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Eye On Housing

National Association of Home Builders Discusses Economics and Housing Policy

Duties on Lumber Now Enough to Threaten Thousands of U.S. Jobs

BY PAUL EMRATH *ON* JUNE 27, 2017

In a previous post, NAHB analyzed the effect of the 19.88% countervailing duty (CVD) levied by the Department of Commerce on Canadian softwood lumber exported to the United States. The NAHB analysis showed that, had that duty been in effect throughout 2017, the effects would include a net loss of 8,241 full-time U.S. jobs.

On June 26, the Department of Commerce imposed a preliminary 6.87% anti-dumping duty (AD) on top of the CVD announced in April. The motivations for ADs and CVDs differ, although the two are similar in the way they increase prices paid by U.S. consumers. The 19.88% CVD is intended to compensate for government subsidies that Canadian firms allegedly receive. The AD, on the other hand, is intended to bridge a supposed gap between the price for which Canadian producers are selling lumber in the U.S. and the "fair market price" determined by the Department of Commerce. In other words, by imposing a general 6.87% AD on Canadian softwood lumber, the Department is alleging that Canada's softwood lumber producers are selling goods nearly 7% below its idea of a "fair" price.

Combined, the two duties impose a 26.75% total tariff on Canadian lumber imported into the U.S. The annual effects of this tariff in 2017 include a loss of

- **$685.5 million** in wages and salaries for U.S. workers,
- **$481.8 million** in taxes and other revenue for governments in the U.S., and
- **11,336** full-time U.S. jobs.

The reduction in jobs is not limited to the construction industry, as jobs are also lost in businesses that sell and transport building materials, provide architecture and engineering services, etc. Some jobs are gained in the U.S. sawmill industry, but this is almost entirely offset by losses in other manufacturing industries. In total, 25 or more jobs are lost in 43 different detailed (6-digit NAICS code) industries. The losses of wages, jobs and taxes shown in the above bullets are ***net*** losses, that take the increases in wages, jobs and taxes in the domestic sawmill industry into account. Jobs are measured in Full Time Equivalents (enough work to keep a worker employed full-time for a year).

The 2017 baseline that would prevail in the absence of the duty is based on 2016 lumber production and consumptions statistics, mid-2016 prices adjusted for inflation, and construction spending in 2016 adjusted for inflation and anticipated real increase, and wages per job adjusted for inflation. The adjustment factors are taken from NAHB's 2017 forecast for the Consumer Price Index, Residential Fixed Investment, and Housing Starts for 2017. In addition, wages per job are inflated using HUD's estimate of Median Family Income for 2017.

Starting from this baseline and applying average elasticities (measures of the way markets respond to price changes) taken from a 2011 technical article by Baek yields an estimate that, in 2017, a 26.75% tariff would result in a

- reduction of **1.68 billion board feet** in Canadian imports,
- increase of **1.15 billion board feet** in output of U.S. producers for the domestic market, and
- **8.8%** increase in the price paid by U.S. customers.

Home builders are one of the largest consumers of softwood lumber in the U.S. The effects of the higher prices the tariff would cause them to pay for lumber (assuming the conventional price elasticity for housing demand of -1) include a

- **$1,701** increase in the price of an average single-family home
- **$489** increase in the market value of an average multifamily home
- **$1.30 billion** reduction in investment in single-family structures, and
- **$200.8 million** reduction in investment in multifamily structures.

NAHB's National Impact of Home Building model can then be used to translate the reduced investment in residential construction into net impacts on the U.S. economy. The resulting impacts by major industry group and type of tax (or other government revenue) lost are shown in the following table:

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Net Impact of the Combined Duties on the U.S. Economy

Using the NAHB model described in Impact of Home Building and Remodeling on the U.S. Economy

I. Jobs and Income by Industry

	Full Time Equivalent Jobs	Wages and Salaries	Profits Before Taxes	
			Proprietors	Corporations
All industries	**-11,336**	**-$685,463,953**	**-$286,268,206**	**-$253,886,342**
Construction	-7,656	-$444,015,549	-$183,872,635	-$80,686,391
Manufacturing	7	-$25,042,814	-$5,256,332	-$60,673,428
Trade, Transportation & warehousing	-1,678	-$78,843,784	-$12,557,033	-$36,536,220
Finance and insurance	-235	-$23,159,835	-$574,281	-$17,036,984
Real estate and rental & leasing	-108	-$6,043,304	-$33,156,108	-$8,063,261
Professional, Management, Administrative	-899	-$64,098,149	-$18,142,229	-$12,076,692
Other	-767	-$44,260,517	-$32,709,588	-$38,813,367

II. Government Revenue Generated

Total	**-$481,756,362**
Federal	**-$318,158,134**
Income taxes	-$156,317,262
Government social insurance*	-$154,070,599
Excise taxes and customs duties	-$7,770,273
State and local	**-$163,598,228**
Income taxes	-$43,159,996
Permit, hook-up, impact, etc. fees	-$62,863,975
Sales taxes	-$31,188,968
Other business taxes & license fees	-$26,385,289

* primarily payments for Social Security, Medicare & unemployment insurance

The above analysis considers only the impacts of increased output by U.S. sawmills and reduced investment in new residential construction. It does not include any upstream impacts of inputs used by U.S. sawmills, such as timber; nor does it include negative impacts of higher prices on other industries that use lumber, such as residential remodeling.

In addition, the analysis assumes that both duties are in place throughout 2017, estimating annual job losses etc. for calendar year 2017. In real terms, NAHB's estimates of the negative impacts of the duties on Canadian lumber would be somewhat larger in 2018, due to a continuing recovery in the single-family housing market, resulting in percentage reductions being applied to a larger base. Dollar denominated estimates would also be slightly larger in 2018 due to general inflation.

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