

MADISON'S LUMBER REPORTER

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News & Updates

BC Auditor General's Report

After an entire year of regularly featuring stories about possible issues with BC's timber inventory and the lack of data on Not Sufficiently Restocked forestland, *Madison's* was pleased to see Thursday that British Columbia's Auditor General released an audit titled, "*BC Ministry of Forests, Lands, and Natural Resource Operations' Management of Timber*".

Much ballyhooed Friday in the mainstream media, Auditor General John Doyle declares, "While not legally obligated to reforest damaged areas, this should not prevent government from acting in the public interest by actively managing these areas. In general, we expected to find the ministry's stewardship activities to be guided by its immediate and long-term timber objectives, and to be aligned with its established silviculture needs. Because the ministry does not have clear timber objectives and outcomes at the provincial level, it cannot demonstrate that it is applying sufficient strategies and programs to achieve these objectives and outcomes." [READ MORE](#)

Housing Starts, US

The US Commerce Department said Thursday that builders broke ground on a seasonally adjusted annual rate of 699,000 homes in January. That's up 1.5 per cent from December and the highest level since October 2008. Construction began on 508,000 single-family homes last month. That's a 1-per-cent drop from December and the first decline in four months.

Apartment building, a more volatile category, jumped 14.4 per cent. Single-family home construction rose in each of the final three months of last year, bringing the pace of those starts to the highest level since April 2010.

Building permits rose 0.7 per cent.

Authorisations for single-family homes in January were at a rate of 445,000; this is 0.9 per cent above the revised December figure of 441,000. Authorizations of units in buildings with five units or more were at a rate of 208,000 in January. [READ MORE](#)

Quarterly Reports

West Fraser Timber Thursday reported earnings after discontinued operations of \$6 million on sales of \$650 million in 4Q 2011, and earnings after discontinued operations of \$73 million, on sales of \$2,762 million for 2011. In 4Q, West Fraser Timber reported an operating loss of \$30 million in its lumber operations due to weaker prices for lower-grade SPF lumber and wider-dimension SYP lumber and reduced shipments.

Universal Forest Products reported net sales Wednesday of US\$422.0 million for 4Q 2011, up 11.4 per cent over 4Q 2010 net sales of US\$378.7 million. [READ MORE](#)

US Real Estate Update and Economic Data

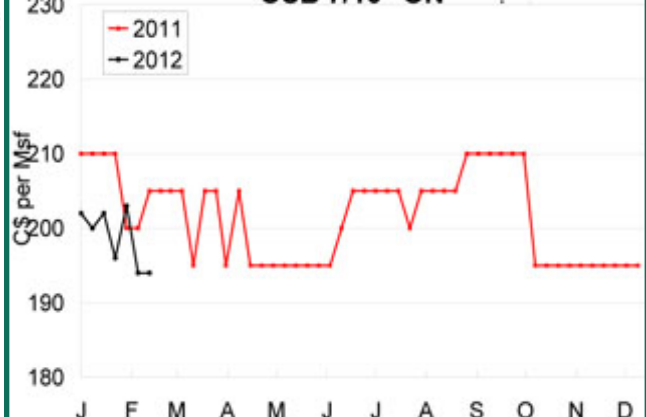
The latest data, out this week, on US real estate transactions, house prices, housing affordability index, manufacturing and industrial capacity utilization, jobs, and retail sales, all seem to indicate a slow but sustained trend toward recovery in the US economy. [READ MORE](#)

U. S. HOUSING STARTS

	Jan-12	Dec-11		Jan-12	Dec-11
Starts			Permits		
Actual	45,900	43,000	Actual	45,800	49,900
SAAR*	699,000	689,000	SAAR*	676,000	671,000
1 Unit	508,000	513,000	1 Unit	445,000	441,000
2-4 Units	(s)	(s)	2-4 Units	23,000	24,000
5+ Units	175,000	153,000	5+ Units	208,000	208,000
Starts by Region			Permits by Region		
Northeast	68,000	63,000	Northeast	75,000	72,000
Midwest	102,000	172,000	Midwest	103,000	107,000
South	388,000	328,000	South	372,000	338,000
West	141,000	126,000	West	126,000	154,000

*Seasonally adjusted annual rate

OSB 7/16" ON



January 2012 US Industrial Production and Capacity Utilization

The US Federal Reserve's Industrial Production and Capacity Utilization report, G.17, shows zero change in industrial production for January 2012. The culprit to no increase in growth was utilities and the Fed blames the weather. Warming temperatures in winter cause home energy production to drop beyond their typical output levels. The industrial production zero hides some very promising changes. Manufacturing alone increased 0.7 per cent. December's industrial production was revised upward 1 per cent. This report is also known as output for factories and mines.

While total industrial production has increased 3.4 per cent from January 2011, the index is still down 4.1 per cent from 2007 levels.

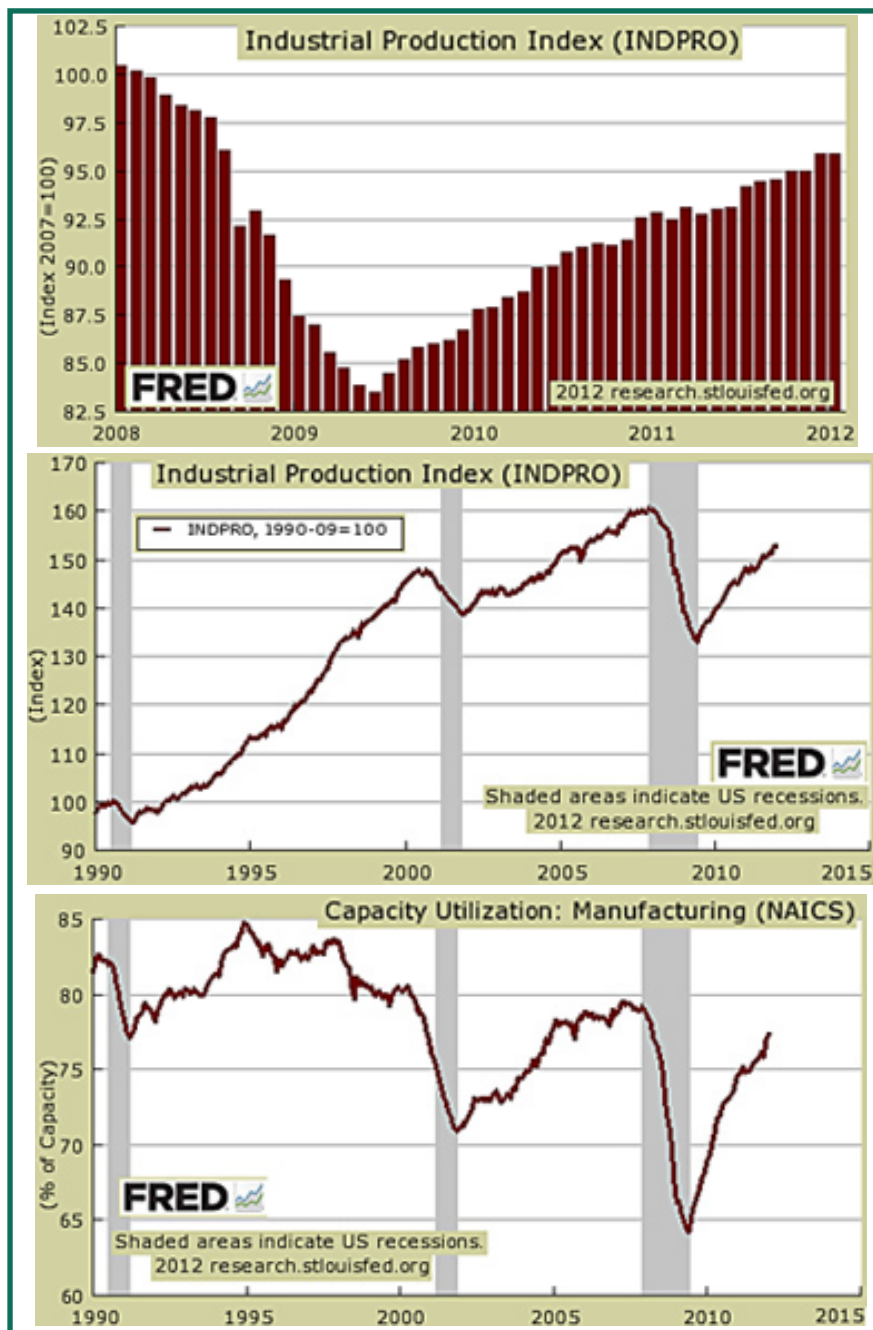
Here are the major industry groups yearly industrial production percentage changes from a year ago:

- Manufacturing: +4.5 per cent
- Mining: +5.8 per cent
- Utilities: -7.5 per cent

Capacity utilization, or of raw capacity, how much is being used, for total industry is now 78.5 per cent, 1.8 percentage points below the average from 1972 to 2011, of 80.3 per cent. Capacity growth overall has increased 1.2 percentage points from January 2011.

According to the report:

- Manufacturing uses 76.91 per cent of capacity,
- Utilities use 10.55 per cent,
- Mining uses 12.54 per cent.



China's Conifer timber import volume from main suppliers

Category	Country	volume	Change from 1st half 2010	Increase (%)
Logs million m3	New Zealand	4.06	1.31	47.47
	US	2.09	1.28	159.52
	Canada	1.14	0.80	233.21
	Australia	0.71	0.23	49.54
Sawn timber	Canada	3.14	1.54	96.57

SOURCE:
Japan
Lumber
Journal

CHINA'S CONIFER IMPORTS FROM MAJOR SUPPLIERS - 2011

In the first half of 2011, China's conifer log imports rose 32.8 per cent, or 3.73 million cubic metres, to 15.09 million cubic metres compared to one year ago, according to *China Wood Monthly Market Report* by way of the *Japan Lumber Journal*. Conifer lumber imports rose 72.6 per cent, or 2.89 million cubic metres, to 6.87 million cubic metres.

Overstocking of radiata pine and North American timber in mid-2011 amounted to more than 3 million cubic metres in the major harbour districts of China.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	267	262	+5	245	+22	290	-23
WSPF KD R/L 2x6	270	262	+8	247	+23	272	-2
WSPF KD R/L 2x8	252	254	-2	246	+6	280	-28
WSPF KD R/L 2x10	312	308	+4	310	+2	335	-23
WSPF KD PET 2x4 Stud	260	255	+5	265	-5	275	-15
WSPF KD PET 2x6 Stud	265	265	0	305	-40	310	-45
Douglas Fir Green R/L 2x4	240	235	+5	232	+8	280	-40
Douglas Fir Green R/L 2x10	315	330	-15	330	-15	300	+15
ESPF KD 2x4 8ft Stud	330	330	0	310	+20	325	+5
OSB Ontario 7/16" (CDN\$)	194	194	0	196	+2	205	-11
CSplywood Toronto 3/8" (CDN\$)	318	310	+8	309	+9	310	+8

Weekly News

Erratum

Due to a technical error *Madison's* printed an incorrect price for WSPF KD 2x10 #2&Btr last week, of US\$270 mmfbm. The correct price should have been US\$308.

We apologize for any confusion this error may have caused.

BC Timber Management

CONTINUED In drafting its report, the Auditor General's office concluded that:

- The Ministry of Forests, Lands and Natural Resource Operations has not clearly defined its timber objectives, thus the ministry cannot ensure that its management practices are effective.

- Existing management practices are insufficient to offset a trend toward future forests having a lower timber supply and less species diversity in some areas.

- The ministry does not appropriately monitor and report its timber results against its timber objectives.

The report recommends that the ministry:

- 1) develop a plan for directing forest stewardship that establishes clearly defined timber objectives and stewardship principles to guide decision-making, actions, and assessment of results.

- 2) ensure that its investments in silviculture are sufficient to achieve long-term timber objectives, and that they align with stewardship principles.

- 3) ensure that restocking activities result in the establishment of forests that are consistent with its long-term timber objectives.

- 4) ensure that its information systems reflect actual forest conditions in priority management areas.

- 5) ensure that the collective and indi-

vidual components of its oversight framework are sufficient to ensure the achievement of long-term timber objectives.

6) develop and implement appropriate performance measures to demonstrate progress towards achieving long-term timber objectives and report publicly on the results.

BC's Auditor General will follow up on the status of the implementation of these recommendations in its April 2013 report.

US Housing

CONTINUED The number of homes in the foreclosure inventory, meanwhile, stood at 1.4 million at the end of 2011, down 8.4 per cent from a year earlier, according to a report from data firm CoreLogic released February 8. The 2011 level represents 3.4 per cent of all homes with a mortgage.

For the month of December, the number of completed foreclosures fell to 55,000, from 57,000 in November. The share of borrowers nationally who were 90 days or more delinquent on their mortgage payments slipped to 7.3 per cent in December, from 7.8 per cent in the same month in 2010.

"This is the first time in a year that REO sales [of properties owned by a lender] have outpaced completed foreclosures and part of the reason for the decrease in the foreclosure inventory," said Mark Fleming, chief economist with CoreLogic. There have been about 3.2 million completed foreclosures since the start of the financial crisis in September 2008.

Financial Results

CONTINUED For 4Q 2011, Universal saw a loss of US\$1.7 million, compared to 2010 4Q earnings of US\$124,000.

Western Invests

Vancouver, BC's, Western Forest Products announced Thursday the first project in its capital plan; a \$16 million investment in the Saltair Sawmill in Duncan, BC, on Vancouver Island.

Saltair, built in 1972, converts coastal mid-size logs into high value specialized lumber products in Hemlock, Douglas fir and Western Red Cedar. This capital project will make Saltair the largest single line sawmill on the coast of BC and will provide upgrades to the edgers, stacker and sorters, says the company statement. The upgrades will increase production by approximately 15 per cent, lowering the per unit cost of production, and improving competitiveness with global producers.

Interfor Announces . . .

International Forest Products, based in Vancouver, BC, announced Wednesday that Sandy Fulton, Senior VP, COO, has decided to retire from the Company effective February 1, 2012. He will continue to work with the Company on a consulting basis to oversee capital projects including the rebuild of the Grand Forks, BC, mill which is currently underway. Mr. Fulton joined Interfor in 2004 as Senior VP, US Operations and was promoted in 2007 to his present position.

Calendar

March 2012

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

US Real Estate and Economy

Housing Starts, Jobs, Manufacturing, Retail Sales

New figures released Thursday by the US Commerce Department show a recovering US home building industry. While it is still in the early stages, three consecutive months of rising new housing starts and permits point to sustained improvement in that critical sector. The US National Association of Home Builders (NAHB) estimates that for each new single-family home built, three jobs are created. The US National Association of Realtors (NAR) estimates that for every two homes sold, a job is created. It is not a great stretch of logic then, when analysts repeat that healthy real estate and home building markets are vital to the US economy.

Since November 2011, the increase in new housing starts has been led by multi-family units, or apartments, which is the direct result of the ongoing foreclosures in the US. As distressed properties are taken over by banks, and eventually sold, more and more people will be moving into rental properties. Expectations are that this process will take two years, and the large US home builders are responding accordingly by breaking ground on multi-family units rather than on detached homes.

US new home construction in January increased 1.5 per cent to a seasonally adjusted annual rate of 699,000 from December. Last month's increase was driven by an 8.5 per cent gain in multifamily homes with at least two units, a volatile part of the market. Construction of single-family homes, which made up about 73 per cent of housing starts, fell by one per cent. December's figures, meanwhile, were adjusted upward, with a 12 per cent gain for the vital single-family sector.

The data also showed newly issued building permits rose by 0.7 per cent in January from a month earlier to an annual rate of 676,000.

"Homebuilders seem to have concluded that the bottom for construction activity is in," Teunis Brosens, Senior Economist at ING Bank, said in a statement. "Further rises in housing starts and sales should be ahead.

"These bring with them more jobs and positive contributions to GDP growth," he added. "Let's hope homebuilders are right on this one."

Homebuilder confidence increased for the fifth consecutive month in February, according to a report released by the NAHB on Wednesday, with the index of homebuilder confidence jumping to its highest level in more than four years. The report showed that the NAHB/Wells Fargo Housing Market Index surged up to a reading of 29 in February, from a reading of 25 in January.

The sharp increase of the housing market index reflected continued increases in each of the three component indexes, which also improved for the fifth consecutive month. The component measuring traffic of prospective buyers edged up to 22 in February from 21 in January, while the component measuring sales expectations for the next six months jumped to 34 from 29. The component measuring current sales also surged up to 30 from 25.

Sales of previously occupied homes rose for three straight months at the end of 2011. The glut of houses on the market is diminishing; down to 2.4 million previously owned homes on the market in December, which is 21.2 per cent lower than the same time one year earlier, and down from 3.8 million in June.

NAR's national Housing Affordability Index rose to a record high of 184.5 in 2011 since record keeping began in 1970. This index is based on the relationship between median home price, median family income, and average mortgage interest rate. The higher the index, the greater the household purchasing power.

The iShares Dow Jones US Home Construction Index Fund Wednesday was up 20 per cent for the year and was 2.8 per cent higher than it was a year ago. That is compared to the S&P 500 Index, which Wednesday was up nearly 8 per cent year-to-date and 1.6 per cent higher than it was a year ago.

Share prices of major US home builders are reflecting this upswing in market conditions. Recently, the last of the major home builders crossed a bullish technical level known as the "golden cross," when a stock's 50-day moving average rises above its 200-day moving average, according to the *Wall Street Journal* (WSJ) Thursday.

Shares of D.R. Horton are up 74 per cent since an industry low-water mark on October 3, 2011. This company caters mostly to low-end buyers and builds homes in 26 states.

Lennar sits poised to reap major economic gains from an eventual rebound in housing, with lean construction practices, a healthy balance sheet and other strengths, continues the WSJ. Its revenue was up 12.5 per cent and orders were up 21 per cent in 4Q 2011, its highest growth in several years. The company recently created a distressed real estate unit, Ri-

alto, that allows it to obtain land more cheaply than competitors. Its backlog of orders is 36 per cent higher than a year ago, leaving it in good shape to wait for a future surge in sales. The stock is up 88 per cent since early October.

Toll Brothers builds higher-priced homes in urban markets with job growth, particularly in the Northeast. It also has a distressed investment arm, Gibraltar, that helps it lock in land at bargain prices in marquee locations. This company has modest net debt of just \$400 million. Toll Brothers shares are up 74 per cent since early October.

The exchange-traded fund of SPDR S&P HOMEBUILDERS includes seven of the largest homebuilders. It also owns shares of companies that sell building materials or furniture and other items for the home. Many of the homebuilders are sitting on large piles of cash, which will allow them to expand in the coming years. The fund has an expense ratio of 0.35 per cent, versus 0.47 per cent for iShares Dow Jones US Home Construction.

Meanwhile, analysts applaud the latest drop in new US jobless claims. Filings fell by 13,000, to 348,000 for the week of February 11. Claims have not been below 350,000 since March 2008. About 9 per cent of the nation's jobs are in manufacturing, according to the *Boston Globe*. In 2011, factories added 13 per cent of new jobs. And this January, about one-fifth of the 243,000 net jobs the economy created were in manufacturing. Factory growth has also helped to increase hiring in other industries such as shipping, warehousing, department store sales, and auto sales.

Elsewhere, US industrial production was unchanged in January, as a gain of 0.7 per cent in manufacturing was offset by declines in mining and utilities, the Federal Reserve reported Wednesday. Within manufacturing, the index for motor vehicles and parts jumped 6.8 per cent and the index for other manufacturing industries increased 0.3 per cent. The output of utilities fell 2.5 per cent, as demand for heating was held down by temperatures that moved further above seasonal norms. The output of mines declined 1.8 per cent.

At 95.9 per cent of its 2007 average, total US industrial production in January was 3.4 per cent above its level of a year earlier. The capacity utilization rate for all industries decreased to 78.5 per cent, a rate of 1.8 percentage points below its long-run average, of 1972 to 2011.

Total US industrial production for December was upwardly revised to 1.0 per cent from an initial estimate of a 0.4 per cent increase.

Lastly, US January retail industry sales, excluding automobiles, gas stations and restaurants, increased 0.9 per cent seasonally adjusted from December, and 4 per cent unadjusted year-over-year, according to the National Retail Federation Monday. January retail sales data, released by the US Department of Commerce, showed total retail sales increased by 5.6 per cent unadjusted year-over-year, and increased by 0.4 per cent seasonally adjusted month-to-month.