

MADISON'S LUMBER REPORTER

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News & Updates

AbitibiBowater Midnight Deadline

Several US news agencies reported late Thursday that AbitibiBowater's recapitalization plan was meeting resistance from bank creditors. US banks hold a relatively small amount of the company's massive \$6 billion debt, but the company's fate is in their hands, given their position as secured lenders. As secured lenders, the banks' approval is needed if Abitibi-Bowater is to go ahead with a move to restructure US\$1.8 billion of debt at its Bowater Inc. subsidiary. In addition to its secured loans, Citicorp also holds some of Bowater's unsecured debt, including a portion of a US\$250 million debenture issue that comes due in August.

New Brunswick Provides More Aid to Forest Workers

Building on a program launched in February where the federal and provincial governments joined together to provide \$3.1 million for retraining older workers, New Brunswick this week announced additional tax credits to aid the forestry sector.

Those eligible for the Forestry Industry Investment Tax Credit will be entitled to a rebate of up to 50 per cent off the capital investment made in new qualifying equipment, and up to 50 per cent off provincial property taxes paid. The province has also extended the tax credit for high energy users until March 31, 2010. The credit, which is available to pulp and paper mills, aims to offset energy costs and provide about \$5 million in assistance to qualified businesses.

Japanese Housing Starts

With two consecutive months of decline, housing starts in Japan fell 19 per cent in January compared to January 2008. The rate of decline for housing starts widened sharply from 5.8 percent in December after posting gains for five straight months through November in reaction to a sharp contraction caused by a new stricter building code introduced in June 2007. [READ MORE](#)

US Housing Starts

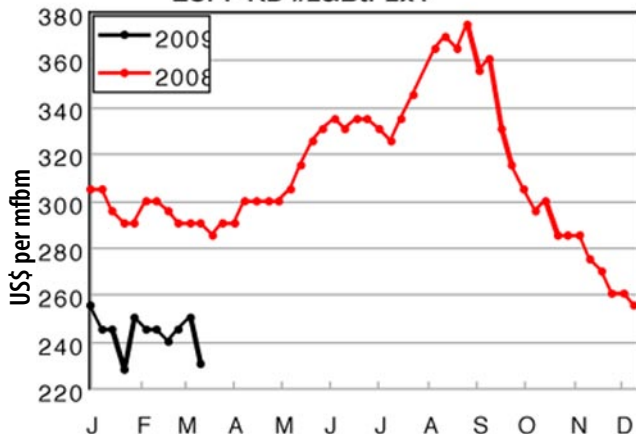
Seasonally adjusted housing starts in the US rose by 22 per cent in February, due largely to new condo building in the northeast. Permits rose 3 per cent, and single family new home building rose 1.1 per cent over January 2009. [READ MORE](#)

New Technology in Wood Processing

Phillip Evans, the University of British Columbia's new BC Leadership Chair in Advanced Forest Products Manufacturing Technology, took some time out of his busy schedule to talk with *Madison's* about exciting new developments in wood processing, and his plans for future research.

Sprinkling words like nanotechnology, plasma modification, micro fluidic devices and bio-mimetics throughout the conversation, Evans will continue his work in studying the surface properties of finished wood products in order to make them both more durable and to maintain a good appearance longer. [READ MORE](#)

ESPF KD #2&Btr 2x4



U.S. HOUSING STARTS

	Feb-09	Jan-09		Feb-09	Jan-09
Starts			Permits		
Actual	40,400	31,100	Actual	37,600	36,300
SAAR*	583,000	477,000	SAAR*	547,000	531,000
1 Unit	357,000	353,000	1 Unit	373,000	336,000
2-4 Units	(s)	(s)	2-4 Units	18,000	22,000
5+ Units	212,000	118,000	5+ Units	156,000	173,000
Starts by Region			Permits by Region		
Northeast	66,000	35,000	Northeast	74,000	58,000
Midwest	84,000	53,000	Midwest	82,000	82,000
South	332,000	255,000	South	289,000	273,000
West	101,000	134,000	West	102,000	118,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	152	150	+2	160	-8	204	-52
WSPF KD R/L 2x6	152	150	+2	162	-10	190	-38
WSPF KD R/L 2x8	146	146	0	150	-4	206	-60
WSPF KD R/L 2x10	165	165	0	162	+3	285	-120
WSPF KD PET 2x4 Stud	170	170	0	165	+5	215	-45
Douglas Fir Green R/L 2x4	165	143	+22	160	+5	200	-35
Douglas Fir Green R/L 2x10	170	175	-5	200	-30	195	-25
ESPF KD 2x4 8ft Stud	225	225	0	230	-5	280	-55
OSB Ontario 7/16" (CDN\$)	202	205	-3	215	-13	175	+27

Weekly News

Abitibi Financial Woes

CONTINUED Unconfirmed reports that Abitibi was unable to meet Wednesday's deadline related to repayment of a US\$347 million term loan fuelled speculation of bankruptcy and sent company stocks sharply downward.

AbitibiBowater has until midnight Friday to renegotiate its debt. The deadline has already been extended twice. Several US congressmen and senators have reportedly been appealing to the banks to loan out some of the funds recently received in US government bailouts, due to the sheer number of AbitibiBowater paper mills across the US, and Canada, that seem to be in danger of closing.

Japan Housing

CONTINUED Seasonally adjusted annual housing starts were 957,000 for January. Declines were in the double digits across all categories; detached units, rental units, and units built for sale. The January figure for detached

units in the Tokyo was the lowest ever recorded, at 19 per cent.

Wood based home construction accounted for 47 per cent of the total.

Other ministry data that came out simultaneously showed that Japan's top 50 construction firms received building orders worth 578.9 billion yen, down 38 per cent from a year earlier, which is the sharpest fall ever.

US Home Building

CONTINUED Construction of single-family homes climbed 1.1 per cent to a 357,000 rate, the report showed. Work on multifamily homes, such as townhouses and apartment buildings, surged to a 226,000 pace from 124,000 in January.

Overall housing construction activity fell to a pace of 477,000 units in January – a record low – according to revised figures.

US housing construction is down a whopping 47 per cent from a year ago.

All areas of the country reported

an increase in February, except the West, which has been hardest hit by the housing slump.

For now, mortgage borrowers are hard-pressed. Foreclosure filings climbed 30 per cent in February from a year earlier, and a total of 290,631 homes received a default or auction notice or were seized by the lender, according to RealtyTrac Inc., an Irvine, CA based seller of default data.

"We expect demand for all homes, both new and existing, to remain far below normalized levels," Chief Executive Officer Ara Hovnanian said in a March 10 statement.

Still, the Red Bank, New Jersey-based company said it contracted to sell 506 houses in February, the most in six months.

As part of its continued effort to jump-start the stagnant real estate market, the US Fed said this week it would expand by \$850 billion to \$1.45 trillion an existing program to buy debt and securities issued by mortgage finance agencies.

The expansion of the program, which already had lowered mortgage rates, immediately pushed borrowing costs down further. Quicken Loans said rates on 30 year mortgages fell as much as 0.375 percentage point to 5 per cent.

The surprise announcement jolted markets. US stocks shot higher and yields on US government bonds took their biggest one-day tumble since 1987, while the dollar plunged to a two-month low against the Euro.

Many economists say the Fed will not even contemplate interest rate increases until the unemployment rate, which soared to a 25 year high of 8 per cent in February, declines.

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Jan-09	70,688	37,494	33,194	47
Dec-08	82,197	39,855	42,342	52
Nov-08	84,277	42,176	42,101	50
Oct-08	92,123	48,578	43,545	47
Sep-08	97,184	51,715	45,469	47
Aug-08	96,905	50,514	46,391	48
Jul-08	97,212	51,877	45,335	47
Jun-08	100,929	53,328	47,601	47
May-08	90,804	48,075	42,729	47
Apr-08	97,930	54,656	43,274	44
Mar-08	83,991	44,428	39,563	47
Feb-08	82,962	46,110	36,852	44

Source: Japan Wood-Products Information and Research Center

Nanoparticles and Plasma Modification Wood Processing

Sounding like a science fiction movie, developments in wood processing, treatment and coating are moving increasingly

by Kéta Kosman

toward new innovations and new technologies.

Phillip Evans, who this week won a gruelling global competition to become BC Leadership Chair in Advanced Forest Products Manufacturing Technology, recently published an interesting paper on the use of large-scale nanotechnology in wood preservation. Since 2006, a number of North American chemical companies have commercialized wood preservatives that consist of copper carbonate particles, states Evans' paper, published in the October 2008 issue of *Nature Nanotechnology*. Evans and his co-writers point out that the market for treated wood in North America is valued at almost US\$5 billion annually, including approximately 20 million cubic meters of wood treated with aqueous, mainly copper-based, preservatives. In 2008, use of new nano-copper preservatives captured 50 per cent of the lucrative North American wood preservative market, making wood protection one of the world's largest uses of nanoparticles.

Now publicizing his recent invention of a wildly popular machine which compresses the effective duration of deck boards air drying for 20 weeks into five days, Evans is launching a two-pronged research project at UBC. The basic premise of one aspect of his work will involve making wood more durable outside, and modifying the wood gluing process. The other, more esoteric, aspect will involve research into "why is wood so effective at keeping trees standing, and at conducting water upward?"

By finding ways to modify the surface layer of finished wood so coatings don't wear off, Evans expects to extend the time between sanding and repainting or restaining considerably. Added benefits would include making wood more resistant to weather and insects. These improvements would make wood more competitive against other building products.

In researching a process called plasma modification, Evans plans to improve the strength of glue bonding. Glue has difficulty permeating the surface of high density species, causing low success rates in bonding. British Columbia, for example, uses Douglas Fir for glulam, however coatings and varnishes do not easily penetrate the surface. The Industry Canada

website explains that North American demand for glulam has remained relatively stable at around 700 000 cubic meters annually (300 million fbm), and that glulam is used in residential construction, office buildings, schools, and other institutional, commercial or recreational buildings as a substitute for steel.

Evans points out that, in terms of competition with other building materials, wood has great potential for growth in the future. Concrete, for example, degrades over time and is currently reinforced by bonding with steel. Wood, on the other hand, has both the porous surface of concrete and hollow tubes inside which can be used to transport glue, water or other fluids upward even long after being processed.

With the research being carried out at the Centre for Advanced Wood Processing at UBC, together with FPIInnovations and the lumber industry, new and better uses for wood are sure to be found. "As a wood scientist, I'd definitely like to see consumers and the building and construction industry use more renewable resources such as wood, instead of turning to more energy-intensive materials such as plastic, metals and concrete," says Evans. "Our research has shown wood can be utilized in many areas where it was previously thought to be unfit

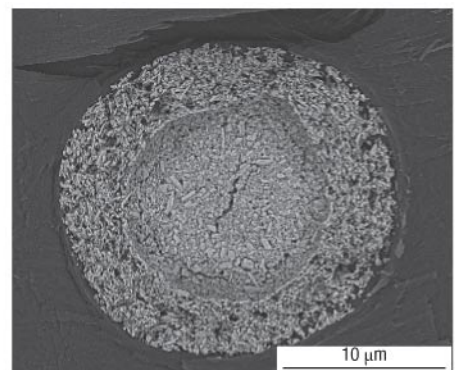
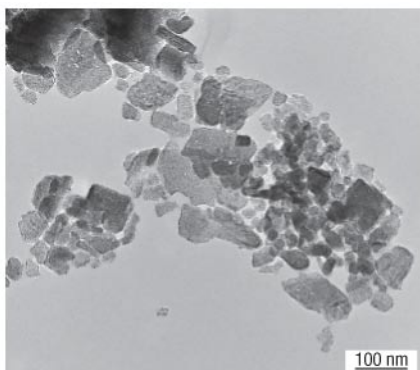
Lumber Production Export Figures

A report published this week by PricewaterhouseCoopers portrays an expectedly gloomy picture of the Canadian pulp and paper industry. Generally speaking market pulp prices trend behind lumber prices, although pulp does experience its own five year price cycle as well. Pulp prices enjoyed a cyclical peak through most of 2008, but crashed badly into autumn. The current

down cycle in market pulp is not expected to recover until mid-2010 at the soonest, while lumber is expected to start seeing a price rebound in early 2010. This week the European price for market pulp is US\$578 per metric ton, down US\$46 from the beginning of 2009, according to FOEX.fi. In January 2008, market pulp was selling for US\$875 per metric ton in Europe.

The PWC report found that the largest players lost more than \$3.3 billion in 2008, including \$1.3 billion in the fourth quarter, but noted that the net losses include one-time charges that don't reflect the operating position of companies. Excluding adjustments by Domtar Inc. and TimberWest, the fourth-quarter loss by 13 companies would have been about \$940 million. Five major forestry companies in eastern Canada had quarterly losses totalling \$954 million in the three months ended December 31 - mostly because Domtar Inc. took a \$700-million impairment charge. That compared to \$106 million of losses a year ago. Meanwhile, the eight western forestry companies tracked by the report had net losses totalling \$641 million in the fourth quarter, although TimberWest had a \$330-million profit due to a \$340 million net gain from its fair value adjustment on modification of debt.

In terms of sawn timber for building materials, Canadian exports have fallen from 84.5 million cubic meters in 2004 to 72 million cubic meters in 2007 and 57.3 million cubic meters in 2008. The value of Canadian forest products exports fell by 16.5 per cent in January 2009 compared to January 2008, and 12.8 per cent from December 2008. Monthly export figures by Statistics Canada show that softwood lumber exports in January 2009 were 651,089 mfbm, falling in February to 647,394 mfbm. Refer to page five for export graphs on Canadian wood and pulp products over the past five years.



Copper carbonate micro- and nanoparticles in a commercially produced wood preservative (left) and accumulation of larger particles on a membrane within an opening (bordered pit) that connects fibres in treated southern pine wood (right).