

The Tremendous Wooden Rollercoaster: Softwood Lumber Price Volatility, 2020–21

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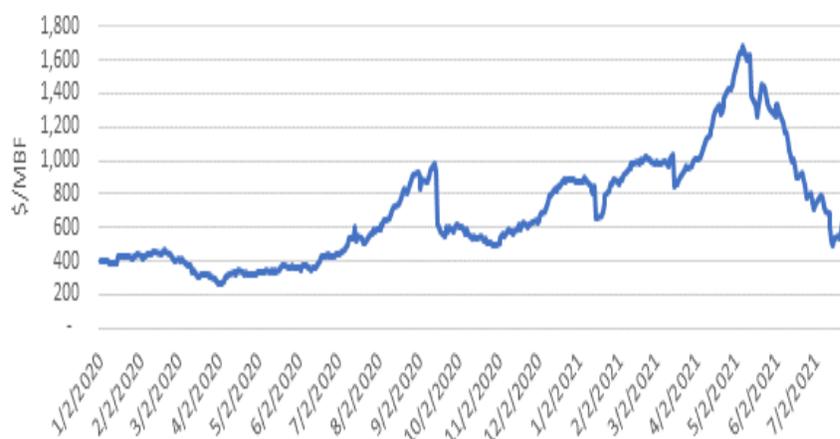
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Softwood lumber (SWL) prices increased over 500 percent from April 2020 to May 2021, with the largest increases occurring in the first five months of 2021. By the end of July 2021, however, prices had dropped over 63 percent from the May 2021 zenith. This Executive Briefing on Trade discusses the 2020–21 SWL price volatility, analyzes the causes, and opines on its relationship to U.S. lumber imports.

SWL price volatility, 2020-21

SWL prices, following a low of \$260 per million board feet (MBF) in April 2020, increased over 500 percent to an all-time high of \$1,686/MBF in May 2021 (figure 1). Between May and the end of July 2021, however, lumber prices dropped 63 percent to \$621/MBF. Even with the rapid drop, however, the July 2021 price was still nearly 140 percent over the April 2020 low. Since July 2021, SWL prices have modestly increased.

Figure 1: Softwood Lumber Prices, Daily, January 2020-July 2021



Source: Nasdaq, *Lumber*, accessed September 27, 2021

Low SWL supply was the initial kindling

The trigger for the rise in prices was low SWL inventories throughout the supply chain. North American SWL supply has been increasingly weak in recent years, partially due to the growing infestation of mountain pine beetles and drought-related wildfires in British Columbia and the Pacific Northwest, which scientists report have been exacerbated by climate change.

COVID-19: low supply meets even lower supply and high demand

In early 2020, the COVID-19 pandemic struck and had several impacts on the North American SWL industry. Sawmills shut down for pandemic-related health reasons and on assumptions that demand would drop. As sawmills cut production and sold inventory, there was heightened uncertainty on the availability of future supplies, which stoked buying at higher prices. In addition, instead of the anticipated reduced demand, Americans rushed to do-it-yourself projects and spent heavily on home improvements rather than unavailable leisure activities. Moreover, lower interest rates incentivized a housing boom. Increased consumer spending continued into 2021, particularly with U.S. stimulus programs providing support to the U.S. economy. As demand increased, supply remained hampered by production labor shortages and freight shipping disruptions. The increased demand and reduced supply pushed lumber prices dramatically higher.

U.S. SWL imports

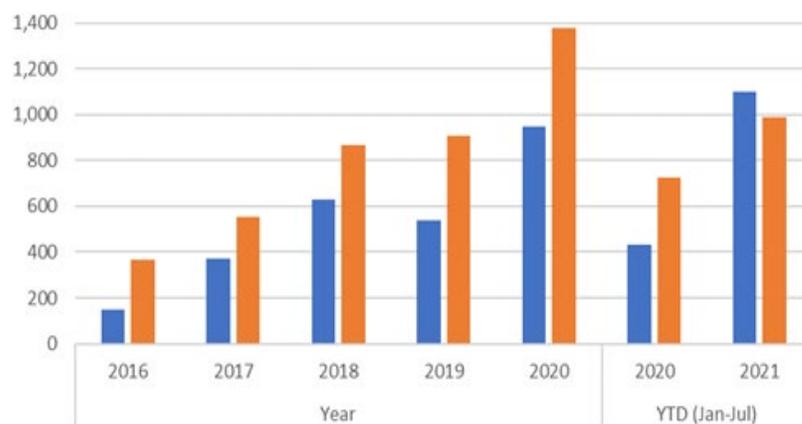
The United States is the largest global market for SWL, accounting for around 30 percent of global imports, by value, in 2020. After dipping to 25 percent in the first two quarters of 2020 due to the first effects of the pandemic, the U.S. share jumped to 42 percent in the first half of 2021, reflecting higher U.S. retail sales of building materials for remodeling and increased housing starts.

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The U.S. SWL supply comes predominantly from U.S. domestic production and imports from Canada. The lumber prices shown above (figure 1) generally track the unit value of U.S. imports from Canada given Canada's role as the dominant foreign supplier to the U.S. market. In 2020, U.S. and Canadian production was insufficient to meet U.S. demand. Moreover, returns on U.S. sales were higher than other international offers. Consequently, U.S. and Canadian mills sold most of their production within the United States. Overall U.S. SWL imports increased 45 percent, by value, and 5 percent, by volume in 2020. Although Canada remains the dominant supplier of U.S. SWL imports, a significant portion of this increase came from outside Canada, particularly European Union (EU) member states Germany, Sweden, Austria, and Romania.

During 2016–20, U.S. SWL imports from the EU have increased by both value and quantity (figure 2). The 2019–20 U.S. SWL import increase from the EU was 52 percent by quantity and 75 percent by value. The EU's share of U.S. SWL imports grew from 3 percent to 16 percent, while Canada's share declined from 91 percent to 80 percent. Short-term, EU SWL supplies have increased partly due to the region's own (but newer) beetle infestation problem that incentivized harvesting and exports while the EU SWL was still viable.

Figure 2: U.S. imports of SWL From EU (excluding UK), 2016-21



Source: DataWeb/DOC, HTS 4407.10, 4407.11, 4407.12, 4407.19, accessed September 30, 2021.

SWL prices plummet after rising

Elevated SWL prices encouraged more domestic production and discouraged many buyers in early 2021. By the summer of 2021, the combination of increased supply and weakening demand caused SWL prices to begin a rapid descent. The shift of consumer purchasing away from home improvement as pandemic restrictions eased on travel and leisure likely contributed to this trend.

Future SWL prices

The extreme lumber price volatility appears to have taken a pause. Over the long term, however, SWL prices will likely continue to face upward pressure—albeit less volatility if some COVID-19 factors such as supply chain delays diminish—as housing shortages persist and climate change impacts on forests worsen.

Sources: Dempsey, "[Timber Prices Fall as US Consumers SWAP DIY for Going Out](#)," June 20, 2021. Lambert, "[British Columbia is on Fire: That's Bad News for Lumber](#)," July 2, 2021. Nicholson and Sirtori-Cortina, "[The U.S. Lumber Market is Out of Control](#)," May 12, 2021. Sambaraju and Goodsmann, "[Mountain Pine Beetle: An Example of a Climate-Driven Eruptive Insect Impacting Conifer Forest Ecosystems](#)," 2021. Subramanian, "[The US Wood Shortage can be Traced to a Decades-Old Beetle Infestation in Canada](#)," March 18, 2021. USITC, "[The Impact of the COVID-19 Pandemic on Freight Transportation Services and U.S. Merchandise Imports](#)," November 2021. Van Veen, "[European Spruce Bark Beetle Infestation Affecting U.S. and EU Softwood Exports](#)," February 2020. WWPA, "[Lumber Track, June 2021](#)," September 13, 2021.

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