

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

KD Fir

What has happened to the pundits of old that made up their own minds about which way the market would go? Apparently they have all retired or gone out of the lumber business in disgust. They have been replaced by board watchers: people who hang their cash buying and selling on the fluctuations of the futures board. What does that say about the long held belief that players in the cash market are renegades who make the market rather than follow the cyber-directed actions of program traders in futures? [READ MORE](#)

US Housing Starts, Home Sales

December housing starts fell 4.3 per cent to a seasonally adjusted annual rate of 529,000 from an downwardly revised 553,000 a month earlier, the US Commerce Department said Wednesday. However, building permits surged 16.7 per cent to an annual rate of 635,000. Compared with December a year ago, new-home construction is down 8.2 per cent.

The results were driven by a 9 per cent drop in single-family home construction. Single-family homes, which represent more than 80 per cent of all starts, rose a revised 5.8 per cent in November. Construction of dwellings with five or more units rose 25.9 per cent last month.

The US National Association of Realtors reported Thursday that existing home sales in December rose 12.3 per cent to 5.28 million units. Total sales were off 2.9 per cent in year over year comparisons. Single family sales rose 11.8 per cent to 4.64 million compared to the previous month but were off 2.5 per cent in year over year comparisons.

Despite the monthly jump, the housing market remains a weak spot for the economy, which is slowly coming out of a severe recession. For all of 2010, about 4.9 million homes were sold, the worst year since 1997 and down 4.8 per cent from a year earlier.

[READ MORE](#)

Japan Lumber Demand and Housing Starts 2011

The Japan Foreign Timber General Supply and Demand Liaison Conference projected that total 2011 wood imports would be 3.2 per cent more than last year, which was up 8.3 per cent from 2009, according to *Japan Lumber Reports*. [READ MORE](#)

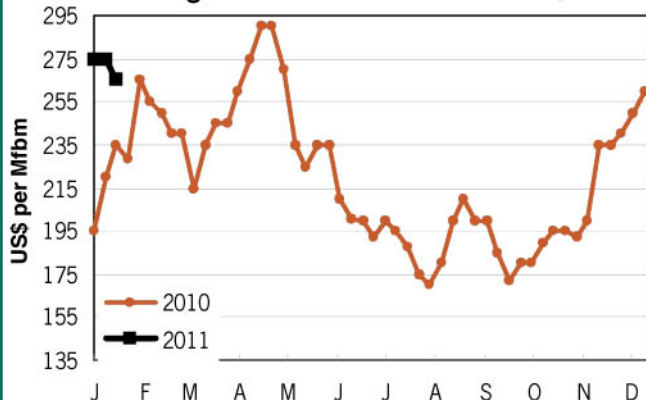
US Second Arbitration Under Softwood Lumber Win

In an ominous precursor of what is to come in the newly-filed US claim against British Columbia this week, the third complaint launched by the US under the 2006 Softwood Lumber Agreement, the LCIA today ruled in the US's favour for the second arbitration, against Quebec and Ontario. [READ MORE](#)

68th Annual Truck Loggers Convention

The Truck Loggers annual convention and trade show in Victoria, BC, was well attended by coastal truckers, loggers, lumber producers, equipment suppliers, politicians and mainstream media. The general mood was significantly improved over the past two years' events. [READ MORE](#)

Douglas Fir Green Std&Btr 2x4



U. S. HOUSING STARTS

	Dec-10	Nov-10	Dec-10	Nov-10
Starts			Permits	
Actual	34,300	40,800	Actual	47,700
SAAR*	529,000	553,000	SAAR*	635,000
1 Unit	417,000	458,000	1 Unit	440,000
2-4 Units	(s)	(s)	2-4 Units	23,000
5+ Units	102,000	81,000	5+ Units	172,000
Starts by Region			Permits by Region	
Northeast	58,000	77,000	Northeast	121,000
Midwest	69,000	112,000	Midwest	93,000
South	262,000	268,000	South	244,000
West	140,000	96,000	West	177,000

*Seasonally adjusted annual rate

Source: U.S. Census Bureau

Studs

WSPF KD 2x4 PET	275	ESPF KD 2x4-8'	335	Douglas Fir Green 2x4-8'	245
WSPF KD 2x4-8'	283	ESPF KD 2x4-9'	380	Douglas Fir Green 2x4-9'	285
WSPF KD 2x4-9'	305	ESPF KD 2x6-8'	380	Douglas Fir Green 2x6-8'	230
WSPF KD 2x4-7'	255	ESPF Green 2x4-8' (del. Toronto)	240	Douglas Fir Green 2x6-9'	275
WSPF KD 2x4-6'	245	ESPF Green 2x4-9' (del. TO)	240	Hem/Fir Inland 2x4-8' KD	270
WSPF KD 2x6 PET	305	ESPF Green 2x6-8' (del. TO)	265	Hem/Fir Inland 2x4-9' KD	348
WSPF KD 2x6-9'	305	ESPF Green 2x6-9' (del. TO)	265	Hem/Fir Coast 2x4-8' KD	255
WSPF KD 2x3-8'	250	Douglas Fir KD 2x4-8'	270	Hem/Fir Coast 2x4-9' KD	345
WSPF KD 2x4-8' to 10' FJ	260	Douglas Fir KD 2x4-9'	345	Fir/Larch KD 2x4-8'	270
		Douglas Fir KD 2x6-8'	270	SYP West 2x4-8'	270

WSPF 2x4 PET KD Studs 2009 - 2011



by Zara Heartwood

STUDS Rumble

Rumours pushed the futures board around on Wednesday. Gossip initiated odd behaviours at all levels of the market, cash and futures, buying and selling. Odds and ends sold in spite of uncertainty. Order files shrunk slightly down from four weeks to a three to four week backlog. In any market, that order file is nothing to be ashamed of, particularly in the first quarter of the year.

Makers were in no panic to sell their stock. Inquiry was more for economy and shorts than for commodity studs. Heavy snows in the central interior of BC raised a few service issues on the CN railroad as well as in truck deliveries.

MSR • KD

MSR Western SPF

	2x4 Chic.	2x4 Van.	2x6 Chic.	2x6 Van.
1650 f	375	335	370	330
2100 f	385	345	380	340
2400 f	390	350	390	350

8-20 ft. F.o.b. to Chicago or Vancouver

MSR Eastern SPF

	2x4	2x6
1650 f	405	410
2100 f	415	420

8-20 ft. F.o.b. delivered Great Lakes Zone

MSR Spruce-Pine-Fir (East) • Specified Lengths

	10'	12'	14'	16'
2x4 1650 f	380	380	385	385
2x4 2100 f	390	400	400	410

8-20 ft. F.o.b. delivered Great Lakes Zone

USD - CAD RATES

	19/01 (close)	20/01 (close)
1 USD	0.9955 CAD	0.9971 CAD
1 CAD	1.0045 USD	1.0029 USD

Lumber Futures • Chicago Mercantile Exchange

Thursday, January 20, 2011

	High	Low	Close	Change	Open Interest	Contract High	Contract Low
Mar-11	305.00	300.20	303.40	+5.80	6,845	340.80	221.00
May-11	321.90	315.70	320.00	+5.80	2,799	352.60	241.00
Jul-11	327.50	322.10	327.50	+6.20	1,119	352.10	282.00
Sep-11	324.20	319.60	323.40	+5.20	185	344.00	285.00

MSR Takes Breather

While truss makers are in their low season, MSR traders are taking it easy. It's a good time to make visits to customers and for glad-handing in advance of the spring sales push. Volumes out were minimal this week. Prices corrected downward in all products by ten to \$15. Order files were minimal. These winter months are golden if used to promote machine stress rated lumber, especially to new markets.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	300	312	-12	304	+24	280	+50
WSPF KD R/L 2x6	288	300	-12	296	+28	246	+42
WSPF KD R/L 2x8	286	288	-2	284	+6	250	+36
WSPF KD R/L 2x10	345	345	0	345	+10	330	+15
WSPF KD PET 2x4 Stud	275	275	0	260	+20	250	+25
Douglas Fir Green R/L 2x4	265	275	-10	270	+15	235	+30
Douglas Fir Green R/L 2x10	310	333	-23	335	-12	245	+65
ESPF KD 2x4 8ft Stud	335	325	+10	316	+15	320	+15
OSB Ontario 7/16" (CDN\$)	210	210	0	195	+10	200	+10

Weekly News

US Real Estate

CONTINUED The median price of an existing home fell 0.8 per cent to US\$168,800 from November's downwardly revised \$170,200. Median prices were down 1 per cent in year/year comparisons. Inventories fell to 3.560 million, from 3.717 million units. Months supply fell to 8.1 months from 9.5 months previously.

The Realtors group said distressed properties accounted for about 36 per cent of sales in December, compared with 33 per cent in November.

At present there are 1.7 million homes either owned by a bank or are in some stage of foreclosure, according to *Standard and Poor's*. It would take 44 months at the current rate of sales to clear the market. The numbers are staggering: the Mortgage Bankers Association estimates that there are two million Americans seriously delinquent on their payments and there are another two million bank-owned homes.

The National Association of Home Builders expects new single-family home sales to rise to 405,000 this year, while Moody's Analytics projects an increase to 540,000.

In 2009, sales of new single-family properties totalled 375,000 units, the lowest figure in records dating to 1963. For the first 11 months of last year, sales ran at an annual pace of 319,640, Commerce Dept data show. Home prices are down 30 per cent from their July 2006 peak, according to the S&P/Case-Shiller index. Values probably will fall an additional 6 per cent before the traditional spring selling season begins, Standard & Poor's said in a January 10 report.

With competitors driven out of business by the recession and sales likely to climb from record lows, the biggest US

homebuilders are poised to benefit from a rebound in demand for new houses this year, says Thursday's *Bloomberg Business Week*. Companies are planning to boost the number of developments where they are selling homes by at least 10 per cent in 2011 after buying land at discounted prices and obtaining financing unavailable to smaller builders.

Japan Lumber 2011 Forecast

CONTINUED The Liaison Conference determined that total Japan demand for logs and lumber in 2011 would be 11.5 million cubic metres, while 2010 demand is estimated at 11.2 million cubic metres, says the *Japan Lumber Reports*.

With 2009 demand at 10.3 million cubic metres, the projected increase is of 12 per cent.

A survey of 13 major house builders by the Japan Forest Products Journal found the average number of housing starts for 2011 would be 874,000 units, according to the *Reports*.

Starts in 2010 recovered to 800,000 units from 751,429 in 2009, the lowest starts since 1964. Detached units built for sale also increased in 2010, by over 20 per cent.

LCIA Rules Against Canada

CONTINUED The US Coalition for Fair Lumber Imports welcomed today's London Court of International Arbitration (LCIA) ruling that subsidies provided by the Ontario and Quebec governments to lumber manufacturers in their provinces violate the terms of the 2006 US-Canada Softwood Lumber Agreement. This trade agreement prohibits the Canadian federal and provincial governments from

providing new subsidies to the Canadian lumber industry after July 1, 2006.

In late 2006 and 2007, Quebec and Ontario announced and implemented plans to provide hundreds of millions of dollars in grants, subsidized loans, and subsidized loan guarantees to lumber producers. The United States initiated dispute settlement proceedings under the SLA with respect to these new subsidies in January 2008.

The text of today's LCIA Tribunal decision has not yet been released publicly. However, the Office of the US Trade Representative states that, according to the terms of the Tribunal award, Canada must implement a cure for this breach within 30 days or impose additional export taxes for the duration of the SLA. It is anticipated that these additional export taxes will amount to US\$59.4 million.

A spokesperson for the Canadian government was not immediately available for comment despite requests from various media outlets.

This ruling is final.

Provincial loans, grants, tax credits, and other programs in Ontario and Quebec did not comply with the terms of the 2006 Softwood Lumber Agreement.

Calendar

February 2011

PaperWeek Canada 2011
February 1 to 3 – Montreal, QC
<http://www.paptac.ca/>

2011 ABCFP Forestry Conference & AGM
February 24 & 25 – Vancouver, BC
<http://www.expofor.ca/index.htm>

Truck Logger Convention

Late Thursday afternoon *Madison's* returned from the 68th annual Truck Loggers Association Convention and Trade Show, in Victoria, BC. The theme

by Kéta Kosman

this was year '*Positioned to Prosper*'.

Having enjoyed the compulsory hospitality, *Madison's* gleaned good amounts of worthwhile information from convention speakers and delegates.

In keeping with tradition, outgoing BC Premier Gordon Campbell opened the event Wednesday with a speech in advance of the luncheon. Campbell's speech, while informative, was significantly more light-hearted than in previous years. A reference by the introducing sponsor, SMS Equipment, that they are actively hiring, then an aside to the Premier that he may like to apply now that he will be out of work, created the opportunity for running jokes throughout the day about Campbell going out for a job in the forest industry. Possibly due to this being Campbell's last time opening the TLA as Premier, or the attendance of several Liberal leadership candidates, or the fact that the short term outlook for the lumber industry has improved over last year, or a combination of these, there was a sizable turnout by the mainstream media.

The first panel discussion that afternoon kicked the event into high gear. Clint Parcher of sponsor Coastland Wood Industries stated that 2011 is "not going to be an easy year," and posed an informal question to the panel, 'How do you allow a log export profile and still have supply for domestic production?' The current dilemma facing log suppliers to Washington State and Oregon Douglas fir mills speaks to exactly this issue.

Sam Anderson, CEO of the Master Builder's Association of King and Snohomish Counties in Washington State, the largest of 800 such organizations in the US, spoke about housing starts and expectations for US home building in the medium term future.

"Any US housing recovery, especially in the west, is entirely dependent on employment," began Anderson. "US unemployment will not get down to a healthy 5 or 6 per cent for at least five years."

Anderson went on to explain that five million US home owners are at least two months behind on their mortgage payments, and 23 per cent are underwater. Meanwhile the credit situation has not

improved; banks are not lending to builders and are also tightening credit for potential home buyers. Anderson explained further that two-fifths of US home sale transactions "die because appraisals are coming back at less than the buyer is willing to pay."

Between the lack of funds either for builders or buyers and appraisals based on the latest home sales in a given area, builders are having trouble selling the homes they do manage to build.

A further encumbrance, Anderson detailed, is that "municipalities have cut permitting departments" in response to the home building downturn. This circumstance, when combined with a loss of trades – currently replaced by owners who have been forced to strap on a tool belt as the only way to keep their company going – will serve to slow recovery when it does begin to come about.

"Today the US is over 3.2 million new housing units short of what it needs to satisfy the normal trend of household forming," concluded Anderson. "Even with the foreclosures and with housing starts beginning to rise, demand for homes will be high but supply short so home prices will spike."

The rest of the afternoon was allotted to the trade show floor, where the beer flowed freely. There have been some very interesting developments made on the part of Natural Resources Canada, the Canadian Forest Service, and FPInnovations that *Madison's* will cover in future issues. Something exciting, which was mentioned in Campbell's opening speech, is the increase in community forests in BC. Described as 'any forestry operation managed by a local government, community group, First Nation or community-held corporation for the benefit of the entire community', there are now 52 community forests operating in BC with another 24 having applied for official status. Collectively, community forests represent approximately 1.5 per cent of the provincial annual harvest. Perhaps in conjunction, FPInnovations has launched a program providing technical support to the BC First Nations forest sector. More information on this, and other, progress will be highlighted in future issues of your *Reporter*.

A special session was added in the evening, providing the opportunity for Liberal party leadership candidates to speak. Three attended; George Abbott, former Forests Minister Mike de Jong, and Ed Mayne. Current Minister of Forests, Mines, and Lands, Pat Bell, paid close attention from the back of the room. That

the inimitable Vaughn Palmer, of the Vancouver Sun and Shaw Cable's community channel for Vancouver, moderated this discussion will reveal that the explosive, and often hilarious, tone of the event. The candidates went into some detail about their vision for the future of British Columbia in general and the forest industry in particular. Given Palmer's style during his introduction, suffice to say that barbs and jabs flew throughout the evening. No topic was off limits, much to the delight of the audience. This is the only occasion that *Madison's* actually recorded, for posterity if for no other reason.

The next morning started painfully early given the activities of the previous evening. As always the not-to-be-missed "*Talking to the Minister*" session began promptly after breakfast. This year moderator Paul Quinn, of RBC Capital Market, gave a brief summary of the solid wood and pulp markets.

"In 2008, and even in 2007, lumber company share prices across North America showed in the red," said Quinn. "In 2010 shares are up, mostly due to demand out of China."

Armed with freshly-released figures out of the BC Ministry of Forests, Mines, and Lands, Minister Pat Bell explained, "BC's lumber exports were 353 million and 354 million mfbm respectively for October and November, which will put total 2010 exports at 4 billion mfbm."

BC is working closely with China's large developers to continue providing expertise and technical information on wood framed home building.

"One of the largest home builders in China was responsible for a half million new units in one year, out of a total eight million," continued Bell. "A lot of these are six-storey concrete buildings using framing lumber for various purposes like floor joists, infill walls, roof trusses and concrete forming. However another large builder in China, Greenland, specializing in institutional development like schools, has already stated it will be building all of its new projects entirely out of wood; 22 million cubic metres of residential and 13 million cubic metres of commercial construction."

Questions from the floor prompted updates about recent changes to BC Timber Sales, specifically the status of an advisory committee to assess rules around the timber bidding process, and a confirmation of the previously announced increase to stumpage fees. Major announcements on both issues will be coming soon from the BC Ministry of Forests, Mines, and Lands.