

MADISON'S LUMBER REPORTER


Publisher
KetaDesign Productions
Editor
Kéta Kosman
Market Analyst
Zara Heartwood


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 www.madisonsreport.com
 madrep@shawcable.com
 604 984-6838
 PO Box 2486 Vancouver, BC
 V6B 3W7 Canada


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News & Updates

China Demolishes

Confirming the need for buying lumber, according to Chen Huai, director of the policy research center at China's Ministry of Housing and Urban-Rural Development, more than half of that country's existing residential structures will be demolished and rebuilt in the coming 20 years. The Ministry was quoted on December 3 by *Southern Metropolis Daily* as saying that homes built before 1999 will be dismantled to make way for new development during the next two decades. Chen Huai said some historical relics that deserve protection will be spared the wrecking ball. China annually sees more construction than any other country. In recent years, the nation has had up to 2 billion square metres of development annually. Each year, China uses 40 per cent of the world's cement and steel. Around 40 per cent of building land is created every year by the demolition of older developments.

Pricewaterhouse Coopers Report

For the first time since 2Q 2000, all nine of the Western Canadian-based forest and paper producers tracked in the PwC 3Q 2010 report posted positive net earnings. The aggregate net earnings of \$179 million during the quarter were an improvement from the losses totalling \$201 million in the same quarter of 2009. [READ MORE](#)

Japan Housing Starts

October housing starts in Japan were 71,390 units, a 6.4 per cent increase over October 2009 and the fifth straight month of increases, according to *Japan Lumber Reports*. Seasonally adjusted annual starts were 813,000, a 2.9 per cent decrease from September. [READ MORE](#)

Housing Starts, Canada

Canadian housing starts rose a greater than expected 11.6 per cent in November, to a seasonally adjusted rate of 187,200 units in November from a downwardly revised 167,800 units in October, Canada Mortgage and Housing Corp data showed on Wednesday. [READ MORE](#)

BC's Mid-Term Timber Supply

A letter, obtained by *Madison's*, from British Columbia's Minister of Forests, Mines, and Lands, Pat Bell, to Chief Forester Jim Snetsinger dated October 27, 2010, details instructions for further assessment of mountain pine beetle damaged timber. The letter reads, in part:

"Forecasts of timber supply in the mid-term – the period between the ending of the economic shelf life of the killed pine and the time when the forest has to re-grow and again become merchantable – is now significantly lower than prior to the infestation. [. . .] It will be necessary to reassess management objectives that were developed when forest conditions in the province's interior were very different. [. . .] I would like you to undertake analysis that can provide information on how changes to current management practices could increase mid-term timber availability in MPB-affected areas." [READ MORE](#)

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	November 2010		October 2010	
	Actual	SAAR	Actual	SAAR
Canada, all areas	16,843	187,200	15,192	167,800
urban ctrs with >10,000	14,746	163,100	12,981	142,300
singles, urban centres	5,551	61,300	5,380	58,100
multiples, urban centres	9,195	101,800	7,601	84,200
rural areas	2,097	24,100	2,211	25,500
Atlantic urban centres	653	7,300	883	7,300
Quebec urban centres	3,311	34,100	3,896	34,100
Ontario urban centres	6,875	76,600	3,774	16,600
Prairie urban centres	2,303	26,200	2,387	26,200
B.C. urban centres	1,604	18,900	2,041	18,900

Source: Canada Mortgage and Housing Corporation

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Oct-10	71,930	30,939	40,991	57
Sep-10	71,998	30,857	41,141	57
Aug-10	71,972	29,899	42,073	58
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

Source: Japan Wood-Products Information and Research Center

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	276	260	+16	276	-16	232	+44
WSPF KD R/L 2x6	266	260	+6	274	-15	226	+40
WSPF KD R/L 2x8	278	270	+8	280	-10	238	+40
WSPF KD R/L 2x10	330	315	+15	325	-7	315	+15
WSPF KD PET 2x4 Stud	250	240	+10	245	0	235	+15
Douglas Fir Green R/L 2x4	250	240	+10	200	+48	197	+53
Douglas Fir Green R/L 2x10	320	310	+10	285	+30	265	+55
ESPF KD 2x4 8ft Stud	300	305	-5	300	+5	290	+10
OSB Ontario 7/16" (CDN\$)	200	200	0	210	-5	200	0

Weekly News

PwC Forestry 3Q

CONTINUED Aggregate net earnings during 3Q 2010 for the five Eastern Canadian-based producers tracked in the PwC report showed losses deepened to \$637 million, down from losses of \$351 million in 3Q 2009. Most producers reported softer demand, while some reported production and shipment volumes were up during the period.

Ten of the largest US-based forest and paper companies reported net earnings of US\$2.3 billion during 3Q 2010, up substantially from US\$1.2 billion in the same period of 2009.

The nine largest European-based forest and paper companies reported overall net earnings of €683 million during 3Q 2010, improving greatly from losses of €449 million in 3Q of the prior year.

Home Building, Japan

CONTINUED Owner's units and units built for sale have increased steadily but units built for rent were lower than is traditional for October. Condominium starts dropped from 10,000 in September to 8,000 in October, says the *Reports*.

Wood based units were 40,991, a 5.3 per cent increase over September. Share of wood based units rose to 57.4 per cent of total building.

October building permits in Japan increased by 3.4 per cent, to 48,833 units.

Canadian Home Building

CONTINUED CMHC said urban starts rose 14.6 per cent to 163,100 units in November. Multiple units were up 20.9 per cent to 101,800 units, while single urban starts increased 5.5 per cent to 61,300 units.

November multiple-unit construction increased by 29,900 units in Ontario, while activity was stable in the Prairies

and starts declined in other regions of the country.

Meanwhile on Tuesday, real estate firm Re/Max said that average home prices across Canada will rise next year, although sales will flatten in most major markets. Home prices should rise by an average three per cent to \$350,000 by the end of 2011, Re/Max said.

Canada Mortgage and Housing Corp. said Thursday in its Rental Market Survey that the national vacancy rate decreased to 2.6 per cent, from 2.8 per cent a year ago.

BC State of the Forest

According to British Columbia's *State of Forests* report released Thursday, the US's total lumber consumption has dropped 51 per cent since 2005, and lumber prices hit a 40-year low in 2009.

BC lumber production declined 19 per cent last year compared with 2008. In 2009, forest product exports totalled \$7.6 billion, compared with an average of \$14.7 billion between 1996 and 2004.

At the peak of the beetle epidemic in 2007, over 10 million hectares of BC's 55 million hectares of forested land was under attack. By 2008, the outbreak had spread over 14 million hectares, the report said, and killed half the province's mature pine.

According to the provincial government, 40 per cent of the export value of BC forest products was shipped to China and Japan in September, compared with 42.5 per cent that went to the US.

Year-to-date, the province said the US accounted for 47.5 per cent of BC's forest products export value, compared with 33.8 per cent for China in Japan.

By comparison, in 2005, the US accounted for 67 per cent of that export value while China and Japan's shares totalled 17 per cent.

Still, September's export value numbers are skewed by the fact the US is consuming far less BC forest products than it did five years ago.

AbitibiBowater Resumes Trading

The Montreal-based paper company that has battled deep financial difficulties for three years, announced Thursday it has finished restructuring its operations and has emerged from creditor protection.

Abitibi had been operating under court protection from bankruptcy in Canada and the United States since April 2009.

The company said it has dramatically lowered its operating debt to less than \$1 billion from a high of \$7 billion at the same time as it slashed fixed annual costs by \$880 million.

Abitibi said it cut capacity by 41 per cent for newsprint and 32 per cent for commercial printing papers across North America.

Abitibi's shares begin pre-trading on the Toronto Stock Exchange on Friday, using the same ticker symbol (ABH). Montreal-based Abitibi's unsecured creditors are to receive shares in the company, according to terms of the restructuring agreement, in an initial distribution by December 17.

But the shares will be available for trading on a "when-issued" basis on Friday, said TSX owner TMX Group Inc. The listing on the TSX will be for slightly more than 106 million shares.

In a surprise move Friday, David Paterson, who led the company through a 20-month wrenching restructuring, will be replaced as CEO by current board member Richard Garneau. No clear reason was given for the change.

Paterson will stay on in an executive advisory role through January and a non-executive advisory role through next July, the company said.

Mountain Pine Beetle

BC Timber Inventory

A presentation last week at the aptly-named Weldwood Theatre of the University of Northern British Columbia, in Prince

by Kéta Kosman

George, by four researchers with the BC Forest Service

shed some light on mid-term and future timber supply following the mountain pine beetle infestation.

First up was Dana Hicks, fire management specialist for the province of British Columbia, Prince George Region, with an update to beetle kill statistics and forest fire practices. The current mountain pine beetle infestation has now killed a cumulative total of 675 million cubic metres of timber, or estimated at 16.3 million hectares (equal to the size of the state of Maryland). Incentives to bring down the recently-dead beetle kill trees has brought the harvest of that timber to over 230 million cubic metres.

One to three years after the tree is attacked the pine needles turn red. At this stage there is a potential of large fires with rapid rates of spread. In addition the dead fuel reacts quickly to changes in relative humidity. While large tracts of timber have been lost to recent fires, there has been good regeneration response. However there are post harvest debris fuel management problems in the form of 'standing grass' left behind.

After three to ten years of beetle infestation, the pine needles turn grey. In drier climates, there is usually still a sparse understory, and some Conifer understory, as the canopy is only beginning to allow more light to reach the forest floor. At this stage the dead trees are seen as a mid term timber supply. In wetter sites, there is a deciduous and Conifer understory but with fall down occurring due to water table issues. The site begins to look something like 'standing slash'.

The following speaker was Craig DeLong, research ecologist also for the Prince George Region, about valuing the forest following pine beetle attack.

"There are different values in the forest which are shifting as time goes on in the beetle kill landscape," explained DeLong to *Madison's* in a phone interview.

When asked to comment about the current fire risk DeLong said, "The threat of fire, for example, when leaving the standing-dead timber in the forest, is that the fuel makes fires burn more intensely. However, the current salvage practice leaves behind slash piles which are also

a fire danger. Those piles of wood burn intensely, and the surrounding grass spreads fire quickly."

DeLong and his team established 50 plots in 2005 in the Vanderhoof Forest District, to determine the effects of the pine beetle on the ecosystem and tree properties over time. The focus of the research was to determine: tree fall down rates (timber value loss, fire risk); advanced regeneration release and natural regeneration establishment and growth; changes in stand structure and habitat features; and, lichen survival and growth (maintenance of caribou forage value).

For example, where the lodgepole pine trees have been dead for five years, in many cases the regrowth of spruce and fir underneath is abundant. It looks different than a plantation since the trees are different sizes and are more patchy in distribution.

As traditional timber supply inventory has been measured from an aerial perspective, DeLong's study found that very high mortality of larger stems has been giving the impression of dead stands, however there is generally a lot of live understory.

"As the main forest canopy dies, the value of that timber for lumber declines as the trees dry out, check, and eventually fall down," detailed DeLong. "With the increase in light reaching the forest floor, saplings grow more rapidly, which ends up being a sort of ready-made plantation.

Of course the results vary across the landscape; in some areas there is a lot of understory, in others there isn't. For example, in some cases the regrowth looks like a 20 year old plantation, where the lodgepole pine trees have been dead for five years.

"The important thing here is that when the basal area, or volume, is added up, it is carrying approximately the same amount of wood as an 20-30 year old plantation."

As the pine beetles moved through British Columbia, it was mostly the lodgepole pine that was attacked. DeLong's research found that the remaining big trees, for example spruce, are now growing much faster without that competition. The value of these remaining big trees is important for biodiversity, in terms of the water table, protection, animal habitats, and more.

"We must be strategic about which stands we harvest," continued DeLong. "In a lot of the places we studied, there is a whole new stand underneath the dead lodgepole pine trees, which in some places will be harvestable in 30 years."

The current wisdom points to 80 years out for a mature lodgepole pine tree to grow.

Also speaking at last week's meeting was John Pousette, tenures/fibre officer for the Prince George Forest District, about secondary stand structure and its timber supply implications.

Pousette's first-of-its-kind study looked at 1,300 plots in the Prince George and Vanderhoof Forest District, and his research data shows that some short-term pain could lead to long-term gain. Approximately 130-thousand hectares of pine beetle-attacked stands with more advanced regeneration in the region – 70-thousand ha in the Prince George area and some by Fort St. James – if left unharvested, those stands could fill that mid-term gap for the Prince George Timber Supply Area by one-million cubic metres per year, starting at year 15, in 2022.

Data shows that as of 2009, of the mature susceptible pine of 1.350 billion m3 approximately 50 per cent has been killed by the pine beetle. By 2022 it is projected that 65 per cent of the mature pine may be killed. Even with the increases to allowable annual cuts by 27 per cent, to 85 million m3, it is likely that as much as half of the dead pine will not be harvested before it reaches the end of its economic shelf life.

"In the past the forest service did not collect data on the understory, so we have been working to incorporate those volumes into the timber supply analysis, to recognize that it is there," explained Pousette to *Madison's*. "What could happen if we incorporated what we found with advanced regeneration?

"Using forest model Variable Density Yield Prediction 7 (VDYP7), the timber supply rises by roughly 6 per cent, or 7.02 million m3, per year in approximately 15 to 60 years [mid-term]. Using a individual-tree, spatially explicit model of forest dynamics called Sortie ND, the timber supply could increase by about 22.6 per cent, or 8.14 million m3.

"Depending on what growth and yield model you use, and if the timber is not all being harvested, a lot of those stands already have advanced regeneration. There is already a significant understory, and the effective age of the advanced regeneration is sometimes as much as 20 years old."

Pousette said that, after the presentations, the mayors present from interior cities indicated confidence that they could continue to mitigate the loss of timber supply to the pine beetle with such efforts as changing management practices, fertilizing, thinning out the stands further, and more.

"My models start with current practices, as they are today," concluded Pousette. "With effort we can push the mid-term timber supply even higher."