

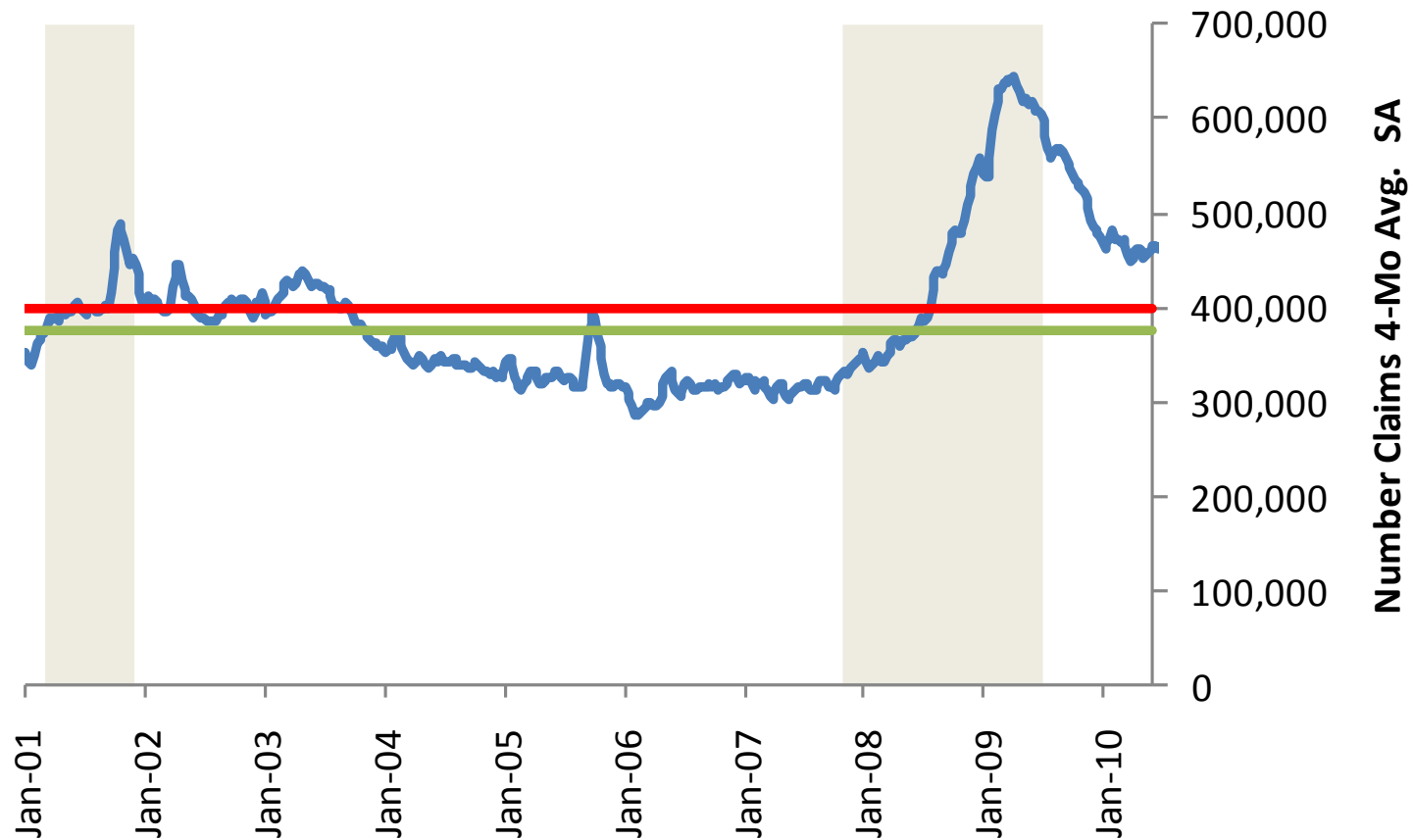
# Softwood Market Outlook and 2009 Cost Assessment

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[wade@SLMA.org](mailto:wade@SLMA.org)

# Presentation Agenda

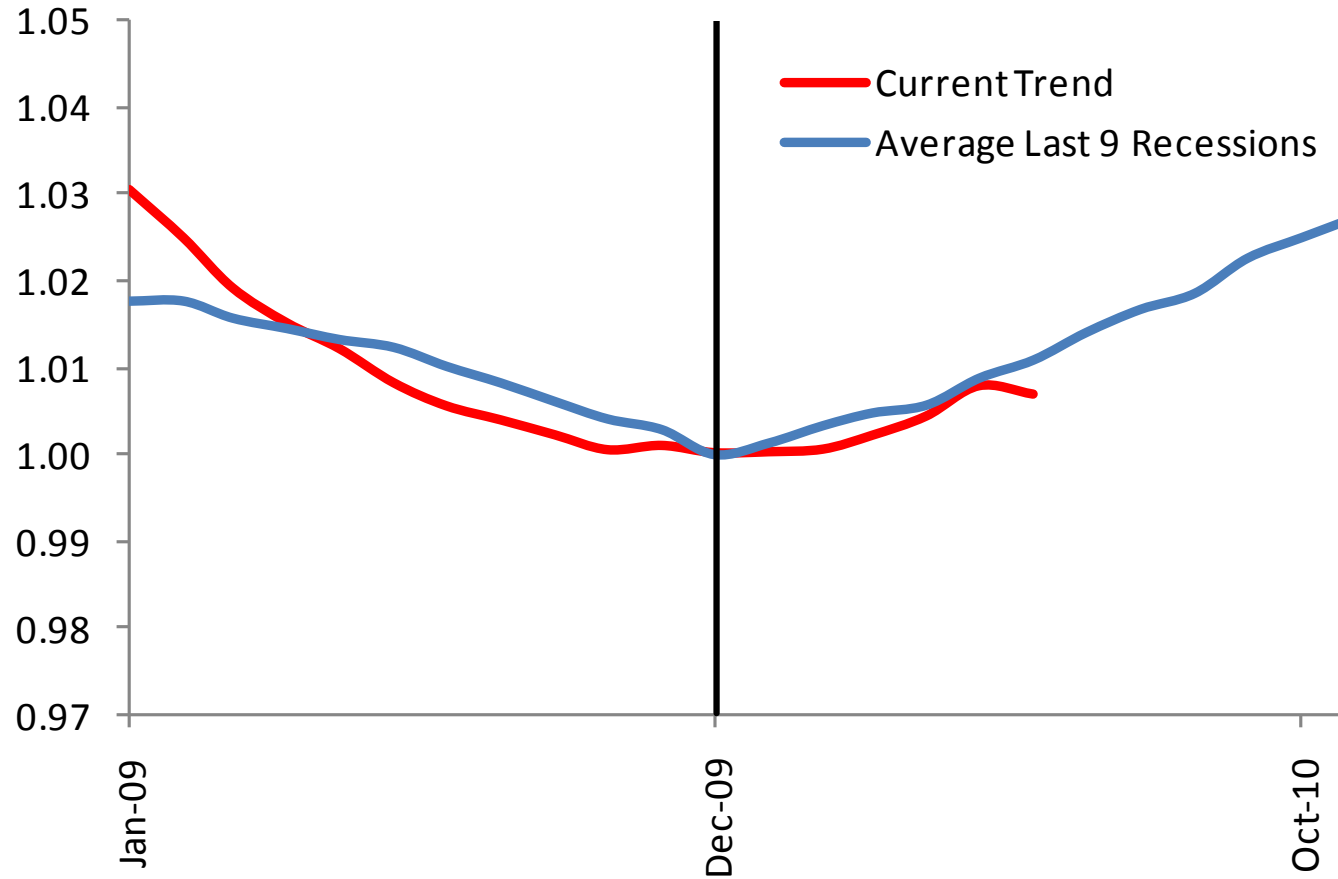
- Short-term trends indicating demand.
  - 1<sup>st</sup> employment trends
  - 2<sup>nd</sup> mortgage applications and loans
  - 3<sup>rd</sup> delinquencies and homeownership
  - 4<sup>th</sup> single-family permits
  - 5<sup>th</sup> retail sales, industrial production and R&R
- Softwood shipments and capacity utilization.
- 2009 costs levels and 2010 supply stack.

# Initial Unemployment Claims

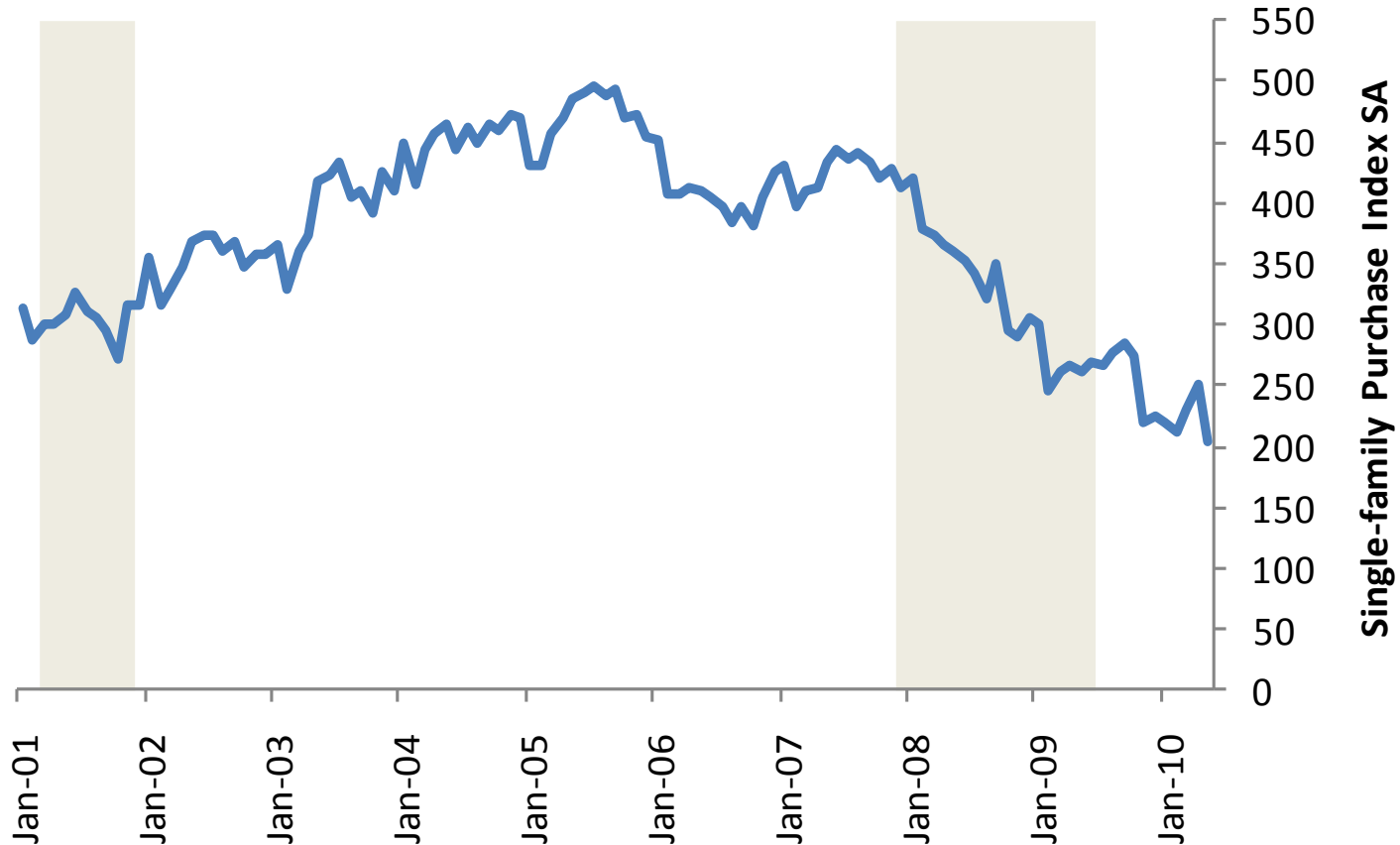


Department of Labor. Latest reading June 26 = 466,500 claims, up 2.8%.

# Nonfarm Employment Recovery (Dec 2009 = 100)

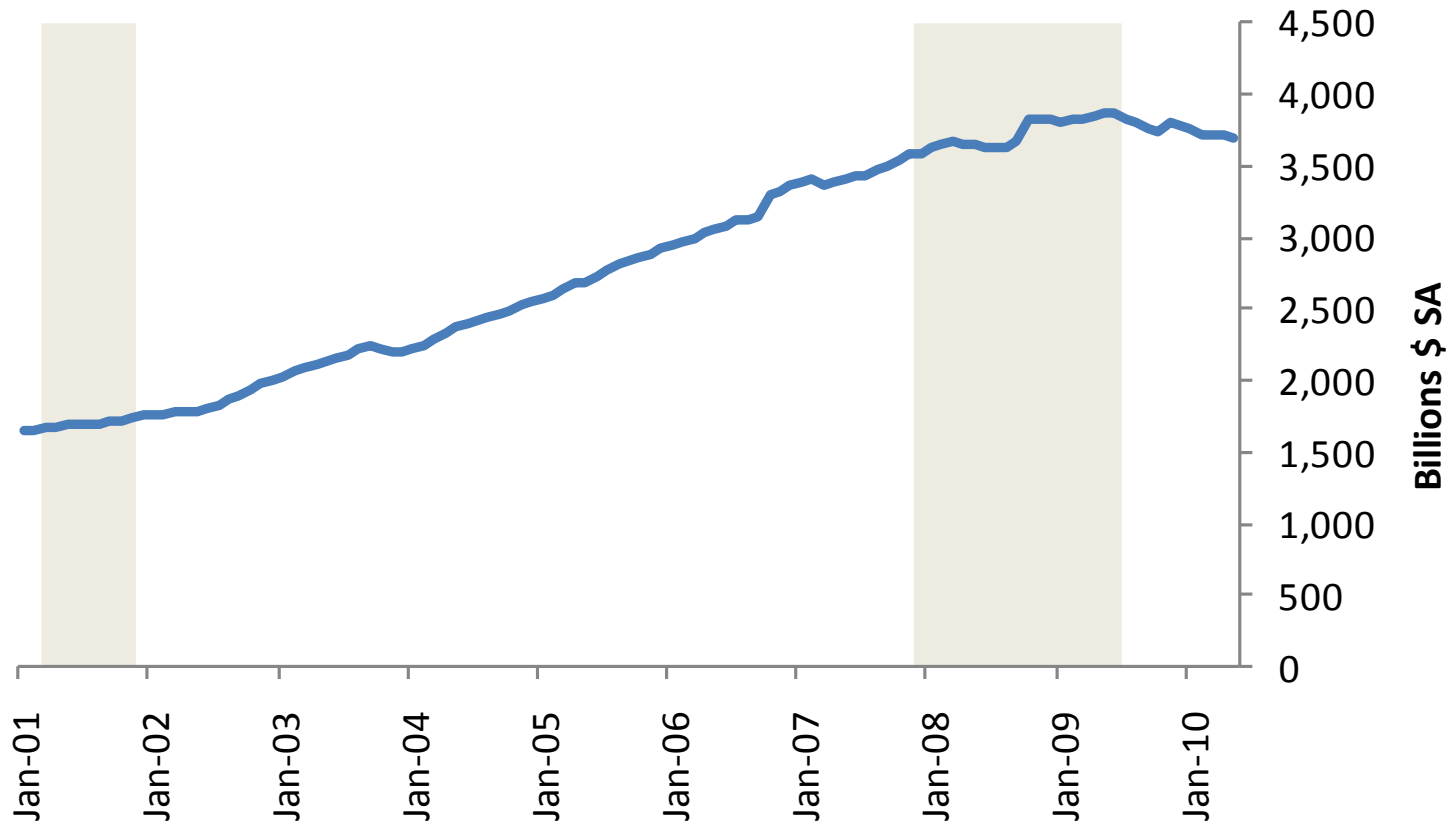


# Mortgage Applications



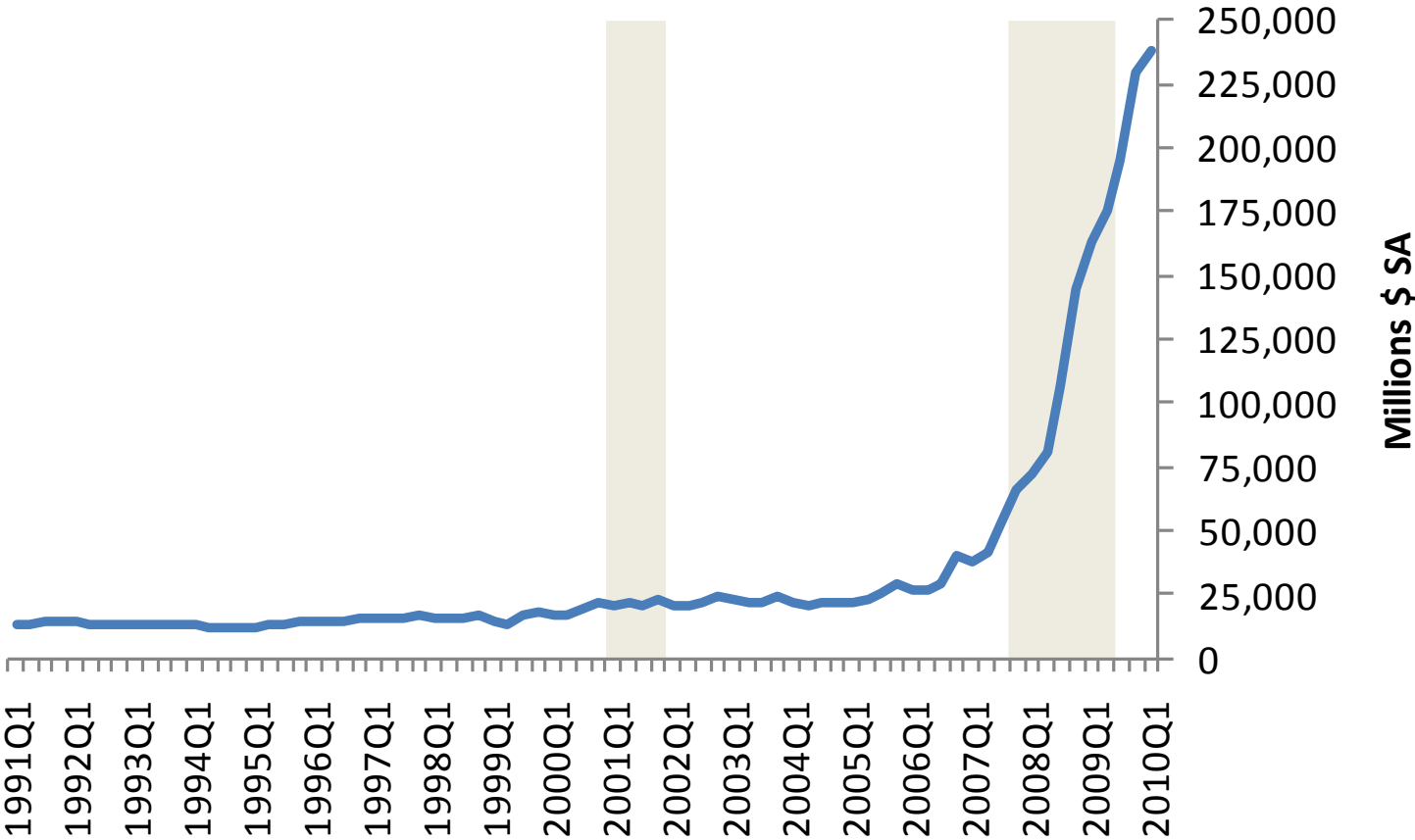
Mortgage Bankers Association. Latest read May 10 = 204.9, down 18%.

# Real Estate Loans



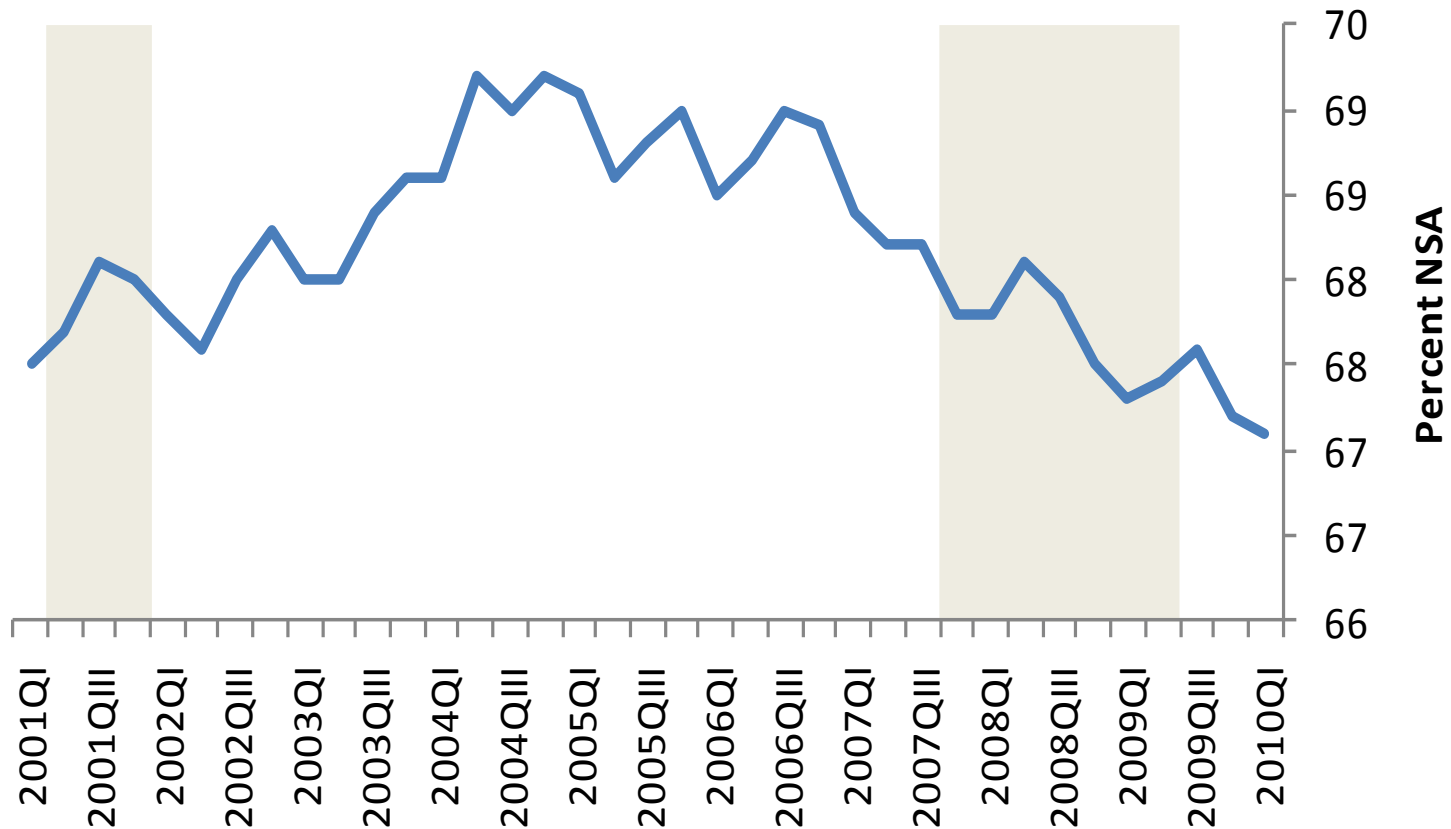
Federal Reserve Bank. All commercial banks. One to four unit family homes.

# Residential Real Estate Delinquencies (greater than 30 days past due)



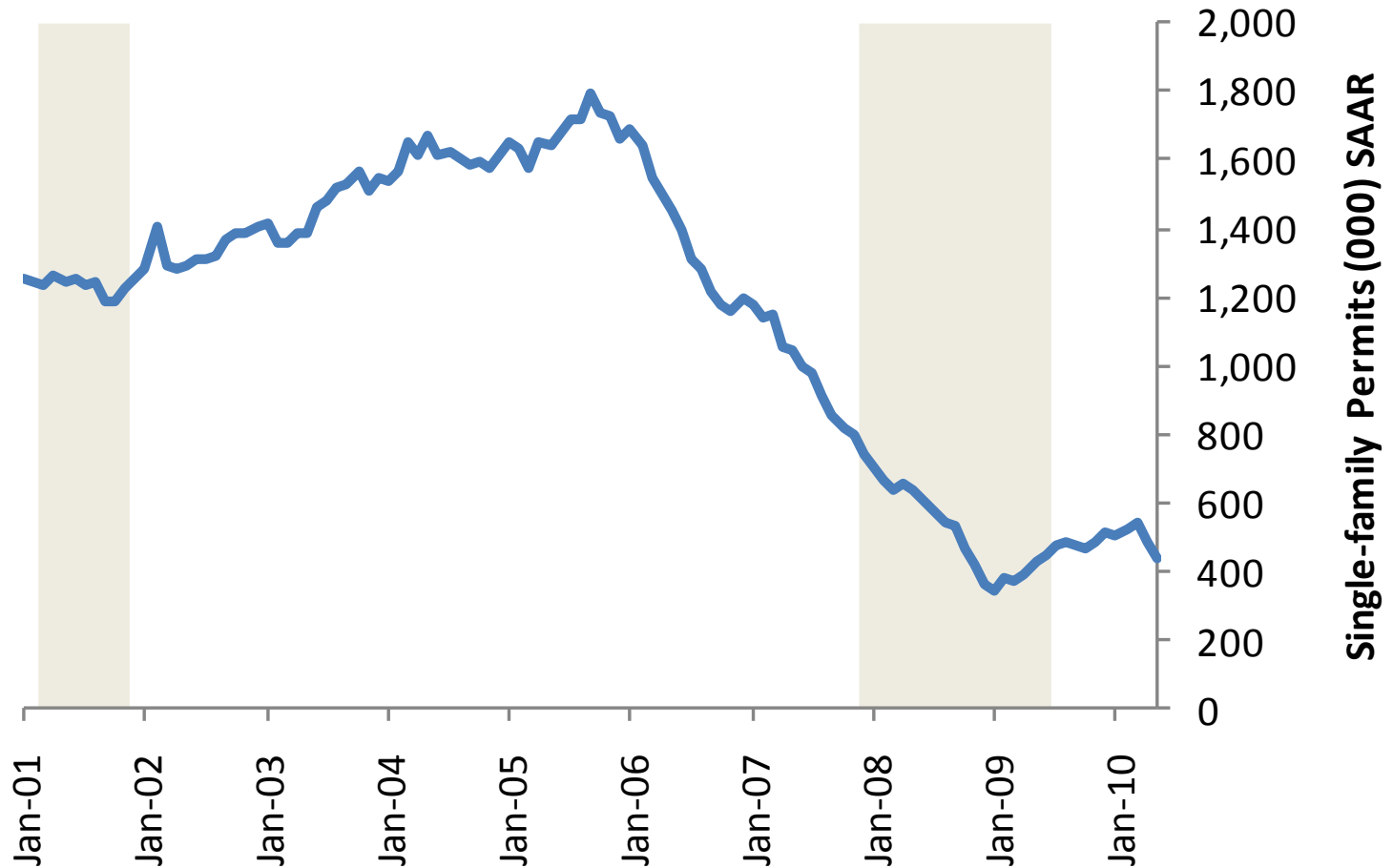
Federal Reserve. All commercial banks. Last reading IQ = \$237,797, up 4% from IVQ2009. One to four unit only.

# Homeownership Percent



U.S. Census. CPS/HVS. Last reading IQ = 67%.

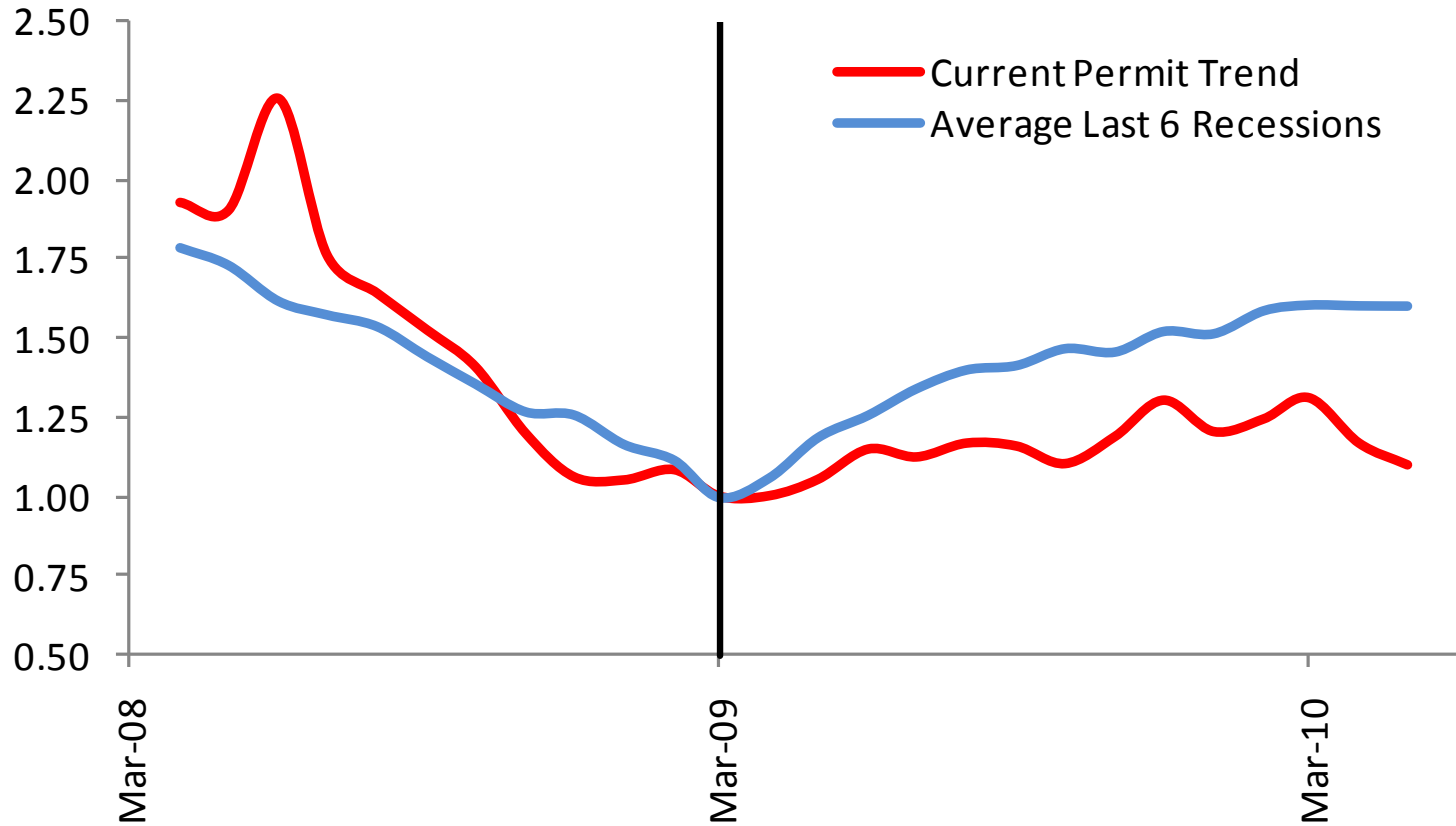
# Single-family Permits Trend



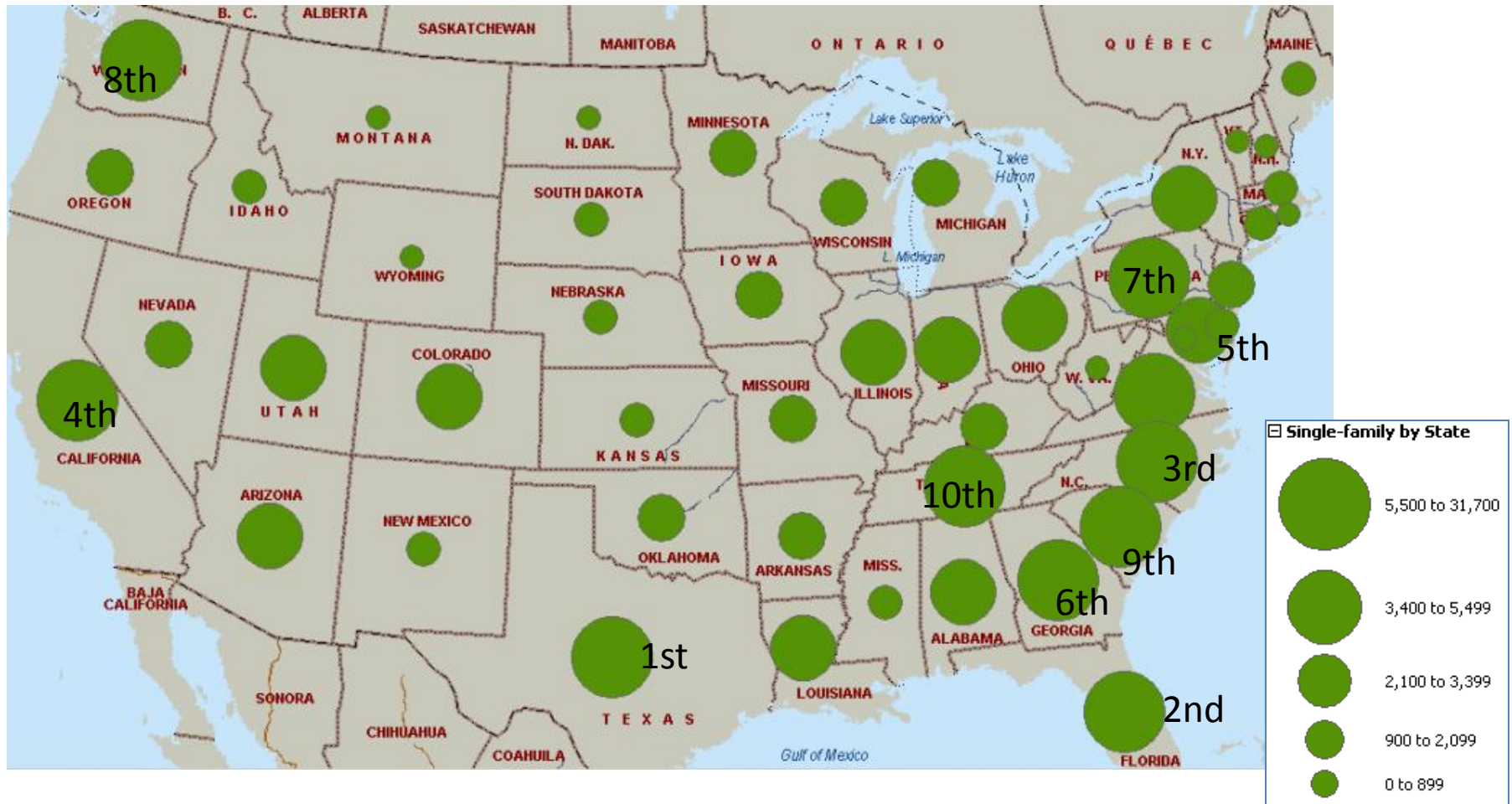
U.S. Census. Last reading = May at 438,000, down 10%.

# Single-family Permits Recovery

March 2009 = 100

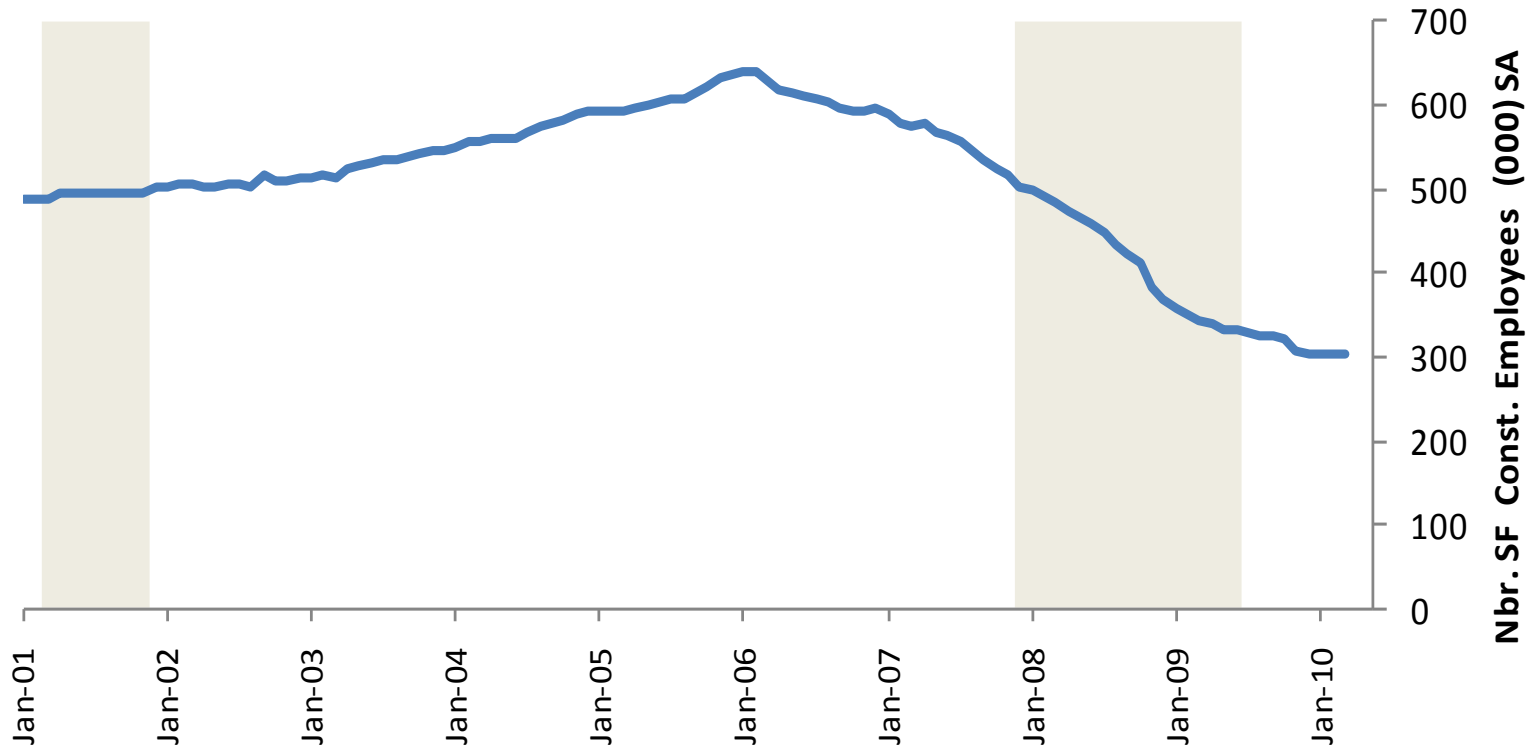


# Single-family Permits (by state)



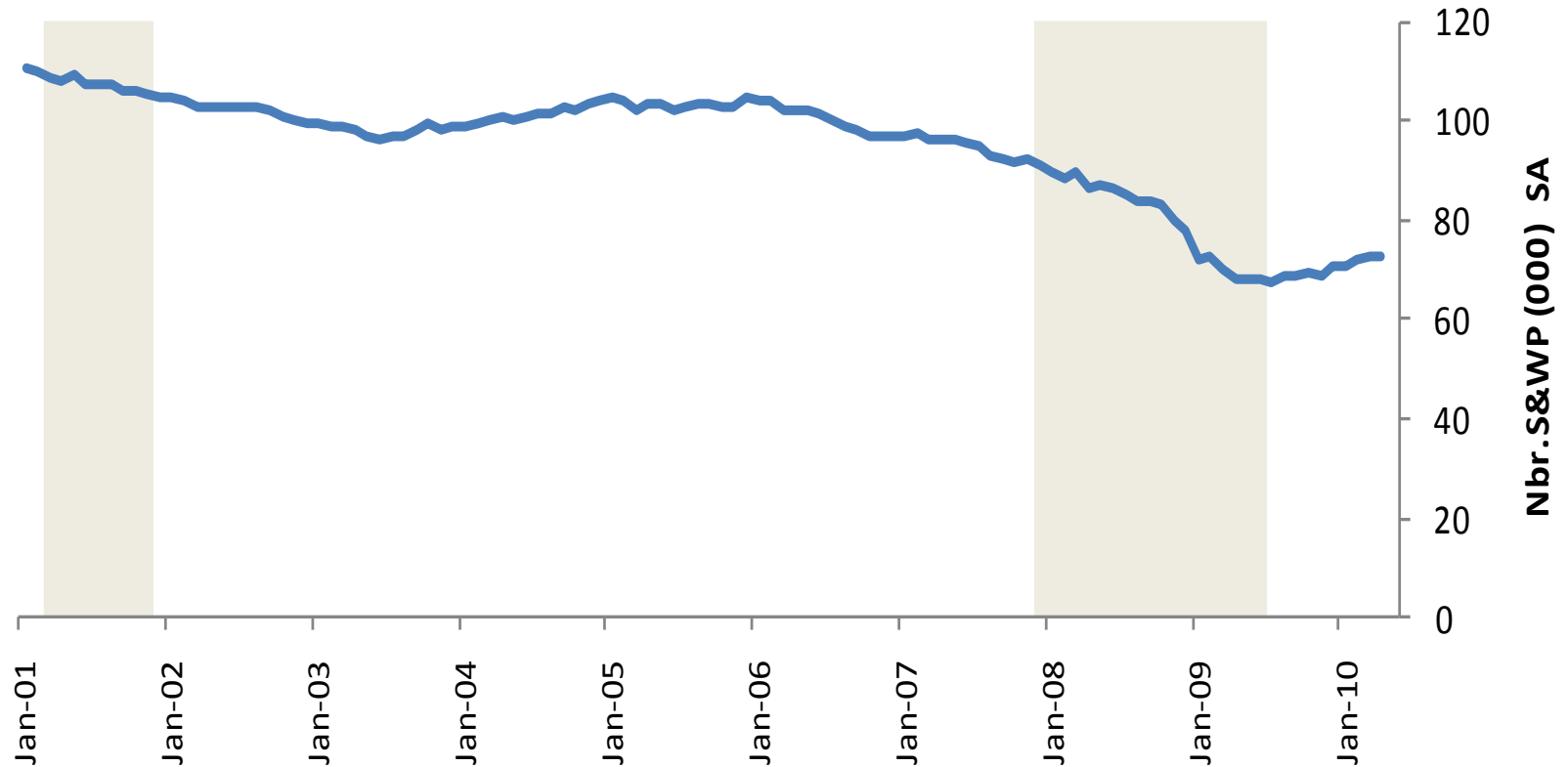
U.S. Census.

# Single-family Construction Employees



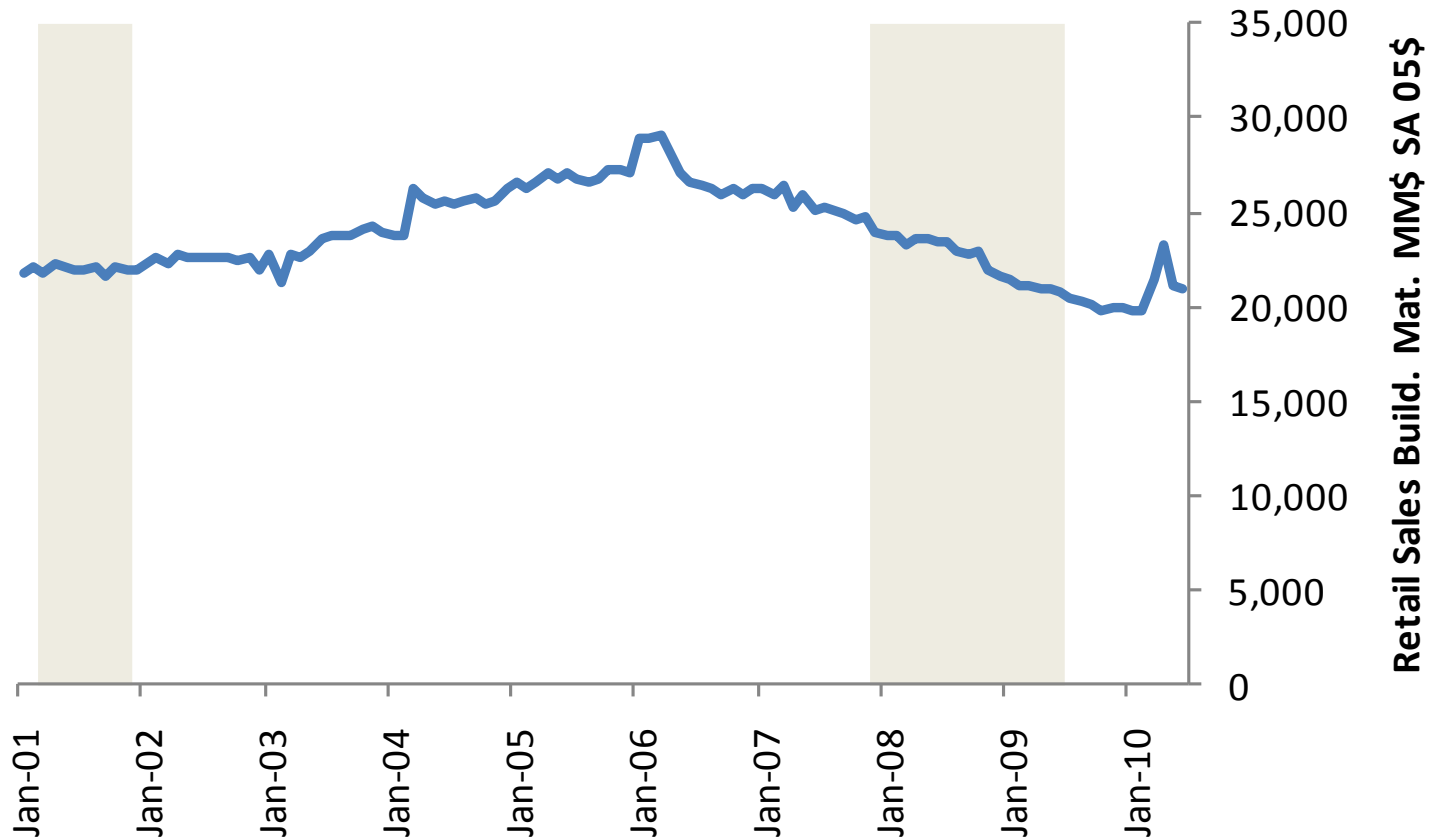
Bureau of Labor Statistics. Last reading May = 303,600, down 0.4%.

# Sawmills and Wood Preservation Employees



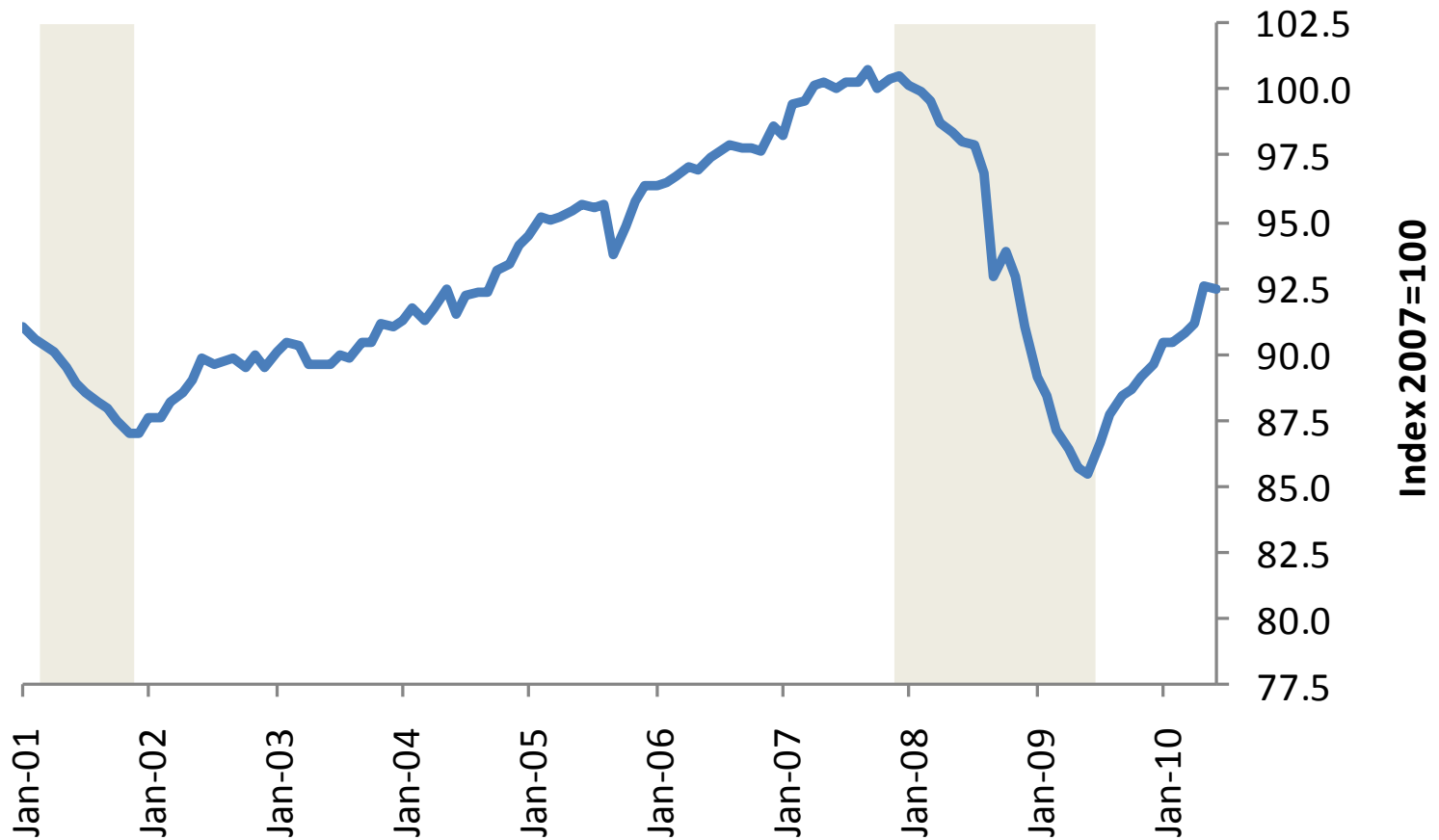
Bureau of Labor Statistics. Last reading May= 72,700, up 0.1% from April.

# Building Material Retail Sales



U.S. Census. Last reading = June 20,966, decrease of 1% from May.

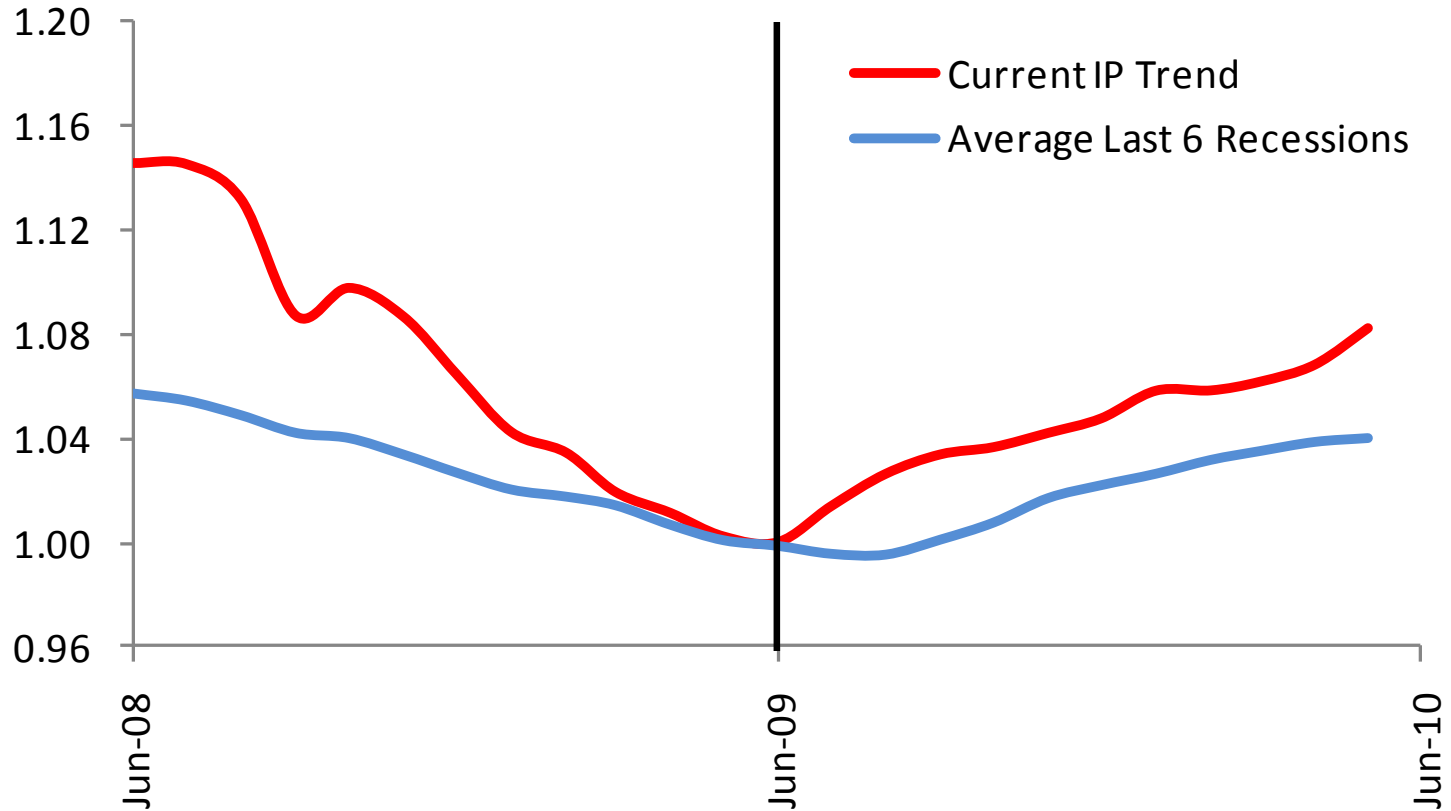
# Industrial Production Trend



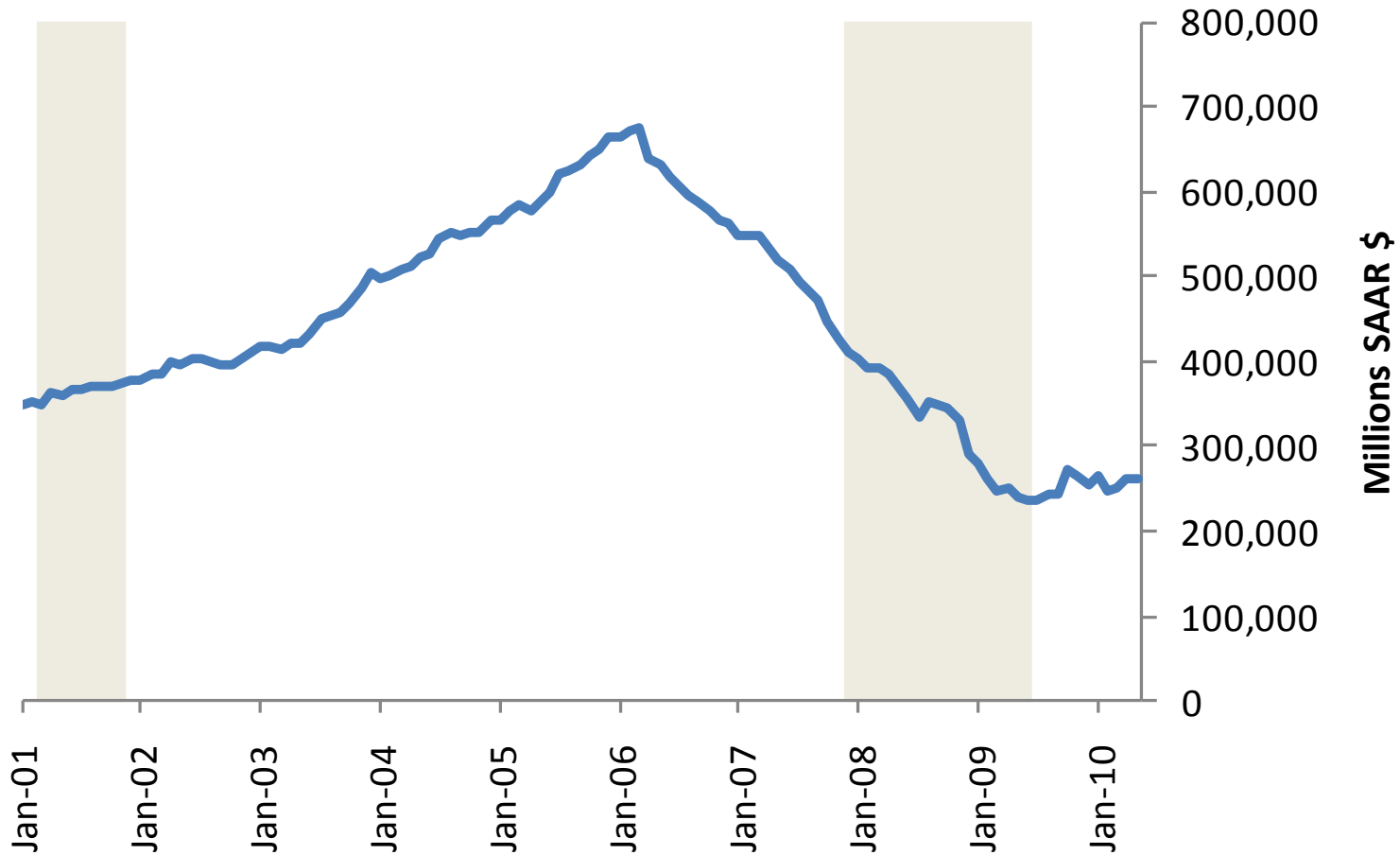
Federal Reserve. Last reading June = 92.5, up 0.1% from May.

# Industrial Production Recovery

June 2009 = 100

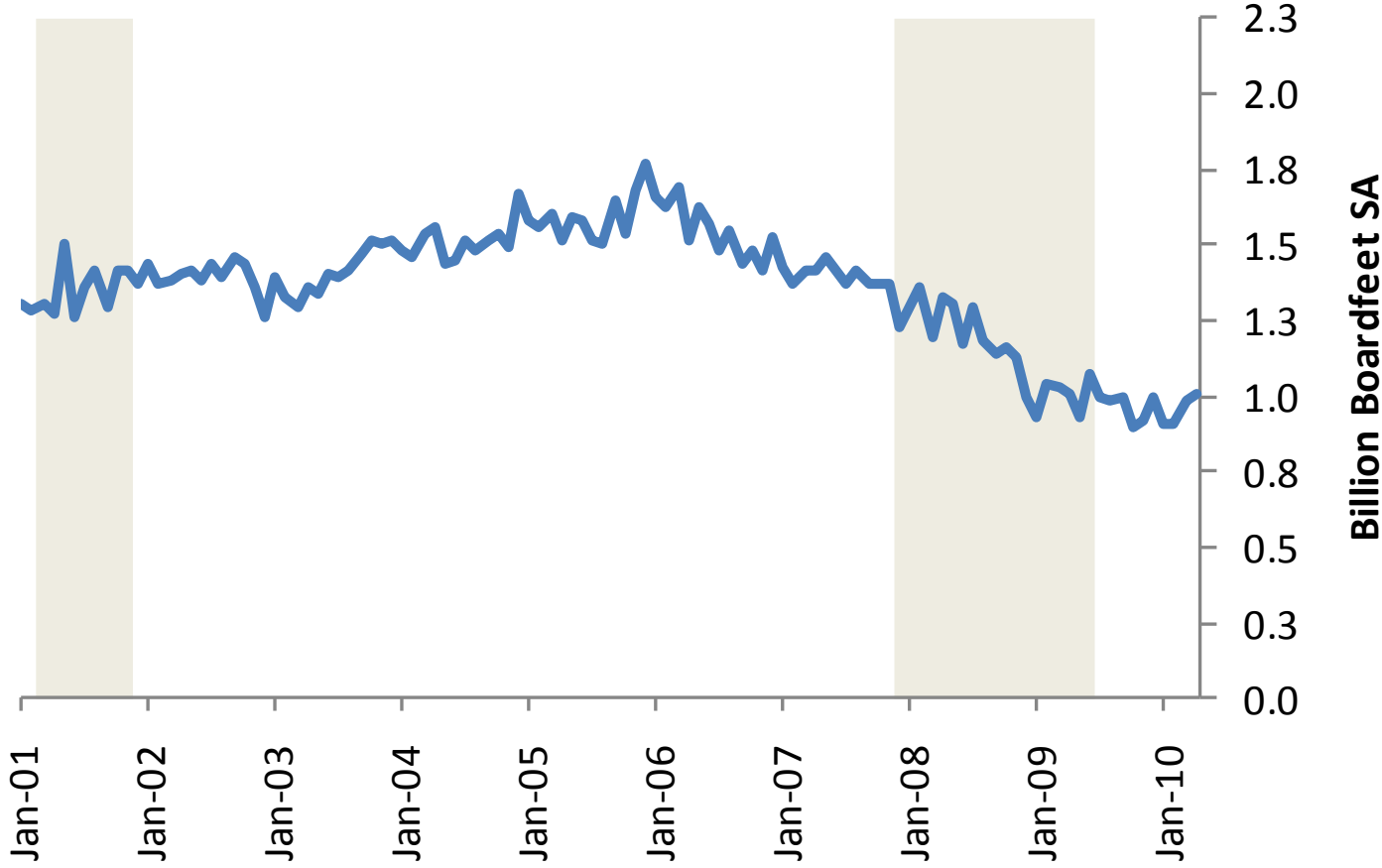


# Repair and Remodeling



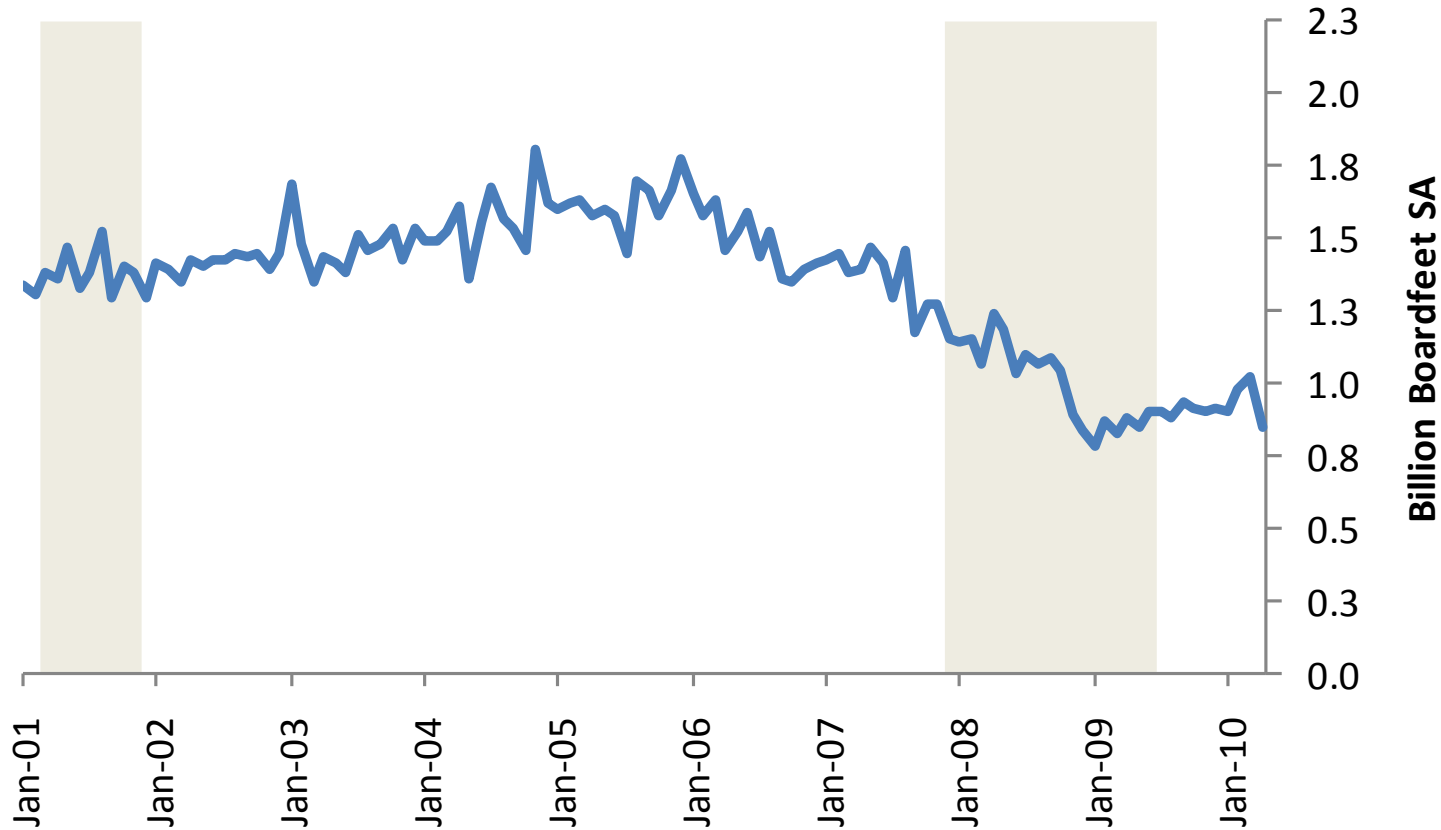
U.S. Census. Last read May at \$121 billion, up 1%.

# U.S. South Shipments



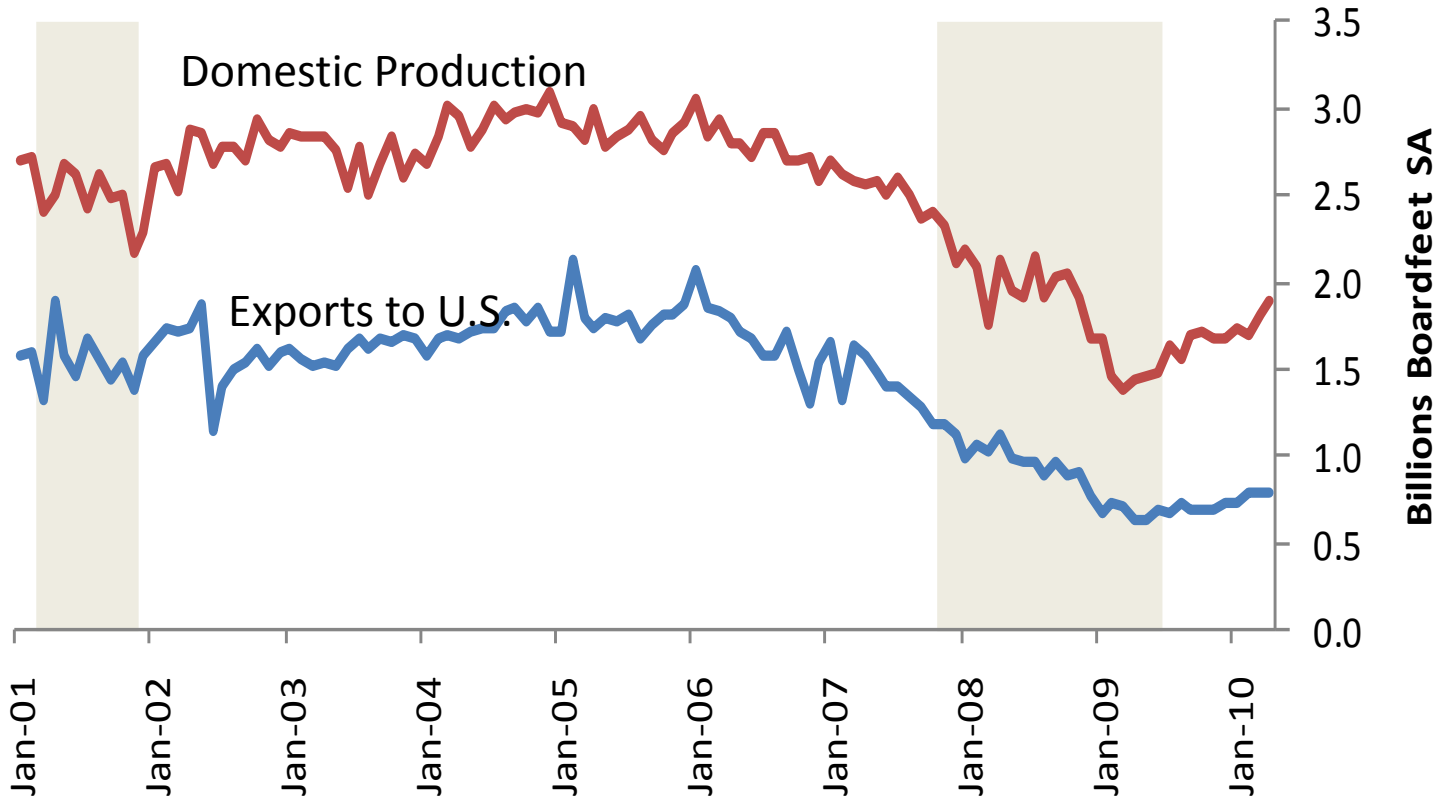
SFPA. Last reading April = 1.005 BBF, up 2.3% from March.  
April's SAAR is 12 BBF

# U.S. West Shipments

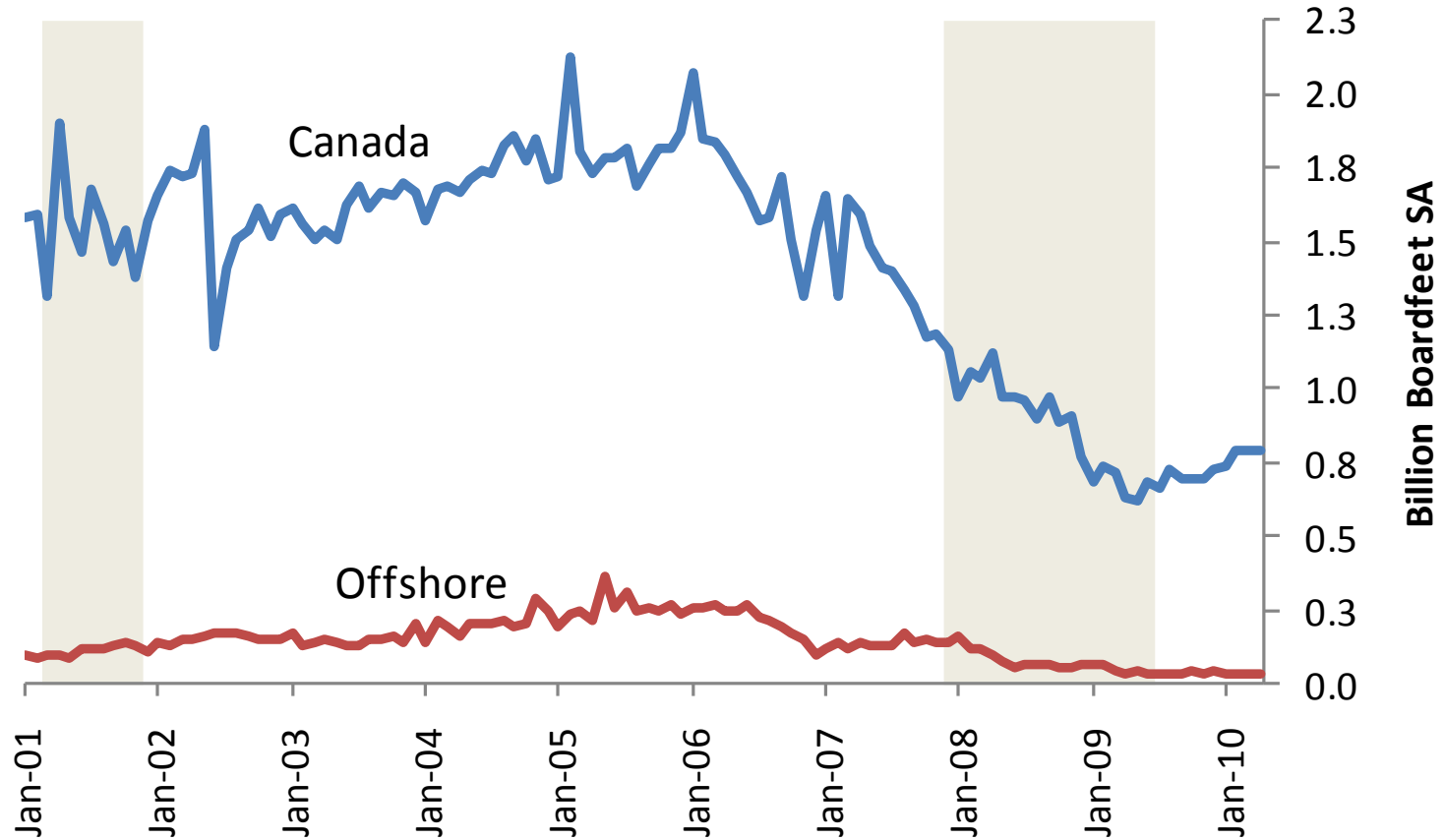


WWPA Last reading April = 0.852 BBF, down 17% from March.

# Canadian Production and Exports

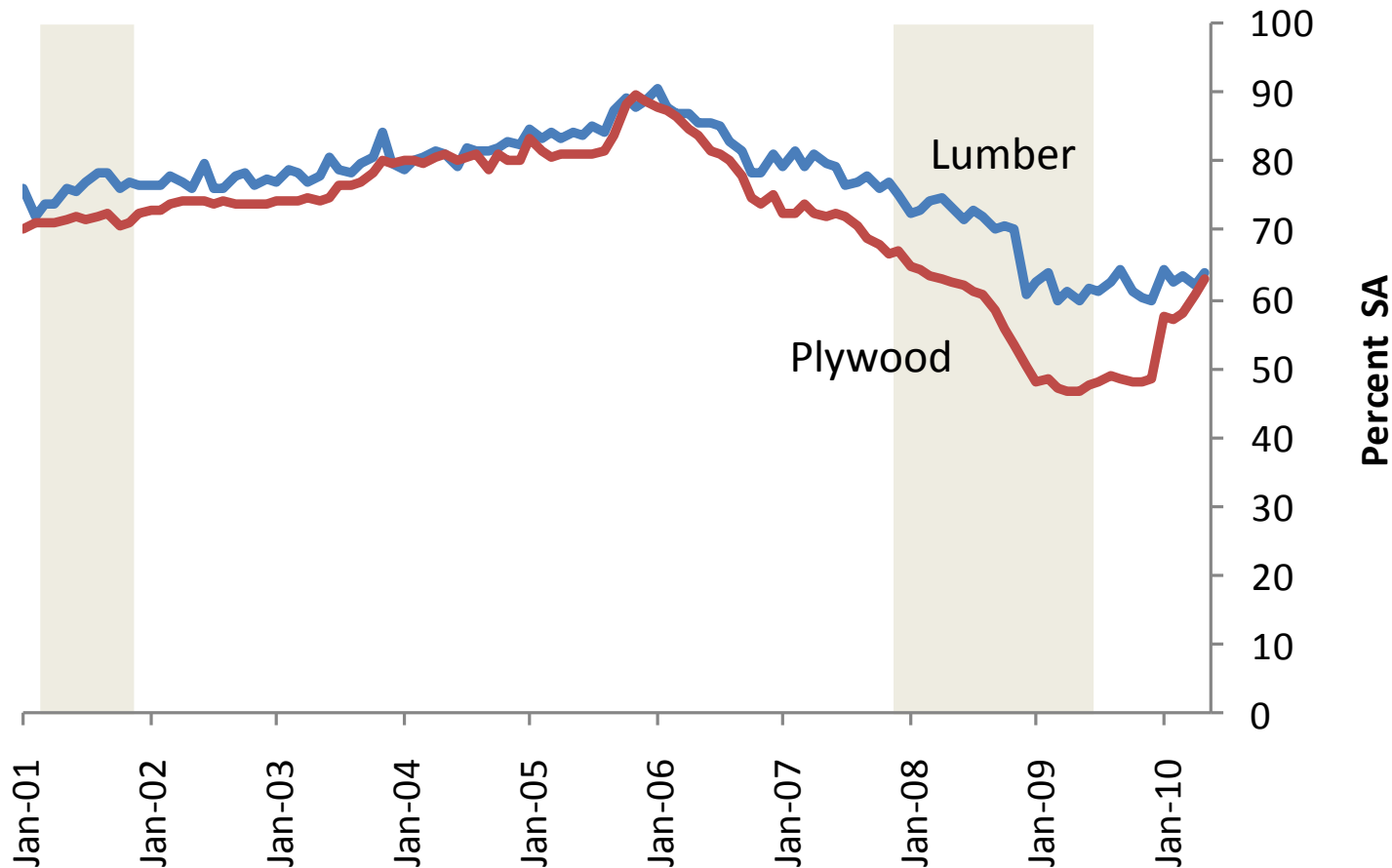


# Import Shipments



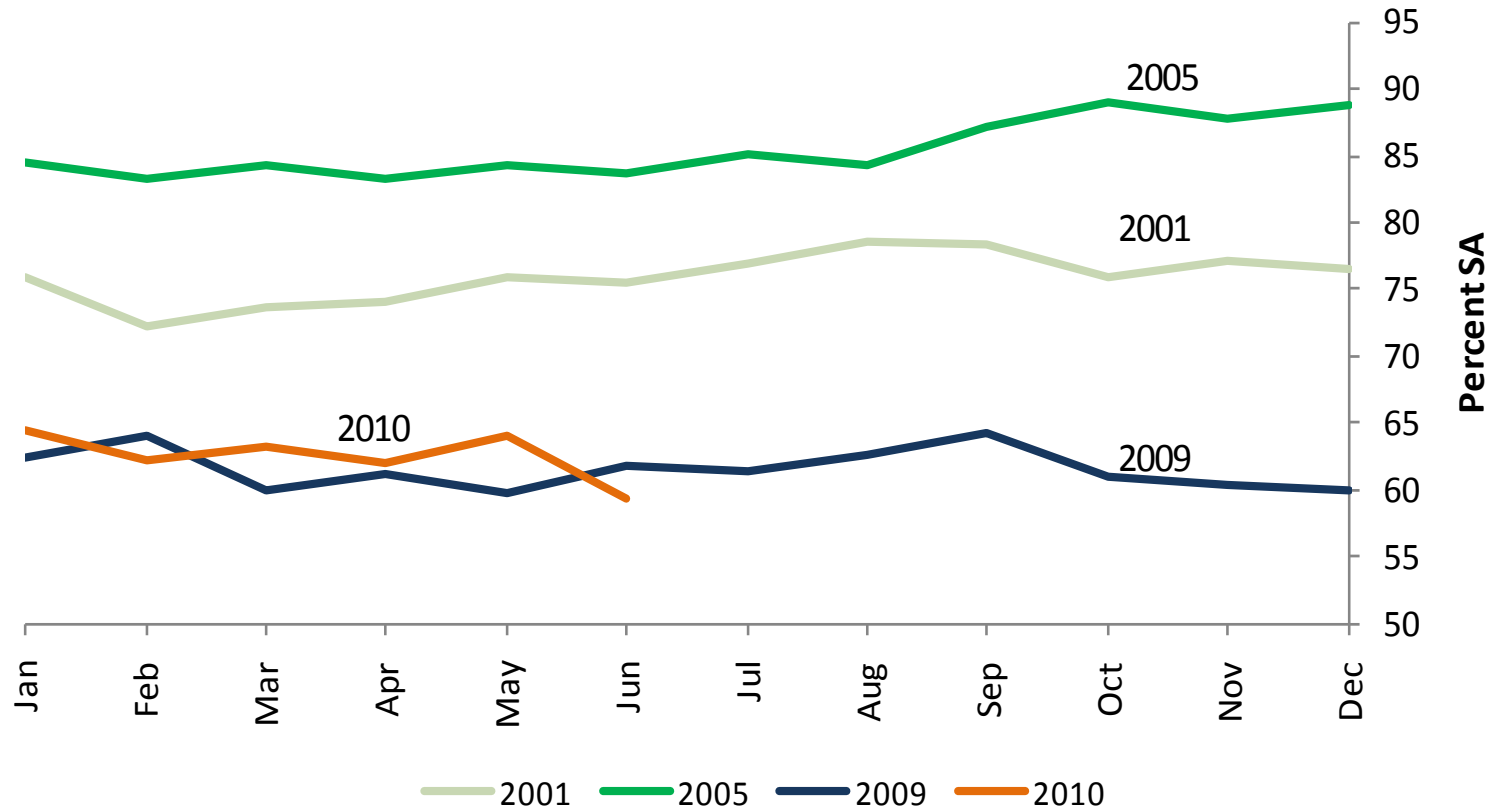
Foreign Agricultural Service.

# U.S. Capacity Utilization Logging/Lumber and Plywood



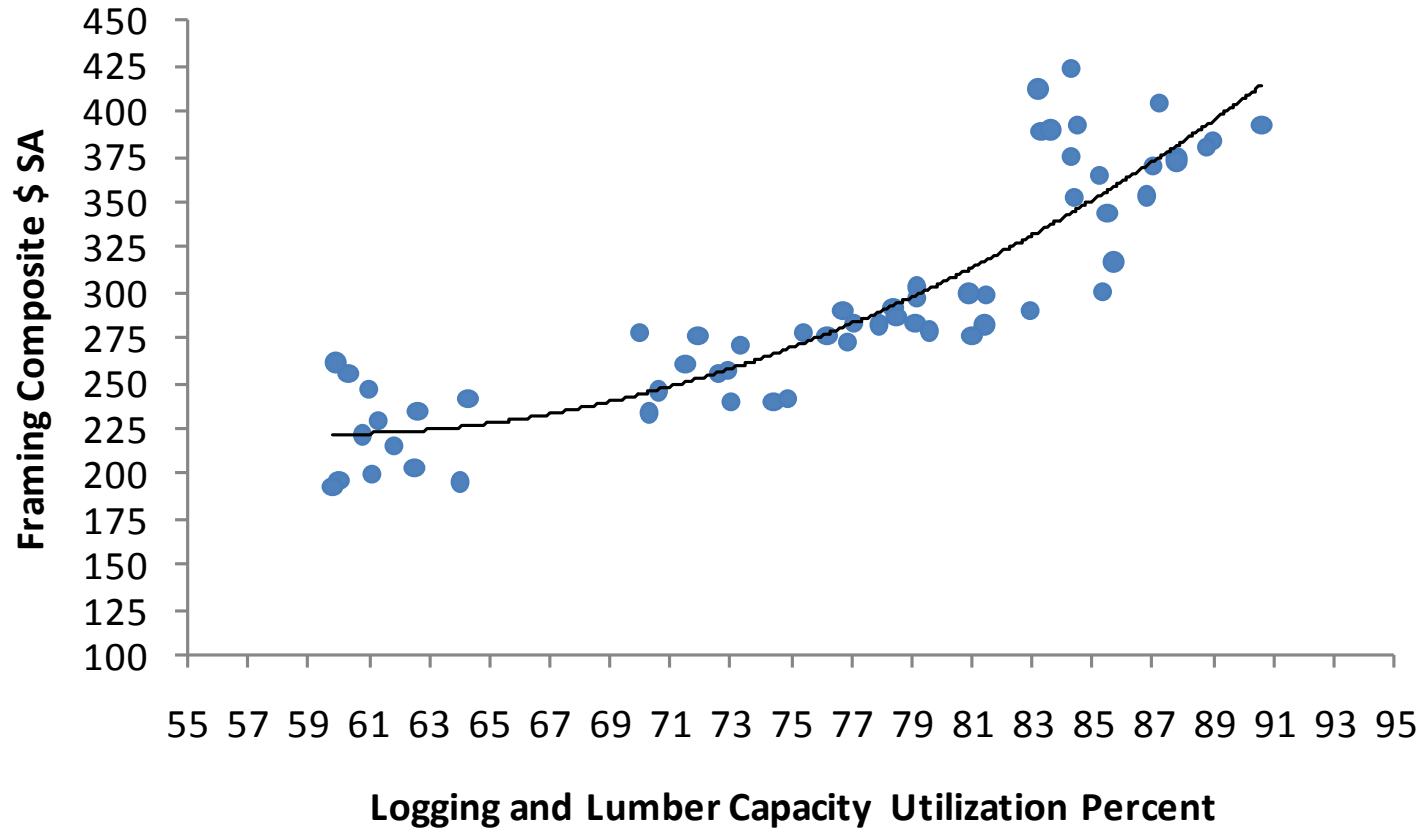
Federal Reserve. U.S. average. Latest reading June: lumber at 59.4%, plywood at 62.9%.

# Capacity Utilization Logging and Lumber



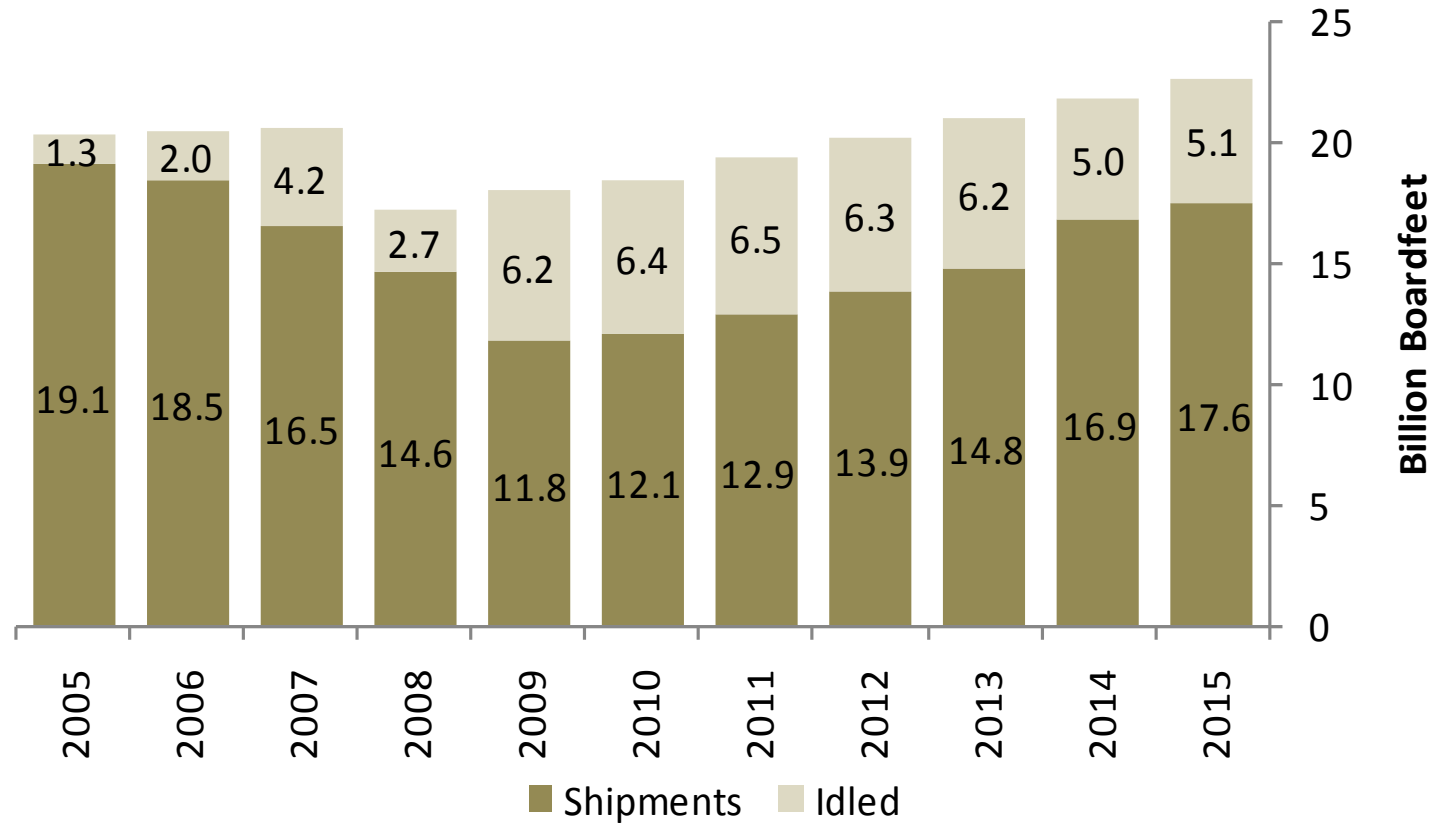
Federal Reserve. Latest reading: June at 59.4%.

# Capacity Utilization and Price History 1/2005 to 12/2009

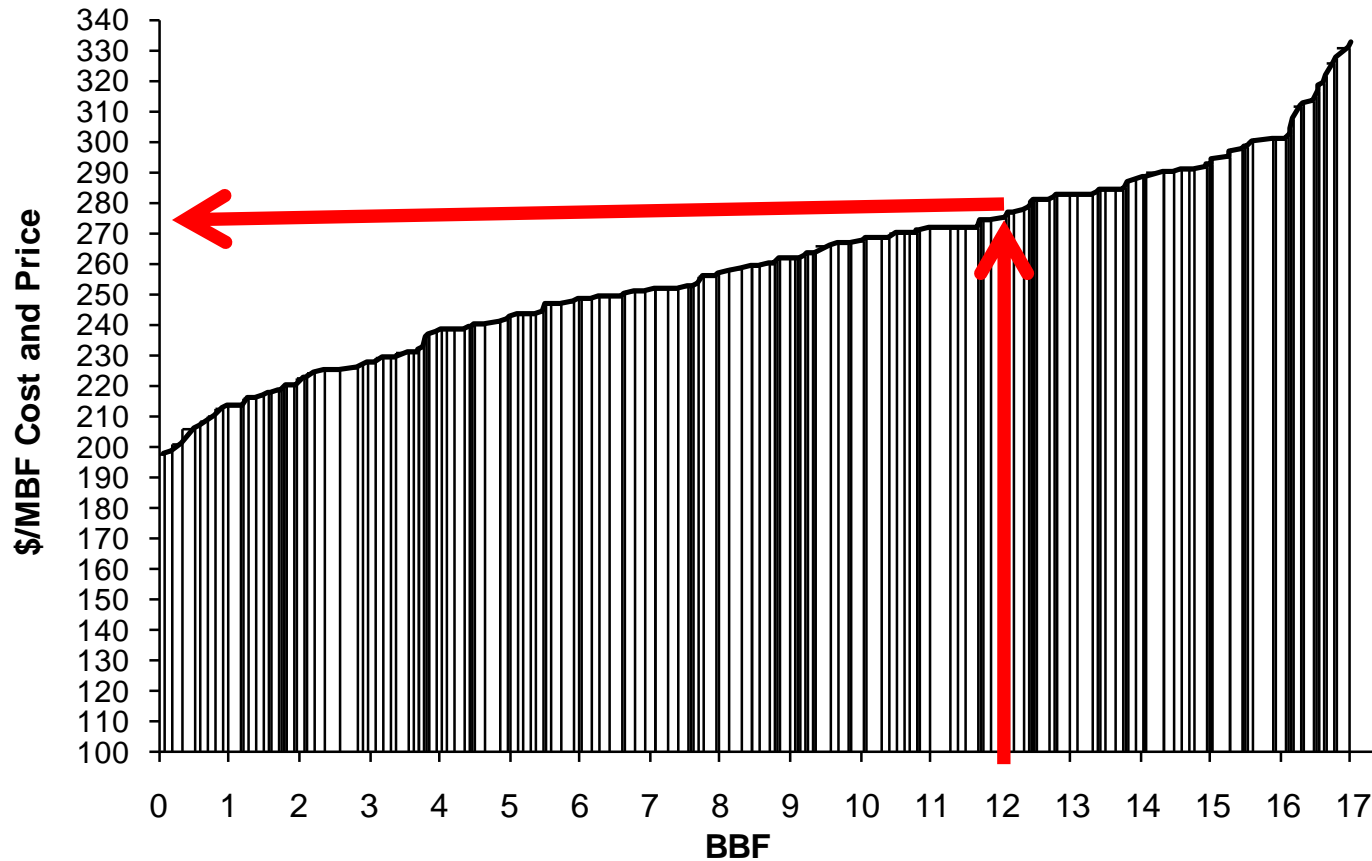


Capacity Utilization from Federal Reserve (latest reading June at 59.4%).  
Composite from RL.

# Southern Pine Shipments and Idled Capacity

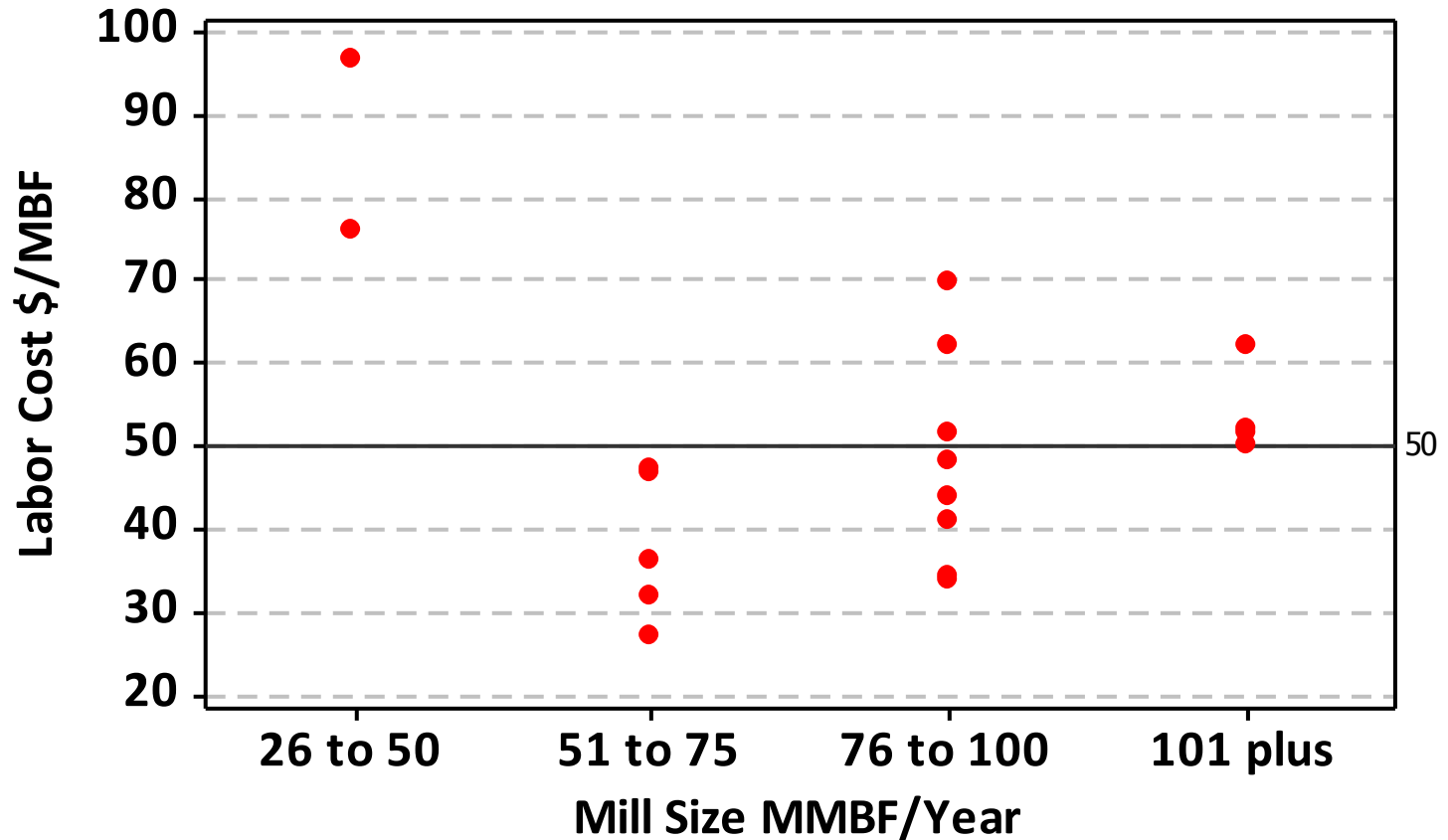


# 2009/2010 Southern Pine Supply Stack



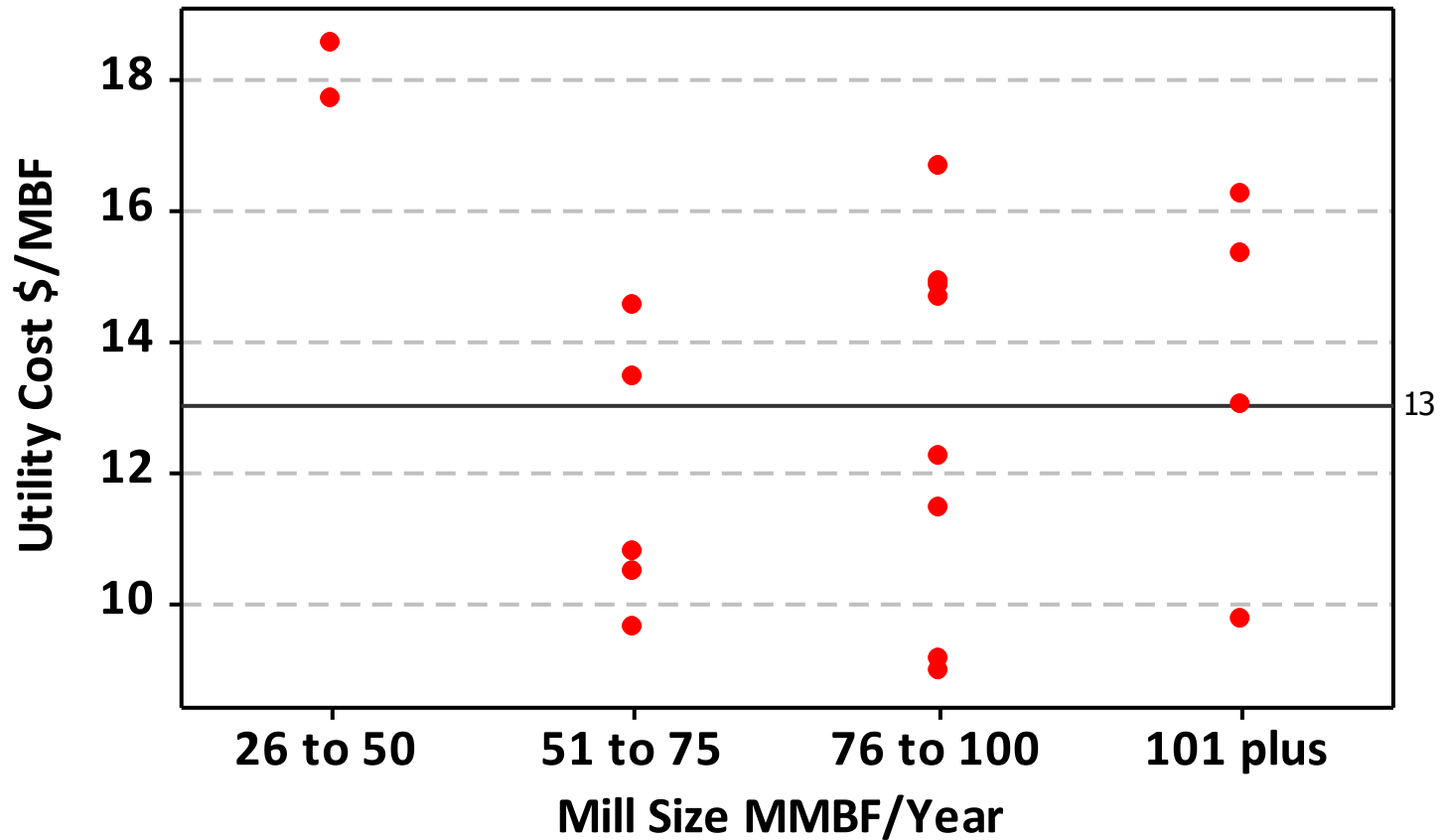
Based on IQ 2010 delivered logs costs from TMS® and 2009 non wood costs.

# 2009 Direct Labor Cost



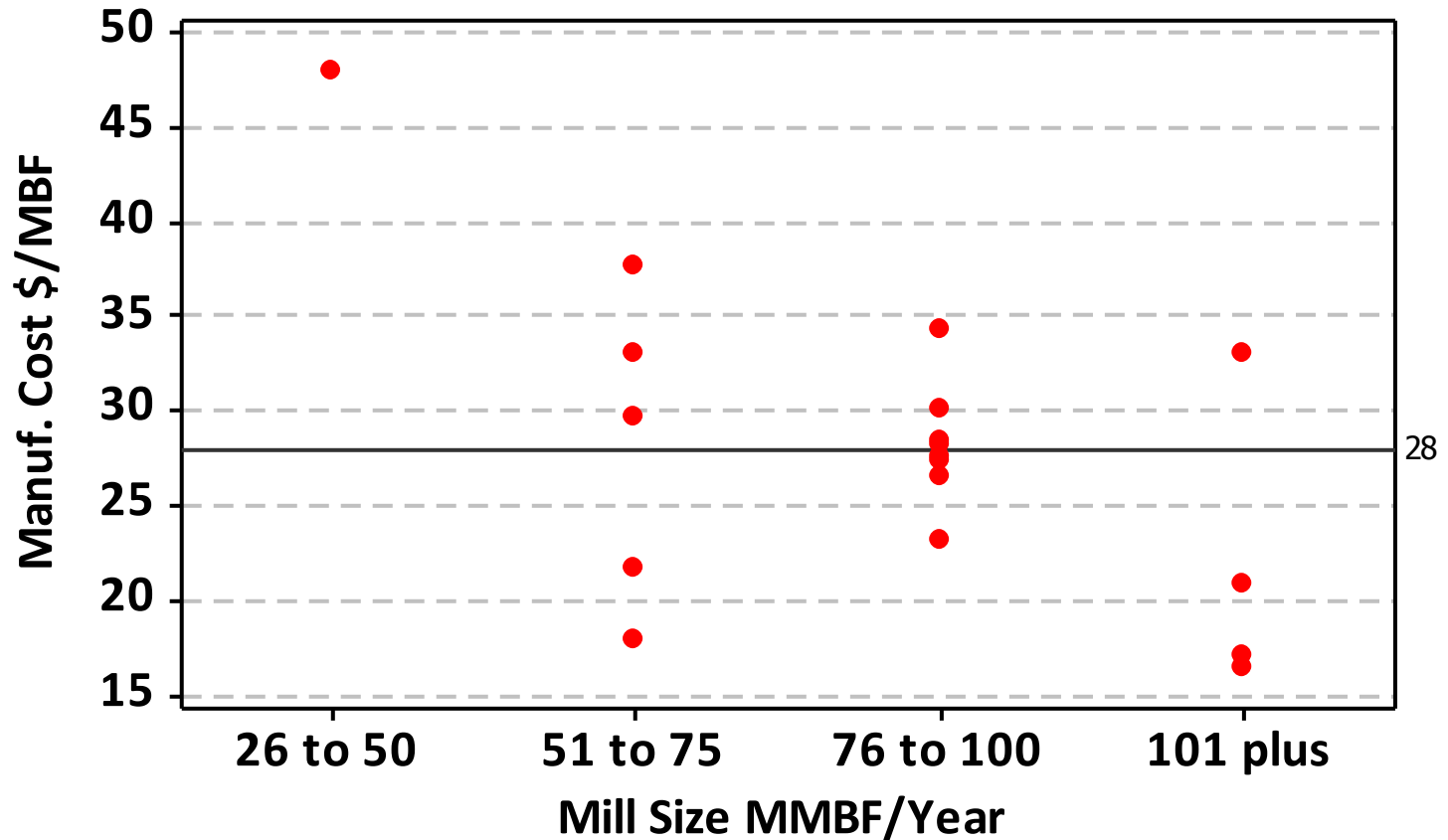
Direct Labor = fully loaded total costs of direct hourly labor including maintenance, contract, cleanup and drivers.

# 2009 Energy Costs



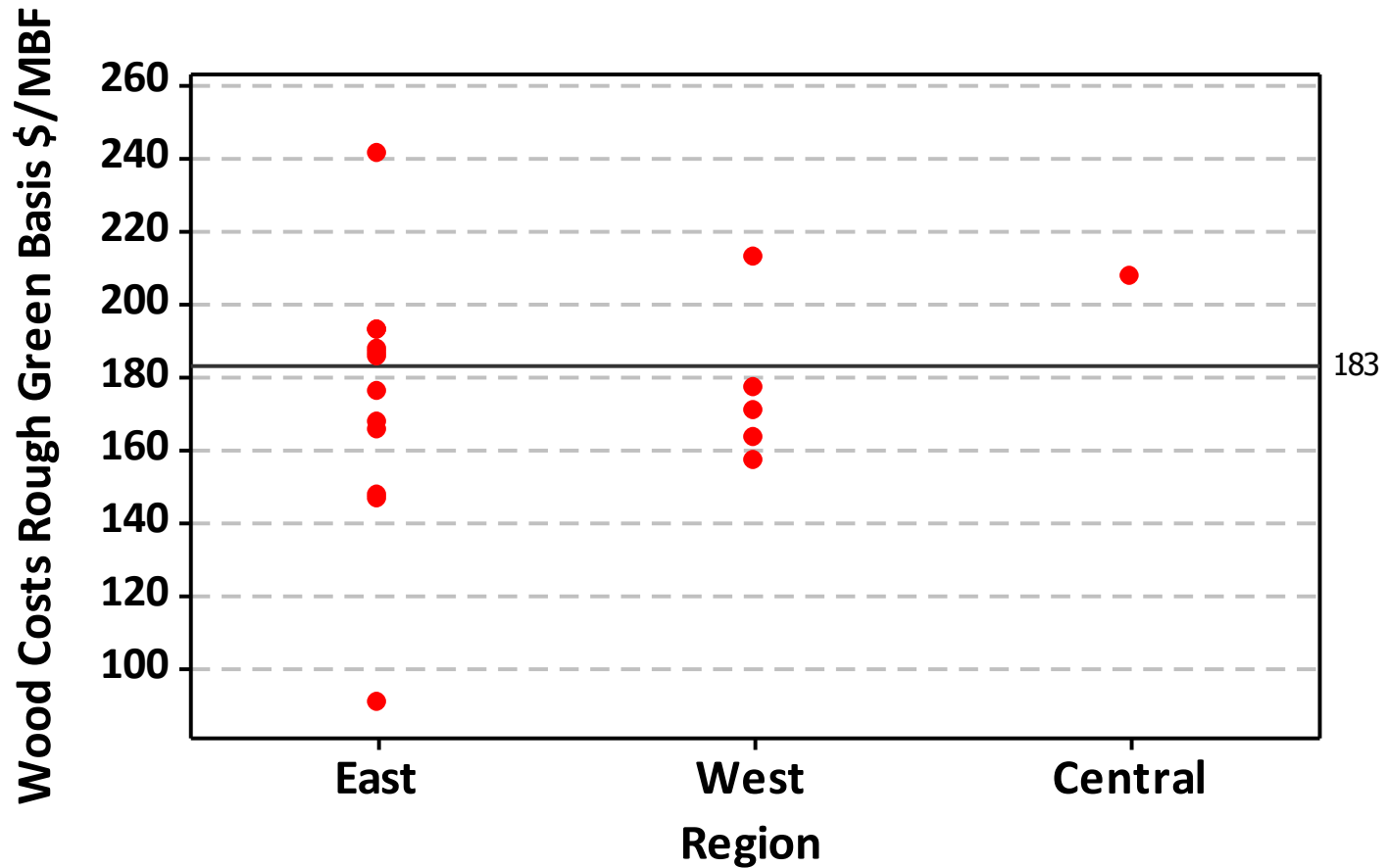
Natural gas, electricity and fuel to operate this facility,

# 2009 Manufacturing Cost



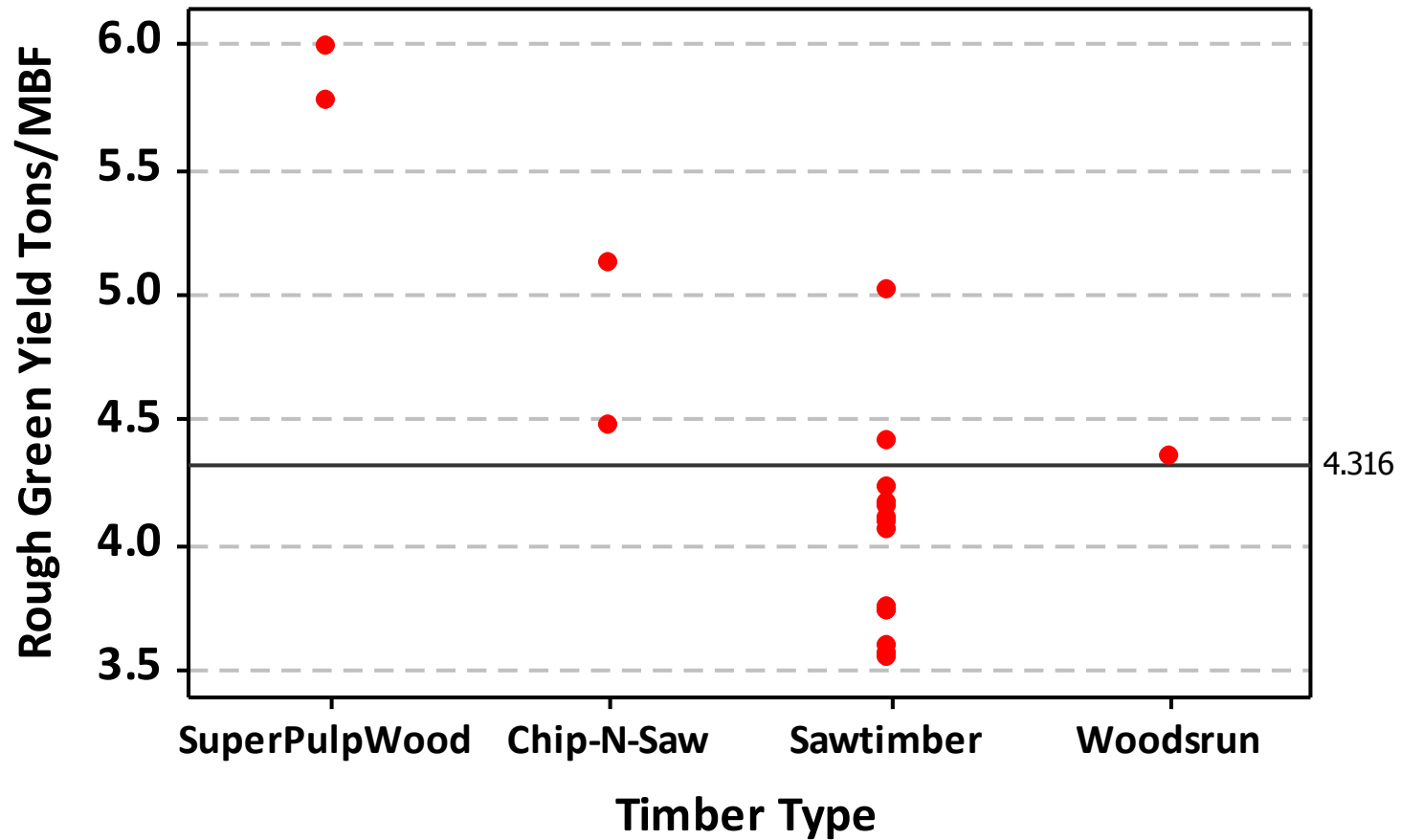
Manufacturing cost = tools, oil, lubricants, saws, knives, belts, chain, welding supplies, etc to operate this facility

# 2009 Gross Wood Costs



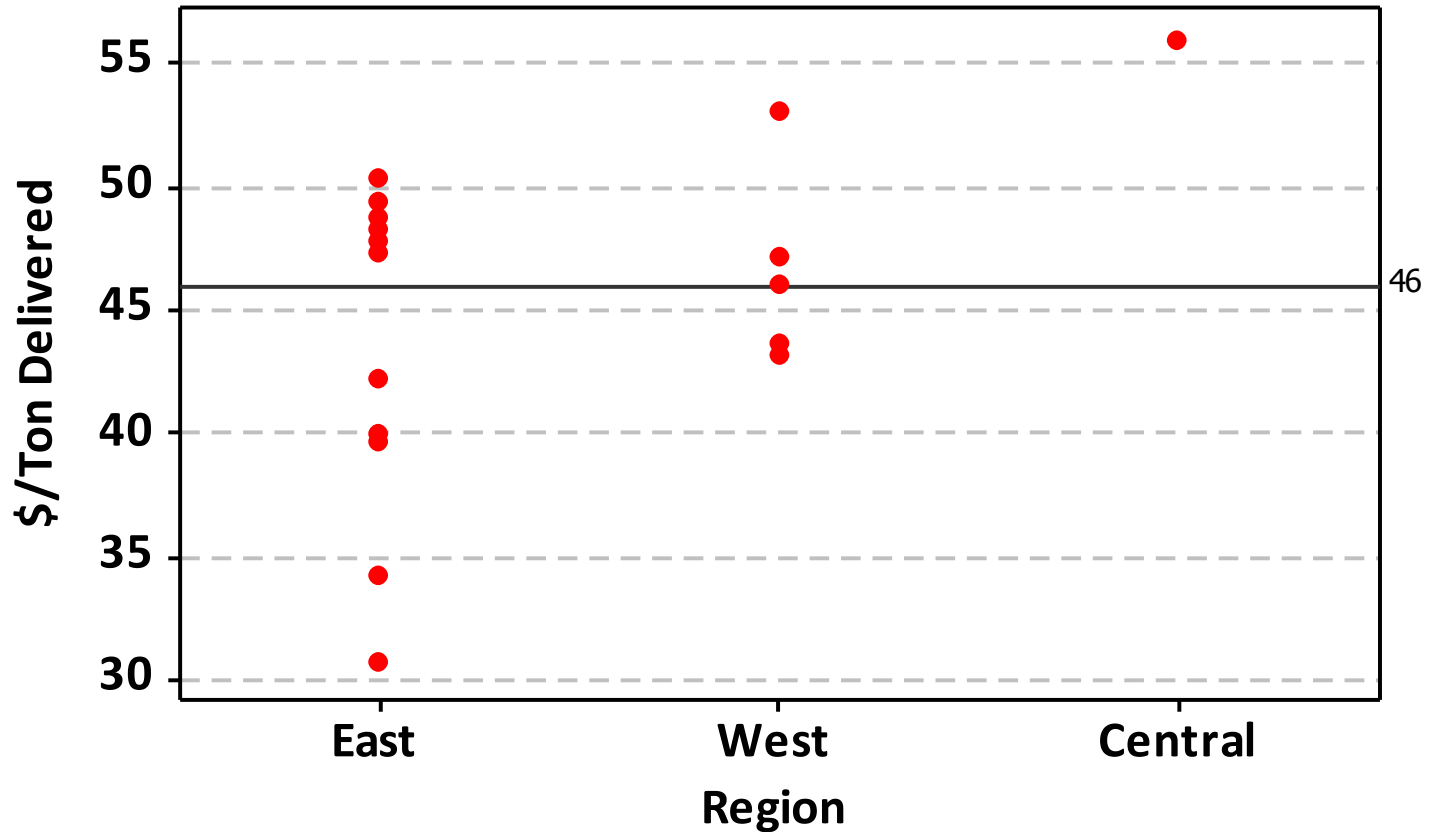
Delivered wood cost = total purchased timber cost including procurement expenses

# Rough Green Yield



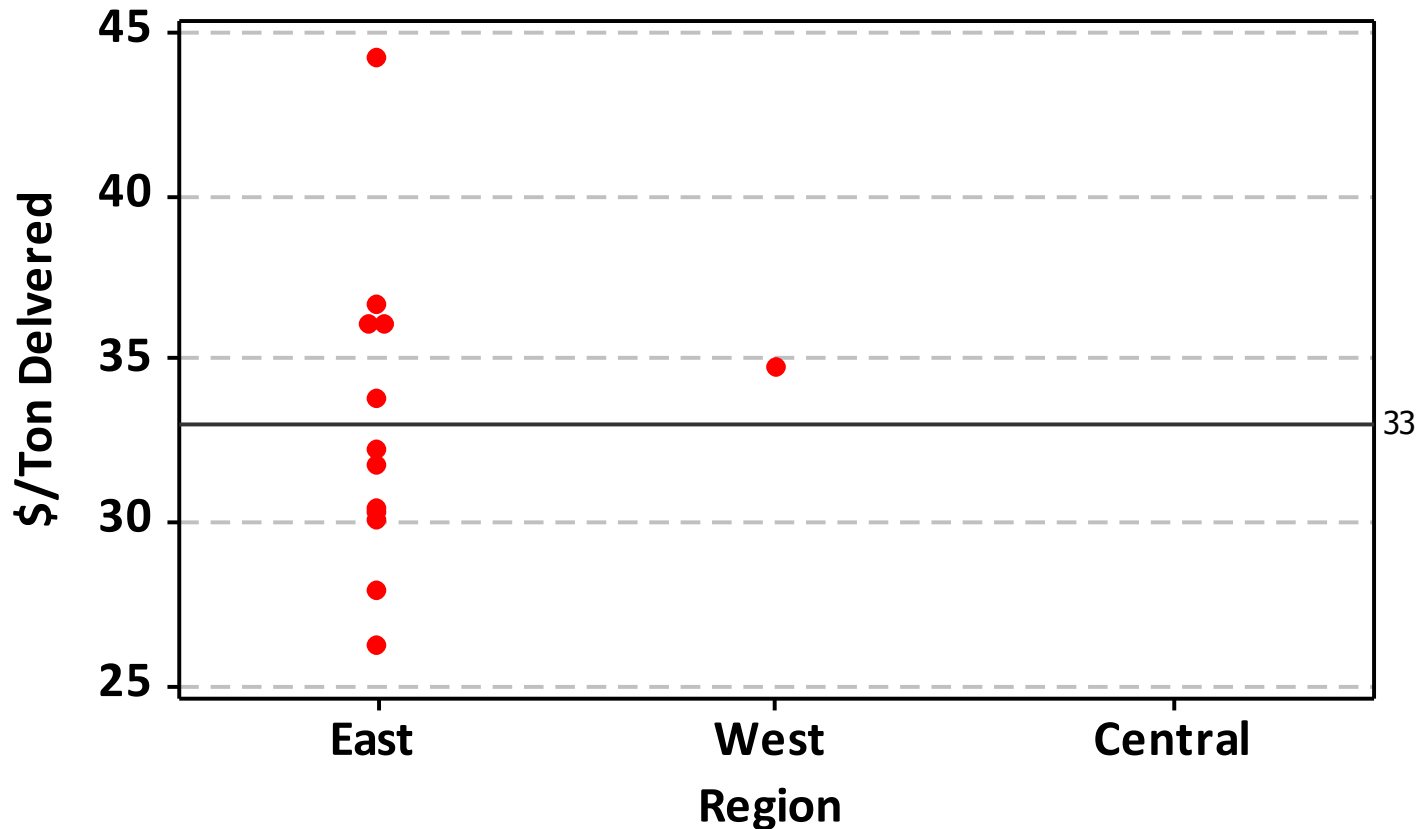
Purchased tons divided by MBF sawmill/rough-green production.

# 2009 Sawtimber Cost



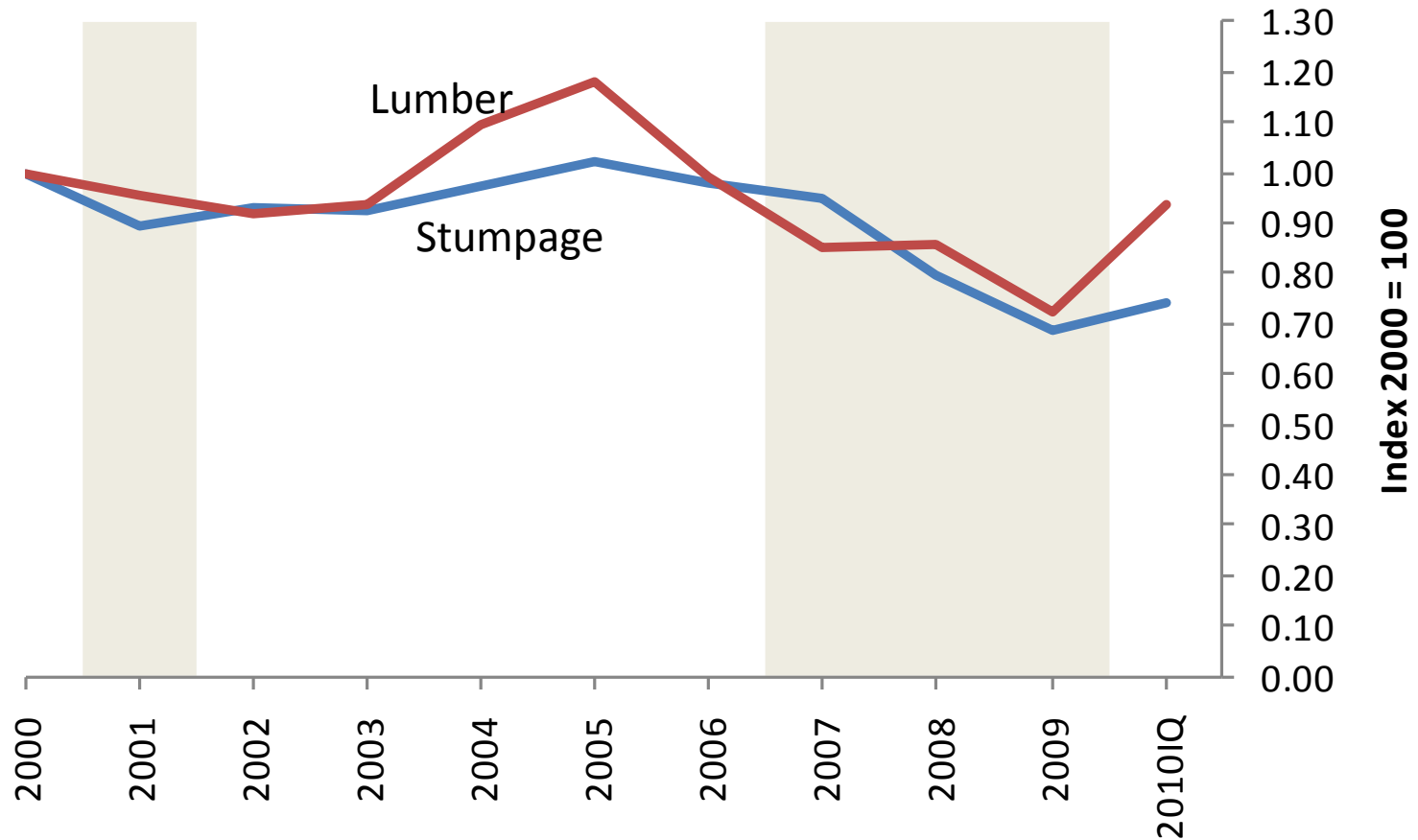
Sawtimber = Mature timber capable of sawing 2x8 and wider, 20 feet or shorter.

# 2009 Chip-N-Saw Cost



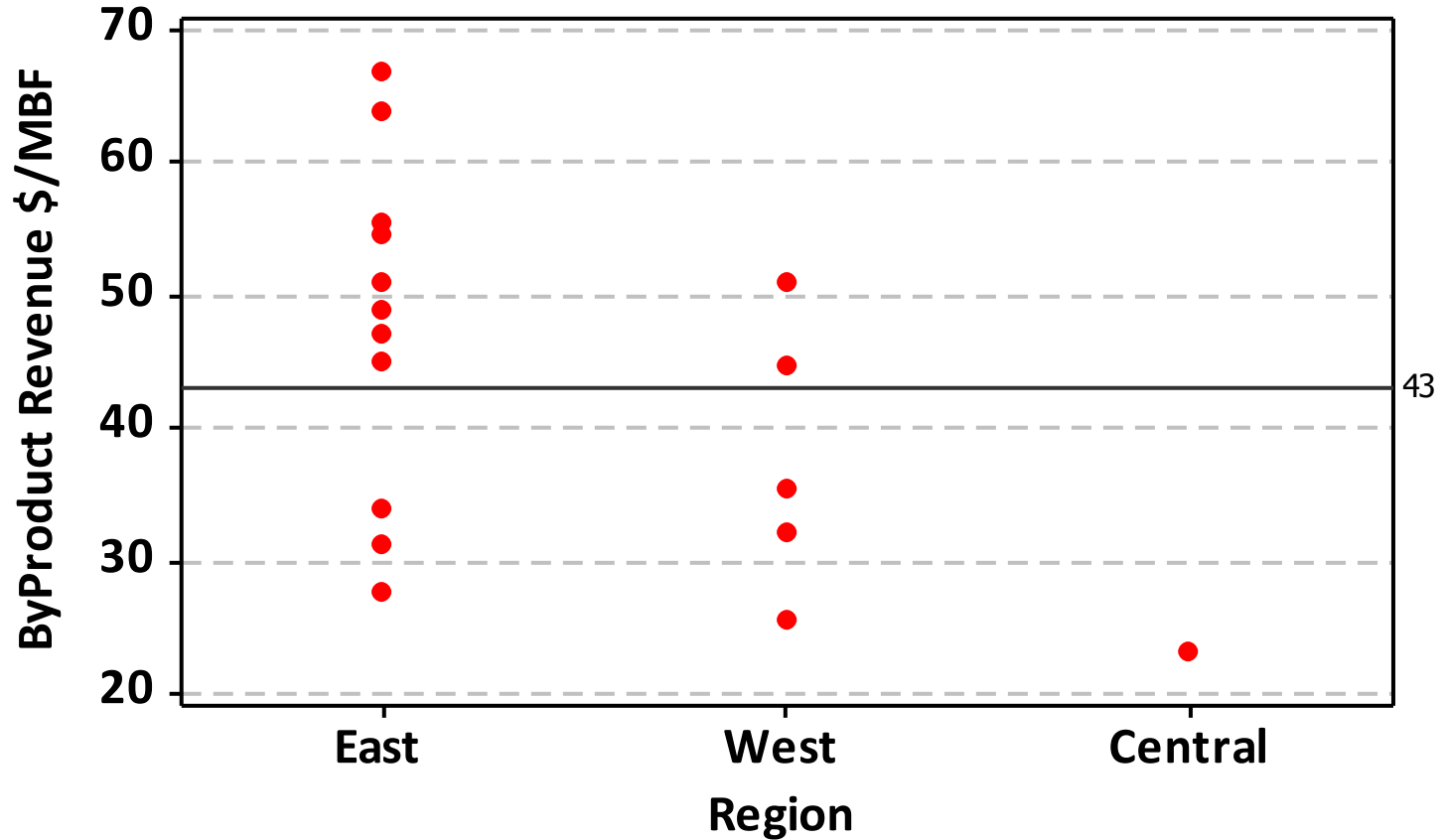
Chip-N-Saw = 15 to 25 year old timber sawing mainly 2x4, 2x6 and 16 feet or shorter

# SP Stumpage vs. Composite



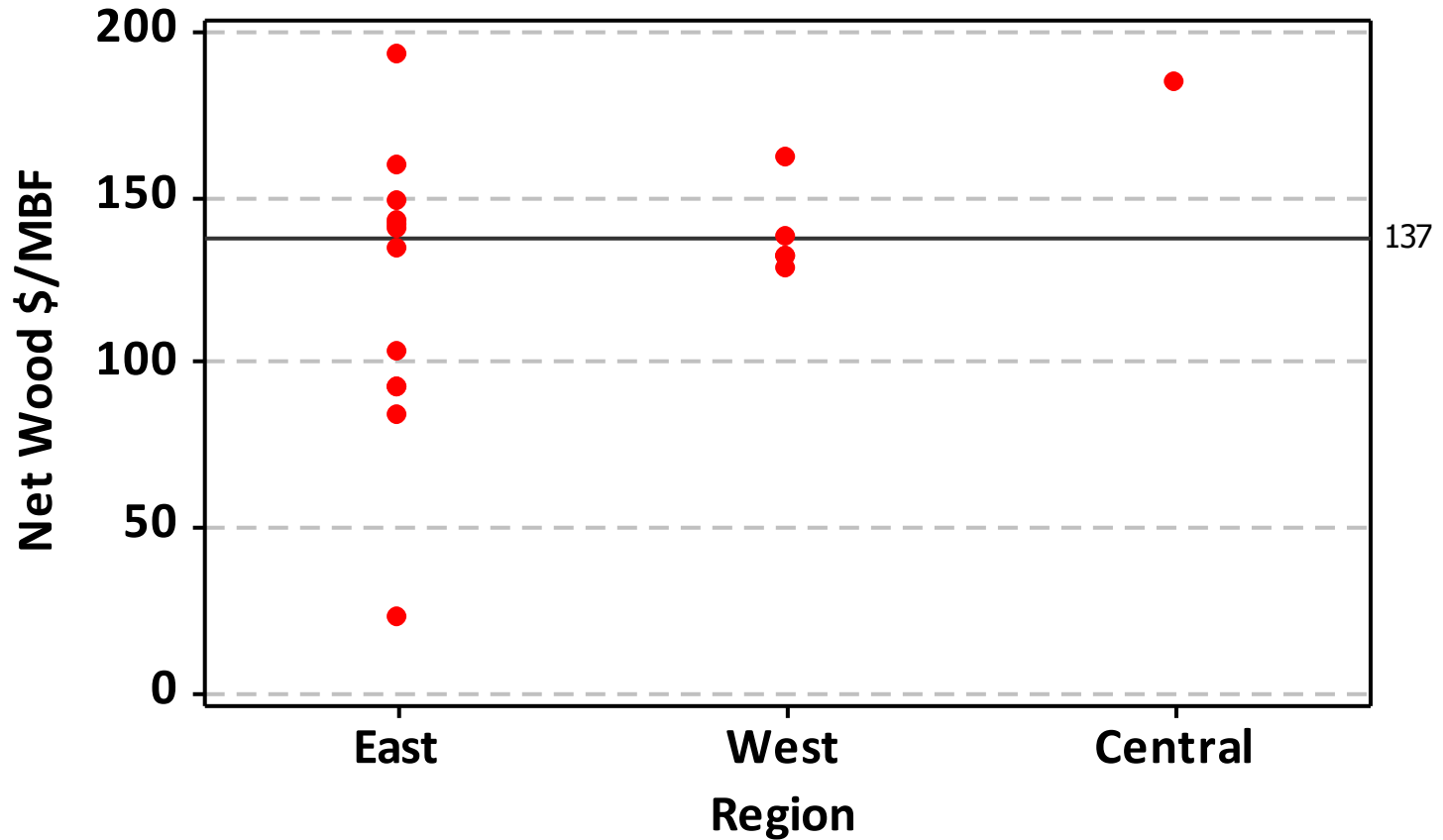
Stumpage price: Timber Mart South, Frank Norris Foundation, Athens, GA  
Composite price from RL.

# 2009 ByProduct Revenue



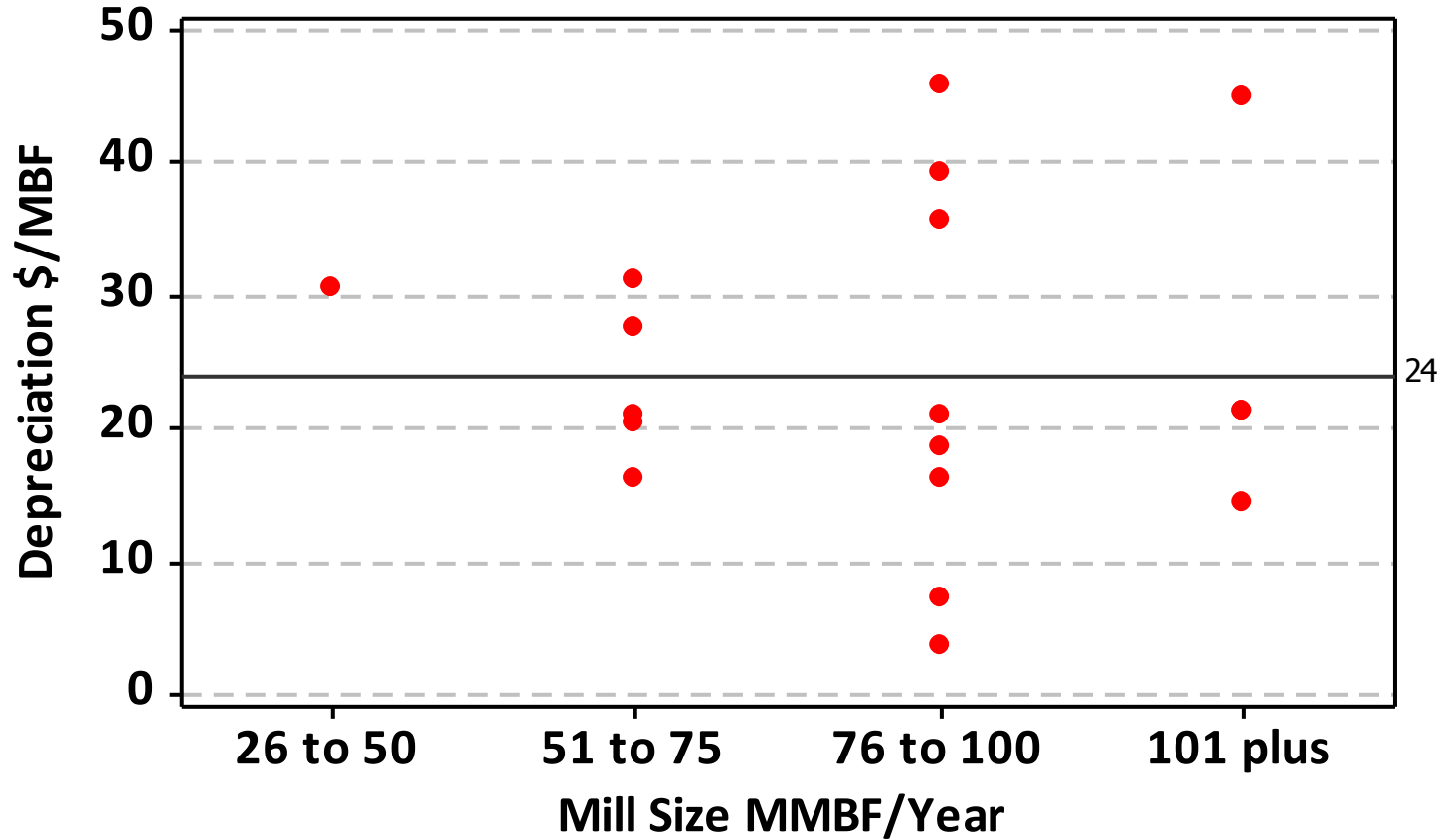
Includes: chip, bark, sawdust and shavings as reported.

# 2009 Net Wood Cost



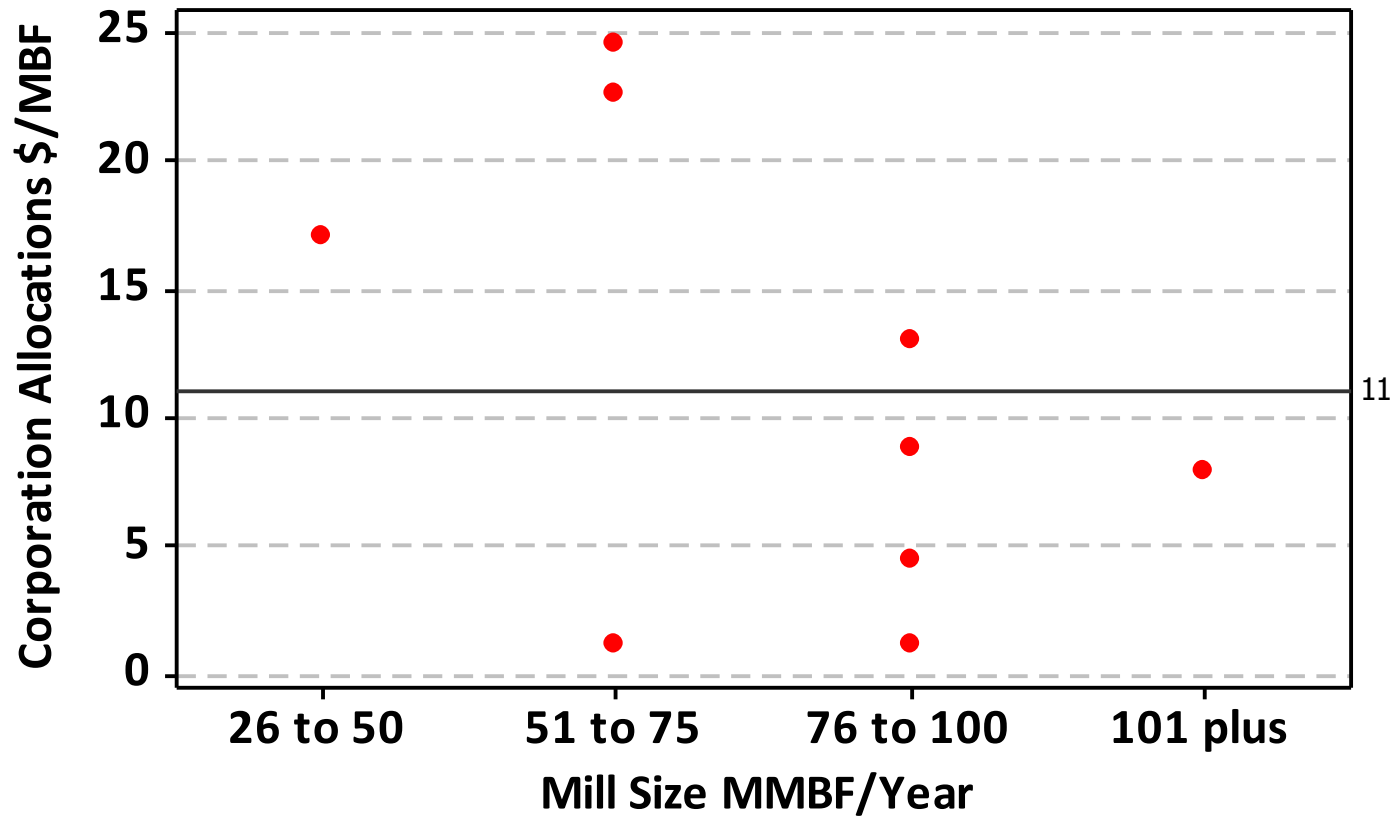
Gross wood divided by all reported Byproduct revenue.

# 2009 Depreciation Cost



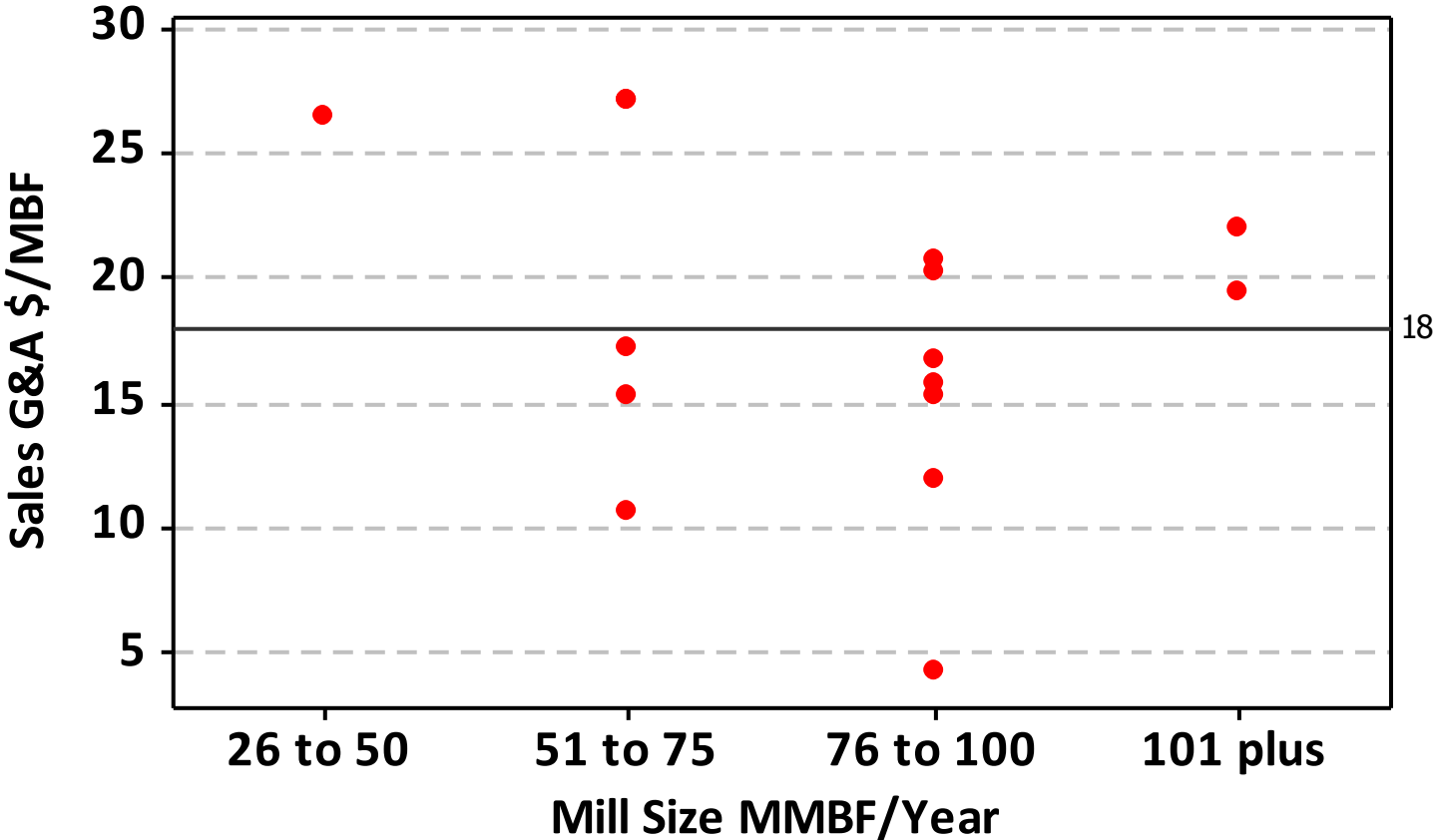
Depreciation = Period write-off of plant, property and equipment for this facility

# 2009 Corporate Allocations



Corporate allocations = corporate, division and other allocated overhead costs for this facility

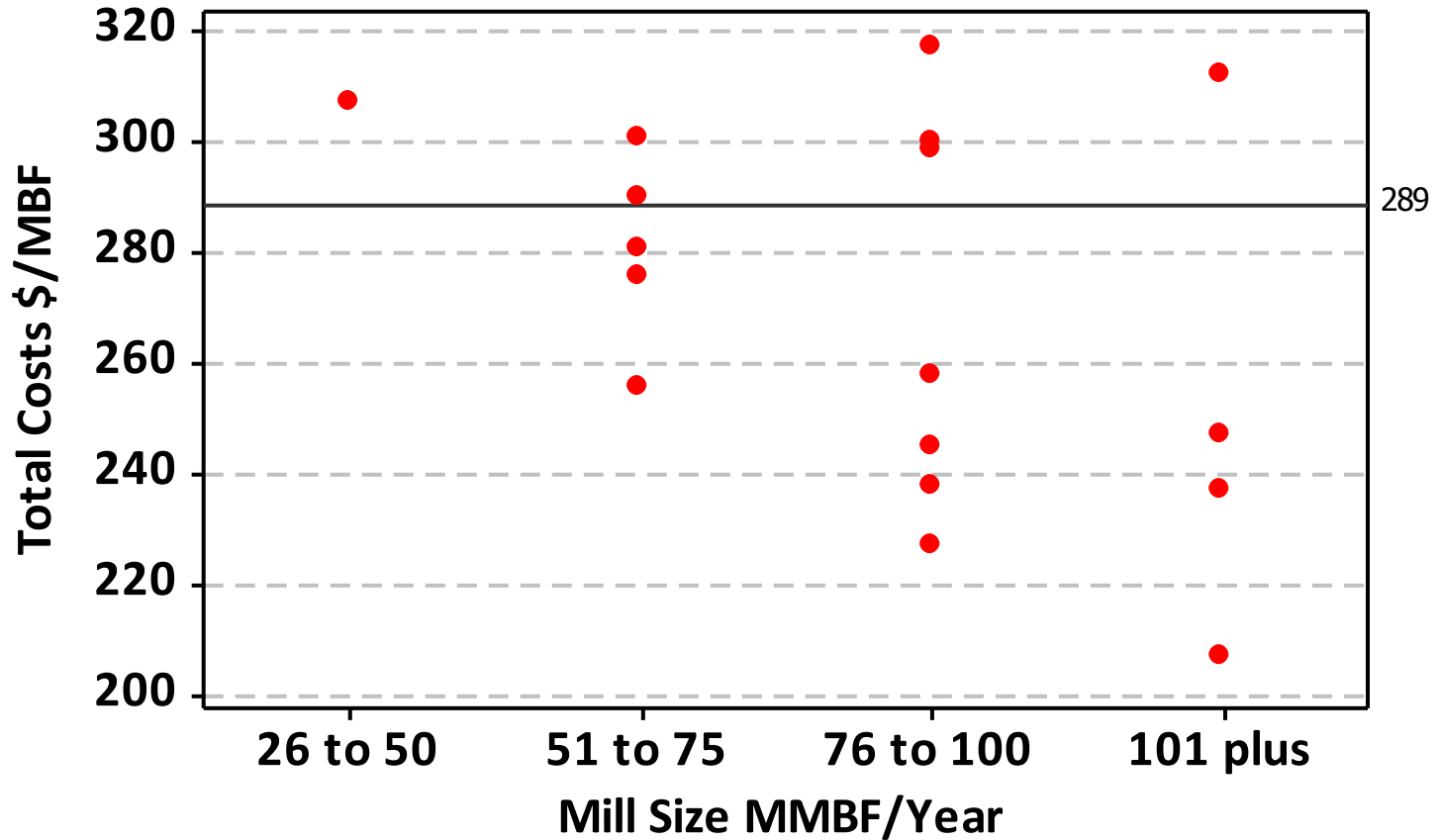
# 2009 Plant Sales and G&A Cost



Sales costs = all management, employee and administrative sales and marketing costs exclusively for this facility (\$4/MBF).

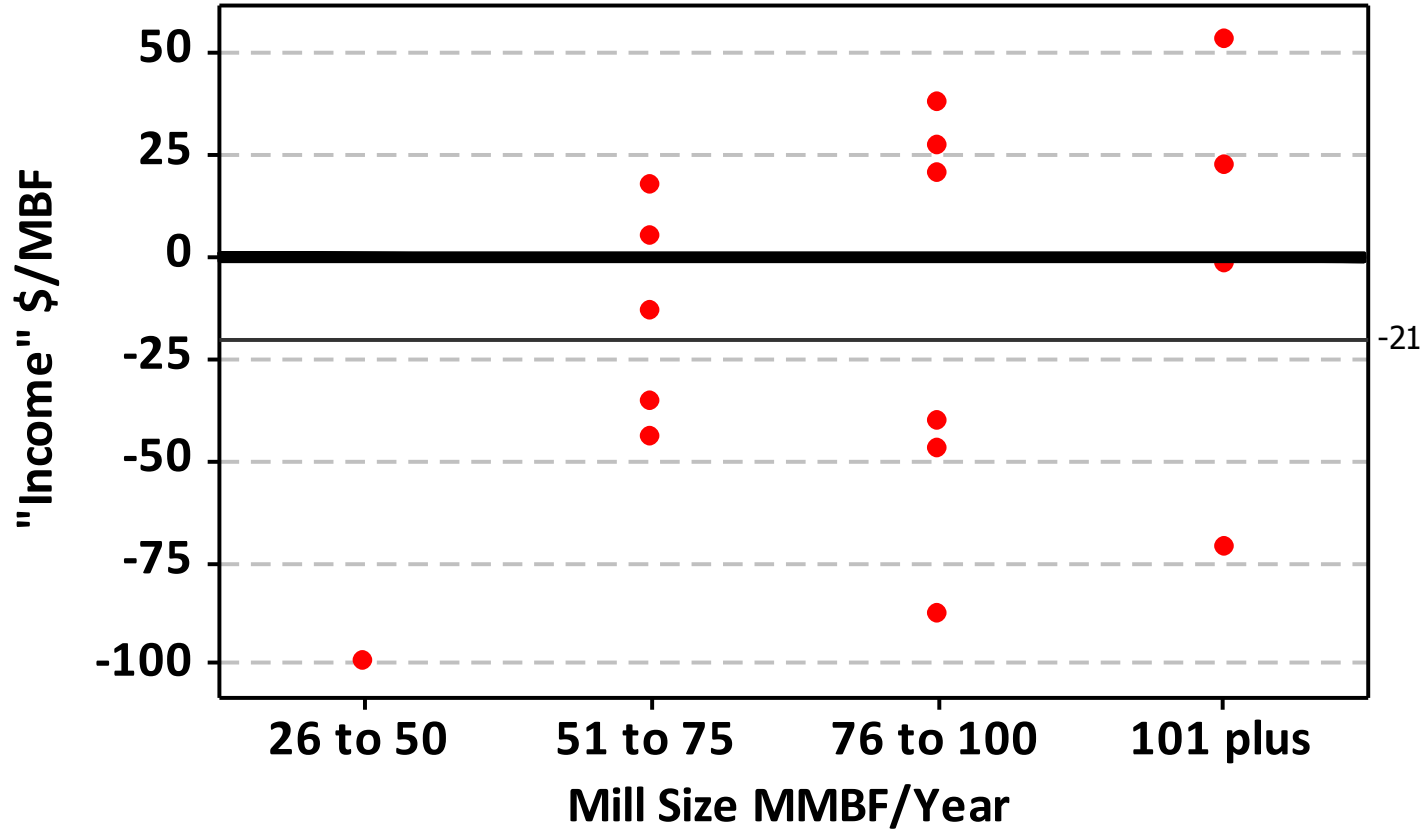
G&A = salaried supervisors, plant management and office administrative overhead, business insurance, security services, etc (\$14/MBF)

# 2009 Total Cost



Includes: net wood, labor, manufacturing, utilities, depreciation, corporate allocations, plant sales and G&A.

# 2009 Income



# Summary

- Demand for housing has been pulled forward.
- Look for declining starts through summer.
- Continued low sawmill utilization rates.
- Long-term: homeownership 65%.
- Under 1 MM starts through 2011.
- Good growth in the industrial sector.
- R&R growth from weatherization/foreclosures.
- Sawmill cost level  $\approx$  \$250/M for future profits.

# Questions

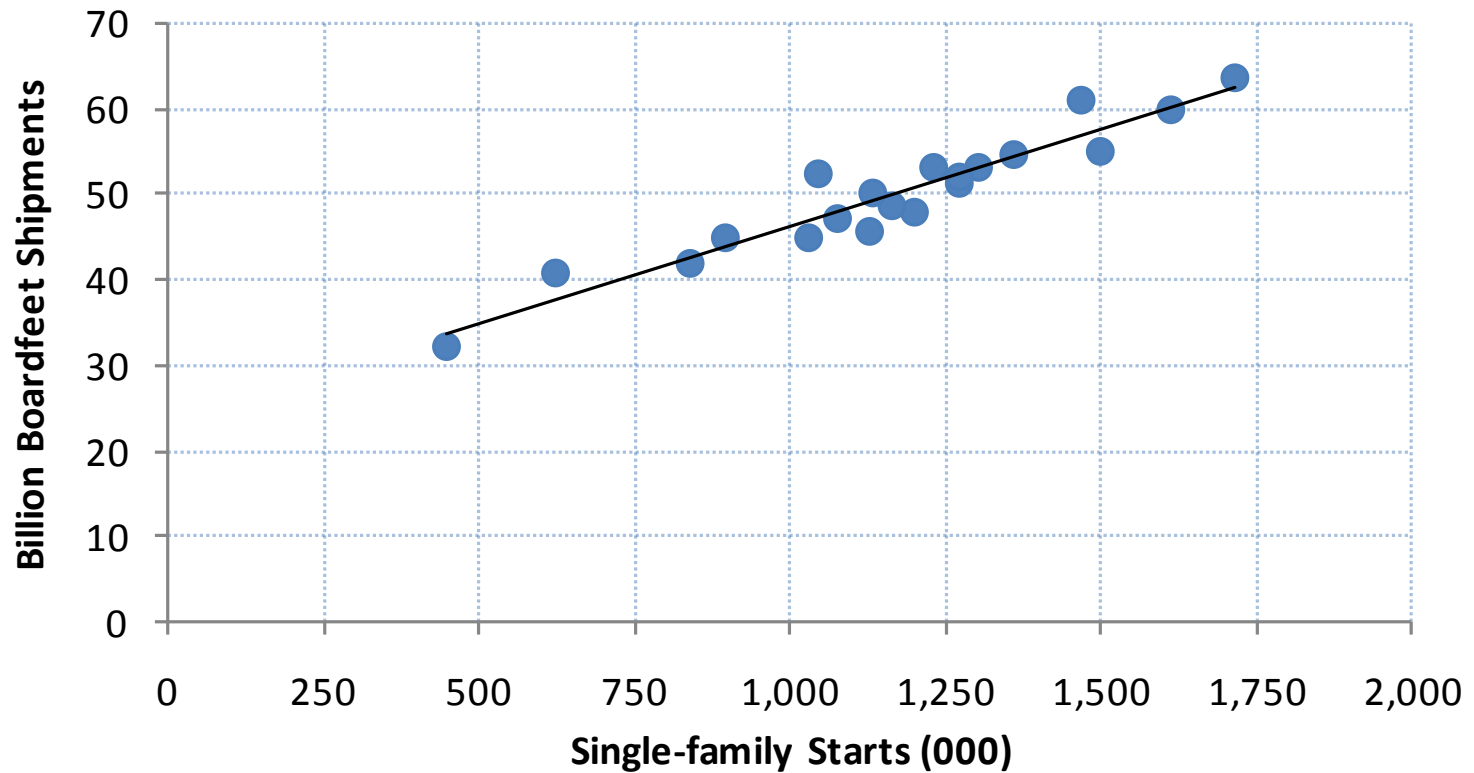
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# Single-family Starts and Softwood Shipments



$$\text{BBF} = 23.58 + 0.0227 \times (\text{number of sf starts})$$

Shipments from ALSC, Starts from U.S. Census. Years 1990 through 2009.

# Home Construction Stocks (indicator of future earnings)

The Ryland Group, Inc. (Public, NYSE:RYL) [Watch this stock](#)

**16.13** -0.23 (-1.41%)

Jun 28 - Close

NYSE real-time data - [Disclaimer](#)

Range	15.98 - 16.58	Mkt cap	710.57M	Shares	44.05M
52 week	14.85 - 26.03	P/E	-	Beta	1.18
Open	16.38	Div/yield	0.03/0.74	Inst. own	95%
Vol / Avg	846,590.00/1.50M	EPS	-2.35		



Google Finance . Last reading July 6 = 15.85

### 2001 Distribution Channels for Southern Pine Lumber

