

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



August 5, 2020

## Soaring Lumber Prices Limit Housing's Growth

With mortgage applications running ahead of 2019 levels, demand for single-family homes remains a bright spot for the overall economy. Home prices continue to rise well above the rate of inflation as housing inventory remains thin. Additional home building is required to meet this demand, but the rebound of construction off April lows has expanded the need for lumber. Due to insufficient domestic production and tariffs on Canadian sources, the [price of lumber](#) has staged a staggering increase in recent months, rising 80% since mid-April to an average price of \$627 per thousand board feet. This increase will add thousands of dollars to the cost of a typical newly-built home, thereby constraining housing supply, exacerbating affordability woes and limiting housing's economic impact.

Solid demand for housing is clear in both new and existing home markets. New single-family home sales jumped 14% in June to a 776,000 annualized pace per Census estimates. For the first half of the year, despite the recession of 2020, new home sales are up 3% compared to the first half of 2019. Sales-adjusted inventory is at just a 4.7-month supply. According to data from the National Association of Realtors, completed June resales were up 20% compared to May, but still down 11% compared to a year ago. However, that deficit is beginning to close: Pending home resales are up 6% compared to a year ago in June, having now returned to pre-pandemic levels.

While prices of for-sale homes are rising, the shift of demand away from rental properties, particularly in large metros, is having an impact on rents. In June, government inflation data for the CPI revealed a net decline of 0.1% for inflation-adjusted rents. This marked the first decline for rents since 2013. And it is consistent with household level data, which showed in the second quarter a jump for the level of homeownership. However, that Census data point was affected by a change in the survey. So while the current homeownership rate is likely below the implied survey rate (67.9%), it is likely above the first quarter estimate of 65.3%.

Thus far, housing has experienced the strongest rebound among the individual sectors of the economy. These gains are exceptional, as the rest of the economy shows signs of a stall in the recovery that emerged in May. For example, initial jobless claims for the third week of July actually ticked higher to 1.4 million new claims, while the measuring of ongoing jobless claims implied a slight rise in the unemployment rate to 11.6%. The second quarter was the worst on record since World War II, with a -33% GDP growth rate, as a result of the virus crisis and government-imposed lockdowns. However, we continue to forecast that the unemployment rate will be near 10% at the end of 2020, which marks a significant improvement from the lows set during the second quarter.

As a result of the gains for housing demand and a slowing in the rate of improvement for the overall economy, the housing share of GDP rose to a 13-year high in the second quarter of 16.2%. As estimated by NAHB, that share has increased due to GDP declines outside of housing and relatively smaller impacts for residential construction operations. This calculation further demonstrates the strength and perseverance of the housing industry, despite the overall economy's sluggish recovery.

**-NAHB Chief Economist Robert Dietz**



6 August 2020



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