

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines renewed investment into the forest industry, timberlands and solid wood producers. The provinces of Nova Scotia and Ontario lend money this week to flagging mill operations, while major deals are struck on the international stage, particularly through the UN, and PricewaterhouseCoopers releases a report putting a value on the settlement of native land claims in British Columbia.

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US Home Building and Real Estate Market

New US housing starts in October unexpectedly fell to their lowest level in six months, weighed down by a sharp decline in construction activity for both single-family and multi-family dwellings, a government report showed on Wednesday.

The Commerce Department said housing starts dropped 10.6 per cent to a seasonally adjusted annual rate of 529,000 units, the lowest level since April, and the percentage drop was the biggest since January.

Compared to October last year, housing starts dropped 30.7 per cent. The big fall in October starts marks a setback in the housing sector's recovery. New-home sales hit bottom in January but are up 22 per cent since, the latest government data show. Buyers surfaced amid an improving economy and a big government tax incentive. With the sales increase, inventories of unsold homes have gone down, leading some builders to resume construction.

As sales rise, builders have been reporting favourable results. Luxury-home developer Toll Brothers Inc.'s said last week that inked contracts for its fiscal fourth quarter rose 42 per cent from a year earlier. The US stock market is way up since March, restoring some wealth to those who might want to buy a more expensive house.

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Japanese Economy

The Bank of Japan upgraded its economic assessment on Friday, setting itself up for a confrontation with a government pressing for a policy response to deflation and a possible return to recession.

The Japanese government published a report that pronounced the economy officially in deflation for the first time since 2006, and the finance minister said he wanted the BOJ to "respond appropriately".

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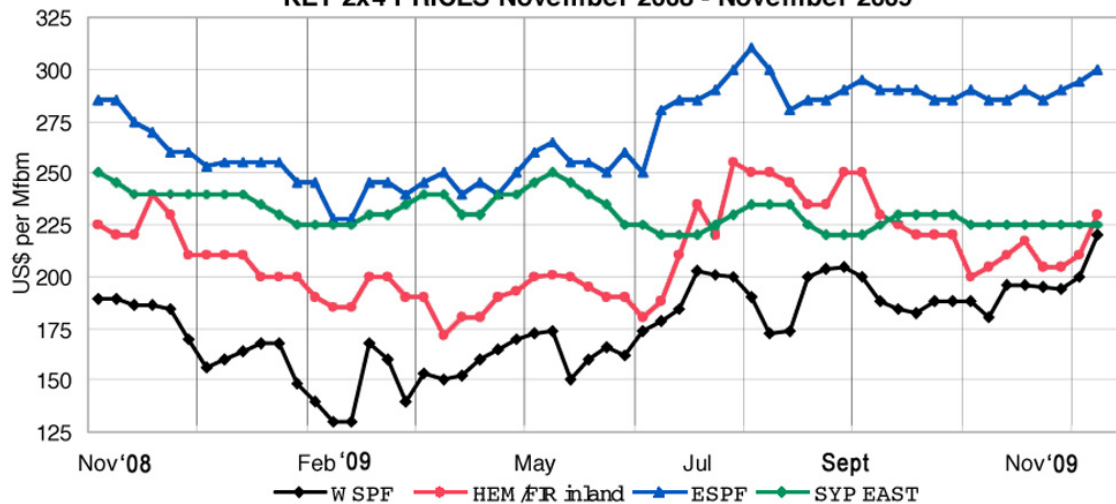
British Columbian Wood in Demand in Asia

Having just returned from a week-long trade mission to China and Japan with a group of lumber industry representatives, BC's Minister of Forest and Range, Pat Bell, spoke to *Madison's* about what transpired during the trip.

Two Memorandums of Understanding to buy distressed BC pulp mills, one in Kitimat and one in Mackenzie, with interested parties in China, 156 million board feet sold into China, \$8 million in sales during the Japan Home Show, and other achievements were discussed.

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KEY 2x4 PRICES November 2008 - November 2009



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	220	200	+20	196	+24	186	+34
WSPF KD R/L 2x6	220	200	+20	202	+18	176	+44
WSPF KD R/L 2x8	230	220	+10	225	+5	198	+32
WSPF KD R/L 2x10	302	305	-3	320	-18	190	+112
WSPF KD PET 2x4 Stud	215	200	+15	190	+25	170	+45
Douglas Fir Green R/L 2x4	190	175	+15	168	+22	180	+10
Douglas Fir Green R/L 2x10	257	255	+2	235	+22	260	-3
ESPF KD 2x4 8ft Stud	280	280	0	285	-5	245	+35
OSB Ontario 7/16" (CDN\$)	192	190	+2	185	+7	220	-28

Madison's Lumber RETROspective
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Weekly News

US Mortgage Issues

CONTINUED The US Mortgage Bankers Association said Thursday a record one in seven US mortgages, or four million homeowners, were in foreclosure or at least one payment late in the third quarter. The housing market accounts for about 20 per cent of the US economy, and a stabilization in plummeting property values is seen as a key pillar of an economic recovery. Americans with solid credit ratings comprised 33 per cent of the quarter's foreclosures.

Rising job losses were behind the increasingly bleak portrait of the housing market in a trend that will continue into next year, the group said in data that adds to recent evidence of a still-struggling housing market.

The delinquency rate broke the record set last quarter, based on MBA data going back to 1972. The rate includes loans that are at least one payment past

due but does not include loans somewhere in the process of foreclosure.

US companies have shed 7.3 million jobs since December 2007, the biggest contraction since the Great Depression, and the unemployment rate jumped to 10.2 per cent in October, the highest since 1983, according to the US Bureau of Labor Statistics.

The jobless rate probably will peak at 10.4 per cent in 2010's first quarter, even as the US economy continues an expansion that began in the third quarter, said Douglas Duncan, chief economist of Fannie Mae, the largest mortgage financier.

The spring selling season for homebuilders typically begins in February, earlier than the resale market because families with children want to be able to move into a home before September's start of school. It can take up to six months to build a home, and up to 9 months to build the larger houses sold by Toll Brothers.

Bank of Japan

CONTINUED Japan's government debt burden, at nearly 200 per cent of gross domestic product, is the heaviest of any rich nation, and concerns about Japan's fiscal health helped widen the spread between two-year and 10-year bond yields to a 3-1/2-year high of 121 basis points last week.

Japan's sovereign five-year credit default spread widened to around 77 basis points early last week, its highest since April.

So far, Japan's central bank has dismissed the possibility the country could enter a deflationary death spiral. On Friday, the Bank of Japan upgraded its outlook for the Japanese economy and left interest rates at 0.1 per cent.

"The BOJ doesn't want to take any aggressive policy measures because it doesn't think the status quo is so harmful," says Kanno of JPMorgan Securities.

Tolko Announces Curtailments

Tolko Forest Industries is taking down most of its operations in central BC for two weeks during Christmas.

Tolko said the curtailment is due to weak product prices, an oversupplied market and efforts to control costs.

Tolko has operations in Quesnel and Williams Lake, and further south.

For most Tolko operations, the curtailment will begin Dec. 18, with an anticipated restart on Jan. 4, subject to market conditions. The scheduled shutdown will reduce lumber production by about 52.5 million board feet, and panel production by 6.4 million square feet.

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MILL WATCH

Asian Lumber Demand

Projected Future Growth

British Columbia's Minister of Forests and Range, and Integrated Land Management, Pat Bell, has just returned from a trip to

by Kéta Kosman

China and Japan accompanied by a group of lumber industry representatives. Bell had high expectations for the trip, and told *Madison's* in an interview this week that even those expectations were surpassed. Building on groundwork done during last year's trade mission to the Asian countries, Bell's group sold 156 million board feet of lumber to the Chinese marketplace – almost double the 83 million board feet sold during last year's mission. Recent Ministry of Forests figures for January to August 2009 show that BC exported 975 million board feet of softwood products to China, well over the record 784 million board feet exported in all of 2008. Bell expects total 2009 lumber exports to China to reach 1.6 billion board feet, then grow to 4 billion board feet in 2010.

Bell told *Madison's* that while a significant proportion of this wood was comprised of the utility and economy grades, there was also "very positive numbers" for Spruce #2&Btr and Hemlock. When *Madison's* asked if Bell felt this demand would remain once lumber prices normalize, he said "if the price of lumber were to jump to the \$300 range very quickly then there might be a problem, otherwise demand from China will stay firm." Bell correctly pointed out that, even when lumber prices return to profitable levels, wood will still be less expensive than concrete and steel. "The Chinese are remanning 2x4's and 2x6's, #3 and #4, into strapping," Bell explained in example of what is being done with the wood imported. "Russian sawlogs are selling for US\$105 per cubic meter, but there is a lower lumber recovery factor in China due to outdated equipment, with producers averaging US\$40 mfbm as cost of production. This brings the total price quite close to BC wood."

The Minister's trade group visited the China National Building Materials warehouse – the "Home Depot of China" if you will – at Taicang Port in Shanghai. Last year they had one warehouse and hoped to build five more, but they now have 11. The port takes in about 756 million board feet a year. In terms of cargo, shipping BC wood to Shanghai costs the same as shipping to Chicago - about \$65 per mfbm, said a Ministry of Forests memo.

A BC lumber trader exporting into China explained to *Madison's* that there is a lot of lumber buying activity outside the state-owned National Building Material Enterprises. "There are big private companies in China building lumber inventories," the source said. "The demand right now is for a stable supply

of 2,000 shipping containers full of wood per month. Consumption levels are at about 20,000 cubic meters of Hemlock and 10,000 cubic meters of SPF monthly. It is all construction lumber."

"Wood homes cost more than those made with concrete and steel," the source said. "But upkeep, energy, maintenance, etc. costs are lower later." The Chinese do not believe in mortgages, apparently, and pay cash up front for homes. "In south and east China homes are built using 2x4's but in the south 2x6's are necessary. The homes must be built stronger due to environmental conditions," the source explained.

Home building in China is classified into two part, "villas" or "American style", and "hybrids" which are usually 3 or 4 storey apartments or condos. Villas are entirely wood-framed, and usually wood finished, while hybrids can be either wood or concrete and steel, but are often both.

Earlier this year when *Madison's* originated a piece about Chinese wood home building, an internet search of "wood home China" brought up images of poorly constructed, one hundred year old structures. Today there are plenty of websites by wood home builders in China, for example Hangzhou Hklong Arts & Crafts. Hangzhou is a sub-provincial city in the Yangtze River Delta, and the capital of Zhejiang province, located 180 kilometres southwest of Shanghai. A Chinese professional log cabin, log home, log house, wooden house and timber-frame builder and manufacturer, Hklong specializes in designing and building quality log house, timber frame structures, post and beam houses, including prefabricated wooden houses, custom log homes and wood houses, log cabin home packages and kits, etc. The company can produce timber frame structures of all many types and sizes and for many purposes, such as for living, entertainment, restaurant, body building or meeting, according to the website (link: http://www.bokee.net/companymodule/company_indexCompany.do?id=1483133) Hklong is specialized in researching, designing, producing and marketing timber frame structures of various types and for many purposes, the website says.

Moving on to Japan, Pat Bell's trade group encountered further positive news; BC's value-added wood manufacturers project sales of \$8 million through the Japan Home Show. Japan recently modified its building code to allow larger multi-

unit buildings to be constructed entirely from wood. The first example of these new building codes being put to use is the Sagami-hara Elderly Care Home, a commercial building project bid on by private companies. When completed in 2010, the 6,500-square-metre facility will be the largest 2x4 wood-frame elder care home in Japan. The building will require the same amount of wood needed to build 70 homes. There is a shortage of elderly care homes in Japan; an estimated 400,000 seniors are on waiting lists for elderly care facilities, and about 7,400 new facilities are required to house this aging demographic. If every single one used wood-frame construction, about 1.15 billion board feet of lumber would be used, according to a Ministry of Forests press release.

During a conference call while in Japan last week, Bell explained that, "Japan is a mature market for wood products. For years new home building in Japan was at 1.2 million per year, and while currently lower than in previous years is expected to get back up to that level in five to 10 years. If the non-residential sector is added to traditional wood home building, Japan is a significant growth market for BC wood." Bell pointed out that, "there were more homes built in Japan this year than in the US, with 800,000 new homes built in Japan so far in 2009 compared to about 550,000 in the US. Japan is part of BC's long term forest strategy, despite what the US does."

As of September, BC has shipped \$390 million worth of product into Japan in 2009. British Columbia supplies 44 per cent of Japan's softwood lumber, according to a Ministry of Forests memo.

Given all this good news, Pat Bell finished up by saying, "As excited as I was last year, I am perhaps even more excited this year about China and Japan as customers for BC wood. We will be redoubling our efforts to continue growing customer relationships in these countries."



Wood "Villa" Style House in China
SOURCE: Hangzhou Hklong Arts & Crafts Co