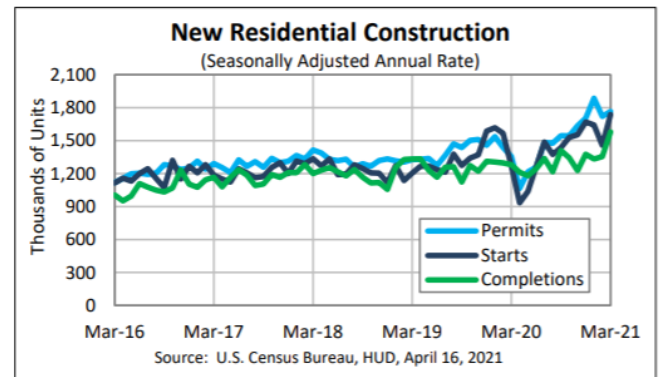


The most common question we seem to get lately is “When will it end?” Ironically, it is possible that the thought that this might have been a short-term spike has caused it to be prolonged. Manufacturers have been hesitant to increase capacity or buy additional raw materials and demand has not only remained strong, but increased. All of that layered on a fragile, post-COVID supply chain that was low on inventory has made for an **unprecedented** (anyone else tired of that word yet?) season that does not appear to be ending soon.

DEMAND

- US Housing starts continue to be strong (1.7 Million in March) and housing supply remains limited.
- NAHB Housing Market Index (a measure of builder confidence) remains at high levels .
- Commercial construction starts were down significantly in Q1 vs 2020, but have begun to stabilize.

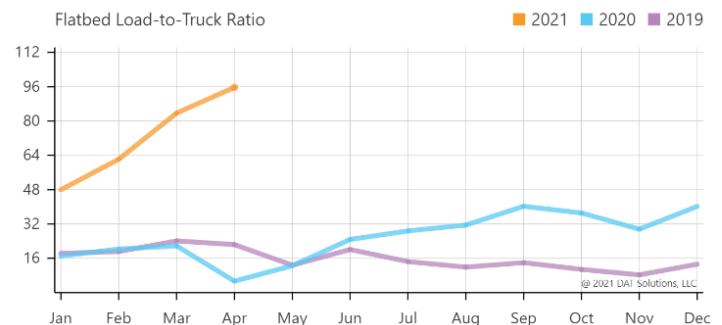


SUPPLY

- Manufacturers have continued to work to build back production post-COVID, but several manufacturers have taken production capacity offline for days/weeks to conduct scheduled maintenance (typically done in Q4/Q1, but delayed as those periods were still busy). Sourcing material remains extremely challenging.
- Production capacity additions can take quarters (small) to years (large) and manufacturers have been hesitant to increase capacity (particularly long-term, high capital additions). Very limited capacity additions scheduled to come online in the next 18 months.
- Manufacturers continue to look at reducing the number of SKUs they manufacture as a way to generate short-term increases in output.
- Latex, acrylic and other key raw materials that were impacted by the Texas storms/chemical plant shutdowns, appear to be stabilizing. Manufacturers expect production to increase over the coming 60 days.

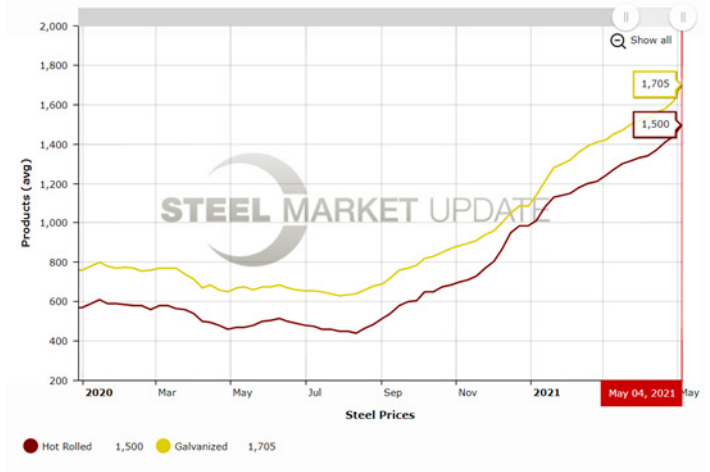
FREIGHT/COST DRIVERS

- Freight availability has become increasingly difficult each month in 2021 and pricing has escalated as a result. Seasonal demand (from produce, garden, etc.) adds to the challenge.
- Frequency of canceled deliveries or delayed shipments from manufacturers is increasing.
- Costs continue to rise on a number of raw materials including synthetic gypsum, paper, glass mat, steel and a variety of additives (particularly petro-chemical derivatives).



STEEL

- Steel costs (HRC & Galvanized) continue to hit all time highs (~50% higher than prior peak of \$1070/ton in 2008).
- China (historically a net exporter of steel) became a net importer of steel in 2020 and removed VAT rebates effective May, 2021 decreasing incentive to export steel.
- US steel production output remains below US steel demand. Import opportunities limited as global steel market is strong.
- US steel mills have not re-started some idle capacity (particularly blast furnaces) despite high steel prices. 2021 capacity additions do not look like they will offset import decreases.
- Manufacturers limiting quoting time horizons due to current market volatility.



OTHER KEY PRODUCT UPDATES

WALLBOARD

- Q1 wallboard demand was up year over year despite several severe storms.
- Shaftwall demand combined with supply challenges have created significant constraints on availability.
- Glass mat supply impacted by chemical plant outages in February.
- Wallboard throughout a majority of the US is on controlled distribution.

INSULATION

- US Fiberglass demand continues to be extremely high and new production capacity not offsetting higher demand levels. OC communicated they expect planned availability to continue into at least Q4 2021.
- Fiberglass/mineral wool currently 100+ day lead times
- Shortages in fiberglass/mineral wool/spray foam have led to tightening supply in XPS and Polyiso as end users look for alternatives.

CEILINGS

- Grid & specialty prices have seen significant increases based on rising metal costs

INTERIOR FINISHING / EIFS

- Manufacturers indicate that raw material supplies are stabilizing and are optimistic that production will begin to pick up in late Q2.

LOOKING AHEAD

- Forecasts for residential demand including predictive data like housing starts show strength continuing for the near future. Commercial forecasts are less robust, but residential growth has absorbed and exceeded commercial weakness in many categories.
- Limited near-term capacity increases will likely not offer significant relief from current and forecasted demand levels. President Biden's Infrastructure bill proposes \$2 Trillion spending that could drive further demand, so tight supply expected to continue.
- Pandemic stimulus spending of nearly \$5 Trillion along with strong growth projections have inflation forecasts staying at elevated levels.
- Manufacturers have continued to announce significant price increases on products throughout 2021. L&W Supply's costs for all products is escalating and we anticipate increases will likely continue with the high demand, escalating costs and supply chain challenges detailed above.

In light of current market conditions, please communicate purchase orders to L&W with as much advance notice as possible (ideally 6-8 weeks). Special order items should be communicated 90+ days in advance. Also, please be sure to confirm acceptance of any quotes in writing. See full quote terms at <https://lwsupply.com/help/terms-of-conditions-of-quotation/>.

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