

# MADISON'S LUMBER REPORTER

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Annual Subscription Prices  
E-mail/Fax: C\$364  
Discounts available for multiple  
subscriptions  
Published 50 times a year

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PO Box 2486 Vancouver, BC  
V6B 3W7 Canada

In Canada, add GST or HST  
ISSN 0715-5468  
Printed in Canada © 2012

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## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* provides the latest updates in the exciting, growing sector of wood pellets as biomass fuel. New government regulations for green energy in Korea and Europe, groundbreaking production technology, and the economics of feedstock and transportation are all examined.

Contact us any time for a subscription.

### US Housing Starts, Home Sales

The US Commerce Department said Tuesday housing starts slipped 1.1 per cent to a seasonally adjusted annual rate of 698,000 units. New building permits surged 5.1 per cent to a 717,000-unit pace last month. Permits to build single-family homes jumped 4.9 per cent to a 472,000-unit pace – the highest since April 2010. Permits for multi-family homes increased 5.6 per cent to a 245,000-unit rate.

Total existing-home sales slipped 0.9 per cent to a seasonally adjusted annual rate of 4.59 million in February from an upwardly revised 4.63 million in January, said the National Association of Realtors Wednesday. Sales are 8.8 per cent higher than the 4.22 million-unit level in February 2011. [READ MORE](#)

### Fibre Battle Continues

The battle to acquire pulp producer Fibrek was waged in the Quebec Court of Appeal late Thursday as Resolute Forest Products attempted to overturn a ruling that helps a competing bid from Mercer International.

Resolute extended its \$1 per share offer, which values Fibrek at \$130 million, until April 2, and reduced the threshold for tendered shares to 50.01 per cent from two-thirds.

Quebec's securities regulator, l'Autorite des marches financiers, has backed the \$1.30 per share offer from Vancouver-based Mercer International, which values Fibrek at \$170 million.

Mercer would subsequently hold 19.9 per cent of Fibrek shares. Fairfax, Pabrai Investment Funds and Oakmont Capital Inc, which have entered into lock-up agreements with Resolute, would collectively hold about 36.6 per cent.

### CN Buys Rail Cars

CN Rail announced Thursday a major locomotive acquisition program to accommodate anticipated traffic growth and to improve operational efficiency. CN will acquire 65 new high-horsepower locomotives as well as 96 second-hand high-horsepower locomotives that will be upgraded. [READ MORE](#)

### Home Building and Real Estate

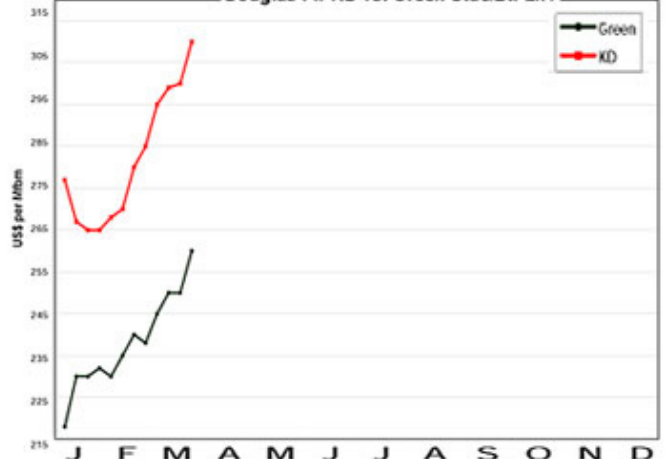
The first quarter of 2012 showed some promise of improvement for US home building and real estate activity. Figures for the building of new homes and home sales data are significantly better than they were one year ago. [READ MORE](#)

#### U.S. HOUSING STARTS

	Feb-12	Jan-12		Feb-12	Jan-12
<b>Starts</b>			<b>Permits</b>		
Actual	48,100	45,900	Actual	52,300	45,800
SAAR*	698,000	699,000	SAAR*	717,000	676,000
1 Unit	457,000	509,000	1 Unit	472,000	445,000
2-4 Units	(s)	(s)	2-4 Units	26,000	23,000
5+ Units	233,000	175,000	5+ Units	219,000	208,000
<b>Starts by Region</b>			<b>Permits by Region</b>		
Northeast	64,000	68,000	Northeast	88,000	75,000
Midwest	103,000	102,000	Midwest	117,000	103,000
South	404,000	388,000	South	371,000	372,000
West	127,000	141,000	West	141,000	126,000

\*Seasonally adjusted annual rate

Douglas Fir KD vs. Green Std&Btr 2x4



### Conference Board Leading Economic Index February 2012

The index of US leading indicators rose in February by the most in 11 months, signalling the world's largest economy will strengthen.

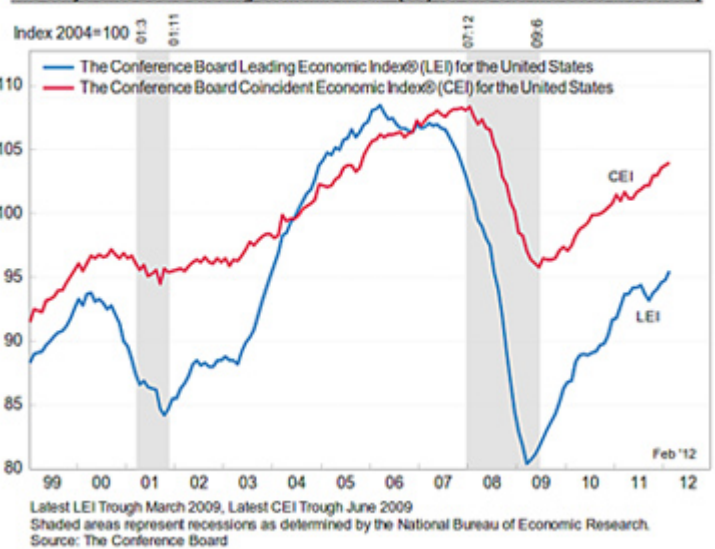
Eight of the 10 indicators in the leading index contributed to the increase, led by fewer Americans filing first-time claims for unemployment benefits and by a surge in stock prices.

The Conference Board Leading Economic Index increased 0.7 per cent in February to 95.5 (2004 = 100), following a 0.2 per cent increase in January and a 0.5 per cent increase in December.

The Conference Board's index of coincident indicators, a gauge of current economic activity, rose 0.2 per cent for a second month. The coincident index tracks payrolls, incomes, sales and production -- the measures used by the National Bureau of Economic Research to determine the beginning and end of US recessions.

The gauge of lagging indicators also increased 0.2 per cent.

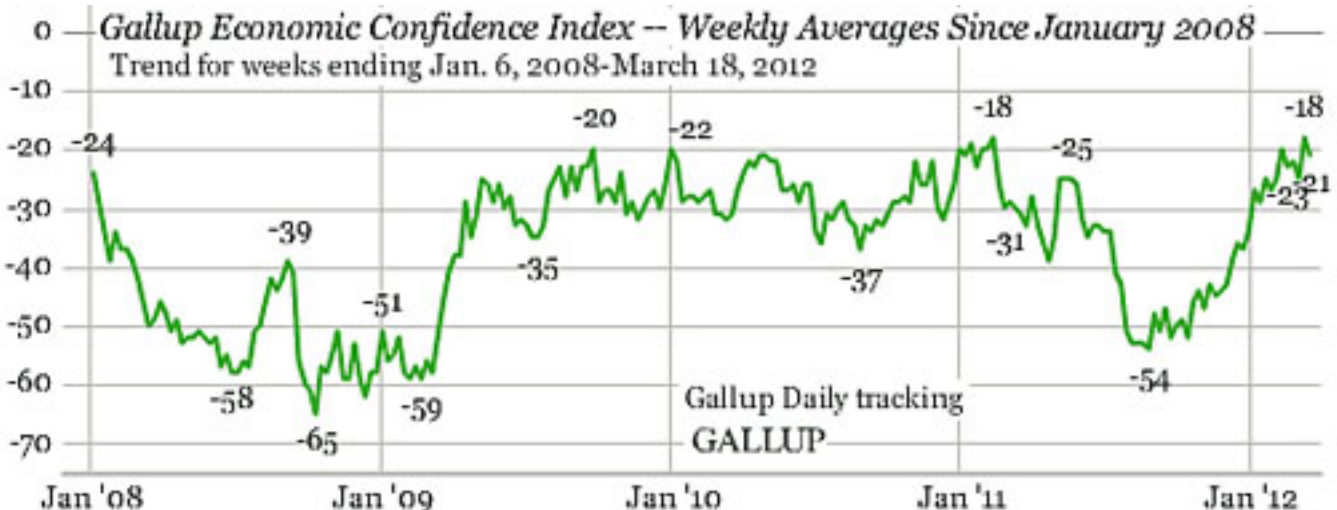
The Conference Board Leading Economic Index® (LEI) for the U.S. Increases in February



### US Economic Confidence March 2012

US economic confidence worsened to -21 in the week ending March 18 from the four-year high of -18 the prior week, according to the latest Gallup poll. Once again last week, economic confidence failed to break through its previous highs of -18. The percentage of Americans saying the economy is "getting better" fell to 41 per cent last week from 43 per cent the prior week. The percentage saying the economy is "getting worse" increased to 55 per cent from 53 per cent.

The number of consumers rating the economy "poor" increased to 42 per cent last week from 39 per cent the week ending March 11. This is also similar to the 43 per cent who rated the economy "poor" during this same week one month ago.



### US Construction Employment Increased in 169 Metro Areas Between January 2011 and 2012 - The Associated General Contractors of America -

Construction employment declined in 111 out of 337 metropolitan areas between January 2011 and January 2012, increased in 169, and stayed level in 57, according to a new analysis of federal employment data released Tuesday by the Associated General Contractors of America. The new construction employment data comes out amid growing concerns within the business community about Washington's failure to enact a number of long-term infrastructure measures.

Atlantic City-Hammonton, NJ, added the highest percentage of new construction jobs, 45 per cent, followed by Bakersfield-Delano, CA, 31 per cent. Portland-Vancouver-Hillsboro, OR-WA added the most jobs, 5,300 jobs or 13 per cent. Other areas adding a large number of jobs included Denver-Aurora-Broomfield, CO, 8 per cent; Atlanta-Sandy Springs-Marietta, GA, 6 per cent; and Indianapolis-Carmel, IN, 14 per cent.

The largest job losses were in Tampa-St. Petersburg-Clearwater, FL, down 14 per cent, followed by Chicago-Joliet-Naperville, IL, down 5 per cent; Fort Lauderdale-Pompano Beach-Deerfield Beach, FL, down 11 per cent, and New Orleans-Metairie-Kenner, LA, down 11 per cent. Springfield, Mass, CN, down 23 per cent, lost the highest percentage. Other areas experiencing large percentage declines in construction employment included Anniston-Oxford, AL, down 20 per cent, and Oshkosh-Neenah, WI, down 19 per cent.

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	280	280	0	273	+7	288	-8
WSPF KD R/L 2x6	288	288	0	279	+9	262	+26
WSPF KD R/L 2x8	272	272	0	260	+12	270	+2
WSPF KD R/L 2x10	314	314	0	314	0	320	-6
WSPF KD PET 2x4 Stud	280	280	0	280	0	280	0
WSPF KD PET 2x6 Stud	245	245	0	245	0	315	-70
Douglas Fir Green R/L 2x4	260	250	+10	245	+15	270	-10
Douglas Fir Green R/L 2x10	300	310	-10	300	0	290	+10
ESPF KD 2x4 8ft Stud	365	365	0	350	+15	335	+30
OSB Ontario 7/16" (CDN\$)	220	222	-2	215	+5	205	+15
CSplywood Toronto 3/8" (CDN\$)	350	350	0	340	+10	310	+40

## Weekly News

### Home Building, Sales, US

CONTINUED On Friday the Commerce Department said Friday sales of new homes slipped 1.6 per cent to a seasonally adjusted 313,000-unit annual rate. Compared to February last year, new home sales were up 11.4 per cent.

In addition, the median price for a new home rose 8.3 per cent to US\$233,700, the highest level since June. Compared to February last year, the median price was up 6.2 per cent.

Single-family starts on average this year have been up 16.8 per cent versus the same period last year, said Alex Carrick of *Reed Construction Data* Tuesday.

That's good news, but it pales compared with the performance of multi-family starts, up 33.7 per cent.

The latest government report also provides reason to think the improvement in starts isn't just a flash in the pan. The permit series – which is traditionally an advance indicator for starts – is showing strength as well, said Carrick.

February residential building permits, in seasonally adjusted units, were up 34.3 per cent year over year.

Again, the multi-unit segment shone brighter. Permits for projects of five units or more (i.e., mainly condos) were up 3.3 per cent month to month and up 59.9 per cent year over year.

Mortgage rates continue to be at record lows, due to the Federal Reserve's Operation Twist. This is an ongoing program whereby the Fed is selling US\$400 billion in short-term treasuries, with interest rates that are nearly 0.00 per cent, and buying longer-term bonds, detailed Carrick.

Concerning the future for the home-building sector, the National Association of Realtors has reported that its January affordability index is at an all-time high, at 206.1, which is good news for potential buyers.

### CN Rail Car Purchase

CONTINUED CN Rail will take delivery in 2013-14 of 35 new locomotives from GE Transportation, and 30 new locomotives from Electro-Motive Diesel. The GE units have 4,400 and the EMD units 4,300 horsepower.

CN will purchase this year 42 second-hand GE locomotives, 11 leased locomotives, and 43 second-hand EMD locomotives. The GE units have 4,000 and the EMDs 3,800 horsepower. These direct-current technology locomotives will be upgraded to CN specifications.

CN will be assigning the new AC units to heavy-haul coal service in northern British Columbia and Alberta, where steep grades and sharp rail curvature make heavy demands on locomotives.

The new locomotives CN is purchasing are equipped with distributed power technology, which improves train handling and fuel efficiency. The company expects that 50 per cent of its high-horsepower locomotive fleet will have DP by the end of 2013.

### US Tornadoes Reduced Timber Supply

West Virginia state foresters said Friday a recent tornado destroyed more than 66.7 million board feet of timber in Wayne and Lincoln counties.

The Division of Forestry says the tornado affected 7,500 acres covered in timber and caused a total US\$7.5 million in damage.

## Calendar

April 2012

**BC Saw Filers Association 2012 AGM**  
April 20 - 21 – Prince George, BC  
<http://www.bcsawfilers.com/>

**Québec Forest Industry Council 2012**  
April 26 - 27 – Québec City, QC  
<http://www.cifq.qc.ca/fr/nouvelles-et-evenements/evenements/ateliers-conferences-sur-le-sechage-du-bois>

**NAWLA Leadership Conference**  
April 29 - May 1 – Colorado Springs, CO  
<http://www.nawla.org/>

May 2012

**Pulp and Paper Products Council International Pulp Week**  
May 6 - 9 – Vancouver, BC  
<http://www.internationalpulpweek.com/>

**Wood Markets Global Softwood Log and Lumber Conference**  
May 9 – Vancouver, BC  
[http://www.woodmarkets.com/conf\\_conferences.html](http://www.woodmarkets.com/conf_conferences.html)

**PricewaterhouseCoopers 25th Annual Global Forest and Paper Industry Conference**  
May 10 – Vancouver, BC  
<http://www.pwc.com/gx/en/forest-paper-packaging/forest-paper-packaging-events.jhtml>

# Home Building and Sales

## United States

Beware of carefully crafted media stories written to present data in a certain light. This week the US Commerce Department and the National Association of Realtors (NAR) released February data on US home building and home sales respectively, while the Federal Housing Finance Agency (FHFA) released its housing price index. To read the headlines one would think everything is down, and the US housing market is still a far way from recovery.

by Kéta Kosman

“US Home Sales Disappoint Markets”, exclaims the *National Post*. While existing home sales did fall 0.9 per cent over upwardly adjusted figures for January, this winter’s sales pace was the best of the past five years winters.

“US Builders Began Work on Fewer Homes in February”, proclaims the *Toronto Star*. At least the *Globe and Mail* got it right, “US Housing Starts Dip, Building Permits Surge”.

Anyone not paying close attention, anyone accustomed to reading the same old bad news for the past five years, wouldn’t notice that serious improvements are actually at hand.

The reality is that February new housing starts in the US were down by 1.1 per cent from again upwardly adjusted January figures. Is anyone else starting to see a pattern here? Meanwhile, permits were up a whopping 5.1 per cent, to 717,000, the highest figures since October 2008. To be sure, wholesalers, retailers, and home builders are already calling around to lumber mills inquiring about commodity price levels.

The incrementally decreased February new housing starts figures will be adjusted – in all likelihood up – next month. Indeed, single-family starts were up 34.7 per cent from February last year, the biggest year-on-year rise since April 2010. The most important thing, though, is that groundbreaking for multi-family housing projects, which will lead total new building in the US for the next two years, soared 21.1 per cent compared to one year ago. This segment is benefiting from rising demand for rental apartments as falling house prices discourage some Americans from owning a home.

For existing home sales, the revised 4.63 million sold in January was the highest level since May 2010. The decline in real-estate prices has slowed its pace, making Americans less cautious about

spending and potentially more disposed to buy a home. For the first time since 2005, investment in residential real-estate, including home building and renovation, has contributed to US economic output for the past three quarters, said the *Wall Street Journal* Wednesday.

Compared with February last year, sales were up 8.8 per cent and according to JPMorgan economist Daniel Silver. The gains were tracking a seasonally adjusted annualized rate of 30 per cent so far this quarter.

The fact that 2012 is a leap year seems to have made a big difference in what February’s numbers say.

“We compared the February 2012 seasonal adjustment factor to past leap years and it appears that the seasonal adjustment was fairly aggressive,” said Ellen Zentner, an economist at Nomura Securities in New York, to *Reuters*. “Using last year’s seasonal adjustment factor instead of this leap year’s, existing home sales would have actually risen by 3 per cent, month-on-month, to 4.77 million units.”

The pickup in January sales encouraged prospective sellers to put their homes up on the market, January’s inventory of unsold homes on the market increased by 4.3 per cent, to 2.43 million units. This represents 6.4 months’ supply, up from 6 months in January, which was the lowest number of homes on the market since April 2006. A supply of six months generally is considered ideal, with higher readings pointing to price declines.

In terms of prices, as measured by the NAR, the median existing home price climbed to US\$156,600 in February, from US\$154,600 in January.

“[This is the] largest year-on-year gain in existing home prices since July 2010,” said Jonathan Basile, director of economics at Credit Suisse, to the *Financial Times* Thursday. “The trend has been persistently negative since the homebuyers’ tax credit expired in 2010. Today’s print is the first sign of stabilisation.”

All-cash sales, where investors account for the bulk of transactions, rose to 33 per cent of transactions in February, from 31 per cent in January.

Another worthwhile indicator, the FHFA’s US House Price Index, was released Thursday. That index was roughly the same as the February 2004 level and 19.2 per cent below its April 2007 peak. The year-over-year decline in January was the smallest since November 2009, when prices fell 0.6 per cent.

On Thursday, Bank of America-Merrill Lynch mortgage strategists and economists boosted their forecast to say that home prices will rise 0.5 per cent this year, a reversal of the bank’s older forecast of a 3.5 per cent fall in prices for 2012. How-

ever, they’ve cut their 2013 price-gain forecast to 0.3 per cent, from 1.3 per cent, and slashed their 2014 forecast to a gain of just 2.8 per cent, from 8.1 percent previously.

Elsewhere, Frank Blake, CEO of home-improvement retailer Home Depot, told analysts last month that investment in residential homes “had a slight uptick” from November to January relative to the size of the US economy, according to *Nasdaq.com* Thursday.

“The performance of our business, particularly in the back half of 2011, would suggest a strengthening market,” he said.

For years, Home Depot executives have seen demand from customers seeking to remodel and repair their homes. But in recent months, the retailer saw a 3 per cent jump in transactions of US\$900 or more, compared with a 1.3 per cent rise in purchases totaling US\$50 or less. That suggests consumers are spending more on bigger items and could be outfitting homes with an eye to sell, said *Nasdaq.com*.

On the flip side, Dan Amoss, managing editor for Strategic Investment, wrote a warning about high-end home values Thursday for *WhiskeyandGunpowder.com*.

“The disappearance of the move-up buyer is important, especially because Wall Street is now under the mistaken belief that in early 2012, housing is in the early stages of a strong recovery,” explained Amoss.

“In many areas of the US, low-end home prices are competitive with rentals. Mortgage rates are near all-time lows, and prices have already crashed. But high-end home prices will continue to drop for years to come. One’s primary residence is increasingly being viewed as a slowly consumed durable good, rather than an ‘investment.’ Financing for more expensive houses is also scarce. Banks aren’t interested in writing jumbo mortgages; even if they were, the traditional ‘move up’ buyer is hard to find. If they can’t sell their existing house, they likely won’t have the down payment for a larger, more expensive house.

“The next phase to the US housing crisis is house price compression,” Amoss quotes another contrarian, Mark Hanson. “The upper price bands [will compress] on the lower. It’s already happening. The data we watch closely every day are clear. This adds an entirely new dimension to the US housing crisis, one that pushes out an ultimate ‘recovery’ a lot further into the future than anybody is forecasting, or can model.”

“The excess supply of housing — especially at the middle and higher end of the market — will take several more years to clear,” maintains Amoss, again in his own words. “Prices will fall as this unfolds. After slowing foreclosure activity in 2011, most banks are set to accelerate sales of repossessed houses in 2012.”