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News & Updates

Japanese Housing Starts

Housing starts in Japan fell in October to an annual increase of 20 per cent, or 92,000 units, year-over-year, the Japanese Ministry of Land, Infrastructure and Transport said on Friday. Economists had expected a 30 per cent gain, following the 54 per cent rise seen in the 12 months to September. Seasonally adjusted annual starts were 1.027 million units.

Total units built were 16 per cent lower than average monthly starts for the past five years, except 2007 which was an anomaly due to major changes in building standards.

Wood based units were 5.2 per cent less than the previous month, the first decline in four months. 2x4 framed homes actually rose by 0.1 per cent, while traditional post and beam units decreased by 6.3 per cent and prefabricated units were down by 14 per cent.

In non-seasonally adjusted terms, the number of housing starts rose 9.6 per cent year-over-year in October compared to the same month in 2007. September had seen a gain of 41 per cent, up 97,184 over the year.

Nevertheless, Japan's 50 largest contractors saw construction orders rise 47 per cent compared to one year ago, up from the 10.3 per cent rise recorded in the year to September.

Closures, Curtailments and Changes

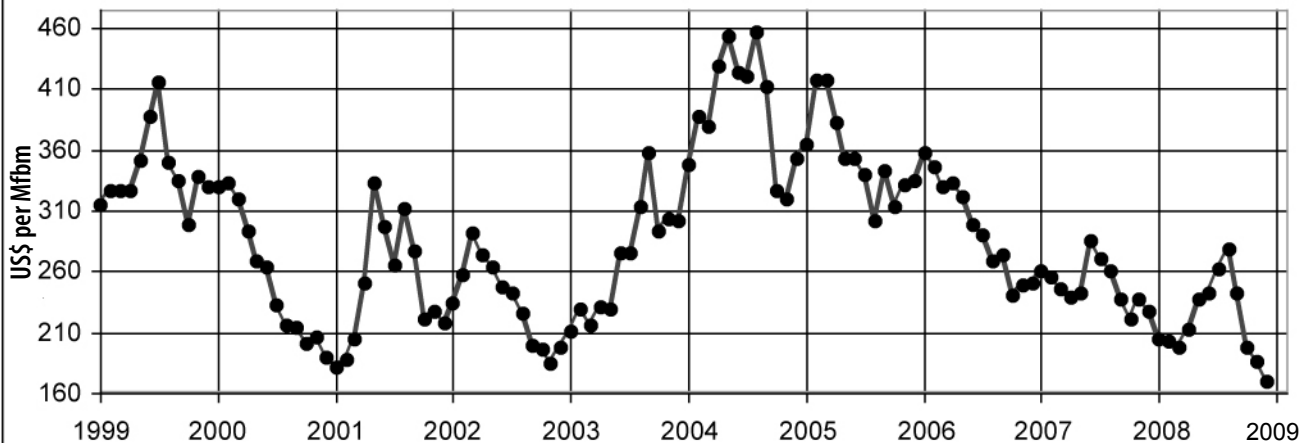
Soon the equation of reducing production to balance wood product supply and demand will no longer be helpful in adjusting prices. Forest products companies must come up with alternative solutions to heal their financial losses. [READ MORE](#)

US Mortgage Bailout

Long discussed plans to help protect American home owners from foreclosures were announced Thursday.

The US Federal Reserve intends to use \$600 billion to back risky mortgages, and force rates on refinanced mortgages down to 0.8 per cent. In addition it will subsidize 30-year fixed mortgages, forcing interest rates down to 4.5 per cent. Critics decry the plans as a bailout for home builders, rather than help for home owners or potential buyers. [READ MORE](#)

WSPF 2x4 KD #2&Btr



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	170	184	-14	189	-19	228	-58
WSPF KD R/L 2x6	164	172	-8	182	-18	230	-66
WSPF KD R/L 2x8	180	190	-10	215	-35	258	-78
WSPF KD R/L 2x10	180	195	-15	215	-35	348	-168
WSPF KD PET 2x4 Stud	145	162	-17	190	-45	235	-90
Douglas Fir Green R/L 2x4	145	162	-17	149	-4	170	-25
Douglas Fir Green R/L 2x10	250	250	0	200	+50	290	-40
ESPF KD 2x4 8ft Stud	240	245	-5	255	-15	295	-55
OSB Ontario 7/16" (CDN\$)	220	220	0	215	+5	175	+45

Weekly News

Mill Downtime

CONTINUED As falling newsprint prices continue to hammer AbitibiBowater's bottom line, the company announced major closures and curtailments Thursday.

The Montreal-based company is the eighth largest publicly traded pulp and paper manufacturer in the world, operating 61 pulp, paper and wood products facilities in the United States, Canada, the United Kingdom and South Korea.

Company CEO Dave Paterson acknowledged Friday that the efforts to stop falling newsprint price by lowering production had angered AbitibiBowater customers. Projections are that a large number of US cities will have no daily newspaper as soon as 2010.

The business model of closing mills to meet lower demand, thereby firming prices, is beginning to show cracks. Lum-

ber industry leaders and organizations have been calling for a reduction in taxes, and more funding for research and development instead of being forced to curtail.

The North American pulp industry has been hit particularly hard. Brazilian and New Zealand eucalyptus pulp is fast overtaking long fibre NBSK pulp as the most desired market pulp product globally. Meanwhile Canadian pulp mills are woefully outdated.

When discussing AbitibiBowater's Grand Falls-Windsor, NL, newsprint mill with the Globe and Mail, Gary Healey, the Communications, Energy and Paperworkers Union national representative in Newfoundland lamented, "The newest machine was put in here in 1968 and they haven't done much to it since. Abitibi has spent very little money on infrastructure over the last 20 years - just took a lot of profit out of here - so the writing was on the wall."

The company is slashing about 1,100 jobs and dramatically cutting production in a bid to reduce costs and address market volatility. About 830,000 tonnes of newsprint and 180,000 tonnes of various grades of paper will be removed from the marketplace, it said.

AbitibiBowater will close its newsprint mill in Grand Falls, NL, early next year, after having closed its paper facility in Covington, TN. The company also has initiated a further 20 per cent reduction in its selling, general and administrative costs in 2009, a measure that will surely have an impact on head-office staff in Montreal.

Abitibi estimates that every 1-cent movement up or down in the Canadian dollar exchange rate means US\$29 million in additional costs or benefits on an annual basis. As long as the Canadian dollar remains close to US\$0.80, further closures will likely happen at its operations south of the border.

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Oct-08	92,123	48,578	43,545	47
Sep-08	97,184	51,715	45,469	47
Aug-08	96,905	50,514	46,391	48
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

Source: Japan Wood-Products Information and Research Center

66TH ANNUAL TLA CONVENTION & TRADESHOW
JANUARY 13 - 16, 2009

Celebrating Our Past

Shaping Our Future

WESTIN BAYSHORE HOTEL
CONVENTION: JANUARY 13TH - 16TH, 2009
TRADESHOW: JANUARY 14TH - 16TH, 2009

Housing

United States

The stark reality of another round of home foreclosures in the US, expected to last a year and a half, has caused yet more

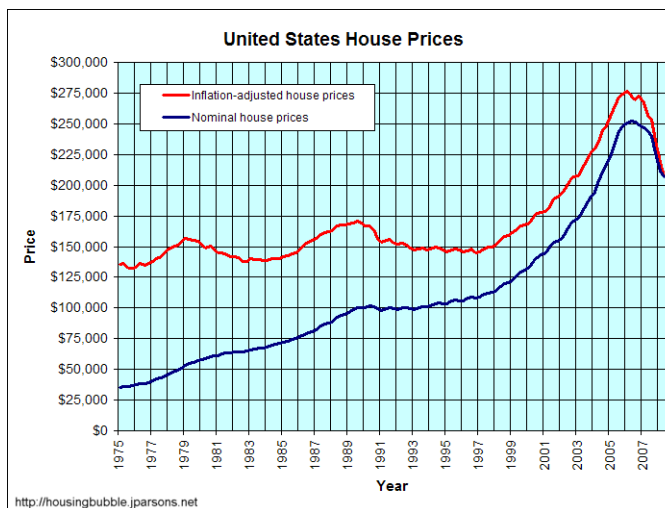
by Kéta Kosman

uncertainty for an already shaken North American lumber industry. As the volume of data; mortgage defaults, falling home prices, unsold homes, sawmill closures, etc., hammer the mainstream news weekly, political leaders work hard to find ways to stop - or at least slow - the relentless downhill slide of the economy.

One such plan was announced Thursday, in which the US Federal Reserve will use \$600 billion to back mortgages, and cut interest rates on restructured mortgages to 0.8 per cent. Critics immediately pointed out that such a cut leaves little room for further interest rate reductions should the US economy continue to stagnate. In a \$50 million plan, the Treasury would subsidize rates so home buyers pay 4.5 per cent for a 30-year fixed-rate mortgage. Rates have not fallen below 5.37 per cent for 45 years. After the announcement, one-year adjustable rate mortgages, or ARMs, fell to an average of 5.02 percent from 5.18 percent last week, the lowest since January of this year. The Fed also said it will buy up to \$100 billion of debt issued by Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

The goal of the proposal would be to take advantage of the unusually large difference, or spread, between mortgage rates and yields on government debt. On Thursday, the yield on the 10-year Treasury note sank to a record low of 2.56 per cent, while the national average rate on a 30-year fixed rate mortgages was 5.54 percent, according to financial publisher HSH Associates. In recent years, there has been about a 1.8 percentage point difference between the yield on a 10-year Treasury note and a 30-year mortgage rate, but that spread currently hovers around 3 percentage points.

Both moves are intended to get more buyers into the market in hopes of stabilizing home prices and reviving the economy. Potential buyers remain spooked by falling home prices and rising unemployment. And even those who want to buy cannot find loans with reasonable downpayments and terms. "The problem is not interest rates," said Kenneth Rosen, chair of the Fisher Center for Real Estate at University of California, Berkeley. "It's the availability of credit." Banks should make mortgages available with a 5 or 10 per cent down payment, Rosen said.



Credit Suisse on Thursday boosted its forecast on US home foreclosures over the next four years to 8.1 million from 6.5 million, warning of a "subprime society" as economic weakness and falling home prices take a larger toll on homeowners. However, a scenario where half the loans facing foreclosure are modified, and 40 per cent of those default again, total foreclosures could fall to 6.3 million from 9 million, they said.

As the economy continues to weaken, however, some economists say the answer to the housing crisis lies in stabilizing the job market. As more people lose their incomes, more fall behind in their mortgages and lose their homes. This trend will accelerate the number of foreclosures and keep prices in a downward spiral.

As many as 20 per cent of borrowers owe more than their homes are worth, said Fed Chair Ben Bernanke. Lenders appear to be on track for 2.25 million foreclosures in 2008, compared with an annual pace of 1.0 million before the crisis. Steps that stabilize the housing market will help stabilize the broader economy, he added. The National Association of Realtors also issued a statement Thursday saying that, "Lowering the mortgage interest rate by 1 to 2 percentage points can result in up to an additional 800,000 home sales. Housing has always led our economy out of downturns and lower interest rates are key to bringing home buyers back to the market." The recent plunge in rates contributed to the nearly 150 per cent jump in conventional mortgage applications over the Thanksgiving week, led by almost a 300 per cent surge in refinances, according to the Mortgage Bankers Association. Roughly three out of four mortgage applications were for refinance transactions, up from around half during the prior week.

These efforts are being put forward in order to preserve the American Dream of easily accessible, comfortable - or even luxurious - homes for all. The reality, however,

is that the plans are really just a "bailout for the home builders", says Nouriel Roubini, economics professor at NYU Stern School. As Roubini points out in his online publication, RGE Monitor, the current housing crisis in the US was not caused by faulty mortgage lending practices, but rather by over-inflated home prices. Roubini claims in an interview with Yahoo Finance that house prices need to fall another 15 per cent before the current market correction is complete. The principles of a free market system dictate that the United States should allow the real estate market to adjust back to more realistic home price levels. At the moment, the rate of home sales continues to fall faster than do housing starts. A further reduction in home building needs to happen before the balance of supply and demand returns to healthy levels.

A major problem with this particular stimulus package is that the criteria for the new, lower interest rate are so strict that very few people will qualify. Of those, even less will likely be willing to take the risk of major purchases like homes given that economic problems in the United States look to go on for a while, and the jobless rate is expected to rise dramatically. As Roubini points out, "It is not profit policy to subsidize mortgages." As expected, stock prices of major US home builders, including Beazer Homes USA, Hovnanian Enterprises, and Lennar Corp. saw large gains at the close of trading Thursday.

An example of government intervention that does little more than delay the unfolding of market forces, is the continued rise of foreclosures in the Los Angeles area after a law was passed to hold off foreclosures for 30 days to give lenders and home owners a chance to find alternative financing. The number of newly scheduled auctions on foreclosed properties in Los Angeles county rose 51 per cent in November compared to one year ago, and up 54 per cent from October, after falling by half from September to October.