

# MADISON'S LUMBER REPORTER



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## News & Updates

### Madison's Mill Watch

Get immediate information on major Canadian sawmill and pulp mill curtailments and restarts at your fingertips every month. This week's issue of *Madison's Mill Watch* includes updates of operations for Canfor, Ainsworth and West Fraser, among others.

Contact us any time for a subscription.

### Canadian Housing Starts and Home Prices

Housing starts in Canada hit their highest level this year in November, more proof that Canada's real estate market has clawed out of recession. Starts rose 0.7 per cent to 158,500 units on a seasonally adjusted basis, as single-home construction outweighed a drop in multiple home activity, Canada Mortgage and Housing Corp. said Tuesday. Multiple starts eased 1.7 per cent in November, CMHC said, to 71,300 units. Single starts rose 3.4 per cent to 69,800 units.

More builders have plans in the works, the report showed. Building permits jumped 18 per cent in October to the highest value in 13 months, Statistics Canada said.

New home prices in Canada rose 0.3 per cent in October from September, the fourth consecutive gain, as record low interest rates and a recovering economy spurred demand, according to Statistics Canada data on Friday.

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### Japan Housing Starts

October housing starts in Japan were down 27 per cent over the same month in 2008, at 67,120 units. Expectations are that total housing starts for the year in Japan will be less than 900,000 units. Seasonally adjusted annual starts were 762,000, up 9 per cent from September.

While new units for owners recovered somewhat, rental units and units built for sale were down nearly 40 per cent over October 2008.

The share of wood framed units fell slightly to 58 per cent. Total floor space was 21 per cent less than October 2008.

Building permits, however, were up from September 2009. 47,227 total building permit applications were made in October, 6 per cent less than October 2008 but up almost 6 per cent from September 2009. There is improvement in home building in Japan, however total levels remain low.

### Forestry Fourth Quarter Forecast

Fast on the heels of PricewaterhouseCoopers' 3Q 2009 "Global Forest and Paper Industry: Net Earnings Summary", *Madison's* makes a forecast for 4Q and year end 2009. Sources in the solid wood industry have reported increased activity in November and so far in December, very unusual timing for business to pick up in the forest industry. Coupled with the recent increases in commodity cash prices, returns for 4Q 2009 will exceed 3Q 2009 significantly, and surpass 3Q 2008 by an even greater proportion.

Mills and wholesalers alike will start 2010 with a zero inventory base, a complete departure from the beginning of 2009 when the entire supply chain was overstocked.

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#### JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Oct-09	67,120	28,175	38,945	58
Sep-09	61,181	24,771	36,410	60
Aug-09	59,749	24,992	34,757	58
Jul-09	65,974	28,243	37,731	57
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

Source: Japan Wood-Products Information and Research Center

#### CANADIAN HOUSING STARTS

##### Actual and Seasonally Adjusted Annual Rates

	November 2009		October 2009	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	<b>15,075</b>	<b>158,500</b>	<b>15,828</b>	<b>157,400</b>
urban ctrs with >10,000	13,507	141,100	14,090	140,000
singles, urban centres	6,671	69,800	6,536	67,500
multiples, urban centres	6,836	71,300	7,554	72,500
rural areas	1,568	17,400	1,738	17,400
Atlantic urban centres	641	7,400	788	8,200
Quebec urban centres	3,693	35,100	3,065	31,900
Ontario urban centres	4,724	51,100	5,940	55,700
Prairie urban centres	2,966	30,300	2,771	28,000
B.C. urban centres	1,483	17,200	1,526	16,200

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	232	232	0	200	+38	156	+76
WSPF KD R/L 2x6	228	226	+2	200	+32	145	+83
WSPF KD R/L 2x8	235	238	-3	220	+19	160	+75
WSPF KD R/L 2x10	312	315	-3	305	+5	168	+144
WSPF KD PET 2x4 Stud	230	235	-5	200	+40	142	+88
Douglas Fir Green R/L 2x4	195	197	-2	175	+27	148	+47
Douglas Fir Green R/L 2x10	260	265	-5	255	+20	243	+17
ESPF KD 2x4 8ft Stud	295	290	+5	280	+5	225	+70
OSB Ontario 7/16" (CDN\$)	200	200	0	190	+15	220	-20

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## Weekly News

### Canada Real Estate

**CONTINUED** On a monthly basis, the housing only component of the new housing price index rose 0.4 per cent while the cost of land only slid by 0.1 per cent.

Analysts surveyed by Reuters had forecast, on average, an increase of 0.4 per cent in the new housing price index. Prices were down 2.1 per cent compared with a year earlier.

### Canadian Trade Figures

Canada's merchandise exports rose 3.4 per cent in October, led by a strong gain in exports to the United States which accounted for three-quarters of the increase.

Imports decreased 0.8 per cent for the month, pushing Canada's trade surplus with the world to \$428 million. That compared with a deficit of \$850 million in September.

Exports increased by \$1 billion to \$31.1 billion on the back of a 2.6 per cent rise in volumes and a 0.8 per cent increase in prices, the federal statistical agency said. It was the second consecutive monthly increase in the value of exports and the fourth advance in five months.

Imports declined to \$30.7 billion, as prices decreased 1.2 per cent while volumes inched up 0.3 per cent. It was the third consecutive monthly decrease.

Industrial goods and materials led the growth, representing more than half of the increase in exports.

Exports to the United States grew 3.6 per cent while imports fell 3.1.

As a result, Canada's trade surplus

with the United States expanded to \$3.4 billion in October from \$2 billion in September.

Canada's trade deficit with countries other than the United States was \$3 billion in October compared with \$2.9 billion in September, as exports grew 2.9 per cent and imports rose 3.2.

The Canadian dollar strengthened to close at 94.83 cents (US) Tuesday, regaining half of its previous day losses.

"We seem to be getting a better tone in Canadian economic data in the fourth quarter," said Douglas Porter, an economist in Toronto at the Bank of Montreal. "Currency markets are starting to pay a more attention to underlying economic performance. Canada is seen as a bit of a safe harbour."

### Labour Progress

West Fraser has approached the United Steelworkers in an effort to get the

labour bargaining process back on track after negotiations with the CONFIER employer group stalled in October.

Bob Matters told *Madison's* on Friday that the USW is pleased to be dealing with an industry member that is "willing to conclude bargaining."

"West Fraser indicated that they are not interested in taking money out of the pockets of employees to start bargaining, they are looking at structural changes to the contract," said Matters.

West Fraser's new proposal will be examined by USW committee members December 17. The union needs to "do its homework on West Fraser because it has been geared up for the last six months to deal with CONFIER," said Matters.

While the union is unlikely to see West Fraser before the Christmas break, Matters told *Madison's* that talks will resume immediately in the New Year.

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# Forest Industry

## Fourth Quarter 2009

PricewaterhouseCoopers' 3Q 2009 "Global Forest and Paper Industry: Net Earnings Summary", summarizes gloomy results. The report, released December 8,

by Keta Kosman

states, "during 2009's third quarter, Canada's forest and paper sector reported losses of \$632 million, which exceeded losses of \$552 million reported in the same quarter of 2008. Ten of the US's largest public forest and paper businesses posted earnings of US\$1.2 billion in the third quarter of 2009, up almost US \$500 million from earnings of US \$733 million during the same period of 2008, [ . . . ] and reflecting almost US\$1.1 billion in tax credits." And, continues the PwC report "ten of the largest European-based forest and paper companies incurred overall losses of €469 million in the third quarter of 2009, comparable to losses of €486 million reported in the third quarter of 2008."

Based on market surveys, *Madison's* projects 4Q 2009 will be an improvement, not just over 4Q 2008, a singularly miserable quarter, but on 3Q 2009. Figures are preliminary, but mills and wholesalers report that sales volumes in November alone were enough for them to call a significant improvement over 3Q. Some sources ventured a guess of a 30 per cent increase in sales, pointing out that this is at both the mill and wholesaler level. Commodity cash prices are up as well, meaning a greater return on the higher volume of sales.

Citing a bottom to the current lumber market down cycle, the Western Wood Products Association, out of Portland, OR, forecasts modest improvement for 2010. "For next year, WWPA predicts lumber demand to rise 11 per cent to 34.5 billion board feet. Housing starts will increase 21 per cent to 668,000. While this increase will be a substantial improvement compared to 2009, it represents only half the total constructed in 2007," says the report, released on November 05. The WWPA report goes on to say, "Lumber production in the US will move higher as demand improves [ . . . ] mills are expected to produce 23.6 billion board feet, up 8 per cent (over 2009). Imports from Canada are expected to rise 18.8 per cent in 2010 to 9.4 billion board feet. Volumes from Europe and Latin America will also increase to just over 1 billion board feet."

In its own report, the Engineered Wood Association, based in Tacoma, WA, forecast on December 4 that, "Plywood production will increase 4 per cent in 2010. OSB production is forecast to increase 14 per cent, glulam timbers 8 per cent, wood I-joists 35 per cent, and LVL 25 per cent. US and Canadian structural wood panel exports are

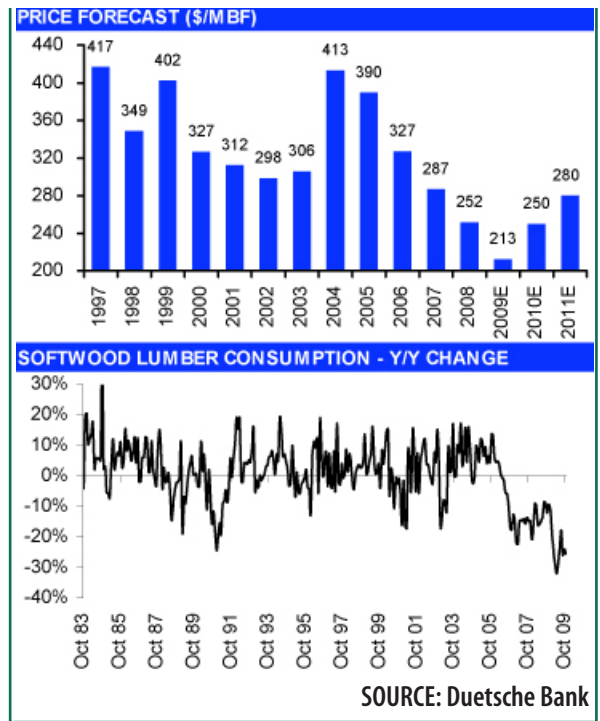
expected to finish 2009 down 45 per cent from 2008. Demand for structural panels from the residential construction, remodeling, and industrial markets are expected to see 2010 increases of 24 per cent, 7 per cent, and 5 per cent, respectively. APA forecasts US housing starts to reach 665,000 units in 2010."

Both agencies predict US housing starts for 2010 to be between 665,000 and 700,000, still far below the 2005 high of over two million starts, but an improvement over the 2009 average of just over 500,000. Most analysts agree that even this improved level of US home building is not sustainable, given immigration levels and a shift in the demographic. Children of baby boomers are entering their mid-20s and will soon be looking to establish households of their own. It is important to remember that the supply of existing homes for sale is based on current real estate activity, which is very low. Since mid-2009, the supply of existing homes for sale has dropped from 11 months to just six. A small increase in real estate buying activity will burn through those homes quickly.

Deutsche Bank analysts on December 7 explained changes in dimension lumber and panel commodity prices: "The increase was largely supply driven, with inventory restocking over fears of tightening supplies before year-end." Based on usual 4Q seasonal slowdowns, Deutsche Bank forecasts a cyclical downturn for the solid wood industry to the end of 2009.

*Madison's*, however, has a different perspective. Traders and other sources inside the industry say that current prices, both for finished lumber products and for logs, are the highest they have been in 18 months. If producers can prevent a price dip next week, the year will end on a positive note. Mills are not taking counter offers. Sources say prices will stick if traders remain firm through next week. After seasonal maintenance curtailments and holiday shutdowns of the final two weeks of the year, mills will be able to start 2010 with bidding up.

Benchmark Spruce 2x4's held firm this week at US\$232 mfbm. 2010 will start with a zero inventory base, a polar opposite of January 2009. All levels of the market, from mills to reloads to stocking wholesalers, are selling off their inventories before year end. Due to this depleted inventory, mills will be in a position to firm up prices in the first two weeks of January. Sources



close to the action say that regardless of what happens from mid January through February, March will be a good month. Refer to Page 1 of this week's *Madison's Reporter* for further comment on lumber commodity increase in demand this month and price expectations for early 2010, and Page 8 for comment on premium lumber products. Cedar producers are quoted as saying they "are doing better in December than even the optimists expected."

The Deutsche Bank note, despite its gloomy predictions for 4Q 2009, also forecasts lumber and panel commodity price increases in 2010 and 2011. Deutsche Bank analysts expect the composite framing lumber price to increase by US\$38 mfbm in 2010 and a further US\$30 mfbm in 2011, a total increase of almost 30 per cent over 2009 prices. OSB prices are expected to rise by US\$33 per sq. ft. in 2010 and US\$25 per sq. ft. in 2011, also an increase of 30 per cent over 2009. *Madison's* considers the Deutsche Bank numbers to be conservative, as it is based on an expectation of 2011 prices to be \$50 mfbm below the norm.

Given the profound shift in the industry since 2005, with numerous producers bankrupt, restructuring, floundering, being taken over by non-lumber savvy bondholders, and currently unable to invest even in basic logging operations, it's apparent that a modest, steady increase in demand will result in a more marked uptick in commodity prices. While it is true that operations are curtailed and many could come back online on relatively short notice, it is also true that a significant proportion of sawmills and panel mills will not reopen into the long term. Several have already been dismantled, with the equipment sold overseas, while others have been for sale for years with few interested buyers.