

# MADISON'S LUMBER REPORTER

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KetaDesign Productions

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Annual Subscription Prices  
E-mail/Fax: C\$339  
Discounts available for multiple  
subscriptions  
Published 50 times a year

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604 984-6838  
PO Box 2486 Vancouver, BC  
V6B 3W7 Canada

In Canada, add 5% GST  
ISSN 0715-5468

Printed in Canada © 2008

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## News & Updates

### Closures and Curtailments

West Fraser Timber Ltd. has idled several sawmills in the face of weak lumber sales after releasing 4Q 2008 results showing a loss of \$70 million, or \$1.63 per share, on sales of \$746 million in the fourth quarter. That compared with a loss of \$3 million on sales of \$782 million, in the same quarter of 2007, the company said. The operating loss was \$64 million, the same as a year earlier.

Canfor Corp., in the midst of a temporary one-to-two-week shutdown at its sawmills, reported a \$229.8 million loss in 4Q 2008, and a \$345.2-million loss for the full year. The financial loss was impacted by write-downs on the company's assets of \$74.1 million and a foreign-exchange loss on its US denominated debt of \$52.2 million. Over the past 18 months, Canfor has reduced its logging and hauling costs, increased productivity despite curtailments, disposed of non-core assets and enacted salary rollbacks and staff reductions, effectively reducing operating costs by \$10 million.

Catalyst Paper Corp. is shutting down its BC mills in Campbell River and Powell River, laying off more than 525 people at the two operations, because paper markets have collapsed, according to a company statement.

Tembec will be eliminating 100 positions, freezing salaries and cutting other costs in response to tough times on the forestry industry. The staff reductions will involve terminations, layoffs and retirements. The wage freeze will affect management and staff.

TF Sawmill in Cumberland, BC, is shutting down, putting about two dozen people out of work. The 52,000-square-foot sawmill and the eight acres of industrially zoned property upon which it sits are being sold, by court order, for \$3.6 million. The mill produced high quality lumber up to 60-foot lengths, much longer than the 24-foot lengths typically cut at most traditional mills.

### US Housing Starts

Housing starts in January were at a seasonally adjusted annual rate of 466,000. This is 16.8 per cent below the December estimate of 560,000 and 56.2 per cent below the January 2008 rate of 1,064,000. [READ MORE](#)

### US Mortgage Assistance Package

Newly elected US President Barack Obama unveiled his mortgage assistance package this week, in an effort to prevent the next round of foreclosures (expected to be 2 million in 2009), and restart home building in the US. [READ MORE](#)

### Lumber Production Globally

This week's Page 7 featured article is guest written by Rick Doman, the son of Doman Industries Ltd. founder Herb Doman. Rick has a lifetime of experience in the coastal BC forest products industry in particular, and great insight into the forest industry globally in general.

As President and CEO of Doman during massive restructuring, Rick ran the company for over three years before the bondholder takeover in 2004. [READ MORE](#)

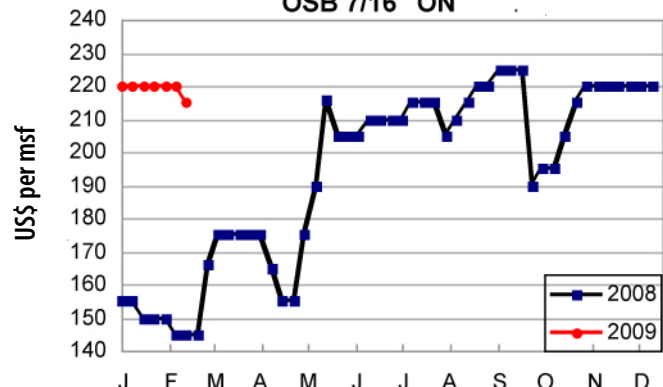
#### U.S. HOUSING STARTS

|                         | Jan-09  | Dec-08  |                          | Jan-09  | Dec-08  |
|-------------------------|---------|---------|--------------------------|---------|---------|
| <b>Starts</b>           |         |         | <b>Permits</b>           |         |         |
| Actual                  | 30,200  | 38,300  | Actual                   | 35,400  | 39,800  |
| SAAR*                   | 466,000 | 560,000 | SAAR*                    | 521,000 | 547,000 |
| 1 Unit                  | 347,000 | 395,000 | 1 Unit                   | 335,000 | 364,000 |
| 2-4 Units               | (s)     | (s)     | 2-4 Units                | 20,000  | 17,000  |
| 5+ Units                | 114,000 | 152,000 | 5+ Units                 | 166,000 | 166,000 |
| <b>Starts by Region</b> |         |         | <b>Permits by Region</b> |         |         |
| Northeast               | 36,000  | 63,000  | Northeast                | 59,000  | 61,000  |
| Midwest                 | 53,000  | 75,000  | Midwest                  | 82,000  | 84,000  |
| South                   | 246,000 | 282,000 | South                    | 268,000 | 288,000 |
| West                    | 131,000 | 140,000 | West                     | 112,000 | 114,000 |

\*Seasonally adjusted annual rate

Source: U.S. Census Bureau

#### OSB 7/16" ON



## Key Prices

|                            | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|----------------------------|-----------|-----------|--------|-----------|--------|----------|--------|
| WSPF KD R/L 2x4            | 160       | 168       | -8     | 140       | +20    | 212      | -52    |
| WSPF KD R/L 2x6            | 162       | 172       | -10    | 130       | +32    | 212      | -50    |
| WSPF KD R/L 2x8            | 150       | 155       | -5     | 130       | +20    | 220      | -70    |
| WSPF KD R/L 2x10           | 162       | 168       | -6     | 145       | +17    | 296      | -134   |
| WSPF KD PET 2x4 Stud       | 165       | 195       | -30    | 155       | +10    | 210      | -45    |
| Douglas Fir Green R/L 2x4  | 160       | 160       | 0      | 145       | +15    | 165      | -5     |
| Douglas Fir Green R/L 2x10 | 200       | 220       | -20    | 225       | -25    | 225      | -25    |
| ESPF KD 2x4 8ft Stud       | 230       | 230       | 0      | 230       | 0      | 275      | -45    |
| OSB Ontario 7/16" (CDN\$)  | 215       | 220       | -5     | 220       | -5     | 145      | +70    |

## Weekly News

### US Housing

**CONTINUED** Building permits in January were at a seasonally adjusted annual rate of 521,000, 4.8 per cent below the December rate of 547,000 and 50.5 per cent below the revised January 2008 estimate of 1,052,000.

New-home construction fell to its lowest level on record in January as builders virtually closed up shop amid falling demand, tightened credit markets and a flood of foreclosure properties.

The numbers show a housing market that is still declining after more than two years of slumping prices and lower demand. Home values, which rose steadily for more than a decade, have fallen by an average of about 25 per cent from their peaks.

If there is one bright spot to dwindling new-home construction, it is that supplies will eventually fall in line with de-

mand. At the end of December, the inventory of unsold homes fell to a 9.3 month supply from 11.2 month supply a month earlier, according to the National Association of Realtors.

### US Mortgage Crisis

**CONTINUED** US government stabilization initiative is designed to stem a rising flood of foreclosures and help between seven and nine million homeowners restructure or refinance their mortgages to avoid losing their homes, the Treasury Department said.

\$75 billion would be made available in a homeowner stability initiative to help up to four million homeowners at risk of foreclosure keep their homes. The plan will also contain incentive payments for lenders to give help to up to four million borrowers at risk of foreclosure. The aid is meant to cut homeowners' monthly

mortgage payments back to no more than 31 per cent of their income.

The President assured the American people that the plan will not aid those that either borrowed or lent money irresponsibly. However concerns are that the rampant levels of foreclosures, which are only expected to rise in the absence of some form of assistance, will only serve to continue to drive property values even lower. In the end even people who have been paying their mortgages would get hurt because the value of their home would fall yet more below their mortgage.

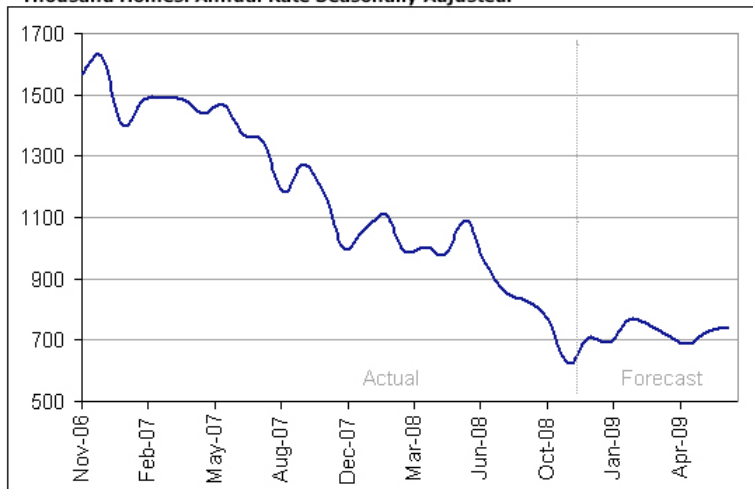
The most affected areas, the previously hot real estate markets of Arizona, Florida, Nevada and California continue to see record numbers of people defaulting on their mortgages.

### Announcement: COFI 2009 Convention Postponed

As a consequence of current economic conditions the Council of Forest Industries Board of Directors decided regretfully to postpone the COFI convention originally scheduled for April 1-3, 2009 in Prince George, BC. Member companies and many suppliers and potential sponsors & exhibitors are curtailing travel and discretionary spending as a result of current economic conditions as they focus all available resources on their operations. Postponement of the convention at this time is the prudent choice and staging of the popular event will be reconsidered over the coming months.

Staging of this popular event will be reconsidered over the coming months. Please visit the site periodically for updates <http://www.cofi.org/>

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



SOURCE: forecasts.org

# Lumber Production

## A Global Industry

The Canadian forest industry has faced many challenges in recent years, and will continue to do so in the short term at least. How-

by Rick Doman

ever there are signs emerging that certain aspects of the lumber

market are beginning to turn around.

A major blow was dealt to Canadian producers in 2001 when the industry had a chance to resolve the softwood lumber dispute before duties were implemented in May 2002. At the time a deal was being negotiated for a market price system, which involved a sliding scale duty on lower priced lumber shipments. By 2003 lumber prices were rising, and duties would have been minimal. In addition any money paid would have stayed in Canada. That proposal was rejected by both government and industry groups causing many long term issues for the industry. In 2006 a very poor deal was agreed to settle the dispute.

The US housing market was showing signs of a bubble forming as early as 2005 and the effects of that have impacted the global economy. The question is where does that leave the industry going forward?

Canada will more than likely have to rely more on US and domestic markets. The Euro is falling, against the US dollar in particular, thus making European lumber producers competitive domestically, and as exports into the US, Asia and the Middle East, as well as globally. They will also in a limited way be back in the US market when that dimension and appearance grade market picks up. BC will have a problem selling into the US due to blue stained wood.

On a recent trip to Russia, I realized Canada should take a wake up call. Currently Russia harvests approximately 200 million cubic meters of mostly softwood annually, thus, between log exports and forest product exports, supplies about 3 per cent of global demand. The country could sustainably harvest 500 million cubic meters, which could increase one day up to 22 per cent of global market share for forest products. The timber, often virgin forests, is some of the best softwood in the world. The Russian federal, provincial and territorial governments are all actively encouraging the building of new mills, joint venture projects and expansion of existing lumber companies in the interests of exporting finished lumber products. Some US and European forest companies have already made investments in the Russian forest industry. Russia is the biggest country in the world by land base, has a population of 145 million, and its timberlands are generally in regions with low employment rates.

Currently there are infrastructure challenges and investment hurdles, however the Russian government and industry are working hard to overcome this. Russian industry

is building more efficient sawmills and they expect to expand further in all aspects of forestry. They have a competitive currency from an export perspective, while they are close to Europe and China from a freight perspective. They intend to restrict log exports, attract investment through joint ventures, create jobs in Russia and export more finished products. We should understand that with Russian government support they will be a major player in the global markets possibly within five years.

The US expanded tree planting in particular over the past 25 to 30 years in the south. Southern Yellow Pine harvests will be increased in that region. Canadian companies that expanded in the southern US over the long term should do well, they will not have duties to contend with and freight costs to major markets are much lower. Eastern Canadian lumber producers may also do well as they are closer to major US markets, they do not have the pine beetle issue to contend with, and the US lumber coalition seems to be most concerned with the stumpage pricing system and harvesting practices in BC.

BC historically has shipped about 50 per cent of the lumber exported from Canada into the US, with most of that coming from the Interior. Due to the pine beetle BC timber harvests rose to about 84 million cubic metres in 2006, this is well above the sustainable Annual Allowable Cut. BC should reduce the total AAC to a more sustainable rate as a reflection of poor demand. The BC government should look at using more of the pine beetle wood for biomass. The current practice of lumber companies losing money by cutting so many trees, both healthy and beetle infested, and shipping them into the US is only hurting themselves and the taxpayers of BC. Stumpage prices on beetle infested good pine wood should be much higher than \$0.25 per cubic meter, and minimal value trees should be used for biomass. The choice should be given to the lumber companies, to either pay more stumpage or the government should provide opportunities for green energy alternatives. Also along with the reduction in AAC, industry should look at option B under the SLA, of reducing shipments. This would correct the imbalance of supply and demand we have right now, which is driving lumber prices down below production costs.

US housing starts have fallen to unsustainable levels and based on the government stimulus plan which includes a \$8000 tax credit for new home buyers, and also a new plan to assist existing home owners with providing some flexibility with mortgages so they can retain their homes. This should allow housing demand to start to pick up in 2010. The new mortgage relief package in the US will subsidize up to nine million homeowners as well as the banks, preventing foreclosures.

This means the current large volume of existing homes for sale will drop. The most important thing is that the fear of investing in real estate will begin to evaporate. New homes for sale will go quickly, as there is little supply and builders have basically halted new home construction. Into 2010 both existing and new homes for sale inventories will be absorbed, and home building will begin again, but it will be starter homes rather than the more luxury-style homes built in recent years. This means demand by builders will be for commodity grade dimension lumber, OSB and some plywood. Many southern US mills will come back on line at this time.

Coastal BC may lag behind the expected recovery, because a lower standard of living is developing in North America due to the impacts of the recent economic crisis, which will create demand for more starter type homes not the larger ones that use more high end products. These type of homes tend not to use cedar siding and decks, or wood windows and doors.

Also Japan may recover more slowly due to a drop in its exports causing lower demand for Canadian lumber, particularly high grade coastal products. The standard of living in countries like China and India, meanwhile, due to a growing educated work force along with lower wages, should continue to expand, creating demand for lumber from Russia. At this time pulp and paper companies expanding in these countries have the distinct advantage of a much less costly workforce.

Pulp and paper producers will continue to face more challenges due to lower cost producers in South America and Asia. Global capacity reductions should allow for a slow recovery within a few years, however byproduct revenues for Canadian lumber producers will remain under pressure. Low chip, sawdust and hog fuel (the key ingredients in making pulp) prices increase production costs for lumber. The eventual sale of these byproducts is essentially a credit on primary lumber production, which, when lacking, results in lower revenues.

The Canadian industry has to learn to better manage its markets and make more by producing less when demand is not there, rather than losing large amounts of money. The days of massive production levels are behind us, the world has changed very quickly and we need to adapt and change our business methods equally quickly. The industry also has to further develop global markets despite growing global competition. While the US will always be a major customer of Canadian wood products, such a heavy reliance on that market has caused a lot of the problems Canadian industry faces today.

*Rick Doman is President/CEO Eacom Timber Corporation, and former President/CEO Doman Industries Ltd. and Western Forest Products*