

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions
Editor
Kéta Kosman
Market Analyst
Zara Heartwood

Annual Subscription Prices
E-mail/Fax: C\$364
Discounts available for multiple
subscriptions
Published 50 times a year

www.madisonsreport.com
madrep@shawcable.com
604 984-6838
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add 5% GST
ISSN 0715-5468
Printed in Canada © 2008

All material contained within is the property
of KetaDesign Productions Inc. Reproduction
or retransmission is expressly forbidden.



News & Updates

Madison's Lumber RETROspective

This week marks the final installment of *Madison's 60 Year Walk Down Forestry's Memory Lane*. We hope subscribers have enjoyed reading over the doings and movements of the lumber industry from 1952 to 1973. With the passing of Peter Madison, the Reporter forged into the future under former publisher Laurence Cater.

The most-often heard comment was, "It's surprising to see how much things have changed but how much they have stayed the same."

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines Smurfit-Stone Container Corp.'s emergence from bankruptcy protection, as well as the latest updates in containerboard prices and inventories.

Contact us any time for a subscription.

Japan Lumber Importers' Association 2010 Meeting

The Japan Lumber Importers' Association held its general meeting for in Tokyo on June 14. At the beginning, Chairman Toshihito Tamba showed his expectation on the members' efforts for the recovery of lumber saying, "Lumber Imports in 2007, 2008 and 2009 continued to shrink by nearly 20 per cent from the previous year, but in 2010, the trend has finally stopped," according to the *Japan Lumber Journal*. [READ MORE](#)

Canadian economy stagnates in April

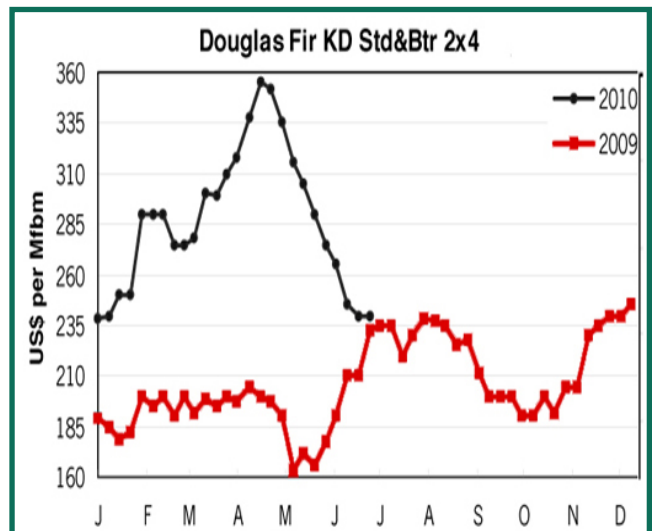
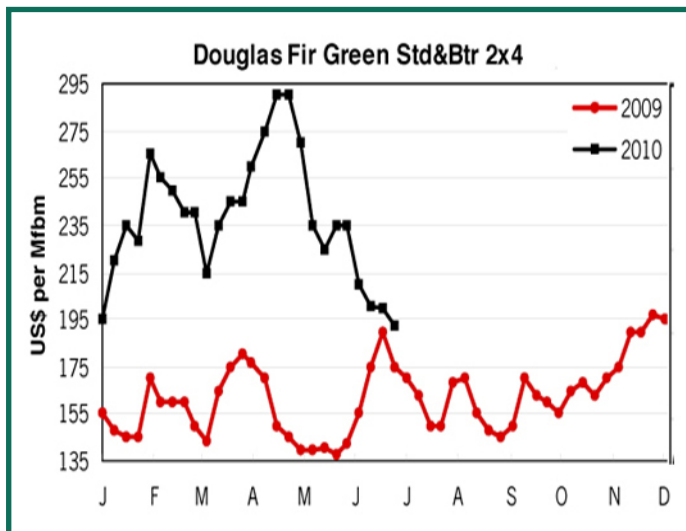
Canada's dollar weakened on against the US dollar on Wednesday after domestic data showed the economy unexpectedly stalled in April on a slide in retail sales. Canada's economy saw no growth or contraction in April, Statistics Canada said.

That compared to a 0.6 per cent expansion of gross domestic product reported for March. It marked the first month in eight the Canadian economy has not expanded. [READ MORE](#)

Forestry Investment Conference

June 24 to 25 was the 7th annual Timberland Investment Summit in Vancouver, BC. *Madison's* can rightfully take more than a little of credit for the conference moving north of the US for the first time ever; during the 6th Summit in New York City last October, *Madison's* convinced organizers that their idea to bring the Summit to Vancouver was a good one. Unlike the 6th Summit, there was a significant Canadian presence, both on the panels and in the audience.

After introductions and an opening keynote address by Pat Bell, BC Minister of Forests and Range, and Integrated Land Management, was a speech about the US economy and its impact on timberland values by Steven Chercover, Senior Research Analyst for D.A. Davidson & Co. [READ MORE](#)



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	195	189	+6	225	-30	200	-5
WSPF KD R/L 2x6	190	191	-1	225	-35	208	-18
WSPF KD R/L 2x8	210	208	+2	225	-15	225	-15
WSPF KD R/L 2x10	225	240	-15	275	-50	300	-97
WSPF KD PET 2x4 Stud	195	200	-5	245	-50	210	-15
Douglas Fir Green R/L 2x4	192	200	-8	235	-43	175	+17
Douglas Fir Green R/L 2x10	260	270	-10	280	-20	240	+20
ESPF KD 2x4 8ft Stud	290	300	-10	250	-60	285	+5
OSB Ontario 7/16" (CDN\$)	230	230	0	405	-175	209	+21

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

Weekly News

Japan Lumber Demand

CONTINUED Concerning demand, the establishment of the law to promote the usage of lumber in public buildings, in addition to various preferential treatment systems for acquisition of houses will achieve an effect.

He also commented on the association's policy on legal lumber, "The trend to prove the legitimacy of wood products has spread all over the world, and in Japan too, it will become more and more common to give priority to purchase certified lumber. We have to increase the supply of legal lumber," according to the *Journal*.

And he said that the association sent letters to overseas leading groups to call for their cooperation on promotion of the usage of legal wood.

Canadian Economy

CONTINUED Statistics Canada said a "large decline" in the retail sector, and lesser contractions in manufacturing and utilities, were offset by gains in mining, wholesale, the public sector and construction.

Retail trade was down 1.7 per cent in April, as demand dropped sharply for items such as automobiles and clothing.

Manufacturing output fell 0.3 per cent in April, the federal agency said, the first decline since August last year.

Earlier selling of the Canadian dollar as part of a general retreat from risk-sensitive assets was "juiced up" by the softer-than-expected GDP data, said Shaun Osborne, chief currency strategist at TD Securities in Toronto.

"I think, for the Canadian dollar, weaker GDP was a bit of a wake up call," Osborne said.

"They're thinking that growth might be slowing down in [Canada] right now, that's hitting the market pretty hard," said Phillip Streible, senior market strategist at futures broker Lind-Waldock in Chicago.

In Memoriam

US Senator for West Virginia Robert Byrd died on Monday. First elected in 1952, Byrd was 92. The Byrd Amendment, also known as the Continued Dumping and Subsidy Offset Act of 2000, added fuel to the ongoing softwood lumber dispute between the US and Canada.

Byrd helped shape much of the nation's history and served with a dozen US presidents. He died peacefully at Inova Fairfax Hospital outside of Washington, DC. Byrd was hospitalized last week with what doctors believed was a heat-related illness.

Madison's Tree of Products

Your information tool kit for business and investment

Our range of products are tailored to provide you with vital info in a timely manner

IN DEPTH ANALYSIS OF NORTH AMERICAN TIMBER COMPANIES!

MADISON'S
Timber Preview

MADISON'S
Mill Lists

CANADA'S ONLY ONLINE DATABASE,
WITH OVER 1,700 PRODUCER LISTINGS!

BREAKING NEWS ON CANADA'S LARGE VOLUME MILLS, OPERATING STATUS UPDATED MONTHLY!

MADISON'S
MILL WATCH

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/>

Forestry Investment

IQPC 7th Summit

CONTINUED *Madison's* found wisdom in Chercover's declaration that monetizing the land base is best left to foresters, as they see more than just trees. "Valuing

by Kéta Kosman

timberlands should not be done by equity analysts. There is valuation beyond the forest being merely a tree farm, such as: minerals; higher-and-better-use; leases including for cell towers, wind mills, etc," said Chercover.

In what turned out to be one of many forecasts for recovery of the slumping US housing market that day, Chercover expects housing starts to rise by 200,000 annualized starts per year until they reach 1.5 million. "The sooner the incentives stop, the better. There is still a lot of investment going on. We know of people looking to invest in this supposed inventory, shadow or otherwise, of unsold homes and they can't find it," Chercover concluded.

The next topic on the agenda was Strategic Considerations on Investing in the Canadian Forestry Sector, with Conifex, Inc. CEO Ken Shields using the company's example to demonstrate issues and opportunities in Canada. Shields' own forecast for US housing had annualized starts going to 1.3 million by 2020 then rising to 1.7 million.

"There will be a widening gap between the Annual Allowable Cut in BC and sawlog timber supply in BC due to decaying fibre from the mountain pine beetle," Shields explained. "The market in China is generally firming, especially for logs and market pulp. In tissue, China's production depends on virgin fibre imports."

Conifex has good opportunities in the biomass field, going so far as to dub itself a 'fibre management company'.

"While we used to pay for removal, we can expect \$35 to \$50 per oven dried tonne in the next ten years," Shields concluded.

Keith Balter, Senior Economist Forest Capital Partners, spoke next on the US housing market. Starting off on a high note, Balter declared, "2010 US housing starts are below where they should be based on previous cycles. There was a monthly incremental gain in housing coming out of the last four downturns which have not yet materialized this year. According to historical data we should be at 652,000 monthly starts seasonally adjusted, but we are only at 442,000." Balter attributes the lagging recovery to US unemployment, and fear of potential home buyers of a stable source of income in the short term.

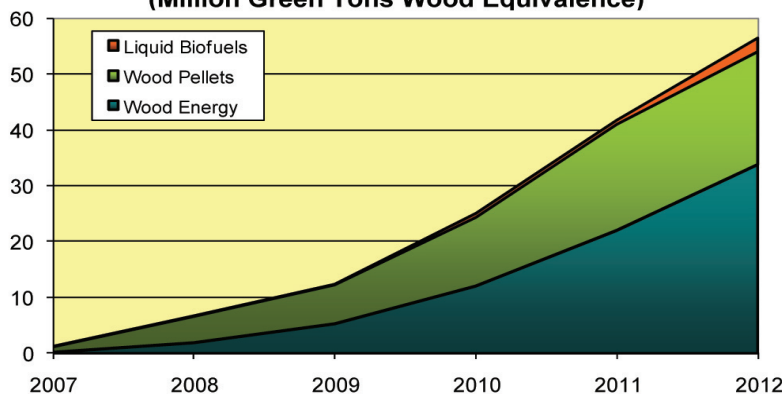
In terms of home ownership, Balter explained that 700,000 vacant units in the US must be absorbed to get back to a long

US Feedstock Sourcing for the Emerging Bioenergy Industries

Furnish Shares (%)	2010	2011	2012	2013	2014
Woody Biomass	4%	8%	12%	16%	19%
Pulpwood Roundwood	12%	14%	15%	15%	15%
Residual Chips	58%	46%	39%	34%	35%
Other (1)	26%	32%	33%	35%	31%

(1) Primarily construction and demolition debris, wood waste reclaimed from landfills. Also includes yard trimmings, wood waste from land clearings, storm debris, pellets, wire spools, municipal tree waste, agriculture feedstock, and tire scraps. Includes bark from onsite whole-tree chipping, and purchases from sawtimber and panel mills.

NA Bioenergy Fiber Demand – Announced Projects (Million Green Tons Wood Equivalence)



Source: RISI Wood Biomass Market Report.
www.risi.com/woodbiomass

SOURCE: RISI Wood Biomass Report

term average of a 1.7 per cent vacancy rate. In rentals, 1.1 million units need to be absorbed to return to an 8 per cent vacancy rate.

"There are 8 million mortgages delinquent right now, facing potential foreclosures. All things remaining equal it will take four years to work through this inventory," Balter said. At the moment there is competitive pricing between renting and owning, and a perception of home ownership as an investment, he explained.

"We will see a renewed downward pressure on home prices, a 5 to 7 per cent retrenchment in 2011, then back to normal growth," said Balter.

Moving into the afternoon, the next speaker was Peter Barynin, Principal Timber Economist for RISI, whose presentation was titled Taking the Temperature of the North American Biomass Market. Readers know that this is a topic *Madison's* covers frequently, and the data provided by Barynin bore out our conclusion.

"At a peak harvest of 500 million short tons in North America, one-third of this is low grade or pulp wood," Barynin started off with a bang. "70 million tons of wood fibre will be processed into biomass fuel by 2015, 35 per cent of this will be wood pellets with 65 per cent going into wood energy. This figure is over-inflated, as it is driven by public policy," Barynin warned.

The American black liquor tax rebate has expired; in the end US\$8 million was paid out with no encouragement of renewable energy production. Making traditional forest products out of wood creates more, and higher end, jobs than processing into biomass fuel, at a ratio of up to 12:1 said Barynin.

"In Europe there is demand for 70 million tons of pellet capacity annually and growing. Where is this wood going to come from?" Barynin asked rhetorically. "In the UK there is demand for 35 million green short tons annually compared to a harvest of just 10 million. Meanwhile the pulp industry remains the main consumer of sawmill residue, and will continue to determine the price of pulpwood in the short term future. The development of other biomass fuel technology beside pellets, like pyrolysis and gasification will take things higher. But not for another five years," Barynin concluded.

The last presentation of the day, before panel discussions and round tables commenced, was Factors Affecting North American Supply: Mountain Pine Beetle, Harvesting Trends, and the Health of the Supply Chain by Rocky Goodnow, Director, Timber for Forest Economic Advisors. This presentation was so detailed and informative that it deserves a solo feature in an upcoming issue of *Madison's Lumber Reporter*.