

SENT TO LSU AGCENTER/LOUISIANA FOREST PRODUCTS DEVELOPMENT CENTER - FOREST SECTOR / FORESTY PRODUCTS INTEREST GROUP



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Analysis

As long bull run (on framing lumber) charges on traders struggle to see end

A common refrain from even veteran lumber traders in this historic run has been, “We have never seen one like this before.” With a look back at other record runs, and accounting for all the factors at work today, it is easy to make the case that this one is unprecedented.

The chart shows previous record runs (trend lines) against the backdrop of the current run (columns), each over an 18-month period. What characterized the previous three runs were market spikes over relatively short periods, and then retrenchment nearly in mirrored imagery to their upward trajectories.

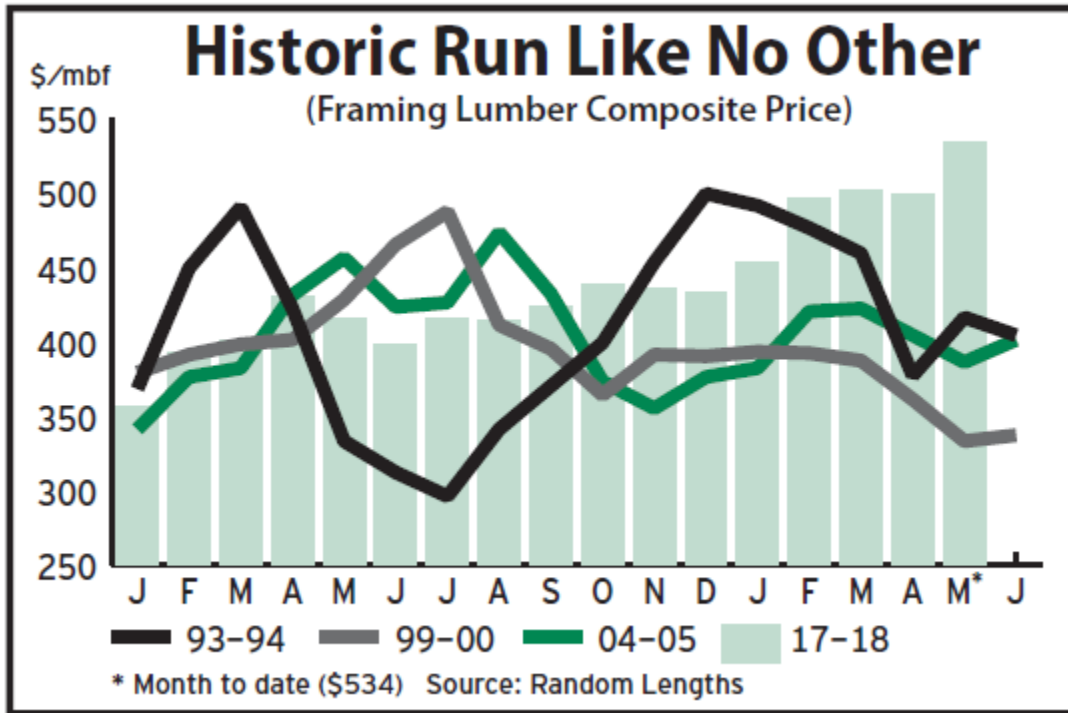
The current run has stair-stepped upward over the past year and a half with only a few pullbacks — a moderate one in May and June of last year and a mild slip in April this year (chart). The 1993-94 run was driven by logging cutbacks on the federal forests in the Northwest to protect the northern spotted owl. Another was the housing boom of 2004-05 that eventually ended in calamity when the bottom fell out of the housing market in 2008. Those runs generated two spikes over their respective 18-month periods.

Previous record runs have come with “an emotional” element. There certainly was over the spotted owl timber shortages and the high-flying excesses of the housing bubble. There was emotion early on in this run, as the U.S. imposed countervailing and anti-dumping duties on Canada’s shipments to the U.S. Shortly thereafter, however, emotion dissipated and has been muted since. What put an end to the previous runs was the industry’s ability to respond to record prices with increased production that eventually overcame demand. In the past, that dynamic has occurred over the course of several months or a few more.

What is different this time is the length of the run, perpetuated by specific supply-side issues that have hampered the industry’s ability to increase supply to meet and eventually overtake demand. Those issues — last summer’s forest fires, log shortages in the West, cutbacks in the allowable cut in B.C., shortages of trucks, and insufficient rail service — all conspired to generate a supply crunch. Contributing to those and many other supply-side problems throughout the economy have been labor shortages. That includes the ability of sawmills to hire for additional production.

As seasonal demand kicks in, traders widely believe that this market has more room to run. But they also acknowledge that it too will have an end. They just cannot foresee it, at least at the moment, in large part because they “have never seen one like this before.”

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Richard P. Vlosky, Ph.D.
 Director, Louisiana Forest Products Development Center
 Crosby Land & Resources Endowed Professor of Forest Sector Business Development
 Room 227, School of Renewable Natural Resources
 Louisiana State University, Baton Rouge, LA 70803
 Phone (office): (225) 578-4527; Fax: (225) 578-4251; Mobile Phone: (225) 223-1931
 Web Site: www.LFPDC.lsu.edu

President, Forest Products Society; President, WoodEMA i.a.

