



# MADISON'S TIMBER PREVIEW

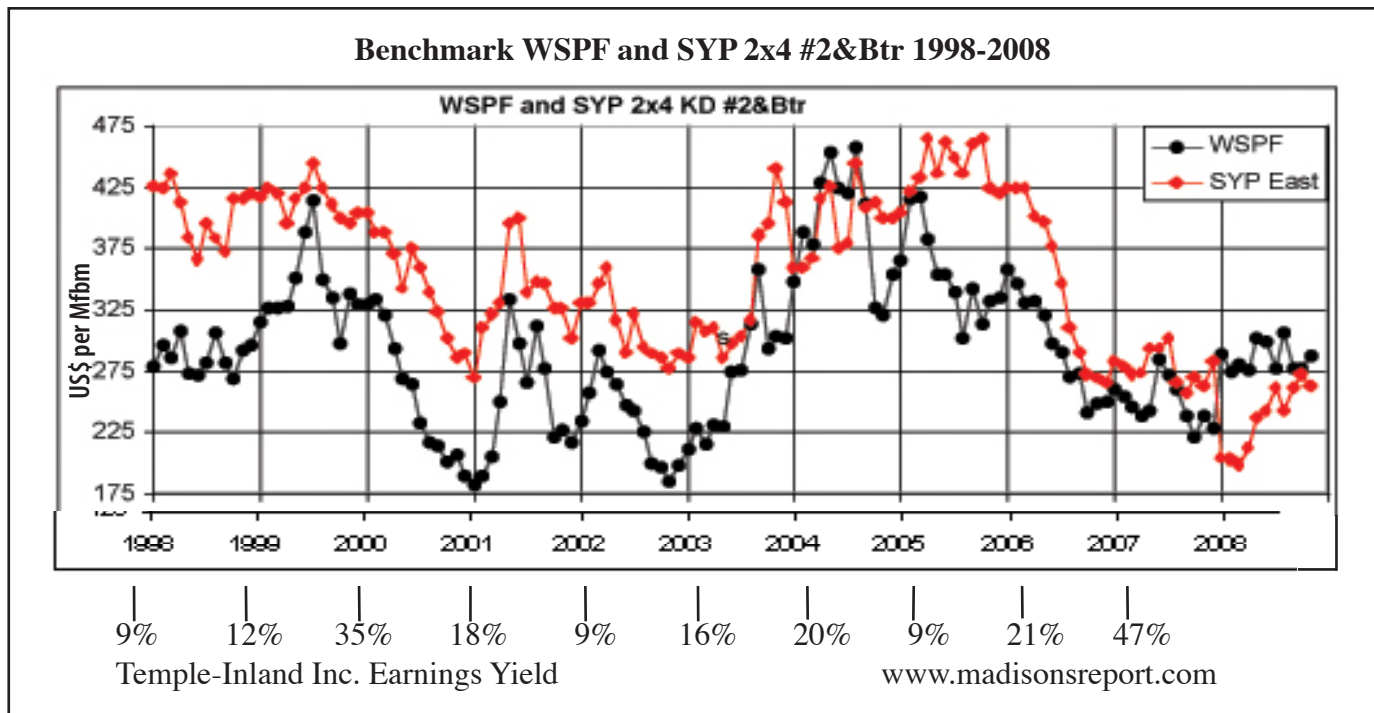
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Lumber production is unquestionably a North America-wide industry on this continent, with logging and milling activity having very important economic impact on both sides of the border. While the majority of wood products are shipped south from Canada into the United States, there is significant movement of commodities of all types in both directions. Regional products tend to enjoy the greatest demand locally, but are also sought after in the export market. Particularly when the price of other, relative, commodities fluctuate.

The perfect example of this relativity is between Southern Yellow Pine and Western Spruce-Pine-Fir. Native to the south-eastern US, SYP boasts customers who are generally from the south but can also extend into the north east, particularly for treated products. A shorter, thinner, quicker growing, more knotty timber than WSPF, SYP boards have a decidedly yellow tint which can be appealing for siding, decking, flooring and wall boards. However the virgin forests having long ago been harvested; SYP trees with a diameter greater than 30 inches are now quite rare.

WSPF is shipped all across North America year-round while SYP almost never comes up into Canada, or indeed into the Pacific Northwest. However when builders and wholesalers are looking to make an order, if the price of one commodity varies markedly from that of the other - as we have right now - then they will switch. As of this week for example, there is a \$70 per mfbm difference in #2&Btr 2x4 price between the species. Plentiful WSPF available at a discount to SYP will cause a shift in ordering. Over the next few weeks there will be a price correction, with either SPF rising due to increased demand or SYP dropping.



A major player in the SYP market is Temple-Inland Inc. with an estimated annual production of 880 million board feet. 76 per cent of its \$3.9 billion 2007 revenue came from building and packaging products.

The company has been of great interest to timberland investors due to its ownership of 2.2 million acres (890,000 hectares) of timberlands.

In its original entirety, Temple-Eastex Inc. was formed in 1973 when Time Inc. acquired Temple Industries and merged it with Eastex Pulp and Paper Company. In 1983 Time Inc. spun off its forest products interest, joining Temple-Eastex Inc. with Inland Container Corporation to form Temple-Inland Inc. Between 1986 and 2001 the company acquired linerboard mills and packaging plants, 260,000 acres of timberlands, a short-line railroad and three Texas savings and loans. In 2007 these diverse interests were split into a building products company (Temple-Inland Inc.), a financial group and a real estate group.

In 2008 Temple-Inland has had to buy kraft pulp on the open market, paying a hefty fee due to a reduced supply of wood chips. The "old" Temple-Inland (the combined company) in 2007 had an earnings yield of 47 per cent on its shares. Almost 25 per cent of its revenue that year came from its financial operations; the "new" Temple-Inland's revenue breakdown is 78 per cent corrugated packaging, 20 per cent wood products and 2 per cent timberland sales. Given the state of those two main sectors, and expectations for the next two years at least, it is possible that earnings yields for Temple-Inland into the near future may not be as rosy.

Undaunted, the company has continued its tradition of acquisitions, in July 2008 picking up the remaining 50 per cent of Premier Boxboard Limited LLC for \$62 million in cash and \$25 million of assumed debt. By integrating its own operations with the 308,000 tons-per-year mill in Newport, IN, Temple-Inland expects see cost savings of about \$10 million from expense reductions according to a company statement. The company also eliminated \$4 million in annual management and marketing fees by immediately terminating prior agreements between Premier Boxboard and joint venture partner Caraustar Industries Inc.

Corrugated fibre shipments this year have not been as adversely affected by slowing global economies as newsprint, but have still suffered price discounts. Expectations into the end of 2008 are not very high; the weakening outlook for world trade, and reduced consumer spending will likely bring less demand for packaging material. European brown kraftliner prices are down almost 40 Euros from the beginning of 2008 to 485 Euros per metric ton this week, according to FOEX (SOURCE: [www.foex.fi](http://www.foex.fi)). White kraftliner prices are faring slightly better, down 14 Euros from the beginning of the year to 702 Euros this week.

SYP random length prices have been remarkably stable for the past few months considering the losses seen in other lumber commodities. West side SYP #2&Btr 2x4's neither rose nor fell with WSPF during the summer, flattening out rather dramatically since July at \$325 mfbm. In a most surprising turn, east side SYP 2x4's are actually up this week by \$15 to \$305. Again, significant price corrections are expected in the coming weeks as volatility due to emotional reactions settles down.

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