



Is there a relationship between lumber and timber prices?

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What do the record-high lumber prices in the first half of 2018 mean for the performance of timber prices? In a previous article, we discussed factors underlying record-high softwood lumber prices in June 2018.¹ Incidentally, after an all-time high of \$582 per MBF, lumber prices dropped sharply to a low of \$436 per MBF in the third quarter making 2018's lumber market one of the most volatile in history. Nonetheless, it seems reasonable for landowners to expect higher prices for standing timber when lumber prices are high. In reality, however, there is only a loose association between lumber and timber prices

over relatively short time periods, which we explore in this article.

Theoretically, lumber and timber prices should track one another. For example, if lumber demand increases, then demand for timber to meet lumber production quotas should also increase, leading to an increase in timber prices. We plotted the average annual framing lumber composite price and pine sawtimber price between 1984 and 2018 (*Figure 1*). The plots show that lumber and timber prices tend to track each other over the long term. However,

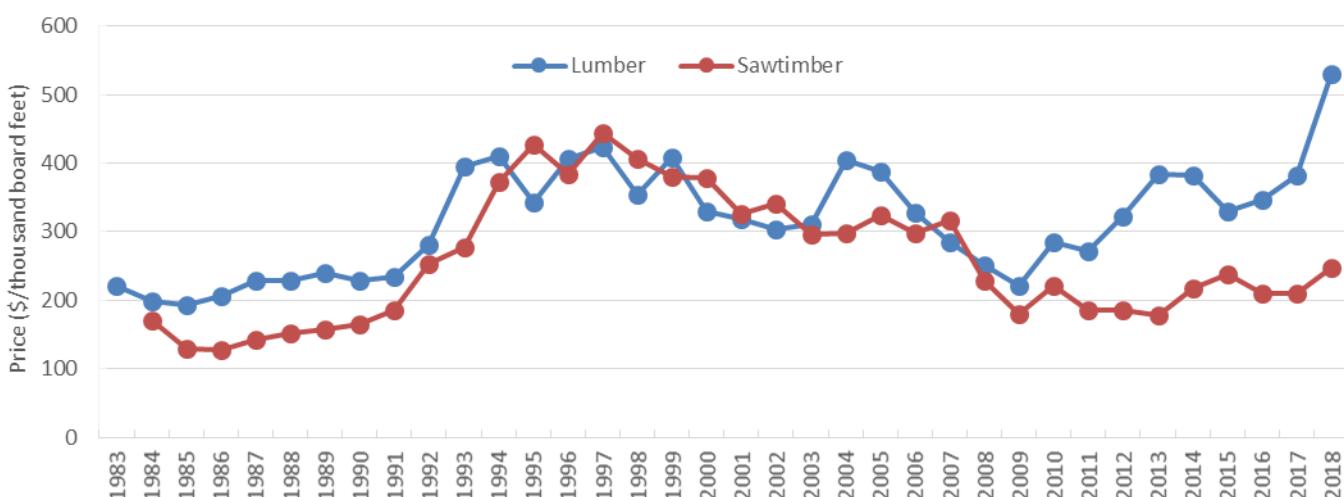


Figure 1. Average annual U.S. framing lumber composite price² and pine sawtimber price³



over shorter periods, such as a quarter or even a year or more, they might diverge and even move in totally opposite directions.

Several factors contribute to the disconnect between lumber and timber prices. The price of lumber is primarily affected by the U.S. housing market, which continues to improve since the 2008 recession. Housing starts were estimated at 1.28 million units in August 2018⁴, 9.2% higher than in July , implying that lumber demand remains strong. In addition, lumber supply is currently tight due to reductions in Canadian imports and current U.S. lumber production capacity. The combination of high demand and tight supply led to the record-high lumber prices in early 2018. In contrast, there is an abundant supply of standing timber. Possible reasons are that some mills closed and many landowners pulled their timber off the market in the immediate aftermath of the 2008 recession, causing the total volume of logs in the U.S. South to rise unimpeded the last few years. For example, the total inventory in the South increased 8.1% from 231.7 billion cubic feet (BCF) in 2008 to 250.4 BCF in 2014.⁵

Another factor which can weaken the correlation between lumber and timber prices is technological advancement in lumber production. For instance, optimized cutting and increased efficiency of downstream processing equipment results in less volume of timber needed to produce the same amount of lumber. Improved technology combined with

abundant timber supplies results in lower timber prices even during periods of high lumber demand.

In summary, the combination of housing markets, lumber demand and production capacity, sawmill technology, timber supplies, and local market conditions all contribute to short-term disconnections between lumber and timber prices. It takes time for timber markets to adjust to lumber markets. However, the establishment of new mills and expansions are planned for East Texas and across the South, which could be a positive sign for timber markets.

If you have questions or purchase timber in the East Texas market and would consider being a bi-monthly price reporter, please contact Nana Tian (nana.tian@tfs.tamu.edu) at Texas A&M Forest Service.

References:

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2. Prices reported by Random Lengths.
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4. Reported by U.S. Census Bureau, August 2018.
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