

MADISON'S LUMBER REPORTER

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News & Updates

US Housing Starts, Mortgage Delinquencies

US home building slipped in July after a strong gain in June while new permits rose to their highest level in four years, a possible sign of confidence for construction going forward.

Housing starts decreased 1.1 per cent last month from June to a seasonally adjusted annual rate of 746,000, the Commerce Department said Thursday. Compared with a year ago, new construction was up 21.5 per cent.

June starts were revised down slightly to a rate of 754,000, reflecting a 6.8 per cent increase from the prior month. Construction of single-family homes, which made up more than two-thirds of housing starts last month, fell 6.5 per cent in July to a rate of 502,000 units. Single-family construction was up 17 per cent from last year. **READ MORE**

Forest Fires: US, Canada

A wildfire roaring through mountainous terrain in Idaho's Boise National Forest crept closer to the resort town of Featherville on Thursday. The so-called Trinity Ridge blaze, which has charred nearly 70,000 acres of sagebrush and woodland east of Boise over the past six days, is one of dozens of large fires burning out of control across several drought-parched western states. **READ MORE**

US, Canada lumber production, utilization

US sawmills produced 11.9 billion board feet (bbf) in the first five months of 2012, an increase of 8 per cent compared with the same period last year, when sawmills produced 11 bbf, according to the Western Wood Products Association's (WWPA) Lumber Track report released August 10.

Softwood lumber production by Canadian sawmills in the year to May 30 was 9.7 bbf, an increase of 4.3 per cent compared with the same period last year, of 9.3 bbf.

Western US sawmills accounted for 5.3 bbf, up 9.1 per cent from 4.8 bbf a year earlier; while output from Southern US sawmills increased 7.1 per cent from 5.6 bbf to 6 bbf. Sawmills in British Columbia accounted for 5.3 bbf, up 4.5 per cent from 5.1 bbf in the same period last year. Canadian sawmills east of the Rockies produced 4.5 bbf, 4.2 per cent higher than production in the same period last year of 4.3 bbf.

In May alone, US lumber production was 2.5 bbf, a 13.2 per cent gain over last year's 2.2 bbf, and 2.3 per cent higher than output in April of 2.4 bbf. Canadian production in May was 2 bbf, up 61 per cent from 1.9 bbf in May last year, and 1.6 per cent higher than April's output of 2 bbf. **READ MORE**

BC Timber Supply Review

British Columbia's Special Committee on Timber Supply this week tabled its report to Cabinet, based on suggestions collected during the Committee's hearings held throughout the province this summer. Titled "*Growing Fibre, Growing Value*", the report offers a list of messages heard from stakeholders, governments, First Nations, industry, and private citizens and provides six recommendations including details.

Please refer to the July 1, 2012 issue of your *Madison's Lumber Reporter* for background on this Committee. **READ MORE**

U.S. HOUSING STARTS

	Jul-12	Jun-12		Jul-12	Jun-12
Starts			Permits		
Actual	71,700	74,700	Actual	72,200	73,800
SAAR*	746,000	754,000	SAAR*	812,000	760,000
1 Unit	502,000	537,000	1 Unit	513,000	491,000
2-4 Units	(s)	(s)	2-4 Units	25,000	21,000
5+ Units	229,000	209,000	5+ Units	274,000	248,000
Starts by Region			Permits by Region		
Northeast	77,000	78,000	Northeast	92,000	82,000
Midwest	117,000	100,000	Midwest	114,000	119,000
South	355,000	368,000	South	403,000	381,000
West	197,000	208,000	West	203,000	178,000

Seasonally adjusted annual rate

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	July 2012		June 2012	
	Actual	SAAR	Actual	SAAR
Canada, all areas	19,252	208,500	20,327	222,100
urban ctrs with >10,000	16,876	187,300	18,144	200,100
singles, urban centres	6,315	64,300	6,923	67,000
multiples, urban centres	10,561	123,300	11,221	133,100
rural areas	2,376	21,200	2,183	22,000
Atlantic urban centres	890	8,000	1,121	9,800
Quebec urban centres	3,989	44,300	3,967	43,000
Ontario urban centres	6,324	72,400	6,258	71,000
Prairie urban centres	3,565	38,400	3,843	42,100
BC urban centres	2,114	24,200	2,955	34,200

Source: Canada Mortgage and Housing Corporation

Messages and Recommendations

CONTINUED

KEY MESSAGES RECEIVED BY THE COMMITTEE

With regard to forest stewardship: recognize First Nations as rights-holders; respect non-timber values; recognize ongoing efforts of local communities and regional coalitions; and protect the BC brand.

On land-base issues, many submissions urged government to: make better use of the existing forest resource; protect forest reserves; leave existing timber supply area boundaries alone; and consider investing in infrastructure to improve access to timber.

Concerning forest practices, to meet basic restocking requirements and to base decisions on an updated forest inventory.

On timber tenures, there was support for a shift to more area-based tenures, for efforts to diversify the economies of forest-dependent communities, and for reducing exports of unprocessed logs.

SUMMARY OF RECOMMENDATIONS

The Committee's recommendations to increase mid-term timber supply focus on: engaging local communities and First Nations in future plans; finding ways to grow more fibre and maximize its value by utilizing marginally economic stands and/or investing in fertilization; and on increasing the type and form of area-based tenures to support enhanced levels of forest stewardship and private sector forest investment.

Madison's read through the entire report, as well as a broad selection of the submissions. It is a fact that many of the submissions "urged the government" to protect forest reserves, to not change existing timber supply area boundaries, and to make various forms of infrastructure investment.

Madison's focussed immediately on certain phrases in the Report:

1) "The Committee recommends to the Legislative Assembly that the Ministry: a) Design a science-based review process for local use by monitoring committees, as referenced in Recommendation 1.2"

Each of the forest reserves will have to be visited and assessed to accomplish this. If this effort is given a low priority, it will be probably a year to get done. Current wisdom says the amount of wood that could come from the reserves would only make a few months difference in supply to a specific mill.

2) "Based on the analysis and information available on this topic, the Committee recommends to the Legislative Assembly that the Province not consider the amalgamation of timber supply areas."

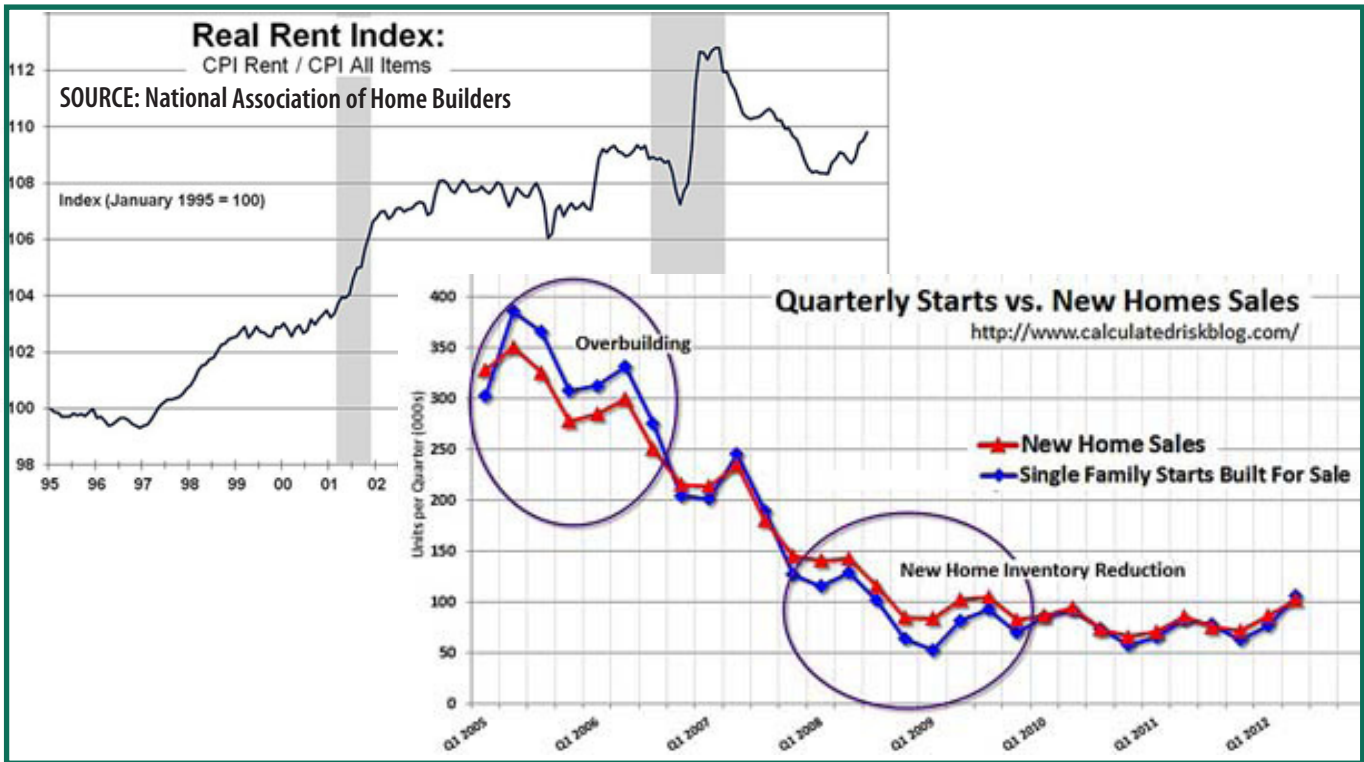
3) "The Committee recommends to the Legislative Assembly that the Province review the feasibility of developing road and power-line infrastructure into currently under-developed management units."

This is a great idea but sounds very expensive. There are many current roads decommissioned to avoid maintenance, which may or may not come back into use as lumber demand continues recovering. However, the government could get some of the costs back when the harvesting levels resume.

4) "Place priority on completion of type 4 silvicultural strategies to guide investments in intensive silviculture in accordance with established criteria."

Madison's asked Bill Bourgeois, retired forester, current consultant, and coordinator of Healthy Forests-Healthy Communities, for an explanation of this term:

"Type 4 silviculture strategies are analyses on what silviculture practices that can be justified economically to do in a specific area or Timber Supply Area (TSA). They are strategies to focus effort rather than doing the same thing everywhere," explained Bourgeois to *Madison's* in an email. [READ MORE](#)



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	314	306	+8	295	+19	218	+96
WSPF KD R/L 2x6	318	310	+8	291	+27	254	+64
WSPF KD R/L 2x8	312	308	+4	309	+3	275	+37
WSPF KD R/L 2x10	365	360	+5	361	+4	280	+85
WSPF KD PET 2x4 Stud	375	375	0	350	+25	220	+155
WSPF KD PET 2x6 Stud	375	375	0	355	+20	265	+110
Douglas Fir Green R/L 2x4	318	315	+3	275	+43	245	+73
Douglas Fir Green R/L 2x10	310	305	+5	290	+20	290	+20
ESPF KD 2x4 8ft Stud	415	410	+5	395	+20	310	+105
OSB Ontario 7/16" (CDN\$)	328	310	+18	245	+83	205	+123
CSplywood Toronto 3/8" (CDN\$)	450	446	+4	417	+33	298	+152

Weekly News

US Home Building, Mortgages

CONTINUED The Commerce Department's report showed the fall in starts was concentrated in the single-family home sector, which dropped 6.5 per cent. Starts for multi-family homes rose 12.4 per cent.

New permits for building homes rose 6.8 per cent in July to a 812,000 unit pace, the highest rate since August 2008.

Delinquencies on US commercial real estate collateralized debt obligations fell for the third straight month in July, as the amount of assets removed from the index outpaced newly delinquent loans, according to Fitch Ratings Friday.

The credit ratings company said delinquencies edged down to 12.1 per cent in July from 12.3 per cent in June. Six new delinquent loans were offset by the removal of 13 assets.

Fitch said asset managers reported about US\$60 million in realized losses from the disposal of defaulted and credit risk assets last month.

Wildfires

CONTINUED More than 400 homes have been evacuated in Washington state, but firefighters managed to carve containment lines around 25 per cent of the blaze's perimeter by Wednesday night, with full containment expected within a week, authorities said. Nearly 1,000 firefighters were amassed for a last-ditch effort to keep flames at bay.

The Washington state blaze, dubbed the Taylor Bridge Fire, has scorched nearly 23,000 acres of rolling hills, 40 square miles of grassland, timber and sagebrush, along the eastern edge of the Cascade Mountains. Two firefighters suffered minor injuries on Wednesday.

The fire in central Washington has burned about 70 homes, authorities said.

More than 400 people have been evacuated, said Department of Natural Resources Fire Incident Commander Rex Reed.

A new forest fire has broken out about eight miles north of Oregon's Highway 58 in the Willamette Pass area, US Forest Service officials said Thursday. Smoke from the Buckhead fires continues to make its way into the Eugene-Springfield area.

In Canada, lightning storms caused only one fire of significance near Lillooet, BC, north of Whistler, last week.

The blaze grew to 30 hectares by the end of the day and was fought by 60 firefighters, three helicopters and heavy equipment, including tankers and bulldozers. By Monday morning, Kamloops Fire Centre fire information officer Kevin Skrepnek told the News the fire was 100 per cent contained. Skrepnek called that fire a "non-incident, a small spot fire" and said crews had it completely extinguished within an hour and a half.

A small forest fire ignited on a cliff face about 15 kilometres northeast of Squamish, BC, south of Whistler, on Wednesday afternoon, engulfing a five-hectare stretch of trees but posing no threat to people or buildings.

The Wildfire Management Branch sent in a repel crew – a three-person initial attack team – to climb down to the blaze from helicopter ropes.

BC's Wildfire Management Branch says concerns will heat up this weekend.

"An increase in the fire-danger rating is likely, as well as an increase in fire starts," said fire information officer Erin Catherall on Thursday.

The conditions have been created by several weeks of dry weather — and more is on the way for the rest of August and September.

US, Canada Lumber Demand

CONTINUED US softwood lumber consumption was 15.1 bbf in the first five months – up 7.5 per cent from 14 bbf in the same period last year, says the WWPA. Consumption in May was 3.2 bbf, an increase of 12.6 per cent from 2.9 bbf in May 2011, and 4.7 per cent higher than consumption in April of 3.1 bbf.

Canadian softwood lumber consumption climbed 0.7 per cent to 3.4 bbf in the first five months of 2012, from 3.4 bbf last year. In May alone, consumption was 662 mmbf, down 5.6 per cent from last year, 702 mmbf, and 2.6 per cent lower than April's consumption of 680 mmbf.

US production of practical capacity averaged 77 per cent in the first five months, up from 72 per cent in the same period last year. In Canada, the figure was 84 per cent, compared with 81 per cent a year earlier.

US inventories increased by 5.2 per cent to 3 bbf in May from 2.8 bbf a year earlier. In Canada, inventories dropped 10.9 per cent, to 2.7 bbf from 3 bbf.

Stella Jones, Conifex Report

Stella-Jones is reporting a net income of \$20.8 million in its latest quarter, up 20.6 per cent from last year. Sales for the quarter were \$203.9 million.

Conifex Timber is reporting a net loss of \$2.4 million for 2Q 2012. That is an improvement over 1Q when the company reported a net loss of \$6.5 million and better than the same period last year, when the company reported a net loss of \$3.6 million.

The lumber segment generated \$55.8 million in revenue, an 18 per cent increase over 1Q. Shipment of Conifex-produced lumber totalled 112 million board feet, a 3 per cent decline from the previous quarter.

BC Timber Review

Submissions

CONTINUED Here is a sampling of the many, many suggestions provided to the Committee over the course of the Hearings, including written submissions to the website:

FIRST NATIONS

Lheidli T'enneh First Nation, Chief Dominic Frederick

We suggest that to the extent that any increase in the AAC that is a result of mitigation efforts in the traditional territory should flow to the Lheidli T'enneh, through area based tenures where the Lheidli T'enneh may management the resources directly.

GOVERNMENTS

City of Williams Lake, Mayor Kerry Cook

If there are issues around the economics of logging steep slopes and low volume stands, then we need to do whatever is necessary to make these areas accessible and economical to log such as looking at different

trucking options, eliminating the carbon tax, and reducing administration and obligations on timber harvesters.

City of Quesnel, Mayor Mary Sjosrom

1) Assess current forest inventories, whether they are suitable for making decisions. If it is determined that they are not, an expedient program to gather those inventories must be undertaken to ensure that government can make suitable decisions regarding the land base.

2) An immediate and significant investment in Silviculture is required now to ensure the forest's long-term viability and sustainability.

Stephanie Killam, Mayor District of Mackenzie

Do not increase Mackenzie harvesting levels to unsustainable levels. Ensure that the stands that have been dead the longest be utilized thus leaving the stands further north for future use, and that enhanced tree planting is also planned and followed through with.

Bob Simpson, Independent MLA For Cariboo North

Recommendation 6: That the Committee advises government it must immediately act on the recommendations of the Bioeconomy Committee and embark on a strategy to fully utilize BC's hardwood resources.

GOVERNMENT AGENCIES

Federal Department of Fisheries and Oceans (DFO)

We can not support impacts to the fisheries resource in order to mitigate this "fall-down" of available merchantable fibre. We also object to "reopening" the regional and sub-regional plans.

INDUSTRY AGENCIES

BC Industry Working Group

A viable lumber, pulp, and paper industry is needed to support investment in the bio-economy and will be the heart of future bio-economic growth. Be aware of the opportunity to develop the BC economy by enhancing the timber supply for non-traditional uses

Forest Fibre Alliance of BC

1) Changes to Administrative Management Unit Boundaries and Tenure Types: from a mid term timber supply perspective it is just a shuffling exercise.

Chief forester sets allowable harvest levels (AAC) for management units based upon gross merchantable volumes that include identified contributions from both sawlog and non sawlog timber;

2) Timber Harvesting Land Base (THLB): To increase timber supply one must either get more from the existing THLB and/or expand it. The sole practical opportunity to increase THLB is to include stands of timber currently considered uneconomic from a sawlog perspective. The reverse is actually what is happening.

3) Increased allowable harvest from an expanded THLB is of no value if it cannot be accessed. Users of the non sawlog timber resource need long term secure access fibre to make the investments in facilities and contribute to the forest based economic activity needed to support forest based communities and the provincial economy.

Addendum by Jim Burbee: Also, it seems like there is a lot of focus on area based tenure which will create no near term timber supply. It could be an olive branch to get majors to cooperate but that is about all.

Healthy Forests, Healthy Communities

1) BC is only committing \$1 million per year for three years for each Beetle Action Committee (BAC) to implement the adaptation strategies. This is small in consideration of the several hundreds of millions of dollars over a 20 year period estimated by the BACs to implement the strategies.

2) If the Committee was to recommend and get Legislature acceptance of retaining the values in forest reserves and taking action on enabling communities and innovative businesses to generate more economic diversification from the forest, this public consultation process will be a success. If it is just maintaining the existing mills for a short period, it will be a failure.

Central Interior Logging Association

1) The CILA has embarked on a small scale logging project with Vagabond Logging and West Fraser Mills Quesnel, at the request of Minister Bell. The project

involves using "mini" harvesting equipment to re-harvest blocks and will be pilot tested in September 2012. There is a potential for hundreds of thousands of meters in the most affected areas.

2) Look at alternate species; for example, aspen. We are so locked in to the SPF model we don't even count or measure other wood to see what we could do with it.

UNIONS

United Steelworkers

Review the entire range of forest constraints with an eye to ensuring that all of them have delivered the environmental and forest-management benefits they were intended to deliver, as well as determining whether they might be relaxed in the interests of increasing timber supply.

INDUSTRY

Dunkley Lumber

1) Not every town will have a mill, but every town can benefit from having forest resources if forest companies can source fibre there.

2) We would recommend that 200,000 cubic metres from each volume-based licence should be protected from reductions to allowable annual cut in the mid-term.

Ainsworth Engineered

1) Our company requires a secure and stable fibre supply to operate, and its continued investment in 100 Mile House is contingent upon establishing a new tenure to replace PA 16. The loss to the community operation in the event of a closure would be immeasurable.

2) Include smaller stem diameters, lower merchantable volume per hectare and lower decay, waste and breakage factors than a traditional "sawlog" TSR.

3) Stop burning useable and economically viable fibre in waste piles

4) Create new tenure forms: Supplemental Forest Licences, True Receiving Licences, Gross Volume Forest Licences (apply concept to all existing and new tenures)

Confex Timber

We request that the Province design and implement a new form of long term tenure that allows existing replaceable tenure holders secure access to low quality fibre, subject to appropriate reforestation obligations, cut control provisions and crown charges.

1. To capture incremental revenues from the 50 per cent-plus of the volume in each log that is suitable for products other than lumber, and

2. To develop new and profitable uses for in-forest woody biomass that is not currently being accessed in BC.

Steve Thomson, Minister of Forests, Lands and Natural Resource Operations, responded to the Report by saying the province is going to act quickly on some of the recommendations outlined by the The Special Committee on Timber Supply. Thomson says they will create an action plan for the rest of the recommendations by the end of September.