

# 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

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines additional methods of valuing the forest land base beyond the traditional timber stands and the land itself. Higher-and-better use, in all its permutations, are looked at.

Contact us any time for a subscription.

### Labour Settlement

After issuing 72-hour strike notice Tuesday, the United Steelworkers returned to the bargaining table with the Interior Forest Labor Relations Association, this time with a mediator. As of 4:00 am Friday morning, a tentative agreement had been reached. USW members will vote to ratify in the next two to three weeks, with the Union recommending its members vote in favour of the deal.

### US Home Building

US home construction in March bounced back from the previous month's very low levels, but overall numbers remained weak. Construction of homes and apartments last month jumped 7.2 per cent from a month earlier to a seasonally adjusted annual rate of 549,000 from a revised 512,000 in February, the Commerce Department said Tuesday.

Building permits climbed 11.2 per cent from a month earlier to an annual rate of 594,000. The month's results were driven by rising construction of single-family homes, which made up more than three-quarters of all starts. Single-family construction was up 7.7 per cent to an annual rate of 422,000.

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### March Global Pulp Shipments

The Pulp and Paper Products Council reported Thursday world pulp inventories last month fell to 32 days of supply at current usage, as sales to China surged 99 per cent from a year earlier. World pulp shipments in March rose to 4 million metric tons, up 22.6 per cent from a month ago and up 17.4 per cent from a year ago, according to the trade group. Shipments to China were up to 951,000 metric tons from 477,000 tons a year ago. As for supplies, softwood pulp inventories stood last month at 24 days of world usage, low enough to provide potential support for prices.

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### North America Cargo

North America's west coast lumber producers and wholesalers are adjusting to a large-scale change in customer base during the protracted downturn in US home building. Through 2010, sawmills and exporters earned an understanding of new customers for wood products out of China, Taiwan, and Korea. At issue were different methods of ordering, different credit arrangements, different volumes, even different product sizes as most Asian customers prefer lumber cut to metric measurements.

In 1Q 2011, with US demand still low compared to historical figures, it is the Asian market that continues to hold up lumber production in North America, especially on the west coast. Response time in the supply chain, however, is proving to be cumbersome in view of the changing direction of wood transported. Until recently, most lumber products moved from the west coast to transportation hubs like Chicago, IL, or Memphis, TN, to then be distributed further to individual customers.

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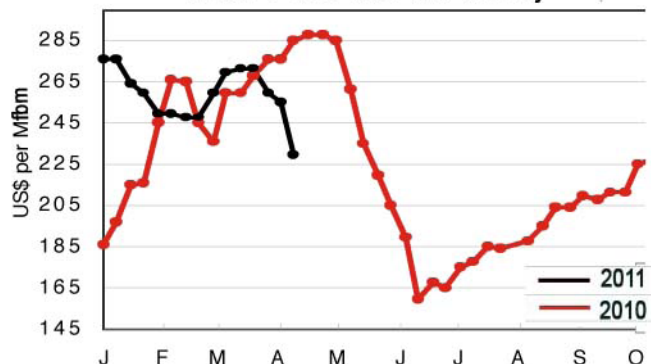
### U. S. HOUSING STARTS

	Mar-11	Feb-11		Mar-11	Feb-11
<b>Starts</b>			<b>Permits</b>		
Actual	45,900	34,900	Actual	54,500	37,200
SAAR*	549,000	512,000	SAAR*	594,000	534,000
1 Unit	422,000	392,000	1 Unit	405,000	383,000
2-4 Units	(s)	(s)	2-4 Units	16,000	16,000
5+ Units	117,000	102,000	5+ Units	173,000	135,000
<b>Starts by Region</b>			<b>Permits by Region</b>		
Northeast	59,000	56,000	Northeast	64,000	64,000
Midwest	82,000	62,000	Midwest	93,000	87,000
South	297,000	307,000	South	304,000	286,000
West	111,000	87,000	West	133,000	97,000

\*Seasonally adjusted annual rate

Source: U.S. Census Bureau

### W S P F K D 2x4 #3 Utility



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	250	257	-7	288	-38	320	-70
WSPF KD R/L 2x6	235	232	+3	262	-27	320	-85
WSPF KD R/L 2x8	250	255	-5	270	-20	300	-50
WSPF KD R/L 2x10	295	295	0	320	-25	356	-61
WSPF KD PET 2x4 Stud	250	255	-5	280	-30	335	-85
Douglas Fir Green R/L 2x4	260	265	-5	270	-10	290	-30
Douglas Fir Green R/L 2x10	285	295	-10	290	-5	285	0
ESPF KD 2x4 8ft Stud	320	325	-5	335	-15	420	-100
OSB Ontario 7/16" (CDN\$)	195	195	0	205	-10	400	-205

## Weekly News

### Global Pulp and Paper

CONTINUED The PPPC reported hardwood pulp inventories stood at 40 days of usage in March, a level that's considered adequate to meet demand.

"The fundamentals point to higher prices with lean global inventories, strong Asian demand and limited capacity gains over the next 18 to 24 months," said Mark Wilde, market analyst at Deutsche Bank, in a comment."

The PPPC collects data from operators of 80 per cent of world capacity, including producers in Argentina, Brazil, Canada, Chile, Germany, Japan, New Zealand, Norway, South Africa, South Korea, Spain, Sweden and US.

### US Home Building, Sales

CONTINUED The National Association of Realtors reported Wednesday that existing home sales in March rose 3.7 per cent to 5.10 million units, yet total sales were off 6.3 per cent in year over year comparisons. Single family sales rose 4 per cent to 4.45 million compared to February, but fell 6.5 per cent in year over year comparisons.

The median existing home price rose 2.2 per cent to US\$159,600 from February's US\$156,100. Median prices were down 5.9 per cent in year/year comparisons. Unsold existing home inventories rose to 3.549 million from 3.498 million units. Months' supply fell to 8.4 months from 8.5 months previously.

Confidence among US homebuilders fell in April. The National Association of Home Builders/Wells Fargo sentiment index declined to 16 this month from 17 in March, the Washington-based group reported Monday.

### US Storms, Wildfires

The US Small Business Administration

announced Thursday it will provide the people of North Carolina with the most effective and customer-focussed response possible to assist homeowners, renters, and businesses with federal disaster loans.

A storm system moving out of the Rockies is set to produce dangerous thunderstorms, including damaging winds, large hail and possibly tornadoes, over a significant portion of the Plains and Midwest today and Friday, says the National Weather Service. Kansas and Missouri southward to northern Texas and northern Louisiana will be the region most likely to be hit with damaging storms through tonight, including Kansas City, Oklahoma City and Dallas. The risk area will stretch from Oklahoma to Ohio on Friday and Friday night, encompassing St. Louis, Indianapolis, Nashville and Cincinnati.

Meanwhile massive wildfires ripping across the bone-dry state of Texas have claimed the lives of two firefighters and consumed more than 730,000 hectares and nearly 400 homes.

A cold front which brought some relief after weeks of battling the blazes was expected to lift on Friday as higher temperatures returned to the Lone Star state.

The fire service warned that it will take several consecutive days of rain to counter the underlying and persistent drought conditions across the state.

A section of State Route 83 north of Sonoita, AZ, south of Tucson, was closed down for nearly two hours on Wednesday afternoon after a wildfire jumped the roadway and continued burning across the Empire Ranch.

Thursday morning, Bureau of Land Management officials estimated that the fire had consumed 1,500 acres and was 30-percent contained. Full containment was expected later in the day.

### Eacom's Big River Sawmill

Carrier Lumber Ltd, out of Prince George, BC, informed the Big River and Area Forestry Committee on April 15 that it has made an offer to Eacom Timber Corp. to buy the Big River, SK, sawmill closed since 2006.

Eacom bought the sawmill for \$3 million from Domtar Corp. in 2009, but had trouble securing its desired timber allocation

Carrier is planning a major expansion. The company operates a mill near Prince Albert, SK, already has an allocation under the Prince Albert Forest Management Agreement and has indicated it would work with the town and First Nations to increase its allocation.

### Catalyst Curtails, Mill Fire

Last week Catalyst Paper announced it was curtailing production at its Snowflake Mill, AZ, by approximately 5,500 tonnes of recycled newsprint in order to adjust for limited availability of affordable, quality waste paper.

The company said it would take approximately six days of downtime over the next several weeks to carry out maintenance activities, including a three-day mill-wide shut, preventing the need for employee layoffs.

Catalyst Paper then reported a fire Tuesday in the storage yard has shut down production and destroyed approximately 14,000 tonnes of recovered waste paper.

The fire broke out at approximately noon Monday in the waste paper storage area. The mill's emergency team responded immediately and several local fire departments were called in to help contain the blaze.

There were no serious injuries reported.

## West Coast Cargo Transportation Issues

CONTINUED In 2010 that direction shifted, with wood generally moving to and down the coast to the next available port, then being loaded onto ships to feed growing Asian demand.

Problems have been continually reported, specifically through this winter, of delays on the rails and of truck shortages. Due to the

sharp downturn in the US economy, and the fact that the lumber industry was hit very hard immediately after the crash of US home building in mid-2006, the reaction to gradually increasing demand for forest products into the export market has been quite slow. It seems that transporters, both on the road and the rails, are waiting for proof that the business of lumber is indeed recovering before deciding to serve that industry's changing transportation needs.

Last week's comments by several west coast sawmills and wholesalers printed in *Madison's Lumber Reporter* sent customer service reps at a couple of port facilities in Vancouver to inquire with their forestry contacts about claims of delays in loading wood onto ships. The latest figures out of Port Metro Vancouver show that container traffic from that facility is actually down in March 2011 compared to January. There were less empty containers on the docks, but there were also less containers in total.

So where is the problem, exactly? Are there containers full of wood really waiting to go out of Vancouver, Prince Rupert, Tacoma, Seattle and others, or is the delay on the rails from the mill to the coast?

*Madison's* contacted container operators at Nanaimo, Vancouver, and the Vancouver Fraser Port Authority this week. All stated that for container traffic, a delay of more than two weeks is quite unusual and would cause all exporters, not just for forest products, to complain loudly. Breakbulk, or loading into ship's holds without containers, will often see a longer delay of even up to a month. However the vast majority of wood products from the west coast goes by container.

In 2006 the Port of Vancouver (now Port Metro Vancouver) exported 9.7 mil-

lion tonnes of containerized commodities of which 85 per cent or 8.3 million tonnes were resource commodities, according to Transport Canada. Major resource commodities including specialty crops, lumber, woodpulp, and other forest products, accounted for 6.3 million tonnes and 0.481 million export TEUs (twenty-foot equivalent units) in 2006.

Port Metro Vancouver's foreign and domestic shipments plunged in November 2008, according to an October 2010 Institute of Chartered Accountants of British Columbia report titled "*Beyond Numbers*". Between 2008 and 2009, after several years of strong growth, container traffic through Port Metro Vancouver declined by 10 per cent, with almost one fifth of this drop attributable to a decline in loaded inbound containers. At the Port of Prince Rupert shipments to the new container facility grew by 46 per cent in 2009, although that facility still operated at well below full capacity, says the ICABC.

Perhaps more telling, the ICABC report explains that while the US is still BC's most important trading partner, its share of BC exports has declined during the past decade, from 67 per cent in 1999 to 52 per cent in 2009. During this same period, the Pacific Rim grew in importance as a trading partner for BC, with its share of BC exports growing from 24.5 per cent to 36 per cent. The Pacific Rim market (excluding Japan) grew from 9.1 per cent in 1999 to 22.4 per cent in 2009, with China and South Korea accounting for most of this growth. Between 2000 and 2009, the value of forestry exports declined from almost 50 per cent of BC's export mix to 30 per cent. Pulp shipment volumes have increased in the same time frame.

According to Port Metro Vancouver's own statistics, the volume of containerized outbound lumber in the past couple of years has increased by 32 per cent, from 2.2 million metric tons in 2008 to 3.3 million metric tons in 2010. In breakbulk, log volumes outbound have dropped by 24 per cent in the same time period, from 8.1 million metric tons to 6.2 million in 2010. The volume of lumber exported by either method through Port Metro Vancouver jumped 36 per cent in February 2011 compared to one year earlier, to 624,237 metric tons from 459,437 metric tons in February 2010. Log exports, howev-

er, dropped by 17 per cent for that time period, from 1.6 million metric tons in February 2010 to 1.3 million this year.

A contact at Vancouver Fraser Port Authority detailed to *Madison's* in a phone interview Wednesday that in 2010, 93 per cent of total lumber volume shipped from that facility was in containers, while 10 per cent of logs and 59 per cent of pulp were loaded into containers.

"There are no container shortages here on a monthly basis," the source said.

A long-time source at the Port of Nanaimo explained that most ships going out of Nanaimo are bulk carriers, loaded with grain, coal, logs, etc.

"It's true that there is not a huge amount of containers around," the source said. "But if there were containers loaded, going nowhere, people would be screaming."

Another source, responsible for operations at a large logistics service provider to the pulp and paper industry located in Richmond, BC, told *Madison's* Tuesday that facility is "at capacity" right now, yet product loaded into ocean containers "this week goes out next week."

"We're shipping as hard as we can ship. It always seems like there are not enough containers, but no port would allow a delay of more than two weeks. The volume of product shipped weekly is increasing, but steadily. It's certainly not a hand-to-mouth situation [with container supply]," said the source.

Another source, at a large transloading company in New Westminster, BC, which provides integrated transportation services for forest products from mill to final destination, explained to *Madison's* Tuesday, "It's possible that in the past couple of weeks something got pushed, for example if 100 containers of water or something like that, were sent to Japan. But extended delays of container traffic of over a month at the port are just not the current reality."

According to Port Metro Vancouver, there was less container traffic in March than in January 2011. While there were fewer empty containers, there were also fewer total containers. Port Metro Vancouver statistics show that 106,143 containers moved through that port in March, compared to 116,513 in January, a 9 per cent drop. 12,106 containers were empty in March compared to 14,466 empty containers in January, a decrease of 16 per cent.

**BC Origin Merchandise Exports to All Countries (\$ millions)<sup>1</sup>**

	2000		2008		2009	
	\$ million	% of total	\$ million	% of total	\$ million	% of total
Wood, pulp & paper products	\$ 16,591	49%	\$ 10,107	30%	\$ 7,602	30%
Metallic minerals	\$ 1,836	5%	\$ 3,321	10%	\$ 2,491	10%
Energy products	\$ 6,130	18%	\$ 9,671	29%	\$ 6,833	27%
Agriculture & fish products	\$ 2,125	6%	\$ 2,484	7%	\$ 2,432	10%
Machinery & equipment	\$ 3,579	11%	\$ 3,377	10%	\$ 2,725	11%
Other	\$ 3,378	10%	\$ 4,195	13%	\$ 3,108	12%
<b>Total</b>	<b>\$ 33,639</b>	<b>100%</b>	<b>\$ 33,155</b>	<b>100%</b>	<b>\$ 25,191</b>	<b>100%</b>

SOURCE: Institute of Chartered Accountants of British Columbia