

# MADISON'S LUMBER REPORTER

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## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* takes a look at the latest financial results for US west coast timber companies with both timberland holdings and some manner to solid wood production. 2011 log export statistics for Washington State, Oregon, and British Columbia are also examined.

Contact us any time for a subscription.

### Canada Housing Starts, Building Permits

Housing starts in Canada decreased by 1 per cent in January 2012 to an annualized pace of 197,900 units from the unrevised 199,900 pace reported in December 2011, according to the Canadian Mortgage and Housing Corporation Wednesday.

The overall decline in housing starts was due to a 7.8 per cent decrease in the urban singles component, to 64,900 annualized units, a complete reversal of gains seen in the previous two months. Urban multiple-unit starts followed December's outsized 13.9 per cent surge with a more modest 0.4 per cent increase, to 111,700 annualized units, while rural starts jumped 16.4 per cent in the month to 21,300. [READ MORE](#)

### Housing Starts, Japan

Japan's December housing starts were at 69,069 units, a 7.3 per cent drop compared to December 2010, according to the *Japan Lumber Reports*. December's seasonally adjusted annual starts were 783,000 units, 5 per cent less than in November. [READ MORE](#)

### Mercer Swoops in on Fibrek

In a deal announced Friday, Vancouver, BC's, Mercer International has entered into a support agreement to acquire all of the issued and outstanding common shares of Fibrek by way of take-over bid.

The agreement terms are for an offer price of \$1.30 per Fibrek common share payable in cash, Mercer common stock, or a combination of cash and Mercer common stock. This offer represents an 81 per cent premium over the closing price the day before the announcement of the unsolicited bid of Resolute Forest Products (formerly AbitibiBowater Inc) and a 30 per cent premium over Abitibi's unsolicited bid. [READ MORE](#)

### BC's Timber Inventory

A posting on the News and Media page of the Western Silviculture Contractor's Association (WSCA) website dated December 23, 2011, describes that agency's annual conference as "WSCA 2012 Conference Promises Content and Controversy." Controversy was indeed had, with commentary flying wild and free at various media outlets this week.

Held in Kamloops, BC, February 1 to 3, the conference covered a wide range of topics, including: provincial silviculture costs and rates; silviculture workers' opinions on unionizing; updates from BC's Minister of Jobs, Tourism and Innovation, Pat Bell; the latest news about China; and a speech by provincial NDP leader Adrian Dix. There was also an update on the Forest Practices Board's (FPB) special report on the Not Sufficiently Restocked (NSR) forestlands of BC. [READ MORE](#)

#### CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	January 2012		December 2011	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	12,950	197,900	16,576	200,200
urban ctrs with >10,000	12,220	176,600	14,980	181,900
singles, urban centres	3,596	64,900	5,506	70,600
multiples, urban centres	8,624	111,700	9,474	111,300
rural areas	730	21,300	1,596	18,300
Atlantic urban centres	440	8,400	1,047	13,000
Quebec urban centres	1,712	28,200	3,880	43,600
Ontario urban centres	5,626	77,300	5,761	69,400
Prairie urban centres	2,397	35,900	2,698	34,900
BC urban centres	2,045	27,000	1,594	21,000

Source: Canada Mortgage and Housing Corporation

#### JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Dec-12	69,069	28,531	40,538	59
Nov-11	72,635	32,507	40,128	55
Oct-11	67,273	29,198	38,075	57
Sep-11	64,206	27,525	36,681	57
Aug-11	81,986	35,085	46,901	57
Jul-11	83,398	35,238	48,160	58
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

Source: Japan Wood-Products Information and Research Center

**US Construction Job Openings, Pay Rose at Yearend: Associated General Contractors of America**

The job-opening rate in US construction increased from 0.8 per cent in December 2010 to 1.3 per cent in both November and December 2011, the Bureau of Labor Statistics (BLS) reported on Wednesday. Rates remained the lowest of 11 sectors or subsectors BLS reported and about half the overall rate.

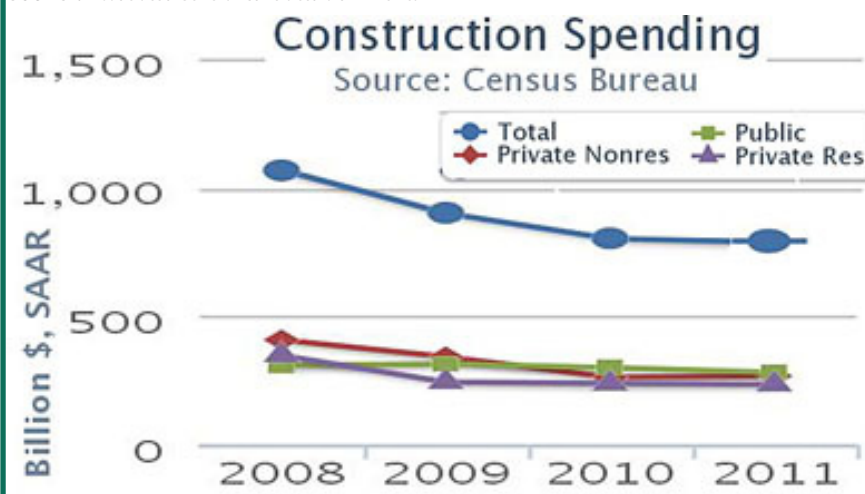
The hires rate (hires as a per cent of total employment) was steady overall from December 2010 to November and December 2011 but decreased in construction. The rate of total separations (quits, involuntary layoffs and discharges, retirements and other) held steady in total but dropped in construction from more than the hires rate in December 2010 to slightly above in November 2011 and a little below in December 2011.

Compensation (wages, salaries and benefits) in private industry rose 0.4 per cent in 4Q 2011, seasonally adjusted, and 2.2 per cent for all of 2011, BLS reported on January 31.

Compensation in construction increased 0.5 per cent for the quarter and 1.6 per cent for the year, compared with a 1 per cent increase in the 12 months through September 2011. Wages and salaries increased 1.6 per cent for the year for the private sector and 1.2 per cent for construction.



SOURCE: Associated General Contractors of America



**US MANUFACTURING STARTS 2012 'ON A POSITIVE NOTE'**

Economic activity in the US manufacturing sector expanded in January for the 30th consecutive month, and the overall economy grew for the 32nd consecutive month, the nation's supply executives said Wednesday, in the latest Manufacturing Institute of Supply Management Report On Business. The PMI registered 54.1 per cent, an increase of 1 percentage point from December's seasonally adjusted reading of 53.1 per cent.

The New Orders Index increased 2.8 percentage points from December's seasonally adjusted reading to 57.6 per cent, reflecting the 33rd consecutive month of growth in new orders.

ISM's Production Index registered 55.7 per cent in January, a decrease of 3.2 percentage points when compared to the December reading of 58.9 per cent (seasonally adjusted). This indicates growth for the 32nd consecutive month.



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	262	255	+7	250	+12	290	-28
WSPF KD R/L 2x6	262	255	+7	255	+7	273	-11
WSPF KD R/L 2x8	254	250	+4	250	+4	278	-24
WSPF KD R/L 2x10	270	314	-44	312	-42	340	-70
WSPF KD PET 2x4 Stud	255	260	-5	265	-10	270	-15
WSPF KD PET 2x6 Stud	265	305	-40	305	-40	295	-30
Douglas Fir Green R/L 2x4	235	230	+5	230	+5	268	-33
Douglas Fir Green R/L 2x10	330	330	0	325	+5	295	+35
ESPF KD 2x4 8ft Stud	330	330	0	315	+15	312	+18
OSB Ontario 7/16" (CDN\$)	194	203	-9	202	-8	200	-6
CSplywood Toronto 3/8" (CDN\$)	310	319	-9	312	-2	310	0

## Weekly News

### Housing Starts, Canada

CONTINUED The CMHC report showed the seasonally adjusted annual rate of urban starts fell by 2.8 per cent to 176,600 units. Multiple-unit urban starts, which include condominiums, eked out a 0.4 per cent gain to 111,700 units.

Other data, released by Statistics Canada on Tuesday, showed the value of building permits taken out by contractors in December soared to a 4-1/2 year high thanks to a hot condo market in Ontario.

Canadian builders finished the year strongly, with their permits values up 11 per cent in December from November, said StatsCan.

The total building permit value of \$6.8 billion for the month, was the highest level since June 2007.

### Japan Housing Starts

CONTINUED Total Japan housing starts for 2011 are also in, according to the Ministry of Land, Infrastructure and Transport, says the *Japan Lumber Reports*.

2011 housing starts for Japan were 834,117 units, a 2.6 per cent increase over 2010. Total floor space rose by 3.4 per cent, to 75,355,000 square metres. New condominium building in the Tokyo metropolitan region, which increased by 17,500 units, was largely responsible for the increase.

Total condominium starts for 2011 in Japan were 116,755 units, a 28.9 per cent increase over 2010. Detached units built for sale were 116,789, 5.8 per cent more than 2010 and a two-year consecutive increase.

New construction of wood-based units were at 464,837, a 1 per cent jump over 2010 and representing 55.7 per cent of all new building.

New 2x4 units were 98,248, 2.2 per cent more than in 2010.

Although total starts increased for two straight years, new owners units remained the same as in 2010 and new rental units fell. Rental unit building dropped by 4.1 per cent compared to the previous year, three consecutive years' decline.

Japan's Ministry of Land said the housing start increase in July and August 2011 occurred due to government incentives like the eco point system. In the following months, home building dropped, says the *Reports*.

### Mercer's Fibrek Offer

CONTINUED The deal would value the kraft pulp producer at about \$170 million, compared to Resolute's \$130 million.

Fibrek's Board of Directors has unanimously determined that it would be in the best interests of Fibrek.

Mercer's \$1.30 a share offer represents a 15 per cent premium to Fibrek share prices at Thursday's close, and will give Mercer access to three mills with a combined annual production capacity of 760,000 tons, helping it raise its output capacity by 50 per cent.

Fibrek shares ran up 18 cents, or almost 16 per cent, to \$1.31 in early Friday trading on the Toronto stock market, while Resolute shares were up six cents at \$15.19. Mercer shares were down 24 cents to US\$8.01 on the Nasdaq.

Fibrek's shareholders can choose to opt for an all cash deal, a stock deal to get 0.0903 of a Mercer share for every one Fibrek share, or a cash-and-stock deal where they could get 54 cents in cash and 0.0903 of a Mercer share in stock for every share they hold.

### Burns Lake Sawmill to Reopen

Sheraton Holdings, a subsidiary of Comfor Management Services based in Burns Lake, British Columbia, will resume sawmilling operations at its facility east of Burns Lake next month.

The sawmill, which produces a variety of specialty products for domestic and foreign markets, is slated to reopen in March after being closed for more than a year due to poor market conditions. The resumption of milling operations will create between seven and nine full-time positions in a community hit hard by the recent fire at Hampton Affiliates' Babine Forest Products operation.

"Our decision to reopen Sheraton was based on sound business principles," explained President Quinten Beach in a company statement. "Improved demand for some of Sheraton's traditional products, coupled with some other developments in the industry, have made it feasible to reopen the company at this time."

"Community Futures Nadina has provided Sheraton with a low interest loan to cover anticipated cash flow shortages during the start-up phase, and Hampton Affiliates has offered to sell Sheraton the profile of log required for its operations," Beach said.

## Calendar

March 2012

**2012 Western Wood Products Association Annual Meeting**  
March 11 and 12 – Portland, OR  
<http://www2.wwpa.org/>

# BC Silviculture Practices

## Discussions of NSR

CONTINUED Please refer to the May 6, 2011, and July 29, 2011, issues of your *Madison's Lumber Reporter* for background on this extremely complex issue.

Due to increasing levels of noise in the mainstream media about BC's NSR, its definitions, and what the timber inventory numbers actually are, the FPB in September announced it was preparing a special report on the issue.

by Kéta Kosman

Continuing from a previous investigation, released in November and revised in December, 2011, under the title "*Reporting the Results of Forestry Activities*", the Board concluded that, "we do not have confidence that the forest ministry can adequately describe the current condition of the managed forest or track changes in its condition into the future."

On page 12, that report lists a series of recommendations for the RESULTS (Reporting Silviculture Updates and Land status Tracking System) database, that:

- 1) the BC government immediately implement a reporting system on roads outside of cutblocks;
- 2) the forest ministry should study and re-design the current status of reporting under section 86 of FPPR;
- 3) the forest ministry should find less expensive ways to develop and maintain the reporting system, and;
- 4) until recommendations 2 and 3 are acted upon, the forest ministry should implement a comprehensive quality control system for reports filed.

The RESULTS database is the most recent incarnation of a decades-old system for reporting information about silvicultural activities and obligations, and changes in land status resulting from forest management, according to the FPB. The forests ministry uses the RESULTS database to derive net NSR area.

*Madison's* spoke to Marvin Eng, Manager, Special Investigations, at the Forest Practices Board, who gave a presentation at the WSCA conference, to provide a progress report on the current project.

"We are nearly finished the first phase of a project that we expect to complete in spring," explained Eng in a phone interview. "In this first phase the FPB focussed on getting the facts, specifically: What is NSR?, and How much do we know about the amount that is out there? Once that is done, in phase 2, we will move on to examining the strategic issues around the topic.

"One issue is that we are working with definitions and types of NSR that were very fitting 25 years ago, when it was a common forest industry practice to cut down trees but not replant. The RESULTS database keeps track of industry's obligations. The problem now is that there is an enormous and rapid increase in the amount of trees that have been killed [by natural disturbance], and keeping track of that is very difficult. We can only roughly estimate the amount of net NSR land, and that it might be approximately 2 million hectares."

Eng detailed further, "It is not officially NSR until someone has gone out to do surveys, and declares it so. What we do know is the existing 500,000 hectares of rolling NSR that the industry has a legal obligation to reforest. We also know there is another 220,000 hectares of land that the ministry has surveyed and declared as actual NSR. But when it comes to what potentially could be NSR, due to things like recent beetle and fire damage, the province has not gotten around to surveying most of it. If that work were done, we would know how much would be NSR."

"We want to make clear old definitions and identify poor information of the past so the province can move on with getting a clear idea of what is out there," concluded Eng.

While encouraging, the pace of work seems maddeningly slow when – with each passing year – provincial data on this very important natural resource gets increasingly inaccurate. What is the forest products industry meant to do a year from now when lumber demand recovers to 2004 levels and logging resumes in earnest, but the government itself does not know how much merchantable timber is out there?

*Madison's* enlisted the help of Anthony Britneff, retired BC forester and outspoken advocate of immediate and accurate assessment of BC's NSR for more information.

"From the perspective of the public, the owners of 55 million hectares of forested land, the debate needs to move on from estimating the extent of net NSR to issues of public policy addressing what is to be done about it," explained Britneff to *Madison's* in a phone interview and by email. "The fact is that the present order of magnitude of the net NSR area [the approximately 2 million hectares estimated by the FPB - ed] may be approximately three times the net NSR figure reported for TSAs by the ministry in 1984 when it stood at 738,000 hectares. The size of that area was so large that it precipitated a crisis in forest management and a forest policy challenge of the first order. The

federal government responded with funding for tree planting: \$457 million from 1985 to 1995. In response to the present challenge, having cut reforestation funding by 90 per cent in 2002, the only provincial government response has been to restore funding for reforestation to half of what was available before 2002.

"In its annual reports, the ministry reported on gross NSR up to and including fiscal year 2000/01 when it stood at 2.762 million hectares. In 1984 the comparable gross NSR figure reported by the ministry was 3.387 million hectares. Today I estimate that the gross NSR are may be as much as 9 million hectares. Net NSR speaks to the sustainability of the timber resource but not to the forest as a whole. Gross NSR speaks to the sustainability of the whole forested land base, all those forested areas that conserve and protect other forest values than timber.

"Third-party certification of BC's public forests for sustainable forest management is over 53 million hectares, not just the 23 million hectares of the timber harvesting land base. Therefore to have the full extent of NSR (meaning: gross NSR) is an important indicator not only of sustainability but also of the availability of future timber supply."

It seems the crux of the problem is that the province really doesn't have the inventory at the appropriate level in either area surveyed or its timeliness to generate useful figures. What we do have is a lot of estimates based on surmises compounded on assumptions derived from inferences, and so on.

What *Madison's* wants to know, and surely the BC forest industry does as well, is: how long is it going to take to conclude discussions about how bad the numbers actually are, and to settle on definitions and to reach agreement on how inaccurate the scope of data currently available is? Let's just agree that its bad and get on with things!

In speaking with these various agencies and government departments, *Madison's* is getting an increasingly uncomfortable feeling that the conversation is more about counting the pretty trees than in making sure the right amounts of the most viable of these trees are available for harvest. Of course we need to count the pretty trees, but it is not the act of counting that is important. The need rests on the information which will be used by the forest industry to harvest the timber both sustainably and in a way that is most fiscally rewarding to the forest companies.

They are in the business of making and selling lumber after all. Agencies and government departments exist to streamline and facilitate that primary process. Matters of who is right, what do we mean by that, how do we count that, and so on, should be resolved in the quickest way possible so the actual work can finally be done.