

# MADISON'S LUMBER REPORTER



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## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest quarterly reports for Canadian forest products companies, and looks at recent developments and announcements in their business practices.

Contact us any time for a subscription.

### US Housing Starts

The US Commerce Department said Wednesday that housing starts increased 2.6 per cent to a seasonally adjusted annual rate of 717,000 units. March's starts were revised up to a 699,000-unit pace from a previously reported 654,000 unit rate.

Groundbreaking for single-family homes increased 2.3 per cent. This segment accounts for most of the market. Starts for multifamily homes advanced 3.2 per cent.

Permits to build single-family homes rose 1.9 per cent in April to a 475,000-unit pace. Permits for multifamily homes fell 20.8 per cent to a 240,000-unit rate. [READ MORE](#)

### Wildfires

A northern Colorado wildfire grew from 1,000 acres to 5,000 acres Thursday and forced the evacuation of 65 homes, reports *The Associated Press*. US Forest Service officials said the blaze about 20 miles northwest of Fort Collins had scorched 1.5 square miles of land but rapidly expanded Thursday fueled by erratic winds.

The blaze was one of several burning in the West. A fire in northern Arizona that led to the evacuation of a historic mining town grew to more than 12 square miles even as the outlook improved from earlier in the week.

Authorities ordered evacuations of about 80 homes near Poudre Canyon on Thursday. Residents of about 65 of those homes were allowed to return by early evening, with instructions to be ready to leave again if conditions change.

Meanwhile, The Hewlett fire in Colorado has grown to 7,673 acres, prompting officials Friday to declare an emergency. That fire was 5 per cent contained.

In an executive order, Colorado Gov. John Hickenlooper declared the emergency because of the fire in Larimer County. The move makes US\$3 million in state emergency funds available for firefighting. [READ MORE](#)

### WorkSafeBC Announcement

British Columbia's worker safety agency, WorkSafeBC, has issued a statement about some similarities discovered between the Babine Forest Products' sawmill explosion in Burns Lake, BC, in February, and the Sinclair Group's Lakeland stud mill explosion in Prince George, BC, last month. [READ MORE](#)

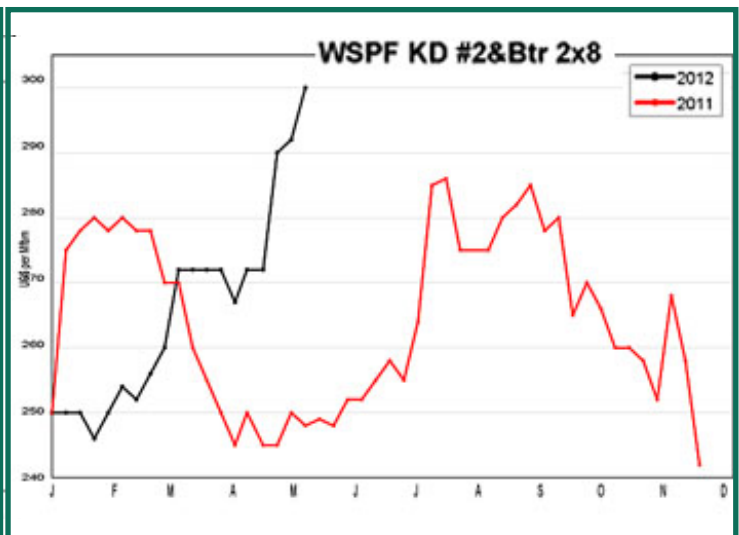
### PwC Paper, Packaging, and Forestry Conference

Last Thursday PricewaterhouseCoopers presented a full day jam-packed with speakers and networking sessions in Vancouver, BC, for its annual forest industry conference. [READ MORE](#)

#### U.S. HOUSING STARTS

	Apr-12	Mar-12		Apr-12	Mar-12
<b>Starts</b>			<b>Permits</b>		
Actual	64,200	57,400	Actual	62,000	67,400
SAAR*	717,000	699,000	SAAR*	715,000	769,000
1 Unit	492,000	481,000	1 Unit	475,000	466,000
2-4 Units	(s)	(s)	2-4 Units	23,000	22,000
5+ Units	217,000	208,000	5+ Units	217,000	281,000
<b>Starts by Region</b>			<b>Permits by Region</b>		
Northeast	69,000	87,000	Northeast	81,000	81,000
Midwest	127,000	119,000	Midwest	114,000	130,000
South	385,000	345,000	South	359,000	371,000
West	136,000	149,000	West	161,000	187,000

\*Seasonally adjusted annual rate



### US Industrial Production – April 2012 –

US Industrial production increased 1.1 per cent in April, according to the US Federal Reserve Wednesday. Output is now reported to have fallen 0.6 per cent in March and to have moved up 0.4 per cent in February.

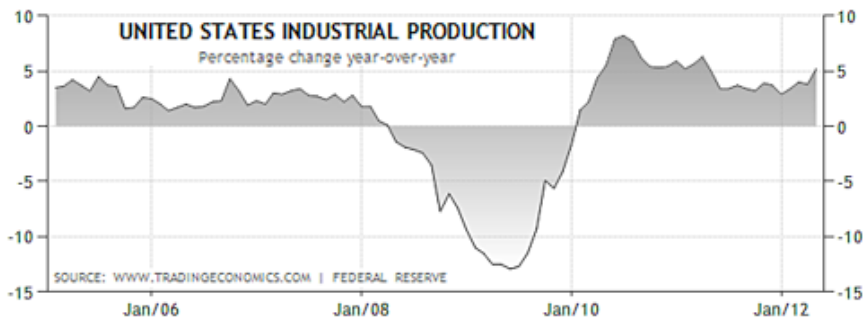
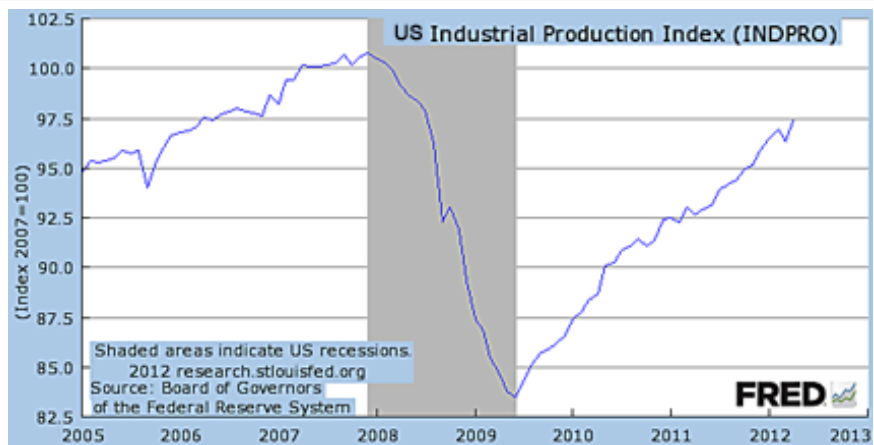
Manufacturing output increased 0.6 per cent in April after having decreased 0.5 per cent in March. Excluding motor vehicles and parts, which increased nearly 4 per cent, manufacturing output moved up 0.3 per cent, and output for all but a few major industries increased. Production at mines rose 1.6 per cent, and the output of utilities gained 4.5 per cent.

At 97.4 per cent of its 2007 average, total industrial production for April was 5.2 per cent above its year-earlier level. The rate of capacity utilization for total industry moved up to 79.2 per cent, a rate 3.1 percentage points above its level from a year earlier but 1.1 percentage points below its long-run (1972--2011) average.

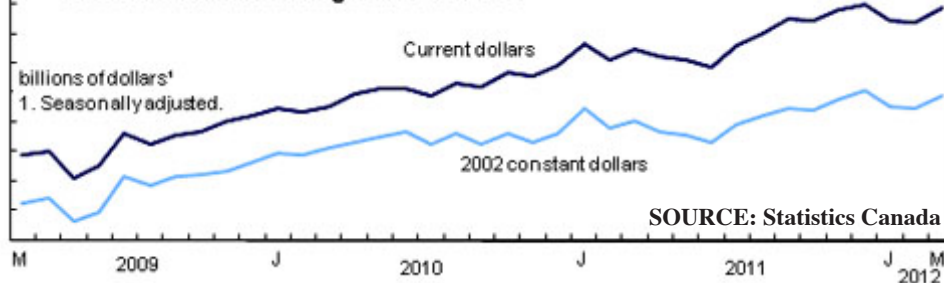
### Canada Survey of Manufacturing – March 2012 –

Canada's manufacturing sales increased 1.9 per cent in March to \$49.7 billion, the largest advance since September 2011, said StatsCan Wednesday. The gain was led by the petroleum and coal products industry.

Sales rose in 13 of 21 industries, representing just over three-quarters of the manufacturing sector. Sales of durable goods increased 1.4 per cent, while non-durable goods sales rose 2.4 per cent.



### Canadian Manufacturing Sales Increase



### Japan 2011 Lumber Imports

Japan's lumber import figure in 2011 increased for the second consecutive year to ¥999.7 billion, up 9.1 per cent from the previous year, according to the Forestry Agency, says the *Japan Lumber Journal*.

The figure, however, is still less than the results of 2007, of ¥1,394.4 billion, and 2008, of ¥1,157.9 billion.

The breakdown of the imports was: 4.6 million cubic meters of logs, a 2.5 per cent drop over the previous year; 6.8 million cubic meters of lumber, a 6.7 per cent increase over last year; 3.1 million cubic meters of plywood, a 16.9 per cent rise; 11.8 million tons of wood chips, down 2.7 per cent; and 815,000 cubic meters of laminated wood, up 17.9 per cent.

By country, the imports from China amounted to 15 per cent of the total lumber imports with ¥149.5 billion, a 13.9 per cent increase, topping the list for the fifth consecutive year.

### 2011 Lumber Import Results

Origin	2010	2011	Y/Y(%)
<b>Total</b>	9,160	9,997	109
<b>China</b>	1,312	1,495	114
<b>Malaysia</b>	1,029	1,176	114
<b>Canada</b>	1,025	1,047	102
<b>Indonesia</b>	687	826	120
<b>U.S.A.</b>	668	676	101
<b>Australia</b>	868	650	75
<b>Chile</b>	513	578	113
<b>Philippines</b>	419	501	119
<b>Russia</b>	390	453	116
<b>New Zealand</b>	319	373	117
<b>Total value of imports</b>	607,650	681,112	112
<b>The rate of wood imports</b>	1.51%	1.47%	—
<b>The exchange rate of the yen to the dollar</b>	87.75	79.76	—

source: "Trade Statistics" by Ministry of Finance

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	308	304	+8	280	+28	210	+98
WSPF KD R/L 2x6	300	294	+6	288	+12	215	+85
WSPF KD R/L 2x8	300	292	+8	272	+28	245	+55
WSPF KD R/L 2x10	374	354	+20	318	+56	250	+124
WSPF KD PET 2x4 Stud	360	345	+15	287	+73	225	+135
WSPF KD PET 2x6 Stud	360	345	+15	300	+60	245	+115
Douglas Fir Green R/L 2x4	260	255	+5	238	+22	240	+20
Douglas Fir Green R/L 2x10	310	315	-5	250	+60	260	+50
ESPF KD 2x4 8ft Stud	410	410	0	350	+60	310	+100
OSB Ontario 7/16" (CDN\$)	240	220	+20	215	+25	195	+45
CSplywood Toronto 3/8" (CDN\$)	353	353	0	350	+3	295	+58

## Weekly News

### Home Building, US

CONTINUED US Home construction is near a three-year high.

Some economists have noted that a warm winter led companies to move up some hiring and accelerate other activity — including homebuilding — that normally wouldn't occur until spring. That gave the appearance that the economy had strengthened in January and February and weakened in March.

But Paul Ashworth, chief US economist at Capital Economics, noted that the overall trend in housing starts has been running at roughly the same annual pace — approximately 700,000 — over the past six months, according to *Associated Press*. That's 100,000 more on average than the pace for the previous six months.

Ashworth said the higher level suggests demand is increasing and the mild winter had less effect than some economists had thought.

### Fires, Canada and US

CONTINUED Officials in Arizona continue fighting four blazes. The fires grew by about 5,000 acres overnight to about 24,000 acres, according to an updated status report. The fires have been growing throughout the week as officials have had to fight low humidity and gusting winds.

Meanwhile north of the border, Southern Manitoba and northwestern Ontario have the most extreme risk of forest fires in the country, according to Natural Resources Canada's updated fire danger map.

A blaze burning near Lodgepole, AB, about 175 kilometres southwest of Edmonton, was "being held" after firefighters spent days battling the blaze, which had put residents in that area on evacua-

tion notice. As of Monday afternoon, that fire destroyed about 140 hectares, said Whitney Exton, a wildfire information officer with Alberta Sustainable Resource Development.

Residents of a dozen homes in the Forsythe Lake area are under a voluntary evacuation order, Bonnyville RCMP said late Monday afternoon, as shifting winds changed the direction of a nearby wildfire.

Officials said the fire, about 275 kilometres northeast of Edmonton, is threatening homes about four kilometres north of Moose Lake.

A massive fire near Grassland is currently 1,000 hectares and burning out of control.

Alberta's forested regions from Waterton Lakes National Park to north of Fort McMurray are under a fire ban.

### Sawmill Safety

CONTINUED Says the WorkSafeBC announcement, "These are observations; no final conclusions have been reached with respect to cause and underlying factors.

In both investigations, the ignition sources appear to have been located at the conveyor level, where electrical and/or mechanical equipment was in operation in areas contained by walls and equipment. These areas are at the basement or lower level of both of the mills under investigation."

WorkSafeBC is telling mills not to use compressed air to clean up, for fear it might actually trigger the explosion the cleanup is designed to prevent.

In a conference call with industry leaders Monday, Director of investigations Jeff Dolan said sweeping, vacuuming, and wetting down the sawdust are recommended

cleanup strategies that will lessen the risk of explosion.

Dolan explained to *Madison's* in a phone interview Thursday, "Investigators think it is significant that the point of origin for both mills was in the conveyor level, in the basement. Due to the catastrophic damage at both sites, our staff used engineering and site drawings to learn that at both mills these conveyor areas would have been closed in either by walls or by large pieces of equipment. This circumstance would have provided containment, which is one of the factors needed in an explosive event.

"While sawdust is a possible fuel source, so are natural gas and propane. Industry is directed to pay special attention to these areas and to check whatever fuel source there may be."

### Softwood Lumber

#### Export Tax Reduction

Jones & Jones Customs Brokers and Trade Consultants sent out a reminder to clients this week about the timing of loading lumber in advance of the reduction in the 2006 SLA export tax coming on June 1.

Michael Jones, President, explained in an email, "In order to take advantage of the reduction exporters will not be able to pre-ship and position loads close to the border for "crossing" on the 1st, but, must not load the lumber on a rail car or trailer for shipment to the US until after June 1st. In other words, if the "ship date" precedes the June 1st effective date, and even though the lumber is entered and crosses into the US on or after June 1st, it would still be subject to the May Export Surcharge rate. Shipments to reloads are captured by the date they leave the last reload prior to direct delivery to the US, not the date they leave the mill or reman."

# Forestry, Paper, and Packaging

## PwC Global Conference

Further to last week's coverage in your Reporter of the Pulp and Paper Products Council's International Pulp Week, this week *Madison's* breaks down the PricewaterhouseCoopers

by Kéta Kosman

annual forestry conference, which took place on May 10 in Vancouver, British Columbia. Over the course of a very long day, which started with a breakfast networking session at 7:00am, analysts, agencies, and company CEO's gave presentations on a wide range of topics; from log and lumber demand to US housing to a paper industry outlook, and more.

The first session of the day, titled "Financial Performance" included speaker Jock Finlayson, VP and Chief Policy Officer for the Business Council of British Columbia. Finlayson gave a very good presentation at the Council of Forest Industries AGM in Prince George, BC, last September, so *Madison's* was excited to hear an update.

"US housing starts will inch up to 700,000 annualized this year, then slowly keep moving higher over the next several years," Finlayson explained. "Historically there are 1.3 million new households formed in the US per year. For the past several years the figure has been half that. There are currently 1.5 million 18 - 30 year olds in the US, so there could be a surge in demand for homes by 2015."

In the first afternoon session, Bob Flynn, Director of International Timber at RISI, gave a presentation titled "Global Timber and Solid Wood Market."

"By 2014 the US will have over 1 million housing starts, due entirely to multi-family building, which doesn't use as much wood as detached homes do," said Flynn. "There will be an increase in US

softwood lumber consumption, but continued low home building figures mean demand will be below 50 million board feet annually until 2015. As a result, Canadian lumber producers will still be dependent on offshore markets. And China, as a major customer for Canadian wood products, will not go away."

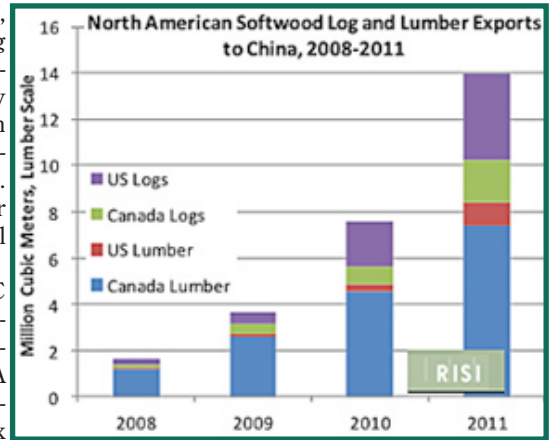
The final session of the PwC forestry conference was the always well-attended executive panel, which ends with a lively Q&A of the CEO's. This year the panelists were Ken Shields of Conifex and John Williams of Domtar. Resolute Forest Products' Richard Garneau was also supposed to speak but at the last minute had to cancel.

The first question from the floor was about a possible threat of fibre shortage. Shields explained that, due to the ongoing contraction in BC's harvest following the mountain pine beetle infestation, "the sawlog harvest will fall by more than 33 per cent, with a shift to pulp log harvest and biomass salvage. We are coping with degrading quality and a falling Lumber Recovery Factor. The break-even benchmark lumber price has risen \$50 mfbm in the past two years, from US\$220 in 2010 to US\$275 mfbm now.

"At the moment, significant proportions of the timber left roadside is not utilized [due to low quality]."

To another question about challenges in recruiting and retaining talent in the forest products sector, Williams said his company puts a focus on "second division people. We must plan for ten years ahead, we have to give young people real jobs. We have to hire better, and remove people who don't perform."

Shields answered that the forest industry is "fishing out of the same talent pool as mining and oil & gas. Over time, market forces will correct and our current concerns will become less intense."



A question about the impact of the mountain pine beetle infestation on small, forestry dependent communities, and what can be done to mitigate those effects elicited very interesting comments from Shields.

"There is an old expression: every shot on the golf course makes somebody happy." This brought a hearty round of chuckles from the predominately male, middle-aged audience.

"There is a huge amount of biomass available, which in and of itself amounts to a mitigation strategy. Canadian lumber producers must be released from the 2006 Softwood Lumber Agreement when it expires. British Columbia is no longer the largest, lowest cost lumber producing area in North America.

"The pulp side gets nowhere near its fair share of costs in fibre procurement. BC pulp mills earned \$45 per cubic metre of roundwood equivalent of EBITDA, while lumber mills earned \$7 per cubic metre of wood processed of EBIDTA. There needs to be a higher value accorded to the non-lumber part of the sawlog. The current model allows harvest of stands that are too dense, which has the effect of upping the Annual Allowable Cut.

"There also needs to be a review of pricing of residual fibre in BC."

The moderators paused momentarily to allow for more questions from the floor, at which point someone asked Shields a follow-up question: if the fibre left in the woods is around 30 per cent, what changes in the future could make the business more economic?

"There needs to be higher prices," responded Shields. "Fibre consumers source more fibre from in-forest residuals than from sawmill residuals.

"There must be an increase in price of sawmill residuals, and a change to the log pricing model for the harvest, so pulp mills have an incentive to buy sawmill chips rather than grinding up whole pulp logs [as their feedstock]."

