



September Lumber Market Analysis

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OVERVIEW

A tough couple of weeks in early September continued through the month with more seasonal storms plaguing transportation in eastern North America, and all manner of building projects through New York and New Jersey. Customers bought in moderate quantities but sellers simply couldn't get it to them. Eastern Canadian rail lines had still not been fixed, with many so damaged or flooded as to make transit impossible.

The KD fir market log supply constriction had not loosened in September. Massive wildfires in Texas and forest fires breaking out west of the Rockies and into Washington State and Oregon prevented regular seasonal logging. What should be a supply side market is not acting as such. Instead, supply is equal to demand in green fir at present. This puts pressure on mills to constrict production further, living hand-to-mouth so that producers can respond instantly to any over supply.

- **Fire restrictions in the Cascades will reduce available logs.**
- **Generic tallies were unheard of. Instead, orders were highly specified.**
- **The US Federal Reserve perpetrated drastic missteps on the economy.**
- **Customers were more unreasonable than the previous weeks, insisting on further discounts before placing an order.**

After excellent lumber sales action in the beginning of September, the first three days of the second week looked puny. With the September futures contract ending, no one was able to peel their eyes away from the futures board to focus on cash. Slippage on prices in narrow dimensions demonstrated that the guys in the back row were playing cards, not watching the market.

Fire restrictions in the Cascades will reduce available logs to coastal mills.

MONTHLY RECAP

- Already in the beginning of September the areas where logs may be taken out were constricted, thus depleted log decks at the mills shrank.



- Around mid September traders realized that only five weeks production are left of 2011, resulting in slight upward adjustments in KD fir prices.
- Toward the end of September, green Douglas fir studs were offering bargains that amounted to the Christmas shopping rush. There was too much supply available and prices couldn't hold.
- By the end of September the customer backlash materialized, as lumber buyers became even more unreasonable than in the previous week.

SHORT TERM ANALYSIS

The unbalanced supply and demand situation in both logs and finished lumber will come to a head this winter. Due to continuing poor weather through most of this year, mills are critically short of logs. On the west coast, both in Canada and the US, seasonal road bans are about to go into effect. Once that is in place, logging will not resume until the winter freeze-up.

Of course, the extended low demand for lumber forces one to wonder if mills would have invested in logging this year, regardless of the weather.

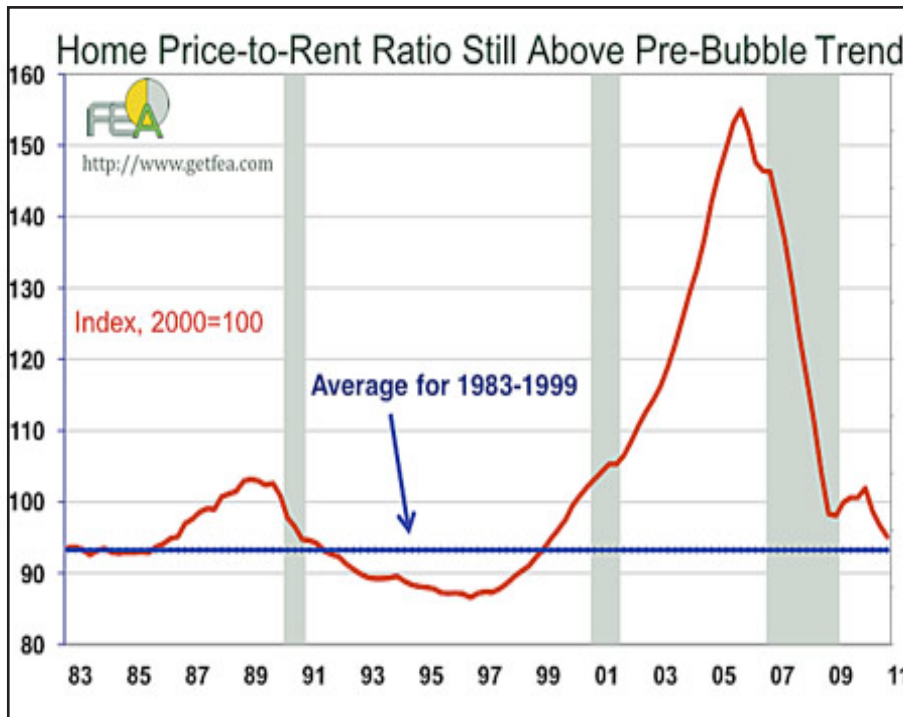
A meaningful round of sawmill closures and curtailments have been announced in various parts of North America, including the west coast and Quebec. Reducing production will give lumber sales people the advantage in negotiating prices, as customers have already begun to realize just how low lumber inventories are.

The mess of 2010 and 2011 is almost behind us. A question remaining to be answered is if China will come in again with a significant buy this November.

Generic tallies were unheard of. Instead, orders were highly specified.

MONTHLY RECAP

- Orders tended to be for entire job lots, from framing to finishing products. These very mixed loads are difficult to put together on one truck.



- Wholesalers must avoid overstocking on some items and letting others run down to empty, despite massive difficulties anticipating what will be needed when.
- Trucking presented the main problem for those shipping out of the US into Canada. As has been the case all season, truckers are picky about where they will deliver, even with inflated rates.
- Poor business practices among customers, where they wait until after the shelves are empty to place orders, do not bode well for the health of the market.
- By the end of September, after an active six to eight weeks, buyers had bought enough stock to get them through the flat bits of early winter.

SHORT TERM ANALYSIS

Customers spoiled by stocking wholesalers who bent over backward to fill small, highly specified orders these past three years are beginning to have their too fussy requests rejected. Either that precise mix is not available from a single seller, or the customer is refusing to hear counter-offers and the seller won't go any lower.

Throughout the supply chain, operators are stuck in low confidence mode, looking only at the constant unleashing of bad news out of Europe and uncertainty in the US economy. Hard facts about rising con-

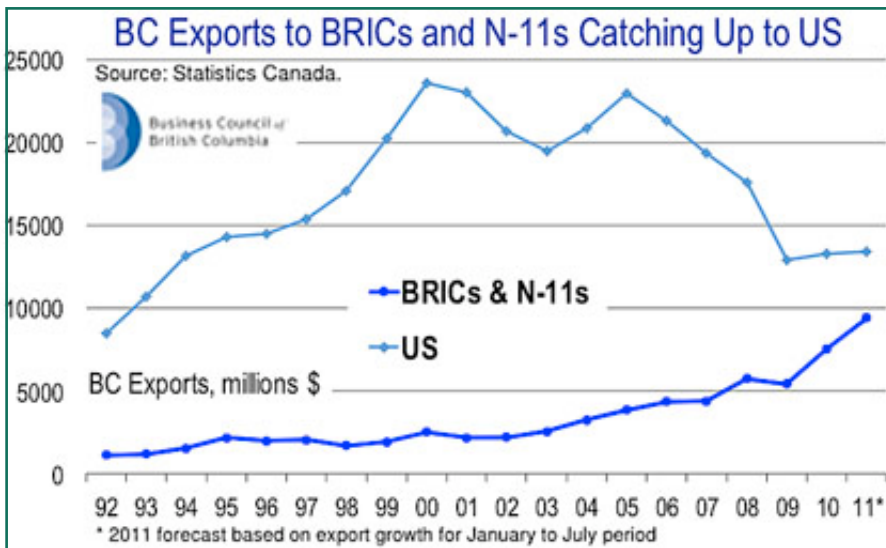
struction rates and employment at construction sites in the US is being entirely overlooked. Granted, the bulk of this construction is industrial and commercial, however a notable amount of wood is used even for these concrete and steel buildings.

Despite further bad news in the US mortgage sector, all but the most depressed housing markets (Detroit, Nevada, California, Albuquerque, and Maimi) have recovered to pre-2006 real estate activity levels. A few areas, notably in the mid-west, have actually surpassed those levels.

A shock will go through the lumber market when the long-stymied business of making, selling, and buying lumber sees an increase in activity early next year. While small, that recovery will be made more difficult because almost no one is ready.

The US Federal Reserve perpetrated drastic missteps on the economy.

MONTHLY RECAP



- By mid September, the lumber industry was defined by lack of confidence among consumers and in recent decisions made by the US Federal Reserve.
- More uncertainty surfaced with lumber players the next week when the Fed announced a US\$400 billion bond swap.
- The unhelpful news from the US government put a lid on interest in buying lumber and housing. Sources said the government was wasting money by delaying a settlement of the budget.

SHORT TERM ANALYSIS

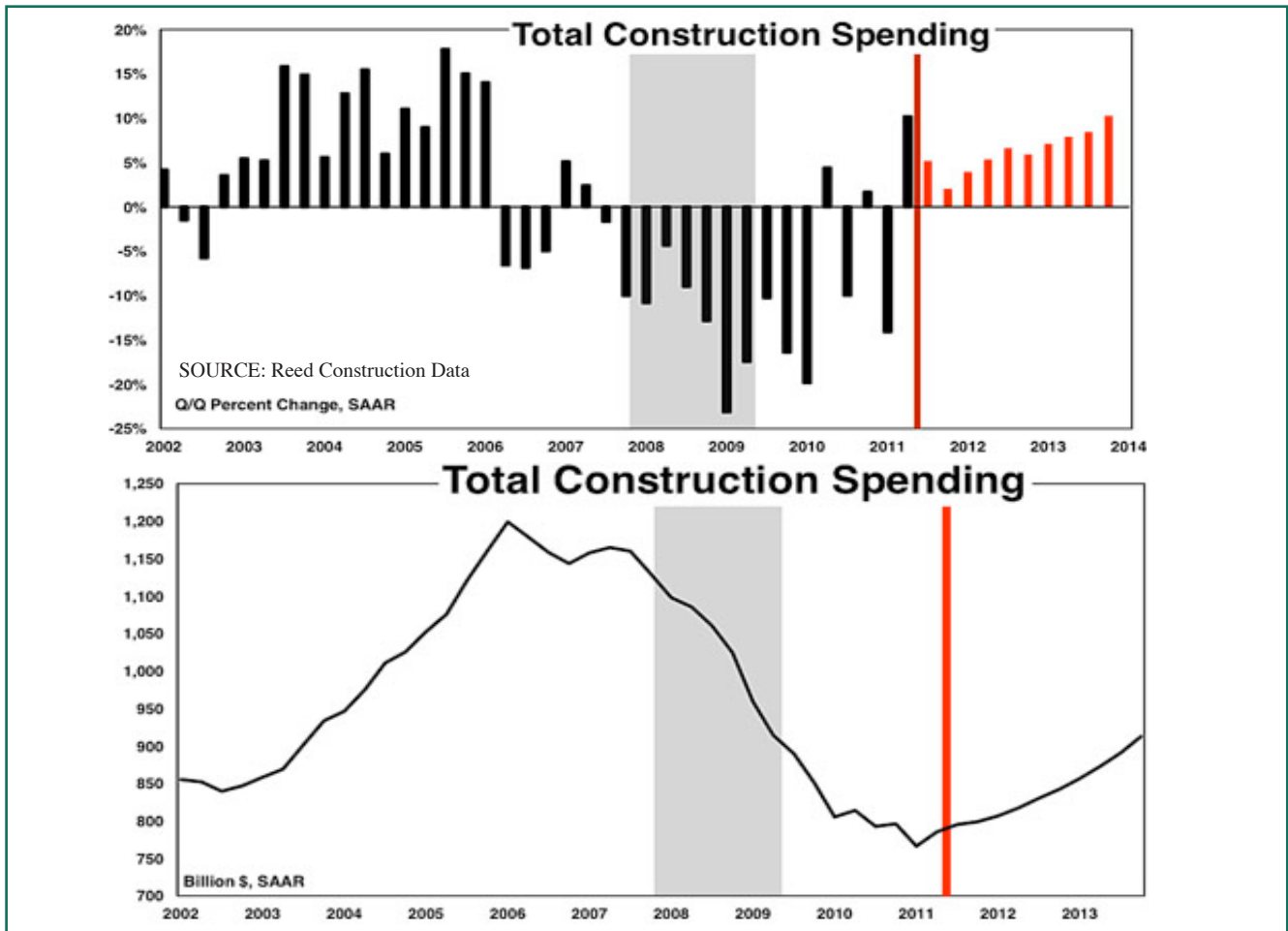
Between the challenges in the US economy and the looming federal election, the lumber industry watched in horror as decisions were made. Or not made. Generally speaking, those in the lumber industry are fiscally conservative. Bailouts, stimuli, and shady-seeming bond swaps are not the economic direction lumber players agree with.

At the very least, most in the business of making and selling wood prefer governments stay out of it and let business operate freely. The market will determine prices, and who will sink or swim.

Customers were more unreasonable than the previous weeks, insisting on further discounts before placing an order.

MONTHLY RECAP

- An insistence on further discounts before placing an order did customers no good. Producers were not as malleable as had been the case in the past, this year preferring to shut down rather than taking even more of a loss.
- After mid September, sawmill order files were minimal in every category, leaving sellers with very little wiggle room on prices.
- By the third week of September, ordering was fast and furious but customers demanded their products to be delivered in a tight time frame.
- Eastern stocking wholesalers took these market conditions as a sign of weakness rather than strength. Traders hoped the Chinese will come in for a buy to force prices up, as has happened in the past two years.



SHORT TERM ANALYSIS

Lumber buyers are trying to milk the bad news train for all they can, but producers have figured out the game and won't be played. The really desperate, those who undersold Douglas fir by \$100 mfbm a couple of years ago for example, have long gone bankrupt. Remaining operators have weathered a tricky storm indeed and are now all the smarter for it.

At this point, mills realize it is better to simply shut down until the New Year dawns than to sell wood at a discount to customers who have clearly demonstrated they have neither loyalty nor honour. Continually demanding a supplier to undercut themselves to save \$5 mfbm on a load of perfectly good lumber is not the way to foster a good business relationship.

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