

MADISON'S LUMBER REPORTER



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News & Updates

Ainsworth Bondholder Takeover

In an unpleasant reminder of what happened to the Doman family after the takeover by bondholders and the creation of Western Forest Products, the Ainsworths are no longer the majority owners of Ainsworth Lumber. On July 20 bondholders HBK Master Fund L.P., Tricap Partners II L.P and Barclays Bank PLC will have 96 per cent control of the company in a restructuring plan negotiated to pay down \$823 million in debt. Share value fell by 62 per cent to \$1.08 per share when the news broke.

With 1Q 2008 results of a loss of \$88.2 million (compared to a loss of \$22.8 million of the same period one year ago) the company attempted a major refinancing plan in March with no success. Panel prices have fallen dramatically from a record high US\$713 Msf in May of 2004 to US\$210 today (OSB 7/16" ON). Two members of the Ainsworth family, Michael and Catherine, are expected to stay on the board of directors as consultants in the short term at least.

US Housing

As expected, US housing starts were down in May, by 3.3 per cent from April and by 32 percent from May of 2007. Housing starts for May at currently at a 17 year low.

Permits were also down, by 1.3 per cent from April and 36 per cent from one year ago. *READ MORE*

Mill Curtailment Update

A surprise announcement Wednesday by Western Forest Products puts another 1,200 loggers and 650 sawmillers out of work for July and August at least. Citing weak lumber markets and a lessening demand for cedar, the company says it may start up again in September if market conditions improve.

Abitibi-Bowater announced Thursday it will reduce lumber production in Quebec by 100 MMfbm between July and mid-September. *READ MORE*

The Story of Cedar

Once the specialty product giant of the British Columbia coast, cedar production at present is the domain of only two companies. Changes to the industry in recent years, and the growing challenges of bringing large logs down from steep hillsides has pushed medium-sized players out of the business. The cost of harvesting cedar, a mixed-species product, is affected by low prices for coastal Hemlock and other timber that must be cleared at the same time. *READ MORE*

JAPANESE HOUSING STARTS

| Month | TOTAL | Non-Wood | Wood | %Wood |
|--------|---------|----------|--------|-------|
| Apr-08 | 97,930 | 54,656 | 43,274 | 44 |
| Mar-08 | 83,991 | 44,428 | 39,563 | 47 |
| Feb-08 | 82,962 | 46,110 | 36,852 | 44 |
| Jan-08 | 86,971 | 45,305 | 41,666 | 48 |
| Dec-07 | 87,214 | 39,351 | 47,863 | 55 |
| Nov-07 | 84,252 | 36,566 | 47,686 | 57 |
| Oct-07 | 76,920 | 30,990 | 45,930 | 60 |
| Sep-07 | 63,018 | 25,101 | 37,917 | 60 |
| Aug-07 | 63,076 | 30,175 | 32,901 | 52 |
| Jul-07 | 81,714 | 44,105 | 37,609 | 46 |
| Jun-07 | 121,149 | 72,823 | 48,326 | 40 |
| May-07 | 97,076 | 52,939 | 44,137 | 45 |

Source: Japan Wood-Products Information and Research Center

U.S. HOUSING STARTS

| | May-08 | Apr-08 | | May-08 | Apr-08 |
|-------------------------|---------|-----------|--------------------------|---------|---------|
| Starts | | | Permits | | |
| Actual | 90,600 | 89,900 | Actual | 89,500 | 89,500 |
| SAAR* | 975,000 | 1,008,000 | SAAR* | 969,000 | 982,000 |
| 1 Unit | 674,000 | 681,000 | 1 Unit | 623,000 | 649,000 |
| 2-4 Units | (s) | (s) | 2-4 Units | 32,000 | 38,000 |
| 5+ Units | 280,000 | 313,000 | 5+ Units | 314,000 | 295,000 |
| Starts by Region | | | Permits by Region | | |
| Northeast | 147,000 | 91,000 | Northeast | 141,000 | 108,000 |
| Midwest | 123,000 | 164,000 | Midwest | 145,000 | 157,000 |
| South | 479,000 | 501,000 | South | 465,000 | 499,000 |
| West | 226,000 | 252,000 | West | 227,000 | 218,000 |

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

Key Prices

| | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|----------------------------|-----------|-----------|--------|-----------|--------|----------|--------|
| WSPF KD R/L 2x4 | 242 | 235 | +7 | 238 | +4 | 286 | -44 |
| WSPF KD R/L 2x6 | 232 | 221 | +11 | 232 | 0 | 278 | -46 |
| WSPF KD R/L 2x8 | 240 | 233 | +7 | 215 | +25 | 298 | -58 |
| WSPF KD R/L 2x10 | 260 | 260 | 0 | 275 | -15 | 356 | -96 |
| WSPF KD PET 2x4 Stud | 245 | 242 | +3 | 244 | +1 | 300 | -55 |
| Douglas Fir Green R/L 2x4 | 230 | 225 | +5 | 275 | -45 | 240 | -10 |
| Douglas Fir Green R/L 2x10 | 200 | 195 | +5 | 235 | -35 | 273 | -73 |
| ESPF KD 2x4 8ft Stud | 315 | 315 | 0 | 320 | -5 | 365 | -50 |
| OSB Ontario 7/16" (CDN\$) | 210 | 210 | 0 | 216 | -6 | 180 | +30 |

Weekly News

Housing

CONTINUED A continued glut of unsold homes throughout the United States, and expectations of more foreclosures in the next two years kept builders from breaking ground on new homes. The large inventory of houses on the market is only serving to keep prices low.

Foreclosures in May were up 48 per cent from one year ago, with no sign of slowly in the near future. Dow Jones reported the 1Q current-account deficit (a measure of cross border trade and investment) to be US\$176 billion (down from US\$167 billion in 4Q 2007). All indications are that the US economy will continue in this downturn for some time to come.

Japanese housing starts also took a tumble in April, down 8.7 per cent from March and 9 per cent from one year ago. Stricter building codes instituted in June of 2007 brought double-digit drops in

Japanese housing starts until March of this year were the pace of the slow-down reduced somewhat.

Starts for owner-occupied homes fell by 7.8 per cent, and for rental homes fell by 5.3 per cent from March.

Down Time

CONTINUED Major curtailments by lumber and panel mills were announced in an effort to reduce production and prevent the remarkable level of oversupply seen in 2007. Some pulp mills were also forced into downtime due to the high cost of wood chips and difficulty in sourcing the necessary item.

Western Forest Products will shut down its Duke Point sawmill in July and August (in addition to their already indefinitely idled Ladysmith sawmill and several other reductions in production throughout Vancouver Island and on the BC coast), bringing harvesting levels to approximately

half of what is usual for this time of year. The company says existing orders will not be affected.

Finnish-Swedish pulp and paper giant Stora Enso announced the closure of its NewPage plant in Niagara, WI, putting 320 staff out of work. The company says the curtailment will bring a reduction of 230,000 tons of coated paper by the end of the year. One pulp mill and two paper machines will be idled.

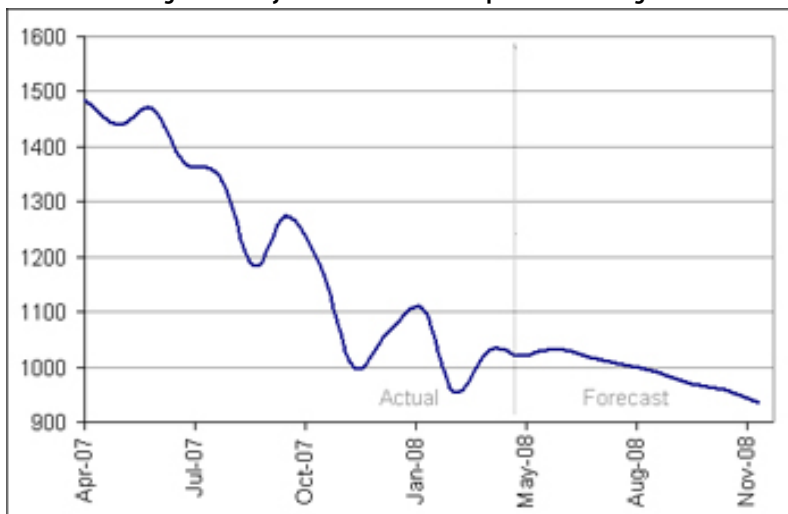
Finnish UPM-Kymmene will begin negotiations with employees at their Leivonmaki sawmill in central Finland. 63 employees will be affected, and 80,000 cubic meters of sawn timber will be taken out of production in 2008.

Both companies, together with Finnish Huhtamaki, comprise the world's top paper and packaging production. Warnings from all three on June 18 that rising energy and raw materials costs would bring a 50 per cent reduction in profits for 2008 sent their respective shares tumbling.

All three companies plan to reduce production at various operations world wide in an effort to stem the level of losses.

U.S. New Housing Starts Projections

<http://forecasts.org/house.htm>



Calendar

June 2008

25th Annual Wood Transportation and Marketing Conference

June 18-21 - Whistler, BC
604 669-7996 x 101

College of Alberta Professional Foresters' AGM

June 26 - Edmonton, AB
www.capf.ca

The Story of Cedar

Times Have Changed

There used to be a lot of players in the cedar business. In recent years, company mergers and acquisitions, reduced supply of old growth logs, increasingly inaccessible fibre supply and a major reduction in US home building has brought the number of cedar producers on the BC coast down to two.

by Zara Heartwood

Always a specialty product, cedar prices are fast rising out of reach for all but the most upscale building projects. In practical terms, cedar is not like western spruce where the daily fluctuations of supply of finished lumber and the immediate demand for it establish selling prices. Instead, cedar prices are determined by a combination of projected supply of cedar logs and composite materials, needed for a wide variety of finished products, and demand for those products that is also projected through program buying.

Unlike order files in other market segments, program buying is the practice of obtaining estimates of future purchases by large customers and distributors over several months or more. Such estimates may be a rough agreement to order during the period designated; could be actual orders at a fixed price to be shipped three or more months in the future; or they may be scheduled shipments with the price left open, to be billed at the market price at the time of shipment (PTS). In late May and early June, cedar producers gather their program buyers' estimates and orders of what will be manufactured for shipment for the third quarter, between July and September. Besides program sales, there are always spot sales that come up from just-in-time buyers. History has shown that waiting to pre-order desirable cedar products has been a disappointment to those who hesitated.

The process of program buying means that price adjustments often lag behind the reality of seasonal weather conditions. In February – if programs buys for the first and second quarter are good and if the forest roads are good - loggers go out to gather timber for the mills. However, the price of the finished cedar lumber moves extremely slowly unless some combination of factors swings the whole market, usually as programs are being designed for a

following quarter. At the beginning of summer retailers (generally large retailers and big box stores) stock up on product. By mid summer, demand starts to taper off. However, as cedar is generally a finish wood, the mix of product changes with the seasons. In the fall, finished cedar product for interiors is at a premium while in summer decking is hot.

In a wider view of forest operations, cedar is a mixed-species harvest, taken when logging for hemlock, a low-margin product. When there is light demand for coastal hemlock (such as exists at present), less cedar trees will be taken down as well. Coastal logging usually ends in September but the season in the coastal forest is weather dependent. Very little logging gets done if the winter is soggy and there is a deep, wet, lingering snow pack such as was experienced in the spring of 2008. Given these circumstances, cedar producers must look forward from the beginning of every year and try to make plans for 3Q. In 2007, materials for the rich mix of cedar products were under-supplied.

Company projections at the beginning of 2007 underestimated how much fibre would be needed, and the forestry workers strike (July to October) caused a constriction in log supply. Orders were backlogged for many weeks from summer to the end of 2007. It remains to be seen whether the forest operations curtailments by the world's largest cedar producer in July and August 2008 will affect its ability to deliver the fall program orders and continue to sustain spot business.

Softwood Pulp

A Scarcity of Wood Chips

European northern bleached softwood kraft prices were up once more this week by US\$1.36 to US\$904.72/ton (SOURCE: www.foex.fi), bringing the total increase from the beginning of the year to US\$33.56. United States NBSK prices remained stable at US\$880/ton with a more modest increase from the beginning of 2008 of US\$15.29.

Reduced sawmill production throughout North America is causing a scarcity of wood chips, in addition to the usual summer competition from the agriculture sector, forcing the use of small roundwood logs for chipping. Roundwood log chips are traditionally 30-50 per cent more expensive than chips from sawmill residuals.

American softwood chip price trends have fluctuated between US\$60-70/oven-dry metric ton (odmt) during most of the past two decades, while the pulp mills in the Northwest have seen swings between US\$60/odmt and US\$160/odmt.

FOEX reports that the double-edged sword of high chip costs and reduced North American pulp production in recent months could actually serve to drive European pulp prices even higher.

by Keta Kosman



Cedar Logs Ready for Milling