

## Labor and Materials Shortages to Challenge Otherwise Optimistic Homebuilders

U.S. housing starts fell -9.5% to a 1.57 million unit annualized pace in April, well below the 1.7 million median forecast. Housing starts have been wildly volatile in recent months with February hampered by severe weather and March surging when the skies brightened. April's drop can be pinned on rising materials costs and difficulty finding skilled workers, *problems that promise to linger.*

Building permits, which typically lead starts by 30 to 45 days, rose +0.3% in April to a 1.76 million unit pace, near a 14-year high. *However, 49% of the single family permits issued had not yet broken ground, the highest percentage since 1999.* There are actually more homes under construction than at any time since 2006, but the backlog is growing and supply remains stubbornly below surging demand.

CNBC recently reported that 25% of available housing is new construction, whereas this percentage has historically been closer to 10%. This inherently means prices will reflect the scarcity of building materials and construction workers. The National Association of Home Builders (NAHB) reported the cost of lumber has increased nearly +350% over the past year, adding almost \$36,000 to the average price of a new home. In addition to soaring lumber prices, both steel and copper are at, or near record highs. In fact, googling "glass shortage," "roofing materials shortage" and "wood flooring shortage" all produce similar limited supply stories.

The inaugural HBI Construction Labor Market Report, which uses data from the NAHB, showed a shortfall of 200,000 construction workers at the end of 2020. This count, which does not include subcontracted labor, rocketed above 300,000 in the first quarter. The Home Builders Institute (HBI), the nation's largest provider of training for skilled workers for the residential construction industry, actually cited rising prices as the biggest challenge facing builders, but labor shortages aren't far behind.

The NAHB Market Index, measuring homebuilder sentiment, held steady at a lofty 83 in May. This key housing index, which averaged 49 during the pre-pandemic 10-year economic recovery, would likely be higher if builders had reasonably priced materials and a readily available supply of skilled labor at hand.

The supply/demand imbalance that has fueled record home price increases around the nation is spreading to rental prices. Bloomberg reported yesterday that rental costs for single family homes jumped +4.3% year-over-year in March, reaching the highest inflation-adjusted level since September 2006.

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## Market Indications as of 9:34 A.M. Central Time

DOW	Down 480 to 33,581 (HIGH: 34,778)
NASDAQ	Down 151 to 13,153 (HIGH: 14,139)
S&P 500	Down 57 to 4,071 (HIGH: 4,233)
1-Yr T-bill	current yield 0.04%; opening yield 0.05%
2-Yr T-note	current yield 0.15%; opening yield 0.15%
3-Yr T-note	current yield 0.32%; opening yield 0.33%
5-Yr T-note	current yield 0.81%; opening yield 0.82%
10-Yr T-note	current yield 1.63%; opening yield 1.64%
30-Yr T-bond	current yield 2.35%; opening yield 2.36%

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