Some Relief From Lofty Lumber Prices Is on the Way

Lumber prices in recent weeks have appeared to defy gravity, rising swiftly at a time of relatively sluggish demand from the home building sector, but NAHB economists remain confident that some relief is on the way as supply problems are alleviated.

The weekly Random Lengths composite index for framing softwood prices has exceeded $300 per 1,000 board feet since the beginning of February. The last time that price level was reached was the first week of July 2008 and the preceding month of June, when single-family homes were being started at a seasonally adjusted annual rate of 655,000, compared to a rate of 499,000 this March.

For the week ending on April 2, the index hit $328, its highest point since the end of May 2006, when the single-family starts pace was around 1.5 million units.

“It is not unusual to see lumber prices move upwards in the first quarter of a year as construction comes out of the winter doldrums and begins to ramp up for the spring building season,” said NAHB Senior Economist Bernard Markstein. “However, a rapid increase in prices of this order when the residential construction activity remains near historically low levels is unusual.”

Prices have jumped more than 30% since the end of 2009, when 1,000 board feet of lumber cost $250.

Markstein cited a number of factors that have conspired to produce today’s lofty prices, but he said that timber operations are ramping up to meet rising demand, a process that could take six to eight weeks.

“Builders may have to wait until June before they see some relief from current high lumber prices,” he said.

Among the causes of recent lumber price hikes:

- In an effort to hold down their costs or restricted by their lenders, distributors started out the year with thin inventories. As they sought to rebuild those inventories for the spring building season, they helped bid prices up. Their orders went to the few sawmills still operating after many companies shut down lines or entire mill operations because persistently low lumber prices were making their operations uneconomic. And “like the distributors, most mills also had relatively low levels of inventory for the same reasons — to keep costs down or at the behest of their lenders,” Markstein said. “No company was about to re-open a shuttered plant or rehire workers just due to a temporary spike in prices. So mill operators had some difficulty in responding to increased orders.”

- In response to their increased orders, sawmills began to order more logs. As with sawmills, lumber companies had curtailed their operations and laid off workers. They too had limited inventories of logs and were not ready to recall workers for a temporary spike in lumber prices. Further, above-normal rain and snow in the South and parts of Canada limited their ability to harvest new logs.

- The Softwood Lumber Agreement (SLA) has constrained Canadian companies from meeting the current uptick in U.S. demand. Some provinces already are burdened with an extra 10% fee on their exports to the U.S. on top of the normal export fees under the SLA because they have reached certain export levels. As a result, Canadian companies are fearful that exceeding their allotted quota of exports to the U.S. could trigger further penalties. A rise in the value of the Canadian currency against the U.S. dollar in recent months has been a further hindrance.

- Ironically, the most recent jump in lumber prices appears to be related to nicer weather, which has increased demand for home building and remodeling projects faster than it has allowed a new supply of logs to flow into the marketplace.

- There are also reported shortages of trucks for transporting logs and lumber in some parts of the country.

“One positive is that current prices may prove high enough to trigger a reduction in the export fee on Canadian lumber under the SLA in May,” said Markstein. “That could mean Canadian lumber coming into the U.S. at a slightly lower price.”