

# PROLINES

June 2012

The Newsletter for the Professional Builder

## WHERE DO WE GO FROM HERE

Under the terms of the 2006 Softwood Lumber Agreement (SLA) the trigger for a deduction in the export tax for Canadian softwood products going into the United States has been reached. Starting June 1, the export tax will drop from 15 per cent to 10 per cent in western Canada and to 3 % from 5% for the rest of the country. The softwood lumber export tax was reduced only one time since the signing of the SLA in mid summer of 2006. In June the US level of; \$355.00 per thousand board feet trigger was achieved and the tax became zero. Canadian producers particularly those in British Columbia shipped so much wood to the US in a short time frame, to take advantage of the reduced rate, the over supply soon lead to lumber prices crashing and by August the tax was back to full where it has stayed ever since. The quantity of softwood

## Happy Fathers Day!



With Fathers Day approaching we wanted pay tribute to our founding Fathers. Left to Right Bill Enman and Ray Davidson  
Seated Hilda Enman and Phyllis Davidson.

lumber imported by the US from Canada for January to March 2012 reached 1.83 billion board feet according to the US Census Bureau. This compared to 1.74 billion in 2011 or just over 5% more. Will the reduction in the tax result in an increase in exports and a higher price levels associated with it? Although the long term impact should remain minimal it is likely to see a small spike in short term price levels however the real question that needs to be addressed; what are the other factors that have been lying in wait and if and then when will they become a dominant force.

### The X FACTORS

Did this little piggy go to market and the cupboard was bare, or bear? The "Housing Bubble" as it became known as from 2007 was rife with all kinds of extraneous factors few of which were truly demand/supply market oriented. Collateralized Debt Obligations, Synthetic Derivatives, fraudulent mortgage practices, and unchecked lending procedures were just a few of the more notable ones, but the fallout has been, outside of a major financial breakdown, continued historic lows for housing construction and commodity markets, especially softwood lumber and panels. When we say historic lows; is there an existing house building material supplier or sub trade providing their products or services at 1970 price levels? Let's look to the other "markets" to hopefully shed some light on the unforeseeable future. →



It has been said that the market, in this case the stock market, has the ability to discount the future, which from a purely fundamental analysis, the anticipated activity or financial potentials are taken into account earlier than they occur. Let's look at Pulte Homes (PHM) since September 2011 the stock is up from \$3.95 to \$9.40 or 138 % or Hovnanian (HOV) from \$1.22 to \$1.92 or 53%. Toll Brothers (TOL) has climbed from Sept. 2011 at \$14.43 to \$28.24; an impressive 96% or Lennar Corp (LEN) from \$13.54 to \$28.26 that's 109%! Some of these impressive gains are tainted by the reality that these stocks were shorted by speculators; nothing like kicking a man when he is down. When they started to climb short sellers were squeezed into buying. Regardless, the shares Dow Jones U.S. Home Construction Index Fund (ITB) is up about 74% during the same time period and The Homebuilders, an exchange traded fund listed as (XHB) seems like a bargain at a modest 57% increase, having recently gone ex-dividend.



There has rarely been a time when there is so much going for the major builders; Mortgage rates, 30 year fixed are 3.78% almost a full point less than they were one year ago. There is pent up demand and despite the recent credit crunch the money lenders have to start lending soon, because ... that's what they do. There is also a relatively cheap labor force decimated by the slow down just itching to get working again. Are we saying that the Housing Market in the US has returned? It has definitely seen the bottom and when that occurs, there is only one way to go; up, and with it commodity levels are hitched to their star.

The last word deals with supply side realities. The producers of lumber related products have also taken it in the teeth for a long time now and many players have curtailed activity, shut down or gone out of business, Can a spike in demand be offset by an accompanied corresponding increase in production? Simply put no: at least not reasonably soon. This could be shaping up to be quite a roller coaster ride, one we have been on before and will always be returning to; because ... that's what we do.



**Canada Day**  
**We will be Closed Monday July 2, 2012.**



A periodical publication by Davidson Enman Lumber Ltd.  
Editor: Richard Stewart e-mail: [rstewart@delumber.com](mailto:rstewart@delumber.com)