

MADISON'S LUMBER REPORTER


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News & Updates

Madison's Timber Preview

This week's issue of your *Madison's Timber Preview* is dedicated to the latest movements and developments in the financial structure of North American's forest products companies, and also takes a look at company executive's moods and predictions. Contact us any time for a subscription.

Canada Housing Starts

Canadian housing starts unexpectedly climbed 4.3 per cent in July, setting 3Q new home construction off to a strong start and maintaining its role for now as a key support to the economy.

Starts, elevated by a big jump in construction of multi-residential buildings such as condominiums, rose to a seasonally adjusted annualized rate of 205,100 units, Canada Mortgage and Housing Corp said on Tuesday.

That is up from a downwardly revised 196,600 units in June, which were originally reported at 197,400 units. [READ MORE](#)

CN Rail Transportation Deal

Canadian National Railroad announced this week it will increase the lumber transload capacity at the Prince George Distribution Centre to more than 30,000 containers a year.

This announcement is surely welcome by western Canada's forest industry, which was significantly hampered by transportation delays in shipping product to Asia for the first five months of this year.

That increase comes as CN announces it has a new agreement with China's CNBM Forest Products Trading Ltd. The agreement calls for the use of CN's new lumber transload facility in Surrey which can handle 10,000 containers per year. [READ MORE](#)

Housing Starts, Japan

June housing starts in Japan grew for the third month in a row to 72,687, a 5.8 per cent increase over June 2010. Gains were seen mostly in the building of new rental and for-sale homes, while those of owner-occupied homes decreased slightly, according to the *Japan Lumber Journal*.

Condominiums again showed the largest gain, of 47.9 per cent, also a three-months consecutive increase.

The seasonally-adjusted annual rate was 817,000 units, up from 800,000 units in May. The construction of new wood-framed homes fell by 1.2 per cent compared to May, to 40,249 units. Wooden homes were 55.4 per cent of total new home construction. [READ MORE](#)

BC First Nations Draft Trade Plan for China

This week the BC First Nations Leadership Council set out an action plan to take advantage of new opportunities in China. The strategy includes promoting trade missions, expanding market opportunities and setting up a China trade desk to help First Nations respond to business opportunities. [READ MORE](#)

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	July 2011		June 2011	
	Actual	SAAR	Actual	SAAR
Canada, all areas	18,232	205,100	17,384	196,600
urban ctrs with >10,000	15,982	185,200	15,025	176,900
singles, urban centres	7,287	65,000	6,005	70,500
multiples, urban centres	8,695	120,200	9,020	106,400
rural areas	2,250	19,900	2,359	19,700
Atlantic urban centres	1,051	13,200	848	9,700
Quebec urban centres	3,816	39,200	4,274	42,500
Ontario urban centres	6,390	72,900	4,540	71,700
Prairie urban centres	2,866	31,700	2,786	31,800
BC urban centres	1,859	28,200	2,577	21,200

Source: Canada Mortgage and Housing Corporation

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Jun-11	72,687	32,438	40,249	55
May-11	63,726	29,600	34,126	54
Apr-11	66,757	31,475	35,282	53
Mar-11	63,419	27,994	35,425	56
Feb-11	62,252	28,720	33,532	54
Jan-11	66,709	30,969	35,740	54
Dec-10	74,517	30,917	43,600	59
Nov-10	72,838	31,384	41,454	57
Oct-10	71,930	30,939	40,991	57
Sep-10	71,998	30,857	41,141	57
Aug-10	71,972	29,899	42,073	58
Jul-10	68,785	28,740	40,045	58

Source: Japan Wood Products Information and Research Center

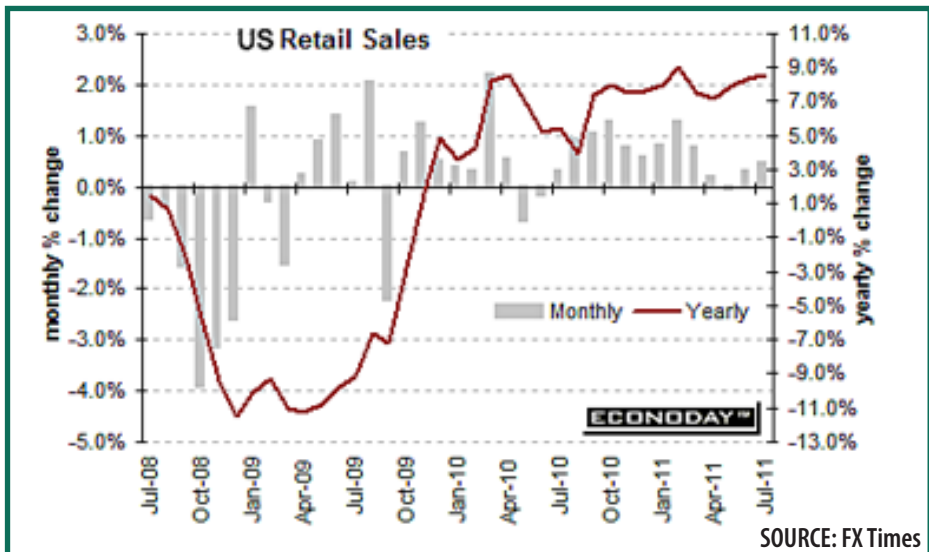
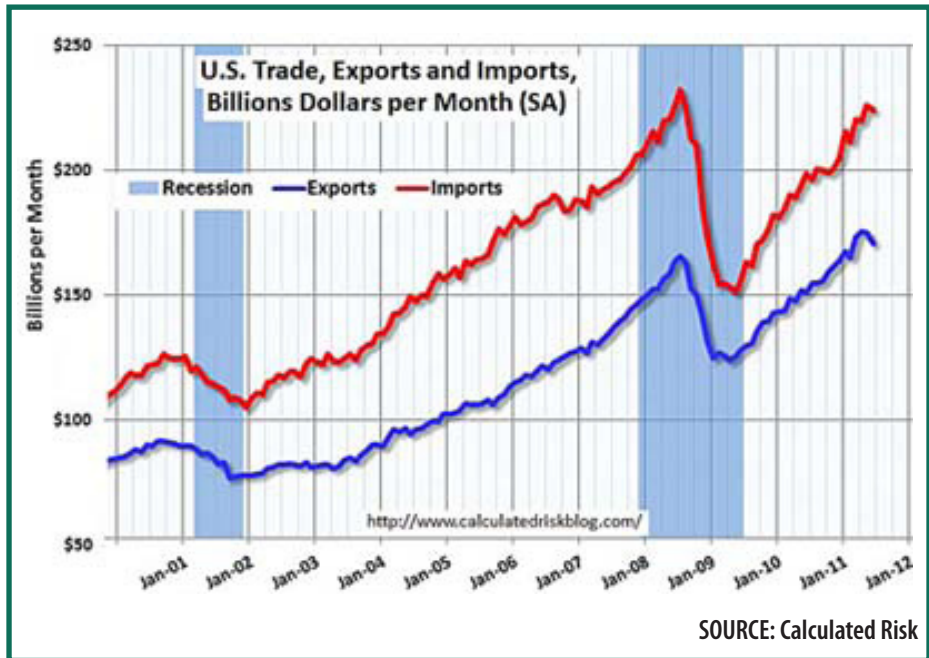
Data DIGest: a weekly summary of economic news by the Associated General Contractors of America

Construction employment increased in 149 out of 337 metropolitan areas between June 2010 and June 2011, declined in 141 and stayed level in 47, according to a new analysis of federal employment data released August 2 by the Associated General Contractors of America. Association officials noted that the local employment data posted slightly stronger gains largely due to growing private sector demand for construction.

Total construction employment inched up by 8,000 jobs to a 15-month high in July but remained far below the peak set in early 2006, according to an analysis of new federal employment data released August 5 by the Associated General Contractors of America. Association officials said a grim outlook for public sector construction activity will act as a drag on expanding private sector construction.

The industry unemployment rate fell from 17.3 per cent a year earlier to 13.6 per cent in July 2011, and the number of unemployed people who previously worked in construction shrank by nearly 400,000, said Ken Simonson, the association's chief economist. However, Simonson noted that the July 2011 employment total of 5,532,000 was only 32,000 higher than in July 2010 and was almost 2.2 million, or 28 per cent, below the record level of April 2006.

SOURCE: AGC of America



Scoreboard

	April - June 2011		April - June 2010		SALES 2009-10 (%)
	Sales (\$,million)	Earnings (\$,million)	Sales (\$,million)	Earnings (\$,million)	
AbitibiBowater	1,200.0	61.0	1,200.0	(297.0)	+0%
Ainsworth	80.5	(21.9)	106.4	(17.3)	-24%
Canfor	619.1	26.2	634.7	43.7	-2.6%
Cascades	991.0	117.0	806.0	28.0	+18%
Catalyst	297.8	(47.4)	299.4	(368.4)	-0.6%
Domtar	1,400.0	54.0	—	31.0	N/A
Eacom (1Q - Mar 31)	80.0	(6.2)	N/A	N/A	N/A
Interfor	188.2	(5.3)	157.9	(0.9)	+16%
Norbord (US \$)	241.0	(1.0)	296.0	33.0	-18%
Taiga (4Q Mar 31)	202.1	(1.8)	223.1	1.1	-9.4%
Tembec (3Q - Jul 26)	448.0	19.0	380.0	59.0	+15%
Western Forest Products	218.7	21.1	181.5	9.8	+17%
West Fraser	720.0	11.0	772.0	67.0	-6.7%

Prices are in U.S. dollars per 1,000 fbm.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	222	248	-26	258	-36	211	+11
WSPF KD R/L 2x6	252	258	-6	250	+2	224	+28
WSPF KD R/L 2x8	275	286	-11	264	+11	270	+5
WSPF KD R/L 2x10	282	286	-4	275	+7	312	-30
WSPF KD PET 2x4 Stud	220	222	-2	260	-40	220	0
Douglas Fir Green R/L 2x4	250	260	-10	260	-10	180	+70
Douglas Fir Green R/L 2x10	300	307	-7	289	+11	285	+15
ESPF KD 2x4 8ft Stud	320	330	-10	330	-10	285	+35
OSB Ontario 7/16" (CDN\$)	205	205	0	205	0	225	-20

Weekly News



Housing Starts, Canada

CONTINUED Home building activity has been increasing through the first seven months of 2011, but starts are still down 4.6 per cent from a year ago.

Economists believe the recent strong construction activity is the result of increased demand last year.

The seasonally adjusted annual rate of urban starts was led by a 13 per cent jump in multiple urban starts, such as condos, to 120,200 units. CMHC said Ontario, BC and the Atlantic region showed the most strength in the multi-residential sector.

Partly due to shifting demographics, Canada has seen a boom in condominium construction which has filled the skylines of its biggest cities with cranes.

But the closely watched measure of starts of single-family homes decreased 7.8 per cent in July to 65,000 units.

Economists at IHS Global Insight noted single-family new construction activity was 22.2 per cent below their level last year, compared with multi-family starts, which are now at their highest level since October 2008.

Rural starts were estimated at a seasonally adjusted annual rate of 19,900 units in July.

New CN Transload Facility

CONTINUED CN is scheduled to start operation of the lumber container export facility at its Thornton Yard in Surrey, BC, this autumn.

It will have an initial footprint of eight acres, with room to grow up to 20 acres. The facility, supplied with rail cars of lumber originating in communities in the BC Interior, will make it easier to transport lumber to export markets in China.

"Lumber exports to China now account for close to 25 per cent of the western Canadian total and are expected to continue to increase at a fast pace in the years to come," said Jean-Jacques Ruest, CN's Executive VP and chief marketing officer.

"CN aims to foster a world-class export supply chain for Canadian lumber in cooperation with CNBM Forest Products Trading, lumber producers in BC, and ocean shipping lines serving Port Metro Vancouver."

Japan Housing Starts

Non-wooden homes, largely condominiums, increased by 16.1 per cent, to 32,438 new units, says the *Japan Lumber Journal*.

Prefabricated homes also increased for the third straight month, to 11,811 units, or 2.8 higher than May.

2x4 units fell by 0.5 per cent to 8,809 new units. This was the first decrease in seven months.

The floor area of new home building ran up to 6.6 million square metres, a 4.6 per cent increase over May and also representing the third month of straight increases.

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/>

Who Will Own the Forest? 7

September 19 - 21 - Portland, OR
<http://wwotf.worldforestry.org/wwotf7/index.html>

National Hardwood Lumber Association Annual Convention

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

First Nations and China

BC Forestry

After Russia's announcement of a 25 per cent raw log export tax in the summer of 2008, a major British Columbia First Nations forestry delegation embarked on a trade mission to China. At that time trade representatives with the BC First Nations Forestry Council signed a letter of intent with Qingdao Liangmu, the largest forestry remanufacturing company in China's Shandong province, and a memorandum of understanding with Zhongchuan International Mining Holding Ltd. Please see the July 18, 2008 issue of your *Madison's Lumber Reporter* for details.

by Kéta Kosman

This week the BC First Nations Leadership Council — which represents numerous native groups in the province — set out a seven-point action plan to take advantage of new opportunities in China. The strategy includes promoting trade missions, expanding market opportunities and setting up a China trade desk to help First Nations respond to business opportunities. BC First Nations say they are getting unprecedented inquiries from Chinese companies to develop projects on their territories.

The new China strategy is aimed at cultivating stronger relations with China and responding to growing commercial interest in BC's natural resources sector. *The First Nations-China: Transforming Relationships* strategy was launched jointly with the Asia Pacific Foundation of Canada as part of the Foundation's new initiative called the National Conversation on Asia.

The action plan aims to: build the internal capacity of First Nations' awareness and understanding on China; promote reciprocal annual missions between First Nations/Canada and China; establish a China Desk to assist First Nations to respond to and develop business opportunities; develop best practices to help Chinese investors understand the consultation and collaboration process with First Nations; expand market opportunities for First Nations in China; urge the creation of a joint First Nations/Provincial and Federal technical working group; and, create a branding strategy to promote First Nations opportunities in China.

Also aware of new opportunities in China, several federal Canadian government Ministers and a Member of Parliament on July 13 participated in a round table on business prospects between Canada and China with Asia-Pacific stakeholders

and Chinese business community leaders from the Vancouver area.

Canada's Minister of International Trade and Minister for the Asia-Pacific Gateway, Parliamentary Secretary to the Minister of Fisheries and Oceans and Parliamentary Secretary for the Asia-Pacific Gateway, and Wai Young, Member of Parliament for Vancouver South together recognize that "one in five Canadian jobs linked to trade [. . .] it is important that we further develop our trading relationship with China to create opportunities for Canadians", according to a federal government press release.

Woo, President and CEO of the Asia Pacific Foundation of Canada, was also in attendance at the round table.

"China is increasingly in need of natural resources to fuel its rapid urbanization and economic expansion. Under the right circumstances, Chinese investment has a great deal to offer First Nations in Canada, who claim millions of cubic kilometres of resource rich lands. However, Chinese government officials and business owners are generally unaware that First Nations have rights and title to specific lands in Canada. Furthermore, provincial and federal initiatives to market Canada's natural resources in Asia do not adequately assist First Nations in accessing markets. BC has spent millions promoting the forest industry in Asia and China is now the province's #1 forest export market. First Nations in BC are sitting on millions of cubic metres of wood, but without access to markets they do not benefit," wrote Woo on the Foundation website late last week in a piece co-authored with First Nations Summit Grand Chief Edward John.

In an opinion piece July 27 to the *Vancouver Sun*, Guangyu Wang, Director of Asian programs at UBC's Faculty of Forestry, Guangping Miao, Director of Forest Tenure Reform and Transfer Division in China, and Jack Saddler, former Faculty of Forestry Dean at UBC, together commented on investing in forestry in China.

China's rapid economic growth has catalyzed a significant increase in its wood consumption. There is also increasing awareness of the environmental impact that logging has had in areas such as headwater regions of the main rivers where China has traditionally sourced much of its timber. For these and several other reasons China is now highly motivated to increase its local timber supply. At this time the gap between supply and demand for the wood is heavily dependent on imports. In 2010 alone, China imported C\$45.5 billion worth of wood.

"The biggest concern for investors is that China and Canada do not have any type of formal agreement on cooperative

investigations and inspections in the field. The forest resources data in China are often difficult to access because they're classified as national security information and are not readily shared with the public," the writers explain.

China is undergoing continuing forest tenure reform to relocate its traditional collective-owned forests to individual farmers under a 'forest contract responsibility' system. It has been largely acknowledged that these reforms have created an excellent opportunity for foreign capital investment in Chinese forestry. It is also largely recognized that the Chinese government continues to gradually improve the policy environment for foreign investment, while acknowledging that many of the current forestry policies and systems still need to be improved.

The writers continue, "By the end of 2010, 23 Chinese provinces had implemented forest tenure reform and the farmers had been allocated their forested lands. At this time, China has completed the transfer of more than 149 million hectares of forestland user rights, accounting for 82 per cent of the total forested area. About 64 million forestland user right certificates have been issued to 61 million farmers with a combined area of 120 million hectares of forestland, accounting for 66 per cent of the total area.

"Owners of purchased forests cannot be sure that they will be able to harvest the timber. As in many parts of the world, forest harvest practices are subject to an Annual Allowable Cut which in the case of China is set by the central government. They also issue harvesting permits, through the local forestry bureau, as well as a transportation permit after the trees have been logged. The AAC is established over a five-year term, based not only the company's forest inventory and the five year management plan; it must also consider local economic development, while the harvest permit itself is subject to the applicants and regional forest management practices.

The acquisition of forest and forestlands has to go through a legal process. The State Forestry Administration has established a bureaucracy to handle the administration of forest ownership and user right leases, and has urged foreign companies to use this platform to complete forest acquisitions. Currently, 26 provinces and autonomous regions have established 850 Forest Tenure Management Services and 618 Forest Asset Evaluation Agencies."

Clearly this new culture of investment in forestland within China and efforts by BC's First Nations to reach out to this growing market will result in strong business relationships far into the future.