

Slumping U.S. housing market hurts B.C. mills

Less work for dependent Western Canadian sawmills

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Top American homebuilders are walking away from deposits on land options, a clear signal that the slumping U.S. housing market has yet to bottom out, according to a research report by the International Wood Markets Group.

And that means Western Canadian sawmills dependent on the U.S. housing market will have less work this year, report author Peter Butzelaar said Wednesday.

"When I look at the data, I don't believe the builders think the worst is over," Butzelaar said, referring to \$1.4 billion the top 10 builders collectively wrote off their balance sheets for the last three months of 2006. "To me, you don't write off future opportunity unless you don't believe there is an economic opportunity there."

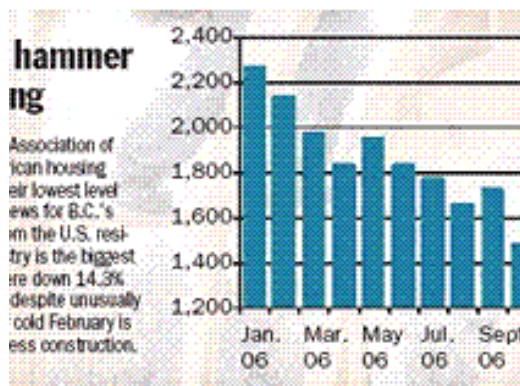
Butzelaar said other homebuilding data he examined shows that the downward trend is expected to continue for the first half of this year -- the prime construction season.

He said the top builders will have 20 per cent fewer home completions for the first two quarters of 2007 than in 2006, which explains their strategy in walking away from unprofitable land options and writing down their



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According to the National Association of Realtors in the U.S., American housing starts in January fell to their lowest level since 1997 - not good news for B.C.'s lumber producers.



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remaining land holdings.

Butzelaar's views were reinforced Wednesday when Tolko Industries announced downtime at two

oriented strand board mills and Canfor Corp. announced it is curtailing lumber production by a further 20 million board feet because of the strike at CN Rail. Last week it cut production by 80 million board feet.

U.S. housing starts in January were down 14.3% from the previous month, despite unusually warm weather, and a very cold February is likely to continue to suppress construction.

And in the U.S, Commerce Department statistics show housing starts down 14.3 per cent over last month and 38 per cent lower than last year.

However, the U.S. National Association of Home Builders is expecting the bottom to be reached by the end of this quarter. Builders are positioning themselves for the coming construction season, the association said in a news release.

"Home sales apparently stabilized late last year, but the overhang of unsold housing inventory still is quite heavy," said NAHB chief economist David Seiders. "Builders have been cutting back on starts of new units to bring supply and demand back into balance.

"We expect housing starts to bottom out in the first quarter of this year before embarking on a gradual recovery path," Seiders said.

Butzelaar said shrinking lumber demand in the U.S. has already resulted in European sawmillers focusing on their own market and Asia. There has been a slight drop -- only three per cent -- in Canadian shipments to the U.S. Hardest hit was the U.S., where its domestic shipments were off nine per cent.

The North American market is still struggling to bring supply in line with shrinking demand, he said. In other parts of the world, however, there are signs of a long-awaited turnaround for the global forest industry.

From sky-high log prices in China to shrinking supplies in Canada and soaring demand in Europe, timber supplies are tightening, the International Wood Markets report states. The Vancouver-based consulting group monitors wood markets around the world.

"For the first time since the 1990s a period of tighter global timber and log supply, leading to higher log and lumber prices, could be looming," the report states.

A tax on log exports imposed by Russia on Jan. 1, rising demand for lumber in Europe, price increases for Japanese log importers, and higher log prices in China are all signals of a tightening supply, the report states. Further, recent studies show B.C.'s timber harvest will peak earlier than expected due to the shorter shelf-life of mountain pine beetle-killed timber while Quebec's timber harvest is to be reduced later this year.

"It appears that the world's demand for saw, veneer, and even pulp logs

could be increasing at a time when the supply base is undergoing a number of structural changes," the report states.

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