

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 Timber Preview

This week's issue of *Madison's Timber Preview* looks at newspaper advertising sales statistics, as well as newsprint and other paper grade prices and global inventory levels. Contact us any time for a subscription.

Housing Starts, Canada

Canadian housing starts fell in August for a fourth straight month and new home prices edged lower in July for the first time in 13 months, demonstrating further slowing in the sector, which had led the country out of recession.

Housing starts slipped a greater-than-expected 3 per cent in August to a seasonally adjusted rate of 183,300 units, Canada Mortgage and Housing Corporation said. The monthly decline hit both urban single-family homes and multi-unit dwellings, which fell 3.6 per cent and 3.7 per cent, respectively.

The new housing price index slipped 0.1 per cent in July, against forecasts for a 0.1 per cent increase. Home prices rose 0.1 per cent in June.. [READ MORE](#)

Japan Housing Starts

July housing starts in Japan rose 4.7 per cent compared to July 2009, to 68,785 units, according *Japan Lumber Reports*. Seasonally adjusted starts were 772,000 units, up 2.9 per cent from June but the fourth straight month of starts less than 800,000. [READ MORE](#)

US Wildfires

With heavy rains for the past two weeks, British Columbia's wildfire season is over. In total this year 322,378 hectares of forest was burned compared with 244,000 last year. More hectares were burnt in the worst six weeks of fires than in any full season of the past 10 years, said provincial fire coordinator Kim Steinbart. Although there were 3,000 fires in 2009, and just 1,600 in 2010, this year's were bigger and "very active."

The financial cost, however, is lower this year than last – \$190 million, compared with \$312 million at this time in 2009 – although the total area burned is greater.

Firefighters were able to keep the Fourmile Canyon fire, outside Boulder, CO, contained at about 30 per cent Friday. Yet that fire has burned 6,422 acres, destroyed 172 structures and incurred \$4 million in claims to date, according to the National Interagency Coordination Center. [READ MORE](#)

Fundamental Changes to Canadian Lumber Industry

Demand for solid wood products from Asian and Middle Eastern customers is not only continuing to strengthen, but is growing by a far greater degree than even the most optimistic observer had expected.

US lumber producers can do little more than wait for US home building to recover, as the forest industry south of the border is currently focussed on exporting logs rather than lumber. All lumber capacity on the west coast of Canada that came back online in 2010, meanwhile, is strictly relegated to offshore customers. [READ MORE](#)

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	August 2010		July 2010	
	Actual	SAAR	Actual	SAAR
Canada, all areas	16,509	183,300	17,390	188,900
urban ctrs with >10,000	14,253	162,800	15,195	169,000
singles, urban centres	6,123	65,000	6,717	67,400
multiples, urban centres	8,130	97,800	8,478	101,600
rural areas	2,256	20,500	2,195	19,900
Atlantic urban centres	847	8,800	1,208	12,400
Quebec urban centres	2,822	38,200	3,860	46,400
Ontario urban centres	5,524	59,400	4,784	51,400
Prairie urban centres	2,807	31,000	3,526	38,700
B.C. urban centres	2,253	25,400	1,817	20,100

Source: Canada Mortgage and Housing Corporation

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Jul-10	68,785	28,740	40,045	58
Jun-10	68,688	27,940	40,748	59
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

Source: Japan Wood-Products Information and Research Center

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	231	227	+4	211	+20	182	+49
WSPF KD R/L 2x6	243	238	+5	224	+19	182	+61
WSPF KD R/L 2x8	277	276	+1	270	+7	220	+57
WSPF KD R/L 2x10	316	315	+1	312	+4	310	+6
WSPF KD PET 2x4 Stud	210	205	+5	220	-10	195	+15
Douglas Fir Green R/L 2x4	200	200	0	180	+20	150	+50
Douglas Fir Green R/L 2x10	258	268	-10	285	-27	230	+28
ESPF KD 2x4 8ft Stud	275	270	+5	285	-10	185	+90
OSB Ontario 7/16" (CDN\$)	210	222	-12	225	-15	200	+10

Weekly News

Canadian Housing and Exports

CONTINUED Building permit figures released Wednesday show a 3.3 per cent decline in July over June, to \$6.4 billion, according to Statistics Canada. Permits were up by 5.4 per cent to \$1.05 billion in July over June thanks to confidence in the residential sector.

Canada's trade deficit rose more than three times expected to \$2.74 billion in July as exports to the United States sank due to anemic demand, while overall imports surged to their highest level since November 2008, Statistics Canada data showed.

Exports fell 0.7 per cent to \$32.80 billion in July, dragged down by weak demand for machinery and equipment and forestry products. But analysts were heartened by another jump in imports, up 2 per cent to \$35.54 billion, led by energy products and autos.

Housing Starts, Japan

CONTINUED Units built for owners have increased for nine consecutive months except for July, while publically financed unit starts increased by 70 per cent, says the *Reports*.

While units built for sale and condominium starts were 60 per cent less than 2008 levels, the former jumped 30 per cent and the latter was up 40 per cent from June. Detached units increased for seven straight months, specifically in metropolitan Tokyo they gained nearly 40 per cent.

Wood-based units were up 6.1 per cent, with a 58.2 per cent share of total starts.

Wildfire Season, US

CONTINUED Approximately 700 firefighters have been battling a wildfire just outside Boulder, Colo., for five days. Meanwhile, Boulder residents are preparing to

evacuate any time as the Fourmile Canyon fire spread to within 10 miles of the city.

Colorado Governor Bill Ritter has authorized US\$5.2 million in state funds to help pay to fight the fire, which has forced 3,500 people out of their homes.

Meanwhile, one person died while more than 50 households were totally burned by wildfire which have devastated San Bruno, California. Apart from the burnt households, 120 houses were also said to have partial burns.

Strong winds whipped south-central Utah's Twitchell Canyon wildfire to nearly 11,000 acres on Thursday, and crews still had no estimate for containment of the blaze that was first sparked by lightning seven weeks ago.

Since being reported in Fishlake National Forest on July 20, the fire has been allowed to scorch extensive swaths of mixed conifer and shrub lands some seven miles east of Manderfield Reservoir.

200 BC Forest Workers Win Severance

BC's Labour Relations Board has upheld a ruling that will see close to 200 people receive millions of dollars in severance pay. The workers lost their jobs when Carrier Lumber permanently shut down its Valemount, BC, sawmill in 2009.

United Steelworkers local 1-417 was issued an arbitration award last January, but Carrier Lumber alleged that it was denied a fair hearing. Now the Labour Relations Board has ruled there is no basis for overturning the award.

It's a huge win for working people in resource communities, said union president Marty Gibbons.

Employees will get 10 days pay for every year worked.

The company said it's still considering its legal options, including another appeal.



THE FORESTLAND INVESTMENT CONFERENCE YOU DON'T WANT TO MISS.

Canadian Lumber Asian Demand

It would appear that this week the whole world woke up to what *Madison's* has been saying for the past two quarters: Asian demand for lumber is not going away.

by Kéta Kosman

The traditional wisdom that solid wood is put to different uses in China, Korea, and Taiwan than it does in North America, Europe, and Japan continues to be true. Most customers in those Asian countries are looking for economy and utility grades because the wood is either used for concrete forming or for infill walls and roof trusses so appearance is not important. The other main use for Canadian lumber, in China especially, is for pallets and crates, which explains the continued demand for an exact four metre length.

When the market shifts, and as US demand continues to be soft, there have been times this year when the #2&Btr price starts to look pretty good compared to the UT/#3 and Economy?#4 grades. As happened this week, canny Asian customers immediately switched up, and start buying appearance grade instead of the lower grades.

Like a sleeping dragon awakening, Asian demand for Canadian lumber has multiplied consistently and rapidly by such a magnitude throughout 2010 that industry watchers can no longer feasibly say that this is a short-term trend. This very week *Madison's* sources report "excited" Chinese customers requesting regular shipments of large volumes of Canadian lumber on a weekly basis.

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

In the same period, imports of logs to China from Canada rose by 227 per cent, while those from the US rose by 344 per cent. Log imports from Russia fell slightly.

The effect of this new, important customer for Canadian wood on the lumber industry is not yet entirely known. However one inescapable fact does seem to be emerging: Canadian lumber producers will not switch capacity back into the US when demand from that country returns. It took Canadian mills on the west coast an agonizing amount of time, almost 18 months of consistent Asian inquiry, to re-

configure their processing equipment to metric sizes. There is zero interest on the Canadian side of reconfiguring measurements back to board feet.

Lumber exports out of the US continue to languish. From the looks of things, premium grade European producers will not return to North American east coast hardwoods, having generated a new supply chain from Indonesia and the African continent. Extremely conscientious about sustainability issues, European customers have succeeded in forcing exotic timber suppliers to comply with international certification requirements. Having put a focus on exporting logs out of the west coast instead of finished lumber, US lumber producers have not fostered a customer base in Asia.

This means that US mills must now wait for demand from US home builders to return to get business back on track.

Lumber futures this week took off more than anyone had expected. Immediately, those on the fringes of the industry trumpeted this to be a signal of recovery for the lumber industry.

"Lumber Advances to Three-Month High as Traders Roll Contracts" announced a *Bloomberg BusinessWeek* headline Thursday.

"Whoa: Lumber Makes a Break for It" declared the *Wall Street Journal* also on Thursday.

Thursday *Business in Vancouver* claims "Lumber reaches four-year high, but volatility reins in forest industry".

Of course these commentators continue to advise caution. First among them is Jim Nelson of Marketing and Communications at PricewaterhouseCoopers, who today released *PwC 2010 Q2 Global Forest, Paper & Packaging Industry Net Earnings Summary*.

"Most of the largest Western Canadian-based companies reported improvement in the second quarter of 2010 compared to the same period in 2009. The aggregate loss of \$255 million for the region included \$302 million in asset impairment, severance and closure costs associated with the closing of Catalyst's Elk Falls paper mill and Coquitlam paper recycling operations. [. . .] In the second quarter of 2010, ten of the largest US-based forest and paper companies reported net earnings of close to US\$2 billion, up from earning of US\$914 million for the same period in 2009."

This report is of course based on 2Q results. While releases for 3Q and 4Q 2010 are still months off, strengthening demand from Asia for Canadian lumber points to continued improving financial statements.

With increasing attention from the Asian market, Canadian lumber producers have a tiger by the tail. The ride can be breathtaking while the tiger is running the direction you want to go. But there's always the chance that the tiger will make a sudden turn and come back to bite you.

Top 100 Paper and Board Producers Globally

THE MILLION TONNERS' CLUB

(Those companies making more than one million tonnes of paper and board in 2009)

Company	2009 Top 100 Rank	P&B Output (1,000 tonnes)
International Paper	1	12,286
Stora Enso	5	9,229
UPM	7	9,021
Svenska Cellulosa Aktiebolaget (SCA)	4	8,841
Oji Paper	3	6,973
Nippon Paper Industries	6	6,886
Sappi	16	6,800
Nine Dragons Paper	39	6,520
Smurfit Kappa Group	10	6,300*
Smurfit-Stone Container	15	5,691
AbitibiBowater	22	5,501
Domtar	17	3,978
Norske Skogindustrier	26	3,894
Mondi	9	3,662
Lee & Man Paper Manufacturing	48	3,550
Temple-Inland	27	3,543
Shandong Chenming Paper Holdings	35	3,040
Cascades	23	2,850
Siam Cement	56	2,500
MWV	12	2,447
Daio Paper	20	2,445
NewPage	25	2,427
Burgo Group	32	2,341
M-real	24	2,326
Yuen Foong Yu Group	52	2,275
Sun Paper	81	2,200
Holmen	40	2,186
Rengo	19	2,181
Packaging Corporation of America	34	2,048
Graphic Packaging International	21	2,032
Marubeni	11	1,926
Papierfabrik Palm	55	1,900
Hansol Paper	62	1,900
Myllykoski	44	1,872
Boise	37	1,865
RockTenn	30	1,853
Sonoco Products	29	1,600
Klabin	50	1,544
Mayer-Melnhof Karton	33	1,499
Hokuetsu Kishu Paper	42	1,447
Verso Paper	51	1,405
Catalyst Paper	63	1,388
Lecta	41	1,387
Prinzhorn Group	54	1,360
CMPC	31	1,347
Sequana Capital	13	1,300*
Shandong Huatai Paper	89	1,187
Durango	82	1,182
Cheng Loong	70	1,170
Clearwater Paper	61	1,167
Portucel Soporcel	49	1,133
Suzano Papel e Celulose	38	1,088
KapStone Paper and Packaging	91	1,034
Korsnäs Holding	69	1,025
DS Smith	43	1,000

Total of 55 companies 171,553

See notes accompanying production figures on the Top 100 tables for further details.

SOURCE: Pulp & Paper International