



MADISON'S TIMBER PREVIEW

PO Box 2486, Vancouver, BC V6B 3W7 ✦ Tel: 604-984-6838 ✦ Email: madrep@shawcable.com ✦ Web: www.madisonsreport.com

April 05, 2013

The most recent reports out of various North American jurisdictions indicate that the relentless drop in timber prices, and therefore timberland value, has not only stopped but has actually reversed. Many industry watchers may be caught off guard, having been operating under the incorrect assumption that the forest products industry's recovery was still a couple of years away. The consistent increase in lumber and panel prices through last year have firmly taken hold. The Canadian solid wood export market is showing a healthy stability of sales volumes into new markets like China, while US housing starts are surprising everyone with their recent turnaround and continued improvement.

How do these latest developments relate to current lumber prices, production volumes, and sales? One way to draw a parallel is to look at log prices. For the past six years, this indicator has not had the close relationship with solid wood commodity prices that it used to have in the past. As the forest products industry continues chugging back to life, and the supply chain -- of logs and lumber -- starts to get replenished, it will be interesting to see if the previous correlations between timber values, log prices, and lumber prices will return. Or if a different balance will emerge.

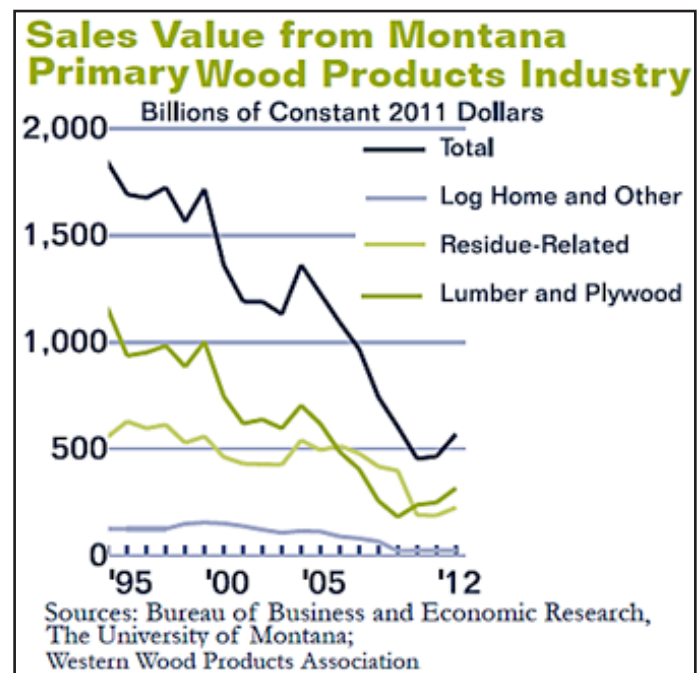
The most telling indicator for western Canadian and US lumber producers is data released Monday by the Washington State Dept of Natural Resources. True to the information gathered weekly from *Madison's* sources, there has been a huge jump in Cedar and coastal Douglas fir log prices. The troubles expressed by sawmills of those species in sourcing fibre are not exaggerated. Increasing demand for forest products is just barely getting underway and already there is an 18.5 per cent increase in Coastal delivered Douglas-fir #2 Sawlog prices, from US\$498 MBF (Scribner) in April 2012 to US\$611 MBF last month. This is somewhat frightening.

Douglas fir green 2x4 lumber prices in that same time period have increased 35.8 per cent, from US\$252 mfbm one year ago to US\$392 mfbm last week. However, it should not be assumed that log prices -- which often lag those of lumber -- will experience a similarly remarkable increase in the coming months. Or should it?

The extremity of the downturn, and the absolute lack of domestic customers for Douglas fir lumber coupled with the voracious demand for logs of that species from overseas, dropped Doug fir lumber demand to impossible lows. This improvement in demand, for that specialty species, came about a year after the increase in demand for standard commodity dimension lumber 2x4s.

But another look at the latest Washington State log prices is cause for concern.

Cedar is absolutely running away. This is a fact. Canadian cedar sawmills have been complaining to *Madison's* for over half a year that logs are getting increasingly difficult to find. That this problem should arise just when a modest increase in demand is manifesting itself is enough to cause cedar manufacturers conniptions. In British Columbia, where stumpage prices are regulated by the government and the vast majority of harvesting activity takes place on public land, the price of L-grade (the most common grade) cedar logs has increased by 19 per cent from 1Q 2010, when it was \$113.54 per cubic metre, to \$139.08 per cubic metre in 1Q 2013.



On the US west coast however, where almost all timber harvesting is on private land and logs are sold through auction on the open market, Cedar Camprun prices in Washington State jumped by 39.4 per cent last month since March 2010. At that time Cedar Camprun on the coast sold for US\$803 MBF (Scribner), while last month is sold for US\$1,325 MBF. In fact, that species of log popped up US\$205, or 15.5 per cent, from February to March alone. This is such a long way from US\$558 MBF in June of 2009 that it's not even funny, and makes Madison's wonder what those prices are going to do in the coming spring months as the use of cedar increases markedly across North America.

"From December to January log prices are up \$89 in one month. This number is supply-demand driven. Lumber only went up \$17 in this period, and then went up \$28 January to February. There is a log shortage," says the March 5, 2013 *Natural Resources Report* section of the *Oregon Report*.

These increases are so remarkable, perhaps it is a good idea to look beyond the west coast.

In the interior of BC, prices for the standard SPF #2 sawlog rose by 24.2 per cent, from \$37.34 per cubic metre in 1Q 2010 to \$49.21 per cubic metre in 1Q 2013.

Elsewhere, US southern pine sawtimber prices have actually dropped, by about 17 per cent, from US\$28 per ton in January 2010 to US\$23.27 per ton in January 2013.

Meanwhile, in Montana the timber harvest volume during 2012 was an estimated 351 MMBF (Scribner), up about 2 per cent from the revised 2011 estimate of 345 MMBF. Timber harvest levels in Montana have rebounded very little from their 2009 record low, and what industry remains is still struggling with harvest levels that have been in decline since the early 1990s, said the state's *Forest Products Industry 2013 Outlook*.

Montana's timber harvest of national forests during fiscal year 2012 was 136.8 MMBF, about 2 per cent higher than 2011. National forest cut and sold volumes include considerable amounts (54 per cent by volume in 2012) of fuelwood and non-sawlog material that result from salvaging dead timber and fuel reduction treatments. With the reductions in private lands timber harvesting during the recession and low housing markets, Montana mills currently rely on Forest Service timber for one-quarter to one-third of their timber inputs, said the state's report.

Recently Montana reported sales value of the state's primary wood and paper products during 2012 was an estimated US\$580 million fob mill, up about US\$114 million, or 25 per cent, from 2011. Primary sales were about US\$400 million lower than pre-recession 2006, when sales were just under US\$1 billion. Earnings in Montana's forest industry were nearly \$295 million during 2012, about 10 percent higher than the updated 2011 figure of \$268 million. Among Montana's sawmills, lumber production for 2012 increased almost 10 percent to an estimated 584 million board feet lumber tally

How does this North American situation translate to other jurisdictions? A nation of log exports, for the most part, New Zealand has just released year-end 2012 timber and log price data.

New Zealand export and domestic log prices fluctuate much more than do those in North America, and seem to have a seasonal cycle as well. To account for seasonal cycles, yearly averages will be used. From 2010 to 2012 export log prices fell significantly while those for domestic logs remained relatively flat.

The average price, taken from quarterly reports, of Unpruned A Grade export logs in 2010 was NZ\$130.63 per cubic metre, while in 2012 it was NZ\$115.13, an 11.9 per cent drop. For that same time period, P2 Grade domestic log prices remained relatively stable at around NZ\$116 per tonne.

There have been indications over the past year or so that changes in timber, log, and lumber prices in North America cause a similar reaction in prices elsewhere a few months later. Madison's will be watching for new data as it comes out, as well as export volume figures, and report the new findings as this year unfolds.

Keta Kosman

Publisher

www.madisonsreport.com

604 984-6838