



Industry Responding to Surge in Lumber Demand

The COVID-19 pandemic has spurred an imbalance between supply and demand for toilet paper,¹ semiconductors² and now lumber.³ What's going on? And more importantly, what can be done to address it?

SUPPLY CHAIN IMPACTS

Wood product manufacturers were operating under the same uncertainty as the rest of the country at the beginning of the pandemic. Many mills curtailed production in anticipation of worker shortages and reduced demand. At the same time, many wholesale and retail lumber customers significantly reduced their inventory levels. Additionally, the housing market crash of the Great Recession resulted in the permanent closure of many mills. Between 2007-2017, mill closures in the U.S. South resulted in a loss of capacity between 1.7-2 billion board feet⁴ and closures in the Pacific Northwest represented 10% of the area's mills.⁵

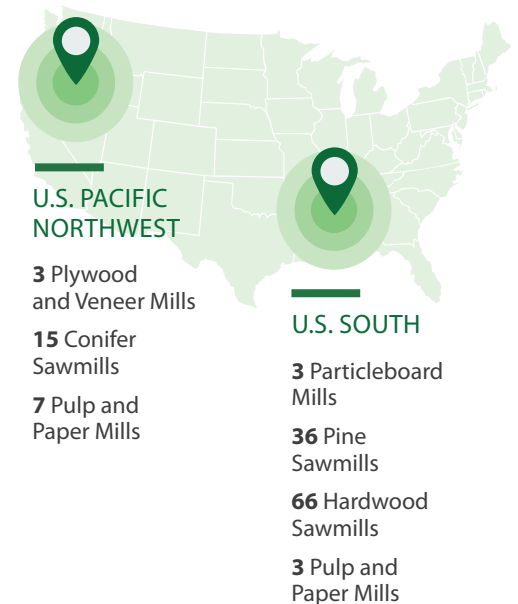
INCREASED DEMAND

The demand for wood products dipped as expected, but quickly rebounded. The National Association of Home Builders reported that the pandemic drove increased demand for remodeling projects as people stayed home and tackled DIY projects.⁶ Restaurants rushed to build outdoor accommodations.⁷ Low interest mortgage rates and demographics supporting household formation pushed a rush of home buying. Homes are going under contract at a faster rate than they are listed for sale,⁸ even though new home listings are up 19.1 percent over last year.⁹ Permits for single- and multi-family projects were up 25.3 percent and 20.4 percent, respectively.¹⁰

EXPANDING CAPACITY

North American softwood sawmill capacity increased by 1.4 billion board feet in the last year.¹¹ Most of that increased capacity—1.1 billion board feet—was from manufacturing in the U.S. South.¹² In fact, the entire wood products manufacturing sector continues to produce at the highest levels since before the Great Recession.¹³ Importantly, these positive trends of high production and increased expansion come despite the wood products industry's sustained constraints due to severe weather and wildfire events, labor shortages, and transportation constraints.

PERMANENT MILL CLOSURES DUE TO THE GREAT RECESSION



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In addition, lead times to receive and install the equipment for additional capacity remains long. In some cases, machinery is backordered up to 24 months—potentially extending the usual 12 to 24 months it would take to complete these types of projects. Manufacturing expansion projects are a long-term solution that will support increased capacity, but not until 2022 at best. Additionally, the USDA's Climate-Smart Agriculture and Forestry Strategy has recognized a need to increase the scale of thinning and other activities to reduce the risk of high-intensity wildfire on federal forests. Such activities could result in increased manufacturing capacity over the long-term in regions with federal forests.

OPPORTUNITIES TO ADDRESS SUPPLY CHAIN CHALLENGES

The most meaningful opportunity to address constraints to lumber supply is to focus on transportation and workforce limitations. These challenges were present before the pandemic and have exacerbated the current situation. Support for technical and vocation schools, and apprenticeship efforts, is paramount to addressing the workforce challenges, not only in the forest products sector but across the U.S. economy. One other prominent labor concern is the nationwide shortage of qualified truck drivers, as well as overall transportation system inefficiencies caused by outdated federal regulations, which are stressing America's current wood supply system.

There are a number of important government policies that should be revisited to open up broader opportunities for new workforce and facilitate more efficient transportation. For example, proposed bipartisan legislation such as the [DRIVE Safe Act](#) provides a framework from which young drivers can safely enter the transportation industry. Legislation that addresses this issue is the bipartisan [Safe Routes Act](#) provisions that provide for a safer and more efficient transportation of logs, pulpwood, wood chips and biomass. The bipartisan bill [Promoting Women in Trucking Workforce Act](#) would require the FMCSA to establish an advisory board charged with identifying barriers to entry for women in the trucking industry and help identify and establish training and mentorship programs for women.

CAUSES OF SUPPLY SHORTAGES

Forest2Market,¹⁴ a third-party market monitor, determined the lumber supply situation to be caused by three primary factors:

- Stronger than expected housing starts combined with unforeseen demand from the remodel sector.
- Capacity and supply chain adjustments.
- Market speculation driving uncertainty.

¹ [Flushing out the true cause of the global toilet paper shortage amid coronavirus pandemic](#). The Washington Post. April 7, 2020.

² [Semiconductor Shortage Shines Light On Weak Supply Chain](#). National Defense Magazine. May 21, 2021.

³ [How the Pandemic Made Lumber America's Hottest Commodity](#). The Wall Street Journal Video. April 19, 2021.

⁴ ["Making More Lumber" Is Not So Simple](#). Forest2Market. May 26, 2021.

⁵ [Regional Changes Impacting the Sawmill Sector: Follow the Money...and the Wood](#). Forest2Market. May 9, 2019.

⁶ [Pandemic Spurs a Resurgence of Remodeling Activity](#). National Association of Home Builders. May 5, 2021.

⁷ [Dining in the Street? As Restaurants Reopen, Seating Moves Outdoors](#). The New York Times. June 16, 2020.

⁸ [Deepening Supply Shortage Causes Homes to Spend Nearly 50% Less Time on Market](#), New HouseCanary Report Finds. BusinessWire. May 13, 2021.

⁹ [New Home Listings Increase But Housing Shortage Continues](#). Forest Economic Advisors. May 14, 2021.

¹⁰ [Single- and Multifamily Permits Post Gains Across the U.S.](#) National Association of Home Builders. May 17, 2021.

¹¹ [North American Softwood Sawmill Capacity Increased by 1.4 Billion Board Feet Over the Past Year](#). Forisk. May 19, 2021.

¹² Ibid.

¹³ [Industrial Production: Manufacturing: Durable Goods: Wood Products](#). Federal Reserve Board. Accessed May 27, 2021.

¹⁴ ["Making More Lumber" Is Not So Simple](#). Forest2Market. May 26, 2021.

