

MADISON'S LUMBER REPORTER


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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the recent movement of solid wood, pulp and paper prices, as well as some 3Q 2009 results for relevant companies. Various changes in the industry dynamic, including company takeovers and mill buyouts are also explained.

Contact us any time for a subscription.

British Columbia Labour Issues

Talks between the United Steelworkers and the CONIFER employer group, originally scheduled to go all week, once again broke off on Monday. At issue is shift scheduling/hours of work. Both sides explained to *Madison's* that they are significantly far apart on this subject.

CONIFER is looking for similar scheduling terms enjoyed by the Southern Interior in the 2003 Collective Agreement. The union has expressed no interest in granting any of the employer groups these conditions for the 2009 Agreement.

Although there is no resumption of talks scheduled yet, both sides are firm in saying they are ready to go back to the table at any time and that no other kind of action is currently being contemplated.

Meanwhile, 250 workers at the Tembec mill in Pine Falls, MB, have been locked out since September 1st. Mediation talks have broken off again between Tembec and the United Steelworkers union. The union said they have agreed to some concessions, but Tembec is not willing to budge from cuts of 35 per cent in wage and benefits.

US Housing Starts

US housing starts rose by 0.5 per cent in September compared to August, to an adjusted annual rate of 590,000 commerce department figures showed on Tuesday. This is a slower growth than August's 1.5 per cent, compared to July.

As usual for this time of year, when building activity slows down, US building permits were down compared to August, by 1.2 per cent. READ MORE

Wildfires

Vast forest fires have hit a large part of central North Korea this week, sending plumes of smoke over most of the country's central and eastern regions.

NASA, the US space agency, said multiple fires had been burning in the state since mid-October, with several hot spots located in a mountainous region in the centre of the country. READ MORE

North American Transportation

Recent figures out of the US Bureau of Transportation Statistics show that the volume of goods moving by surface transportation between the US and Canada and Mexico have showed steady improvement since the beginning of 2009.

Based on new orders, share prices of a major US rail car manufacturer have risen sharply since August. READ MORE

U. S. HOUSING STARTS

| | Sep-09 | Aug-09 | | Sep-09 | Aug-09 |
|-------------------------|---------|---------|--------------------------|---------|---------|
| Starts | | | Permits | | |
| Actual | 52,700 | 53,300 | Actual | 51,100 | 52,400 |
| SAAR* | 590,000 | 587,000 | SAAR* | 573,000 | 580,000 |
| 1 Unit | 501,000 | 482,000 | 1 Unit | 450,000 | 464,000 |
| 2-4 Units | (s) | (s) | 2-4 Units | 19,000 | 19,000 |
| 5+ Units | 78,000 | 102,000 | 5+ Units | 104,000 | 97,000 |
| Starts by Region | | | Permits by Region | | |
| Northeast | 69,000 | 73,000 | Northeast | 62,000 | 62,000 |
| Midwest | 107,000 | 109,000 | Midwest | 100,000 | 100,000 |
| South | 300,000 | 280,000 | South | 292,000 | 297,000 |
| West | 114,000 | 125,000 | West | 119,000 | 121,000 |

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

| | September 2009 | | August 2009 | |
|--------------------------|----------------|----------------|---------------|----------------|
| | Actual | SAAR | Actual | SAAR |
| Canada, all areas | 14,801 | 150,100 | 14,177 | 157,300 |
| urban ctrs with >10,000 | 17,611 | 131,500 | 12,187 | 138,700 |
| singles, urban centres | 6,741 | 68,800 | 5,211 | 58,900 |
| multiples, urban centres | 6,283 | 62,700 | 6,976 | 79,800 |
| rural areas | 1,777 | 18,600 | 1,990 | 18,600 |
| Atlantic urban centres | 970 | 8,100 | 835 | 8,500 |
| Quebec urban centres | 3,169 | 34,800 | 3,409 | 43,600 |
| Ontario urban centres | 4,798 | 49,300 | 4,172 | 43,200 |
| Prairie urban centres | 2,620 | 26,300 | 2,271 | 26,300 |
| B.C. urban centres | 1,467 | 14,000 | 1,500 | 17,100 |

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 | 196 | 196 | 0 | 188 | +8 | 188 | +8 |
| WSPF KD R/L 2x6 | 202 | 202 | 0 | 202 | 0 | 188 | +14 |
| WSPF KD R/L 2x8 | 225 | 228 | -3 | 240 | -15 | 228 | -3 |
| WSPF KD R/L 2x10 | 320 | 325 | -5 | 322 | -2 | 212 | +108 |
| WSPF KD PET 2x4 Stud | 190 | 200 | -10 | 200 | -10 | 180 | +10 |
| Douglas Fir Green R/L 2x4 | 168 | 165 | +3 | 170 | -2 | 147 | +21 |
| Douglas Fir Green R/L 2x10 | 235 | 238 | -3 | 240 | -5 | 205 | +30 |
| ESPF KD 2x4 8ft Stud | 285 | 270 | +15 | 280 | +5 | 255 | +30 |
| OSB Ontario 7/16" (CDN\$) | 185 | 185 | 0 | 188 | -3 | 205 | -20 |

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Weekly News

US Real Estate

CONTINUED Home construction has made a sharp turnaround since April when new construction fell to a 50-year low since surging by 23 per cent. Many economists see the revival as a mixed blessing, as greater housing activity is a sign of economic health but also extends the overhang of supply.

Multi-family home construction was a drag on the overall figures, falling by 23.5 per cent from August to September. Single-family housing starts continued to show strength, however, rising by 3.9 per cent.

In spite of the rise in home construction in recent months, homebuilders have been feeling increasingly anxious about the housing market, with the first-time homebuyer tax credit set to expire next month.

The NAR reporting that existing home sales in September rose 9.4 per cent to 5.57 million units, beating analysts estimates for 5.35 million. Total sales up 9.2 per cent in year over year comparisons.

The median price fell 1.4 per cent to \$174,900 from August's revised \$177,300. Median prices off 8.5 per cent against year ago levels. Inventories fell to 3.630 million from 3.924 million units. At the higher sales pace inventories fell to 7.8 months from 9.3 months in August.

Forest Fires

CONTINUED Multiple fires broke out in the northeastern part of North Korea recently, sending a plume of smoke to the East Sea between the

North and Japan.

"We are still trying to analyse it," a South Korean official told Yonhap news agency. "They are probably a result of fires being intentionally lit to reclaim farmland."

Meanwhile Australian Prime Minister Kevin Rudd warned the nation on Wednesday to brace for a severe bushfire season as fire crews battled intense blazes stoking memories of infernos earlier this year which killed 173 people.

Authorities have warned the current fire season could rival "Black Saturday" blazes in February which scorched through southern Victoria state.

Householders in Rockhampton on Australia's east coast were Monday warned to leave or prepare to fight the forest fires bearing down on them.

Grant Takeover

Atlanta's Georgia-Pacific is rumoured

to be one of the companies interested in taking over bankrupt Grant Forest Products of northern Ontario.

Local residents oppose foreign takeover of the family-owned company, which went bankrupt earlier this year.

A court appointed monitor is reviewing the bids, and must release a recommendation by December 01, 2009.

Paragon Reopens Mill

Paragon Wood Products reopened its mill in Lumby, BC, this week after a year-long closure. The company plans to shift operations away from Cedar, to SPF dimension lumber, and away from North American customers, to Asia.

At one time Paragon, a family-owned company, ran five mills in BC but most of them have been closed, including in Lavington and Grindrod. Its Lake Country operation remains open.

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MADISON'S
MILL WATCH

Transportation

North America

Railways and freight transporters have been releasing third quarter 2009 results over the past week, generally lower than

by Kéta Kosman

the same time last year. However there are indications that the worst of the down cycle is behind us. Most notably pointing to a brighter future is the share price of FreightCar America, a major US manufacturer of railcars, up \$8.12 since September 02, 2009, from \$18.22 to \$26.34. This improvement was due mostly to strong 2Q 2009 results, but was also helped by a positive restatement of 1Q 2009 financial statement to correct a \$12.3 million accounts payable overstatement. Despite poor returns this year, rail companies are clearly ordering more cars.

Canadian National Railway Co. said Tuesday its profit for the quarter ended September 30 amounted to 97 cents per share compared with a profit of \$1.16 a year ago, when net income totalled \$552 million. Revenue fell 18 per cent to \$1.85 billion, from \$2.26 billion a year ago. The Montreal-based company said the quarter was challenging with significant weakness across markets, affecting its freight volumes. Operating expenses, which fell by 18 per cent to reflect lower fuel prices and cost-containment efforts, acted as a cushion to lower traffic. During the third quarter, all commodity group transport saw lower revenue, with metals and minerals falling 32 per cent, automotive 25 per cent, forest products 24 per cent, intermodal 20 per cent, petroleum and chemicals 11 per cent, coal nine per cent, and grain and fertilizers nine per cent from the same time period one year ago.

Outgoing CN CEO Hunter Harrison said the railway's strong results will continue to create opportunities for it to generate record numbers in 2010 and 2011. The railway believes currently depressed freight volumes should be on the upswing in the coming quarter, recovering from the recession that led to a 16.4 per cent drop in third-quarter profits to \$461 million.

Across the border, Nebraska's Union Pacific Corporation reported Thursday a 3Q 2009 net income of \$517 million, or \$1.02 per diluted share, compared to \$703 million, or \$1.38 per diluted share in the third quarter 2008. Operating income totaled \$967 million, down 20 per cent.

"Union Pacific's third quarter results were clearly affected by the global recession and related decline in our rail traffic," said Jim Young, Union Pacific chair and CEO. Business volumes, as measured

by total revenue carloads, were down 15 per cent versus 3Q 2008. Reflecting lower volumes, year-over-year freight revenues declined 25 per cent to \$3.5 billion in 3Q 2009.

Also reporting Thursday, Texas-based Burlington Northern Santa Fe Corp. posted 3Q 2009 earnings of \$488 million, or \$1.42 a share, down from \$695 million, or \$1.99 a share, a year earlier. The latest results included a 6-cent gain due to a coal rate case adjustment. Total freight revenue decreased 27 per cent, as volume, measured by rail car units, slid 18 per cent.

Even as demand remained sluggish, some on Wall Street are striking a more positive tone on sequential improvements. For example, Florida's Ryder System, Inc, a provider of transportation and supply chain management solutions, reported Thursday on earnings from continuing operations for 3Q 2009 were \$28.5 million, compared to \$72.8 million in the year-earlier period, beating analyst expectations. A comparison of Ryder's 13.5 per cent projected earnings-per-share growth rate for the next five years with the Rental & Leasing Services industry's projected EPS growth rate of 11.4 per cent for that same time frame, shows that analysts expect Ryder to outperform the industry in the future.

Indeed, Arizona truckload carriers J.B. Hunt Transport Services Inc. and Nebraska's Werner Enterprises posted better-than-expected quarterly results Monday, and said they were seeing signs of stabilization in demand.

The Federal Reserve said Wednesday that transportation services activity in most US regions declined in the six weeks through mid-October, except in Chicago,

where trucking shipments reportedly increased, and Cleveland, where contacts also cited an uptick in freight transport volume in recent weeks. Again, the bright side is that reports of economic activity gains generally outnumbered declines. However, virtually all references to improvement were qualified as either small or scattered, indicating that full economic recovery has yet to gain speed.

On September 30, 2009 the US Bureau of Transportation Statistics released a report showing trade using surface transportation between the US with Canada and Mexico was 28 per cent lower in July 2009 than in July 2008, dropping to \$51.5 billion, with a year-to-year decline of greater than 27 per cent. The Bureau also reported that the value of US surface transportation trade with Canada and Mexico rose 1.6 per cent in July 2009 from June 2009. Digging deeper, the report also states that the value of US surface transportation trade with Canada and Mexico in July 2009 was up 7.2 per cent compared to July 2004, and up 38.1 per cent compared to July 1999.

On October 15, 2009 the Bureau reported the Freight Transportation Services Index (TSI) rose 0.7 per cent in August from its July level, the second consecutive monthly increase, and the first four month period without a decline in the index since 2002. The Freight TSI measures the month-to-month changes in freight shipments in ton-miles, which are then combined into one index.

A glance at the table on this page shows that, while transportation figures are still lower when compared to the previous two years, there has been a steady, albeit slow, rise since January 2009. When this data is combined with other positive indicators, like rail car orders, it seems likely that the worst of the drop is behind us.

Value of Monthly US Surface Transportation Trade with Canada and Mexico

(millions of US dollars)

| Month | 2007 | 2008 | 2009 | Percent Change | Percent Change |
|---------------------|----------------|----------------|----------------|----------------|-----------------|
| January | 60,649 | 65,160 | 47,459 | 2007-2008 7.4 | 2008-2009 -27.2 |
| February | 59,667 | 69,406 | 47,938 | 16.3 | -30.9 |
| March | 69,768 | 70,787 | 51,055 | 1.5 | -27.9 |
| April | 65,015 | 74,317 | 49,729 | 14.3 | -33.1 |
| May | 69,423 | 74,128 | 47,881 | 6.8 | -35.4 |
| June | 69,526 | 74,139 | 50,753 | 6.6 | -31.5 |
| July | 61,823 | 71,628 | 51,545 | 15.9 | -28.0 |
| August | 69,158 | 72,254 | | 4.5 | |
| September | 66,771 | 71,801 | | 7.5 | |
| October | 74,249 | 72,683 | | -2.1 | |
| November | 70,352 | 60,661 | | -13.8 | |
| December | 60,902 | 52,910 | | -13.1 | |
| Year-to-date | 455,870 | 499,565 | 346,360 | 9.6 | -30.7 |
| Annual | 797,303 | 829,875 | | 4.1 | |

Source: BTS TransBorder Freight Data, <http://www.bts.gov/transborder/>