

MADISON'S LUMBER REPORTER

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News & Updates

BC Wildfires Progress

Up to 300 of Canfor's forestry workers in Vanderhoof and Houston, BC, have been pulled off the job due to extreme forest fire risk, as fires in the area burn across 20,000 hectares of forests. It's possible hundreds of Canfor workers in other regions of the province could also be pulled from the woods, said Canfor spokesperson LeFebvre to CTV.

"We are looking at active growth on all of our fires," said BC fire information officer Gwen Eamer. The flames were fuelled by a cold front that brought gusting winds up to 40 kilometres an hour in the fire-ravaged northern and central region overnight on Wednesday.

One section of the Pelican Complex fire in the Cariboo region devoured 15 kilometres in under two hours. Fire crews were holding the Meldrum Complex fire from jumping the Fraser River on Thursday, after being pulled off due to safety concerns late Wednesday.

In the northwest, fire crews were avoiding the erratic front of the four large fires, tackling the sides of the blaze instead. The growing Binta Lake fire, 200 kilometres west of Prince George, forced people out of another 32 homes and placed an additional 335 residences on evacuation alert.

US Housing Starts Up

US housing starts increased more than expected in July, as building permits dropped. Housing starts increased by 1.7 per cent, to a seasonally adjusted annual rate of 546,000, the Commerce Department said Tuesday. Single-family housing starts dropped 4.2 per cent to an annual rate of 432,000.

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Housing Starts Canada

Canadian new home construction fell to its lowest level in seven months in July, Canada Mortgage and Housing Corp. reported August 10. New housing starts fell 1.6 per cent in July to a seasonally adjusted annual pace of 189,200 units on a drop in single-home construction.

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USW & CONIFER Bargain Tentative Deal

The USW BC Interior Bargaining Committee and the Council on Northern Interior Forest Employment Relations resumed talks last week and Tuesday concluded a tentative agreement. The new deal is modelled on the Interior Pattern Agreement and contains all the gains made in prior bargaining, says a USW press release.

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US Mortgage Reform

Figures released Wednesday by the Mortgage Bankers Association show that mortgage applications in the US rose 13 per cent for the week ending August 13, the highest level in 15 months. This increase was driven by a 17 per cent surge in applications to refinance home loans, but is still lower than the last big boom during the first three months of 2009. Of total mortgage applications, the share of applicants seeking to refinance a loan rose to 81 per cent, from 78 per cent the previous week.

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U. S. HOUSING STARTS

	Jul-10	Jun-10		Jul-10	Jun-10
Starts			Permits		
Actual	51,200	53,400	Actual	51,200	58,900
SAAR*	546,000	537,000	SAAR*	565,000	583,000
1 Unit	432,000	451,000	1 Unit	416,000	421,000
2-4 Units	(s)	(s)	2-4 Units	20,000	20,000
5+ Units	95,000	81,000	5+ Units	129,000	142,000
Starts by Region			Permits by Region		
Northeast	77,000	59,000	Northeast	63,000	85,000
Midwest	93,000	84,000	Midwest	92,000	93,000
South	267,000	285,000	South	294,000	283,000
West	109,000	109,000	West	116,000	122,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	July 2010		June 2010	
	Actual	SAAR	Actual	SAAR
Canada, all areas	17,390	189,300	17,882	192,300
urban ctrs with >10,000	15,195	167,000	15,527	166,000
singles, urban centres	6,717	77,800	7,329	76,600
multiples, urban centres	8,478	89,200	8,198	89,400
rural areas	2,195	22,300	2,355	26,300
Atlantic urban centres	1,208	9,300	1,045	9,000
Quebec urban centres	3,860	47,300	4,052	47,100
Ontario urban centres	4,784	52,600	5,750	52,500
Prairie urban centres	3,526	34,200	2,754	33,900
B.C. urban centres	1,817	23,600	7,926	23,500

Source: Canada Mortgage and Housing Corporation

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	223	211	+12	218	-7	200	+23
WSPF KD R/L 2x6	232	224	+8	219	+14	195	+37
WSPF KD R/L 2x8	273	270	+3	270	+10	225	+48
WSPF KD R/L 2x10	314	312	+2	300	+22	315	-1
WSPF KD PET 2x4 Stud	215	220	-5	220	0	208	+7
Douglas Fir Green R/L 2x4	200	180	+20	188	-15	155	+45
Douglas Fir Green R/L 2x10	282	285	-3	300	-5	253	+29
ESPF KD 2x4 8ft Stud	270	285	-15	290	-5	285	-15
OSB Ontario 7/16" (CDN\$)	225	225	0	230	-5	200	+25

Weekly News

Housing Starts, US

CONTINUED US housing starts, year over year, were down 7 per cent in July. While single-family housing starts in July dropped, groundbreakings of homes with five or more units surged by 17 per cent.

Building in coming months will likely be sluggish, as the latest data showed July building permits fell 3 per cent to an annual rate of 565,000.

The National Association of Realtors last month said the 3.99 million previously owned homes for sale at the end of June would take about 8.9 months to deplete at the June sales pace. That's the highest monthly supply since August 2009.

On Monday, the National Association of Home Builders said US home-builder sentiment dropped for a third straight month in August to the lowest level in nearly a year and a half.

Canada Home Building

CONTINUED "The pace of housing construction activity continues to be strong, but is slowing across the province," stated

Ontario Home Builders' Association President James Bazely in response to the CMHC numbers.

"Many economic indicators are trending upwards, however the recovery remains fragile and the second half of the year is unlikely to be as strong as the first half."

Bazely cautioned that while housing starts are strongly correlated with job creation, it is a lagging indicator and reports from new home sales offices across the province suggest that demand is slowing slightly.

Labour Contract

CONTINUED Details released so far reveal a 4-year agreement that greatly enhances job security and union security provisions that significantly improve contract language surrounding the permanent and/or partial closure of lumber manufacturing operations.

In addition to 2 per cent wage increases in the 3rd and 4th years, a profit pay plan may provide additional compensation as the industry recovers.

The USW Bargaining Committee is recommending the membership ratify this tentative agreement.

Wood Imports, China

China's wood imports for the first six months of 2010 continued to show robust demand, says the *Japan Lumber Reports*, noting that imports from North America have exceeded Russian volumes. Growth of lumber imports into China is astonishing and expectations for the end of 2010 are at 13 million cubic metres, a record high.

Full-year log imports will likely be 32 million cubic metres, the same as 2006, according to *China Wood*.

For the first six months of 2009 China imported 909,000 cubic meters of lumber products from Canada, compared to 1.6 million cubic metres for the same time period in 2010, a 176 per cent increase. Imports of lumber from the US increased by 170 per cent, to 593,000 cubic metres.

Imports of logs from Canada rose by 227 per cent, while those from the US rose by 344 per cent. Log imports from Russia fell slightly for the same time period.

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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/>

US Real Estate

Mortgage Reform

Applications for loans to purchase homes, however, fell by more than 3 per cent, another sign that low rates mortgage rates have failed to spark home sales.

The average rate for a 30-year fixed mortgage dropped to 4.42 per cent in the

by Kéta Kosman

week ended August 20, from 4.44 per cent, Freddie

Mac said in a statement Friday. The average 15-year rate was 3.9 per cent.

Analysts weigh in on the meaning of this activity, particularly in the face of US government movement to further stimulate the US housing industry.

"The flood of refinancing is influencing markets," says *Bloomberg Business Week*, August 18. "Government-backed mortgage bonds are underperforming Treasuries amid concern the record-low borrowing costs are leading to acceleration in refinancing. In addition, the inability of some homeowners to qualify for new Fannie Mae and Freddie Mac loans is raising speculation the US will loosen rules, punishing more bondholders as higher yielding mortgages disappear."

This sentiment is echoed by many economists tracking US home building.

"This is one of the big problems facing the Fed; rates have been low for so long that anyone who needs a loan and can qualify has probably already taken advantage of the low rates," said Chris Gaffney of Daily Reckoning August 19.

The Obama administration is expected to propose its own reform plan in January, and US Treasury secretary Tim Geithner said on Tuesday, there was a "strong case to be made for a carefully designed guarantee in a reformed system". Without such support, "future recessions could be more severe", with greater home price declines and damage to financial wealth, according to the *Financial Times*.

Industry leaders got a chance Tuesday to put forth ideas on how to fix government-owned mortgage finance giants Fannie Mae and Freddie Mac and the broader housing finance system. Dubbed the "Conference on the Future of Housing Finance," and moderated by Treasury Secretary Timothy Geithner and Housing and Urban Development Secretary Shaun Donovan in Washington, DC, the conference is billed as a first step toward housing finance reform.

Pacific Investment Management LLC co-founder Bill Gross, who manages the world's biggest bond fund and participated in Geithner's conference, told the *Financial Times* last week that without government backing for mortgages, he

would require borrowers to make down payments equal to 30 per cent of the value of the loan.

Reform of Fannie Mae and Freddie Mac, which have incurred losses of about US\$150 billion for the US since being placed under government control in 2008, was left out of the massive financial regulatory overhaul bill enacted last month, but has since risen to the top of the economic and financial policy agenda. The objective of the Fed is to reinvest maturing mortgage debt from its US\$2,300 billion balance sheet and maintain its easy monetary policy stance.

The Federal Reserve began buying Treasuries this week as part of its latest effort to ease credit, with the purchase of US\$2.55 billion made on Tuesday. A second round of purchases, targetting debt maturing between 2016 and 2020, will take place on Thursday. With the bulk of Treasury purchases in the two- to 10-year sector, this should, in theory, help keep mortgage rates low, as the average life of a US fixed rate 30-year mortgage is about seven years, due to a tradition-

ally buoyant refinancing market. Since the Fed announced the resumption of buying last week, the yield on seven-year Treasury notes has dropped below 2 per cent from 2.23 per cent, while 10-year yields are below 2.60 per cent, down from 2.84 per cent.

In the meantime, many homeowners face negative equity – meaning their mortgages are worth more than their homes – and lending standards have tightened after the financial crisis. In short, people may be going to banks with requests for cheaper home loans, but many banks remain reluctant to approve the new loans. From the investor perspective, prices on many Mortgage Backed Securities (MBS) have fallen recently, as investors lock in the significant profits they have made on the back of expectations of some increase in refinancings and also because they think the government may intervene to encourage banks to approve more refinancing requests.

If the Fed eventually renews its purchase program in a much larger fashion and buys another trillion dollars worth of US Treasuries, it would drive long-term interest rates up much more. Canada's dollar would strengthen, which would negatively affect Canada's exporters and manufacturers, already hit hard by Canada's rising dollar. Moreover, the Fed's response shows that Canada's recovery, which has relied primarily on domestic spending, will have to continue to go forward on its own, said Douglas Porter, deputy chief economist for BMO Capital Markets in a statement August 11.

Colin Cieszynski, analyst with CMC Markets Canada, said of the Fed's announcement: "It suggests that the Fed is prepared to continue supporting the economy. [. . .] Rolling over securities the agency currently holds can be seen as continuing current programs and slowing the withdrawal of the previous quantitative easing rather than hitting the panic button and launching a new round of QE."

The US mortgage bond sector has underperformed, particularly relative to US Treasury debt. As well as the refinancing calculations, the value has been affected by the Federal Reserve's latest shift in monetary policy. Specifically, there will be increased supply for mortgage investors to absorb after the Fed said last week it would reinvest the proceeds and cash flows it receives from MBS on its balance sheets into US Treasuries, not MBS. This means that the Fed is essentially putting on a trade which is widely used by investors – it is going short MBS and going long US Treasuries.

As this strategy pushes down Treasury rates, it could further entice homeowners to refinance, according to the *Financial Times*.

