



The Reality of the Lumber Price Push

Purchasing & Estimating Management Message
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We have all seen lumber price increases push up tremendously in the past two months. The most recent trends are temporary and are being caused by a combination of factors.

The Reasons for the Price Increase:

The reasons are many but primary is the law of supply and demand. Demand has been low so at first we can be confused about why prices have been going up. It has been rising because supply has been **decreasing** faster than demand. The combination of bad weather reducing the lumber harvest and several major mills reducing production resulted in a shortage of finished lumber despite demand continuing to be low.

Those that are old enough can think back to the gasoline shortage we had in the United States twice during the 1970's. They were spawned by the same concept. Demand hadn't changed but the oil industry purposely limited supply by ceasing production and storing already harvested petrol in tankers off shore without getting them to the refineries in the U.S.

This current shortage is also intensified by the "wood pulp" normally being cleared for OSB and plywood production being diverted to the more profitable finished product of paper. Paper is used in such volume by some many industries that the profit potential much is higher than for OSB production.

Current State of Affairs:

These three factors have limited supply dramatically. There has been a recent stall of the price increase and this has been precipitated by slightly improved production and even a steeper drop in demand also caused by the bad weather conditions.

Our good friends at Wilson Lumber provided us with this weekly update on Wednesday of this week.

OSB: The OSB price run up that started in January and continued in February, has run out of steam. We believe that the bad weather has limited demand enough to stall additional price increases.

Plywood: Some Chilean mills have run into problems from the recent earthquake thus further limiting production. Pricing may go a bit higher in the next couple of weeks.

Lumber: Production is slightly more than demand at present so the recent price decrease should continue.

Outlook: The market is obviously volatile. If demand remains flat or increases just to catch up with improved weather we should see a return of some more of the price increase. However, increased sales activity in March (if my feelings pan out) due to the weather breaking may push prices to at least hold at near current levels. Once production catches up we should see a smaller (if any) increase during the summer of 2010.

In short, don't pad those estimates too much to protect from the normal summer season inflationary pressure on lumber.

We will continue to keep you posted with industry updates as we receive them.