

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 Timber Preview

Our most recent issue of *Madison's Timber Preview* looks at PricewaterhouseCoopers' 2Q 2009 forest and paper sector report. Pulp production and sales to the end of August, as well as newsprint, containerboard and more are also covered. Contact us any time for a subscription.

US Real Estate

Housing starts and building permits in the US rose to their highest levels in nine months in August, but the gains were led by multifamily and apartment construction. Housing starts for single-family homes fell 3 per cent. Total housing starts rose 1.5 per cent to an annual rate of 598,000. Building permits rose 2.7 per cent in August.

"Home building has been slowly creeping up from a deep bottom for the last eight months," said economist Celia Chen of Moody's Economy.com. And that's a plus for an economy "struggling to escape from the recession," she said. Instead of being a drag on overall economic growth, housing is becoming a net contributor again.

KB Home will resume building new houses in the Washington, DC, area for the first time since 2007. This week, the Los Angeles-based builder said it will cautiously ramp up its work force and get back into the market, but with smaller, cheaper and greener homes.

Torsten Slok, Senior Economist with Deutsche Bank, said "The housing market continues its stabilization but we are still worried about the mountain of foreclosures we have ahead of us. The downward trend in housing has been broken. Looking ahead our main worries are the 1.5 million excess inventory of homes and the 2 million foreclosures that we expect to see over the coming year. Foreclosures and the excess inventory are likely to be depressants for home prices for the rest of 2009." [READ MORE](#)

Canadian Wholesale Trade in July, the Loonie

The pace the Canadian economy set in July could produce one of the biggest monthly gains in a half-dozen years and set the country apart from its industrialized peers, says Derek Holt, vice-president of economics at Scotia Capital. The Canadian economy might have grown "north of 1 per cent," based on the data that has emerged in recent weeks, he said.

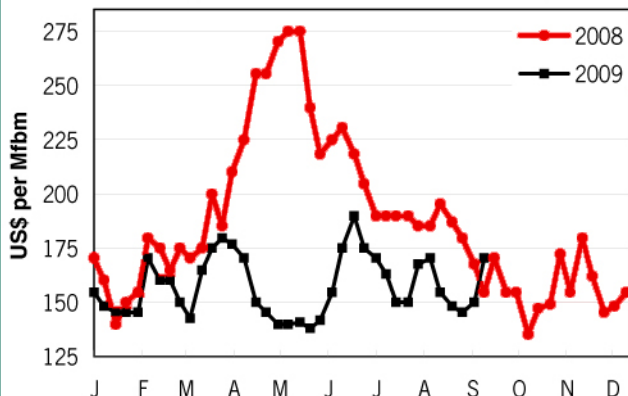
Meanwhile, the Canadian dollar broke through US94¢ on Thursday to its highest level since markets collapsed last September, leading some observers to declare the currency is "grinding" its way to parity. [READ MORE](#)

Alberta Lumber Shipments into the US

Due to a sharp reduction in lumber exports out of Quebec and Ontario, the quota level of volume allowance for Canadian lumber shipments into the US has dropped. According to the 2006 SLA, provinces must remain within their quota levels or pay a surge penalty on any excess lumber.

The next time the SLA is opened for discussion, Alberta needs to be given a greater market share, according to Brady Whittaker, President and CEO of the Alberta Forest Products Association. [READ MORE](#)

Douglas Fir Green #2&Btr 2x4



U.S. HOUSING STARTS

	Aug-09	Jul-09		Aug-09	Jul-09
Starts			Permits		
Actual	55,100	56,500	Actual	52,300	54,700
SAAR*	598,000	589,000	SAAR*	579,000	564,000
1 Unit	479,000	494,000	1 Unit	462,000	463,000
2-4 Units	(s)	(s)	2-4 Units	19,000	18,000
5+ Units	115,000	85,000	5+ Units	98,000	83,000
Starts by Region			Permits by Region		
Northeast	78,000	63,000	Northeast	64,000	56,000
Midwest	114,000	113,000	Midwest	99,000	105,000
South	279,000	286,000	South	297,000	277,000
West	127,000	127,000	West	119,000	126,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

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	188	182	+6	200	-12	231	-43
WSPF KD R/L 2x6	195	182	+13	195	0	257	-62
WSPF KD R/L 2x8	230	220	+10	225	+5	260	-30
WSPF KD R/L 2x10	315	310	+5	315	0	256	+59
WSPF KD PET 2x4 Stud	200	195	+5	208	-8	205	-5
Douglas Fir Green R/L 2x4	170	150	+20	155	+15	155	+15
Douglas Fir Green R/L 2x10	240	230	0	253	-13	200	+40
ESPF KD 2x4 8ft Stud	280	285	-5	285	-5	260	+20
OSB Ontario 7/16" (CDN\$)	191	200	-9	220	-29	225	-34

Weekly News

US Housing

CONTINUED Builders may be reluctant to further increase the supply of homes amid uncertainty over whether the Obama administration's \$8,000 tax credit for first-time buyers will be extended beyond November. The incentive, plus foreclosure-driven declines in prices, has helped stabilize the housing market in recent months.

"We may be in for a period of consolidation, given the apparent end of the tax credit" said Stephen Stanley, chief economist at RBS Securities Inc. "We're certainly going to see, over time, housing start rise."

Combined sales of new and existing homes rose in the last four months though July.

A report Wednesday showed gains in sales and buyer traffic pushed builder confidence this month to its highest level since May 2008.

Luxury builder Toll Brothers Inc. is among companies that see demand improving, even as losses mount.

"In the last six months, we see a pretty significant change in some markets," Chief Executive Officer Robert Toll said in an interview Aug. 27 with Bloomberg. "People are now concerned with missing the market."

Canadian Trade, Dollar

CONTINUED Mr. Holt's call for 1 per cent growth in July came hours following the release of data related to wholesale trade. Statistics Canada reported that wholesales posted a 2.8 per cent month-over-month gain in July, the second straight monthly gain. The gains were broad-based (excluding autos, the gain was 0.9 per cent) and the increase was triple the consensus expectation on Bay Street.

The last time the economy grew by at least 1 per cent on a monthly basis was in March of 2004. That just trailed the performance in September 2003, when the economy expanded 1.2 per cent.

Meanwhile, factors pushing up the Canadian dollar were the overall weakness in the US currency and lower levels

of risk aversion among investors, who believe a recovery – and perhaps a robust one – is underway.

Currency analysts say the US94¢ benchmark represents a key level for the Canadian dollar, which has gained roughly 22 per cent from lows hit this year in March.

AbitibiBowater Suspends Operations

AbitibiBowater announced Thursday that it will suspend production indefinitely, beginning October 31, at several mills in a corporate streamlining that will affect about 1,500 Canadian workers, as it undergoes restructuring efforts under the bankruptcy protection laws in Canada and the US.

The company will completely shut down operations at a digital printing paper plant in Beaufort, QC, leaving 340 workers without jobs.

The company will also shut one of two newsprint machines in Clermont, QC, and lay off another 120 workers

In Fort Frances, ON, a commercial printing paper machine will close leaving 75 people without work.

In Brooklyn, NS., AbitibiBowater announced it will cut production in half at its newsprint plant, meaning 300 employees will work reduced hours. And in Coosa Pines, AB, the company will interrupt production and lay off 85 people.

Pierre Choquette, a spokesman for the forestry company, said "We're talking about a 30 per cent drop in demand in newsprint since the beginning of the year and for digital printing, like in Beaufort, we're talking 20 per cent."

Choquette added that it's unclear when operations would resume at the installations.

Alberta Lumber

Shipments Into the US

There has been a fundamental shift recently in Canadian lumber shipments into the US. Alberta is now Canada's second largest lumber exporter to that country, after British Columbia. This change has occurred not due to increased lumber production in Alberta per se, rather it is the result of sharp reductions in lumber exports out of Quebec and to some degree Ontario.

As Option B provinces, the eastern region is subject to lower duties but must remain below quotas determined by lumber production levels in the US. If volumes shipped exceed the quotas, the US has the right to demand a penalty from Canadian producers, as happened earlier this year. Option B provinces, which also include Saskatchewan and Manitoba, were charged a US\$68 million penalty by the LCIA panel. Canada has disputed this figure and both sides are currently awaiting a tribunal ruling on the matter.

As an Option A province, Alberta, like BC, pays a higher duty but may ship an unlimited amount of lumber into the US, as long as the volume does not exceed certain monthly levels. These monthly levels are posted on the Foreign Affairs and International Trade Department of the Federal Government website here, http://www.international.gc.ca/controls-controles/softwood-bois_oeuvre/index.aspx?menu_id=19&menu=R

A quick walk through the past three months of figures shows that Alberta has been consistently exceeding this monthly level. According to the terms of the 2006 Softwood Lumber Agreement, as surge protection against flooding the US market, whenever an Option A region ships a greater volume than posted on the DFAIT website, producers must pay 7 per cent

additional duty on every 1 per cent of excess volume. For June 2009, Alberta shipments were at 109.8 per cent of their allowed limit, in July shipments were at 116.2 per cent, and in August Alberta's monthly shipments were at 112.6 per cent of their allowed limit.

This week, *Madison's* contacted Brady Whittaker, President and CEO, of the Alberta Forest Products Association to find out how these over-shipments by Alberta were possible. Whittaker explained that, "since Canada's total market share is going down, what Alberta is able to ship according to the 2006 SLA is also being reduced." He said that lumber producers in Alberta are trying to get right up to the limit, but that the information provided on the DFAIT site has been lagging. So when the next lumber shipment is already headed for the border, the website figures are updated and producers find they are over the limit. Whittaker said that he "lets his members know on the 25th of every month" where they stand. He was quick to point out that not all lumber producers in Alberta are members of the AFPA, however *Madison's* suspects that large volume producers are, therefore they receive this information regularly.

The most recent release on Alberta's forest shipments and volumes from the AFPA was on June 17, 2009. The agency is currently working on the next quarter's data, however Whittaker was able to tell *Madison's* that shipments for 2Q 2009 will be higher. It appears that Alberta lumber producers are indeed caught in the unenviable position of having to guess what their quota level will be each month.

A contact at the media relations department of Alberta's Ministry of Sustainable Resource Development, of which Forests is a part, confirmed Whittaker's statements to *Madison's*. Alexander Duncan MacDonnell, Public Affairs Officer, said that "because Quebec's production is down, the total exports allowed out of

Canada is down, thus Alberta is making up more of the total proportion" which is causing that province to exceed its allowed limit. MacDonnell explained that the province of Alberta is in "ongoing conversations with the lumber industry, and the 2006 SLA is a constant topic" and that Alberta is also "in regular contact with Federal Government channels" about the 2006 SLA. The problem, said MacDonnell, is that "there is a delicate balance to match output over the course of a month."

At *Madison's* request, MacDonnell provided specific information about the nature of these discussions with the Federal Government. In an email, he explained that "our Forest Economics branch staff responsible for SLA advised me that we have had conversations with the [Canadian] federal government about improving the information provided on the [DFAIT] website. At our specific request, for example, they have increased the number of updates from once daily to three times per day. Ottawa also has a Business Advisory council to refer to on matters such as this, and one of the members of that council is a representative of the Alberta lumber industry, so there is producer input into the process as well."

These recent efforts seem to be paying off, because the DFAIT website puts Alberta's shipments into the US for September at only 67.4 per cent of the allowed volume.

Madison's had intended to delve deeply into this topic with DFAIT, but found that federal department extremely slow in responding. An email with specific questions sent Monday morning was answered Thursday afternoon after two reminder phone calls. According to DFAIT's media relations department, "Export levels are updated three times daily, based on permit information received from exporters." *Madison's* immediately replied asking for further clarification about this process in gathering permit information, but did not receive a reply by press time the next day.

SOFTWOOD LUMBER EXPORTS REPORTS

Region	Option	Regional Share (bfm)	Surge Trigger (bfm)*	Exports (bfm)	Surge Trigger (bfm)*
JUNE					
BC Coastal	A	69,774,823	76,752,305	34,728,975	45.2%
BC Interior	A	577,978,800	635,776,680	420,859,463	66.2%
Alberta	A	82,568,400	90,825,240	99,734,050	109.8%
JULY					
BC Coastal	A	53,358,946	58,694,841	32,730,647	55.8%
BC Interior	A	570,309,600	627,340,560	442,578,046	70.5%
Alberta	A	81,472,800	89,620,080	104,094,726	116.2%
AUGUST					
BC Coastal	A	61,002,451	67,102,696	25,618,684	38.2%
BC Interior	A	560,025,900	616,028,490	420,883,537	68.3%
Alberta	A	80,003,700	88,004,070	99,094,848	112.6%

* Represents 110 per cent of regional share