

MADISON'S LUMBER REPORTER



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News & Updates

Holiday Greetings

In keeping with tradition since first published in 1952, *Madison's* will take a two week break over the Christmas and New Year's weeks. Our intrepid analyst, Zara Heartwood, will be sending bonus issues to email subscribers only.

Have a great holiday season, one and all, and best wishes in the New Year!

US Housing Starts

Home construction in the US rose in November on the strength of the single-family market, a faint sign of hope for the beleaguered industry.

Housing starts rose 3.9 per cent to a seasonally adjusted annual rate of 555,000 from an upwardly revised 534,000 a month earlier, the Commerce Department said Thursday.

The results were driven by a 6.9 per cent gain in single-family home construction to a seasonally adjusted annual rate of 465,000. Multifamily construction, a volatile part of the market, fell by 9.1 per cent last month. Single-family homes, which represent more than 80 per cent of all starts, fell a downwardly revised 2.7 per cent in October.

Compared with November a year ago, new-home construction is down 5.8 per cent.

Building permits fell 4 per cent to 530,000 units. Single family authorizations rose 3 per cent to 416,000. Permits off 14.7 per cent compared to one year ago. Regionally, permits rose 2.7 per cent in the West and 1.9 per cent in the South and fell 8.3 per cent in the Northeast and 22.2 per cent in the Midwest.

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Containerboard Update

After edging down by 2,900 tons in October, US total containerboard inventories (at both the box plants and mills) increased by 38,000 tons to 2.274 million tons according to the American Forest and Paper Association. This 38,000-ton November inventory increase compares unfavourably to the 4,900-ton increase seen in the month of November over the last 10 years. Also inventories at the mill level fell by 600 tons while inventories at the box plants rose by 38,500 tons.

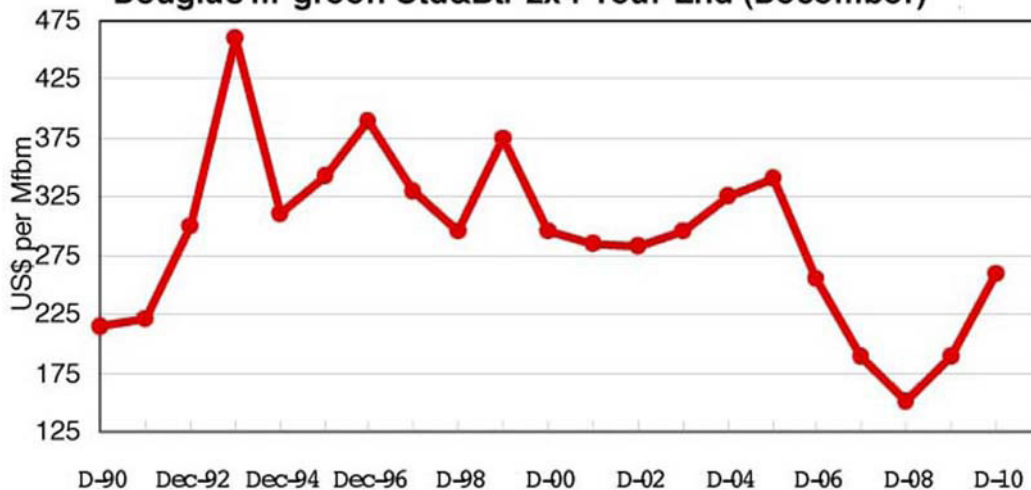
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Log Supply in North America, Demand Globally

The latest downturn for the forest industry is behind us, but producers and wholesalers are still adjusting to altered methods of buying and selling lumber. Stung so badly by the drastic decline in US home building in 2006 and a couple of false starts in increased lumber demand, by 2009 sawmills had curtailed both production and logging in order to save costs. In such an uncertain business environment, no one has wanted to build log supply or stock quantities of wood. With dramatic losses over several quarters in a row, companies were reluctant to make capital investments in either log supply or lumber inventories. The possibility of demand remaining soft, or of prices falling further, deterred companies from committing to restocking. The hard lessons of the past three years have given good cause for forest companies to become extremely conservative in moving forward, at least until they feel there is real proof of recovery.

[READ MORE](#)

Douglas fir green Std&Btr 2x4 Year-End (December)



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	288	276	+12	276	+12	215	+73
WSPF KD R/L 2x6	272	266	+6	275	-3	210	+62
WSPF KD R/L 2x8	282	278	+4	280	+2	220	+62
WSPF KD R/L 2x10	335	330	+5	322	+13	305	+30
WSPF KD PET 2x4 Stud	255	250	+5	250	+5	215	+40
Douglas Fir Green R/L 2x4	260	250	+10	235	+25	190	+70
Douglas Fir Green R/L 2x10	345	320	+25	315	+30	247	+98
ESPF KD 2x4 8ft Stud	310	300	+10	310	0	290	+20
OSB Ontario 7/16" (CDN\$)	200	200	0	200	0	200	0

Weekly News

Home Building, US

CONTINUED The latest data say sales of new homes in the US were down 28.5 per cent in October from a year ago. Inventories of unsold homes are high, and competition is sharp from previously owned homes.

Home values are poised to drop by more than US\$1.7 trillion in 2010, according to Zillow Inc., a closely held provider of home price data. This year's estimated decline, more than the US\$1.05 trillion drop in 2009, brings the loss since the June 2006 home-price peak to US\$9 trillion.

Commercial vacancy rates are also improving, "Office buildings in many city downtowns have stopped losing tenants or are filling up again even as the office space in the surrounding suburbs continues to empty," the *Wall Street Journal* reported on Monday. "The national office vacancy rate in downtowns was 14.9 per cent at the end of 3Q, the same level as in early 2005—while the suburban vacancy rate hit 29.2 per cent, 2.3 percentage points higher than in 2005, according to data firm Reis Inc. In the first three quarters of this year,

businesses in the suburbs vacated a net 16 million square feet of occupied office space...while downtowns have stabilized, losing just 119,000 square feet, Reis data shows."

Containerboard

CONTINUED November corrugated box shipments increased 5.4 per cent versus November 2009, with shipments of 28.5 billion square feet, according to Credit Suisse, which sees the average of the actual and "average week" change, about 2.8 per cent, indicative of solid market growth.

Chip Dillon, Managing Director of US Equity Research at Credit Suisse believes that the industry is setting up for another round of price increase, which will most likely be announced in Q1 for April 2011. Dillon remains positive on International Paper, Packaging Corp. of America, Temple-Inland, Smurfit-Stone, KapStone Paper, and Rock-Tenn.

Mark Wilde, of Deutsche Bank Equity Research, uses various methods to value the stocks, including PE, P/Book and

EV/EBITDA. Overall, these companies appear to be trading near the low end of their normal historical ranges, says Wilde in his monthly *Containerboard Monitor*.

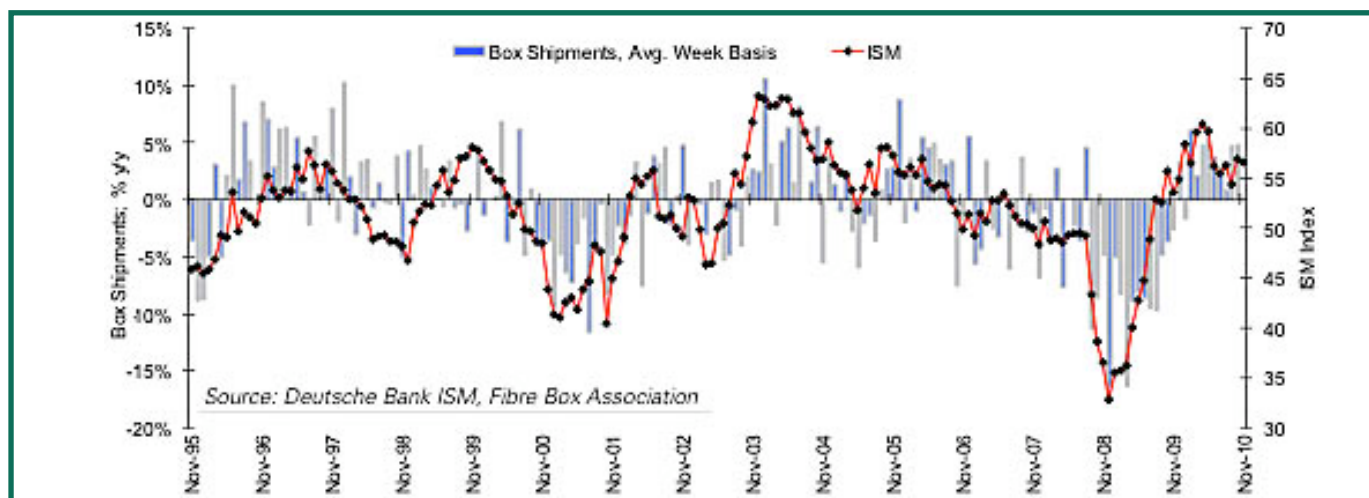
Canfor, West Fraser Invest

Canfor Corp. has announced it will roll out a \$145 million capital spending plan in 2011, of which \$120 million will upgrade sawmill efficiency at both its Canadian and US operations. The remaining \$25 million will be spent on maintenance projects.

The company said all its facilities are open for improvement, but it has made no decisions as to where the funds will go yet.

Metso Corp. will supply Hinton Pulp, a division of West Fraser Timber Co. Ltd, with a rebuild of their market pulp machine in Hinton, AB. The project will be delivered and installed in late 2011. The value of the order exceeds EUR 10 million. The order is included in *Paper and Fiber Technology's* Q4 orders received.

Metso's delivery will include a new top wire former, press section modifications, air borne dryer rebuild, dry end pulper rebuild, and a new high-capacity cutter layboy.



Timber Supply

North America

While it may seem that the building industry and surrounding economy is still slow, that demand continues soft, the facts of 2010 will show that the supply-demand balance has shifted significantly. One year ago stocking wholesalers and builders were able to get highly specified, mixed loads in three days at a good price. By September 2010 secondary wood became extremely tight or even non-existent as the supply chain, having been overstocked to a dangerous level through 2007, finally became depleted. Suddenly customers, lulled into a false sense of security by continued reports of low US home building figures were surprised by the level of real demand out of Asia. Now they are being told by mills they must wait three weeks for their wood, and – oh, by the way! – the price went up. Perhaps ‘surprise’ is not a radical enough description.

Across North America, approximately one-third of contract loggers and one-third of truck loggers have gone out of business since 2006, their equipment sold at auction or repossessed. When demand remained low this lack of forest operation service in the supply chain was not felt at the mill level. As demand begins to ramp up, albeit moderately, lumber producers with little to no logs in their yard and few people to call back into the woods are going to have a difficult time sourcing logs.

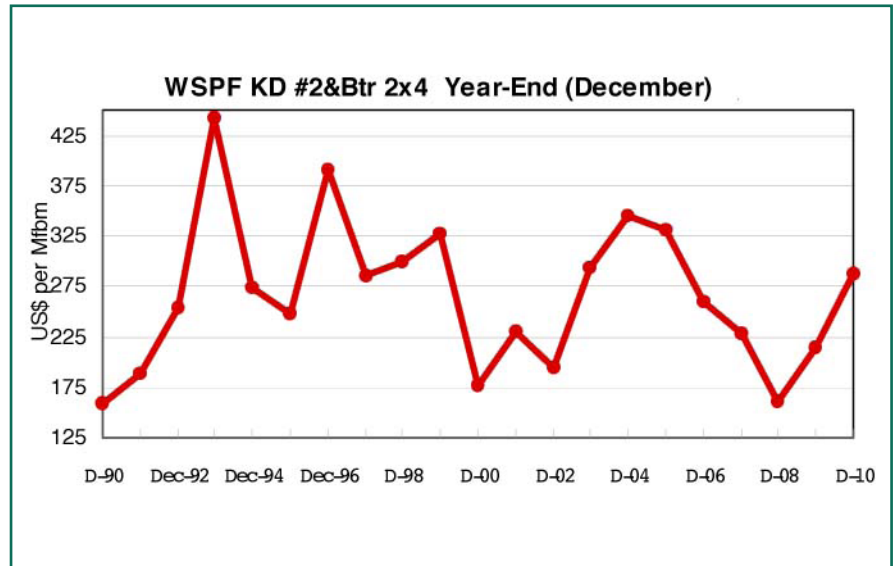
For some companies getting logging going again will be simply a matter of recalling dedicated loggers and dusting off the falling equipment. But for many others, there isn't anyone to call. Meanwhile, demand continues to tick up incrementally, and log piles are minimal. In some cases it may be several months, or longer, to get the log supply chain going again. It is possible that order files at the mill could grow out further than the three to four weeks that they are now, with prices rising all along the way.

While North America slowly pulls out of the economic downturn, demand out of Asia for logs and lumber is changing the face of the game for suppliers. New demand from Asia is causing a shift in log supply and prices from other markets as well.

According to the November *Agrifax Forestry Market Report*, market prices for New Zealand logs in China and Korea slowed from the rapid rises seen in September and October. Supply and demand for New Zealand logs in China appears to be reaching a balance resulting in slower price rises in November. Tight domestic

by Kéta Kosman

of 2010 will show that the supply-demand balance has



supplies are driving up local prices and forcing processors to look beyond China for supply, however a lull is expected, as is traditional, during the slower Chinese New Year period. Strong demand for New Zealand logs continues in India. However that market is struggling to attract volumes due to higher shipping rates to and within India.

With little log supply in China, the import sales prices of Northeast local logs increased steadily, according to *China Wood Monthly Market Report's* November issue. In Beijing and the surrounding markets, Russian wood was popular. According to a local expert, this timber market situation and trends in Beijing and surrounding markets will last until the end of 2010 or early next year, says *China Wood*.

According to the *Japan Lumber Reports*, the Japanese market for hardwood logs is firming. FOB prices in Japan are expected to further increase due to log shortage and robust demand from China and India. Severe log shortages have been noted at the main log loading ports in Japan, says the *Reports*. India and China are taking significant log volumes to satisfy active demand for lumber and plywood in their countries, while Vietnam and Pakistan have joined the purchase race. All of these factors are driving log prices ever higher. Due to the high volumes, loading time at the ports has grown from one week to ten days or even two weeks. Adding to this supply chain headache, a shortage of rail cars is delaying deliveries to loading ports in the Far East.

Russia, a traditional supplier of logs, has seen reduced exports to Japan yet prices remain high, which cuts further into demand on the Japan side. In a typical story repeated across North America, particularly on the west coast of the US, the *Reports* explains, "Sawmills in Japan

have very little log inventories but due to sluggish lumber sales and prices, mills hesitate to commit to high log prices."

In response to new market conditions in North America and demand from Asia, British Columbia's Welco Lumber has shifted its market share to 42 per cent going to Asia, 32 per cent into the US, and 26 per cent remaining domestically in Canada. Of the Asian market share, 8 per cent is J-grade lumber going into Japan.

A source at 84Lumber explained to *Madison's* that even in mid-2009 there was not enough log supply, particularly in the western US, although lumber traders do tend to exaggerate the seriousness of the situation, said the source. Canadian mills are restructuring where the wood is going, putting an emphasis on China, while US customers continue to languish on soft demand. In terms of Douglas fir, most of the US west coast mills own the timberland and by selling logs on the open market thus are pricing themselves out of the lumber business. Douglas fir lumber prices, both green and KD, remain quite low while Douglas fir log prices are reaching record levels.

As mill order files are currently approaching the second week of January and with some Canadian western mills forgoing traditional New Year's downtime and maintenance curtailments to serve that demand, 2011 looks to start out with a bang. Given the steady increase in both lumber prices and demand since September, there is no reason to expect a sharp reversal in January. In fact, the mills seem to have caught on better than they have indicated. Many of them have come up with fancy new brand names to sell off what is essentially #2&Btr to the US at a premium since there is now an overabundance of demand for #3/Utility going into Asia.