

# MADISON'S LUMBER REPORTER



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## News & Updates

### Madison's Timber Preview

This week *Madison's Timber Preview* examines the financial performance of Claymore's Beacon Global Timber Index Exchange Traded Fund since 2007.

Contact us any time for a subscription.

### Japan Housing Starts

Housing permits in Japan have been increasing since last November, so new housing starts should move up shortly, according to *Japan Lumber Reports*. At 64,951 units, actual January housing starts were down 8 per cent over January 2009, a 14 month-straight decline. However, owner's units increased for three straight months and units built for sale increased for the first time in 16 months, says the *Reports*.

January seasonally adjusted annual starts were 863,000 units, up 5.4 per cent from December, the fourth straight month of gains. [READ MORE](#)

### Canada Housing Starts

The number of buildings upon which construction was begun in Canada rose unexpectedly during February, according to a Canada Mortgage and Housing Corp release on Monday.

Canada's housing starts jumped a bigger-than-expected 6.1 per cent to an annualized pace of 196,700 units, lending further evidence to the pick-up in the Canadian economy and the strength of domestic consumer demand.

Cheaper borrowing costs have sparked demand for Canadian homes, helping the country's economy recover from its first recession in 17 years. The Bank of Canada has pledged to leave its benchmark rate at a record low of 0.25 per cent through June unless the inflation outlook shifts, and said in January it expects housing to contribute 0.3 percentage point to growth this year and nothing next year.

Monday's report follows data released on March 4 that showed Canadian building permits unexpectedly fell in January, the third straight decline. The total value of permits issued by municipalities decreased 4.9 per cent to \$5.67 billion, Statistics Canada said. [READ MORE](#)

### Radiata Pine Out of Chile

Rumours and speculation about the level of damage in Chile after the 8.8 earthquake have caused some uncertainty in specialty finished wood products, particularly radiata pine boards and mouldings, and sanded panels.

The majority of sawmills and pulp mills in that country are situated close to the earthquake epicentre at Concepcion, however damage to actual mills has not been extreme. One sawmill burned down, complete with lumber inventory, and several pulp mills will take some time to start up due to chemical containment and other safety issues.

The status of infrastructure remains a question, particularly road conditions and water and electricity supply. [READ MORE](#)

JAPANESE HOUSING STARTS				
Month	TOTAL	Non-Wood	Wood	%Wood
Jan-10	64,951	30,322	34,629	53
Dec-09	69,298	28,643	40,655	59
Nov-09	68,198	27,416	40,782	60
Oct-09	67,120	28,175	38,945	58
Sep-09	61,181	24,771	36,410	60
Aug-09	59,749	24,992	34,757	58
Jul-09	65,974	28,243	37,731	57
Jun-09	68,268	28,195	40,073	59
May-09	62,805	29,523	33,282	53
Apr-09	66,198	32,826	33,372	50
Mar-09	66,628	35,324	31,304	47
Feb-09	62,303	35,687	26,616	43

Source: Japan Wood-Products Information and Research Center

CANADIAN HOUSING STARTS				
Actual and Seasonally Adjusted Annual Rates				
	February 2010		January 2010	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	<b>10,983</b>	<b>196,700</b>	<b>10,952</b>	<b>185,400</b>
urban ctrs with >10,000	10,361	179,100	10,218	164,300
singles, urban centres	4,383	89,200	4,723	88,800
multiples, urban centres	5,978	89,900	5,495	75,500
rural areas	622	17,600	734	21,100
Atlantic urban centres	430	9,600	424	8,400
Quebec urban centres	1,947	41,300	2,911	48,100
Ontario urban centres	3,946	68,400	3,330	53,200
Prairie urban centres	2,092	32,900	1,854	29,700
B.C. urban centres	1,946	26,900	1,699	24,900

Source: Canada Mortgage and Housing Corporation

Prices are in U.S. dollars per 1,000 fbm.

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	280	270	+10	296	-16	150	+130
WSPF KD R/L 2x6	275	268	+7	298	-23	150	+125
WSPF KD R/L 2x8	270	255	+15	280	-10	146	+124
WSPF KD R/L 2x10	345	342	+3	364	-19	165	+180
WSPF KD PET 2x4 Stud	295	275	+20	310	-15	170	+125
Douglas Fir Green R/L 2x4	215	240	0	255	-40	143	+72
Douglas Fir Green R/L 2x10	230	240	-25	265	-35	175	+55
ESPF KD 2x4 8ft Stud	350	345	+5	355	-5	225	+125
OSB Ontario 7/16" (CDN\$)	244	244	0	244	0	205	+39

Celebrating our 60th year, a Diamond Anniversary . . . .  
**Madison's Lumber RETROspective**  
 see additional pages in your weekly Madison's Reporter!

## Weekly News

### Japan Home Building

CONTINUED In the Tokyo metropolitan area, new units built for owners improved by 13 per cent over January 2009 and in the Osaka region the increase was by 11 per cent.

Wood based units increased for the first time in 16 months, with the share of wood based units resting at 53 per cent, says *Japan Lumber Reports*.

Seasonally-adjusted building permits in January were 33,609, a 4 per cent increase over January 2009 and a three-month straight gain since last November.

### Canada Real Estate

CONTINUED Canadian new home prices rose 0.4 per cent in January from the previous month, the seventh straight gain, government figures showed.

The advance in the new house price index was led by a 1.7 per cent gain in St. John's, Newfoundland and Labrador, and a 0.7 per cent increase in Winnipeg, Manitoba, Statistics Canada said Thursday in Ottawa. From a year earlier, new home prices advanced for the first time since December 2008, rising 0.1 per cent in January.

Canada's mortgage rates are close to the lowest since the Korean War, spurring home sales and prices as the country emerges from a recession. Housing starts rose to the highest since October 2008 in February, and the government-owned Canadian Mortgage and Housing Corp. predicted on March 2 housing starts will rise this year and next.

### Steelworkers Ratify Canfor Deal

Canfor Corporation announced Tuesday that it has reached an agreement with the United Steelworkers union. The agreement, expiring June 30, 2013, was ratified by a majority of union members and affects 14 operations in British Columbia.

"This agreement sets a new positive tone for our industry. It provides some relief from the economic issues we are facing and a profit based performance bonus that will reward our hourly workers," said Canfor President and CEO Jim Shepard. "This sets the stage for enhancing the teamwork approach at Canfor that will lead to high performance at all of our operations," Shepard added.

The new agreement applies to approximately 2,300 Canfor employees.

Members in USW Locals 1-424, 1-417 and 1-405 voted in majority favour of the agreement that was reached on February 20, 2010.

The BC Interior Bargaining Committee will utilize the Canfor agreement as the pattern agreement for negotiations with employer groups in the northern and southern interiors.

The BC Bargaining Committee is currently meeting with the IFLRA.

### Merritt Pellet Mill Grand Opening

Highland Pellet Manufacturing in Merritt, formerly Highland Block Sort, is pleased to announce a Grand Opening

Ceremony to be held Friday, March 12, 2010.

"We hope you can join us to welcome the Honourable Stockwell Day, Member of Parliament for Okanagan-Coquihalla when he makes this very important announcement.

Rob & Jenny McDonald of Highland Pellet Manufacturing Ltd. have been working on this project for a very long time, and this opportunity will be a giant boost to Merritt's economy. Merritt will have its own Pellet Plant and this project will generate many jobs," says a company press release.

More than two years in the making, Highland Pellet rose out of the ashes of the long-idled Block Sort reman, which was affected by several saw mill closures in Merritt.

### Calendar

March 2010  
**Wood Tech Show 2010**  
 March 9 to 10 – Portland, OR  
<http://www.woodwideweb.com/>

April 2010  
**Association of BC Forest Professionals: ExpoFor 2010**  
 April 8 to 9 – Kelowna, BC  
<http://www.expofor.ca/>

**Dubai International Wood & Wood Products Show**  
 April 13 to 15 – Dubai, UAE  
<http://www.dubaiwoodshow.com/>

## Chilean Radiata Pine Threat to Supply?

As *Madison's* writes about a possible shortage of radiata pine boards and panel out of Chile, that country's new presi-

by Kéta Kosman

dent, billionaire Sebastian Pinera's, is sworn in to office during an aftershock. The new Chilean leader arrived at the Congress building Thursday to be sworn in as a 7.2 magnitude earthquake struck the centre of the country, sending people running out into the streets in panic, according to The Independent. Approximately half a million homes were destroyed by last month's quake, and the cost of rebuilding Chile's buckled roads and rubble-strewn cities has been estimated at up to US\$30 billion. The earthquake interrupted power and water supply to many pulp and sawmills, and also affected wood and chemical supplies and the transport of finished product to customers. There has been a lot of talk about a threat to supply of radiata pine products due to the damage caused by the initial quake. Almost immediately after the first shake-up, various sources reported a shortage of market pulp, pronouncing that the price of that commodity was sure to rise. Through 2009 pulp prices were buoyed by a shortage of wood chips due to sawmill curtailments, which suffered from an estimated 50 per cent reduction of capacity online in North America and elsewhere.

On March 11, *Bloomberg* reported that Chile's earthquake and a port workers' strike in Finland may propel pulp prices to a record high, ratcheting the pressure on inventories after papermakers cut output. Mills have ground to a standstill in Chile and Finland, which together account for 12 per cent of world pulp output. Only one of 35 pulp plants and sawmills owned by Chile's Celulosa Arauco is currently operating, spokesman Andres Moran said. Part of the Mutrun sawmill was swept out to sea and pools of water remain in log stores, he said. A third tidal wave also flooded an area where the company stores logs in southern Chile.

A source close to *Madison's* explained Thursday, "there is a huge disruption in Chile, all industrial accounts are scrambling for radiata lumber and plywood, especially in the higher grades. However there is enough capacity in the US in other species like southern yellow pine, ponderosa pine and hemlock, to cover the reduction in radiata for the

short term." This source expects at most a 90 day disruption, then everything will "blow over."

"US mills will not start up to cover shortage," said the source. "Certain mills that are already running can fill this gap in the short term. This is a blip, it's panic buying."

Over the past 20 years there has been a gradual shift to radiata in the market for sanded panel products and various moulding stock out of Chile and Brazil. There is an expectation that New Zealand and Brazilian producers can fill the temporary gap in supply.

Another lumber trader claimed, "There has been a lot of chatter. Moulding and millwork plants in Chile have been disrupted. US or New Zealand production needs to pick up the slack. For most of these products the end user in the box stores, and the distribution network. This customer supply chain is not broken."

On further investigation, *Madison's* research revealed more insight from the financial community. An analyst with BMO Capital Markets in Toronto maintained in a phone interview with *Madison's*, "The threat is real. We have reports of pulp mills damaged, many of which are situated around the epicentre of the initial quake. Mills were built to resist tremors however those mills are now idle due to a lack of water and electricity but also due to infrastructure damage for transportation. Idled mills do have inventory, although one mill burnt down complete with inventory."

It seems that there are a lot of conflicting reports, and very little official word is coming out of Chile to date.

A west coast specialty lumber and panel wholesaler explained to *Madison's*, "There is only so many producers capable of making high grade veneer. They have jammed prices up this week by US\$60 or US\$70 on sanded products. North American mills can not cover this loss of supply of premium sanded panel. Although it is a small niche market so the impact on the lumber market in general should not be too great."

"Right now there are price hikes and we expect prices to keep going up in the short term. Eventually things will sort out, once we know how much damage there is for sure."

That source told *Madison's* that Louisiana-Pacific is shipping southern US logs into Chile. On March 3, L-P permanently closed its OSB mills in Silsbee, TX and Athens, GA. In South America, the company operates two of its own OSB plants in Chile and holds a 75 per cent stake in an OSB mill in the Brazilian city of Ponta

Grossa. Obviously if L-P can still find a way to get logs that are no longer needed for its southern US panel mills into Chile then the transportation network has not been as profoundly disrupted by the earthquake, tidal waves and aftershocks as some might claim.

*Madison's* suspects that, while there is surely a lot of damage and there will be supply problems for Chilean radiata pine in the near future, this may be a similar situation to a British Columbia forest fire. Even mills nowhere near danger take advantage of the perceived threat to supply by raising prices.

On March 9, *Reuters* reported that two of Chile's largest ports, which export copper and other cargo from the world's leading copper producer, are operating at near full capacity only one week after the massive earthquake damaged some of the facilities. "There are no problems with any kind of shipments," Luis Galleuillos, a spokesman for the San Antonio Port Company, told *Reuters* in a phone interview. The country's other main export port Valparaiso was also near full capacity on Tuesday, a source at the port's main operator told *Reuters*.

Pulp, however, is another story. Several pulp mills are not expected to come back online any time soon. Global pulp price tracker Foex.fi reported Tuesday, "The supply shock from the Chilean volume losses hit the US market both directly and indirectly. Market tightness and higher pulp prices prompted further US pulp mill re-starts. Most producers have separately announced increases by US\$30 per ton for March business and the prices quoted for apparently very limited spot lots are up more."

US NBSK pulp prices rose US\$24.77 per ton over the week to US\$900 per ton.

Late Thursday *Madison's* received a note from Mark Wilde, of Deutsche Bank Equity Research stating, "Some niche markets like unbleached softwood kraft (the world's biggest mill was on the Pacific coast near the quake's epicentre) are extremely tight. Chile produces nearly 5 million metric tons/yr of market pulp, roughly 8 per cent of the world supply. Nearly 80 per cent that capacity is located with 100-150 miles of Concepcion. If the entire Chilean pulp industry is out for just 2 months, an optimistic assessment, this implies a loss of

800,000 metric tons. [ . . . ] Clean-up efforts at some of the ports appear to be moving quickly. At the same time, rail-lines between some of the largest pulp mills and the ports have been damaged. This is apt to push in-bound and out-bound freight onto roads & bridges (also damaged)."