

MARKET UPDATE MARCH 2022

The media spotlight has been on supply chain issues and their impact on prices and availability for the last two years, and the forest products industry has been hit as hard as any. In this update we'll outline a few of the factors that continue to impact our markets, and have recently affected our ability to get product out the door and delivered to you.

In brief:

- Prices on everything are up
- Product shortages are a part of our new reality
- Supply chain issues will ebb and flow, but are not going away
- Operations issues at Weston Forest have been challenging, but are soon to be resolved

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

Pricing and Demand

Q4 2021 was less dramatic than the first three quarters of the year in that the market only went in one direction (up), but still exhibited extreme volatility by historical standards.

CME Lumber Futures gained 83% over the course of the quarter, and is up another 27% since the beginning of 2022. Unlike some lumber futures moves, these increases have largely been reflected in the wholesale softwood lumber market.

Construction plywood showed a 54% gain over the quarter, and is up another 37% in 2022. OSB was up by 56% in Q4 2021 and is up a staggering 88% in 2022. Forming plywood was up close to 6% over the last quarter of 2021, and has seen 15+% appreciation so far in 2022. This will most likely continue as construction plywood is a more attractive proposition for mills to produce, once again limiting the production of formply as we head into the season of heaviest demand.



Industrial hardwood and lagging prices were also incredibly strong, heading into record territory with gains of 8-10% over Q4 2021. It's hard to tell how much hardwood prices have gone up this year due to the lack of availability and sporadic pricing, but best estimates are 50-60% just since the beginning of this year.

Housing starts continue to trend up on both the 1-year and the 10-year charts, reflecting the healthy demand that the forest products markets are experiencing. Historically, starts are approximately 70% of peak, so there is room to escalate. The limiting factors will be material availability issues and access to labour. Industrial Production and Capacity Utilization continues to be strong in the US and Canada despite pandemic issues along the way, as does GDP output and the inflation that comes with it.

Logistics

Transportation issues were the single biggest market factor in Q4 and have accelerated into 2022. We have confirmed reports of both sawmills and panel mills carrying huge inventories waiting for railcars and trucks to take product to market. Some mills are curtailing production to accommodate the problem.

Trucking shortages that we have been reporting on for the last couple of years are not going away anytime soon. There are not enough drivers for the demand. Certain mid- and long-haul lanes are virtually impossible to find trucks for.

Rail problems have abounded over the last few years, with railcar and locomotive shortages compounded by weather and COVID issues. Fires and floods in BC caused major disruptions for origin shippers in 2021, creating a logjam of product at lumber and panel mills. COVID issues effectively reduced the railways' workforce, resulting in missed switches and reduced deliveries. Some mills are reporting reductions of over 50% in railcar availability.

Intermodal shipments are usually an expedient way for many products to get to market, both overseas and domestic. Earlier in 2021 we were hearing of international container supply shortages and huge price increases, but those did not materialize in the domestic intermodal market until much later in the year and into 2022. We have seen price increases of 200-400% in domestic intermodal lanes due to massive shortages, dramatically impacting the availability of many plywood products and some lumber items.



Weather issues have also dominated the news cycle the last few months. In addition to the aforementioned fires and floods in BC, the rest of North America has seen record snowfall and persistent cold temperatures. In January, our Mississauga head office facility just outside Toronto was pummeled with the biggest blizzard since 1944. This made it incredibly difficult to move around our facility. Combined with more snow and extremely cold temperatures over the last month, we had a perfect storm of inbound truck and rail delays, equipment breakdowns, labour shortages, and outbound trucking issues. We have had to take several short-term emergency measures to keep product moving, and we still could not keep up with demand. Unfortunately, we were not capable of our usual quick product turnaround for many of our good customers.

Despite our best efforts, we've let people down over the last few weeks. You can be confident that we are making the changes we need to make and sparing no expense to get back to the levels of service that we are known for.

Supply

Lumber and panel production over the last two years has been impacted by the same COVID issues as the general manufacturing and distribution sectors: access to labour, downtime due to COVID, and transportation availability. While COVID-related issues and transportation backlogs will clear to some extent, there does not appear to be a quick solution for the labour situation.

Unique to softwood lumber, the Spruce-Pine-Fir (SPF) production in BC is finally starting to decrease, but this is being met with a corresponding increase in production of Southern Yellow Pine (SYP) in the US south. This will most likely lead to imbalances along the way as the two products are not entirely interchangeable.

In addition to all of the aforementioned challenges that commodity plywood is facing, forming plywood is now at a point where it is much less lucrative than construction plywood for mills to produce. This is the same situation we saw much of last year during the formply shortages, so the market is potentially setting itself up for a repeat of that situation.

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. Increasingly volatile weather patterns are shortening logging seasons. Aging owner-operators in both logging and sawmilling are choosing retirement over battling with rising operational costs and limited succession planning. Increased demand high-grade hardwood has allowed for mills to break out more grades and capture additional profit further into the heart of the log, where the industrial hardwood lumber and lagging & shoring typically reside.



What does all of this mean to you?

These are challenging times. Please keep the following in mind as you plan your business moving forward:

1. Prices will continue to be volatile. As logistics issues ebb and flow, so will commodity prices. We'll do our best to buffer the effects for our customers, but there will be swings.
2. Even though our recent Operations problems have been mostly weather-related, there will be continued lumber and panel availability shortages due to all of the issues we've outlined above. Anyone running very lean inventories of critical items will be in a difficult position at times. Please continue to consult your Account Manager: they can offer solutions for your business.
3. Industrial hardwood and lagging & shoring are faced with a unique set of challenges: shortages will persist.
4. Forming plywood will be in tight supply again this year: as you read this, there is virtually none available at the wholesale level across Canada for immediate shipment. We strongly suggest that our customers secure supply, and we would be happy to discuss this with you.

If you have any questions about anything you've read here, feel free to speak with your Weston Forest contact.

We will continue to do everything we can to make sure you'll continue to love doing business with us. We thank you for your patience and flexibility while we continue to work through a difficult time in our industry. We will get through this together.

Select links:

[Industrial Price Index Canada](#)

<https://yieldpro.com/2022/01/materials-scarce-prices-high/>

<https://home.kpmg/xx/en/home/insights/2021/12/six-key-trends-impacting-global-supply-chains-in-2022.html>



<https://www.nytimes.com/2022/02/01/business/supply-chain-disruption.html>

<https://www.nationalobserver.com/2022/01/31/news/federal-government-industry-groups-search-supply-chain-solutions>

<https://www.nytimes.com/2022/02/09/business/truck-driver-shortage.html>

<https://ca.finance.yahoo.com/news/bof-a-no-relief-in-sight-for-high-trucking-costs-195333782.html>

<https://www.railwayage.com/freight-forecasting/rail-freight-whats-in-the-crystal-ball/>

<https://www.logisticsmgmt.com/article/intermodal-volumes-begin-2022-with-annual-declines-reports-iana>

<https://www.bloomberg.com/news/articles/2022-02-03/truck-rail-car-dearth-adding-to-lofty-lumber-prices-ceo-says>

<https://www.bnnbloomberg.ca/transport-crunch-spurs-west-fraser-timber-to-curtail-lumber-production-1.1724011>

<https://www.marketplace.org/2022/02/15/lumber-prices-soar-on-hot-demand-and-supply-bottlenecks/>

<https://millerwoodtradepub.com/2022-forecasts-in-the-hardwood-industry-2021s-success-is-expected-to-continue-in-2022/>

<https://mkweather.com/a-peak-of-winter-2021-2022-in-the-usa-and-canada-toronto-heaviest-blizzard-since-1965-nashville-snowiest-winter-since-1985-mississauga-the-most-snow-since-1944-yakutat-18-m-of-snow-hail-in-texas/>

CME LUMBER FUTURES: 6-MONTH



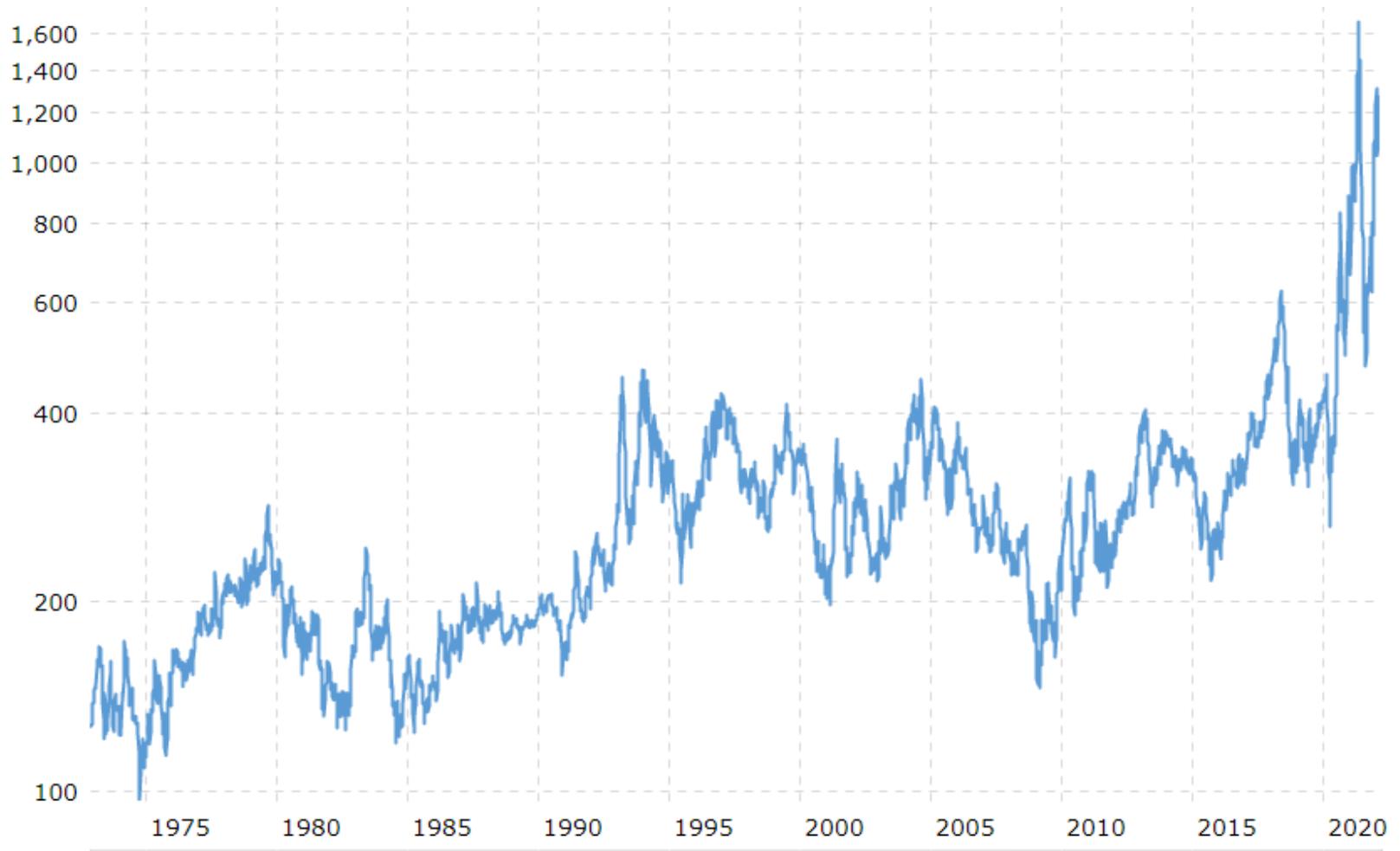
CME LUMBER FUTURES: 1-YEAR



CME LUMBER FUTURES: 10-YEAR

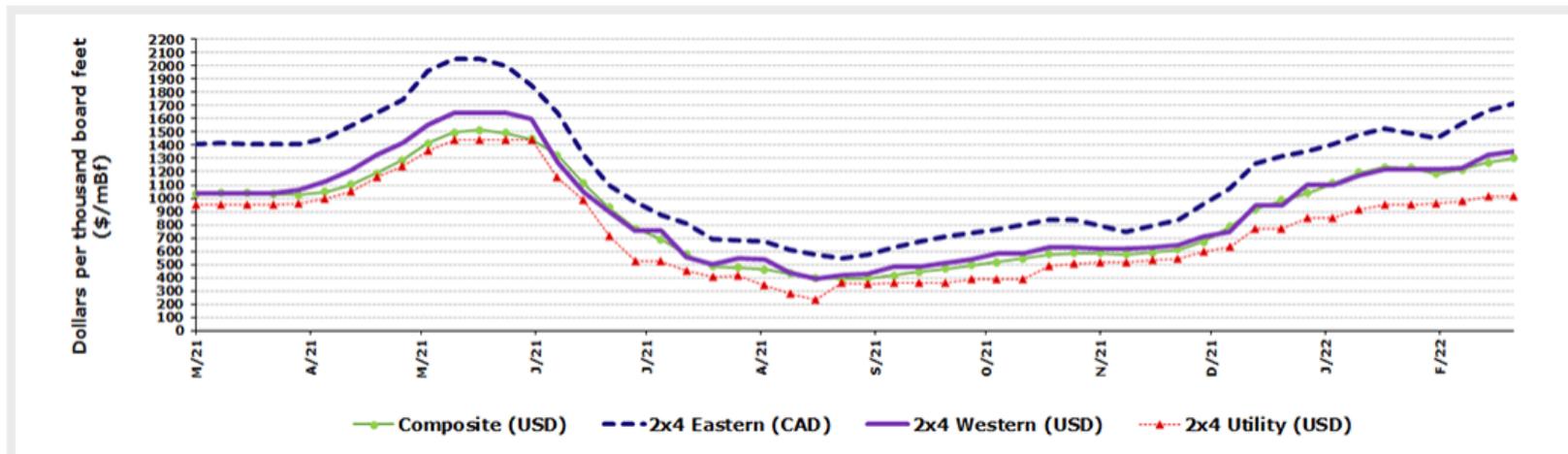


CME LUMBER FUTURES: HISTORICAL



Softwood lumber prices

Figure 1: Weekly lumber prices in North America

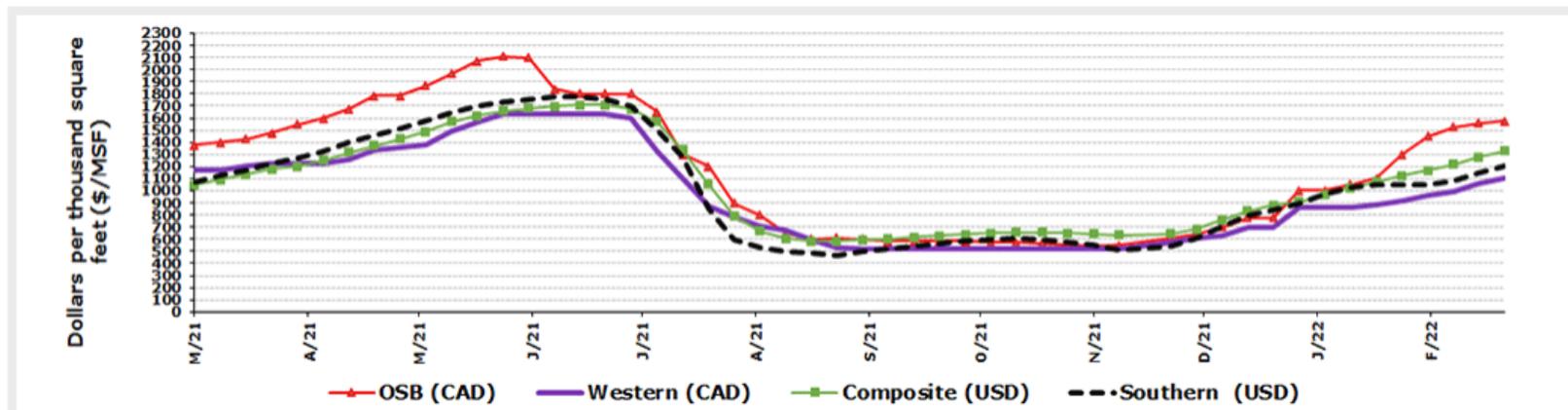


Note: Eastern spruce-pine-fir 2x4 #2 and better, Random Lengths composite prices and western spruce-pine-fir 2x4 #2 and better, kiln dried

Sources: 1) [Random Lengths](#), used with publisher's permission
 2) [Madison's Lumber Reporter](#), used with permission granted by the publisher

Panel prices

Figure 2: Weekly panel prices in North America

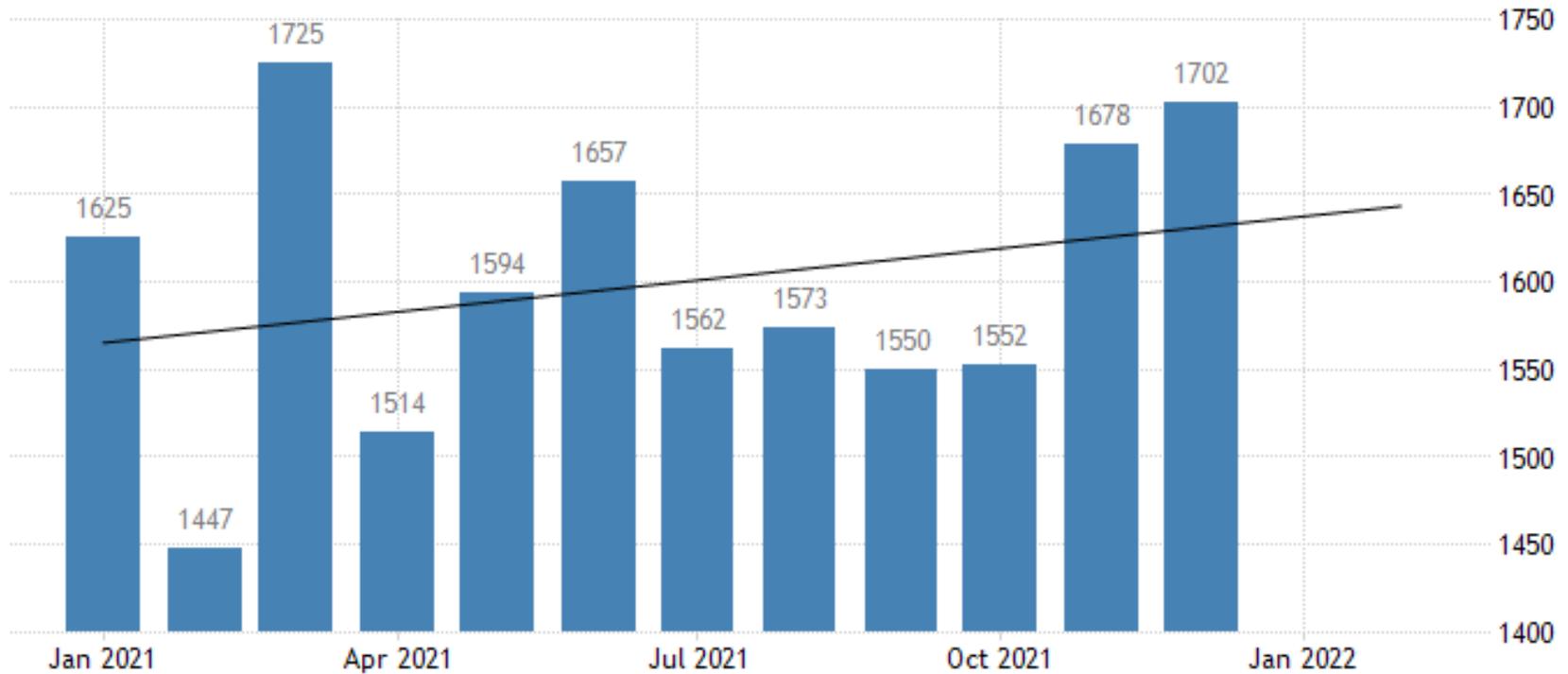


Note: Random Lengths structural panels composite prices, 15/32" 4-ply exterior southern, 1/2" 4-ply exterior western and 7/16" oriented strand board (north central)

Sources: 1) [Random Lengths](#), used with publisher's permission

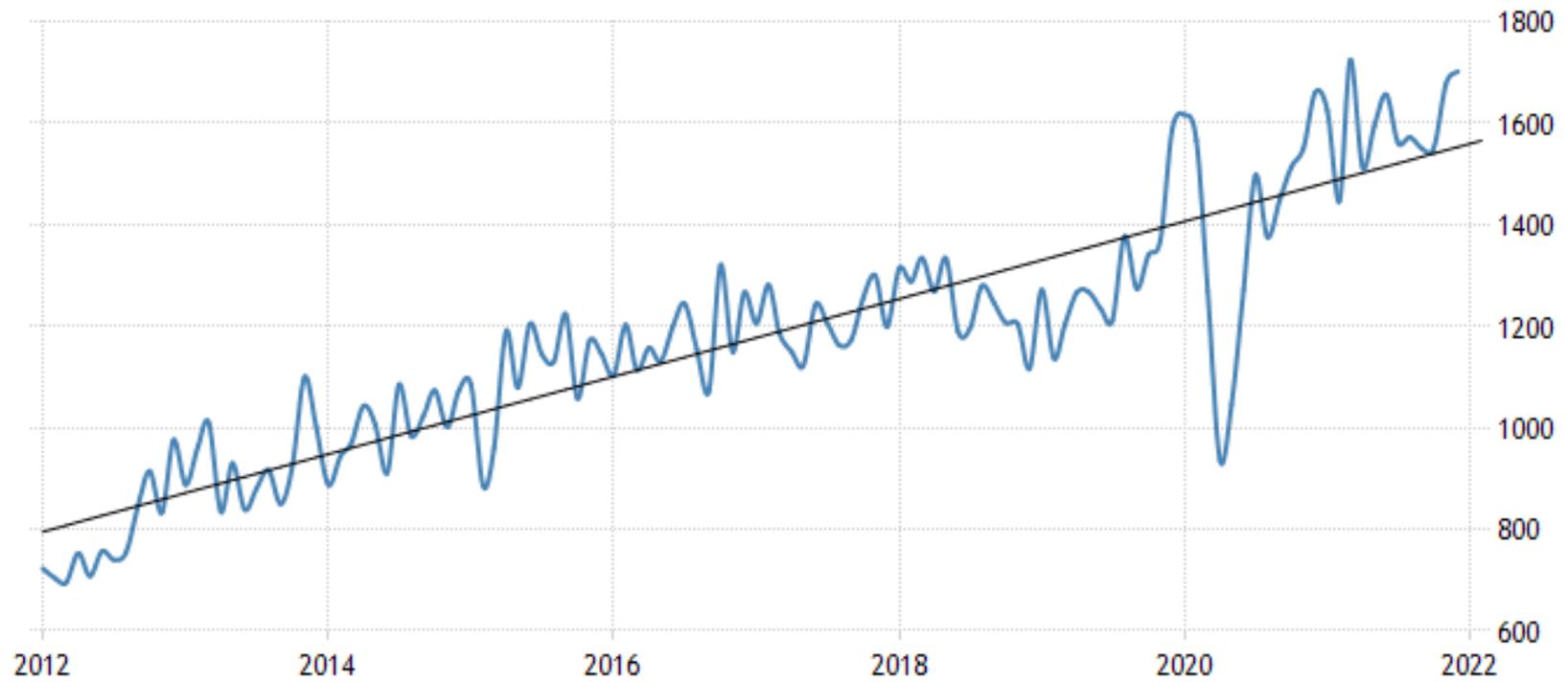
2) [Madison's Lumber Reporter](#), used with permission granted by the publisher

US HOUSING STARTS: 1-YEAR TREND



SOURCE: TRADINGECONOMICS.COM | U.S. CENSUS BUREAU

US HOUSING STARTS: 10-YEAR TREND



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INDUSTRIAL PRODUCTION & CAPACITY

