

# 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 announcements of new, expanded, or updated North American paper mills.  
Contact us any time for a subscription.

### Wildfires Continue

Firefighters were confident Thursday they had stopped the advance of a wildfire that headed toward the Los Alamos, NM, nuclear lab and the nearby town that now sits empty for the second time in 11 years, even as they battled the blaze that crept into a canyon that descends into the town and parts of the lab.

The Las Conchas blaze had consumed 92,710 acres near the city of Los Alamos. That's roughly 23,000 acres more than the fire had claimed Wednesday. Most of the additional growth in the past day came as the western section of the fire, driven by southerly winds, moved north from the Los Alamos area.

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### Japan Update

Glulam manufacturers and export managers of large sawmills in Central Europe are assuming that reconstruction in Japan will stretch over a period of five years, according to FORDAQ. Japan housing starts in 2010 amounted to 819,000 units, and for 2011, 900,000 units are expected. The share of wood framed buildings will remain 56 per cent.

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### Canada Economic Indicators

Canada's gross domestic product was flat in April, Statistics Canada said Thursday, an anemic reading that nonetheless was better than the contraction economists had expected. Both goods and services were flat in the month.

Mining and energy extraction is by far the country's fastest-growing sector, tallying growth of 9.7 per cent in the past year. Momentum in mining continued in April, when it was the fastest-growing sector in percentage terms.

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### Global Pulp and Paper Supply and Demand

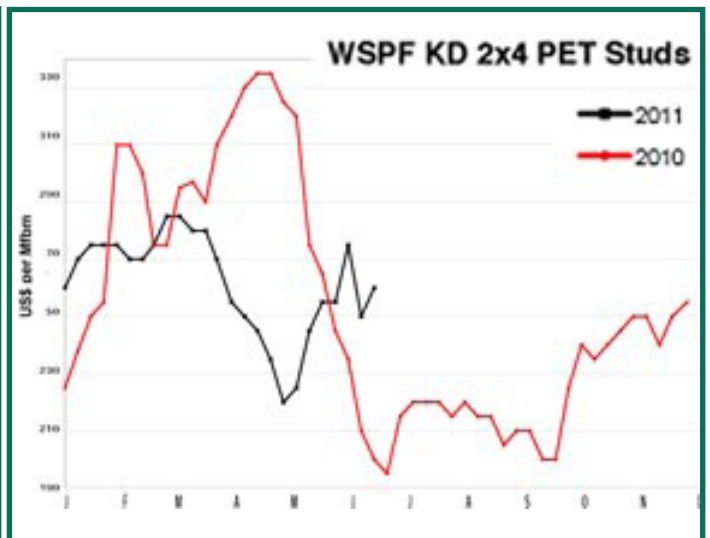
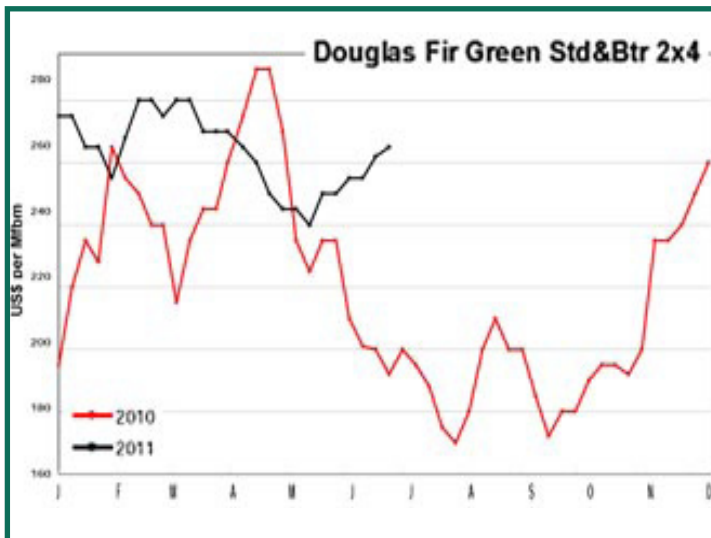
Figures released Monday by the Pulp and Paper Products Council indicate a slow-down in North American newsprint demand.

May shipments of NBSK (northern bleached softwood kraft) pulp to North American customers were virtually unchanged compared to one year ago, however were down 6.4 per cent since the beginning of 2011, says the latest PPPC report.

North American demand for newsprint fell 6.1 per cent in May to 415,000 metric tons compared with the same month a year ago. A pullback in US consumption drove the decline, with demand by US dailies dropping 12.3 per cent compared with May 2010, according to the PPPC's monthly data. Newsprint production in North America also fell in May, declining 5.6 per cent from a year earlier to 618,000 metric tons.

Other paper production in North America, however, is faring better. In addition, newsprint production in other regions of the world, specifically China and India, is growing.

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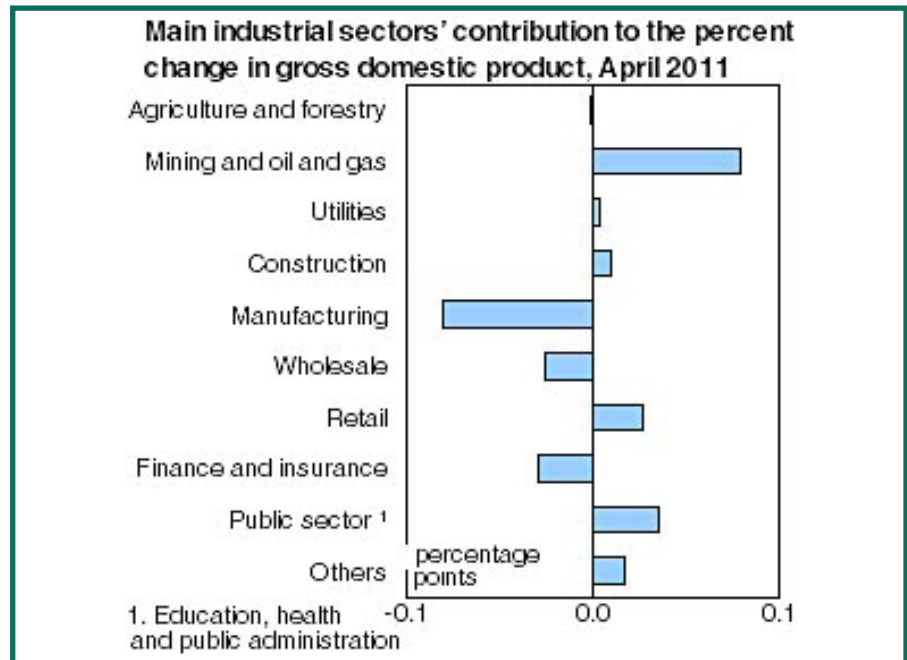
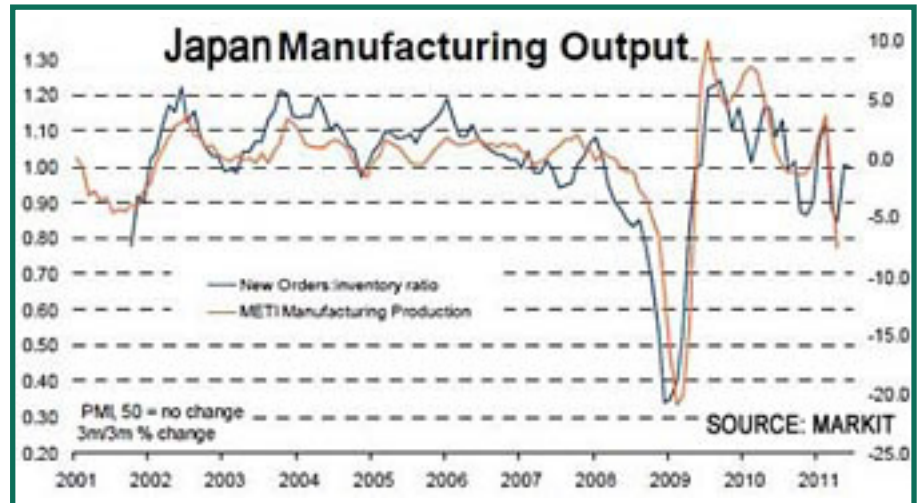
### Purchasing Managers' Index (PMI)

Japan's manufacturing sector operating conditions improved for a second straight month in June, as easing supply side pressures enabled firms to expand production capacity. Output growth quickened, but market demand remained subdued, with the level of new orders unchanged on the month. Meanwhile, cost inflation reached a three-month high, but factory gate charges declined, as competitive pressures restricted firms' pricing power.

At 50.7, down from 51.3 in May, the seasonally adjusted PMI signalled only a marginal improvement in business conditions. However, the index reading was above the long-run series average of 50.5, and five points higher than April's recent low.

Manufacturing production increased at a solid rate, with growth recorded across all market groups monitored by the survey. The latest rise in part reflected companies building up their stocks of finished goods, which increased for the second month running, in anticipation of summer power outages.

A sharp moderation in supply side pressures also supported output growth during June, with the rate of lead time lengthening easing to the slowest in seven months. The index measuring supply chain bottlenecks was almost twenty-six points higher than April's record low.



### The Data DIGest is a weekly summary of economic news published by the Associated General Contractors of America

Seasonally adjusted new construction starts in May dropped 6 per cent from April's level, McGraw-Hill Construction reported on June 23. "Nonresidential building pulled back after its improved level in March and April, while residential building stayed weak. The nonbuilding construction sector showed moderate growth in May, as a strong gain for electric utilities offset a loss of momentum for public works. During the first five months of 2011, total construction starts on an unadjusted basis was down 9 per cent from the same period a year ago.

Nonresidential building in the January-May period of 2011 fell 8 per cent, due to a 21 per cent slide for the institutional categories. At the same time, commercial building grew 9 per cent year-to-date while manufacturing building climbed 156 per cent.

Residential building in the January-May period of 2011 dropped 13 per cent, with the comparison to the early months of 2010 when single-family housing was still being lifted by the homebuyer tax credits. Because single-family housing lost momentum at mid-2010, it's expected that the 2011 year-to-date performance for single-family housing will become less negative as this year proceeds.

Nonbuilding construction in the January-May period of 2011 slipped 7 per cent, the result of a 25 per cent reduction for public works combined with a 105 per cent increase for electric utilities."

"Total construction in 2011 will climb 2 per cent after declining 9 per cent in 2010," consulting firm FMI stated in its second-quarter Construction Outlook on June 10. "The nonresidential sector will decline just 2 per cent in 2011 after a 19 per cent decline in 2010. Most of the areas showing growth, excluding residential, are in markets related to infrastructure. Sewage and waste disposal, and conservation and development construction will contribute to a positive climb in the nonbuilding segment."

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	246	234	+12	230	+16	195	+51
WSPF KD R/L 2x6	242	234	+8	228	+14	190	+52
WSPF KD R/L 2x8	252	252	0	248	+4	210	+42
WSPF KD R/L 2x10	270	262	+8	255	+15	225	+45
WSPF KD PET 2x4 Stud	260	250	-10	255	+5	195	+65
Douglas Fir Green R/L 2x4	265	262	+3	250	+15	192	+73
Douglas Fir Green R/L 2x10	290	275	+15	260	+30	260	+30
ESPF KD 2x4 8ft Stud	325	325	0	320	+5	290	+35
OSB Ontario 7/16" (CDN\$)	205	205	0	195	+10	230	-25

## Weekly News

### Wildfires

**CONTINUED** By midday Friday, Las Conchas, NM, is expected to capture the dubious title of largest single forest fire on record in the state. The previous record-holder was the Dry Lakes fire, which burned 94,000 acres near the Gila National Forest in southern New Mexico in 2003.

In Arizona, the Forest Service proposed Thursday that the Four Forests Initiative, which is expected to help clear about 50 square miles a year and use the discarded brush for construction material. Through arrangements with contractors, Vilsack said the program could eventually impact more than 1 million acres.

Wildfires have scorched nearly 3.3 million acres of Texas since November, setting ablaze an area larger than the state of Connecticut. Authorities have banned outdoor fires in 235 of the state's 254 counties, a figure the Texas Forest Service called record-setting.

In Arizona, the Stanley Fire still grew as a thunderstorm cell pushed the southwest corner of the fire uphill. The blaze began June 26 east of Stanley Butte. The area is near Mt. Turnbull and is about 10 miles southwest of Bylas.

All tribal forest lands are closed to the public except fishing at San Carlos Lake. The Copper Creek Fire began June 28 in the Galiuro Mountains west of the Gila Valley. The terrain is extremely rough and nearly inaccessible, however, significant fire suppression progress was made, and the 1,400-acre fire was listed as being 35 percent contained as of Thursday morning.

The US Forest Service has nearly 9,000 personnel assigned to more than 130 wildfires across the country. Many of them are focused on blazes in the Southwest.

### Japan Production

**CONTINUED** The Japan Federation of Plywood Manufacturers Association is quoted as saying that six plywood mills which sustained considerable damage as a result of the recent earthquake and tsunami will restart partial production, probably in July.

In Ishinomaki the power supply was restored late May but in other areas, such as Miyako and Ofunato, it will be some time before power supplies are resumed and this will delay the resumption of production of mills in these areas. The Association reported that April plywood production was almost the same as in April last year. Mills that were not damaged increased production to meet the emergency demand for temporary housing in the quake and tsunami stricken areas.

Meanwhile, according to Lumber Statistics announced by Japan's Ministry of Agriculture, Forestry and Fisheries on May 20, the amount of demand for logs in 2010 increased for the first time in 4 years, to total 23.724 million cubic metres, a 4 per cent increase compared to the previous year.

Within that amount, logs used for lumber totalled 15.8 million cubic metres, a 3.2 per cent increase, accounting for two-thirds of the total. As a reaction to the large drop in 2009, logs used for plywood in 2010 increased to 3.811 million cubic metres, a 22.7 per cent increase.

Imported wood totalled 6.5 million cubic metres, 5.6 per cent increase.

Wood from North American, which accounts for 60 per cent of the total, increased by 7.5 per cent. Wood from New Zealand increased by 35.3 per cent, and from Southeast Asia by 6.7 per cent, but Russian wood decreased by 12.4 per cent.

### Canada Economy

**CONTINUED** Mining's gains were tempered by a slide in manufacturing, which

tumbled 0.7 per cent. A 6.9-per-cent drop in cars and parts production was mostly due to supply disruptions following the earthquake and tsunami in Japan, Statscan said. That drop, on top of lower production in aerospace, caused a 4.7-per-cent reduction in transportation equipment manufacturing.

Lumber production by sawmills decreased 0.7 per cent from March to 4,767.7 thousand cubic metres in April. Lumber production was down 0.1 per cent in April compared with the same month a year earlier.

In April, sawmills shipped 4,718.6 thousand cubic metres of lumber, up 0.1 per cent from March.

"With gasoline prices simmering down, auto production poised for at least a partial rebound, we look for growth to pick up to the 2.5 per cent to three per cent range in the next two quarters," said BMO deputy chief economist Doug Porter.

### Calendar

September 2011

#### Wood Week 2011

September 9 - 10 - Quebec City, QC  
<http://www.masterpromotions.ca/Previous-Events/wood-week-2011/>

#### COFI Annual Convention

September 15-16 - Prince George, BC  
[http://www.cofi.org/whats\\_new/default.htm](http://www.cofi.org/whats_new/default.htm)

#### Alberta Forest Products Association 2011 AGM

September 28 - 30 - Jasper, AB  
<https://albertaforestproducts.ca/registration/>

#### National Hardwood Lumber Association Annual Convention

September 21 - 24 - Nashville, TN  
<http://www.nhla.com/>

## Global Pulp Market Status and Forecast

This week's list prices for NBSK pulp, posted Tuesday at FOEX.fi, continue to rise compared to the beginning of 2011. At this time last year many analysts had indicated that market pulp prices would likely not increase much above US\$1,000 per metric ton. FOEX puts US NBSK prices at US\$1,035 per metric ton, up almost US\$68 over early January 2011. In Europe market pulp prices are even stronger, rising almost US\$74 since the beginning of the year, to US\$1,023 per metric ton this week. Industry sources indicate that strong demand out of China is responsible for the lengthy run of market pulp price increases.

A recent conference call held by Deutsche Bank featured Brian McClay and Associates out of Montreal, QC. Principal Brian McClay lead listeners through a few slides demonstrating NBSK pulp price trends and a forecast, as well as China's purchases and imports of chemical grade wood pulp since 2006.

"The next ten years for the pulp market will be better than the last ten years," explained McClay in answer to listener questions.

With pulp supply globally currently strong, McClay sees pulp prices falling 10 to 15 per cent through 2011, then an upcycle in 2012 and even stronger demand in 2013.

"July is the biggest month of production for pulp, but traditionally there is a lull in demand," said McClay in his presentation. "This June the day's supply of pulp is up 3 per cent compared to one year ago. This will shift higher through the summer and therefore put downward pressure on prices.

"At the moment there is a huge lack of credit in China so pulp stocks are not expected to be built in the immediate future. As well there are deliveries of pulp ordered still yet to arrive to China."

McClay also mentioned that there is resistance in China to purchase at current price levels for both NBSK and BHKP (bleached hardwood kraft pulp), and that pulp stocks in China will last for a while due to recent paper capacity curtailments in that country.

"Paper demand is continuing its ongoing structural decline, except for tissue which is not a seasonal product," detailed McClay. "One-quarter of global demand for pulp is now going to tissue production. There has been a trend to more tissue production using market pulp, as well as viscose."

"The compound annual growth rate for market pulp is up 3 per cent this year [and for dissolving pulp up 4 per cent],

compared to about 7 per cent for 2010," continued McClay. "There is 15 million tonnes of new capacity coming online, mostly in South America. The first plant should be completed in 2013, with the next one expected in 2016 or 2017."

McClay pointed out the significance of new hardwood pulp production, while in softwood pulp, mills in North America and Europe have been struggling and even closing.

"NBSK will begin acting more like a specialty product with a widening premium on BHKP. There doesn't seem to be a lot of places where there is enough wood to put in several softwood pulp mills," McClay pointed out. "Except Russia."

McClay explained further to *Madison's* in a phone interview Wednesday, "There is not going to be enough NBSK, due to a combination of mill closures in North America and an increase in demand.

"There will be 50 million tonnes of new paper and board production in China in the next ten years, which will require 100 million tonnes of wood to make," explained McClay to *Madison's*. "The US industry currently makes 80 million tonnes.

"China is already an importer to chips and logs from all over the world. China is certainly going to need more wood in the future. Its already has more plantation forests than any other country in the world. Canada's gain as an exporter comes at the expense of Brazil. A lot of that wood is going to tissue production in China, as well as viscose. Generally tissue produc-

ers like to put a 30 per cent mix of NBSK to make their product."

"Right now pulp demand out of China has really gone cold," concluded McClay. "China stopped buying at the end of last year. Customers there are really momentum buyers, if they think prices are going to rise further they will buy more. In a way the price cycle becomes a self-fulfilling prophecy. If a few key market players stop buying, then everyone else follows."

Once this current cycle reverses, especially if market pulp prices are to soften, China's buyers will come back again. Keeping a view of remaining pulp stocks in China, as well as fluctuations in paper production, could turn out to be a good indicator of when Chinese customers will begin buying pulp again.

On Thursday morning equity analysts at Deutsche Bank sent around a note announcing that Domtar had just informed US customers that it will reduce NBSK pulp prices by US\$20 per tonne to US\$1,020 per tonne, effective July 1st. The announcement comes two days after Canfor Pulp dropped its US prices by US\$20 per ton and just over a week after Ilim Group, Russia's largest pulp and paper company, dropped its softwood prices to China by US\$70 per tonne. With demand from China softening in recent months, industry pundits have suggested the pulp markets were at an inflection point, the Deutsche Bank note went on to say.

By the time that supply-demand balance becomes apparent, McClay's forecast of a strong pulp market in 2013 would be evident.

Source: Terrachoice Market Services Inc.

### Major Softwood Pulp Capacity Changes : 2011 - 2013

Company	Mill Location	Grade(s)	Effective Date	000s Tonnes
Arauco	Arauco, Chile	BSK	31 Jan 2011	500
Yueyang Paper	Hunan, China	BSK	Oct 2011	-400 <sup>1</sup>
West Fraser	Hinton, AB, Canada	NBSK	Q4 2011	70
Arauco	Valdivia, Chile	Bl Radiata	late 2011	110
Kimberly-Clark	Milcent, South Australia, Australia	Sulphite SW	End 2011	-65
Södra	Mörum, Sweden	BSK	Early 2012	-100 <sup>1</sup>
Yunnan Yun-Jing	Puer, Yunnan, China	BSK	Q1 2012	45
CMPC	Bio Bio (Laja), Chile	Bl Radiata	1st half 2012	80
Ilim Group	Bratsk, Russia	NBSK	April 2012	500 <sup>2</sup>
International Paper	Franklin, Va, USA	Fluff	mid-2012	270
Mercer International	Rosenthal, Saale-Orla, Germany	NBSK	2012	55
Lenzing	Paskov, North Moravia, Czech Republic	Sulphite SW	2012	-240 <sup>3</sup>
Mercer International	Stendal, Saxony-Anhalt, Germany	NBSK	early 2013	-260 <sup>4</sup>
Rayonier	Jesup, GA, USA	SBSK	2013	-270 <sup>4</sup>
Holmen	Iggesund, Gävleborg, Sweden	NBSK	2013	65
Mercer International	Celgar, BC, Canada	NBSK	late 2013	-200 <sup>4</sup>

Red font means uncertain, blue means change since last report

1 - Conversion to dissolving pulp

2 - 720K tpy new line combined with closure of smaller existing line

3 - Investment to allow swing between dissolving and papergrade pulp

4 - Potential conversion to dissolving, decision expected mid-2011