BERNARD
BUILDING CENTER

LMC Network TOGETHER WE BUILD®

SECOND QUARTER INDUSTRY UPDATE

INTEREST RATES, HOUSING, & CONSUMER CONFIDENCE

The Federal Reserve's Federal Open Market Committee (FOMC) finally paused raising the nominal interest rate; letting it stand at 5.25% due to the continued easing—but not taming—of inflation.

The FOMC is "strongly committed" to returning inflation to its 2% objective.

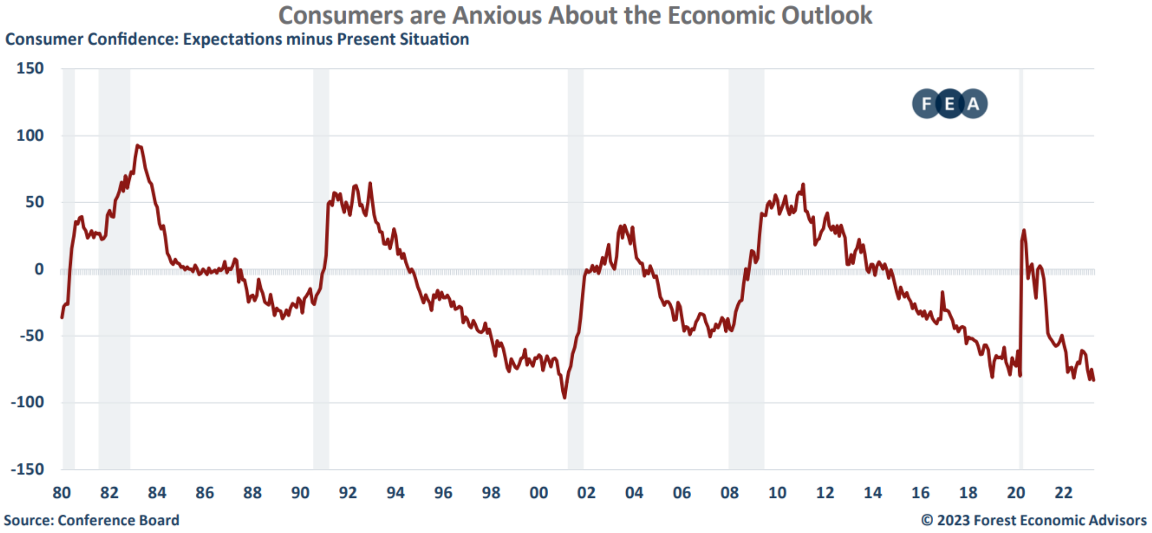
This concludes the most aggressive series of consecutive hikes in history, which consisted of 10 straight rate hikes over 15 months.

The next FOMC meeting occurs July 25-26, 2023.

-March 2023 (+25 points)

-May 2023 (+25 points)

-June (+0 points)



The outlook for residential construction continues to improve even as storm clouds gather over the overall economic outlook. The 30-year fixed conventional mortgage rate is currently at 7.26%. The gap between the 30-year fixed mortgage rate and the ten-year Treasury yield has widened to 3.41% from its long-term average of about 1.8%. The gap will likely start to recede once market participants conclude that the Fed's rate-tightening cycle is at an end and that prepayment risk for mortgages has been reduced. The National Association of Home Builders' Housing Market Index showed a positive upturn in June rising 5 points to 55. This is the sixth month in a row of confidence increases. Actual housing starts for May are up 25.3% over April 2023 and 7.5% over May 2022. Likewise, actual single-family starts are up 17.5% over April 2023 and down only 5% over May 2022. Actual multi-family starts are about 39% of total starts.

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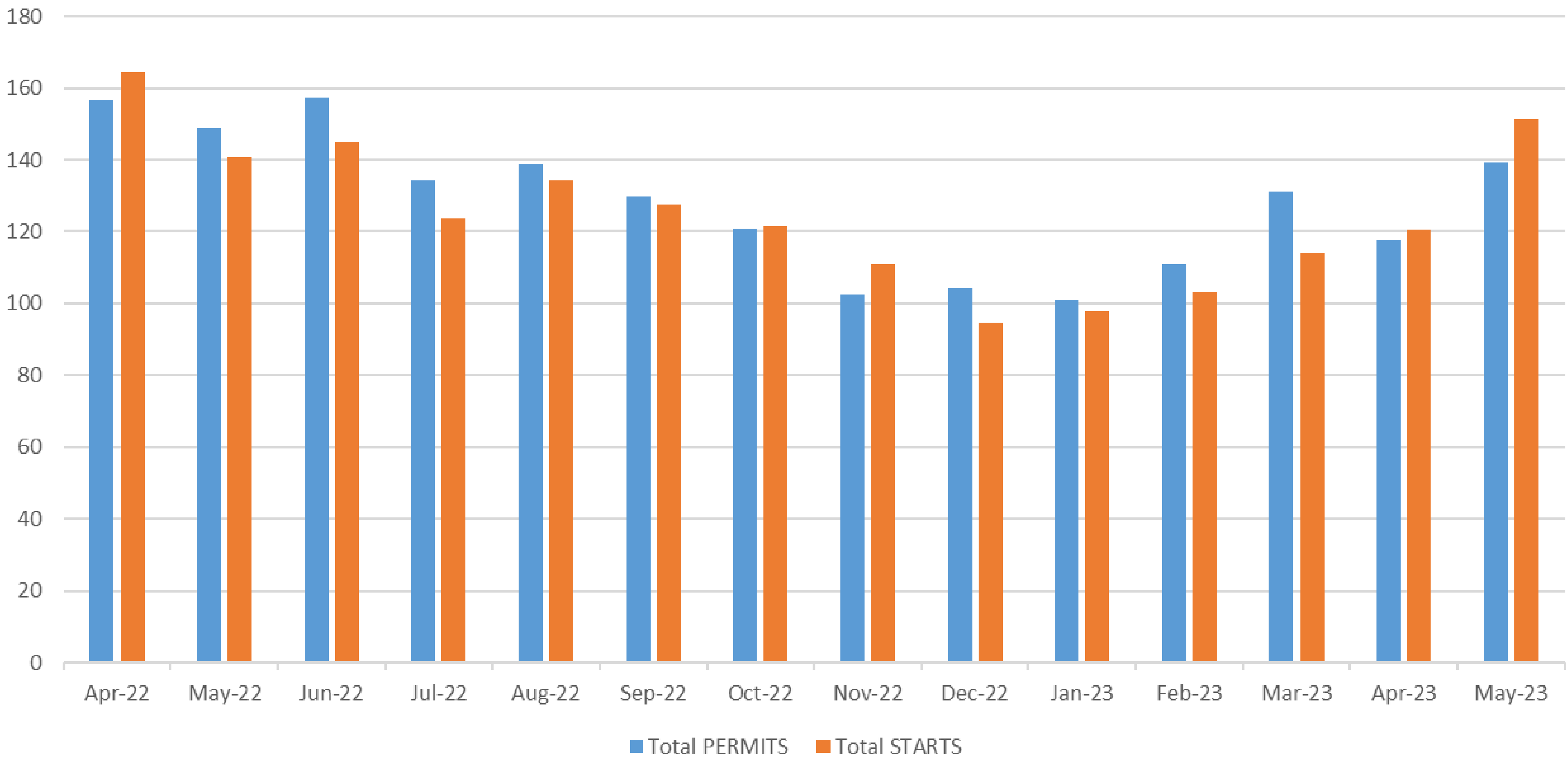
HOUSING PERMITS & STARTS



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LUMBER

Framing lumber pricing has returned to pre-pandemic levels. 2023 has seen a slow-down in the overall housing market, with sawmill capacities now larger than anticipated retail consumption.

We have seen significant curtailment across North America throughout the first half of 2023 as lumber sawmills have tried to get total production in line with anticipated consumption.

Forecasts expect the outlook to be similar as we head into Q3 and Q4.

Lumber pricing was severely deflated in 2023 Q1 and Q2, with the Random Lengths Framing Lumber Composite down 59% from the pricing we saw in 2022 Q1 and Q2.

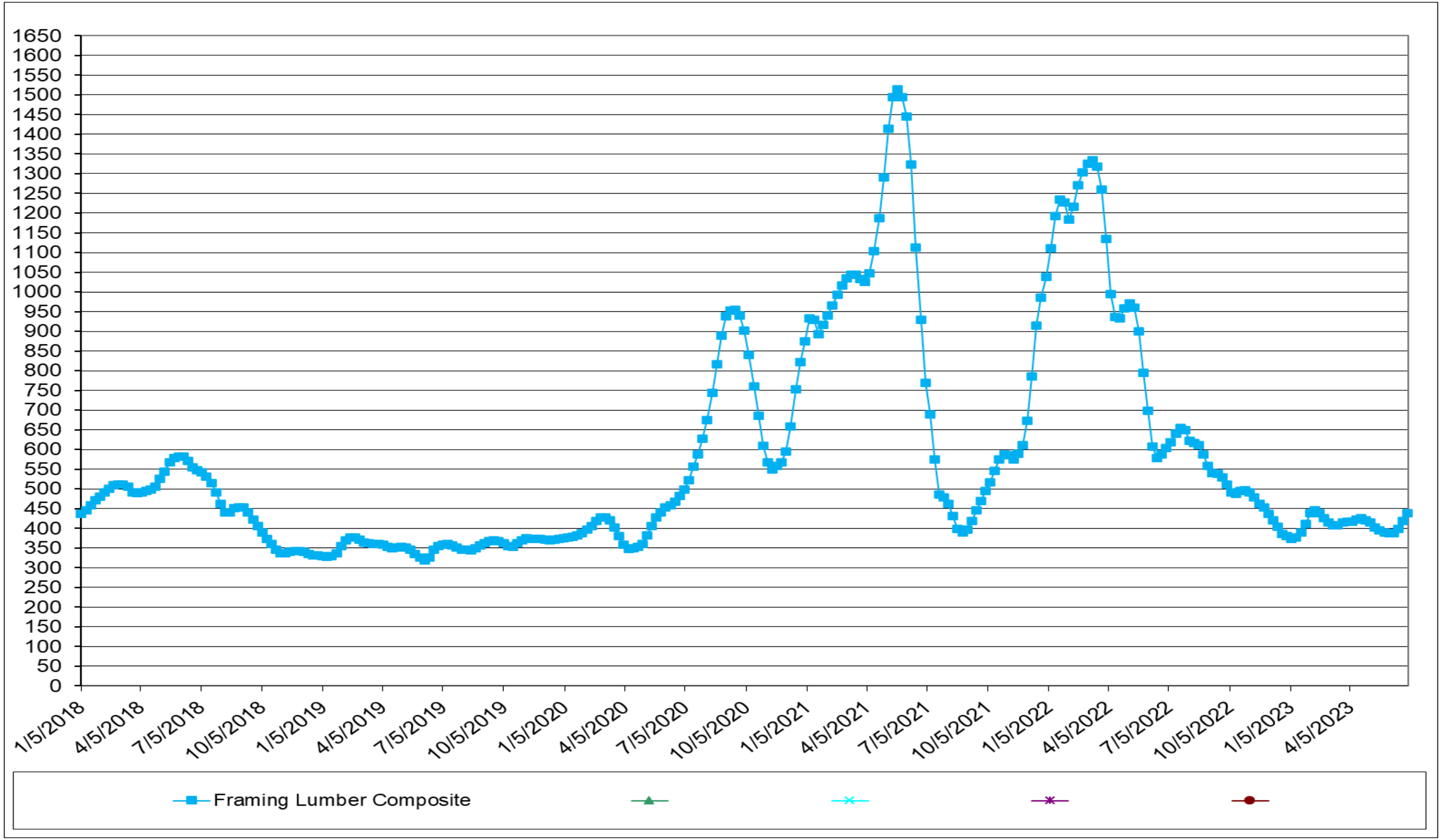
Lumber production has been significantly curtailed through the first six months of 2023 for a multitude of reasons. Mills are struggling to produce profitably in the face of extremely high fiber costs and severely depressed lumber pricing. We have seen extensive curtailment throughout British Columbia and Eastern Canada, including the permanent closure of a few sawmills, and the anticipation is for that trend will continue over the second half of 2023.

Another factor that has played into curtailments coming out of Canada is an extremely early forest fire season. These fires hit Alberta in late April, and have run through eastern Canada, from Ontario through New Brunswick, NJ. Extremely high temperatures coupled with an overall lack of winter snowpack and rainfall, has set the balance of 2023 up as a projected record for Canadian wildfires. In most cases, these fires will not impact sawmills directly, but it severely limits the access these mills have procuring logs.

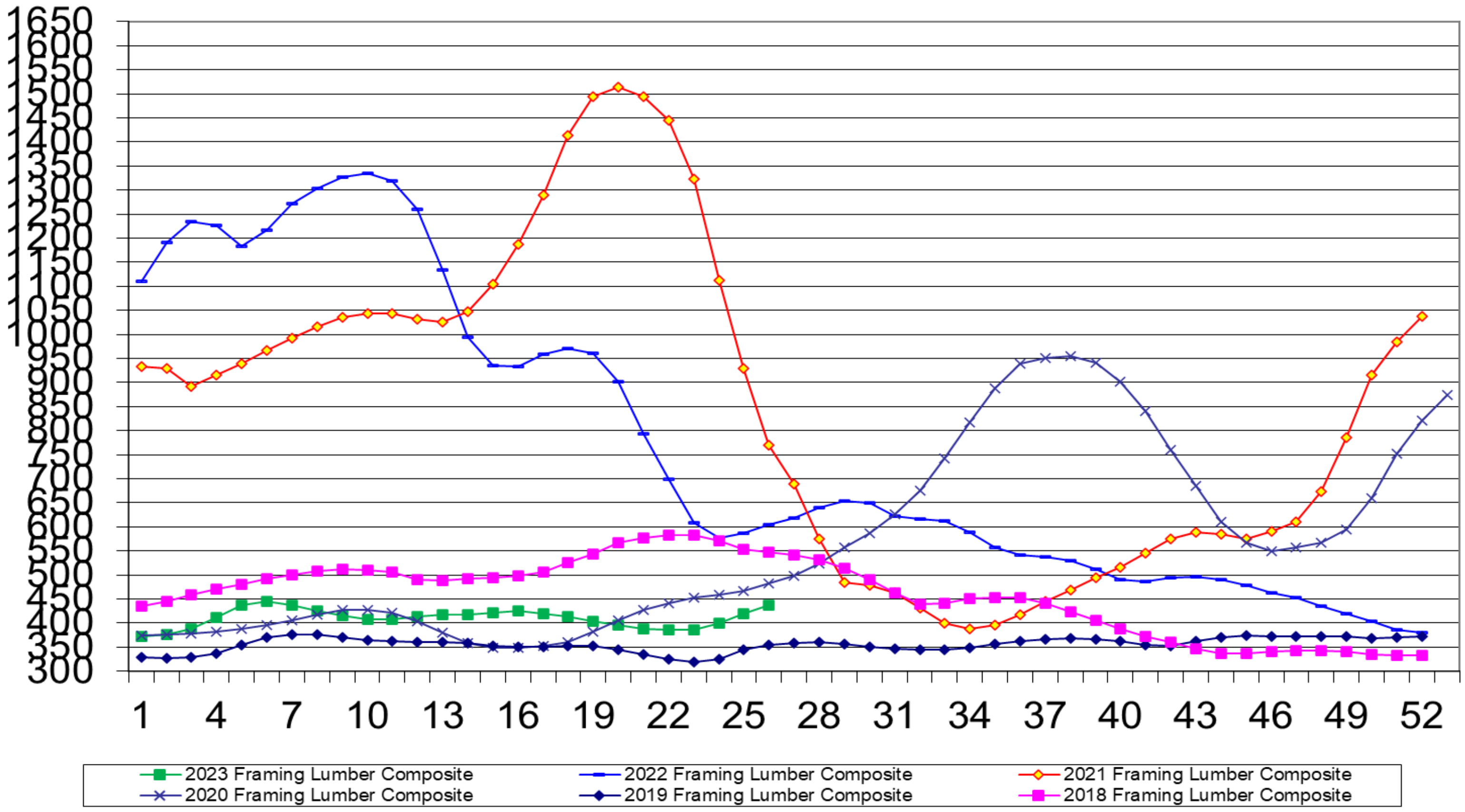
The curtailments we've seen from Canada have been offset by additional volumes of Southern Yellow Pine coming into the market, with additional volume forecast from yet-to-be-opened sawmills through the balance of 2023 and early 2024. The price forecast for the balance of 2023 should be relatively range bound. The curtailments we've seen have helped to stabilize pricing and keep supply and end-use takeaway relatively in balance.

The framing composite has traded within a $75 mbf range this year, and it's anticipated we will remain within those ranges through year-end. As shown in the upcoming graphs, 2023 pricing has mirrored what we saw for pricing in 2019, which was the last season we dealt with heavy curtailments.

RANDOM LENGTH FRAMING COMPOSITE 2018-PRESENT



RANDOM LENGTH FRAMING COMPOSITE PRICING



TOGETHER WE BUILD

SOUTHERN YELLOW PINE

Additional production of SYP continues to come online. Both Canadian and US Lumber mills are investing in the US South for several reasons. Land, labor, and log costs make for a desirable and profitable business climate. And the continued curtailments of BC mills due to beetle kill have forced the Canadians to find alternative income sources.

This pattern is likely to continue for years, if not decades, increasing the use of SYP in markets that have traditionally used other species.

Southern Yellow Pine (SYP), as evidenced by the graphs on the next pages, has fallen into a trading range with little expectation of breaking out. Wildfires in Canada have caused some anxiety in other species, but the additional SYP production has largely absorbed any impact in the South.

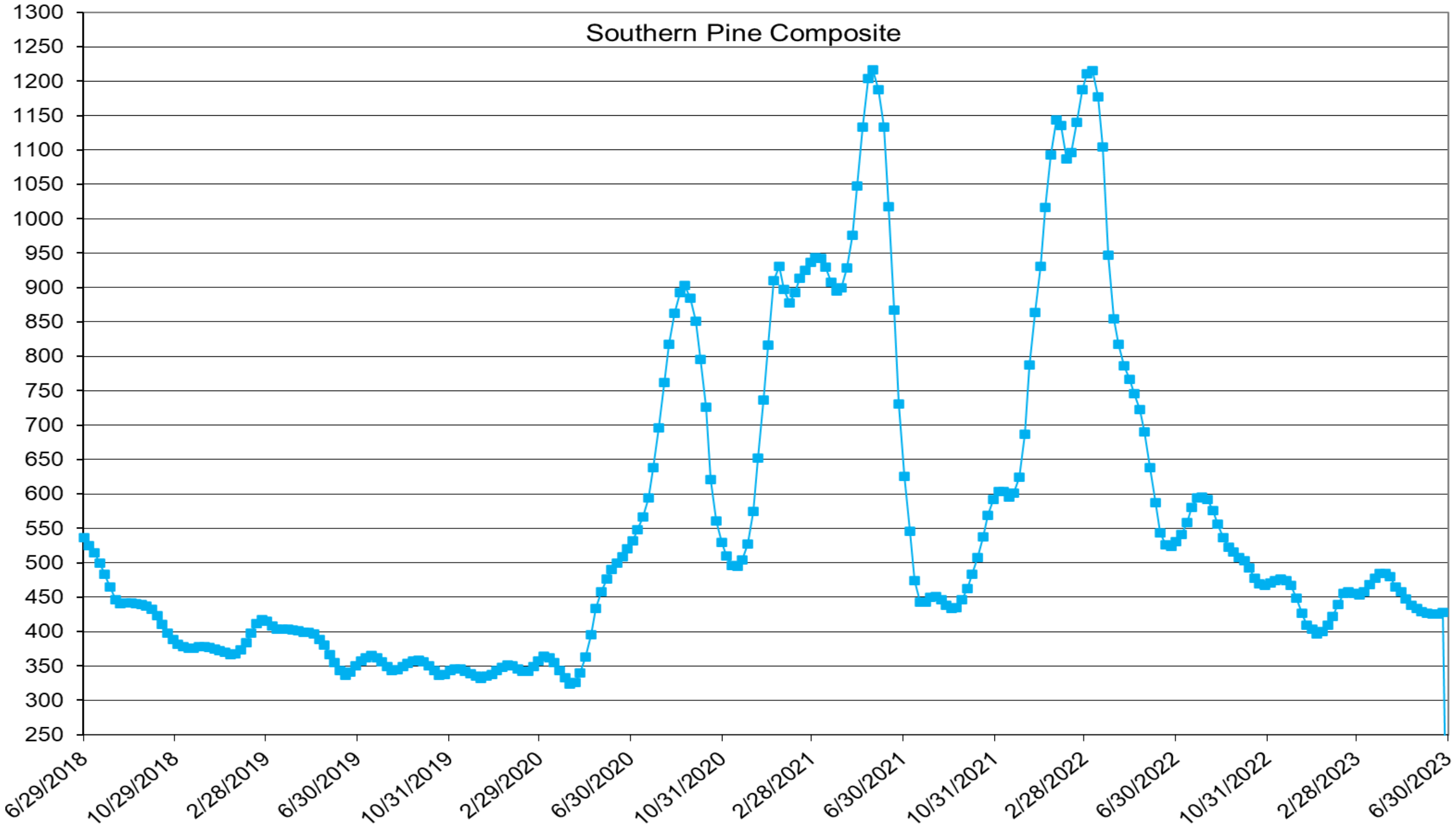
Expect pricing to remain between $400/m and $500/m for the foreseeable future. Increased costs of log, labor, and fuel have added approximately $100/m to the breakeven costs compared to pre-pandemic levels.

Treated Lumber sales have been relatively steady through the first half of the year, while most other lumber items have seen a sharp decrease in demand from a year ago.

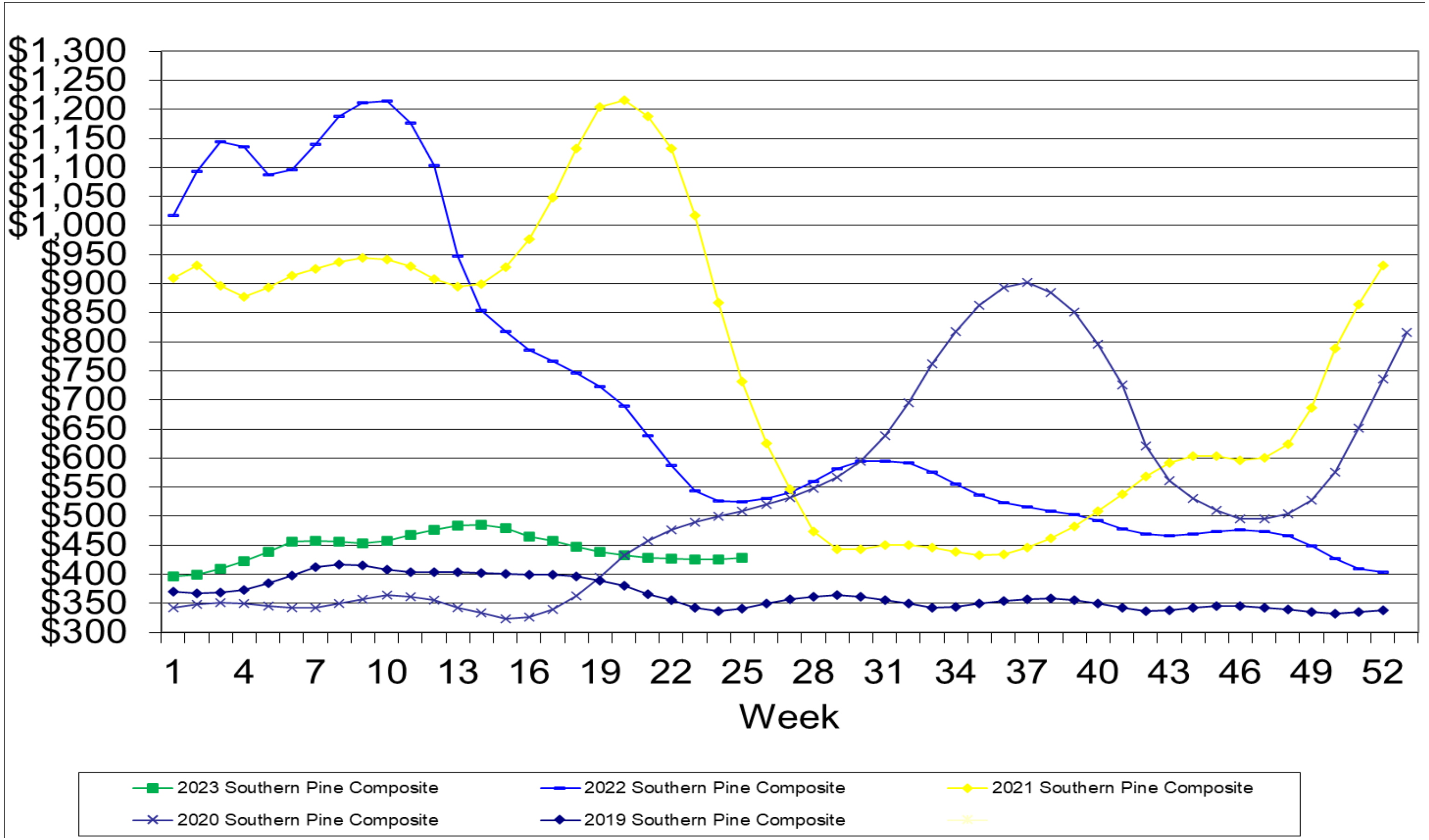
Outtake has been strong in all regions of the US, and we have seen record takeaway since the beginning of the summer. Fears of a looming recession this year have abated, and although there is concern for the latter part of 2023, most retailers believe that any major slowdown has been pushed back to 2024.

Expect treated lumber pricing to stay on firm footing for the remainder of the year.

SOUTHERN PINE COMPOSITE



SOUTHERN PINE COMPOSITE



PLYWOOD & OSB

The manufacturers remain in firm control of the OSB market's direction. Through production restraint, they have built order files stretching anywhere from 4-6 weeks on average (varied throughout the regions). With many expressing reservations about building inventory the frequent purchasing for regular replenishment has added fuel to the market's fiery trajectory. Prices have quickly moved up over the past three weeks at about $20-$30/m per week pace.

With May's housing permits pointing to continued building activity, and steady product outflow from LBM yards, we expect demand for OSB to maintain a similar pace for the next 60 days. Provided that producers maintain their present pace of production, we might expect prices to climb rapidly over the coming weeks. Beyond that, September and October usually provide another two months of robust building activity, but we'll have to keep a careful eye on economic data before jumping that far ahead.

The forecasted plywood trading range for Q3 isn't much different than it was for Q2. Prices will likely trade within about $50-75/m range. Most of the post-pandemic price corrections for plywood have been realized and prices should remain stable from here.

Market volatility shouldn't be a major factor as we expect a consistent, yet flat trajectory over the next 3 months.

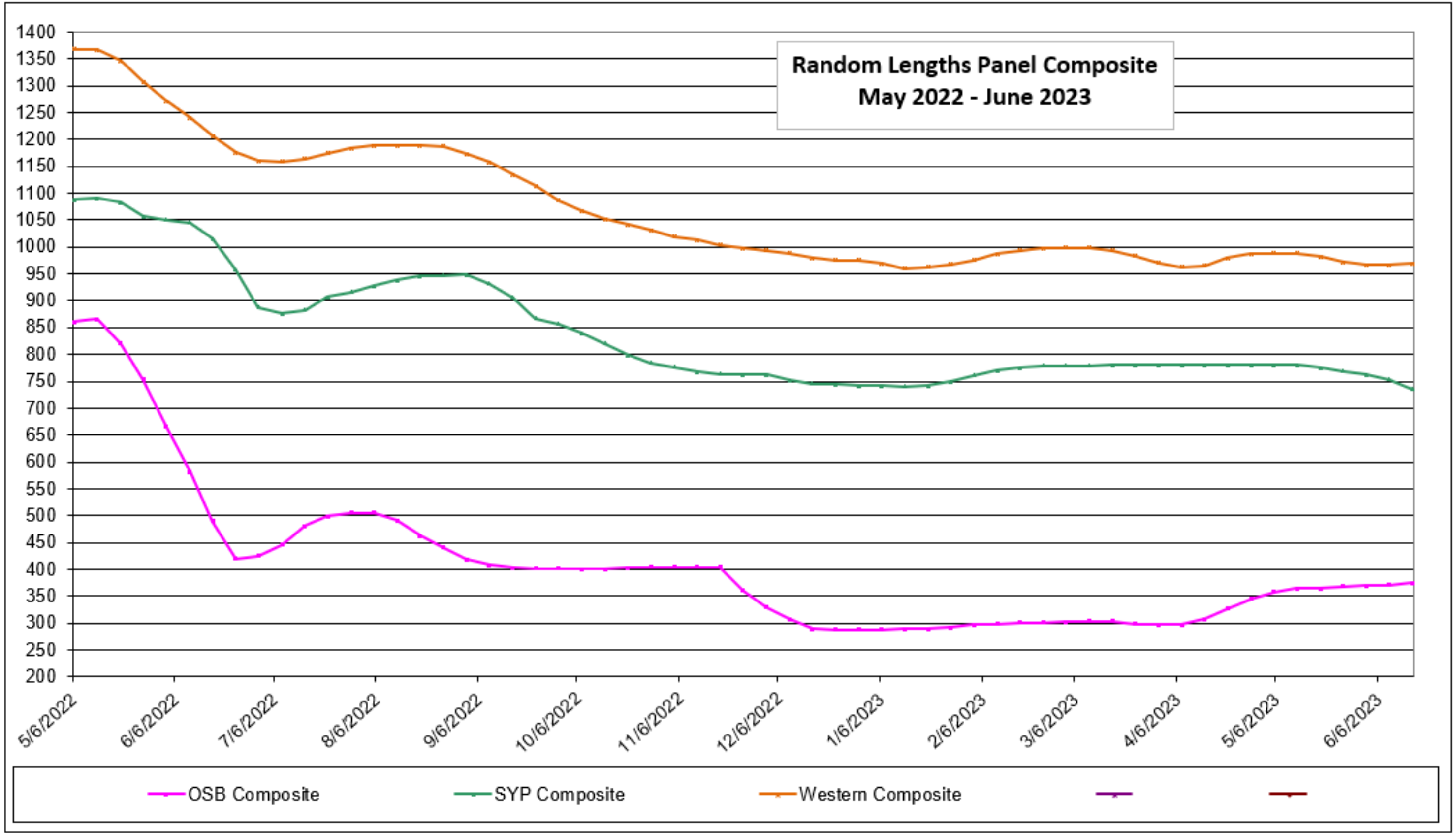
Field inventories appear to be very lean, so don't get caught short by lead times.

Multi-family activity remains elevated and is expected to remain this way through 2023 with a sizeable backlog of projects that still need to be started.

Deflation remains high at about 34%. Prices will continue to bounce along with no sense of urgency through most of Q3 as supply will likely exceed demand.

A firm order in hand may save you a couple of bucks when negotiating an order.

RANDOM LENGTHS PANEL COMPOSITE



TOGETHER WE BUILD

BOARDS & SPECIALTIES

ENGINEERED WOOD PRODUCTS

- The outlook on demand and material supply for the second half of 2023 remains upbeat. Residential is rebounding and multi-family/commercial activity is strong.
- At this point Domestic LVL supply is ample and a resurgence of Imported products into the States is providing additional supply. LSL production and inventory levels are well positioned for the second half of the year and manufacturers continue to advance new products and applications.
- I-joist demand has increased over the last two months, as Residential activity has shown some signs of life. While I-joist supply is generally considered good, mill inventories remain at unseasonably low levels, and Canadian wildfires are affecting the availability of input stock. This could certainly be a future pinch point if demand were to spike. A slower demand build will allow manufacturers the time to add additional shifts/staffing as necessary, keeping order files within manageable lead times.
- Doug Fir and Southern Yellow Pine glulam usage remains high as an alternate beam product, pricing has moderated, and availability has vastly improved during the first half of 2023. Pricing remains stable heading into Q3, without any foreseen disruptors.

BOARDS

SYP Boards: The market is basically flat with mills not arguing over $5-$10/m to move material that's on the ground.

Eastern White Pine: Activity is still very solid. Mill order files are approximately 4 weeks.

Western Boards (ESLP, PPLP, DF SPF): Most mills have material available for fairly prompt shipment, and will take a little less to move it.

Doug Fir Timbers: The California producers are very firm on their prices, especially 4x6 and wider, with mill order files out 3-4 weeks. The Oregon mills are struggling to move timbers at their levels and will look at small counters to move prompt inventory. 3" and 4" 8', 9', and 10' posts are in short supply.

SPF Strapping: Prices in 1x3 strapping have come off quite a bit in the last month and are possibly bottoming out because all mills will be shut down for several weeks in July (Summer Holidays and maintenance). Many are getting their needs covered prior to this shutdown which should keep prices from dropping further.

SPF Primed Fascia: Prices are up on primed SPF fascia due to a strong SPF dimension market and higher-priced raw materials. Order files are at 2-3 weeks.

COMMODITY BUILDING MATERIALS

Roofing:
Price increases have been announced from all roofing manufacturers effective early August.

Owens Corning and CertainTeed remain on allocation across the country. Tamko, Atlas and IKO are not operating under any type of controlled distribution, but longer than normal lead times are the result.

Most manufacturers have returned to offering their complete color portfolio for both shingles and accessories, which is encouraging.

Insulation:
Suppliers are caught up and able to maintain good inventory levels today. Material is no longer on allocation but is still being monitored.
Current lead times are about 2-3 weeks with the exception of Loose Fill & some Kraft Faced Rolled products (est. 3-4 weeks).

Transportation & fuel surcharges are on the decline.

Activity is expected to remain steady thru 2023, with a possible price increase in 1st quarter of 2024.

Steel Studs:
Currently the steel market is stable. Lead times are normal and we anticipate a late summer/early fall increase announcement.

Gypsum:
Georgia-Pacific gypsum has a new plant in Texas expected to come online in Q4. This plant will help service the South Central region of the United States, but will also allow existing plants to shift delivery radiuses to service areas needing additional capacity.
Regular wallboard is readily available for the time being.

There was a substantial uptick in May's housing starts. If this trend continues, we could see another allocation towards the end of this year. This isn't something to worry about today, but worth monitoring.

Glass-faced products such as exterior sheathing and shaftwall liner continue to be a challenge but have been improving.

BUILDING MATERIALS & HARDWARE

Building Materials

Cabinets: Pricing remains stable while demand is down slightly with lead times varying based on product from as low as 1 week to 12 weeks.

Steel: Steel pricing overall through Q2 remained flat as the market pushed through a minor increase during late March/early April. We see no real movement in price for the near future in rebar or metal roofing and lead times are back to normal.

Fiber Cement Siding: James Hardie pricing remains flat and lead times have moved out slightly. Job quotes remain strong if you need material, please get it quoted and locked down.

Hardware

Caulks & Adhesives (Construction Adhesives-including subfloor adhesive): Franklin & PPG-Liquid Nails have solid availability on their construction, subfloor, and drywall adhesives. OSI and DAP are still coming back slowly.

Nail Department: The price per box of nails is coming down and cheaper compared to this time last year. The overall supply chain in the industry is starting to improve, starting with improved lead times from overseas. This has allowed for a much healthier on-hand inventory for most nail suppliers.

Screws and Hangers: Just like nails, the costs of screws and hangers has either flatlined or decreased. The supply chain continues to improve, and the majority of our screw suppliers do not expect any more price increases. However, the following factors **may** contribute to possible price increases in 2023:

Freight Issues with trains, trucks and/or UPS (due to a possible labor strike)
Lacking Labor Supply

MILLWORK

Stabilization is the name of the game for Q2 2023: millwork manufacturers are caught up and falling back into more regular sales and production cycles. Both allocation and major freight interruptions are in the rearview mirror as we continue into 2023.

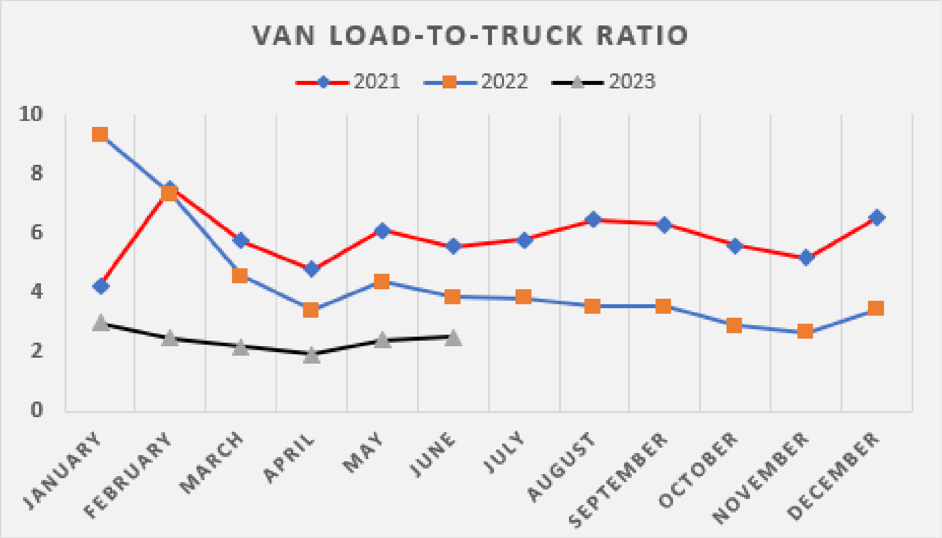
The good news is that we see readily available supply across all products for the remainder of 2023 with pricing remaining mostly quiet as well.

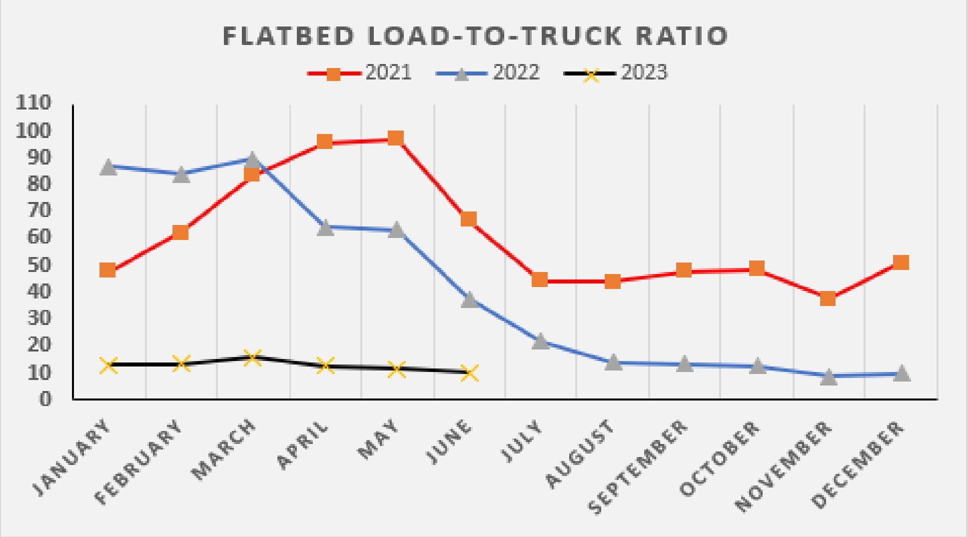
Doors: Across almost all manufacturers and product types, door pricing and availability remain in a similar position to Q1. Exterior steel and fiberglass and interior products will remain readily available and competitively priced.

Mouldings: With stabilization on the freight and production fronts, we anticipate mouldings to follow the same path as molded doors: flattening prices and ready availability.

Windows: The window market continues to be steady. Despite forecasts, demand is still strong for both vinyl, composite and wood windows. Lead times remain on average at 3-4 weeks for vinyl and 4-6 weeks for wood. There is no indication of manufacturers looking to raise prices as the market demand is being met by the current production levels. Multi-family markets continue to be strong and R&R demand should be a focus for planning.

LOGISTICS





The current LTR ratio for Dry Vans ending June was 2.5: 1.
A balanced market would be in the 3:1 / 4:1 range.
So, we are slightly oversupplied.

The average LTR for Flatbeds ending March was 10:1.
A balanced market is 20:1.
So, we are slightly oversupplied for today's demand.

Today's freight market remains well positioned offering plenty of capacity in most regions. Both the flatbed and dry van sectors are currently oversupplied due to the influx of new entrants over the past couple of years. We'd expect over the first half of the year, we'll continue to see a contraction in carriers for both equipment types as the market searches for a more balanced state. As we look ahead to the second quarter, typical seasonal tightening is expected, but nowhere near the constraints of the last two years. With the current saturation levels, this should remain a favorable market for shipper's short term.

**THE LOAD-TO-TRUCK RATIO REPRESENTS A REAL-TIME INDICATION OF THE BALANCE BETWEEN SPOT MARKET DEMAND AND CAPACITY.
IT IS IMPORTANT TO NOTE THAT WHILE NATIONAL AVERAGES ARE HELPFUL IN CAPTURING THE OVERALL STATE OF THE MARKET, REGIONS MAY VARY.**

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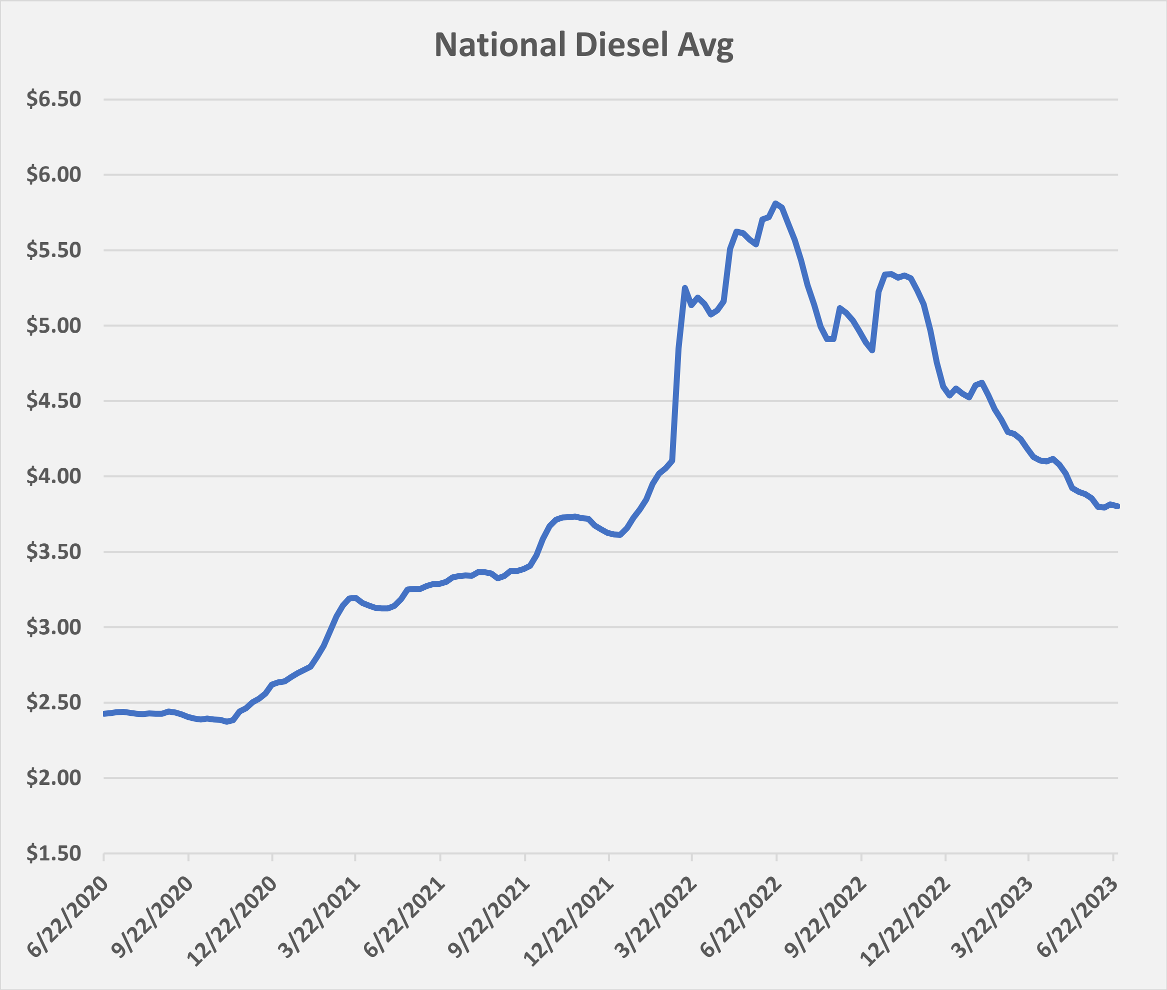
DIESEL AVERAGE



The national average price of diesel continues its downward correction ending the week of June 26th at $3.801 a gallon.

Since the beginning of 2023, we've seen diesel prices drop on average of .78 a gallon.

Following the OPEC+ announcement to extend crude oil production cuts through 2024, it is expected to put some upward pressure on diesel prices notably in late 2023 / early 2024. So far, the market has not reacted to the news and focused on other economical issues.

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A Message for Our Valued Customers

- We analyze market trends on an ongoing basis to ensure we're purchasing materials at the best prices for you, our customers.
- By sharing market information, we strive to help your business become aware of upcoming opportunities and to better weather potential downturns.
- We're successful when our customers are successful, and we are proud to be of service. *Thank you for your business!*

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