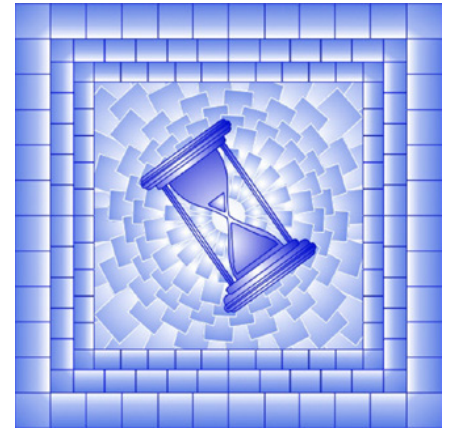


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Recent trends in wholesale and retail softwood lumber prices

Canadian retail prices for framing lumber¹ rose 34% in 2018 compared to 2016 driven by a confluence of factors in the commodity markets. This increase contributed to the higher construction costs for new residential buildings observed in 2018 across many regions. Canadian wholesalers and retailers of lumber largely passed on cost pressures originating from commodity markets to consumers.

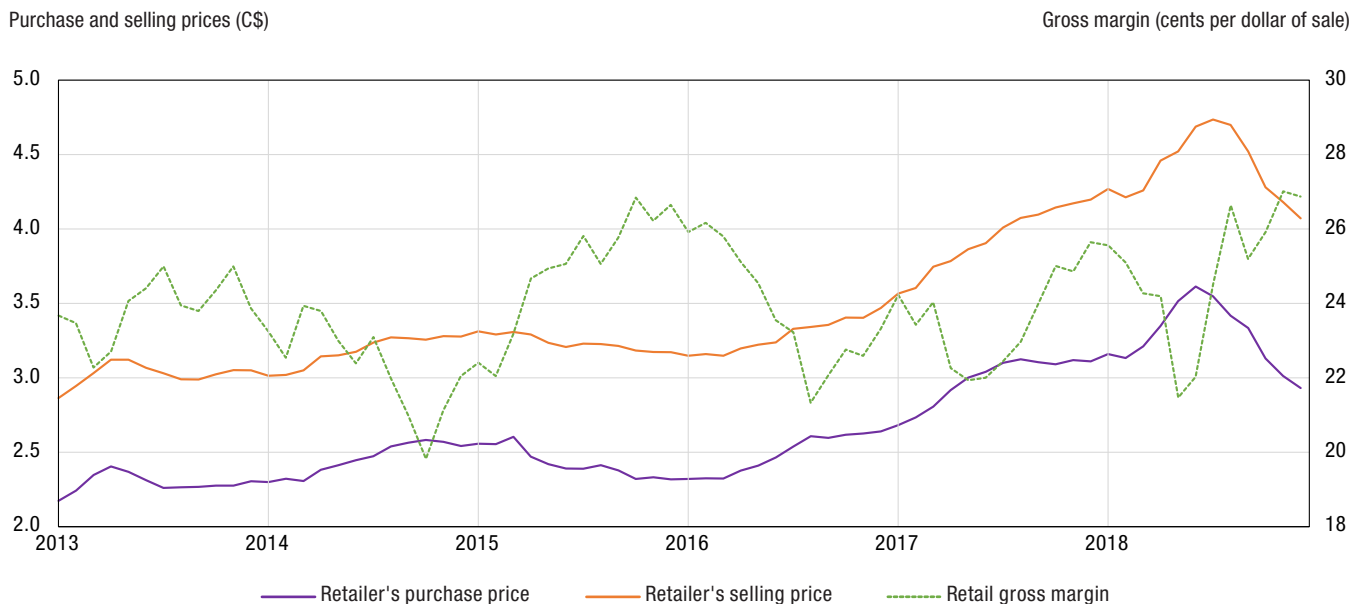
Retail prices for lumber reached multiyear highs in 2018

The average selling price for framing lumber (2-inch x 4-inch x 8-ft dimension) was up 34% in 2018 compared to 2016. This was due to rising purchase prices which increased 32% during the same time. Retailers largely passed on cost pressures from wholesalers and producers to consumers. From 2013 to 2015, relatively stable selling prices were recorded averaging \$3.1 per unit.

Chart 1

Average retail prices and gross margin

Framing lumber (2-inch x 4-inch x 8-ft)



Source: Statistics Canada, Retail Trade Price Report (survey number 5135).

Selling prices of framing lumber peaked in July of 2018 averaging \$4.7 per unit followed by a sharp decline in the latter half of the year. This decrease was mainly due to supply increases in the commodity markets and reduced demand for lumber in the US housing market.

From 2013 to 2018, retailers' gross margins² for framing lumber fluctuated between 20 and 27 cents of every dollar of sale. Lower gross margins were recorded in early 2018 as the growth in purchase prices outpaced that of selling prices. Margins recovered in the second half the year as purchase prices declined faster than selling prices.

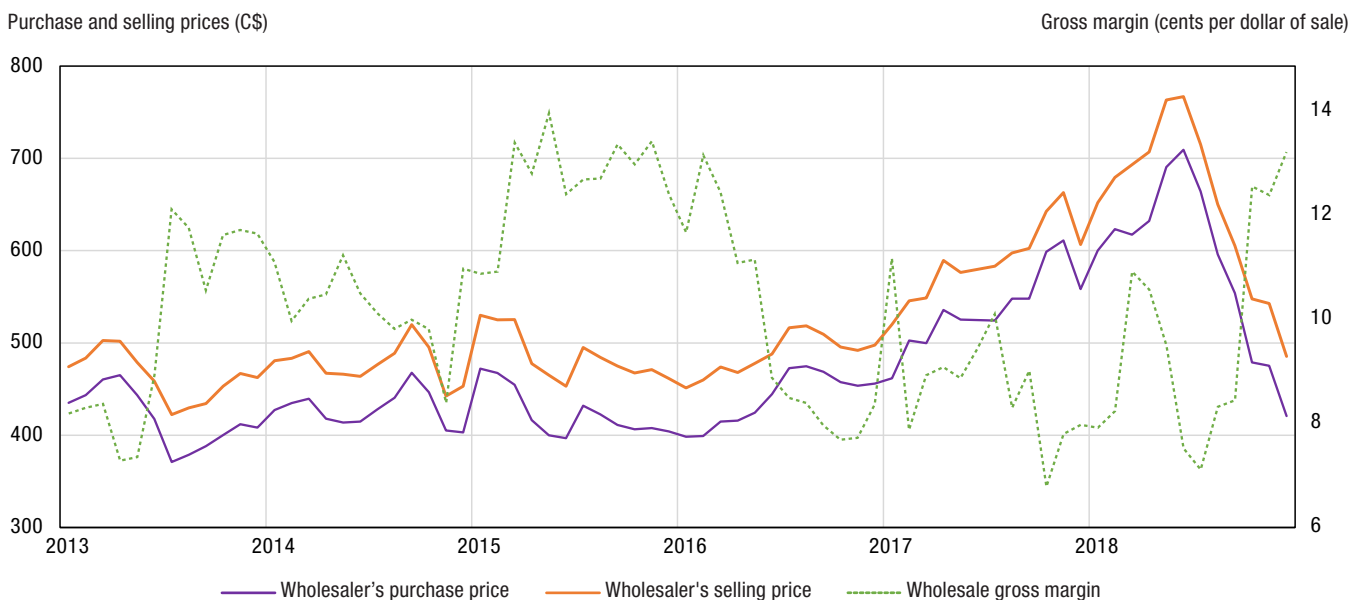
1. Framing or dimension lumber is the long, thin structural softwood commonly used for framing purposes in housing construction. Prices data were sourced from the Wholesale Price Report survey ([survey number 5106](#)) and Retail Trade Price Report survey ([survey number 5135](#)). Estimates are based on price observations of standardized lumber products sold by surveyed vendors. Products selection is based on a judgemental sampling approach. Estimates are therefore not representative of the universe of selected products.
2. Gross margin per dollar of sale is the difference between the selling price and the purchase price divided by the selling price of the product being sold. This figure represents the vendor's expenses and profit for the service of selling a product.

Lumber wholesale price trends mirror retail ones

Wholesalers also reported similar price trends as retailers. The average wholesale selling price of framing lumber (per thousand board feet) rose 33% in 2018 compared to 2016, consistent with the rise in purchase prices faced by retailers during this period. Wholesalers experienced rising producer prices (+34%), and passed the higher costs to retailers.

From 2013 to 2018, wholesale gross margins for framing lumber ranged between 6 and 14 cents of every dollar of sale with peaks in 2013, 2015 and 2018.

Chart 2
Average wholesale prices and gross margin
Framing Lumber (1000 board feet)



Source: Statistics Canada, Wholesale Price Report (survey number 5106).

Growing demand in the US behind higher prices

Most lumber wholesalers and retailers surveyed cited changes in commodity markets as the main reason for price change. Increased demand for lumber, due to a growing US housing market, was the main driver behind the price uptick. The US accounts for 75% of the value of Canada's softwood lumber exports.³

At the same time, Canadian producer's ability to meet this demand was reduced amidst transportation constraints in the rail system,⁴ wildfires in the summer of 2017 and 2018, and the adverse effect of the mountain pine beetle. Countervailing and anti-dumping duties imposed on Canadian lumber exports to the US in 2017 could also have contributed to the rapid growth in prices.

Prices started to decline in the summer 2018 as transportation constraints eased, bringing more supply to market, and as construction activity in the US housing market slowed down.⁵

3. Natural Resources Canada. 2018. "Softwood Lumber Fact Book 2018", Accessed June 11th 2019

4. Statistics Canada. Table 23-10-0216-01 Railway carloadings statistics, by total tonnage transported, monthly.

5. Madison's Lumber Reporter. 2018. "Current Softwood Lumber Prices Compared to Recent and Historical Highs: Sept 25, 2018", Accessed June 13th 2019.

Construction costs rise with higher lumber prices

Construction costs for new single-detached houses in Canada rose (+10%) from the first quarter of 2017 to the second quarter of 2018 driven in part by higher lumber prices.⁶ Cost increases were observed in all eleven Census Metropolitan Areas (CMAs) surveyed for the Building Construction Price Index. According to the contractors surveyed, the increase in new building costs observed in this period were partly attributable to higher lumber prices. The growth in construction costs moderated in the second half of 2018 coinciding with the decline in framing lumber prices.

6. Statistics Canada. Table [18-10-0135-01](#) Building construction price indexes, by type of building.