



MADISON'S TIMBER PREVIEW

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Circumstances have turned very unusual this season for those in the business of making and selling North American wood products. Some might say the past couple of weeks have been surprising, but those could only be people who have not been reading *Madison's* for the past six months. The situation that is currently unravelling: lumber prices moving higher at a very unseasonable time of year; sharply increased US housing starts AND permits at a time when that activity normally lessens; the requisite surge in lumber and panel buying as customers finally realize the supply chain is absolutely depleted; and, buyers forced to keep coming back to sawmills to make more and only more orders, has been looming since spring. All of this, of course, pushes order files out only further thus causes mills to raise prices on wood they are quoting for delivery in four weeks' time.

This week lumber futures went, not to exaggerate, insane. All of the sudden everyone is looking at lumber as The Next Big Thing, and trying to figure out what is going to happen next and what action to take. Madison's got word from the lumber producers this week is that prices will go up, or at least stay up, through the end of this year. And anyone not stocking up now for next year is going to be crying in their soup because 2013 will start out with very strong prices indeed.

Lumber traders Thursday both grumbled and celebrated that futures were leading the cash market. Celebrating because futures have been chronically at a discount to cash, by a very rough average of about \$25 mfbm, for a few years. With a few glowing exceptions of course, when futures briefly matched cash. And grumbling because lumber traders always like to pretend they don't pay attention to futures and that futures don't matter, except of course, when futures serves to drive cash prices higher.

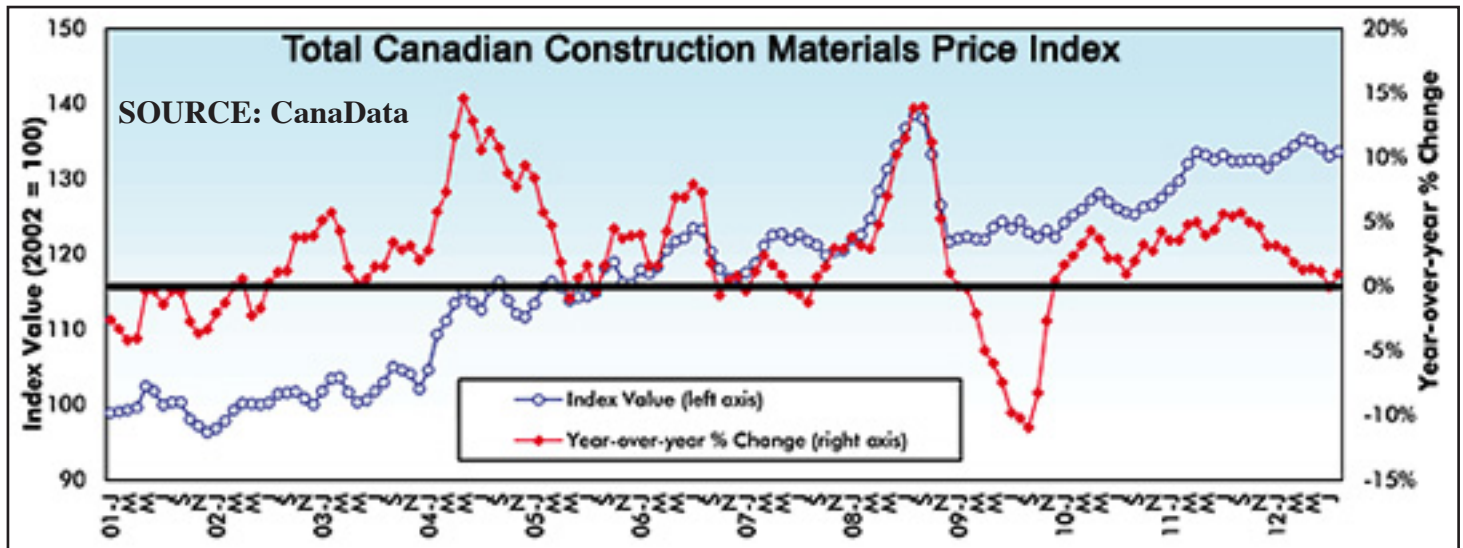
The quick word on futures is that last week speculators turned toward the buy side. These players have been betting against futures for so long, shorting and such, in enough numbers that they managed to keep futures well below cash for an extended period.

The murky world of futures being so easily impacted by capriciousness and perception, often flawed or limited perception, it is important to take a look at what is happening in the real world with commodity prices. Madison's readers will be well aware of the recent significant uptick in solid wood prices. What about other building materials?

Unlike lumber, iron ore prices rose close to 1000 per cent, coal increased by 700 per cent, and copper gained by 600 per cent in the past decade, according to Reuters, due largely to the growth of demand from China.

On October 15 CanaData, published by Reed Construction Data, found that the August year-over-year results for CanaData's indices were all relatively subdued. Canadian residential construction increased the most, by 2.7 per cent. The non-residential building index was down 1.8 per cent, and engineering increased by 0.9 per cent. The overall construction materials cost index was also up by 0.9 per cent.

The 'lumber and other wood products' aggregate was the major gainer in August, up 7 per cent year over year. Some forestry sector sub-categories surged ahead even more dramatically, with 'veneer and plywood' up by 14.7 per cent and 'particle board and wafer-board' up by 8.0 per cent.



Among all inputs, the most notable downturns were recorded by iron ore, down 21.6 per cent year over year, and structural steel shapes, down 7.2 per cent. Iron ore prices have been falling since early 2010 and are now steeply lower, by 21.6 per cent year over year, says CanaData.

In the US, the recent surge in several key construction materials' prices comes despite mild year-over-year changes in materials prices overall, according to the Associated General Contractors of America (AGC) October 17.

The index for new industrial buildings decreased 0.2 per cent from August to September, while the index for new school construction slipped 0.1 per cent for the month.

The indexes for new office and warehouse construction were unchanged, as were indexes reflecting prices charged by concrete, electrical and plumbing contractors for new, repair and maintenance work on nonresidential buildings. The index for roofing contractors was the only nonresidential building index to show an increase for the month, by 0.3 per cent.

Prices for copper and brass mill shapes climbed 3.6 per cent in September.

The indexes for aluminum mill shapes and lumber and plywood each rose 1.1 per cent in the latest month, while the price of steel mill products increased 1.0 per cent, said the ACG.

Third quarter financial results are coming out now, including for building materials sellers in the solid wood sector. Boise Cascade, as one example, Thursday showed 3Q 2012 earnings of US\$23.5, on sales of US\$764.6 million, a 22 per cent increase over the same quarter a year ago. This compares to a net loss of US\$3.7 million in 3Q 2011.

For its part, Lumber Liquidators reported Wednesday a 3Q 2012 profit of US\$12.9 million, compared to a year-ago profit of US\$6.7 million. Sales climbed 19 per cent, to US\$204.3 million, compared to the same time last year. Lumber Liquidators' shares earned US46 cents a share in 3Q, up 92 per cent from a year earlier.

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