

# Market Barometer

A Weekly Newsletter Forecasting North American Lumber Markets



## Market Overview

There is a similarity between the current forest fire situation in the West and the forest products market: both are explosive and, basically, out of control. Today, nearly 900 fires still burn in British Columbia alone, closing logging camps and curtailing production. In the market, with Tuesday's extremely strong housing starts (see page 2), traders are scrambling to find stock — any stock — to fill orders. Prices are going only one way: up.

There are a number of reasons for this present scenario. Strong housing starts in July reflect the attempt by builders to overcome the slow spring period. Inventories at all points in the distribution channel are light, with no chance of catch-up in sight. Western forest fires have disrupted the normal supply flow. There are also rumours that the U.S. government is buying more wood for Iraq, putting additional pressure on the supply base.

Essentially, buyers are chasing the market and the mills are in control.

With no let-up in sight, there is a good possibility that European dimension may flow into the market in significant volumes during the next few months. Right now, most new business would be for September shipment and October arrival. It should be noted that this time frame is not too far off what some North American producers are presently quoting.

Frankly, some of the prices being bandied about today are scary. One source reports that three-digit increases could be in the offing. We at the *Barometer* believe there will definitely be a \$20 increase in the higher grades in the coming week, with at least a \$10 increase in the utility grades.

A word of caution: the faster the market goes up, the quicker the fall will be when the cycle reverses.

**Next Barometer: September 3, 2003 • Next Market Update: August 27, 2003**

## Product Update

### Western SPF

Western mills were not as active this week, as concerns about forest fires and declining log supplies were primary. Look for higher prices and extended order files for most mills as very strong demand persists.

### Eastern SPF

Mills enjoyed an active week, obtaining higher prices and extending order files out 2–3 weeks. Mill inventories were low for this time of year. Strong demand was evident for wide widths and long lengths. Expect more of the same over the coming week.

### Southern Pine

“Explosive” describes trading activity in the South this week. Many traders were in a panic due to mills having very limited inventories. Anything available was snapped up immediately. Trucks remain scarce. OSB was extremely active, with some suppliers extending order files into October. The coming week should see the chase for wood continue, along with significantly higher prices.

### Inland Hem-Fir

Mills were active, with light inventories and two- to three-week

order files. Wide-width #2&btr was scarce; 2x6 was almost impossible to find. Railcar supply is tight. The same is forecast for the week ahead.

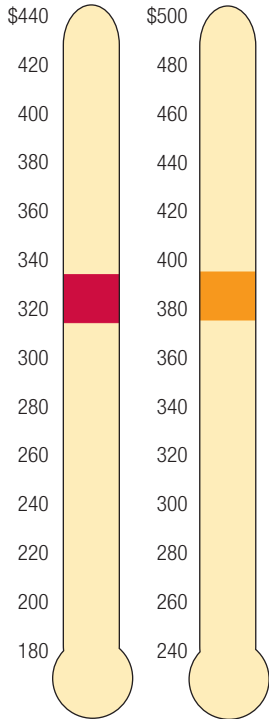
### Green Douglas Fir

Most mills have two-week order files, especially on wides. In California, smaller dealers stepped in to buy, while larger ones stayed on the sidelines. Strong OSB prices put many dealers in a losing position. In the Northeast, demand for wides remained healthy. Look for prices to increase as demand for Doug fir widens due to the pressure on other species.

August 20, 2003

# Price Guide

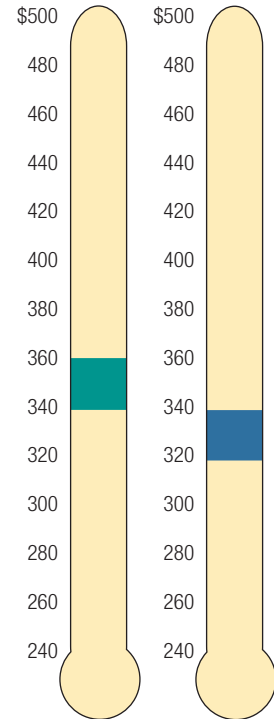
Western SPF Eastern SPF



2X4 std & btr (or #2 & btr), U.S. funds, per thousand board feet, unitized

Species	August 20	Next 2 wks
Western SPF KD (fob mill)	\$314	\$314-334
Eastern SPF KD (Great Lakes)	\$375	\$375-395
Inland Hem-Fir KD (Spokane)	\$339	\$339-359
Southern Pine KD (West)	\$318	\$318-338
Douglas Fir Green (Portland)	\$345	\$345-365

Hem-Fir SYP



Barometer readings indicate our forecast for price ranges over the period August 20-September 3, 2003.

### Market Direction:

Expect prices to continue their upward trend over the coming week, with at least a \$20 increase for #2&btr stock and a \$10 rise for utility.

## Trade Talk

### U.S. Starts Impressive

The U.S. housing market continued its momentum in July: 1.872 million units (SAAR) were started, making it the strongest month in the past year and the highest rate of construction since April of 1986. The Northeast region saw the largest increase — a 19% gain — while starts in the West declined nearly 14%, reflecting an adjustment from a previously strong June. Single-family homes accounted for 1.521 million units, while multi-family starts were pegged at 351,000 units.

According to the NAHB, “favourable interest rates, signs of an improving economy, healthy gains in home values and strong household formations are all fueling demand for new homes....”

U.S. Housing Starts (thousands)			
	July/03	June/03	Change
Northeast	194	163	19.0%
Midwest	372	352	5.7%
South	872	826	5.6%
West	434	504	-13.9%
Total	1,872	1,845	1.5%

### Canadian Renovation Market Healthy

With an active existing home market plus more disposable income among the population, the Canadian Mortgage and Housing Authority (CMHC) expects that renovation spending should rise to a record \$32.1 billion this year, up from \$29.8 billion in 2002. They project a further increase in 2004 to \$33.5 billion. B.C. and Quebec are expected to lead the growth for the remainder of 2003 and well into next year. Alterations and improvements account for nearly 75% of the spending, with the balance used for repairs.

### SLA Update

After a barrage of victory claims by both sides following the release of the NAFTA panel report on August 13, matters have quieted down considerably. What is known is that the U.S. will have to recalculate some of its duties. Depending upon which side you listen to, it will be somewhere between 1% and 18%. However, some observers believe a framework for a deal is already in place, based on a quota system plus the return of some percentage of the duties already collected. When this might occur is still unknown.

August 20, 2003

# Framing Lumber Price Forecasts

August 20–September 3, 2003 • U.S. funds per thousand board feet, unitized

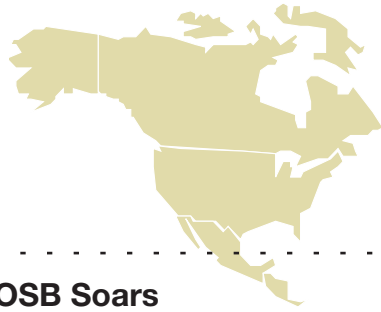
	Western SPF KD (fob mill)		Eastern SPF KD (Great Lakes)	
	August 20 (cash)	Aug. 21–Sept. 3 (forecast)	August 20 (cash)	Aug. 21–Sept. 3 (forecast)
2x4 studs – 8ft PET	\$305	\$305–325	\$360	\$360–380
2x4 #2 & btr – R/L	314	314–334	375	375–395
2x6	285	285–305	350	350–370
2x8	293	293–313	354	354–374
2x10	295	295–315	376	376–396
2x12	393	393–413	n/a	n/a
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2x4 utility R/L	\$235	\$235–245	\$287	\$287–297
2x6 #3	183	183–193	237	237–247
2x8	210	210–220	n/a	n/a
2x10	190	190–200	n/a	n/a
2x12	216	216–226	n/a	n/a

	Inland Hem-Fir KD (Spokane)		Southern Pine KD (West)		D. Fir Green (Portland)	
	August 20 (cash)	Aug. 21–Sept. 3 (forecast)	August 20 (cash)	Aug. 21–Sept. 3 (forecast)	August 20 (cash)	Aug. 21–Sept. 3 (forecast)
2x4 studs – 8ft PET	\$308	\$308–328	\$270	\$270–290	\$320	\$320–340
2x4 std & btr – R/L	339	339–359	—	—	345	345–365
2x4 #2 & btr – R/L	—	—	318	318–338	—	—
2x6 #2 & btr – R/L	326	326–346	330	330–350	360	360–380
2x8	318	318–338	335	335–355	387	387–407
2x10	318	318–338	378	378–398	420	420–440
2x12	342	342–362	380	380–400	370	370–390
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2x4 utility R/L	\$217	\$217–227	\$268	\$268–278	\$222	\$222–232
2x6 #3	162	162–172	250	250–260	227	227–237
2x8	n/a	n/a	235	235–245	n/a	n/a
2x10	n/a	n/a	235	235–245	n/a	n/a
2x12	n/a	n/a	265	265–275	n/a	n/a

MSR Western SPF KD (fob mill)	August 20 (cash)	Aug. 21–Sept. 3 (forecast)	MSR Eastern SPF KD (G. Lakes)	August 20 (cash)	Aug. 21–Sept. 3 (forecast)
2x4 1650F	\$390	\$390–410	2x4 1650F	\$440	\$440–460
2x4 2100F	410	410–430	2x4 2100F	455	455–475
2x6 1650F	305	305–325	2x6 1650F	400	400–420
2x6 2100F	325	325–345	2x6 2100F	410	410–430

Please note that this newsletter represents the best judgment of the editors on price forecasts and market activity. We accept no liability for the commercial use by subscribers of the findings herein.

**A GUIDE FOR WOOD PRODUCTS EXECUTIVES**



# Supply Developments

## OSB Soars

The strong housing market has been a boon for structural panel producers this year, especially OSB manufacturers. As can be seen in the following table, total structural panel production is expected to approach 42 billion sf, up more than 3% from 2002. While plywood production is predicted to fall back

Year	Plywood	OSB	Total
1997	20.0 54%	16.9 46%	37.0
1998	19.8 52%	18.4 48%	38.2
1999	20.0 49%	20.5 51%	40.5
2000	19.8 49%	20.7 51%	40.4
2001	17.4 45%	21.5 55%	38.9
2002	17.7 44%	22.7 56%	40.4
*2003	17.5 42%	24.3 58%	41.8

\*estimated Source: APA, Statistics Canada; Estimate: Widman Research

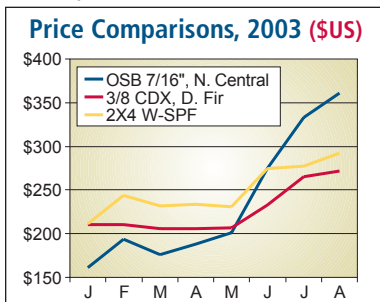
slightly, OSB should continue to outdo previous years' performances, with 24.3 billion sf of output.

To put this in perspective, panel production is much more dependent on the housing industry than is lumber. According to the APA, roughly 53% of panel output is destined for the new-home construction sector. However, looking at OSB alone, roughly two-thirds goes into new housing, mainly as roof or wall

sheathing. On the other hand, in 2002 only 39% of lumber output was used in new housing.

The direct correlation between OSB and the new-home market can be further seen when prices of building commodities are compared. As is shown in table 2 and the accompanying chart, prices for OSB have exploded, especially over the past few months. The average price for OSB in 2003 is up 48% in comparison to 2002, while August's prices reflect an astounding 126% increase from last year's average. Other commodities have not fared so well, as can be seen in table 3. Considering that the average cost of OSB is in the \$150-\$160 msf range, OSB producers are having a very profitable year.

It should be noted that OSB has a boom-or-bust history, mainly for two reasons. The first is that it is tied closely to the housing industry. Therefore, any downturn in housing starts will be reflected directly by a decline in the demand for OSB. Secondly, new OSB production has tended to come on the market in waves; this has usually meant that the price for this product has raced to the bottom (this was apparent in 1997 and again in 2001). However, with interest rates remaining low, the above scenario does not appear



Year	OSB N. Central 7/16"	D. Fir Plywood 3/8" CD-X	Western SPF 2x4
1997	\$143	\$241	\$354
1998	\$203	\$235	\$288
1999	\$260	\$283	\$343
2000	\$206	\$228	\$257
2001	\$159	\$224	\$250
2002	\$160	\$222	\$242
2003*	\$236	\$226	\$250

\*up to mid-August 2003 Source: Random Lengths

to be in the cards for the rest of the year and into 2004: the outlook for OSB remains bright.

Year	OSB N. Central 7/16"	D. Fir Plywood 3/8" CD-X	Western SPF 2x4
2003 vs. 2002 Average Price	48%	2%	3%
Today's Price vs. 2002 Average	126%	23%	21%

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