

Lumber Market Update

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Quality Building Materials Since 1884



Taking a look back over the past year and a half lumber and panels markets have been on a nearly constant climb. There have been some pauses and small drops, but very minor compared to the increases. In this longer than usual update, I'll take a look at some of the causes and remedies that may change the situation.

What happened?

Since January of 2017, Douglas Fir is up 43%. KDSPF is up 62%. Douglas Fir plywood is up 42%. OSB is up 47%. Since the writing of my last column in late January 2018, Douglas Fir is up 7% after dropping 7% during the month of March. KDSPF is up 16% after a small drop in March. Plywood is up 8% and OSB is up 25% also after small drops in March. KDSPF is currently at an unusually small discount of 5% to Douglas Fir.

Prices were starting to move up in early January 2017 before tariff rumors began to drive prices higher at a faster pace. This is a supply driven rally much like we saw in 1992-1993 when logging in Pacific Northwest National Forests was curtailed due to the Spotted Owl. The initial thoughts of most in the lumber industry was that prices would jump up in anticipation of the tariff and then settle back down as had happened many times in the past. In fact prices jumped up 20% by April 2017 when the 19.88% Countervailing Duty went into effect. In June an Anti-Dumping Duty of 6.87 was added. The total duty was reduced to 20.23% in December of 2017. Meanwhile prices continued to increase due to constraints on supply. These included the continuing cutbacks in British Columbia caused by the last decade's Spruce Budworm infestation, record forest fires in the Pacific Northwest and British Columbia, major hurricanes in Texas and Florida, shortages of railcars and trucks. I'll discuss these causes further in the following paragraphs.

British Columbia

British Columbia has been the dominant source of SPF as far back as the 1960's. Most land is owned by the government of Canada and is leased long term to sawmills who must log and manage it in accordance with strict government regulations designed to create jobs in rural areas and manage the forests for the long term benefit of all. Everything worked well for many years until the Spruce Budworm decimated many

millions of acres over the past ten years. Then the Annual Allowable Cut (AAC) was increased to salvage as many dead trees as possible. Now the AAC is being reduced to a lower sustainable rate to allow the forests to recover. Production fell last year by 4.5%.

British Columbia will be producing significantly less SPF for the next thirty to fifty years.

Forest Fires

Forest fires cause two problems. In the short term, they close forests to logging, even to the point of not being able to haul already cut logs. This in turn can cause mills to curtail or cease production when they run out of logs. In last years severe forest fire season some mills closed because of the proximity of the fires for safety reasons. In the long term, the AAC will be reduced in severely damaged forests. This year is forecast to be another bad fire season. Fires are already burning in several areas.

Hurricanes

Hurricanes can impact timber supply depending upon where they make landfall. Again there is a likelihood of increased salvage harvests followed by a reduction in the AAC. Last years hurricanes did not have a major impact on timber production in the south. Hurricanes also impact demand with the first surge being plywood and OSB to board up before and after the storms hit. Last years hurricanes did not have a major impact on the plywood and OSB markets. There is a longer term increase in demand following hurricanes and other major storms as damaged structures are repaired or rebuilt. This is ongoing in Houston and Florida. We'll have to wait and see what this year's hurricane season looks like.

Transportation

Most lumber shipped from the West Coast and some from Eastern Canada travels by rail most of the way to its final destination. A severe shortage of rail cars developed in British Columbia this winter. It started with winter storm delays and compounded itself over time. A month ago mills were quoting three weeks to have lumber ready to ship and then another three weeks wait for a car to put it on. This problem is beginning to be resolved. The railroads are buying more cars and locomotives and hiring more train crews.

The U.S. required truckers to use electronic logs effective January 1st 2018. These logs eliminated the ability to stretch

the rules as was common practice with paper logs. I once received a trailer of lumber from Idaho in four days driven by a single driver. I'm not sure how many log books he used. Most Canadian truckers are refusing to enter the U.S. since electronic logs are not required in Canada and they don't want to buy or use them. There is also a shortage of truck drivers throughout North America.

The transportation issues will improve, but will continue to be a problem for quite a while.

Now to move on to some positive news that will increase lumber and panel supplies over time.

Go South Young Lumberjack, Go South

To paraphrase Horace Greeley, I say "go south young lumberjack, go south."

As you can see in the table below the future of the North American forest products industry is in the south, eight of the twelve new mills or improvement projects announced this year are in the south. Of the remaining projects, one is in Maine, one is Michigan and two are in Eastern Canada, three of these are upgrades. The only older project in the table is Vicksburg Forest Products whose new mill starts production in July. Ninety percent of the published volume is in the south, with 7.5% in Maine and 2.5% in Canada. There were no announcements from western Canada. However in the Pacific Northwest, Boise Cascade recently announced the closing of its Elgin, OR lumber mill built in 1960.

All of these new or expanded mills are expected to be in production by December 2019. The additional 1.7 Billion Board Feet of lumber will help to alleviate the current shortfall in supply.

Where will all of this production go? Some of it will be consumed in traditional Southern Yellow Pine markets such as treated lumber in the northeast and Midwest. Some will stay in the south as framing and treated lumber. Some will go to the traditional Southern Pine export markets in the Caribbean. Some will go to new export markets such as China. Southern Yellow Pine exports to China are already increasing sharply. The Canadian companies who have already invested in the south are leading exports to China to make up for the shortage of western SPF. I believe we will soon be seeing Southern Yellow Pine framing lumber in Connecticut. There will be small increases in production in the northeast and midwest as well as in eastern Canada. But these are smaller production areas with slower growing forests and less potential for growth.

Domestic lumber production increased by 4.2% in 2017. And will increase further in 2018 and 2019. This increased production should help to bring prices back down.

Lumber Imports

Lumber imports are also increasing, primarily in European Spruce species. While these are generally very nice in appearance, strength varies significantly from species to species and all are weaker than domestic and Canadian KDSPP.

Owner	Location	Volume	Notes
Vicksburg Forest Products	Mississippi	100 Million Board Feet	July 2018 Startup
Georgia Pacific	Georgia	350 Million Board Feet	
Canfor	Georgia	275 Million Board Feet	Canadian Company
Hunt/Tolko	Louisiana	200 Million Board Feet	USA/Canadian J.V.
Rex Lumber	Alabama	240 Million Board Feet	
Biewer Lumber	Michigan	Not Published	
Charles Ingham Lumber	South Carolina	70 Million Board Feet	
Westervelt Forest Products	Alabama	250 Million Board Feet	
Pleasant River Lumber	Maine	120 Million Board Feet	
White River Lumber	Ontario	40 Million Board Feet	
Blanchet	Quebec	Not Published	Mill improvements
Angelina Forest Products	Texas	Not Published	
Canfor	South Carolina	Not Published	Mill Upgrade

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HBA Northwest News

Local Leadership Breakfast presented by Litchfield County Board of REALTORS Legislative Committee and HBA of Northwest was held on March 28th at Chatterley's in Torrington. More than 50 people attended to hear from Mayors and First Selectmen about real-estate development in their communities.



HBA Northwest turns out to defeat sprinklers in townhouses at Legislative Review at the Capitol. L-R Sheila Leach, Alan Temkin, Steve Temkin, Andrew Ugalde, Bill Prokop, Joe Duva, Mary Anne Sok, Rose Yurgalevicz and Joline Osterhout

HBA of Northwest would like to welcome aboard the following new members:

Fine Home Contracting LLC

David Perrotti
70 Spruce Brook Road , Plymouth CT
860-733-2080

Northern Improvement Company, LLC

Richard Weigold
148 E. Albert St., Torrington CT
860-307-0965

Pella Windows & Doors

Addam Bogart
220 Monroe Tpke, Monroe CT
203-650-1188 ■

Lumber Market Update

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Be sure to refer to the appropriate span tables if you use these. Imports of framing lumber are still insignificant compared to the volumes from Canada.

What is the NAHB Doing About Lumber Prices

I spoke with Alex Strong, an NAHB lobbyist about their strategy on lumber prices. The NAHB is employing a two-pronged strategy to have free trade with Canada on lumber and to increase domestic production.

The NAHB is continuing to lobby Congress and the Trump administration to eliminate the tariffs. In this supply driven market eliminating the tariffs today might not drop prices 20% as it should, but it certainly wouldn't hurt. We've used Canadian lumber to make up our domestic production shortfall for over 50 years and that's not going to change.

The House of Representatives passed the Resilient Federal Forest Act of 2017. Some parts of it have passed the Senate in the Omnibus Spending Bill and in the Farm Act this year. This bill would increase logging in the National Forest System land primarily in the Pacific Northwest. These lands yielded 10-12 billion board feet of lumber for decades until the Spotted Owl crisis caused volumes to drop to 1.5 – 3.3 billion board feet. Volumes have remained at this level for the last 25 years. Increasing logging would help the health of the forests and reduce forest fire risk by thinning smaller trees. Growing forests produce oxygen and store CO2. Dead trees release CO2 and consume oxygen. Any increase in production would help to reduce prices in the long term. Production increases will take several years by the time logging contracts are bid, awarded, logged, new mills built and labor hired and trained.

Please support the NAHB's efforts.

Conclusion

Lumber prices will not go up forever. Nor will they stay this high forever. It does not look like they will decline anytime soon. We may see prices continue to rise for much of this year. Nationally demand continues to increase, and it is unlikely that supply can increase at the same rate. There is substantial OSB production coming on line this year which should limit price increases in OSB and plywood. ■