

MADISON'S LUMBER REPORTER



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Annual Subscription Prices
E-mail/Fax: C\$364
Discounts available for multiple
subscriptions
Published 50 times a year



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In Canada, add GST or HST
ISSN 0715-5468

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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 Japan for plywood manufacturing and supply, as well as government reports of plans and funding for rebuilding and reconstruction of areas damaged by the recent earthquake and tsunami.

Contact us any time for a subscription.

BC Transportation Issues a Reality

Efforts by various west coast transportation hubs to deflect *Madison's* inquiries into reports from lumber producers of lengthy delays moving wood have been proven false this week. West Fraser Timber, Canfor, Tolko and Western Forest Products have partnered to charter a newly-built cargo ship for the next year, to give those firms more control over the movement of their products.

The first fully loaded sailing for the ship, owned by d'Amico of Italy, is slated for the end of May from Vancouver. Seven round-trips are planned for the next year, which would bring a total of 175 million board feet of lumber to China.

Please refer to the April 21 issue of your *Madison's Lumber Reporter* for details, and the May 6 issue for an update.

Forest Fires, Alberta

As of Friday morning fires have burned 4,500 hectares in the Slave Lake area of Alberta. A report released to 7,000 evacuees Thursday confirmed 374 lots are destroyed and another 52 are damaged in Slave Lake. The Lesser Slave Lake region has 59 lots destroyed and another 32 are damaged.

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US Housing Starts

The Commerce Department said on Tuesday US housing starts dropped 10.6 per cent to a seasonally adjusted annual rate of 523,000 units. March's starts were revised up to a 585,000-unit pace from the previously reported rate of 549,000 units.

Groundbreaking last month was depressed by a 24.1 per cent tumble in volatile multi-family homes, where starts for buildings with five or more units dropped 28.3 per cent. Single-family home construction fell 5.1 per cent.

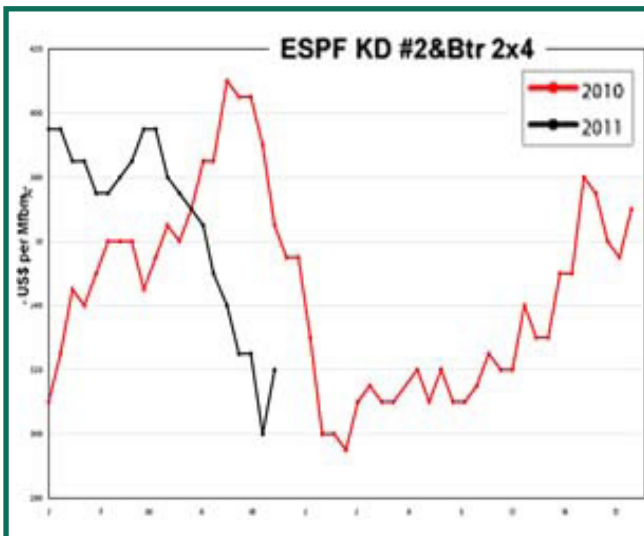
New building permits dropped 4 per cent to a 551,000-unit pace last month. March's permits were revised down to a 574,000-unit pace.

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Forest Industry Conference Presentations, Cont'd

Further to last week's piece in your *Madison's Lumber Reporter* on the multitude of forestry, pulp and paper, and bioenergy conferences recently held in Vancouver, BC, *Madison's* is providing more details on the many fascinating presentations. Full economic recovery in the US and western Europe still seems a way off. Each speaker at least touched by, if not deeply focussed on, what they thought the scope and timing of a return to strong economies in the developed world will be. Valuable data on economic growth in emerging markets was also discussed.

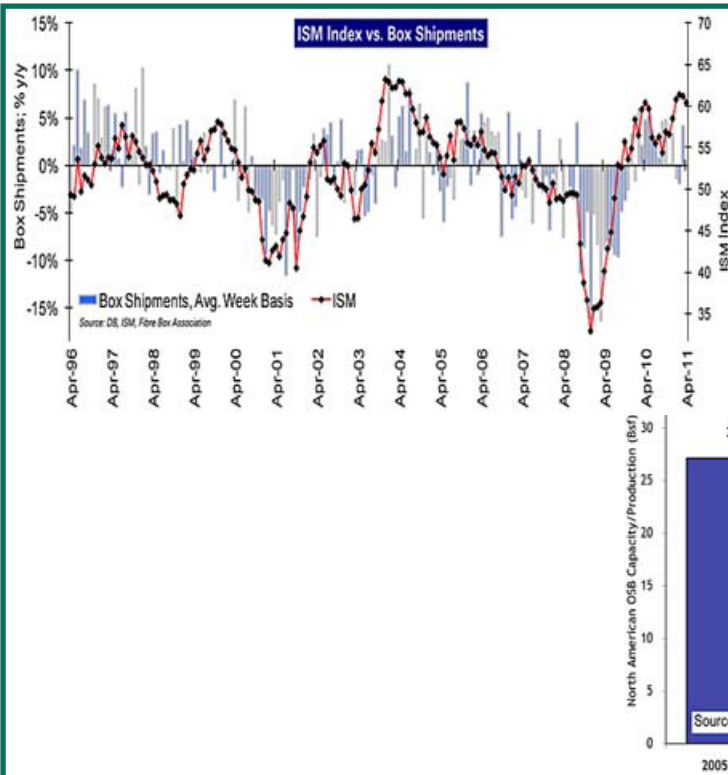
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U.S. HOUSING STARTS					
	Apr-11	Mar-11		Apr-11	Mar-11
Starts			Permits		
Actual	46,800	49,200	Actual	48,800	53,700
SAAR*	523,000	585,000	SAAR*	551,000	574,000
1 Unit	394,000	415,000	1 Unit	385,000	392,000
2-4 Units	(s)	(s)	2-4 Units	23,000	16,000
5+ Units	114,000	159,000	5+ Units	143,000	166,000
Starts by Region			Permits by Region		
Northeast	60,000	63,000	Northeast	60,000	60,000
Midwest	96,000	83,000	Midwest	89,000	94,000
South	255,000	331,000	South	279,000	296,000
West	112,000	108,000	West	123,000	124,000

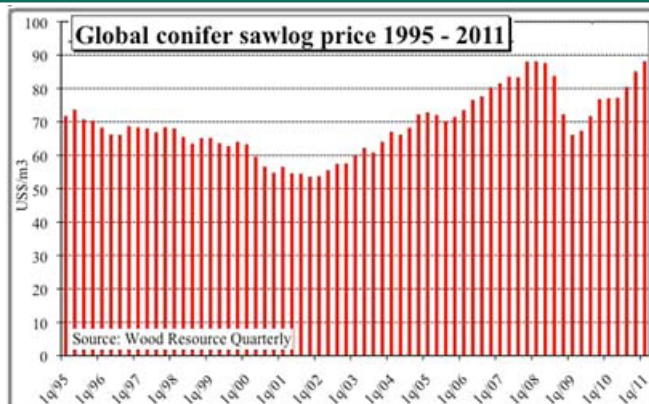
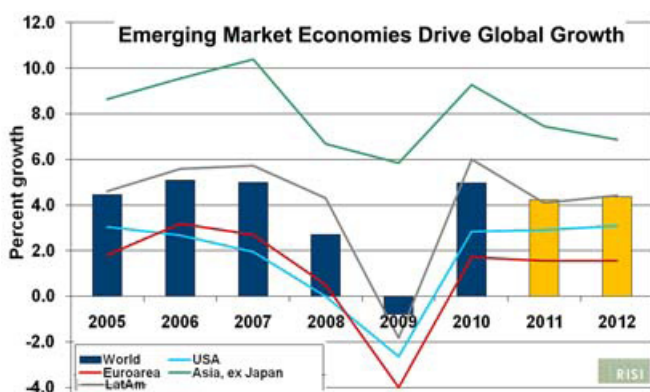
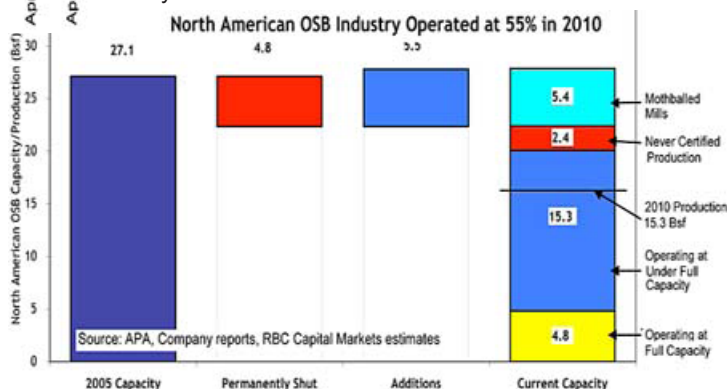
*Seasonally adjusted annual rate

Source: U.S. Census Bureau



April containerboard & box volumes showed modest demand growth. Box shipments rose 2.8 per cent year-on-year on an average week basis. Actual shipments fell 2.1 per cent year-on-year in April, due to one less shipping day. On a “blended” basis – avg of actual & average week – box ship’s rose 0.4 per cent year-on-year.

This compares to “blended” year-over-year comps of +4.1 per cent in March, -1.9 per cent in February and +1.1 per cent in January. DeutscheBank had expected 3-5% year-on-year growth in average week volumes. April 2010 posed a tough comp: up 4.8 per cent year-on-year.



Scoreboard

	January - March 2011		January - March 2010		SALES 2009-10 (%)
	Sales (\$,million)	Earnings (\$,million)	Sales (\$,million)	Earnings (\$,million)	
AbitibiBowater	1,185.0	30.0	1,110	(500.0)	+7%
Ainsworth	71.5	77.7	87.0	16.7	-18%
Canfor	624.0	32.3	577.9	35.5	+7%
Cascades	774.0	1.0	759.0	4.0	+2%
Catalyst	303.6	12.9	333.6	9.6	-9%
Domtar	1,423.0	133.0	—	58.0	N/A
Eacom (4Q - Dec 31)	68.1	(10.5)	N/A	N/A	N/A
Interfor	179.7	(1.7)	139.9	(3.8)	+22%
Norbord	253.0	(2.0)	197.0	(7.0)	+22%
Taiga (3Q - Dec 31)	198.4	(1.1)	201.1	0.9	-1.4%
Tembec (2Q - Mar 26)	452.0	7.0	476.0	(0.0)	-5.1%
TimberWest	N/A	N/A	58.7	(24.7)	N/A
Western Forest Products	180.8	(1.0)	138.3	9.1	+23%
West Fraser	687.0	19.0	688.0	29.0	-0.2%

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	210	218	-8	250	-40	255	-45
WSPF KD R/L 2x6	215	226	-11	235	-20	260	-45
WSPF KD R/L 2x8	245	245	0	250	-5	260	-15
WSPF KD R/L 2x10	250	260	-10	295	-45	300	-50
WSPF KD PET 2x4 Stud	225	220	+5	250	-25	275	-50
Douglas Fir Green R/L 2x4	240	245	-5	260	-20	225	+15
Douglas Fir Green R/L 2x10	260	270	-10	285	-25	265	-5
ESPF KD 2x4 8ft Stud	310	305	+5	320	-10	370	-60
OSB Ontario 7/16" (CDN\$)	195	195	0	195	0	405	-210

Weekly News

Alberta Wildfires

CONTINUED 87 wildfires were still burning on Wednesday and 23 of those considered out of control. The ferocity of the burning continues to create numerous problems. Nearly 500,000 acres of forest have been burned since the emergency began on the weekend, more than the province lost in all of 2010.

The worst damage is concentrated in the Lesser Slave Lake region of northern Alberta, about 200 km (125 miles) north of the provincial capital of Edmonton. There, fires destroyed 40 per cent of the town of Slave Lake on the weekend, forcing officials to evacuate most of the 10,000 residents of the oil, gas and forestry hub.

The province of Alberta announced Wednesday a \$50-million relief fund for immediate assistance for evacuees staying in Athabasca, Westlock, Edmonton and other centres.

Oil and gas companies with operations in the region have confirmed that well over 100,000 barrels of daily production has been temporarily halted – equivalent to about 5 per cent of Alberta's overall output. Unless the fires rapidly abate, the production shutdowns threaten to impair the cash flow and earnings of companies unable to sell their crude.

Home Building, US

CONTINUED Existing sales in the US dropped 0.8 per cent to a seasonally adjusted rate of 5.05 million in April from March, the National Association of Realtors reported Thursday. They were down 13 per cent from a year earlier, when a federal home-buyer tax credit ignited a buying frenzy.

In April, inventories for sale jumped by 9.9 per cent. The 3.87 million homes available mark the highest number since September 2010. It also translates to 9.2

months of supply.

The national median existing-home price plunged 5 per cent to US\$163,700 from a year ago.

There are over 900,000 residential properties sitting on banks' balance sheets right now, of which 600,000 have yet to reach the market, according to RealtyTrac. Another 1.2 million properties are currently in some stage of foreclosure, of which a mere 20 per cent have been listed for sale. Behind that, an additional four million properties are in some stage of delinquency — not yet in foreclosure but on their way there.

Banks have been taking longer to foreclose on properties — as long as 800 days in New York and New Jersey, 600 days in California and 400 days in Florida, for example — which pushes the listing and sale of those homes out further than earlier anticipated.

The bright spot is the drop in loans that are at least 90 days late or in foreclosure. About 8.1 per cent of loans were seriously delinquent in the first quarter, the lowest level since early 2009, the Mortgage Bankers Association said. About 4.5 per cent of loans were in the foreclosure process, down from the 4.6 per cent record high in the previous quarter.

BCGEU Report

The British Columbia Government and Service Employees' Union released a report Tuesday titled "*BC Forests In Crisis: A Community Call for Reform*" after holding a series of community dialogues earlier this year in Castlegar, Campbell River, Kamloops, and Prince George, BC.

The community dialogues gave the BCGEU the chance to engage with community leaders to get a grasp of the key issues and problems facing forest-dependent communities, and hear possible solutions.

Find the entire report at http://www.bcgeu.ca/forestry_report.

Ontario Tenure Reform

The province of Ontario passed its Ontario Forest Tenure Modernization Act (Bill 151) in its legislature Tuesday.

Under the new system, Ontario will introduce two new forest management models for harvesting wood from Ontario's forests:

One, Local Forest Management Corporations will now manage Crown forests and oversee the competitive sale of the timber in a given area

The other, Enhanced Shareholder Sustainable Forest Licences: a group of mills and/or harvesters that collectively form a new company to manage Crown forests under the Sustainable Forest Licence that is issued to them.

This new Act has not passed without controversy. But that was only because northern Ontario was cut out of the bill's hearings after tremendous opposition from the mayors of Timmins, Thunder Bay, Ignace, Espanola, Sioux Lookout, and Iroquois Falls. The northern communities wanted the bill's progression slowed so the government would consult with their residents. Suggested amendments from the Ontario Forest Industry Association and the Ontario Bar Association were ignored.

The third reading, which occurred Tuesday morning, was limited to just 1 hour of debate.

Correction

In last week's issue *Madison's* repeatedly referred to the Pulp and Paper Products Council's annual conference as PaperWeek. The correct name is International Pulp Week.

We apologize for any confusion this error may have caused.

Forest Industry Expectations

More Expert Opinions

At the Pulp and Paper Products Council's annual International Pulp Week conference, Paul Leclair, VP and Chief Economist at the PPPC

by Kéta Kosman

explained that the only good news in

the US economy lately has been job creation, and that new hiring must continue.

"Big European banks have been exposed to countries with sovereign issue," detailed Leclair. "In the developing world there is concern about inflation, especially regarding food prices. The global economy will grow by 3.5 per cent this year but most of that growth will be in the developing world."

Lloyd Atkinson, Economic and Financial Consultant, agreed that there have been significant changes to financial relationships globally.

"It is difficult to make sense of the multiple market crises plaguing the world economy," explained Atkinson. "We are not going to return to business as usual. China and Brazil are major resource players. The current volatility is not going to go away. There are forces at play that we don't understand."

"There will be very anaemic growth out of western Europe. Austerity will be the byword, as it already is in the UK. Japan will begin to feel the consequences of its aging population, a problem that will also visit Europe soon and the US farther in the future. In the US the debt-to-deficit problem will continue. Economic expansion nationally will be offset by contraction on state and local levels."

"It is important to note that in the US, recovery has been lead not by job creation, but by productivity. The US recovery is not job-lead. It is productivity that is growing, with job creation to follow. In addition, the US is the only country of all those suffering economically in the world right now that has a taxing capacity. While the politicians may not have a taxing will, the tax burden on US citizens is minimal."

"China, meanwhile, has put all its eggs in one basket," Atkinson said. "Along with the rapid growth, huge changes, and rising inflation, there is a future labour shortage looming. There are not enough babies being born in China. When that labour market tightens there will be wage pressures. The profit position of Chinese companies is going to be impacted."

At PricewaterhouseCoopers' Global Forest and Paper Industry Conference, Robert Johnston, Director at Eurasia Group, made a presentation titled '*Natural Resources and Geopolitical Risk*'.

"China is rebalancing," began Johnston. "The growth of China's exports is complete, the country is now shipping goods toward the interior, away from the coast. This move will be structurally important in the medium to long term. For China, any external focus will be only on areas that directly border that country."

"In the middle east, a lot is going to hinge on what happens in Syria. That country is not self-contained, it impacts Lebanon, Israel, and Iran especially. If the government of Syria collapses there will be major changes to that region which will be highly destabilizing. Despite middle east tensions, as long as the Saudis hold, and given new sources of oil like Iraq, Brazil, and developments in hydraulic fracturing, the outlook for oil supply seems OK."

"In terms of natural gas, there will be increasing demand as US President Obama shuts down coal plants."

"In Canada, the Harper government should focus on China as the most important customer for Canadian exports," declared Johnston.

Lynn Michaelis, Senior economist for RISI, cheekily titled his presentation '*History is a Mystery, but the Future is Clear*'.

"Despite massive monetary stimulus in the US, economic growth in 2010 has only been 2.3 per cent," stated Michaelis. "The historical average is more like 8 per cent. The US housing market is not responding to low home prices and high inventories for sale. There has been massive wealth loss in the US due to homes losing value. Currently lumber demand from the US is down to 40 million mfbm. Thankfully for Canada, China has added demand for 1 billion mfbm."

"In March 2011, 40 per cent of existing US home sales were distressed properties, and 30 per cent were all-cash deals which will likely be converted into rentals. There is a pent-up supply problem, not pent-up demand, because the ownership-by-age rate is still higher than before the building boom. Therefore there is not much need for single-family units, but there is a need for more condos."

"New home building will be 1.4 million annualized by 2013, but what type of housing will this be?" Johnson concluded.

Paul Quinn, RBC Capital Markets Analyst, stated that 28 per cent of US mortgages are in negative equity, and financing costs are probably going to rise.

Frédéric Bouchard, Partner at PwC, explained that US housing starts and the North American lumber industry hit rock-bottom in 2009 and 2010, and that 2011 is already looking better.

"There was a 50 per cent drop in lumber demand from the US since 2005. China coming in as a new customer helped but still does not make up for that drop," said Bouchard. "US lumber production was cut by 13 billion mfbm since 2009, a 60 per cent cut, which is good news for Canada."

The Census Bureau on Wednesday released US housing starts for April, down more than 10 per cent over March. However a large proportion of that drop is represented by multi-family building, down 24 per cent. Single-family starts fell by 5 per cent.

Mike Zarembski, Senior Commodity Analyst at DailyMarkets.com issued a note Wednesday saying, "The sharp decline in housing starts comes despite growth in the overall economy, as home buyers seem to be focussing on 'cheaper' previously-owned homes — particularly those in foreclosure. With home builders continuing to struggle, the demand for lumber has also slumped considerably."

Existing home sales in the US for April are essential flat, falling only 0.8 per cent, said the National Association of Realtors Thursday. However existing home prices have started to rise as bargain-hunters begin to suspect home prices have hit bottom. The median price of an existing home rose 2.4 per cent to US\$163,700, from US\$159,800 in March.

It remains to be seen which of the analysts and economists presenting at the conferences last week will be correct, about when US home building will recover and what that recovery will look like. It is obvious that the extended winter and continued bad weather across North America, now leading to flooding as warming temperatures quickly melt the large snow pack in Canada, have done nothing to motivate an increase in permits for new home building. If those willing to make extended forecasts are to be believed, the late start to spring will lead to a long and late summer this year. With everything pushed back a couple of months, eventual new home building in the US may still be occurring come October. On the other hand, some industry sources believe that if lose the spring surge is lost, the best one can hope for is a flat market the rest of the year.