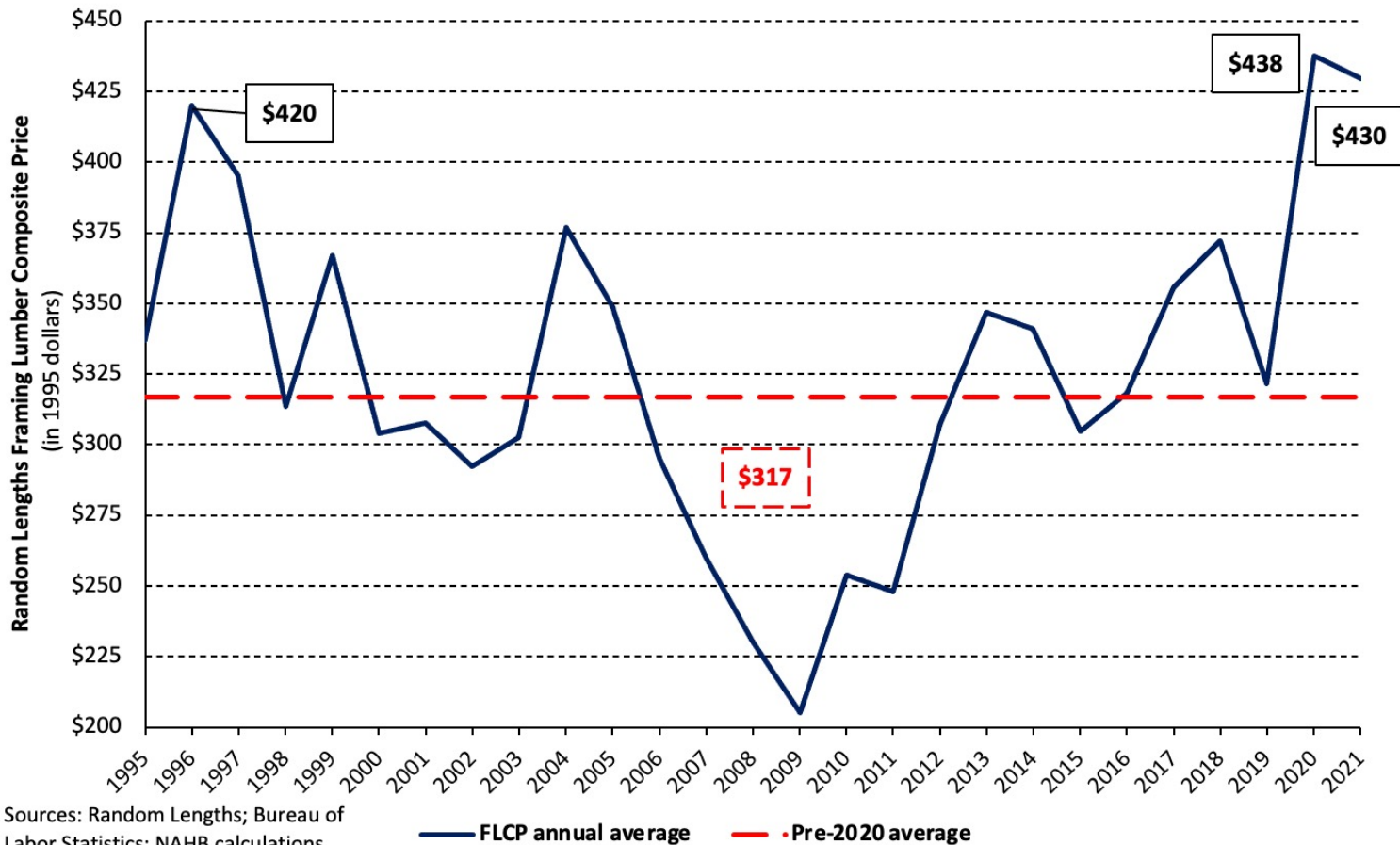


Source: U.S. Bureau of Labor Statistics



Building Materials –Lumber

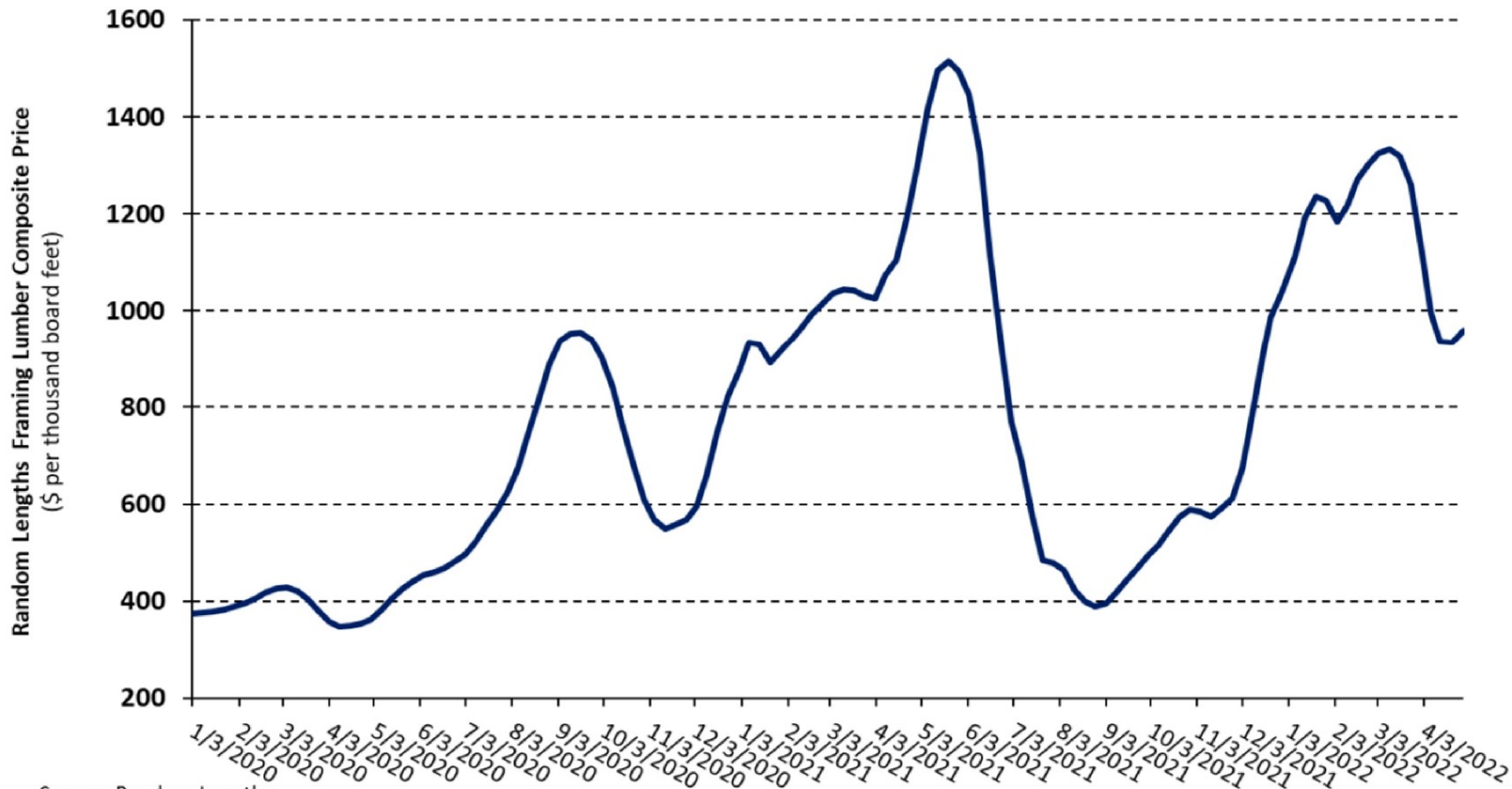
Record high prices even after adjusting for inflation



Sources: Random Lengths; Bureau of Labor Statistics; NAHB calculations

Building Materials - Lumber

Cash prices 32% lower than peak, but are up 185% since April 2020

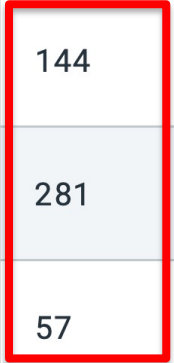
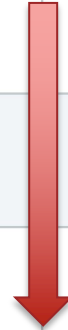


Source: Random Lengths

Building Materials - Lumber Futures

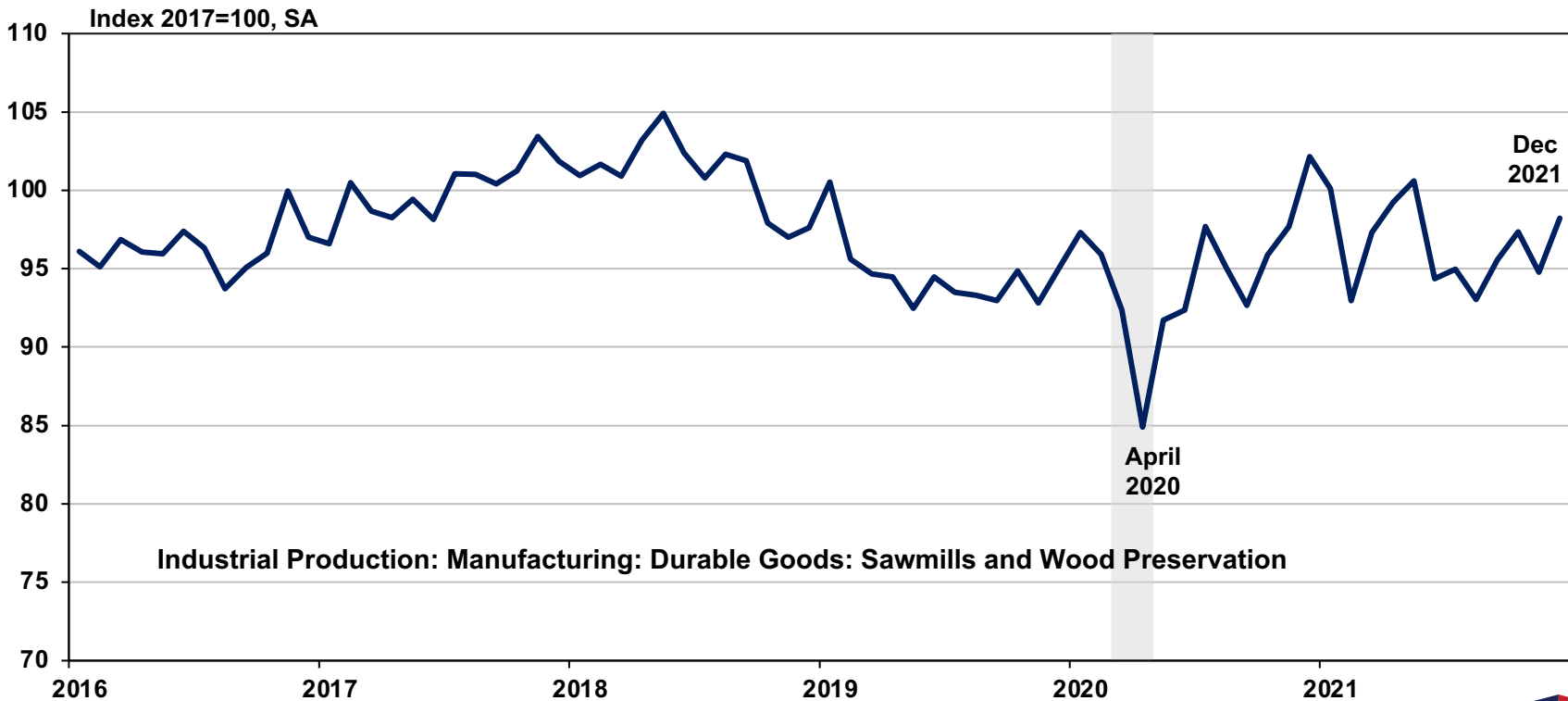
May contract is at par with cash prices

MONTH	OPEN	HIGH	LOW	LAST	CHANGE	SETTLE	EST. VOLUME
MAY 22	1021.60	1025.50	980.00	1010.00	-29.50	1010.00	144
JLY 22	923.00	923.00	863.00	915.00	-2.30	909.70	281
SEP 22	841.20	850.30	825.00	853.70B	-4.70	852.70	57





U.S. Sawmill Output

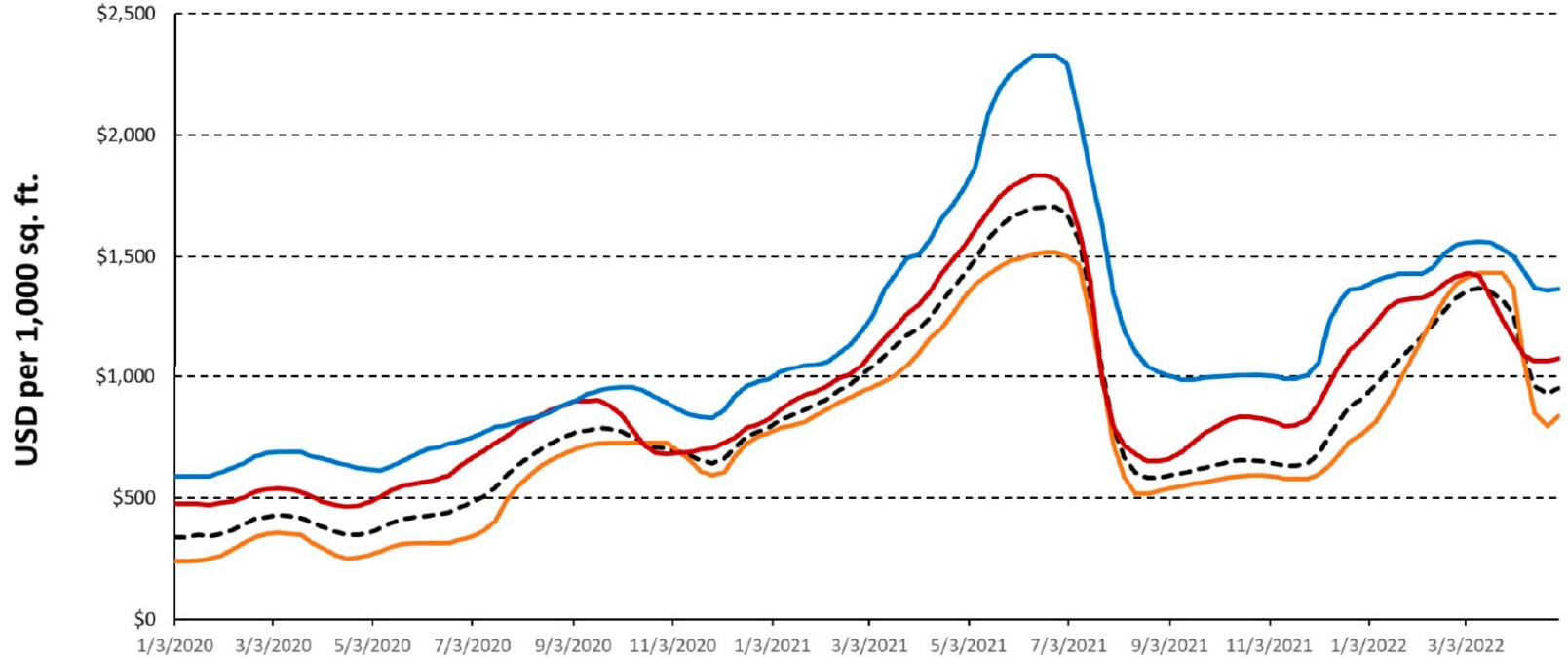


Source: Board of Governors of the Federal Reserve System (US)



Building Materials - Structural Panels

OSB down 40% over the past month



--- STRUCTURAL PANEL COMPOSITE PRICE

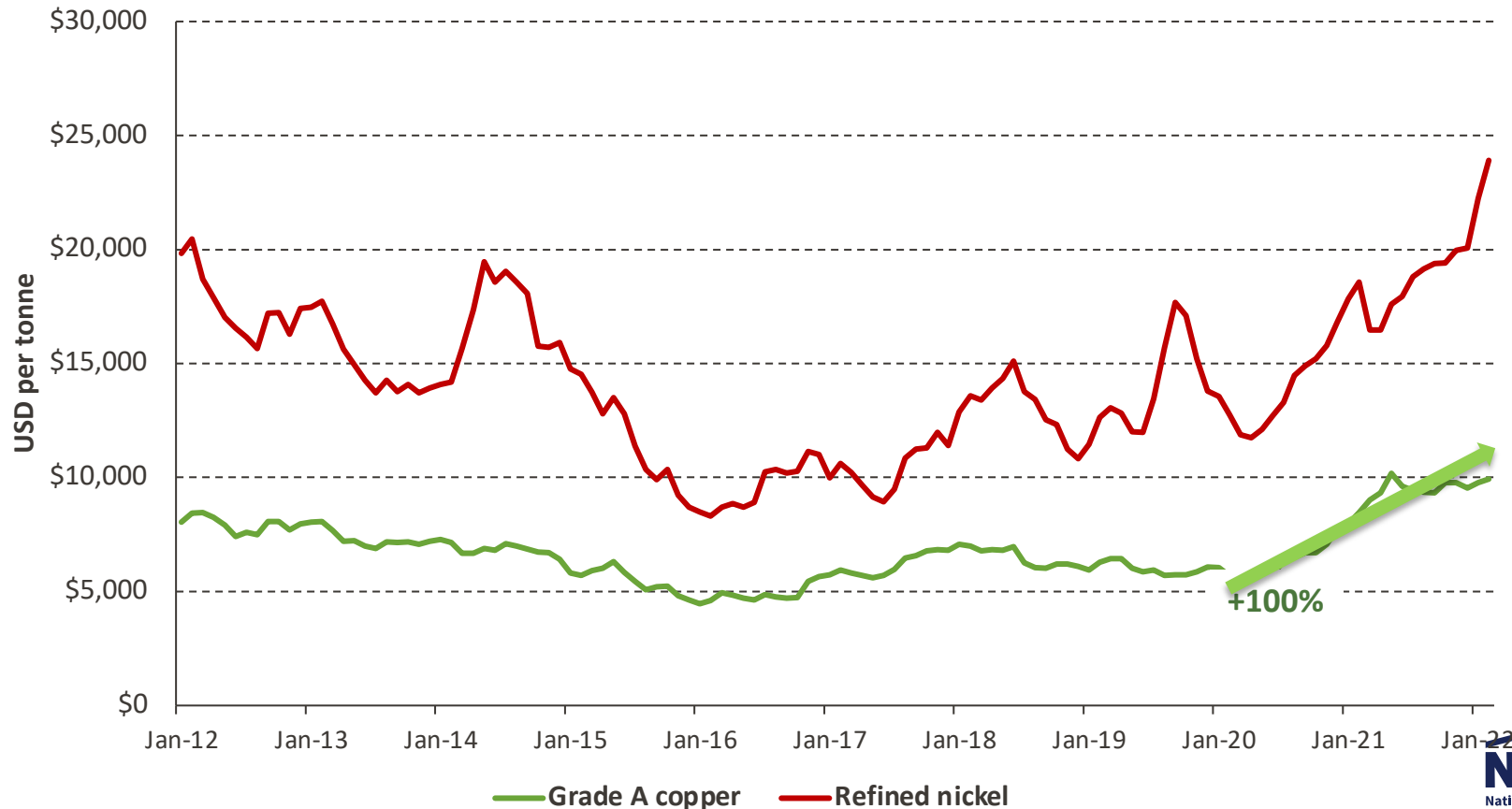
— OSB

— Southern Pine Plywood

— Western Fir Plywood

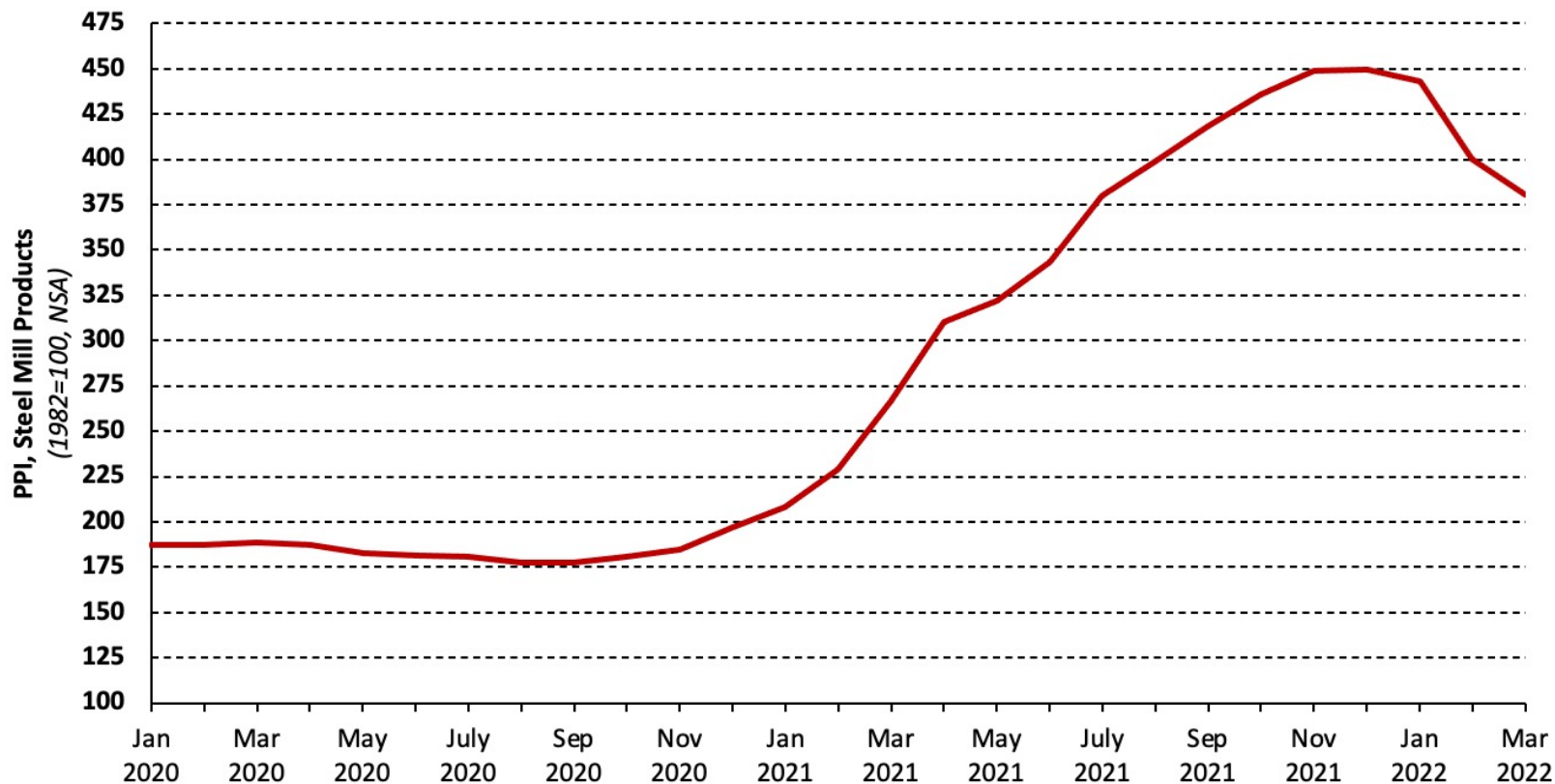
Building Materials Prices – Metals

Copper, nickel, and aluminum at decade highs



Building Materials Prices – Steel Mill Products

Up 145% since Oct. 2020 but showing weakness



Source: U.S. Bureau of Labor Statistics



Building Materials Prices – Aluminum

Down 22% since early March

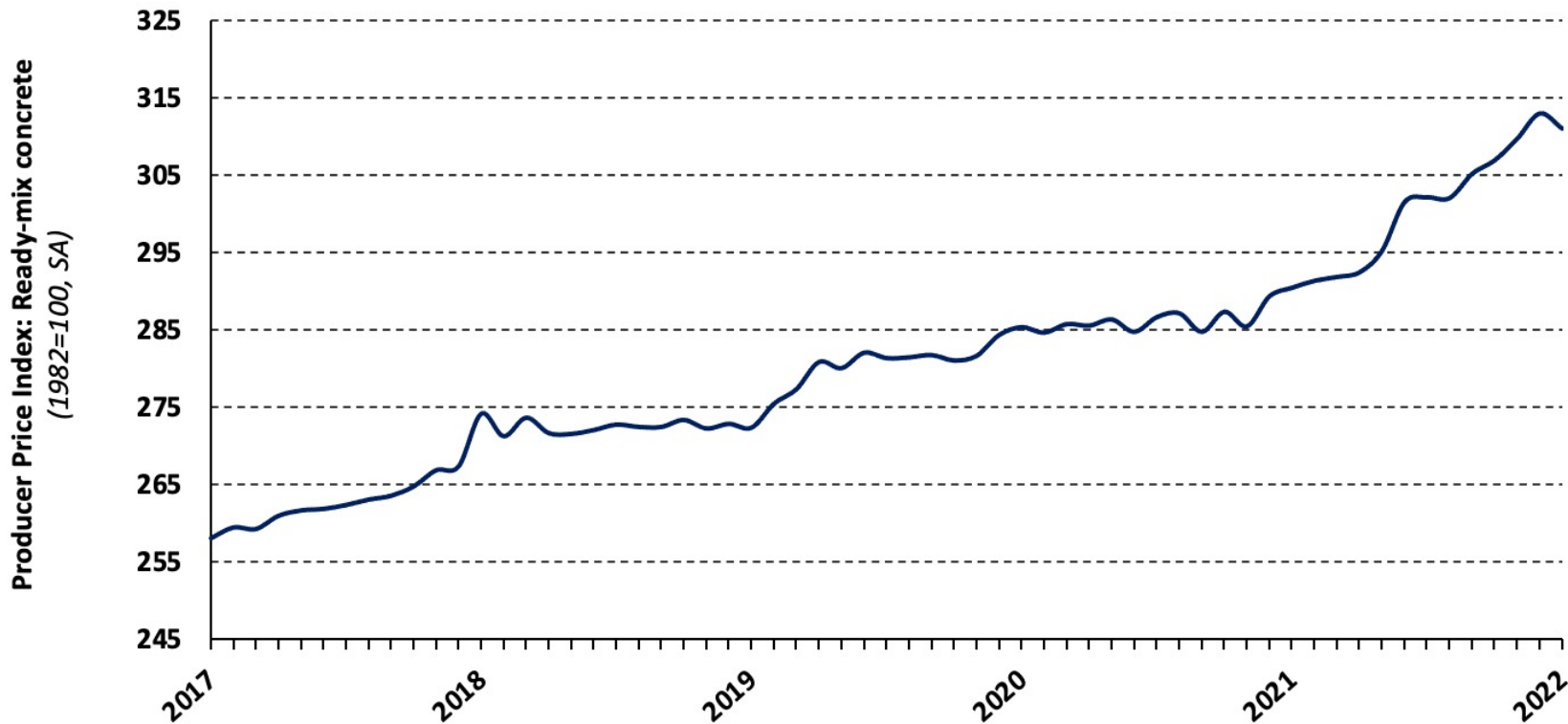


Source: COMEX



Building Materials Prices - Ready-Mix Concrete

Up 9% since January 2021



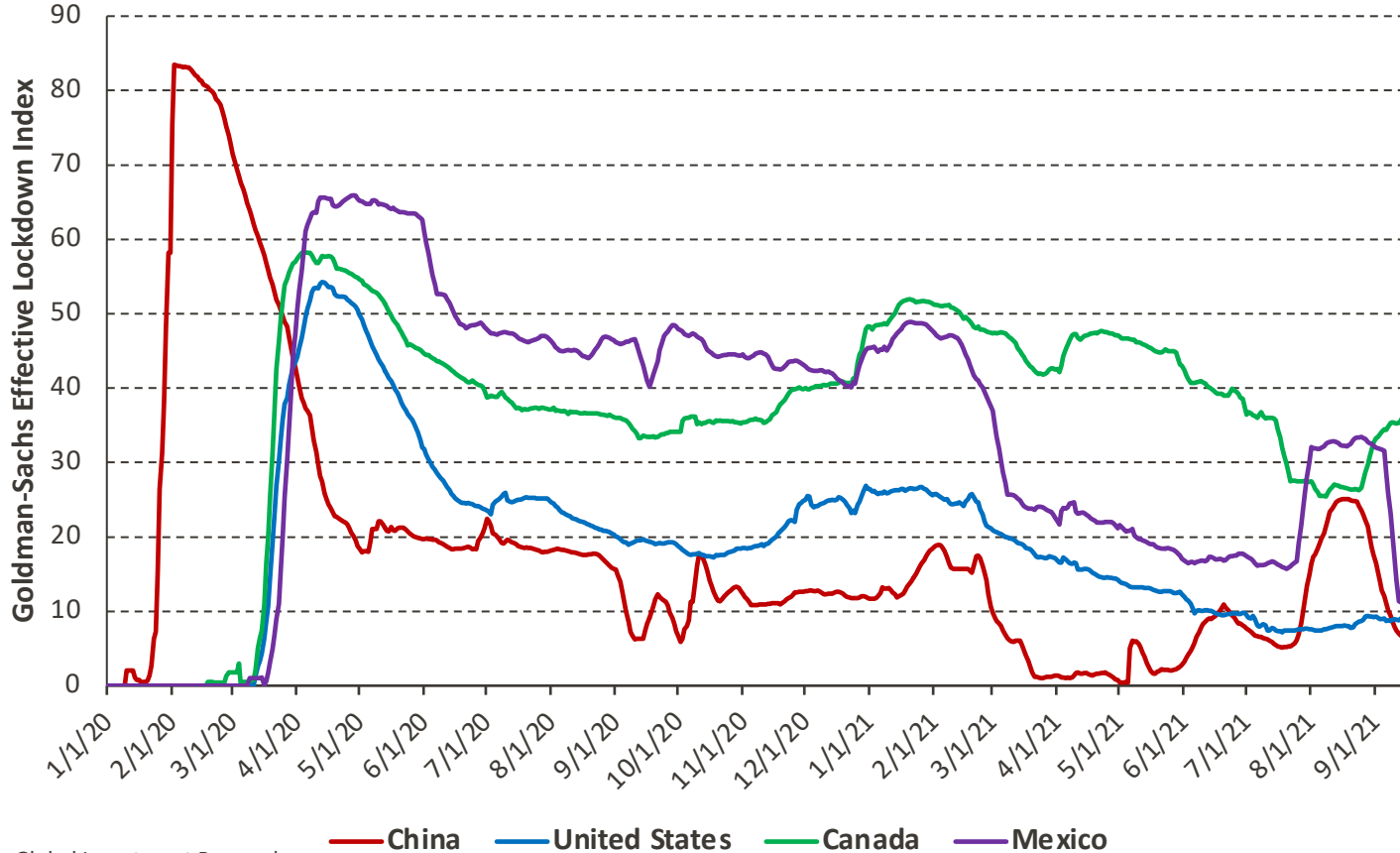


Looking Forward



International Forces Will Guide Materials Costs

Pandemic Effects – Supply Chain Whiplash



Source: Goldman-Sachs Global Investment Research.



International Forces Will Guide Materials Costs

Canada's importance to global lumber markets

- When Canada sneezes, global lumber markets get pneumonia.
- Large reduction in available supply
 - Pine beetle
 - Fires
 - Old-growth policies



International Forces Will Guide Materials Costs

Europe

- Lost a significant amount of supply in 2021 as exports to the United States
- Slowed in H2 2021, but could reemerge if prices keep increasing
- Largest source of lumber in Japan, but exports fell in 2021
- North American firms investing in European capacity
 - Most notably in Sweden and Germany

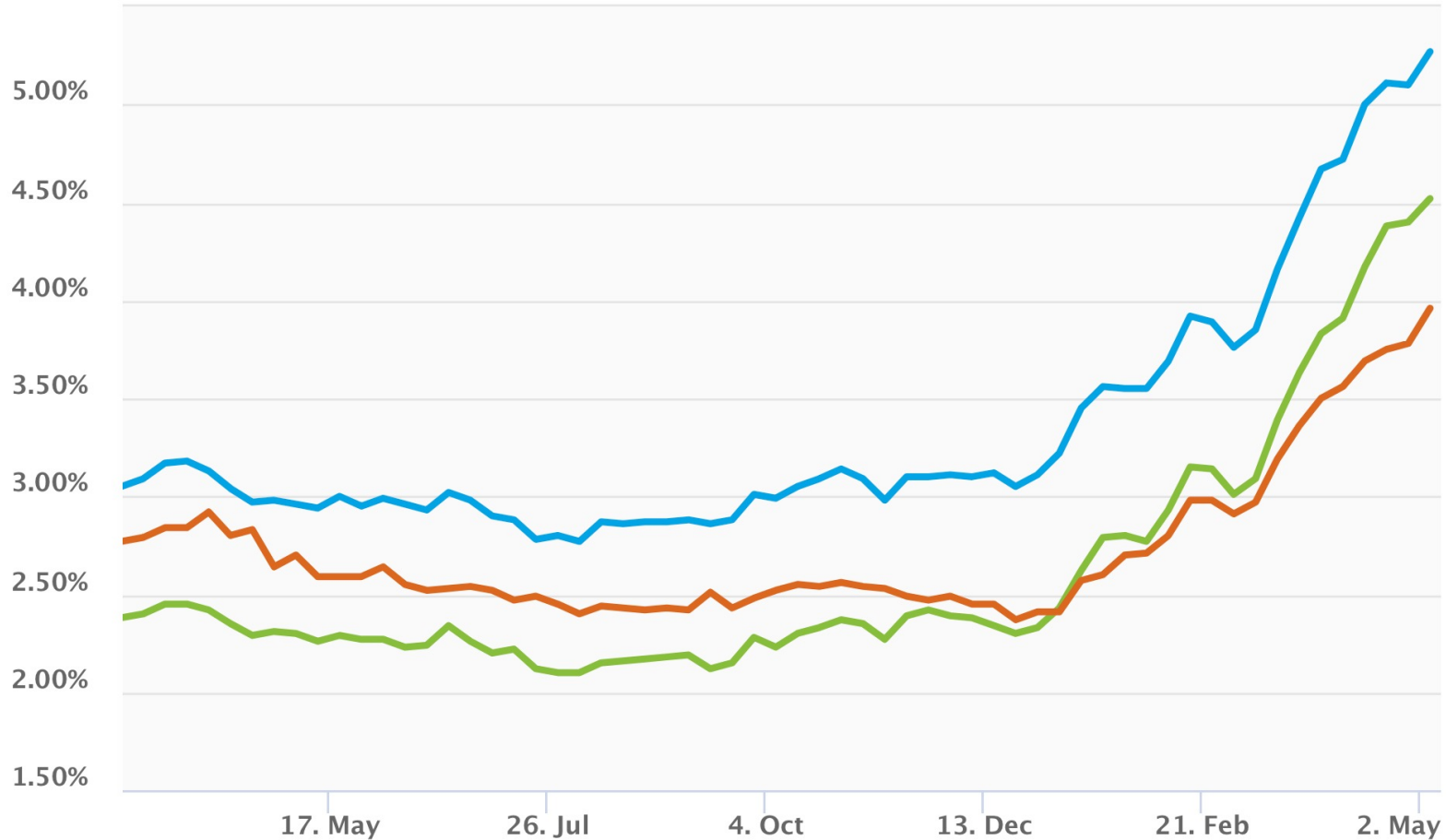


International Forces Will Guide Materials Costs

Interest rates

- Federal Reserve has already increased rates twice this year
- Six more rate increases expected in 2022 (reaching 3%-3.25%)
 - Will suppress housing demand (already seeing the effect of rising mortgage rates)
 - Good for global availability
 - Depends on actions taken by the ECB, BOJ, and BOE
- European Central Bank
 - EU inflation was 7.5% in April, up from 5.1% in January (year-over-year)
 - Market has begun pricing in three rate hikes in 2022 (0.25ppt each)
 - ECB no longer actively downplaying that possibility
 - Fundamental difference between US and EU situation

U.S. Mortgage Rates: May 2021-May 2022





International Forces Will Guide Materials Costs

Interest rates

- Bank of Japan
 - Left its key short-term rate at -0.10% at April meeting
 - Board revised its inflation forecast up, nearing the 2% benchmark
 - Most assume benchmark rate will remain unchanged, BUT...
“The BOJ never committed to keep rates on hold until inflation exceeds 2%”
 - Current inflation due to higher raw materials costs, not “hot” demand
- Reserve Bank of Australia
 - Raised benchmark rate by 25 basis points this week, surprising markets
 - First rate hike in more than 10 years, inflation at 20-year high
 - Markets betting on increase to 0.75% in July
 - RBA indicates rate could get to 2.5%



International Forces Will Guide Materials Costs

Geopolitical tensions - Russia

- Disruption in trade flow would most acutely affect Japan's lumber supply
 - Supplied 18% of Japan's softwood lumber imports in 2021
- Had not changed overseas of imports to the US
- Has banned log exports
- China's largest lumber supplier and could get bigger
- Natural gas (LNG): Russia supplied 20% of EU's natural gas in 2021

International Forces Will Guide Materials Costs

Geopolitical tensions, global financial/commodities markets

- Energy prices
 - Roughly 10% of residential construction materials costs
 - After 35% gain following Russian invasion, prices have declined 15%
 - Petrol prices up 23% (US), 18% (EU), 10% (Brazil), 1.5% (Japan), 6% (AUS)
- Financial markets
 - Have been LARGE underpinning of housing demand
 - Since Russian invasion of Ukraine
 - +5.6% (OBX), +3.3% (Nikkei), -3.4% (S&P), +0.1% (FTSE)



International Forces Will Guide Materials Costs

China, China, China...and China

- An ailing real estate sector reduced building materials consumption
 - Softwood lumber imports fell for a second consecutive year in 2021
- Government-mandated rolling power blackouts among industrial plants constrained supply.
 - Affected nearly all manufacturing
- Chinese imports shifted heavily toward softwood logs
- Exports of sawn timber to China have plummeted
- Interaction with Russia remains a wildcard



International Forces Will Guide Materials Costs

Trade

- Indo-Pacific Economic Framework
 - United States' attempt to mitigate China's role in the Asia-Pacific supply chain
 - Secretary of Commerce and U.S. Trade Representative have visited
 - Australia
 - Japan
 - South Korea
 - New Zealand
 - Taiwan also on the list

Thank you

Questions?

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