



MADISON'S TIMBER PREVIEW

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November 20, 2009

While financial news for forestry companies, lumber retailers, and suppliers to the lumber industry can still be somewhat negative, almost everyone agrees that the worst of the downturn is over. US President Barack Obama's warning Wednesday of a possible 'double dip' recession in the US notwithstanding, industry leaders guardedly point to late 2Q 2010 for positive financial news.

US home sales increased 11 per cent to a two-year high in the third quarter as an \$8,000 tax credit for first-time buyers boosted demand, according to a National Association of Realtors release November 10. Sales of existing single-family homes and condominiums increased to 5.3 million at an annualized, seasonally adjusted rate from the previous quarter. The median price fell 11 per cent from a year earlier to \$177,900. Distressed sales accounted for 30 per cent of all transactions, down from 36 per cent in the second quarter. The sales gain to 5.3 million was the highest since the third quarter of 2007, when sales were 5.45 million. Demand from buyers seeking to use the \$8000 home buyers tax credit reduced the inventory of previously owned homes for sale to 3.63 million in September, the lowest since January, the group's data show.

In recent months US home sales have outpaced economists' expectations, as a combination of low interest rates, tax incentives and affordable pricing have lead to an increase in demand. Although the real estate industry is not doing as well as it was 18 months ago, it is going in the right direction and is much better than it was just months ago. Sales have increased and inventory is down. The number of days houses remain on the market is decreasing as demand goes up. There is another round of foreclosures expected in January, as the last of the risky mortgages cycle through their first five years. Unemployment in the US is going to be a big factor here, if people can get back to work then they will make delinquent home payments. The Congressional Oversight Panel for the Troubled Asset Relief Program is working hard to help this situation. In view of these, and other signs of a reversal of the economic downturn, investments into forestry companies, lumber retailers, and suppliers have improved.

It was a week of government aid to mills in eastern Canada. The province of Nova Scotia is contributing to the reopening of the Ligni Bel lumber mill in Scotsburn, Pictou County. A \$3 million loan guarantee, through the Industrial Expansion Fund, will help the company secure a \$3 million operating line of credit from its commercial lenders. The line of credit will assist with the reopening of the mill and the restoration of jobs. Ligni Bel mill, which employed up to 75 people, shut down late in 2008. In addition, Nova Scotia is assisting NewPage with working capital for its Port Hawkesbury mill. A \$5 million, interest-bearing loan, also through the Industrial Expansion Fund, will help NewPage Port Hawkesbury improve the energy efficiency of its thermal mechanical pulping operation. The bridge loan is being made under the Large Land Purchase Program as a prepayment on the sale of land. Today, NewPage leases and manages 1.5 million acres or 600,000 hectares of licensed Crown land forest in eastern Nova Scotia. The province of Ontario will give Terrace Bay Pulp a vote of confidence in the form of a \$25 million loan expected to help the mill complete financing, make arrangements with creditors and eventually re-open operations. That mill is viable because the price of pulp had risen by nearly \$300 per tonne since being idled in February 2009. Market conditions surrounding the pulp industry are different today than they were a year ago, when people who typically lent money into the forestry industry suddenly were not making the investments due to the global market conditions.

On Thursday, Brian Kelly of Kunundrum Inc, wrote "Lumber futures have broken a 6 year downtrend. Rail car loadings of lumber have begun to turn up. If housing and lumber can shrug off the ostensibly negative data and indeed sentiment changes it will be the result of a belief by investors that the bottom in housing is

in or very nearby. We think the best way to play this change in sentiment is through the timber names. As lumber rises, the timber rich forest product companies will be the direct beneficiary. As well, they do not have to work through unsold inventories of homes before they can earn money."

		Total North American Rail Traffic						
		Combined US, Canadian and Mexican Traffic				SOURCE: ASI/Transmatch		
		North American Major Commodity Groups						
		Total	Grain	Chemicals	Food	Forest	Metals	Coal
4 Week Rolling Avg.	Vs. 2008	(10.3%)	2.7%	(1.5%)	0.9%	(21.3%)	(14.7%)	(14.6%)
	Vs. 2007	(16.1%)	(7.1%)	(11.6%)	(4.8%)	(29.2%)	(31.7%)	(11.7%)
Year to Date	Vs. 2008	(17.1%)	(10.8%)	(14.4%)	(8.7%)	(24.8%)	(40.2%)	(10.7%)
	Vs. 2007	(18.2%)	(7.8%)	(14.9%)	(7.4%)	(33.7%)	(41.0%)	(7.6%)

As if to echo Kelly's statements about the undervaluation of currently-idled mills and other forestry assets, the UN released a report late last week putting a value on trees. Titled "The Economics of Ecosystems and Biodiversity", the report says money invested in protecting the planet's forests and natural systems is the best long-term solution for both the economy and the environment. Overall, the annual benefits of protecting areas in land are worth up to \$5 trillion per year, while protected fishing areas are essential to preserving fishing stocks and even improving profits and revenues for the industry. Investments to protect ecosystems can be worth 25 to 100 times more in benefits from the natural services they provide. Although the report focuses on the importance and benefits of investing to protect forests in developing countries, particularly in international climate negotiations next month at a major summit in Copenhagen, it also said that Canadians will have an important role to play in achieving the right solutions.

In a separate report, PricewaterhouseCoopers said Wednesday that completing treaties with First Nations in BC could deliver more than \$10 billion dollars in economic benefits to that province's economy over the next 15 years. This latest economic analysis confirms that more treaties - sooner - yields maximum benefits for First Nations and all British Columbians. If all 60 First Nations currently in the BC treaty process completed treaties by 2025, they could receive a net financial benefit of \$10.28 billion. BC could receive \$6.4 billion in economic benefits - after deducting settlement costs. Total wage income in BC could rise by more than \$14 billion.

Meanwhile, IFC, a member of the World Bank Group, launched Thursday the Sustainable Forestry Program in Indonesia to support the creation of viable forest plantations on degraded lands, helping reduce the impact of climate change and create jobs in rural areas. The program will measure its progress through five-year targets of expanding plantation on degraded land by at least 250,000 hectares, generating employment opportunities for 90,000 people in rural areas, and reducing carbon emissions by a minimum of 90 million tons. IFC is the only international financial institution focused exclusively on the private sector, the engine of sustainable development in emerging markets. It is currently seeking a capital increase to strengthen its ability to create opportunity for the poor in developing countries—including by supporting sustainable forestry practices in Indonesia.

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