

LUMBER PRICES ARE RISING, LOG PRICES ARE NOT

BY ERIC KINGSLEY

With lumber prices hitting an all-time high, a number of colleagues have asked me to help them understand what's going on, and who is benefitting. [There has been a lot of good writing about the unique set of circumstances that drove lumber prices up, including work from my friends at Forest2Market, or a recent piece in New Hampshire's *Concord Monitor*. What is more interesting is who is receiving a "windfall" from this price surge.] From the data I've seen, it is sawmills that are benefitting the most, while loggers and landowners see their market largely unchanged.

The chart below shows the following over the past decade, all figures are \$ per thousand board feet (MBF) for spruce/fir:

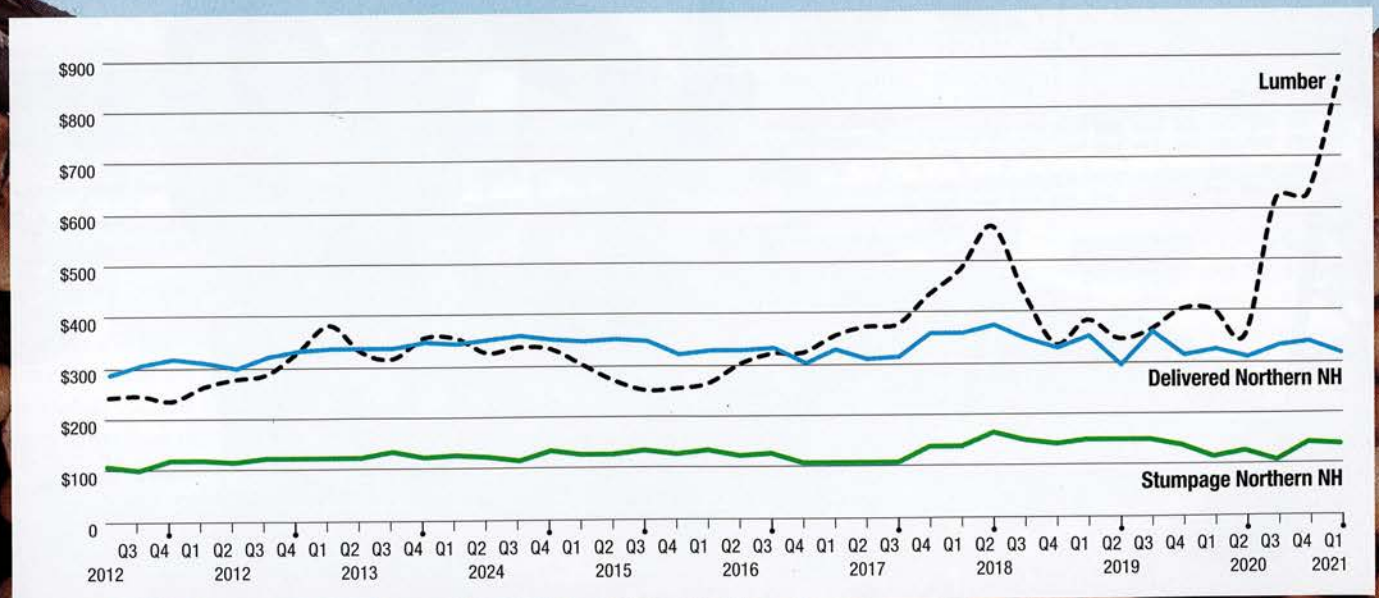
- The stumpage price paid to landowners for their wood "on the stump" (green line),
- The delivered price, which is what a logger gets paid for delivering wood to the sawmill (blue line),
- The composite price for structural lumber, used in construction (black dashed line).

The stumpage and delivered price data are from Northern New Hampshire¹ (a region of the Granite State with significant spruce/fir forests, as well as one large spruce/fir sawmill and a number of others that buy wood from the area.) The lumber price is a quarterly average of the NASDAQ's lumber tracking (\$LBS)², which follows the price of 1,000 board feet of sawn and dried lumber.

Importantly, these are composite benchmarks, and don't necessarily represent any single transaction. However, they give us a great opportunity to look at the trendlines, and understand what is happening.

Using this data, here's what we can observe for the first quarter (January, February and March) of 2021:

- Stumpage prices are at \$140 per MBF, 4% above the 10-year average of \$129 per MBF,
- Delivered prices are at \$320 per MBF, 9% below the 10-year average of \$334 per MBF,
- Lumber prices averaged \$856 per MBF, 134% above the 10-year average of \$365 per MBF.



The prices for spruce fir stumpage and delivered logs is well within historic norms (within one standard deviation of the mean, for statistics geeks). That is because, even with the surge in demand for the finished product, demand for raw material hasn't really changed at the local level. Sawmills have limits on what they can manufacture and dry, and increasing the price for lumber doesn't change this (at least not in the short run). Given this strong lumber demand, it is likely that all sawmill production is maxed out within the capability of the mill (sawing capacity of headrig and re-saw, kiln capacity, etc.). As a result, local demand is roughly what it has been historically, so prices reflect that.

The story is markedly different at the national level, where lumber is sold. Demand has increased, and mills haven't been able to meet that demand, causing rising prices. This is simple supply and demand economics 101. Builders and lumber yards are scrambling to meet demand, and paying what they need in order to get the lumber. That's pushing up prices, and they'll remain above historic averages until either demand decreases or new production capacity comes online – either through investments at existing sawmills, construction of new mills, or imports. At least on the supply side there isn't much expectation of quick changes, and the lumber futures market³ suggests spruce/fir lumber prices above \$900 per MBF (more than double the 10-year average) for the next year.

1 NH Timberland Owners Association. Quarterly Market Pulse. 2011–2021.

2 www.nasdaq.com/market-activity/commodities/lbs/historical

3 www.cmegroup.com/trading/agricultural/lumber-and-pulp/random-length-lumber.html, accessed April 22, 2021.

A few things to consider as you look at stumpage, log and lumber prices:

While the chart might suggest that there are times that lumber sells for less than the delivered wood, that isn't as common as it appears at first glance. That's because of what those in the industry refer to as "over-run". The way logs are measured dates from a time before many of the efficiencies that modern mills employ (thin saw kerfs, lasers to measure the best way to cut a log, etc.), so a MBF of logs can produce well over a MBF of lumber. That doesn't mean there are times sawmills lose money – there certainly are – but it isn't as often as a quick glance at the data would suggest.

More than once in the past month, a logger or landowner has suggested to me that it isn't "fair" that mills are receiving this (significant) price premium and not passing it on to others in the supply chain. I always remind them that when mills are losing money on lumber but are still paying market price, loggers and landowners haven't offered to drop their price (nor should they, given local supply and demand dynamics). The fact is that what a landowner or logger gets paid is set in a local market, and what a mill gets paid is set nationally (and sometimes globally). If there is an adequate supply of logs for the demand of the mill at current delivered log prices, then the mill is not going to increase what it pays for logs. If the mill cannot get an adequate supply of logs to meet its lumber demand, then the mill will increase delivered log prices and if this is a big enough increase and/or last for a long enough time, loggers will start to transfer these higher log prices to higher stumpage for landowners. The local price is often disconnected from the end price. This is the system we work under. Might there be a better system? Maybe, but it won't be free market capitalism, which most of my friends in the industry are staunch defenders of (until they are on the wrong side of market forces).

This looks at stumpage and delivered log prices for a specific geographic region – Northern New Hampshire and I've used it here because it is readily available and up-to-date data based on real market prices from a periodic survey of the industry. That said, from what I have seen and read, there is no reason to think this region is unique – we see the same dynamics playing out wherever structural lumber (used in construction) is grown and sawn. The specific data likely varies from location to location, but the trend and market dynamics do not.

