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Surging Lumber Prices Threaten Housing Affordability

The most serious headwind facing housing markets today is the escalation of framing lumber prices—up 59% since the start of 2017. Recent NAHB surveys suggest the price for lumber has overtaken the availability of labor as the primary business challenge for home builders. Since the beginning of last year, rising lumber prices have added more than \$7,000 to the price of a typical new home and more than \$2,000 to the price of a typical apartment.

There are a number of reasons why lumber prices have jumped, including a rail car shortage in Canada, but the primary factor is the 21% effective tariff rate placed on Canadian softwood lumber. The ongoing concerns over trade wars represent a macroeconomic risk to the gains resulting from the recent tax legislation, and lumber is a prime example.

Nonetheless, builder confidence remains strong, despite total housing starts falling 3.7% in April. Though multifamily starts declined 11% last month, that market is up 10% year-to-date, outperforming our forecast. And single-family starts are 8% above their year-to-date totals from a year ago. However, recent data show a gain in average new-home size, which is an early indicator of weakness in the entry-level market due to rising input costs.

—NAHB Chief Economist Robert Dietz

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