

To all of our friends and partners,

2020 has been no ordinary year, so we shouldn't be surprised that it is going out in spectacular style.

We have never before seen the magnitude of volatility this year has brought to forest products, in terms of both pricing and availability.

We have seen a global pandemic, a resulting record drop in production and demand in March and April, followed by a record resurgence in demand without an equivalent return in supply.

This series of events resulted in absolute all-time record lumber prices in August and September. Lumber yards all over North America were often out of lumber and plywood for building and DIY projects. This was followed by a cooling off period that many industry insiders predicted would lead to a historic price drop. They were wrong. By the end of October, lumber and panel prices began another climb to record seasonal numbers. In fact, lower grade lumber used for Industrial applications has surpassed the previous highs we saw in Q3 to hit new record levels. Lumber prices in the east are now 108% higher than they were at this time last year, with absolutely no imminent signs of a retraction.

The chart in the first image below tracks the industry standard Chicago Mercantile Exchange (CME) Lumber futures contract for the current trading month of January. It illustrates a 90% increase in the price of CME lumber since the middle of October to now, which has translated to a 66% increase in lumber prices in Ontario since the beginning of November. Specialty grades such as MSR lumber for truss manufacturing have been even more volatile. A change in export duty rate calculations has magnified the Canadian lumber price spike in that time, with mills quoting for shipment late January or early February. This has left the supply chain in a precarious position: people will run out of lumber again in the coming weeks and months. Perspective on the recent situation can be found here [BNN Bloomberg.ca](https://www.bnnbloomberg.ca).

Plywood is in a similar predicament, with mill order files extending well beyond usual and prices rising by the hour. Fir Plywood is up 56% since last year at this time, and transportation issues from the west continue to compound the problem. Low grades of plywood have seen even more volatility than construction grades, and have been very scarce throughout the year. Even concrete forming plywood, a specialty panel usually slower to react to price fluctuations, has risen 14% over the course of the year.

OSB is up a staggering 180% vs this time last year. What's the reason? OSB is very much a housing commodity, and US Housing Starts have been very strong this year outside of the initial COVID months. See the second image below for 2020 US Housing Start numbers, and the most recent results here [CNBC.com](https://www.cnbc.com).

Hardwood lumber, generally not tied purely to housing, is facing other issues. There has been reduced overall production as hardwood mills curtailed shifts or shut down entirely in the early going of the COVID-19 pandemic. Since then, they have experienced a general labour shortage as a portion of their workforce has chosen to remain on government assistance rather than return to work. And now the warm fall weather has made it difficult to access woodlots for logging, resulting in reduced supply and higher log prices. Light inventories at the wholesale and customer level and a lack of short term relief from any of these challenges means that demand is likely to outstrip supply for the better part of Q1 2021.

As always, we will continue to stay in the markets on your behalf and do our best to mitigate the risk associated with this volatility. And, we'll continue to make sure we have what you need, when you need it.

From everyone at Weston Forest, we'd like to thank you for your continued support and partnership throughout 2020.

This past year has been anything but ordinary, but we are proud of and grateful for what we have accomplished together.

We wish you a safe and joyous holiday season!

Best wishes for a Happy New Year filled with health, happiness and much success!

Figure 1: CME Lumber (USD \$/mfbm) October to present



Figure 2: US Housing Starts 2020

