

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week Interfor is examined. The recent purchase of a sizable amount of Interfor shares by Fairfax Financial Holdings at a deep discount helped send Fairfax shares up 20 points. Contact us anytime to start a subscription.

Sales, Closures, Cancellations

East Fraser Fiber Co. Ltd. and Parallel Wood Products Ltd. will close their fingerjoint stud plants in Mackenzie and Williams Lake, BC, for an indefinite period, effective October 17. The shutdowns are the result of falling stud prices.

Jackpine Group will be shutting down all Williams Lake production centres for two weeks, effective October 20, due to the poor housing market which has fallen to about 40 per cent of levels set three years ago. The two-week shutdown will take about 4.5 million board feet out of the market and affect about 100 employees at the two Williams Lake operations.

International Paper will shut down its plants in Stockbridge, GA and Hanford, CA, in December. The news comes on the heels of last week's announcements of closures in Ohio and Oregon. Roughly 86 employees in Stockbridge and 90 in Hartford will be put out of work by the closures.

Weyerhaeuser is selling off its Trus Joist Commercial division to Atlas Holdings. Four plants in the US are included in the transaction, as well as 13 sales and engineering offices, representing employment for approximately 428 people. The sale will allow the company to hone in on its core strategies in the residential structural frame market.

Ainsworth Lumber Co. Ltd. has terminated a commitment agreement with the government of Manitoba on a planned engineered wood production facility. The May, 2006, agreement contemplated the issuance of a forest management licence for 838,000 cubic metres annually of timber on a renewable 20-year basis. Ainsworth is no longer required to post a performance bond and the associated \$2.5-million will be returned to the company.

US Housing Starts

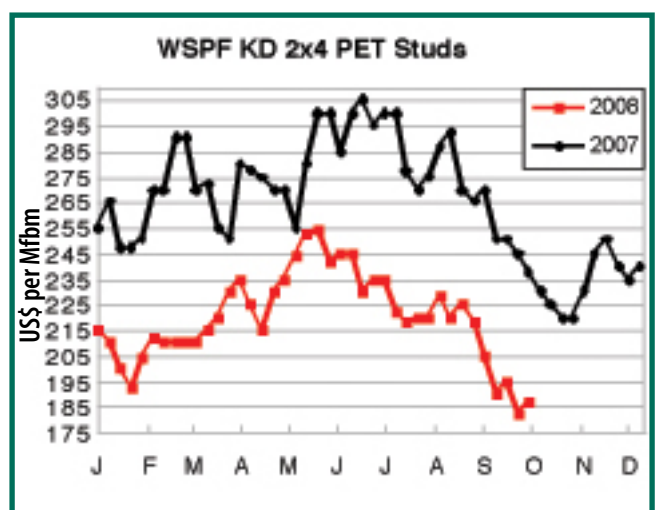
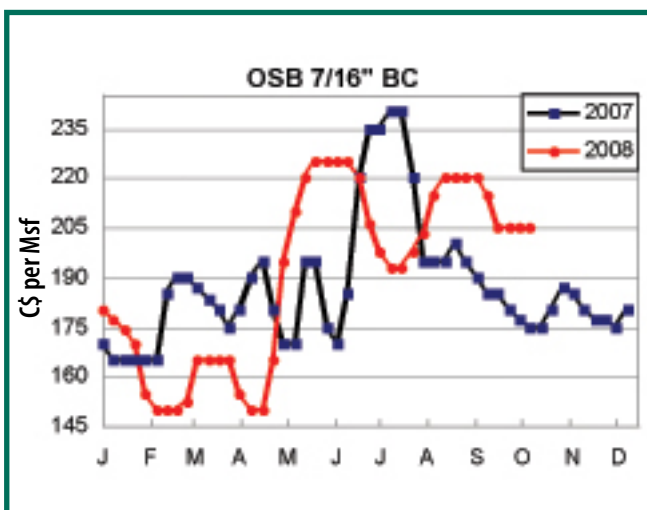
As expected, dismal September housing starts in the US did little to encourage analysts that the economy there can be expected to rebound anytime soon. [READ MORE](#)

Global Mortgage Buyouts

In a different type of bailout package than that recently enacted in the US, the Government of Canada will ensure \$5 billion in mortgages held by the federal agency Canadian Mortgage and Housing Commission. However there are no sub-prime mortgages included in the deal. [READ MORE](#)

European Trade with Canada

Given that a rebound of the US construction industry is likely far off, this week's push of French president, and current president of the European Union, Nicolas Sarkozy for a trade agreement with Canada could not be more welcome. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	204	197	+7	252	-48	222	-18
WSPF KD R/L 2x6	206	200	+6	275	-69	241	-35
WSPF KD R/L 2x8	230	230	0	290	-60	238	-8
WSPF KD R/L 2x10	220	215	+5	290	-70	338	-118
WSPF KD PET 2x4 Stud	187	182	+5	218	-31	225	-38
Douglas Fir Green R/L 2x4	135	155	-20	168	-33	190	-55
Douglas Fir Green R/L 2x10	190	195	-5	210	-20	300	-110
ESPF KD 2x4 8ft Stud	255	255	0	310	-55	310	-55
OSB Ontario 7/16" (CDN\$)	205	195	+10	225	-20	165	+40

Weekly News

US Home Building

CONTINUED Falling home prices, soaring foreclosures and financial turmoil made it more difficult for prospective home buyers to get a mortgage, causing builders to brace for a deeper downturn. In September, building permits fell 8.3 per cent to a nearly 27 year low, and construction starts fell 6.3 per cent to a seasonally adjusted annual rate 817,000 units, a new 17 year low.

This was the weakest rate for permits since November 1981, and was below forecasts for an 850,000-unit rate. The rate of new permits in September was 38.4 per cent below that of the same month last year, while total housing starts for the month showed a 31 per cent year-on-year drop.

The September rate of starts on single-family homes fell 12 per cent to a 544,000-unit annual rate, the slowest pace

since August 1982. Construction starts for multifamily units rose 7.5 per cent to an annual pace of 273,000 units. However multifamily permits fell 16.4 per cent to 254,000 units.

The latest US government report on new home sales showed demand in August tumbled by 11.5 per cent, the lowest pace in 17 years and 34.5 per cent lower than one year ago. Home prices keep falling, which curtails sales. The result - bloated inventories of unsold homes - is depressing prices. Inventories aren't coming down fast or enough because falling prices are curtailing sales.

Expectations are that as home prices continue to maintain low levels, prospective sellers will take their homes off the market. This will help to reduce the almost 11 months worth of unsold home inventory calculated recently by the US National Association of Realtors.

Bank Bailouts

The Canadian government designed the program to help banks raise money for new loans, by taking old home loans off the balance sheet thus giving them more cash to make loans and overcome the severe constraints in global credit markets. There are plans for more purchases totaling \$20 billion.

The government is expected to make a big profit on its program to help banks jump-start lending. CMHC will earn an average yield of 4.24 per cent on the mortgages it bought from banks this week. At the same time, the government sold \$3 billion of five-year bonds to finance the purchase at a yield of 3.24 per cent. The 1 percentage point spread means the government will make \$50 million a year in profit from the interest-rate differential on this batch of loans. The loans the federal government is purchasing are insured, meaning the government shouldn't be putting taxpayer money at risk.

CHMC did not say which institutions offloaded the mortgages from their balance

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	Sep-08	Aug-08		Sep-08	Aug-08
Starts			Permits		
Actual	71,600	77,900	Actual	66,700	73,900
SAAR*	817,000	872,000	SAAR*	786,000	857,000
1 Unit	544,000	618,000	1 Unit	532,000	559,000
2-4 Units	(s)	(s)	2-4 Units	29,000	31,000
5+ Units	254,000	240,000	5+ Units	255,000	273,000
Starts by Region			Permits by Region		
Northeast	117,000	148,000	Northeast	93,000	82,000
Midwest	133,000	126,000	Midwest	129,000	143,000
South	403,000	401,000	South	399,000	443,000
West	164,000	197,000	West	165,000	189,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

Calendar

October 2008

SIBO Industrial Woodworking Show

October 23 to 25 - Laval, QC

<http://www.sibo.ca>

November 2008

NAWLA Traders Market

November 6 to 8 - Chicago, IL

<http://www.nawla.org>

Global Banking

CONTINUED sheets or how much was offered in total. Each issuer was allowed to sell up to \$1.25 billion.

The assets bought by the government, known as National Housing Act mortgage-backed securities, are pools of mortgages issued by banks and other financial institutions and are considered low-risk investments because the mortgages are insured against default by CMHC. Also, Canada's housing market is relatively healthy compared with the US market, so risk of default is seen as minimal.

The government has not yet announced the full schedule of these "reverse auctions."

As financial crisis and bank failures shook world markets, a survey by the World Economic Forum found that Canada has the world's soundest banking system, closely followed by Sweden, Luxembourg and Australia.

The US, where some of Wall Street's biggest financial names have collapsed in recent weeks, rated only 40, just behind Germany at 39, and smaller states such as Barbados, Estonia and even Namibia, in southern Africa.

The US government plans to take equity stakes worth up to \$250 billion in financial institutions to inject trust back into lending between financial institutions now too wary of one another to lend. The package is part of the \$700 billion government bailout plan Congress approved this month.

The plan represents a partial nationalization of the US banking system - a move not made since the Great Depression. It also means the government will own a non-voting piece of some of the companies it is supposed to regulate.

Some of the nation's largest banks had to be pressured to participate by Treasury Secretary Henry Paulson, who wanted healthy institutions that did not necessarily need capital from the government to go first as a way of removing any stigma that might be associated with banks getting bailouts. The actions are intended to restore confidence in the US financial system.

A recent lack of availability of short term credit caused work slowdowns across North America as businesses struggled to make regular payments.

Britain, Germany, France and others pledged more than 1 trillion euros (US\$1.36 trillion) in direct capital injections for their banks, and to underwrite lending between banks that has all but frozen, choking off funds that drive business and industry.

EU Trade

Deal in the Works

To date nearly 90 per cent of Canadian trade has been with the US. A good idea when that's country's economy is doing well, since Canadian businesses enjoy significant savings in transportation costs, however recent events have shown us that such a dependence can quickly bring problems.

The European Union is Canada's second-largest commercial partner, while Canada is among Europe's 10 largest partners. The European Union is the second-largest foreign investor in Canada; Canada is the fourth-largest investor in the European Union.

A joint EU-Canada study into the benefits of an economic partnership released Thursday said that both economies would gain almost \$32 billion, or 19.8 billion euros, per year through deeper ties. The EU would benefit by almost \$19 billion while Canada would gain \$13 billion. But in terms of per cent of gross domestic product, Canada at 0.77 per cent would easily gain more than the EU at 0.08 per cent.

Unfortunately the economic turmoil in Europe forced Sarkozy to cut his trade talk meeting with Stephen Harper in Quebec City today to only six hours. Both leaders

have announced intentions to harmonize regulations, leading to an open skies accord and allowing the free flow of Canadian and European workers across the Atlantic Ocean. Stephen Harper said Canada and the European Union are committed to fighting protectionism and to achieving a comprehensive economic partnership.

The trade agreement is meant to build on 2007 increases in Canadian exports to Europe. Canadian merchandise exports to the EU shot up dramatically last year, propelled by merchandise exports to the U.K. and to the Netherlands. Exports were up 19.4 per cent to \$34.8 billion. The U.K. in particular, was responsible for nearly one-third of Canada's total exports growth.

Like 2006, Canadian merchandise imports from the EU grew at a slower pace than did exports, edging up by only 0.2 per cent to \$49.4 billion in 2007.

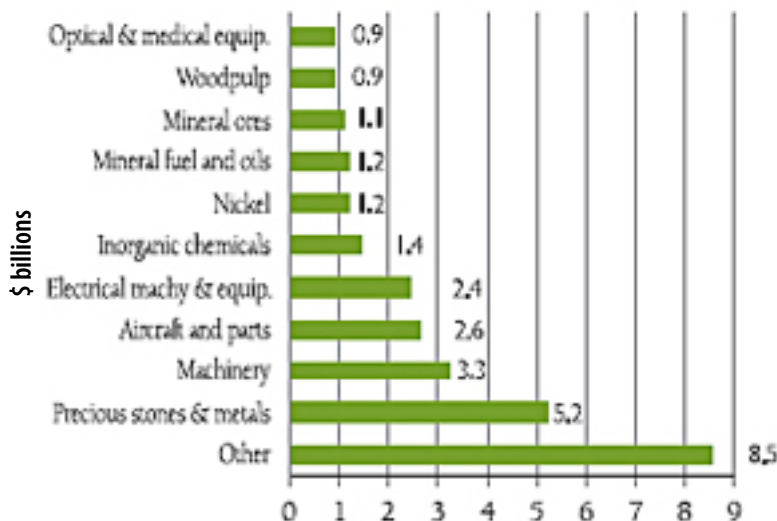
Investment from Europe also grew in 2007, by a substantial 26.2 per cent to \$157.5 billion, with growth being driven by investors from the U.K. whose stock jumped by 37.5 per cent to \$54.8 billion, and a 27.5 per cent increase from the Netherlands to \$31.5 billion. Investment from Europe continues to be dominated by these two countries and France, which combined account for close to two-thirds of European investment in Canada and 20.7 per cent of the overall stock of FDI in Canada.

by Kéta Kosman

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	Exports		Imports		Total Trade	
	2003	2007	2003	2007	2003	2007
World	100.0	100.0	100.0	100.0	100.0	100.0
U.S.	79.1	73.5	68.2	63.7	74.0	68.8
EU	7.5	9.9	11.3	11.5	9.3	10.7
Japan	2.4	2.2	3.2	3.1	2.8	2.6

Top-10 Merchandise Exports to the EU, 2006



SOURCE: Dfait