



## June Lumber Market Analysis

By Zara Heartwood and Kéta Kosman  
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### OVERVIEW

With US unemployment figures confused over whether a newly created minimum wage job is adequate employment for the displaced executive that fills it, there is no way to know how many people can actually afford the homes on offer. In addition, the mass of uncleared titles on homes that financial institutions repossessed is still in limbo. A home isn't for sale unless someone can buy it. One in three home buyers now are going in with cash, and multi-home owners don't really care how long they have to wait for their investment to settle in their growing portfolios.

There is no way the current US administration can please anyone. Apparently in a play to strengthen his hand for a second term election, US President Obama announced that he would release oil reserves. The result was not the upward swing that his advisors had expected. Lumbermen were extremely displeased with the White House as a result of this latest attempted manipulation.

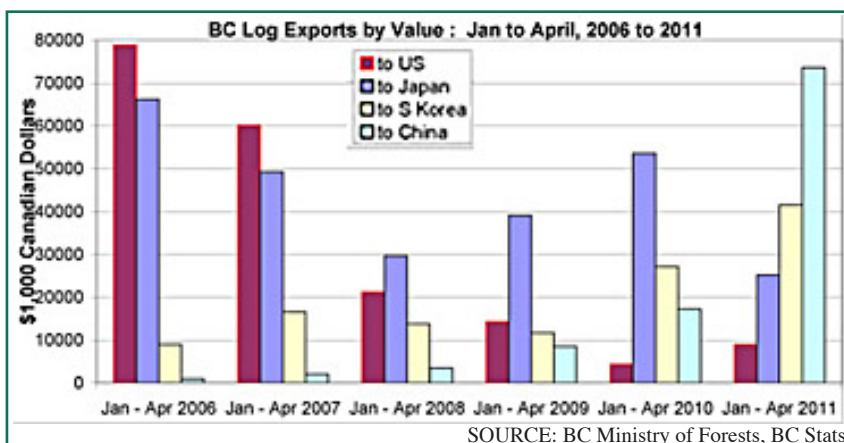
- Sources think the China market may be slowing to a stall.
- To keep your spirits up, keep your expectations low.
- Specified tallies are the bane of traders' existence.
- With home affordability in the US at a 40 year low, people should be running to buy houses.
- The rule of selling lumber is that nothing is permanent and everything is subject to change.

Supplies of lumber appear to be tighter now than they were at this time last year. Without much confidence in increased employment that will prove to be a lasting economic boost to the US economy, potential individual home buyers are taking a wait and see attitude on a home buying decision. Lumber field inventory levels continue at record-lows, log supplies are restricted in many regions, sawmill output is running at around 60 per cent of capacity in most areas, and the usual annual sawmill curtailments are coming as hot weather approaches. One must wonder where US builders think even the small amount of lumber they will need before September will come from.

Some sources are of the opinion that the China market may be slowing to a stall. Reports of suddenly restricted credit are causing speculation about the level of China's buying in the coming months.

*Sources think the China market may be slowing to a stall.*

### MONTHLY RECAP



- In early June Chinese continued to pick at the log pile for export.
- As China's demand for logs tapered in mid-June, an atmosphere of cautious optimism developed among green fir lumber producers. One large green fir maker went down for an entire week, giving demand a shot in the arm.
- By the last week of June, the previous decent WSPF buy was three weeks earlier, long enough that cus-

## China Timber Imports 2010

Supplier	Volume (1000 m3)	Proportion %	Change %
Total imports	9,704.2	100	26.8
Russia	3 623.6	37.3	2.8
New Zealand	1,873.7	19.3	44.4
PNG	815.6	8.4	34
USA	719	7.4	79
Canada	490.2	5.1	378.7
Solomon Islands	485.3	5	30.9
Australia	327.4	3.4	52.3
Myanmar	239	2.57	77.4
Congo	142.1	1.5	--
Malaysia	136.6	1.4	--

Fordaq Network

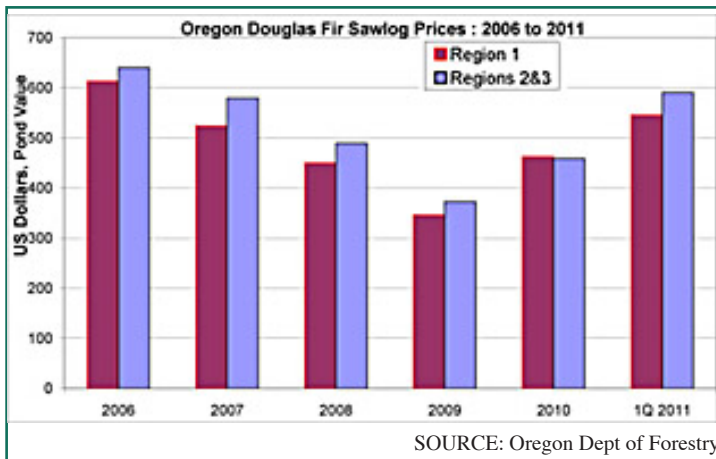
tomers should be well aware of their needs for the next round. Sellers expect another round of buying from China after the Canada/US holiday weekend.

### SHORT TERM ANALYSIS

New markets in Asia are not yet established enough to develop an annual trend on buying. For the past two years a spurt of demand in November pushed the price of lumber upward, counter to the normal seasonal cycle. In early 2011, lumber prices continued to rise, then started dropping in March. Prices turned upward only in the last two weeks of June, demonstrating that continued soft demand out of the US and a not yet well-understood Asian market are wreaking havoc with traditional lumber demand rhythms.

Some analysts point to well-stocked lumber inventories in China in asserting that there may be several months of declining demand coming. However new construction and reconstruction in at least three well-populated areas of China are nowhere near completion. In addition, the pallets and crates, as well as innumerable remanufactured products, will continue to find customers regardless of construction rates.

Whether this recent drop in lumber demand from China is a tiny blip or a lengthier downturn is at this moment anyone's guess.



*To keep your spirits up, keep your expectations low.*

### MONTHLY RECAP

- By the beginning of June, the ever-softening market was excruciating to watch. Some sources optimistically said the corner had been turned and the rest of the spring and summer would be fine.
- However, this market didn't take the exit ramp to success when spring beckoned, as would have been traditional. Expect a sad little plateau through summer, followed by autumn in the tank.
- Traders found the end of June ESPF market confusing. Large mills were firm on their prices and some were pushing the numbers up.
- High grades were hanging around at the mills, while not in as much demand as utility and low grades.

### SHORT TERM ANALYSIS

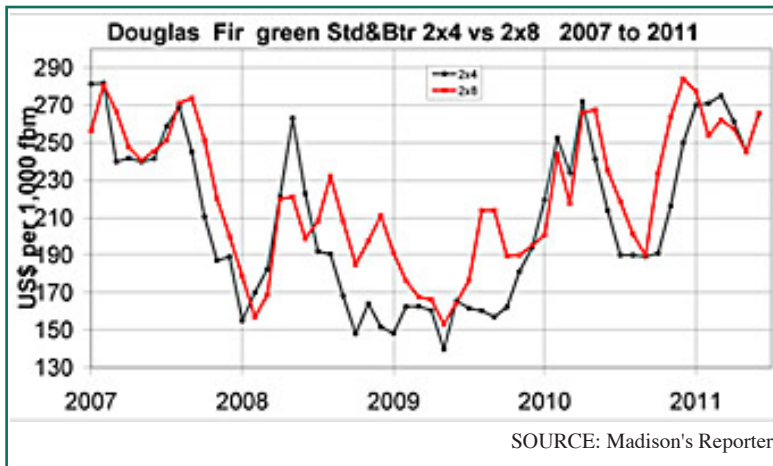
When even the most reliable trend, of a spring buy for lumber, doesn't materialize, no one can say what to expect for the coming months. Rebuilding the tornado zones in the US is moving forward, with a significant proportion of that wood coming from regional producers in the affected areas. Wildfires burn in extensive areas of the US but a lot of these are brush and grass fires, or in national parks not logged for lumber.

The lumber needed to rebuild Japan will prop up the North American lumber industry, particularly from Canada's west coast, however the wood immediately needed for emergency and temporary shelters has already been ordered. A five year estimate to complete permanent building in Japan is not unrealistic. A significant proportion of this wood will come from BC, and the extended demand will be welcome, but will not likely bring a spike for producers.

*Specified tallies are the bane of traders' existence.*

### MONTHLY RECAP

- In the first week of June, demand for studs and green Douglas fir R/L 2x4 was hot. The distribution yards saw more activity than in many of the previous several weeks. Most traders felt this tightening of stocks was supply-side driven as mills took down-time.



- As June progressed, every part of the KD fir wood pile saw some action, from low grades through commodity studs and trims. "Pretty good" sales were booked on 2x3, 2x6 and one-inch products as well.
- Some items in mid widths are unavailable: 2x8 KD R/L Douglas fir dimension and coastal hem/fir 104-inch studs are both short. Putting together any order with either or both of those items is nearly impossible. Some buyers have been shopping for the same items more than two weeks without success.

- By the end of June the demand was specific; customers were coming in to cherry pick the best tallies and were paying more than had been the case even a week ago. The layers between the good and crummy stocks were very thin, giving buyers some hunting to do before they could acquire the mixes they expected.
- Before the Canada/US long weekend, traders said the price hikes that mills instituted the previous week only served to fend off potential demand.

### SHORT TERM ANALYSIS

North American customers have become very spoiled after four years of depressed US home building. Producers have been hungry for customers of any kind and, in order to keep the mill running and grab some business from the next guy, have accommodated picky orders for highly specified loads that, historically, would have been laughed at. US customers only looking domestically were caught by surprise in November when Asian customers bought large amounts of wood. Unaware of the burgeoning demand of this new market, US buyers were shocked when told that they would have to wait three to four weeks for their wood and that prices were going up.

Veteran traders held phone receivers away from their ears as customers shouted madly down lines. It is not difficult to imagine a similar situation occurring before September. Quebec mills close for much of July and part of August, and across Canada road bans go into effect as forest fire dangers reach seasonal highs. Neither retailers nor wholesalers nor reloads have been stocking wood because no one can determine whether lumber prices are going to go up, down, or sideways.

A very delicate supply-demand balance indeed will have to be maintained for customers to not get caught short thus pay dearly for the small quantities of wood they will absolutely need this summer.

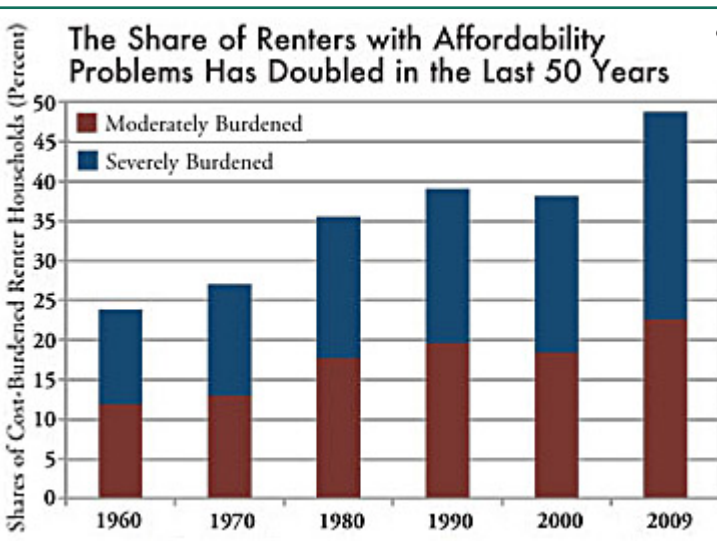
*With home affordability in the US at a 40 year low, people should be running to buy houses.*

### MONTHLY RECAP

- WSPF sales at the beginning of June were very busy for a welcome change. Demand in the US was up substantially and prices followed.



- One major ESPF producer was said to be selling into the US at a significant price reduction, calculating the number with the duty out for big customers. A surprise was that ESPF could be bought in the US at less than in Canada.
- The California market came to life after Memorial Day, buying green Douglas fir studs in quantities that had been anticipated earlier in the year. As building projects are coming to life, those framing studs were going out quickly.
- By the end of June it was obvious the US was short of high quality wood. The previous quantity buy came three weeks earlier, long enough ago that customers should be well aware of their needs.



- Two to three months behind schedule, July looks like it will be the peak of this building season for the northeast

### SHORT TERM ANALYSIS

Economic indicators out of the US continue to be confusing. Several of the most recent real estate figures do seem to point to home prices and home buying activity having hit bottom. Whether Americans will jump right in to buy or hold off in case home prices drag along bottom for a while remains to be seen.

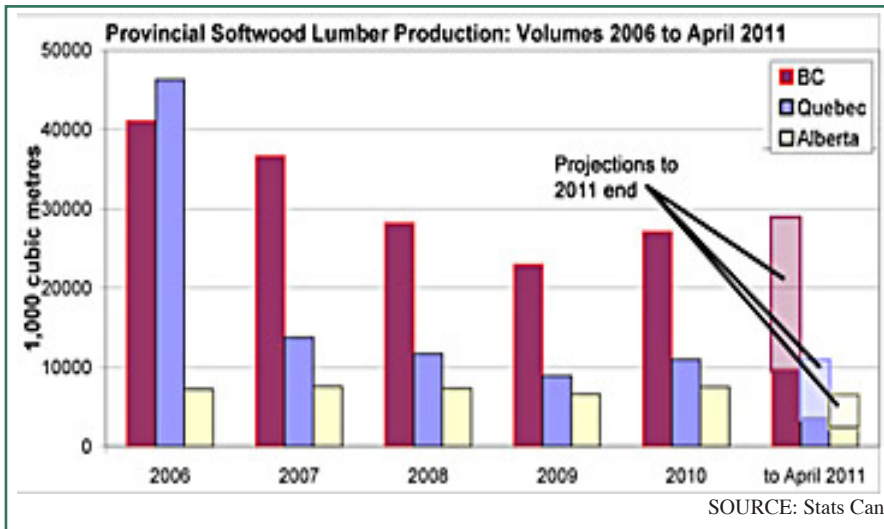
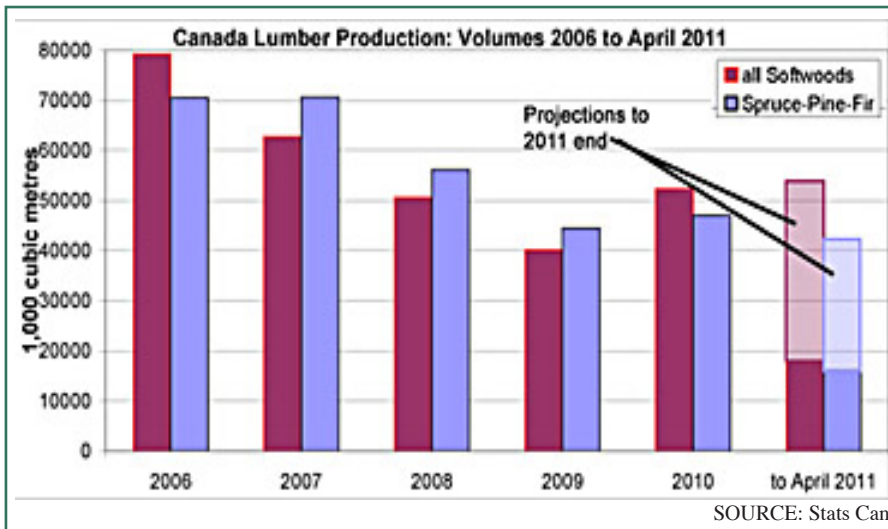
Issues of credit and bank lending requirements plague potential home buyers still. Residential rental rates continue to rise and rent afford-

ability problems are increasing. If there is more pressure on rental vacancies and rental rates rise further, the low value of houses in many parts of the US will become more attractive to those potential buyers who are currently undecided about investing in a home.

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### MONTHLY RECAP

- Early June saw no massive surge of orders splashing in to traders, but the summer push crept up on them just the same. Although smaller than previous years, and slowly crawling out of a hole, sales were definitely coming.
- By mid June sales went mainly to US buyers who had let their stocks run too low. In spite of a disappointing spring, eastern Canadian makers were encouraged. Maybe there will be a summer to salvage after all.
- A smaller percentage of MSR output resulted from mills switching to processing other species when they ran out of logs suitable to the higher grade lumber. The tightness in supply added up to a good market for makers of MSR and a two-week order file.



- By comparison to KD fir, SYP was so cheap at the end of June it was ridiculous. In the northwest, mills were still short on logs.

### SHORT TERM ANALYSIS

While frustrating for producers and customers alike, watching this year's traditional peak-season lumber market unfold is fascinating. Regionally, some producers are of the opinion that with no spring buy, this entire year will be a wash. The wisdom of veterans indicates that US home builders do not break ground in July. However the violent, extreme weather of this spring and massive flooding still occurring in some areas of the US tell us that perhaps the standing rules might not matter this year.

The ground has only begun to dry out in the US northeast. Demand for lumber continues soft. Uncertainty has reigned not only the lumber market but other commodities as well, and alarmingly low inventories persist throughout the supply chain. Should one or two

major US home builders execute already-announced plans of new home building, there is a serious supply constriction coming

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