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By Joe Richter

Oct. 18 (Bloomberg) -- North American lumber mills are operating at the fastest pace in four years as U.S. home building rebounds, just as the worst beetle infestation on record curbs supply.

About 52.5 billion board feet, the standard industry measure, will be sawed this year, 5.4 percent more than in 2011 and the most since 2008, CIBC World Markets estimates. Lumber traded on the Chicago Mercantile Exchange may rally 11 percent to \$350 per 1,000 board feet by March, the highest since 2006, said Paul Jannke, an analyst at Forest Economic Advisors LLC, a Westford, Massachusetts-based industry consultant.

Sales expectations among U.S. homebuilders for the next six months turned positive in September for the first time since

2007 as record-low borrowing costs boosted new-home purchases and sent housing starts to a four-year high. CIBC estimates about 20 percent of North American capacity has been shut or idled by mills, including Federal Way, Washington-based Weyerhaeuser Co. and Plum Creek Timber Co., as lumber futures slumped to the lowest in at least a quarter century in 2009.

"As demand continues to improve, more capacity will be added, but the market is going to need that capacity," said Mark Kennedy, a CIBC analyst in Calgary whose recommendations on the shares of forestry and paper companies returned 19 percent in the past six months. "We've already seen the lows for the year."

Beetle Infestation

Housing is gaining traction amid an infestation of mountain-pine beetles that the Canadian officials said was the worst ever. Government data show about 51 percent of marketable pine forests in British Columbia, the largest timber-producing province in Canada, were killed as of the summer of 2011, according to International Wood Markets Group, a consultant and newsletter publisher in Vancouver.

Lumber jumped 21 percent to \$316.70 this year, rebounding from an 18 percent retreat in 2011. Only wheat and soybeans gained more among the 24 commodities tracked by the Standard & Poor's GSCI gauge, which rose 3.1 percent. The MSCI All-Country World Index of equities advanced 13 percent and Treasuries returned 1.4 percent, a Bank of America Corp. index shows.

Demand for North America lumber, a market valued at about \$20 billion a year, will rise to 52.5 billion board feet in 2012, from 49.8 billion in 2011, CIBC estimates. That will expand to about 56 billion feet next year and as much as 60 billion in 2014, according to Kennedy. The figures include U.S.

and Canadian consumption and net exports, based on standard boards 1 inch (2.54 centimeters) thick and a foot wide. A typical U.S. home uses about 16,000 board feet of lumber.

Wood Resources

While U.S. housing is recovering, weakening economic growth elsewhere may curb the rally in lumber futures. China used almost 10 percent of the softwood lumber produced globally last year, according to Hakan Ekstrom, the president of Wood Resources International LLC in Bothell, Washington. The nation's imports of logs and lumber fell 19 percent in the first eight months from a year earlier, he said.

China reported slower growth for the seventh consecutive quarter today, according to the statistics office. The 7.4 percent expansion was lowest rate since the three months ended March 2009. People's Bank of China Deputy Governor Yi Gang told an International Monetary Fund meeting earlier this month that bubble risks remain in housing markets in major cities.

That contrasts with a 28 percent gain in U.S. sales of new homes in August from a year earlier, U.S. Commerce Department data show. There were 141,000 new houses available at the end of August, matching the record low set in July.

Building Accelerates

New-home construction surged 15 percent in September to the highest in four years, Commerce Department figures showed yesterday. Building permits, a proxy for future construction, jumped to the highest since July 2008.

Builders will need to increase housing starts to an annual rate of at least 830,000, from a monthly average pace of 612,000 last year, to keep home inventories from declining further, Jannke of Forest Economic Advisors said.

The rebound in U.S. housing is adding to evidence of a sustained economic expansion, after retail sales and industrial production rose more than analysts expected in September. The economy will expand 2.1 percent this year, from 1.8 percent in 2011, according to the median of 99 economist estimates compiled by Bloomberg. Growth may slow to 2 percent next year before accelerating to 2.7 percent in 2014, the survey showed.

Key Driver

Housing is "showing signs of life" and it should be one of the key drivers of economic growth in the next few years, John Williams, the president of the Federal Reserve Bank of San Francisco, said in a speech in the city on Oct. 15. RBC Capital Markets raised its 2013 estimate for housing starts by 12 percent to 922,000 on Oct. 15. The U.S. is the biggest consumer of softwood lumber that includes pine, spruce and fir.

The gains are also boosting demand for copper, 439 pounds of which are needed for a typical family home and 40 percent of which goes into construction, according to the Copper Development Association. Global consumption will exceed supply for a third consecutive year in 2012, the Lisbon-based International Copper Study Group estimates. Prices are up 8.9 percent to \$3.743 a pound in New York trading this year.

While the full impact of the beetle infestation won't be seen for another three or four years, it's already reducing lumber quality, said Gerry Van Leeuwen, a vice president at International Wood Markets Group. The beetles have cut the amount of wood suitable for use in house frames to about 70 to

75 feet for every 100 feet produced, from 85 feet a decade ago, he said. The insect, native to North America, damages trees by burrowing into their bark.

Earnings Boost

Shares of Weyerhaeuser jumped 52 percent to \$28.46 this year in New York trading. The company, which manages timberland in North America, Uruguay and China, will report net income of \$462 million next year, up from \$273.6 million in 2012, according to the mean of eight analyst estimates.

Plum Creek Timber, based in Seattle, will report profit of \$230.3 million in 2013, from \$182.8 million this year, the mean of eight predictions show. Shares of the company, which manages

6.6 million acres of U.S. land, advanced 22 percent since the end of December.

The North American mill industry is operating at about 79 percent of its current operating capacity of 66 billion board feet of lumber a year. Producers are often able to boost prices as operating rates reach 80 percent, CIBC's Kennedy said.

Owners so far have refrained from bringing idled plants back on line, and demand may recover faster than they expect, according to Forest Economic Advisors' Jannke.

"Because there were so many mill closures during the downturn, we're going to suddenly hit a wall of tight supply,"

Patricia Mohr, an economist and commodity specialist at Scotiabank in Toronto, said in a telephone interview. "My feeling for next year is that we're going to see markedly higher lumber prices with even a modest recovery in U.S. housing."

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