

# MADISON'S LUMBER REPORTER



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## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest figures out of the Pulp and Paper Producers Council and the American Forest and Paper Association for pulp and containerboard prices, shipments and inventories, as well as looking at projections on capacity and possible future price increases from Deutsche Bank and Credit Suisse analysts released this week.

Contact us any time for a subscription.

### US Home Sales

The US Commerce Department Wednesday released February new home sale figures at 250,000, down 17 per cent compared to January, and down 28 per cent compared to February 2010. February sales were the lowest in recorded history. January new home sales were upwardly revised to 301,000. Regionally, sales fell 6.3 per cent in the South, 14.7 per cent in the West, 27.5 per cent in the Midwest and 57 per cent in the Northeast.

Median prices of new homes were down 14 per cent to US\$202,100 compared to January's US\$234,800. Unsold home inventories were flat at 186,000 units. The months supply rose to 8.9 months from 7.4 months in January due to the slower sales pace, which is typical for the season.

Meanwhile, sales of previously owned US homes dropped by 9.6 per cent to a 4.88 million annual rate, figures from the National Association of Realtors showed Monday. The median price of existing homes fell 5.2 per cent from a year earlier. [READ MORE](#)

### Japan Wood Operations and Infrastructure Damage

Japan's Ministry of Land, Infrastructure and Transport has asked the Japan Federation of Housing Organization to build 30,000 temporary dwellings in the next two month, which will be built by the Japan Prefabricated Construction Suppliers & Manufacturers Association with support from Japan's Landlord Association, says the *Japan Lumber Reports*.

The massive earthquake off the coast of Japan March 11 has been named the Tohoku Pacific Offshore Earthquake.

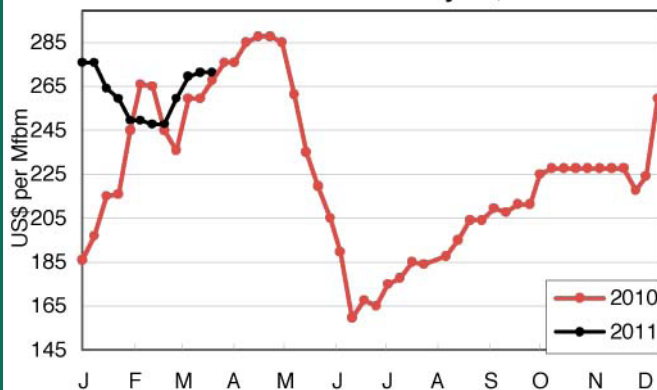
Japan's Forestry Agency invited 29 industry groups to discuss restoration of the earthquake disaster area, says the *Reports*. A major problem is that the damaged areas are also supply areas, so volumes are impacted for now. [READ MORE](#)

### Log, Timber and Fibre Supply

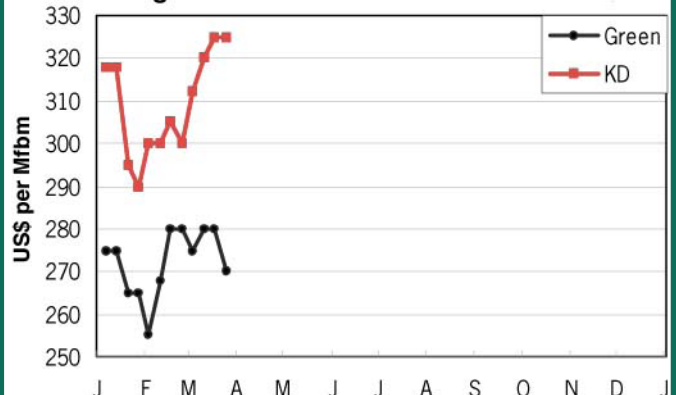
Conservative solid wood producers will look at this week's sharp drop in US new home sales as confirmation that lumber and panel demand from the US will remain depressed in the near future. However the reality is that US demand has already begun to increase, but at such small levels that mills are unsure how much traction this recovery has.

Continuing to limit logging is the wrong attitude. In the past four years the timber and lumber supply chain has become severely impeded, it will not simply be a matter of picking up the phone to call former loggers and haulers back into the bush. [READ MORE](#)

WSPF KD 2x4 #3 Utility



Douglas Fir KD vs. Green Std&Btr 2x4



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	288	292	-4	288	0	288	0
WSPF KD R/L 2x6	262	270	-8	273	-11	278	-16
WSPF KD R/L 2x8	270	278	-8	278	-8	270	0
WSPF KD R/L 2x10	320	320	0	330	-10	340	-20
WSPF KD PET 2x4 Stud	280	280	0	285	-5	290	-10
Douglas Fir Green R/L 2x4	270	280	-10	280	-10	245	+25
Douglas Fir Green R/L 2x10	290	288	+2	295	-5	230	+60
ESPF KD 2x4 8ft Stud	335	335	0	330	+5	360	-25
OSB Ontario 7/16" (CDN\$)	205	195	+10	205	0	266	-61

## Weekly News

### Home Sales, US

CONTINUED Foreclosures and short sales, which typically occur below market value, accounted for 39 per cent of transactions in February, up from 37 per cent the prior month, the National Association of Realtors said. All-cash purchases made up a record 33 per cent of transactions in February.

Sales fell across the board, with multi-family dwellings declining 10 per cent and single-family home units dropping 9.6 per cent. Compared with February last year, overall sales were down 2.8 per cent.

Private research firm CoreLogic, which counts closings filed in more than 2,000 counties, says the pace of home sales in February was just 3.6 million units on an annual basis. If true, that means the inventory of unsold houses is more like 17 months' supply, or roughly double the level reported by the NAR, according to Mark Fleming, chief economist at CoreLogic.

Across the US, real estate agents are reporting a rise in traffic at open houses, according to the *Associated Press*. But they say buyers are reluctant due to the shellshock they suffered after the free-money machine blew up in everyone's face.

A recent study by Capital Economics found that 60 per cent of sales are to foreigners and investors, most of them paying cash. In fact, in international real estate circles, the US is viewed as the "new emerging market," says Thomas Shapiro, president of global real estate investment firm GTIS Partners, to the *Associated Press*.

Foreigners are attracted to US real estate because their local currencies are so much stronger than the dollar. Investors are also attracted to the properties because rents are rising. "You don't get

much money from buying Treasuries as safe investments," said Paul Ashworth, managing partner at Capital Economics. "There is a search for yield that is making residential property look more attractive."

"If you have a secure job and the economy around is growing, then it's a great time to buy," says Barbara Corcoran, a New York real estate investor and analyst. "That's not true in too many places, but you can see improvement in certain pockets."

### Japan Damage and Reconstruction

CONTINUED Japan's Forestry Agency has requested price and supply stabilization of wood products, transparency on inventories and supply volumes, and cooperation during power shortages, says the *Japan Lumber Reports*. The Agency notified its members to refrain from cornering, holding off selling, or price manipulation of panel wood products.

Fuel shortages remain a major impediment to reconstruction and manufacturing efforts.

It is currently estimated that up to 60 million cubic metres of softwood plywood capacity has been lost in Japan.

Japan's plywood producers on the north east coast, including Akita, Marutama, and Hayashi, are hampered by power shortages, lack of adhesive supply, and transportation problems. Japan's main plywood supplier out of Malaysia has announced it will give priority to emergency demand from Japan, and has raised prices on concrete forming panel by 3,000 yen per cubic metre accordingly. With the rush of orders, some suppliers in Malaysia and Indonesia are asking very high-prices for panel, says the *Reports*.

Please see Page 7 of this week's issue of your *Madison's Reporter* for details.

The ports of Hachinohe, Sendai, Sohma, Onahama, and Hitachinaka are still not functioning so cargo has been diverted to Tokyo and Kawasaki, says the *Reports*. The Tokyo Lumber Terminal has secured 49,500 square metres of land as emergency storage, for immediate use.

Japan's Ministry of Land, Infrastructure and Transport disclosed on March 14 that so far 4,702 housing units have been totally destroyed by the Tohoku quake, 2,496 units are deemed half-destroyed, and 56,135 units are considered partially destroyed in the hardest-hit areas of Iwate, Fukushima and Chiba prefectures.

Assessment of total damage is ongoing in 11 prefectures and 50 cities.

### Tolko's Creekside Sawmill May Reopen

On Monday, the United Steelworkers Union and Tolko revealed they had reached an agreement that could see several positions eliminated in the company's log yard to improve Tolko's competitiveness and would necessitate the Creekside mill to start up.

The idea, says the union, is to combine Tolko's log yards, thus eliminating seven positions for a cost savings of \$1.2 million, according to the *Williams Lake Tribune*.

However, any potential start up hinges on Tolko's ability to secure timber agreements.

If the Asian market is secured, the company has agreed to running one shift/three lines, USW Local 1-425 president Bill Derbyshire said to the *Tribune*.

But the union and Creekside's plant chairperson think that due to the length of time the mill has been down the company could have a hard time finding people. Creekside went on indefinite curtailment in 2008.

# The Issue of Logs

## Log, Timber and Fibre Supply

With new armed conflicts in the Middle East burgeoning, the effects of natural disasters elsewhere not resolved, continued abysmal US home building rates, and a seemingly languishing global economy, it is not surprising that solid wood producers are still wary of investing in increasing timber harvests and growing log decks. However the situation of chronic timber undersupply is going to catch up with conservative mill and woodlands managers as winter passes and the 2011 building season comes on.

The value of softwood logs and lumber shipped from North America to China is estimated to reach over US\$1.6 billion in 2010, which is up dramatically from 2006. In 2008, total exports were valued at US\$350 million, while they were only US\$125 million five years ago, according to *Wood Resource Quarterly*. In 3Q 2010, less than 70 per cent of exported Canadian lumber was destined for the US market. On the other hand, lumber shipments from Canada to China have gone up seven-fold over the past three years and are expected to reach almost 4 million cubic metres in 2010, reports the *Wood Resource Quarterly*.

Brian Butler, vice-president of the Steelworkers Union Local 1-1937, which represents workers at many Island mills, explained to the *Victoria Times Colonist* Tuesday that Western Forest Products has informed the USW that its Alberni Pacific mill in Port Alberni, BC, and the Cowichan Bay mill will temporarily shut down next week. According to Western's notice, these shut downs are due to low log supply.

The company's downtown Nanaimo mill, which recently reopened with a skeleton crew of about 30 workers, "may just squeeze by" the log shortage without a shutdown. But Butler said the company's Duke Point mill, which is only in partial operation with a planing division that employs about 30 workers, could also be impacted by the planned mill closures because there would be less residual wood waste from the mills to use in its operations.

Western's Ladysmith mill, which reopened last autumn after a two-year

closure, was shut down for four days two weeks ago due to low log inventories.

It's not only a large snow pack and rough water that is impeding log supply to the mill. The Central Interior Logging Association has been involved in active discussions with a number of key groups, including the major mills, to work on a strategy to recruit people for logging and for truck driving.

"We have to compete with the mines that are ramping up and looking for truck drivers," said Executive Director MaryAnne Arcand to *HQ Prince George* Wednesday. Arcand explained that the loss of work during the downturn pushed truckers into other booming sectors, and that, coupled with baby boomers starting to retire, has led to not enough skilled haulers.

Sexton Lumber may shut down its mill in Bloomfield, NL, for eight weeks this summer if the company can't get its hands on enough raw material. Kevin Sexton, the mill's owner, told the *Clarenville Packet* that his mill used to purchase "a lot of lumber" from Abitibi in Grand Falls-Windsor before the larger company went bankrupt. The timber rights, once owned by Abitibi-Bowater, are now owned by the province as a result of expropriation. Sexton said the mill harvested and produced 170,000 cubic metres of lumber in 2010, but a total of 215,000 cubic metres is needed to keep the plant running.

Meanwhile, prolonged sawmill shutdowns on the west coast of the US are being blamed on poor market conditions and timber supplies. Some residents of Grant County, OR, remain concerned that the timber supply from federal lands won't return to levels that would support the two mills there. Ochoco Lumber Company's Malheur mill is the only sawmill currently operating in that county, according to the March 9 issue of the *Blue Mountain Eagle*.

Knox Marshall, resource manager for the fourth-generation family-owned Murphy Company and manager of a veneer mill in Elma, OR, purchased from Weyerhaeuser in June 2007, explained to Oregon's *Chinook Observer* on March 8, "Between 1990 and 2010, in Washington, Oregon, and California 403 mills have closed with a loss of 35,116 jobs."

This is a small sampling of severely restricted solid wood production in North America today, and the accompanying dearth of logs. Combined with the loss of log and lumber transporters, reaction time to even moderate increases in demand is sure to be painfully long.

Sarawak Timber Association's council member Kenny Law told the *Borneo Post* Wednesday that Japan had been among the state's biggest timber products importer, especially plywood. In the past two years, that state's plywood exports to Japan were averaging at 45 per cent of its total.

Already Malaysia's timber industry is expecting an estimated 10 to 15 per cent growth in plywood exports this year due to the sudden increase of demand from Japan. Up to 10 timber factories located at Ishinomaki, Ofunato and Miyako city area have been devastated by Japan's recent earthquake and tsunami. The reported damage included six plywood mills, one particle board mill and one pulp and paper mill, according to the *Borneo Post*.

"A high percentage of volume has been placed through mills throughout the state of Malaysia to ensure sufficient supplies of wood, sawn timber and plywood. Sarawak-based public listed timber companies all enjoyed a price raise due to the anticipation of increased demand in the timber market," said Law. "Last year, the state exported a total of 2.75 million cubic metres of plywood – about 46 per cent of that constituted export volumes to Japan."

Japan produces about 2.5 million cubic metres of softwood per year domestically, with a consumption up to five million cubic metres. To this, Law commented, "Production capacity is quite big in Japan but in the last few years, they are not producing to full capacity."

The southern part of Japan (Tokyo province), the mills are not affected and should be able to produce at full capacity to cater for the domestic market.

After the severe downturn in US housing of mid-2006 and the subsequent financial and banking crisis of 2008 triggered by zero-interest mortgages, North America's lumber and panel producers are treading a fine line in keeping operations going just enough to meet current demand. But no plans have been made for the future, when demand starts to rise. It seems that most companies are waiting to actually see more demand before increasing operations. There is going to be a significant time lag getting timber from the bush to the mill, much more so than when the lumber industry was humming along in 2005.

As solid wood commodity prices rise, the lack of logs will cause consternation for mills when they realize the volume of potential sales they will be missing.