

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).

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 slow-down in repair and remodelling in 2021

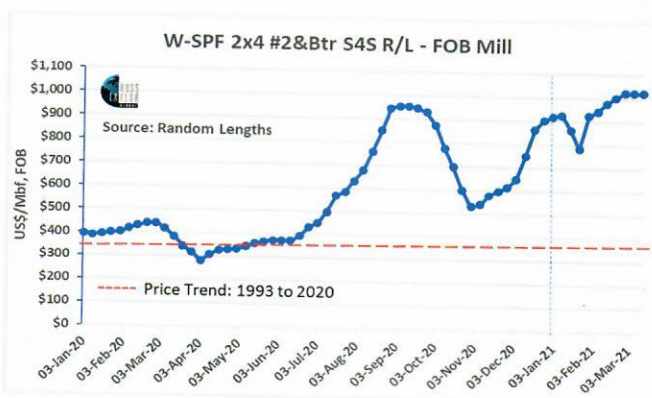


Chart courtesy of Russ Taylor Global



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