

MADISON'S LUMBER REPORTER

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News & Updates

Mackenzie Pulp Mill Stalled

The planned startup of the bankrupt Pope & Talbot's former pulp mill in Mackenzie, BC has been put on hold for 60 days. Late last week union leaders told staff to start looking for work elsewhere. New owners, Edmonton's Worthington Properties, had another look at their numbers in the face of recently falling pulp prices and the global credit crisis and did not like what they saw. Company president Dan White returned from China recently, after a search for a stable pulp customer. While Worthington Properties does intend to run the operation as a long term project, in the short term the plans are to winterize the mill and wait out the current difficult market situation.

Sawmill and Pulp Mill Curtailments

Ainsworth Lumber is taking temporary downtime at its oriented strand board mill in Bemidji, Minnesota. Starting October 6, the mill will stop operating due to reduced customer demand and log shortages. The facility employs 140 people. The mill has an annual production capacity of roughly 350 million square feet. [READ MORE](#)

Canadian Housing Permits

Canadian building permits fell far more than expected in August as both the residential and non-residential sectors registered big declines

The value of construction permits fell 13.5 per cent in August from the previous month, and down 0.7 per cent from one year ago. [READ MORE](#)

Japanese Housing Starts

Total Japanese starts in August were 96,905, 54 per cent more than the same month one year ago, marking a second consecutive monthly increase.

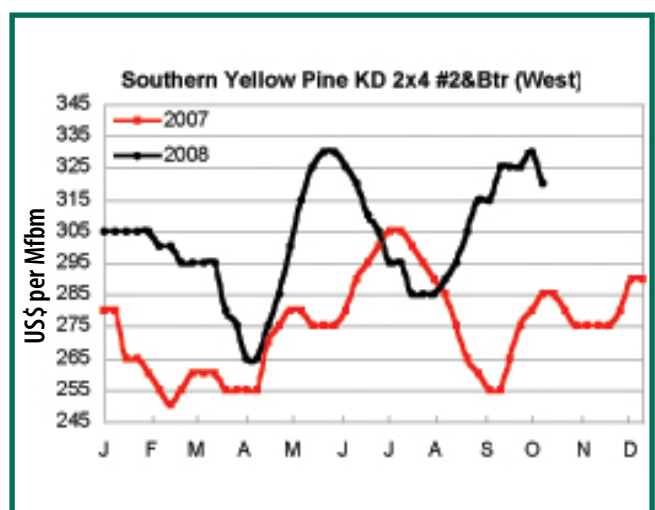
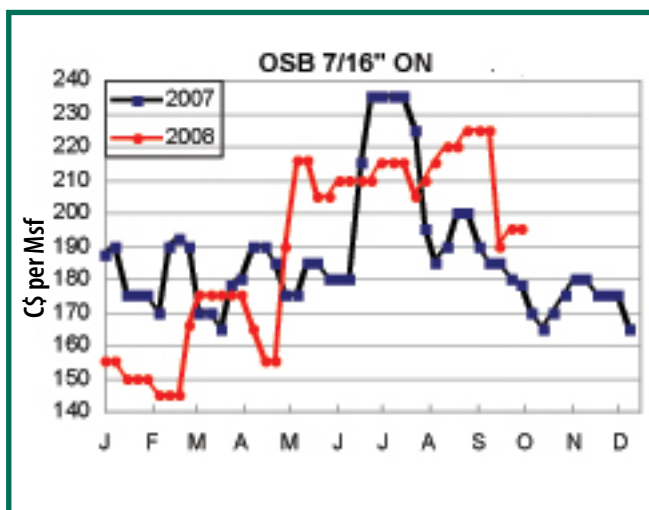
Wood framed units increased by 41 per cent to 46,391. Wood based traditional units increased by 38.3 per cent and 2x4 units by 56 per cent. [READ MORE](#)

Lumber Industry Investment

In another indication that the smart money knows the lumber industry will become profitable again, at some point in the future, Toronto's Fairfax Financial Holdings Ltd. boosted its ownership stake in Interfor for the second time in three days, bringing its holdings to more than 19.7 per cent [READ MORE](#)

Credit Problems

North American lumber producers face yet another tough year as lumber prices hover near 17.5 year lows and a credit crunch prolongs the worst housing market slump since the Great Depression. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	197	210	-13	270	-73	226	-29
WSPF KD R/L 2x6	200	210	-10	295	-95	246	-46
WSPF KD R/L 2x8	230	245	-15	300	-70	242	-12
WSPF KD R/L 2x10	215	235	-20	292	-77	352	-137
WSPF KD PET 2x4 Stud	182	195	-13	225	-43	230	-48
Douglas Fir Green R/L 2x4	155	155	0	180	-25	190	-35
Douglas Fir Green R/L 2x10	195	195	0	240	-45	295	-100
ESPF KD 2x4 8ft Stud	255	250	+5	285	-30	310	-55
OSB Ontario 7/16" (CDN\$)	195	195	0	225	-30	170	+25

Weekly News

Down Time

CONTINUED Tembec is implementing production curtailments totalling 35,000 tonnes from its three high-yield pulp mills in an effort to balance inventory levels. The company's Temcell facility in Temiscaming, QC, will absorb the largest production cut for four weeks, with 16,500 tonnes being removed. Tembec's Chetwynd, BC mill will close for two weeks in October, a shutdown that will effectively remove 4,000 tonnes from the market. The Matane, QC mill will be subject to two closures in October and November, removing 14,500 tonnes.

Tolko is temporarily closing its stud mill and planer operations in Soda Creek mill in Williams Lake, BC starting on Oct. 20 for at least a month, affecting about 145 employees. Nearly nine million board feet will be removed from the marketplace.

Canfor Corp. said Wednesday that it will be closing indefinitely its Tackama plywood plant in Fort Nelson, BC, due to continued poor demand and low prices for plywood across North America. 290 workers would be affected when the plant closes after the existing log and veneer inventories are depleted. The Tackama plant has an annual capacity of 220 million square feet of plywood.

Building Permits, Canada

CONTINUED Most economists had expected a decline of between 1.3 and 1.5 per cent in August.

The residential sector posted a 9.3 per cent decline to \$3.4 billion in August from the previous month. The decline was due to a 17.5 per cent drop in multi-family dwellings, coupled with a 3.8 per cent decline in single-family dwellings. Most of

the residential declines were concentrated in Ontario and Quebec. Together, the two provinces accounted for about two-thirds of the decline in the residential sector.

The value in the non-residential permits fell 19.3 per cent to \$2.2 billion as a result of declines in all main areas.

"The takeaway from this report is that overall economic activity is cooling. It is now not only a slowdown in the housing market, but also a slowdown in the non-residential sector," said Charmaine Buskas, senior economics strategist at TD Securities. "As fewer factories and warehouses are built, it suggests that underlying demand on the business side of the economy is weakening."

Wood Homes in Japan

CONTINUED Starts on owner-occupied houses rose 36 per cent to 31,444 units, up for the second month in a row. Starts on rental homes grew 60 per cent to 38,304 units, also for a second consecutive month, and those on homes for sale by developers, including condominiums, climbed 74 per cent to 26,412 units.

JAPANESE HOUSING STARTS				
Month	TOTAL	Non-Wood	Wood	%Wood
Jul-08	97,212	51,877	45,335	47
Jun-08	100,929	53,328	47,601	47
May-08	90,804	48,075	42,729	47
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

Source: Japan Wood-Products Information and Research Center

Calendar

September 2008

Alberta Forest Products Association 62nd AGM

Sept 28 to Oct 3 - Jasper, AB
<http://www.albertaforestproducts.ca>

October 2008

SIBO Industrial Woodworking Show

October 23 to 25 - Laval, QC
<http://www.sibo.ca>

Lumber Industry Investment

Largely devalued shares of wood products companies are proving too delicious to resist for all manner of financial investment groups.

An insurance and investment management firm, Fairfax said yesterday it now holds 6.8 million of Interfor's class A shares, roughly a 14.75 per cent stake. In recent months, Fairfax has shifted its attention from financial services to a beaten-down companies in a wider variety of sectors.

Earlier this year, Fairfax decided to step into the troubled paper and forestry industry by making a \$350 million investment in AbitibiBowater Inc.

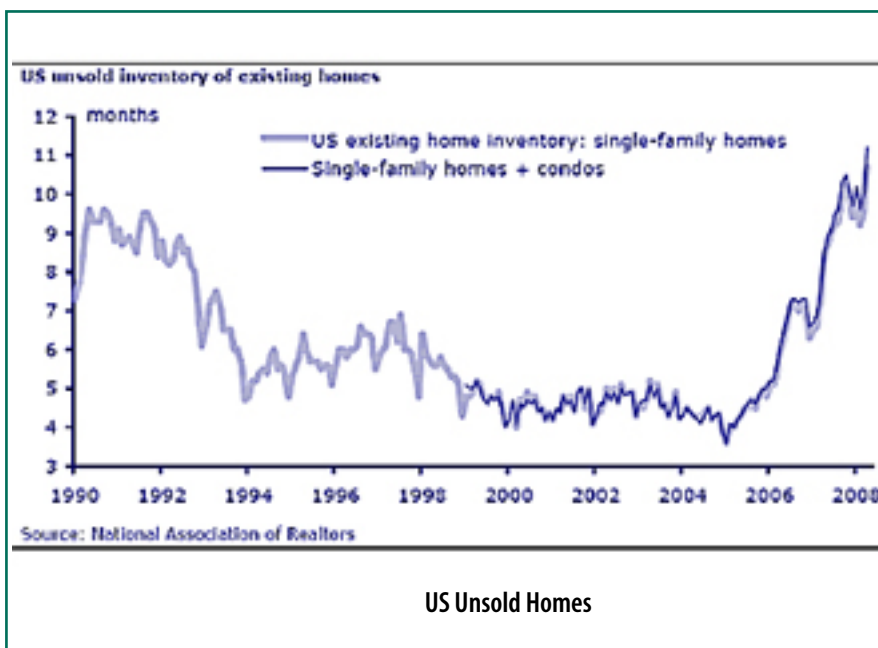
Transactions such as these are based on the principle that company stocks are currently so undervalued that their price can only go up. The question is when. Many investors play a short term game, hoping for profitable returns in 90 days or maybe six months.

Pension funds, universities and other groups look for long terms investments. They don't need to show a profit on the money for three or four years into the future.

In this case there is no question that Farifax will make a tidy sum on its stake in Interfor. The unknown factor right now is

by Kéta Kosman

said yesterday it now holds 6.8 mil-



how much of the 99 per cent B class holdings currently in the hands of the Sauder family will remain there. Fairfax if probably betting on a sell off in the near future.

US Housing Long Term Problems

The pace of new home construction has plunged more than 60 percent from a peak in early 2006. Lumber producers,

who sell 40 to 45 percent of their product to home builders, have yet to fully adjust to the steep drop-off in demand.

Diminished consumer confidence has also dampened demand for remodeling projects, another key outlet for lumber.

Some integrated mills have been relying on better returns in other businesses such as pulp and paper while others were absorbing losses in hope of a housing recovery.

But the economy's latest struggles are turning to gloom what was once mistaken optimism of a mid-2009 housing rebound by some analysts.

The number of unsold homes on the market has bulged to a more-than-10-month supply at the current home sales pace while prices have dropped. More and more foreclosed homes are adding to that supply, oftentimes at cheaper prices with which home builders cannot compete.

Lumber producers have cut output significantly since the housing market turned sour, but more cutbacks are needed as mills are still producing enough wood to build at least a million homes a year, according to several analysts.

The mass migration of investment fund money out of commodities markets helped speed the plunge in lumber prices to multi-year lows on signs that the credit crisis is spreading.

Nearby CME lumber futures fell to a near-eight-year low of \$183.70 per thousand board feet this week and are poised to slip below \$180, a level not seen since May 1991.

Most lumber production cuts to date have been limited to brief shutdowns of a few weeks at a time, but there have been signs that the climate was getting increasingly dim.

