

# MADISON'S LUMBER REPORTER

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## News & Updates

### Five More Years of US Housing Market Crisis

In a recent article on Bloomberg, John R. Talbott, a former investment banker for Goldman Sachs, explains how US house prices got so far out of kilter with wages, rental prices and replacement values – the cost of buying a property and building a new home. Talbott is a very reliable source for predictions, his previous books predicted the collapse of both the housing bubble and the tech-stock binge before it.

Talbott claims that the US is only halfway through the total potential decline in housing prices, as home values will likely continue to deteriorate for four to five years. More importantly, adjustable-rate mortgages issued in 2004 and 2005 are only now resetting for the first time, he notes.

At the end of 2008, a record 19 million US homes stood empty and homeownership sank to an eight-year low as banks seized homes faster than they could sell them, the US Census Bureau said this week. Almost one in six owners with mortgages owed more than their homes were worth, Zillow.com said the same day.

By the time the crash ends, Talbott predicts, homeowners will have lost as much as \$10 trillion, with investors and banks worldwide losing almost \$2 trillion. [READ MORE](#)

### US Pending Home Sales

Fast on the heels of a rise in existing US home sales in December and a sharp drop in new US home sales for the same month, the National Association of Realtors Pending Home Sales Index, based on contracts signed in December, surged 6.3 per cent to 87.7, rising for the first time since August.

Compared with the same period a year-ago, pending homes sale were up 2.1 per cent in December. [READ MORE](#)

### Closures and Curtailments

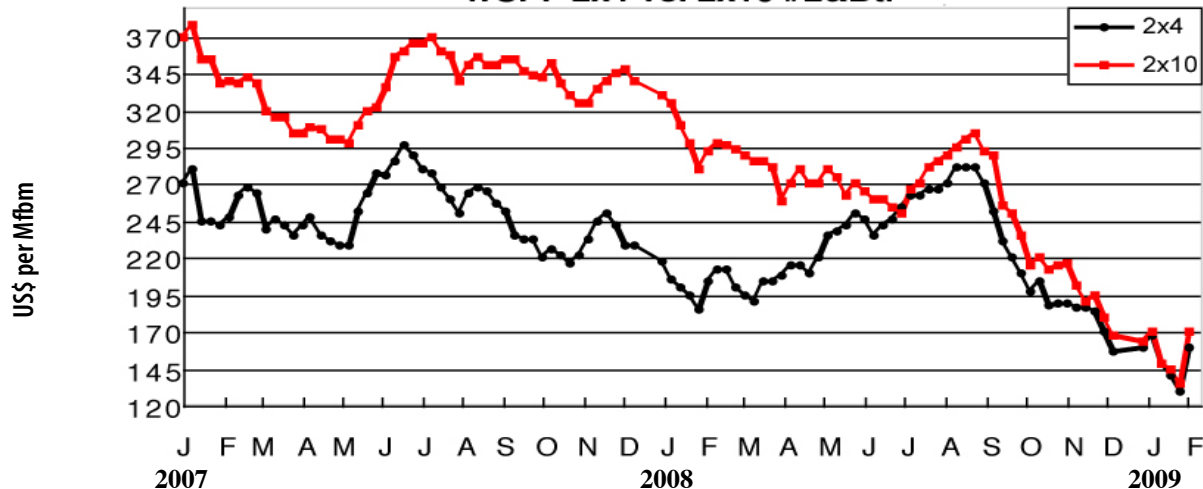
Due to continued extremely weak demand for framing and dimension lumber and panel products, and strong indications that the situation will continue through 2009 at least, wood products companies announced wide spread closures and indefinite curtailments this week. [READ MORE](#)

### Newsprint Production

With newspaper revenues, which rely heavily on advertising sales, hit hard by the global economic downturn, drastic reductions in newsprint ordering have forced paper mill closures in North American and Europe.

Paper producers forge ahead with efforts to raise prices regardless. [READ MORE](#)

WSPF 2x4 vs. 2x10 #2&Btr



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	160	130	+30	168	-8	185	-25
WSPF KD R/L 2x6	170	126	+44	148	+22	188	-18
WSPF KD R/L 2x8	154	124	+30	162	-8	204	-50
WSPF KD R/L 2x10	170	135	+35	170	0	280	-110
WSPF KD PET 2x4 Stud	180	155	+25	155	+25	200	-20
Douglas Fir Green R/L 2x4	170	145	+25	165	+5	155	+15
Douglas Fir Green R/L 2x10	225	220	+5	230	-5	230	-5
ESPF KD 2x4 8ft Stud	230	200	-30	235	-5	265	-35
OSB Ontario 7/16" (CDN\$)	220	220	0	220	0	150	+70

## Weekly News

### US Home Financing

CONTINUED The International Monetary Fund warned Thursday that the US housing downturn may deepen and last longer than previously forecast, and the slump could spread to other countries. The US housing slump, at the epicenter of the global financial crisis, is under severe pressure "as labour markets deteriorate further, mortgage financing remains restrained and foreclosures rise steeply as the 'negative equity' problem in housing spreads," it said.

"House prices could continue to fall sharply through 2010, undermining recovery in financial markets and contributing to the adverse feedback loop with the real economy," the 185-nation IMF warned.

Meanwhile, the Winans International Real Estate Index calculates that new home prices in the United States are down 23 per cent since March 31, 2007. New homes sales have fallen 71 per cent and new property listings are down 34 per cent in the same time period.

"This bear market will probably not end in 2009. Past real estate bear markets ended when the average time it took to sell a new house dropped to 3 1/2 months. Currently, it is taking over 9 months for transactions to close due to tight credit conditions," says company founder Ken Winans.

In other news, the number of Americans filing first-time claims for jobless benefits unexpectedly jumped last week to a 26-year high, signaling a deepening deterioration in the labour market.

### US Housing

CONTINUED Buyers waded back into the market to take advantage of lower prices and mortgage interest rates. "In an otherwise bleak landscape, this represents a ray of hope, as it's a leading indicator for existing home sales. I'm sure it's foreclosure-driven, so it could be a hollow number," said Brian Dolan, chief currency strategist at Forex.com.

The NAR's housing affordability index jumped 11 per cent in December to 158.8, the highest since it began tracking records in 1970. The index rose on falling home prices and low mortgage rates.

### Production Cuts

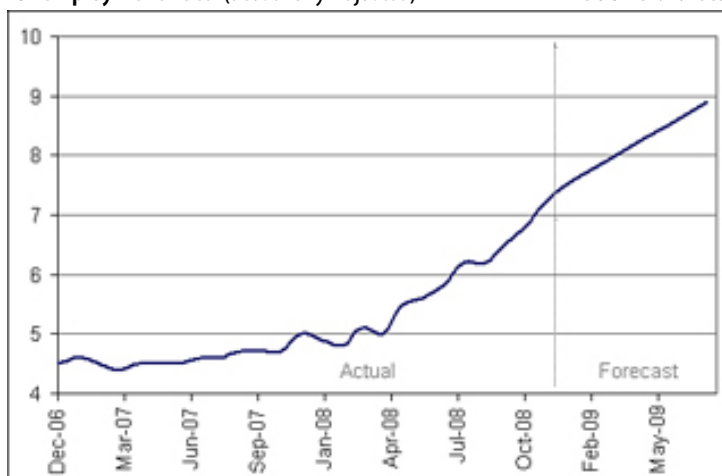
CONTINUED Domtar, West Fraser, Canfor, Tembec and Weyerhaeuser all announced major sawmill and pulp mill closures this week in an effort to bring production levels closer to demand.

Canfor will take 258 mmfbm out of production at three mills, West Fraser's curtailment of five mills will reduce the company's annual production by 446 mmfbm. Weyerhaeuser's closure of its Alabama mill will put 300 employees out of work.

Tembec's closure of three Canadian mills will cut 1,400 jobs. Domtar's closure of its North Carolina fine paper mill will lay off 293 staff and cut production by 293,000 metric tons.

US Civilian Unemployment Rate (Seasonally Adjusted)

SOURCE: forecasts.org



## Calendar

February 2009

### Oregon Logging Conference

February 19 to 21 - Eugene, OR  
<http://www.oregonloggingconference.com/>

March 2009

### Paper Week

March 22 to 24 - New York, NY  
<http://www.paperweek.org/index.html>

# A World of Newsprint

## Newspaper Sales

As most people know, newspaper sales volume is linked directly to economic strength; when times are good there are

by Kéta Kosman

plenty of advertisers, making for fat newspapers containing a lot of newsprint. When times are tough, like now, advertisers drop off dramatically, and newspapers reduce their page count, sometimes even shrinking page size. In 3Q 2008, quite a few large circulation American newspapers cut their paper size, some stopped either weekend or mid-week editions, and some even switched from the regular 30 lb. stock to a thinner newsprint. All these factors together, when added to fewer pages per newspaper and fewer customers - since a segment of the public has switched to online editions in an effort to save a few pennies - have hit newsprint producers hard.

According to the Newspaper Association of America, advertising revenue dropped almost 8 per cent to \$45 billion to date since 2006, as a 19 per cent increase in online ad spending failed to offset an over 9 per cent reduction in print. That's because online ad revenue made up only 7 per cent of all advertising sales at newspapers in 2007, and print ads still command several times more money per reader. America's largest newspaper chain, Gannett Co., recorded revenue reductions of 16 per cent in June and 17 per cent in July 2008 compared with a year earlier. McClatchy Co. saw a 15 per cent decrease

in ad revenue through May but drops of greater than 19 per cent in each of June and July 2008. In those two months, The New York Times Co. reported a nearly 18 per cent ad-spending decline at the flagship Times, The Boston Globe and other news media properties, after dropping only 10 per cent through May. Expectations are that, while ad revenue will not continue decreasing, it is also not likely to rise again in the short-term, or even medium, future.

The one salvation for North American newsprint producers is that the industry has learned from past lessons, and started to cut production in mid 2007. Announcements of closures and curtailments continue through today. This united effort has served to bolster newsprint prices in view of reduced supply. According to the pulp and paper industry price sheet, FOEX, 30 lb. newsprint prices in Europe have risen by €4.40 since the beginning of 2009 to almost €500 per metric ton this week.

Meanwhile the commodity in the American market has dropped by US\$16.64 for the same time period to US\$733 per metric ton. Part of this difference can be accounted for by a strengthening of the US dollar since 3Q 2008. On a side note, readers might be interested to know that FOEX has started tracking hardwood kraft pulp prices in the Chinese market, in both US dollars and Chinese yuan. Visit [www.foex.fi](http://www.foex.fi) on Tuesdays for weekly updates.

Speaking of pulp, production curtailments have lead to reduced supply, helping to bolster newsprint prices somewhat. The cycle of lumber mill closures causing fewer chips sent to the pulp mill, forcing pulp mill closures due to lack of supply - despite steady price increases

in 2008 - gives less room for newsprint producers to maneuver at a time when quick response to market conditions is necessary for survival. Newspaper publishers are, of course, not in favour of newsprint price increases and have few options available to offset higher costs. Cuts in other areas ensue, such as layoffs, closures and a movement towards online-only publishing. In the end newsprint demand drops significantly, causing a vicious cycle.

Vital to the global pulp and newsprint market are Scandinavian producers, where the top five companies account for over 80 per cent of European newsprint and magazine paper capacity. This week Norway's Norske Skog said it would cut newsprint production by 200,000 metric tons and magazine paper by 75,000 metric tons in 2009. The move is motivated by the need to reduce company debt. Finnish-Swedish Stora Enso announced 1Q 2009 production cuts similar to 4Q 2008, at 490,000 metric tons, or 15 per cent of capacity. Sweden's UPM-Kymmene Corp., the world's largest magazine paper maker, this week reported sales fell 8 per cent to €2.3 billion (\$2.9 billion) in 4Q 2008, from €2.5 billion one year earlier. UPM expects poor demand to continue this year, and repeated its plans to cut production and lay off personnel.

The consensus among paper producers is that 2009 is going to be a difficult year, just as it is expected to be for lumber producers. The entire forestry industry is caught not only in the abysmal US housing market, but in the global economic downturn. Production cuts are needed for companies to stay afloat, but new and innovative business practices are also in order. Unfortunately, paper producers do not have as many alternative avenues to explore for use of their products as do wood producers. While it is true that trends show an increase in online reading, there is no evidence to suggest that paper will ever "go away" entirely (despite predictions in the early 1980s to the contrary).

What needs to happen is for balance to be restored between advertising, newspaper sales, and newsprint costs. At present, market corrections are occurring. The unexpected scope of ailing economies internationally, which only just came to light in 3Q 2008, is making it even more difficult for paper companies to assess how to respond. Clearly they have decided on yet more drastic closures and curtailments, on the understanding that it is easier to start back up should the situation improve sooner than expected than it is to pay off massive debt incurred during an extended market slowdown.



Newsprint Paper