

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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PO Box 2486 Vancouver, BC
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In Canada, add 5% GST
ISSN 0715-5468

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News & Updates

Madison's Timber Preview

The latest issue of *Madison's Timber Preview* examines the forestry, paper and packaging industry for the first half of 2009. The latest production and shipment figures are included.

Contact us any time for a subscription.

BC Forest Fires

As expected for this year's fire season on the west coast, the worst is beginning to unfold. Forest fires currently burning in the Okanagan region are threatening thousands of homes. As of Friday morning two stubborn fires on the west side of Okanagan Lake have been contained but one, the Terrace Mountain fire, is raging out of control. Crews were able to establish fire breaks around the other two fires. Estimates late Thursday were that the Terrace Mountain fire was growing by 30 meters a minute. The Ministry of Forests reported early Friday morning that this fire is 4,400 hectares in size and is only 20 per cent contained.

Lightening strikes in the area on Thursday night set 30 more fires, all of which were quickly contained. [READ MORE](#)

Fibre Costs to Pulp Mills in the US South

The US South has the largest pulp industry in the world and this industry has enjoyed low wood raw-material costs for a very long time. This trend continued in 2009, with wood chip and pulpwood costs that were substantially lower than global average costs, according to the Wood Resource Quarterly.

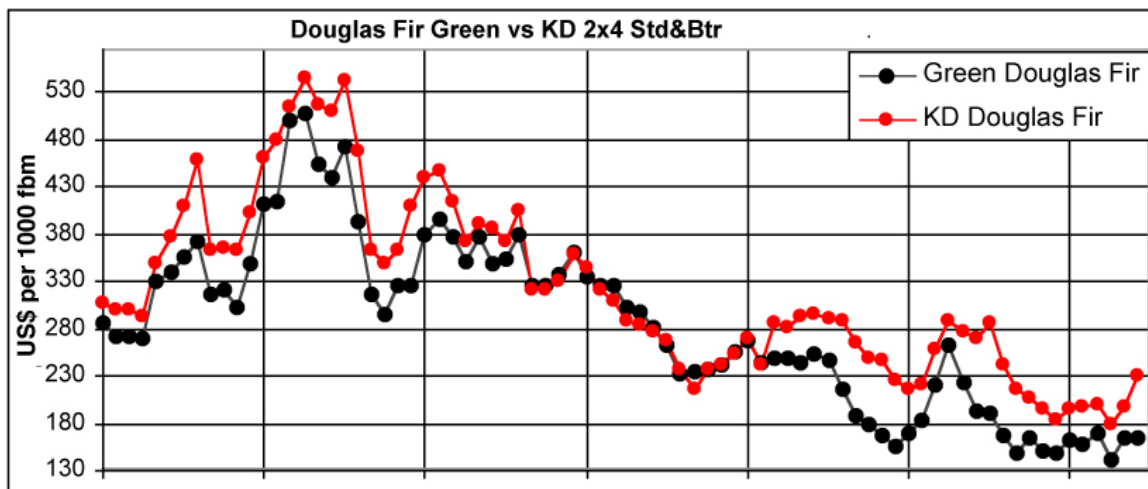
Weak pulp markets and reduced demand for wood fibre resulted in lower costs for wood chips and pulpwood in practically all regions of North America in the 2Q/09. This is the fourth consecutive quarter that wood fibre prices have fallen, with the biggest reductions occurring in Western US and Western Canada. In the US South, which is the biggest wood fibre consumer in the world, pulpmills have only experienced minor downward price adjustments in recent months.

Softwood fibre prices in Southern US are currently almost 20 per cent lower than the Global Average Softwood Price Index, according to the Wood Resource Quarterly, while hardwood fibre prices are nearly 30 per cent below the Global Average Hardwood Price Index. With no signs of an imminent improvement in the markets for lumber, pulp or paper, it is not expected that wood fibre costs will increase much, if at all, during the remainder of this year.

US Housing Starts Forecast

In a departure from our customary habit of sticking to the facts, *Madison's* is venturing this week into the usually avoided territory of making predictions.

Armed with hard data displayed clearly in graph form, *Madison's* looks at US home building trends from 1965 to date to make an assessment of when a recovery of the US housing market can reasonably be expected to occur, and to what degree that recovery will be. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	174	173	+1	201	-27	266	-92
WSPF KD R/L 2x6	185	190	-15	206	-21	262	-77
WSPF KD R/L 2x8	215	225	-10	220	-5	270	-55
WSPF KD R/L 2x10	320	310	+10	285	+35	282	+38
WSPF KD PET 2x4 Stud	195	195	0	210	-15	222	-27
Douglas Fir Green R/L 2x4	150	163	-13	190	-40	190	-40
Douglas Fir Green R/L 2x10	230	240	-5	240	-10	228	+2
ESPF KD 2x4 8ft Stud	277	285	-10	280	-3	310	-33
OSB Ontario 7/16" (CDN\$)	220	220	0	205	+15	215	+5

Weekly News

Forest Fire Season

CONTINUED In addition to the threat to homes, significant amounts of timber have burned with the expectation of more losses. The Terrace Mountaing fire is ravaging timber lands owned by Tolko Industries and BC Timber Sales, which have both suffered significant financial losses, according to fire information officer Grace Pickell.

The two other fires in the area west of Kelowna that were contained earlier this week managed to do significant damage as well, threatening the Gorman Brothers sawmill at one point. Heroic efforts by mill staff and fire crews extinguished the fire, which caused some structural damage to the building but did not reach mill equipment. Some very sad news, however, for Ron Gorman and his sister Mary Tracey plus a neighbour, who lost their homes to fire. Thankfully no one was hurt as the three homes burned to the ground.

A new fire, discovered Wednesday, is burning completely out of control at Mount Mclean, 4 km west of Lillooet. As of Friday morning the 400 hectare fire is rated 0 per cent contained by the BC Ministry of Forests.

On Thursday, the Ministry of Forests reported that over 1,200 fires have started in BC since April 1, 2009, burning a total of 46,000 hectares. Thanks to a cool spring, in all 2008 there was a total of 1,975 fires, which burned 12,743 hectares.

Fire safety can not be stressed enough this year, where a combination of hot weather and low precipitation throughout the province, and indeed in Alberta, make the danger of forest fire extreme. Of the three fires in the Okanagan, only one was caused by lightning.

There is also significant fire danger on Vancouver Island, which has already been forced to issue daily water restrictions to residents and businesses in the Tofino

area. Officials in the Nanaimo area are concerned about fire hazards in areas that have been logged by lumber companies and slash has been left behind to rot.

"That is just fuel for a fire and, because of the lack of precipitation this year, it is so dry a spark can set it going," said Nanaimo fire chief Ron Lambert.

In response to this danger, the Ministry of Forests and Range is training 20 new firefighters in each of Nanaimo, Hazelton, Lillooet and Port Alberni, and 40 new firefighters in Vernon.

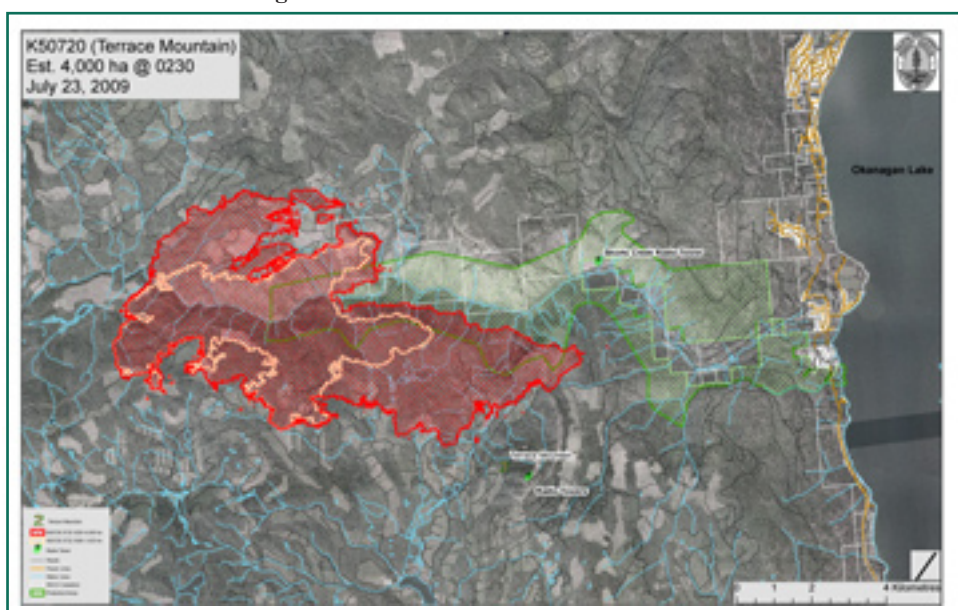
Elsewhere, on the Mediterranean island of Corsica, two villages near the southern city of Ajaccio were evacuated Thursday after wild-fires raced through 3,000 hectares of tinder-dry forest.

Three separate forest fires are burning in Spain, at a total of 12,500 hectares. The country has asked Italy and Portugal for help with fire suppression.

In Italy, two people were killed as fires burned on the island of Sardinia Thursday, and several fires broke out in Greece, mainly in the southern Peloponnese and on the island of Evia, destroying forests and farms.

Yukon has experienced very unusual fire activity this year, with a total of 65 fires reported so far this season, burning more than 76,000 hectares of forest. Currently fire crews from Alberta are helping the region, where a large forest fire burning 60 kilometres northeast of Whitehorse grew by about 200 hectares over the past week, and is now 2,200 hectares in size.

In the US, Forest Service spokesperson Duane Lyon says a fire in the Klamath National Forest, in northern California has expanded to 3,120 acres, or nearly 5 square miles. The blaze is 10 per cent contained, with fire officials expecting firefighters to have the fire contained by Saturday.



US Housing Starts

44 Year Trend Line

At *Madison's* we are not generally prone to making predictions. We may talk among ourselves, and with some of our sources,

by Kéta Kosman

about our professional opinions or about what our gut is

telling us about the lumber and panel market. But what we print is strictly based on the facts of that week, and the expert opinions of the buyers and sellers on the firing line.

At this time the entire forest industry, and indeed various tangential facets of the US economic structure, have their attention directly on US home building, which is vital to lumber and panel producers in North America. Since early 2008, analysts and industry watchers who normally focus elsewhere have been making predictions, of varying accuracy, on the future trend for US home building. Very few have, to this date, been proven correct. Since late 1Q 2009, those analysts have adjusted their earlier predictions of a resurgence in US home building from late 2008 to late 2011 or even 2012. *Madison's* considers these predictions to be veering too far in the opposite direction; where previous analyses were too bullish, these more recent ones are too bearish.

The graph below shows the line of seasonally-adjusted annualized housing starts in the US from 1965 to 2009. Using hard data, the graph also shows the mathematical trend

that immediately springs to mind is: if US housing starts hit a historical high in November 1972, yet the population was just over 209 million, the most recent high of 2005, with a population of 300 million, is not really out of line.

The fact that the trend line is flat is very odd, and seems to indicate that the actual inventory of homes in the US is not increasing. Particularly in view of the fact that the population has gone up 68 per cent since 1972. Given these figures, 1.7 or 1.8 million new homes built in the US annually would be normal in order to keep up with the growing population. Due to upcoming mountain pine beetle kill harvest reductions in BC, there is going to be a problem with lumber production from that region. Where is the necessary lumber going to come from when US housing starts hit the trend line?

Please watch for more information in an upcoming issue of Madison's Reporter.

The inference to be drawn from this information is that there is more than one family living under one roof.

Further analysis renders even more interesting results. The graph at the bottom of the page shows the cumulative of actual starts minus the trend, which signals excess housing supply.

When actual US housing starts drop below the trend line, it means the inventory of homes in the US has been decumulating, that house inventory goes into shortage mode. By accumulating 'actuals minus trend', it can be

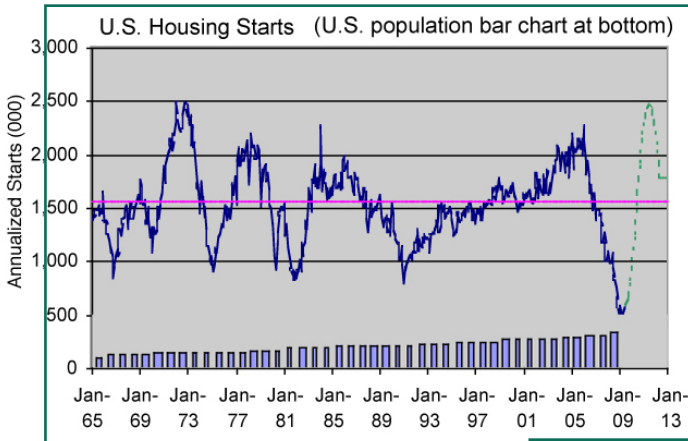
inferred that there was excess home supply in the 1970's and 1980's in the US. It appears that an extended period of supply shortage occurred in the 1990's, and that this shortage likely contributed to the growth of US housing starts from 2000 to 2006. In light of the history and the trend line, the recent run-up of starts is not extraordinary. Since the drop

in starts was so material, a recovery back to trend in 2010 is in order. In the absence of a 2010 recovery, the forecast cumulative drop (green dotted line) gets excessive. The trend line at 1.55 million new homes a year is very conservative. If the trend line were set at 1.7 million new homes, the drop after 2009 becomes even more excessive.

A house then becomes more than just a place to live, it becomes an attractive investment. Indeed a very attractive investment when the alternatives continue to be uncertain or even risky. With house prices depressed, there is no incentive to build. As the cumulative housing shortage grows, rental rates rise, which causes a return to buying then renting-out. Investors switch from gold, stocks, and bonds to housing. In addition, buying versus renting becomes more attractive.

When analysts predict US home building will not recover until 2011 or even 2012 they point to the current inventory of unsold existing homes, currently at 4.89 million annualized existing homes, down to 9.4 months supply from 12 months at the beginning of this year. New home inventories, currently at 342,000, are declining at an even faster rate, and are expected to continue falling. However this figure is based on home sale activity at the time, which until very recently was extremely low. All that needs to happen is a small spurt of home buying and that seemingly huge inventory will be burned up very quickly.

This could all happen quickly, and in the near future. Meanwhile the rapidly growing population in the US needs a place to live. New US home building will come back with a roar starting in 2010, and climb slowly until reaching the trend line before 2013. The reduction of timber supply several years after denuding BC's beetle infested Interior will likely cause a shortfall in the very lumber production that would normally serve US home builders. The trend number for US housing starts should be 1.55 million annualized, thus *Madison's* anticipates that starts in the US will begin to rise to this number as early as mid 2010. According to the historical numbers and the plunge in starts recently, US home building could be as high as 1.8 million annualized by 2012.



line in housing starts for the same time period, at 1.55 million, as well as the projection into 1Q 2013 (dotted green line). The bars at the bottom of the graph show real US population figures.

What is interesting about the first graph is that the peak of US housing starts in 2005 is actually not a historical high. In 1971 annualized actual starts in the US were 2.36 million, while at the end of 2005 the number was 2.07 million. In fact there are several peaks in the past 44 years that match or exceed the most recent one. The thought

