



MADISON'S TIMBER PREVIEW

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The latest figures on log and lumber exports for Canada and the US were released this week. Some sectors and regions had improvement over the previous time frame, while new data for others is not as encouraging. Overall though, the latest developments show a slowly strengthening recovery.

BC Stats released May export data on Wednesday. Exports of solid wood products from British Columbia grew 3 per cent in the first five months of 2012, compared to the same period last year. Softwood lumber exports increased 2.7 per cent, with particularly strong growth in shipments of cedar shakes and shingles, which grew by 19 per cent. Shipments of logs dipped 1.3 per cent. Elsewhere in the forest sector, pulp and paper exports fell 5.4 per cent. The drop in pulp shipments of 11.4 per cent was entirely responsible for the decline, as exports of paper products jumped 14.4 per cent, including a 41.2 per cent boost in exports of newsprint.

US west coast lumber exports, meanwhile, increased slightly in the first quarter of 2012—just under 2 per cent for a total of 234 million board feet worth US\$156 million, according to the US Forest Service's Pacific Northwest Research Station. US log exports to Canada jumped by 43 per cent, to 255 million board feet during 1Q, while exports to China dropped by 9.5 per cent, to 233 million board feet.

Oregon's annual timber harvest jumped 13 per cent in 2011, reaching 3.65 billion board feet. Large private forest owners, taking advantage of a continued hot export market to China and elsewhere, accounted for two-thirds of the harvest despite having only 19 percent of the state's timberland.

“About 85 per cent of the West coast's log exports and 89 per cent of its lumber exports came through ports in Oregon and Washington,” said Xiaoping Zhou, a research economist with the station who compiled the data. “Softwood comprised 99 per cent of the total log export and 85 percent of the total lumber export.”

Total US log and lumber exports increased by 5 per cent and 3 per cent, respectively, to 715 and 731 million board feet, said the PNW Research Station.

In other news, Oregon's annual timber harvest jumped 13 per cent in 2011, reaching 3.65 billion board feet, said Brandon Kaetzel, economist with the Oregon Department of Forestry Monday. Large private forest owners, taking advantage of a continued hot export market to China and elsewhere, accounted for two-thirds of the harvest despite having only 19 percent of the state's timberland. Timber harvest on federal land managed by the US Forest Service and Bureau of Land Management increased 47 and 24 per cent, respectively, as mill owners sought logs to replace what was being shipped overseas. By law, logs cut on US federal land cannot be exported.

Regular readers of *Madison's Lumber Reporter* will know that lumber sales, and likely export, figures may level off slightly when June data is released. The price of benchmark WSPF KD 2x4 #2&Btr dimension lumber hit a recent-year high of US\$310 at the beginning of June before softening somewhat. However it is important to remember, in fact critical -- and it seems a lot of industry watchers are missing this: the recent jump in lumber prices is driven almost entirely by demand from the US, not from emerging offshore markets. Buying in China, Korea, and Taiwan of course is improving and is very important, but almost all of this year's new business is coming from traditional customers in the US.

"The housing market has turned—at last," declared the *Wall Street Journal* Wednesday. "Nearly seven years after the housing bubble burst, most indexes of house prices are bending up."

Said Warren Buffet to Bloomberg Wednesday, "With residential housing, we're seeing a pickup, and it's noticeable. It's from a very low base and it doesn't amount to a whole lot yet, but it's getting better."

On Monday, Atlanta, GA-based Beazer Homes USA said in a regulatory filing that it will raise about US\$75 million by selling shares of common stock. That filing followed an announcement on Monday by Meritage Homes, a Scottsdale, AZ, builder, saying that it had registered to sell 2.3 million new shares of common stock to raise about US\$75.7 million.

Hovnanian Enterprises took advantage of the rising value of its common stock, which has nearly doubled in value since January, to reduce its debt load by issuing in the past two weeks 1.5 million class-A shares to bondholders in exchange for US\$6 million in debt.

By issuing stock now, builders are outrunning any potential weakness in the market that could result from rising unemployment, elections in November and problems in Europe, according to the *Wall Street Journal*.

Elsewhere, as of May 31, KB Home had US\$377 million in cash and cash equivalents, one of the sector's lowest amounts.

In other news, mortgage delinquencies in the US are dropping, with the share of home loans at least 30 days late dropping to 7.4 per cent in 1Q, from 7.58 per cent in the prior three months, according to the Mortgage Bankers Association Thursday. Demand for real estate is rising amid record-low borrowing costs and tight inventories of available real estate.

The National Association of Realtors' newest figures show a 1.5 per cent dip in home sales versus the month prior to an annualized rate of 4.55 million. Analysts believe the demand from potential homebuyers remains unchanged, with many holding back on purchases during the economic downfall over the past few years. Although home prices and mortgage rates remain the lowest in years, access to credit and high downpayment requirements are keeping sales from thriving, says the NAR.

US initial notices of foreclosure, the start of the process, jumped 6 per cent in 2Q from a year earlier, the first annual increase since 2009, according to RealtyTrac, said *Bloomberg* Thursday. Banks at the same time found alternatives to the final step of seizing the home, either by working with the borrower or by agreeing to sell properties for less than what was owed, with repossessions falling 22 per cent. RealtyTrac lowered its projection for home seizures in 2012 to 700,000, from 1 million, said spokesperson Daren Blomquist. While repossessions were down in 2Q, many states that require court approval for foreclosures are seeing increases, Blomquist said. They jumped 45 per cent in Illinois and 32 per cent in Florida.

In 1Q, about 11.4 million properties, or 23.7 per cent of homes with a mortgage, still had negative equity, CoreLogic said in a report Thursday. That was down from 12.1 million, or 25.2 per cent, in 4Q 2011, as prices began to rise in hard hit areas such as Arizona, the company said.

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