


MADISON'S LUMBER REPORTER


 Publisher
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Editor
Kéta Kosman
 Market Analyst
Earl Heath


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 www.madisonsreport.com
 madrep@shawcable.com
 604 984-6838
 PO Box 2486 Vancouver, BC
 V6B 3W7 Canada


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News & Updates

Madison's Timber Preview

Data out Thursday from several US western states shows an improving picture for timber harvests, log sales, and log prices. The latest financial results for Boise Cascade and Weyerhaeuser are also examined.

Contact us any time to receive this valuable, timely information.

Railroad Investment, More Rail Cars

Burlington Northern Santa Fe says it's spending a total of US\$106 million this year to replace 56 miles of track and improve more than 1,000 other miles of track in Washington State. Improved rail access to the Port of Longview is one of the biggest construction projects this year on lines in Washington State.

Union Pacific is pulling railcars from storage for the first time in four years to haul lumber for home builders, a welcome source of strength for an industry that's bucking the effects of a slowing economy.

Union Pacific, Canadian National Railway, and CSX are among companies benefiting from new-home construction, which climbed in June to the highest in almost four years. Sustained gains in sales of cars and trucks, which are transported — along with parts — by rail, and the ability to raise prices also provide a boost for railroads.

Western Forest Products Mill Fire, Land Transfer

Fire crews rushed to a sawdust fire at Western Forest Products late Tuesday evening. According to Ron Lepchuk, the assistant of operations with the Nanaimo Fire Department, the fire appeared to originate on the conveyor belt outside and spread down to a shavings pile.

The sawmill was closed at the time. The fire was successfully contained and no one was taken to the hospital. READ MORE

US Wildfires

Multiple wildfires have closed a Texas wildlife refuge on the Gulf coast. Park Ranger Tami Schutter on Friday said four separate fires have started at the McFaddin National Wildlife Refuge in the past 12 days with two beginning in the past 48 hours.

Schutter says a lightning strike sparked the initial wildfire August 8. While firefighters battled to suppress it another wildfire ignited after a series of storms passed through the area the next day.

Officials say about 15 firefighters from the wildlife agency and National Park Service are battling the active wildfires. READ MORE

California's Lumber Tax

A controversial bill set for vote in the California legislature Tuesday could place a 1 per cent tax on lumber products sold in that state. Governor Jerry Brown first proposed the tax in June, then it was deleted from legislation tabled, but has since reappeared. READ MORE

Japan Housing Starts : June 2012

Japan's housing starts in June were 72,566 units, the first drop in five months, according to the *Japan Lumber Journal*. The seasonally-adjusted annual rate was 837,000 units.

Housing starts of owner-occupied houses, which increased for the third consecutive month, were 26,971 units, up 0.1 per cent. Those of rental houses also increased for the sixth consecutive month to 26,976 units, up 3.3 per cent. Single-family houses increased for the second consecutive month to 10,647 units, up 4.4 per cent.

New construction of wooden houses were 40,912 units, up 1.6 per cent, and of non-wooden houses were 31,654 units, down 2.4 per cent. As a result, the percentage of wooden houses increased 1.5 points to 56.4 per cent.

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Jun-12	72,566	31,654	40,912	56
May-12	69,638	31,439	38,199	55
Apr-12	73,647	36,535	37,112	50
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

Source: Japan Wood Products Information and Research Center

US EXPORTS HIT RECORD HIGH

The Commerce Department on Thursday showed the shortfall on the trade balance narrowed 10.7 per cent to US\$42.9 billion, the smallest since December 2010, as low oil prices curbed imports.

2Q growth is now seen revised up to an annual pace of at least 1.8 per cent from 1.5 per cent.

Total wholesale inventories slipped 0.2 per cent, the largest fall since September, after being flat in May, as the value of petroleum stocks tumbled 8.7 per cent - the largest drop since October 2008.

Inventory changes are a key component of GDP and contributed about a third of a percentage point to growth in the second quarter. Trade cut almost a third of a percentage point from GDP growth.

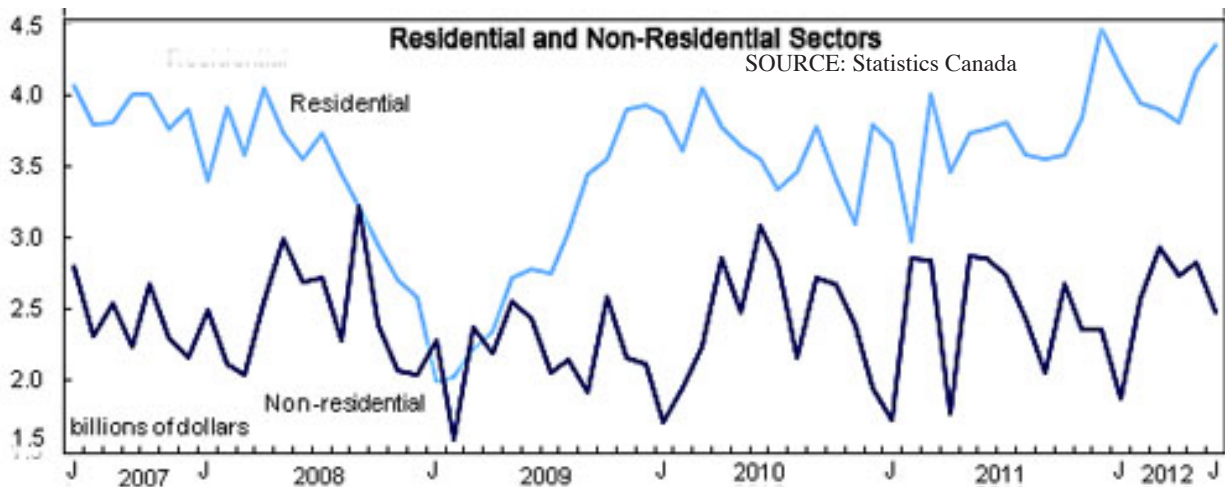
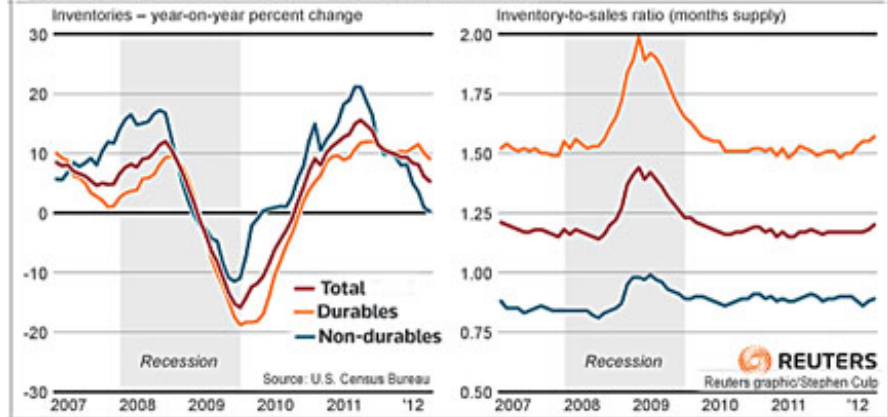
Exports in June increased 0.9 per cent to a record US\$185.0 billion, with consumer goods such as pharmaceuticals posting strong gains. Motor vehicle exports increased 5.7 per cent.

Overall imports of goods and services declined 1.5 per cent to US\$227.9 billion. Outside petroleum, there were decreases in consumer goods imports, underscoring the weak domestic demand. The country imported less food and capital goods in June.

However, industrial supplies and motor vehicle imports rose.



U.S. wholesale inventories



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Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	306	303	+3	294	+12	222	+84
WSPF KD R/L 2x6	310	301	+9	290	+20	252	+58
WSPF KD R/L 2x8	308	309	-1	308	0	275	+33
WSPF KD R/L 2x10	360	360	0	360	0	282	+78
WSPF KD PET 2x4 Stud	375	375	0	345	+30	220	+155
WSPF KD PET 2x6 Stud	375	375	0	345	+30	250	+125
Douglas Fir Green R/L 2x4	315	298	+17	255	+60	250	+65
Douglas Fir Green R/L 2x10	305	308	-3	278	+27	300	+5
ESPF KD 2x4 8ft Stud	410	400	+10	395	+15	320	+90
OSB Ontario 7/16" (CDN\$)	310	285	+25	245	+65	205	+105
CSplywood Toronto 3/8" (CDN\$)	446	437	+9	413	+33	308	+138

Weekly News

WFP Land

CONTINUED The fire sent a massive column of black smoke over Nanaimo harbour and set piles of wood chips ablaze at the mill at Duke Point. Much of the heavy black smoke came from the 30-metre-long conveyor belt that caught fire.

Employees returned to work Wednesday.

Western Forest Products is transferring 250 hectares of land adjacent to the Sooke Potholes Regional Park to the Capital Regional District parkland. The land is valued at \$1.3 million.

The transfer by WFP of another parcel of land, 60.5 hectares valued at \$4.5 million near Jordan River, will take place in December, says the *Times Colonist*.

The transfers are the final pieces of a larger deal between the CRD and WFP involving 2,350 hectares of park and watershed lands at a cost of \$18.8 million, paid in three annual installments since the deal was solidified in 2010.

The bulk of the money is coming from the CRD Regional Parks Land Acquisition Fund.

The province is kicking in \$2 million, private partners \$265,000, while the The Land Conservancy contributed \$250,000.

TLC initially promised to try to raise funds to contribute about \$3 million — including \$1,870,138 toward the Sooke and Jordan River parcels — but advised the CRD it was unable to follow through.

The non-profit land trust is going through financial difficulties, and this week its creditors accepted an offer to receive interest-only payments on loans.

The CRD will borrow the funds to cover the payment.

In total, 1,500 hectares valued at \$15.6 million will go to CRD Parks. The balance will be watershed lands.

Forest Fires, US

CONTINUED Several wildfires raging in parched Oklahoma countryside prompted more evacuations early Sunday as emergency workers sought to shelter those forced out by the flames that destroyed dozens of homes and threatened others in the drought-stricken region.

One roaring fire near Luther, about 40 kilometres northeast of Oklahoma City, destroyed nearly five dozen homes and other buildings before firefighters gained a measure of control Saturday.

Three dozen wildfires have scorched portions of Oklahoma since last Friday, leaving only ashes in some spots. Emergency officials said Monday that Cleveland County firefighters recovered a body from a home that had been subject to an evacuation order as a wind-whipped fire roared near Norman on Friday. Emergency managers say dozens of homes are among the 120 structures statewide that burned to the ground.

The Mannford-area fire covered nearly 100 square miles in northern Creek County, about 20 miles west of Tulsa. Fires elsewhere in the state consumed thousands of acres — though in some areas it appeared fires hopped across the landscape, damaging one home but not its neighbor, much like a tornado.

Authorities said fires were under control or in “mop-up” stages Monday. Most fires since Friday were small and quickly brought under control, and the Mannford fire at nearly 100 square miles was the largest in recent state history, said Michelle Finch-Walker, an agency spokeswoman.

Statewide, wildfires over the past week have destroyed 380 homes and burned more than 171 square miles.

A wildfire ignited by lightning contin-

ues to burn out of control in northern San Diego County Friday morning.

State fire Battalion Chief Nick Schuler says the 900-acre fire in the highlands northeast of Warner Springs was active overnight and was only 5 percent contained early Friday.

Residents of the Chihuahua Valley Road area were advised to evacuate but so far no buildings have burned.

The blaze was ignited Thursday by lightning strikes as thunderstorms hit the region Thursday, dumping heavy rain and even some hail in some areas.

Financial Results

Fortress Paper reported Wednesday a net income of \$12.5 million in 2Q 2012. This can be compared to a net loss of \$10.5 million in 1Q, and a net income of \$2.9 million in 2Q 2011.

Cascades Thursday reported a net income of \$7 million in 2Q 2012 on sales of \$944 million. This can be compared to a net loss of \$9 million for the same period last year.

Taiga Building reported Friday net earnings of \$5.9 million for its latest quarter, compared to \$3.6 million in the same period last year, an increase of 62 per cent.

Consolidated net sales for the quarter ended June 30, 2012 were \$309.5 million compared to \$263.6 million in the same period last year. The 17 per cent increase in sales was largely due to improved commodity prices and stronger demand.

Gross margin increased to \$30.8 million from \$26.7 million in the previous year. Gross margin percentage for the quarter declined slightly to 9.9 per cent compared to 10.1 per cent in the same period last year.

EBITDA for the quarter ended June 30, 2012 was \$15.4 million compared to \$12.2 million last year.

Lumber Tax Proposal

California

A wide-ranging forestry package that has drawn mixed reviews from environmentalists was amended Tuesday into California Assembly Bill 1492.

California Governor Jerry Brown's proposal to reform the timber harvest plan creates a lumber retail sales tax to be collected on the purchase of any lumber product in that state. The funds from this tax would be used to support the Department of Fish and Game, Department of Conservation, State Water Resources Board, and the Department of Forestry. These organizations are responsible for ensuring that the timber industry complies with an enormous amount of state regulation.

In the run-up to the budget vote in June, many Capitol watchers breathed a small sigh of relief when the new 1 per cent tax on wood products miraculously vanished from the list of budget bills awaiting legislative votes. That feeling of relief, however, was short-lived. The bill is expected to be heard next week in the Senate Budget and Fiscal Review committee.

The Lumber Association of California and Nevada (LACN) lobbied hard against the tax, citing the additional cost and complexity of setting up a new tax collection system. It was also unclear exactly which wood products would be subject to the tax, the LACN pointed out. The LACN disagreed with that proposal and advocated that the fees should remain as they are and not be an additional cost to consumers.

The timber industry wanted the fees to be passed on to the end user to lessen the competition they face from timber produced outside California and thus not subject to California regulations.

California timber firms support the tax because it relieves them of regulatory fees they must currently pay – and additional fees that Democrats have long wanted to impose on them to fund state forestry oversight. Shifting the tax to consumers means that wood from outside California would also face the new 1 per cent charge.

As a tax it requires a two-thirds vote of the California Legislature. Republicans were opposed to the bill earlier this year,

but they are facing new pressure from high-powered lobbyists in the Capitol representing forestry interests.

Forest Landowners of California issued an "action alert" last week asking its members to specifically call Republican Senators Ted Gaines and Doug LaMalfa, whose regions represent large swaths of forestland. According to the alert, the coalition supporting the measure includes forestry groups and the California Farm Bureau Federation. California timber companies say they need the changes to overcome a market disadvantage against competitors in the Pacific Northwest and overseas who now supply most wood sold in the state.

AB 1492 would require retailers to impose a 1 per cent tax on lumber sold in California to raise an estimated US\$30 million annually.

A *Daily Pilot* editorial published Monday says, "This new tax, if passed, will deal a blow to our state's struggling housing industry and make an untold number of wood products — anything from furniture to tools with wooden handles — more expensive. The tax is meant to cover the costs of California's timber regulations, the most restrictive in the nation. It will allow the government to avoid the much-needed reform of our burdensome regulatory environment," according to the Costa Mesa, CA, newspaper. "Worse, the wood products tax could open the door to a whole range of new taxes to pay for the regulatory costs of countless individual industries. This new tax is a sign of how far politicians are willing to go to take more of our money and spend it on increased government control of our lives."

A July 30 post on *PublicCEO* stated, "This tax may very well force small businesses and consumers to look outside the state to purchase lumber products, further weakening the California economy. Industries like construction and agriculture rely heavily on lumber and cannot afford an increase in expenses, especially when many, like home builders, cannot find regular employment. The consumers would be paying yet another tax [. . .] We can't simply tax away our problems," said the California government legislation watchdog out of Sacramento, CA.

Earlier this year, the Sacramento-based US attorney's office and Obama administration officials lobbied legislative leaders to douse the bill, which Brown initially wanted as part of the budget he signed in June. They specifically opposed the limit on wildfire liability damages after winning a string of awards against timber companies for past fires.

California's private forest lands are some of the most productive in the world. But industry and landowners say state regulation of timber harvesting practices have become so overbear-

ing and complex that the industry is losing lumber manufacturers by the droves, production has been drastically reduced, and nearly 10,000 jobs have been lost.

California's forest land permit fees are 10 times more expensive than the permits of land owners in neighbouring states.

California produces a fraction of the wood products consumed by the state. The timber industry was forced into a compromise by the state and is actually asking for a 1 per cent assessment to pay for a review of the process and to provide funds to help reduce the cost of forest restoration and fire protection.

The costs of regulatory compliance have skyrocketed in the last few decades. According to a 2005 study by Cal Poly San Luis Obispo, the cost for a timber harvest plan, the equivalent of an environmental impact report, has increased by more than 1,200 per cent since 1974. This increase is related to the complex requirements of the California Environmental Quality Act.

"Instead of increasing costs on consumers to fund an oppressive regulatory regime, we should work toward reforming our regulatory system to lower costs on California's lumber industry and make it competitive in the global economy, while preserving important environmental rules," says the *Daily Pilot*. "This new tax won't do it. Creating a new tax to fund a failed regulatory system will make the problem worse instead of fixing it. Moreover, it could open the door for legislators to push for similar taxes to fund the regulatory regimes of different industries."

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by Kéta Kosman