



# MADISON'S TIMBER PREVIEW

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US home prices seem destined to fall slightly before a solid rebound occurs, employment figures in the US are not improving as well as previously forecast, and the latest construction figures show a minor slump for April. Are home sales in the US headed for a double-dip as some analysts projected this week, or is this one last decline before the long-awaited recovery starts in earnest?

As always it comes down to the numbers, and opinion hinges on which numbers are sourced. Interpretation, of course, is totally open. It seems that the loudest voices right now are using recent history, specifically the past two years, to make excessively gloomy forecasts. As with the downturn, analyses seriously lagged reality; it wasn't until US home building, home sales, and the general US economy were in deep trouble that consensus proclaimed a recession.

Currently it seems a similar situation is unfolding except in reverse; not until all indicators point toward economic health will consensus declare the downturn officially over. By then the signs will be so obvious no one will need an analyst for explanation. The latest figures out of the Western Wood Products Association, Japan's finalized 2010 wood import data, and increased wood costs globally in 2010, all show that the past several quarters have demonstrated continued resilience in the lumber industry. The dampening effect of terrible spring weather across North America and horrendous storms in large parts of the US have not had as much of a slowing effect as it seemed they would have at first.

Lumber production among US West Coast producers so far this year totalled 4.6 billion board feet, 0.9 per cent ahead of the pace for the same date range in 2010, according to Western Wood Products Association data released May 27. Shipments of 4.5 billion board feet were exactly 1 per cent ahead of 2010. Coastal mills were responsible for 3 billion board feet, which was actually 0.6 per cent less than they produced a year ago. Coastal shipments of 3 billion board feet were just 0.3 per cent in front of their 2010 total.

Inland mills have turned out 1.5 billion board feet of lumber through May 21, 2011, an increase of 4.1 per cent over the same time period for 2010. Shipments from Inland mills have totalled 1.57 billion board feet, some 2.7 per cent greater than a year ago.

The difference between this year and last can be seen clearly in the size of mill inventories, a statement of the slackness of demand, says the WWPA. West Coast mills, in total, have 1.2 billion board feet of inventory, which is 8.2 per cent ahead of last year. Coastal mills own 763 million board feet of that inventory, a gain of 4.3 per cent over 2010. Inland mills, however, have 15.2 per cent more inventory this year than last, at 476 million board feet.

The margins between 2010 and 2011 in the softwood lumber profile of the US West Coast are drawing closer together. More and more, this year is coming to resemble 2010, as demand squeezes production down from its early-year pace, explains the WWPA.

What will happen with the rest of this year's building season remains to be seen, however many lumber industry veterans say a true spring surge never materialized. There will be stabilizing through the summer but by August prices will gradually run downhill.

According to Japan's Forestry Agency, the sum of Japan's total lumber imports in 2010 was ¥916 billion, up 12.8 per cent from the previous year, which itself increased after three years of declines. When compared with 2008, imports in 2010 marked a 20 per cent decline and fell below the one trillion yen mark for the second straight year.

However, imports exceeded the US\$10 billion dollar mark for the first time in two years, with a 20 per cent year-on-year growth affected by the strong yen.

All of the top ten log and lumber importing countries showed year-on-year increases in 2010 when compared to 2009. China held the top position among all wood supplying countries to Japan for the fourth consecutive year, at 14 per cent of the total, with ¥131.2 billion, a 4.4 per cent increase over 2009. Canadian wood imports increased by 28 per cent, to ¥102.5 billion.

Japan's imports of logs and lumber increased from the previous year both in volume and in value. Canada was the top lumber importer into Japan, at 2.3 million cubic metres.

The US was the top supplier of logs with 1.7 million cubic metres, followed by Canada, which had the largest increase, of 68 per cent to 1.3 million cubic metres. Logs from Russia continued to drop, by 35 per cent, to 450,000 cubic metres. The percentage of Russian logs fell below 10 per cent of total log imports for the first time.

It must be assumed that the Russia's loss of log imports into Japan is China's gain of total wood products, using Russian timber, imported.

Global market pulp production increased by seven per cent in 2010, which raised demand for wood raw-material. Tightening fibre supplies caused wood prices to rise globally in 2010, according to Wood Resources Quarterly. Wood chips and pulp log costs grew by 17 per cent in the past two years. The biggest price increases in 4Q 2010 occurred in the US Northwest, Sweden, Spain and Brazil, says WRQ.

Lumber production in 2010 kept up capacity when compared to 2009 and pulp volumes have increased. Japan's demand for wood continued the growth begun in 2009, and new customers in Asia kept North American lumber mills running.

Yet, what of the US? It appears that savvy home buyers may be waiting for prices to fall still further, possibly holding off on purchases until they are sure bottom has been reached. Most home sales activity this year has been of distressed properties, those with mortgages several months behind, usually at some stage of foreclosure, and the majority have been all-cash deals. As horror stories of aggressive mortgage lender activity against mortgagees are revealed, home buyers are reluctant to sign on to new mortgages, even those with stable income sources. After games of this sort are played out there will be a clearer view of the US real estate market. Most analysts claim that won't be until the end of 2011.

However demographics can not be denied; new household formations by the children of baby boomers have been forestalled for several years, and young families that bought at the height of the market in 2005 now have teenagers, rather than young children, to fit into a single home.

Construction spending in the US rose in 0.4 per cent in April for a second straight month, as home-improvement expenditures increased along with construction of schools and power plants, but trailed the April 2010 estimate by 9.3 per cent, according to the Census Bureau Wednesday. Private construction spending rose 1.7 per cent in April from the prior month. Homebuilding outlays amounted to US\$232 billion, an increase of 3.1 per cent, led by a 7.6 per cent jump in home improvement, according to calculations by *Bloomberg*. Construction of both single-family and multifamily units fell.

As government stimulus packages expired, public construction spending fell 1.9 per cent below the March estimate, with educational spending off 2.7 per cent and highway construction down 1.6 per cent.

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