



## Material Costs Slowing New Homes

# COST OF CONSTRUCTION MATERIALS



Source: FRED: Federal Reserve Economic Data & U.S. Bureau of Labor Statistics  
 Producer Price Index by Commodity: Special Indexes: Construction Materials, Not Seasonally Adjusted  
 As seen on the Tallahassee Real Estate Website [www.manausa.com](http://www.manausa.com)

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Joe Manausa, MBA  
[info@manausa.com](mailto:info@manausa.com)  
 (850) 888-0888

If you were a homebuilder, what would you do right now? On the one hand, the market is as undersupplied with homes for sale than ever before. There has never been a greater need for builder homes and builders are all but certain to sell everything and anything they build right now for homes priced below \$800K.

On the other hand, the cost of materials is soaring out of control due to supply chain issues that came as one of the results of the pandemic. On top of the uncertainty of material costs, the minimum wage is in the midst of rising 75% over a period of five years, and mortgage interest rates are moving higher as the market prepares for the Fed to raise its funds rate.

So again, if you were a builder, what

would you do?

The graph above plots the index of construction material costs in blue (where the level in 1982 is set to 100), and the annual cost percentage change is shown in red. Note how the cost of materials has soared upwards of 30% in the past year alone!

The pre-COVID housing supply imbalance was something that could have been corrected fairly quickly, but the COVID-related supply channel disruptions make this a difficult problem to fix.

Builders are in an interesting situation. They know that the supply of homes for sale (and for rent) are woefully low, and this won't change any time soon. If they can concur (or tame) their material costs, then expect happy builders for many more years.

