



**Testimony of Chuck Fowke
Founder and President, Homes by John C. Fowke Inc.
On Behalf of the
National Association of Home Builders**

**House Small Business Committee Subcommittee on Oversight, Investigations, and
Regulations**

Global Supply Chains and Small Business Trade Challenges

Wednesday, October 20, 2021

Introduction

On behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), I appreciate the opportunity to testify today. My name is Chuck Fowke, and I am Founder and President of Homes by John C. Fowke Inc. located in Valrico, Florida.

Building a high-quality American home relies on goods and materials produced both here in the United States and across the globe. Coordinating the timely delivery of reasonably priced materials and products to the build site is challenging under the best of circumstances. The COVID-19 pandemic has roiled global supply chains making this once challenging endeavor nearly impossible.

Supply chain disruptions have affected (and continue to affect) the home building industry profoundly. From record high lumber prices to severe shortages of myriad building materials, the result has been lengthy construction delays or postponed projects and dramatic price increases. This is further harming housing affordability at a time when we already face an ongoing housing affordability crisis. Until we address all of the underlying causes of the crisis, millions of households are denied the American dream of homeownership, and millions more are rent burdened.

While all businesses have without question been affected by the COVID-19 pandemic and related supply chain disruptions, smaller firms in our industry have experienced these trying times differently. Many smaller volume home builders have faced unique challenges relative to their larger competition as both compete for the same, diminished pool of increasingly expensive inputs.

Unfortunately, the systemic weaknesses that led to today's supply chain challenges have existed for some time, particularly where lumber is concerned. The COVID-19 pandemic merely exposed those structural weaknesses in our building materials supply chain. If Congress is serious about addressing the growing housing affordability crisis, part of the solution must be addressing the many and varied challenges currently plaguing our building materials supply chain.

Building Materials Prices Continue to Climb Impacting Housing Affordability

Historically high lumber and building materials prices continue to serve as headwinds for the U.S. housing sector. Housing has been a bright spot for the U.S. economy as the nation continues to recover from the COVID-19 pandemic. However, there is mounting evidence that this success is at risk as builders have seen a dramatic increase in the cost of materials.

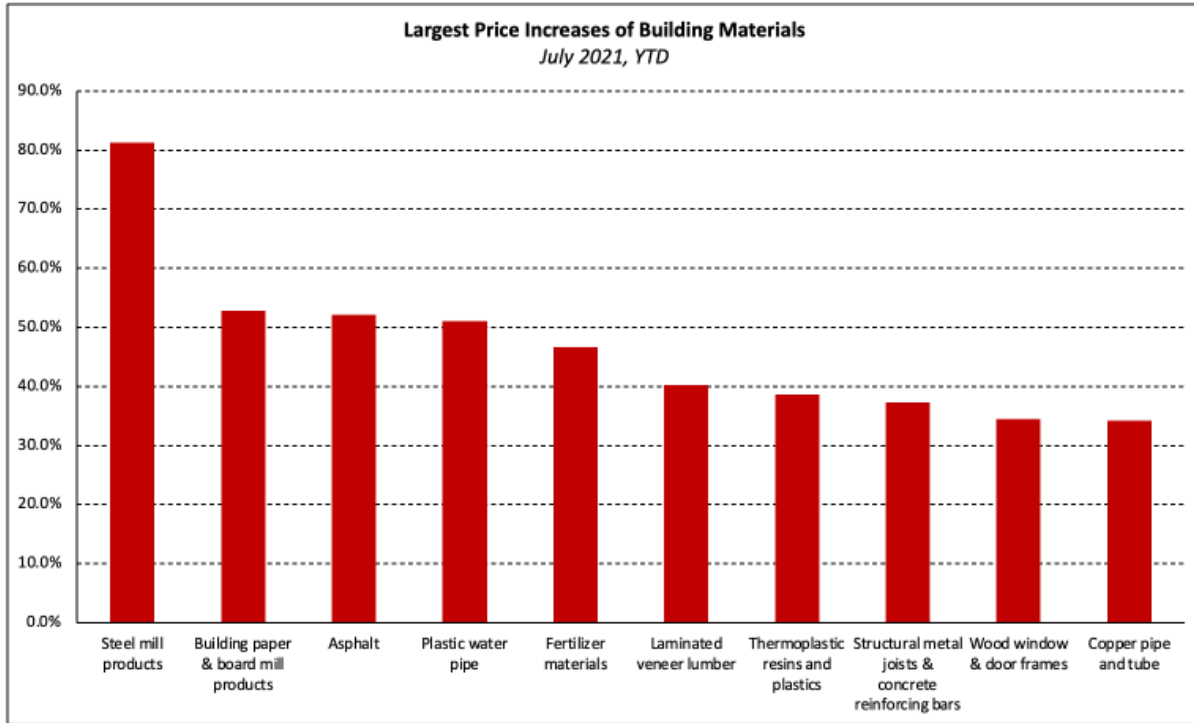
Although combined housing starts for single-family and multifamily for the last six months have averaged a seasonally adjusted annual rate of 1.6 million—a level not seen since 2006—delays and deferrals have become disturbingly commonplace due to longer order lead times and

high prices and price volatility. As a concerning sign that the market may be slowing down, the number of housing units authorized but not started has risen 40% over the past year, setting records both as a share of starts as well as in nominal terms. Any slow-down in housing production would be troublesome as we remain well off the mark of making up the shortages from underbuilding over the course of the past decade. Just within the single-family market, NAHB projects that 1.1 million single-family homes will be built in 2021 and again in 2022. This is a significant increase over past years, but still short of the 1.2 million homes we need to construct annually to keep up with population growth and replace aging housing stock.

The unprecedented price increases are also worsening the ongoing housing affordability crisis. In May of this year, a widely regarded framing lumber index hit a previously unthinkable all-time record high of over \$1,500 per thousand board feet. NAHB estimated at the time the dramatic rise in lumber prices was adding nearly \$36,000 to the price of the average new single-family home, and nearly \$13,000 to the price of each new multifamily home since the previous Spring. This is particularly concerning for new and first-generation homebuyers, as NAHB research shows that more than 150,000 households are priced out of the market for every \$1,000 increase in the price of a new home.

And while lumber prices began a sharp decline in May, it took months for a meaningful portion of those decreases to reach home builders and their customers. Unfortunately, prices began rising again in September and have increased more than 40% over the past six weeks. Furthermore, the futures market suggests prices will climb another 50% by 2022.

Lumber pricing and availability is just one of the many problems we face with the supply chain. Supply chain challenges are driving scarcity and elevated prices on almost every good or material that goes into constructing an American home. According to the Bureau of Labor Statistics Producer Price Index (PPI), the average price of goods used as inputs to residential construction has risen year-to-date (YTD) 13.2%, more than triple the rate of core inflation over the same period. From steel mill products and plastic piping to copper pipe and wood windows and doors, prices are up dramatically year-to-date and are driving growing concerns of a coming slowdown in housing.



Unique Challenges for Small Firms

While historically high prices and supply shortages remain a challenge for all home building firms, they pose unique challenges for smaller firms trying to operate in these trying times. This is of particular concern for an industry dominated by small businesses as half of all partnerships are real-estate partnerships. The typical NAHB builder member builds a median of five houses per year and employs a median of 5 employees. Among the unique challenges small firms face in these times are volatility and uncertainty as well as the ability, or more often the inability, to pass along these ever-increasing prices.

Uncertainty hurts the bottom line of any business but, as very small businesses, the majority of home builders do not have the means to hedge against rising prices. Lacking in buyer power, most residential construction businesses are price-takers—a position made even more precarious due to the contracted nature of the industry. Without large economies of scale, small businesses generally cannot negotiate bulk discounts. To the contrary, builders have often been forced to commit to purchasing materials such as lumber without knowing exactly what the cost will be when delivered. The effects of this uncertainty trickle all the way to the buyer, many of whom have balked at projects at the last minute due to unexpected price increases. Meeting customer expectations and maintaining one’s good reputation is critical to the survival of all home builders—and all small businesses—but has become exceedingly difficult in the current state of logistics.

Conclusion

Building materials supply chain challenges exposed and exacerbated by the COVID-19 pandemic are driving an unsustainable increase in the cost to construct a new home. This is affecting the entire housing market and is accelerating the growing housing affordability crisis. Small home building firms are particularly threatened by the current situation.

At the core of today's building materials supply chain issues are two fundamental problems – barriers to trade and challenges associated with moving goods to their final destination. Congress and the administration need to consider steps to reduce or remove barriers to trade. This includes at least temporarily suspending duties (until a longer-term solution can be reached) on a wide array of imported building materials and goods, from Canadian softwood lumber to steel and aluminum. In addition, Congress and the administration must continue to aggressively explore solutions to port congestion and the persistent delays in truck and rail transportation. While the administration's move to extend and amend its trucking hours of service waiver to include building materials was a helpful step in the right direction, more can and must be done.

As the U.S. housing market continues to grow to meet our nation's housing demand and make up for a decade of underbuilding, demand for lumber and other building materials will only increase. I commend Chairman Phillips and Ranking Member Van Duyne for holding this important hearing today. It is important for Congress to take a deep look at these issues and determine what actions can be taken to address our nation's troubled building materials supply chain.