

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 Canadian and US residential and non-residential building indexes, as well as looking at the trends of several building materials' prices over the past five years.

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

Third Quarter Results

Canfor Corporation Tuesday posted a net income of \$20.7 million in 3Q 2012, on sales of \$683.8 million. Operating income was \$22.3 million, down \$3.7 million from \$26.0 million for 2Q.

The company ended the quarter with cheques issued in excess of cash on hand of \$7.1 million and operating loans of \$17 million, with a total of \$354.3 million still available under its operating lines.

For its part, Canfor Pulp Products Tuesday reported a net loss of \$4.6 million for 3Q 2012, compared to net income of \$3.3 million for 2Q 2012 and net income of \$23.9 million for 3Q 2011. For the nine months ended September 30, 2012, the company's net income was \$9.0 million, compared to \$122.8 million for the nine months ended September 30, 2011. The company reported an operating loss of \$8.2 million for 3Q 2012, compared to operating income of \$10.4 million in 2Q 2012.

The company ended the quarter with cheques issued in excess of cash on hand of \$4.4 million and operating loans of \$7 million, with a further \$32.2 million available under its operating lines.

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Sawmill Worker Severe Injury

A 40-year-old man's arm was cut off above the elbow Monday in an accident at the Philomath, OR, operation of Mary's River Lumber.

The Albany man, who worked for the company through the temp agency Selectemp, was using a hula saw in the fence plant when the accident happened, according to details provided by company president Brad Kirkbride and Capt. Greg Ridler of the Benton County Sheriff's Office.

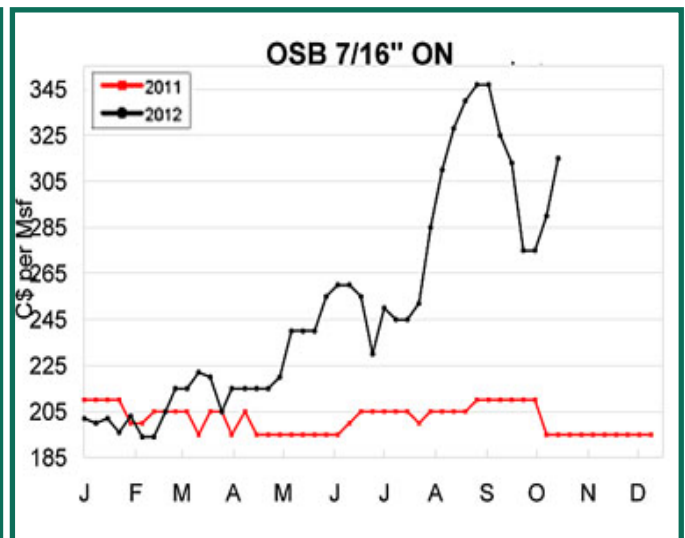
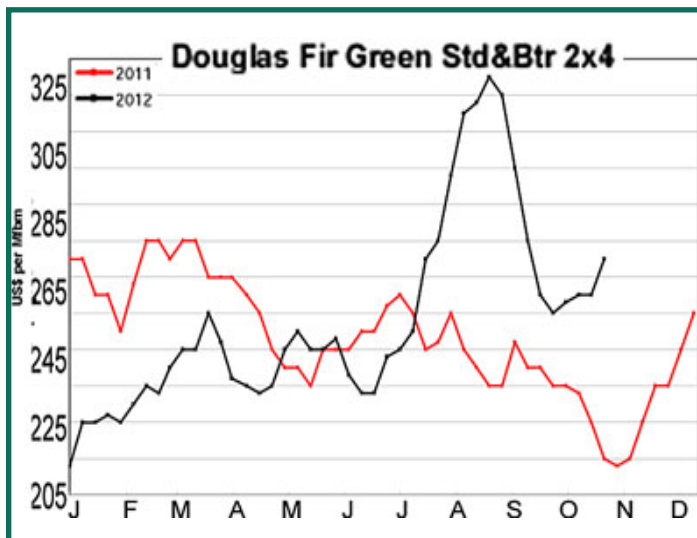
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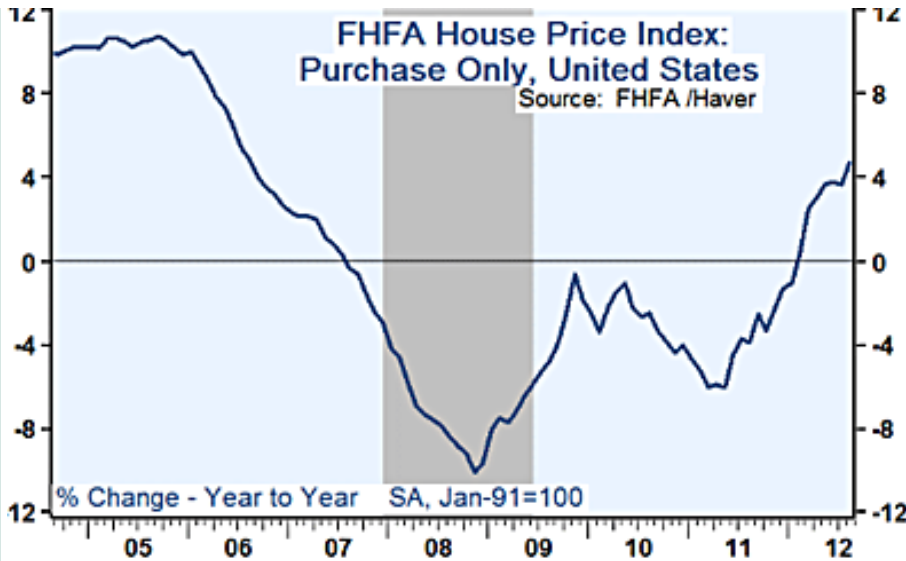
Mountain Pine Beetle in Alberta : Update

Alberta continues the fight to prevent the pine beetle population from spreading east across the rest of Canada. Alberta Sustainable Resource Development has released data to forest companies in the beetle-impacted zone about where to best deploy harvesting in order to make best use of the most recently-attacked trees.

In addition, \$40 million in funding is going to 'single tree cut and burn' for projects slated to start this November.

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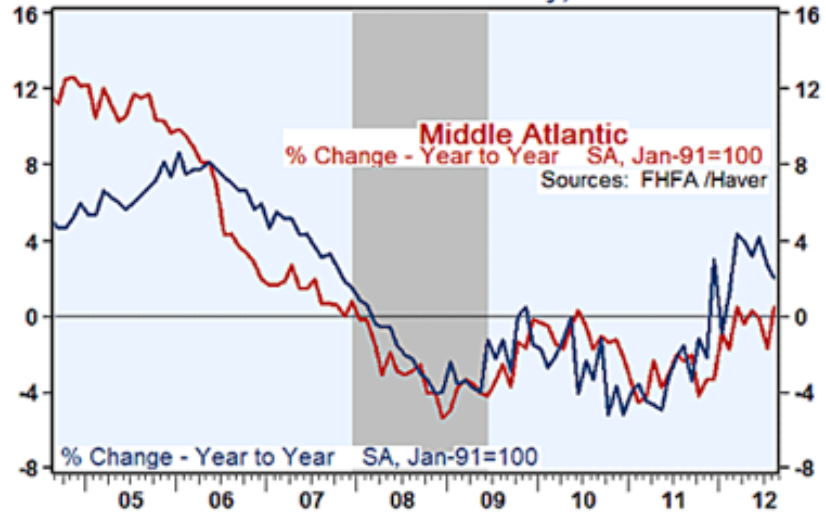
U.S. Home Price Appreciation Picks Up

The US House Price Index from the Federal Housing and Finance Agency (FHFA) gained 0.6 per cent during August following an unrevised 0.2 per cent July increase, the FHFA said Wednesday. The rise lifted the year-over-year increase to 4.7 per cent, was its strongest since 2006 and followed four successive years of price decline. Prices remained 14.6 per cent below the 2007 average.

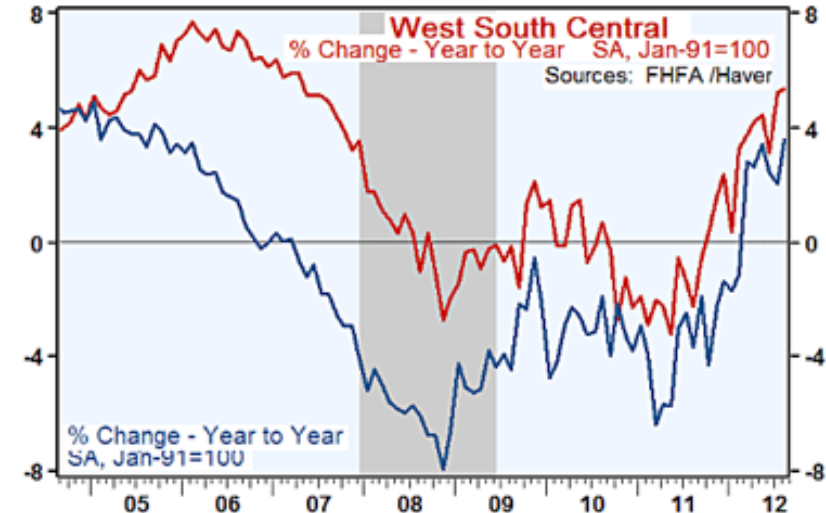
Home price appreciation was pronounced in the Mountain states, up 11.7 per cent year-over-year, following declines larger than in the rest of the country. The gain was followed by the Pacific, up 8.1 per cent year-over-year, West South Central, up 5.2 per cent year-over-year, South Atlantic, up 4.4 per cent year-over-year, West North Central, up 4.3 per cent year-over-year, and the East North Central, up 3.5 per cent year-over-year, regions.

The FHFA house price index is a weighted repeat sales index. It measures average price changes in repeat sales or refinancings on the same properties. It is based on transactions involving conforming, conventional mortgages purchased or securitized by Fannie Mae or Freddie Mac. Only mortgage transactions on single family properties are included.

FHFA House Price Index: Purchase Only, East South Central



FHFA House Price Index: Purchase Only, East North Central



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Key Prices

| | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|--------------------------------|-----------|-----------|--------|-----------|--------|----------|--------|
| WSPF KD R/L 2x4 | 312 | 302 | +10 | 295 | +17 | 226 | +86 |
| WSPF KD R/L 2x6 | 310 | 310 | 0 | 315 | -5 | 252 | +58 |
| WSPF KD R/L 2x8 | 300 | 300 | 0 | 300 | 0 | 260 | +40 |
| WSPF KD R/L 2x10 | 345 | 345 | 0 | 356 | -11 | 255 | +90 |
| WSPF KD PET 2x4 Stud | 290 | 285 | +5 | 318 | -28 | 220 | +70 |
| WSPF KD PET 2x6 Stud | 295 | 295 | 0 | 325 | -30 | 250 | +45 |
| Douglas Fir Green R/L 2x4 | 275 | 265 | +10 | 265 | +10 | 220 | +55 |
| Douglas Fir Green R/L 2x10 | 310 | 310 | 0 | 280 | +30 | 290 | +20 |
| ESPF KD 2x4 8ft Stud | 365 | 365 | 0 | 390 | -25 | 305 | +60 |
| OSB Ontario 7/16" (CDN\$) | 315 | 290 | +25 | 325 | -10 | 195 | +120 |
| CSplywood Toronto 3/8" (CDN\$) | 363 | 363 | 0 | 426 | -63 | 328 | +35 |

Weekly News

Quarterly Results

CONTINUED Norbord Thursday reporting earnings of \$28 million in 3Q 2012 on sales of \$302 million. This can be compared to earnings of \$6 million in 2Q 2012 and a loss of \$1 million in 3Q 2011.

Also Thursday Domtar reported net earnings of \$66 million for 3Q 2012 on sales of \$1.4 billion. These results can be compared to net earnings of \$59 million for 2Q 2012 and net earnings of \$117 for 3Q 2011.

Conifex Timber Thursday reported a net loss of \$3.7 million in 3Q 2012. This result can be compared to a net loss of \$2.4 million in 2Q 2012, and a net loss of \$2.2 million for 3Q 2011.

EBITDA in 3Q 2012 was negative \$0.5 million compared to positive \$0.6 million in the previous quarter and 3Q 2011.

Lumber segment revenue totalled \$54.4 million during 3Q 2012 compared to \$55.8 million in the previous quarter. A small increase in revenue from lumber shipments despite a 4 per cent decrease in shipment volumes was offset by a decrease in revenue from residual products and from the company's third party logistics business.

Lumber segment EBITDA was \$1 million for the current quarter and 3Q 2011, and \$1.7 million for 2Q 2012. Inventory valuation adjustments, short-term consulting fees and gains from lumber future derivatives resulted in a net expense of \$0.4 million in the current quarter compared to a net benefit of \$1.5 million in the previous quarter and a net benefit of \$0.5 million in 3Q 2011.

Worker's Arm Reattached

CONTINUED The hula saw is used to cut lumber into shorter pieces.

The man had worked at Mary's River

Lumber on and off for a year, Kirkbride said.

Kirkbride voluntarily shut down the fence plant immediately after Monday's accident. Based on market demand, he doesn't intend to run the plant for a while, he said. The sawmill, a separate operation in Philomath, continues to run.

Kickbride said that it's been many years since a serious injury like this occurred at the sawmill.

Oregon Occupational Safety and Health Division officials inspected the plant Tuesday and continue to investigate the circumstances of the accident, said spokesperson Melanie Mesaros. Details of how the accident occurred won't be released until the investigation is complete, she said.

Surgeons were able to reattach the man's arm. The early outlook for recovery is hopeful, and he was listed in fair condition Wednesday afternoon at Legacy Emanuel Medical Center in Portland, a nursing supervisor there said.

US Gross Domestic Product

US economic growth picked up in the third quarter, boosted by stronger consumer spending, an improving housing sector and increased defense spending.

Gross domestic product, the broadest measure of the nation's economic health, grew at an annual rate of 2 per cent from July to September, the Commerce Department said Friday, faster than the 1.3 per cent rate in the second quarter.

Residential construction accelerated at a 14 per cent pace in the third quarter, signaling the housing sector may have finally started recovering. But because housing makes up less than 3 per cent of the entire US economy, the impact was minor.

Growth was held back by the first drop in exports in more than three years and

flat business investment in equipment and software.

Consumer spending, which makes up more than two-thirds of the economy, grew at an annual pace of 2 per cent in the third quarter. This was the single biggest contributor to stronger economic growth, and was supported mainly by stronger auto sales.

Surprisingly, higher federal defense spending also boosted the economy, growing at a 13 per cent annual rate after shrinking in the three prior quarters.

An inflation gauge in the GDP report rose at a 1.8 per cent rate, accelerating from the second quarter's 0.7 per cent pace. But a core measure that strips out food and energy costs slowed to a 1.3 per cent rate, suggesting the rise in overall inflation will be temporary.

Ontario Forest Tenures

Buchanan Forest Products, out of Thunder Bay, ON, is surrendering its sustainable forest licenses in all major forests in the northwest, according to the CBC.

A spokesperson for Ontario's Ministry of Natural Resources said it's government policy to revoke the licences of bankrupt companies like Buchanan.

But Kathleen McFadden, the acting assistant deputy minister with the forestry division of the Ministry of Natural Resources, said that won't cut Buchanan completely out of forest operations in the region and the company's mills could still get the wood they need.

"There's the potential for those mills to secure a wood supply through business-to-business arrangements," she said to CBC.

As well, McFadden said there's potential the new forest license holder could contract-out harvesting operations to Buchanan.

Buchanan still owns the saw mills in Longlac and Nakina, ON.

Mountain Pine Beetle Battle

Update

Alberta continues to fight the good fight in preventing the mountain pine beetle (MPB) infestation, which has devastated massive amounts of forest in British Columbia, from spreading further east across Canada. There also came news this week that Saskatchewan is financing prescribed burns on the Alberta side of the Saskatchewan border, for the moment just as a preventative measure.

Alberta Sustainable Resource Development (SRD) is continuing along the existing program to halt the beetles' progress in that province. Please refer to the January 14, 2011, April 22, 2011, and July 15, 2011 issues of your *Madison's Lumber Reporter* for details. The latest press release from Alberta, dated August 2, explains that survey results from Slave Lake, AB, west to Grande Prairie, and Grande Cache show beetle populations decreased over the winter. In parts of central Alberta and areas north of Peace River they remained the same or increased only slightly.

As in previous years, beetle population surveys were conducted in Alberta this year between May and June at 179 sites, says the SRD release. Surveys involve cutting core samples from trees and comparing the number of dead versus live beetle larvae under the bark. Results indicate the number of new beetle-infested trees is expected to decline in some areas of the province. In portions of Alberta's pine forests where the numbers are likely to increase, the findings will help set priorities for control work in the coming year.

Alberta recently allocated \$40 million to the mountain pine beetle program to fund survey and control work and reforestation of areas where attacks have damaged pine forests. The funding brings the total the province has allocated to fighting the beetle to \$296 million since 2004.

Forest products companies use this information to plan harvesting in their tenures to reduce the impact of the MPB. Weyerhaeuser and Canfor direct their clearcutting towards at-risk areas, after SRD has removed highly infected individual trees in remote locations to restrain spreading, says an article in the Daily Herald Tribune published Sunday. In the last few years, SRD has seen a 50 per cent reduction in beetle infestation year over year.

In Saskatchewan, the Ministry of Parks, Culture and Sport has awarded a contract to a BC logging company for up to \$240,000 over three years to cut, pile, and burn MPB infested trees in Cypress Hills Interprovincial Park, according to the Southwest Booster Wednesday. In the last four years, Mountain

Pine Beetle populations in Saskatchewan have been steadily increasing and are now threatening the existence of the Lodgepole Pine Forests in the Cypress Hills Interprovincial Park and surrounding area.

The numbers of infested trees in Saskatchewan increased from two in 2006 to 433 trees this year.

Madison's spoke to Alberta SRD Communications Manager, Duncan MacDonnell, Thursday for an update.

"The leading edge of the MPB infestation has not really moved," began MacDonnell. "It's still just east of Lesser Slave Lake. However there is an increase of concentration in the already infested areas."

When asked if that means an increase in pine beetle population or in dead trees, MacDonnell said, "Well, both."

"There were pockets of overwinter survival, we know that from our mortality surveys this spring. The mortality sur-

veys measure growth in beetle population trends. Also, in September we counted the green vs. red ratios, of the trees. The results were not great but nothing monumental has changed."

"At this point it is business as usual in Alberta," continued MacDonnell. "We are continuing to focus on the priority areas."

"Right now we have posted on the Alberta Purchasing Connection website a list of contracts for single tree cut and burns. While the logs aren't going anywhere, this is work for loggers. Anyone can apply, they don't have to be from Alberta. The work is going to start in November. We have funding for \$30 million in single tree cut and burn projects and another \$10 million in rehabilitation. So that's work for loggers and for silviculture professionals."

Similar projects are also going on south of the border in South Dakota, Wyoming, and Montana.

by Kéta Kosman

