

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions
Editor
Kéta Kosman
Market Analyst
Zara Heartwood

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

www.madisonsreport.com
madrep@shawcable.com
604 984-6838
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add 5% GST
ISSN 0715-5468
Printed in Canada © 2008

All material contained within is the property
of KetaDesign Productions Inc. Reproduction
or retransmission is expressly forbidden.



News & Updates

Madison's Announces . . .

Get status updates on all major Canadian sawmills and pulp mills directly to your email inbox in the middle of each month. *Madison's Mill Watch* gives you up-to-the minute information on curtailments, closures and reopenings.

Contact us any time for a subscription.

US Housing Starts

Home construction in America unexpectedly rose in June, building permits surged, and single-family starts made their biggest climb in four years, according to data that adds to evidence the housing sector is beginning to heal.

Housing starts increased 3.6 per cent to a seasonally adjusted 582,000 annual rate compared with the prior month, the Commerce Department said Friday. Housing starts were 46 per cent lower than the pace of construction in June 2008.

While the report suggests things seem to be getting better for the housing sector, conditions are still rough.

Meanwhile building permits in June climbed 8.7 per cent to a 563,000 annual rate. Economists had expected permits to rise by 2 per cent. May permits rose 4 per cent to 518,000.

[READ MORE](#)

Canadian Non-Residential Construction

Investment in non-residential building construction in Canada amounted to C\$10.6 billion (in current dollars) in the second quarter of 2009, a 2.8 per cent drop from the first quarter and the second consecutive quarterly decrease, according to a report by Statistics Canada released Tuesday. This was the result of declines in commercial and industrial building construction.

[READ MORE](#)

Japan Housing Starts

Japanese new home building in May showed a 2.7 per cent decline from April and a 31 per cent drop from May 2008, according to Japan's Ministry of Land, Infrastructure, Transport and Tourism. This is the lowest monthly starts since 1967.

Building permit applications were down 26 per cent in May when compared to the previous month. According to a Ministry statement, housing starts in Japan "show no signs of bottoming out at all."

[READ MORE](#)

Timber Demand in Japan

Perhaps shocked, first by Russia's announcement of an 80 per cent tax on raw log exports in 2008, then by that country's reversal later the same year, the Japanese wood products industry seems to be focussing on increasing domestic production.

Recent figures show that Japan's import volumes of logs and lumber are dropping, both month on month and over the past five years. In particular imports from European suppliers dropped dramatically.

Surprisingly, wood chip and pulp imports were the only wood products segment to show an increase in import volumes.

[READ MORE](#)

Housing Starts Japan SOURCE: Japan Lumber Report

May starts

	May	'09/'08	Jan-May	'09/'08
Total	62,805	-30.8	328,622	-25.8
Owners unit	23,139	-14.9	107,740	-13.1
Rental unit	25,167	-33.3	134,201	-25.3
Units built for sale	13,066	-48.1	79,160	-41.6
(Condominium)	6,130	-60.3	43,909	-48.3
Wood based units	33,282	-22.1	160,768	-21.2
2x4	6,686	-20.5	32,422	-18.0

Comparison : %

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
May-09	62,805	29,523	33,282	53
Apr-09	66,198	32,826	33,372	50
Mar-09	66,628	35,324	31,304	47
Feb-09	62,303	35,687	26,616	43
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

Source: Japan Wood Products Information and Research Center

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	173	190	-17	203	-30	262	-89
WSPF KD R/L 2x6	190	208	-18	206	-16	256	-66
WSPF KD R/L 2x8	225	230	-5	206	+19	266	-41
WSPF KD R/L 2x10	310	322	-12	246	+64	270	+40
WSPF KD PET 2x4 Stud	195	200	-5	195	0	235	-40
Douglas Fir Green R/L 2x4	163	170	-7	175	-12	190	-27
Douglas Fir Green R/L 2x10	240	245	-5	230	+10	200	+40
ESPF KD 2x4 8ft Stud	285	285	0	270	+15	305	-20
OSB Ontario 7/16" (CDN\$)	220	220	0	185	+35	215	+5

Weekly News

US Home Building

CONTINUED The June building numbers were led by a 14.4 per cent jump in single family starts, after rising 6 per cent in May. It was the fourth climb in a row, and the biggest increase since 17.6 per cent in December 2004.

Regionally, starts rose 33.3 per cent in the Midwest and 28.6 per cent Northeast but fell 1.4 per cent in the South and 14.8 per cent in the West.

Nationwide, an estimated 58,300 houses were actually started in June, based on figures not seasonally adjusted. An estimated 58,400 building permits were issued last month, also based on unadjusted figures.

The National Association of Home Builders released its housing market index Thursday for July; the gauge measures confidence of builders in the housing market. It rose to 17, from 15 in June.

Lumber futures firmed on the housing starts news released Friday morning,

and are currently higher with September +\$3.50 to \$189.90 and November +\$2.80 to \$193.90.

Oil prices gained US\$1 per barrel Friday after a rise in US housing starts in June bolstered prospects for economic recovery.

Non-Residential Building in Canada

CONTINUED Investors spent C\$6.3 billion on commercial projects, down 4 per cent, while in the industrial component, investment fell 8 per cent to C\$1.2 billion. Spending in the institutional component continued to rise, up 2 per cent to C\$3.1 billion.

Provincially, the largest contributions to the quarterly decrease (in dollars) occurred in Alberta, down 7.4 per cent to C\$2.5 billion, and British Columbia, down 5.2 per cent to C\$1.3 billion. In both provinces, the decline was mainly due to lower spending on commercial projects.

Home Building in Japan

CONTINUED While starts of all types decreased in all regions, condominiums in Tokyo took a particularly large hit with a decrease of 66 per cent, and units built for sale also in Tokyo were down 56 per cent.

Analysts polled by Dow Jones Newswires had predicted a 22 per cent decline.

Wood based units were down for the first time in a year, by 22 per cent with 33,285 units. Wood based unit share of total new building was at 53 per cent.

Japan's Ministry of Land, Infrastructure, Transport and Tourism stated that "housing starts will remain depressed for some time as the employment situation has not improved and wage increases are unlikely."

April construction orders from Japan's 50 leading domestic builders sank by 26 per cent to 563 billion yen (US\$5.8 billion).

BC Labour Negotiations

The latest word from the United Steelworkers is that negotiations with the Conifer employer group are progressing. Bob Matters, Chair of the Wood Council, told *Madison's* on Friday morning that the Steelworkers had a "reasonably good meeting" with employers this week.

There are more meetings planned for next week, and Matters expects to have some news by Friday, July 24.

On this round of labour negotiations, the Steelworkers are going to try to settle on a contract with Conifer that will work for all four employer groups.

Matters explained to *Madison's* that the union is "not going to bounce between employer groups." When pressed for details Matters would only say that the Steelworkers will "concentrate on one employer first, and work from there."



**MADISON'S
MILL WATCH**

PULP & PAPER

- Abitibi (Mackenzie) Closed Nov/Dec '07, For Sale Oct '08 - Confirmed by Minister
- Canfor - Northwood Curtailed June 01 '09 for 13 days. June 27 '09 employees met with com
- Canfor - Pt. George Curtailed mid-Nov '08, probably run
- Canfor - Taylor
- Catalvst - Crofton Closed indefinitely Feb 26 '09

Only C\$210 per year, this valuable information arrives to your inbox each month.

MADISON'S ANNOUNCES . . . up-to-the minute information on mill status. Updated monthly, *Madison's Mill Watch* keeps you informed about major sawmill and pulp mill curtailments, closures and reopenings.

Log and Lumber Demand in Japan

A Growing Domestic Market

Japan continues to be Canada's second most important customer of wood products, even in the face of China's great leaps forward in terms of lumber imports from North America. In the past few years Canada has seen a shift in its lumber customers, most notably a large drop in demand from the US. Recent figures released by Japan's Forestry Agency paint an interesting picture of the Japanese wood products industry.

The April 15, 2009 report found that the total value of log and lumber imports to Japan in 2008 was down 17 per cent over the previous year, which was the first decline in three years. The most drastic drop was seen in Russian log imports, down 47 per cent from one year earlier. The combined imports of Indonesia and Southsea lumber saw a 31 per cent drop from 2007. The value of Canadian imports to Japan were down 7 per cent from the previous year, while the value of US wood import dropped by 11 per cent for the same time period.

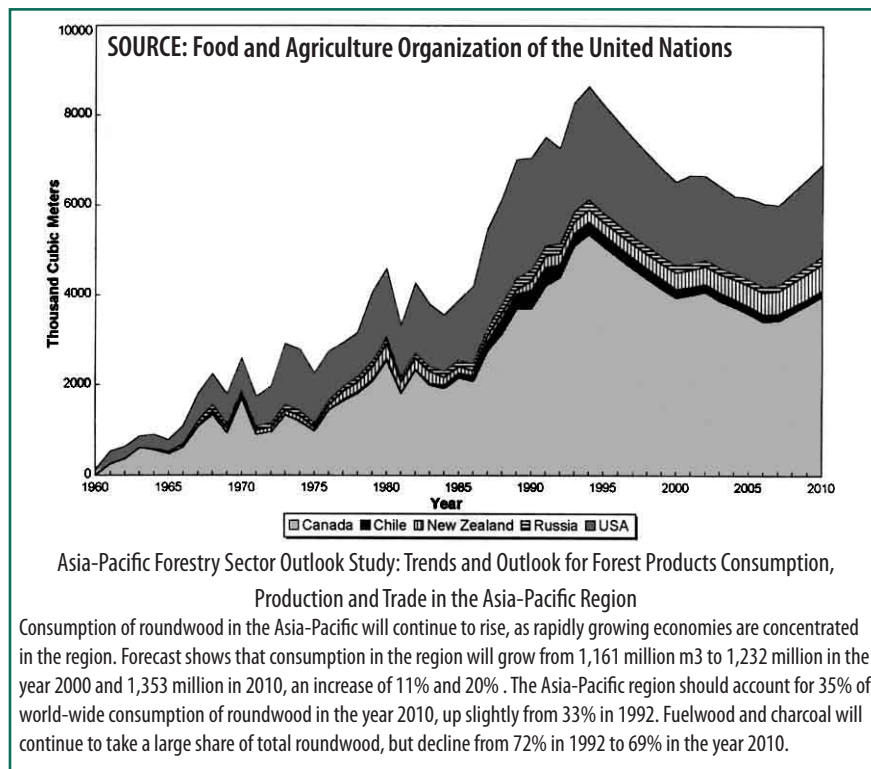
Only New Zealand and Chile saw increases in value of Japanese imports of their products, with Chile sending 13 per cent more logs and lumber while New Zealand was able to sell 4 per cent more logs into Japan in 2008 when compared to 2007.

In total, the amount of lumber imported into Japan was down 11 per cent in 2008 when compared to 2007, while the value of lumber imported was down 21 per cent. Meanwhile both the total quantity and the total value of logs imported were down 31 per cent. The decrease of import value is largely due to the appreciation of the yen against the US dollar.

Canada and the US saw a 7 per cent increase, to 2.9 million cubic meters, in lumber product imports by Japan in 2008 when compared to 2007. European lumber imports into Japan were down 24 per cent, to 2.0 million cubic meters, for the same time period.

From 2007 to 2008, the import amounts of plywood and laminated lumber were down, 11 per cent or 3.0 million cubic meters and 34 per cent or 534,000 cubic meters, respectively. Only wood chip import amounts rose, by 3 per cent or 14.7 million tons, for the same time period.

It appears that the wood products industry in Japan is working hard to focus on domestic production. A separate report,



this time by the Japanese Ministry of Agriculture, Forestry and Fisheries, found that in 2008 a full 70 per cent of log supply in Japan was domestic. The overall demand for logs saw a drop of 9.6 per cent, or 26 million cubic meters, in 2008 when compared to 2007. While the supply volume of domestic logs to the Japanese market remained static in 2008, at 17.7 million cubic meters, the volume of imported logs saw a drop of more than 25 per cent, to 8.3 million cubic meters, from the previous year.

In the five years from 2004 to 2008, the total log supply in Japan fell from 30.8 million to 26 million cubic meters. Of that total, domestic log supply rose from 15.6 million to 17.7 million cubic meters, while import of logs into Japan fell from 15.2 million to 8.3 million cubic meters. The share of domestic log supply in Japan rose from 50.6 per cent to 68 per cent from 2004 to 2008.

Demand for logs in Japan for lumber and plywood fell for the same time period, from 21.7 to 17.6 million cubic meters and from 5.4 million to 4.0 million cubic meters respectively. Only the pulp and chip market saw an increase in demand for the five year period, from 3.8 million cubic meters to 4.5 million cubic meters.

As long as there continues to be reduced construction in Japan, all indications are that its wood products industry is going to rely on the domestic market as much as possible. An examination of the latest import figures seems to indicate

that, once building resumes in Japan and demand exceeds what the domestic market can produce, North America - in particular Canada - is well positioned to return to the former level of export into that country.

When a resurgence in building will happen in Japan is, of course, the burning question. A forecast for 2Q and 3Q timber demand released by Japan's Forestry Agency on March 23, 2009 shows a slight drop over 1Q 2009. Due to the decreasing gross demand in the Japanese economy, declining new housing starts, and shrinking demand for timber, the Forestry Agency expects a 10 to 20 per cent decline in timber demand in 2Q and 3Q 2009 when compared to 2008. Indeed the Agency expects total Japanese housing starts to be just over one million units for all of 2009.

The latest issue of the Japan Lumber Report, July 17, 2009, points to shrinking inventories of North American lumber products. Inquiries, especially for small orders, are starting to rise but are not enough yet to firm very weak lumber prices. Some lumber importers have started to consult with Canadian suppliers of Douglas Fir on items not produced domestically in Japan, while inquiries have been spotty for SPF 2x4's, according to the Report. None of the volumes discussed are enough to bring lumber prices back up yet. Expectations are, however, that extended mill closures by major producers in BC will soon cause a rebound in prices.