

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* covers alternate markets for North American wood products while the US housing market crash plays itself out. European and Chinese import rates in recent years are examined.

Sawmill and Pulp Mill Closures

Abitibi-Bowater, Tembec Inc., Catalyst Paper Corp. and Western Forest Products all announced mill and logging operations closures and curtailments this week as the bottom lines of forest products companies across North America continued to plummet.

Tembec Inc. confirmed plans to shut down its BC Elko and Canal Flats sawmill and planer plants for two weeks in October and in early November, forcing the additional reduction in production at Tembec's finger joint facility in Cranbrook, BC. A closure at the company's mill in Cochrane, ON will last for five months, starting at the end of October. Roughly 600 workers will be affected.

Abitibi-Bowater is idling four sawmills and woodland operations, putting 900 Quebec forestry employees out of work. Facilities in Lebel-sur-Quevillon, La Tuque and St-Felicien, QC will close for four weeks. Senneterre, QC will have its shifts reduced after a two-week closure.

4Q of 2008 and the start of 2009 will see reduced production at Western Forest Products' logging operations and sawmills. The company says that for the rest of the year, operating levels will be readjusted to roughly two thirds of those associated with normal markets.

Starting October 20, Catalyst Paper Corp. will close its Snowflake mill in Arizona, for eight days. The shutdown will remove 8,000 tonnes of recycled newsprint from the market. Catalyst Paper paid US\$161 million earlier this year to purchase the Snowflake mill from Abitibi-Bowater.

Harmac Reopens

Newly formed Nanaimo Forest Products started up the bankrupt Pope & Talbot's former Harmac pulp mill in Nanaimo, BC this week.

Smiling faces filled the plant as about 150 of the 530 laid off workers got the mill's boiler going. [READ MORE](#)

The Business of Credit

The greed and lack of foresight of money managers and other financial wizards during the recent US housing boom did more damage than simply precipitate the ongoing massive levels of foreclosures we are seeing now. Businesses and consumers are going to find it increasingly difficult, if not impossible, to get credit due to the rampant speculation and careless practices of lenders. [READ MORE](#)



Prices are in U.S. dollars per 1,000 fbm.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	210	220	-10	282	-72	220	-10
WSPF KD R/L 2x6	210	227	-17	304	-94	245	-35
WSPF KD R/L 2x8	245	260	-15	298	-53	240	+5
WSPF KD R/L 2x10	235	250	-15	305	-70	342	-107
WSPF KD PET 2x4 Stud	195	190	+5	220	-25	238	-43
Douglas Fir Green R/L 2x4	155	170	-15	187	-32	200	-45
Douglas Fir Green R/L 2x10	195	200	-5	250	-55	290	-95
ESPF KD 2x4 8ft Stud	250	260	-10	285	-35	310	-60
OSB Ontario 7/16" (CDN\$)	195	190	+5	220	-25	178	+17

Weekly News

Harmac

CONTINUED Harmac employees lost their jobs when the pulp mill, which has been a prominent employer in the Nanaimo area for more than 60 years and one of the city's top taxpayers, shut down.

About 200 workers started at the mill at 7 a.m. Thursday morning to bring the first of Harmac's three pulp lines in operation and its expected about 300 workers will be back to work when the second line begins, likely early in the new year.

Harmac has a five-year contract with a purchaser for 100 per cent of its pulp product, with the bulk of the pulp heading to markets in Asia and Europe, with a small amount heading to the U.S.

There are no plans yet to ramp up a third line, but company officials say further decisions will be made down the road according to market demands.

Announcement

Domtar Corporation announced the appointment of John D. Williams as President and CEO, effective January 1, 2009. Mr. Williams joins Domtar from SCA Packaging Europe where he served as President since 2005. Mr. Williams will relocate from Brussels, Belgium to Montreal, Canada and will be appointed to Domtar's Board of Directors when he takes up his new position. As previously announced, Mr. Royer will retire after 12 years as CEO, when Mr. Williams assumes his new responsibilities.

A Reader Responds . . .

I was reading your Madison's Reporter of 9/25/08 which I really enjoy until I start reading your political comments about John McCain. Who are you to slam the Republican Party candidate for President? I have no problem with you having a view

but to print your personal opinion on an issue shows your allegiance burns me. I don't care about your opinion in our Presidential race. I want information that is unbiased or I will cancel my subscription.

I wonder who else you offended with your two comments about John McCain in two different articles in the same issue. From my 30 years experience in the Lumber Industry I find a vast majority of (lumberman) your readers are Republicans. That being said I bet you would also find that we don't care to have our Lumber Reporter tell us how to think about any political issue.

Just go back to reporting the facts without comment like "We will see how McCain explains his way out of that one". What does that mean? McCain "Futilely gave it his best to have Friday, September 26, televised debate cancelled". What are you referring? He felt there was something more important on the American plate than that!

Signed, Ripped Reader!!!

Rick Cornell

Director of Lumber Purchasing
Rainbow Play Systems, Inc.

Madison's market comments are gleaned from weekly interviews with a wide variety of sources. Quotes are from these (unnamed) sources and the balance of the comment is our interpretation of their opinions. It is not our intent to espouse one American political party over another, but rather to bear witness to a brawl from the opposite side of the street. However, as the financial crisis in the US affects all business, in Canada and throughout the world, it is our mission to attempt to understand for our readers how the American government's actions may skew the lumber market. - Zara Heartwood, Madison's Market Analyst



Harmac Pulp Mill Thursday

SOURCE: Nanaimo Daily News

Credit

New Difficulties

With supposedly safe, stable investments in various 'paper assets' being proved worthless on the market this year, credit - and even actual cash to lend - is becoming increasingly scarce. The fresh turmoil on Wall Street and the US government's seeming lack of decision on how to settle the disarray is causing further uncertainty. Top financial analysts and stock traders alike, not to mention international political leaders, have vastly differing opinions on how to proceed.

by Kéta Kosman

One thing everyone can agree on is that this unique combination of circumstances has never happened before.

The impact will be felt in households and businesses across North America, particularly those operating under a razor thin financial status. Already this week Canadian companies that were relying on a continued line of credit just to keep normal operations going had to close due to rejection by their lending institutions. This week lumber traders reported similar trouble in the southwestern United States. One KD Fir trader with contacts in California told *Madison's* that "at least two sources in Los Angeles had stories of half-finished building projects that were de-

serted by workers who dropped their tools and walked off the job because they were not paid". A Canadian MSR dealer who drafts weekly status sheets totalling up to millions of board feet for his customers had zero orders from his two biggest clients. A veteran with many decades of experience, he declared that "this has never happened before".

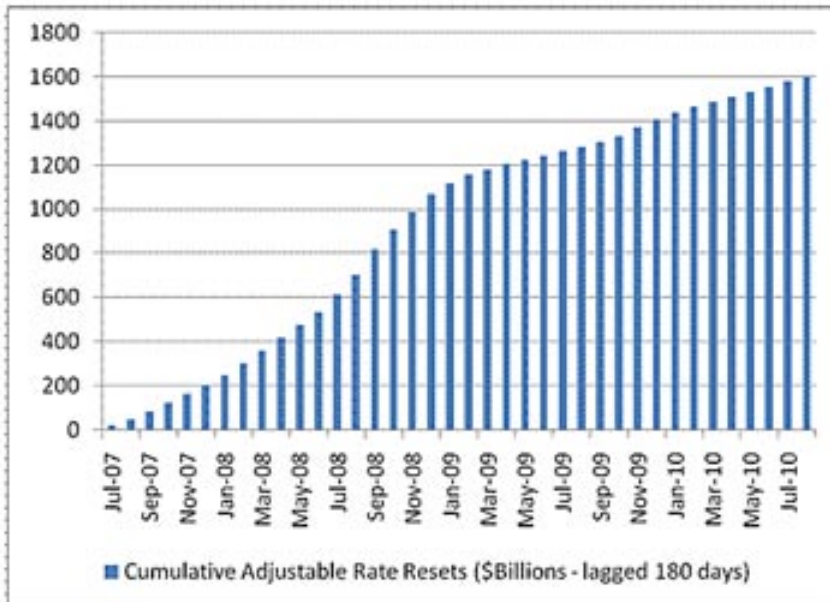
How it will all play out in the coming months is not known. Perhaps after some initial weeks of panic, and recalculation of actual dollar figures, business will return to normal. However it seems obvious that any company, or household, that has needed an uninterrupted source of credit just to maintain a status quo is going to receiving bad news in the very near future.

The agriculture sector, a close relative to the forest products industry, is already feeling lighter wallets in the US. The American Farm Bureau said last week that the financial crisis now gripping the United States could moderate both global and domestic demand for US farm products, according to the *Globe and Mail*. Farmers are being offered lower prices for their products at the same time as they are being forced to pay higher prices for the supplies they need. Consumer demand worries are just part of the negative tone in the agribusiness and food sectors. With credit crisis uncertainties spreading out globally, suppliers to farmers are being swamped with doubts.

This week governments from London to Berlin have seized or bailed out five faltering banks. In Ireland, where rumours of panicked withdrawals from banks spooked the stock market, the government has offered a two-year blanket guarantee on all deposits and bank debt, according to the *New York Times*. Some of these banks suffer a form of guilt by association by being in the home lending business. Others, like Fortis, lack a strong base of deposits, which acts as a buffer against credit-related jitters. Russia has plowed its oil wealth into American debt, including Fannie Mae. Russia has additional problems, including unstable oil prices and a newly assertive foreign policy that is unpopular with many investors.

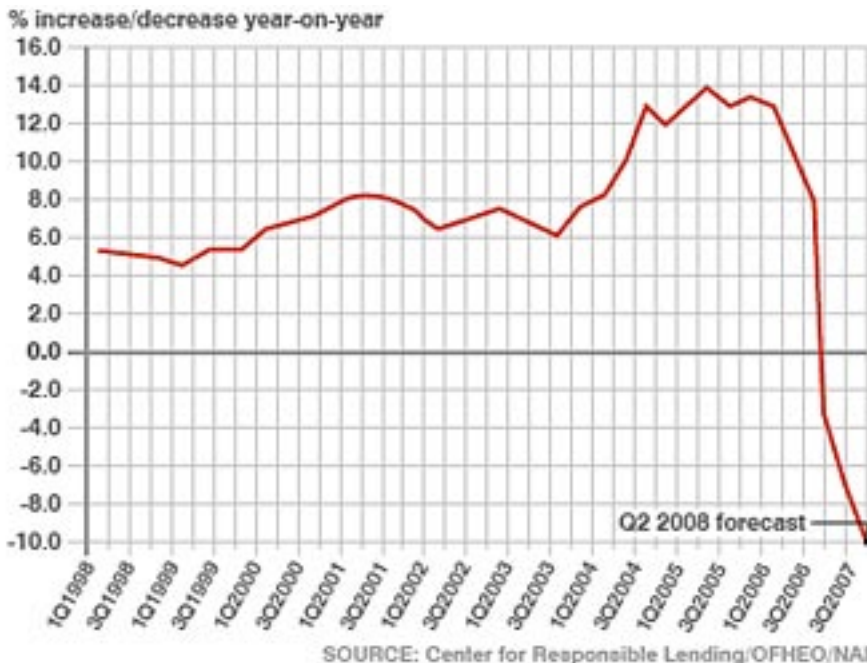
A lot of eyes are turning towards China, of all places, for a solution. Britain's *The Guardian* ran a story this week about western delegates at the World Economic Forum's conference this summer. Chinese investments in US and European financial assets have gone sour in the toxic meltdown, so that country's leaders are demanding global co-operation to fix the regulatory framework.

There are going to be a lot of meetings, a lot of recalculations, and a lot of discussion about how to best get out of this widespread credit drought. For North American wood products companies, negotiations are going to be difficult as long as the reliance on the US housing market continues. Now that almost all analysts agree with what *Madison's* was saying at the beginning of this year, that it won't be until 2010 at the soonest before home building in the US reaches normal levels, lenders will be wary of extending credit to the forestry sector.



Mortgage Rate Resets

www.hussmanfunds.com



SOURCE: Center for Responsible Lending/OFHEO/NAR

US House Price Trends