

Building Products market update

Industry Consulting Team | Q1 2022

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Highlights

- Jan home starts down 4.1% to 1.638MM
- Soaring energy prices could trigger another round of input inflation in 2022
- Record backlogs for manufacturers, distributors, and contractors
- Multifamily production remains strong due to lack of for sale inventory

Figure 3: Remodeling Market Index ⁽¹⁾

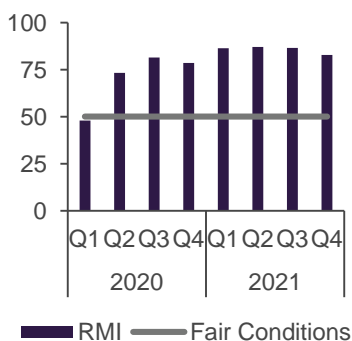
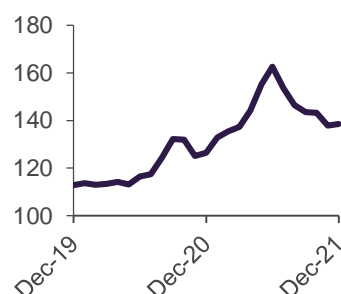
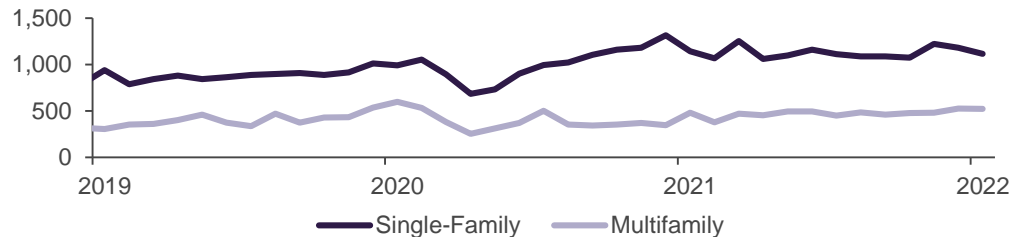


Figure 4: PPI Inputs to Multifamily Residential Construction ⁽²⁾



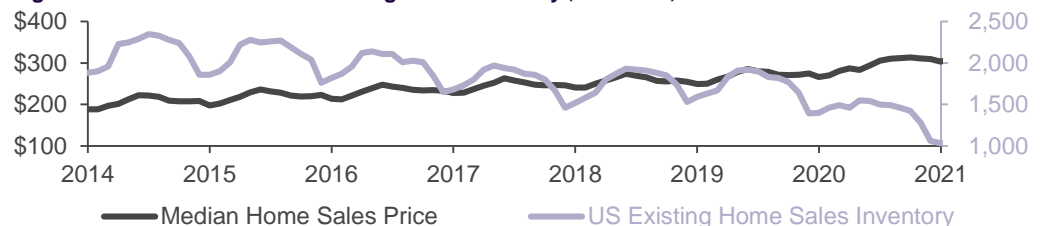
Residential: Residential spending has started to cool off from red hot levels seen in late 2020 and 2021. The main driver behind this continues to be supply chain issues which have caused homebuilder production to moderately slow down. It is common among home builders to require an additional 2-6 months for completion depending on project size. This elongated timeline pulls down total spending and acts like a governor on supply. The limited supply has also impacted manufacturers and distributors with record backlogs who cannot get enough material or products to keep up with demand.

Figure 1: New Housing Unit Starts (in thousands)



We do believe there are indicators for some level of demand deterioration in 2022. Interest rate increases, inflation, affordability concerns, and geopolitical uncertainty will likely shift residential buying habits. Per Truist Securities, the equity markets are already factoring in a moderate recession due to expected volume decreases and overall flat prices. Unless raw material prices contract quickly, the industry will face another round of input inflation in the second half of 2022 that could be tricky to pass through to end users. That being said, housing has strong tailwinds for a number of reasons. The total housing market was just under 1.6MM starts in 2021. This was above a long accepted demographic need of housing units of 1.4-1.5MM. Regardless, the market remains in a severe shortage as seen by the historically low inventory with very high prices. The industry underbuilt the above demographic need for roughly 14 years after the Great Recession and the pandemic caused geographic migration of both urban to suburban and suburban to rural. Together these tailwinds in housing will keep any demand deterioration in check.

Figure 2: Home Sales Price & Existing Home Inventory (in thousands)



Repair and Remodel: The Remodeling Market Index, which gauges sentiment around remodeling in the present and future, is down to 83 in Q4 2021 (from 87). With 50 being a benchmark for Fair Conditions, 83 is still a strong number that points to the enthusiastic demand for remodeling. Large retailers like Lowe's and Home Depot control a large portion of residential remodel sales and performed very well in 2021. Recent data indicates strong sales due to elevated prices, but volume and traffic count in stores has started to slow which could be another sign that spending is returning to more typical levels. R&R spending is less cyclical and is expected to remain relatively strong through a moderate slow down.

Multifamily: There are currently 750,000 multifamily units under construction which is on track to deliver 500,000 completed units in 2022. Surging lumber price increases to near record levels in early 2022 may temporarily slow down MF starts, but long term the lack of single family houses will prop up the need for healthy MF growth. MF permits climbed 10.9% in December with 2 year growth up 37.3% vs. single family permit growth at -8.2% and 26.6% respectively.

(1) 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.

(2) 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.

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Ukraine / Russia conflict: Per Truist Securities, the potential impact on the US construction and building products industry is fairly muted since neither nation involved is a leading source of building product inputs or demand. However, the conflict and international response could stoke product cost inflation, transportation costs, and add complexity to an already challenged supply chain. One particular area to watch is around Russian hardwoods, especially Birch. Birch is a rigid hardwood which makes it ideal for cabinets, flooring, and furniture. Russia supplies the US with roughly 9-10% of hardwood consumed of which 97% is Birch.

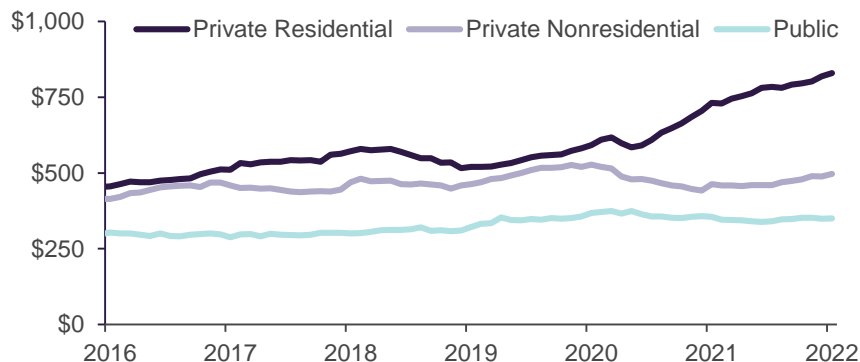
Another concern associated with the conflict is the rapid increase of crude oil. Energy costs were already increasing, but changes with the Russian oil supply have accelerated the pace. Transportation and energy needed to power manufacturing feel the pain immediately. Other petrochemical products, like plastics and resins, will take months for increases to be fully realized by the end consumer.

Nonresidential Construction: As expected, initial financial results in Q1 indicate strong growth for non-residential spending. Demand is spring-loaded with record backlogs across the sector and is building momentum that should extend into late 2022. ABI was 51 for a second month in a row which is fairly neutral. ABI is a forward indicator for what to expect 9-12 months ahead. A reading above 50 indicates expansion and below 50 indicates contraction.

Infrastructure Bill: The initial flow of increased infrastructure spending has begun and will continue to ramp up through 2022. It is clear that most of the building product projects are being allocated as increases to existing contracts in place. That is great news for well established bridge and road contractors as well as the various subcontractors that support them, but not as good for those newer contractors getting started. We expect the largest spending years from the bill will occur between 2023-2028.

Labor: The construction industry added 60,000 jobs on net in February, according to an Associated Builders and Contractors analysis of data released by the U.S. Bureau of Labor Statistics. Overall, the industry has recovered virtually all (99.0%) of the jobs lost during earlier stages of the pandemic. Still, the construction industry estimates it will need to add 650M new jobs to keep up with current backlog.

Figure 7: Construction Spending Trends (in billions)



Sources: Truist Bank, Truist Securities, Bloomberg, US Census Bureau, NAHB, FRED, CapIQ NAHB/WF, Bureau of Labor Statistics, National Association of Realtors, Timber Check, aia.com, Brent Crude, West Texas Intermediate

Figure 5: Crude Oil (\$ per barrel)

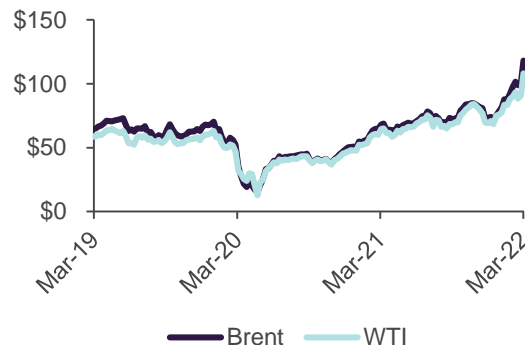
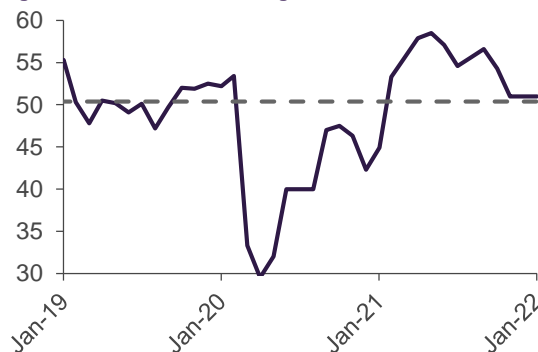


Figure 6: Architecture Billings Index



Industry Expertise

Be sure to check out our latest article in the Truist Business Resource Center, ***A greener view brings new opportunity to building products.*** Read about the factors driving environmental responsibility in the building products industry.

[Click here](#) to read the article.

Building Products Current Events

The National Association of Home Builders 2022 International Builders' Show was held this past February. There were over 45,000 attendees at this year's IBS Conference in Orlando, FL which shows the industry's enthusiasm to continue to grow, share ideas, and learn more about the wide industry of homebuilding.