



Friedberg & Co. Ltd.

November Lumber: 179.30

January Lumber: 180.50

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November Plywood: 193.10

January Plywood: 194.90

Yesterday's housing starts figures for September are as follows: construction during September was started at a seasonally adjusted 2,040,000 annual rate versus August's 2,034,000 clip. Starts of single family homes ran at 1,492,000 units, up 2% from August while multifamily housing fell 4.6% to 548,000 units. Permits, the indicators of future construction, fell 4% to a seasonally adjusted annual rate of 1,696,000 units.

The decline in the issuance of permits is the most noteworthy of yesterday's reported data. Two weeks ago we noted that several dark clouds were forming over the construction industry. One of the darker ones was the raising of U.S. interest rates to control the monetary aggregates. At the time we felt the full effects of such action were long term. We must now revise our views somewhat. Clearly, rising interest rates are already taking their toll by drawing funds from thrift institutions thereby drawing down the availability of mortgage financing. New York state's savings banks, for example, suffered a \$127 million net deposit outflow during September. While its true that there is a considerable lag between declining mortgage availability and declining usage of wood products for construction purposes the expectation of declining demand is enough to depress prices. We have been interpreting the unusually low inventory levels of mills as a bullish omen. Now we must conclude that they are an indication of the pessimism of the mills.

On the supply side of the coin - and in this case a monetary metaphor is appropriate - the lamentable slide of the Canadian dollar has made our wood products now almost 12% cheaper than last year.

Technically the market looks weak. In our view a further fall seems inevitable - perhaps to as low as 160.00 which, coincidentally was the price basis November, exactly one year ago today and the date our first WOOD COMPLEX REPORT was issued. Check our record.

David Rothberg

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