



# MADISON'S TIMBER PREVIEW

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Log supply constraints are hitting lumber producing sawmills across North America. Madison's has been sounding the alarm for well over a year that mills can not continue to bet on uncontracted log deliveries during these uncertain times. Producers have been reluctant to invest in logging, or to build log piles, in the fear that demand will plummet once again. The lesson of 2007 has not been forgotten, after US home building crashed hard and promptly took the North American lumber and panel industry with it, when mills tried to play a dangerous game of overproducing in order to drive their competition out of business.

At mid-2011, mills are veering too far in the other direction, of excessively conservative business decisions. The problem with keeping a razor-thin log supply is that one negative blip in log deliveries means the mill has nothing to run. One such blip manifested itself this week in the form of heavy rains and flooding in the Peace River region of British Columbia's interior. Getting logging equipment out to the back country has been difficult enough this spring and summer due to heavy snows, a late melt, a mild spring, and continued wet weather. Now this flooding problem is causing serious concern to northern mills.

As Noah asked, "How long will it take for the rivers to recede and the ground to dry?" As of Thursday morning Vancouver experienced unseasonably heavy rains for mid-summer.

"Loggers are reporting they are unable to get to their operations because of road washouts and both the Willow Creek coal mine and Dokie Ridge wind farm near Tumbler Ridge are down because of washouts on Highway 97," the ministry of forests, lands and natural resource operations reported Monday in the Vancouver Sun Tuesday. "The province's largest sawmilling companies, West Fraser Timber and Canfor Corp, both report their log inventories are low, down to a matter of days in many cases.

MaryAnne Arcand, executive director of the Central Interior Logging Association, said Canfor is down to five days at some of its northern Interior mills."

The BC Forest Service has closed "four forest service roads because of washouts," said the Prince George Citizen July 8. "The Johnson Creek Forest Service Road near Moberly Lake, Fisher Creek and Silver Sands forest roads west of Chetwynd, and Table Creek Forest Service Road near Hudson's Hope are all closed."

It's not just the rain and snow melt, these back roads need hot weather to dry out before they will be safe for log hauling. Smaller, more remote, mills have not attempted to send out logging equipment since the province's seasonal road ban was lifted two weeks ago.

On Monday Jefferson County, WA, located east of the Olympic Peninsula, received more revenue than expected from state timber sales, the county administrator said. The county commissioners learned that timber sales on county owned parcels would net US\$375,000 more than expected. County Administrator Philip Morley said the county has already received US\$243,416 of the excise tax in the first six months of 2011, more than half of the projected annual total. While these numbers may seem small, it is important to note that they are moving in the right direction, upwards, which is a change from the past few years. In addition, tight log supplies are being felt in both timber exporting and lumber producing regions across the US.

According to the Chronicle-Herald, a Greenfield, Nova Scotia sawmill was unable to maintain two shifts because the wet spring weather did not allow enough logs to be harvested. An "acute shortage" of saw

logs was the reason Harry Freeman & Sons had to lay off 36 workers in June.

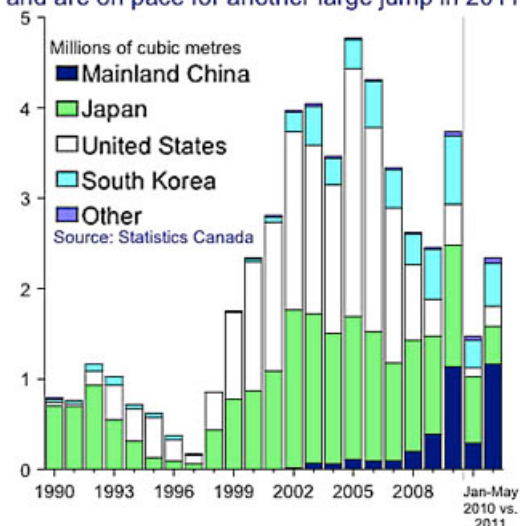
Back on the west coast, the Lillooet veneer plant, known as Savona Specialty Products, is again closed this week due to a shortage of fibre. That plant is down until log supplies are built up, with no date yet known for re-opening.

In Indonesia, a major supplier of panel and veneer products to both China and Japan, The Sabah Timber Industries Association, has called for a revamp of the log procurement and distribution system. Due to insufficient supply of raw material, local industry and producers should be given equal opportunity to purchase all logs extracted before they are exported from Indonesia, claims STIA. The group is proposing that the log export royalty be increased to reflect a fair profit margin for the log exporter and the State Government, adding that at least 20,000 cubic metres of round logs per month should be placed for tender, open to all purchasers, both local and overseas.

Meanwhile, demand for wood products, specifically timber, is increasing.

Log shipments from New Zealand to China surged 44 per cent in 1Q 2011 as growth in the world's second-biggest economy fuelled demand and Russian supplies declined. Shipments to China climbed 595,425 cubic metres, to 1.9 million cubic metre, in the three months ended March 31 from a year earlier, New Zealand's Ministry of Agriculture and Forestry reported this week. Total exports were 3.1 million cubic metres, it said.

The volume of unprocessed logs exported from BC jumped by over 50 per cent in 2010 and it appears that log exports are on pace for a similar increase in 2011, says the latest issue of BC Stats: Exports, released this week. The increase in 2010 followed four consecutive years of declines in the volume of BC log exports increased substantially in 2010 and are on pace for another large jump in 2011



Radiata pine logs exported. The 3.7 million cubic metres of logs exported from BC in 2010 was still well below the peak of 4.8 million cubic metres shipped to international destinations in 2005.

The value of British Columbia origin exports climbed 13.9 per cent in the first five months of 2011 compared to the same period a year earlier. In the forest sector, exports of both solid wood products, up 13.1 per cent, and pulp and paper, up 16 per cent, showed strong growth. Significant jumps in shipments of softwood lumber, up 11.4 per cent, and unprocessed logs, up 56 per cent, were the main drivers of growth in exports of solid wood products, while shipments of pulp, up 25.4 per cent, continue to prop up overall pulp and paper exports.

Judging by the drop in North American lumber and panel prices in May and June, expect the next BC Stats release to

show a slight drop in forest products' export figures.

However the big story is current log supply problems. This is the time of year that customers globally expect wood to be available throughout the supply chain. Given the late, and cool, wet, spring and slow start to this year's building season, it is worrisome to think of what will happen by August.

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