



April Lumber Market Analysis

By Zara Heartwood and Kéta Kosman

Friday June 10, 2011

OVERVIEW

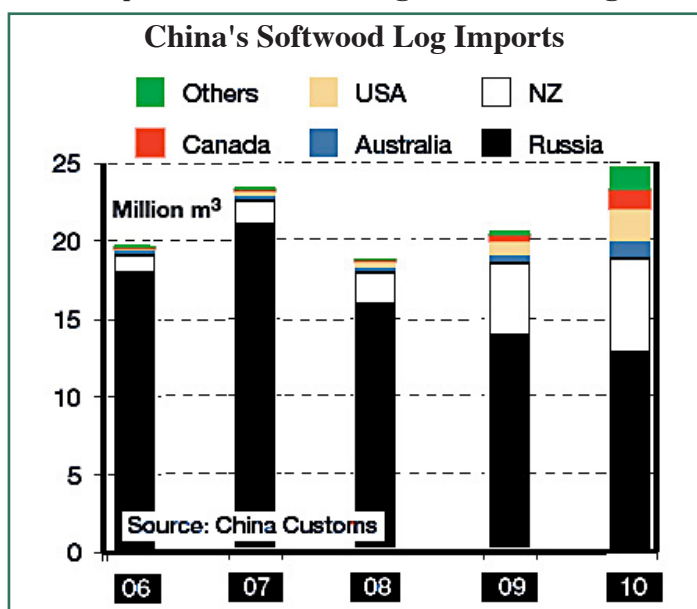
This spring, with uncharacteristic lumber over supply all along the pipeline and the mills pumping out product without a care for undervaluing fir at each point of sale, the options for improvement of prices and sales volumes in the short term are slim. On the east coast, sellers are bleeding badly from the bottom lines.

At the end of May, although the prognosis is good for June with cut backs in production, traders were skeptical about the market sustaining the upward trend in KD fir through the summer. Prices may continue to rise over the following week. However, looking back on the numbers from earlier in 2011, sources say it's likely that we have seen the highs for the year. And, dismal thought, some traders say as the year tapers off fir prices may go even lower than has been already charted.

Douglas fir logs are too expensive in most areas to clear a profit on finished lumber at the current price levels.

- **The ability of buyers to hold out for longer has been underestimated.**
- **Disastrous weather conditions, floods, and early-season fires kill signs of a spring market.**
- **2011 could be a year of the permanent loss within lumber sales and services.**
- **At the end of May, makers are finally writing enough business to keep them afloat.**

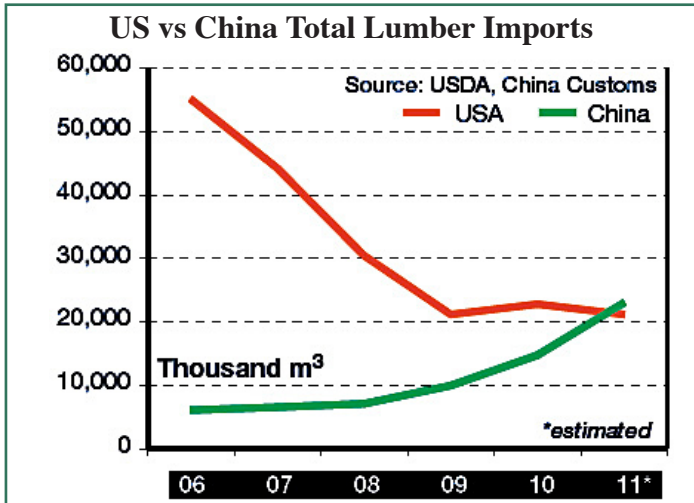
The projected shortage of cedar logs has become a reality. Soggy weather and frigid temperatures on the west coast essentially killed the March and April logging season. Fallers were sitting at home waiting for the woods to dry out enough to make safety less of a concern. Makers have whittled their quality logs down to a few sticks and are hoping to get more into the pile before they have to start turning away business. Small producers that don't have their own forest patches will be at the mercy of the conglomerates that will pick and choose who gets the cedar logs and at what price.



The ability of buyers to hold out for longer has been underestimated.

MONTHLY RECAP

- When a mill manager looks at his/her order file and sees nothing, the correct decision would be to reduce output on the big machines over the following week.
- Instead of a lot of sales, a lack of liquidity in the complex made it harder to nail down orders. Lower numbers did nothing to create urgency where there was no real need to buy.
- Prices weakened as did the overall volume of sales transactions. When nobody is buying, it is nearly impossible to convince people that higher values are realistic.



SHORT TERM ANALYSIS

Again producers and wholesalers are looking backward. In this new reality of lumber market uncertainty, the recent past is no help in determining what the next month will bring. Customers use poor sales levels of the previous week to hammer down suppliers' prices. As the ground dries up and construction starts up again, the lack of wood in the supply chain will be felt all over North America, if only for a few weeks.

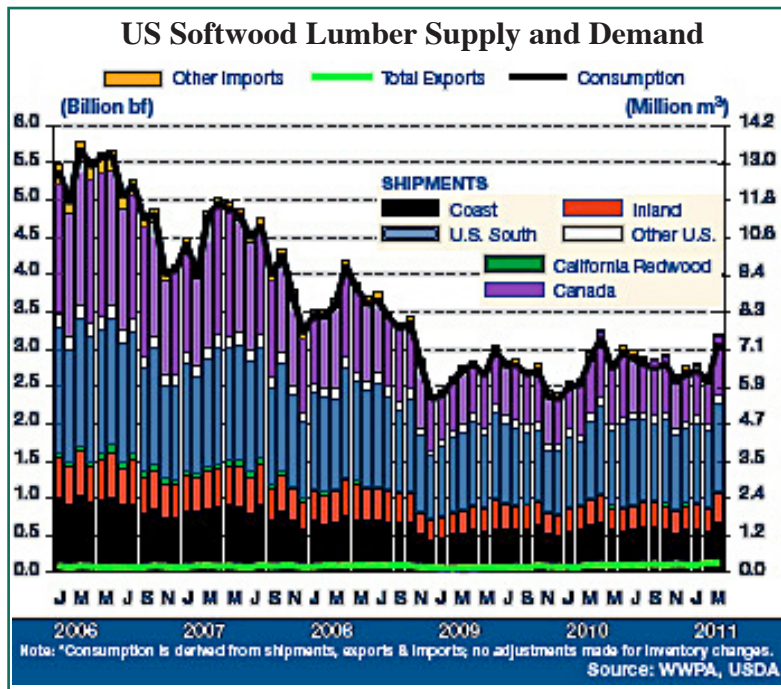
Rather than ramping up production as is usual for spring, mills are curtailing further or taking days-long downtime. Producers are reluctant to shut down completely for fear of missing what

will surely be a brief building season this year, but at the same time will not be able to respond quickly to a surge of orders.

Staff have been strung along with part-time and shortened shifts for over two years. Should the timing of an increase in North American demand coincide with continued Asian bulk-buying, suppliers will find themselves caught short. The price of lumber would then spike but there would be very little product available to sell.

Disastrous weather conditions, floods, and early-season fires kill signs of a spring market.

MONTHLY RECAP



- Into mid-May building conditions have been horrible with rain delaying jobs. Nobody can get into their job sites or pour concrete while their lots are mud pits.
- In one seven-day period, central North America was soaked with three days of unrelenting gully-washers.
- Everybody outside of North America seems to have discovered it is spring and building season is here. Traders say the domestic market is indifferent at best.

SHORT TERM ANALYSIS

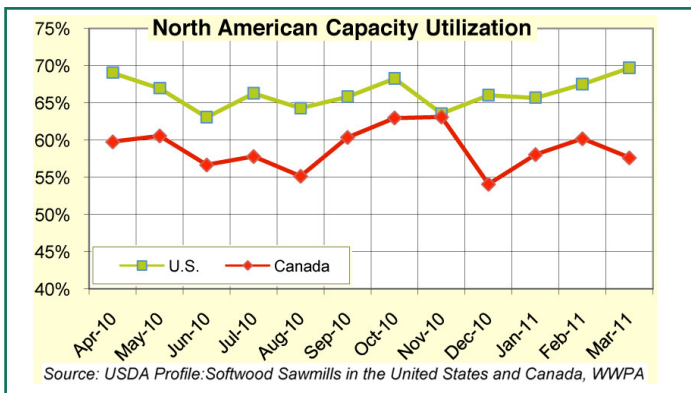
Traders saw no domestic uptick in demand for wood products this spring in large part due to terrible weather conditions across the continent. Uncertainty about the timing for recovery and rebuilding put a further damper on an already stalled market.

Customers have grown accustomed to prompt shipment of their orders. With the slide in lumber prices continuing, no one is willing to replenish any more stock than they absolutely have to. Buyers know that producers are not running anywhere near capacity so there is confidence that – should rebuilding bring a spike in lumber demand for the short term – there will be no delays in delivery.

North American buyers specifically need to keep in mind, though, that offshore buyers have kept this lumber market alive for the past two or more years. When those customers come in for a big buy, the

small, mixed, replacement loads domestic wholesalers have come to love might not be as readily available as they previously were.

2011 could be a year of the permanent loss within lumber sales and services.



MONTHLY RECAP

- There was no possibility that prices could hold up or increase in the face of such lack of interest from everyone at all levels.
- Don't expect your friendly neighborhood lumber retailer to be holding out when this year is over. If he hasn't merged with another, better funded, company by then he will likely have gone home permanently.
- Demand is no where near where it should be for this time of year. All prices and all attitudes have

been ground down to the bottom, if one could find the bottom.

SHORT TERM ANALYSIS

Veteran traders warned in mid-May that if demand doesn't pick up immediately, this year's run on lumber is already behind us. It is difficult to reach consensus that there will be no home building or renovations

Month	Forest Products	Total	Exports to USA
Mar 2009	594	2,216	1,101
Apr	603	2,081	1,054
May	555	1,910	1,054
Jun	554	1,920	989
Jul	585	2,180	1,048
Aug	593	2,012	1,012
Sep	590	1,959	1,018
Oct	582	2,015	1,037
Nov	601	2,095	1,086
Dec	607	2,157	1,080
Jan 2010	654	2,208	1,108
Feb	685	2,240	1,073
Mar	667	2,288	1,132
Apr	711	2,359	1,119
May	734	2,465	1,147
Jun	780	2,547	1,208
Jul	715	2,415	1,095
Aug	692	2,335	1,111
Sep	687	2,424	1,040
Oct	748	2,502	1,071
Nov	752	2,461	1,069
Dec	795	2,702	1,114
Jan 2011	782	2,680	1,132
Feb	755	2,582	1,110
Mar	835	2,678	1,088

SOURCE: BC Stats

in the US for the rest of this year. When the home building seasonal rhythm was still relatively normal, for example in 2004, then the market would be in full swing by March. Lumber prices would begin to soften in August and hit their annual low around October. Since there is no normal anymore, at least not this year, it seems at least possible building and renos could happen later in the year, especially considering the terrible weather conditions and that flooding continues to be forecast in some regions of North America.

Should the brutal circumstance of decreasing lumber demand occur for this year there will likely be another round of permanent mill closure and significant layoffs.

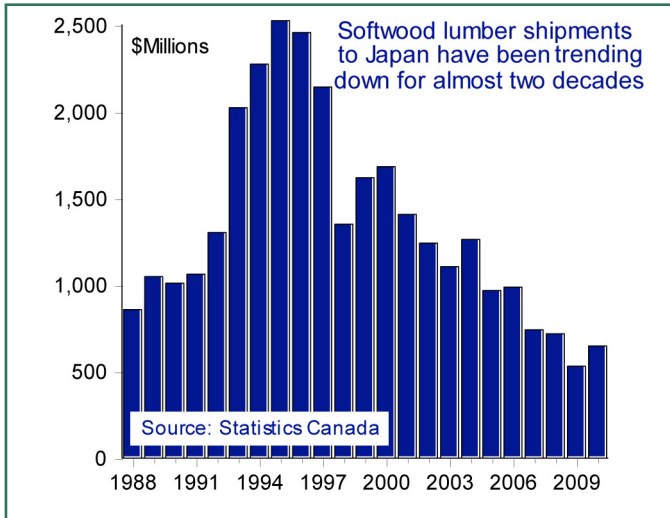
Producers were only able to keep going through 3Q 2010 based on new demand out of Asia and were holding out a dim hope for a solid increase in demand for this spring. When lumber prices started sliding in March, many smaller players and marginal operations began seriously looking at closing.

The only upside to this scenario is that at least mills could save on heating costs, as opposed to a winter shutdown.

By month end, makers are finally writing enough business to keep them afloat.

MONTHLY RECAP

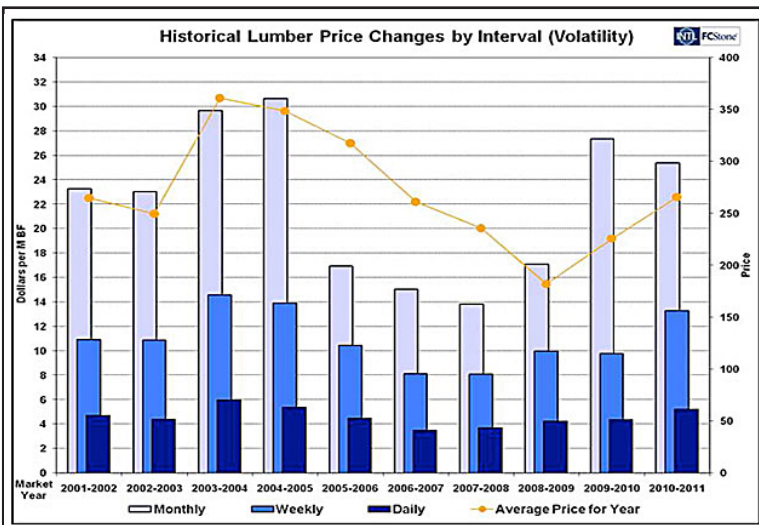
- At the end of May mills get a clue and curtail production for the short term. Many makers have trimmed back enough to get customers in for the first time in weeks.



- Following western spruce into more exciting territory this week, ESPF high grades won a surge of sales for their traders.
- It's possible that many potential customers had a bunch of buy requests sitting on their desks and just wanted to clean up everything before the holiday weekend.
- Stud traders said mid-May was the best week for studs sales into the US over the last 10 weeks. Studs makers are still working on making the blocks they sold for delayed shipment earlier in the year.
- After taking a little run at adding to the price list, MSR makers held to new prices, hoping that enough orders would come in to nail it in place.

SHORT TERM ANALYSIS

So far 2011 has been an upside-down year; lumber prices began firming in December and rose through February then began a seemingly inexorable slide in March through May. Industry veterans have no idea what to think or how to handle this unseasonable demand.



Using the past to decipher the future is not going to work. Futures, little to no help recently in determining where the cash market might go, are finally maintaining some semblance to reality. Activity is up, with 10,523 Open Interest Commitments of Traders by CME close Friday May 28 - up 315 contracts over the previous week. Open interest in lumber futures has been relatively stable despite the large price drop. The dentists and airline pilots have been playing a smaller role as index funds come in with big buys. Lakshmi Capital issued a speculative buy recommendation for the July contract at US\$230 m/bm or better (futures prices were below

\$230 at the time of recommendation) with a 15-20 per cent upside target. Their optimism was based on the large influx of new fund selling which, admittedly, was spectacular.

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