

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 Western Wood Products Association, Japan's finalized 2010 wood import data, and the increase in wood costs globally in 2010.

Contact us any time for a subscription.

Japan Reconstruction Update

On May 26 Japan's Ministry of Land, Infrastructure and Transport held a meeting to explain the new standard of wood use in government buildings, says the *Japan Lumber Reports*. Techniques of durability, fire resistance, and structural calculation were detailed. The Ministry target is for wooden structures, wooden interiors, wooden office furniture, and utilization of wood biomass.

The new plan is to take effect for five years, through 2015, and should be revised from time to time. The lumber used must conform to JAS or be designated by the Minister, according to the *Reports*.

Meanwhile, Sekisui House, Japan's largest home builder, reported April orders for detached units rose by 6 per cent compared to the previous year, and for apartments orders were up 5 per cent over the same time period, says the *Reports*.

However units built for sale dropped by 24 per cent and orders for condominiums fell by 52 per cent.

Another major home builder in Japan, Daiwa House, reported that April orders for detached homes declined by 4 per cent compared to one year ago, while units built for sale rose by 8 per cent, and multi-family unit orders rose by 15 per cent.

Sumitomo Forestry declared April sales grew by 11 per cent over the same month last year, while orders for new units were up by 4 per cent.

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US Construction Spending

A US Commerce Department construction report Wednesday showed spending rose in April more than expected, up 0.4 per cent. But outlays in March were revised way down. Year over year, construction spending was down 9.3 per cent.

Also released this week, the S&P Case-Shiller home-price indexes showed US home prices fell 4.2 per cent in 1Q 2011. Over the course of the housing sector bust in the past five years, stock-market prices of builders have plunged.

Another report indicated growth in manufacturing slowed in May. The Institute for Supply Management said its manufacturing gauge fell to 53.5 per cent from 60.4 per cent in April, the biggest one-month drop since 1984.

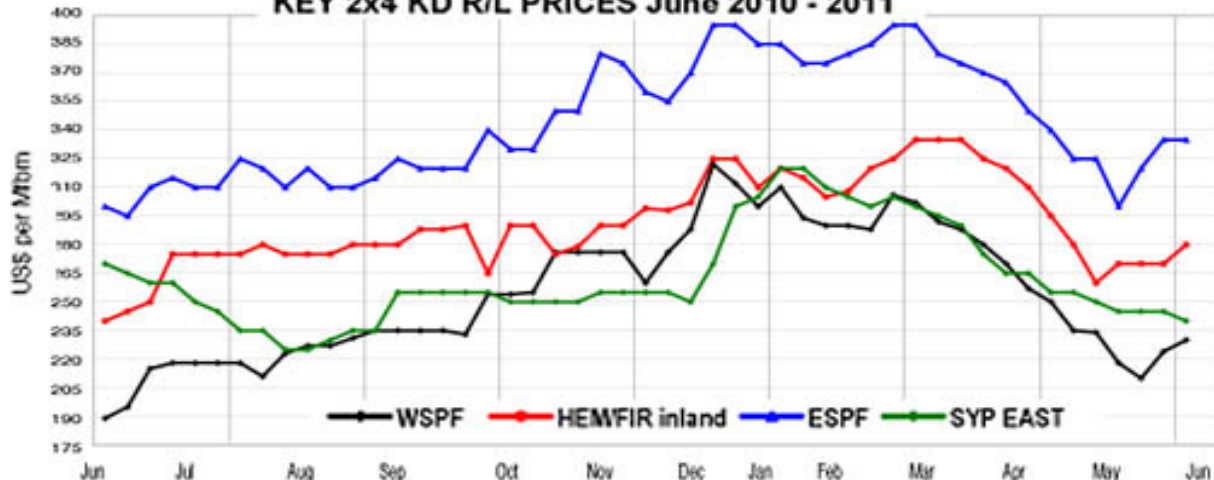
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First Nations' Partnerships with the Forest Industry

The increasingly important role of First Nations in forestry, as well as other resource-based industries like mining, across Canada has become apparent. Investment, partnerships, and a bit of sabre rattling by First Nations was evident this week.

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KEY 2x4 KD R/L PRICES June 2010 - 2011



Veteran, erstwhile contributor to *Madison's*, Mack Hackmatack, is pulled out of comfortable retirement to offer his unique brand of insight into this new, opaque, reality of the business of making lumber:

**American Dreamin'
By Mack Hackmatack,
CEO Wood Wrought Lumber Producers**

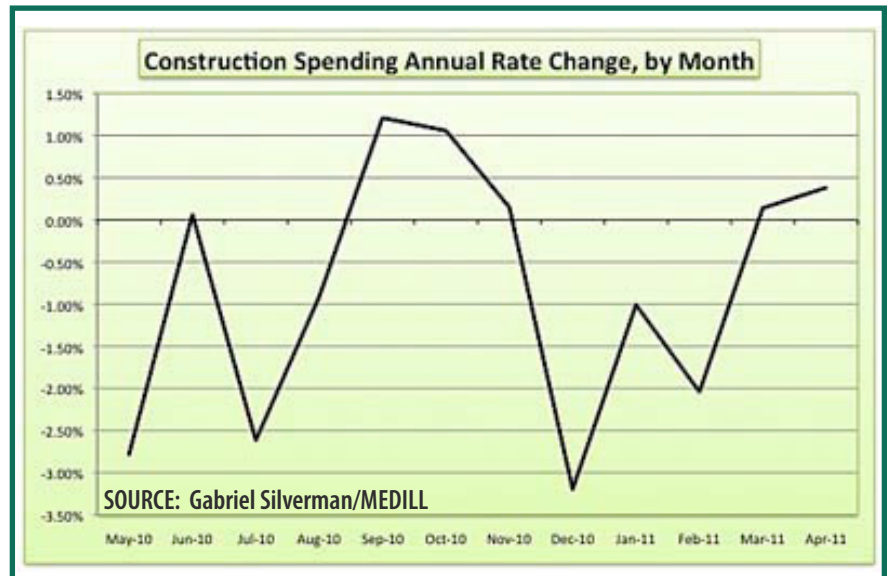
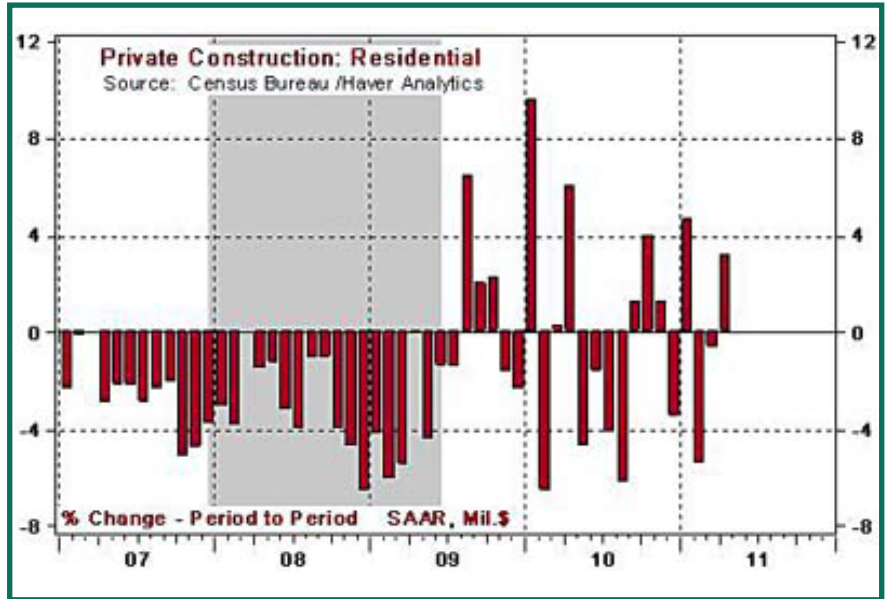
High above the Jersey shore on the Sea Mack Peninsula, industry pundit Mack Hackmatack examines the lumber market.

"When I came into this business 43 years ago as an office boy and part time choker setter, the old timers and bright lights could make sense of its day-to-day lumberings. Now there is no rule, no direction, no season that one or two of us can count on to predict trends. Instead, it is the cyber-bot-kissers, teen geeks, dentists and airline pilots who push prices one direction or another as they watch the futures board. At random twenty minute intervals they plug the day's numbers into their *By-Sell Lumber for Dummies* program and giggle to themselves as it makes all the little coloured boxes change. It's a Jeopardy game for numbers where no answer is wrong.

Does this version of the game change the basic needs and desires of the American public: a wood house on every lot, a chicken in every pot, and a 'stop logging' protest sign on every lawn? In spite of government bail outs, lending policies of the megaconglomerate global Crimson Permanent Assurance (CPA Co) ensured that young couples with two minimum wage incomes would 1) be able to buy homes and 2) lose their homes and down payments to CPA Co because they couldn't make the payments. The mortgage papers have disappeared into the miasma of poor bookkeeping and simply bad management but the evidentiary house still sits at the corner of Maple and Main.

Now the complex is congratulating itself on a near comeback, expected to culminate sometime in the next decade. But who can figure out what is being purchased or built or why? I admit to being at a loss. Where once we had people making these critical decisions, they have been replaced by cyber games and MBAs."

Hot and bothered,
Mack



Dividend Capital Group: a full-service investment company focused on real estate products that build real value for investors

" US property occupancies continued to improve among five property types in more than 50 markets in 1Q 2011," the *Dividend Capital Research Real Estate Market Cycle Monitor* reported May 25. "But rents only improved in apartments and hotels. New construction declined again, so absorption should rebound more quickly.

New office construction is at a 20-year low and the two towers at the World Trade Center make up 33 per cent of new office construction. Office absorption was a low five million square feet for the quarter, and just barely above completions. All indicators point to a solid recovery.

Net absorption of apartments, 44,000 units, and the low amount of new supply of less than 0.5 per cent should help to make the recovery move along faster. While some researchers forecast new construction to pick up in 2011, demand is expected to match this new supply

Retail occupancies improved 0.5 per cent in 1Q and 1.5 per cent year-over-year. Major national retail chains are seeing enough sales growth that they are expanding and occupancies in regional malls are improving. Hotel revenue per available room increased 2.8 per cent in 1Q and 8.9 per cent year-over.

New construction starts are almost nonexistent as financing is very hard to get for hotels after their major defaults in the recession."

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	230	224	+6	234	-4	225	+5
WSPF KD R/L 2x6	228	226	+2	239	-11	225	+3
WSPF KD R/L 2x8	248	250	-2	250	-2	225	+23
WSPF KD R/L 2x10	255	255	0	277	-22	275	-20
WSPF KD PET 2x4 Stud	255	245	+10	235	+20	245	+10
Douglas Fir Green R/L 2x4	250	250	0	245	+5	235	+15
Douglas Fir Green R/L 2x10	260	260	0	275	-15	280	-20
ESPF KD 2x4 8ft Stud	320	310	+10	310	+10	350	-30
OSB Ontario 7/16" (CDN\$)	195	195	0	195	0	405	-210

Weekly News

US Economic Growth

CONTINUED US manufacturing activity expanded in May at the slowest pace in 20 months, the latest sign that a sharp rise in energy prices is hampering economic growth.

Any reading above 50 indicates growth in manufacturing. May marked the 22nd straight month of expansion in what's been one of the few sources of strength for the economy since the recession ended nearly two years ago.

Meanwhile, economic activity in the non-manufacturing sector grew in May for the 18th consecutive month, says the latest *Non-Manufacturing ISM Report On Business*, released Friday.

The NMI registered 54.6 per cent in May, 1.8 percentage points higher than April, and indicating continued growth at a faster rate in the non-manufacturing sector. The Non-Manufacturing Business Activity Index decreased 0.1 percentage point to 53.6 per cent, reflecting growth for the 22nd consecutive month, but at a slightly slower rate than in April. The New Orders Index increased by 4.1 percentage points to 56.8 per cent. The Employment Index increased 2.1 percentage points to 54 per cent, indicating growth in employment for the ninth consecutive month and at a faster rate.

ISM's Non-Manufacturing Inventories Index registered 55 per cent in May, 0.5 percentage point lower than the reading that was reported in April, March and February.

The eight industries reporting an increase in inventories in May – listed in order – are: Real Estate, Rental & Leasing; Agriculture, Forestry, plus others, with Construction listed last.

Japan Rebuilding, Plywood Demand

CONTINUED Materials needed to build temporary shelters in Japan, such as panel, piling, structural steel farming and house equipment, as well as wood products, are moving well to the damaged areas, according to the *Japan Lumber Reports*.

Sheathing for roofs have been delivered so demand is tapering off and prices are falling, says the *Reports*.

The number of temporary housing needed for Iwate, Miyagi, and Fukushima prefectures was cut down to 52,200 units, explains the *Japan Lumber Journal*. In the disaster area, more people are moving into rental condominiums.

The supply shortage of softwood plywood is expected to continue for a while. As for imported plywood, prices of logs appear to be hitting the ceiling in producing areas. Domestic log supply problems are starting calming down.

Manufacturers of domestic softwood plywood not damaged by the earthquake and tsunami have ramped up to full-scale production. However, products delivered to wholesalers are immediately selling out, so further price rises for thick products are likely in May, according to the *Journal*.

Imports of plywood are expected to increase, and substitutes such as OSB, MDF, PB, and Chinese plywood are scheduled to arrive.

The Japan Forestry Agency said on April 19 that the Great Eastern Japan Earthquake caused a 30 per cent halt in production at factories of domestic plywood, according to the *Journal*.

Wood-Framed Six Storey Construction

The recent massive fire at the construction site of a wood framed building in Richmond, BC, has once again ignited local debate over the fire safety of taller wood buildings. The claims of detractors are mystifying, as several counties have already completed such constructions, specifically a senior's centre in Germany and an eight story subsidized housing unit in London.

Japan, a country with some of the strictest building safety standards in the world, including earthquake and fire safety, has launched a new campaign called *Forests of Wooden Buildings in Cities*.

The Japan Laminated Wood Products Association hosted 80 people in Tokyo on May 30, including architects and representatives from major construction companies and universities, according to the *Japan Lumber Journal*.

The development status of woody hybrid laminated lumber was explained and the usage of the prototypes was demonstrated. Topics discussed included; "Challenges of Fire-Prevention in Promoting Wooden Buildings," "Development and the Present Situation of Woody Hybrid Laminated Lumber," and "A Suggestion of a Woody Hybrid Fire-resistant Building using the Prototype."

This building material has accepted the related minister's certification for its one-hour-fire-resistance and is expected to be used in three- or four- storied office buildings and official residences in fire-resisting divisions, and also in three- or four-storied schools, preschools and four-storied apartment buildings which are required to be fireproof, says the *Journal*.

First Nations And Forestry

The difficult proposition of First Nations across Canada embarking on self-government is well underway. This reality differs wildly from one ground to the next, mainly due to varying levels of government recognized status in different regions. Significant numbers of First Nations groups in Ontario and Quebec signed treaties that are now historically binding, while in British Columbia there is a large number of First Nations that never signed away entitlement to land and the resources within in.

The move to self-government has been slow for various reasons, the most important of which is the requirement of investment by the First Nation in order to be able to capitalize on the land base. With no more funds forthcoming from the federal government, careful deliberation is necessary to determine how best to proceed with resource management and potential revenue.

One encouraging sign recently is partnerships being formed, not only between various First Nations but with established industry. Forestry and mining companies in particular are working together with First Nations to implement projects on traditional lands that will generate revenue for all involved far into the future.

In a new world of consultation and cooperation, toes can get stepped on. This week, central Canadian First Nations groups are holding the inaugural event of the Canadian Boreal Initiative (CBI) national speaking tour, following recent UNESCO tours of eastern Manitoba's boreal region. On May 27, influential environmentalists and philanthropists including 39 conservation scientists, dignitaries and major media from Toronto, Chicago, New York, and Winnipeg embarked on a two-day tour of Manitoba's boreal forest as part of the provincial government's nomination process for a UNESCO heritage designation.

The current Canadian Boreal Forest Agreement (CBFA) covers more than 76 million hectares of public forests. Signed a year ago, this Agreement exists between forest companies with operations in the area and non-government organizations. Important First Nations stakeholders were not included when discussion for the formation of this Agreement were taking place.

When the CBFA was signed last year, *Madison's* spoke with David Harper, Grand Chief of Manitoba Keewatinowi Okimakanak, an organization representing 30 First Nations in northern Manitoba. At that time, the aboriginal leader was disgusted that discussions for the Agreement were carried out with "no invitation to First Nations for dialogue."

"Aboriginal people were shut out of those talks, there was no consultation. This shows total disregard, especially considering such consultation is a treaty requirement. In some cases our land and operations are affected, so to First Nations in northern Manitoba this Agreement has no teeth. All First Nations are encouraged to halt this Agreement," Harper declared.

Independently of the CBFA, the First Nations' CBI campaign aims to have an area the size of Denmark, some 43,000 square kilometres from Lake Winnipeg east past the Manitoba-Ontario border, preserved under UNESCO. At a recent media junket, Sophia Rabliauskas, spokesperson for Pimachiowin Aki, the corporation of five Manitoba East Side First Nations, expressed a sense of urgency about a key element of the provincial bid. In advance of a provincial election to be held this autumn, Manitoba Progressive Conservatives vow to scrap Manitoba Hydro's \$2.2 billion plan, under the current NDP government, to build a power line from northern dams along the west side of Lake Winnipeg. The Conservatives want to build the power line down the east side of the lake, through the boreal region.

This Thursday evening, Aki members pushing for UNESCO protection of the boreal forest on the east side of Lake Winnipeg will speak at the University of Manitoba's University Centre. Rabliauskas, activist and winner of the Goldman Environmental Prize, Stephen Kakfwi, former premier of the Northwest Territories and President of the Dene Nation, and others, will speak about the challenges and opportunities for First Nations working to conserve and develop their boreal homelands.

Concerns raised by these voices should be heeded. Also this week the Wet'suwet'en Nation of British Columbia won an important injunction in BC Supreme Court to stop Canfor's timber harvesting activities within a portion of its territory.

In 2009 a native roadblock was erected to stop Canfor from logging in an area near Topley, northwest of Prince George.

The company said it has a permit to log beetle-killed timber in the region, but the First Nation claimed the logging would destroy an important part of its traditional territory. Canfor went to court to get an injunction against the blockade while the First Nation responded with an application for its own injunction to stop the logging. The Court Monday granted an injunction to the Wet'suwet'en members, saying more harm could come to them than to the company if the logging were to proceed, and that the Crown was negligent in fulfilling its consultation obligations according to the 2001 agreement with First Nations.

There is a 30 day window for this ruling to be appealed.

Also announced this week, and in the wake of significant changes to Ontario's regulatory regime for forestry and forest tenure, Ontario's Lac Seul First Nation remains committed to the rebuilding of the region's foundering forestry-based economy. Please see the May 20 issue of your *Madison's* Lumber Reporter for more information on Ontario's recent tenure reform.

The Lac Seul's former timber license, held by Greenforest Management Inc, a subsidiary of the Buchanan Forest Products which is now in receivership, was subject to the recent wood allocation process conducted by the government of Ontario. This allocation, comprising approximately 500,000 cubic metres of softwood annually, was formally offered to, and accepted by, Domtar for use in their Dryden pulp operations.

This leaves the First Nation's existing allowable short-term, or 40 year, harvest of 19,000 cubic metres of softwood. The new license draws on fibre from both reserve land and two parcels of Crown land isolated from the rest of the Lac Seul Forest by a reservoir but contiguous to the reserve. This First Nation is actively working on bringing business opportunities to Northwestern Ontario by developing partnerships and agreements with both government and industry, and stresses that access to approximately 250,000 cubic metres would be required.

As the forest industry forges ahead to a new future, the scope of which is not yet well understood, agreements and partnerships that include First Nations will be essential. This is most true in the burgeoning field of biomass fuels, where long term access to fibre is critical to energy companies looking for areas to invest but where government salvage licenses generally extend only as far as five years out.

by Kéta Kosman