



# Lumber Track

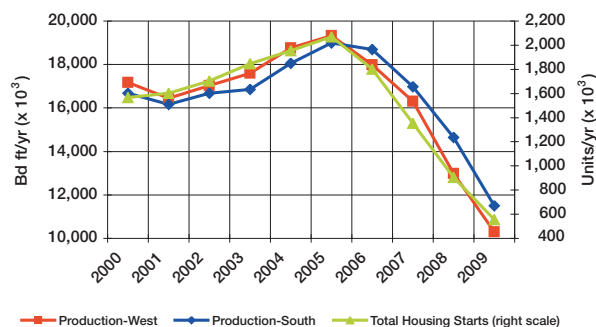
JANUARY 2010  
Issued: April 6, 2010

WWPA'S MONTHLY REVIEW OF NORTH AMERICAN LUMBER STATISTICS, INCLUDING TRADE HIGHLIGHTS AND KEY MARKETS

## Concurrent decline

Historically, manufacturers in the West and South have accounted for more than 95 percent of total softwood lumber volume produced in the U.S. Through the first half of the prior decade, production in the two regions escalated annually at rates approximately equal to new residential construction (Table 1). However, by the close of 2009 production in the West and South had fallen 47 percent and 39 percent, respectively, when compared to 2005, the previous decade's peak year. Housing starts fared poorer still, having dropped 73 percent over the same period.

**Table 1: Softwood Lumber Production and Housing Starts in the U.S.**



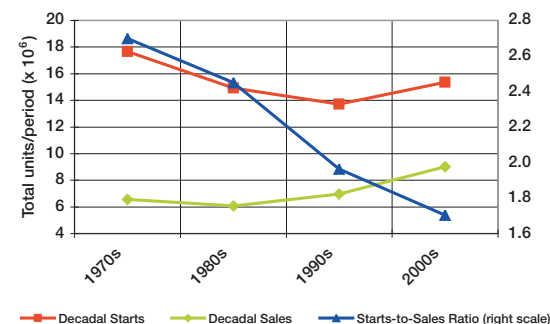
Source: U.S. Census Bureau, Southern Forest Products Association, WWPA

## Misleading correlations

From 2001 through 2005, growth in domestic softwood lumber production and consumption by residential construction supported supply-side economists' claims of strong correlation between new homes built and those sold. They hypothesized that building more homes would fuel more sales of those homes which, in turn, would create more demand requiring more supply, and so on. But a closer analysis of the historic data indicates otherwise.

For example, if a comparison is made between new homes built in the U.S. during the decades of the 1970s, 1980s, 1990s and 2000s versus new homes sold during the same decade in which they were built, the 1970s stand alone (Table 2). From 1970 to 1979, the housing industry experienced a pinnacle era as more than 17.6 million new homes were constructed. However, only 6.6 million of those built were actually sold during the same decade in which they were constructed (U.S. Census Bureau).

**Table 2: New, Single-Family Homes Constructed and Sold in the U.S.**



Source: U.S. Census Bureau

Shown also in Table 2 is a 'starts-to-sales' ratio illustrating that, throughout the 1970s, about 2.7 new homes were built for each new home sold. Since only 63 percent of new homes built in the '70s were actually sold during the decade in which they were built, the decade's 'starts-to-sales' ratio was disproportionately high relative to subsequent decades. More troubling still, approximately 11.1 million new homes were carried forward into the 1980s as unsold inventory.

Building more homes than can reasonably be sold within a given period has been a chronic pattern in the U.S. since the late-1950s. In fact, this behavior shares responsibility for the situation in which the housing industry finds itself today. In any event, by the end of 2009 market corrections

## U.S. Softwood Lumber Industry Activity by Region (Million board feet)

Production	Full Year		1 month YTD										
	2009	2010	2009	% Chg	Jan-10	Dec-09	Jan-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg	
West	10,300	872	794	9.8	872	753	794	15.8	9.8	2,512	2,678	-6.2	
South	11,788	847	925	-8.4	847	840	925	0.8	-8.4	2,600	3,068	-15.3	
Other	1,233	96	96	0.0	96	89	96	7.9	0.0	285	321	-11.0	
Total	23,320	1,814	1,815	0.0	1,814	1,682	1,815	7.9	0.0	5,397	6,067	-11.0	

### Shipments

West	10,583	866	767	12.9	866	787	767	9.9	12.9	2,576	2,657	-3.0	
South	11,788	847	925	-8.4	847	840	925	0.8	-8.4	2,600	3,068	-15.3	
Other	1,248	96	94	1.2	96	91	94	5.2	1.2	289	319	-9.6	
Total	23,620	1,808	1,786	1.2	1,808	1,718	1,786	5.2	1.2	5,465	6,044	-9.6	

### New Orders

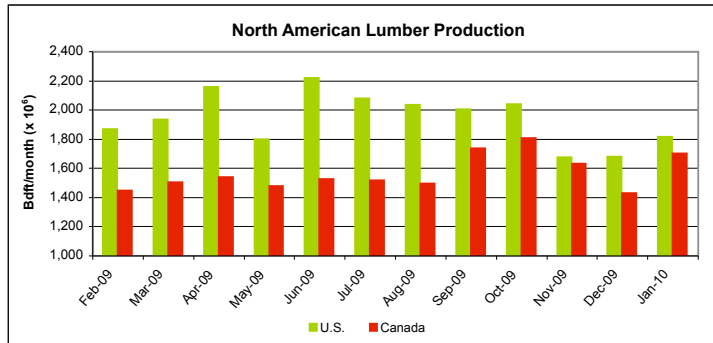
West	10,546	974	740	31.7	974	771	740	26.3	31.7	2,598	2,645	-1.8	
South	11,788	847	925	-8.4	847	840	925	0.8	-8.4	2,600	3,068	-15.3	
Other	1,246	102	93	9.4	102	90	93	13.0	9.4	290	319	-9.0	
Total	23,580	1,922	1,758	9.4	1,922	1,701	1,758	13.0	9.4	5,488	6,031	-9.0	

### Unfilled Orders

	Jan-10	Jan-09	
West	562	464	21.1
South	807	807	0.0
Other	122	122	4.5
Total	1,382	1,496	7.4

### Inventories

	Jan-10	Jan-09	
West	991	1,301	-23.4
South	1,818	1,818	0.0
Other	268	286	-6.0
Total	3,077	3,405	-9.5



Source: Southern Forest Products Association, U.S. Census Bureau, Council of Forest Industries-CAN, WWPA

## Canadian Softwood Lumber Industry Activity by Region (million board feet)

Production	Full Year		1 month YTD										
	2009	2010	2009	% Chg.	Jan-10	Dec-09	Jan-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg	
British Columbia	9,681	953	839	13.6	953	778	839	22.5	13.6	2,549	2,688	-5.2	
East of the Rockies	9,123	749	843	-11.2	749	654	843	14.4	-11.2	2,324	2,818	-17.5	
Total	18,804	1,701	1,682	1.1	1,701	1,432	1,682	18.8	1.1	4,873	5,507	-11.5	

### Shipments

British Columbia	9,979	962	791	21.6	962	839	791	14.6	21.6	2,601	2,758	-5.7	
East of the Rockies	9,486	759	795	-4.6	759	689	795	10.1	-4.6	2,412	2,727	-11.6	
Total	19,466	1,721	1,586	8.5	1,721	1,529	1,586	12.6	8.5	5,013	5,485	-8.6	

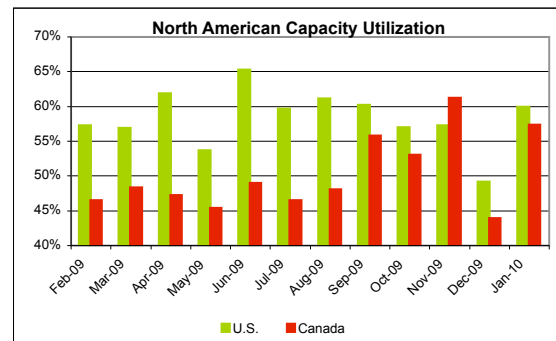
### Inventories

	Jan-10	Jan-09	
British Columbia	943	1,289	-27.6
East of the Rockies	1,408	1,819	-23.2
Total	2,350	3,108	-25.0

Source: Statistics Canada, Council of Forest Industries-CAN

## Production as Percent of Practical Capacity

	Full Year		1 month YTD				
	2009	2010	2009	Jan-10	Dec-09	Jan-09	
West	59%	71%	69%	71%	52%	55%	
South	56%	52%	74%	52%	47%	52%	
Total U.S.	58%	60%	72%	60%	49%	53%	
British Columbia	51%	64%	69%	64%	48%	51%	
East of the Rockies	48%	50%	63%	50%	40%	52%	
Total Canada	49%	57%	66%	57%	44%	52%	



Source: USDA Profile: Softwood Sawmills in the United States and Canada, WWPA

## Trade Statistics

### U. S. Softwood Lumber Imports (million board feet)

	Full Year		1 month YTD										
	2009	2010	2009	% Chg.	Jan-10	Dec-09	Jan-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg	
From British Columbia	5,075	385	364	5.9	385	399	364	-3.5	5.9	1,385	1,611	-14.0	
East of the Rockies	3,228	235	212	11.0	235	241	212	-2.2	11.0	813	1,035	-21.5	
Total Canadian Imports	8,303	621	576	7.8	621	640	576	-3.0	7.8	2,113	2,484	-14.9	
From Latin America	284	22	30	-28.4	22	22	30	-2.1	-28.4	64	93	-31.2	
From Europe	177	6	33	-82.3	6	12	33	-51.2	-82.3	28	66	-58.2	
Total Non-Canadian	551	34	70	-51.0	34	45	70	-23.2	-51.0	116	183	-36.9	
Total Lumber Imports	8,855	655	646	1.4	655	685	646	-4.3	1.4	2,229	2,667	-16.4	

## U. S. Softwood Lumber Exports (million board feet)

	Full Year 2009	1 month YTD 2010	2009	% Chg.	Jan-10	Dec-09	Jan-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
To Canada	268	32	14	119.4	32	25	14	25.4	119.4	84	52	60.8
To Japan	115	10	8	21.2	10	11	8	-8.4	21.2	36	34	5.1
To Mexico	182	15	16	-1.8	15	14	16	6.4	-1.8	45	49	-9.3
To Other Countries	417	30	31	-4.0	30	35	31	-12.9	-4.0	120	95	26.4
Total Lumber Exports	983	87	70	25.1	87	85	70	2.3	25.1	284	230	23.4

## U. S. Softwood Log Imports (million board feet)

From Canada	89	2	16	-90.2	2	6	16	-73.7	-90.2	13	41	-67.5
Non-Canadian Sources	1	0	0	-16.4	0	0	0	0	0	0	0	0
Total Log Imports	90	2	16	-90.1	2	6	16	-73.5	-90.1	13	42	-67.5

## U. S. Softwood Log Exports (million board feet)

To Japan	430	27	22	22.2	27	33	22	-17.6	22.2	122	155	-20.9
To Canada	537	56	57	-1.9	56	35	57	58.2	-1.9	115	111	4.1
To Other Countries	537	40	17	133.6	40	45	17	-11.1	133.6	165	115	44.3
Total Log Exports	1,504	123	97	27.9	123	114	97	8.4	27.9	403	380	6.0

Source: U.S. Department of Commerce, U.S. International Trade Commission, Foreign Agricultural Service

## Canadian Softwood Lumber Exports (million board feet)

To U.S.	8,303	621	576	7.8	621	640	576	-3.0	7.8	2,040	2,484	-17.9
To Japan	918	76	67	13.7	76	95	67	-19.9	13.7	271	295	-7.9
Other	1,824	139	56	150.1	139	196	56	-29.1	150.1	517	329	57.2
Total Lumber Exports	11,046	836	698	19.7	836	931	698	-10.2	19.7	2,829	3,107	-9.0

Source: Statistics Canada, Council of Forest Industries-CAN

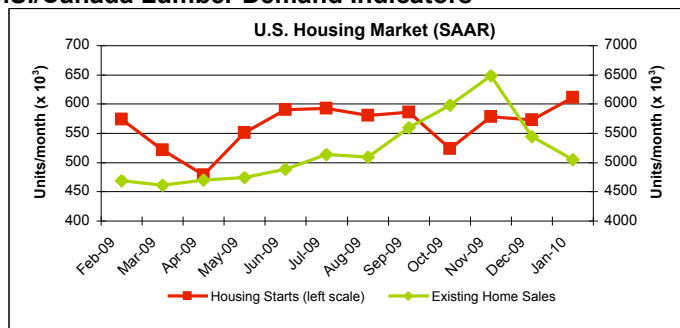
## U.S. Softwood Lumber Consumption (million board feet)

	Full Year 2009	1 month YTD 2010	2009	% Chg.	Jan-10	Dec-09	Jan-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
U.S. Lumber Shipments	23,620	1,808	1,786	1.2	1,808	1,718	1,786	5.2	1.2	5,465	6,044	-9.6
Plus: Imports	8,855	655	646	1.4	655	685	646	-4.3	1.4	2,229	2,667	-16.4
Less: Exports	(983)	(87)	(70)	25.1	(87)	(85)	(70)	2.3	25.1	(284)	(230)	23.4
Apparent Consumption	31,491	2,376	2,363	0.6	2,376	2,318	2,363	2.5	0.6	7,410	8,481	-12.6

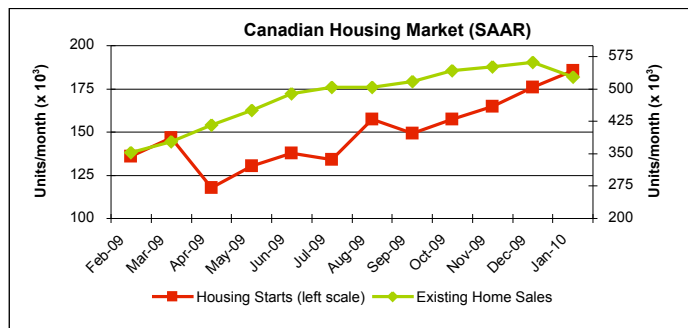
## Canadian Softwood Lumber Consumption (million board feet)

	Full Year 2009	1 month YTD 2010	2009	% Chg.	Jan-10	Dec-09	Jan-09	M to M %	Y to Y%	4th Qtr-09	4th Qtr-08	% Chg
Can. Lumber Shipments	19,466	1,721	1,586	8.5	1,721	1,529	1,586	12.6	8.5	5,013	5,485	-8.6
Plus: Imports	289	34	16	119.4	34	27	16	25.4	119.4	90	56	60.8
Less: Exports	(11,046)	(836)	(698)	19.7	(836)	(931)	(698)	-10.2	19.7	(2,829)	(3,107)	-9.0
Apparent Consumption	8,710	919	903	1.8	919	625	903	47.1	1.8	2,275	2,434	-6.5

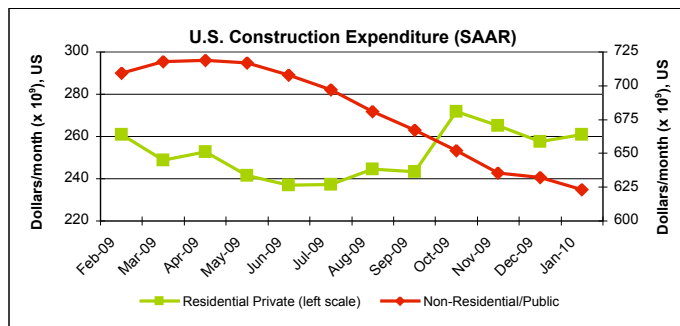
## U.S./Canada Lumber Demand Indicators



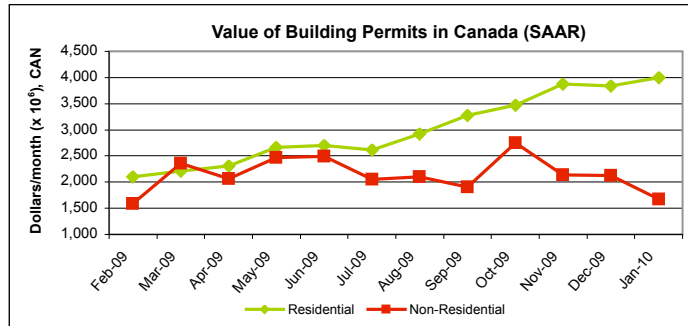
Source: National Association of Realtors, U.S. Census Bureau



Source: Canadian Real Estate Association, Canada Mortgage & Housing



Source: U.S. Census Bureau



Source: Statistics Canada

brought about by economic recession had rippled through the industry resulting in the 'starts-to-sales' ratio for the 2000s dropping to a more manageable 1.7, a decline of 38 percent compared to the 1970s.

## **Market equilibrium**

Assuming willing and able suppliers are available, free market capitalism all but guarantees demand for most goods will seldom remain unmet. No better example of this basic principle exists than in the U.S. housing market.

During periods of robust economic growth, residential construction and softwood lumber industries tend to prosper. If expansion occurs at a relatively balanced pace that does not exceed demand, prices for raw logs, finished lumber and completed homes are normally stable or trend upward. However, if markets become unbalanced such that their equilibrium point tips toward excess supply – as happened for new, single-family homes during the 1970s – inventory will build causing prices to decrease.

## **Summary**

Regardless of geographic location, ability to buffer against market volatility and the economic uncertainties it creates is an advantage seldom realized by softwood lumber manufacturers. Rather, companies that succeed do so primarily as a result of fiscal agility and gritty determination.

General economic conditions and demand for softwood lumber will gradually improve. Perceptive, entrepreneurial companies will be among those that reap the rewards of this process. But it will be vital to their self-interests that they respond to market growth in disciplined ways cognizant of the housing industry's frail condition.

*For more information on Lumber Track or other WWPA statistical reports, contact David Jackson at 503-306-3466 or [djackson@wwpa.org](mailto:djackson@wwpa.org)*