

# MADISON'S LUMBER REPORTER



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## News & Updates

### Madison's Investment Rx

This month's issue of *Madison's Investment Rx*, containing an in-depth analysis of North American lumber inventories, projections for US construction for the next two years, and a summary of China's latest lumber buying patterns, has gone out to subscribers.

Contact us any time for a subscription.

### Quarterly Results

West Fraser Timber has reported 3Q 2011 results, showing a net profit of \$6 million from continuing operations, or \$37 million in profit after discontinued operations (sale of the company's Eurocan deep-sea wharf). Adjusted earnings from continuing operations were \$3 million.

Domtar has posted 3Q net earnings of \$117 million. Sales amounted to \$1.4 billion. The company reported net earnings of \$54 million in 2Q 2011.

Norbord is reporting a 3Q 2011 loss of \$1 million compared to earnings of \$1 million in 2Q. In 3Q 2010, Norbord reported a loss of \$4 million.

Canfor Corporation has posted a net loss of \$9.6 million in 3Q 2011, compared to net income of \$26.2 million for 2Q 2011 and net income of \$37.2 million for 3Q 2010.

Acadian Timber has reported a loss of \$341,000 in 3Q 2011. Acadian generated net sales of \$17.5 million on sales volume of 341 thousand cubic metres, which represents a \$0.3 million, or 2 per cent, decrease in net sales compared to the same period in 2010.

### US Home Sales

Sales of new US homes rose by 5.7 per cent in September — the first increase in four months — as builders cut prices to the lowest level in nearly a year. The Commerce Department said Wednesday that new single-family home sales climbed to an annual pace of 313,000 in September from August's slightly revised level of 296,000. The numbers are seasonally adjusted.

Yet total sales of new homes are still 0.9 per cent lower compared to one year ago and the number of properties on the market — 163,000 — remained at a record low.

Meanwhile, the National Association of Realtors' seasonally adjusted index for pending sales of existing homes decreased 4.6 per cent on a monthly basis to 84.5, the industry group said Thursday. The gauge, however, was 6.4 per cent above its level in September 2010.

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### Real Estate and New Building, China

Facing growing liquidity pressure, developers in China have started to slash prices for some new building projects, with cuts of more than 30 per cent in some cases, angering homeowners who made purchases earlier. The central government is seeking to cool the real estate market by tightening credit and limiting demand.

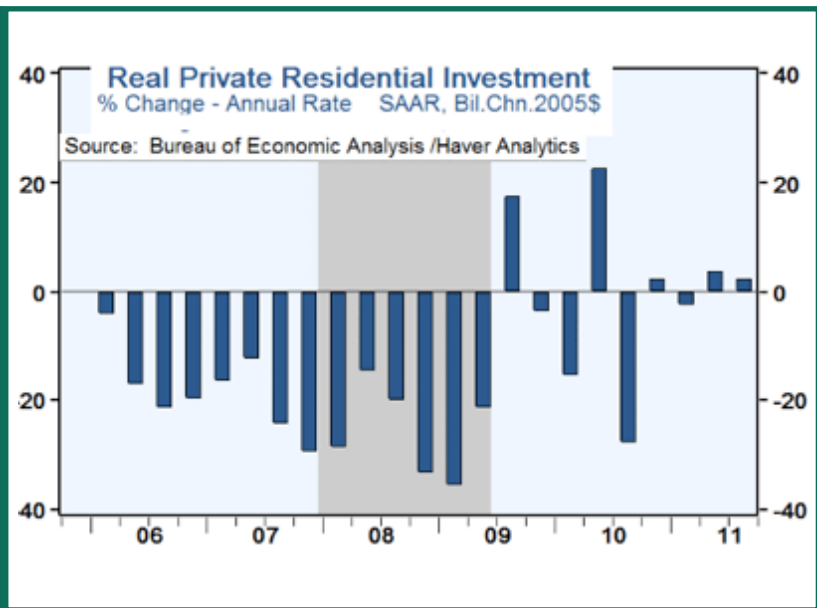
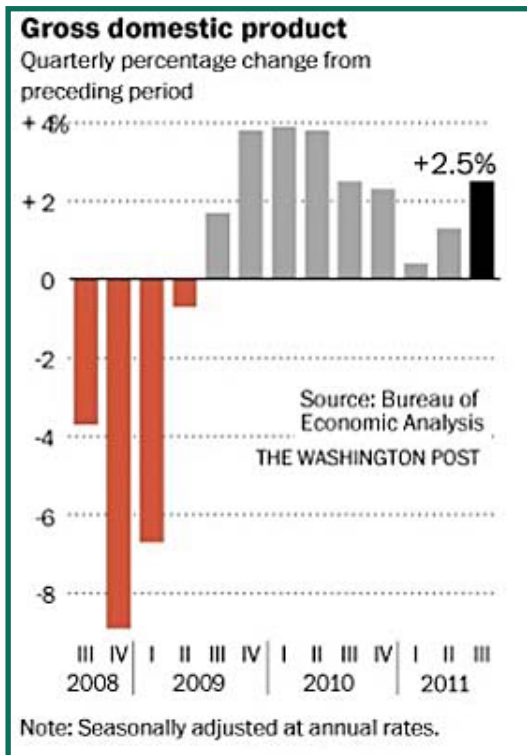
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### Changes to Southern Yellow Pine Grading

A hastily-announced change to grading of southern pine lumber has US builders and lumber producers, particularly truss makers, up in arms. A decision on new design standards originally scheduled for October 20 has been delayed for two months.

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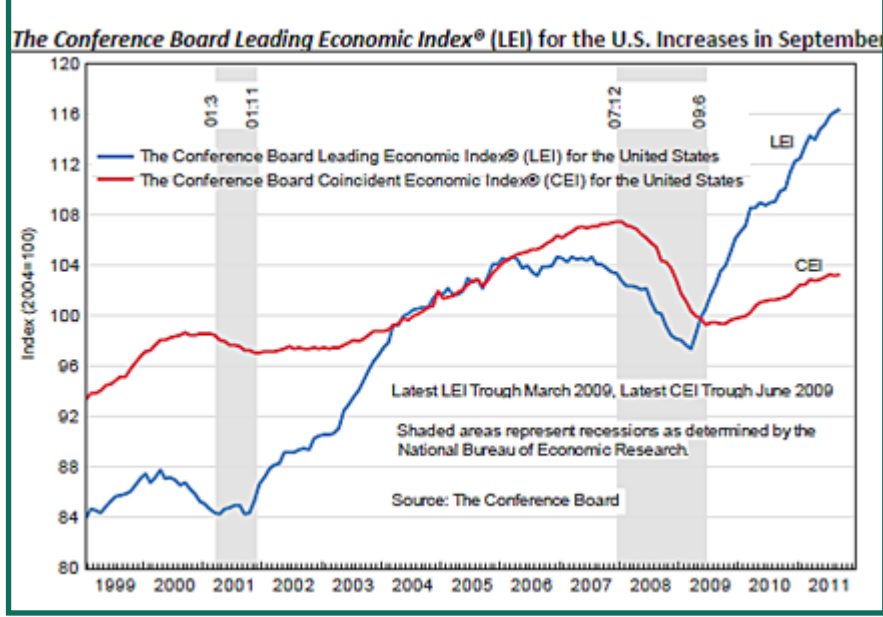
### Canada Wholesale Trade

Wholesale sales edged up 0.2 per cent in August to \$48.4 billion following a 0.9 per cent advance in July, according to Statistics Canada Thursday.

In volume terms, wholesale sales fell 0.9 per cent in August. Increases were reported in all of the subsectors, except for the miscellaneous, and the building material and supplies subsectors.

The building material and supplies subsector fell 0.7 per cent, pushed down by the metal service centres, with a 1.9 per cent drop, and the lumber, millwork, hardware and other building supplies industries, which fell 0.7 per cent.

Inventories rose 0.9 per cent to \$57.2 billion in August, posting their eighth consecutive monthly increase. Inventories were up in 19 of the 25 wholesale industries.



### US Leading Economic Indicators Index, GDP

The Conference Board released its report on US leading economic indicators in the month of September on Thursday, showing that its leading economic indicators index increased by slightly less than economists had been anticipating. The report showed that the leading economic index edged up by 0.2 per cent in September after rising by 0.3 per cent August and advancing by 0.6 per cent in July. The index had been expected to increase by about 0.3 per cent.

The Conference Board also said its coincident economic index inched up by 0.1 per cent in September after dipping by 0.1 per cent in August. Positive contributions from all four indicators that make up the index led to the modest rebound. The report also showed that the lagging economic index rose by 0.2 per cent in September, matching the increase seen in the previous month.

In other data released this week, the US economy grew at an annual rate of 2.5 per cent in the July-September quarter, the Commerce Department said Thursday. But the growth was fueled by Americans who spent more while earning less and by businesses that invested in machines and computers, not workers. The expansion, the best quarterly growth in a year, came as a relief after anemic growth in the first half of the year, weeks of wild stock market shifts and the weakest consumer confidence since the height of the Great Recession.

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	226	232	-6	240	-14	255	-29
WSPF KD R/L 2x6	252	248	+4	250	+2	255	-3
WSPF KD R/L 2x8	260	260	0	265	-5	280	-20
WSPF KD R/L 2x10	255	260	-5	270	-15	315	-60
WSPF KD PET 2x4 Stud	220	230	-10	235	-15	235	-15
Douglas Fir Green R/L 2x4	220	230	-10	240	-20	195	+25
Douglas Fir Green R/L 2x10	290	290	0	290	0	265	+25
ESPF KD 2x4 8ft Stud	305	280	+25	305	0	285	+20
OSB Ontario 7/16" (CDN\$)	195	195	0	210	-15	205	-10

## Weekly News

### Home Sales, US

CONTINUED Buyers of new homes were attracted by lower mortgage rates and falling home prices. The median selling price of new homes, for instance, fell over 10 per cent year-on-year to US\$204,400 — and 3.1 per cent compared to the previous month — marking the lowest level since last October.

The median price has fallen three straight months after hitting a nine-month high of US\$240,200 in June.

New home sales averaged 302,000 a month in the third quarter, little changed compared to an average of 291,000 in the same period a year earlier.

Pending sales, meanwhile, fell in all four US regions. The biggest decline was in the Midwest, where pending sales fell 6.2 per cent on a monthly basis. They fell 5.5 per cent in the South, 4.7 per cent in the Northeast and 2.1 per cent in the West.

As a result, the troubled housing sector made a minimal contribution to the economy in the third quarter, adding only 0.05 of a percentage point to a solid 2.5 per cent increase in overall gross domestic product.

### China Real Estate

CONTINUED Moody's said in a report on Monday that mainland China developers faced a lower-than-anticipated cash flow arising from slowing sales in an environment where credit from onshore banks was difficult to secure.

The number of new home transactions in Beijing fell 23 per cent year-on-year in the first half of the year. This situation will continue for the next six to 12 months as the central government is unlikely to relax the measures introduced to restrict property purchases, Moody's says.

In a sales office at Qiuxiafang, more than 20 owners crowded into a small meeting room, accusing three Greenland employees of being "irresponsible, unethical and incapable".

In Pudong, homeowners trashed the sales office of the Coastal Palace project after the developer China Overseas Property Group cut prices 20 per cent to lift sales.

Separately, homebuyers stormed the sales office of Shanghai's Sunshine City on Saturday, saying developer Longfor Properties reduced prices to 14,000 yuan, from a high of 18,500 yuan.

China's government has created a series of policies to curb the runaway housing market, including purchase limits, higher down payments, the introduction of a property tax in some cities and the construction of low-income housing projects.

Official statistics showed that only 1,039 housing units were sold in Beijing during the week-long National Day holiday, which is typically a boom week for the sector, including 908 new homes and 131 second-hand houses, down 22.8 per cent over the same period last year.

Shanghai also saw a significant slump in home sales during the holiday. Daily housing sales in the city stood at about 100 units, while in the large cities of Guangzhou and Hangzhou, sales figures remained at only two digits.

The plunge in transactions has resulted in skyrocketing housing inventories, prompting real estate companies to take action.

According to statistics from the Beijing Real Estate Trading Management website, the city added 16,196 new housing units from September 1 to October 25, only ten per cent of which were sold.

As of October 24, Beijing still has 117,500 new housing units waiting to be sold. Even without additional units, it will

take at least 20 months to "digest" them, according to the website.

WorldUnion Property Consultancy predicted that housing inventories will come to a head at the end of this year or early next year.

Property developers have already felt the bite. According to statistics from Wind Information, a leading Chinese financial service provider, the inventories of 136 A-share listed real estate companies accounted for 61.82 per cent of the companies' total assets in the first half of the year, while the ratio during the same period last year was below 60 per cent.

### Investment Rx - Madison's Monthly Lumber Analysis in One Tasty Bite!

The September issue of *Madison's Investment Rx* has gone out to subscribers.

Full of timely data on log supply, lumber production, transportation constraints, log and lumber shipments, and much more, *Madison's Investment Rx* in an invaluable tool for tracking the North American forest products industry month by month.

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# Southern Yellow Pine

## Design Values

In 2010, two US lumber grading agencies, the Southern Pine Inspection Bureau and Timber Products Inspection, agreed

by Kéta Kosman

to work collaboratively to perform stiffness and bending, and tension strength tests on #2&Btr southern yellow pine KD 2x4's. These design values are the properties that builders can count on southern pine delivering in construction—including the wood's load values, or its ability to resist bending, tension, and compression—as well as the product's general stiffness.

Such values for dimension lumber published by the SPIB in 1991 called for a reassessment of the standard if there is "cause to believe there has been a significant change in the raw material resource or product mix," according to a statement released by the agency on October 6, 2011. It seems that overall trends illuminating a shift in the resource mix have occurred over the past seventeen years, prompting the SPIB Board of Governors to direct additional testing last year.

The test data indicated a "significant reduction in stiffness and bending and tension strength compared to published design values", prompting the SPIB to propose adjusting the design values based on the test data collected. Newly proposed standards in four out of seven values will be lowered for all grades and sizes by approximately 25 to 30 per cent. In addition, the Dense designation for all grades of dimension products will no longer provide an increased design value over non-Dense grades, and the "mixed southern pine" classification will carry the same design value as the major species, says the SPIB release.

Test results did not indicate enough of a difference between Dense, unclassified and NonDense lumber to continue publishing three different design values for each lumber grade. Dense lumber remains an option for southern pine users requiring Dense material, such as proprietary grades for laminated beams. For a full explanation of SPIB grading, please visit <http://www.spib.org/lumbergr.shtm?lumberservices>

Since 1924, the light frame construction industry in the US has followed a standard design practice to safely construct buildings. This practice consists of builders, specifiers, and building designers using structural lumber in appropriate ap-

plications to resist building code defined loads. Such designers make their lumber end use decisions based on the design values assigned to the grade-marked lumber as applied by the lumber producers. The light frame construction industry is built upon the premise that load resistant framing design can be undertaken with confidence in the structural reliability provided by those assigning design value properties to each unit of lumber produced, explains *SBC Magazine* this week.

When Southern Pine lumber producers provide a grade-mark on lumber, the grade-mark that is utilized establishes the set of design values that exist and the capacity of that lumber to resist loads. Neither users nor designers of Southern Pine can be expected to anticipate or define for themselves either a higher or lower design value for the lumber selected and build or design with a value other than what has been published by SPIB.

The Southern Forest Products Association has written a summary of the proposal, plus a news release with more background information.

The SPIB submitted the allowable design standards to the American Lumber Standard Committee, which is responsible for overseeing the setting and publication of performance standards for lumber, and the Forest Products Laboratory for review, giving the ruling date as October 20, 2011. However, on that date the ALSC announced it will need another two months to review the proposal before authenticating the findings.

"The board encourages all affected parties to submit their comments in writing or in person," ALSC's notice said, adding, "Parties should be mindful that the proposed changes are significant and should take steps they deem appropriate in the interim."

If ALSC accepts SPIB's proposals, the new design values could force builders, remodelers, and architects to reduce the maximum spans for joists and rafters they had planned to build with southern pine, buy higher, more expensive, grades of Southern pine, buy other species of wood, or perhaps even shift to different construction materials, according to *Prosales*, an online magazine for the US building industry. *Prosales* also maintains that "more species than just Southern pine could see their design values chopped. [ . . . ] SPIB is further along in its review process than authorities responsible for setting design values for wood grown in the northeast and northwest US."

The ALSC scheduling delay, and request for comments, may have been

prompted by the National Lumber & Building Material Dealers Association which, on October 13 expressed serious concern over the potential impact of a proposal to lower the design value of Southern Pine lumber. The most pressing of these concerns is "a significant reduction in the economic value of the Southern Pine lumber inventory for dealers, component manufacturers and builders."

The Structural Building Components Association has also decried the design changes.

"Are we to conclude that a 2x4 with a load resisting value of 1,500 per square inch changes almost overnight to a value of approximately 1,000 psi?", asked the SBCA in a press release.

The National Lumber and Building Material Dealers Association says if the bureau votes for the new grades, the value of Southern Pine would decrease overnight.

Michael O'Brien, President of the Southern Lumber and Building Material Dealers Association, said to Carolina's *WPDE News*, "We've been very critical of the abrupt announcement and quick approval. If they find the quality is less, we don't disagree with changing the design value, but we do disagree with changing it overnight."

Under the proposed change, the timber would not meet standards for some building codes.

This would hurt lumber yards because many have already purchased the material that soon could be obsolete, said O'Brien.

Some industry executives, speaking off the record, told *ProSales* they felt NLBMDA and SCBA were blowing the issue out of proportion. There are too many variables going into the production of trusses and other structural members to say definitively that these changes will damage the industry.

"It's generally believed that an increasing part of the harvest consists of relatively young, thin trees. Given that fact, some experts say, it's logical that those immature trees don't perform the same as lumber taken from older, bigger trees," says *Prosales*.

An attendee of the October 20 ALSC meeting in Washington, DC, further explained, "The culprit of the need for new values is plantation, fast growth timber, which is an ever increasing share of log base. Perhaps this will turn into an opportunity rather than a nightmare; just as soon as the truss industry can get satisfaction," according to *Layman's Lumber Guide*.