

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 status of recent mergers, acquisitions, hostile takeovers, asset sales, and partnerships in the North American forest industry.

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Japan Update

Heavy arrivals of plywood ordered immediately following the March earthquake and tsunami in Japan are clogging port facilities, according to the *Japan Lumber Reports*. More than five ships are currently waiting to unload at Senboku Port, south of Osaka. Please refer to the April 15 issue of your *Madison's Lumber Reporter* for details of plywood price gouging on the part of Indonesian plywood exporters into Japan.

Several ships have been declined authority to unload at other ports due to lack of warehouse space, says the *Reports*. With unloading capacity at about 1,000 cubic metres a day, the high-priced cargo is now paying additional demurrage. [READ MORE](#)

US Home Prices, Sales

The US Commerce Department said Tuesday that prices for new single family homes rose to a five-month high in June even as sales slipped. The median sales price for a new home increased 5.8 per cent last month to US\$235,200, and 7.2 per cent compared to June of last year. New home sales fell 1 per cent to an annual rate of 312,000 units in June. At the current sales rate, it would take 6.3 months to sell through that inventory, the report said.

Also Tuesday, the S&P/Case-Shiller index of home prices in 20 major US cities was down 4.5 per cent in May from a year earlier.

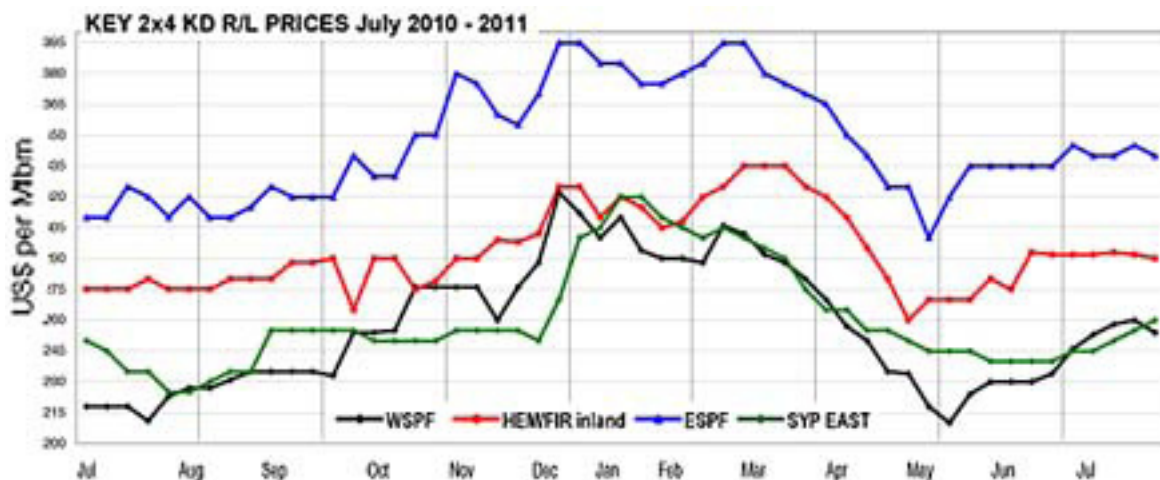
Friday the National Association of Realtors' released its seasonally adjusted index for pending sales of existing homes, showing a rise of 2.4 per cent on a monthly basis to a reading of 90.9 in June.

It was the third increase in the past four months for the index, which tracks signed agreements to purchase homes. It remains to be seen, however, whether those contracts will turn into sales. Real estate agents have noted an increase in cancelled sales in recent months, although some past cancellations may be "nothing more than delayed buying decisions rather than outright cancellations," said Lawrence Yun, NAR's chief economist. [READ MORE](#)

North American Freight Transportation, 2011

Canadian stocks rose slightly mid-week on positive data of jobless claims and home sales, and on optimism that US lawmakers can resolve a standoff over raising its debt limit, according to the *San Francisco Chronicle* Wednesday.

Canadian National Railway reported a 4 per cent increase in quarterly earnings on Monday as freight volumes rose and revenues increased across commodity groups. [READ MORE](#)



Conference Board Economic Indeces

The Conference Board Leading Economic Index (LEI) for the US increased 0.3 per cent in June to 115.3 (2004 = 100), following a 0.8 per cent increase in May, and a 0.3 per cent decline in April. The largest positive contributions came from money supply, the interest rate spread, and building permits.

The Conference Board Coincident Economic Index (CEI) for the US increased 0.1 per cent in June to 102.9, following a 0.1 per cent increase in May, and a 0.1 per cent decline in April. All of the four coincident indicators have advanced over the past six months.

The Conference Board Lagging Economic Index (LAG) increased 0.3 per cent in June to 109.5, following a 0.2 per cent increase in May, and a 0.6 per cent increase in April.

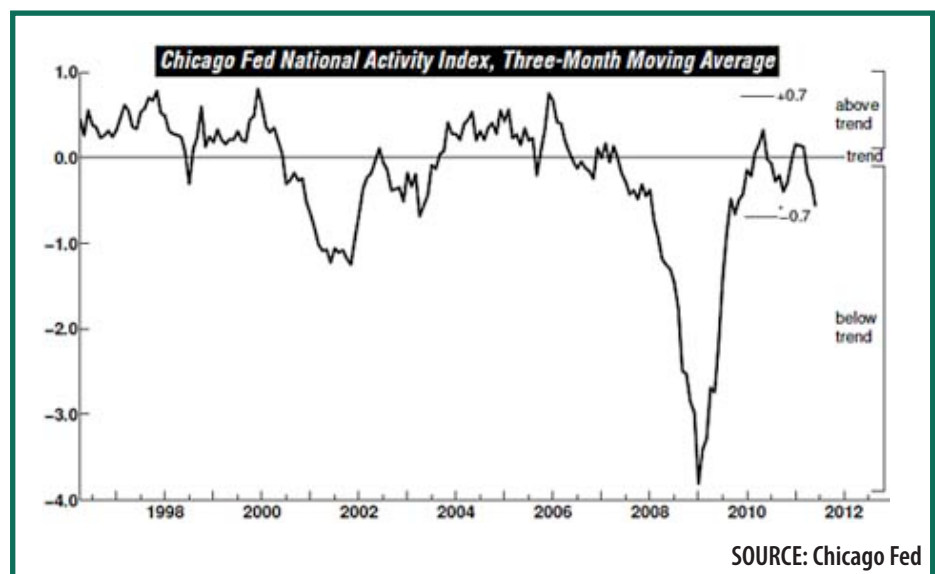
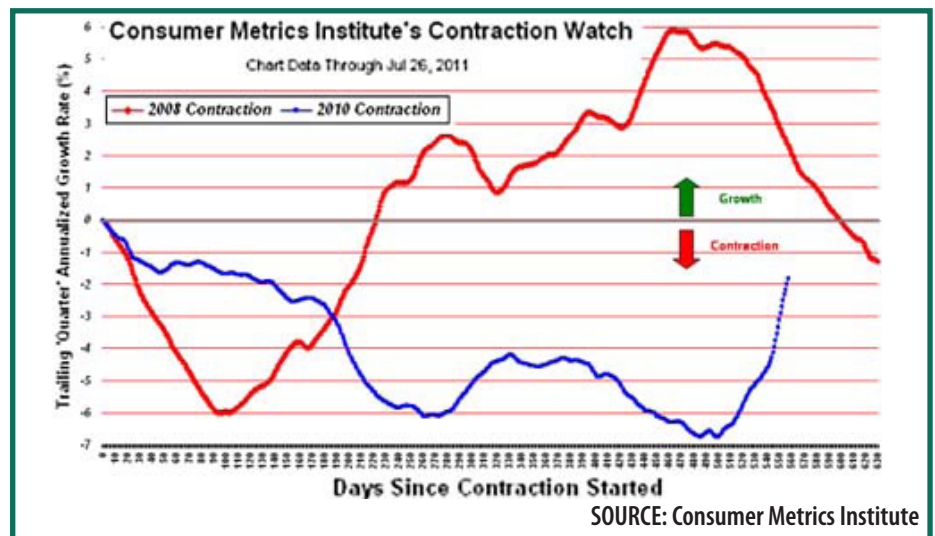
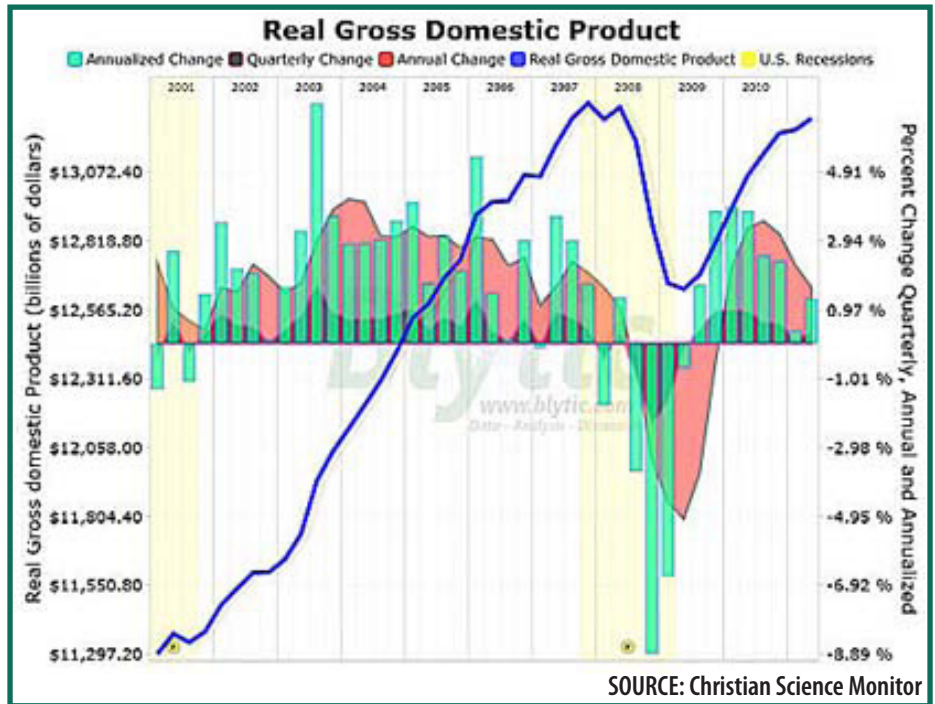
The Conference Board Consumer Confidence Index, which had declined in June, improved slightly in July. The Index now stands at 59.5 (1985=100), up from 57.6 in June. The Present Situation Index decreased to 35.7 from 36.6. The Expectations Index rose to 75.4 from 71.6 last month.

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

New construction starts in June climbed 15 per cent at a seasonally adjusted annual rate, McGraw-Hill Construction reported July 22, based on data it collected.

“The gain followed particularly weak activity in May. June featured a substantial increase for the nonbuilding construction sector, led by the start of several large electric utility projects. During the first six months of 2011, total construction starts on an unadjusted basis [were] down 7 per cent from the same period a year ago.”

Residential building was up 1 per cent for the month but down 10 per cent year-to-date for the first six months combined; nonresidential building, up 11 per cent for the month and down 9 per cent year-to-date; and nonbuilding construction, up 34 per cent and down 1 per cent, respectively.



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	254	260	-6	246	+8	218	+36
WSPF KD R/L 2x6	260	260	0	242	+18	220	+40
WSPF KD R/L 2x8	285	285	0	252	+33	275	+10
WSPF KD R/L 2x10	290	290	0	270	+20	310	-20
WSPF KD PET 2x4 Stud	255	260	-5	260	-5	220	+35
Douglas Fir Green R/L 2x4	252	250	+2	265	-13	175	+77
Douglas Fir Green R/L 2x10	305	295	+10	290	+15	300	+5
ESPF KD 2x4 8ft Stud	330	330	0	325	+5	290	+40
OSB Ontario 7/16" (CDN\$)	200	205	-5	205	-5	230	-30

Weekly News

Japan Lumber, Economy

CONTINUED The plywood market in Japan continues depressed, says the Japan Lumber Reports, as wholesalers are carrying considerable inventory.

Both 12mm structural panel and JAS concrete forming panel prices are down over 100 yen from June. The sharp increase in prices following the March earthquake and tsunami is now seeing another sharp correction. Wholesalers do not expect plywood prices to fall below levels seen prior to the March earthquake, but agree that digesting the large inventory will take time.

Japan's government said on Friday it plans additional spending of 13 trillion yen, US\$167 billion, to rebuild from the March 11 earthquake and tsunami.

The planned spending comes in addition to a combined 6 trillion yen Tokyo has already set aside in two extra budgets that were compiled without new borrowing, to avoid adding to a huge public debt already twice the size of Japan's US\$5 trillion economy.

The combined spending is aimed at supporting projects worth 23 trillion yen to be carried out over 10 years, with about 80 per cent due in the first five years. That compares with the government's estimate of direct material damage from the disaster at 16.9 trillion yen.

Meanwhile, factory output rose 3.9 per cent in June from the previous month as supply chain concerns eased, while household spending increased by 0.8 per cent, according to government data released Friday.

This data comes a day after Japan reported a rise in retail sales for the first time since the 11 March quake.

Real Estate, US

CONTINUED "Pending home sales had been trending up without a tax stimulus, but a variety of issues are weighing on

the market including an unusual spike in contract cancellations in the past month," Lawrence Yun, a chief analyst for National Association of Realtors, said in a statement.

The reasons behind the spike in cancellations are unclear, but may include tight credit and low appraisals, the group said. It found that 16 per cent of NAR members reported a sales contract was cancelled in June, up from 4 per cent in May.

The Realtors group says a growing number of buyers have cancelled contracts ahead of closings after appraisals showed the homes were worth less than they bid.

A spokesperson for the Appraisal Institute says banks may be growing even more cautious of the lending process.

"Banks have been hammered they have had bad loan after bad loan," says Ken Chitester, a spokesperson for the Appraisal Institute. "The bank doesn't want your house, they want your money. If they can't get your money, then they end up with your house. In order to prevent that, lenders have become more cautious in this distressed economy."

The NAR's June Pending Home Sales Index, a housing measurement tool, of 90.9 for sales agreements for previously occupied homes, is more than 9 points below a reading of 100, which is considered healthy by economists, according to the *Associated Press*.

US Lumber Exports to China

In the first four months of 2011, the value of lumber exported from the US into China increased by almost 50 per cent, reaching US\$190 million, compared to US\$128 million the same period of last year, according to *China Wood* via the *Japan Lumber Journal*.

China's Jiangsu Province imported 1.08 million cubic metres of logs in May, a

30.1 per cent increase year-on-year, with the value reaching US\$222 million, a 22.1 per cent year-on-year increase. Specifically, imported white pine (spruce and fir) logs were 113.5 thousand cubic metres, a 48.3 per cent increase compared to one year ago, with a value of US\$21.12 million, a 122.8 per cent increase.

Imported radiata pine logs were 127 thousand cubic metres, an increase of 46.6 per cent, or US\$19.82 million, up by 62.6 per cent compared to the same time period last year.

Compared to data from 2009 to 2010, the value of the hardwood lumber from the US to Vietnam, Indonesia, Thailand, Malaysia, Singapore, the Philippines and other South-east Asian major markets in 2011 also grew.

Demand from Vietnam alone increased by 70 per cent, as the import value climbed from US\$59.7 million to more than US\$1 million, says the *Journal*.

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

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/>

Freight Transportation

North American Update

CONTINUED The increase in earnings came despite difficulties including floods in Western Canada, forest fires and mudslides, CN Chief Executive Claude Mongeau stated. Revenues at the Montreal, QC-based company rose 8 per cent to \$2.26 billion from just under \$2.1 billion a year earlier.

by Kéta Kosman

Higher freight volumes were a result of modest improvements in North American and global economic conditions, while the strong Canadian dollar versus the greenback kept the quarter's net income in check, CN said.

Canada's biggest railway said its net earnings rose to \$538 million, with diluted earnings per share of \$1.18, in the three months to the end of June. That compared with earnings of \$534 million, or \$1.13 a share, in the same period a year earlier.

Meanwhile, Canadian Pacific Railway, out of Calgary, AB, said on Wednesday that its profit in 2Q fell to \$128 million, or \$0.75 a share, from \$166.6 million, or \$0.98 a share, a year earlier. Widespread spring flooding, which shut CP's main US-Canada line for nearly a month, cost the company \$16 million in 2Q, Canada's second-biggest railroad said. CP's revenue rose 2 per cent, to about \$1.26 billion, compared to one year ago.

The company saw operating expenses rise to \$1.03 billion from \$960.1 million a year earlier. Average fuel prices rose 37 per cent, to \$3.50 US per gallon.

Also on Wednesday, Statistics Canada reported that total rail traffic—consisting of loadings both originating in Canada and received from the US—was up 3.7 per cent year-on-year in May, to 26.1 million metric tons.

Non-intermodal freight loadings, which represented the majority of total domestic cargo loaded in May, rose 2.7 per cent year-on-year, to 21 million metric

tons. Intermodal freight loadings, which involve the movement of cargo between two or more modes of transportation, fell 0.2 per cent year-on-year, to 2.3 million metric tons in May.

The Canadian railway's main domestic transportation systems, non-intermodal and intermodal, accounted for about 89 per cent of the total traffic carried in May, and their combined freight rose 2.4 per cent from May 2010, to 23.3 million metric tons.

Geographically, 58.6 per cent of the freight traffic originating in Canada was loaded in the Western Division of Canada, with the remainder loaded in the Eastern Division. Freight loaded at Thunder Bay, ON, is included in the Western Division while loadings at Armstrong, ON, are reported in the Eastern Division.

Total rail freight traffic in May, consisting of loadings originating in Canada and received from the United States, was up 3.7 per cent from the same month in 2010, to 26.1 million metric tons.

From an international perspective, rail freight traffic received from the United States into Canada rose 16.3 per cent from May 2010, to 2.8 million metric tons. The gain stemmed from non-intermodal traffic, which increased 17.5 per cent from the same month a year earlier, to 2.7 million metric tons in May.

In mid-July, the US Department of Transportation reported its Bureau of Transportation Statistics Freight Index fell 1.8 per cent in May compared to April, to its lowest level since November 2010.

Shipments declined 15.7 per cent in the 15 months following February 2008, and rose 12 per cent over the 25 months since May 2009. For the first five months of 2011, freight shipments measured in the BTS Index fell 1.2 per cent.

However compared to the recent low of April 2009, US freight shipments rose 12 per cent in May 2011, according to the BTS.

In Canada, 43,131 metric tons of logs and rough wood were moved by non-intermodal traffic in May compared to 28,394 metric tons one year earlier. 726,650 metric tons of lumber and 760,523 metric tons of pulp were transported by rail in

May compared to 517,419 metric tons and 440,241 metric tons respectively in May of 2010.

For the first five months of 2011, 3.8 million metric tons of lumber and 3.9 million metric tons of pulp were moved, compared to 2.6 million metric tons and 2.5 million metric tons respectively for January to May 2010.

In the US, which measures rail car loadings in dollar value rather than by weight, US\$292.2 million in wood and articles of wood was imported from Canada in the first four months of 2011, compared to US\$252.9 for the same time period one year earlier. US\$802.3 million in wood pulp was imported by rail from Canada from January to April 2011, compared to US\$685.5 million one year ago.

The Association of American Railroads has reported a 2.7 per cent increase in carloads for the first 26 weeks of this year, which is considered testimony to the upswing in demand for rail-based transportation. That figure can be expected to improve further as the economic recovery gains traction.

Union Pacific, the largest publicly held railroad company in the US, reported Thursday that revenue for 2Q rose 16 per cent to US\$4.86 billion. Freight revenue rose across all categories, with revenue from energy being the largest contributor, jumping 14 per cent. The company reported a profit of US\$785 million this quarter, a 10 per cent year-on-year increase.

Norfolk Southern, meanwhile, reported also on Thursday that the quarter-to-date volume was up 3 per cent due to strength from the automotive, intermodal, and coal segments. Echoing similar sentiments, competitor CSX recently reported a growth in overall freight volume alongside a 22 per rise in 2Q per-share profits.

"Although prudent price increases and effective cost-cutting efforts added quite a bit to the profits, the key driver remained higher volume," said Debarati Bose at the *Motley Fool* Thursday in a piece on US transportation. "The transportation industry started to witness a turnaround last year despite the fact the US economy continues to hurl quite a number of challenges at freight companies. A compressed yet intensified peak season is expected ahead and Union Pacific is ramping up for it by increasing hiring."

SOURCES: Statistics Canada, US Department of Transportation

Railway carloadings for non-intermodal traffic by commodity in Canada

	January 2011 to May 2011		January 2010 to May 2010	
	# of railcars	Metric tonnes	# of railcars	Metric tonnes
Lumber	45,659	3,758,028	31,522	2,633,053
Wood pulp	45,763	3,871,739	29,126	2,455,773

Trade between USA and Canada, Value (in Actual of US Dollars)

Partner	Commodity	01/2010	02/2010	03/2010	04/2010	01/2011	02/2011	03/2011	04/2011
CANADA	Wood, Wood Articles	168,792,295	215,294,918	269,828,145	299,008,883	199,438,140	209,319,244	258,430,399	262,069,804
CANADA	Pulp of Wood	163,308,936	151,476,662	184,061,199	186,627,186	197,376,878	187,963,666	199,188,811	217,735,828