

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines a push by a major distributor of Western Forest Products' and Mill & Timber's cedar into the lucrative Texas market. Contact us any time for a subscription.

Western Forest Products' Ladysmith Mill

Rumours abound regarding the possible reopening of Western Forest Products' Ladysmith cedar mill. That location had been closed due to market conditions leading to a continuing loss. Negotiations have been complicated by the Pulp, Paper and Woodworkers Union's expectations that it should be able to land a contract equal to that of BC central interior unions. However, the negotiators have come to acknowledge the differences between interior and coastal logging, transport and milling. Specifically, coastal operations are encumbered by a rain forest climate with wet snow and soggy forest roads, extreme terrain, mudslides, and the mix of species that are taken out of the forest. Sources are confident that a deal will be reached.

The reopening of the Ladysmith mill was part of the package when the deal was negotiated to start-up the long-idled Somass mill at Port Alberni, BC. There was a further bundle of other aspects also included in the negotiations. The deadline for finalizing the Ladysmith portion of this contract was Tuesday, June 15. An announcement is expected within days.

Calls to the PPW and to WFP yielded no further details by press time.

Tembec Shares Soar on Outlook

Tembec Inc. said today it expects liquidity in the 3Q 2010 to nearly double sequentially, following the recent sale of two pulp mills, sending its shares up as much as 26 per cent. The company will also talk with certain investors in a bid to boost liquidity.

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Japan's Wood-Framed Building Promotion

On May 13, a bill concerning the promotion of utilization of lumber in public buildings, to promote the use of lumber widely but not limiting it to public buildings, was unanimously approved in both Committee on Agriculture, Forestry and Fisheries in the Lower House, and the plenary session, according to the *Japan Lumber Journal*.

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North American Home Building, Sales, and Prices

Disappointing US May housing starts out this week, as well as home sale figures and home prices, are examined.

'Operation Stolen Dreams' by US prosecutors has involved 1,215 criminal defendants nationwide, including 485 arrests, who are allegedly responsible for more than US \$2.3 billion in mortgage fraud losses.

Canadian May housing starts are also down, but for different reasons. Canadian home prices responded downward to an increase in for-sale inventory due to rising home prices in the past several months.

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U.S. HOUSING STARTS

	May-10	Apr-10		May-10	Apr-10
Starts			Permits		
Actual	56,300	60,100	Actual	51,000	563,000
SAAR*	593,000	659,000	SAAR*	574,000	610,000
1 Unit	468,000	565,000	1 Unit	438,000	486,000
2-4 Units	(s)	(s)	2-4 Units	19,000	17,000
5+ Units	112,000	81,000	5+ Units	117,000	107,000
Starts by Region			Permits by Region		
Northeast	75,000	80,000	Northeast	67,000	68,000
Midwest	107,000	102,000	Midwest	103,000	114,000
South	288,000	366,000	South	294,000	310,000
West	123,000	111,000	West	110,000	118,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	May 2010		April 2010	
	Actual	SAAR	Actual	SAAR
Canada, all areas	17,882	189,100	16,891	201,800
urban ctrs with >10,000	10,615	165,200	14,995	182,600
singles, urban centres	5,232	72,400	6,774	84,300
multiples, urban centres	5,383	92,800	8,221	98,300
rural areas	1,814	23,900	1,896	19,200
Atlantic urban centres	857	10,600	573	8,600
Quebec urban centres	3,699	40,800	4,213	46,900
Ontario urban centres	3,728	61,900	4,996	63,600
Prairie urban centres	1,494	29,700	3,103	38,000
B.C. urban centres	837	22,200	2,110	25,500

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	190	216	-26	255	-65	203	-13
WSPF KD R/L 2x6	195	218	-23	260	-65	206	-11
WSPF KD R/L 2x8	200	220	-20	260	-60	206	-6
WSPF KD R/L 2x10	245	260	-15	300	-55	246	-1
WSPF KD PET 2x4 Stud	210	235	-25	275	-65	195	+15
Douglas Fir Green R/L 2x4	210	210	0	225	-15	175	+35
Douglas Fir Green R/L 2x10	255	270	-15	265	-10	230	+25
ESPF KD 2x4 8ft Stud	310	340	-30	270	-40	270	+40
OSB Ontario 7/16" (CDN\$)	250	250	0	405	-155	185	+65

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Madison's Lumber RETROSpective
 see additional pages in your weekly Madison's Reporter!

Weekly News

Tembec Rebounds

CONTINUED Tembec's shares surged Friday after the forestry products company signalled that its operating performance is gaining steam as it holds discussions with certain investors about debt maturities resulting from its 2008 recapitalization.

The Quebec-based company, which operates in North America and France, forecast early Friday that its operational earnings for the period ending June 26 will be up at least 42 per cent from the prior three-month period.

Tembec shares gained 41 cents or nearly 24 per cent in early trading, rising to \$2.15 – their highest since mid-May. The stock hit a 52-week high of \$3.09 on April 20.

Tembec expects third quarter ending in June 30 liquidity to rise to C\$250 million from C\$138 million in the second quarter.

Dundee Capital Markets upgraded the stock to "neutral" from "sell," but said the stock has some downside over the next few months as the market pulp rally is starting to slow down.

"We recommend coming back in after another 5 per cent to 10 per cent correction over the next few months," analyst Richard Kelertas said.

The company also forecast third-quarter earnings before income tax, depreciation and amortization of C\$47 million to C\$53 million, compared with a loss before income tax, depreciation and amortization of C\$42 million last year.

Japan Wood-Frame Building Legislation

CONTINUED The main contents of the government's original plan were that the Minister of Agriculture, Forestry and Fisheries is to map out basic policies to promote the usage of lumber in public buildings and that the minister is to accredit projects which will improve facilities which supply lumber suited to be used in public buildings, according to the *Journal*.

Against the original plan, Liberal Democratic Party and New Komeito made a counterproposal which includes promotion of utilization of lumber in private-section housing and wooden biomass not only in public buildings.

In addition, it stipulates that the government is to take necessary measures to use energy taken from wooden biomass products and wooden biomass in public facilities.

TimberWest Forest Announces

TimberWest Forest Corp. is pleased to announce the appointment of Robert (Bob) Allen to the position of VP Finance and Chief Financial Officer effective June 14, 2010.

Bob joins TimberWest with a strong background in both the BC forestry industry and financial management with 20 plus years of experience building, leading, and advising corporations through complex restructurings, acquisitions/divesti-

tures, and capital market transactions. He is the former Chief Financial Officer of Ainsworth, where he worked for some six years. He has also occupied senior roles at Skeena and Western Forest Products. He started his career in 1986 with PriceWaterhouseCoopers, where he worked for five years as Senior Audit Supervisor.

A Vancouver native, Bob is a Chartered Accountant and he also holds a BSc in Agriculture from the University of British Columbia.

Bev Park, Executive Vice President and CFO of TimberWest and President and Chief Operating Officer of Couvendon Real Estate will move full-time into the real estate role.

Calendar

September 2010

AFPA 68th AGM and Conference
 September 22 to 24 – Jasper, AB
<http://www.albertaforestproducts.ca/home/default.aspx>

2010 CIF-IFC AGM and Conference
 September, 26 to 29 – Jasper, AB
<http://foothillsresearchinstitute.ca/pages/home/cif2010jasper.aspx>

October 2010

2010 NHLA Annual Convention and Exhibit
 October 13 to 16 – Vancouver, BC
<http://www.nhlaconvention.com/>

Home Building

North America

Housing starts figures in the US and Canada for May are both down, but for very different reasons.

The US Commerce Department said Wednesday that home construction and applications for building permits slumped in May following the end of a homebuyer tax credit in April. Meanwhile up north, the Canada Mortgage and Housing Corp reported June 8 that the annual rate of housing starts dropped last month, with starts in both single- and multiple-family units down. Tougher mortgage rules imposed by the Canadian government in mid-April prompted buyers to act sooner, causing house prices to drop, the Canadian Real Estate Association said Wednesday.

In the US, construction of new homes and apartments fell 10 per cent from April to an annual rate of 593,000. Construction of single-family homes fell 17 per cent to a seasonally adjusted rate of 468,000, the largest percentage decline in single-family starts since 1991. Applications for building permits fell 5.9 per cent to the lowest level in a year.

US starts on multifamily dwellings jumped 33 per cent in May, while permits for apartments and condos rose 10 per cent. Within that multi-family category, groundbreakings of homes with five or more units were up by 38.3 per cent.

Despite May's drop, housing starts, year over year, were up 7.8 per cent. The Commerce Department said revised April starts rose 3.9 per cent.

The disappointing data mirror results of a survey of US home builders this week. The National Association of Home Builders said Monday that its index of confidence took a sharp dive. Analyst Mike Larson, of Weiss Research, said that report reminded him "of what happens when an athlete stops taking steroids."

Builders face tough competition from foreclosures of existing homes, and buyers remain cautious about the job market. In some areas, prices are still falling.

In Canada, May housing starts were 189,100 units, down from a revised 201,800 in April. Starts in both single- and multiple-family units were down. Urban starts fell 9.5 per cent to 165,200 units in May. Urban multiple starts decreased 5.6 per cent to 92,800 units, while single urban starts dropped 14.1, to 72,400 units.

The latest Canadian home sale figures indicate that tens of thousands of

homeowners have seen the rampant demand recently, and listed their houses for sale to take advantage of high prices. Sales fell to 8.5 per cent, or 40,393 units, in May compared with April. Sales remain elevated by historical markers, but are 15 per cent lower than last the peak last autumn. The number of new listings dropped 4 per cent to 76,201, from 79,367, the Canadian Real Estate Association said Wednesday.

"Life in the fast lane is over for Canada's housing market," said Douglas Porter, deputy chief economist at BMO Capital Markets.

Canadian house prices were essentially flat in May, gaining 0.5 per cent to an average national resale price of \$346,881 – the highest on record.

In the US, low housing start figures raised concerns that weaker demand for homes will derail an economic rebound, pushing Treasury Bills higher and interest rates lower.

The yield on the 10-year Treasury note, a widely used benchmark for mortgages and other consumer loans, fell to below 3.3 per cent late Tuesday. The price of the note maturing in May 2020 rose 31.25 cents to \$101.97.

Despite the projected dips in home building over the next months and years, an end is in sight. An April report on the Fiserv-Case Shiller home price index says a prolonged recovery will begin early next year, and some markets are poised for a relatively fast recovery, including those that did not see large price declines, such as Pittsburgh, Columbia, SC, and metro areas in Texas, Washington state, and upstate New York.

On Tuesday, Bank of America said that since January, 2008, it has provided more than 630,000 contract modifications designed to help financially distressed homeowners, according to Bloomberg. This includes 70,000 conversions from trial to permanent contracts under the federal government's Home Affordable Modification Program.

"Mortgage rates were little changed this week amid preliminary signs that the expiration of the homebuyer tax credit in April may have led to a slowdown in new construction," Frank Nothaft, Freddie Mac's chief economist, said in a statement Thursday.

Meanwhile, the US Justice Department said Thursday it charged more than 1,200 perpetrators, including 485 arrests, with mortgage fraud in a major nationwide crackdown involving more than \$2.3-billion in losses, stemming from the real estate collapse leading to the foreclosure crisis. The staggering

totals from the sweep identify a clear history of mortgage fraud that has transcended to every corridor of the US economy, pulling housing prices lower in the over-whelming majority of the country, devastating the US economy.

In terms of foreclosures, Bill Cheney, chief economist of MFC Global Investment Management, an arm of Manulife Financial Corp. said, "It always seemed that it should be in the bank's own interest to do something other than to foreclose."

"When you think about the outlook, it all comes back to employment. Things could change faster than people expect." The demand for homes could soar once the job market improves, he explained.

The low rate of new home building is still less than half the rate of household formation – families being established – which is estimated at 1.5 million based on age groups, said Sal Guatieri, a senior economist with BMO Nesbitt Burns Inc.

"There is certainly some pent-up demand, but there was excess supply in the housing market," Mr. Guatieri said. For almost three years, the US housing industry was constructing new homes at an annual rate of two million a year.

"House prices have largely stabilized and are rising in some areas of the country not hit hard by the housing crisis," Mr. Guatieri said. News reports also suggest that house construction is picking up even in those states hit hardest, such as Florida, Arizona and Nevada, because home builders can buy land cheaply and profitably construct new homes, he said.

Sellers lowered asking prices at least once on 22 per cent of homes listed as of June 1, up from 20 per cent of homes two months ago, San Francisco-based Trulia said in a report provided to Reuters Wednesday. A year ago, prices had been cut on 23.6 per cent of listed properties. Sellers slashed a total of US\$26.7 billion in May from asking prices, more than the US\$25 billion in April and US\$22.8 billion in March, according to Trulia. The average discount on the reduced homes held at 10 per cent from the original listing.

In other economic news, the Federal Reserve reported that industrial production jumped 1.2 per cent in May, the largest gain since August 2009, boosted by broad-based gains from most manufacturing industries.

Also, the US Labor Department said wholesale prices fell 0.3 per cent in May, while core prices (which exclude food and energy) rose 0.2 per cent.