

# WHAT GOES UP MUST COME DOWN

JUNE 2019 

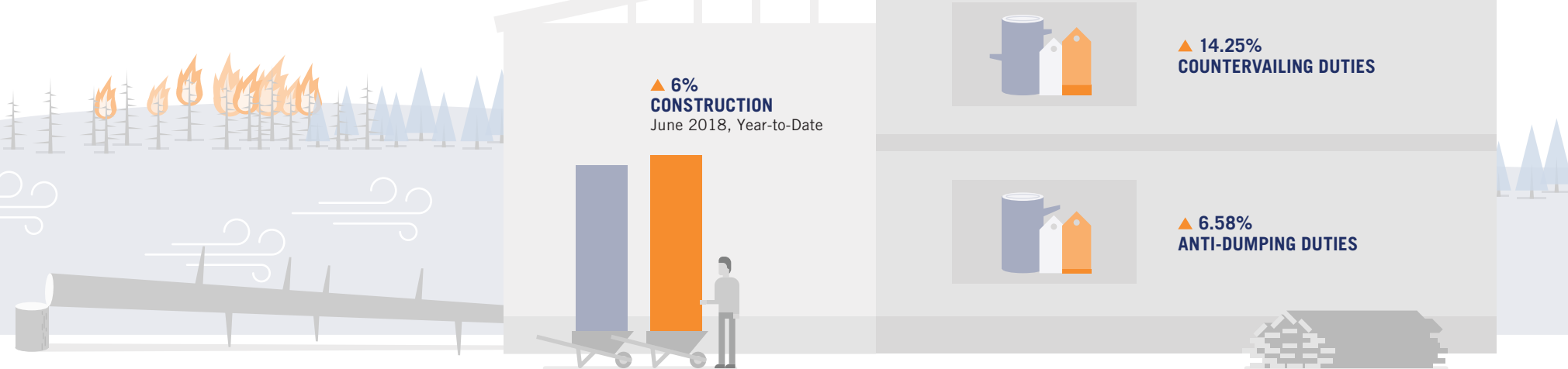
After hitting 20-year highs last summer—with prices skyrocketing to \$600 per thousand board feet—the softwood lumber industry experienced five consecutive monthly declines. Prices flattened in October, and have remained stable since, but the question remains: What contributed to the fall-off? Several factors are at play.

Source: Random Lengths

## MOTHER NATURE PAYS A VISIT

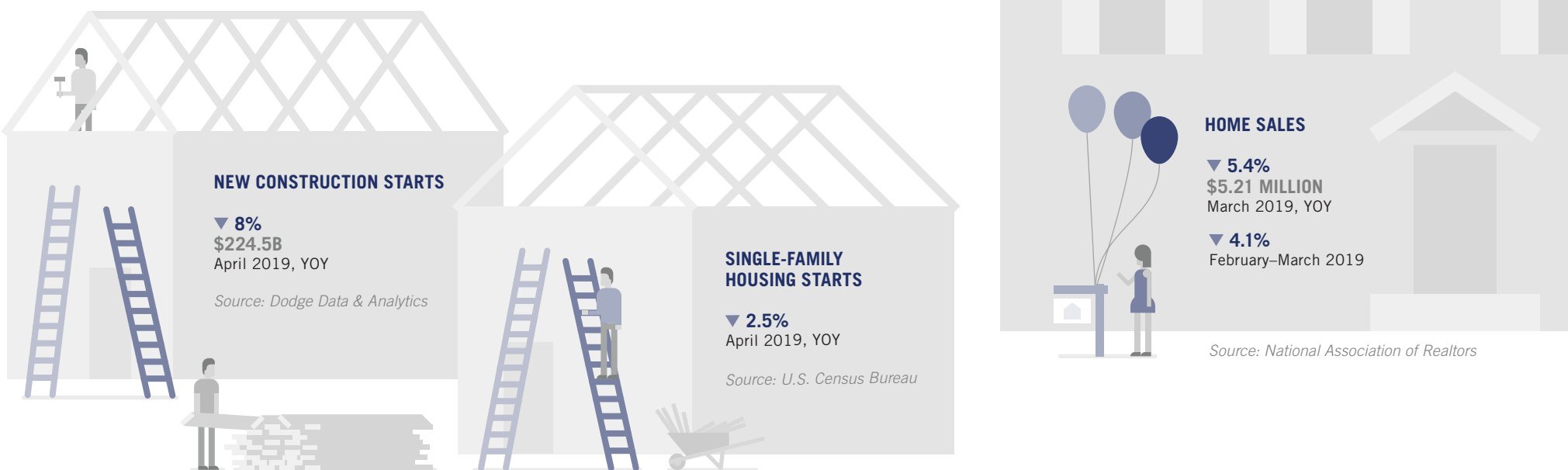
From a historical perspective, in August 2017, the damage caused by hurricanes Harvey and Irma drove U.S. prices of structural panels higher. A year later, during the summer of 2018, devastating fires torched the equivalent of an entire year's softwood lumber harvest in British Columbia, Canada, the worst wildfire in 60 years. Putting further strain on already low supplies, year-to-date construction through June 2018 was up 6% over 2017.

Source: British Columbia Wildfire Service



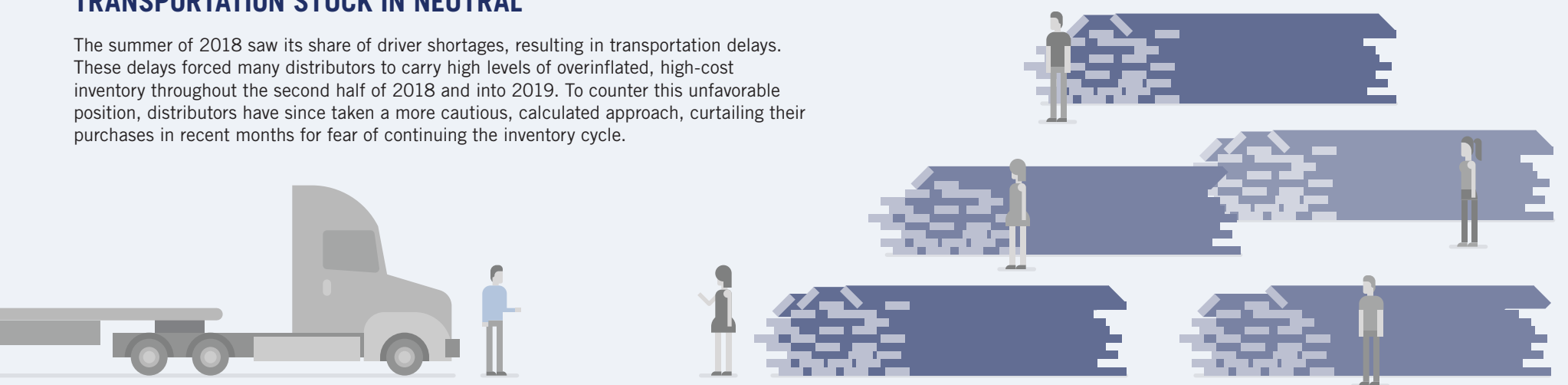
## GETTING STARTED AGAIN

Year-to-date through April 2019, construction spending was down 8% versus in 2018, with the seasonally adjusted annual rate for the month down 15% versus in April 2018. The seasonally adjusted annual rate of single-family housing starts for April 2019 posted a 2.5% decline from the prior year. Overall, the industry has seen low lumber prices and a decline in construction starts across all three major construction categories. While prices typically increase in the traditional building months of spring and summer, there has been little evidence of upward momentum thus far in 2019.



## TRANSPORTATION STUCK IN NEUTRAL

The summer of 2018 saw its share of driver shortages, resulting in transportation delays. These delays forced many distributors to carry high levels of overinflated, high-cost inventory throughout the second half of 2018 and into 2019. To counter this unfavorable position, distributors have since taken a more cautious, calculated approach, curtailing their purchases in recent months for fear of continuing the inventory cycle.



## WEATHERING THE STORM

Softwood lumber production has risen for nine consecutive years; however, supply is currently outstripping demand. Trade tensions with many major U.S. trade partners remain a factor with regard to demand. Additionally, over the past two years, Mother Nature has made her presence felt across both Canada and the U.S., causing declines and delays in construction starts. Despite all of these factors, the industry maintains its cautiously optimistic, wait-and-see approach for the future.

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