

# MADISON'S LUMBER REPORTER

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## News & Updates

### Madison's Timber Preview: WY Exits Wood Products

This week's issue of *Madison's Timber Preview* examines Weyerhaeuser's conversion to a REIT and exit from the wood production sector.  
Contact us any time for a subscription.

### US Home Building and Economy

Commerce Department figures released Tuesday show US housing starts grew by an unexpected 10.5 per cent in August – the highest growth in four months. Housing starts reached a seasonally adjusted annual rate of 598,000, the highest level since April. Housing starts are still at a relatively low level, and last month's growth may well be temporary. Building permit data underlined continued housing market fragility; while the total number of permits increased by 1.8 per cent, single-family permits dropped by 1.2 per cent between July and August.

Financial market analysts point out that multi-family dwellings, where most of the housing start growth is taking place, represent the smaller segment of the housing market, indicating a weak market recovery.

"With the number of new homes for sale at the lowest level in four decades and mortgage rates at record lows, some demand for construction is being sparked," Jennifer Lee, a senior economist with BMO Capital Markets, noted in a commentary. [READ MORE](#)

### Japan Wood Utilization Law

Japan's promotion of wood utilization for public buildings law, announced in May, comes into effect October 1. Japan's forest industry, lumber and plywood manufacturers, and building material manufacturers are all interested in this law, which is meant to stimulate demand for wood, according to the *Japan Lumber Reports*.

The majority of stakeholders are demanding use of wood for public facilities such as shopping malls, department stores, theatres and sports clubs, and of course government funded public buildings, says the *Reports*. [READ MORE](#)

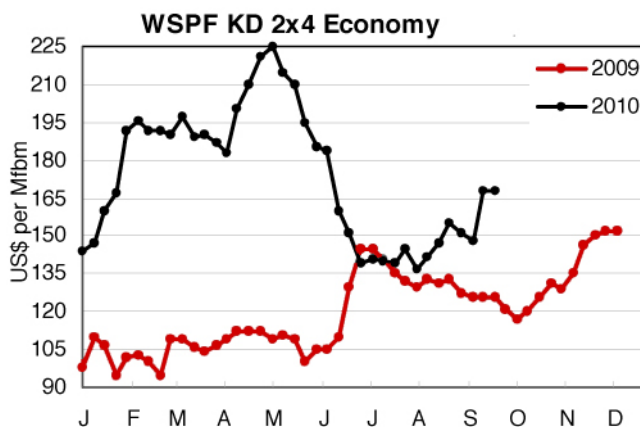
### Wildfire Activity

Longtime landfill operator Kevin Williams stopped a racing wildfire Monday that threatened to envelop Utah's Herriman neighborhood, outside Salt Lake City. Williams stripped away the slope above Rose Summit Drive and saved 32 homes, according to the Unified Fire Authority.

A fire fueled by strong winds spread across more than 1,000 acres of Colorado farmland Thursday, destroying one vacant residential home and three other outdoor structures less than 10 miles southeast of Greeley. [READ MORE](#)

### Timberland Investment Conference

The sixth annual *Who Will Own the Forest?* conference at the World Forestry Center in Portland, OR, buzzed this week with an unprecedented number of attendees and a general mood that can best be described as buoyant. [READ MORE](#)



### U.S. HOUSING STARTS

	Aug-10	Jul-10		Aug-10	Jul-10
<b>Starts</b>			<b>Permits</b>		
Actual	54,800	50,600	Actual	52,900	50,400
SAAR*	598,000	541,000	SAAR*	569,000	559,000
1 Unit	438,000	420,000	1 Unit	401,000	406,000
2-4 Units	(s)	(s)	2-4 Units	18,000	19,000
5+ Units	147,000	103,000	5+ Units	150,000	134,000
<b>Starts by Region</b>			<b>Permits by Region</b>		
Northeast	56,000	74,000	Northeast	66,000	66,000
Midwest	112,000	92,000	Midwest	89,000	94,000
South	289,000	270,000	South	276,000	283,000
West	141,000	105,000	West	138,000	116,000

\*Seasonally adjusted annual rate

Source: U.S. Census Bureau

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	235	235	0	227	+8	188	+47
WSPF KD R/L 2x6	248	249	-1	239	+9	202	+46
WSPF KD R/L 2x8	275	280	-5	277	-2	240	+35
WSPF KD R/L 2x10	312	316	-4	316	-4	322	-10
WSPF KD PET 2x4 Stud	210	210	0	215	-5	200	+10
Douglas Fir Green R/L 2x4	172	185	-13	210	-38	163	+9
Douglas Fir Green R/L 2x10	260	260	0	278	-18	220	+40
ESPF KD 2x4 8ft Stud	285	275	+10	280	+5	280	+5
OSB Ontario 7/16" (CDN\$)	210	210	0	222	-12	188	+22

## Weekly News

### US Economy, Real Estate

CONTINUED Two regions recorded especially large month-over-month home-start gains in August: the West with an increase of 34.3 per cent and the Midwest, up 21.7 per cent.

The US Commerce Department released August new home sales data Friday at 288,000, flat in month on month comparisons. July sales upwardly revised to 288,000 units from 276,000. Sales were off 29 per cent in year over year comparisons. Median prices were off 0.6 per cent against July levels to US\$204,700. Unsold home inventories fell slightly to 206,000 units, with months supply essentially flat at 8.6 months.

Among stocks in focus, KB Home gained 3.3 per cent in premarket trading. The US homebuilder's 3Q loss narrowed significantly on sharply lower write-downs, while orders declined again following the expiration of a federal tax credit. Deliveries rose 3.6 per cent, the second-straight quarter of year-on-year growth following 14-straight quarters of declines.

US stock futures rose Friday morning despite a bigger-than-expected drop in US durable-goods orders as concerns about the euro zone eased following an unexpected rise in German business sentiment. Durable-goods orders declined by 1.3 per cent to a seasonally adjusted US\$191.17 billion, the biggest drop since August 2009.

Still, there were gains in machinery, computers and fabricated metal products. Also, a barometer of capital spending by businesses rose; orders for non-defense capital goods excluding aircraft increased by 4.1 per cent.

Meanwhile, the Ifo index in Germany, a closely watched gauge of business sentiment, unexpectedly rose in September, easing near-term worries over a possible

growth slowdown in Europe's biggest economy. The Euro climbed following the sentiment data.

### Japan's Wood Building Law

CONTINUED Japan's wood products and building industries are also calling for the promotion of solid wood use and deregulation of building codes for the further use of wood.

The basic idea of the law is to increase the degree of self-sufficiency of wood in Japan, to contribute to the prevention of climate change by using more wood, and to deregulate the Building Standards Act, says the *Japan Lumber Reports*.

The new law further recommends the use of wood for biomass power generation, pulp and paper manufacturing, and even wood guard rails for highways.

New architecture standards and the development of high strength bearing walls, and connecting metal fittings are expected to be developed. Much larger lumber sizes, such as 135, 150, and 180 mm square will be required, while the usual 105, and 120 mm square sizes will continue to be used in wood framed home building, concludes the *Reports*.

### Wildfires, US

CONTINUED Weather conditions and heavy smoke from the Antelope Fire prompted the extension of a road closure in Yellowstone National Park, WY, Wednesday.

Virginia's Tri-Cities is suffering from what the US National Weather Service classifies as an "extreme" drought, and the lack of moisture in the area's soil puts it near the top of the scale for wildfire risk. The state's autumn wildfire season doesn't officially start for another three weeks, but fires have been breaking out

around the area.

Heather Dowling, Dinwiddie County area forester with the Virginia Department of Forestry, said the area is almost at the top of the scale according to one widely used measure of wildfire risk.

The National Weather Service also says an emerging heat wave will increase the danger of wildfires in San Diego County, CA, this weekend as temperatures spike, the humidity falls and winds turn gusty.

Dry conditions and above-average temperatures have North Carolina fire officials on alert for the possibility of wildfires. Late September and early October are not traditionally months in which the wildfire danger is high due to the cooler temperatures and fall rains. But so far, this year, temperatures have been above normal and rainfall below normal.

Forest managers in northeastern Oregon are planning some prescribed burns this autumn after a mild summer wildfire season. Forest managers use fire to get rid of limbs and twigs that accumulate naturally, and kill some smaller trees known as "ladder fuels" that might let wildfires kill larger, mature trees.

The BC Forest Service has been rethinking its wildfire strategy in the wake of another bad year for wildfires across the province. Forests Minister Pat Bell says more than 1,600 wildfires have consumed nearly 340,000 hectares of forest and grassland.

The plan aims to strike a balance between management and suppression and tapping into the natural benefits of fire. Bell says the province is looking at what it can do to help local communities who need to reduce the wildfire risk in built-up areas but provided no dollar figure. He says there may also be changes to land use plans to ensure the wildfire risk is taken into account.

# Economic Outlook

## Wood Demand and Forestland Values

The sixth installment of the World Forestry Center's annual *Who Will Own the Forest?* conference took place this week at its facility in Portland, OR.

by Kéta Kosman

Not only did attendance greatly exceed expectations, but the general mood was significantly more buoyant than similar events *Madison's* has attended even this year, not to mention in the past two years. Participants included a glittering slate of US and international timberland investors, pension funds, bankers, analysts, specialty and hardwood timber and wood suppliers, representatives of foreign timberland assets, and wood processors. As always with such events the networking hours, whether revolving around coffee or drinks, are the best opportunity to get real insight into current perceptions and future projections on the minds of investors, market players and pundits.

*Madison's* floated around like a butterfly listening to snippets of conversation, plunging in either to get a better earshot or inform about particulars of the future timber supply situation in British Columbia.

The agenda started off with a bang. The first panel was charged with discussing *The Big Picture: US Economic Outlook, Wood Demand and Forestland Values*. Speakers Tim Leach of US Bank and Duetsche Bank's Mark Wilde, otherwise known as Dr. Paper and often quoted in *Madison's*, each tackled different aspects of this topic.

As chief investment officer for US Bank Wealth Management, Tim Leach oversees his group's investment management business. Taking a "*Macrovie Economic Outlook*", Leach plunged right in at the beginning of his presentation to declare the recent US economic crisis and recovery as consistent with those of the past, meaning it is following "normal historic patterns."

"A typical recession is like a severe flu; the recovery pattern is brief and the residual effects are few. A real banking recession is like a heart attack; recovery takes much longer, and there are different expectations in terms of residual effects," explained Leach in a rather lucid comparison. "From the global point of view, there is disparity between recoveries in the developed and the emerging worlds."

Leach employed the same 50-year history graph of financial crises, all other recessions, and the current US economy, several times throughout his presentation

to illustrate that the recent financial crisis was not altogether that different from those in the past five decades.

Going back to his sick patient analogy, Leach explained that 2Q and 3Q 2010 are the transition period for the effects of the massive US stimulus package, where "a heavy dose of medicine helps to stabilize the patient, but there still needs to be time before the patient can walk on their own power."

Leach's data demonstrates that the next four quarters will not show growth as the US economy struggles to gain momentum without help, and projects a small amount of growth starting in 4Q 2011.

Running a few models to test the chances of a declining economy, of an improved economy, or the chances of no change at all, over ten years showed a 28 per cent probability of slow growth.

As confidence in the US economy returns, Leach's data shows expectations of a shift from safer, higher-yield securities to more risky growth-oriented securities.

Globally, Leach's data indicates that emerging economies will be responsible for over 55 per cent of global GDP growth, of which China will be almost 16 per cent and all other emerging economies except India, Russia, and Brazil will account for over 26 per cent of that growth.

In terms of commodities, Leach terms them "overweight", and expects that a "resumption of global economic growth may likely place upward pressure on commodity prices."

After all this good news *Madison's* could hardly wait to hear what Wilde, Deutsche Bank's senior analyst on the paper, packaging, and forest products sector, was going to say in his presentation, "*What's Ahead? The Economy, Forest Products Markets & Timberland*". Ranked #2 in the Wall Street Journal's 2010 stock pickers for the general industrial sector, and #1 analyst in Reuters/Financial Times' 2010 survey for paper and forest products, Wilde has repeatedly been recognized as among the industry's best stock pickers.

Wilde's research also found that the economies of emerging markets are currently stronger than those of developed countries, which are still struggling. This view, it turns out, was echoed by almost every speaker at the conference.

"One of the common themes of industrial economies is ten years of very accommodating credit," explained Wilde. "Overheated real estate market valuations were hardest hit, resulting in fall-out across the financial sector, specifically in huge write-downs. This put pressure on government budgets, especially given lower tax revenues followed by long-term government responsibility, specifically pensions. Com-

ing out of the recession, recovery is slow. This summer many were still worried about recovery. Currently there are concerns about the US economy backsliding but various reports out in the past few weeks are encouraging."

Meanwhile in the emerging markets, continued strong economies suggest downstream demand for commodities. Wilde pointed out that commodity demand and prices remain healthy, and that Australia and Canada have benefitted from this strong commodity demand. As an aside, and as several birdies have chirped into *Madison's* ear over the past year, Wilde said the fact that Norbord and Ainsworth have significant overlapping shareholders points to a merger, which would give those two companies a 30 per cent share of North America's OSB market.

Analyst projections being what they are, Wilde's assessment that US housing starts remain at all-time record lows was blown out of the water by a 10 per cent rise in August housing starts released that very day by the US Commerce Department. Thus demonstrating the difficulty of making projections.

Wood and pulp producers are facing capital rationalization at the mill, and pension deficits are high so companies are going to have to make substantial cash pension infusions.

Wilde took a longer-term outlook of demand, suggesting that US demographics are positive and 1.25 million or more annualized housing starts are likely. Increasing demand for wood products out of Asia will continue to divert a significant portion of BC exports away from the US. However a longer-term outlook of supply shows some potential difficulties for customers. In the US many timberland owners deferred harvest while waiting for a recovery of lumber prices, causing concern that there is a lot of inventory left on the stump and whether that timber has passed the optimal harvest point. In addition the ongoing reduction in timber supply due to the mountain pine beetle in BC will be an increasing threat to log inventories.

According to the first two speakers at *Who Will Own the Forest 6?* this week in Portland, OR, the emerging economies are going to show consistent strength while the developed world will come out of recession slowly. Demand for commodities in particular from emerging regions are expected to be strong enough to send prices higher. This can only be good news for Canadian lumber producers in the short term, while in the longer term US and European demand for commodities is also expected to strengthen.

Other speakers at the conference gave presentations on more specific topics such as Timberland Drivers, Appraisals, and Forestland Investment, which *Madison's* will cover in a future issue.