

MADISON'S LUMBER REPORTER

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News & Updates

Two-Month Increase in Canada's Export Trade

Canada recorded a \$1.4 billion trade deficit with the rest of the world in July as imports rose faster than exports, Statistics Canada said Thursday. For the first time this year, export volumes made consecutive monthly advances, the agency reported. July's 3.3 per cent jump in exports (to \$30.3 billion) was attributable to a 5.9 per cent increase in volumes, thanks mainly to higher machinery and automotive products, as prices declined 2.4 per cent. Declines in exports of energy products tempered the gain.

Imports, meanwhile, were up 8.3 per cent to \$31.7 billion, halting four consecutive months of decline. As a result, Canada registered a trade deficit of \$1.4 billion in July compared with a trade surplus of \$37 million in June.

"Two-way trade picked up significantly in July, attesting to the fact that demand is picking up on both sides of the 49th parallel," said CIBC World Market's Krishen Rangasamy in a commentary.

BMO Nesbitt Burns economist Douglas Porter agreed.

"This is no bad news story," he said. "The broad-based gain in export and import volumes is another sign the Canadian recovery is indeed taking hold."

Canadian Housing Starts

Canada's housing sector continued on the comeback trail in August as home starts for the month jumped more than 12 per cent, according to new figures released Wednesday. Canada Mortgage and Housing Corp. said construction companies started work on 14,177 new homes in August, for a seasonally adjusted annual rate of 150,400. The August jump represented a 12 per cent increase versus July and reinforced CMHC's belief that the housing sector is seeing a sharp rise in activity.

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Japanese Home Building

Housing starts in Japan were down again in July, for the eighth month in a row. 65,974 new homes were built, which is 32 per cent less than July 2008, making that month the lowest July starts since 1965.

The newly elected Democratic Party of Japan recently won a landslide victory, breaking the Liberal Party's 50 year reign. The new government of Japan will be putting a focus on forest management, biomass fuel and the revitalization of mountain villages. The government intends to raise Japan's self-sufficiency of wood to 50 per cent from the current 24 per cent.

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BC's 39th Legislative Session

Re-elected Minister of Forests and Range Pat Bell took time out of a busy new legislative session to talk to *Madison's* about recent developments at the Ministry of Forests and plans for future direction.

BC's lumber exports to China have increased more than expected in 2009, and projections for the near future show further growth.

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JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Jul-09	64,974	27,243	37,731	58
Jun-09	68,268	28,195	40,073	59
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

Source: Japan Wood-Products Information and Research Center

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	August 2009		July 2009	
	Actual	SAAR	Actual	SAAR
Canada, all areas	14,177	150,400	12,712	134,200
urban ctrs with >10,000	12,187	131,800	10,570	115,600
singles, urban centres	5,211	54,200	5,465	52,900
multiples, urban centres	6,976	77,600	5,105	62,700
rural areas	1,990	18,600	2,142	18,600
Atlantic urban centres	835	8,000	858	7,300
Quebec urban centres	3,409	41,000	3,080	40,000
Ontario urban centres	4,172	42,000	3,618	36,900
Prairie urban centres	2,271	23,800	1,986	20,500
B.C. urban centres	1,500	17,000	1,028	10,900

Source: Canada Mortgage and Housing Corporation

Prices are in U.S. dollars per 1,000 fbm.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	182	184	-2	205	-23	252	-70
WSPF KD R/L 2x6	182	184	-2	201	-19	275	-93
WSPF KD R/L 2x8	220	220	0	228	-8	290	-70
WSPF KD R/L 2x10	310	310	0	317	-7	290	+20
WSPF KD PET 2x4 Stud	195	195	0	210	-15	218	-23
Douglas Fir Green R/L 2x4	150	145	+5	170	-20	168	-18
Douglas Fir Green R/L 2x10	230	250	-20	260	-30	210	+20
ESPF KD 2x4 8ft Stud	285	280	+5	285	0	280	+5
OSB Ontario 7/16" (CDN\$)	200	200	0	220	-20	225	-25

Weekly News

Home Building in Canada

CONTINUED The seasonally adjusted annual rate of urban starts increased by 14 per cent to 131,800 units in August. Starts for single family homes rose 2.5 per cent to 54,200 units, while new construction for multiple dwellings such as condos and apartment buildings increased by 23.8 per cent to 77,600 units.

"The rebound in residential construction activity in August is further evidence that the Canadian housing sector is in recovery mode," said Robert Kavcic, an economist at BMO Capital Markets.

Home ownership in Canada became more affordable for a fifth straight month but will probably level off as prices have risen in many areas, a study by RBC Economics showed on Wednesday.

"The leveling off of home affordability is not expected to stop the impressive resurgence in the housing market," said Robert Hogue, senior economist at RBC. "Supply of properties for sale is dropping as demand bounces back, which is work-

ing to heat up prices again in many parts of the country."

Recent data has shown a stunning rebound in resales of homes, prompting the Canadian Real Estate Association to revise up its 2009 forecast for sales of previously owned homes and average home price.

Japan Housing Starts, New Government

CONTINUED Seasonally adjusted annual housing starts in Japan were 746,000 units in July. The year-to-date total was 452,864, a 28 per cent drop over July 2008. The share of wood-framed home building was 57 per cent, down 1.5 points from June.

Building permits were down 20 per cent in July, to 46,041 units.

The new government of Japan has announced plans to introduce a direct payment system for forest management and environmental preservation, according to the Japan Lumber Report.

The objective is to achieve levels of forest absorption of carbon dioxide set by the Kyoto Protocol.

Forest owners will be under the obligation to perform proper management of the forest such as thinning, with the expenses paid directly by the government. The government will assist the promotion of groups like forest co-operatives and loggers, as opposed to timber owners.

Highly efficient machinery and the well-programmed maintenance of logging roads are planned.

In other news, a long-term newly built home-insurance takes effect in Japan on October 1, 2009. Builders will have to insure new homes against any defect for ten years.

Tembec Gets Funding

Struggling Quebec-based forest-products giant Tembec Inc. is getting a \$12 million cash infusion from the province's Société générale de financement. The SGF said last week it is buying Tembec's interest in Tembec Forest Products (Temrex), one of the biggest softwood lumber producers in the Gaspé region, for \$12 million.

While the forest-products industry, especially lumber, is going through a very difficult period due to the US recession, the sector is important for regional development, said SGF president Pierre Shedleur. The SGF will own 100 per cent of Temrex.

Temrex's sawmills have annual capacity of 150 million board feet of balsam and spruce lumber products. Tembec is a full-range forest products company operating in Quebec, Ontario, Western Canada and also Europe. It sells its specialty pulp on world markets and also makes packaging materials and newsprint.

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39th Parliament

BC's 2009 Legislative Session

Madison's caught up with re-elected Minister of Forest and Range, Pat Bell, this week after the busy first sitting of British Columbia's 39th Parliament, which started August 25. Topics covered include costs to the province of the recent forest fires, a continued focus on lumber exports to China, the liquidation of Forest & Marine, and recent grandstanding during a saw-mill tour by the US lumber lobby.

Getting straight to the point, *Madison's* asked about the announcement out of Ottawa of aid for BC to offset the high costs of fighting fires this year. Bell said that we will find out "how much is coming in the next month." Bell explained that budgeting for forest fires is tricky, that for five out of the past ten years forest firefighting costs have ranged from \$28 million to \$53 million, while in 2003 the Kelowna fires cost the province \$372 million. To date for 2009, the Ministry of Forests has spent \$320 million of the total \$408 million budgeted for that Ministry for 2009. Bell expects the fire budget will have to increase, given the amount of fuel littering the Interior pursuant to the ravages of the mountain pine beetle.

Bell went on to explain that there are "specific constraints on how the forest fire budget can be spent. Any unused funds can't just be taken out for any purpose", like job creation. In addition, said Bell, despite most of the forest fire danger now having passed with the recent rains, there are still expenses for "restoration of burned off land" to come.

In terms of markets, although the volume of BC lumber going to China in no way matches what is exported to the US when home building there is at normal levels, the rate of increase points to a solid future customer. According to Bell, expectations for 2009 are at 1.5 billion board feet of lumber going to the Chinese market. "They are taking all the economy and utility grades the province can produce" right now, said Bell. "They have started moving into #2 and some high line grades as well." If this pace continues, Bell explained, China could be importing 4 billion board feet annually from BC in the near future. While the "biggest single end use is still forming for concrete, there is increased demand for remanufactured products to make furniture, and penetration into wood-framed home building in China," said Bell.

by Kéta Kosman

Chinese lumber imports have been ranging from 50 million to 100 million board feet per month, said Bell, however several major importers have recently increased their storage space by "five times." When asked about the perception in North America that China is simply stocking up on lumber now because prices are depressed, and that Chinese demand may die off once lumber prices rebound, Bell stated that actually "the reverse is true. The Chinese are concerned that we will flee. They want to create long term investment and contractual agreements." Bell said the most common question he hears from Chinese lumber importers is whether Canadian producers will turn their backs the Chinese market when US demand returns.

Bell encourages BC companies to take China seriously, and he hopes that the BC lumber industry has learned to diversify. "The US is a ways from coming back," said Bell. "Probably not until 2011 will we see one million new homes built monthly in the US, and they will be smaller in size. In order for stability, rather than boom and bust cycles, BC needs to foster the Chinese market." There is another trip to promote BC wood in China coming up in November, and Bell actively invites all manner of BC lumber companies, of any size and product range, to join him.

The difference between China and, for example Japan, which is an established market used to building homes from wood, is that China is just emerging as a global customer for lumber. Bell explained that it is "critical to be the first one in, selling wood to China, in order to establish a stable market within even eight or ten years."

Madison's noted the posturing of powerful US Senator Max Baucus, Chair of the Senate Finance Committee, and newly appointed US Trade Representative Kirk in the previous week. The two men embarked on a highly visible tour of mills in Montana, Baucus' home state, where statements such as "we will hold Canada's feet to the fire" to ensure compliance to the 2006 Softwood Lumber

The latest Coalition fo Fair Lumber Imports Complaint Against Canada:
"Additional BC Interior Stumpage Reduction: BC has dramatically reduced stumpage for what it admits is high-value sawtimber (Grade 1 & 2 timber) in the BC Interior region. Effective July 2009, BC lowered the benchmark price on which it bases stumpage for stands of high-quality sawtimber from over C\$7.50 to roughly C\$1 per cubic meter. BC's position that the price adjustment is the natural result of operation of its stumpage system appears to be far-fetched. Apart from the extremely low price, the changes in timber types and values required to bring about such a huge drop in the benchmark price demand an explanation."

Agreement, and declarations that "Canada keeps finding sneaky ways to get around the SLA" by both men seems to indicate a renewed round of arbitration coming out of the US soon.

"This is vintage Baucus," said Bell. "He is a noted protectionist, and will do whatever is necessary to keep Canadian lumber exports out of the US."

"BC has carefully investigated its operations to make sure there are no breaches of the 2006 SLA, and has created a

market pricing system," Bell said, adding that he is "confident the system is defensible. I am happy to go to arbitration" with the system BC currently has in place. When asked about the timing of the Baucus/Kirk mill tour, the week before Congress resumed, Bell said he believes this "politically positions him as a supporter of the domestic lumber industry, but it's not a big deal."

Madison's hopes that the Minister's confidence is not misplaced. The US Coalition for Fair Lumber Imports puts perceived BC infractions high on its list of grievances. Most recently added is a claim of a July 2009 reduction in benchmark sawtimber costs in the BC Interior from \$7.50 to \$1 per cubic meter. The Coalition's list of "Hot Issues" was updated September 2009, and can be viewed here http://www.uslumbercoalition.org/doc/violations_summary.pdf

When reviewing the various arbitrations between the US and Canada, going back further than the 2006 SLA, back before the Conservatives took power in Ottawa, *Madison's* can only view with dismay how seldom Canada has won these challenges. Whether the problem is actual infractions on the part of the Canadian industry, or simply a series of poor responses on the part of the national government, remains to be seen. From what *Madison's* can determine the federal government, particularly since the 2006 SLA was signed, has been so relaxed in its approach to defending Canadian industry against continued US complaints as to be ineffectual.