

# MADISON'S LUMBER REPORTER

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## News & Updates

### US Biofuel Subsidy

The announcement out of the US this week of funding for a biomass assistance program is causing waves of dismay in the Canadian forest products industry.

The US Farm Service Agency website explains the funding as, "Biomass Crop Assistance Program provides financial assistance to producers or entities that deliver eligible biomass material to designated biomass conversion facilities for use as heat, power, biobased products or biofuels."

The first matching payments under the Program went to Show Me Energy Cooperative of Missouri on September 1. The Show Me Energy plant produces fuel pellets from agricultural waste products that are used to heat houses and livestock facilities.

Canada's Natural Resources website states, "expectations are that annual subsidies to the US forest sector will range from US\$700 million to US\$1 billion. The Program will encourage significant expansion of production in parts of the US forest sector, notably lumber and pellets."

While some may try to deny it, biofuels - especially those made from forest residue - are the way of the future. A forward-looking program like this is sorely needed in Canada. Cellulostic biofuel is going to be a major source of energy in Europe within the next five years. Refer to the August 14th of your *Madison's Reporter* for statistics and data on European, Asian and US demand for biofuels made from residual cellulose.

### Japan's Economic Recovery

The Bank of Japan said Thursday in its monthly report that export and production have been rising along with increasing public investment. The bank added that the drop in business fixed investment is moderating, while housing investment has decreased amid high unemployment and low income levels.

The bank added that the economy is likely to improve gradually, while it expected domestic and private demand to remain weak along with weak corporate earnings and increasing unemployment. Yet, the financial sector is showing signs of improvements, the Bank of Japan said. [READ MORE](#)

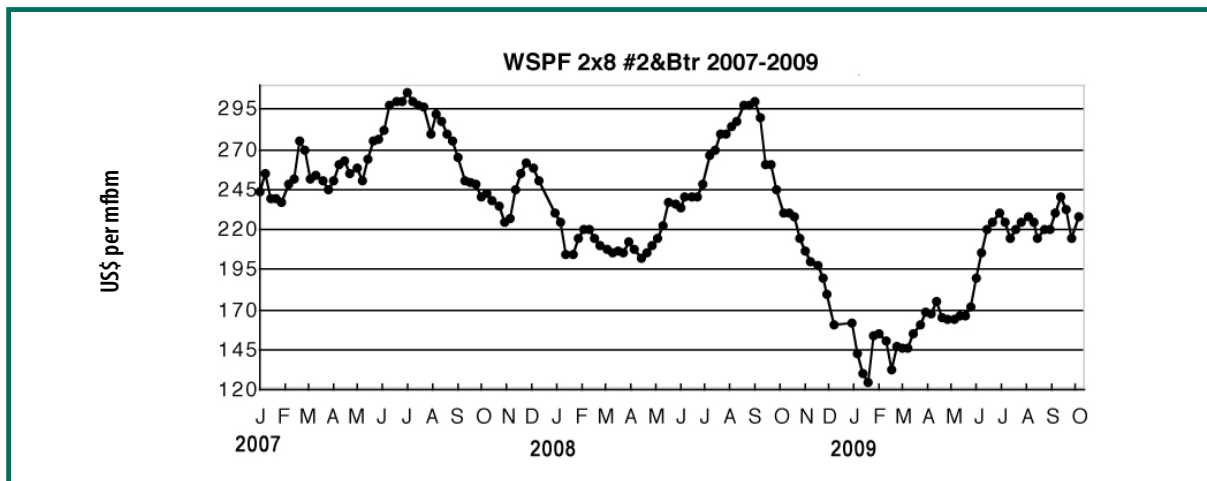
### Forest Fires

California and Greece continue to battle stubborn fires in a year which saw high wildfire activity across the globe. Meanwhile, Australia is bracing for what is expected to be a very active fire season. [READ MORE](#)

### Canadians Bolster US Real Estate Market

With the Canadian economy seeming to be on the way toward recovery, and Canadian real estate activity returning to former high levels, savvy investors are taking advantage of the weak US dollar to buy distressed properties in the US.

Foreign investment into US real estate jumped significantly in 2009, according to the US National Association of Realtors, while domestic property demand continues to lag. [READ MORE](#)



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	196	180	+16	188	+8	204	-8
WSPF KD R/L 2x6	202	190	+12	195	+7	206	-4
WSPF KD R/L 2x8	228	215	+13	230	-2	230	-2
WSPF KD R/L 2x10	325	315	+10	314	+11	220	+105
WSPF KD PET 2x4 Stud	200	190	+10	200	0	187	+13
Douglas Fir Green R/L 2x4	165	155	+10	170	-5	135	+30
Douglas Fir Green R/L 2x10	238	210	+28	240	-2	190	+48
ESPF KD 2x4 8ft Stud	270	275	-5	280	-10	255	+15
OSB Ontario 7/16" (CDN\$)	185	185	0	180	+5	205	-20

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## Weekly News

### Japan's Economy

CONTINUED Japan's central bank mainly saw positives in general improvements in the global economy, however on the domestic front the Bank of Japan said that it did not see many signs of improvement.

The report noted that Japanese companies are now borrowing less money as many have managed over the last few months to return to liquidity.

"In these circumstances, firms' financial positions, although many firms, mainly small ones, still see them as weak, have continued to improve as a whole," it said.

The report comes on the back of two months of generally positive data on the Japanese economy and business sentiment across the nation.

The report will be a cause for concern for the newly-elected Democratic Party of Japan, however, which has said it hoped Japan to become a two-tier econ-

omy, in which domestic demand plays as big a part as exports. In its election manifesto it stated that it aims to "change the Japanese economy into one centered on domestic demand."

Meanwhile, Japan's new government announced Friday it would freeze spending of about US\$33 billion from the previous administration's extra budget.

Prime Minister Yukio Hatoyama's cabinet approved the suspension of spending of about 2.93 trillion yen out of a supplementary budget of 14.7 trillion yen for the year to March 2010.

"In a way, this is the start of new politics," said Hatoyama.

### Wildfires

CONTINUED A wildfire that blackened more than 11 square miles of California brush and timber in a popular resort area about 70 miles northeast of Los Angeles, and destroyed at least five

structures on the weekend, is now under control.

US Forest Service spokesman John Miller said firefighters gained full control of the Sheep Fire on Saturday night.

More than 60 firefighters battled a blaze in a fir tree forest on the Greek island of Evia on Tuesday, using 23 fire engines and 11 eight aircraft. There were no reports of injuries.

Meanwhile Australia has begun preparing more than 1,000 fire refuges and will recast its national alert system to warn of "catastrophic" bushfires as a new fire season threatens to eclipse blazes this year which killed 173 people.

With the new fire season just two weeks away and authorities warning it could rival "Black Saturday" blazes in February which destroyed more than 2,000 homes, authorities said they were preparing "neighbourhood safer places" to be ready by November.

### Catalyst CFO Resigns

Catalyst Paper said Tuesday its Chief Financial Officer David Smales will leave the company effective November 4 to join a Toronto-based construction and infrastructure development firm.

"The search for a successor is underway and a special committee of the board of directors will review the short-list of suitable candidates in due course," the pulp and paper maker said in a statement.

Smales joined Catalyst in December 2005 as the vice president, strategy and was appointed to his current role in April 2007.

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## Canadians Buying In US Real Estate

Realtors in the US are starting to see houses moving out of the market, but from an unlikely source. Due to the high Canadian dollar, middle-aged Canadians are looking to the US for investment in a second property. Apart from the increasingly favourable exchange rate, rising home values in most regions of Canada are driving potential buyers south for properties still available at a discount.

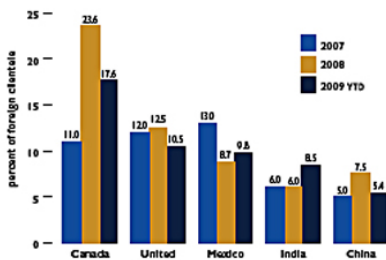
According to the US National Association of Realtors, "The top five countries of origin for foreign home buyers, in rank order, were Canada, the United Kingdom, Mexico, India and China. [ . . . ] Sixty-nine percent of REALTORS® reported that their international clients bought a single-family home. Condominiums were also popular, accounting for 18 percent of foreign purchases. [ . . . ] The most popular states where international buyers purchased homes were Florida, California, Texas, and Arizona." These four sunbelt states reported that their international business actually increased 35 to 45 per cent.

In May 2009, with currency exchange rates fluctuating, the average US home price was US\$218,300, compared with US\$278,100 in Canada and US\$237,900 in Britain, according to the association's data. In addition, the number of Canadian buyers who used cash to pay for US properties jumped to 81 per cent in 2009 from 47 per cent in 2007. A recent report found that risk-averse Canadian households are sitting on up to \$1-trillion in cash and near-cash holdings. With the Canadian dollar currently near par, and threatening to overtake the US dollar, the depressed US real estate market is a good place for Canadians to invest.

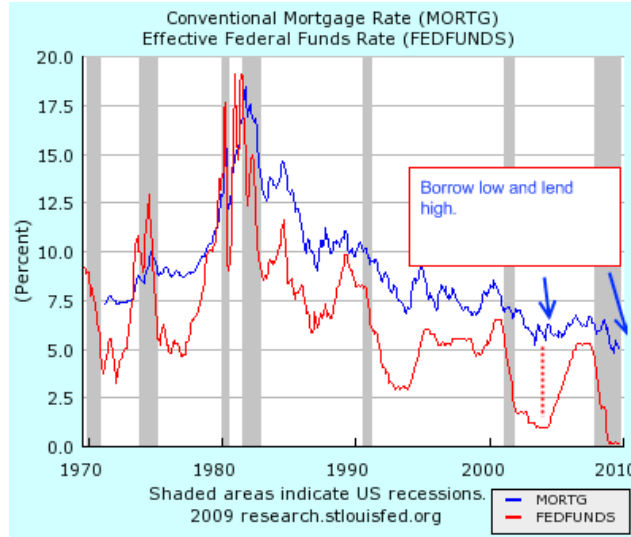
"Cottages have become prohibitively expensive in Canada - a Florida condo is far more affordable," says Caroline Nalbantoglu, a financial planner with PWL Advisors Inc. out of Montreal.

In an amusing twist, the jump in buyers from Manitoba and Saskatchewan can be

**Top Five Countries of Origin of Foreign Buyers**



Source: NAR Research



credited to a former Winnipeg police officer who moved to Phoenix, AR, in the late 1990's to become a realtor. Diane Olson of HomeSmart has been holding seminars across central Canada, and is signing up new home buyers in droves.

The Canadian Real Estate Association said Thursday that in real terms, sales of existing homes within the country have never been stronger than in the just-completed third quarter. The association says over 135,000 units were sold in the July-to-September period, which is 18 per cent higher than the corresponding period last year before the recession hit. Average prices gained 11 per cent to \$327,736.

Tannis Dawson, who works for Investors Group in Winnipeg, points to one couple she works with who just scooped up an ocean-front condo with a shared pool in Naples, FL, for US\$90,000. Two years ago, it was selling for US\$234,000. While some of these formerly hot real estate markets, like Florida, California and Arizona, may not recover property values to 2006 levels, they most assuredly will see real estate prices rise as the US economy continues to recover.

"Property values aren't going to go up 50 per cent in the next month or two, so there's a great opportunity," said Diane Olson. Houses in Phoenix worth \$170,000 US in 2004, which ballooned to \$260,000 US in 2006, are now selling for \$110,000 US, she said. In 2006, the Canadian dollar was averaging about US\$0.88.

September real estate sales in Sarasota, FL, soared 35 per cent in September 2009 over the same period in 2008 as savvy buyers took advantage of dramatically lower prices. Sales totaled 554 units versus 409 sales in September 2008, according to the Sarasota real estate board. This city on the Gulf coast of Florida recently

ranked Number 5 in the '2009 Top 10 Undervalued Home Markets' by US News and World Report, as well as the Number 1 spot in the '10 Biggest Housing Markets on Sale' according to Barbara Corcoran, Real Estate Expert for the Today Show.

According to a respected financial blog called Dr. Housing Bubble, "The US Treasury and Federal Reserve are doing everything they can to damage the dollar. In fact, the only reason real estate isn't correcting faster is because of the artificial money being pumped into the system. [ . . . ] Banks are now making good dough on the difference between what they borrow and what they lend even with historically low mortgage rates. Thanks to the trillions in taxpayer subsidies, banks are able to borrow for virtually zero and lend out at much higher rates." <http://www.doctorhousingbubble.com> See graph for projection and historical difference between US Federal lending rates and mortgage interest rates.

On Friday McGraw-Hill Construction released its 2010 Construction Outlook, which is which forecasts an increase in overall US construction starts for next year. Due to improvement for housing from extremely low levels and broader expansion for public works, the level of construction starts in 2010 is expected to climb 11 per cent to \$466.2 billion, following the 25 per cent decline predicted for 2009.

Given these circumstances, it seems likely that Canadians will continue buying into the US real estate market into 2010, potentially propping up home sales activity. Eventually the US economy will recover, particularly in terms of employment, and the percentage of domestic home buyers will rise. Whether foreign interest in US property will be enough to drive home prices upward remains to be seen.