

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines changes to Brazil's Forest Code. The President vetoed some important sections which would have weakened silviculture regulations for forestry and agriculture companies. Environmentalists claim the entire bill should have been vetoed.

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Record Wildfires

Summer has barely started and already firefighters in southwestern New Mexico continued to battle the largest wildfire in the state's recorded history Friday as the flames scorched stretches of the Gila Wilderness. Experts say the massive blaze could be a preview of things to come this fire season as the rest of the West copes with a dangerous combination of wind, low humidity and dry brush.

The Whitewater-Baldy blaze in New Mexico has charred more than 216,000 acres in Gila National Forest and has become the largest wildfire burning in the country, officials said Friday. It was 10 per cent contained Friday, morning double the level of the day before, and firefighters were scouting along the fire's eastern and southwestern flanks to establish firm containment lines, officials said.

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First Quarter 2012 GDP, Canada and US

The Commerce Department on Thursday lowered its estimate for first quarter US GDP growth from an initial estimate of 2.2 per cent. The downward revision was largely because consumers and governments spent less than first estimated, businesses restocked more slowly, and the US trade deficit grew sharply.

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Babine Restarts

Following in the footsteps of Sinclair's Lakeland stud mill in Prince George, BC, last week, Babine Forest Products in Burns Lake, BC, has also resumed work at its planer mill to finish processing the stack of semi-complete lumber, according to the *Prince George Citizen*.

"We had about 14 million board-feet of lumber already cut, so we'll be operating to the middle of June to do the planer run and get the lumber shipped," said Steve Zika, CEO of Hampton Affiliates, owners of Babine and sister mill Decker Lake Forest Products.

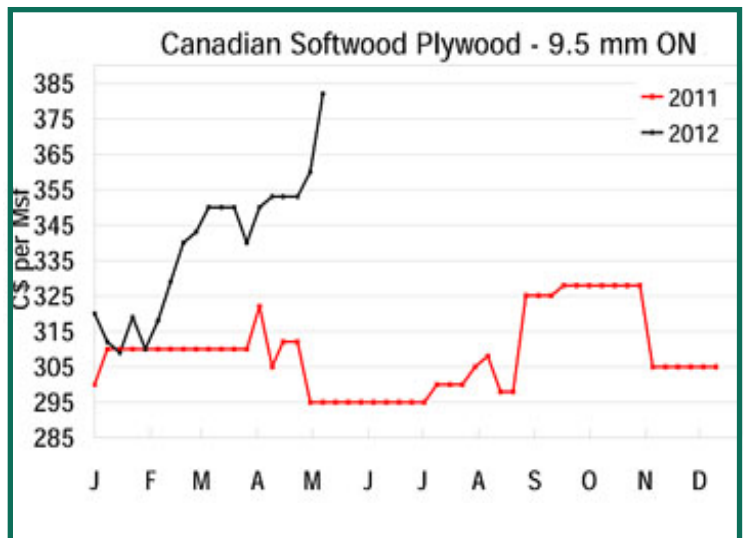
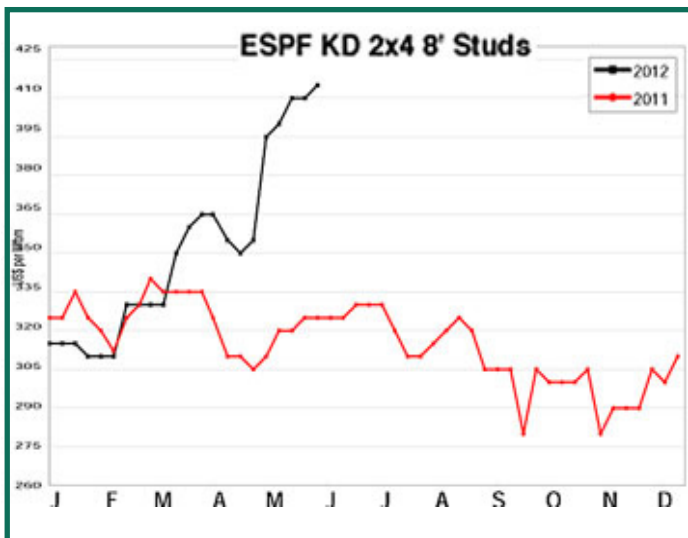
Zika was in Burns Lake on Tuesday and Wednesday from corporate headquarters in Portland, OR. "Starting the planer run is one of the reasons I was up at Babine. I wanted to smell the wood and see the workers."

About 40 people are temporarily back at work at Babine. Zika had to find other mills to buy the logs and the transportation is now underway, says the *Citizen*.

Sawmill Residuals

Lumber producers in eastern Canada are having trouble finding regular buyers for byproducts, specifically wood chips, as the pulp and paper sector in North America experiences softening demand.

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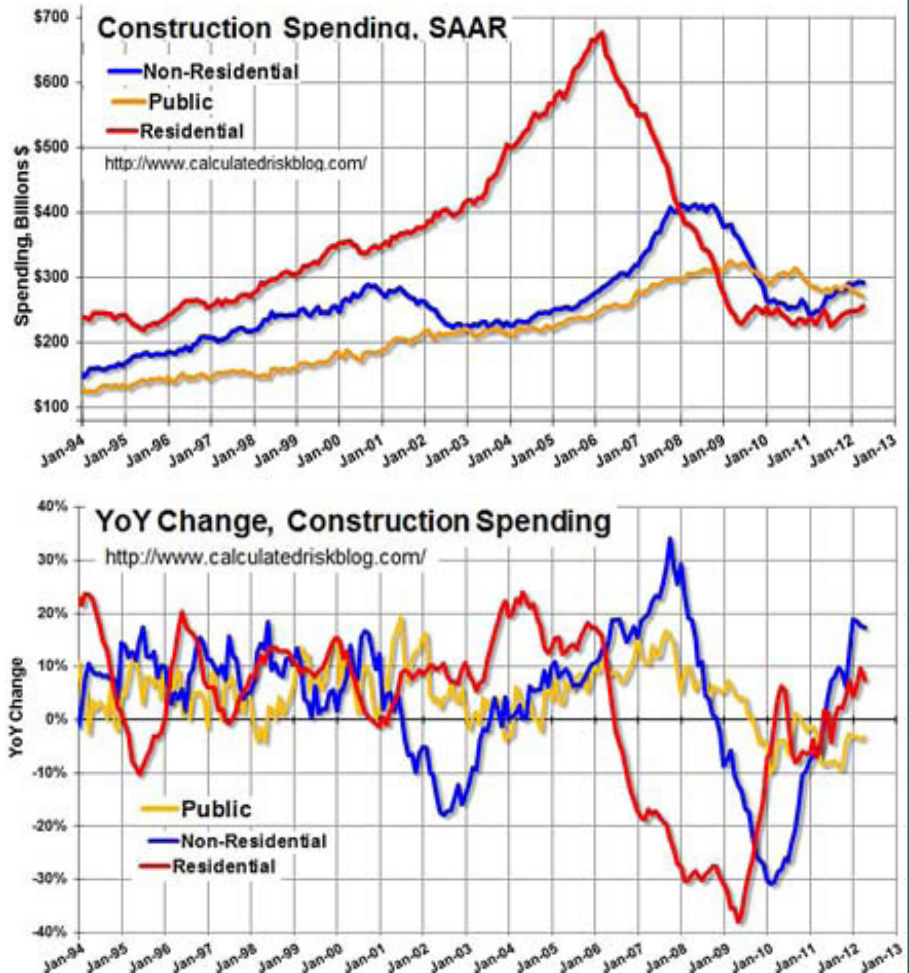
US Construction Spending

The US Census Bureau of the Department of Commerce announced Friday that construction spending during April 2012 was estimated at a seasonally adjusted annual rate of US\$820.7 billion, 0.3 per cent above the revised March estimate of US\$818.1 billion. The April figure is 6.8 per cent above the April 2011 estimate of US\$768.2 billion.

Spending on private construction was at a seasonally adjusted annual rate of US\$549.7 billion, 1.2 per cent above the revised March estimate of \$543.4 billion. In April, the estimated seasonally adjusted annual rate of public construction spending was US\$271.0 billion, 1.4 per cent below the revised March estimate of US\$274.7 billion.

The top graph shows private residential and nonresidential construction spending, and public spending, since 1993. Note: nominal dollars, not inflation adjusted.

Private residential spending is 62 per cent below the peak in early 2006, and up 14 per cent from the recent low. Non-residential spending is 29 per cent below the peak in January 2008, and up about 20 per cent from the recent low. **SOURCE: Calculated Risk**



Construction Materials Prices Rise Moderately in April

- REED CONSTRUCTION DATA -

The construction industry is finally seeing some relief in building materials inflation. Recent declines in energy prices are leading to lower prices for some materials and slower increases for others. Less than stellar increases in both residential and nonresidential construction activity are also keeping the lid on prices. Among major categories seeing price declines in April besides energy products were iron and steel scrap, gypsum products, extruded aluminum rod, and copper and copper products.

Construction Materials Inflation

The Bureau of Labor Statistics reported that the seasonally adjusted Producer Price Index (PPI) for materials and components used in construction rose 0.3 per cent in April after increasing 0.2 per cent in March. The index was up 2.9 per cent on a year-over-year basis, and 7.4 per cent since April 2009. Meanwhile, prices for raw materials used in construction or to produce products used in construction rose faster, up 0.9 per cent, after increasing 0.4 per cent in March. The index was up 3.8 per cent from a year earlier and 5.9 per cent from three years earlier.

Softwood Lumber and Gypsum

The seasonally adjusted PPI for softwood lumber slipped 0.4 per cent after increasing 2.4 per cent in March. On a year-over-year basis, prices were up 3 per cent and have moved 23.5 per cent higher since April 2009.

Outlook for Construction Materials Prices

The Reed Construction Data forecast is still for rising construction activity. This will result in modest upward pressure on construction materials prices. As the economy advances at a moderate pace, prices will move roughly in line with general inflation. Faster than projected sustained US economic growth, 3 per cent or higher at an annual rate, will accelerate commercial construction activity and push materials price inflation higher than general inflation. This seems unlikely to happen before the latter part of this year or early next year. Similarly, faster growth in the rest of the world than forecast would add to construction materials price inflation as would stimulative action by some European economies, which is not likely despite growing opposition to German imposed austerity.

Rapidly rising energy prices remain the biggest risk to materials price inflation and a major risk to the health of the world economy, though that risk has dropped and the benefits of somewhat lower energy prices are moving through building materials prices. However, as always, a prolonged spike in oil prices (higher than recently experienced) would hurt consumers and adversely affect the growth of the economy, possibly pushing the US back into recession.

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	310	309	+1	300	+10	230	+80
WSPF KD R/L 2x6	298	299	-1	292	+6	228	+70
WSPF KD R/L 2x8	310	310	0	290	+20	248	+62
WSPF KD R/L 2x10	371	371	0	330	+41	255	+116
WSPF KD PET 2x4 Stud	365	365	0	340	+25	255	+110
WSPF KD PET 2x6 Stud	365	345	+20	325	+40	280	+85
Douglas Fir Green R/L 2x4	253	250	+3	250	+3	250	+3
Douglas Fir Green R/L 2x10	295	300	-5	315	-20	260	+35
ESPF KD 2x4 8ft Stud	415	410	+5	400	+15	320	+95
OSB Ontario 7/16" (CDN\$)	255	240	+15	215	+40	195	+60
CSplywood Toronto 3/8" (CDN\$)	382	368	+14	353	+29	295	+87

Weekly News

Forest Fires

CONTINUED The Michigan Department of Natural Resources is reporting more progress in battling a wildfire that has consumed about 21,500 acres.

The DNR announced Friday that the nearly 34-square-mile fire in Luce County's Duck Lake area was 63 per cent contained.

Fire experts are warning that US\$512 million in congressional budget cuts could leave communities dangerously exposed in an early and active fire season.

Such warnings have sharpened with the early onset of this year's fire season, and the record-setting outbreak in New Mexico.

Experts fear the shortfall will leave fire crews scrambling for resources, and force government agencies to dip into other non-fire budgets to cover the gap.

Economic Growth, US and Canada

CONTINUED Analysts believe the US economy is growing at a slightly faster rate this spring. They estimate growth at an annual rate of between 2 per cent and 2.5 per cent in second quarter. Many expect the economy will maintain that pace for all of 2012, an improvement from last year's 1.7 per cent growth.

Still, growth of 2.5 per cent is typically enough just to keep pace with population changes. Most economists say it takes almost twice as much growth to lower the unemployment rate by 1 percentage point over a year.

Canada's Real GDP rose 0.5 per cent in the first quarter, the same pace as in the previous quarter, said Statistics Canada Friday. Business investment contributed the most to first-quarter GDP growth.

Final domestic demand grew 0.3 per cent. On a monthly basis, real GDP by industry edged up 0.1 per cent in March.

As was the case throughout 2011, business investment continued to fuel growth. Business investment in plant and equipment advanced 1.2 per cent, the ninth consecutive quarterly increase. Housing investment expanded 2.9 per cent, well above the previous quarter's pace of 0.8 per cent. Non-farm business inventories increased in the first quarter.

CN Rail Complains

Customers of Canada's railways, which often operate in a monopoly position – particularly in remote areas of Canada's north – were elated late last year when the federal government announced the Rail Freight Service Review to address systemic complaints of poor service at Canadian National Railway and Canadian Pacific Railway.

Friday morning, Claude Mongeau, CEO of CN, urged Ottawa to not interfere in the rail industry, according to the *Financial Post*.

A report is expected in the coming days from the facilitator, and the federal government said it remains committed to tabling a bill this fall that would grant shippers a right to a service agreement.

"The reality is that it would be very disappointing if the government went down that path," Mr. Mongeau said to the *Post*. "Ottawa isn't designed to step into the middle of complex commercial situations."

Bob Ballantyne, Chair of the Coalition of Rail Shippers, told the *Post* that rail customers were more concerned during negotiations that the railways wouldn't agree to any standardized measures.

Mongeau contends that both railways have stepped up to improve service in the aftermath of the Review. He admits that CN "ruffled some feathers" in the past with the pace at which it implemented change, a massive understatement to say the least.

Sawmill Fire

Fire swept through the Cass Sawmill in Cookville, TN, Wednesday afternoon, causing an estimated US\$50,000 damage and giving firefighters some anxious moments, according to the *Herald Citizen*.

"We had two dangerous issues, a water supply problem and a 1,000 gallon propane tank that was located beside the mill," Blair said. No one was injured.

He said the fire may have spread through dry grass from a brush pile located not far away to the sawmill, which consisted of three buildings and various equipment and building supplies.

"It destroyed one wooden building and the contents, equipment and supplies, as well as a truck trailer that had been used for hauling sawdust, but we kept the fire from spreading to two other mill buildings and we worked hard and kept that propane tank from exploding."

He said water supply was a problem since the nearest feasible hydrant was five miles away.

Calendar

June 2012

Maritime Lumber Bureau Annual Meeting

June 6 to 8 – Fredericton, NB
www.mlb.ca/2012agmregistration/

Deming 50th Logging Show

June 9 & 10 – Deming, WA
<http://www.demingloggingshow.com/>

International Bioenergy Conference and Exhibition

June 13 to 15 – Prince George, BC
<http://www.bioenergyconference.org/>

Wood Chips

Piling Up

Reports out of eastern Canada last week indicate that newly ramped up production at sawmill operations are causing a glut of wood chips. Apparently finding regional customers in the pulp and paper sector for the valuable residuals has proven difficult of late. One sawmill in New Brunswick, Devon Lumber in Fredericton, told the *CBC* last week that it has a pile of wood chips two storeys high.

by Kéta Kosman

Mark Arsenault, President and CEO of the New Brunswick Forest Products Association, said to the *CBC* there is indeed an oversupply of chips on the market.

"Newpage in Nova Scotia, Abitibi [Resolute] in Nova Scotia, the White Birch mill in Quebec, and also in Maine have shut down or stopped or reduced their receivables of pulpwood from New Brunswick," Arsenault said.

The NBFPA has made recommendations to the government of New Brunswick on ways to reduce the oversupply of wood chips.

Rick Doman, President and CEO of EACOM Timber, out of Montreal, QC, explained to *Madison's* in a phone interview Thursday morning that this situation is "not new. Its happened before".

"Right now there is no home for sawmill byproducts," said Doman. "Pulp and paper mills in the area are slowing down."

When asked about selling chips to pulp producers further away, Doman said, "Transportation becomes costly. Besides, the problem isn't just here [in eastern Canada], it looks like a North America-wide issue.

"When global demand for pulp and paper products declines, as it is now, and producers take downtime, it causes challenges for the spot chip market. Some sawmills have to close or curtail because if they are not selling the byproducts, like wood chips, sawdust, and hog fuel, they are not getting that revenue stream. This seriously affects the economics of operating a lumber producing business.

"In these circumstances it is difficult to run full time, even when lumber prices are higher."

In 2010, when North American lumber demand was at historic low

levels, worse than what veteran traders had ever seen, pulp and paper prices were riding high. Both sectors operate in cycles, and are subject to general economic conditions. At this moment there appears to be a bit of a lull in pulp demand, although the drop should not be considered alarming.

A source for a major Canadian lumber producer with sawmills in Ontario and Quebec explained to *Madison's* that the downtime with pulp producers was not affecting that company's Ontario mills "right now".

"But if other sawmills open up there will be problems," the source said. "What chips we are producing we sell, we have long term contracts. The kraft mills and pulp mills that have closed in the east of Canada and the US are having an impact. Even some of our Ontario mills at times carry a chip inventory.

"In Quebec there have been curtailments [with this company], some due to issues selling chips and one for a different reason."

According to global pulp and paper tracker FOEX, market pulp, or NBSK, prices in both North America and Europe are up since the beginning of this year. Paper, however, has not fared so well, which may be why upstream producers are now being affected.

Northern bleached softwood kraft (NBSK) pulp prices in Europe have risen by US\$20.35, to US\$849.39 per ton on Tuesday when FOEX publishes its weekly prices. In the US, market pulp prices have increased by US\$10 to US\$900 per ton. While not at the US\$1,000 per ton that pulp prices were enjoying a mere two years ago, the current rates are still well above the US\$600 per ton price level of early 2008.

Global chemical paper grade market pulp shipments in April were 3.442 million tons, a decrease of 11.4 per cent from the previous month but up by 1.3 per cent from the same month year ago, according to a Pulp and Paper Products Council press release on May 24. Inventories at the end of April stood at 32 days of supply, up by one day from the end of March but down by one day from April 2011.

Pulp inventories at European ports increased in April by 36,800 tons, or 3.6 per cent, to 1.1 million tons compared to March inventories, according to Europulp this week. Compared to one

year ago, the port inventories were lower in 2012 by 47,000 tons, or by 4.3 per cent.

According to a recent press release by Wood Resources Quarterly, based in Seattle, WA, during the first four months of 2012, hardwood pulp (BHKP) prices have increased faster than softwood pulp prices. In April, BHKP prices were at US\$760 per ton in Europe, which is up US\$85 per ton from January, and US\$820 per ton, US\$50 per ton higher since the beginning of 2012, in the US, says WRQ.

Paper prices, meanwhile, continue to take a real beating. In Europe, prices on everything from newsprint to printing & writing paper to kraftliner have been falling steadily since the beginning of this year.

The PPPC's latest release says that North American newsprint statistics over April came out with positive surprises. While overseas exports were down again in a serious way, the regional shipments showed an increase of 1.7 per cent in April, compared to April 2011. The cumulative shipment data was still slightly negative, showing a drop of 1.3 per cent over the first four months, said the PPPC on May 24. The strike by the Canadian Pacific Railway may well have a negative impact on the May numbers, once those are published, in about four weeks. North American newsprint total demand showed a 1.9 per cent upturn in April, which was a change from the quite long string of negative demand numbers. The cumulative change over four months shrank to a drop of 1.5 per cent, according to PPPC.

The good news is that there is a rapidly growing new customer base for sawmill residue, which will increasingly put pressure on the pulp and paper sector's monopoly on wood chip and sawdust buying. Pellet exports from North America to Europe reached a new record high in the 4Q 2011. Shipments have increased practically every quarter for four years, up from 130,000 tons in the 1Q 2008 to almost 600,000 tons in the 4Q 2012, according to the North American Wood Fiber Review, published by WRQ. Export data collected from exporters and customs information in both North America and Europe show that wood pellet shipments reached just over two million tons in 2011, up almost 300 per cent from 2008.