Explanation of the Random Lengths Framing Lumber Composite Price

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The Random Lengths Framing Lumber Composite is a broad measure of price behavior in the U.S. framing lumber market. Traditionally and roughly, 1/3 of the lumber consumed in the U.S. comes from each of the following sources: 1) Western U.S., 2) Southern U.S., and 3) Canada. Thus, 33% of the Composite is comprised of Southern Pine prices, 33% comes from Western U.S. prices, and 34% comes from Canadian prices. The Composite does not include prices from the relatively small volumes produced elsewhere in the U.S. (Midwest and Northeast) or the relatively small, but growing, volumes of framing lumber imported from offshore sources. Note that it is an indicator for framing lumber only; it does not include prices from the board market, for example.

The weightings used for the 15 items that comprise the Composite have been determined in a subjective manner. However, they are based on the Random Lengths staff's knowledge of the marketplace. The weightings for each of the 15 items are purposefully not included in this memo. If you have questions contact Jon Anderson, publisher, or Shawn Church, editor, at Random Lengths.

Random Lengths has chosen not to adjust the weightings (or the items) on a continual basis (as the Dow Jones stock average changes the companies it uses). However, one major revision of the items and weightings was made since the Composite first appeared. That change in 1993 was made to include Eastern S-P-F in the Composite.

Random Lengths is often asked why other items are not included in the Composite. First, and as a reminder, the Random Lengths Framing Lumber Composite is an indicator, benchmark, or bellwether to describe overall price behavior in the U.S. market for **framing** lumber. The high degree of correlation among prices is the basic reason prices of other items and prices from other Southern Pine areas are not included.

As an example, in Southern Pine, the high degree of correlation among prices renders the sometimes-proposed use of prices from the other zones moot. We have used the westside prices traditionally, even though arguments could be made for use of prices from the other two zones.

Similar responses address questions about why prices of imported European dimension and imported Pine dimension are not included. That is, both product groups' prices track closely to the S-P-F and Southern Pine markets, respectively.

It is possible that we could decide to 're-weight' the items sometime in the future. In that case, we would use the new weightings to calculate the "new" Composite in the years prior, so that one has a consistent history of the "new" Composite. This was done in 1993. However, on a current review of the Composite, we believe that it is doing a very good job of what it was designed for -- again, providing an indicator or bellwether to describe overall price behavior in the U.S. market for **framing** lumber. Indeed, we have been informed by some followers of the Composite that their analysis demonstrates that it is a very good indicator, and correlates well with price behavior of framing lumber items.

In a minor revision of the Composite, Random Lengths changed the method by which it reports Western S-P-F with the first weekly issue of April 2003. At the same time, #2&Btr 2x4 was substituted for Std&Btr 2x4 in determining the Composite. By then, producers in Western Canada had shifted to #2&Btr output, with the volume of Std&Btr 2x4 output reduced substantially.

Random Lengths price histories of the current Composite reflect these changes. Any charts of the Composite note whether it has changed in it during the time frame covered.

In an effort to maintain the Framing Lumber Composite as a good overall indicator of lumber market price behavior, Random Lengths monitors trends in the industry and markets, and considers changes to the Composite when such trends shift production/consumption away from currently used items to other items.

In 2004, Random Lengths introduced 'composite prices' for individual species and product groups. Those species and product groups are: Random Length Dimension, Studs, Low Grade Random Dimension, Boards, Shop/Moulding&Btr, Coast Dry Random and Studs, Inland, Southern Pine, Western S-P-F, Eastern S-P-F, Green Douglas Fir. These 'composites' appear on page 9 of the weekly Random Lengths report.

Each of these indicators is developed from a number of items within that particular species/product group. Unlike the Framing Lumber Composite, we modify the weightings from time to time, based on available production / market share data. Histories of these are available back to 1995.

Items used in each of these 'composites', and the monthly averages for the Random Lengths Framing Lumber Composite from 1995 to present, can be found by going to **www.rlpi.com > In Depth > Useful Data > Monthly Composite Prices**

Random Lengths Framing Lumber Composite

The 15 individual framing lumber items included are as follows.

2x4

Std&Btr Hem-Fir (Spokane)
#2 Southern Pine (westside)
#2&Btr Western S-P-F
#1&2 Eastern S-P-F (Boston)
Std&Btr green Douglas Fir (Portland)

2x10

#2&Btr Hem-Fir (Redding)
#2 Southern Pine (westside)
#2&Btr Western S-P-F
#2&Btr green Douglas Fir (Portland)

Studs (2x4 8-foot precut Stud grade)

Hem-Fir (Coast)
Fir&Larch
Southern Pine (westside)
Western S-P-F
Eastern S-P-F (Boston)
Green Douglas Fir (Portland)