


MADISON'S LUMBER REPORTER


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News & Updates

Canadian Lumber Production, Shipments

February 2012 lumber production by Canada's sawmills increased 4.6 per cent from January, to 4,675.9 thousand cubic metres, said Statistics Canada Friday. Compared with February 2011, lumber production increased 8.6 per cent.

In February, sawmills shipped 4,424.6 thousand cubic metres of lumber, a 6.5 per cent increase from January 2012.

Canada Housing Starts, Building Permits

In April, Canadian housing starts rose to the highest level since September 2007 on multiple-unit projects, to an annual pace of 244,900, a 14 per cent jump, Ottawa-based Canada Mortgage & Housing Corp said Tuesday. That compares to 214,800 starts in March. [READ MORE](#)

Housing Starts, Japan

March new home building in Japan increased by 5 per cent compared to March 2011, to 66,597 units, according to the *Japan Lumber Reports*. The seasonally adjusted rate was 848,000, a 5.7 per cent drop from February.

Condominium building drove the increase, with over 10,000 new condo units started per month for three straight months. Units built-for-sale and condo starts together were up 20 per cent compared to February. [READ MORE](#)

Sawmill Safety Order, Insurance Rates

The British Columbia Safety Authority (BCSA) Tuesday issued a safety order relating to regulated electrical equipment ordering sawmills to verify that they have valid operating permits in place, that proper maintenance procedures are being carried out, and that incidents are being reported as per existing BCSA directives.

This measure is precautionary and part of the BCSA's ongoing investigation into the recent explosions and resulting fires at two BC sawmills that resulted in fatalities and serious injuries to workers. This safety order supports a directive order issued last week by WorkSafeBC.

Meanwhile, the mill explosions, three months apart, have put insurance brokers, underwriters and customers on edge. Uncertainty intensified after April 30, when the Lumbermen's Underwriting Alliance – which had already served notice that it was getting out of the Canadian market – told clients it was cancelling their policies, according to the *Globe and Mail*. [READ MORE](#)

Pulp, Paper, and Forestry Conference Week

The Pulp and Paper Products Council and PricewaterhouseCoopers held their annual forestry and paper conferences this week in Vancouver, BC. Concurrently, the Wood Markets Group held its Global Softwood Log and Lumber Conference. Stakeholders, investors, and analysts from the solid wood, pulp, and paper industries gathered to network and hear presenters from around the world. [READ MORE](#)

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Mar-12	66,597	30,985	35,612	53
Feb-12	66,928	31,363	35,565	53
Jan-12	65,984	30,867	35,117	53
Dec-11	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

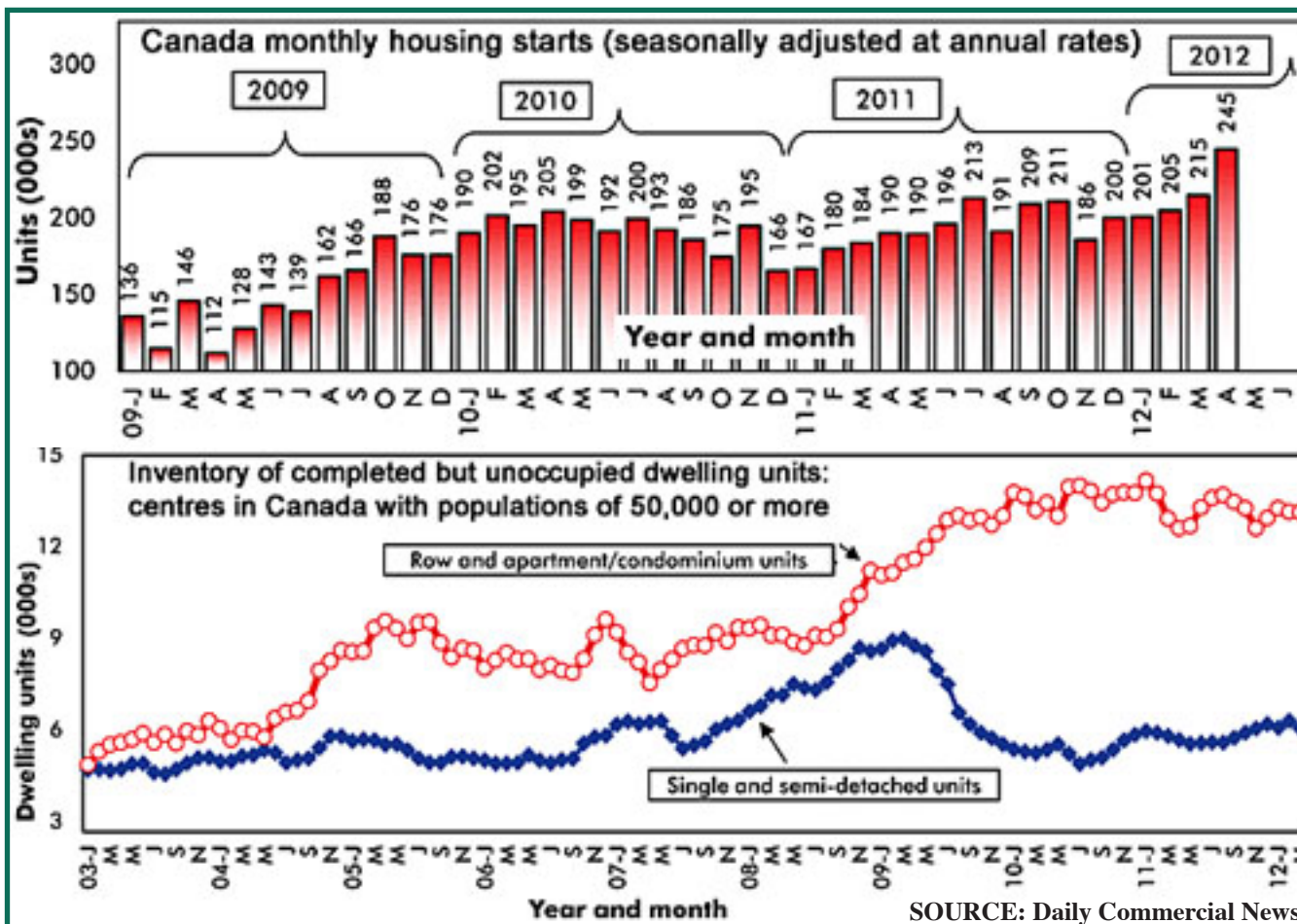
Source: Japan Wood-Products Information and Research Center

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	April 2012		March 2012	
	Actual	SAAR	Actual	SAAR
Canada, all areas	21,094	244,900	14,517	214,800
urban ctrs with >10,000	19,188	226,200	13,761	191,700
singles, urban centres	5,945	67,700	4,030	67,300
multiples, urban centres	13,243	158,500	9,731	124,400
rural areas	1,906	18,700	756	23,100
Atlantic urban centres	529	7,900	333	7,700
Quebec urban centres	5,125	55,100	2,571	35,200
Ontario urban centres	7,803	95,400	6,062	85,000
Prairie urban centres	3,864	45,700	3,173	43,000
BC urban centres	1,867	22,100	1,622	20,800

Source: Canada Mortgage and Housing Corporation



US HOMEBUYER AFFORDABILITY INDEX REPORT : NATIONAL ASSOCIATION OF REALTORS

	March 2012	Feb 2012	Jan 2012	Dec 2011	Nov 2011	Oct 2011
Composite Index	204.3	207.9	205.8	197.9	194.5	198.5
Fixed Index	201.1	200.4	201.2	192.5	190.1	194.2
	March 2012	Feb 2012	Jan 2012	Dec 2011	Nov 2011	Oct 2011
Median Price	\$163,600	\$156,100	\$154,600	\$162,600	\$164,000	\$161,100
Mortgage rate	3.96%	4.21%	4.37%	4.27%	4.33%	4.32%
Monthly P&I Payment	\$622	\$611	\$617	\$641	\$652	\$639
Payment % Income	12.2%	12.0%	12.1%	12.6%	12.9%	12.6%
Median Family Income	\$60,999	\$60,974	\$60,944	\$60,901	\$60,876	\$60,873
Qualifying Income	\$29,856	\$29,328	\$29,616	\$30,768	\$31,296	\$30,672

NOTE: Mortgage rate is the effective rate on loans closed on existing homes. Qualifying income is based on a 25% qualifying ratio for monthly housing expenses to gross monthly income with a 20 per cent down payment.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	304	300	+4	275	+29	218	+86
WSPF KD R/L 2x6	294	292	+2	284	+10	226	+68
WSPF KD R/L 2x8	292	290	+2	272	+20	245	+47
WSPF KD R/L 2x10	354	330	+24	314	+40	260	+94
WSPF KD PET 2x4 Stud	345	340	+5	280	+65	220	+125
WSPF KD PET 2x6 Stud	345	325	+20	300	+45	250	+95
Douglas Fir Green R/L 2x4	255	250	+5	240	+15	245	+10
Douglas Fir Green R/L 2x10	315	315	0	240	+75	270	+45
ESPF KD 2x4 8ft Stud	410	400	+10	350	+60	305	+105
OSB Ontario 7/16" (CDN\$)	220	215	+5	215	+5	195	+25
CSplywood Toronto 3/8" (CDN\$)	353	353	0	350	+3	295	+58

Weekly News

Housing Starts and Permits, Canada

CONTINUED The seasonally adjusted annual rate of urban starts increased by 18 per cent to 226,200 units in April. Urban single starts increased modestly by 0.6 per cent in April to 67,700 units. Meanwhile, multiple urban starts increased by 27.4 per cent to 158,500 units.

April's seasonally adjusted annual rate of urban starts increased by 56.5 per cent in Quebec, by 12.2 per cent in Ontario, by 6.3 per cent in the Prairies and British Columbia, and by 2.6 per cent in Atlantic Canada. In each region, the increase was mainly due to multiple starts, particularly in Quebec and Ontario. Meanwhile, single-detached starts decreased in April in all regions, with the exception of Ontario, up 7.9 per cent.

Rural starts were estimated at a seasonally adjusted annual rate of 18,700 units in April.

Meanwhile, in March, contractors in Canada took out building permits worth \$6.8 billion, up 4.7 per cent from February following a 7.6 per cent increase the previous month, said Statistics Canada Monday. The gain was the result of higher construction intentions for both institutional and commercial buildings, mostly in Ontario.

In the non-residential sector, the value of permits rose 13.9 per cent to \$2.9 billion, following a 37.7 per cent increase the previous month. This was the highest level since June 2010, said StatsCan. Increases in the institutional and commercial components more than offset declines in the industrial component. Most provinces posted advances, with Ontario accounting for most of the growth.

The value of residential permits declined 1.3 per cent to \$3.9 billion, the third

monthly decrease in a row. Decreases occurred in six provinces, led by Ontario. Alberta posted the largest increase, followed by Nova Scotia.

The value of single-family dwelling permits declined 1.7 per cent to \$2.3 billion, the third consecutive monthly decrease. Gains in six provinces, led by Alberta, were not enough to offset decreases in the remaining provinces. The largest decline was recorded in Ontario, followed by Newfoundland and Labrador and New Brunswick.

The value of multi-family dwelling permits fell 0.7 per cent to \$1.6 billion.

Japan Housing Starts

CONTINUED Japan's detached units built for sale in March were up 4.1 per cent, says the Japan Lumber Reports.

New starts for wood-based units were 35,612, up 0.4 per cent from February, and to a 53.5 per cent share of total starts, a 0.5 per cent increase over February.

Starts in the earthquake and tsunami-damaged prefectures showed the most gains; up 77.7 per cent in Miyagi, 17.8 per cent in Iwate, and 21.3 per cent in Fukushima.

For Japan's fiscal year 2011, which ended in March 2012, total new units were 841,246, a 2.7 per cent rise over 2010. Units built-for-sale, having increased for two consecutive years, were 239,086, up 12.7 per cent, and condominium starts were 120,092, a 22.8 per cent jump over the previous term.

Wood-based units were 466,434 at fiscal year end 2011, a 0.5 per cent increase, to a 55.4 per cent share of total starts said the *Reports*.

Another Sawmill Safety Order in BC, Insurance

CONTINUED While the BCSA safety order is specific to owners and operators of sawmills around electrical equipment,

other regulated technologies are also still under investigation at Babine Forest Products, including propane and natural gas. The BCSA is not yet prepared to rule out propane or natural gas as either an ignition or fuel source at Babine while the investigation is ongoing.

The investigation related to the Babine incident is currently in the analysis phase with no predetermined end date. A BCSA team is supporting the Lakeland investigation, which is in the information gathering stage. In both the Babine Forest Products and Lakeland Mills investigation, WorkSafeBC has taken the lead on site control and incident investigation.

Insurance options for BC sawmill operators have been shrinking since at least 2010, when LUA, a major insurer headquartered in Boca Raton, FL, announced plans to scale back its Canadian operations.

Last year, LUA said it was getting out of the Canadian market altogether, and would wind down its operations by the end of 2012.

The LUA decision affected about 48 sawmills across Canada, about 35 of those in BC, said Larry Grant, vice-president of national forestry practice with Hub International, a Chicago-based insurance broker, to the *Globe and Mail*.

After the notice, insurance might remain in effect for 15 or 30 days, depending on whether LUA was the lead insurer on a given policy, said Mr. Grant.

The industry turmoil means sawmills are likely to face higher premiums based on factors that include location, previous insurance claims, equipment and the age and structure of plants, he said.

"To see a 100-per-cent increase on a good, clean sawmill operation isn't going to be unheard of," he said.

Forestry Week Conferences

The keynote speaker at the PPPC's Pulp Week was Patrick Moore, of Green-spirit Strategies and original founder of Greenpeace. Reporter readers will remember that Moore also delivered the

by Kéta Kosman

keynote address at the Truck Loggers Association AGM in January. He is a dynamic speaker with an excellent overall viewpoint on resource management, specifically in forestry.

Morning presentations on Monday were kicked off by Donna Zhang, CEO of Vinda International Holdings, a major Chinese personal care products manufacturer. Zhang's presentation, "*Perspective on the Chinese Tissue Market*", explained that – as the world's second largest tissue producing country – China's macro-economic conditions continue favourable, and that trend is expected to remain.

"From 2010 to 2011, China's tissue market grew by 22 per cent while tissue exports dropped by almost 4 per cent," said Zhang. "As manufacturing and sales centres move inland, the tissue industry will become more consolidated. From our pulp suppliers, consistent quality is critical, then second is the need to keep costs stable."

Robert Wilson, Director at AMEC Forest Industry Consulting, gave a forecast of the "*Pulp and Paper Industry in 2035 to 2050: Making the Right Choices Today*."

Echoing sentiments expressed by all presenters, Wilson focussed on future demand for paper products in emerging markets.

"Emerging economies are not necessarily consumer-driven," explained Wilson. "There are issues of resource scarcity, particularly in the areas of fibre, energy, and water. For example, oil usage is approximately 1-5 barrels per capita per year in the developing world, whereas it is 10-20 barrels in developed countries. There is huge demand for energy coming, but increasing difficulty to extract that fuel, which is going to increase costs."

"Operations with high energy costs; old plants or those with old boilers, are most at risk of pain. These operations will be unable to get the energy contract they have made in the past, and will be unable to switch to renewable and alternative fuel sources, or put in waste-to-energy components. For example, two-thirds of the aluminum industry in Europe will soon be shutting down due to high energy costs."

Wilson maintained that the future is in oil replacement, in bioenergy, biomaterials, biochemicals and biotechnology.

"Currently, prices in renewable en-

ergy markets are artificial because they are based on targets," continued Wilson. "The realities are that European industry will require a US\$50 billion investment to meet that region's standards for 2020. Likewise in the US, investments to the tune of US\$80 million will be needed by 2022."

"It is not possible to sustain these legislated targets with current global forests. By 2030, the cost of cellulosic ethanol will come close to that of ethanol and petrogas. In fact, I think this will happen sooner than 2030."

Tuesday morning started with the always excellent analyses provided by PPPC staff.

Paul LeClair, PPPC CEO and Chief Economist, talked about the paper side.

"Printing and writing paper demand for 2011 was 94 million tonnes, this is down from the 2007 peak of 105 million tonnes but up from the low in 2009," began LeClair. "We forecast demand to grow by 0.7 per cent per year to 2014. Declining demand in the industrial world will be offset by growing demand in emerging markets. Capacity, meanwhile, will grow by 0.9 per cent per year to 2014. There is a high likelihood for more capacity being taken out, which will balance the new production coming onstream this year and in the next couple of years."

"China has been so aggressive in pushing paper exports, especially in the coated wood-free grades, that the US and EU are imposing trade barriers in the form of duties."

"The big story is in tissue," continued LeClair. "Global tissue demand will rise by 3.5 per cent. The rate of growth for tissue capacity will be between 4 and 5 per cent in 2012 and 2013, which is approximately 3.1 million new tonnes. This will be mostly in the emerging markets."

"Due to the probable decline in printing and writing paper demand, even with the growth of tissue usage we see a slowdown for market pulp coming."

Next Emanuele Bona, VP of Europe for the PPPC, provided an update on global pulp.

"In 1Q 2012 there was the highest global demand for NBSK (northern bleached softwood kraft) pulp in history," Bona started off. "This was driven by increased demand from China, which had a 30 per cent rise in demand for that quarter."

"There is still not solid data on consumer stocks in China, but there are some things we do know. Information provided by shipping companies, some of which is admittedly anecdotal, tells us there has been on average approximately 400,000 to 500,000 tonnes of market pulp stores in China either in transit, stored in warehouses at the ports, or stored in warehouses inland. However currently, our information is that there is approximately 900,000 tonnes. This is of course an estimate. Regardless, it suggests historic high levels."

"In chemical pulp, last year there was negative growth. So far this year demand is growing, with China again taking the lead. In 1Q 2012, demand for chemical pulp from China was up 18 per cent compared to the same time last year. There is a question however: if this is due to stockpiling. Is demand reflecting consumption? We ask this because from 2000 to 2008, the average growth of chemical pulp demand was 11 per cent, then in 2009 to 2011 it was 30 to 35 per cent."

"We don't believe this is based on actual demand, for several reasons. First of all, there were a huge amount of printing and writing, and tissue, machines started up in China in the past couple of years, all of which had a one-time need for start-up inventories. Secondly, there was a lot of speculative buying in 4Q 2011 due to low prices. And third, there is a time lag between paper production and shipments, so we are still waiting for data on that."

"In the end, we can say for sure that global demand for pulp capacity was up in 2011, and will not be up by as much this

