

# MADISON'S LUMBER REPORTER

**Publisher**  
KetaDesign Productions  
**Editor**  
Kéta Kosman  
**Market Analyst**  
Zara Heartwood

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www.madisonsreport.com  
madrep@shawcable.com  
604 984-6838

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## News & Updates

### Curtailments and Changes

International Paper announced the permanent shutdown of its No. 3 paper machine at its Franklin, VA, Mill on November 23. This will result in the curtailment of the company's annual paper production capacity by approximately 150,000 tons of uncoated freesheet paper and affect approximately 50 employees. Approximately 60,000 tons of lack of order downtime will be taken out of the company's US uncoated freesheet paper mills during the fourth quarter as well.

The company also announced the indefinite closure of its currently idled Louisiana Mill in Bastrop, effective immediately. The decision to idle the 100 per cent pulp mill operation is due to the continuing decline in pulp demand from its customers worldwide coupled with a weak economy across the globe. The closure will result in curtailment of the company's annual pulp production capacity by approximately 450,000 tons. The indefinite closure will affect approximately 550 employees.

Weyerhaeuser announced that it will indefinitely close its iLevel Veneer Technologies facility in Colbert, GA, effective immediately. The announcement will affect approximately 105 associates at the site. "The demand for residential wood products continues to erode and this announcement is a direct result of the business environment we face," said Cathy Slater, vice president of Veneer Technologies.

Tolko issued lay off notices at its Meadow Lake OSB plant in anticipation of difficult market conditions this winter. "Unfortunately further deterioration of our products' markets and the need to anticipate conditions at least eight weeks from now require us to make this announcement," said Brad Thorlakson, President, Tolko Marketing and Sales. At full operations, Meadow Lake OSB has 130 direct employees and an equivalent number of contractors providing timber harvesting and forest management services.

### US Housing Starts

US building permits for October were 12 per cent below the September rate of 805,000 - a 23 year low - and 40 per cent below the October 2007 estimate of 1,182,000. Starts were 4.5 per cent below the September estimate of 828,000 - the lowest number since the US Commerce Department started keeping records in 1959 - and 38 per cent below the October 2007 rate of 1,275,000. [READ MORE](#)

### Canadian Housing Starts

Housing starts in Canada were 211,800 units in October, down from 218,600 units in September. [READ MORE](#)

### Wood Exports into China

Given the ongoing reductions in home building both in Canada and the United States, a recent trade mission by British Columbia's Minister of Forests and Range and a dozen lumber industry leaders could not be better timed.

Preliminary indications from the tour of Szechuan province point to good potential for customers in China to fill the gap in wood products demand until North American housing markets can recuperate. [READ MORE](#)

#### U. S. HOUSING STARTS

	Oct-08	Sep-08		Oct-08	Sep-08
<b>Starts</b>			<b>Permits</b>		
Actual	69,000	73,000	Actual	59,600	26,800
SAAR*	791,000	828,000	SAAR*	708,000	805,000
1 Unit	531,000	549,000	1 Unit	460,000	538,000
2-4 Units	(s)	(s)	2-4 Units	30,000	34,000
5+ Units	247,000	262,000	5+ Units	218,000	233,000
<b>Starts by Region</b>			<b>Permits by Region</b>		
Northeast	78,000	113,000	Northeast	71,000	93,000
Midwest	126,000	146,000	Midwest	129,000	134,000
South	416,000	410,000	South	353,000	408,000
West	171,000	159,000	West	155,000	170,000

\*Seasonally adjusted annual rate

Source: U.S. Census Bureau

#### CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	October 2008		September 2008	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	<b>19,047</b>	<b>211,800</b>	<b>20,080</b>	<b>218,600</b>
urban ctrs with >10,000	16,636	184,600	17,644	192,700
singles, urban centres	5,932	69,300	6,299	70,100
multiples, urban centres	10,704	115,300	11,345	122,600
rural areas	2,411	27,200	2,436	25,900
Atlantic urban centres	873	9,600	1,030	9,500
Quebec urban centres	3,907	41,300	3,575	39,500
Ontario urban centres	7,208	78,900	7,305	80,900
Prairie urban centres	2,252	26,900	2,624	29,000
B.C. urban centres	2,396	27,900	3,110	33,800

Source: Canada Mortgage and Housing Corporation

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	<b>186</b>	186	0	204	-18	250	-64
WSPF KD R/L 2x6	<b>176</b>	175	+1	206	-30	275	-99
WSPF KD R/L 2x8	<b>198</b>	200	-2	230	-32	255	-57
WSPF KD R/L 2x10	<b>190</b>	202	-12	220	-30	340	-150
WSPF KD PET 2x4 Stud	<b>170</b>	177	-7	187	-17	250	-80
Douglas Fir Green R/L 2x4	<b>180</b>	155	+25	135	+45	190	-10
Douglas Fir Green R/L 2x10	<b>260</b>	240	+20	190	+70	280	-20
ESPF KD 2x4 8ft Stud	<b>245</b>	250	-5	255	-10	300	-55
OSB Ontario 7/16" (CDN\$)	<b>220</b>	220	0	205	+15	175	+45

## Weekly News

### US Housing

CONTINUED The results were the lowest on government records dating back to January 1959. However, the more quickly housing activity declines, the quicker excess inventory will be cleared off the market and the housing sector can normalize, experts say.

The declines last month were led by a 31 per cent drop in the Northeast, where construction of single-family homes fell to a record low. Home starts dropped 13.7 per cent in the Midwest, but rose 7.5 per cent in the West and a 1.5 per cent in the South.

Single-family home building fell by 3.3 per cent to 531,000, compared to the previous month's 549,000. Even worse, single-family permits declined 14.5 per cent in the month, falling to 460,000 in October from September's 538,000.

On Tuesday, the National Association of Home Builders/Wells Fargo Bank survey of homebuilders showed confidence in the housing construction sector at an all-time low, falling to nine from the previous record low of 14 in October.

The survey number is an index calculation and anything below 50 means more builders have a negative outlook concerning the sector's economic prospects than hold a positive opinion.

The five largest US homebuilders reported a combined \$1.09 billion in losses in their most recent quarters as prospective buyers had difficulty obtaining mortgages.

US foreclosure filings in October jumped 25 per cent from a year earlier, compared with average monthly gains of about 50 per cent so far in 2008, according to RealtyTrac. Filings increased 5 per cent from September after California passed a law delaying foreclosures for some borrowers.

US house prices fell by a record nine per cent in the third quarter of the year, to \$200,500, compared to the same quarter last year. By way of comparison, homes in Canada sold for almost \$290,000 in September, down 5.4 per cent compared to \$309,000 for the same month last year.

Worse still, as much as 40 per cent of the sales in the three months were distress sales, mainly banks selling repossessed homes. That factor tends to put pressure on prices to drop further rather than provide a bottom below which prices will not fall.

### Canadian Housing

CONTINUED The seasonally adjusted annual rate of urban starts eased 4.2 per cent in October, compared to September. Urban multiples declined in October by 6 per cent to 115,300 units. Urban single starts decreased 1 per cent to 69,300 units in October compared to September.

For the first ten months of 2008, actual starts in rural and urban areas combined were down an estimated 1.6 per cent, compared to the same period last year. Year-to-date actual starts in urban areas have decreased by an estimated 1.3 per cent over the same period in 2007. Actual urban single starts for the January to October period of this year were 16.3 per cent lower than they were a year earlier while urban multiple starts were up by 11.6 per cent over the same period.

In October 2007, the average price for a Canadian home was \$312,024, according to the Canadian Real Estate Association. Canadian home prices never reached the stratosphere achieved by other markets.

Home prices in Ireland, for example, jumped 167 per cent between 1997 and 2007, compared to 61 per cent in Canada. In Spain, for instance, the average home in 2007 was worth 156 per cent of the household's income. In Canada, that ratio stood at 134 per cent for the same year.

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CONVENTION: JANUARY 13<sup>TH</sup> - 16<sup>TH</sup>, 2009  
TRADESHOW: JANUARY 14<sup>TH</sup> - 16<sup>TH</sup>, 2009

# New Lumber Markets

## China

There are radical differences between Asian and North American, or European, cultures, not in the least regarding business dealings. Any company wishing to find new customers in Asian countries is advised to familiarize itself with the local system, and methods of conduct, as well as the nuances of personal behaviour expected by business people there.

Having just returned from an extensive trade mission with lumber industry leaders, British Columbia's Minister of Forests and Range Pat Bell has a few words of advice to pass on to *Madison's* readers. The most important thing to remember, says Bell, is that Chinese customers want, and expect, industry to be connected with the government. In China business people are not used to dealing solely with the sales department of, for example, a foreign lumber producer. At least not at first, without some official introduction. Forestry Innovation Investment and Canada Wood Group combined have 38 full time staff working in China to serve the Canadian lumber industry with making contacts and finding customers. Funded by the Province of British Columbia and Natural Resources Canada respectively, these agencies have been specifically set up to help increase Canadian shipments of wood products into China.

While in China Pat Bell and the industry group found potential for greatly increased demand of lumber in four main areas. Roof trusses are already in short supply due to a large number of renovations currently taking place, as well as 80 orders by builders for new housing complexes which can not be filled by local suppliers. The Minister estimates that the immediate need for either Spruce or Hemlock trusses for just half of the renovation and construction projects underway in Shanghai right now amounts to about 1.6 billion board feet.

The next most immediate need will likely be for infill and partition walls to go into the five million new apartment units scheduled to be built over the next year. The Minister estimates conservatively that demand for these products

will be approximately 1.5 billion board feet within the next six months or year. Coastal producers can expect orders for another one billion board feet, probably a bit further in the future.

In addition there is some very exciting potential for the building of wooden farm houses once a pilot project currently underway comprised of three units of various sizes is complete. One of the most startling things about the landscape in Szechuan province right now is the total devastation following the earthquake earlier this year. Farm houses are traditionally built out of oven-baked clay bricks, which just crumbled under the force of the quake. All accounts from locals and visitors alike say that the Chinese people are much more safety conscious now and are looking for more structurally sound, although still inexpensive, building materials. When asked if beetle kill could be a good fit for this market, Pat Bell chuckled, saying that "as wood is relatively new to the Chinese, the blue stain seems normal. If a customer in China got an entirely white stud they might even ask if something is missing."

While Chinese demand for structural lumber is currently weighted very heavily towards the utility, #3 and economy grades, the demand in China for higher grades and panel products will naturally rise as well, should the transition from simply using wood to create forms for concrete pouring to full-blown wood framed home building take place as expected.

Duncan Kerr, Senior VP and Chief Operating Officer of Western Forest Products was one of the industry leaders that accompanied the Minister of Forests on this trade mission. WFP made some news this week with a recently signed deal to ship 7.6 million board feet of lumber to China in November, and another 24.4 million board feet in the first quarter of next year. The order is large enough to put another shift back on at Western Forest Products' Cowichan Bay sawmill, not to mention all the loggers expressly instructed by Kerr to "go logging".

When asked by *Madison's* if this new order came directly from the visit to China or from contacts WFP has been working on there for the past year or so, Duncan Kerr did not have a simple answer. Like Pat Bell, Kerr explained that doing business in China is significantly different from operating in North

America. Kerr likened the situation to a catch 22; you can't sell something when there is no demand. The purpose of the trade mission was to "sell the Chinese on the *idea* of building with wood."

In order to do that there needs to be a government to government relationship between the countries, as well as government to industry and industry to industry. Once government officials "open the door, companies come afterwards to sign individual contracts," Kerr explained. Both Pat Bell and Duncan Kerr could not stress enough the need for collaborative effort of Canadian lumber producers with each other as well as with the government. When asked if, after now having gone to China himself to build relationships, he thought such collaboration might take business away from his own company, Kerr explained that - in regards to China - the lumber industry in Canada is not in competition with each other. Rather they are in competition with the concrete and steel industries. Kerr pointed out that, should all of these efforts at building relationships and educating Chinese about building with wood come to fruition, "if wood framed construction becomes fashionable, demand will outstrip the supply abilities of any one lumber company."

Pat Bell wanted to be sure that North American lumber producers understand that while the Chinese are "willing to use existing grades and sizes, they would prefer a shift to a 4 meter size." In the same regard Kerr pointed out that while current demand in China is almost exclusively for 2x4 and 2x6 dimension, used for landscaping and concrete forming, there is a huge opportunity to move to the full range of structural dimensions. Work still needs to be done to move up the value chain, but Kerr sees no reason why Canadian lumber manufacturers can't build a profitable supply and demand relationship into the future, especially considering the initial hard work has already been done.

At the end of his interview with *Madison's*, Duncan Kerr summed up by saying that it was quite stunning to see the level of devastation after the earthquake, and the solidarity and stalwartness of the Chinese people to rebuild. His message is that "they need wood anyway." Given the lack of North American customers for Canadian mills right now, it seems like a ready made, perfect fit.