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Wood Prices Signal Building Falloff

BY RYAN DEZEMBER

Lumber prices are signaling that the nascent housing boom is fizzling, despite home builders' push to keep residential construction going through the coronavirus crisis.

Lumber futures have plummeted of late, and mills are dramatically dialing back production of two-by-fours, plywood and other building materials.

On Tuesday, lumber futures for May delivery fell 6.1% to close at \$278.50 per 1,000 board feet on the Chicago Mercantile Exchange. That is down 41% from a recent high of \$468.30 hit Feb. 20.

Lumber prices had been on the rise until then, with builders starting construction on more houses than at any time since 2006. Now the market is pricing in a lost spring, traditionally the busiest time for homebuying and when construction kicks off in much of the country.

Home builders have argued that they are critical businesses and should be exempt from orders in many states to close nonessential operations. With a few exceptions—notably New York, Washington and Pennsylvania—most states have agreed to allow construction.

KB Home Chief Executive Jeffrey Mezger told investors last week that although the company planned to keep working through its backlog of nearly 6,000 homes under way, it would take longer to complete them operating under social-distancing guidelines intended to slow the spread of the virus.

“You can't have three or four different contractors in the home at any one time,” he said.

Pledges to keep building despite the pandemic have failed to instill confidence in the forestry sector.

“There's zero chance that potential home buyers are waking up tomorrow and saying, let's go buy a new house,” said Kansas City, Mo., lumber trader Stinson Dean. “That is not happening.”

Mr. Dean buys lumber in the winter—when it is typically cheaper—and sells it to lumber yards in spring. To hedge against price declines for the wood he holds, he also shorts lumber futures, laying bets that prices will drop.

Last week, his broker in New York called his firm's \$50,000 line of credit due and gave him two days to square up. He was fortunate futures had plunged. His hedges had been out of the money in late February when lumber prices were climbing, but when they plummeted his short positions gained value and he was spared writing a check to satisfy the margin call, he said.

Mr. Dean had been liquidating his own lumber ever since NASA published side-by-side images on March 2 showing air pollution in China before and after virus-related lockdowns. Clear skies indicated an unprecedented economic slowdown.

“I started to get out from under my inventory as fast as possible,” he said.

There were takers in the Southeast and Texas who were racing to finish up projects, but by last week orders

slowed to a trickle, Mr. Dean said. Meanwhile, the bank withdrew a business-expansion loan for which his Deacon Lumber Co. had been earlier approved. The company in-that tended to use it to hire additional traders and add inventory. The bank told Mr. Dean it would revisit his loan application in 90 days.

“Mill sales were minuscule, as buyers refused to cover more than their most essential needs until they had a better handle on the impact of the pandemic,” trade publication Random Lengths wrote Friday in a pricing report. “Speculative buying seized up.”

West Fraser Timber Co. said it was curtailing production at lumber mills in western Canada and in the U.S. South by about 51 million board feet a week. Rivals **Interfor** Corp. and Canfor Corp. similarly choked back output. CIBC analysts estimate that North American lumber production is being reduced by between 15% and 25%.

That was before **Weyerhaeuser** Co., the largest owner of U.S. timberland and a big mill operator, said Monday it would cut operating capacity in April by 20% for lumber and 15% for oriented strand board—which is used in floors, walls and roofs—as well as by up to 25% for other engineered wood products.

The Seattle company said it moved to shore up its balance sheet last week with two financial transactions. It sold \$750 million of 4% bonds to pay off higher-cost debt coming due next year and completed the \$145 million sale of 630,000 acres of Montana timberlands.

Executives from CatchMark Timber Trust Inc. spent Thursday reassuring investors on calls hosted by Raymond James analysts. The executives’ message to investors, the analysts said, was that even if its log sales fell by half, it would mean losing no more than \$300,000 in weekly revenue.

On the bright side, there is strong demand for pulp, which is used to make toilet paper, cardboard boxes and other products.

More than 50% of Catch-Mark’s timber is harvested for pulp, they said, prices for which were climbing in part because of the expected decline in scrap wood coming from mills that have stopped sawing lumber.

Large mill operators are steeply cutting production and operating capacity.



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