

# MADISON'S LUMBER REPORTER

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## News & Updates

### US Coated Paper Duties

The US International Trade Commission has found that imports of coated paper from China and Indonesia are causing material injury to US producers and workers.

The ITC decision, released Friday, clears the way for the US Department of Commerce to impose antidumping and countervailing duties on imports of coated free sheet paper from these countries. On Sept. 21, 2010, the agency issued its final determination citing imports from China and Indonesia as being both dumped and subsidized by significant margins.

"NewPage is very pleased with the International Trade Commission's finding on injury," said George Martin, NewPage President and CEO.

The Commerce Dept found that producers or exporters dumped coated paper in the United States at margins of 7.6 to 135.8 per cent for China, and 20 per cent for Indonesia. The agency also determined that these producers or exporters received countervailable subsidies ranging from 17.6 per cent to 178 per cent for China, and 18 per cent for Indonesia.

### US New and Existing Home Sales

Sales of previously owned US homes rose 10 per cent in September to an annual rate of 4.53 million units, the National Association of Realtors said on Monday. It was the second monthly gain and far outstripped economists' expectations for an increase to a 4.30 million-unit pace.

US new home sales rose by 6.6 per cent to an adjusted annual rate of 307,000, the Commerce Department release Wednesday. That left sales off 13.3 per cent from the same month a year ago, when buyers were rushing to capitalise on the first-time home-buyer tax credit.

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### US Foreclosure Troubles Continue

US state attorneys general investigating foreclosure practices may begin meeting with lenders this week, less than a month after JPMorgan Chase and Bank of America suspended some home seizures.

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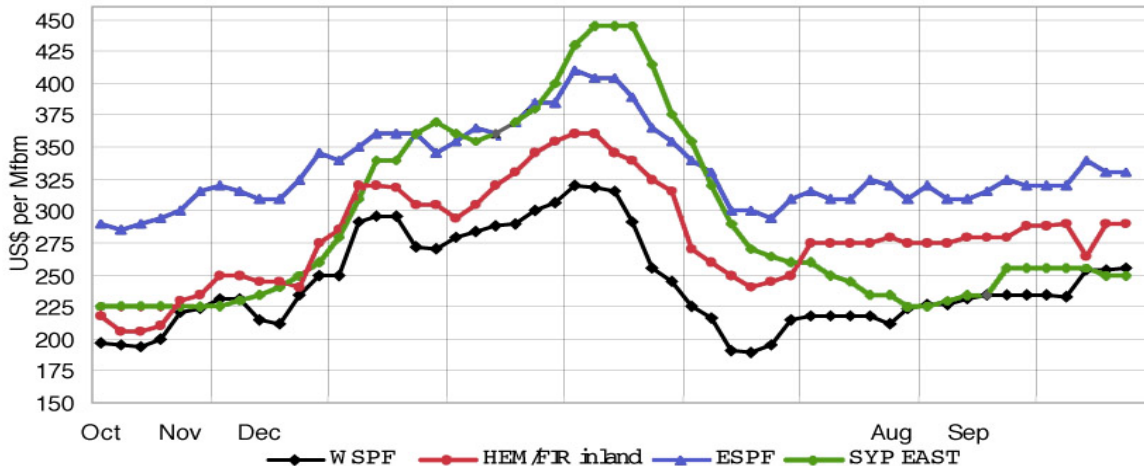
### British Columbia Forest Industry Trade Mission to China

Albeit small, the latest improvement of the US real estate market, combined with the slight increase in housing starts for September, offers a glimmer of hope that the long-awaited, likely slow, recovery of the US home building industry could be coming.

This during the very same week that Pat Bell, freshly appointed to the newly-combined British Columbia Minister of Forests, Mines and Lands, embarks on a 10-day trade mission to China with lumber industry representatives from around the province of BC. With a mandate to increase lumber sales and strengthen industry-to-industry commercial relationships in China, Bell and the other participants intend to spur the increase of BC lumber sales overseas. Dependence on the US home building industry for Canadian lumber producers, while still very important, should lessen further with the success of this latest trade mission.

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KEY 2x4 KD R/L PRICES October 2009 - 2010



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	255	254	+1	235	+20	195	+60
WSPF KD R/L 2x6	255	255	0	248	+7	193	+62
WSPF KD R/L 2x8	280	280	0	279	+1	210	+70
WSPF KD R/L 2x10	315	320	-5	318	-3	300	+15
WSPF KD PET 2x4 Stud	235	240	-5	200	+35	190	+45
Douglas Fir Green R/L 2x4	195	195	0	180	+15	163	+32
Douglas Fir Green R/L 2x10	265	245	+20	250	+15	240	+25
ESPF KD 2x4 8ft Stud	285	285	0	285	0	285	0
OSB Ontario 7/16" (CDN\$)	205	210	-5	210	-5	185	+20

## Weekly News

### Real Estate, US

CONTINUED Meanwhile, US mortgage applications for home purchasing and refinancing rose last week as consumers sought to take advantage of near-record low interest rates, data from the Mortgage Bankers Association showed on Wednesday.

According to CoreLogic, home prices fell by 1.5 per cent across the country compared to last year, although individual markets experienced steeper drops. Of the 100 metropolitan districts surveyed by the company, 78 recorded a fall in real estate values, the research found.

US gross domestic product grew at a 2 per cent pace during the three months ending in September 2010, according to the Bureau of Economic Analysis. That beats the second quarter's 1.7 per cent pace.

US exports grew 1.2 per cent in 3Q, which was slower than the prior quarter's 2.2 per cent pace. Imports also grew in 3Q, by 4.1 per cent.

### Mortgage Foreclosures, US

CONTINUED The federal government reported Friday that 4.2 million homeowners are "seriously delinquent" on their mortgages and some 10.9 million borrowers are underwater, meaning their loans exceed the value of their homes.

In Arizona, California and Nevada, foreclosure auctions on courthouse steps, known as trustee sales, are down 42 per cent since September 20, according to ForeclosureRadar, a real estate tracking service in Discovery Bay, California.

In a real estate market where as many as 7 million homes face foreclosure or have already been seized by lenders, according to Zillow Inc, a clog in the pipe-

line may delay a housing recovery, which won't occur until home prices stop falling. Distressed properties accounted for 31 percent of all US home sales last month, RealtyTrac Inc. said October 14.

Bank of America froze 102,000 foreclosures nationwide on October 8 to review its procedures, and has now started the process of preparing affidavits for resubmission to courts.

Meanwhile a group of mortgage investors seeking to pressure lenders to buy back potentially billions of dollars in bad loans says its ranks are swelling and it will soon deliver strong evidence that banks have treated investors unfairly.

New York securities lawyer David Grais and Dallas-based Talcott Franklin on Wednesday met with more than 50 large mortgage bond investors to try to convince them to fight banks.

"The world has changed in the last three weeks as the consortium (of investors) has gone viral, almost," said William Frey, president of Greenwich Financial Services.

The investors have accumulated key ownerships in 2,600 risky US "private-label" mortgage securities, up from 2,300 six weeks ago.

### Norbord Quarterly Loss

Norbord Thursday posted a net loss of \$7 million in its 3Q. In comparison, Norbord recorded earnings of \$37 million in the prior quarter and a loss of \$7 million share in the same quarter last year.

Norbord's operating North American OSB mills ran at approximately 90 per cent of their capacity in 3Q compared to 100 per cent in the prior quarter and 85 per cent in the same quarter last year. Norbord's two indefinitely closed mills in Texas and Alabama have not operated

since 1Q of 2009 and represent 20 per cent of the company's North American OSB capacity. All of Norbord's European mills operated at full capacity again this quarter.

### Canfor, West Fraser Report

Canfor Corporation Thursday reported net income of \$33.5 million for 3Q 2010, compared to \$40.4 million for 2Q 2010 and \$4.1 million for 3Q of 2009. The company's shareholder net income for the third quarter of 2010 was \$5.6 million, down from \$18.1 million for 2Q 2010 and an improvement from a loss of \$5.2 million reported for 3Q 2009.

Canfor's lumber business operated at approximately 70 per cent of capacity in 3Q, with its recently restarted Chetwynd and Quesnel mill operations in the British Columbia Interior operating through the quarter.

Production from the Quesnel mill is being fully dedicated to the China market.

West Fraser Timber Co. Monday reported earnings after discontinued operations of \$45 million on sales of \$707 million in 3Q 2010.

In the quarter the lumber segment generated operating earnings of \$22 million. After a period of higher lumber prices in 2Q 2010, prices weakened in 3Q reflecting a continuing weak US housing market. SYP lumber prices were particularly hard hit.

West Fraser Timber's lumber production in Canada was near capacity in its third quarter, while its US lumber operations were operating at 75 per cent capacity due to uncertain markets. Shipments to China continued to increase in the quarter, supporting lumber prices.

# China

## Lumber Trade Mission

Previously-owned home sales in the US were up 10 per cent in September compared to August, to a greater-than-expected 4.53 million units.

by Keta Kosman

That brought the supply of homes on the market to 10.7 months, according to data released Monday by the US National Association of Realtors. Home inventory figures are based on current rate of sales. As new and existing home sale figures continue to rise that 10 month unsold inventory will drop in the blink of an eye. Median home prices fell 2.4 per cent in September, to US\$171,700, compared to one year-ago. Analysts are predicting US home prices will bottom out in 2011, without indicating in which part of 2011 this bottom would materialize.

From another source, the US Department of Commerce released new home sales figures on Wednesday for September, up 6.6 per cent, to 307,000, from August. The supply of new homes for sale dropped 1 per cent, to 204,000, bringing the DOC's calculation of supply down to 8 months, at the current sales pace, from 8.6 months in August. The median sale price for new homes climbed 1.5 per cent, to US\$223,800, in September.

Trade figures released October 18 by the BC Ministry of Forests show that August was another record-breaking month for BC softwood lumber exports to China, with 257 million board feet exported over a one-month period. Exports to China through the first eight months of 2010 are valued at about \$342 million, up 71 per cent, compared to \$200 million for the same period in 2009. BC lumber producers had already sold nearly 1.5 billion board feet and are on track to reach somewhere in the neighbourhood of 2.5 billion board feet this year, according to the release.

During a press conference call Tuesday morning, Pat Bell explained that this latest trade mission will be going "beyond Beijing. We are visiting Chengdu, the capital of Sichuan, the province hit hardest by the 2008 earthquake. We are also visiting Hebei Province and the bordering municipality of Tianjin."

This trade mission will build on the work of previous missions, which demonstrated and promoted use of wood in home building and assisted Chinese officials in changing building codes to encourage wood use. Bell and other delegates will meet directly with developers in China and focus on the supply chain for wood products, as well as holding further meetings with government officials.

"Already since our last visit to Sichuan a rehabilitation centre and a senior's cen-

tre are being built from wood, in addition to a school which is completed and currently in use," said Bell. "There are 4 million new housing units built annually in China, usually around 1,000 square feet in size, which is a potential 10 million square metres in new building. The developers we are meeting represent 40 per cent of China's construction industry, or about 100,000 to 300,000 units each. We project 4 billion mfbm in wood products' exports from BC to China in 2011."

"Right now home building in China is virtually all concrete and steel," responded Bell to *Madison's* question about the nature of the 4 million new housing units annually. "Of the 10 million new housing starts, 6 or 7 million will be six-storey walk-up apartment buildings. Our push is to get the top two floors made of wood, or even for hybrid construction of the entire building.

"We are in close contact with the Chinese officials responsible, they strongly advocate wood construction, and are prepared to push hard promoting wood building. There has already been a change to the national building code to allow for the use of wood, and regional codes have recently followed suit.

"We have undergone a logical shift now to work with the developers, who have been supportive of using wood in home building. If we can break into wood use for six-storey buildings, demand will far outstrip potential supply."

Accompanying Bell on this trade mission are veterans of previous trips and some first-timers, including the CEOs of Canfor, Conifex, Hampton, Interfor, Tolko and West Fraser. They are joined by senior representatives from six forestry trade associations, the United Steelworkers and research institute FPInnovations.

*Madison's* spoke to participants in the busy days of preparation for the Thursday morning departure.

Glen Wilson, President of Overseas Sales for Interex Vancouver, is going for his fourth or fifth time visiting China, "third time with this mission."

"Interex is exclusive export representative for five BC companies that are shareholders," explained Wilson to *Madison's* in a phone interview. "Our objectives this time are: first, to support government and industry projects currently underway in China and, second, to continue to explore accelerating the development of wood housing in China.

"The site visits and meetings with related developers and Chinese officials will develop and build on work already done to promote wood building. Each time I go over it gets easier, there is more awareness of the product and what it can do, and a broadening of the people involved that understand working with wood.

"We are going to identify opportunities for the manner of wood construction," detailed Wilson in response to *Madison's* question. "Will there be a lot of single-fam-

ily home building? Resort and clubhouse style? Higher end? Or the top two floors of six-storey buildings? Interest is growing in using wood, right now there is comparatively very, very little wood building. Changes to the building codes, awareness of what the product can do, and proven results bring interest in the success of using wood for building in China. There are a number of things that are coming together to further increase interest.

"When Chinese customers use wood for whatever purpose, whether crates and pallets or concrete forming, an appetite develops for wood in general," concluded Wilson. "My real interest is in wood housing; that's what helps my group the most."

Frank Everitt, President United Steel Workers Local 1-424 in Prince George, will be making his first visit to China.

"Other IWA executive members, along with Jack Munroe, travelled to China and Japan in 1976," said Everitt in a phone interview with *Madison's*. "I talked to Jack a couple of weeks ago and he thought this is a good opportunity. We look forward to enhancing BC forestry workers' position in China, to be selling more wood. It is a huge market there that we want to capitalize on.

"The bottom line is if Chinese customers are more familiar with using wood in general the more positive will be the response. We are going to work hard so the BC Ministry of Forests' 2011 lumber exports projection turns out to be accurate.

"Traditionally demand from China is for low grade lumber and logs," replied Everitt to *Madison's* question. "We are going to expand their knowledge of the range of products available, particularly from the BC interior. Log exports benefit nobody domestically, that causes a lot of problems here. We want to export finished products.

"The entire production of those Canfor and Tolko mills that reopened this year is going to China, that is all grades. This is the kind of business we are aiming for in the future."

Jim Hackett, President of the Interior Lumber Manufacturers' Association, is also making his first visit to China. "Last year our Chair Mark Semeniuk went."

"The ILMA represents 14 firms in BC that produce pulp, value added lumber, and structural framing," Hackett told *Madison's* in a phone interview. "We are looking for opportunities, especially for the smaller dimension lumber firms, for new markets in China. Market conditions are changing and expanding rapidly. We will be giving value-added products more of a push, while the veneer and plywood products will probably take a back seat as there is significant production already in China for those commodities. We will be leaving no stone unturned, because the alternative of waiting for 3 or 4 years before US housing starts creep back up to 1 million annualized is just too far in the horizon.

"I will size up the market opportunities for the relatively small producers I represent who export around the world. I will be seeking out opportunities for the lower end producers and will come back with leads for them to contact, new customers in China, concluded Hackett"