

MADISON'S LUMBER REPORTER



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News & Updates

US Housing Market Indicators

Some perception of the possibility of a buoyed US housing market in May was quickly extinguished when June Starts were released. Analysts have been waiting with baited breath for further indications of market direction. This week several reports were released, including new and existing home sales, and mortgage applications.

Sales of new homes fell in June for the seventh time in the past eight months by 0.6 per cent to a seasonally adjusted annual rate of 530,000 units, following an even bigger 1.7 per cent fall in May. The number of households facing the foreclosure process more than doubled in the second quarter compared to a year ago. One in every 171 U.S. households received at least one foreclosure-related notice during the quarter, according to Irvine, Calif.-based RealtyTrac Inc.

The National Association of Realtors reported Thursday that sales of existing homes — which make up the bulk of the home sales market — dropped by 2.6 per cent in June to a seasonally adjusted annual rate of 4.86 million units, the slowest pace in a decade.

Mortgage applications in the U.S. dropped 6.2 per cent last week, led by declining demand for loans to purchase homes as interest rates jumped. Applications to buy a home or refinance a loan fell to 489.6 in the week ended July 18 from 522.2 the prior week. The refinancing gauge declined 5.6 per cent while the purchase index decreased 6.7 per cent.

Softwood Pulp

After briefly holding firm last week, NBSK pulp European price continued its expected slide this week, falling US\$2.17 to US\$898.78 per ton. At this level pulp is still up US\$27.62 from the beginning of 2008 (SOURCE: www.foex.fi).

The last time pulp was up was the week of May 19 with an increase of US\$35.50 from the beginning of the year. [READ MORE](#)

US Government Financial Assistance

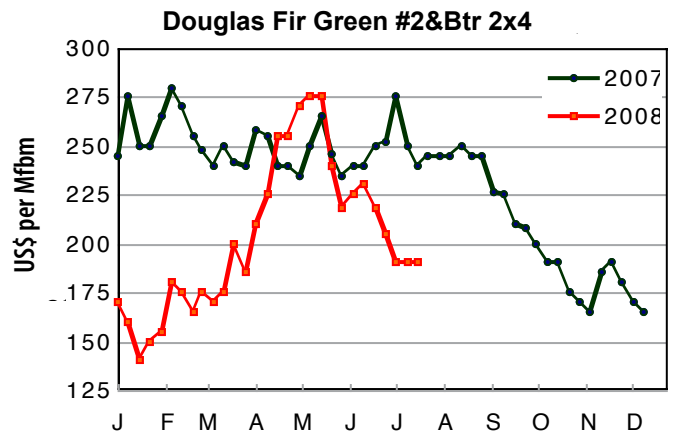
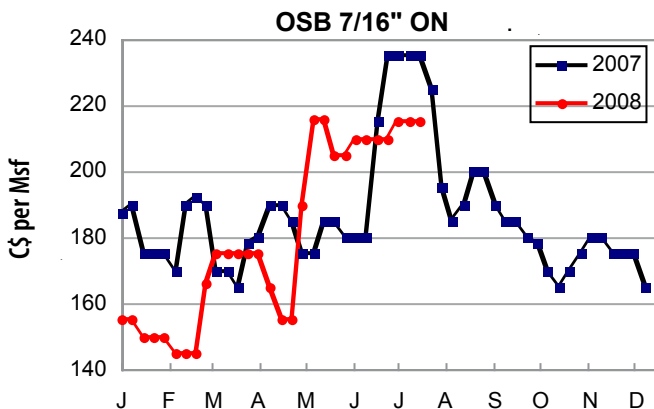
Months of preparation in Congress and the Senate brought announcements this week from the US government of several measures to help stem the tide of financial bleeding across that country's economic spectrum caused by the artificially inflated home building market and the asset backed commercial paper fiasco.

Of particular interest was an aid package to federally sponsored mortgage brokers 'Fannie Mae' and 'Freddie Mac'. [READ MORE](#)

PWC Annual Forest Industry Report

PricewaterhouseCooper's 2008 Global Annual Forest, Paper & Packaging Industry survey was released this week. Some negative statistics about the Canadian wood products industry in relation to the international marketplace are highlighted.

The section on the rapidly expanding new industry of biofuels from wood residue points out a very lucrative future direction for the forest industry. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	266	262	+4	246	+20	268	-2
WSPF KD R/L 2x6	262	256	+6	236	+26	268	-6
WSPF KD R/L 2x8	270	266	+4	240	+30	298	-28
WSPF KD R/L 2x10	282	270	+12	255	+27	360	-78
WSPF KD PET 2x4 Stud	222	235	-13	245	-23	277	-55
Douglas Fir Green R/L 2x4	190	190	0	218	-28	240	-50
Douglas Fir Green R/L 2x10	228	200	+28	200	+28	265	-37
ESPF KD 2x4 8ft Stud	310	305	+5	310	0	355	-45
OSB Ontario 7/16" (CDN\$)	215	215	0	210	+5	235	-20

Weekly News

Softwood Pulp

CONTINUED US NBSK pulp continued to hold steady, as it has for much of the year, at US\$890.90 per ton (still up US\$25.59 from the beginning of the year).

A usual seasonal price increase for US softwood pulp did not materialize as demand for paper goods continued to drop. Box shipments were down 3.5 per cent, uncoated freesheet dropped by 7.3 per cent while coated groundwood showed the greatest decline, by 14.3 per cent from July 2007. (SOURCE: www.foex.fi)

Former P & T Mill Reopens

The Halsey, OR pulp mill closed on May 9 when Pope & Talbot went bankrupt. New owners Wayzata Investment Partners quickly formed a company called Cascade Pacific Pulp LLC as a wholly owned subsidiary to run the mill.

Newly president Wayne Henneck is the former general manager for the mill.

Operations resumed June 27 with Cascade hiring most of the mill's former employees, the company said in the news release.

The mill employs about 150 people and has the capacity to produce 180,000 tons of bleached and unbleached pulp per year for use in various paper products and building materials.

European Timber Imports

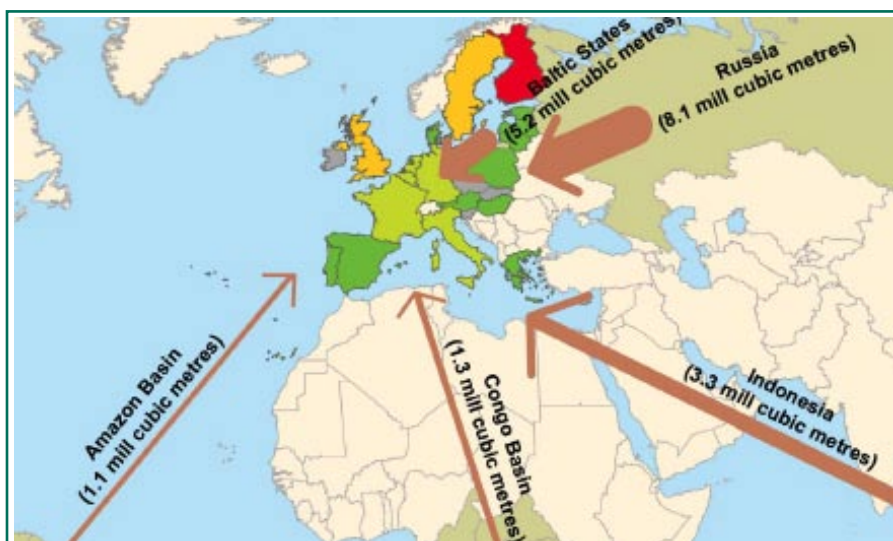
A battle is raging in Europe over the import of timber from so-called 'questionable' sources. The World Wildlife Fund on Tuesday criticised the European Union's illegal wood imports, singling out Finland as the top offender.

In 2006, the EU imported some 30 million cubic metres of wood or wood products that were of illegal origin, mainly from Russia, China and Indonesia, according to the WWF report.

Finland, which is home to several of the world's largest paper makers, is the biggest importer of Russian wood to Europe, but legitimate imports into the Nordic country have fallen since Moscow began gradually ratcheting up export duties in 2006.

According to WWF, some 3.7 million cubic metres of Russian roundwood was illegally imported into Finland that year, corresponding to about 14 per cent of all EU wood imports "based on products derived from illegal sources."

The conservation group acknowledged that some large Finnish forestry groups have gone to great lengths to exclude illegal wood from their production chain. WWF meanwhile listed Britain, Germany and Italy as the largest importers of furniture and other wood products from Asia, including China and Indonesia, estimating that about 40 per cent of these products originated from illegal logging.



2004 Total Regional Imports of Illegal Timber to EU States

<http://www.wwf.or.jp>



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2008 Forest Industry Report

The total sales of the PwC Top 100 were US \$343.3 billion in 2007, up from \$317.3 billion in 2006. The 20 largest companies accounted for nearly 60% of total sales. Net income received a boost from gains on asset disposals, notably from Temple-Inland's \$2 billion gain on the sale of its timberlands.

by Kéta Kosman

One startling finding was that Canada is at the bottom of the entire group for reinvestment ratio (capital investment as a percentage of depreciation) at 0.4 per cent in 2007. This is down from 0.8 per cent in 2006. In contrast, the greatest reinvestment ratio was found to be in China and Latin America (with 3.08 and 2.84 respectively). American wood products companies actually increased their ratio in 2007 to 1.25 per cent (up from 0.9 per cent in 2006).

No Canadian company and three American companies made it into the top 10 of PwC's Top 100 List of Income Earners. International Paper was first on the list at number one, with a net income of over US\$1,000 million. The top Canadian company was Domtar at number 15 with an annual net income of US\$70 million. Finnish, Swedish, Japanese and Irish companies rounded out the top 10.

Regarding macroeconomic issues the report states that, "The credit crisis, collapse in US housing starts, Russian log export tax, excess lumber capacity, and the beginning of the end of the British

Columbia mountain pine beetle epidemic are all factors having a particularly strong impact on the global lumber industry."

The continued practice of mergers and acquisitions is helping to keep the Canadian and American forest products industries dynamic, with major steps forward by Brookfield Asset Management in particular.

The report contains some fascinating statements on biomass energy projects, notably, "The pulp and paper industry has a unique opportunity to capture value as a result of its access to fibre and existing ability to generate energy, however bio-refining may actually provide the best long-term opportunities. There will likely be a significant first-mover advantage, and choosing the right technology and the right product will be critical. [...] February 08, BC Hydro issued a Bioenergy Call – Phase 1, soliciting potential projects to provide energy generated from forest biomass. A wide range of companies responded with proposals, including both well-known Canadian forest products producers and smaller players."

It is clear that fuel from biomass will be a long term source of revenue for lumber companies. A simple change to the current business model needs to take place, whereby recovery of wood residue becomes a priority. Particularly in British Columbia, where a large-scale lucrative product has as yet to be found for the vast amounts of beetle-kill.

In addition PwC mentions that wood pellets as a fuel source are also the verge of becoming much more marketable.

The report can be read in its entirety on the PwC website (LINK)

US Economy Salvage Operations

In an effort to keep more Americans in their homes, and to prevent the possible collapse of federally-sponsored mortgage brokers Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), the US House of Representatives passed a massive rescue package to shore up the struggling housing market.

by Kéta Kosman

The plan allows Fannie and Freddie, which are chartered by Congress but are privately run companies, to have access to an expanded credit line of US\$25 billion from the Treasury Department and even access to money from the Federal Reserve if needed.

In addition to throwing a lifeline to Fannie Mae and Freddie Mac, the legislation would authorize the Federal Housing Administration to refinance \$300 billion of failing mortgages and provide communities hard-hit by home foreclosures with about \$4 billion in federal aid.

Subprime loans with easy terms and built-in payment spikes helped fuel a five-year housing boom that ended in 2006.

Thirty-year mortgage rates hit one-year highs last week, eroding demand for U.S. home loan applications, according to data from the Mortgage Bankers Association released on Wednesday.

The U.S. Congressional Budget Office said the estimated cost to taxpayers would be incurred over 2009 and 2010, if Congress approves the plan proposed by Treasury Secretary Henry Paulson amid a deep slump in the U.S. housing market.

CBO estimated there is a "probably better than 50 percent" chance that the proposed new Treasury authority would not be used before it expired at the end of December 2009."

Critics have said Paulson's plan is too open-ended and could cost taxpayers too much, while supporters have stressed the need for reassuring markets of the government's willingness to stand behind the companies.

Fannie and Freddie together hold or guarantee just under half of the United States' \$12 trillion in outstanding home mortgage debt.

