

West Fraser Timber swings to profit But cautious on lumber and pulp prices

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West Fraser Timber Co. Ltd., North America's largest softwood lumber producer, swung back to profit in the second quarter but warned of a tougher second half ahead as the U.S. housing market sags and demand from China slows.

Lumber and pulp prices, which ticked up in the first quarter and part of the second have since retreated, executives said in a conference call Friday.

West Fraser reported net income for the quarter of \$63 million, or \$1.46 a share, compared to a loss of \$39 million, or 91 cents a share, in the same year-ago period.

Sales were up in all segments and came in at \$772 million, up from \$612 million.

The B.C.-based company, which operates mills in its home province as well as in Alberta and some southern U.S. states, expects lumber prices to drop in the coming months.

"Lumber prices have declined sharply from the levels achieved in the second quarter," said West Fraser chairman, president and chief executive Hank Ketcham, pointing to weak U.S. housing starts and high real estate inventories.

"Until the housing inventory is worked down to more normal levels, we should not expect a sustained improvement in lumber prices," he said.

Chinese pulp demand is also falling off, and will likely place pulp prices under pressure in the third quarter. But Ketcham remained optimistic.

"Worldwide pulp inventories are still quite low, so if the world economy continues to improve, we could see renewed strength in pulp pricing in the not too distant future," he said.

West Fraser received an \$88-million credit under a green transformation program and intends to use much of that money to boost productivity at its mills in the southern U.S.

"We are not out of the woods yet in terms of the recession in this industry, so we are going to be very careful," Ketcham said.