

# MADISON'S LUMBER REPORTER

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## News & Updates

### Madison's Investment Rx

This month's issue of *Madison's Investment Rx* has gone out to paying subscribers. Supply chain problems, log supply, depleted lumber inventories, and weather conditions regionally throughout North America are examined.

Contact us any time for a subscription.

### AbitibiBowater fire in Thunder Bay

A structural fire in AbitibiBowater's No. 5 paper machine sent five people to hospital on Monday night. Four people were treated for smoke inhalation while a fifth suffered a blow to the head on a piece of equipment as mill staff knocked the fire down.

The call came in around 11:15 pm on Monday night. Thunder Bay Fire and Rescue arrived on scene to deal with spot fires that kept popping up in different sections of a ventilation system. A thermal imaging camera was used to check for any remaining hot spots once the fire was out.

Three pumpers, a command unit and 14 firefighters responded to the incident.

### Canada Housing Starts

The pace of home construction in Canada slowed last month as builders started work on fewer condominiums and apartments, Canada Mortgage and Housing Corp. said September 9. Housing starts in August fell to a seasonally adjusted annual rate of 184,700 units — down from 204,500 in July.

The seasonally adjusted annual rate of urban starts decreased by 10.2 per cent to 165,800 units in August. Multiple urban starts were down by 15.5 per cent to 101,400 units, while urban single starts decreased by 0.3 per cent in August to 64,400 units.

[READ MORE](#)

### Plywood Inventory, Japan

On August 25, Japan's Forestry Agency held a conference to exchange information with related bodies on the supply-and-demand situation of plywood in Japan following the Great East Japan Earthquake and Tsunami, according to the *Japan Lumber Journal*.

The Japan Plywood Manufacturers Association, Japan Plywood Wholesalers Association, Japan Lumber Importers' Association, Japan Wood-Products Information and Research Centre, Japan Federation of Wood-Industry Associations, National Federation of Wood Material Production Industry Cooperative Associations, and Japan Printed and Colored Plywood Manufacturers Association all participated in the conference.

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### COFI Annual Convention Resumes

After three long years on hiatus, the Council of Forest Industries annual convention resumed this week in Prince George, BC. A great turnout of lumber industry players, equipment suppliers and service providers attended informative presentations on lumber industry forecasts and examinations of emerging wood products customers globally.

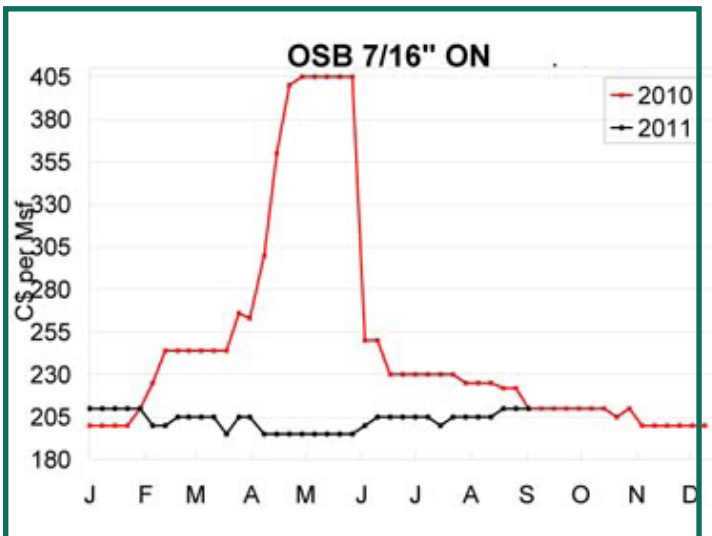
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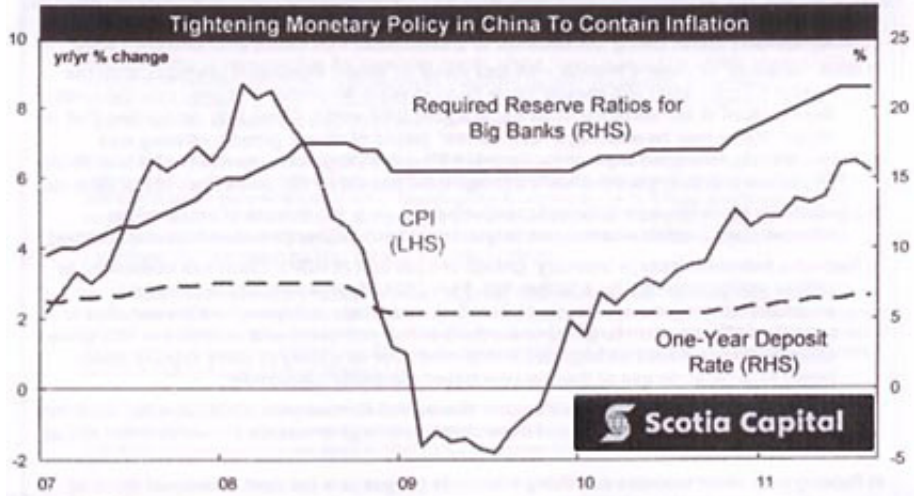
### CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	August 2011		July 2011	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	16,464	184,700	18,679	204,500
urban ctrs with >10,000	14,360	165,800	16,486	184,600
singles, urban centres	5,946	64,400	6,396	64,600
multiples, urban centres	8,414	101,400	10,090	120,000
rural areas	2,104	18,900	2,193	19,900
Atlantic urban centres	755	7,800	1,318	13,300
Quebec urban centres	2,517	35,400	3,406	38,800
Ontario urban centres	5,772	64,000	6,432	72,600
Prairie urban centres	3,210	34,800	2,883	31,800
BC urban centres	2,106	23,800	2,447	28,100

Source: Canada Mortgage and Housing Corporation





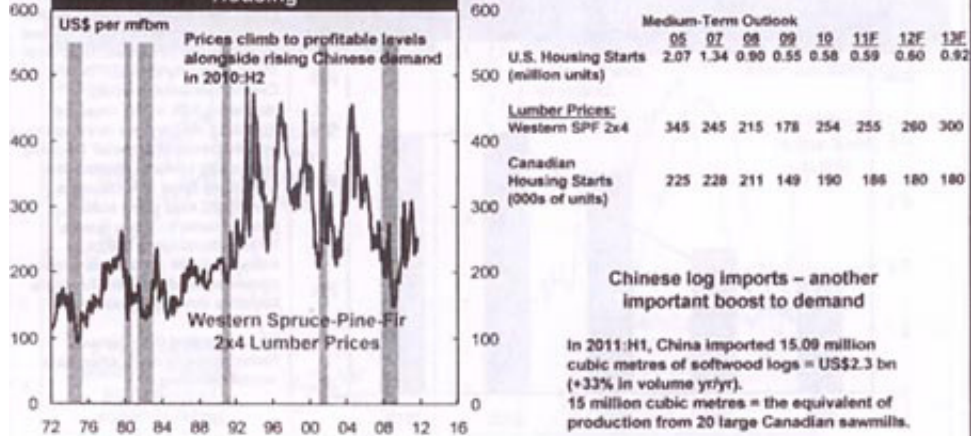
Source: Bloomberg, PBOC, Scotia Capital. CPI +6.2% yrlyr in August. The calculation base for banks' required reserves was increased in late August (the equivalent of two 50-basis-point reserve ratio hikes).

**Scotia Capital**

### Currency Trends



### Lumber Prices Rally In Late 2010 & Early 2011, Despite Still Weak U.S. Housing



Sept 9, 2011:  
Western Spruce-Pine-Fir 2x4s: US\$257 per mfbm.  
Eastern SPF 2x4s (delivery to Boston): US\$324.  
Shaded areas indicate U.S. recession periods.

**Scotia Capital**

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	262	262	0	218	+44	235	+27
WSPF KD R/L 2x6	270	270	-2	254	+16	249	+21
WSPF KD R/L 2x8	278	285	-7	275	+10	320	-2
WSPF KD R/L 2x10	285	285	0	280	+3	316	-31
WSPF KD PET 2x4 Stud	260	260	0	220	+40	210	+50
Douglas Fir Green R/L 2x4	245	252	-7	245	0	185	+60
Douglas Fir Green R/L 2x10	290	285	+5	290	0	260	+30
ESPF KD 2x4 8ft Stud	325	320	+5	310	+15	275	+50
OSB Ontario 7/16" (CDN\$)	210	210	0	205	+5	210	0

## Weekly News



### Housing Starts, Canada

CONTINUED Canada housing starts in urban areas dropped 10.2 per cent to 165,800 units — mostly due to fewer multiple-dwelling starts. Multiple urban starts fell 15.5 per cent to 101,400 units, while urban single starts decreased by 0.3 per cent in August to 64,400 units.

Rural starts were estimated at a seasonally adjusted annual rate of 18,900 units in August, down from 19,900 in July.

The actual number of housing starts of all types in August was 16,464 across the country — down from 17,111 in August 2010.

However despite the drop, BMO economist Robert Kavcic noted that residential construction is still running at “a healthy clip” with the average for 2011 down only fractionally from the robust pace set in 2010.

“Canadian housing has performed much better than expected this year, no doubt helped by still-low interest rates and firm (but moderating) job growth,” Kavcic wrote in a note to clients.

“Looking past the dip in August starts, the bigger picture is that Canadian housing remains quite healthy.”

### Japan Plywood Situation

CONTINUED The *Journal* quotes various participants:

- On the supply side, we are trying to return the production to what it was before the disaster as soon as possible. Quake-stricken plywood factories have restarted part of their production lines.

- On the demand side, we are expecting the demand after the autumn will increase because housing starts in the last three months showed year-on-year increase.

- Imports of plywood, after having reached a peak in May, began to drop, and are expected to decrease further in August and September. With sufficient stocks, the volume is estimated to be around the usual amount (between 200,000 and 300,000 cubic metres per month).

### Wayne Clogg to Retire from West Fraser

Senior Vice-President of Woodlands, Wayne Clogg, has announced his intention to retire at the end of 2011.

Clogg joined the Company in 1980 and has served West Fraser in a number of senior management roles including, most recently, having overall responsibility for woodlands and fibre management for the Company.

## Calendar

September 2011

### 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/>

October 2011

### Residual Wood Conference 2011

October 26 - 28 – Richmond, BC

<http://www.forestnet.com/rwc/index.htm>

### NAWLA Traders Market

October 19 - 21 – Las Vegas, NV

<http://www.nawla.org/>

### Investment Rx - Madison's Monthly Lumber Analysis in One Tasty Bite!

The September issue of Madison's Investment Rx, full of timely data on log supply, lumber production, transportation constraints, log and lumber shipments, and much more, has gone out this week to paying Rx subscribers.

Get in on this vital analysis for your lumber investments.

Call us at 604-984-6838 or email [madrep@shawcable.com](mailto:madrep@shawcable.com) for your limited-time 10% discount!

Order before September 30 to receive this critical, timely information every month and pay only C\$835 for 12 issues a year. After September 30 the regular price of C\$935 + tax goes into effect.

Don't miss out on the fast-changing realities of the North American lumber and panel market!

# Council of Forest Industries

## Annual Convention

It's back! After a three year absence, COFI's Annual Convention returned to Prince George, BC, September 15 and 16, 2011. The event, held at the Civic Centre in downtown Prince George, was chock full of lumber producers,

by Kéta Kosman

wholesalers, service providers, and equipment suppliers. The convention was also well attended by politicians, with BC Premier Christy Clark opening the event.

Thursday's presentations were split into two categories. The first session examined domestic Canadian and BC economic issues; and the second session covered international market conditions, specifically in Korea, Japan, and India. The afternoon presentations from the COFI convention will be covered in next week's *Madison's Lumber Reporter*. There was such a wealth of information provided to warrant splitting our coverage into two issues.

In her fiery speech Clark made reference to a "soon to be announced jobs plan", then offered a few details. The jobs plan will be unveiled by the Provincial government fully next week.

Jumping off from the "families first" government policy, Clark explained that the BC government will "build infrastructure to move goods [ . . . ], and open up new markets" for BC's forest products and for other industries as well.

"In British Columbia we are going to create the most competitive environment for investment in North America. Our new jobs plan will focus on training the population, providing tax credits to businesses, and fiscal discipline. We will keep in mind the importance of fiscal fundamentals."

Clark cited examples of economic troubles in Greece and the US as a lesson in what not to do when a government is faced with tough financial decisions. She then made a cheeky reference to NDP leader Adrian Dix and waited for the laughter to subside before offering a muted apology. Such political angling is always welcome at forestry events, and there were several television news cameras present to catch them.

Clark finished her speech by declaring "your government will lead the way for business and industry by getting out of the way."

The first panel of the conference was chaired by Ken Shields of Conifex with panelists Minister of Jobs, Tourism and Innovation, Pat Bell; Patricia Mohr, Economics and Commodities VP at Scotia Bank Group; and Jock Finlayson of the Business Council of BC.

Pat Bell's speech weighed heavily on general economic conditions. Perhaps in anticipation of BC's next trade mission to China, which takes place this November, Bell spoke in some detail about China as a customer for BC wood products.

"In 2011, 37 to 38 per cent of BC's lumber is going to the US, 35 per cent is going to China, and 10 per cent each is going domestically within Canada, to Japan, then distributed elsewhere around the globe. [ . . . ] In our first few trips to China we may have been asking the wrong question. Our intent now is to try to get BC factored in to China's 12th Five Year Plan. When we go next to China our question will be: 'How can we assist your goals and objectives with the products we produce?'"

Bell then suggested that a recovery to "1 million new homes build annually in the US is still five to seven years away."

Other presenters had different expectations, one of those was Scotia Bank's Patricia Mohr. In a presentation titled "*China Leads the Revival in Lumber*", Mohr detailed China's economic condition since the downturn of 2008/09.

"Since the global economic downturn, China's growth has been in the double-digits," explained Mohr. "If China's economy slows much more, the government will release monetary tightening of the past few months."

*Madison's* sources within many forest products company have noted since spring that lumber demand from China dropped in large part due to suddenly limited access to credit.

Mohr continued, "As part of China's new Five Year Plan, residential building activity will stay strong for the next year. There are 10 million new low-income apartments slated to be built in China for 2011, which the country is on-track to achieve, and 36 million low-income apartments in total planned for the next ten years. [ . . . ] China's social housing construction will see a big increase in 2011 and in 2012. At the same time, however, there will be a decline in private building."

In terms of the US, Mohr had a less glowing projection.

"We expect the US dollar, trade-weighted, to move lower. The dollar will be on a downward path over the next few months to boost the US economy. In 2011, the US government deficit-to-GDP ratio is at 4.7 per cent. [ . . . ] We see US housing starts at 580,000 to 600,000 for two more years, then up to 1 million starts in 2013.

"Currently 25 per cent of US mortgages exceed the home value. For five years the US was overbuilt, followed by another five years of underpinning. The Case-Schiller Home Index in 2011 has stabilized, but at a low rate."

On an interesting side note, Mohr said that "gold has remonetized, and is heading higher."

Business Council of BC Executive VP of Policy, Jock Finlayson, titled his presentation "*Responding to Global Economic Forces*".

"The world economy is four times

more dependent on trade than it was in 1950," began Finlayson. "We are moving to an increasingly multi-polar economy. [ . . . ] Between 2007 and 2011 emerging markets have had approximately 25 per cent GDP growth, while the developed world has had between four and ten per cent. By 2015 the largest economy in the world will be China, with the US second, and India third."

Finlayson continued once the loud murmurs of the room subsided, "This is due to a disparity of public finance trends. Public finance debt of emerging markets will fall at the same time as their economies grow. We are in for a protracted period of financial stress in the developed world. [ . . . ] In the US, business sectors not related to housing and construction are doing well, with lots of cash **should they choose to use it**. The US is suffering from painfully high levels of indebtedness and the job crisis is not improving. The underlying employment rate, if people who have stopped looking for work and people working only part-time are taken into account, is actually closer to 15 per cent. Currently there are three job seekers for every position available, a ratio not seen in 60 years.

"The latest figures show that US household net worth is down 20 per cent since 2006."

There was time for only a couple of questions from the floor, one of which was about Canada's relatively high corporate taxation rates.

In answer Jock Finlayson said, "There will be public sector retooling and retrenchment in Canada. There is a public finance crunch, as the government has to avoid going further into debt. However the situation in Canada is not as bad as in other advanced economies."

*Madison's* feels compelled to mention an interesting sighting on the way back to Vancouver. Jobs Minister Pat Bell was on the same plane, as were the Japanese delegation, and one of the fellows who made the presentation about India. Incidentally, in one of those random occurrences that makes life interesting, BC Civil Liberties Association Director David Eby (who ran against BC Premier Christy Clark in a by-election after Gordon Campbell stepped down) was also on the plane. While waiting to board, Pat Bell mentioned to *Madison's* a meeting slated for Monday morning in Prince Rupert, BC, and deliberated on which method of transportation to use to make the early-morning timetable without having to travel all night yet keeping in mind high travel costs. On arrival in Vancouver *Madison's* was surprised to see Bell purchasing a ticket for the Skytrain, taking the Canada Line into downtown. "Come on Pat, where's your limo!?" *Madison's* teased.

It was difficult to resist the opportunity to take a photo of our Minister of Jobs, Tourism and Innovation with his \$7.50 public transit ticket, but the cheesiness factor suppressed that urge.