

# MADISON'S LUMBER REPORTER

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## News & Updates

### Madison's Timber Preview

Our current issue of Madison's Timber Preview examines recent developments with Western Forest Products, and looks at what might happen with the company in the near future. Contact us any time for a subscription!

### Tembec Dictates to Suppliers

Tembec Inc. chief executive officer James Lopez has sent a sharply worded letter to suppliers telling them to shave up to 20 per cent from their prices or lose the company's business, according to the Globe and Mail.

Tembec has no choice but to further tighten its belt, he explains. Suppliers, Mr. Lopez says in the letter, "will have to do the same." As of Feb. 1, all suppliers of materials to Tembec will have their prices reduced by 10 per cent, while suppliers of services will see a 20 per cent cut, he states. "If this request cannot be accommodated, we will be forced to take our business to another supplier."

### Federal Government Announces Aid

Natural Resources Minister Lisa Raitt said the federal budget, to be tabled Tuesday, will contain three new initiatives to help the forestry industry, totalling \$1.15 billion in aid.

The budget will contain a new community adjustment fund worth \$1 billion to help rural areas adapt to the changing economic climate, more than \$100 million to invest in the development of emerging technologies for the forest sector, including forest biomass utilization and the development of next-generation forest products, and \$50 million to promote the forest sector abroad.

In other news, the Honourable Lynne Yelich, Minister of State for Western Economic Diversification, announced a Government of Canada investment of over \$2.8 million toward the development and commercialization of world leading Canadian bio-energy technologies. The Nexterra direct-fired gasification system selected for this project is a platform technology that can be used in many industrial applications. (Refer to the Nov 28, 2008 issue of your *Reporter* for details on Nexterra. - Ed)

### US Housing Starts

American building permit applications in December were at a seasonally adjusted annual rate of 549,000, 10.7 per cent below the November rate of 615,000, and 50.6 per cent below the December 2007 estimate of 1,111,000. [READ MORE](#)

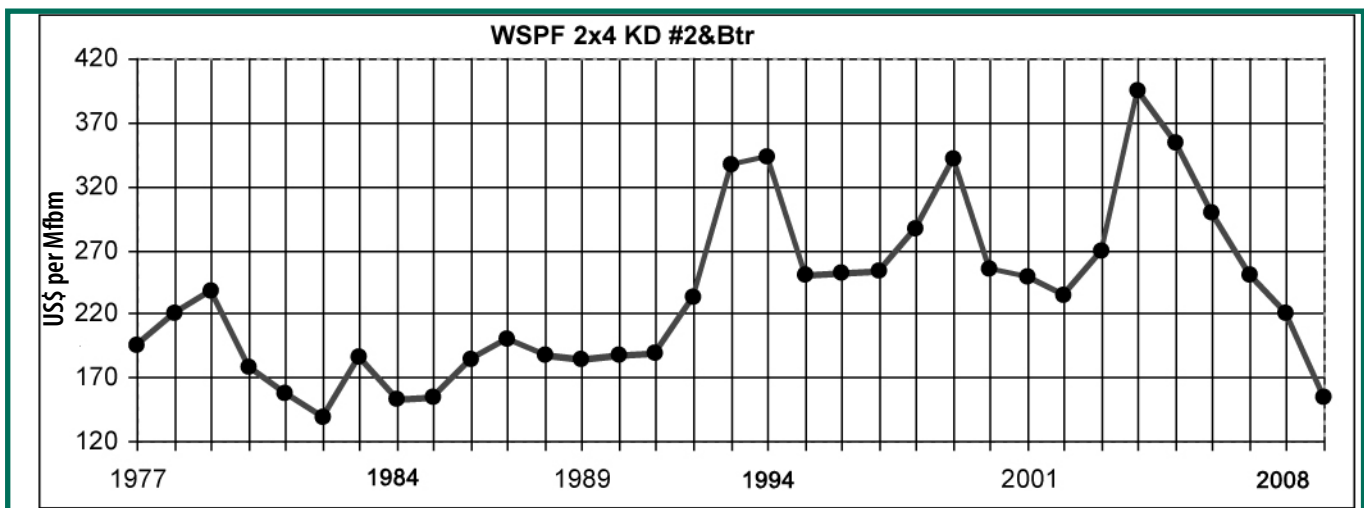
### Global Forestry and the Environment

British Columbia's culverts and bridges have been assessed as extremely damaging to vital fish populations.

The Canadian forest products industry is welcoming a European Union bid to crack down on the illegal logging trade. [READ MORE](#)

### Lumber Industry Success Stories

In the fast-changing world of modern forestry, *Madison's* has some examples of businesses that made good profits in 2008, and expect even better results for 2009. [READ MORE](#)



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	140	148	-8	160	-20	200	-60
WSPF KD R/L 2x6	130	136	-6	148	-18	208	-78
WSPF KD R/L 2x8	130	142	-12	164	-34	224	-94
WSPF KD R/L 2x10	145	148	-3	164	-19	310	-165
WSPF KD PET 2x4 Stud	155	170	-15	160	-5	210	-55
Douglas Fir Green R/L 2x4	145	148	-3	150	-5	140	+5
Douglas Fir Green R/L 2x10	225	185	+40	240	-15	238	-13
ESPF KD 2x4 8ft Stud	230	230	0	230	0	275	-45
OSB Ontario 7/16" (CDN\$)	220	220	0	220	0	150	+70

## Weekly News

### US Housing Down

CONTINUED An estimated 892,500 housing units were authorized by building permits in 2008, 36.2 per cent below the 2007 figure of 1,398,400.

Single-family authorizations in December were at a rate of 363,000, 12.3 per cent below the November figure of 414,000. Authorizations of units in buildings with five units or more were at a rate of 170,000 in December.

An estimated 904,300 housing units were started in 2008, 33.3 per cent below the 2007 figure of 1,355,000.

Privately-owned housing starts in December were at a seasonally adjusted annual rate of 550,000, 15.5 per cent below the revised November estimate of 651,000 and 45 per cent below the revised December 2007 rate of 1,000,000.

Single-family housing starts in December were at a rate of 398,000, 13.5 per cent below the November figure of 460,000. The December rate for units

in buildings with five units or more was 145,000.

These levels are to the lowest since record keeping began in 1958. – a 50-year low.

### Environmental Impacts

CONTINUED Lauded as an opportunity for re-employment of laid-off forestry workers, a study by Forest Practices Board has found that stream crossings, including culverts and bridges, represent a vast and little-known threat to the survival of salmon and other fish.

The board investigated 1,100 road crossings of streams in 19 watersheds around B.C. and found that only 42 per cent are sufficiently well-designed to allow salmon, trout and other fish to swim above them. The report cites government estimates that there are 550,000 kilometres of resource roads on Crown forest land in B.C., with approximately 370,000 crossings including 76,000 culverts.

Participants in the study suggested that the government “could get a lot of people back to work” – particularly laid-off forestry workers, by initiating a large-scale project to fix the problem.

Meanwhile, EU parliamentarians are meeting Wednesday in Brussels to discuss the Green Party’s bid to toughen a new law aimed at banning import of wood cut by rogue operators that typically operate in Africa, Asian countries like Indonesia and Burma, as well as eastern Europe and Russia.

Canadian firms would benefit from the levelling of the playing field, since illegally-cut lumber is cheaper and puts major Canadian firms at a disadvantage.

An estimated 19 per cent of lumber products shipped to Europe come from illegal sources, which contributes to climate change, biodiversity loss, and damage to the lives of indigenous populations, the EU said when the law was introduced in October.

### U. S. HOUSING STARTS

	Dec-08	Nov-08		Dec-08	Nov-08
<b>Starts</b>			<b>Permits</b>		
Actual	37,100	47,000	Actual	40,000	40,200
SAAR*	550,000	651,000	SAAR*	549,000	615,000
1 Unit	398,000	460,000	1 Unit	363,000	414,000
2-4 Units	(s)	(s)	2-4 Units	16,000	21,000
5+ Units	145,000	175,000	5+ Units	170,000	180,000
<b>Starts by Region</b>			<b>Permits by Region</b>		
Northeast	62,000	55,000	Northeast	61,000	68,000
Midwest	80,000	106,000	Midwest	83,000	103,000
South	277,000	356,000	South	285,000	292,000
West	131,000	134,000	West	120,000	152,000

\*Seasonally adjusted annual rate

Source: U.S. Census Bureau

## Calendar

February 2009

**Paptac Exfor & Annual Meeting**  
February 3 to 4 - Montreal, QC  
<http://www.paptac.ca/>

**Ontario Forestry Association**  
February 6 - Allison, ON  
<http://www.oforest.on.ca/>

**Oregon Logging Conference**  
November 19 to 21 - Eugene, OR  
<http://www.oregonloggingconference.com/>

# New Reality

## Making Lumber Business Work

In times of change it is difficult to know how to adjust business practices in order to remain profitable. Particularly when, as right now for the lumber industry, things change both quickly and radically. Just keeping up with the changes is daunting enough, not to mention launching into new and innovative business methods. December US housing starts announced this week once again show sharp reductions, at levels even more disastrous than expected by many analysts. Based on this reality, the continuing policy of Canadian lumber producers of 'waiting for US housing to come back' is accordingly foolish at best.

*Madison's* has come across several examples of Canadian mills and remanufacturers, both in British Columbia and central Canada, that made some alterations to their business model in 2008 and are now happy to report they actually made money last year. A few ended up making more than they ever have before.

A tiny remanufacturer close to the Alberta border bought out a defunct facility from a builders' wholesaler, and is now operating a fast-growing business in value-added products. Providing service beyond simply delivering some

sticks of lumber is proving to be highly prized by customers across the entire breadth of the industry.

Each of these innovative companies has trimmed staff, keeping a core of hard-working, skilled people who are well paid, therefore motivated to continue producing quality product in a timely manner. A few are now looking for new hires, being sure to keep with the practice of taking on only the best and paying them accordingly. In this way owners and managers don't need to waste valuable time running around the yard telling people to get back to work.

A sizable Cedar remanufacturer in central Canada tripped across an excellent business plan last year. The changing face of the industry left a hole in supply which the mill filled by sourcing logs directly. An agreement was reached with the log supplier whereby the logs were squared before trucking, for the same fee it would have cost the mill to do, saving enough space to cut a few truckloads for delivery of the same amount of logs. This simple idea brought trucking costs down by \$4,000 and raw material costs down by 30%. This outfit actually goes out and puts up the fences they produce, even installing the posts, bringing a sizable profit margin.

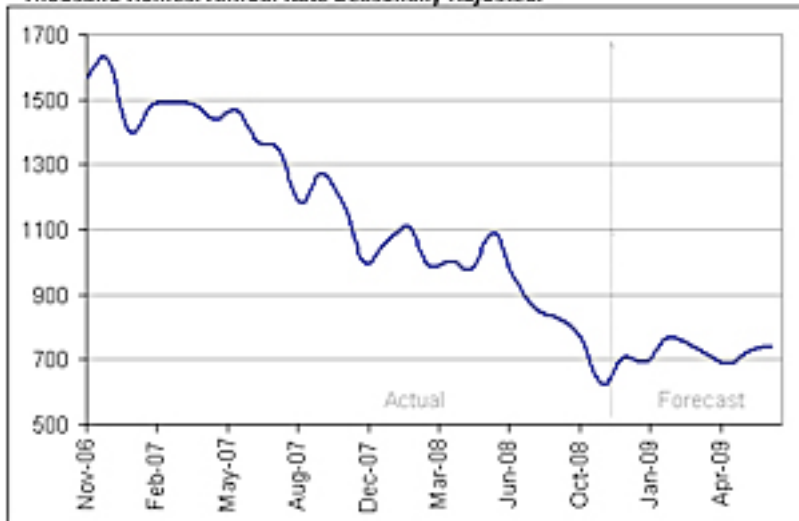
In addition this producer was recently informed by his US broker that its sales staff was put on contract and are now working from home. This mill owner has a long-standing relationship with the traders, so contacted them

directly as individuals to sell for him, thereby avoiding the 15% agency fee. In his words, 'when everyone else is getting out, I am buying in'. Or, put another way, he is rushing in to fill the holes left by others. Even if he can only get half the business left behind by the broker he stands to significantly increase his profit from 2008, which was up significantly from 2007. A very encouraging story in a time when many in the industry, particularly the big companies, are losing buckets of money.

The wisest advice *Madison's* gleaned from these exemplary companies was that they do not go into debt. When dealing with America for example, a supplier can register to be bonded by Export Development Canada. Doing so takes the risk out of shipping across the border, because the agency guarantees payment. From the EDC web page on bonding, "We can help free up your money by providing guarantees to your bank so that they, in turn, can issue guarantees to your customers and suppliers." An agency statement explains that Canada's forestry exports totalled \$38 billion in 2007, with EDC supporting over \$13 billion in financing, contract insurance and bonding for over 1,200 forestry exporters. At the end of November 2008, the federal Department of Finance injected another \$350 million, on top of the \$1.5 billion existing budget, "to help address emerging stresses and financial gaps in Canada's export sector [ . . . ] for those most affected by the financial crisis." Visit the EDC website for more information: <http://www.edc.ca/>.

When considered together with programs offered by the Canada Wood Council, the British Columbia Ministry of Forests, Forestry Innovation Investment and others, there are significant resources available for Canadian lumber producers, remanufacturers, and exporters both into the United States and China. While those that are backward-looking may be satisfied to sit back and wait for something that only seems farther and farther into the distant future to return, there are others who are taking this opportunity of a changing market to get themselves in at the ground floor level of new enterprises. When the US home building market does finally, slowly creep back to healthy levels, out of those that waited only a few will still be operating. In the meantime those that were forward-looking will have made a consistent profit year over year and grown a sizable customer base.

**U.S. New Housing Starts**  
Past Trend Present Value & Future Projection  
Thousand Homes. Annual Rate Seasonally Adjusted.



SOURCE: <http://www.toforecasts.org/>