

# MADISON'S LUMBER REPORTER

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## News & Updates

### Madison's Investment Rx

This month's issue of *Madison's Investment Rx* examines the latest dimension lumber production data for Canada and the US, and looks at business reactions and strategies across North American regions for the rest of this summer.

Contact us to receive this vital and timely information regularly.

### Tribunal Dimisses Softwood Lumber Arbitration

In a move that can only be described as stunning, the LCIA Wednesday summarily dismissed the latest US claim against Canada under the 2006 Softwood Lumber Agreement. The panel gave itself ten days to release its reasons. At that time, the final submissions by Canada and the US, filed May 24, are also expected to be released.

### Housing Starts, US

The Commerce Department said on Wednesday that housing starts in June rose 6.9 per cent last month to a seasonally adjusted annual rate of 760,000 units. That was the highest rate since October 2008.

The Commerce Department's revisions to data on housing starts from prior months were also upbeat. Groundbreaking during May was revised up to a 711,000-unit pace from a previously reported 708,000 unit rate. April's reading was revised slightly higher.

On Wednesday, applications for US home mortgages jumped last week on a surge in demand for refinancings, though purchase activity edged down. In recent weeks, other private groups have said signed contracts for home purchases rose sharply in May and home prices rose that month.

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### Forest Fires

Wildfires continued this week in Alberta, British Columbia, and Wyoming, as well as in Greece and Portugal. The Wyoming Military Department claims that the Colorado National Guard caused the Sawmill Canyon fire.

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### Chetwynd to Close

Tembec has announced the shutdown of its high-yield pulp mill in Chetwynd, BC, which the company bought in 2002. Employing 115 people, the mill will be indefinitely idled as of September 16 due to softness in the market for its product.

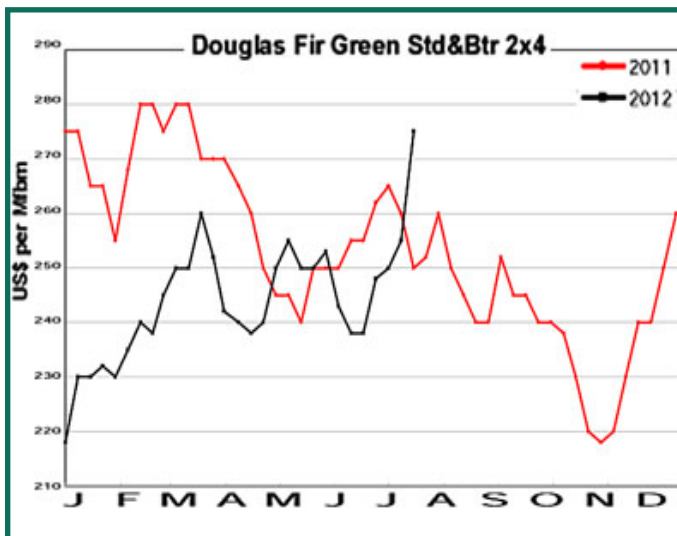
Tembec says at today's price levels "it is virtually impossible to maintain viable operations given the current cost structure of the Chetwynd mill."

The high-yield pulp produced at the mill is used in printing and writing papers, paperboard as well as tissue and towelling. The pulp produced at the Chetwynd mill, which has an annual production capacity of 240,000 tonnes, is shipped primarily to Asia.

### Québec's Forest Industry Transformation Policy

The Government of Québec this week announced its 2012 - 2017 forestry policy. However, the documents were released in French only, so Madison's is providing an English translation.

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U. S. HOUSING STARTS					
	Jun-12	May-12		Jun-12	May-12
<b>Starts</b>			<b>Permits</b>		
Actual	75,600	68,300	Actual	75,400	75,400
SAAR*	760,000	711,000	SAAR*	784,000	784,000
1 Unit	539,000	515,000	1 Unit	490,000	490,000
2-4 Units	(s)	(s)	2-4 Units	22,000	22,000
5+ Units	213,000	182,000	5+ Units	272,000	272,000
<b>Starts by Region</b>			<b>Permits by Region</b>		
Northeast	77,000	63,000	Northeast	78,000	78,000
Midwest	101,000	109,000	Midwest	119,000	119,000
South	363,000	379,000	South	412,000	412,000
West	215,000	160,000	West	175,000	175,000

\*Seasonally adjusted annual rate

## US Builder Confidence Rises Six Points in July

Builder confidence in the market for newly built, single-family homes rose six points to 35 on the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) for July, released Tuesday. This is the largest one-month gain recorded by the index in nearly a decade, and brings the HMI to its highest point since March of 2007. All three components and four regions increased as well. The current sales sub-component rose six points to 37 and the expectations for sales in the next six-months rose 11 points, both the highest in over five years. The 11 point gain in the expectation component is the largest in the 27 year history of the index. The traffic component rose six points, hitting a level last seen six years ago.

Builders commented that buyers were more serious and feeling some urgency to act as interest rates remained low but inventory of new homes also remained low. Buyers remain very price conscious and continue to search for bargains just as builders are feeling price pressures on some rising material prices. A number of builders also offered some concern that the supply pipeline of developed lots and development dried up over the past several years and that price competition in markets with little supply was possible.

The forecast for the rest of 2012 calls for continued modest increases in production as more buyers realize home prices have stabilized and are beginning to rise in many markets.

Every HMI component recorded gains in July. The components gauging current sales conditions and traffic of prospective buyers each rose six points, to 37 and 29, respectively, while the component gauging sales expectations for the next six months rose 11 points to 44.

Derived from a monthly survey that NAHB has been conducting for the past 25 years, the NAHB/Wells Fargo Housing Market Index gauges builder perceptions of current single-family home sales and sales expectations for the next six months as "good," "fair" or "poor."



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	295	294	+1	298	-3	260	+35
WSPF KD R/L 2x6	291	290	+1	290	+1	260	+31
WSPF KD R/L 2x8	309	308	+1	314	-5	285	+24
WSPF KD R/L 2x10	361	360	+1	368	-7	290	+71
WSPF KD PET 2x4 Stud	350	345	+5	345	+5	260	+90
WSPF KD PET 2x6 Stud	355	345	+10	355	0	285	+70
Douglas Fir Green R/L 2x4	275	255	+20	238	+37	250	+25
Douglas Fir Green R/L 2x10	290	278	+12	268	+22	295	-5
ESPF KD 2x4 8ft Stud	395	395	0	410	-15	330	+65
OSB Ontario 7/16" (CDN\$)	245	245	0	255	-10	205	+40
CSplywood Toronto 3/8" (CDN\$)	417	413	+4	410	+7	300	+117

## Weekly News

### US Housing Starts, Home Sales

CONTINUED The Commerce Department's report showed the increase in housing starts in June was spread broadly throughout the sector, with groundbreaking for single-family homes up 4.7 per cent. This segment accounts for most of the market. Starts for multi-family homes – one of the report's more volatile readings – rose 12.8 per cent.

New permits for building homes dropped 3.7 per cent in June to a 755,000 unit pace.

The National Association of Realtors said Thursday that sales of previously occupied homes fell 5.4 per cent in June to a seasonally adjusted annual rate of 4.37 million homes.

That's the fewest since October.

Sales are up 4.5 per cent from a year ago, evidence that the market is still recovering. But the annual sales pace is below the six million that economists consider healthy. The June drop in completed re-sales contrasts with more encouraging data that show gains in new residential construction, higher builder confidence and more signed contracts to buy previously owned homes.

The number of first-time buyers, critical to a housing recovery, made up just 32 per cent of sales. That's down from 34 per cent in May. In healthy markets, first-time buyers make up more than 40 per cent of the market.

The median home price rose five per cent to \$189,400. That's mostly because sales of more expensive homes rose, while sales of cheaper homes fell, the Realtors group said.

Prices are also rising because there are fewer homes for sale. The inventory of unsold homes fell to 2.39 million. It would

take six and a half months to exhaust the supply at the current sales pace.

### Wildfire Season

CONTINUED A wildfire in north-east BC has triggered an evacuation alert for a natural gas plant in the mostly-rural region of Suhm Creek, about 120 kilometres northeast of Fort Nelson.

The Northern Rockies Regional Municipality has issued the alert, which covers the natural gas plant and another commercial facility. The fire was sparked by lighting last week and covers about 48 square kilometres.

Meanwhile, firefighters and equipment from outside the province were used this week in northern Alberta as crews continue to battle 17 out-of-control wildfires.

There are currently 54 fire burning in Alberta, the largest of which is the out-of-control blaze burning outside Zama City, 140 km north of High Level.

Firefighters gained ground on a wildfire in southeast Wyoming. The Sawmill fire has burned about 22 square miles of trees and grass southeast of Glendo State Park since it started Saturday on nearby Wyoming National Guard training grounds.

That fire was at 12,000 estimated burned acres with 40 per cent containment as of Friday morning.

Wildfires across parts of southern Europe are forcing hundreds of people to leave their homes. The flames have been spreading across Greece, Spain and Portugal.

Winds have made the problem worse in Greece - fires have spread to the town of Keratea south of Athens. Firefighters, helicopters and planes carrying water are trying to put the flames out. Many houses have been destroyed by the fires in Greece but no-one has been hurt.

### West Fraser Reports

West Fraser Timber Friday reported earnings of \$27 million in 2Q 2012 on sales of \$775 million. For the first half of 2012, earnings were \$10 million on sales of \$1.5 billion.

West Fraser Timber expects results from their lumber and panels businesses to improve if US new home construction continues to recover. Despite some encouraging signs, the current recovery still appears to be fragile and could be set back by adverse global economic events.

The company said the immediate outlook for their NBSK pulp business is negative as additional supply coming onstream will require market adjustments before prices will recover.

### Sierra Pacific Settles

Sierra Pacific Industries, out of Redding, CA, agreed to pay US\$47 million and convey 22,500 acres of land worth US\$67.5 million to the US to resolve a lawsuit claiming it was responsible for a 2007 wildfire.

The fire in Plumas County in northern California damaged 46,000 acres of national forest. It started when a bulldozer working on a Sierra Pacific timber project caused a spark, the US government said in a 2009 complaint filed in federal court in Sacramento, CA.

The blaze was among the most devastating forest fires in California history, US Attorney Benjamin Wagner said in an e-mailed statement. About 15 million trees, some of them more than 400 years old, were killed and thousands of acres of wildlife habitat was destroyed.

The US sought as much as US\$791 million in damages, said William Warne, Sierra Pacific's attorney. The government's investigation of the fire "was seriously off the rails" and sought to hold the company liable for the conduct of the independent contractor running the bulldozer, he said in a conference call.

# Québec Forest Sector Transformation Policy

## 2012 - 2017

Québec's new forestry program was released this week in French only so *Madison's* is providing an English translation of that plan:

"A Modern Forest Industry, Diversified AND Adapted to Changing Markets  
 Québec is the one of the largest suppliers of forest products in North America. Forests cover 44 per cent of its territory, Québécois collectively own 90 per cent of that forest. Logging is present in virtually all regions of Québec. The availability of significant forest resources has led to the development of powerful manufacturing activity in the production wood products, and pulp and paper.

With the 2012-2017 strategy to transform the industry in Québec forest products, the government vision is to stimulate and motivate efforts to commit to the future. Significant resources will be implemented over the next five years to help the industry to diversify, to innovate, and adapt.

This is the vision proposed by the government to achieve the transformation necessary to the forest products industry. The strategy rests on the mobilization of all players in the forest industry to take advantage of the many strengths Québec has.

It also relies on a will, confirmed by a majority of players, to further continue a major technological shift in the solid wood, pulp and paper, and biomass fuel industries:

- Diversifying manufactured wood products so there is less dependence on economic cycles;

- Developing new products and new markets in the pulp and paper sector;
- Exploiting the opportunities associated energy recovery of forest biomass. Further detail follows below.  
 Wood Products:
  - Opening future markets for existing products;
  - Matching plants to available resources and new needs;
  - Implementing advanced technologies to minimize operating costs;
  - Training the workforce and ensuring its renewal;
  - Investing in the development of innovative products.

- Pulp and Paper:
  - Continuing the development of smart paper and paperboard ultra-resistant;
  - Targeting new products compatible with existing technologies to use existing infrastructure;
  - Optimizing transportation logistics to minimize operating costs;
  - Innovating through

the creation and marketing of high value added (nanocrystalline cellulose, fibre composites, extracting, jet fuel);

- Preparing labour to highly skilled jobs for the development of bioproducts.

- Bioenergy:
  - Supporting the development of markets for energy from forest biomass;
  - Investing in the use of forest biomass for fuel switching fuels (pyrolysis, liquid transport, pellets, torrefied pellets);
  - Encouraging the use of forest biomass for energy production;
  - Investing in the equipment and facilities for profitable harvesting of forest biomass for the manufacture and transport of pellets.

With its 52,000 direct manufacturing jobs and a trade surplus of \$5.6 billion a

time of crisis in 2011, the forest industry remains a pillar of eco-Québec economy. Yet in the past few years there have been profound changes due to:

- The rising Canadian dollar against the US dollar;
- The prolonged crisis of the US home building sector;
- The rapid penetration of electronic media that irreversibly disrupted the newsprint and printing and writing paper markets;
- The aging workforce and worker migration to other sectors as a result of permanent or temporary plant closures;
- Strong competition from both of our traditional partners and emerging countries.

The Government of Québec is providing the following funds to support the implementation of the present strategy:

- The Fund for Wood Valuation. Corporate finance obtained from Investissement Québec, \$95 million, and the Fonds de

solidarité de la FTQ, \$75 million;

- The Action Plan on Climate Change 2013-2020. Represents a source of financing to contribute to the reduction of greenhouse gas emissions.

The components applicable to forestry amount to \$447 million, but it is not reserved solely for the forest estate;

- Wood Construction Working Group: A budget of \$28.9 million was allocated to implement the recommendations presented in the report of the Group, whose aim was to encourage greater use wood in construction;
- RISE and Export Export Quebec. Funds under the responsibility of the Department of Economic Development, Innovation and Export, are also utilized."

"The strategy rests on the mobilization of all players in the forest industry to take advantage of the many strengths Québec has.

It also relies on a will, confirmed by a majority of players, to further continue a major technological shift in the solid wood, pulp and paper, and biomass fuel industries"

### FUNDING to SUPPORT the TRANSFORMATION of the FOREST PRODUCTS INDUSTRY - 2012-2017

#### Measures for the entire forest products industry

The Woods Fund Valuation	\$170 million
A deciduous forest site on	\$9 million
The tax credit for training of the workforce	\$2 million

#### Additional Initiatives for certain industries

The recommendations of the report Beaulieu	\$28.9 million
The RISE program	\$40 million
The program Export Export Quebec	\$3 million
The biotechnology program and implementation of demonstration units	\$15 million

**TOTAL** **\$267.9 million**

The Action Plan on Climate Change \$1,447 million<sup>1</sup>

Source: Ministry of Natural Resources and Wildlife

<sup>1</sup>. The forestry sector will have access to some of this budget