

MADISON'S LUMBER REPORTER



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News & Updates

Wildfires Continue

Russia and British Columbia in particular continue to suffer from hundreds of out-of-control forest fires.

Dozens of incoming flights were diverted from Moscow's Domodedovo and Vnukovo airports on Friday as smog brought runway visibility down to 200 metres. The emergencies ministry said more than 500 separate blazes were burning nationwide on Friday, mainly across western Russia.

At least 52 people have died and 2,000 homes have been destroyed in the fires.

Yuri Besedin, a Moscow emergency official, said: "All high-temperature records have been beaten, never has this country seen anything like this, and we simply have no experience of working in such conditions.

Besedin said 31 forest fires and 15 peat bog fires were burning in the Moscow region alone.

Most of BC's fires are concentrated in the Kamloops, Cariboo and northwest areas.

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Canada's Forest Industry Transformation Program

The Government of Canada launched a \$100 million program Monday to help expand opportunities for Canada's forestry sector through the development of innovative projects and technologies.

The purpose of the IFIT program, which was first introduced in Canada's Jobs and Growth Budget 2010, is to demonstrate and deploy new and advanced technologies in the forest sector through investments in innovative processes.

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More 2Q Results

Ainsworth Lumber said Thursday it lost \$17.8 million in 2Q 2010, hurt by a foreign exchange loss on its long-term debt, compared with a profit of \$24.7 million a year ago. The results included a \$23.1-million charge related to foreign exchange, compared with a gain of \$46.6 million a year ago. Sales totalled \$96.1 million, up from \$70.8 million.

Domtar Corp. earned US\$116 million on revenue of US\$1.5 billion, up 17 per cent from one year ago. In May Domtar reinstated its dividend at a quarterly 25 cents a share and announced a US\$150-million share buyback.

Weyerhaeuser Company last Friday reported net earnings of US\$14 million for 2Q 2010 on net sales of US\$1.8 billion, compared with a net loss of US\$106 million on net sales from continuing operations of \$1.4 billion for the same period last year.

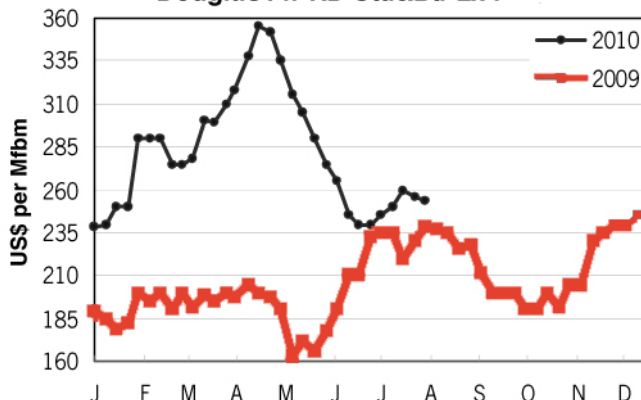
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Japan Lumber Imports

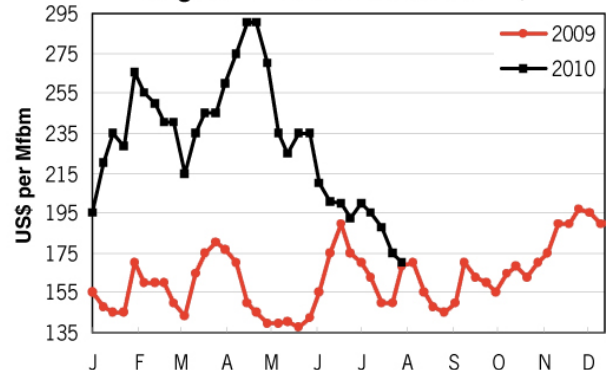
Solid wood product imports, and log imports, into Japan for the first five months of 2010 show a steady increase over 2008 and 2009 figures. Domestic Japanese stocking wholesalers have gone on a buying spree in recent weeks over concerns of depleted inventories and rising prices.

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Douglas Fir KD Std&Btr 2x4



Douglas Fir Green Std&Btr 2x4



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	218	218	0	215	+3	204	+14
WSPF KD R/L 2x6	224	220	+4	208	+16	199	+25
WSPF KD R/L 2x8	270	275	-5	245	+25	225	+45
WSPF KD R/L 2x10	313	310	+3	245	+68	320	-7
WSPF KD PET 2x4 Stud	215	220	-5	215	0	205	+10
Douglas Fir Green R/L 2x4	170	175	-5	200	-30	168	+2
Douglas Fir Green R/L 2x10	290	290	0	270	+20	250	+40
ESPF KD 2x4 8ft Stud	290	290	0	300	-10	282	+5
OSB Ontario 7/16" (CDN\$)	225	230	-5	230	-5	220	+5

Weekly News

Forest Fires

CONTINUED On Thursday, the number of active blazes held steady around 400, said BC fire information officer Gwen Eamer. "I know that number doesn't sound good, but we've been getting about 40 to 50 new fires everyday, so the fact we are holding steady at 400 is decent," Eamer said.

But with "volatile" fire activity in the Cariboo region, the total number of hectares of provincial forests burned jumped to 93,350 hectares from 77,500 on Tuesday, she added.

More than 200 fire personnel from the United States, Ontario and Alberta have arrived to help battle the province's wildfires. There are about 2,000 B.C. fire officials already in the field.

Wildfires continued into Thursday evening northwest of Edmonton, AB, near Peace River and Lesser Slave Lake, a provincial government wildfire report said.

Fire officials directing crews battling a wildfire in central Oregon say fire con-

tainment lines held Thursday without any significant growth in the fire's perimeter.

Canadian Forestry Funding Program

CONTINUED The goal is to encourage the development of a wider range of innovative technologies, which would help secure a more prosperous future for Canada's forestry industry and the communities who depend on it. Forest sector companies that have existing facilities in Canada, including those that have been recently affected by the global economic downturn, could be eligible for IFIT support.

"As the forestry sector expands the number of innovative products it produces and sells around the world, new employment opportunities will emerge," said the Honourable Denis Lebel, Minister of State for the Economic Development Agency of Canada for the Regions of Quebec. "While the traditional industry continues to thrive, positions for workers with technical and market knowledge will emerge."

Financial Results

CONTINUED Excluding these items, Weyerhaeuser reported net earnings of US\$42 million in 2Q 2010.

Louisiana-Pacific Corporation reported also last Friday results for 2Q 2010. Total sales of US\$447 million were up 67 per cent versus a year ago, led by higher OSB prices while US housing starts increased 12 per cent from 2Q 2009 levels.

For the quarter ended June 30, 2010, LP reported net sales of US\$447 million, an increase from US\$267 million in 2Q 2009. For the second quarter, the company reported operating income of US\$49 million as compared to a loss in 2Q 2009 of \$32 million.

For the second quarter of 2010, LP reported income from continuing operations of US\$24 million as compared to a loss from continuing operations of \$27 million for 2Q 2009.

For the first six months of 2010, LP reported income from continuing operations of US\$1 million as compared to a loss US\$58 million for the first six months of 2009.

Calendar

September 2010

AFFPA 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/>

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The Question of Japan Lumber Demand

Madison's noted with great interest the absolute upset of Japan's leadership in that country's August 30, 2009 general election.

by Kéta Kosman

News that the Liberal Democratic Party's (LDP) 50 year reign had ended prompted expectations of a new direction for the Japanese government, particularly in economic policy. Enactment of changes stagnated, however, and on June 2, 2010 new Prime Minister Uukio Hatoyama resigned due to broken campaign promises. The July 11, 2010 blow for the ruling Democratic Party of Japan (DPJ) in upper house elections, leaving it without a majority, casts further uncertainty on future policy decisions.

China has recently surpassed Japan as the world's second largest economy. Analysts speculate that once Japan recovers from its 'lost decade' it will again rise to the world's number two position, although a strengthening Yen may hold back the rate of Japan's growth.

Japan's demographics show that housing has been more underbuilt for longer than in the US, meaning Japan is poised for an increase in new home building. The latest lumber import figures and, possibly more important, increases in domestic lumber prices, seem to bear out this theory.

As detailed in the July 30, 2010 issue of your *Madison's Lumber Reporter*, domestic lumber prices in Japan saw increases of US\$50 per cubic metre in 3Q 2010 negotiated prices, due to several busy months for Japan's large component companies which has depleted stocking inventories.

After falling steadily from 2006 to 2009, North American lumber imports into Japan rose almost every month in 2010, from 214,000 cubic metres in January to 239,000 cubic metres in May. Total Japanese lumber imports from North America for the first five months of 2010 is 1.0 million compared to 2.3 million cubic metres for the entire year of 2009, according to the *Japan Lumber Journal*.

Japan's North American log imports for the first five months of 2010 were 1.1 million cubic metres, rising from 230,000 in January to 295,000 cubic metres in May. Total North American log imports for 2009 were 2.5 million cubic metres. Russian log imports into Japan, meanwhile, continue to suffer due to uncertainty about the high raw log export tax

in that country. In 2006, 4.8 million cubic metres of Russian raw logs were imported into Japan, by 2009 that number fell to just 632,948 cubic metres. In the first five months of 2010, only 206,344 cubic metres of logs were brought from Russia to Japan, according to the *Japan Lumber Reports*.

In negotiations between German whitewood buyers and Scandinavian shippers, lumber shippers argued that not only had log procurement costs continued to rise but also that considerably improved sales alternatives existed on markets inside and outside Europe. In Japan in particular, Scandinavian shippers have registered noticeable growth in demand over the course of the last few weeks, a trend that has been used for corresponding price increases there as well, according to the July 29, 2010 issue of *EUWID*.

On July 30, 2010 Japan housing starts figures showed a 0.6 per cent increase from a year earlier, the first year-on-year rise in two months. This growth was helped by government subsidies and tax breaks for energy efficient homes. Starts

had declined 4.6 per cent in May, the Ministry of Land, Infrastructure, Transport and Tourism reported. Annualized housing starts in June totalled 750,000, increased from 737,000 in May.

By contrast, construction orders received by big 50 contractors declined in June after increasing in May. Orders were down 10.2 per cent compared to a 9.2 per cent rise in May. Building construction orders fell 13.4 per cent annually, reversing last month's 33.5 per cent growth.

Owner-occupied houses in Japan rose 4.4 per cent compared to June 2009 at 27,656 units, the eighth consecutive monthly gain. New houses for rent fell by 10.9 per cent compared to one year earlier at 24,871 units, down for the 19th straight month. Condominiums and houses for sale rose 24.6 per cent at 15,705 units, the fourth consecutive year-on-year rise.

In terms of effect on North American lumber and panel producers, Canfor, West Fraser and Interfor reported in 2Q 2010 results that consistent demand out of Asia is helping bolster Canadian lumber production and prices.

"The resilience of the offshore market is expected to persist as strong lumber demand continues in China and Japan for both housing construction and remanufacturing and Do-It-Yourself markets," explains Canfor's July 29, 2010 press release.

"Shipments to Japan and China increased 18 per cent in the quarter from the previous quarter and nearly 60 per cent from levels reached in the comparative period in 2009," detailed West Fraser's July 22, 2010 press release.

"Pacific Rim markets including Japan and China accounted for 21 per cent compared to 23 per cent of lumber sales in the first quarter. [. . .] In terms of volumes, there was an overall shift in markets from North America to Pacific Rim markets including Japan and China compared to 2009. Excluding wholesale programs, shipments to North America accounted for 76 per cent of all shipments for the first half, 2010, with 22 per cent of total shipments destined for the Pacific Rim markets, as compared to 81 per cent and 16 per cent respectively for the comparative period in 2009," explained Interfor's July 22, 2010 press release.

Lumber and log demand in Japan suffered greatly in 2008 and 2009. While indications of recovery are starting to show it will likely be 2011 before a return to healthy lumber import figures in Japan. Meanwhile, the beginning of its increase in demand for North American lumber helped Canadian producers through the turbulent first two quarters of 2010.

Import From		
	North America	
	Log	Lumber
	Total	Total
2006	3,239,782	3,440,554
2007	3,020,438	2,723,683
2008	2,638,496	2,929,211
2009	2,468,219	2,271,614
'10 Jan.	229,611	214,152
Feb.	199,167	160,983
Mar.	228,376	223,760
Apr.	247,144	234,731
May	295,472	238,563
	Russia	
	Log	Lumber
	Total	Total
2006	4,805,323	986,702
2007	3,897,519	954,123
2008	1,796,413	666,457
2009	623,948	678,700
'10 Jan.	24,085	53,756
Feb.	40,229	46,675
Mar.	45,311	60,035
Apr.	48,554	67,463
May	48,145	57,478

SOURCE: Japan Lumber Reports