

# MADISON'S LUMBER REPORTER



Publisher  
**KetaDesign Productions**

Editor  
**Kéta Kosman**  
Market Analyst  
**Earl Heath**



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



www.madisonsreport.com  
madrep@shawcable.com  
604 984-6838

PO Box 2486 Vancouver, BC  
V6B 3W7 Canada



In Canada, add GST or HST  
ISSN 0715-5468

Printed in Canada © 2012

All material contained within is the property  
of KetaDesign Productions Inc. Reproduction  
or retransmission is expressly forbidden.



## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest US and Canadian railcar loading statistics, as well as truck transportation data in the US, and Canada's trucking index.

Contact us to receive this vital and timely information regularly.

### Second Quarter Financial Reports

More 2Q financial results have come in for several North American forest products companies.

Domtar Corporation has reported net earnings of \$59 million in 2Q 2012 on sales of \$1.4 billion. In comparison, Domtar reported net earnings of \$28 million for 1Q 2012, and net earnings of \$54 million for 2Q 2011. Operating income before items was \$106 million in 2Q 2012 compared to an operating income before items of \$113 million in 1Q 2012. Depreciation and amortization totalled \$96 million in 2Q 2012.

Canfor Corporation is reporting an operating income of \$26 million in 2Q 2012 on sales of \$700.9 million. This can be compared to an operating loss of \$21.5 million for 1Q 2012. The positive variance primarily reflected improved results in the lumber segment, where stronger markets supported higher prices. [READ MORE](#)

### US Home Sales

New US home sales recorded their biggest drop in more than a year in June while prices resumed their downward trend. Single family home sales tumbled 8.4 per cent to a seasonally adjusted 350,000-unit annual rate, the lowest rate in five months, the US Commerce Department said Wednesday.

The per cent decline was the largest since February 2011 and much of the drop in sales last month reflected a record 60 per cent plunge in the Northeast, which had enjoyed hefty gains since December last year.

May's sales pace was revised to show 13,000 more units sold than previously reported. New home sales were up 15.1 per cent, compared to June last year. [READ MORE](#)

### Forest Fires: Russia, US, and Canada

Abnormal heat and strong winds have firefighters working overtime in Tomsk, Siberia, this week where they are still battling blazes that have now spread over 15,000 hectares of Russian forests in a season that broke 170 year old records for heat and dryness. Some 3,000 people, 412 units of fire-fighting equipment, and 24 aircrafts have been mobilized to fight the blazes. Reports said the wildfires posed no threat to populated areas or industry. [READ MORE](#)

### China's Magazine Publishing Boom

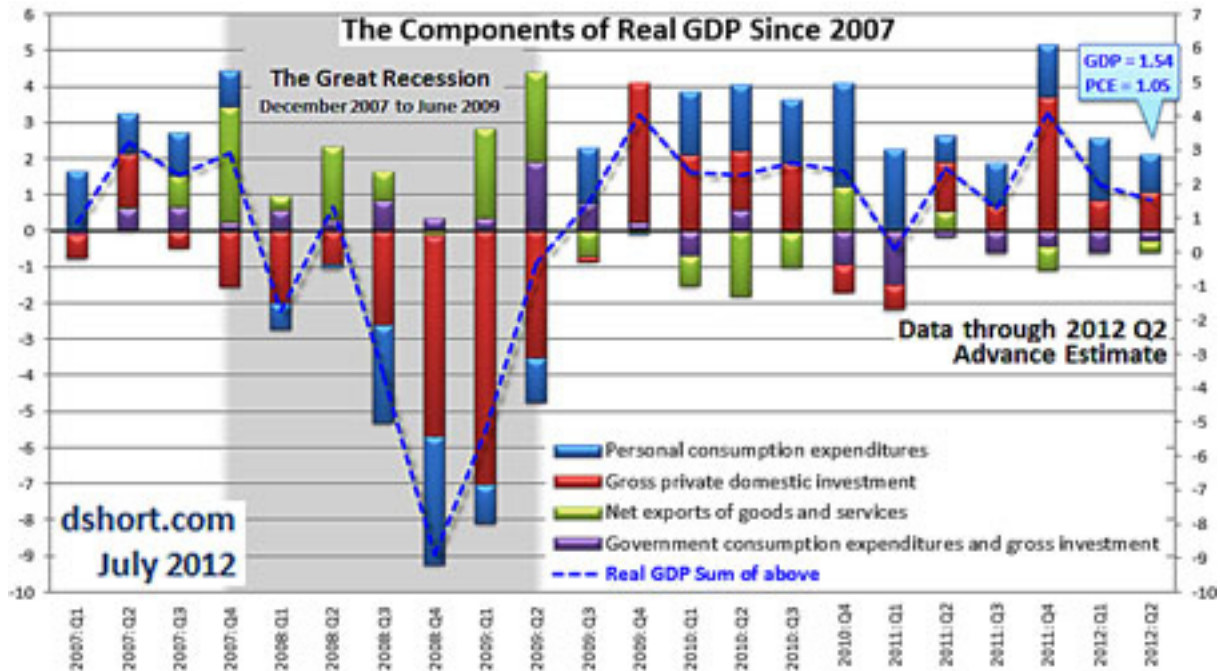
The growing middle class in China is proving to have a taste for luxury goods and fashion items. As such, several magazines have increased their page count in that country significantly. [READ MORE](#)

KEY 2x4 KD R/L PRICES July 2011 - 2012





Conference Board Leading Economic Index, Peaks with Months Before Recession



**WHO WILL OWN THE FOREST?**

SEPTEMBER 18-20, 2012 : PORTLAND, OREGON

**JOIN US FOR NORTH AMERICA'S BEST ATTENDED ANNUAL EVENT ON FORESTLAND INVESTING**

[wwof.worldforestry.org](http://wwof.worldforestry.org)

## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	298	295	+3	290	+8	254	+44
WSPF KD R/L 2x6	294	291	+3	294	0	260	+34
WSPF KD R/L 2x8	308	309	-1	312	-4	285	+23
WSPF KD R/L 2x10	360	361	-1	360	0	290	+70
WSPF KD PET 2x4 Stud	355	350	+5	330	+25	255	+100
WSPF KD PET 2x6 Stud	355	355	0	350	+5	270	+85
Douglas Fir Green R/L 2x4	280	275	+5	248	+32	252	+28
Douglas Fir Green R/L 2x10	300	290	+10	265	+35	305	-5
ESPF KD 2x4 8ft Stud	395	395	0	395	0	330	+65
OSB Ontario 7/16" (CDN\$)	252	245	+7	230	+22	200	+52
CSplywood Toronto 3/8" (CDN\$)	421	417	+4	413	+8	300	+121

## Weekly News

### Financial Reports, 2Q

**CONTINUED** In 2Q, Canfor shipped almost 1.2 billion board feet of lumber, up 16 per cent from the previous quarter. The 2Q profit helped narrow Canfor's overall net loss attributable to shareholders at six months to \$12 million on \$1.3 billion in revenue, compared with a \$9.1 million net profit on \$1.2 billion in revenue over the first six-months of 2011.

Canfor Pulp Products, meanwhile, is reporting a net income of \$3.3 million in 2Q 2012. In comparison, net income for 1Q 2012 was \$10.3 million, and \$48.2 million in 2Q 2011.

Norbord Inc is reporting earnings of \$6 million in 2Q 2012, compared to earnings of \$1 million in the same quarter last year, and break-even earnings in 1Q 2012. EBITDA was \$31 million in 2Q compared to \$10 million in the same quarter last year and \$21 million in 1Q 2012. North American operations generated EBITDA of \$26 million in the quarter versus break-even last year, and \$14 million in the prior quarter.

Tembec has posted a net loss of \$5 million on consolidated sales of \$415 million in 3Q 2012. In the same quarter last year, Tembec posted net earnings of \$17 million. Operating earnings before depreciation, amortization and other items was \$27 million for the three-month period ended June 23, 2012, as compared to adjusted EBITDA of \$33 million a year ago and adjusted EBITDA of \$2 million in the prior quarter.

### New Wildfires

**CONTINUED** Summer 2012 is setting a record pace for Missouri wildfires, and the forecast is for more through autumn.

Mark Twain National Forest wild land firefighters responded to more than 50

wildfires in June and July, that burned more than 4,000 acres of public and private lands. Mark Twain National Forest's 20-year annual average is 174 wildfires, burning about 5,145 acres annually.

Across the US West, major wildfires are wreaking havoc this summer on the region's economically fragile livestock industry. In areas such as remote Powder River County, MT, ranchers said they could be grappling with the devastation for years to come.

Hay is in short supply. Hundreds of miles of fence and numerous corrals and water tanks must be rebuilt. Thousands of head of displaced livestock are being shipped to temporary pastures.

Similar scenes are playing out in Oregon, New Mexico, Colorado, Wyoming, and Idaho. Including Montana, the value of the six states' cattle industries approaches US\$9 billion annually.

Hundreds of thousands of acres of grazing land have burned so far - with months to go in the annual fire season.

Firefighters, meanwhile, continued to battle blazes in Nebraska, where three fires that have ripped across more than 72,400 acres were 50 per cent contained, officials said Thursday. The largest is called the Fairfield Creek Fire. There were 560 people working to fight the Nebraska fires, officials said Thursday.

Officials said the wildfire that prompted Wednesday's evacuation of Ola, AR, had consumed about 1,400 acres before it could be contained.

The US Forest Service is spending more on fire prevention, an approach that should help reduce the number and severity of future forest fires, Agriculture Secretary Tom Vilsack said Thursday.

Vilsack said the agency is making up for past practices in which money that was meant for forest maintenance was instead

used for more immediate needs, like fighting active fires.

In Canada, Manitoba Conservation reported there is a forest fire in the north of the province but there are no plans Tuesday to use water bombers to fight it.

### Home Sales, US

**CONTINUED** Sales in the South fell 8.6 per cent. In the West, sales rose 2.1 per cent and were up 14.6 per cent in the Midwest.

The median price of a new home fell 3.2 per cent from a year ago, after rising strongly in May. The home price decline had appeared to have bottomed, with other measures of home values trending higher in recent months.

The inventory of new homes on the market increased 0.7 per cent to 144,000 in June, but remained near record lows. At June's sales pace it would take 4.9 months to clear the houses from the market, up from 4.5 months in May.

The US home-vacancy rate fell to the lowest level since 2006 as demand for housing improved and lenders slowed property repossessions.

The rate declined to 2.1 per cent in 2Q from 2.2 per cent in the previous three months and 2.5 per cent a year earlier, the Census Bureau said Friday. A gauge that measures the share of Americans who own their homes rose to 65.5 per cent from a 15-year low of 65.4 per cent in the prior quarter.

Pending home sales in the US unexpectedly showed a notable decrease in the month of June, according to a report released by the National Association of Realtors on Thursday.

NAR said its pending home sales Index fell by 1.4 per cent to 99.3 in June after jumping 5.4 per cent to a downwardly revised 100.7 in May.

# Glossy Magazine Sales

## Emerging Markets

News of the demise of the pulp and paper industry may have been premature. At least as far as coated freesheet is concerned.

Late last year, *Cosmopolitan* editors in China started splitting that magazine's monthly into two issues because it was too thick to print. *Elle* now publishes twice a month because issues had grown to 700 pages. *Vogue* added four more issues each year to keep up with advertising demand. Hearst is even designing plastic and cloth bags for women to easily carry these heavy magazines home.

According to a 2011 study conducted by Bain & Company, out of Boston, MA, mainland China ranked sixth in the world for spending on luxury goods ranked by country. In 2010, it was a US\$17.7 billion market. Louis Vuitton, Chanel, and Gucci remain the most desired luxury brands. China is expected to become the world's largest luxury consumer by 2015.

Framingham, MA's, International Data Group, which works with more than 40 magazines in China, said that advertising spending for women's consumer magazines jumped 16.9 per cent through June 1 compared to one year ago, even as demand to advertise in technology and business magazines slowed.

At the end of June, the Chinese Academy of Forestry (CAF), with partners, hosted the 'Responsible Procurement in China's Forest Products (Pulp and Paper), Certification Workshop 2012' in Shenzhen. At the event, representatives from the State Forestry Administration stressed that the nation's forest certification standard (CFCC) must adhere to the highest standards of sustainable forest management, and called on countries worldwide to adopt CFCC-certified products in their national procurement policies.

APP-China, a subsidiary of Asia Pulp and Paper, one of the world's largest pulp and paper producers which has been making pulp mill acquisitions in Canada for the past few years, was an important participant in the event. A self-proclaimed staunch advocate of forest certification, the company was joined by more than 100 prominent sourcing and sustainability professionals from over ten industries, including wood and paper product manufacturers, printers, and consumer enterprises. Attendees enthusiastically discussed the current status of forest

certification domestically and abroad, as well as China's latest policies on paper and forestry product sourcing, according to an APP press release.

China's 12th Five-Year Plan for the domestic paper industry says that the country has become the world's number one nation in terms of paper manufacturing and consumption, yet in the past few years, the absence of a recognized forest certification scheme in the country posed severe challenges to the trade of its forestry products overseas. The Chinese government is in the process of establishing a series of related regulatory schemes comprised of policies for government procurement activities and financial subsidies to encourage more enterprises to recognize CFCC certification. The goal is to provide collective support for China to develop its forestry industry responsibly.

According to figures from the Zhonglin Tianhe Forest Certification Center, there are currently eight forestry enterprises and two forestry product processing companies that have been granted CFCC certification, which includes APP-China, says the release.

Global paper and pulp is a large worldwide industry, taking in US\$575.4 billion in revenue during 2012 and showing annualized growth of 4.2 per cent over the past five years, says a new report by IBISWorld. Some 4,007 pulp and paper mills operate globally, employing approximately 428,757 people. According to IBISWorld analyst Teruni Nugawila, in 2012, the industry is expected to continue recovering from 2009, the worst year in the past decade. A global drop in demand caused revenue to contract in 2009, with major adjustments to capacity and employment. This indicated tough operating conditions for most companies, and the inability to cut costs and capacity at a fast enough rate to match a drop in demand, says IBISWorld. Production is expected to increase during 2012, while the world price of pulp is forecasted to grow by 4.3 per cent. As a result, industry revenue is forecast to grow by 6 per cent in 2012, the IBISWorld report says.

Elsewhere, the American Forest & Paper Association released data Tuesday which showed that US printing and writing paper shipments decreased 8 per cent in June 2012 against June 2011. US shipments of coated free sheet and uncoated mechanical grades posted double-digit decreases, year over year, compared to

last June. US purchases of printing and writing papers also decreased 8 per cent in June. Total printing-writing paper inventory levels decreased 4 per cent from last month, primarily due to double-digit decreases among the mechanical grade papers. US shipments of coated free sheet are at the highest level since November 2011, but still decreased year-over-year.

China's publishing and distribution sector's total profit was US\$2.9 billion last year, down 11.7 per cent year-on-year, according to an annual press and publishing industry report issued July 10 by the General Administration of Press and Publication. The publishing industry

**"Global paper and pulp is a large worldwide industry, taking in US\$575.4 billion in revenue during 2012 and showing annualized growth of 4.2 per cent over the past five years, says a new report by IBISWorld."**

still faces a large "cultural deficit", as copyrights are still imported at double the rate they are exported, although that gap narrowed last year.

Chinese publishing houses are to receive at least 20 billion yuan (US\$3.17 billion) in loans over the next five years for business projects abroad,

the national government announced July 3. The Export-Import Bank of China signed an agreement with the General Administration of Press and Publication (GAPP) to provide financial support for publishers' attempts to explore international markets, according to a GAPP statement.

Under the condition that State-owned capital accounts for more than 51 per cent of the total share, authorities will encourage private funds to invest in marketing and advertising businesses of official newspapers and magazines, the statement said.

Private firms now make up more than 80 per cent of the total entities in the country's press and publication industry, outperforming their State-owned counterparts, an official report suggested, amid an ongoing campaign to reform China's cultural landscape. Of the 153,113 enterprises in the industry last year, 124,340 were privately owned, a 24.3 percent year-on-year increase from 2010, according to a report released by the General Administration of Press and Publication (GAPP) July 10. The total income of the industry in 2011 stood at 1.4 trillion yuan (US\$219.9 billion), a 17.7 per cent increase from 2010, the report said.

Private enterprises accounted for 85 per cent of the total number of printing and reproduction enterprises in 2011, contributing 86.3 per cent of the revenues in this sector.