



## Lumber Prices are Plummeting, but Still Historically Expensive

Well, that turned on a dime.

Lumber prices, which had risen more than exponentially during the pandemic and were a problem even before, have started dropping like a 2 x 12 of clear pine. Those prices, which peaked at \$1,670 per thousand board feet on May 7, added, according to the National Association of Home Builders (NAHB), **\$35,872** to the price of an average new single-family home, and **\$12,966** to the market value of a multifamily unit. The closing price Monday on the futures market was \$897.90.

**Even at that price, lumber is still expensive in historic terms.** From 2012 through the spring of 2020 prices exceeded \$500 only briefly in 2018. In fact, on April 1, 2020, the closing price was \$260. But the current decline has been swift, and there are signs it is picking up speed. It has dropped more than \$400 since early June.

There were many reasons prices spiked. The U.S. forest products industry was short of capacity even prior to the pandemic, reflecting the closing of smaller mills during the Great Recession and creating increasing dependency on imports. But Canada, long a major supplier to the U.S. had its own problems. I was hit with a mountain pine beetle infestation which destroyed 15 years' worth of supply in the western provinces and that was followed by massive wildfires which devastated areas the beetles hadn't reached. Then the pandemic hit, crippling production in both countries.

In the meantime, housing construction in the U.S., which had shut down briefly in the early days of the pandemic reopened and went into overdrive. The boom drove housing starts to a post Great Recession high. Then, amid the pandemic, DIYers, with time on their hands and stimulus money in their wallets, began addressing deferred projects at home.

Why are prices now retreating? With many people now vaccinated, workers are returning to the mills, and they are ramping up, perhaps more quickly than they might have, given the price incentive. At the same time, home builders have cut back on projects due to the high prices and DIYers are also back to work, with less time to putter around the workshop.

Robert Dietz, chief economist at NAHB told NPR that some of those home building projects that were put on hold may begin to resume. "If it's the case that the price is coming down because it does represent a true uptick in the amount of supply, we're going to see some of those projects move forward," Dietz said.

The decline in prices has ramifications beyond increased homebuilding and a tree house for the kids. Jerome Powell, Federal Reserve Chair, and economists at both Fannie Mae and Freddie Mac have **named supply shortages of lumber as among the reasons the rate of inflation has risen.** Easing of inflation may make the Fed less likely to quickly reverse its stance on monetary accommodation.

It will probably be a while before prices drop at Home Depot or Lowes, and even then, few expect even wholesale prices to return to pre-pandemic levels. There may be some inclination on the part of retailers and perhaps those in construction to delay passing through all of the price decreases as a hedge against further volatility.



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Erik Sherman, writing in *Globe.St*, says "People are carefully watching developing conditions because no one knows what will happen." He quotes Mike Wisnefski, CEO of MaterialsXchange, "What the observers of the market should know is that the volatility of price movement will be extreme for the next 6 months at a minimum. If lumber is an input cost in your business, then you should consider locking your pricing in when you know what the selling price is for your end product."

Sherman also points out that it takes more than dimensional lumber to build a house and other materials that go into that product, **PVC, copper, and other products, are not seeing similar declines.** One of his sources says he expects the next price wave may be in wood siding projects.