

MADISON'S LUMBER REPORTER

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News & Updates

Western Forest Products Major Closures

Western Forest Products has decided to keep its three Nanaimo-area operations closed indefinitely, meaning another 720 sawmill workers and loggers are out of work.

The company announced indefinite curtailments to its Alberni timberlands operations Tuesday. WFP had already closed its manufacturing plants for an extended Christmas shutdown putting 1,230 woodworkers and loggers out of work for as long as a month. Neither WFP sawmill in Port Alberni will be affected, for now. "The mills are maintaining," company spokesman Gary Ley said.

Besides the WFP contractors working out of the Alberni Valley, other logging outfits in the Queen Charlottes and on the Mainland will be shut down. Ley says about 400 workers will be affected. The company is also laying off employees at three of their manufacturing facilities including the Nanaimo sawmill, the Duke Point mill and the Mid Island Reman. The total number of layoffs there will be around 320.

Just before WFP posted a \$25 million loss in 3Q 2008, President and Chief Executive Officer Reynold Hert resigned his position. Those losses were on top of the loss of \$36 million in the first six months of that year.

The company then attempted to raise \$50 million by offering additional shares to existing shareholders. \$50 million in operating capital was raised for the company, but David Lewis, executive director of the Truck Loggers Association, said they only realized \$35 million after they repaid the \$15 million in bridging capital they borrowed to tide them over. "How long can the company run on \$35 million?" Lewis asks, "They might have two quarters left."

Meanwhile WFP and an association of private land owners have won their BC Supreme Court challenge of bylaws that would have restricted the development potential of their land on southern Vancouver Island.

Pulp and Paper Mill Changes in Atlantic Canada

The head of AV Group, which operates the AV Nackawic pulp and the AV Cell in Atholville, NB, is leaving to take a new job overseas. Company operations are still strong, said the executive in explaining that his departure shouldn't affect either operation. [READ MORE](#)

Canadian Housing Starts Steady

Housing starts and permits released Friday by the Canadian Mortgage and Housing Corporation show little change in December 2008 from the previous month, falling by only 0.4 per cent. [READ MORE](#)

Forest Industry Future

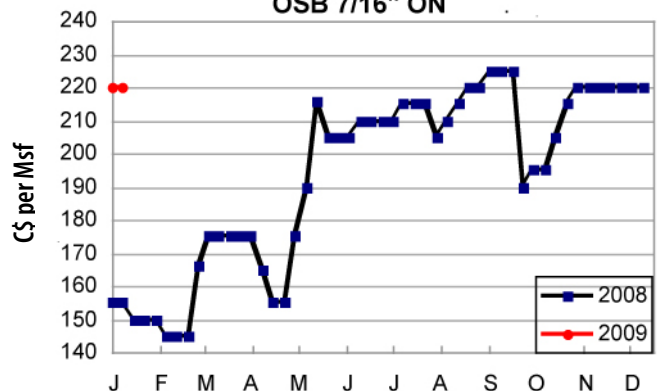
With early 2009 indications out of the United States that the economic downturn of the past year will continue, in fact will likely worsen for the first half of this year, the wood products industry must move away from old business models.

A return to healthy levels of home building in America seems only further away now than it did in 3Q of 2008. New markets, new customers and new products is the only answer for lumber and panel producers to survive to the end of 2009 and beyond. [READ MORE](#)

Douglas Fir Green #2&Btr 2x4



OSB 7/16" ON



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	168	168	0	170	-2	218	-50
WSPF KD R/L 2x6	148	148	0	164	-16	227	-79
WSPF KD R/L 2x8	162	162	0	180	-18	235	-73
WSPF KD R/L 2x10	170	168	+2	180	-10	330	-160
WSPF KD PET 2x4 Stud	165	170	-5	145	+20	230	-65
Douglas Fir Green R/L 2x4	155	155	0	145	+10	170	-15
Douglas Fir Green R/L 2x10	235	240	-5	250	-15	270	-35
ESPF KD 2x4 8ft Stud	230	230	0	240	-10	285	-55
OSB Ontario 7/16" (CDN\$)	220	220	0	220	0	155	+65

Weekly News

Atlantic Pulp Mills

CONTINUED The mill's original owner decided to close the operation in 2004, so the introduction of the AV Group, a member of the Aditya Birla Group of India, into the small central New Brunswick village of Nackawic in early 2005 offered a degree of stability. The company and provincial government invested millions in the mill so that it now produces dissolving pulp, the main raw material used to make rayon.

Outgoing president and chief executive officer Peter Vinal expects the mills will be temporarily shut down once or twice during the next year and a half, but said both mills should do well once the economy recovers. Unionized workers in Nackawic are hoping there won't be any disruptions. Loretta Kent, a spokesperson at the Canadian Auto Workers who works at AV Nackawic, said the empty CEO's

chair doesn't have plant workers worried. The union official said a number of senior staff at the two mills will take over Vinal's responsibilities in the interim.

Meanwhile, a Norwegian company has confirmed it is buying all of UPM's assets in New Brunswick, including its shuttered paper mill in Miramichi and a sawmill near Bathurst. Umoe Solar Inc. has interests in bioethanol and solar energy. The Miramichi site will not operate as a paper mill.

Canadian Home Building

CONTINUED The seasonally adjusted annual rate of urban starts decreased 0.5 per cent to 150,100 units in December.

Urban multiple-family dwelling starts rose 3.2 per cent to 87,400 units, while urban single-family dwelling starts fell 5 per cent to 62,700 units in December.

The country's home construction industry had slowed sharply in the previous month, with the seasonally adjusted rate of starts dropping almost 22 per cent month-over-month.

With the December results, CMHC chief economist Bob Dugan said work began on an estimated 212,366 homes in 2008, topping the 200,000 unit mark for a seventh consecutive year.

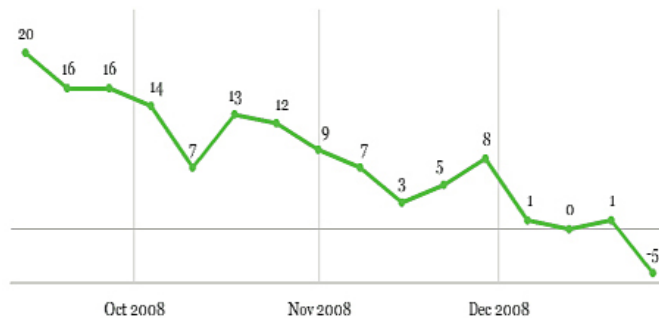
Pent-up housing demand which built up over the 1990s meant Canadian housing starts exceeded long run demographic demand for the majority of the decade, he said.

Starts increased in Ontario urban areas from 55,500 in November to 60,300 in December. British Columbia also reported a small increase from 18,100 to 19,900 in urban areas.

Quebec, Atlantic Canada and the Prairies all posted month-over-month declines.

Net New US Hiring Activity, Weekly Average

% of companies hiring minus % letting people go



SOURCE: GallupPoll

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

Forestry's Future

A Whole New Ball Game

In financial terms, 2008 had a very messy end for banks, businesses and individuals alike. So many changes, of such magnitude, happened that it was difficult for even a seasoned analyst to keep up. In the end everyone agreed that clarity and understanding could come only in retrospect, possibly as soon as the beginning of 2009. Early indications are that economic recovery for Canada can be expected to start after the middle of 2009. The situation in the United States is more difficult to determine, but a recent spike in unemployment figures does not bode well for a quick economic rebound.

While other industries were caught by surprise toward the end of 2008, forestry in North America - and indeed globally - had already been suffering for two years. After enjoying an exaggerated housing boom in the US, Canadian lumber producers were hit hard by the requisite sharp decline that followed. Two years later, the most commonly quoted phrase of CEOs and Boards of Directors was still, "We just have to wait for US housing to come back." That wait has been more prolonged than anyone expected, and signs of renewed home building seem even more elusive than they did

in 3Q 2008. In fact, all indicators but a few point to a continued slowdown of home buying, which has almost a full year of inventory available, thus putting any rebound in home building that much further into the future.

As Canada's primary wood products customer languishes in severely decreased demand, other markets and new products are rapidly emerging to take the place of US housing. *Madison's* will continue to research these, and inform our readers on any developments. However a very close look at what is actually going on in the US housing market seems prudent at this point.

The National Association of Realtors 'Pending Home Sales Index' showed a drop in pending sales of existing US homes to a seven-year low in November. Rising job losses and a deepening economic recession kept potential house buyers on the sidelines. Based on contracts signed in November, the Index dropped by 4 per cent from October to 82.3, which was 5.3 per cent lower than a year-ago and the lowest level since the series started in 2001. NAR said its housing affordability index, which looks at the relationship between home prices, mortgage interest rates and family income, was on track to match a record high set in 1972.

High end real estate markets were hit particularly hard by the stock market drop of 3Q 2008. Florida and Manhattan sales, for example, ground to a virtual halt. Corcoran Group, a real estate brokerage, reported

that the number of closed sales declined by at least 30 per cent compared with 4Q 2007 as the Manhattan market all but stopped after the failure of Lehman Brothers in mid-September. A report by the Prudential Douglas Elliman brokerage found that re-sales of existing Manhattan apartments fell by 25 per cent, to 1,408 sales. The reports found that the number of transactions declined by 9 per cent from one year earlier.

More disturbing, however, is what these experts predict for the first half of 2009. "The worst is yet to come; there is a blood bath coming," said Matthew Haines, who prepared the Corcoran report. Gregory J. Heym, an economist who prepared reports for Halstead and Brown Harris Stevens, said that unless the economy strengthens, the weakening job market in New York City could further dampen enthusiasm for real estate. He said the city had lost about 18,000 jobs in the 12 months that ended in November 2008, while city economists are now predicting a loss of 170,000 over the next year or two. "Each time they update the forecast, it gets worse," Heym said.

Unemployment figures across the US are showing similar increases. The US labour department reported January 1, 2009 that people continuing to draw unemployment benefits increased by a larger-than-expected 140,000, to 4.5 million for the week ended December 20, 2008. A year ago, the number of people continuing to draw jobless benefits was 2.7 million. The unemployment rate in November jumped to 6.7 per cent, a 15-year high, as employers eliminated a staggering 533,000 jobs in that month alone. Since the recession began in December of 2007, the economy has lost nearly two million jobs. As more people lose their jobs, or fear the possibility of unemployment, the real estate market will remain in a slowdown. These factors together put new home building even further down the road than was expected in the middle of 2008.

Massive investments in infrastructure building, both in Canada and the US, do point to an increase in demand for lumber products needed to make concrete forms, and for other industrial uses. China, in addition, has announced a similar stimulus package. Building formats that can be either concrete, steel or engineered wood will naturally veer towards lumber as competing products are currently higher priced. Beetle kill, in particular, has a distinct advantage in being the most inexpensive product for utility grade and structural applications.

In all, 2009 will be a year of change. The fundamental shift in the business of lumber production and sales which started in 2008 will really see the light of day this year. The industry can either lament the inevitable force of progress, or embrace it and be the first on the block to break into a new market or start selling a new product.

