

MARKET UPDATE JULY 2022

The media spotlight continues to be on supply chain issues and their impact on inflation and product availability. The forest products industry has been hit as hard as any, creating unprecedented volatility.

In this update we'll outline a few of the factors that continue to impact our markets, and your business.

In brief:

- Forest products prices are down from our last update but have rallied since mid-June
- Periodic product shortages will be a part of our new reality
- Supply chain issues will ebb and flow, but are not going away anytime soon

Supporting links and charts are at the end of the update.

REVIEW

Q2 2022 saw a dramatic return to volatility for forest products markets.

CME Lumber Futures saw a 38% drop over the quarter, and volatility within that time was within a wider range than that would indicate. The drop in the wholesale market was more pronounced than that in the CME due to the spread between the two at the beginning of April, but at the time of writing, softwood lumber prices have recovered more than 20% from the June lows.

Plywood showed a sustained 47% drop over the quarter, while OSB saw a decline of 66%. Since their lowest levels in June, plywood has recovered around 20% and OSB more than 10%.

It is worth noting that commodity softwood lumber and panel products are now trading in roughly the same range as this time last year, which is still well above average historical levels. Please refer to the accompanying charts for context.



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Forming plywood pricing was relatively stable over the quarter and demand remains strong in those markets. Rail and container availability issues continue to plague forming plywood producers.

Industrial Hardwood and lagging prices sustained their record pricing trajectory, with gains of 15% over the quarter. The factors here continue to be related to the fundamentals of supply, and not just the same transportation issues that plague commodity products.

Transportation problems continue to be the single biggest market factor in 2022. Mills continued to stockpile inventory as they could not secure enough rail or truck or intermodal freight to move their production. Some large producers curtailed production as a result, and still the markets came off as wholesalers overbought to compensate for late shipments, followed by what appeared to be a slight improvement in freight availability. The ebbs and flows in this availability have been partially responsible for the volatility noted above.

Housing starts continue to trend up on both the 1-year and the 10-year charts, although the May and June 2022 numbers saw a sharp decline back to mid-late 2021 levels. A predicted North American recession and continued labour shortages could moderate that number going forward. Interest rates obviously impact housing demand in a broad sense, and the prime lending rate in Canada has almost doubled in 2022, starting the year at 2.45%, currently 4.70%, and expected to go higher in the coming months. Prices on consumer goods are up across the board, with the June US inflation rate at 9.1%, and the Canadian rate at 8.1%, but wages are also up dramatically and unemployment remains very low. We're in unprecedented times.

LOOKING AHEAD

Our March 2022 update had an in-depth analysis of all of our markets, and most of those factors still hold true.

The current economic climate may serve to moderate demand, but it remains to be seen if we're through the worst of it. We believe that commodity softwood lumber and panel prices will continue to be volatile. As logistics issues ebb and flow, so will commodity prices.

Forming plywood demand and pricing looks strong going forward, although the current levels make it an attractive proposition for mills to produce relative to commodity plywood. This could change quickly if commodity plywood continues its recent upward trajectory. We are also aware of concrete shortages in various markets, and this may or may not impact demand for forming panels.



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Industrial hardwood lumber and lagging & shoring come with their own unique set of challenges that have led to the record pricing we are now experiencing. We believe that this sector will level out at these high levels for the next few months.

As usual, we will do our best to buffer the effects of this volatility for our customers. If you have any questions about anything you've read here, feel free to speak with your Weston Forest contact.

Select links:

<https://regina.ctvnews.ca/here-s-what-an-analyst-says-consumers-should-know-about-canadian-lumber-prices-1.5982417>

<https://www.woodbusiness.ca/normal-seasonal-slowdown-brings-flat-lumber-prices-madisons/>

<https://www.kenoraonline.com/articles/timber-lumber-prices-to-fall-when-will-we-see-a-drop>

<https://www.forconstructionpros.com/business/news/22340257/national-association-of-home-builders-lumber-prices-fall-in-june>

<https://www.mpamag.com/ca/mortgage-industry/market-updates/could-lumber-prices-fall-even-further/412319>

<https://www.cbc.ca/news/canada/calgary/cement-concrete-shortage-construction-canada-von-scheel-1.6522155>

<https://www.rochester.edu/newscenter/what-is-supply-chain-issues-explained-525302/>

<https://www.jpmorgan.com/insights/research/global-supply-chain-issues>

<https://www.cnbc.com/2022/07/15/retail-sales-june-2022-.html>



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CME LUMBER FUTURES: 1-YEAR



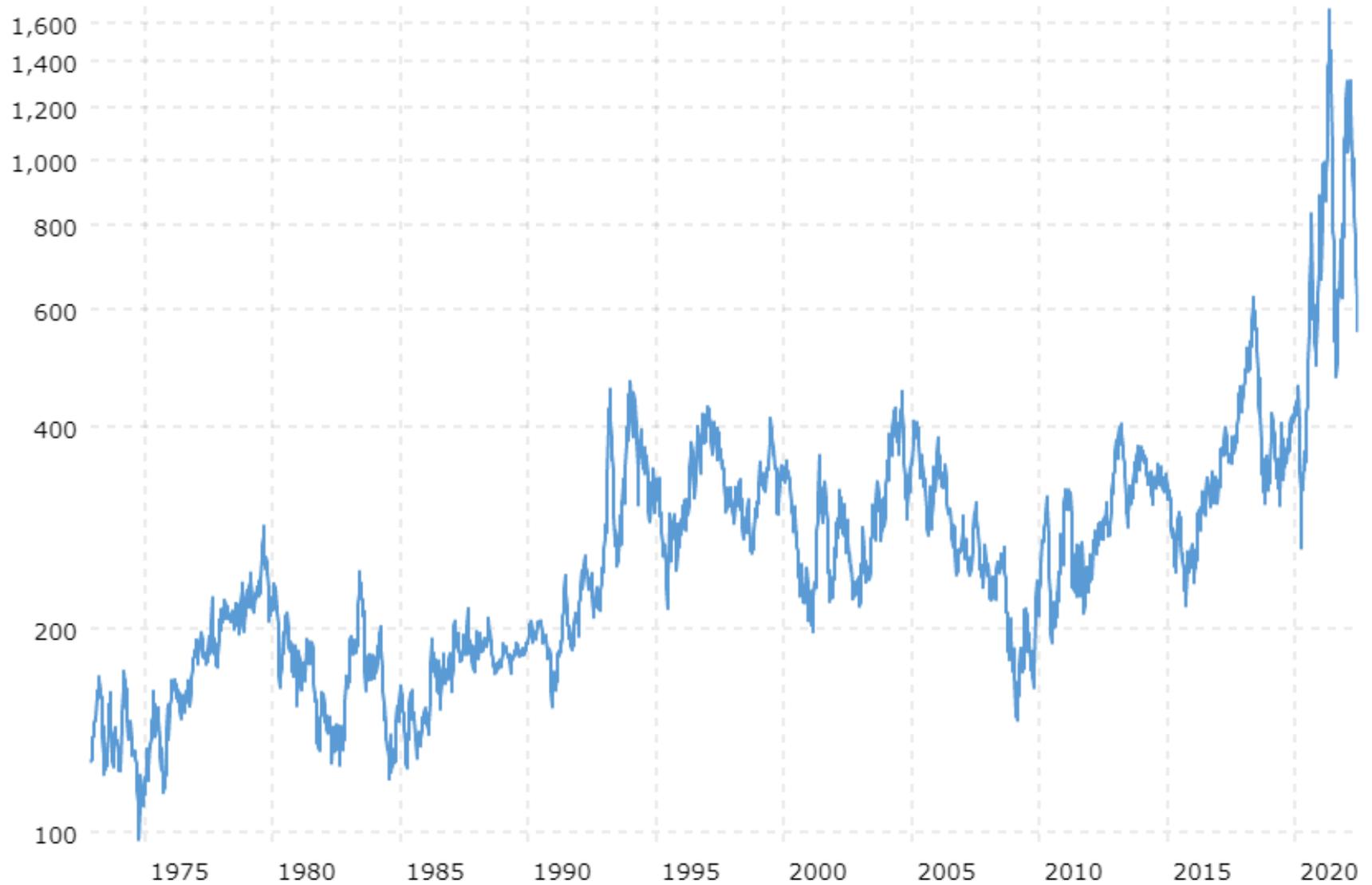
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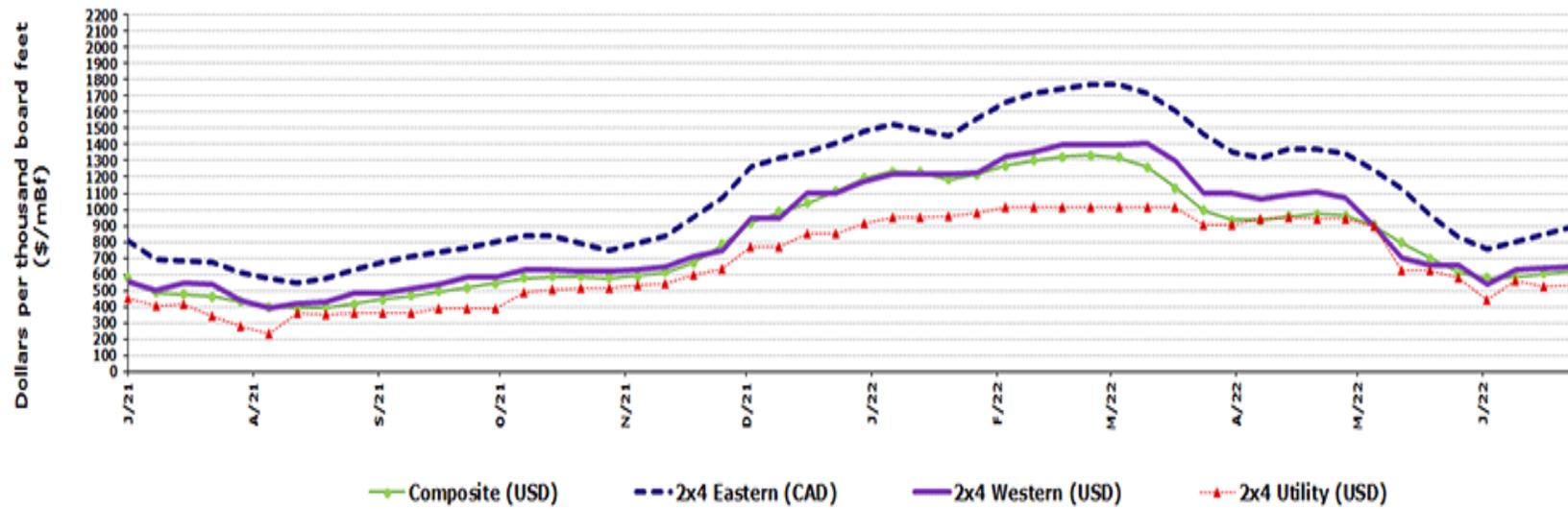
CME LUMBER FUTURES: 10-YEAR



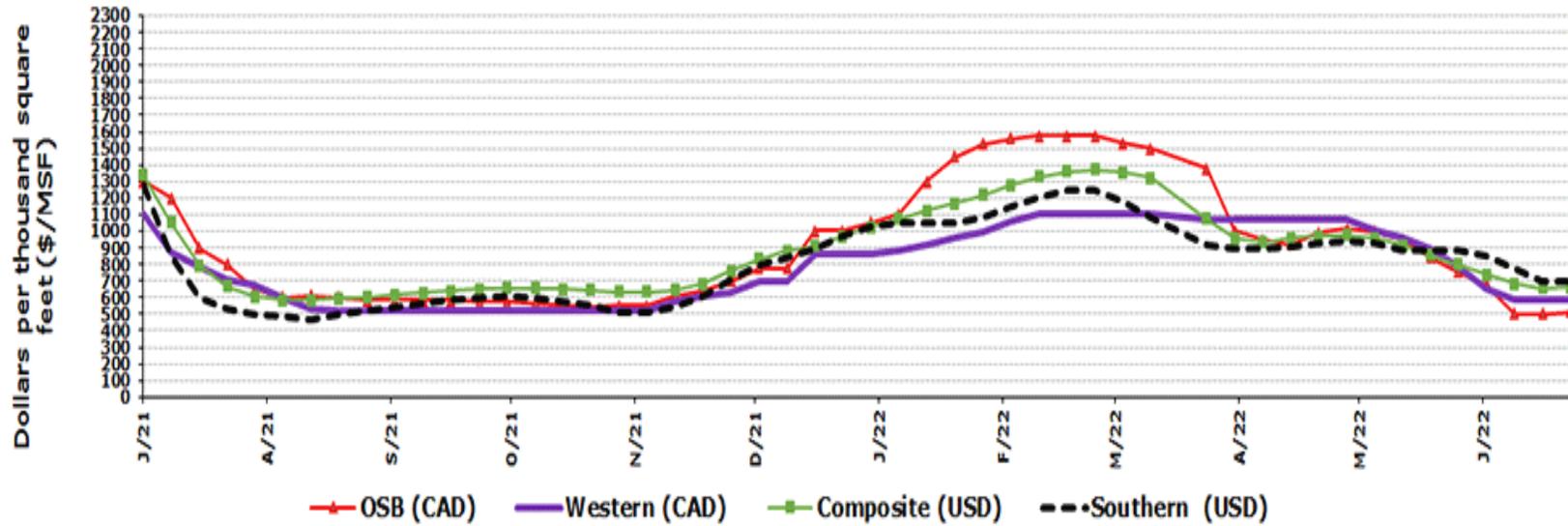
CME LUMBER FUTURES: HISTORICAL



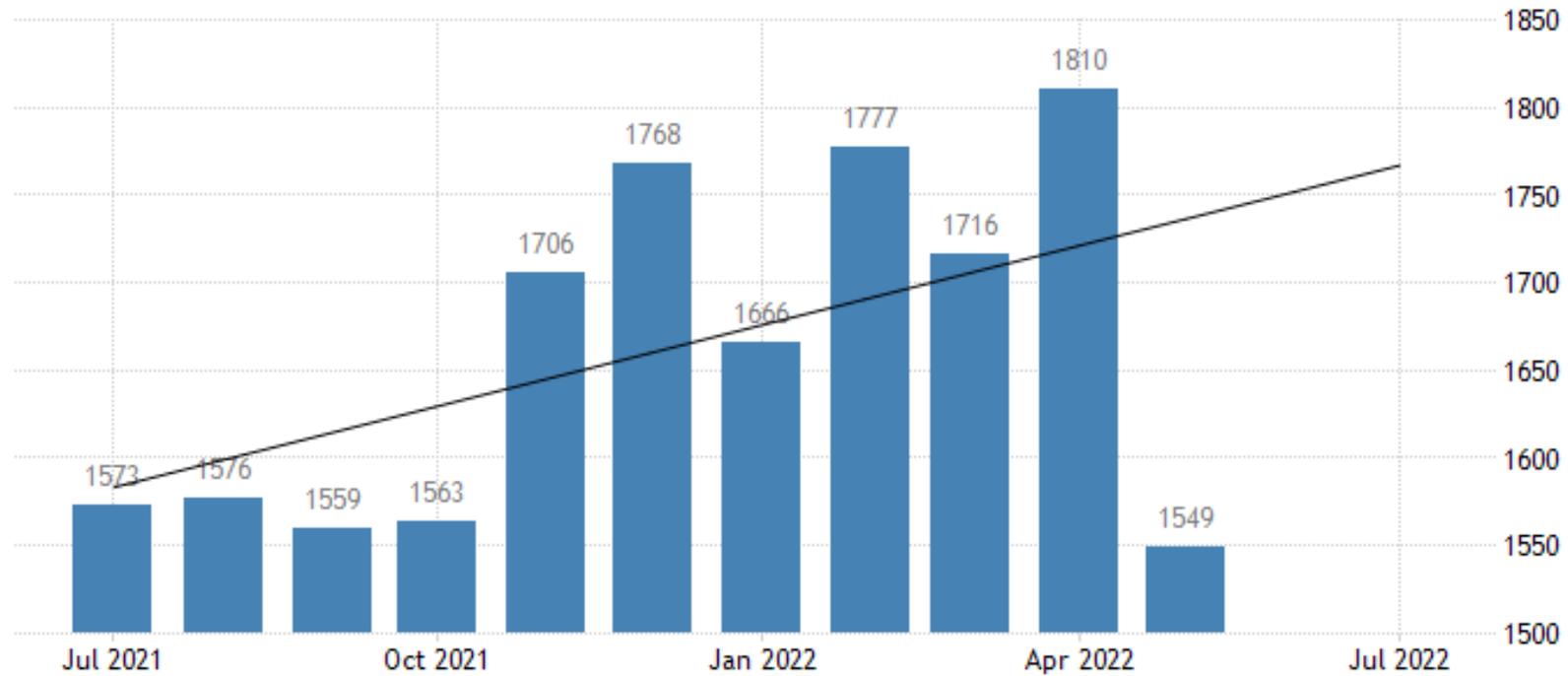
Weekly softwood lumber prices in North America



Weekly panel prices in North America



US HOUSING STARTS: 1-YEAR TREND



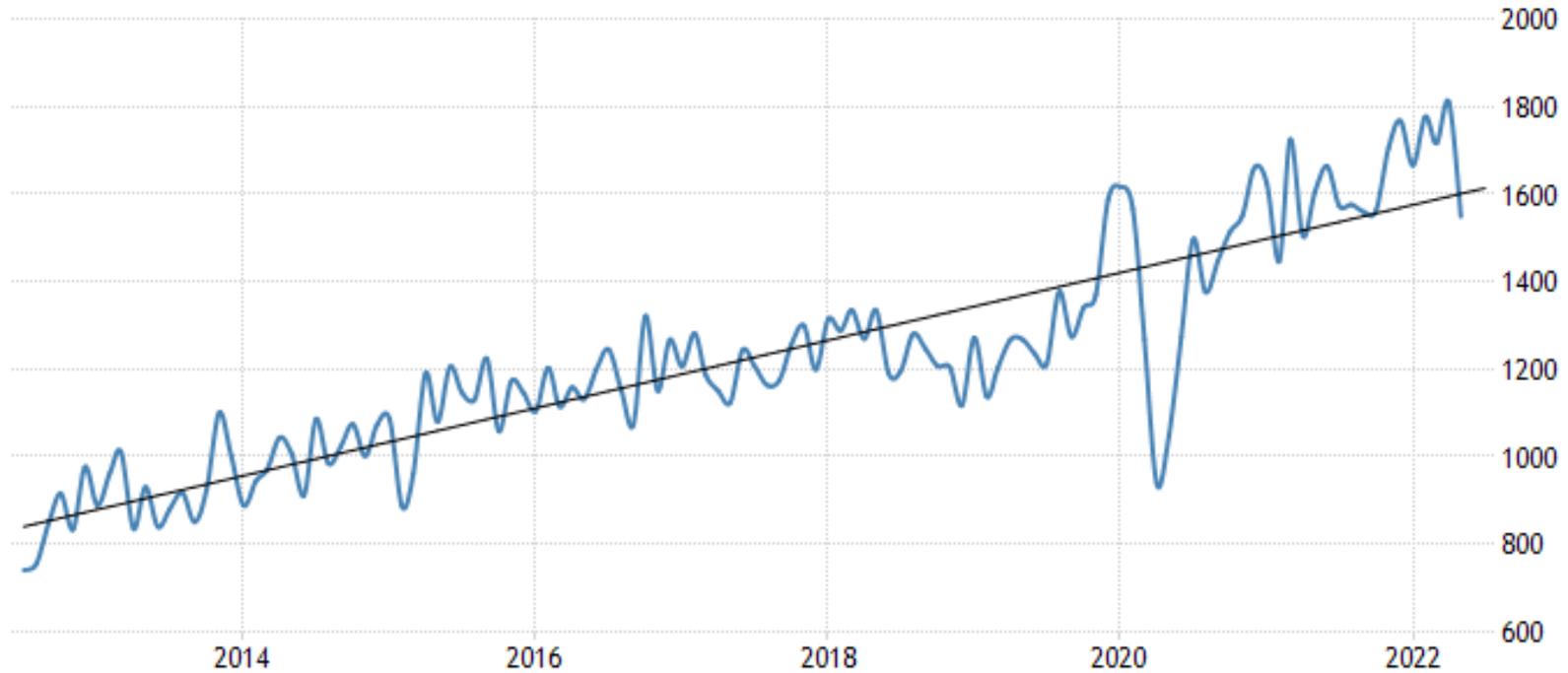
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