

MADISON'S LUMBER REPORTER®

Publisher
KetaDesign Productions

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Annual Subscription Prices
E-mail/Fax: C\$339
Discounts available for multiple
subscriptions
Published 50 times a year

www.madisonsreport.com
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604 984-6838
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add 5% GST
ISSN 0715-5468
Printed in Canada

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News & Updates

Canfor Will Not Rebuild Prince George Plywood Plant

After a financial review and a look at some projections of plywood prices into the future, Canfor Corp. has decided not to rebuild its North Central Plywood plant in Prince George. Currently the insurance payout for the burned-down mill is estimated at \$36 million above the cost of the lost mill, however that may change for the year-end assessment. The estimated cost of rebuilding the mill has been pegged at about \$50 million. 280 employees are to get between 10 and 15 days pay for each year at the mill, and Canfor intends to transfer the majority of staff to its other operations.

The insurance payout pushed Canfor's 2Q results to a profit of \$64 million (compared to a loss of \$39 million for 2Q 2007).

\$16 million of the insurance money will be used to build a wood residue energy facility at its sawmill in Fort St. John, BC. Mark Feldinger, Canfor vice-president based in Prince George, told *Madison's* that the company has been looking into energy systems for its mills and plans to follow this business model long into the future. The energy facility at Fort St. John will use residual bark on site to power a conventional hot oil system as a replacement for natural gas. Canfor expects to be able to generate 100 per cent of the sawmill's energy needs. Excess sawdust and shavings will be sold to pulp mills.

US Housing Market

The S&P/Case-Shiller home-price index dropped 16 per cent from a year earlier, the biggest decline since records began seven years ago.

Home prices have fallen every month since January last year, eroding household wealth at a time when consumers are trying to cope with record fuel costs and the credit crunch. [READ MORE](#)

Quarterly Reports Dismal

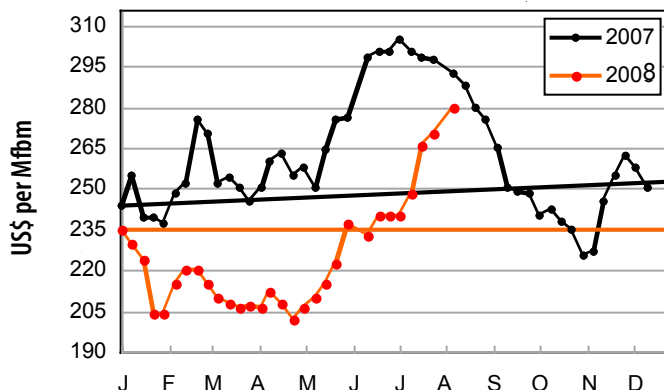
West Fraser Timber Co. turned a profit of \$3 million in 2Q 2008 compared to a loss of \$14 million for the same period last year. Catalyst Paper Corp. showed a loss of \$124 million in 2Q 2008 compared to a profit of \$0.2 million in 2Q 2007. [READ MORE](#)

Lumber Transportation On the Rails

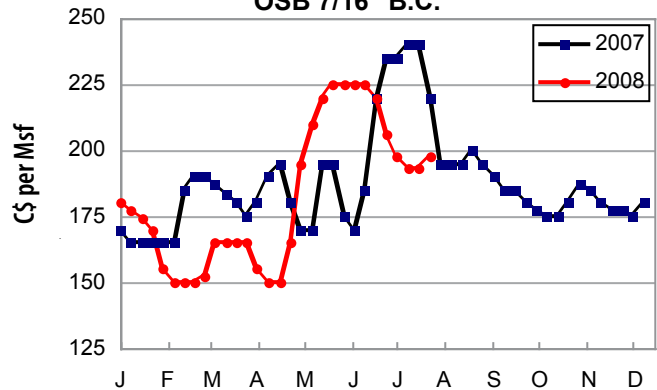
The constant battle of North American lumber producers, particularly the smaller mills, for a stable supply of rail cars prompted some inquiries by *Madison's* around the industry.

The expansion of the Port of Prince Rupert, a potential shipping hub in Prince George at the inland port, and the intended purchase of Elgin Rail by Canadian National Railway could all be potentially exciting developments for rail transport. [READ MORE](#)

WSPF KD #2&Btr 2x8



OSB 7/16" B.C.



Key Prices

| | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|----------------------------|-----------|-----------|--------|-----------|--------|----------|--------|
| WSPF KD R/L 2x4 | 266 | 266 | 0 | 246 | +20 | 260 | +6 |
| WSPF KD R/L 2x6 | 270 | 262 | +8 | 236 | +34 | 260 | +10 |
| WSPF KD R/L 2x8 | 280 | 270 | +10 | 240 | +40 | 297 | -17 |
| WSPF KD R/L 2x10 | 285 | 282 | +3 | 255 | +30 | 358 | -73 |
| WSPF KD PET 2x4 Stud | 218 | 222 | -4 | 245 | -27 | 270 | -52 |
| Douglas Fir Green R/L 2x4 | 185 | 190 | -5 | 218 | -33 | 245 | -60 |
| Douglas Fir Green R/L 2x10 | 230 | 228 | +2 | 200 | +30 | 275 | -45 |
| ESPF KD 2x4 8ft Stud | 305 | 310 | -5 | 310 | -5 | 345 | -40 |
| OSB Ontario 7/16" (CDN\$) | 205 | 215 | -10 | 210 | -5 | 225 | -20 |

Weekly News

US Home Sales

CONTINUED Home prices in 20 U.S. metropolitan areas fell at a faster pace in May, and consumer confidence in July stayed near the lowest level since 1992. No city in the 20-city index experienced price gains in May for the second straight month.

The value of housing in Detroit is now lower than it was in 2000. Las Vegas and Miami recorded the worst drop, with prices plunging 28 per cent.

"House prices will continue to drop because inventories of unsold homes remain high," said Patrick Newport, an economist at Global Insight.

"Recent progress on reducing inventories has been modest. This is bad news because inventories need to come down considerably for the housing market to equilibrate."

Stricter loan rules, rising mortgage

rates and an increase in foreclosures are making it more difficult for prospective buyers to get financing, hurting home sales. Purchases of existing homes fell to the lowest level in a decade in June, according to the National Association of Realtors. New-home sales decreased 0.6 per cent, the Commerce Department said. The report also showed that the number of unsold new properties dropped by the most since November 1963.

"The good news is clearing the inventory, the bad news is prices are going down," Karl Case, co-founder of the S&P/Case-Shiller home-price index.

The home-price index was forecast to fall 16 per cent from a year earlier, after a previously reported 15 per cent drop in the 12 months ended in April, according to the median forecast of 25 economists surveyed by Bloomberg News.

Last week, the Reuters/University of Michigan final index of consumer senti-

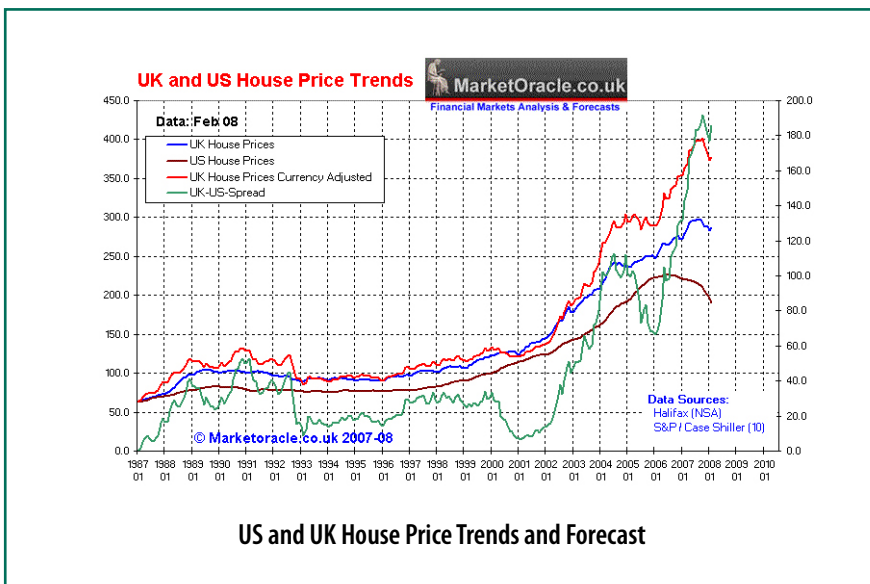
ment for the month unexpectedly rose from the lowest level in 28 years. The gauge increased to 61.2 from 56.4.

Financial Results

A West Fraser statement explains that "The improvement [. . .] considered in the context of the significant inventory write-downs that occurred. Our first half loss of \$65 million is a better indicator [. . .]."

The Catalyst Paper results were significantly impacted by an after-tax impairment charge of \$101 million related to the closure of the Elk Falls pulp operation in November.

Before a charge relating to industry-wide antitrust litigation, Norbord recorded a loss of \$15 million in Q2 2008 compared to a loss of \$15 million in Q2 2007. After the litigation settlement charge of \$32 million (pre-tax), Norbord's Q2 2008 loss was \$37 million.



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Lumber Transport

On the Rails

According to the Railway Association of Canada, forest products account for a full ten per cent of annual freight transportation in Canada. In 2006, rail transportation of forest products contributed \$928 million to rail company coffers (second only to agriculture, at \$1,125 million). So why is it that *Madison's* hears weekly from lumber producers, especially medium-sized mills, that cars are difficult to source? And why is it that there are significant numbers of centre beam rail cars sitting empty on rail sidings all over the Lower Mainland? We can only assume the same is true across Canada, possibly even in the US.

With increasing disillusionment, lumber producers in Canada and the western United States have witnessed a decline in service in recent years from the combined rail lines. The amalgamation of Canadian National Railway with BCOL in 2005 was held by CN as the greatest improvement in freight transportation history. Skeptical traders opined that the only difference from the old, disorganized process of intersecting lines across Canada, would be a negative one.

Not only were the detractors proven correct, but the monopoly on rail traffic in western Canada by the CN has made the company significantly less responsive to customer needs: cars are late; the wrong sizes and types of cars are delivered; the wrong cars are shelved at mills that didn't order them and they end up paying for them sitting empty.

Down the west coast, Union Pacific has nearly as much to answer for as the CN in Canada. Cars end up unexpectedly in places where they are not needed while other mills of the same recipients go begging for cars.

Arrow Reload in British Columbia told *Madison's* that lumber reloads generally deal with one rail company, in their case it is Canadian Pacific. Eric Larnder, Operations Supervisor in Kelowna, BC said that their land is owned by CP, so all he has to do is "pick up the phone" and he gets all the cars he needs. When asked about cedar delivery, Larnder said that they see very little of it in their neck of the woods, especially this year. They have moved maybe one car of cedar since last year. The closest cedar producer to their location is Gilbert Smith Forest Products, who have been trucking almost exclusively. Arrow Reload sends their shipments mostly in an east-erly direction, generally to Minneapolis.

Mark Thompson, Transportation Group manager for West Fraser Timber, deals with Canadian National Railway. He told *Madison's*

that all 27 of his mills across British Columbia and Alberta have had no problems sourcing centre beam rail cars at all in the past three months. When asked to compare that with last year, he said there has been a dramatic improvement, however that lumber shipments are down 65 per cent since 2007. Box cars on the other hand are quite difficult to get (in fact he had just got off the phone with CN discussing that very thing when we called), partly due to competition from the agricultural sector.

Many other circumstances, such as bad weather in the United States which has affected the cycle time for cars returning to Canada, are impacting the availability of box cars. Also distribution changes are having an effect, such as a lot more product (for example pulp) being exported rather than being shipped to customers in North America. Thompson explained that congestion in the ports is causing a delay in the return of cars. In addition, CN is upgrading their service design plan, restructuring their crews and introducing other operational changes, which is having a temporary effect on logistics. Generally speaking, for this important lumber shipping season, CN box cars are chronically short.

One source told *Madison's* that rail companies trade cars between each other; if one does not have anything available in a certain location they will use cars from another company. However Thompson explained that this is not the reality (even though the rail companies will tell you it is, he said) because they must then pay a "car hire" or "switching" fee. CN wants a shipment that originated using their cars to keep to their cars only. Consensus amongst those with long-term experience dealing with rail lines is that they "don't have it together", and don't even know where their own cars are half the time.

The Railway Association of Canada publishes annual reviews of railway trends on their website. The latest figures show a 10 year average of 412,000 carloads of agricultural products and 382,000 carloads of forest products annually, generating an average of \$888 million and \$786 million annually respectively. This begs the question: Why are lumber producers regularly denied box cars in the interest of produce? Thompson explained that transit time for lumber is irrelevant. But a carload of blueberries or peaches can be very sensitive.

The two most exciting developments for rail transportation issues in North America of late is the expansion of the brand-new Port of Prince Rupert, and the proposed purchase of the Elgin, Joliet & Eastern Railway Company in Joliet, IL by CN Rail. Integration of that rail line with CN would save 18 hours of travel time from the Port of Price Rupert to the hub in Memphis, TN. However, as Thompson pointed out, a one-day reduction in travel time really makes no difference for a forest products company. Recently the Port of Prince Rupert welcomed the arrival of the first load from a second weekly vessel by COSCO. Thompson maintains that the port will need to greatly expand its carrier base before it becomes viable as a long-term distribution centre for a company like West Fraser, which uses almost 20 cargo carriers across North America.

An email reply from CN's Public Affairs department explains that, "Note that the volume of Prince Rupert traffic CN anticipates in future will not change as a result of the transaction [purchase]. If the status quo remains we don't expect the Prince Rupert / Memphis route harder to market in the short run, but failure to get the expected efficiencies could make the Prince Rupert/CN option less competitive with other ports/railroads over time. " Basically the Port of Prince Rupert needs this purchase by CN to go through more than CN itself does.

