



Inflation Update (July 2021)

Raw Material – The categories below have seen significant material cost increases over the last 12 months

- OSB – 330% Increase
- Lumber – Up 130% from a year ago. While this number is starting to decrease, we haven't seen that adjustment in our contract price yet and still have several months of raw material inventory on hand.
- Trusses – 135% Increase
- Frames & Components – 60% Increase
- Shingles – 25% Increase
- Insulation – 10% Increase
- Exterior Siding – 20% Increase
- Cabinet Components – 10% Increase
- Windows – 15% Increase
- Trim & Moldings – 25% Increase
- Electrical Wiring – 50% Increase
- Electrical Parts – 10% Increase
- Plumbing – 100% Increase
- Appliances – 10% Increase

Material Supply Shortages

- The supplier of many of our raw material categories are unable to meet demand resulting in shortage and reduced allocations. This is forcing us to buy "off contract" to guarantee supply and these local, non-contract, purchases are driving higher costs. This is anticipated to last for the remainder of 2021 and possibly longer.
- Appliances, OSB, spray foam adhesives, electrical parts, exterior siding and insulation are the major categories.

Import/Freight Delays

- There is a bottleneck of ships at most US ports causing major delays of getting containers unloaded.
- Many freight companies are charging premiums to have their containers prioritized for unloading and these costs are being passed on through the price of the material, such as toilets, lighting, electrical and plumbing parts.
- We are also experiencing a shortage of truck drivers to deliver both the material and our houses and are now being told by transporters that increases are coming.
- This situation could continue for several more months.

Labor Inflation

- Since the onset of the COVID pandemic, government stimulus and subsidies have caused a major shortage of available labor. We have seen extreme challenges with absenteeism and have been working diligently to improve our workplace environment, along with increasing wages to enhance recruiting and retention of our employees.
- Our labor wage increases have not been passed along with material surcharge increases. We are hopeful to use future reduction in material decreases to offset the wage increases and then adjust our pricing downward as we see reduction in our overall material costs.
- Ensuring we offer competitive wages and job experience are critical to increasing productivity and sustaining quality products for our customers.



Reference Articles Related to Inflation

Mutikani, Lucia. "Exorbitant lumber, scarce materials hampering U.S. homebuilding", *Reuters*. June 16, 2021. <https://www.reuters.com/world/us/us-housing-starts-rise-less-than-expected-may-building-permits-fall-2021-06-16/>

Copper is in short supply, while tariffs on steel imports are also adding to building costs, which are boosting new home prices and contributing to higher inflation. Some appliances are also scarce because of a global semiconductor shortage.

A separate report from the Labor Department on Wednesday showed import prices rising 1.1 percent in May. That lifted the year-on-year increase to 11.3 percent, the largest gain since September 2011, from 10.8 percent in April.

"The U.S. is experiencing cost-push inflation, which historically has proven more temporary than other causes of inflation, primarily demand pull," said Ryan Sweet, a senior economist at Moody's Analytics.

Druzin, Rye. "US steel prices rising despite higher mill utilization", *Argus Media*. June 16, 2021. <https://www.argusmedia.com/en/news/2225591-us-steel-prices-rising-despite-higher-mill-utilization>

When US steel production returned to pre-Covid levels, many in the US steel industry said that would mark the beginning of a plateauing of the unprecedented 10-month rally in prices. So far, they have been wrong.

Imports, which traditionally have come into the US during times of high prices as a lower-cost alternative, have also not been arriving in sufficient numbers or at substantial discounts to impact the domestic market.

Increased costs due to rising global prices coupled with the 25pc Section 232 steel tariffs imposed by then-president Donald Trump in March 2018 have kept many imports at bay.

Kalinowski, Gail. "Rising Costs, Labor Shortages Impact Development: NMHC", *Multi-Housing News*. June 10, 2021. <https://www.multihousingnews.com/post/rising-costs-labor-shortages-impact-development-nmhc/>

NMHC found 86 percent of respondents were impacted by a lack of construction materials, the highest recorded since the survey began at the beginning of the pandemic last year. The latest survey also saw a record 100 percent of the respondents reporting price increases in materials, up from 93 percent in round six and 82 percent in round five.

The average firm experienced a 38 percent price increase over the past 12 months for its most impacted materials, excluding lumber. The overwhelming majority of respondents (78 percent in this round) indicated lumber increases were the steepest but they also experienced hikes in metal components, including steel and copper (47 percent of respondents); drywall/insulation (21 percent); PVC (16 percent) and electrical components (12 percent).

In response to the lumber price hikes, 62 percent of the firms surveyed said they had re-priced projects. Nearly 50 percent of respondents said they continued projects but made price-saving modifications or eliminations. Other changes included delaying starts of projects (39 percent), using alternative materials (35 percent) and changing lumber buying practices such as new or increased use of lumber brokers (35 percent).

Fabris, Casey. " Home builders juggle intense demand, cost increases for materials", *The Roanoke Times*. June 19, 2021. https://roanoke.com/business/local/home-builders-juggle-intense-demand-cost-increases-for-materials/article_c3944c34-ce1b-11eb-84a1-d30106ae7156.html

"Lumber has been the one that's received the most publicity, but really any material that comes from a manufacturing plant has had more significant cost increase over the last 12 to 18 months than historically average," Beisley said, citing drywall, roofing shingles, PVC piping and electrical wiring as examples.