

# Building Products market update

Industry Consulting Team | Q4 2021

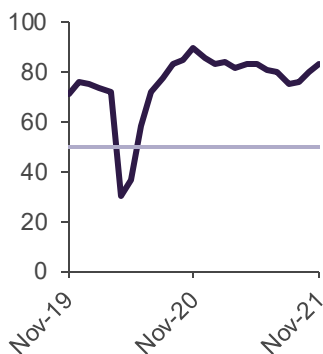
**Matt Roth**  
Industry Consultant  
Building Products  
202.835.9319  
[Matt.Roth@Truist.com](mailto:Matt.Roth@Truist.com)

**Adam Schulze**  
Analyst  
Building Products  
(913) 787-7489  
[Adam.Schulze@Truist.com](mailto:Adam.Schulze@Truist.com)

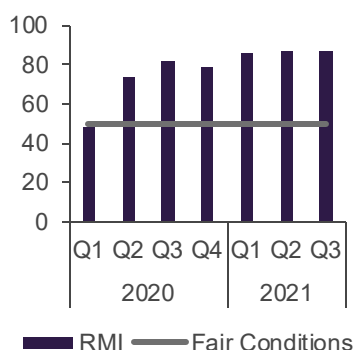
## Highlights

- Spending remains strong and expected to continue
- Low inventory levels keep home prices high
- Highly active repair and remodel environment
- Input prices continue to increase, but at slower rate
- Infrastructure Bill signed

**Figure 2: Housing Market Index<sup>(2)</sup>**



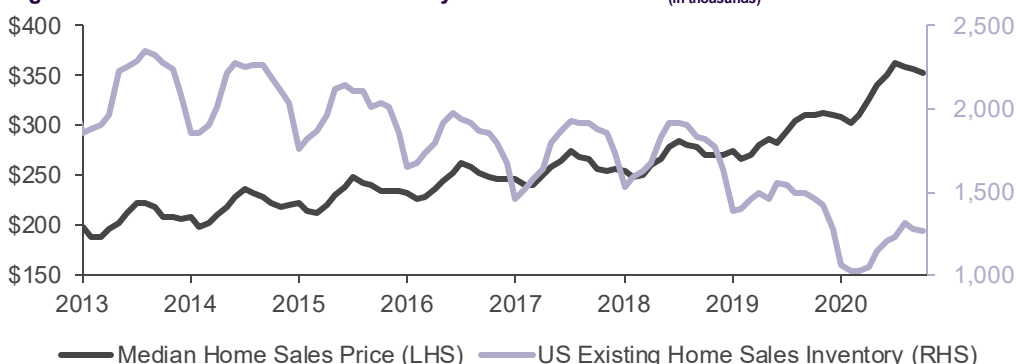
**Figure 3: Remodeling Market Index<sup>(2)</sup>**



## Residential Construction

**Residential Home Builders:** Housing demand remains strong, but housing starts have slowed in recent months. Homebuilders blame supply chain disruptions and limited lot supply as the main contributors for the modest slow down. Nearly all builders are working through unique challenges, but healthy financial performance supports an overall bullish environment. Traffic counts and sales activity remain robust, but the number of homes available for sale are limited. Some homebuilders have mentioned rationing remaining lot inventory to ensure lot developers have enough time to replenish needed units in popular markets. As shown below, total US home sales inventory has been trending downwards for many years and decreased sharply in the pandemic. The limited supply has a positive effect on home values. Average home values increased dramatically in 2021 setting multiple new record highs throughout the year.

**Figure 1: Residential Home Sales Inventory & Home Value Trend (in thousands)**

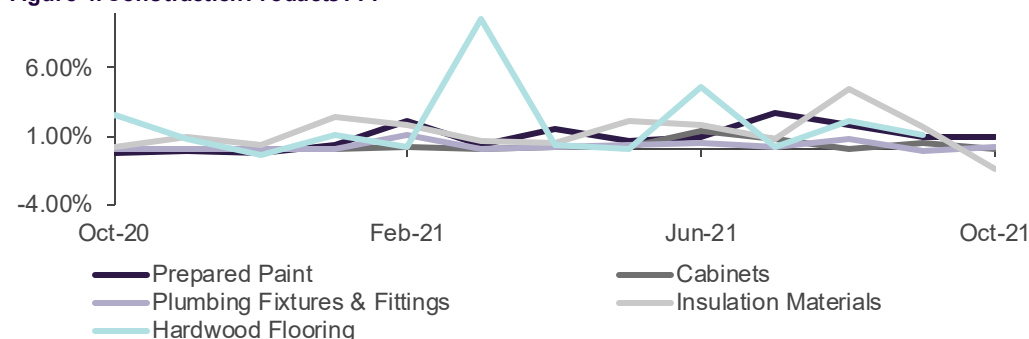


**The Housing Market Index (HMI)** from NAHB is a survey of homebuilders on overall market conditions where responses over 50 confirms a favorable environment. The November 2021 result is 83 and has been favorable since June of 2020. The peak occurred in November of 2020 with a score of 90, but has remained very strong in the 70's and 80's otherwise.

**Remodeling Market Index (RMI):** Historically, residential repair and remodel spending is less cyclical than new construction and represents almost 50% of all building product sales compared to 32% for residential new construction. R&R spending increased throughout 2020 and has remained very strong through 2021. Access to increasing home equity, coupled with aging housing stock, has created a ripe environment for growth and does not appear to be changing anytime soon. Many of the larger remodeling projects that were postponed in 2020 are now coming online. The large retailers that provide the bulk of materials for remodelers acknowledge this trend with strong growth in average ticket sizes.

**Construction Products PPI:** The price of all inputs used in residential construction are up 14.5% YTD doubling the previous record incurred in 2008. Thankfully the rate of increase is flattening, although certain products like paint, flooring, plumbing and cabinets are expected to see additional hikes, which are in motion now. The increased cost have accelerated sales growth for both manufacturers and distributors who are posting record earnings in this cycle which feels like a "once in a career" type event. We expect strong margins to hold in 2022 as manufacturers will be slow to reduce any prices even if raw materials pressure subsides.

**Figure 4: Construction Products PPI<sup>(1)</sup>**



(1) PPI is used as an economic indicator. PPIs have an index base set at 100 for the month prior to the month that the index was introduced. Price changes are measured in relation to that figure. An index level of 110, for example, means there has been a 10% increase in prices since the base period.

(2) Indices are based on surveys that rate market conditions. an index number of 50 or higher indicates a higher share of participants view conditions as good rather than poor.

# Building Products market update

## Industry Consulting Team | Q4 2021

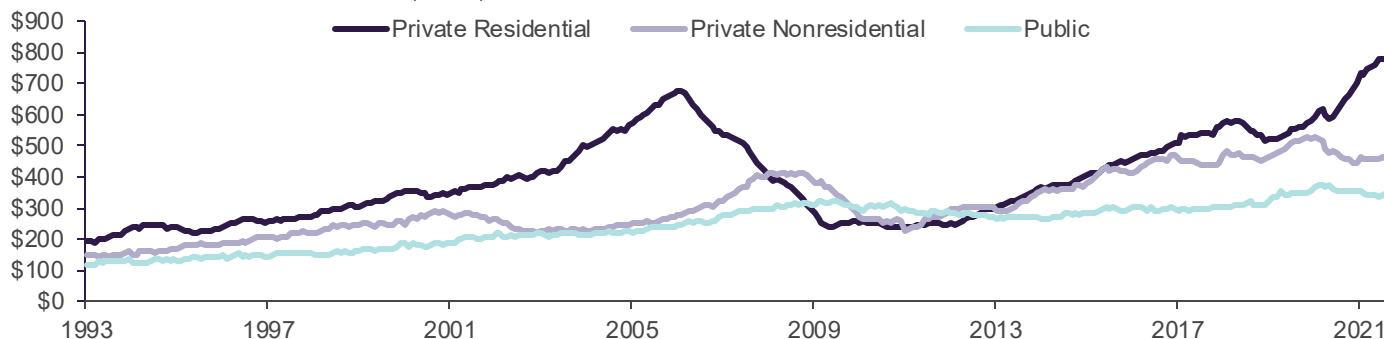
**Softwood and Hardwood** price fluctuations have been well publicized throughout 2021. Softwood lumber prices peaked at over \$1,200 per thousand board feet (MBF) in May of 2021 before falling just as aggressively in June and July. Lumber prices remained steady in Q3 in the low \$400's compared to pre-pandemic averages closer to \$300. Price stability did not last long and is on the move again in Q4 with sharp increases in October and November in to the mid \$600's. Most believe there is a new floor in lumber pricing somewhere around \$500 per thousand board feet, and we do not expect to see the dramatic spikes from earlier this year. Market awareness and added saw mill capacity should temper future upswings. Hardwood products have also seen noticeable increases in price. The move has been more subtle than softwood and is up roughly 60% in 2021 alone.

**Non-Residential Construction** spending trends were mostly flat in 2021, but are building momentum going in to 2022. Architectural Billings Index (ABI) and Dodge Momentum scores continue to point towards expansion and AIA Consensus Construction Forecast Panel is now calling for non-residential construction spending to increase 4.6% in 2022 compared to (-3.9%) decrease in 2021. Multifamily expansion continues to post very positive growth numbers and healthcare is also performing well. Retail will likely start to grow again in 2022 as it follows the residential expansion into new markets. Hospitality may even show signs of life after being very negative for almost two years now. We also expect repairs and remodel spending to increase as deferred maintenance and larger re-model projects that were mothballed in the pandemic come back online.

The \$1 trillion Infrastructure Bill was signed by President Biden on November 15th. Heavy materials providers and site contractors are pleased to see that it includes reauthorization of surface transportation programs for five years and investing \$110 billion in additional funding to repair roads and bridges. Public spending in normal years represents between 30-40% of aggregate sales and there is no question the added stimulus will impact heavy material supply and likely spur additional price increases. The major provisions of the bill are outlined below:

\$110B	Surface Transportation Reauthorization
\$89.9B	Public Transit Guaranteed Funding
\$65B	Rail Funding
\$65B	Broadband Infrastructure
\$65B	Clean Energy
\$55B	Clean Drinking Water
\$50B+	Climate Change Resilience
\$39B	Transit Investing
\$25B	Airport Infrastructure Repair
\$21B	Superfund Cleanup Reclamation of Mines
\$17B	Port and Waterway Infrastructure
\$7.5B	EV Charger National Network

**Figure 7: Construction Spending Trends** (in billions)



Sources: Bloomberg, US Census Bureau, NAHB, NAHB/WF, Bureau of Labor Statistics, National Association of Realtors, McGriff Insurance Services, Inc., Truist Securities, Building Products Primer, BofA Global Research, Forest2Market, Truist Bank, Member FDIC and an Equal Housing Lender. ©2020 Truist Financial Corporation, Truist Bank, Truist and Truist Securities are federally registered service marks of Truist Financial Corporation

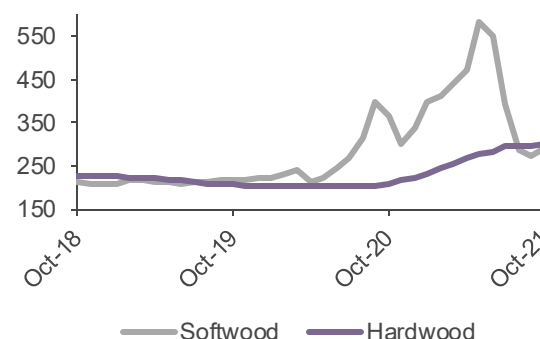
### Truist Solutions Spotlight



### McGriff National Forest Products Practice

McGriff's National Forest Products Practice understands the building product industry. We have direct relationships with most insurance companies that provide coverage for building material manufacturing and distribution companies. Our team works with companies of all sizes to identify your business risks and help limit exposure. We are dedicated to providing unique solutions to protect you, your employees and your business from costly disruptions.

**Figure 6: Softwood & Hardwood PPI<sup>(1)</sup>**



**Figure 5: Aggregates PPI<sup>(1)</sup>**

