A WILD LUMBER SUPER-CYCLE

In the last few weeks through to mid-March, I have read various headlines referencing a commodity super-cycle, US housing super-cycle, and, of course, a lumber super-cycle. We are currently in some kind of wild lumber super-cycle where record-level prices are being achieved and cyclical high prices are expected to continue for much of 2021 and into 2022 (and perhaps longer).

As one of the first adopters of the potential of a North American lumber super-cycle thesis, I did get the basics right, but not the timing. What I predicted back in 2010 was that when lumber demand rose to a level where new housing starts reached (or exceeded) about 1.3 million units, there would not be enough North American lumber supply to match with demand, igniting a short-term lumber shortage that would establish new record prices. The timing of this event was expected to occur around the middle of the decade but stalled as US lumber demand rose more slowly from 2010 to 2015 than as predicted by dozens of economists. Consumption then started to slow in 2016 and then plateaued between 2017 and 2019 with a total increase in US demand lumber of less than 1 per cent. With no significant demand growth, lumber capacity slowly caught up. Even in 2019, high cost producing regions curtailed or closed sawmills due to an oversupply of lumber during a period of weak demand. During this period, the BC Interior permanently closed five sawmills from weak prices and soaring incremental log costs (from declining timber supplies).

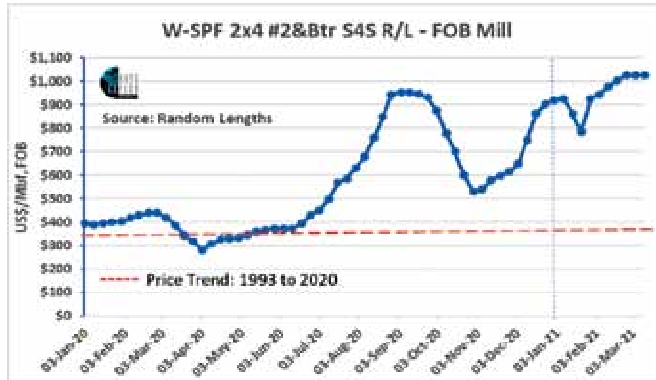

Chart courtesy of Russ Taylor Global

US housing starts did not break the 1.3 million housing starts threshold until 2020! They surged to 1.38 million units during the global pandemic—a healthy increase from 1.29 million in 2019. And as we all know, repair and remodelling demand also soared as homeowners stuck at home started renovation projects at a torrid pace. This spike in demand against a relatively fixed sawmill capacity in North America, coupled with a fragile supply chain during the pandemic, caused prices to surge. New records for 2x4 W-SPF dimension lumber were recorded in September 2020 (US$955/Mbf) and then to US$1,025/Mbf in early March 2021. Finally, the long expected super-cycle was achieved. This same cycle has occurred in OSB and plywood, as both products are currently selling at monster prices with no end in sight (at the time of writing).

Despite the initial uncertainty about the pandemic in March and April 2020, sales in repair and remodelling at big box stores have also been on a tear since then. The double-whammy of strong housing starts and ramped-up home renovations caused US lumber demand to increase by 5.3 per cent in 2020. So far in 2021, steady growth has occurred, but a slowdown in repair and remodelling in 2021

Q2/Q3 is expected. Why? Simply because it is expected that mass vaccinations will start to allow people to get away from their homes where they can restart travelling and spending their money elsewhere. However, it is expected that larger renovation projects will start later in the year, allowing for a rebound in renovation activity.

The supply response in March and April of 2020 following the onset of the pandemic resulted in about six weeks of lost production even though demand was soaring. Despite this setback, North America production in 2020 managed to increase by 568 million bf (+1 per cent) as compared to 2019. However, looking at BC lumber production, overall output declined by 758 million bf (-7.8 per cent) in 2020 as compared to 2019. For the Interior, it will be about 7 per cent lower and for the Coast over 10 per cent lower. The BC Interior permanently closed five sawmills in 2019, so this accounts for the bulk of the decline in 2020.

The rest of Canada recorded a slight production decline of 1.4 per cent in 2020 as compared to 2019, so Canada saw a net decline in output of about 4 per cent. This reduction coupled with surging lumber prices caused offshore imports to soar in 2020, mainly from Europe. Led by Germany, Sweden and Austria, European lumber exports increased by about 50 per cent in 2020. Exports were spurred on by the massive spruce bark beetle epidemic in Central Europe that has made this region one of the lowest cost lumber exporters in the world.

With a continued erosion expected in the BC timber harvest, lumber produced in BC will continue to play a flat to diminishing role in the US lumber market. As a result, US softwood lumber demand will increasingly be met by expanded supply in the US South, Eastern Canada, and overseas.

BC Coast log exports continue to languish after reaching their peak of 6.5 million m^3 in 2013. With strong lumber markets in 2020, more logs are staying in BC for processing at domestic sawmills and not going offshore—especially to China and South Korea at relatively low prices. As a result, BC log exports are expected to be only 2.5 million m^3 in 2020, or about half of what was achieved in 2019. BC's largest log export market, China, has been hit with huge volumes of low-cost, low-priced European spruce bark beetle-killed logs. Along with strong competition from New Zealand and Russia, this has caused BC log exports to China to plummet from 5.4 million m^3 in 2013 to 2 million m^3 in 2020 (-33 per cent from 2019). However, Australia (10 per cent of China imports) has been hit with a log import ban by China and there is a container shortage that is limiting European log exports to China. With low inventories at Chinese ports, log (and lumber) prices have both been moving higher, allowing some price gains for exporters.

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