

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines Taiga Building Products, including the recent rights offering, against Softwood Plywood and Ponderosa Pine 1x4 board prices over the past ten years. Contact us any time for a subscription.

Québec Forest Industry Stimulus

The Province of Québec announced a \$15 billion stimulus package in its 2009-2010 budget this week. The Minister of Finance, Claude Béchar, explained that higher spending and falling revenues mean Québec will post a \$3.9 billion deficit in 2009-10, its first deficit in a decade, and the province won't balance its budget again before 2013-14.

In terms of the forest industry, a \$22 million program will help finance the planting of 35 million trees this year. According to the ministry, an additional \$26 million will be spent on preparing seedlings to be planted in 2010. Over the next two years, \$2 million will go towards upgrading forestry roads in controlled hunting and fishing zones. The province will also invest \$15 million in the development of value-added forestry products over the next two years.

Béchar also noted the provincial government and the Québec Federation of Labour Solidarity Fund are co-sponsoring a \$500 million emergency financing fund available to the forestry sector. Additionally, under the Québec employment pact, the forestry industry also has access to \$518 million to protect jobs.

Buchanan Forest Products

Once northwestern Ontario's biggest employer, Buchanan Forest Products Ltd., went into receivership this week. Almost all of its salaried employees, more than 40 people, have been let go. Salaried staff at eight idled sawmills located across northwestern Ontario were laid off, including managers and engineers. Only general managers and one or two support staff remain at each site.

The layoffs came the same week as another northwestern Ontario forestry company announced it will shut down. About 240 employees were informed Tuesday that the owners of Marathon Pulp Inc. have decided to declare bankruptcy.

US Economic Indicators

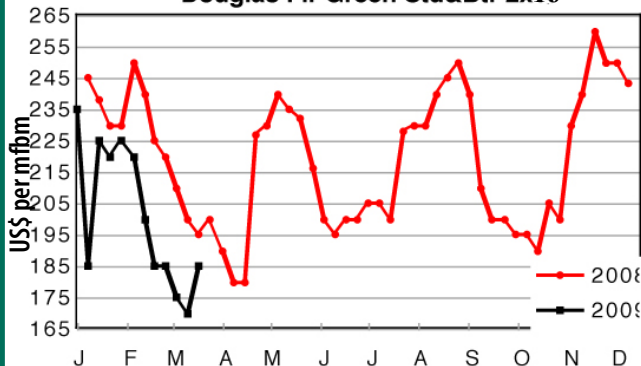
While unemployment figures still grow, almost all other important economic indicators in the US are showing signs of hitting bottom, if not actually starting to rise. [READ MORE](#)

Timber and Log Costs

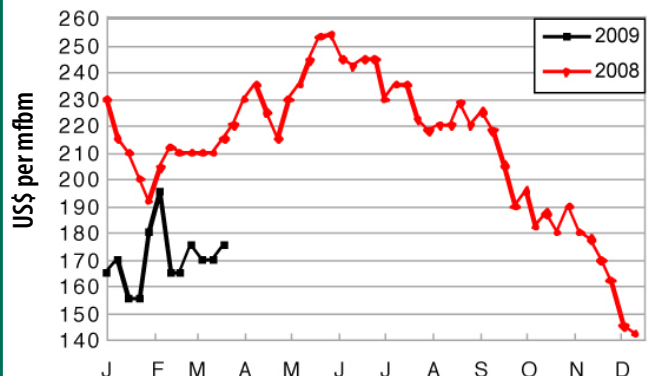
British Columbia, with some of the best timber in the world and a thriving forest products industry, has among the lowest log and timber costs.

While it is true that an incentive, in this case a discount on stumpage, must be offered as an encouragement for lumber companies to harvest beetle kill wood before it becomes unusable, is the current cost structure truly a reflection of the global timber market? [READ MORE](#)

Douglas Fir Green Std&Btr 2x10



WSPF KD 2x4 PET Studs



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	160	152	+8	140	+20	204	-44
WSPF KD R/L 2x6	158	152	+6	135	+23	192	-34
WSPF KD R/L 2x8	155	146	+9	132	+23	207	-52
WSPF KD R/L 2x10	177	165	+12	150	+27	282	-105
WSPF KD PET 2x4 Stud	175	170	+5	165	+10	220	-45
Douglas Fir Green R/L 2x4	175	165	+10	160	+15	185	-10
Douglas Fir Green R/L 2x10	185	170	+15	185	0	200	-15
ESPF KD 2x4 8ft Stud	225	225	0	230	-5	285	-60
OSB Ontario 7/16" (CDN\$)	202	202	0	215	-13	175	+27

Weekly News

US Economy

CONTINUED Sales of existing homes in the United States rose by 5 per cent in February to a seasonally adjusted annual rate of 4.72 million units, the fastest increase since April last year, the National Association of Realtors reported Monday.

Regionally, existing home sales in the Northeast jumped 15.6 per cent in February, but are 15 per cent below February 2008. In the Midwest increased by 1 per cent in February but are 14 per cent lower than a year ago. In the South, existing home sales rose 6 per cent in February but are 11 per cent below February 2008. In the West increased 2.6 per cent in February and remain 30.4 per cent higher than a year ago.

Total housing inventory at the end of February rose 5.2 per cent to 3.80 million existing homes available for sale, which represents a 9.7 month supply at the current sales pace, unchanged from January.

The median price for existing homes fell by almost 15 per cent in January compared to one year ago, to US\$165,400, the

second largest drop on record, thus improving the affordability for potential buyers.

Lawrence Yun, NAR chief economist, said first time buyers accounted for half of all home sales last month, with activity concentrated in lower price ranges.

"Because entry level buyers are shopping for bargains, distressed sales accounted for 40 to 45 per cent of transactions in February," he said. "Our analysis shows that distressed homes typically are selling for 20 per cent less than the normal market price, and this naturally is drawing down the overall median price."

New home sales in the United States rose by 4.7 per cent in February, the Commerce Department reported Wednesday. The new home sales was much better than the 323,000 units that analysts had expected. The February sales pace was down 41 per cent compared with February 2008.

The median price of a new home, a typical market price dropped to US\$200,900, down a record 18 per cent compared with February 2008. This is the lowest median prices since 2003.

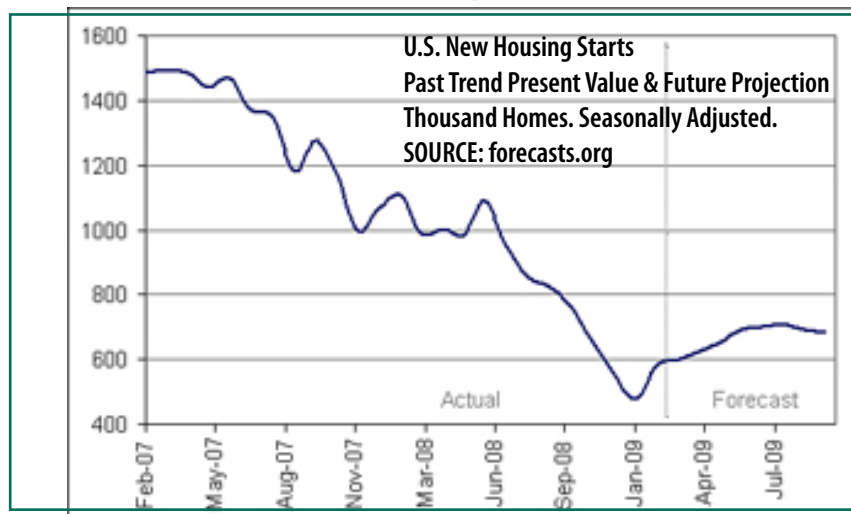
In a separate report issued Wednesday, the Commerce Department reported that orders for US manufactured durable goods rose unexpectedly in February after six straight months of decline.

The 3.4 per cent increase in orders for durable goods, big-ticket items expected to last at least three years, was much better than the 2 per cent decrease that had been expected.

US President Barack Obama assured Americans on Tuesday that there were "signs of progress" toward recovery, while pleaded for more time and patience.

Pierre Ellis, Senior Economist with Decision Economics said, "The rise in new home sales suggests that the drop in mortgage rates and prices has increased affordability enough to bring some buyers back to the market."

"It's a favorable turn of events and it looks as if builders are taking it seriously and they're on the ground and not being foolishly optimistic anymore. New permits data show a sharp pickup in February in the single-family sector so that adds to the optimism."



Calendar

May 2009

Pulp Week

May 3 to 6 - Vancouver, BC
<http://www.internationalpulpweek.com>

Global Forest and Paper Industry Conference

May 14 - Vancouver, BC
<http://www.pwc.com/forestconf09>

BC Bioenergy Conference 2009

May 14 to 15 - Vancouver, BC
<http://www.bcbioenergy.ca>

Log Pricing

Globally

While at the Truck Logger's Association annual convention in January this year, *Madison's* was alarmed at the announcement by the Coalition for Fair Lumber Imports that they will not be satisfied in their

by Kéta Kosman

complaints against the Canadian lumber industry until the US has "full access to BC logs". In later discussions with two primary members of the Coalition, *Madison's* learned that a combination of drastically reduced stumpage on beetle-kill logs in the BC Interior, and the supposed "cooking" of good wood to produce cracks thereby rendering it eligible for the discounted stumpage, prompted the hard line attitude. *Madison's* suspects further that the unexpected announcement of a 70 per cent reduction in stumpage on the coast by BC Premier Gordon Campbell at the TLA convention further entrenched the Coalition in its position.

Madison's then researched the processes other regions use to value their timber. In British Columbia the old model was for the government to determine what its next annual budget was going to be and, taking into account the Annual Allowable Cut, set a stumpage rate based simply on receiving the forest industry's portion of the budgetary needs. A move towards a more market-based system in recent years, directly in response to the US complaints of subsidies, created the current system of using log costs at auction for the large producers to set the price for a pre-determined time period. The US is still not happy with this new system, claiming that unless the market is open fully, not just to large BC-based producers, it is still a form of subsidizing.

The US's Pacific Northwest is a region geographically similar to British Columbia, with corresponding species and terrain. Largely the purview of private land own-

ers, timber prices in the US northwest are clearly posted on the US Forest Service website. For the state of Washington, the price list goes all the way back to 1977.

Four billion board feet of timber was harvested in Washington State in 2007. In 2Q 2008, the average (by distance) price for Zone 6 and 7 high quality Douglas Fir logs was US\$210 mfbm (Scribner's log scale). The average price for high quality Spruce-Pine-Fir logs was US\$182 mfbm (Scribner's log scale). This compares to harvests in Louisiana, where 1.2 billion board feet of timber was harvested in 2007; the state-wide average price for Southern Yellow Pine sawtimber was US\$290 mfbm. (Source: USDA Forest Service <http://www.srs.fs.usda.gov/econ/data/prices>).

From that point, determining timber values got a bit complicated. Quebec, Canada's second-largest lumber producing province by far, is in the process of switching from a complex system of charging per hectare for timber depending on the region (or zone) to an auction-based system. This effort is being made despite having been found by the Coalition to be subsidized by only 0.1 per cent under the old system. In 1997, harvesters in Quebec paid US\$42 per cubic meter (US\$126 mfbm) according to Wood Markets International (<http://www.woodmarkets.com/PDF/q3984-5.pdf>).

Out of curiosity *Madison's* sought comparable information from lumber producing areas overseas. The UK also has a complicated method to calculate timber costs, made all the more cryptic with a price index based on previous years. However the fact is that 9 million green tonnes (50 million board feet) of timber was harvested in the UK in 2007. According to the UK Department of Forestry, "The softwood sawlog price index was 14 per cent higher in real terms in the six months to March 2008, compared with the corresponding period in the previous year." (<http://www.forestry.gov.uk/website/forstats2008.nsf/LUCcontents/928864E00426DD598025735C002BE2EE>).

Given these trends and statistics worldwide, when looking at British Columbia where, it is important to remember, there is the densest concentration of some of the highest quality trees in the world, it is puzzling that timber costs (or stumpage) have fallen recently. The \$0.25 stumpage on beetle-kill wood in the Interior is a good policy in terms of taking down infested trees while there is still time to process them into lumber. However the temptation for forest products companies to take advantage of this opportunity to claim the reduced stumpage has been too great for some operators. Instances of harvesting healthy trees around stands of beetle kill then claiming the \$0.25 stumpage, while leaving the dead trees behind, are well known, in addition to the specialized kiln drying to create checks, as already mentioned.

However, on the coast, where the most valuable trees grow, the BC government deemed it necessary to cut coastal stumpage rates by more than 70 per cent to reflect tough economic times in the forest industry, bringing the average sawlog stumpage price on the coast to less than \$5 per cubic meter, compared to a rate of \$18.56 per cubic meter one year ago. When asked by the mainstream media about a potential angry response to the reduction in stumpage by the Coalition, Premier Campbell shot back, "They should be happy. It's a reflection of market conditions."

Such an attitude begs the question: is this an appropriate response to the market? Or is it a feint attempt to provide a quick solution to mill closures and job losses? Frankly, to truly be a response to market conditions, the price of timber in British Columbia would have to go up, as it is in the rest of the world, not down. Given that the timber is on crown land, with the proceeds meant to be placed in the public trust and used to run the province, the obvious query jumps to mind, "Who exactly is benefitting from the reduced stumpage?"

