

MADISON'S LUMBER REPORTER

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News & Updates

Softwood Export Tax

Due to strong lumber prices, effective June 1, BC's softwood lumber producers will no longer pay any tax on their shipments to the US, Forests and Range Minister Pat Bell announced May 7.

This week's market survey made it clear to *Madison's* that the elimination of tariffs for the first time in years caused makers to jump through the window of opportunity. Some of the big makers announced that they will reopen mills that had long been closed, or will expand production in WSPF. Shipments will increase and "a wall of wood" will be heading for US customers and reloads. What that will do to selling prices is fairly obvious.

WSCA Call Out

The Western Silviculture Contractors Association has launched an Online Petition demanding that the BC Government mount a silviculture response to the MPB infestation.

"More than 15-million hectares of forests have suffered an assault from the mountain pine beetle and other bugs and blights. We have a responsibility to act now."

To sign the community petition demanding the BC government grow and plant more trees go here: <http://forestfacts.ca/the-petition.html>

Alberta Wildfire

A wildfire began near the hamlet of Opal, AB, about 60 kilometres northeast of Edmonton, on Wednesday afternoon. Thorhild County declared a local state of emergency Thursday after strong winds caused the brushfire to flare up and start burning out of control. About 10 square kilometres of dry grass and bush have been scorched in the fire. About 250 firefighters are expected on the ground and the hope is they will have the fire under control late Friday.

The BC Ministry of Forests and Range has issued several burning restrictions and wildfire warnings in recent weeks.

Japan Housing Starts

Japanese housing starts in March were 65,008 units, down by 2.4 per cent compared to March 2009, declining for 16 consecutive months. The pace of decline decelerated from drops of 9.3 per cent in February and 8.1 per cent in January, and was much slower than double-digit decreases seen throughout 2009 that ranged from minus 15.7 per cent to minus 38.3 per cent in year-over-year comparisons.

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North American Economic Data

Manufacturing sales for both Canada and the US were up in March, by 1.2 per cent and 2.3 per cent respectively. Meanwhile, the US government \$8,000 home buyers' tax credit expired at the end of April.

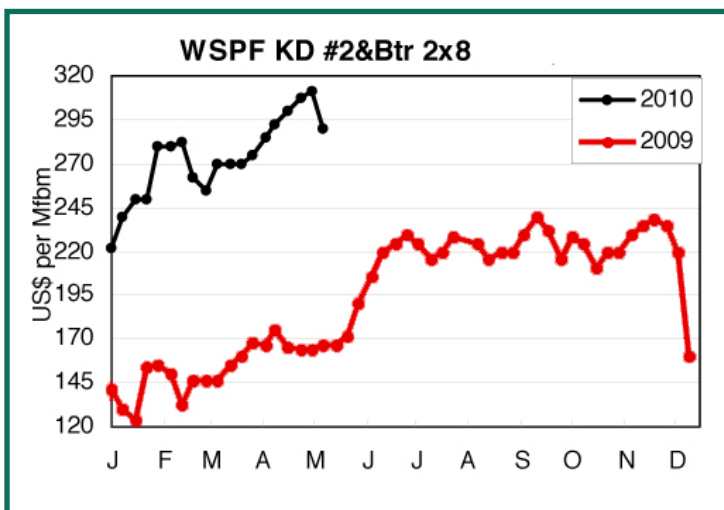
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PwC Annual Forestry and Packaging Conference

PricewaterhouseCoopers' 23rd Annual Global Forest and Paper Industry Conference was held in Vancouver May 11 with the theme of Transformation through Innovation.

The conference featured many interesting and engaging speakers from a variety of companies.

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Month	TOTAL	Non-Wood	Wood	%Wood
Mar-10	65,008	31,061	33,947	52
Feb-10	56,527	24,412	32,115	57
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

Source: Japan Wood Products Information and Research Center

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	291	316	-25	306	-15	150	+141
WSPF KD R/L 2x6	293	315	-22	302	-9	150	+143
WSPF KD R/L 2x8	290	311	-21	292	-2	146	+144
WSPF KD R/L 2x10	340	355	-15	350	-10	165	+175
WSPF KD PET 2x4 Stud	320	325	-5	330	-10	170	+150
Douglas Fir Green R/L 2x4	235	270	-35	275	-40	143	+92
Douglas Fir Green R/L 2x10	265	265	0	275	-10	175	+90
ESPF KD 2x4 8ft Stud	400	415	-15	385	+15	225	+175
OSB Ontario 7/16" (CDN\$)	405	405	0	360	+45	205	+200

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

Weekly News

Housing Starts, Japan

CONTINUED March building permits were 9 per cent more than March 2009 and have increased for five consecutive months.

The seasonally adjusted annual rate recovered to the 800,000 unit level for the first time in two months at 854,000 units. While owner-occupied houses showed an increase for five consecutive months, houses built-for-sale also increased for the first time in 16 months due to the increase in single-family houses.

Thus a sign of recovery started appearing. Wooden homes accounted for 52 per cent, or 33,947 units.

Japan's Ministry of Land, Infrastructure and Transport report showed that construction orders received by big 50 contractors surged 42.3 per cent in March from the previous year, reversing a decline of 20.3 per cent in February.

North American Economy

CONTINUED In an attempt to head off what could be a home buying slump, builders are now offering mega-discounts on new builds. Sticker prices are as much as \$30K lower than they were in April on mid-value homes. Kind of makes those who rushed to buy homes in April look like the bottom feeders in math class.

Statistics Canada reported Friday constant-dollar manufacturing sales increased 1.7 per cent in March, their seventh straight monthly advance.

Other durable good sales increases included non-metallic mineral products (up 7.7 per cent) and wood product manufacturing (4.9).

Inventory levels fell 1.1 per cent in March compared with February. The backlog of unfilled orders declined for the first time in four months, down 0.4 per cent to \$53-billion.

March new orders decreased 0.7 per cent to \$44.3-billion. New orders fell in three key industries: computers and electronics, transportation equipment, and machinery.

In the US, business inventories rose 0.4 per cent in March, in line with economists' expectations, the US Commerce Department said Friday.

Sales for manufacturing and wholesale trades rose 2.3 per cent to US\$1.07 trillion, an 11.9 per cent jump compared to March 2009.

After months of declines, inventories rose in December and February, but were virtually flat in January. The upswings indicate producers are gearing up, modestly, for an increase in consumer demand.

The inventory-sales ratio for all business, unchanged a month ago, fell to 1.24 from 1.27. A year ago, the ratio that indicates how long it would take to sell all inventory at current prices, was 1.46.

The inventory ratio for manufacturers in March was also 1.46 and the ratio for wholesalers was 1.39. For retailers, the inventory ratio was 1.54 for the month, indicating retailers have more stock on hand, based on sales expectations, than manufacturers or wholesale trade businesses.

The hope is that sustained increases in demand will encourage businesses to step up orders and restock depleted shelves,

giving a boost to factories and prompting them to rehire workers.

A separate US report Friday showed that industrial production rose a strong 0.8 per cent in April, better than economists had expected.

Businesses had slashed inventories for 13 straight months through September as they struggled to cut costs during the recession.

The move away from massive inventory liquidation has played an important role in supporting growth over the past two quarters.

The overall economy, as measured by the gross domestic product, grew at an annual rate of 3.2 per cent in the January-March quarter and an even faster 5.6 per cent in the final three months of last year.

Canfor Restarts

Canfor Corporation announced Monday that it will be restarting operations at its Quesnel, BC, sawmill in June. Production is targeted solely for the Chinese market, so the additional capacity should not impact North American lumber prices.

The sawmill will produce approximately 200 million board feet of SPF lumber on an annual basis. The mill will produce metric sizes and its entire output is destined for various regions of China. The Company will recall approximately 155 employees.

"Providing this dedicated production into the Chinese market shows our confidence in the growing demand in this developing market," said Canfor President and CEO Jim Shepard.

PwC Forestry and Packaging

Conference

PricewaterhouseCoopers held its annual Forestry and Packaging conference in Vancouver, BC, on May 11, 2010 to a fine turnout.

by Kéta Kosman

The theme of this year's PwC conference was "Transformation Through Innovation." Like the January 2010 BC Truck Loggers AGM in Victoria, BC, the mood of attendees was significantly elevated over similar events in 2009. Companies might not yet be showing profits at levels they would like, but all agreed that the bottom of the market is behind us.

Main topics covered on the agenda were: global economic overview, financial performance, market outlook, and executive perspectives. Speakers included: Doug Porter at BMO Capital Markets, Avrim Lazar of the Forest Products Association of Canada, Brian Merwin at Mercer International, Dan Fulton of Weyerhaeuser, Hank Ketcham of West Fraser, Chip Dillon at Credit Suisse, and Pat Bell, BC's Minister of Forests and Range, and Integrated Land Management, among others.

Doug Porter, Deputy Chief Economist and Managing Director of BMO Capital Markets in Toronto, started off the conference with an explanation of the strength of the current economic situation. Porter's group identified March 9, 2009 as the beginning of real economic recovery globally.

"Stocks and currency markets lead the economy by four months," said Porter. "4Q 2009 and 1Q 2010 saw a better than five per cent improvement. Expectations are for a more than three per cent improvement in the North American economies for 2010 and 2011."

Porter's research shows that US housing starts will recover by 20 to 25 per cent "in the next year, which is still very weak. Still below replacement value." Porter expects Canadian interest rates to go up a quarter of a per cent at each monthly meeting starting June 1, 2010 and lasting one year.

Frederic Bouchard and Michael Armstrong of PwC spoke next about Canada's forest economy, both east and west.

"There will be a slight decline in the current rally before full recovery in 2011," they said.

The solid wood industry is seeing investment again. Black liquor tax credits in the US were worth US\$5.5 billion, providing much-needed funds to pay down debt

for vertically integrated forest companies with operations in the US. PwC found that Latin America "grabbed 67 per cent of global forestry deal value activity in 2009 compared to five per cent in 2008. However, most purchases were made by European-based companies."

Chip Dillon, Managing Director of North American Paper and Packaging for Credit Suisse Securities, focussed on the paper industry.

"Margins in containerboard packaging should go higher in the next few years," said Dillon. "The strength of the repair and remodelling market in the US explains why lumber and panel prices are firming despite low housing starts."

Dillon forecast "a colossal return in equity for paper companies into 2013 and beyond." In fact, said Dillon, "Domtar is in danger of running out of debt."

Dillon also forecast that pulp prices will correct downward later this year as Chile returns to former levels of production, "however there is very limited capacity coming back online in the next few years so pulp prices will firm to 2013 then correct again."

In terms of the mountain pine beetle, Dillon said that the crisis will "impact log prices in the US after about three years, then it gets 'better' due to less competition." Dillon's advice was to "get into lumber until 2013, then get involved in timberland post-beetle devastation."

Brian Merwin, VP of Strategic Initiatives for Mercer International, discussed that company's unique operations.

"Once finished the upgrade, Mercer's Celgar, BC, mill will be Canada's largest bioenergy facility," said Merwin. "Bioenergy production at a pulp mill is positively correlated with pulp production."

Merwin pointed out that there has been a paradigm shift, "global demand for green, bio-neutral products keeps growing." In keeping with this global trend, "Celgar became a net exporter of electricity in 2007."

The lunch hour featured a speech by BC's Forest Minister, Pat Bell. Bell announced a new forestry partnership between BC, Alberta and Saskatchewan, with details to be coming soon.

"Even in the downturn forestry was responsible for 30 per cent of the BC economy," said Bell. "The speed of this current recovery might take away from the urgency of transformation in this industry. There is still 12 to 14 million cubic metres annually of fibre not traditionally utilized in BC which needs to go into the bioenergy sector."

After lunch, Paul Dodge, Supply Chain VP at ProBuild Holdings out of Denver, CO, spoke about the changes his compa-

ny went through in the past two years and how well it is poised to take advantage of the recovery.

Dodge explained that while some of his competitors may sell at a discount during tough times, he won't go below a certain level so as not to devalue the product in general.

"I guess some of our competitors need the cash more," Dodge remarked wryly.

"We have built supplier relationships so that we have 'true' JIT programs. We are two to three hours away from truss plants, we check our inventories in the afternoon and take deliveries within two days," explained Dodge.

Dan Fulton, President and CEO of Weyerhaeuser, detailed that company's shift from a solid wood producer to a timberland investor and real estate company. The most fascinating aspect of Fulton's speech, Madison's found, was the change in Weyerhaeuser's real estate development in the past year. Fulton explained that in 2009 the size of an average home was between 1,655 to 3,062 square feet whereas in 2010 it will be between 1,132 and 2,099 square feet. Similarly, home values will drop from between US\$221,000 and \$350,000 to a low of US\$150,000.

"2009 was the trough, and there are still lots of challenges ahead," concluded Fulton.

Finally, Hank Ketcham, Chair, President, and CEO of West Fraser Timber, talked about lumber production and exports out of BC.

"The price of #2&Btr 2x4's is currently as low as in 1982, in Canadian dollars," Ketcham started off. "The US should be building 1.75 million homes annually" to keep up with the demographics. "The US was overbuilt for 10 years but is now significantly underbuilt," said Ketcham. "No one is buying so the months' supply is high. Once that inventory is liquidated the level of new homes for sale will drop sharply and home values will go up."

In reference to the beetle, Ketcham spoke of bioenergy applications. "There will be a significant reduction in the annual allowable cut, therefore a supply constraint, and for the mills that do survive commodity prices will go up. [. . .] BC is cutting much more than the AAC right now, by ten years from now that cut is going to plummet."

Many of the speakers touched on the subject of forest certification, which is becoming more and more important throughout the whole supply chain with each passing year. Both investors and consumers are demanding a strict level of certification on products.

"There is more forestland independently third party certified in Canada than anywhere else in the world," concluded Ketcham.