

MADISON'S LUMBER REPORTER



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News & Updates

Madison's Lumber RETROspective

Madison's was struck with a killer flu this week therefore was unable to compile the Lumber RETROspective.

The wildly popular feature will return next week.

Lumber Market Forecast

Scotiabank commodities expert Patricia Mohr, proven over time to have spoken with sound accuracy, has some good news for BC's battered lumber sector. Lumber prices are expected to surge in two to three years as years of timber and capital destruction begin to affect the market, Mohr said Monday.

"Medium-term [around 2012-2013], lumber prices and timber values in the BC Interior are expected to skyrocket as the annual allowable cut is reduced in BC due to the mountain pine beetle infestation and as the capital destruction of the past four years translates into fewer-than-expected North American mill restarts," Mohr said in her latest commodity price index.

Residential housing is currently being under-built in the United States.

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Eacom Timber buys Domtar Assets

BC-based EACOM is buying Domtar Inc.'s sawmills for \$80 million, plus \$30 million to \$40 million in working capital. EACOM is paying partly in stock, so Domtar keeps a 19-per-cent equity stake in the new company when the deal closes around June 30.

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Global Manufacturing Demand for March Surges

From the United States to Europe and China, the latest readings on the manufacturing sector show industry bouncing back from the worldwide slump, when trade buckled and deep production reductions became the norm. While factory activity remains well below pre-recession levels, the marked pickup in global manufacturing is one of the most concrete signs yet that economies are healing after international trade collapsed last year.

The comeback in manufacturing is key to a sustained economic recovery around the world.

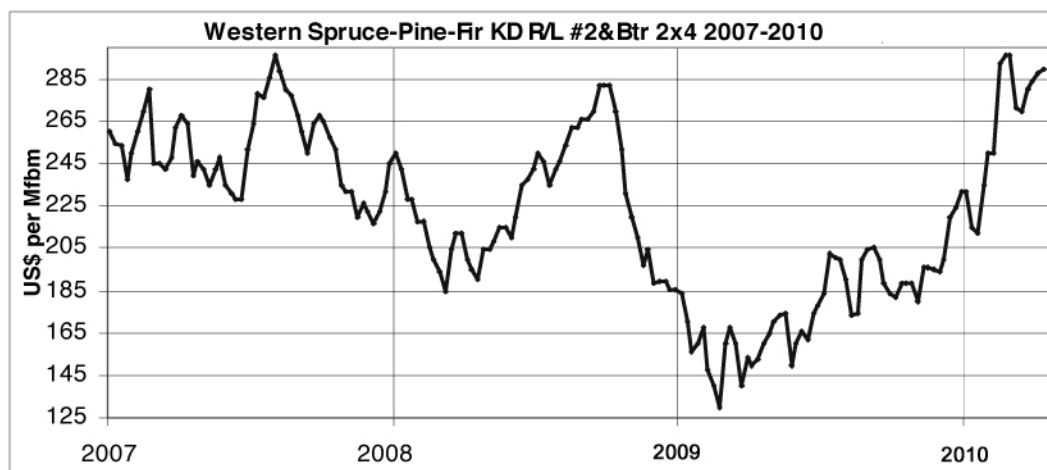
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Forest Fire Season Starts Early

Wildfire warnings and burning bans started to take effect in the north last week, with Alberta, Wisconsin and Ontario issuing fire warning effective April 1. Low precipitation levels, unseasonably warm weather and unusually fast snow melts are responsible for the early warnings.

British Columbia's Ministry of Forests and Range issued, also on April 1, a statement warning residents to "reduce wildfire hazards around their homes and exercise caution with backyard burning activities this spring."

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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	290	288	+2	270	+20	165	+125
WSPF KD R/L 2x6	282	278	+4	268	+14	161	+121
WSPF KD R/L 2x8	275	270	+5	255	+20	160	+115
WSPF KD R/L 2x10	345	340	+5	342	+3	178	+167
WSPF KD PET 2x4 Stud	310	290	+20	275	+35	175	+135
Douglas Fir Green R/L 2x4	245	245	0	240	+5	180	+65
Douglas Fir Green R/L 2x10	242	230	+12	240	+2	200	+42
ESPF KD 2x4 8ft Stud	370	360	+10	345	+25	225	+145
OSB Ontario 7/16" (CDN\$)	263	266	-3	244	+19	195	+68

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

Weekly News

Commodities Report

CONTINUED Year-over-year lumber prices jumped 85 per cent in February to \$282 US per thousand board feet, although they declined in March to \$275, Mohr said.

Still, prices should average \$243 this year, up from last year's average of \$178, thanks to price increases in the third quarter, she said.

"U S housing starts should improve modestly to 700,000 units in 2010 and 1.04 million in 2011, up from a very weak 550,000 units in 2009," said Mohr.

"Financial market concern over sovereign debt risks in Greece, Portugal and Spain reduced investor risk appetite in early February, leading to a shift to 'safe-haven' US dollar Treasury securities and temporarily pushing down dollar-denominated commodity prices," Mohr continued.

"Despite this development, the All Items Index remains 25.7 per cent above its cyclical low in April 2009, and will likely rebound again in March, with risk appetite returning."

Eacom Timber, Domtar

CONTINUED Rick Doman, CEO of newly listed Eacom Timber Corp., said. "The Quebec and Ontario softwood construction lumber industry has lots of life yet and prices have almost doubled from the dismal 2008-09 lows."

Domtar, North America's leading producer of business, copy and specialty papers and high-quality pulps, has had its sawmills on the block for several years.

"The Domtar sawmills are in good shape and cost-competitive, but they're running at 60 to 70 per cent of capacity," Doman said. "We think we can get that up near 100 per cent, which would sure help the bottom line." He said Eacom's head-

quarters will move to Montreal.

Eacom is buying four sawmills in Ontario and three sawmills and a remanufacturing plant in Quebec. Two of the mills are now shut down. Altogether, they have capacity of almost 900,000 million board feet of lumber. Eacom also gets an interest in Arkansas's Anthony-Domtar.

Manufacturing Shipments

CONTINUED The US Institute for Supply Management's manufacturing index showed an increase to 59.6, a reading that outpaced even the most optimistic of forecasts. Exports rose to the highest level since 1989, while orders and production also picked up the pace.

The report, issued April 1, found that manufacturing activity, as measured by the Purchasing Managers' Index (PMI), grew for the eighth straight month to achieve the fastest rate of expansion in nearly six years. The overall economy expanded in March for the 11th consecutive month, ISM said.

Both new orders and production exceeded the 60 per cent threshold, indicating that the economy ended the first quarter with "significant momentum going forward," said ISM Chairman Norbert J. Ore in a statement. A reading of 50 or better indicates an expanding manufacturing sector.

Supplier deliveries, while showing an increase over February, indicated a slowing pace of growth. This may signify a shortage of available product, as well as a problem with order lead times. The survey's respondents also said that the inventory levels held by their customers in March were too low, ISM said.

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Forest Fire Season

Arrives Early

In a frightening foreshadowing of what might come in this year's forest fire season, British Columbia, Alberta, and other northern regions have made a preemptive strike by issuing summer forest fire warnings. Lower than usual snow fall and winter precipitation levels are cited as the reasons for this year's early warnings, but the devastation of the mountain pine beetle in the interior of BC has exacerbated the severity of this the basic cause for great concern. The BC Ministry of Forests, Alberta's Ministry of Sustainable Resource Development, Ontario's Ministry of Natural Resources, the Wisconsin Department of Natural Resources, as well as agencies in the Philippines, Cuba, and China have all issued forest fire danger warnings in the past week. Fast snow melt, low precipitation and dry timber have been given as reasons for the current concern.

In Alberta, officials estimate ground moisture levels in most Alberta forests at about 80 per cent of normal levels, so this year's fire season starts in that province on April 1. Below-average snowfall across Alberta could mean a busy summer for firefighters. Officials say they project spending of \$52 million on firefighting efforts this year, opening 127 fire lookouts and maintaining 57 bases. Last year, there were more than 1,600 wildfires in Alberta, torching 67,000 hectares of land. More than half were started by human activity.

Ontario is already experiencing forest fires. A bush fire ignited this week just off Highway 17 between Wahnapiatae and Kukagami Lake Road, and is only one of 14 forest fires to occur in the northeastern region of the province so far this year. That province has also issued warnings effective April 1. The Greater Sudbury area is already considered to be at a moderate fire risk level, along with the North Bay area and the whole northwestern area of the province. A lower than normal snowfall, plus an early spring, have contributed to the early fires.

In Wisconsin, the fire danger risk remains "very high" in the Northwoods with the recent unseasonably warm weather bringing no relief to the dry conditions, according to Forest Ranger John Gillen. All burning permits in the area have been suspended for the time being. "It will take quite a bit of moisture to lower the fire danger level," said Gillen.

In BC, areas that were hit with the beetle infestation first are now covered

with standing dead timber that is very low in moisture content and depleted of resin. Twelve or fifteen-year dead trees rise to the sky, devoid of needles, like so many matchsticks awaiting a lightening strike or wayward spark from a foolish passerby. The forest floor is littered with dry pine needles. With no canopy to block sunlight, grasses grow during summer but then die off in winter, adding yet more fuel to a potential fire. Eventually bacteria and mold attach to the bottom of dead trees, after 10 years the trees fall in a lattice work, with underbrush growing through. This all serves to create the perfect conditions for an epic forest fire.

John Betts, Executive Director of the Western Silvicultural Contractors' Association, told *Madison's* in an interview, "The September 2009 Lava Canyon fire west of Williams Lake was forest killed by the pine beetle in the 1980's. 30 year dead wood and waist high dry pine needles add the vigour of a secondary structure to fuel a fire." The average moisture content of beetle kill is approximately 20 per cent, said Betts, which is about half the usual amount for green timber.

"We are going to have fires of more intensity and severity," said Betts. "The wood on the ground burns the soil, which may actually harm the site and cause reduced productivity in the future."

This fuel provided by the pine beetle devastation needs to be managed, needs to be removed not only so replanting can take place but also to mitigate fire danger. "We can't fight fires until we take the heat out of the woods," said Betts.

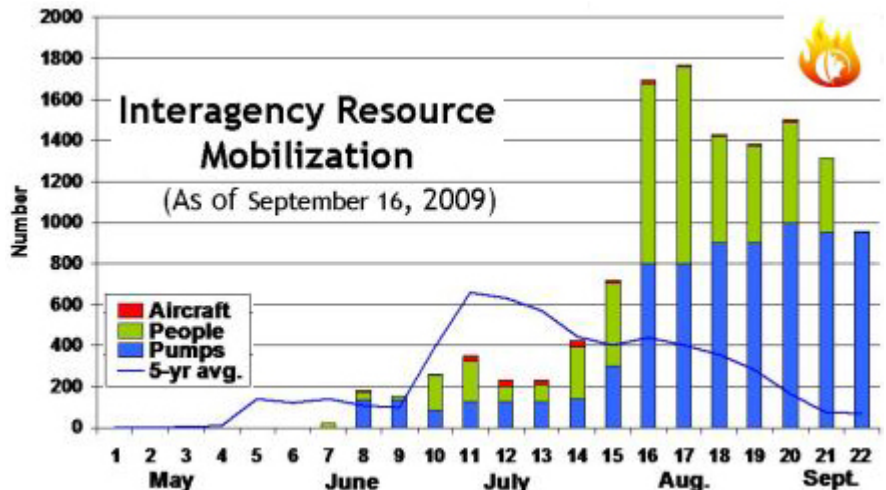
Together with other scientists Betts created a comprehensive hazard assessment, a pilot model, for forests that had departed from their regular pattern of disturbance to measure the fuel hazard. Using BC's Okanagan forest district as an example, Betts explained, "there were disturbance regimes of seven to 10 years,

areas that hadn't burned for 80 years. The danger in this area was extreme." Betts classified the assessment results as "disturbing", which *Madison's* considers to be a great understatement.

The BC government is well aware of this fire danger. In an interview last year, Pat Bell, Minister of Forests and Range, and Integrated Land Management, explained to *Madison's* that the province's lightning detection technology and communications network means crews can respond to a lightning strike fire within 24 hours (refer to the July 25, 2008 issue of your *Madison's* Reporter for details on BC's forest fire emergency response). Efforts at educating the public about forest fire safety have already begun, with a warning issued Thursday morning for "British Columbians to reduce wildfire hazards around their homes and exercise caution with backyard burning activities this spring." Visit http://www2.news.gov.bc.ca/news_releases_2009-2013/2010FOR0044-000370.htm for more information.

The Forest Practices Board of BC issued a release in early February titled, "Managing Forest Fuels in the Wildland Urban Interface" which addresses concerns of clearing the threat of forest fires in areas where there is human development. The report focusses on the issue of public safety arising from the risks of wildfire where communities have extended into the forest, known as 'wildland urban interface areas'. Provincial estimates are that 685,000 hectares (or 6,850 square kilometres) are at high risk of an interface fire.

"Years of very successful fire suppression, dry weather, insect infestations and increasing and uncoordinated development across the forest landscape have combined to create ideal conditions for catastrophic wildfires affecting thousands of people," the report warns.



SOURCE: Natural Resources Canada