

MADISON'S LUMBER REPORTER



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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest policy changes for timber harvesting in Oregon and California, and looks at a recent Oregon report on timber harvesting statistics.

Contact us any time to receive the vital and timely information.

Madison's Investment Rx

This month's issue of *Madison's Investment Rx* takes a deep look at the latest Canadian lumber production and export figures against recent and historic lumber prices. Of particular interest is an in-depth comparison of this data in 2004-2005 vs 2009-2010 and 2011-2012, as players struggle to find "What is the new normal?"

Contact us any time to receive the vital and timely information.

Housing Starts, Canada

Canadian housing starts slowed in September on declines in the apartment and condo market, but the fall was not as sharp as expected, Canada Mortgage and Housing Corp data showed on Tuesday.

Housing starts fell to a seasonally adjusted annualized rate of 220,215 units in September. That was down from 225,328 units in August. The August figure was revised up from 224,900 units reported previously.

[READ MORE](#)

Japan Housing Starts

Housing starts in Japan rose 2.1 per cent over July on a seasonally adjusted basis, to 888,000 units, according to the Japan Lumber Reports.

[READ MORE](#)

US Producer Price Index

US producer prices rose more than expected in September as the cost of energy surged, a government report showed on Friday, but underlying inflation pressures were muted. The Labor Department said its seasonally adjusted Producer Price Index increased 1.1 per cent last month.

[READ MORE](#)

British Columbia Provincial Election

With an election looming in BC this spring, its time to start getting informed about future plans for BC forest land base from both sides. The problems and challenges have been well covered in your *Madison's Lumber Reporter*: epic amounts of devastation left in the wake of the Mountain Pine Beetle infestation; a forest service that is dangerously depleted of both staff and resources; a forest inventory that has not been updated in two decades; to name just a few.

Madison's spoke first with NDP Forest Critic Norm MacDonald. Fresh off his tenure on the Mid-Term Timber Supply Committee, which travelled around the province this summer listening to submissions from stakeholders and the public, McDonald laid out the still-forming NDP forest plan.

[READ MORE](#)

JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Aug-12	77,500	34,485	43,015	56
Jul-12	75,421	32,883	42,538	56
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

Source: Japan Wood-Products Information and Research Center

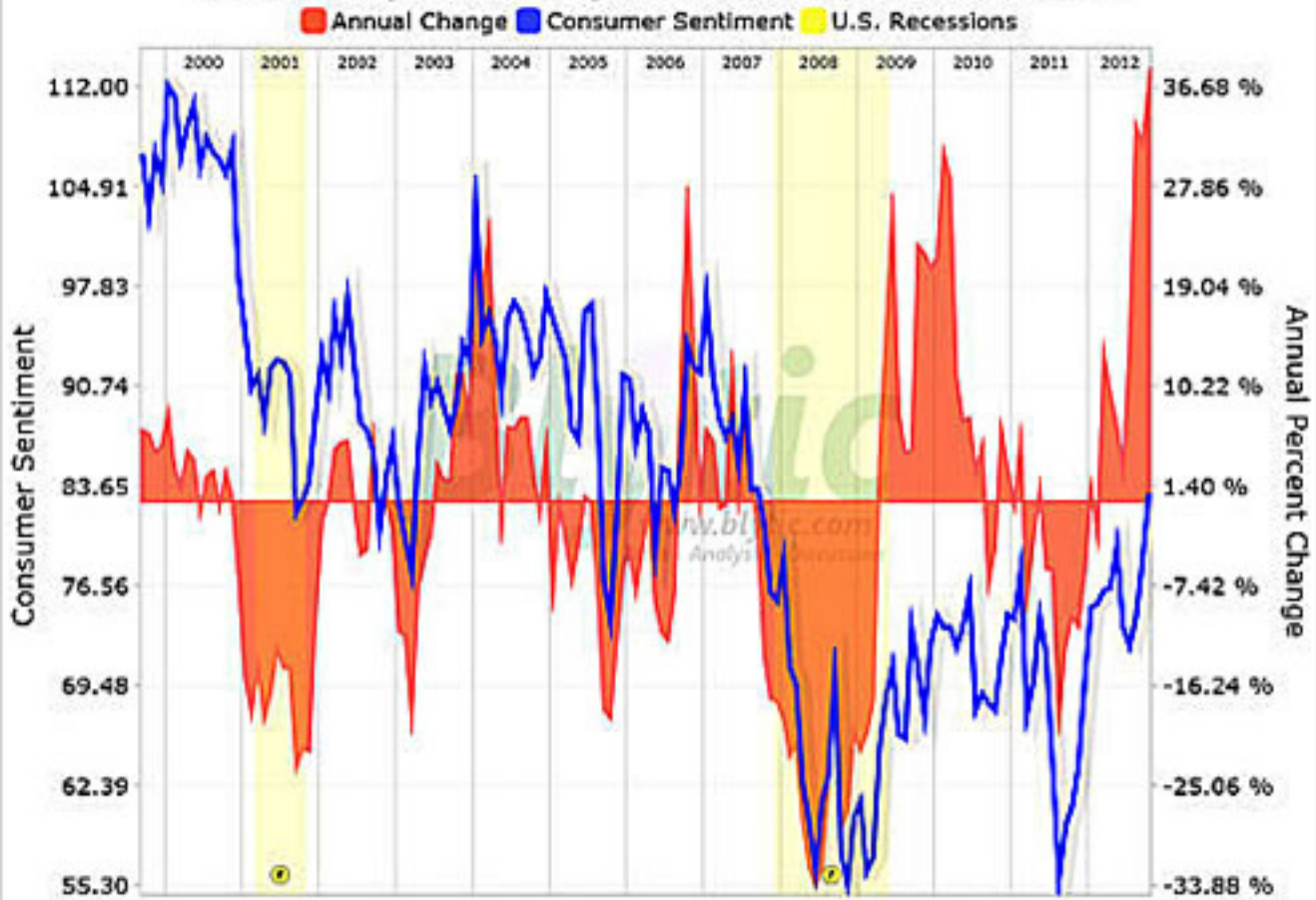
CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	September 2012		August 2012	
	Actual	SAAR	Actual	SAAR
Canada, all areas	19,780	220,215	19,860	225,328
singles, urban centres	6,159	67,643	6,015	68,575
multiples, urban centres	11,447	136,068	11,710	141,543
rural areas	2,144	16,484	2,135	15,210
Atlantic urban centres		11,800		12,499
Quebec urban centres		39,700		41,950
Ontario urban centres		86,900		86,189
Prairie urban centres		38,900		41,247
BC urban centres		28,600		28,233

Source: Canada Mortgage and Housing Corporation

University of Michigan Consumer Sentiment



SOURCE: Christian Science Monitor

Japan Wood Products' Demand Projection

Japan's Forestry Agency has released its projection for 4Q 2012 and 1Q 2013 wood demand. Demand in Japan for the fourth quarter will be the same as last year for both domestic and imported wood, and in first quarter demand for imported lumber will increase by 6 per cent, says the Agency according to the *Japan Lumber Reports*.

North America

4Q lumber demand from North America will be 740 million cubic metres, the same as 4Q 2011, and will be 700 million cubic metres in 1Q 2013, a 12.2 per cent increase over the same time period last year, says the *Reports*.

SOURCE: Japan Lumber Reports

	Domestic logs		Imported logs	Imported lumber	Plywood	Laminated lumber
	Lumber	Plywood				
1 st qtr. 2012 –actual	3,048 (110)	665 (110)	1,238 (108)	1,678 (99)	1,511 (103)	471 (99)
2 nd qtr. 2012-actual	2,913 (105)	667 (105)	1,155 (98)	1,719 (91)	1,489 (83)	486 (98)
3 rd qtr. 2012- estimate	2,780 (100)	670 (108)	1,030 (91)	1,710 (100)	1,440 (92)	505 (100)
4 th qtr. 2012- projection	3,150 (100)	675 (102)	1,120 (96)	1,735 (103)	1,470 (99)	495 (100)
Total 2012 –projection	11,891 (104)	2,677 (106)	4,543 (98)	6,842 (98)	5,910 (94)	1,958 (99)
1 st qtr. 2013- projection	3,040 (100)	675 (102)	1,170 (95)	1,780 (106)	1,510 (100)	490 (104)

Unit : 1,000 cubic meters () : Comparison to previous quarter in %

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	292	290	+2	312	-20	242	+50
WSPF KD R/L 2x6	307	309	-2	324	-17	256	+51
WSPF KD R/L 2x8	298	299	-1	308	-10	266	+32
WSPF KD R/L 2x10	350	354	-4	360	-10	266	+84
WSPF KD PET 2x4 Stud	285	300	-15	325	-40	240	+45
WSPF KD PET 2x6 Stud	295	315	-20	340	-45	280	+15
Douglas Fir Green R/L 2x4	265	263	+2	300	-35	238	+27
Douglas Fir Green R/L 2x10	310	305	+5	300	+10	280	+30
ESPF KD 2x4 8ft Stud	365	370	-5	400	-35	305	+60
OSB Ontario 7/16" (CDN\$)	275	275	0	347	-72	195	+80
CSplywood Toronto 3/8" (CDN\$)	380	390	-10	441	-61	328	+52

Weekly News

Housing Starts, Canada

CONTINUED The CMHC said September's slowdown in starts was mostly due to a decrease in the urban multiples market – typically condos and apartment buildings.

The rate of urban starts fell by 3 per cent to 203,731 units in September, driven by a slowdown in Ontario's hot condo sector. National single starts fell 1.4 per cent to 67,643 and multiple starts fell 3.9 per cent to 136,088 units, according to the CMHC report.

Urban starts rose in the Atlantic region, Quebec and the Prairies, but fell in Ontario and British Columbia, the two provinces that have had the most overheated housing markets in the past several years.

Japan Housing Starts

CONTINUED On an annualized basis, Japan's housing starts in August were 77,500 units, a 5.5 per cent decrease from the same month a year ago. This drop was due to the rush to take advantage of the expiring eco point system, according to the *Japan Lumber Reports*. Compared to August 2010, new housing starts in August 2011 rose by more than 14 per cent, to 81,986 units.

August 2012 starts for condominiums in the Tokyo region were 3,830 units, a 32.4 per cent decrease from August 2011.

Starts of wood-based units in August 2012 dropped by 8.3 per cent compared to the previous month, to 43,015 units. The share of wood-based units was 55.5 per cent, a 0.9 per cent drop over the previous month, says the *Reports*.

US PPI

CONTINUED Wholesale prices excluding volatile food and energy were flat

last month. That was the lowest reading since October 2011 and fell short of analysts' forecasts.

Consumer inflation is currently below the Federal Reserve's 2 per cent target, and many economists think it will trend below that level for years to come.

Overall producer prices last month were buoyed by a 4.7 per cent increase in energy prices. Higher gasoline costs drove the increase. Wholesale diesel prices also contributed, rising 9.2 per cent, the biggest one-month gain since December 2010.

Food prices rose 0.2 per cent, backing off of the faster pace of price increases seen over the summer when a severe drought pushed up the cost of grain and soybeans.

In the 12 months to September, producer prices increased 2.1 per cent, biggest gain since March, after advancing 2 per cent in August.

Outside food and energy, producer prices were restrained by a decline in the cost of communication equipment.

Core producer prices increased 2.3 per cent in the 12 months to September.

WFP to Upgrade

Work is set to begin on Western Forest Products' \$16 million project to upgrade its Saltair sawmill into largest single-line facility on BC's coast.

Spokesperson Mackenzie Leine told the *Nanaimo Daily News* Friday the equipment has been purchased that will see the mill's edgers, stackers and sorters upgraded and contractors are now being selected to complete the work.

She said construction should be completed by next summer. The upgrades at Saltair, which currently employs approximately 140 workers, is part of WFP's plans to invest \$200 million into its sawmills on

Vancouver Island over the next three years.

WFP has committed another \$6.7 million from its \$200-million commitment to upgrade its sawmill in Port Alberni, and Leine said further funding announcements for WFP's other Island mills should come soon. She said the company is still studying what, if any, investments it wants to put into its two sawmills in Nanaimo, which are currently operating with just skeleton crews until markets improve.

Skeena Opening Date Announced

British Columbia-based Roc Holdings says the Skeena sawmill in Terrace, BC, should be fully operational by November 5.

Spokesperson Gian Sandhu says two lines will be at capacity by next month — and new equipment and even more staff will be hired after that.

He estimates it will take six to eight months to train crews for the second shift and once everything is running smoothly, the mill will directly employ 100 people.

CEP Ratifies

Workers at Domtar's Kamloops, BC, pulp mill have voted to accept a contract offer from their employer.

The members of CEP Local 10b voted 87 per cent in favour of a deal recommended by the bargaining committee.

Last week the members voted 99.6 per cent in favour of a strike. The new contract is a 5 year deal.

The *Daily News of Kamloops* reported the Local received the pattern agreement first signed with Canfor in Prince George. The contract provides lump sum payments of \$3,750 in each of the first two years, followed by 2, 2.5 and 3 per cent. It expires in 2017.

BC Provincial Election

Politics

CONTINUED “Essentially our plan consists of five main parts,” began MacDonald last week in a phone interview with *Madison's*. “We will put more public investment into healthy forests, following many of the recommendations made in the Auditor General’s report, the Association of Professional Foresters, the Forest Practices Board, and those gathered at the Timber Committee hearings. We will take a hard look at raw log exports, instead putting an emphasis on greater utilization of the resource. We will establish a community stability commission to formalize government involvement in communities going through transition, or to re-establish a mill that’s having trouble. We will improve the existing skills training programs. We will put in place a wildfire interface strategy that includes perimeter forest tenures.

by Kéta Kosman

“The first point I mentioned, forest health, is very important. The NDP plan is to put a focus on resource planning and reporting, to improve current government objectives. We will have five-year planning programs, and submit status reports every ten years. For example with the timber inventory, we will reinventory survey dates every ten years, and forest disturbance every three to five years.

“In terms of reforestation, we would be doing surveys for Not Satisfactorily Restocked (NSR) areas of up to 100,000 hectares. We will plant 50 million seedlings a year. However it is difficult to say exactly what will happen with this in the next two years because the prep work is not being done right now.

“We will build up the research branch again, because the capacity within the Forest Ministry is different than with universities and other research organizations. This effort would have to be done slowly, without adding costs to the industry.

“The BC NDP will put into place a forest health plan that is doable and that will be costed out.”

MacDonald could not go into detail on the precise economics of this plan just yet because, “before we can put dollar figures on anything there will have to be an internal process. At the moment the BC Liberal’s budget is a moving target,” said MacDonald.

“In the beginning, investment will come from general revenue,” detailed MacDonald. “There is already a system in place to determine the appropriate stumpage, so it is not our intention to fundamentally change the stumpage system. The lumber

market is strengthening, as things pick up more there will just naturally be more revenue. There are reasons to be optimistic. We will be careful to build on the useful and successful work done so far to nurture new markets [for BC lumber].”

As it happened, this week the BC Ministry of Forests, Lands, and Natural Resource Operations released its Forest Action Plan, detailing the government response to the Mid-Term Timber Supply Committee’s report. On Tuesday *Madison's* attended a media conference call with Minister Steve Thomson and Parliamentary Secretary for Forestry John Rustad, who also just returned from the Timber Committee.

The Forest Action Plan does not contain a lot of specifics, and can be read here http://www.for.gov.bc.ca/hfp/mountain_pine_beeble/mid-term-timber-supply-project/

“This government response to the report delivered by the Timber Committee demonstrates our commitment to continue to invest in forest health and communities,” began Thomson. “We will update

the forest inventory, which has been rapidly changing but has now stabilized so we can proceed with our Tenure Inventory Plan.

“We will begin converting from volume to area-based tenure and as a supplemental we will provide security of timber supply for non-sawlog wood. Part of this will be achieved by utilizing marginal stands.”

Rustad went further in saying, “The Ministry is going forward with implementation of all of the Timber Committee recommendations. We will introduce legislation this spring with a view to growing more fibre and getting more value from the landbase.”

In answer to *Madison's* question of whether incremental changes coming into effect in the Lakes Timber Supply Area (TSA) following the devastating accident at the Burns Lake sawmill will be used as a model for the rest of the province, Thomson said some of it will be depending on the area and what is the most effective.

“We are taking steps in the Lakes TSA,” answered Thomson. “There are a number of proposals we are discussing with Hampton. Some specifics are related to marginal stands, additional processes with the Lakes Timber Supply Planning Table, and other points. After they are addressed in Burns Lake they may be used in other areas. For example, Williams Lake is already logging marginal stands.”

In response to another media question about the funding, Thomson said, “The funds are in the current existing budget for 2013-2014. That means \$100 million over the next three years on reforestation and inventory. In terms of full implementation, the fiscal resource requirements will be addressed by the budget committee.”

Seeking further clarification on certain points, *Madison's* had an individual interview with Minister Steve Thomson Wednesday.

“Overall the Timber Committee recommended to convert current volume-based tenures with renewable licenses which will be – whole or in part – area-based. The principle is that if the tenure is area-based, the forest companies will invest in intensive silviculture and get the benefits from increased volume. There would still be Ministry oversight of the land base as there is now and the Forest Act would still apply.

“The challenge will be in determining what that area will be, because the companies want it to be close to their operations.”

When asked about the time frame for this massive undertaking, Thomson said,

“We will bring legislation in at the first opportunity, in the New Year.”

The other topic *Madison's* wanted to know more about was the promise of more Type 4 silviculture, because this practice is common in

“ Overall the Timber Committee recommended to convert current volume-based tenures with renewable licenses which will be -- whole or in part -- area-based. ”

regions with private timberland owners and BC – indeed all of Canada – has long been chided for not investing properly back into its forest resource in this manner. The Forest Action Plan states on page 8: a) Starting in 2014/15, we have budgeted \$11 million per year for a fertilization program. This will fertilize approximately 21,000 hectares and produce an additional 460,000 cubic metres of timber. This additional volume will be realized 10 years after the last application of fertilizer. b) Type 4 silviculture strategies [. . .].

Madison's asked: If the province is shifting to area-based tenure, who is responsible for funding this intensive silviculture?

“A licensee would apply for area-based tenure, part of the division [between the company and the Ministry] would be approaches to silviculture investment.”

A clarification arrived later by email from a Ministry media contact, which said, “The [Type 4 Silviculture] strategy development is led by the ministry’s district staff and includes input from licensees in the TSA and other stakeholders. Funding comes from the Ministry’s Land Based Investment program.”

However, there seems to be a conflict here. If the conversion to area-based tenure is, in part, motivated by an expectation that forest companies will “invest in intensive silviculture” as Thomson is quoted above, but the funding comes from the Ministry, how is that an incentive for companies to manage the resource base better than the Ministry has been doing?

Madison's looks forward to seeing further details on these critical issues as they are released.