

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Holiday Greeting

In keeping with decades-old tradition here at *Madison's*, we will be taking our annual two week break over the holiday season. The next full issue of your *Reporter* will be on January 09, 2009. Our intrepid market analyst, Zara Heartwood, will be sending out her Bonus Issues in the form of an email, with key prices and commodity comments. We will also be updating the website intermittently, to cover any relevant news.

Madison's wishes all a happy and joyful holiday season, and good tidings into the New Year.

Newfoundland Buys Back AbitibiBowater Assets

Due to the announced closure of all but one of AbitibiBowater's mills in Newfoundland and Labrador, Premier Danny Williams announced a buy-back of company timber rights and hydro assets for an amount to be disclosed later. Citing a 1905 agreement for the province's natural resources, the Premier explained that - as AbitibiBowater ceased to provide gainful employment - the company had reneged on its side of the agreement.

Since the merger of Abitibi-Consolidated and Bowater Incorporated, much of the head office operations have taken place at the Greenville, SC location. It is possible that a delicate trade dispute may erupt over the seizure. **READ MORE**

US Housing Market Still Falling

Housing starts and permits released this week by the US Census Bureau show a bleak picture for 2009. November starts were at a 24 year low. The US Realtors Association continues to report record numbers of unsold homes, with national inventory currently standing at about one year. Canadian home sales were at their lowest level since 2001.

Another round of foreclosures, this time on high-end condos in prime markets like Orlando are about to begin. **READ MORE**

2009 Industry Looking Forward

The old business model of Canadian lumber companies pumping 2x4's into the US is rapidly becoming obsolete. While dimension lumber for framing of wood homes will, of course, never go out of style, the decline in the volume of shipments south of the border will continue for some time to come.

During times of change it is easy to be gripped in a feeling of panic, or to be at a loss for how to proceed. But it is also during these times that exciting new technologies, new markets, and a focus on value-added secondary remanufactured products come to the fore. **READ MORE**

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	November 2008		October 2008	
	Actual	SAAR	Actual	SAAR
Canada, all areas	15,454	172,000	19,047	211,800
urban ctrs with >10,000	12,780	144,800	16,636	184,600
singles, urban centres	5,348	63,100	5,932	69,300
multiples, urban centres	7,432	81,700	10,704	115,300
rural areas	2,674	27,200	2,411	27,200
Atlantic urban centres	657	7,600	873	9,600
Quebec urban centres	4,005	41,100	3,907	41,300
Ontario urban centres	4,793	54,700	7,208	78,900
Prairie urban centres	1,871	23,500	2,252	26,900
B.C. urban centres	1,454	17,900	2,396	27,900

Source: Canada Mortgage and Housing Corporation

U. S. HOUSING STARTS

	Nov-08		Oct-08	
	Actual	SAAR*	Actual	SAAR*
Starts	44,600	625,000	67,800	771,000
Actual	44,600	625,000	67,800	771,000
SAAR*	625,000	771,000	771,000	867,000
1 Unit	441,000	625,000	531,000	771,000
2-4 Units	(s)	(s)	(s)	(s)
5+ Units	166,000	625,000	227,000	771,000
Starts by Region				
Northeast	51,000	625,000	78,000	771,000
Midwest	93,000	625,000	121,000	771,000
South	347,000	625,000	411,000	771,000
West	134,000	625,000	161,000	771,000
Permits				
Actual	40,200	616,000	61,700	730,000
SAAR*	616,000	730,000	730,000	826,000
1 Unit	412,000	616,000	470,000	730,000
2-4 Units	22,000	616,000	29,000	730,000
5+ Units	182,000	616,000	231,000	730,000
Permits by Region				
Northeast	64,000	616,000	75,000	730,000
Midwest	102,000	616,000	131,000	730,000
South	295,000	616,000	363,000	730,000
West	155,000	616,000	161,000	730,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

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	160	156	+4	186	-26	218	-58
WSPF KD R/L 2x6	148	145	+3	175	-27	227	-79
WSPF KD R/L 2x8	164	160	+4	200	-36	235	-71
WSPF KD R/L 2x10	164	168	-4	205	-41	330	-166
WSPF KD PET 2x4 Stud	160	142	+18	177	-17	230	-70
Douglas Fir Green R/L 2x4	150	148	+2	155	-5	170	-20
Douglas Fir Green R/L 2x10	240	243	-3	230	+10	270	-30
ESPF KD 2x4 8ft Stud	230	225	+5	240	-10	285	-55
OSB Ontario 7/16" (CDN\$)	220	220	0	220	0	155	+65

Weekly News

AbitibiBowater Assets

CONTINUED Premier Danny Williams stated that his government is looking for a new owner for the AbitibiBowater assets, but acknowledged the current difficulties being experienced by the lumber industry.

AbitibiBowater has described its Grand Falls-Windsor operation as the highest-cost mill of its kind in North America, but Mr. Williams said that was because the company has allowed it to deteriorate for years. Company spokesperson Jean-Philippe Cote rejected the premier's accusation.

The US papermaker warned Thursday that it might launch a trade complaint over the decision to seize the assets next year.

Mr. Cote said the company was talking with "high-level" officials in both countries, but he declined to give additional

details. "There are definitely discussions going on," he said. The company would announce its next step soon, Cote said.

Housing Starts

CONTINUED US housing starts in November were at a seasonally adjusted annual rate of 625,000. This is 19 per cent below the revised October estimate of 771,000, and 47 per cent lower than the one year ago rate of 1,179,000.

The drop was the sharpest since 26 per cent in March 1984, and carried housing starts to a record low.

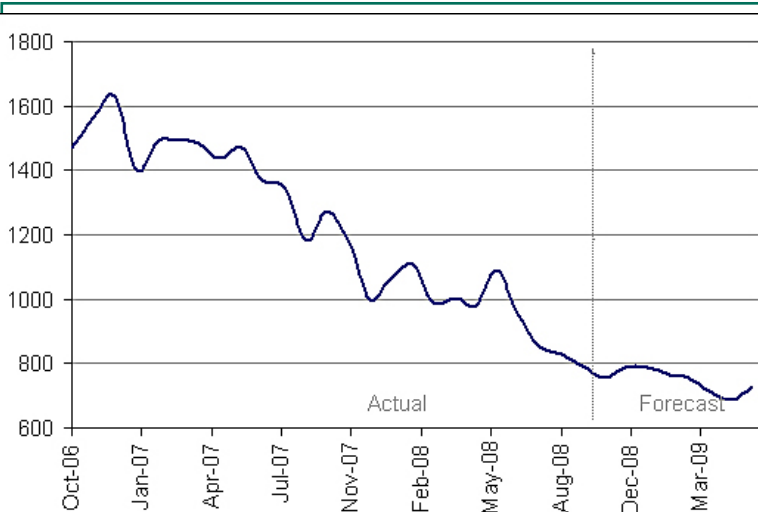
Building permits in November were at a seasonally adjusted annual rate of 616,000, which is 16 per cent below the revised October rate of 730,000, and 48 per cent lower than one year ago's rate of 1,187,000.

Recent funds released by the US government for the renegotiation of ballooning mortgage interest rates are expected

to help at least some homeowners lower their monthly payments. However until home prices see a rebound, the average American homeowner will still be paying more than the home is actually worth.

Meanwhile the seasonally adjusted annual rate of housing starts in Canada was 172,000 units in November, down from 211,800 units in October. For the first 11 months of 2008, actual starts moderated by an estimated 7.6 per cent, compared to the same period last year. Year-to-date actual starts in urban areas have decreased by an estimated 4 per cent over the same period in 2007.

"Note that at the beginning of the new millennium, Canada posted strong housing start levels given a pent-up demand that existed then. Over the last few years, this excess demand gradually decreased," explained Bob Dugan, Chief Economist at CMHC's Market Analysis Centre.



US New Housing Starts

SOURCE: forecasts.org/house.htm

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

A New Year

Looking Forward

During a time of such drastic change as has occurred for the lumber industry in 2008, people often feel uncertainty and

by Kéta Kosman

dread. But it's also an exciting time for new opportunities, new directions and for new business. Canada has been long in the habit of simply sending 2x4's into the United States, thus the task of developing new contacts seems too daunting to consider. However a large portion of the work of breaking into new markets has already been done by Forestry Innovation Investment, the Council of Forest Industries, the Canada Wood Council and others. It is simply a matter of getting in touch with them for information.

In discussion with a veteran lumber trader recently, *Madison's* asked about the often-repeated statement coming from those working in the industry that they "have never seen anything like this before." He replied that every time something happens, every time there is a change, everyone says they have never seen it before. "This is new and different," he said "the situation we are in now. But it's just another change." Like so many that have come before.

The wood products industry has always adjusted before, become competitive once more, and even thrived. At the time difficulties seemed insurmountable, but in the end there was good business to be done, even prosperous business. Of course there will be some casualties, some familiar company names will not come back. But something new will rise up to take its place. Who would have thought, when the old Fletcher Challenge, or the seemingly indestructible Macmillan Bloedel, morphed into something new, that the industry would continue to thrive? People cried out that the end was nigh. That things would never be the same, that the industry would collapse. But it did not, and it will not now.

'What's to be done about it?', is the question. Waning hope that the essential US housing market will come back even into 2010 is putting a sad face on lumber producers and traders alike. Once the gross over-supply of unsold homes finally gets worked through and building starts up again, the reality that US mills will be the first to go back online is sinking in to the consciousness of producers north of the border. It will be a significant amount of time after that before demand will rise to levels beyond what can be serviced within the US, giving Canadian mills a long wait indeed before curtailments and indefinite closures can be reversed. Given that the



North American lumber industry started experiencing this downturn two years ago, another three or five year wait for business to pick up is unacceptable.

Finding new opportunities and new business may seem impossible given the global economic situation, and the continuing difficulties in securing credit for regular business operations. However there are plenty of efforts already being done, bringing hope of future prosperity on to the horizon of the North American lumber industry.

Wood Framed Home Building in China

A vital new customer, China needs desperately to rebuild homes and buildings destroyed in last spring's terrible earthquake in Szechuan province. The Federal Government of Canada announced a large donation to go towards rebuilding, as did the Province of British Columbia. An extensive trade mission was completed this past autumn. While it is too soon to judge, recent export figures out of the west coast of Canada show a sharp increase in wood products shipments, largely in the utility and economy grades, into China. BC's Ministry of Forests confidently predicts such exports to continue rising in 2009, filling the yawning gap left by declining demand in the US. FII and COFI have set up a joint office in China, with a staff of 38, to serve the needs of Canadian lumber producers in finding new Chinese contacts and customers.

Fuel from Wood Residue and Biomass

Until very recently considered a "good idea if it could be done economically", developing a fuel source from wood residue had a major breakthrough in April 2008. A joint research team of two universities in Massachusetts were able to inexpensively create "green gasoline" from biomass. Other efforts are being made elsewhere, including Vancouver's own Nexterra Energy which has already installed steam boilers fueled by wood residue in several North American industrial applications. The swiftly-growing industry of wood pellets is also a good avenue of exploration for lumber producers with too much wood on their hands and not enough customers. In 2008 Europe was only able to supply 50 per cent of wood pellets for domestic demand,

the rest were imported - mostly from the US. As information circulates and more people convert their stoves and boilers to burn wood pellets, the equation of the cost to bring biomass roadside vs. revenue from wood pellets will become decidedly profitable.

Value-Added and Secondary Remanufacturing into Europe

Russia's announcement in early 2008 of an increase in raw log export tax to 80 per cent sent panic through importers across Europe and Asia. The recent cancellation of this proposed increase did nothing to quell the fear, especially considering the 25 per cent tax which was enacted in 1Q 2008. European and Asian producers are concerned about the capricious nature of the Russian leadership, and have been looking for new suppliers. Of course North America is not interested in shipping raw logs, however value-added primary wood products, and even secondary remanufacturing, with assembly left for the destination country, are both viable future avenues of export. Europe, for example, can only produce 60 per cent of the timber needed for current lumber production. While access to timber is relatively easy for Europe, due to the geographic proximity of good wood-growing regions, North American softwoods continue to be an inexpensive choice. In addition, growing concerns of illegal logging in several African and some Asian countries is causing a decrease in consumer demands for formerly popular exotic hardwood species.

Several Canadian agencies, most notably the Forest Products Association of Canada, have been calling for funding so lumber producers can take advantage of these new industry developments. Federal and Provincial governments are making some strides in helping move the forestry community forward, however there are still a lot of old ideas and old mentalities at play. A more rapid embracing of the future of lumber, rather than looking back at "how things have always been" is advisable. Because if we don't do it, someone else in the world will. And to lose these burgeoning opportunities due to lack of foresight would be a real shame.