

# MADISON'S LUMBER REPORTER

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## News & Updates

### Statistics Canada Correction

An apparent statistical anomaly in StatsCan data sets available on the website is causing confusion with forest industry watchers and analysts. StatsCan data indicates a massive jump in Canadian imports of softwood lumber products in 2010 compared to previous years, including 2009. However US softwood export data available on the US Census site does not indicate a similar jump.

A representative for StatsCan explained to *Madison's* that there might be an error with this data, and that it could take a couple of months to be examined and rectified.

### US Pending Home Sales, Economic Indicators

The National Association of Realtors said Friday pending home sales plunged 11.6 per cent to 81.9 in April. Expectations were for a smaller drop, to 92 from 94.1 in March.

Reuters and the University of Michigan reported consumer sentiment rose to 74.3 in May, up from a previous reading of 72.4 in early May and 69.8 in April. One-year inflation expectations also slipped to 4.1 per cent from 4.4 per cent. The sentiment number is low, but moving in the right direction.

The Conference Board's gauge of the outlook for the next three to six months decreased 0.3 per cent after a revised 0.7 per cent gain in March, the New York-based group said May 19.

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### Canada Manufacturing Jobs, Economic Growth

Factory work ebbed steadily from 2003 to 2008 and plunged in the recession to December, 2009, as demand fell and companies laid off workers. In fact, average job losses amounted to 14,500 a month between August, 2008 and December, 2009, Statistics Canada said Thursday.

But since then, manufacturing employment has been rising a bit, with average monthly gains of 2,400. An average weekly salary in the sector is \$1,005.68 – more than the national average of \$876.53.

In its spring outlook for the provincial economies, the Conference Board of Canada Wednesday concluded resource-rich provinces — notably Newfoundland and Labrador, Saskatchewan and Alberta — would have the strongest economic growth in Canada this year.

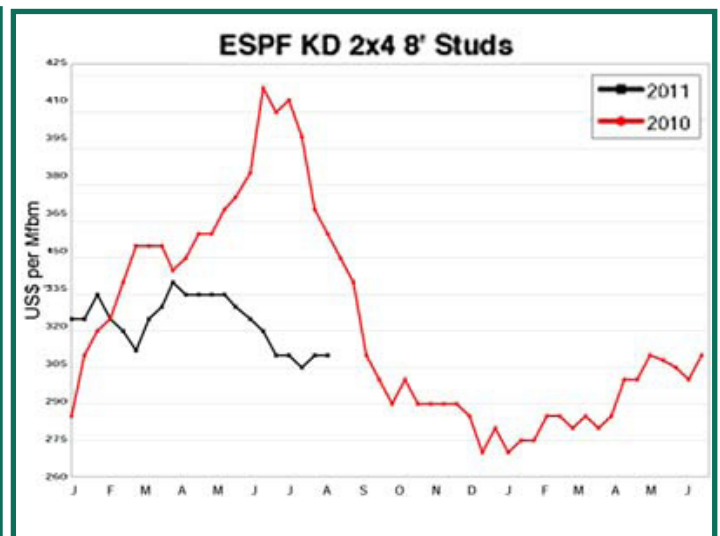
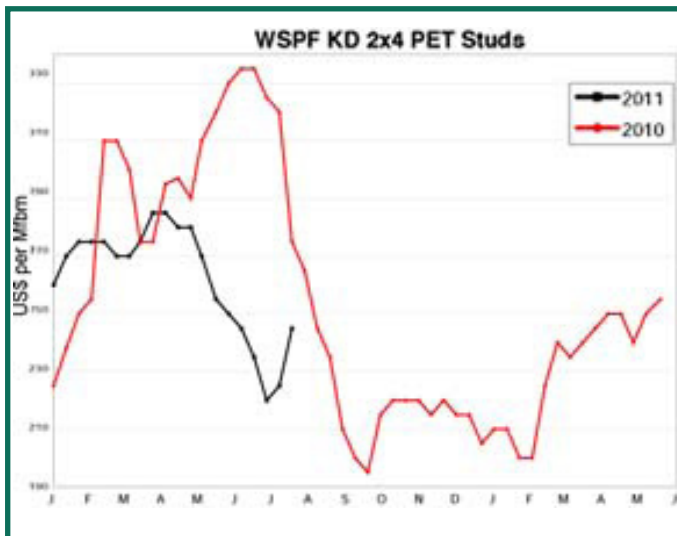
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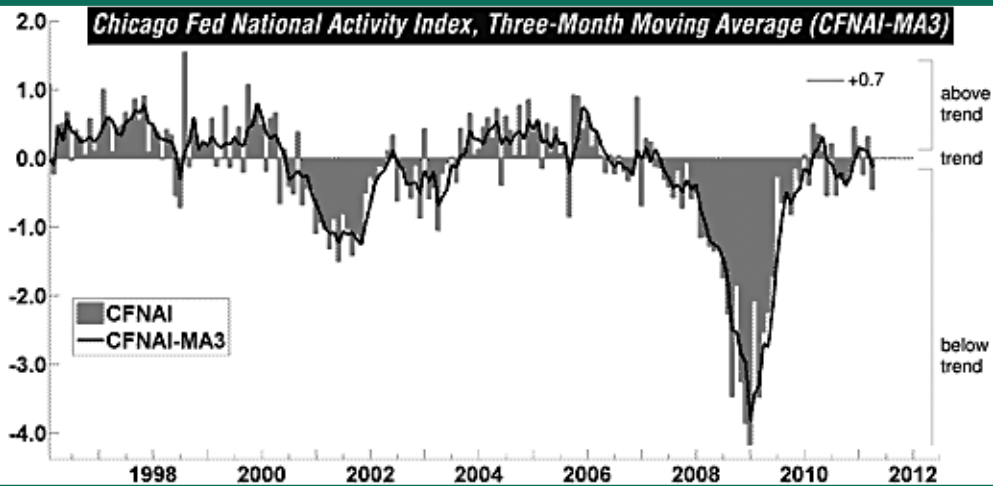
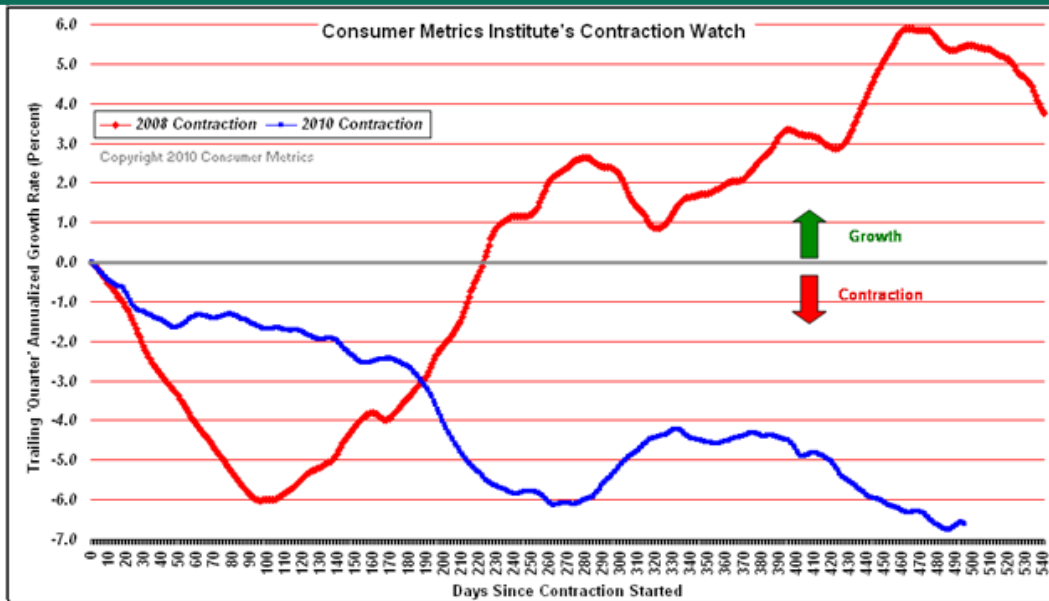
### Biomass Fuel, Energy, and New Products

*Madison's* was excited to hear analysts and industry speak positively about the future of biomass fuel at the BC Bioenergy Conference a couple of weeks ago in Vancouver. Experts from around the globe provided the latest data and developments on the business of extracting energy and other products from biomass. Look for more information on that conference in a future issue of your *Madison's Lumber Reporter*.

The European Union deserves credit, in large part, for recent increases in demand and production of biomass fuel products, specifically pellets, due to legislated requirements of 14 per cent green energy for industry and residential users by 2014. Asian countries as well have been pushing for alternative forms of energy as industrial production in that region grows.

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**Data DIGest: a weekly summary of economic news by the Associated General Contractors of America**

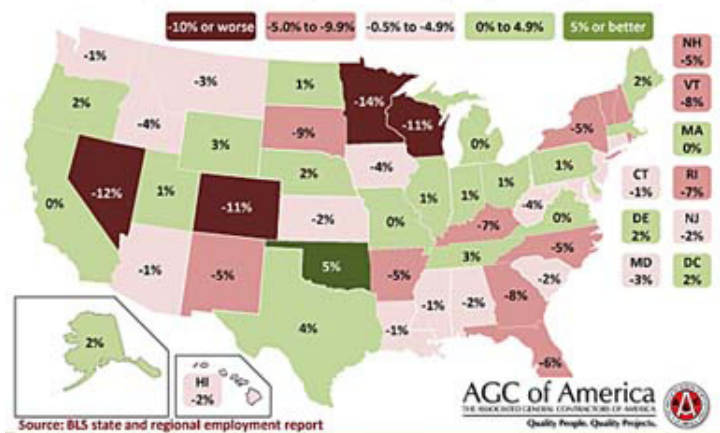
US seasonally adjusted nonfarm payroll employment increased in 42 states and the District of Columbia from March to April and decreased in eight states, the Bureau of Labor Statistics reported on May 20. Compared with April 2010, employment rose in 46 states plus DC. Over the year, construction employment climbed in 19 states plus DC (the largest number of locations with 12-month gains since February 2008), dropped in 30 states and was level in Massachusetts.

Association officials noted that despite recent increases in private-sector construction activity, the layoffs are occurring as public investments in infrastructure decline.

Association officials said that private nonresidential and multifamily construction appear to be stabilizing or picking up in most markets, but that the gains are being offset by drops in public construction. They noted that private sector investments in nonresidential construction increased nearly 2 per cent in March while public investments in transportation declined by 11.1 per cent, in public safety declined by 15.6 per cent and in sewage facilities declined by 7.9 per cent.

The Architecture Billings Index, which measures the fraction of a sample of 700 architecture firms that had higher billings than a month earlier less the fraction with lower billings, fell to 47.6, "a precipitous decrease from a reading of 50.5 the previous month," the American Institute of Architects reported May 18. The April reading was the first time the index dropped below the breakeven 50 level since October and was the lowest mark since July.

**State Construction Employment Change (U.S.: -0.8%)  
4/10 to 4/11 (seasonally adjusted)**



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	224	210	+14	235	-11	245	-21
WSPF KD R/L 2x6	226	215	+11	235	-9	245	-19
WSPF KD R/L 2x8	250	245	+5	245	+5	245	+5
WSPF KD R/L 2x10	255	250	+5	290	-35	285	-30
WSPF KD PET 2x4 Stud	245	225	+20	245	0	265	-20
Douglas Fir Green R/L 2x4	250	240	+10	250	0	238	+12
Douglas Fir Green R/L 2x10	260	260	0	280	-20	280	-20
ESPF KD 2x4 8ft Stud	310	310	0	310	0	360	-50
OSB Ontario 7/16" (CDN\$)	195	195	0	195	0	405	-210

## Weekly News

### US Real Estate, Economy

CONTINUED Weather likely played a role in the poor US housing data for April, given a 17 per cent drop in the South, noted David Ader of CRT Capital to the *New York Times*.

Flooding on the Mississippi River may continue to constrain homebuilding and sales in the region this month, Morgan Stanley economists David Greenlaw and Ted Wieseman wrote in a note to clients May 17.

Previously owned homes sold at a 5.05 million annual rate in April, down 0.8 per cent from the prior month, data from the National Association of Realtors showed May 19. All-cash deals accounted for 31 per cent of transactions, and distressed properties, including foreclosures and short sales, made up 37 per cent, the group said.

The supply of existing houses will probably remain an issue for builders and buyers alike. CoreLogic Inc. in March estimated about 1.8 million homes were more than 90 days delinquent, in foreclosure or bank-owned, a so-called "shadow inventory" set to add to the unsold supply of 3.87 million previously owned homes on the market at the end of April.

Meanwhile, consumer purchases rose 0.4 per cent in April after a revised 0.5 per cent gain the prior month that was smaller than previously estimated, Commerce Department figures showed Friday. Incomes climbed 0.4 percent.

"We're probably not going to see the same pace of contraction as the first quarter, but the economy certainly has throttled back a little bit," said Charmaine Buskas, chief strategist at 4Cast Inc to *Bloomberg*.

### Canada Jobs, Economy

CONTINUED The Conference Board of Canada's Spring 2011 Provincial Outlook Summary, released this week, indicates that economic growth will be strong in the western part of the country this year—except for British Columbia, where growth will cool following a year of fiscal and Olympic-related boosts in 2010. Growth will be more moderate in central and eastern Canada.

British Columbia's growth will be held to two per cent as the forest industry waits for a recovery in the U.S. housing market.

"A broad-based moderation in economic growth is expected in British Columbia this year, with the economy forecast to advance by just two per cent," the report concluded. BC's growth rate would also trail the national forecast of 2.6 per cent growth.

"The US housing market is still struggling to emerge from its protracted downturn, and this will weigh on BC's forestry industry over the near term. Output in the construction sector is set to contract this year as housing starts cool and government infrastructure spending wraps up."

Fuelled by renewed interest in developing the oil sands, Alberta will see strong economic growth in 2011–12, while Saskatchewan will benefit from tax breaks and a hot mining industry.

Manitoba will hold its own despite floods postponing seeding in many areas. Supply-chain disruptions brought on by the Japanese earthquake will hold back vehicle assembly at Toyota and Honda plants in Ontario, it predicted. Still, the board forecast Ontario would create more than 125,000 jobs this year.

Weaker construction activity will dampen New Brunswick's real GDP

growth in 2011. But Prince Edward Island will see strong gains in utilities, of 3.3 per cent, while Newfoundland and Labrador's economy will continue to post stellar growth.

"With agricultural, energy and mineral prices heating up, provinces that have these resources in abundance will do well — despite hesitation among consumers and tightening fiscal policy," said the board's Marie-Christine Bernard.

"As a result, economic growth will be much stronger in parts of Atlantic Canada and in the Prairie provinces than in Central and Eastern Canada."

### Finland Paper Strike Settled

Some 4,000 members of trade union Ammattiliitto Pro held strikes against Finnish paper producers before an agreement over a second-year wage renewal was reached.

The 2011 national pay award is 1.5 per cent or €48-per-month minimum, whichever is higher, and was effective from 19 May.

The union won the across-the-board national salary increase, structured to narrow the pay gap among the clerical, technical, and front-line managerial ranks of the pulp and paper industry.

The strikes had impacted all Finnish-based companies since early April. Staff at all Stora Enso and Metsäliitto sites went on strike on 26 April, and UPM said the end of its two-week strike had resulted in a cost impact of €1m.

By last week, about 75 per cent of white-collar staff in Finland's paper industry were on strike. Shift workers returned to their jobs on 21 May, while day workers returned May 23.

# Biomass Fuel

## The Future

CONTINUED Unwilling to be left behind, Britain's biggest coal-fired power plant, Drax, burned nearly 1 million tonnes of biomass in 2010, more than double of previous years. Eurostat data shows EU imports of wood pellets were up 42 per cent in 2010 compared to one year earlier.

Domestic UK wood fuel production, excluding recycled or waste wood, has been about 1.5 million tonnes annually, according to Forestry Commission data. Britain's RWE power will this year convert a coal plant near London to burn biomass. The aging plant will burn 2 million tonnes through 2015, when it is due to close, underlining a need for a global trade.

If EU wood fuel subsidies were more predictable and reliable – for example the UK support to be announced in the next few weeks – then utilities would commit to buying bigger volumes, and so motivate more supply, according to wood fuel commodity traders.

The price of pellets for industrial use in Europe came down in a limited way in March, says this week's issue of FOEX. In April those prices headed back up, maybe in part due to the continuing chip supply problems of the new capacity in Europe. The Nordic pellet index gained €0.27 per MWh, or 0.91 per cent, and closed this week at €29.81 per MWh.

In Austria, the price of residential grades of pellets in January was €225.90 per tonne according to proPellets, 10 per cent higher than a year ago. The prices of industrial grades of pellets have also been rising, though that increase remains constrained by excess capacity.

One contrarian, Roger Samson of Resource Efficient Agricultural Production (REAP)-Canada, charged in a February 14 presentation to the Ontario Biomass Producer's Group that US stimulus spending on plants and subsidies for wood residue utilization, at US\$45/ton, are creating wood pellet glut. North American pellet production is increasing at 25-35 per cent per year, from 1.1 million tonnes in 2001 to 3.2 million tonnes in 2008, explained Samson.

Meanwhile, total US wood and forest residue demand for 2021 is projected to increase by 6.8 per cent over last year's projection, according to Forisk Consulting's May 25 issue of Wood Bioenergy US. Forisk uses data on production projects, both announced and operating, to make its forecast. Of these projects, Forisk projects those making pellets to comprise 61.6 per cent of the total by 2021, compared to a projection of 59 per cent one year ago.

The runup to fully utilized woody biomass production in the US is upon us.

Meeting government targets for renewable energy will require ever larger quantities of forest biomass to be mobilized worldwide, said John Bingham in a report released May 24 by Hawkins Wright, London-based consultants to the forest products industry. This increase in demand could potentially match the volume of wood currently used by traditional forest based industries. As a result, energy wood and wood pellets are becoming internationally traded commodities.

Over the past year, a combination of steadily growing demand for energy wood and a contraction in the supply of readily available sawmill and forest residues has underpinned biomass and wood pellet markets in Europe and North America, detailed Bingham.

Canada, which will surely become an overall exporter of biomass energy products, has several programs and incentives in place both on a provincial and federal level for this emerging industry. Global pellet export shipments into Europe continued to rise in 2010, up 21 per cent over the previous year, according to Wood Resources International.

The cornerstone of Ontario's Green Energy Act, which is North America's first comprehensive Feed-in-Tariff program, is that it provides a 20-year contract. The contract price for biomass is 13.8 cents per kilowatt hour (kWh) for power under 10 MegaWatts (MW) and 13 cents per kWh for larger facilities. In June 2010 Ontario announced the award of over 2,500 MW of 20 year renewable purchase power agreements. Hydro-Québec's Sustainability Report 2010, released May 10, details that six contracts were approved for the supply of 52.9 MW of electricity produced by biomass last year.

In an *Information Bulletin* released May 19, the government of British Columbia announced progress on March 29, 2010, changes to timber harvest licences. The Forest Act will be amended so that a non-lumber producer can only transfer a "receiving licence" to another non-lumber producer. The receiving licences were created to give bioenergy companies access to low-value timber waste that companies that have regular timber rights would not normally bring out of the woods. This amendment will help maintain the intent of the woodlot licence program as it is expanded, explains the *Bulletin*. Woodlot licence opportunities are intended for individuals, First Nations and small companies that want to participate in small-scale forestry, thus large tenure holders will be ineligible to apply for or hold a woodlot licence.

"It's fairly obvious why we wanted to restrict it - it's to make sure the focus of the receiving licence is on development of the bioenergy and non-lumber part of the industry," said Steve Thomson, Minister of Forests, Lands and Natural Resource Operations to the Prince George Citizen.

While there is still some work to do, Thomson expects the receiving licence concept will be ready to be implemented this summer.

While the burgeoning biomass fuel industry is exciting enough, it seems the most profitable future for making products out of forest residue is in biochemicals. Converting biomass into high value chemicals returns a higher profit than will combustion fuels, and converting biomass into transportation fuels provides access to a wider marketplace. More on that in a future issue of your *Madison's Lumber Reporter*.

