

MADISON'S LUMBER REPORTER



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News & Updates

Madison's Timber Preview

A company newly-formed in September 2010 has secured significant tropical hardwood timber harvest licenses in Colombia. Created by Hayes Forest Services out of Duncan, BC, this week's issue of *Madison's Timber Preview* examines Prima Colombia Hardwood, which expects to start generating revenue for investors in 3Q 2011.

Contact us any time for a subscription.

USW & IFLRA Talks to Resume

In a statement released March 2, 2011, the United Steelworkers announced that after nearly four months, the Interior Forest Labour Relations Association and USW met in Kelowna.

The Parties agree to resume bargaining in Kelowna on Wednesday, March 30.

Canadian Housing Starts

Canadian housing starts in February edged higher by 6.6 per cent, to 181,900 annualized units, compared to January, according to Canada Mortgage and Housing Corporation.

While the slight increase in January came despite decreases in both the urban singles and multiples components, these major categories of new home construction more than retraced the declines in February. The fairly volatile urban-multiples component surged 14.5 per cent to 94,900 annualized units, while the more stable single-urban starts component rose 3 per cent to 66,100.

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Housing Starts, Japan

Japan housing starts in January totalled 66,709 units, a 2.7 per cent increase over January 2010, according to the *Japan Lumber Reports*. While housing starts in Japan have been increasing for eight months straight, in comparison to January 2009 the latest figures represent a 5.6 per cent drop. January's seasonally adjusted starts were 847,000, a 1.6 per cent drop compared to December 2010.

Units built for owners rose by 5.5 per cent, while units built for sale continued their eleven consecutive months' increase at 22.3 per cent.

At press time the full effect of Thursday night's 8.9 magnitude earthquake off the coast of Japan is unknown but early estimates indicate that 3,000 homes have been destroyed.

Our hearts and thoughts go out to our Japanese friends and work partners.

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US Construction Forecast

Industrial, commercial, government, as well as single-family home building analyses and forecasts were offered by industry experts from Reed Construction Data, the American Institute of Architects, the Associated General Contractors of America, and CanaData in an informative Webinar held last week.

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JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Jan-11	66,709	35,740	43,600	65
Dec-10	74,517	30,917	43,600	59
Nov-10	72,838	31,384	41,454	57
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

Source: Japan Wood-Products Information and Research Center

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	February 2011		January 2011	
	Actual	SAAR	Actual	SAAR
Canada, all areas	10,659	181,900	10,584	170,600
urban ctrs with >10,000	9,900	161,000	9,773	147,100
singles, urban centres	3,300	66,100	3,463	64,200
multiples, urban centres	6,600	94,900	6,310	82,900
rural areas	759	20,900	811	23,500
Atlantic urban centres	269	6,400	480	8,500
Quebec urban centres	1,746	37,900	2,534	40,800
Ontario urban centres	3,982	62,600	3,300	48,400
Prairie urban centres	2,051	30,000	1,516	23,800
B.C. urban centres	1,852	24,100	1,943	25,600

Source: Canada Mortgage and Housing Corporation

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	302	306	-4	290	+12	280	+22
WSPF KD R/L 2x6	274	274	0	270	+4	275	-1
WSPF KD R/L 2x8	278	280	-2	278	0	270	+8
WSPF KD R/L 2x10	326	326	0	340	-14	345	-19
WSPF KD PET 2x4 Stud	285	285	0	270	+15	295	-10
Douglas Fir Green R/L 2x4	280	275	+5	268	+12	215	+65
Douglas Fir Green R/L 2x10	285	290	-5	295	-10	230	+55
ESPF KD 2x4 8ft Stud	335	340	-5	312	+23	350	-15
OSB Ontario 7/16" (CDN\$)	205	205	0	200	+5	244	-39

Weekly News

Housing Starts, Canada

CONTINUED Versus the first two months of last year, home starts in 2011 have averaged a drop of 10.6 per cent. The first half of 2010 was relatively strong, before a modest decline settled in during much of the second half of the year.

Strength was concentrated in Ontario, up 29.3 per cent, and the Prairies, up 26.1 per cent, with these regions' gains seen mainly within the urban-multiples component, which were up 56.5 per cent and 41.6 per cent, respectively. Weakness was seen in British Columbia, down 5.9 per cent, Quebec, down 7.1 per cent, and Atlantic Canada, down 24.7 per cent, with both urban singles and multiples declining in each of these regions.

Some sticker price shock exists as home prices in Canada experienced only a mild drop in the recession. There was nothing like the 30 per cent correction in home prices that occurred south of the border. To date, no progress has been made in reversing the decline in U.S. residential prices. By way of contrast, the latest reading on year-over-year new home prices in Canada is up 2.1 per cent.

The inventory of unsold multiple units (i.e., mainly condos) nation-wide in February continued to climb, lifting a level that was already far too high. Toronto, Montreal and Vancouver account for more than half of total condo starts in the country. Year-to-date condo starts in Montreal are down 29 per cent versus January-February, 2010. But in Vancouver, they are up 51 per cent and in Toronto, up 58 per cent.

At the same time, there are ongoing positive indicators for the homebuilding sector. Sales of existing homes have ex-

hibited a solid recovery after slipping for a while last summer. They now reside at a figure approximately halfway between their recessionary low and their previous peak.

Japan Housing Starts

CONTINUED New building of units for rent decreased by more than 10 per cent with no sign of recovery says the Report, while units built for sale rose by 20 per cent in January compared to December.

Tokyo metropolitan district, formerly a leader in owner's units, saw a 9.5 per cent decline in those units, while units built for sale in Tokyo rose by 30.3 per cent.

New condominium building recovered to 10,000 units, while detached units built for sale continued their ten straight months' increase.

New wood-framed units totalled 35,740, a 3.2 per cent increase. Share of wood based units increased to 53.6 per cent of the total.

Paper Excellence Buys Domtar Alberta Mill

A holding company affiliated with Indonesia's Sinar Mas and Asia Pulp & Paper has signed a deal with Domtar to buy the shuttered Prince Albert pulp mill in Saskatchewan.

The holding company will invest around \$200 million to repurpose the mill to produce dissolving pulp.

However, spokespeople from Paper Excellence and APP declined to comment more specifically on the matter, nor would they comment on how much dissolving pulp per year the repurposed mill is planned to produce.

In its heyday, the Prince Albert mill

could produce around 330,000 tonnes/yr of NBSK pulp.

The deal is subject to certain stipulations, such as a collective agreement with employee representatives.

Forest Safety

More than 2,700 contractors now are certified under the BC Forest Safety Council safety program with another 2,100 are registered for the certification.

The joint effort by industry and the BC government also led to a push to upgrade logging roads, and provincewide radio-calling protocols were also adopted.

A huge snow pack in the coastal forests will delay logging later than usual into the spring. With extremely steep terrain on BC's Vancouver Island and the Sunshine Coast, much of it accessible only by boat, even fallers with multi-decades of experience are impeded by weather conditions. It's not safe to attempt to climb up a slippery vertical with climbing equipment, let alone encumbered with a pack, chain saw, and containers of gas and oil. Bringing down the big trees once they get to the site is a task for Paul Bunyan, not mortals who have WorkSafe BC and government safety inspectors looking over their shoulders. I

t's no wonder logging is one of the most dangerous occupations in BC (93 deaths per 100,000), along with commercial fishing, military service, working in the oil patch and rodeo bull riding.

There were six deaths in BC's forests in 2010, up from four the previous year, but well down from the average 22 deaths a year in the past two decades, and a significant improvement on the year of 2005, which saw 43 deaths.

Following the horrific death toll in 2005, the industry and government declared that improving forest safety was a

US Construction Forecast

Residential and Commercial Building

On March 3 an informative Webinar, organized jointly by Reed Construction Data and the American Institute of Architects (AIA), titled “*Construction: Time to Spring Forward?*” was held. Speakers included: Kermit Baker, Chief Economist at AIA; Ken Simonson, Chief Economist at Associated General Contractors of America (AGC); Jim Haughey, Chief Economist at Reed Construction Data; and special guest Alex Carrick, Chief Economist for CanaData.

Baker started the presentations with a bang, declaring that “the US is on the cusp of a turnaround in construction.” He quickly qualified this statement by saying that the US spent ten years building more homes than it needed, which lead to excess inventory levels. However supply problems are about to occur, said Baker, because new household forming rates have declined significantly since the economic downturn, leading to calculable amounts of pent-up demand for the next few years.

During the downturn, home remodeling kept the construction industry going to the tune of \$300 billion annually, although hard data on renovations is difficult to find, admitted Baker. A comparison to new home building makes it look like home renovations are rising, when in reality they have simply slowed by a lesser degree. The latest indicators show that home renovations are approaching 2006 levels. Particularly the US northeast, industrial northwest, and coastal California will show strength in home improvements in the next few years, explained Baker.

Unknowns such as changes to financing and tax laws may throw uncertainty into home renovations, Baker cautioned.

Using data gathered from US architecture firms, Baker generated projections on future building projects.

“Even if a portion of these projects now in the design phase don’t go forward, which some surely won’t, there is a still a high level of confidence that the US will see an increase in construction activity in the next year or so,” concluded Baker.

Jim Haughey spoke next, beginning with the statement that uncertainty about unrest in the Middle East and revolts by taxpayers on government spending in the US

could be two dark clouds in the short term future of construction.

“There is a risk that financing for public construction will be less than was thought in 3Q 2010,” explained Haughey.

The post-US 2010 mid-term election environment has contractors working in a different environment than was understood at the end of last year, due to: steep budget cuts on the State level, commodity prices rising more than they would have without recent uncertainty factors, and tightened credit for housing. However, on the upside are: loosened credit for non-residential construction, the recent jump in consumer and business confidence, and gains in employment rates.

“Credit is becoming less of a problem for the US economy, especially after 2013,” detailed Haughey. “With gains in employment people will move out from roommate situations and parents’ houses into renting. The apartment market is booming, although the condo market continues oversupplied.”

Haughey’s analysis found that construction costs will rise, due mainly to the rising cost of construction materials.

“Commodities prices in international markets will increase by 5-6 per cent in the coming two years, while domestically-priced items will rise by 1-2 per cent,” said Haughey.

Simonson also spoke about construction material, “Material costs increases are greatly outstripping inflation, and for the moment contractors are eating the difference because there is so much competition for building work.”

This finding was echoed by Sam Anderson, CEO of the Master Builder’s Association of King and Snohomish Counties in Washington State, at this year’s Truck Logger’s AGM. Please refer to the January 28, 2011 issue of your *Madison’s Reporter* for details.

The AGC’s Ken Simonson added that there might be a 5-8 per cent increase in the Producer Price Index for some periods through this year, but 2011 will likely end similar to 2010.

“This should be a good year for multi-family building,” explained Simonson. “And by the end of 2011 there will be a record-low inventory of single-family homes, so that will need to increase.”

Simonson also said that total construction spending will be up 3-7 per cent for the first time in five years, but some of the gains from that increase will be absorbed by rising construction costs.

Next, Alex Carrick brought a Canadian perspective to the discussion.

“Commodities are important to Canadian construction,” detailed Carrick. “As does the dollar, which has a huge impact on the manufacturing sector.”

Carrick described Canada’s recent recession as ‘not bad’, explaining that all 400,000 jobs lost have now been recovered.

“Canada’s financial sector formed a solid base for the Canadian economy, and eventually helped the construction industry because office vacancy rates remained low at 8.8 per cent,” said Carrick. “Most office complexes are owned by the large pension funds.”

Carrick also explained that, as Canada is an exporting nation, as emerging markets come in, the demand for raw materials, thus the price of those, is going to increase.

The Webinar finished off with questions from listeners, most of which focussed on what effect the loss of public fund will have on newly-started and proposed building products. The panel members were in agreement that private confidence will increase, which will offset the loss of public funds.

Leading Indicator of Remodeling Activity Points to Early Stages of Recovery

