

# 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.madisonreport.com  
madrep@shawcable.com  
604 984-6838

PO Box 2486 Vancouver, BC  
V6B 3W7 Canada



In Canada, add 5% GST  
ISSN 0715-5468

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## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest financial results from Universal Forest Products. Recent investment activity in the transportation sector in both the US and Canada is also detailed.

Contact us any time for a subscription.

### Canadian Housing Starts

Canadian housing starts were lower than expected in June as multiple-dwelling projects declined, Canada Mortgage and Housing Corp. reported Tuesday.

Canadian housing starts fell in June to a seasonally adjusted annualized rate of 189,300 units from a revised 195,300 in May. May's housing starts were originally reported at 189,100 units. April's figures were also revised.

Low borrowing costs and a tax increase that took effect July 1 in Ontario and British Columbia sparked demand for Canadian homes, helping the country's economy recover from its first recession in 17 years. The Bank of Canada predicted in April that housing will contribute 0.6 percentage point to growth this year and cut 0.1 point from next year's expansion.

Urban multiple starts fell 5.8 per cent to 89,200 units, while single-family starts gained 1.4 per cent to 77,800 units. Starts in Ontario fell 17 per cent to 52,600 units, CMHC also said.

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### Japan Housing Starts

After the increase recorded in April for the first time in 17 months, Japan's new housing starts in May were 59,911 units, down by 4.6 per cent from the same month last year, reported the Ministry of Land, Infrastructure, Transport and Tourism on June 30.

As the result of the government's housing policies the number of housing constructions tends to look up from this year, though in May it is having a temporary lull.

By applications, owner-occupied houses increased to 24,243 units, up 4.8 per cent, for the seventh consecutive month. In built-for-sale houses, those of detached houses increased to 8,953 units, up 30.0 per cent, for the fifth consecutive month, but those of condominiums declined to 4,202 units, down 31.5 per cent. This was big reduction, below a half or less compared to the previous month's results.

Housing starts of houses for rent were 21,759 units, down 13.5 per cent, which declined for the 18th consecutive month, especially due to a cooling down of the construction by private funding.

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### North American Forestry Exports

Given the massive fluctuation in North American lumber prices in 2Q 2010, analysts are – once again – weighing in with opinions and forecasts. On July 14, Dina Cover, Economist with TD Bank Financial Group, released a report titled, "*What's Next for Lumber Prices?*"

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#### CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	June 2010		May 2010	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	<b>17,528</b>	<b>189,300</b>	<b>17,882</b>	<b>195,300</b>
urban ctrs with >10,000	15,345	167,000	15,527	171,400
singles, urban centres	7,834	77,800	7,329	76,700
multiples, urban centres	7,511	89,200	8,198	94,700
rural areas	2,183	22,300	2,355	23,900
Atlantic urban centres	1,012	9,300	1,045	11,600
Quebec urban centres	4,223	47,300	4,052	42,400
Ontario urban centres	4,956	52,600	5,750	63,700
Prairie urban centres	3,058	34,200	2,754	31,500
B.C. urban centres	2,096	23,600	7,926	22,200

Source: Canada Mortgage and Housing Corporation

#### JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
May-10	59,911	24,952	34,959	58
Apr-10	66,568	32,143	34,425	52
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

Source: Japan Wood-Products Information and Research Center

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	218	215	+3	190	+28	173	+45
WSPF KD R/L 2x6	210	208	+2	195	+15	190	+20
WSPF KD R/L 2x8	260	245	+15	200	+60	225	+35
WSPF KD R/L 2x10	290	245	+45	245	+45	310	-20
WSPF KD PET 2x4 Stud	220	215	+5	210	+10	195	+25
Douglas Fir Green R/L 2x4	195	200	-5	210	-15	163	+32
Douglas Fir Green R/L 2x10	290	245	+45	255	+35	240	+50
ESPF KD 2x4 8ft Stud	290	300	-10	310	-20	285	+5
OSB Ontario 7/16" (CDN\$)	230	230	0	250	-20	220	+10

## Weekly News

### Canada's Economy

CONTINUED In other news, Canada's trade deficit with the rest of the world widened in May as strong exports were outpaced by even more robust imports, Statistics Canada reported Tuesday.

The country's deficit rose to \$503 million during the month, from a \$330-million shortfall in April, the federal agency said. May was the third straight month in which Canada recorded a deficit. The April figure was revised downward from an initial estimate of a \$175-million surplus.

Canada's surplus with the United States — the country's largest trading partner — increased to \$3.6 billion in May from \$3.5 billion the previous month.

Canadian factory sales rose in May for the eighth time in nine months, led by the motor vehicle and parts industries sectors, Statistics Canada reported Thursday.

Sales were up 0.4 per cent to \$44.8 billion during the month, the federal agency said. Most economists had expect-

ed an increase of between 0.4 and 0.5 per cent in June.

Of the 21 industries included in the report, sales increased in nine, accounting for nearly half of the total sales for the month.

The non-durable goods sector saw sales fall by 0.7 per cent, but 1.6 per cent growth in the durable goods sector was more than enough to restore a positive balance.

### Housing Starts Japan

CONTINUED Seasonally adjusted annual starts were 737,000 units, 7 per cent lower than May.

Wood based units were 34,956, a five straight month increase at 5 per cent higher than April, and a 58.4 per cent share of total home building.

Building permits in May were 41,620, 8.7 per cent higher than May 2009.

Housing starts this year are more than last year with 830,000 units. Domestic wood and imported products are more than last year's volume, says the *Japan Lumber Reports*.

North American logs for the 3Q are estimated to maintain steady pricing and expanded production, then prices may firm up in 4Q, says the *Reports*. Lumber demand and supply out of North America should increase in 4Q due to ample capacity there to respond to increasing demand in Japan.

Domestic logs for the second half of the year would increase due to increasing housing starts, concludes the *Reports*.

### Canfor Announces

Canfor Corporation announced Thursday that Howe Sound Pulp and Paper Limited Partnership has entered into an agreement for the sale of all its assets to Paper Excellence B.V.

HSPP operates a pulp and paper facility at Port Mellon, BC, capable of producing 400,000 tonnes of NBSK pulp and 230,000 tonnes of mechanical paper and employs approximately 500 people. HSPP is owned by Canfor and Oji Paper Co., Ltd. of Japan.

The transaction is subject to customary closing conditions and closing is expected during 3Q 2010.

### Log Broker for TaanForest, Haida Gwaii, BC

TaanForest Ltd. is a new and exciting entrant into the coastal BC forest industry. With operations located on Haida Gwaii, a significant volume will be harvested annually comprised of Hemlock, Cedar, Cypress, and Spruce destined for global markets. Work is currently underway to secure FSC certification for all wood.

TaanForest Ltd. seeks a qualified log broker with experience in all facets of the coastal log market including old growth and second growth wood along with export markets.

**Proven performance, integrity, and references are all critical prerequisites.**



**Deadline for Submission;  
July 18, 2010.**

**Contact B. Brash, President,  
brash@taanforest.com**

### In Memoriam

Henry Irene Leger passed away suddenly Friday July 9, 2010 at the age of eighty-one. Henry took great pride in his accomplishments in the lumber industry and was instrumental in forming many trade policies that have shaped it. Included in his achievements are: President, Lumbesco Inc.; Administrator of the Canadian Lumber Standards between Canada and the US; Member of the Advisory Committee on forestry to the Economic Council of Canada; Director of the Canadian Lumberman's Association; President of the Quebec Wholesale Lumber Manufacturer's Association.

## Export Demand Forest Products

CONTINUED “Lumber prices have had quite the ride this year, surging by nearly 50 per cent during the first four months of the year, before giving up all of those gains within the last two months,” begins the TD report. “In May and June, production was easily outpacing demand, bringing the market back into a position of excess supply. Tariff-free June drove Canadian exports to the US up 21 per cent on the month.”

by Kéta Kosman

As for the forecast, the report states, “While the downtrend appears to have come to a halt over the past two weeks, the outlook for demand is not too bright in the near term. [ . . . ] We expect housing starts in the US to remain close to current levels over the next couple of months before gradually creeping up towards the 1 million unit mark by the end of next year. [ . . . ] As long as producers don’t get too excited about the seasonal bounce in prices and are disciplined enough to keep output in line with demand, prices are not likely to fall below current levels. As such, we have downgraded our lumber price forecast to include some weakness over the balance of this year, before gradually trending up to US\$340 by the end of 2011.”

In terms of exports, the report boldly declares, “Offshore demand will also offer little help, as economic growth in several countries around the world – including China – will also likely moderate in the coming months.”

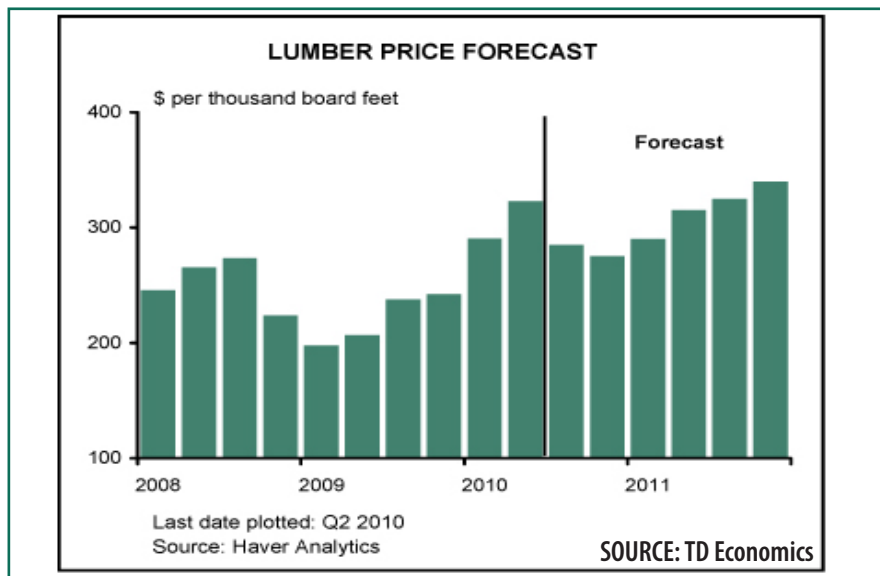
Larry Konnie, head of Eugene, OR’s, Swanson Brothers Mill noted to *Examiner.com* on June 23 that the prices his mill is getting for finished products used in home building – posts and timbers, beams and stingers, clears and joists and planks – is the lowest they’ve seen in 20 years due to sluggish US housing market. Konnie pointed to the “international” side of his business as a problem for his company and the timber industry as a whole.

“This recession is happening to countries like Japan,” he said. “Our chips are exported to Japan, but the demand is now way down. I’ve even heard that some mills are burning the wood chips that mills usually sell for revenue.”

Konnie said a dry ton of wood chips is today selling for between \$50 and \$100, or down by more than half of what chips usually sell for.

However other reports recently released out of Asia tell a different story.

“The 2010 demand forecast for North American logs, revised in June, is



2,616,000 cubic metres or a 5.2 per cent of year-on-year increase, and lumber forecast is 2,499,000 cubic metres or a 7.1 per cent of year-on-year increase. Demand for both logs and lumber bottomed out this year and turned up,” according to the *Japan Lumber Journal*. Japan North American Lumber Conference 2010 Chair Ema expressed his forecast saying, “Though demand for North American lumber was continuing to fall behind the previous year’s level by 16 per cent, it has finally returned to the regular level in 2010. In the future, it will gradually increase. [ . . . ] China’s log imports from North America are growing with 600,000 cubic metres in 2008, 1,130,000 cubic metres in 2009, and 600,000 cubic metres in January-April in 2010. Possibly, it will reach 2,000,000 cubic metres in the entire year of 2010.”

Asia’s RHB Research reports that log inventories in Japan plywood mills are currently at the lower end, and as such, some trading houses have been receiving offers of up to US\$220 per cubic metre for ‘meranti’ regular FOB. These selling prices for logs are higher than the estimated of US\$180 to US\$185 per cubic metre levels for 2010, according to the *Borneo Post*. RHB Research believes that price increases were mainly a cost-push factor, caused by the limited supply of tropical plywood in Japan, as Japanese manufacturers continued cutting production in the midst of rising input costs as well as the rising input costs for Malaysian plywood manufacturers such as log, glue and logistics cost.

The July 1 issue of *Fordaq’s* wood segment states that the supply of plywood in Japan during April was 301,900 cubic metres, up 29 per cent, on March levels and nearly a third up on levels in April 2009. Plywood imports rose notably from Indonesia and China, and because domestic consumption rose, plywood inventories

fell. Log stocks are low in Sarawak, so Japanese log importers have delayed sending vessels to load logs. The next loading could be as late as the end of June. Meanwhile, many west coast US sawmills are increasing exports to Japan even in the face of rising US domestic log prices and higher ocean freight charges. To attract Japanese buyers, US millers are now cutting metric sizes and are offering more kiln dried lumber, according to *Fordaq*.

China imported a total of 10,602,000 cubic metres of wood raw materials in 1Q 2010, an increase of 3.3538 million cubic metres, or 46.21 per cent, over 1Q 2009, and an increase of 401,500 cubic metres, or 3.9 per cent, over 4Q 2009, says the June issue of *China Wood Monthly Market Report*.

Canada imported 102,400 cubic metres of logs into China in 1Q 2010 up 119.2 per cent year on year, ranking among the Top 10 importing countries of China’s logs for the first time. Canada ranked first in lumber imports for the first time, surpassing Russia, and importing 790,300 cubic metres of lumber, up 147.51 per cent year on year. This upward trend has undergone further development in the 1st quarter of this year, says the *China Wood Monthly Market Report*.

Statistics Canada has reported a 2.9 per cent increase in lumber production from March. Sawmills shipped 4.9 million cubic metres of wood in April.

The United States imported 257,700 cubic metres of logs in 1Q 2010, up 178.29 per cent year on year. With the decrease in Russian log imports and the rapid increase in the purchase price of New Zealand logs, market competitiveness of North American imported logs has been enhanced, such as pines from the US, consequently North American imported logs have become the new options for the managers, according to the *China Wood Monthly Market Report*.