

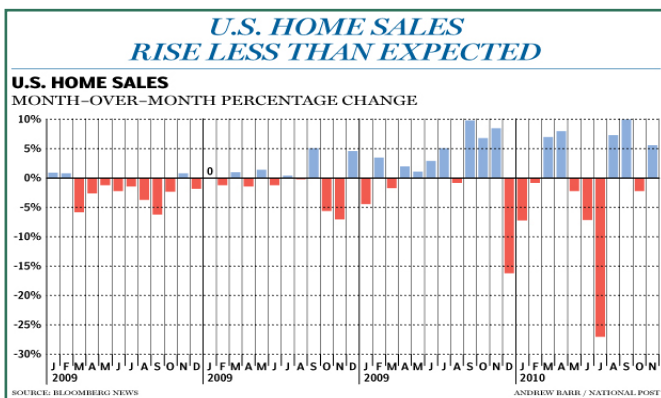


## January Lumber Market Analysis

By Zara Heartwood and Kéta Kosman  
February 7, 2011

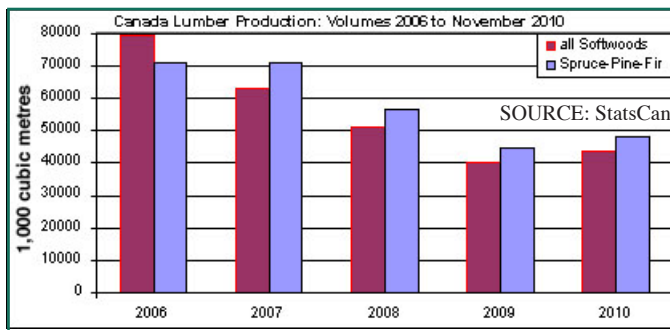
North American solid wood producers have begun to emerge from the extended downturn following the collapse of US housing in 2006. US home building levels have not yet regained enough stability to generate confidence among investors, builders and analysts. Complexity surrounding US mortgages and foreclosures remains. US home sale levels have also not stabilized enough for the pent-up demand waiting for home prices to actually hit bottom to complete purchases.

- **Players should beware of using history to predict how this new market will go.**
- **China's massive buying and ability to choose its own timing will determine what the US pays for lumber in 2011.**
- **The major hurdle for construction and home sales will be restarting the credit machine.**
- **Cedar offers excellent value for the money.**



While the US home building industry sputters back to life, wholesalers and retailers of wood products are reluctant to build inventory until they sense a gradual buying trend from their own customers. The US lumber and panel supply chain didn't notice that by November 2010 a significant portion of North American wood was diverted to customers in Asia. Lumber producing capacity currently remains reduced, while offshore buying continues to grow. Before the close of 2010 US wholesalers, distributors and

retailers of wood suffered a shock when they were told by producers they would have to wait almost a month for delivery and that the price had gone up.



Overseas buyers are still learning the supply chain on this continent, while suppliers in North America are learning to satisfy the specific needs of these new customers.

Players throughout the forest industry in North America have underestimated the gravity of log supply. Logging operations were drastically cut back at the beginning of 2009 due to reduced demand and have yet to start up again in earnest.

With log stocks depleted, and the number of contract loggers and log truckers reduced due to bankruptcies, the production challenge for spring 2011 will be lack of feedstock into the sawmills.

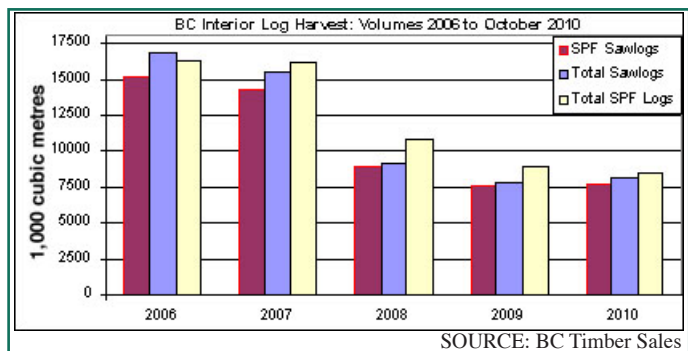
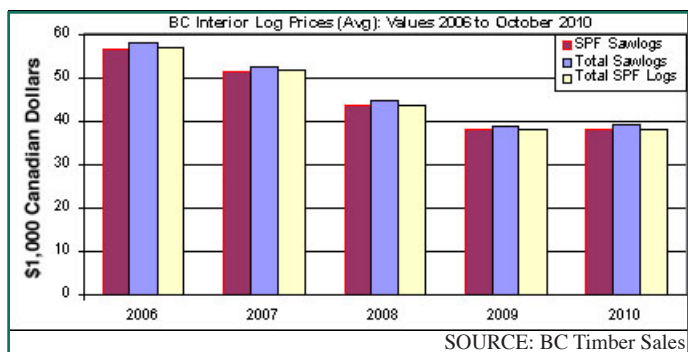
*China's massive buying and ability to choose its own timing will determine what the US pays for lumber in 2011.*

### MONTHLY RECAP

- Flooding in Australia will have a major impact on the availability of logs in the Pacific Rim countries for the next two to five years. New Zealand will be the prime source of

lumber for rebuilding infrastructure in its neighbor country. NZ's current customers will seek other suppliers of quality logs and lumber.

- China began to stock up on lumber in 2010. Each round of buying was initiated by dropping prices on WSPF, then the magnitude of China's buying effectively put a floor under values. Buyers from other regions came in after they witnessed prices start to rise but were frustrated to be on the bounce, having lost the chance to take their profit off the bottom.
- WSPF makers are still getting to know the moods of their new biggest customers in Asia. The Asian giant is poised to buy WSPF if numbers fall another \$5 to \$10.



- Some US traders describe Canada selling its wood off shore as "dumping". Ducking US duties through giving preference to other trading partners has been interpreted as a near trade revolution.
- Asian customers, particularly in China, have come to be known for finding value.

### SHORT TERM ANALYSIS

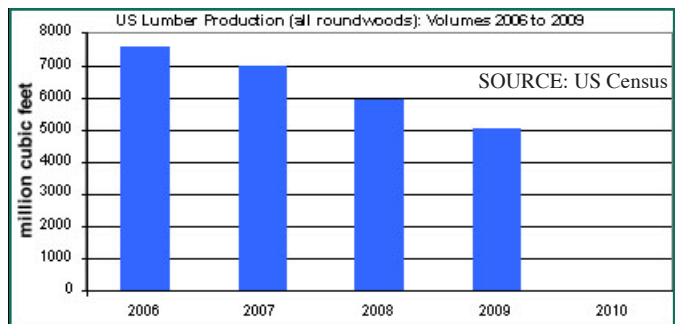
When the price of a commodity drops they buy in large volumes then take several weeks to digest that stock. If a lower grade item begins to close the gap on a premium product, customers in China immediately switch over.

North American lumber buyers, traditionally placing smaller orders at shorter intervals, have for the past three years gotten used to getting highly specified loads within three days. The shock of November's extended order file coupled with price increases of \$20 twice in three weeks has yet to sink in among this continent's lumber buyers.

*Players should beware of using history to predict how this new market will go.*

### MONTHLY RECAP

- Flying in the face of history, there was no winter holiday slump in WSPF prices this season. Instead, those who waited for the usual January 1 bargains were left behind.



- This lumber market hasn't been predictable for the last two years and there is no reason to expect that to straighten out immediately.
- While the rest of the lumber pile either sat on its numbers or slipped lower, Southern Yellow Pine pushed up about \$30 at mid month. The continued availability of SYP logs pumped up its value. Snow on the west coast was a boon for cutters in the south.

### SHORT TERM ANALYSIS

As spring blooms and lumber inventories remain dangerously low, prices will respond to small upticks in demand. If order files grow beyond one month mills will increase prices sharply. If extended order files persist for several weeks, that increase in prices will stick.

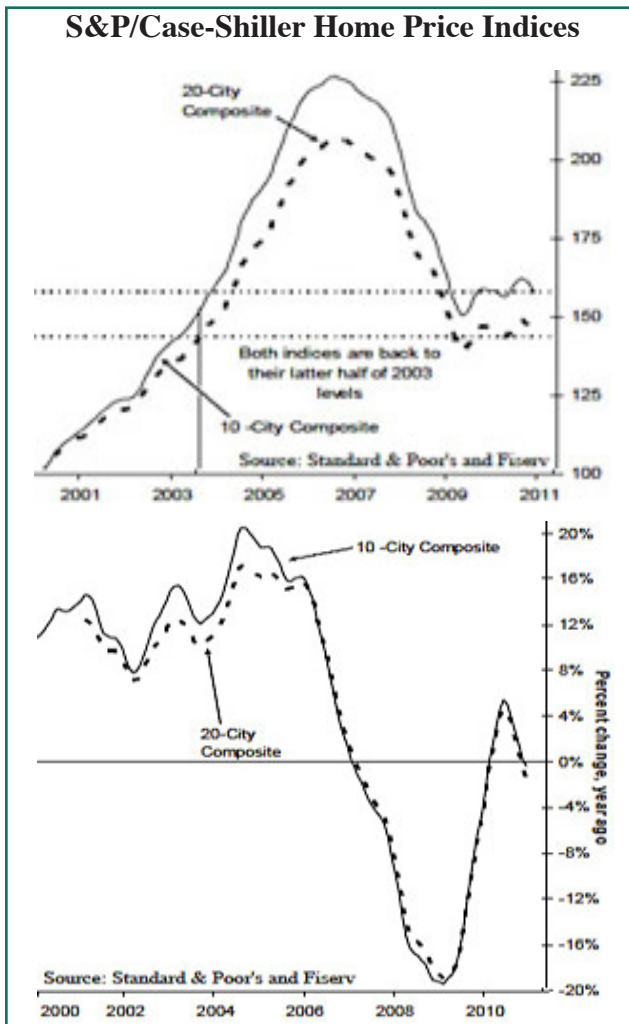
*The major hurdle for construction and home sales will be restarting the credit machine.*

### MONTHLY RECAP

- When US home construction increases through this year, where will the lumber come from? 2011 demand for new homes in the US is estimated at 700,000, up from 400K

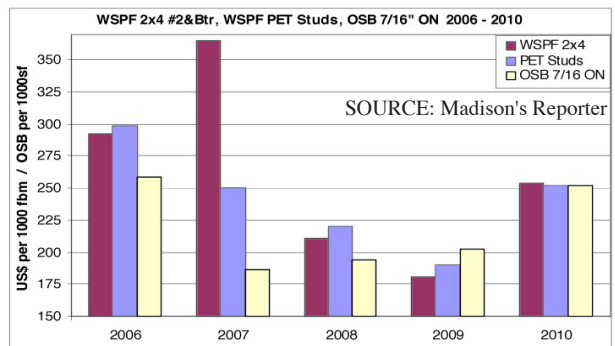
last year. December figures show an available inventory of approximately 190,000 new homes in the US.

- Will banks get their knickers untwisted and let some of that cash loose to fund new home building and mortgages?



## SHORT TERM ANALYSIS

Pent-up demand for US home buying is poised to spring open wallets and bank accounts across the country. While home sales in speculative areas like Las Vegas, Phoenix, and Florida remain deflated, many regions populated by regular working Americans have already recovered house prices. Those who have trouble securing financing will be out of luck while the good-sized proportion of people with cash ready to invest are going to pour it into extremely undervalued homes. House prices will respond positively, and the current supply of unsold homes, including the shadow inventory, will evaporate in a flash. This scenario may not happen in earnest until 2012 but early signs of a new trend will likely begin to emerge this spring.



*Cedar offers excellent value for the money.*

## MONTHLY RECAP

- Unlike the rest of this mercurial industry, history demonstrates that cedar producers don't joke around about material shortages. From one year to the next, cedar makers have said "buy early or be sorry" and they have been right.
- There are so few cedar stakeholders that a projected material shortage in cedar is as serious as a heart attack to investors.
- Some cedar producers gave incentives to customers for taking delivery in December on their first quarter orders.

## SHORT TERM ANALYSIS

As the premium product category, cedar is always in demand by a segment of the marketplace. Players in cedar have consolidated and merged over the past two decades. Now a small number of large companies determine forest operations for and prices of cedar.

Difficult logging conditions and reduced timber supply are serving to keep cedar pricing on the rise as years pass.

*Madison's Lumber Directory, the printed book you bought each year, is now LIVE Online. Our searchable database contains primary mills, secondary remanufacturers, panel mills, wholesalers and much more. We are constantly updating our information. Update forms for your free listings in Madison's Online Mill Directory are FAXed to company's listed on a rotating basis. If you haven't completed your FAX back to us, or are an unlisted mill that wants your free listing, please contact us today.*