

Drop in U.S. new home sales hits B.C. lumber industry

'More weakness in store,' BMO economist says of three-per-cent downturn

Gordon Hamilton

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U.S. new home sales for June have come in lower than expected, prompting industry watchers to say Thursday there's more weakness in store for the once-booming American housing market.

New home sales slipped three per cent in June to a seasonally adjusted 1.13 million units, down from 1.166 million in May.

The downturn in sales was steeper than expected, according to Michael Gregory, senior economist at BMO Capital Markets.

"The downturn in housing is now undeniable," said Gregory. "We suspect more weakness is in store for new home sales."

The new home figures follow on weaker existing home sales, a 5.3-per-cent drop in new home starts for June, and a declining rate of mortgage applications in the U.S.

Laurie Cater, of the lumber trade journal Madison's Canadian Lumber Reporter, said there's a mood of pessimism in the U.S. housing sector that is working its way back to lumber producers in B.C. and affecting prices.

Prices are down and the volume of wood products on the market is too high, given the weakening market demand, he said.

"In the U.S., they have these other concerns that I think are occupying buyers who simply don't want to commit to a mortgage when they don't know what's going to happen with oil prices, the Middle East and this endless talk of being at war," he said. "There is no good news coming out of there."

He said prices are near break-even for both lumber and oriented-strand board producers in this province.

"Mills are in that classic position where it's cheaper to keep running than it is to shut down. But by continuing to run they will also lose -- just that they will lose less money than if they shut down."

Craig Campbell, a partner in PricewaterhouseCoopers, said the housing decline will mean curtailments in B.C. as sawmills, which have been running flat-out for several years, are



CREDIT: Associated Press Files

While construction workers are putting the roof trusses on a house in Portland, Ore., new home sales in the U.S. took an unexpectedly steep drop in June, slipping three per cent. Existing home sales dropped 5.3 per cent.

forced to adjust to lower demand.

But Campbell said he is not concerned over the decline in sales and housing starts he has seen so far in the U.S.

"This was an inevitable adjustment," he said, speaking specifically of housing starts.

"They have had record levels of new housing starts for three years. There was nowhere to go but down. We are still at a very robust level of housing starts compared to medium and long-term trend lines.

Housing starts hovered around the 1.6 million to 1.7 million level until June 2003, when they began their meteoric climb to 2.26 million last January. They have declined since then to June's 1.85 million.

"I don't think it's cause for major alarm but certainly we are going to make the adjustments on the lumber side," Campbell said.

Gregory noted the uneasiness in the U.S. stems from what could happen to the overall economy as housing cools.

The big unknown, he said is how the decline in housing starts and sales could affect home values, where most Americans have invested most of their equity.

He said several years of rising prices have created new wealth in the U.S. that has been used to fuel consumer purchases. Homeowners have been increasing their mortgages based on the increased value of their homes and have been taking interest-free mortgages. Gregory also said home buyers can even get mortgages where they pay less than the interest rate by capitalizing on the expected appreciation of the home.

"It's a very volatile situation for the borrower as well as the lender," he said.

"The big uncertainty is not so much the slower rate of construction," he said. "It's what impact does the softer growth or perhaps outright decline in house prices have on the wealth effect?"

Sun Forestry Reporter

ghamilton@png.canwest.com

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