

# LUMBER

## CURRENT TRENDS

- During the pandemic, demand and pricing for lumber and panel products surged in response to the strong housing market and increased renovation and repair activity. Pricing peaked in March 2021, but had dropped 60% to 70% by September as the supply and demand imbalance improved.
- The annual rate for new privately owned housing starts peaked in March 2021 and had subsequently declined by 171,000 units or 9.9% as of July but rebounded slightly in August. Housing completions also peaked in March 2021 and had fallen by 11.2% as of August.
- Prior to the pandemic, industry capacity utilization exceeded 80%. By April 2020, this rate dipped as low as 67.9%. Utilization recovered to 80% by December and remained steady through July 2021.

## PROJECTED VALUES (12-MONTH OUTLOOK)



## APPROXIMATE NET RECOVERY ON COST

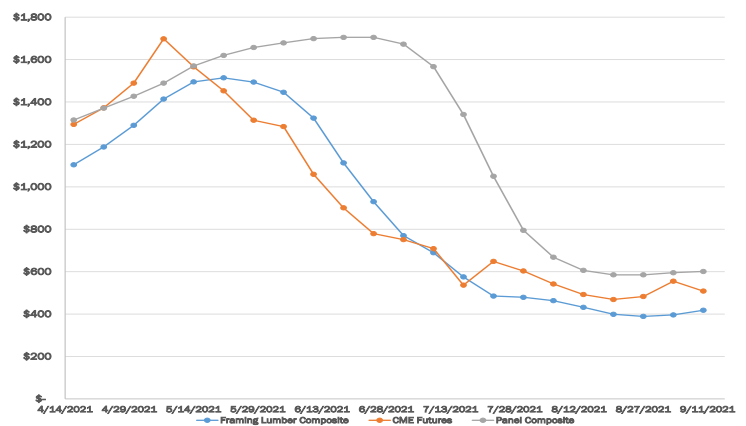
# 80%-90%

kiln dried and dressed  
lumber and panels  
(mill and wholesale  
distributor)

# 50%-70%

logs

## LUMBER PRICING TRENDS



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**HOUSING STARTS HOLDING STEADY:** Housing starts are a key indicator of the health of the construction industry and the demand for dimensional lumber. For August 2021, new, privately owned housing starts in the U.S. were at a seasonally adjusted annual rate of 1,615,000 units. While down from a high in March, this represented a 17.4% increase over August 2020 and a 23.8% increase over the 2016 to 2019 average rate. Similarly, new permit applications were down 1.5% from a March 2021 peak but remain 14.4% above the average 2020 rate and 24.7% above the 2016 to 2019 average rate. The August completions rate, which is a bit of a lagging indicator, was 11.2% below the March 2021 peak, slightly below the average 2020 rate by 3.1%, but still well above the average 2016 to 2019 rate by 16.3%.

The lumber market continues to benefit from three key trends, which emerged through the pandemic:

1. Demand for single-family residential construction has grown as homeowners move to less densely populated areas.
2. Repair and remodel spending continues to grow as homeowners spend more time at home and investing in their homes.
3. Current demand exceeds the housing supply, a result of the early 2000s housing crisis' lingering effects.

Because the first two trends are pandemic-related, they may subside once the pandemic ends. However, the third is a longer-term, positive trend for the industry. Additionally, the current low interest rate environment should support a higher level of investment in housing.

By contrast, construction rates and market velocity faced three challenging pandemic-related trends:

1. Port closures early in the pandemic and port congestion during the global economic recovery resulted in logistics and supply issues that continue to curb the housing market. Additional constraints include crises like the Suez Canal blockage and extreme weather events like Hurricane Ida.
2. COVID-19 outbreaks and ensuing health and safety measures like social distancing created labor shortages. Additionally, rising wages driven by inflation and pressure to increase the minimum wage are a contributing factor to these shortages.
3. Rising raw material prices including record-high dimensional lumber, panel and steel prices have slowed housing construction.

**LUMBER PRICING REMAINS VOLATILE:** Demand outpaced supply, driving softwood lumber and panel pricing to historic levels from late 2020 through the spring of 2021. Pricing surges affected all

markets, including retail home centers, the wholesale contractor market and manufactured housing. The Random Lengths Framing Lumber Composite Price index reached an all-time high during the week of May 21, 2021, an increase of 272.9% over the same week in the prior year.

The Chicago Mercantile Exchange reported dimensional framing futures prices peaked in early May 2021 at \$1,698 per thousand board feet (MBF). Additionally, Random Lengths reported panel prices reached a historic peak in mid-June 2021, an increase 285.7% over the prior year's level.

Prices remain elevated though they have declined since hitting these peaks. Inflated costs, limited supply of lumber and other products and production challenges have shrunk the export market and domestic demand. Lumber futures fell 70.1% by September 2021 from their peak in May, reaching a price of \$500 per MBF. Additionally, lumber and panel market composite prices dropped from their 2021 highs by 72.4% and 64.8%, respectively. Despite turbulent pricing, the market shows signs of stability. In September, order levels increased 38.1% from their low points in May and June.

While industry publications can indicate regional market trends, published prices do not necessarily represent transactional activity; instead, they generally represent full truckload quantities with free-on-board mill freight terms. Long-term supplier relationships, volume discounts and freight logistics can affect the actual gross recoveries in the event of a liquidation.

Rising prices have driven higher profits for many lumber mills and have frustrated distributors, largely because higher costs led to limited product availability. However, lean inventory levels and the inability to purchase products benefited some suppliers as prices collapsed in mid-summer 2021. Reported earnings for major lumber mills in the U.S. and Canada rose by an average of 795.6% and 4,292.6% respectively in the first half of 2021. The companies reported a somewhat muted outlook for the future. For example, the Boise Cascade Company shared the following in their latest earnings release:

"Although we believe that current U.S. demographics support the higher level of forecasted housing starts, and many national homebuilders are reporting strong near-term backlogs, labor shortages and supply-induced constraints on residential construction activity may continue to extend build times and limit activity. In addition, while the age of the U.S. housing stock and limited home inventory availability will continue to provide a favorable backdrop for repair and remodel spending, we expect the recent decline in home improvement demand to continue near-term as travel restrictions are rescinded and pent-up demand for leisure spending occurs."

The U.S. Federal Reserve Board reported the wood products industry had a capacity utilization of 79.8% in July 2021, exceeding the April 2020 level of 64.2%. Most mills ran at nearly full capacity for the first half of 2021, despite labor and supply shortages.

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Alex Sutton is Managing Director, Head of Research for Gordon Brothers' Valuation practice where he coordinates industry guidance and market research to support cross-asset appraisals. With over two decades of experience, Alex has directed inventory appraisals across a range of industries, including aerospace, building products, metals, pharmaceuticals and plastics. Read his full bio [here](#).



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