

MADISON'S LUMBER REPORTER

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News & Updates

Mill Curtailments, Openings

Sinclair Group Forest Products has announced it will not resume operations at its Winton Global Lumber plant sites in British Columbia. All former Winton Global Lumber employees will immediately receive the full severance to which they are entitled.

Stimson Lumber's Colville, WA, sawmill employees have been given 60 day notice that the company plans to significantly downsize or close. That mill produces cedar and ponderosa pine boards

Tolko Industries has announced that operations at the company's plywood mill near Kamloops, BC, will decrease from four shifts to three effective October 30. About 30 employees and 50 million square feet (3/8-inch basis) of plywood will be affected.

Georgia-Pacific has elected to delay the start of operations at its Clarendon, SC, OSB facility. The company had planned to start production at the plant in December of this year.

Midway Reopening a Reality

The Boundary Sawmill in Midway, BC, was closed in 2007 when the owner, Pope & Talbot, went bankrupt, throwing about 200 people out of work. Fox Forest Products purchased the mill in 2008 for \$750,000 but it never reopened.

The sawmill has paid delinquent taxes and signed an agreement with American lumber company Vaagen Brothers to operate the new mill, according to the Osoyoos Times.

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Canada's "State of the Forests" 2011 Report

From 2006 to 2009, the forest product sector's share of Canada's GDP dropped significantly, according to the 2011 State of the Forest released this week by Natural Resources Canada. In 2010, the forest product sector's contribution to GDP showed signs of improvement from the record low in 2009, reaching 1.8 per cent or \$22.6 billion.

This growth was caused in part by strong demand from Asian markets. [READ MORE](#)

US Pending Home Sales, Prices

Pending home sales dipped 1.2 per cent in August despite record-low mortgage rates and appealing house prices, a real estate trade group said Thursday.

Contract signings for existing homes declined to the lowest level in four months, data from the National Association of Realtors showed. The association's Pending Home Sales Index fell to 88.6 in August from 89.7 in July and was at its lowest level since April's 82.1 reading. The August reading was modestly higher than the year-ago month, when it stood at 82.3. The association's index uses the historically healthy 2001 year as a baseline, which represents a 100 level.

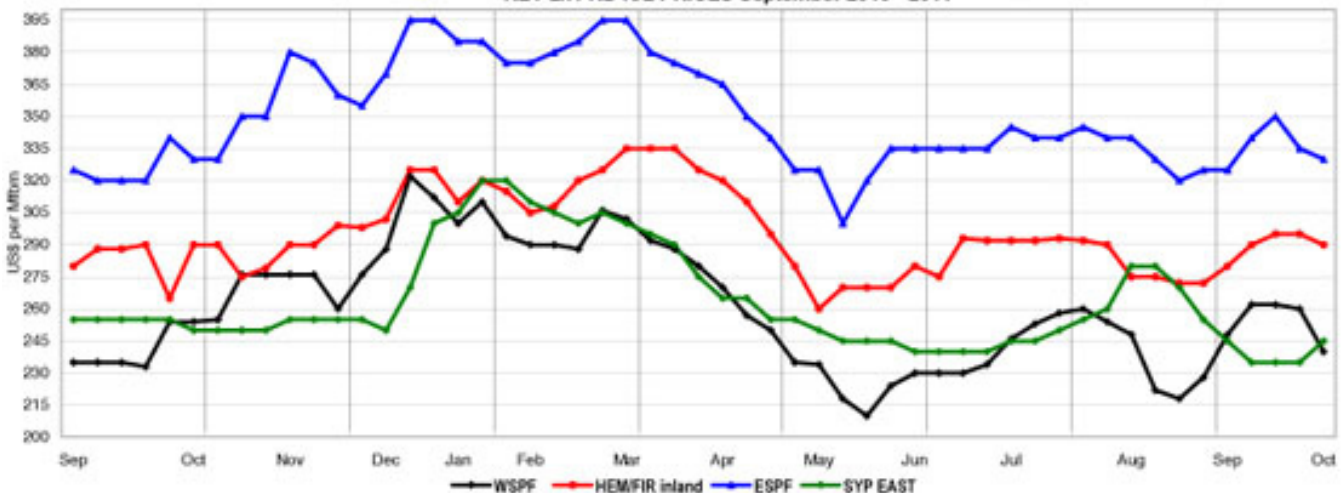
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Forest Products Forum

Following last week's "Who Will Own the Forest?" timberland investment summit in Portland, OR, was the **Forest Products Forum** held by Forest Economic Advisors. *Madison's* obtained the presentations and provides a summary of the speeches.

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



Canada: Real GDP July 2011

Real gross domestic product in Canada rose 0.3 per cent in July following a 0.2 per cent increase in June, according to Statistics Canada today. Manufacturing and, to a lesser extent, wholesale trade and transportation services were the main sources of growth. Increases in utilities and the public sector (public administration, education and health services) were also recorded. Retail trade, mining and oil and gas extraction, construction and the finance and insurance sector decreased.

Manufacturing increases

Manufacturing increased 1.4 per cent in July following three consecutive monthly declines. Growth was broadly based, with manufacturing of both durable (+2.1 per cent) and non-durable goods (+0.5 per cent) advancing. Manufacturers of motor vehicles and parts, fabricated metals, machinery and chemical products posted significant gains. Manufacturing of food as well as furniture and related products was down.

Widespread gains in wholesale while retail declines

Wholesale trade rose 1.5 per cent in July. Increases were registered in many of the sub-sectors, particularly in motor vehicles and parts, personal and household goods as well as machinery and equipment.

Retail trade fell 0.7 per cent, with a significant decrease in motor vehicles and parts dealers. Excluding motor vehicle and parts dealers, retail trade was unchanged.

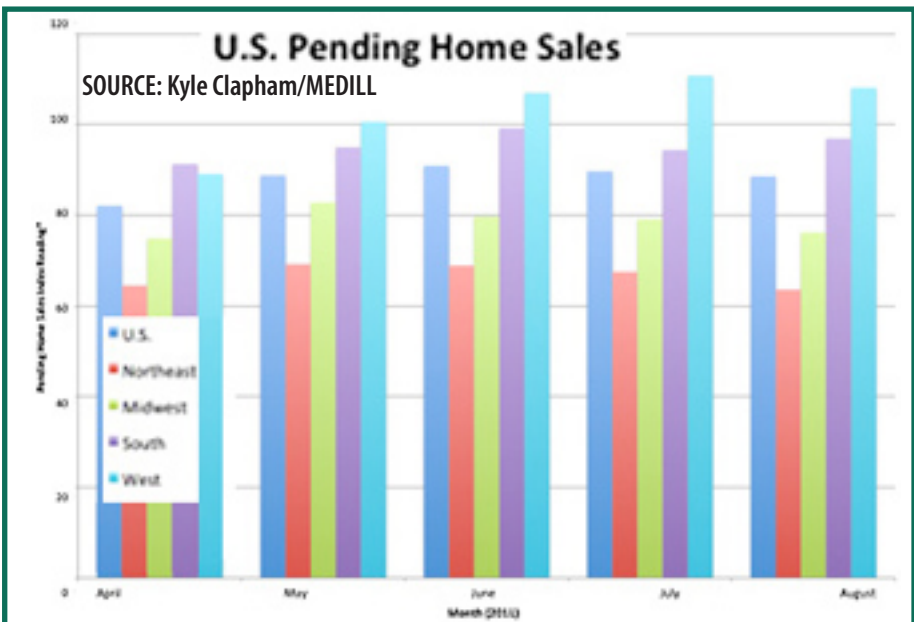
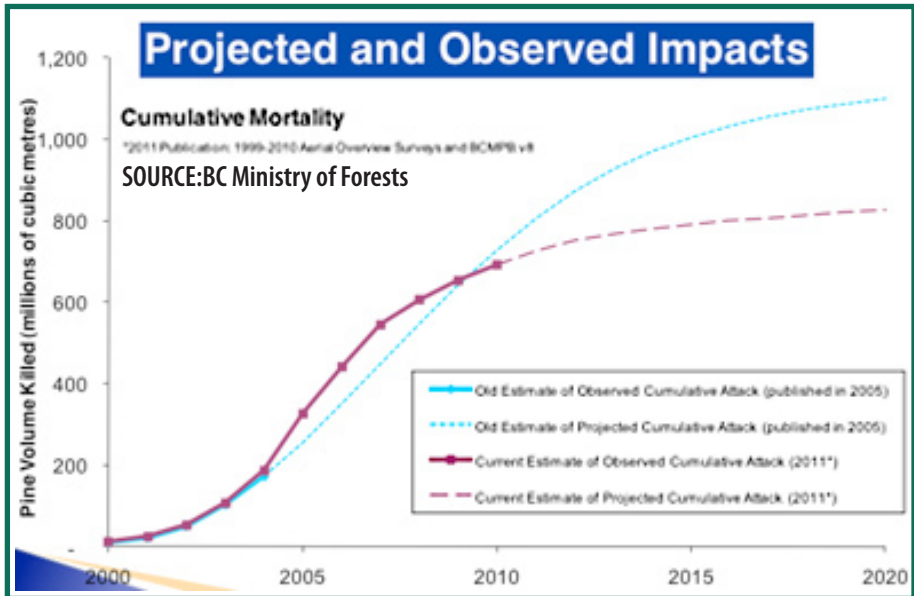
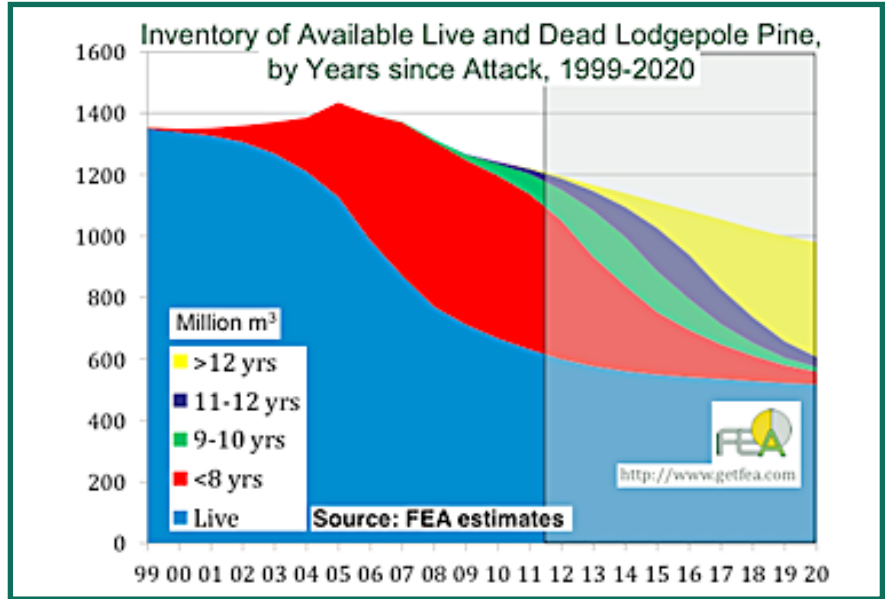
Construction down

Construction declined 0.3 per cent in July, with decreases in non-residential building construction and in engineering and repair work. Residential construction edged up 0.1 per cent in July.

Activity in the home resale market softened in July, which led to a 1.1 per cent decline in the output of real estate agents and brokers.

Finance and insurance down

The finance and insurance sector decreased 0.3%, as both the volume of trading on the stock exchanges and the sales of mutual funds declined. Lower activity for insurance carriers was also a factor in the decline.



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	240	260	-20	248	-8	235	+5
WSPF KD R/L 2x6	250	270	-20	264	-14	248	+2
WSPF KD R/L 2x8	265	280	-15	282	-17	275	-10
WSPF KD R/L 2x10	270	285	-15	282	-12	312	-42
WSPF KD PET 2x4 Stud	235	250	-15	250	-15	210	+25
Douglas Fir Green R/L 2x4	240	245	-15	240	0	172	+68
Douglas Fir Green R/L 2x10	290	288	-5	290	0	260	+30
ESPF KD 2x4 8ft Stud	305	320	-15	315	-10	285	+20
OSB Ontario 7/16" (CDN\$)	210	210	0	210	0	210	0

Weekly News

Boundary Bay, BC, Sawmill

CONTINUED The new company had purchased the mill with the help of a \$1-million loan from the Heritage Credit Union in Rossland, BC. Thanks to scores of new investors, many from Midway, many from elsewhere, Boundary Sawmill is now close to paying off that loan.

Russ Vaagen, Vaagen Brothers Lumber's vice-president, visited the new mill last week. He says the company, known in Canada as Vaagen Fiber, will do some equipment tests in October before scheduling a grand opening. "We still have equipment showing up all the time so we can't be sure of the exact date just yet."

He says the company is very excited about the entire project. "We've actually been interested in the Midway mill for several years, but the pieces never seemed to fall into place," Vaagen says. "Now that we're here, it's wonderful to see the transformation at the mill and what it will do for that community when it opens."

Vaagen pointed out the deal will also benefit the company's operations in Colville, Washington. Trees cut in British Columbia will be sawed and dried in Midway before being trucked about 70 miles to the Colville mill. There, they'll be planed and turned into a finished product. "That will mean an additional 10 to 15 jobs for our Colville operation."

State of the Forests, Canada

CONTINUED After two consecutive years of losses, Canadian forest industry operating profits recovered to pre-crisis levels, reaching \$2.2 billion in 2010, says the 2011 *State of the Forests* report by Natural Resources Canada. The return on capital employed also improved to 4.8 per

cent, over the 20 year low of 0.1 per cent witnessed in 2009.

In 2010, direct employment in the Canadian forest industry fell 6.6 per cent from 2009 levels. Forest industry support activities had the steepest decline in employment, falling by 30.3 per cent. However, the wood product manufacturing sector, which has the largest share of employment in the Canadian forest industry at 48 per cent, lost the most jobs with 11,100 fewer employees than in 2009. This represents a 9.4 per cent year-on-year drop.

In 2010, the value of Canada's forest product exports increased to \$26 billion from \$23.6 billion in 2009, a 10 per cent rise. Exports to India and China have consistently grown since 1995, at 6 per cent and 15 per cent annually respectively.

US Real Estate Market

CONTINUED The index was mixed across regions. Pending home sales in the West continue to be better than any other region and were slightly higher than the US average in 2001, while sales in Northeast continue to lag and were disrupted by Hurricane Irene during the closing week-end of August.

At the end of June, 10.9 million US borrowers, or nearly 23 per cent of those with mortgages, owed more on their mortgages than their homes were worth, according to CoreLogic, a Santa Ana, CA, data analysis company. Another 2.4 million mortgage holders had less than 5 per cent equity in their properties.

Meanwhile, US home prices rose for a fourth consecutive month in July but remain down from last year, according to Standard & Poor's Case-Shiller home-price indexes released Wednesday. Overall, the 20-city index rose 0.9 per cent in July from June. Adjusting for seasonal factors, however, the index was flat. A smaller index of

10 major cities also rose 0.9 per cent from June but fell 0.1 per cent when seasonal factors were included. Year-to-year, unadjusted July prices fell 3.7 per cent for the 10 major markets while the 20-city index was down 4.1 per cent.

Home prices rose in July from June in 17 of the 20 major US metropolitan markets included in the monthly survey, led by 3.8 per cent growth in Detroit. Las Vegas and Phoenix saw declines of 0.2 per cent and 0.1 per cent, respectively.

However, with the exception of Detroit and Washington, prices were down year-to-year.

Mortgage applications in the US jumped 9.3 per cent over the last week and almost 2 per cent during the last four weeks, according to a recent survey by the Mortgage Bankers Association.

In related news, A federal watchdog said Freddie Mac may have given up opportunities to recover billions of dollars in claims over defaulted mortgages and suggested that a January settlement with Bank of America Corp. to resolve US\$1.3 billion in bad-loan claims was inadequate.

The report is to be released Tuesday by the inspector general for the Federal Housing Finance Agency, which regulates Freddie Mac and its larger cousin, Fannie Mae.

Calendar

October 2011

NAWLA Traders Market

October 19 - 21 - Las Vegas, NV

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

Residual Wood Conference 2011

October 26 - 28 - Richmond, BC

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

Forest Products Forum

Portland, OR

Supplemental to the annual **Who Will Own the Forests?** timberland investment summit September 19 to 21 in Portland, OR, for the first time this year the **Forest Products Forum** was held by Forest

Economic Advisors by **Kéta Kosman** the next day. The presentations featured topics including: lumber, panel and timber market outlooks; developments in the wood-based biomass area; and the macroeconomic outlook. Speakers ranged from: Brian Doyle, FEA VP of Sales; Albert Nussbaum, Director, Forest Analysis and Inventory Branch, British Columbia Ministry of Forests; and, Paul Jannke, Principal, Lumber, at FEA.

Brian Doyle of FEA spoke about US macroeconomics in a presentation titled, "How Will We Know When the Economy Has Turned the Corner?" Because real GDP growth in the US fell below 1 per cent in first half of 2011 and ongoing household deleveraging is a key restraint on economic growth, stronger employment growth is a necessary condition for a sustainable housing recovery, began Doyle. Having closed a huge gap of 60 index points during 2006, the home price-to-rent ratio is still above the pre-housing bubble trend.

US household borrowing started to recover in 2010 but is still well below the median prior to the US housing boom, and it will take several more years for households to pay down debt.

Meanwhile new home inventories are very low, explained Doyle. While on the upswing, housing starts will remain below underlying demand until 2015. A striking graph, displayed on this page, shows that housing starts in Canada this year account for a quarter of North American housing starts.

In a declaration that *Madison's* has not heard any other analyst make as yet, Doyle maintained that the death of bigger homes has been exaggerated, and that new home size will continue to rise, albeit at a very slow pace.

Albert Nussbaum of the BC Ministry of Forests made a presentation on "BC's Mountain Pine Beetle: Infestation Update."

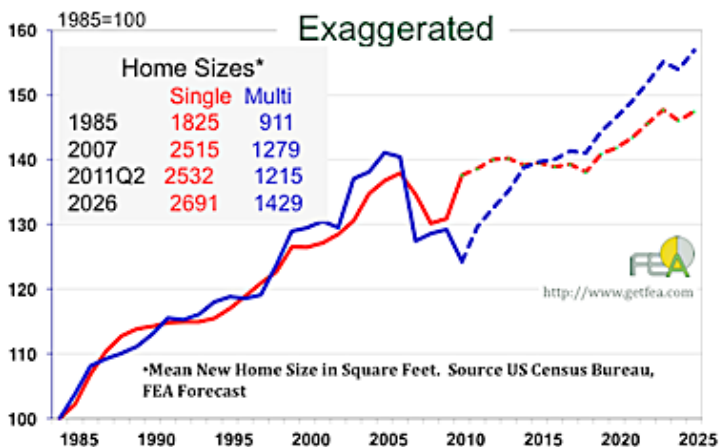
Recent Ministry projections of total beetle-killed timber have become more optimistic than in previous years, falling from the more than 80 per cent pine kill estimated in 2006 to 61 per cent this year, said Nussbaum. It is important to remember that the maximum damage has already been done.

According to Ministry statistics, the worst year of pine beetle infestation was 2004, when 140 million cubic metres of timber were killed. Annual timber kill declined rapidly since then, to 39 million cubic metres in 2010. In total, as of 2010, 51 per cent of merchantable pine in BC has been killed, which equates to 692 million cubic metres. This rate of kill is projected to continue to decline, with less than 5 million cubic metres to be killed annually by 2021.

This upgrade to the outlook, however, has not been uniform across the various Timber Supply Areas of BC. The hardest hit areas in central BC are still in extremely bad shape, while the improvement is found in the TSAs along the periphery of the province. As a result, the annual allowable cuts, initially instated to maximize harvest of still-merchantable dead timber before it degraded too much, will be dropping to reflect the improved outlook.

The province of BC is looking for other ways to utilize the beetle-killed wood, Nussbaum explained, and biomass fuel is one option.

The Demise of Home Sizes has Been Greatly Exaggerated



invest, with 'typical year' meaning the sustainable harvest level.

Near-term price trends in the US South and West will reflect the increased availability of logs in local markets.

There will be an upward long-term price trend for sawlogs, and timber value will generally flow to the stump rather than accrue to manufacturers, Goodnow explained.

Log exports have become a major driver for sawtimber demand, with west coast log exports to China increasing from about 20 million board feet in 1Q 2009 to 350 million board feet in 3Q 2011.

By mid-decade, when BC's lumber production will be constrained due to the pine beetle infestation, redistribution of softwood lumber capacity throughout the rest of North America will be based on sawtimber availability regionally.

Paul Jannke of FEA spoke on the lumber market and projection for future recovery. As with log exports and sawtimber demand from overseas, Jannke said that offshore trade will add demand for lumber products, especially while US consumption remains low through 2012. Lumber inventories are currently very low, at less than 1.25 months' supply, compared to 2.75 months' supply in early 2009.

Jannke detailed that the recovery of North American demand for lumber will be evident when US mortgage delinquencies drift down towards 2 per cent, home prices have stabilized and begin to increase, existing home inventories drop to six months' supply, and new home sales increase towards 400,000 annualized.

In the near term, expect lumber prices to remain volatile thanks to extremely low inventories and curtailed production. As the end-use market recovers, lumber production costs will rise, thereby limiting profitability.

Madison's would like to extend a Thank You to Brendan Lowney, Principal at FEA, for providing the presentations and notes on the speeches from the Forest Products Forum at the World Forestry Center in Portland, OR, September 22, 2011. - ed

Canada Currently Accounts for a Quarter of North American Housing Starts



Still on the topic of timber supply, Rocky Goodnow, FEA Director of Timber, spoke about deferred harvests and sawtimber supply.

Large-scale timber deferral is on-going throughout North America, said Goodnow. Most regions have deferred 12 to 15 months of a typical year's har-