



# MADISON'S TIMBER PREVIEW

PO Box 2486, Vancouver, BC V6B 3W7 ✦ Tel: 604-984-6838 ✦ Email: [madrep@shawcable.com](mailto:madrep@shawcable.com) ✦ Web: [www.madisonsreport.com](http://www.madisonsreport.com)

November 18, 2011

As the year winds down and thoughts turn to the holiday season, retailers and shipping companies are gearing up for what is expected to be a busy holiday season. US retail sales rose 0.5 per cent to US\$397.7 billion in October from the previous month, the fifth consecutive monthly increase in 2011, the Commerce Department said Tuesday. Internet and catalog sales have risen more than 11 per cent since October 2010. The report prompted several economists to raise forecasts for 4Q 2011 growth. A rebound in consumer spending was the key reason why the US economy grew at an annual rate of 2.5 per cent in the July-September quarter, the best quarterly performance in a year.

The US Labor Department released its producer price index report also on Tuesday, showing that wholesale prices in October declined for the first time since June to a seasonally adjusted 0.3 per cent, providing some cost relief to manufacturers.

A survey by the National Retail Federation, released Thursday, found that 152 million shoppers will hit stores on November 25, Black Friday, the day after US Thanksgiving, up 10.1 per cent from 138 million people last year. The survey polled 8,502 people between November 1 and November 8, finding that 17.3 per cent of people will look for Black Friday deals on retailers' Facebook page and 11.3 per cent on group buying sites such as Groupon and Living Social. Internet sales for the Monday following Black Friday, dubbed Cyber Monday, are also expected to rise. Of consumers that responded to the NRF survey, 33.6 per cent stated they shopped online, up from 28.5 per cent in 2009.

On the retailer side, 68 per cent of retailers expect online sales to rise by at least 15 per cent this holiday season, says the NRF survey.

A survey released also Thursday by the consulting firm Deloitte reported that nearly half of US consumers say they will shop online this holiday season, up from about a third last year. People with incomes exceeding US\$100,000 annually are expected to do almost 40 per cent of their holiday shopping online, according to Deloitte, compared with an average of about 33 per cent for shoppers overall.

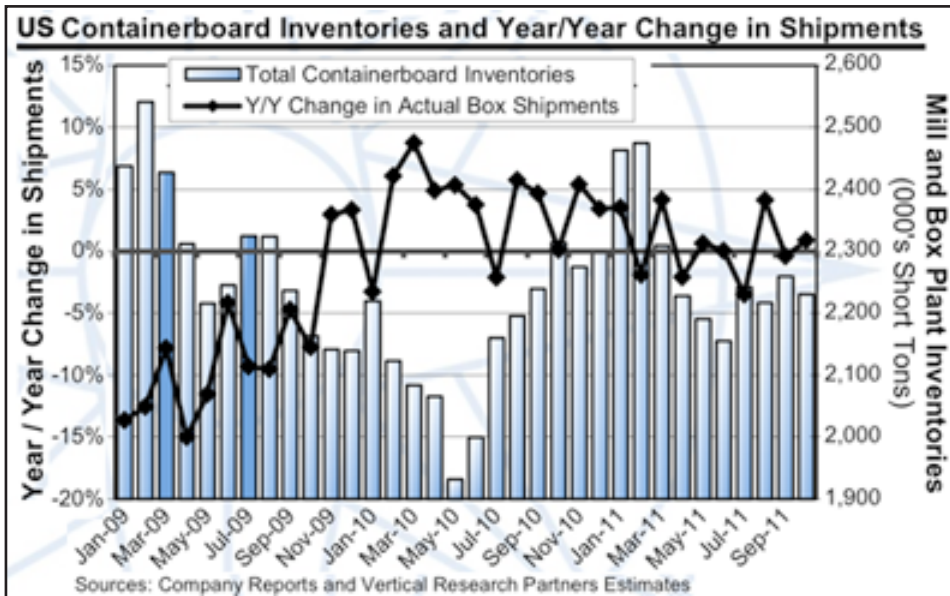
Goods ordered online and through catalogues will need to be put in sturdy boxes to reach their customers safely.

On November 16, the Fibre Box Association and the American Forest and Paper Association reported that total US containerboard inventories dropped 29,000 tons from September to 2.2 million tons of supply. This decrease was slightly less than the 10-year average drop for October, of 44,000 tons. Mills reported a smaller than average inventory building for the season however, of 3,000 tons compared to the average of 10,000 tons.

US October corrugated box shipments came in at 30 billion square feet, up 0.9 per cent from a year ago. However, again, average weekly US box shipments are still below levels generally seen in October between 1994 and 2008.

US containerboard demand remains relatively stable, although at low levels, and prices are flat according to DeutscheBank analysts, who expect domestic prices to come under pressure through 4Q 2011 and 1Q 2012. Containerboard demand has weakened in key global markets and export prices are down by about US\$20-50 per ton, says DeutscheBank, adding that producers will have to take more than the normal winter down time in order to maintain market balance. DB analysts are currently assuming a further US\$40-45 per ton per year US containerboard price decline in 2012.

After months of concern about rapidly climbing recovered fibre prices, paper stock dealers are reporting that most grades have begun their long-expected corrections, according to the October issue of *Recycling Today*. As of mid-September, prices for some low grades had declined by US\$20 per ton, while deinking grades and office pack saw declines of US\$50 per ton. Several recyclers, however, wonder whether the current price decrease will be part of an extended decline or just a short-term blip in the midst of a much longer bull market, said the magazine.



Meanwhile in Europe, containerboard demand has gradually weakened and is already slightly below the 2010 volumes, according to FEOX. The drop in demand and prices of recovered paper is reflected in the pricing of containerboard, especially over the recycled grades. With limited amounts of downtime taken, at least for the time being, European containerboard inventories have not come down, says FOEX.

This week Kraftliner priced in Europe dropped 0.8 per cent, or €4.44 per ton, to €555.00 per ton, a €48.73 per ton drop from the beginning of the year.

One US producer serving this sector whose shares seem momentarily undervalued is Boise Inc. Please refer to the June 19, 2009 issue of your *Madison's Timber Preview* for historical coverage of Boise. The company reported 3Q 2011 results November 3, showing a net income of US\$28.4 million compared with US\$35.9 million for the same quarter one year ago. Its sales were US\$631.7 million, compared with US\$554.1 million in 3Q 2010. In its packaging segment, Boise had record sales of US\$251.6 million and a record operating income of US\$32.0 million.

Company share prices responded to the financial results poorly, prompting several analysts and industry watchers to flag Boise stock as one to watch. Financial News Network declared Thursday "In the past 52 weeks, shares of Boise have traded between a low of US\$4.36 and a high of US\$9.85 and are now at US\$6.06, which is 39 per cent above that low price and down 2.1 per cent from the day before. In the last five trading sessions, the 50-day moving average has climbed 0.4 per cent while the 200-day moving average has slid 0.6 per cent. [ . . . ] Boise has potential upside of 62.3 per cent based on a current price of US\$6.06 and analysts' consensus price target of US\$9.83. The stock should find resistance at its 200-day moving average of US\$7.37, as well as support at its 50-day moving average of US\$5.88."

Keta Kosman  
 Publisher  
 Madison's Lumber Reporter  
 Madison's Timber Preview  
 Madison's Investment Rx  
 www.madisonsreport.com  
 604 984-6838