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In spite of fairly moderate demand over the past few months, both the lumber and panel markets have found a way to command price increases moving into the new year. This is especially true for OSB, but that should surprise no one. The OSB mills have become extremely adept at controlling the pricing levels they are able to command with little regard to how little demand may be. By limiting production and offering very little additional product to their contracted wood, they are able to create somewhat illusional demand through limited supply. As each new year rolls around, every consumer of OSB, along with studs and dimensional lumber, has the choice of how much of their anticipated needs they commit to buy from a particular mill. That is known as contracted wood. The preferred brands have little problem contracting a majority of their annual production capacity. The price level of a contract is determined by the average market numbers published by Random Lengths, an industry barometer of selling costs throughout North America. Any extra wood they choose to produce is sold as open market with that pricing determined by whatever the market will bear. By not saturating the market with an abundance of product, demand is created as buyers jockey for what they require in excess of their contracts. The only threat of the market moving lower is when mills ramp up production creating an actual excess of available material. As they continue to hone their skills in determining what production levels not to exceed, the instances that prices go down are less frequent.

This stroll down memory lane to third period Intro to Economics class had a couple reasons. It has always been assumed what is meant by “contract” and “cash or open market” wood. Hopefully that is clearer now. But primarily it was to point out that this is being practiced more and more in not only lumber but building materials as well. This has not historically been the case, especially to the degree it is happening today. This is causing unnecessary material shortages along with extended lead times resulting in inflated home building costs. When coupled with the rise in interest rates, the new homes that our country desperately needs built are unaffordable. This is extremely concerning considering that home building is a cornerstone of our overall economy.

