

## Lumber Market Update

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### What has happened Since September?

Prices in all markets have drifted lower through mid to late January. Since then prices increased for about four weeks before starting to drift back down. Douglas Fir dropped 7.4% and then rose 3.5%. KD SPF dropped 19.7% and then went up 7.2%. Douglas Fir Plywood fell 19.3% and has increased 9.5% since. OSB went down 16.6% and has been virtually unchanged since mid-January. KD SPF is nearly 26% less than Douglas Fir, a very large spread compared to usual 10% or so.



### Why has this happened?

As I stated in September, single family home starts have dropped dramatically while multi-family is up. Multi-family uses less lumber and sheathing per unit than single family, thus demand has decreased. North American supply has stayed close to last year's record volume in part due to increased imports from overseas. This is further explained below. OSB prices have dropped the most because OSB production increased the most. All of mills built in 2006-2007 are finally on line and producing large volumes of OSB. Even the shortage of engineered wood products is easing a bit. In addition transportation shortages have eased a bit. Although delivery times are still continuing to be unpredictable.

### Domestic Production

Domestic production has continued to be strong. New mills continue to be built, particularly in the southeast. Approximately 35% of the North American lumber supply comes from the states between Virginia and Texas. Also, see another use for timberland below.

### Imports

Lumber imports from Canada dropped 7% in 2022. This is largely due to reduced timber supply in British Columbia. The result of the lingering effects of the Spruce Budworm infestation over 20 years ago. It will take another 40 years, or so, to get back to previous BC production levels. Other parts of

Canada are shipping more to cover some of the shortfall, but can't make up all of the lost production. Imports from Europe reached a record in 2022 exceeding the previous record in 2005, rising 27% from 2021 to reach 2.03 billion board feet. Total U.S. imports from overseas also reached a record of 2.93 billion board feet. Much of the imports from Europe are studs and dimensional lumber. Many of the imports from other parts of the world are boards, mouldings, hardwood decking and other products.

### Exports

Exports from the U.S. continue to drop, and were down 25% in 2022. Most of the U.S. exports go to Mexico and the Caribbean Islands. Canadian exports to overseas destinations also declined dramatically in 2022, down 29% after a 15% decline in 2021.

### Another Use for Timberland

Timberland owners, many of them investment firms, mutual funds and other non-industry owners, are now in the business of selling carbon offsets. A carbon offset sets aside healthy growing forest acreage, which is absorbing CO2 from the atmosphere and producing oxygen. These carbon offsets are sold to carbon emitters, such as utilities and fossil fuel energy companies. This takes timberland out of the harvest cycle for an agreed upon period of time. Eventually trees will be harvested before they die and rot on the stump. But this will reduce the current availability of timber, potentially keeping timber and lumber prices higher than they otherwise would be. Much Southern Yellow Pine is harvested on 25-30 year cycles to produce small logs suitable for 2x4's, 2x6's and pulpwood. Harvesting larger logs at a later date would increase the supply of 2x10's and 2x12's, potentially making narrow widths more costly than wide widths. This could also increase supplies of higher grade lumber such as clear boards. For more information on this topic, see the Wall Street Journal article on 2/2/23 Headlined "JPMorgan Asset Unit Buys Up Timberland." ■