

MADISON'S LUMBER REPORTER

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News & Updates

Supply Constraints

The warnings issued by *Madison's* in the weeks and month of late are coming to reality, please refer to our Page 5 Cargo and Reload comment, "Wide lumber could be the first to sprint up as some buyers are splitting it to make narrow dimensions."

Veteran lumber industry watchers immediately recognize this condition. Cutting down 2x10's and 2x12's to make narrows is at best a short-term solution for depleted log supply.

British Columbia Trade Mission to China

Newly shuffled BC Jobs, Tourism and Innovation Minister Pat Bell, formerly of the Forests, Mines and Lands portfolio, attended a previously-scheduled trade mission to China this week to coincide with the seventh annual Green Building Show in Beijing. A demonstration wood framed construction, by Suzhou Crownhomes Co. in conjunction with Green Home Canada, BC's wood marketing strategy in China, was erected in 72 hours from SPF lumber, 500 sheets of OSB, LVL, beams, decorative cedar and some structural hemlock.

The wood used for this project came from a Crownhomes warehouse stocked with product from Tolko, Weyerhaeuser, Dunkley, Interfor and Canfor. More than 30 workers assembled the pre-fabricated sections.

BC shipped 390,000 cubic metres, or 246 million board feet, of softwood lumber to China in January 2011, more than double the volume shipped a year earlier. [READ MORE](#)

Japan Emergency Rebuilding Update

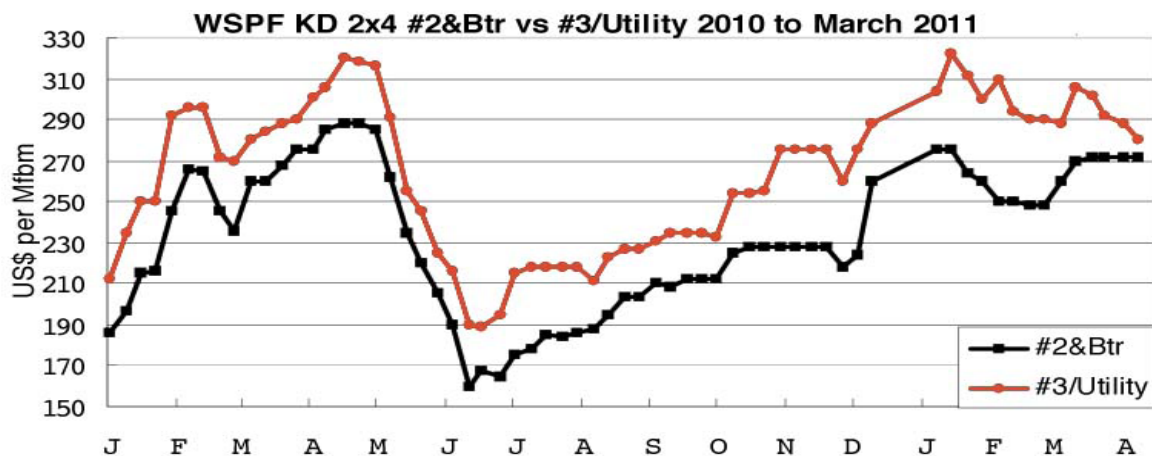
Japan's Prefabricated Construction Suppliers & Manufacturers Association announced on March 13 that it will secure members to build temporary houses for sufferers of the Great Tohoku Earthquake in about one month and start building 4,800 units of them as soon as it is ready, according to the *Japan Lumber Journal*.

The Ministry of Land, Infrastructure, Transport and Tourism requested 30,000 units of temporary houses in two months. By March 15, there were requests from Fukushima, Miyagi prefectures and Iwate that they need more than 30,000 units of temporary houses. The Ministry also called for Japan Federation of Housing Organizations to build temporary houses.

The temporary houses will include single and multi-dweller units. Once started, construction is expected to finish in about three weeks, says the *Journal*. [READ MORE](#)

US Mortgages

Changes to US mortgage rules brought into play by the Democratic Congress and Obama Administration before the 2010 mid-term elections continue to be assessed and debated. The latest news and deliberations on this important subject are examined in detail. [READ MORE](#)



Key Prices

| | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|----------------------------|-----------|-----------|--------|-----------|--------|----------|--------|
| WSPF KD R/L 2x4 | 280 | 288 | -8 | 306 | -26 | 290 | -10 |
| WSPF KD R/L 2x6 | 260 | 262 | -2 | 274 | -14 | 285 | -25 |
| WSPF KD R/L 2x8 | 270 | 270 | 0 | 280 | -10 | 275 | -5 |
| WSPF KD R/L 2x10 | 315 | 320 | -5 | 326 | -11 | 345 | -30 |
| WSPF KD PET 2x4 Stud | 280 | 280 | 0 | 285 | -5 | 310 | -30 |
| Douglas Fir Green R/L 2x4 | 270 | 270 | 0 | 275 | -5 | 245 | +25 |
| Douglas Fir Green R/L 2x10 | 290 | 290 | 0 | 290 | 0 | 242 | +48 |
| ESPF KD 2x4 8ft Stud | 335 | 335 | 0 | 340 | -5 | 370 | -35 |
| OSB Ontario 7/16" (CDN\$) | 205 | 205 | 0 | 205 | 0 | 300 | -95 |

Weekly News

BC Trade Mission, China

CONTINUED Moving on from Beijing, the trade mission visited the Tianjin project, which includes two four-floor apartment buildings with a combined total of 6,000 square metres. This will be the first in China to make use of new building codes allowing for four-storey wood-frame construction. The project broke ground during the autumn 2010 forestry trade mission and is expected to be completed in autumn 2011.

The Tianjin Economic Development Group is also using wood-frame systems in two multi-level commercial buildings. Canada Wood is providing quality assurance support for this separate project.

Investment Rx - Madison's Monthly Lumber Analysis in One Tasty Bite!

Reportersubscribers enjoyed two free sample issues of our new *Investment Rx* in early February and March.

The April issue, full of timely data on log supply, lumber production, transportation constraints, log and lumber shipments, and much more, goes this week to paying *Rx* subscribers only.

Get in on this vital analysis for your lumber investments.

Call us at 604 984-6838 or email madrep@shawcable.com for your limited-time 10% discount!

Order before April 10 to continue receiving this critical, timely information every month and pay only C\$835 for 12 issues a year. After April 10 the regular price of C\$935 + tax goes into effect.

Don't miss out on the fast-changing realities of the North American lumber and panel market!

With a population of 11 million people, Tianjin is the third-largest city in China and one of five cities that reports directly to the national government.

Finally, the trade mission visited Hebei, one of the first provinces in China to start using BC lumber to manufacture its own wood products for building and housing construction. Three truss plants have opened around Hebei in the past five months, including one in Shijiazhuang that can produce trusses for 400 apartment buildings per year.

Japan Wood Product Issues

CONTINUED The damage from the volcanic eruption at Shinmoedake located along the boarder of Kagoshima and Miyazaki Prefectures has been reported daily, and with interference in logging operations and at lumber factories due to fallen ash, serious effects have been felt in the industry in the area, according to the *Japan Lumber Journal*.

The Miyakonojo area is a large supply base for cedar products and is an area concentrated with large-scale, cedar lumber factories with an annual consumption of cedar logs at 110,000 cubic metres. The fallen ash is causing severe damage to saw blades, which now have to be replaced twice as often as usual. Along with taking more time for the maintenance of machinery and cleaning the factory, the employees must not only wear masks but also protective eyewear under these conditions.

With an increase in orders for kiln-dried cedar lumber from the second half of 2010, full operations have continued, and currently, the amount of production has been maintained. However, with the volcanic activity expected to become long term, anxiety is arising.

Also at the material production sites, there are areas in which lumbering operations cannot be conducted due to sandy ash interfering with chainsaws at the timberland, so production is also being affected, says the *Journal*.

BC Labour Update

As of Thursday the United Steelworkers and Interior Forest Labour Relations Association were still at the bargaining table. Talks were supposed to finish Wednesday.

The two groups are working on an agreement for the south interior of British Columbia, which affects mills in the Okanagan region. Workers have been on the job for two years with no contract.

Calendar

April 2011

53rd Annual ILA Conference and AGM

April 28 & 29 – Kamloops, BC
<http://www.interiorlogging.org/convention.php>

2011 IWPA Convention

April 13 to 15 – New Orleans, LA
<http://www.iwpawood.org/>

May 2011

PWC 24th Annual Global Forest & Paper Industry Conference

May 11 – Vancouver, BC
<http://www.pwc.com/>

PPPC International Paper Week

May 8 to 11 – Vancouver, BC
<http://www.internationalpulpweek.com/p002.html>

US Mortgages Getting Even More Complicated

The Dodd-Frank Wall Street Reform and Consumer Protection Act, a product of the financial regulatory reform agenda

by Kéta Kosman

of the current US Administration, is a federal statute

that was signed into law by US President Obama in July 2010. The proposed rule was released as the Obama administration and Congress are considering plans to wind down Fannie Mae and Freddie Mac, and possibly replace them with a different entity. Dodd-Frank also foisted a mandate onto the Security Exchange Commission to conduct studies on 20 open-ended questions, including whether or not to have credit ratings on structured financial instruments such as securitized mortgage loans.

Dodd-Frank was supposed to shed light on derivatives trading so that the risks and costs of these instruments would be clear to regulators and market participants. This law affected home purchase lending because sellers of loan pools that don't consist of qualified mortgages are now required to retain some of the risk in them. That provision was meant to eliminate the perverse incentives of the mortgage boom, when packagers of loan pools were encouraged to fill said pools with toxic waste because they had little or no liability for the deals once they were sold. The use of mortgage insurance during the boom effectively encouraged lax lending. Investors who bought securities containing loans with small or no down payments were lulled into believing that they would be protected from losses associated with defaults if the loans were insured.

When loans became delinquent or sank into default, many mortgage insurers rescinded the coverage, contending that losses were a result of lending fraud or misrepresentations. When they did so, the insurers returned the premiums they had received to the investors who owned the loans. Lengthy litigation between the

parties is under way but has by no means concluded. Hence the new law, which was intended to prompt the big lenders to jump-start mortgage approvals once again.

The board of the Federal Deposit Insurance Corporation was to hold an open meeting on Tuesday to discuss qualified mortgages and the risk-retention rule, but cancelled Monday with no explanation. There is to be another meeting held in mid-April.

The FDIC and the Federal Reserve then released for public comment a proposed rule Wednesday requiring lenders and bond issuers to keep as much as a five per cent stake in some home loans they securitize on mortgages whose borrowers have imperfect credit and make down payments of less than 20 per cent. This rule includes a key exemption from those standards: Lenders could avoid keeping a share in riskier mortgages if they get them insured by federal agencies or sell them to government-sponsored Fannie Mae and Freddie Mac, now under US government conservatorship.

The Government-Sponsored Enterprises and the Federal Housing Administration own or insure more than 96 per cent of home loans now being originated. Making their loans exempt from the rule would maintain the government as the main holder of mortgage-market risk, said Karen Shaw Petrou, managing partner of Federal Financial Analytics in Washington, to *Bloomberg*.

"If finalized as proposed, which we doubt, the regulation would memorialize US mortgage finance in the hands of Fannie, Freddie and the FHA," Petrou said. "So much for all the talk about bringing back private capital."

The SEC continues to pursue top executives over the financial crisis. In mid-March, Daniel Mudd, the former CEO of Fannie Mae, confirmed that he had received a Wells notice from the SEC, indicating a pending enforcement action. Richard Syron, former CEO of Freddie Mac, also got a notice, according to two people briefed on the matter.

The two government-backed mortgage giants have stayed afloat only with the

help of more than US\$150 billion of bail-out money. Executive bonus controls are another measure mandated by the Dodd-Frank financial regulatory law.

It seems Dodd-Frank contained a big loophole: the Treasury secretary can exempt foreign-exchange swaps from the regulation.

US regulators are writing rules prohibiting an American bank from growing through deals beyond 10 per cent of the total liabilities of all US banks. Banks could exceed that cap, but only through organic growth, not through mergers and acquisitions.

JP Morgan & Chase CEO Jamie Dimon complained to a US Chamber of Commerce gathering in Washington, DC, Wednesday about regulation of derivatives, new debit-interchange-fee rules expected for banks, and a concentration restriction that limits JP Morgan from growing through acquisitions beyond a certain size.

Dimon took issue with the concentration limitation, pointing out that it would stop JP Morgan from buying certain US banks but wouldn't stop a bigger foreign bank from buying the same institution.

"Concentration rules are negative for America," Dimon said.

He told reporters later that JP Morgan would like to make acquisitions. Dimon's complaints come as the Treasury Department is warning that the government could hit its US\$14.3 trillion borrowing limit as early as April 15, 2011. The White House and both political parties on Capitol Hill are under pressure to rein in the deficit and the debt. But lawmakers are far apart on where to trim spending or increase revenue.

Sheila Bair, the Chair of the FDIC, and Elizabeth Warren, the architect of the Consumer Financial Protection Bureau, have argued that, while the law is flawed, the benefits still outweigh the positives.

"Dodd-Frank is not a perfect law," Bair said in her speech at the Independent Community Bankers of America convention last week. "There are many things in it that I would like to change. But, on balance, it is a good law."

"While the Dodd-Frank bill provides some protections it does not resolve the simple problem – our banking system has become a casino that now generates an exorbitant share of GDP," wrote Cullen Roche of *SeekingAlpha* Thursday. "We have become too dependent on the gambling and financial engineering that spurred much of the growth over the last 20 years."

"Recessions have a very natural stabilizing component to them. Capitalism works when the losers are allowed to lose. This downturn was our market screaming that the losers should lose. But that did not happen."

