Overview

Robust US home building activity and North America timber harvest belie weak construction framing softwood lumber prices in the first half of this year. There were serious supply chain issues, mostly due to weather, in the winter. As well, the US government shutdown put a particularly bad crimp in the movement of goods, and at the border completely. Indeed, for products subject to duty, there was a total delay of transportation until the full-time people came back to the job.

Some say the supply-demand balance was well-stocked in June 2019, as inventories were replete and delivery times were down to same-week or closer. Most decry tragically low lumber prices as incomprehensible. Minuscule, especially for the season, order files at sawmills across all regions brought lumber prices crashing down from the soaring highs of this time last year. Indeed, after languishing for most of 4Q 2018, wholesaler prices of solid wood commodities started falling immediately as 2019 started.

By Keta Kosman  Publisher and Editor  Madison's Lumber Reporter

One Year Key Dimension Lumber Price Trends

<table>
<thead>
<tr>
<th>Five Key 2x4 Lumber Prices: Aggregate US$/mfbm</th>
<th>May</th>
<th>April</th>
<th>Change %</th>
<th>Trend</th>
<th>Last May</th>
<th>Change %</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark Panel Prices: Aggregate C$/msf</td>
<td>367.60</td>
<td>375.45</td>
<td>-2.1%</td>
<td>▼</td>
<td>636.40</td>
<td>-73%</td>
<td>▼</td>
</tr>
<tr>
<td></td>
<td>343.00</td>
<td>372.75</td>
<td>-8.7%</td>
<td>▼</td>
<td>567.40</td>
<td>-65%</td>
<td>▼</td>
</tr>
</tbody>
</table>

VOLUMES

<table>
<thead>
<tr>
<th>Canada Lumber Production: softwood, million m3</th>
<th>(Jan-Apr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To date 2019</td>
<td>20.27</td>
</tr>
</tbody>
</table>

VALUES

| Canada Sawmill Manufacturing Sales: million C$ | (Jan-Apr) | 3,425.00 |
|                                              | (Jan-May) | 3,541.00 |
| US Total Sawmill Products Imports: million US$ | (Jan-Apr) | 2,270.00 |
|                                              | (Jan-May) | 2,837.00 |
| US Total Sawmill Products Exports: million US$ | (Jan-May) | 515.00   |
|                                              | (Jan-May) | 5,299.00 |
| Canada Total Sawmill Exports: million C$      | (Jan-May) | 3,541.00 |

SOURCE: Madison's Lumber Reporter  www.madisonsreport.com
SIGNIFICANT manufacturing curtailments at so many of the major sawmills in British Columbia over March and April, then again in June, as well as several announcements of permanent closures, took enough capacity offline for lumber prices in early June to jump up 20%, then moderate down slightly in following weeks. These levels, however, are only a partial from this time last year.

**Canada and US Softwood Lumber Production and Sawmill Capacity Utilization**

US housing starts for May are fairly stable at approximately 1.2 million units annualized, with permits up +6% from April. Housing supply is tight at a few months for-sale, and prices of both new and existing homes have been rising for almost a year. Lending, while still tight, is becoming more flexible as rates maintain also relatively stable.

As we head into the usual slower summer time for lumber manufacturing, it seems buyer and sellers have found a new price floor. Barring serious or unusual events, Madison’s expects these current price levels to remain until Labour Day. The normal trend in the past has been for prices to soften in autumn, usually ending the year at new lows. However the past few years have not been “normal”. Madison’s will be there right on-time to inform about any changes that occur in the North American softwood lumber market.
A very useful indicator to understanding the supply-demand balance is sawmill capacity utilization rates, which are published by the Western Wood Products Association each month. The latest issue of Lumber Track, for January-April 2019, shows that US sawmill production as per cent of practical capacity for the first four months of 2019 is lower than the same time in 2018; at 82%, from 85% in 2018.

Canadian sawmill production as per cent of practical capacity dropped sharply in January - April 2019, to 82% from 90% the previous year.

After crashing magnificently in early June, benchmark lumber commodity Western Spruce-Pine-Fir 2x4 wholesaler price landed at US$402 mfbm (net FOB sawmill) during the combined US and Canada national holiday week. This North America-wide summer break is usually acknowledged as the beginning of the slowdown for lumber sales.

During the double long-weekend holiday break, WSPF KD 2x4 #2&Btr (RL) was trading at +$104, or +35%, more than it was one month previous. Compared to one year ago, this price is down -$220, or -35%.

In a big reversal to having been lower than last year for all of 2019 so far, that week's WSPF 2x4 price was UP +$3, relative to the 1-year rolling average price of US$399 mfbm. The 2-year rolling average price is US$372 mfbm.

It will become clear after Labour Day if prices are going to soften further, as they usually do in autumn, or if buyers and sellers have indeed found a new floor.
US LUMBER AND CONSTRUCTION MATERIAL:
Wholesale

First-Half 2018
US$58,267 million

First-Half 2019
US$56,713 million

Current Softwood Lumber Prices Compared to Recent and Historical Highs

May 2019

<table>
<thead>
<tr>
<th>US$ per thousand board feet</th>
<th>May 2019</th>
<th>May 2018</th>
<th>% Change</th>
<th>All Time High (Previous or Current)</th>
<th>% Change Current vs. All Time High</th>
</tr>
</thead>
<tbody>
<tr>
<td>SYP East Side KD #2&amp;Btr</td>
<td>$397</td>
<td>$591</td>
<td>-32.8%</td>
<td>3Q2005</td>
<td>$460</td>
</tr>
<tr>
<td>WSPF KD #2&amp;Btr</td>
<td>$322</td>
<td>$635</td>
<td>-49.3%</td>
<td>2Q2004</td>
<td>$443</td>
</tr>
<tr>
<td>ESPF KD #2&amp;Btr</td>
<td>$406</td>
<td>$697</td>
<td>-41.8%</td>
<td>2Q 2004</td>
<td>$529</td>
</tr>
<tr>
<td>Douglas fir Green</td>
<td>$313</td>
<td>$584</td>
<td>-46.4%</td>
<td>2Q 2004</td>
<td>$500</td>
</tr>
<tr>
<td>STUDS (PET)</td>
<td>$261</td>
<td>$434</td>
<td>-39.9%</td>
<td>2Q 2005</td>
<td>$445</td>
</tr>
</tbody>
</table>

Benchmark Oriented Strand Board 7/16” Ontario prices
Canadian Softwood Plywood 9.5mm Toronto prices
All prices C$ dollars per thousand square feet net fob mill

Panel Price Trends

Madison’s Lumber Reporter

SOURCE: Madison’s Lumber Reporter
Prices C$ per thousand square feet, net FOB mill

Source: US Census, Monthly Wholesale Trade: Sales and Inventories
4233: Lumber and Other Construction Materials: U.S. Total — Not Seasonally Adjusted Sales - Monthly [Millions of Dollars]
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