

US Existing Home Sales Surge

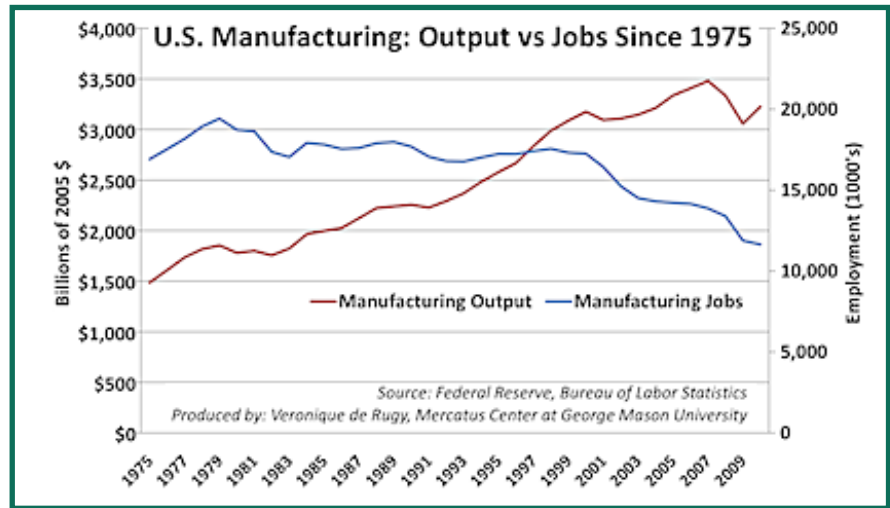
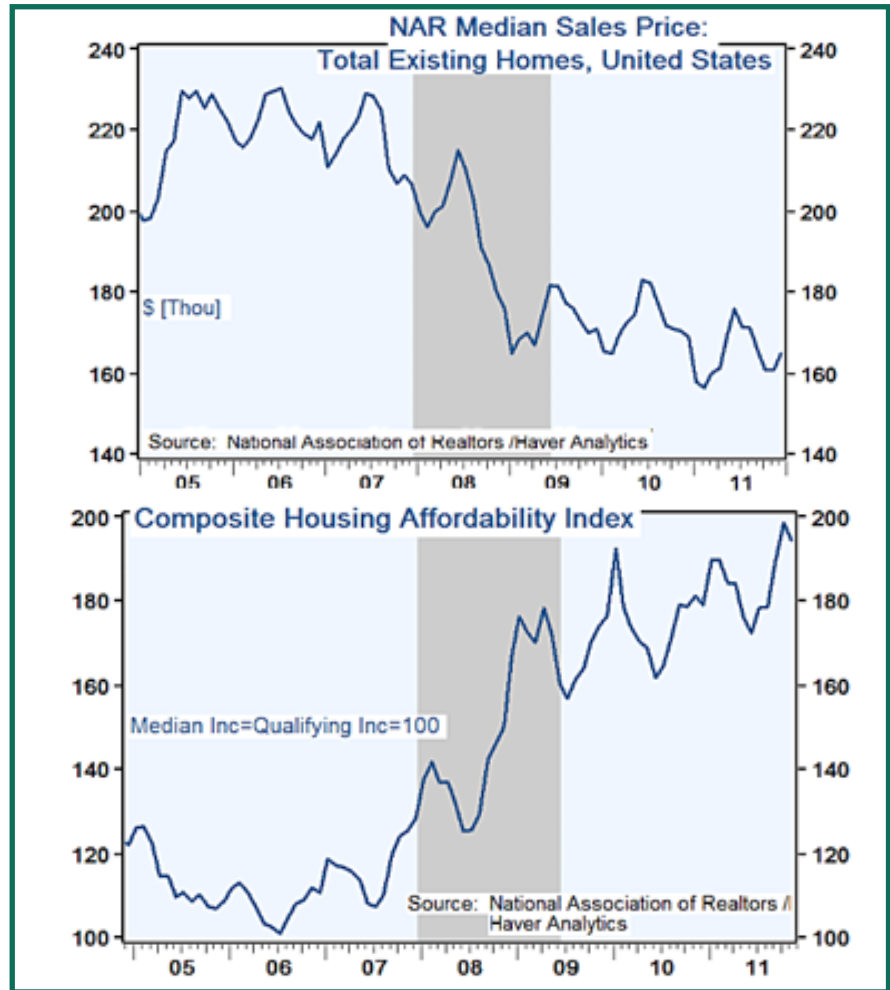
The National Association of Realtors reported that December sales of existing homes jumped 5 per cent to 4.6 thousand (AR, 3.6 per cent year-over-year) following a downwardly revised 3.3 per cent November gain. The latest was the highest since last January.

For all of 2011, sales rose 2.5 per cent to 4.3 thousand and recouped most of a 3.4 per cent decline in 2010. Sales of existing single-family homes alone rose 4.6 per cent last month to 4.1 thousand, up 4.3 per cent year-over-year. (These data have a longer history than the total sales series). Sales of condos and co-ops rose 8.7 per cent month-on-month to 500, a 2 per cent year-over-year.

Reported earlier this month, the composite index of home price affordability rose 7.6 per cent year-over-year in November as mortgage payments as a percent of income were 12.9 per cent, versus the high near 25 per cent in 2006. The average monthly mortgage rate remained at 4.33 per cent.

The median price of existing homes rose 2.3 per cent month-on-month in December to US\$164,500, a 2.5 per cent drop year-over-year). However, November's level was revised down to show no-change. In the Northeast, the median sales price of US\$231,300 was down 2.7 per cent year-over-year. In the West, the median price of US\$205,200 increased 0.3 per cent year-over-year. In the South, the price of US\$146,900 was down 1.1 per cent year-over-year and in the Midwest the price of US\$129,100 fell 7.9 per cent year-over-year.

The months' supply of homes on the market fell sharply to 6.2, the lowest since April, 2006. The months' supply of single-family homes on the market fell to 6.1 and for condos & coops it was a greatly-lessened 7.1 months. The total number of homes on the market fell by nearly one-quarter year-over-year. Inventories of single-family homes fell 19.7 per cent year-over-year but multi-family home inventories were off by one-third.



US Producer Price Index Unexpectedly Falls in December

The US Bureau of Labor Statistics revealed Wednesday a cooling inflationary pressure on production line for the second time in three months in December, matching with Federal Reserve official Sandra Pianalto's assessment on Tuesday that "outlook of US inflation is pretty good" and "commodity prices are no longer trending higher".

The seasonally adjusted Producer Price Index for finished goods in the United States unexpectedly fell 0.1 per cent in December, following a 0.3 per cent gain in November and 0.3 per cent drop in October.

From a year earlier, the index moved up 4.8 per cent, lower than 5.1 per cent widely expected. In contrast, the less volatile index, excluding food and energy, rose 0.3 per cent in December amid consensus forecast of merely 0.1 per cent increase.

On a yearly basis, the core index edged up 3.0 per cent, above 2.8 per cent initially projected.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	250	260	-10	243	+7	300	-50
WSPF KD R/L 2x6	255	264	-9	255	0	288	-33
WSPF KD R/L 2x8	250	250	0	251	-1	286	-36
WSPF KD R/L 2x10	312	314	-2	261	+51	345	-33
WSPF KD PET 2x4 Stud	265	260	+5	245	+20	275	-10
WSPF KD PET 2x6 Stud	305	300	+5	260	+45	305	0
Douglas Fir Green R/L 2x4	230	230	0	220	+10	265	-35
Douglas Fir Green R/L 2x10	325	320	+5	320	+5	310	+15
ESPF KD 2x4 8ft Stud	315	315	0	290	+25	335	-20
OSB Ontario 7/16" (CDN\$)	202	202	0	195	+7	210	-8
CSplywood Toronto 3/8" (CDN\$)	312	320	-8	305	+7	310	+2

Weekly News

US Housing Starts

CONTINUED Housing starts in fell in three of four regions last month, led by a 41.2 per cent decline in the Northeast and a 17.6 per cent drop in the West.

New projects involving multiple housing units helped sustained business at the end of 2011 as foreclosures turn more Americans into renters. Work on multifamily homes, such as apartments, townhouses and condominiums, fell 20.4 per cent to 187,000 in December. For the year, multifamily starts totalled 178,300.

Construction on single-unit dwellings increased 4.4 per cent to a 470,000 rate in December from the prior month, the highest since April 2010. At the same time, demand for single-family homes has waned after three years with near 9 per cent joblessness and a pipeline of distressed properties.

The strong finish to 2011 enabled the industry to surpass 2010 totals in both starts and permits.

Homebuilders have signalled the new year will bring greater prospects than 2011.

Confidence among US homebuilders rose in January to the highest level in more than four years as sales and buyer traffic improved, according to the National Association of Home Builders. The Washington-based group's index of sentiment rose to 25 this month, reaching the highest level since June 2007. Nonetheless, readings lower than 50 mean more respondents still said conditions were poor.

Builders are struggling to compete with deeply discounted foreclosures and short sales on foreclosed homes. The median price of a new home is about 30 per cent higher than the median price for a re-sale.

BC Lumber Exports, China

CONTINUED British Columbia's export sales to China last year, with December still to report, are already up 74 per cent from 2010 and 200 per cent from 2009. Sales to China, now with a value of more than \$1-billion, make up about 29 per cent of all BC lumber exports. Only the US, at 42 per cent of exports, is a larger market.

In 2008 BC was shipping about 700 million board feet of lumber to China. The three-way market development program between the province, federal government and industry targeting China and other growth markets for BC forest products is paying off. Since 2003, when the program started in China, BC sales have surged over 1,300 per cent and more than tripled in the last two years.

The latest trade numbers for November 2011 show BC's softwood lumber exports to China were worth \$84 million, pushing year-to-date for the year sales past \$1 billion, an almost 80 per cent increase compared with the same period in 2010.

Wholesale Trade, US

Overall wholesale prices in the US slipped 0.1 per cent from November, confirming the trend of easing inflationary pressures in the second half of the year, according to data from the Labor Department.

Food and energy prices both lost 0.8 per cent in the month, while wholesale prices for all other goods pushed 0.3 per cent higher.

Year-on-year, wholesale prices were 4.8 per cent higher, down from the 7.1 per cent annual pace reached in July after a

global surge in a wide range of commodity prices.

Federal Reserve data on industrial production showed an 0.4 per cent increase in December from the previous month, driven mainly by the manufacturing sector. The year-on-year expansion was 2.9 per cent.

CN Derailment

A CN Rail clean up crew was on the scene Thursday morning after 11 cars jumped the track near Canfor's Northwood Pulp Mill at about 8:30 pm Wednesday, according to the *Prince George Citizen*.

The cars were carrying lumber and pulp products and there were no injuries, CN Rail spokesperson Kelli Svendsen said.

Earlier this week, CN Rail advised customers it will be running shorter trains between Jasper and Prince George due the effects the extremely cold weather can have on train braking systems.

Svendsen neither confirmed nor denied that the weather was a factor.

"Every relevant factor will be evaluated as part of the investigation," she said.

The road into Northwood was unaffected and the rail line was expected to reopen Thursday night.

Calendar

January 2012

IQPC 10th Timberland Investment Summit

January 30 - February 1 - New York, NY
<http://www.timberlandworldsummit.com/>

Truck Logger AGM

69th Annual

CONTINUED Moore broke down the political climate in North America in regard to ecology issues, and explained some of the hurdles and successes experienced by various industries. He laid out the distinction between terms like 'sustainable', 'clean', 'renewable', and 'green' and the level of importance of each to the environment. The last of these, it turns out, "has no definition, is purely a marketing term" explained Moore. The others certainly have their place, with 'sustainable' being the most relevant to the forest industry.

by Kéta Kosman

"Forestry is the most sustainable of all industries," said Moore, "that supply us with what we need every day. There is the same amount of forests in North America today as there was 100 years ago."

A question from the floor about what the forest industry can do to offset the deliberate campaign by environmental groups to brand all use of wood, and all timber harvesting, as bad, prompted Moore to declare, "You need to spend more money on education. The forest industry is not operating in a retail mentality, it's a wholesale environment. Does General Motors spend 0.01 per cent of its revenue on branding? The forest industry needs to invest in marketing and advertising to change that image."

Pat Bell revealed the latest lumber exports statistics from BC to China, which – at 4.28 billion board feet and \$1 billion to November 2011 – have surpassed levels for all of 2010. Bell also referred to "a major China company coming to set up a head office here in BC," stating that details will be forthcoming in about three months.

Otherwise, the main new information provided by Bell was his assertion that the Jobs Ministry would like to see more use of "the fibre resource coming from north-

central Vancouver Island", that there is potential for a "high speed second growth mill."

In his own speech the next day, Rick Jeffery responded to this suggestion with, "it is unrealistic to expect that log costs will be reduced" in order to allow such a mill in Courtenay-Comox to be productive.

Don Demens released details of some very exciting plans for Western Forest Products.

"Western's business strategy is to be globally competitive in forest products," said Demens. "We have a \$220 million investment plan for the next two years, \$125 million of which will be in new capital or mill upgrades. We will be getting all eight of our mills reopened, with three of those becoming Hemlock mills. We are going to improve the operating efficiencies of our existing mills and put our employees back to work."

Due to the many challenges of running a lumber business on the coast, from difficult terrain to transport costs to the fibre basket and others, Demens said, "we must have critical mass, scale is important. Western has to produce sufficient volumes to mean something to our customers."

Demens went on to explain that 55 to 60 per cent of Western's product goes offshore as breakbulk, that 40 per cent of log sales go to domestic buyers and that 10 per cent of log sales are "... exported offshore to capture margin."

We harvest our entire profile, and export 1 cubic metre of logs for every more than 2 cubic metres that go to our mills."

Demens also said that 5 or 8 per cent of Western's Cedar volume now is sent to China, which ordered no cedar at all just a few years ago.

The next speaker was Peter Lister, with some great data on developments in uses for engineered wood and demand for it from the US.

"In 2006, 39 per cent of BC's softwood lumber went into US single family housing, in 2010 that amount declined to 13

per cent," Lister explained. "The smallest percentage goes into non-residential US construction, therefore this is where the huge opportunity is."

Lister then provided updates on light wood frame construction for six-storey buildings, post and beam construction and its cousin glulam, cross-laminated timber (CLT) and hybrid construction. These last two are rapidly becoming very popular with countries all over the world, especially CLT because it involves "prefabricated components that can be dropped into place" which facilitates extremely fast building. The eight-storey CLT building in London, England, went up in 28 days last year.

Jim Snetsinger's presentation also covered a lot of data. The topic that generated the biggest impact was his declaration of the "regeneration success of the coast. Over 30 per cent of the coast's Timber Harvesting Land Base is old growth, meaning more than 250 years old. As well, there is excellent regeneration, there have been no compliance issues with operators, and there is an excellent second growth coming online. There will continue to be a transition to second growth harvest, which started in 1995, and is now about 34 per cent of the coastal harvest."

Rick Jeffery focussed on new markets for BC wood, specifically China.

"China is now the second-largest global consumer of wood products," said Jeffery. "In 2007 China imported 6.6 million cubic metres of wood products at a value of \$170 per cubic metre, in 2011 those imports were 20 million cubic metres at \$230 per cubic metre. Currently China has a wood deficit of 100 million cubic metres, by 2020 that figure will be 250 million cubic metres. Canada is China's largest provider of wood products."

As for India, Jeffery explained that country has the same kind of infrastructure and supply chain issues, and lack of a wood culture, as China did ten years ago.

"India has an 80 million cubic metres per year wood deficit, and growing. Canada is at a \$50 per cubic metre shipping disadvantage to India compared to Australia. But with \$12 billion per year in annual non-residential wood demand, or BC's entire annual production, there is plenty of opportunity for growth for BC wood producers."

Jeffery also said, which has already been mentioned in Madison's several times, that the demand for wood in India is for high value product. Shop grades, mouldings, trim, flooring, often stained and cut to size, as compared to the structural framing lumber preferred by the US and by China.

