



Basis Points – April 20, 2021

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Above the Fold

What Does a 345% Jump in Lumber Really Mean for Consumers?

Last Friday, May lumber futures set an all-time high of near \$1,300 per board foot. Just one year ago, that same contract was trading at roughly \$345. The obvious ramifications, such as much costlier homes and repairs are frustrating enough, but the shortage of supply could have deeper effects that are both positive and negative. Along with the rise in cost of other building materials, the jump in lumber costs are completely freezing new housing projects that are desperately needed as America's real estate market reaches record prices. At a time when builders should be capitalizing on record housing demand, single family housing starts were off to a rough start, but have since rebounded slightly. Unfortunately, consumers will likely pay up for new homes, while developers take in less profit; a bit of a one-two-punch in the gut of the economic recovery.

On a positive note, pressure is growing for the Biden administration to reduce or eliminate the massive tariffs on Canadian lumber suppliers and at the same time motivate U.S. lumber yards to ramp up production. Lawmakers, trade associations, business owners and even railways are also working on long-term solutions to better deliver raw and finished wood products to distributors and consumers. Experts still see continued volatility in lumber prices, but a great number seem to believe these astronomical costs are transitory and relief could come later in the year.

Three Things

1. *Harley's EU Surprise Proves Global Tariff Tiffs Are Still an Issue* – Milwaukee-based Harley-Davidson, Inc. is yet another casualty of global trade disputes. The Belgium Economic Ministry, on behalf of the EU (European Union), announced the revocation of an agreement that allowed Harley-Davidson to sell internationally produced vehicles in the EU with a tariff rate of just 6%. The recent ruling will mean that all Harley-Davidson products, regardless of origin, will incur a 56% import tariff when sold within the EU trade bloc.
2. *Volvo Gets China Didi Contract* – The Swedish automaker (which, ironically is owned by Chinese manufacturer Geely) was selected to supply its XC90 SUVs (sport utility vehicles) to the autonomous driving division of China's Didi Chuxing for exclusive use. While an official launch date is yet to be released, the Volvos will be part of a large fleet of robotaxis for Didi. Volvo and Didi have been testing technologies in Shanghai since 2019.
3. *Junk Bond Defaults Improving* – High liquidity and improving economic conditions seem to be helping America's riskier companies (and their debt service). Defaults by low-rated companies have dropped to the lowest level in 10 months. After a tough year, investors are also feeling more comfortable lending money to less-stable businesses. And experts see default rates for leveraged loans and junk bonds returning to pre-pandemic levels over the next 12 months.

Did You Know?

Wood's Abundance Makes America's Homes Generally Flimsy

Despite massive deforestation, North America is still flush with wood-producing trees. All that wood has influenced our homes' design. As America started to grow, builders realized that the overabundance of wood made for a cheap, easy-to-use and fast means of construction compared to the masonry or stone across the pond in England and Europe. By the 1800s, when people were looking to build even faster and cheaper, wood balloon framing, which evolved in the stick or platform framing of today, used spaced boards of lumber nailed together to create a skeletal structure. Wooden siding would close the walls in, and a roof would be applied. Unfortunately, wood can easily rot and deteriorate; it's also flammable. This is why American homes have a much lower life-expectancy than many other countries.

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