Softwood Lumber Prices Hit Record Levels

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You may have heard that softwood lumber prices were at record levels in the first half of 2018. Much like other commodities, lumber prices are determined by supply and demand. In general, when the demand for wood rises, such as when residential construction increases, prices go up. In contrast, if supply increases, such as when timber resources are abundant, price decreases. However, there are several other factors that influence lumber prices, including geographic region, international policy, and inventory, which are explored in this article.

Southern forest industries associated with home construction were substantially affected by the 2008 recession. The collapse of U.S. housing construction resulted in significant losses for wood product prices and production. More recently, framing lumber composite prices reached $582 per thousand board feet in June 2018, the highest it has been in the last 10 years (Figure 1). One of the biggest reasons is that lumber demand increased due to home building. Residential construction is the primary driver of demand for wood products in the U.S. and has been
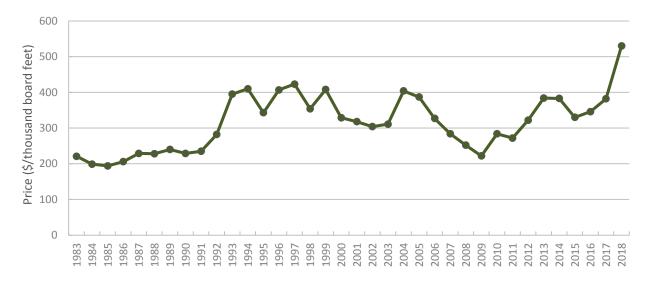

Figure 1. Historical framing lumber composite price reported by *Random Lengths*

steadily recovering since the 2008 recession. Privately-owned housing starts in April were 10.5 percent higher than the previous year, and on track for 1.3 million starts annually, the highest level in 11 years. Likewise, the gross domestic product grew 4.1 percent and wages increased by 2.5 percent during the last quarter, foretelling a continued increase in demand for houses. Moreover, structural damages caused by Hurricanes Harvey and Irma last year have led to rising lumber demand for home rebuilding and repairs.

In addition to the increased demand for softwood lumber, tighter supplies are also playing an important role in rising prices. One key factor is the 20.83 percent tariff levied on Canadian lumber imports by the U.S. Department of Commerce in December 2017. Historically, lumber imports from Canada have accounted for one-third of wood supplies in the U.S. As expected, Canada responded by reducing exports to the U.S. Insect/disease outbreaks (e.g. southern pine beetle) and natural disasters (e.g. hurricanes, drought, wildfire, etc.) can also tighten wood supply. While hurricanes can increase lumber demand, they can also devastate standing timber resources. Hurricane Irma caused losses to Florida's forest resources valued at $261 million. In Texas, Hurricane Ike (2008) impacted 612 million cubic feet of commercial timber across 473,000 acres.

Robust lumber markets also contribute to higher prices. The international lumber trade has increased since the 2008 recession due in large part to the strong wood demand in the major markets of Northern Europe, China, and Japan. A recent publication reported 126 million cubic meters of softwood lumber were shipped from Canada, Russia, and Finland to China and the United Kingdom, marking a 50 percent increase since 2008. Responding to these higher prices, total U.S. lumber production reached 8.56 billion board feet in March, the highest level in 10 years.

Landowners may wonder why it appears that stumpage (price for standing timber) is not keeping pace with surging lumber prices. In fact, log prices in East Texas and across the South have been much slower to respond to improved economic conditions. Since 2008, softwood lumber prices have increased by 8 percent, while pine stumpage prices have only increased by 3 percent. In reality, there is only a loose association between lumber and log prices, which will be explored in more detail in a future article.

If you have questions or purchase timber in the East Texas market and would consider being a bi-monthly price reporter, please contact Nana Tian (nana.tian@tfs.tamu.edu) at Texas A&M Forest Service.