

MADISON'S LUMBER REPORTER



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News & Updates

Madison's Live Online Lumber Producer Listings

Calling all Canadian dimension lumber producers, remanufacturers, wholesalers and exporters, panel, pulp and paper, and cedar makers! *Madison's* is updating its mill listing information.

Contact us to make sure your company information is accurate.

Japan Timber Supply and Demand Forecast

On March 23, Japan's Forestry Agency held a meeting concerning lumber supply and demand and formulated the supply and demand prospects for major timber in the 2nd and 3rd quarters 2010, says the *Japan Lumber Journal*.

According to the mean values from a research agency of a private financial institute, the forecast for construction starts is 840,000 to 850,000 units for 2010, and an increase up to 920,000 units is expected for fiscal 2010 in the forecast. [READ MORE](#)

Housing Starts, Canada

Canadian housing starts fell for the first time in three months in March, Canada Mortgage and Housing Corp said Monday, led by multiple-family projects.

Starts declined 1.5 per cent to a seasonally adjusted annual pace of 197,300 units from a revised 200,400 units in February. Work on urban multiple-family homes fell 15 per cent to 77,500 units, and work for new singles rose 6.9 per cent to 97,700 units.

Canada Mortgage and Housing also increased its estimates for February and January. Starts increased by 7.5 per cent in January and by 6 per cent in February, the government agency said. [READ MORE](#)

US Housing Starts

Permits to build new US homes unexpectedly surged in March to their highest level in more than one and a half years. Building permits, which give a sense of future home construction, jumped 7.5 per cent to a 685,000-unit pace last month, the US Commerce Department said Friday. Markets had expected a 630,000 unit-pace.

New home construction was the highest since November, although the bulk of the rise was in the volatile multifamily segment.

House starts rose 1.6 per cent to a higher than expected seasonally adjusted annual rate of 626,000 units. February's housing starts were revised up to show a 1.1 per cent increase, which was previously reported as a 5.9 per cent drop.

A National Association of Home Builders survey on Thursday showed home-builder sentiment rose to a seven-month high in April as consumers rushed to take advantage of a home-buyer tax credit. Better economic conditions also helped. [READ MORE](#)

US Non-Residential Building, 2010

Commercial real estate in the US continues to falter in many major building regions. Various analysts and professionals released reports this week detailing expectations for non-residential building in the US for 2010. [READ MORE](#)

U. S. HOUSING STARTS

	Mar-10	Feb-10		Mar-10	Feb-10
Starts			Permits		
Actual	54,100	41,300	Actual	62,700	44,100
SAAR*	626,000	616,000	SAAR*	685,000	637,000
1 Unit	531,000	536,000	1 Unit	543,000	514,000
2-4 Units	(s)	(s)	2-4 Units	22,000	17,000
5+ Units	88,000	63,000	5+ Units	120,000	106,000
Starts by Region			Permits by Region		
Northeast	66,000	72,000	Northeast	66,000	82,000
Midwest	83,000	116,000	Midwest	120,000	102,000
South	337,000	285,000	South	360,000	304,000
West	140,000	143,000	West	139,000	149,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	March 2010		February 2010	
	Actual	SAAR	Actual	SAAR
Canada, all areas	12,163	197,300	10,983	200,400
urban ctrs with >10,000	11,371	175,000	10,361	182,800
singles, urban centres	5,536	97,700	4,383	91,400
multiples, urban centres	5,835	77,500	5,978	91,400
rural areas	792	22,100	622	17,600
Atlantic urban centres	311	9,500	430	10,000
Quebec urban centres	3,424	47,100	1,947	41,500
Ontario urban centres	3,402	59,600	3,946	70,500
Prairie urban centres	2,508	36,900	2,092	34,400
B.C. urban centres	1,726	22,100	1,946	26,400

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	306	301	+5	284	+22	173	+133
WSPF KD R/L 2x6	302	293	+9	273	+29	163	+139
WSPF KD R/L 2x8	292	285	+7	270	+22	167	+125
WSPF KD R/L 2x10	350	340	+10	340	+10	190	+160
WSPF KD PET 2x4 Stud	330	320	+10	297	+33	180	+150
Douglas Fir Green R/L 2x4	275	260	+15	235	+40	170	+105
Douglas Fir Green R/L 2x10	275	245	+30	230	+45	208	+67
ESPF KD 2x4 8ft Stud	385	375	+10	360	+25	245	+140
OSB Ontario 7/16" (CDN\$)	360	300	+60	244	+116	195	+165

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

Weekly News

Japan Timber Demand

CONTINUED Nishimura Mokuzaiten Co., Ltd. in Central Japan, as a sawmill specializing in cypress, is planning to raise its monthly consumption of materials to 5,000 cubic meters in August this year. It has set its yearly consumption of materials at 80,000 cubic meters for fiscal 2010.

In fiscal 2010, Kuma Forest Cooperative in the Shikoku (the Chuyo mountainous) area is planning to consume 65,000 cubic meters of logs in its Chichinokawa office, where the cooperative is manufacturing studs and laminated lumber.

Kumamoto Cooperative of Sawmills in the Kumamoto area is aiming at 100,000 cubic meters of log consumption in fiscal 2010 in a two-shift system. At present, it is planning to procure logs from Miyazaki prefecture, which is south of Kumamoto, and make active use of logs in national forests.

Mochinaga Mokuzaei Co., Ltd. in the Miyazaki area, which consumes 70,000 cubic meters of logs, installed a high-speed molder which can process 10,000 pieces of studs per day.

By operating this new system in two shifts from April, its annual log consumption will become 80,000 cubic meters. Combined with existing facilities it will exceed 100,000 cubic meters.

- *Japan Lumber Journal*

Canadian Housing Starts

CONTINUED The pace of housing starts - and broader real estate activity - will likely ease in the second half of this

year as mortgage rates rise and new tax regimes and regulations dampen the market, economists said.

"It's a bit hard to believe starts will hold at this level," said Pascal Gauthier, economist at Toronto-Dominion Bank.

Canada requires a pace of housing starts of about 175,000 to 185,000 to keep up with demographic demand, economists estimate.

Single starts are now running at a four-year high. "Activity in this sector is now up 126 per cent from the recession low and ... has seen 11 consecutive monthly gains since bottoming in April last year," Bank of Montreal economist Robert Kavcic said.

Starts fell 16.3 per cent in British Columbia, 15.5 per cent in Ontario, and 8 per cent in Atlantic Canada. They rose 13.5 per cent in Quebec and 7.3 per cent in the Prairies.

Rural starts were estimated at 22,100 units in March.

US Home Building

CONTINUED "The surge in single family permits that is the main leading indicator within the report, should be regarded as a very positive sign that the recovery is gaining some momentum even within the weakest sector of the economy," said Alan Ruskin, chief international strategist at RBS Securities in Stamford, Connecticut.

New home completions fell 3.1 per cent to a record low 656,000 units. The inventory of total houses under construction dropped 1.4 per cent to an all-time low of 489,000 units in March, while the

total number of units authorized but not yet started soared 7.5 per cent to 103,200 units - the highest level since June.

"The bottom line is that there is an upward trend [and] construction will be moving higher provided that new-home sales improve as well," said Michelle Meyer, economist at Barclays Capital.

Meyer cautioned that one should not get carried away with the improvement as it comes from "an incredibly low level of activity."

The government cautioned that its monthly housing data are volatile and subject to large sampling and other statistical errors.

Calendar

April 2010

TECHNIBOIS: BOIS-ETC

April 28 to 29 - Quebec City, QC

<http://www.technibois.com/english/home.html>

May 2010

23rd Annual PricewaterhouseCoopers Global Forest and Paper Industry Conference

May 11 - Vancouver, BC

http://www.pwc.com/en_GX/gx/forest-paper-packaging/events/23rd-fpp-conference/transformation-through-innovation.jhtml

June 2010

Maritime Lumber Bureau 71st AGM

June 10 - Halifax, NS

<http://www.mlb.ca>

US Non-Residential Construction

Sharp Drop for 2010

As the US economy continues to wallow in the aftermath of the recent brutal economic downturn, analysts and professionals of all kinds are trying to determine if recovery has begun or is still in the future. Needless to say reports vary widely, with some saying the US economy has already improved while others point to late 2011 before things will really turn around. Assessments and conclusions depend on which indicators are seen as more important. All agree that employment is a lagging economic indicator – by the time employment figures improve the economy has already rebounded – however non-residential and commercial construction is even more lagging. On this subject there is disagreement whether or not large construction projects are on the rebound. *Madison's* examines several reports and conclusions, taking into account regional differences, to help decipher the large volume of information.

FoxBusiness released a report April 15 asking, "*What's Next for Commercial Real Estate?*", which states that commercial real estate is showing few signs of leveling out nationwide and several regions continue to get hammered by declining values. In this week's Beige Book, the Federal Reserve reported that "commercial real estate activity was slow across the nation," noting that only Richmond, VA, and Dallas, TX, have seen positive signs of late. Analysts say that while the four main hot spots – Florida, Georgia, California and Illinois – will continue to get hammered by the commercial mortgage crisis, a new batch of states will join the ranks, continues the report.

"Delinquency rates on residential construction are very high in the Pacific Northwest and in the Seattle-Tacoma area, in particular," said Matt Anderson, a partner at real estate analyst Foresight Analytics. Anderson said the economy there continued to grow even as it stalled in other parts of the country.

"Quite a bit of construction got going, and then the job declines hit in 2009," he said. "Very quickly, the markets went from growing to shrinking."

This cautious sentiment is echoed by Ken Simonson, chief economist for the Associated General Contractors of America. In a report issued April 1, the AGC found that "US Construction spending tumbled

in February by US\$11.6 billion, or 1.3 per cent, to US\$846 billion, a low last recorded in 2002. Declines occurred relative to both the previous month and February 2009 in most categories of private residential and nonresidential construction, as well as public construction."

"Most of the economy seems to be improving but construction is falling into an even deeper hole," Simonson commented. "Bad weather may account for a small part of February's downturn, but most of the contraction reflects ongoing lack of demand, tight credit conditions and shrinking state and local budgets."

"It appears many projects are being halted or scaled back," Simonson continued, pointing out that February numbers are likely to be revised downward as more government data is released. The April 1 report included downward revisions of \$27 billion (3 per cent) in the January total and \$20 billion (2 per cent) in the December figure. The December number had already been cut by \$13 billion (1 per cent) in an earlier report.

In contrast, International Construction magazine published an article also on April 15 asking, "*North America: is the construction market turning the corner?*", which found that while privately funded construction fell a massive -14.3 per cent, the value of public sector construction rose +2.1 per cent. In the public sector it was transportation infrastructure and projects related to conservation that saw the biggest gains. Meanwhile all the sub-sectors of privately funded construction fell, with non-residential building taking a much bigger hit than the house building sector, said International Construction.

Particularly interesting for the industry was the announcement that US\$8 billion of the funds would be used to develop high speed rail links in the US – an interesting development for a country often thought to be so in love with its cars and freeways. The bulk of government funding will go to new, large-scale programs, with US\$1.25 billion for a 140 km long high speed rail corridor in Florida between Tampa and Orlando, while in California US\$2.25 billion will be invested in a 440 km link to connect Los Angeles and San Francisco, according to International Construction.

April 15 was a big day for releases, with Robert O'Brien, US Real Estate Leader at Deloitte & Touche, reporting that US commercial real estate values have decreased significantly, up to 40 per cent across all property types, since their peak in 2007. There is excess capacity in almost every asset class, according to Deloitte. On the industrial front, high availability rates and

sharply reduced construction activity have been the norm in the large distribution centres of Chicago and Atlanta.

By contrast, Terrebonne, QC-based ADF Group Inc., a structural steel fabricator, Thursday reported upticks in orders and bidding activity for much of North America after a year marked by declines in revenue and profit. The company reported that it had an order backlog of \$116 million, a 17 per cent increase over levels seen a year ago, and is currently in the negotiation stage for \$250 million worth of additional contracts.

Again on April 15, Fidelity Southern Corporation out of Atlanta, GA, holding company for Fidelity Bank, reported a net income of \$195,000 for 1Q 2010 compared to a net loss of \$3.4 million for 1Q 2009. Total residential and commercial construction and land loans decreased to \$133.6 million or 10.4 per cent of loans at March 31, 2010, from \$154.8 million or 12.0 per cent of loans at December 31, 2009, and \$228.6 million or 17.1 per cent of loans at March 31, 2009. All real estate loans, excluding owner-occupied properties, as a percentage of capital decreased to 135 per cent at March 31, 2010, from 144 per cent at December 31, 2009.

In an effort to make more sense of these conflicting reports, *Madison's* spoke Thursday to Ken Simonson of ACG.

"It depends on which segment of construction one is examining," said Simonson in a phone interview. "Single family home building will likely start to increase within one year but most non-residential and multi-family building will continue to be down through 2010. There are huge vacancy rates, in fact occupancy rates are in excess of capacity, which has dampened demand for new construction."

"Financing is almost unobtainable," Simonson continued. "Rental suites and condos are oversupplied, which is driving down rental rates." Generally speaking a decrease in rents causes a drop in property values.

"2010 will be even more difficult than 2009," Simonson explained. "2008 was a record year, at least until September or October. Large building projects were carried through to 2009 but as these were completed plans for new projects dropped significantly. 2009 non-residential construction activity was carried along by backlogs and cash reserves, and companies were able to impose cost cutting measures like office closures and layoffs."

"For non-residential construction, we will start to see an upturn in 2012," concluded Simonson.