

MADISON'S LUMBER REPORTER

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News & Updates

Closures, Curtailments and Changes

Domtar Corp. said it will permanently shut down its paper machine and converting operations at its Dryden ON, mill, eliminating 195 jobs. The company booked 3Q net earnings of \$43 million, compared with a year ago profit of \$36 million. The paper and lumber producer's sales for the quarter were \$1.6 billion. Excluding one-time items, Domtar said it earned \$51 million, up from \$32 million a year earlier.

Tembec Inc. said Tuesday it would curtail production at three pulp mills in British Columbia and Quebec. The mill in Temiscaming QC, will curtail production by shutting one line of production until Nov. 30, the Chetwynd BC, operation will shut down from Nov. 15 to Dec. 1, and the Matane QC, mill will shut down from Dec. 1 to 27. It also said its softwood kraft mill in Skookumchuk BC, will shut down for two weeks from Nov. 9 until Nov. 22. Tembec will also take "market-related downtime" for a minimum of two months at its La Sarre and Taschereau sawmills in Quebec starting Nov. 14.

Canfor Corp. announced a production curtailment at its Taylor Pulp mill from Nov. 10 to 18, citing falling demand and prices in Asia over the past four weeks. Canfor said it will take advantage of this downtime to perform maintenance work. Canfor's production from January to September 2008 was 23 per cent lower than the same period last year.

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Canadian Building Permits

Municipalities issued \$6.5 billion in building permits in September, up 13.4 per cent following an 11.7 per cent decline in August. September's increase was the result of gains in all three components of the non-residential sector.

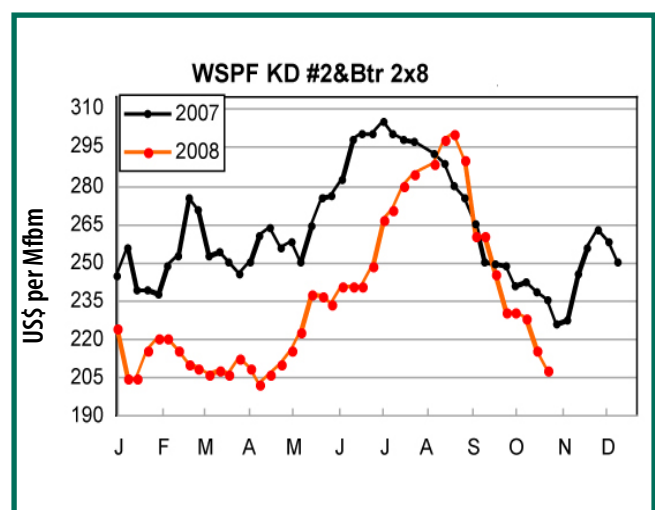
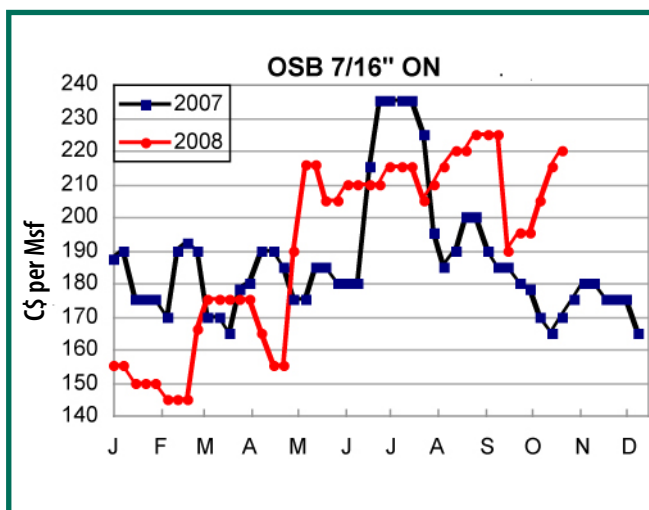
In the non-residential sector, the value of permits rose 41.7 per cent to \$3.2 billion. This increase was generated by a substantial gain in institutional permits, and lesser increases in the industrial and commercial components. Major increases occurred in Ontario, Saskatchewan and Alberta.

In the residential sector, the value of permits fell for the second month in a row and the sixth time in nine months. Housing permits declined by 5 per cent to \$3.3 billion, the result of lower levels of permits for multi-family dwellings in six provinces. [READ MORE](#)

Canadian Lumber Export Statistics

A new report released last week by Stats Can demonstrates a radical shift in Canadian exports. Until recently, export of Canadian goods into the United States rose on a year to year basis, but since 2006 American demand has been dropping.

Meanwhile a new customer has emerged, with exponentially growing demand for Canadian goods, in particular forest products. In the first half of 2008 China imported almost as much lumber and pulp chips as it did for all of 2007, effectively overtaking Japan to become Canada's third largest customer of wood products. [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	189	189	0	210	-21	232	-43
WSPF KD R/L 2x6	180	182	-2	210	-30	240	-60
WSPF KD R/L 2x8	207	215	-8	245	-38	227	-20
WSPF KD R/L 2x10	216	215	+1	235	-19	325	-109
WSPF KD PET 2x4 Stud	180	190	-10	195	-15	230	-50
Douglas Fir Green R/L 2x4	170	149	+23	155	+17	165	+7
Douglas Fir Green R/L 2x10	230	200	+30	195	+35	270	-40
ESPF KD 2x4 8ft Stud	255	255	0	250	+5	295	-40
OSB Ontario 7/16" (CDN\$)	220	205	+15	205	+15	180	+40

Weekly News

Non Residential Building

CONTINUED After two consecutive monthly declines, the value of institutional permits more than doubled in September to a record \$986 million. The increase came mostly from planned medical and educational building projects in Ontario and Saskatchewan. Construction intentions for commercial buildings rose by 11.7 per cent to \$1.5 billion after three consecutive declines.

In the industrial sector, contractors took out \$679 million in permits in September, more than 50 per cent above the average value recorded in 2008. This was

a 64.4 per cent increase, which more than offset a 16.8 per cent decline in these permits in August. The increase came mostly from maintenance buildings in Ontario and utility buildings in Alberta.

Municipalities issued \$1.2 billion in multi-family dwellings in September, down 11.6 per cent from August and the second consecutive monthly decline. Ontario and British Columbia accounted for most of the decline. At the same time, permits for single-family dwellings fell 0.7 per cent to \$2.1 billion, a third consecutive decline.

The overall number of residential units approved fell for a second consecu-

tive month. Municipalities approved 16,134 new dwellings in September, down 3.5 per cent from August.

Canadian Lumber Industry Changes

CONTINUED Reynold Hert, president of Western Forest Products, stepped down in an unexpected announcement Tuesday. Dominic Gammiero, on Western's Board of Directors, will temporarily act as President and CEO until a permanent replacement can be found.

Brookfield Asset Management, Western's majority shareholder, has been disappointed with the company's financial results. Gammiero is a managing partner of Tricap Partners Ltd. and a former president of Fraser Papers, both of which are controlled by Brookfield. In a brief statement, Western said Hert will continue to assist the company to ensure an orderly transition.

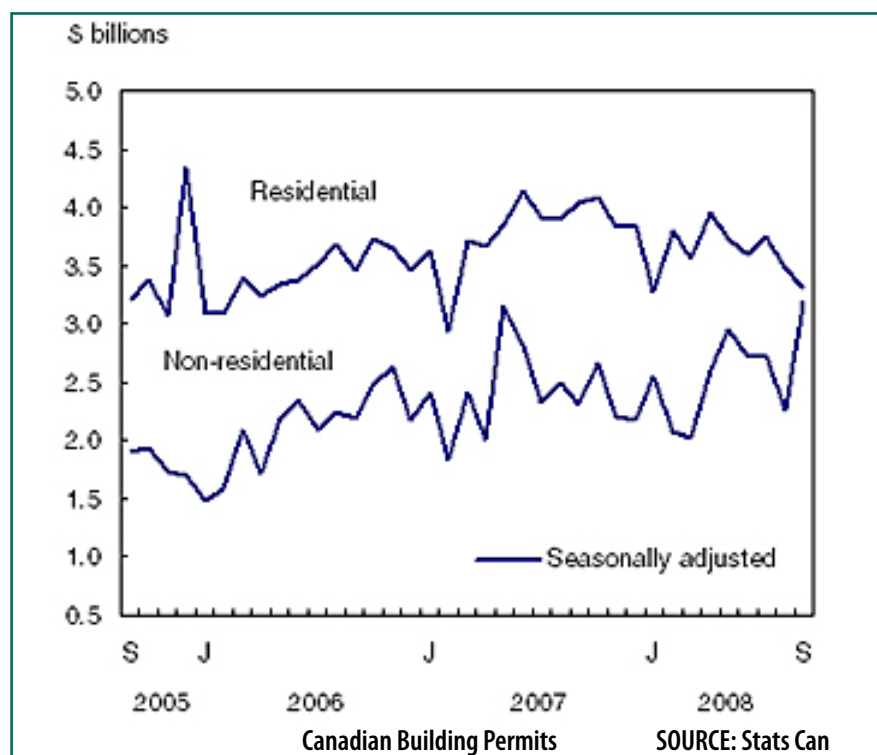
"The Board thanks Reynold for leading Western through a difficult four years," said John MacIntyre, Chair. "Reynold oversaw our acquisition of Cascadia Forest Products and the Englewood Division of Canfor and has been a key contributor to the Company."

Western, which has been hard hit alongside other forestry firms by a drop in lumber prices due to the US housing collapse, reported a 2Q loss of \$19.3 million.

That compared to a profit of \$17.6 million for the same period last year.

Sales in the quarter ending June 30 totalled \$237.8 million, down from \$301.1 million.

Brookfield reported 2Q 2008 earnings of \$307 million, compared to \$348 million for the same period last year.



Canadian Exports

Forest Products

The euphoria of a newly elected President in the United States, widely anticipated to usher in an 'era of change', is wearing off as people put away thoughts of election campaigns and return to business. The economic situation in America is not good, and not expected to immediately improve. Rumblings of a potential merger between the big auto makers, if not the outright collapse of General Motors, is keeping the atmosphere of fear and uncertainty strong in the workforce. Where two short years ago Americans just wanted to spend and buy, they now fear for their very jobs. No extravagant vacations, new cars, or home buying. Rather, concerns dwell towards simply putting food on the table and gas in the car.

So where else can exporters of Canadian goods look to sell their products? A new report from Statistics Canada points a finger directly at China. As well, British Columbia's Minister of Forests and Range Pat Bell will be leading a delegation of a dozen industry representatives on a trade mission to China for the week of November 12 to 18, 2008. The delegation will review progress on BC marketing and demonstration projects, strengthen relationships with construction agencies and government officials,

and pursue new sales opportunities.. Despite recently suffering its own economic setbacks, there is no question that China will be providing a seemingly endless emerging market for North American wood products long into the future. Working to develop trade there is certainly a better option than sitting back, waiting for the US housing market to come back.

In 2000, Canada exported almost \$43 billion in forest products, accounting for 10 per cent of total exports. Forest product exports shrank to just over \$33 billion in 2006, and \$29 billion in 2007 which accounted for just over six per cent of total exports. It is important to point out that in 2000 almost 84 per cent of Canadian exports went to the US, while in 2007 just 77 per cent went south of the border. From 2006 to 2007 exports to America fell by 1.6 per cent while exports to all other countries rose by 16 per cent, bringing total Canadian exports up 2.1 per cent. Put in different terms, 41.9 million cubic meters of lumber were produced across Canada in 2005, compared to just under 40 million cubic meters in 2006 and barely 24 million in 2007.

While change is slow to happen this increase is significant. The US remained Canada's largest export destination last year, followed by the UK. Exports to China were responsible for over 17 per cent of Canada's total exports growth, a surge which elevated China to become Canada's third largest export market, ahead of Japan. According to Statistics Canada, forestry

products, notably wood pulp for paper and cardboard, comprised an important export. Overall, exports to China increased 21 per cent in 2007, surpassing the \$9 billion mark and nearly doubling its value in 2003. Meanwhile, 2007 was the second straight year of export decline into the US, with the main contributors being exports of automotive products and softwood lumber, which combined accounted for losses totalling \$7.3 billion.

As for this year, a press release from the BC Ministry of Forests explains that sales data from January to August 2008 show that British Columbia has already exported 689,576 cubic metres of softwood products to China, 3.5 per cent of the total BC exports to that country, and just shy of the record 727,750 cubic metres exported to China in all of 2007.

"Our long-term objective and main focus is encouraging China to adopt North American wood frame construction in ways that fit the unique mix of housing styles in China," said Forests Minister Pat Bell in the same release. "China is the second-largest wood import market in the world and represents the fastest-growing market for BC wood products."

Madison's is in complete agreement. While practically every country in the world is beating a path to China in search of new customers, Canada has the distinct advantage in existing relationships, established trading and strong Chinese population on the west coast which is very active in the business community.

British Columbia, through Forestry Innovation Investment and in conjunction with the Canada Wood Group has been working over the last several years, along with the Government of Canada, to diversify BC's markets by demonstrating new uses for softwood products. The value of such efforts can not be ignored, especially considering it may be several years before dimension lumber demand in the US returns to pre-2005 levels. Even when US home building resumes, customers will first buy from American mills before looking to Canada for lumber.

