

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

There are a lot of questions being asked about the recent storm in the US northeast, and what effect the rebuilding and reconstruction will have on solid wood prices in the next few months.

This week's issue of *Madison's Timber Preview* examines softwood lumber inventories in the US and Canada, and looks at what impact the eventual rebuilding and reconstruction in the storm-affected areas will have.

Contact us any time for a subscription to this timely and valuable information.

Canada Housing Starts, Permits

The total value of Canadian building permits fell 13.2 per cent, to \$6.5 billion in September, following a 9.5 per cent advance in August, said Statistics Canada Monday. The decline was mainly the result of the non-residential sector, where the value of permits in all three components fell.

Canadian housing starts fell in October as both single and multiple urban starts slumped, Canada Mortgage and Housing Corporation said Thursday. The seasonally adjusted annualized rate of housing starts was 204,107 units in October, down from 223,995 in September and 18.9 per cent below the cyclical peak of 251,802 reached in April. [READ MORE](#)

Housing Starts, Japan

Total housing starts for Japan in September were 74,176 new units, a 15.5 per cent increase over August. New eco building regulations introduced last September caused housing starts to fall for a few months as builders got used to the new codes, according to the *Japan Lumber Reports*.

Seasonally adjusted annual starts were 868,000 units, a 2.5 per cent decrease from August. [READ MORE](#)

Electrical Right-of-Way Increases Slash and Burn

As MaryAnne Arcand, Executive Director of the Central Interior Logging Association explained to the BC Mid Term Timber Supply Committee at hearings in Vancouver, BC this summer, logging contractors clearing right-of-ways for new power lines in northern BC are slash burning valuable timber.

The *CBC* reports Friday that BC Hydro is warning people living northwestern BC of smoke haze in that area as they cut down and burn hundreds of kilometres of timber to make way for the Northwest Transmission Line. [READ MORE](#)

General Economic and US Construction Forecasts

In the runup to and aftermath of the US federal election this week, with its seemingly endless campaigning, analysts and economists of all walks have released their projections for the coming months. Everything from GDP to exports, production to employment, have been examined.

This week *Madison's* will provide a sampling of these forecasts. [READ MORE](#)

CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	October 2012		September 2012	
	Actual	SAAR	Actual	SAAR
Canada, all areas	17,507	204,107	19,780	223,995
singles, urban centres	5,387	62,402	6,159	67,520
rural areas	1,895	21,973	2,144	21,410
Atlantic urban centres		12,439		14,933
Quebec urban centres		34,741		41,810
Ontario urban centres		65,723		70,240
Prairie urban centres		42,453		48,418
BC urban centres		26,788		27,184

Source: Canada Mortgage and Housing Corporation

JAPANESE HOUSING STARTS

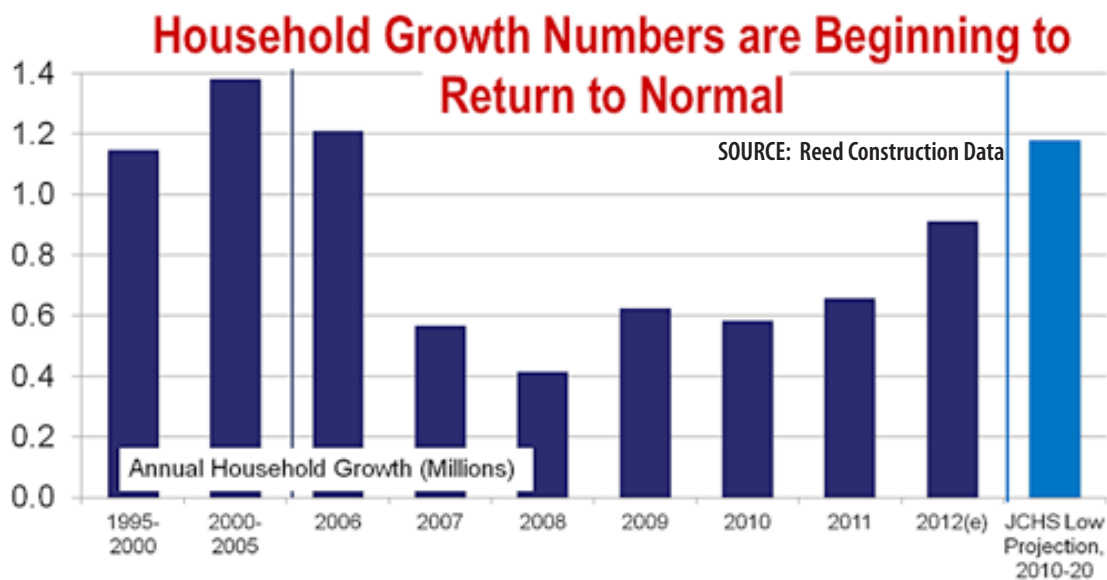
Month	TOTAL	Non-Wood	Wood	%Wood
Sep-12	74,176	31,159	43,017	58
Aug-12	77,500	34,485	43,015	56
Jul-12	75,421	32,883	42,538	56
Jun-12	72,566	31,654	40,912	56
May-12	69,638	31,439	38,199	55
Apr-12	73,647	36,535	37,112	50
Mar-12	66,597	30,985	35,612	53
Feb-12	66,928	31,363	35,565	53
Jan-12	65,984	30,867	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

Source: Japan Wood-Products Information and Research Center

Forestry Export Outlook by Region					
Top Markets	CAD bn	% Share of Exports	Export Outlook (% growth)		
			2011	2012(f)	2013(f)
Developed Markets					
United States	16.7	61.7	-4.1	-2	12
Western Europe	1.3	4.8	-8.8	-13	1
Japan, Oceania and Developed Asia	2.5	9.4	6.4	-9	8
Emerging Markets					
Latin America and the Caribbean	0.8	2.9	-2.0	-1	7
Emerging Europe and Central Asia	0.2	0.9	29.7	-16	10
Africa and the Middle East	0.4	1.6	-15.3	-32	10
Emerging Asia	5.1	18.7	28.7	-9	16
Total Developed Markets	20.5	76	-3.2	-4	11
Total Emerging Markets	6.5	24	20.0	-10	15
Total World	27.0	100	1.5	-5	12

Source: Statistics Canada, EDC Economics. 2011 is actual data while 2012 and 2013 are forecasts.

SOURCE:
Export
Development
Canada



Note: 2012 growth is based on change in annual average household counts over the past 4 quarters compared to year ago. JCHS low projection assumes that immigration in 2010-20 is half that in the US Census Bureau's 2008 middle-series (preferred) population projection.
Sources: US Census Bureau, Housing Vacancy Survey; JCHS 2010 household growth projections.



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Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	332	328	+4	290	+42	218	+114
WSPF KD R/L 2x6	324	318	+6	309	+15	240	+84
WSPF KD R/L 2x8	315	310	+5	299	+16	252	+63
WSPF KD R/L 2x10	350	350	0	354	-4	240	+110
WSPF KD PET 2x4 Stud	310	300	+10	300	+10	215	+95
WSPF KD PET 2x6 Stud	300	295	+5	315	-15	226	+74
Douglas Fir Green R/L 2x4	285	275	+10	263	+22	220	+65
Douglas Fir Green R/L 2x10	335	320	+15	305	+30	310	+25
ESPF KD 2x4 8ft Stud	380	370	+10	370	+10	300	+80
OSB Ontario 7/16" (CDN\$)	342	310	+32	275	+67	195	+147
CSplywood Toronto 3/8" (CDN\$)	366	350	+16	390	-24	305	+61

Weekly News

Housing Starts, Canada

CONTINUED The seasonally adjusted annual rate of urban starts fell 10.1 per cent to 182,134 units in October, said the CMHC. Urban singles starts decreased 7.6 per cent to 62,402 units, while multiple urban starts dropped 11.4 per cent to 119,732 units.

October starts decreased in all regions, declining by 1.5 per cent in British Columbia, 6.4 per cent in Ontario, 12.3 per cent in the Prairies, 16.8 per cent in Atlantic Canada and 16.9 per cent in Quebec.

Construction intentions in the non-residential sector declined 30.8 per cent to \$2.2 billion after a 27.7 per cent increase in August, said StatsCan. Ontario and Quebec accounted for most of the decline at the national level. Non-residential construction intentions rose in four provinces, led by British Columbia and Nova Scotia.

In the residential sector, the value of permits edged up 0.4 per cent to \$4.2 billion, following two consecutive monthly decreases. Increases reported in four provinces offset declines in the others. Ontario posted the largest advance, followed by Quebec. The largest decline occurred in Alberta, with Newfoundland and Labrador a distant second.

Japan Housing Starts

CONTINUED Units built for owners and for rentals both increased in the double digits, says the *Reports*. 2x4 units also increased, by 41.9 per cent compared to September, to 9,515 units.

Wood-based units rose by 17.3 per cent, coming it at over 10,000 units for four consecutive months. This type of building had a 58 per cent share of the total in September, a 2.5 per cent increase over August.

BC Hydro Burns Timber

CONTINUED The utility's transmission line project connects an existing substation near Terrace, BC and a new substation to be built further north, near Bob Quinn Lake in 2014, says the *CBC*.

"In clearing the right-of-way there's a lot of woody debris that has to be disposed of. And we do have approval... to dispose of that by burning," said BC Hydro spokesperson Lesley Wood.

Wood said she didn't know the total volume of the wood being burned, only that it is considerable.

"When you considering that you're clearing a right of way up to 80 metres worth of clearing for 340 kilometers — it's a lot," she said.

Wood says it isn't economically viable to use the trees for biofuel or firewood, but says the Nisga'a nation, one of the groups contracted to do the cut and burn, may try to sell some of the timber.

Sharon Glover, CEO of the BC Association of Professional Foresters, said there's no need to be burning the timber — that some of it is bound to be salvageable.

"To say that the forest, 'We'll just burn it because it's not our problem, it's in our way,' we need to think differently. If you just burn it you're saying that timber has no use to anyone. And we just don't buy it.

"We suspect in the mix of that timber that some of it is going to be merchantable, usable as saw logs, and other timber might be used for bioenergy, shipped to pellet plants or shipped to biomass projects."

"If you are going to remove permanently, from the timber land base, large tracks of timber, you've got to include the costs of shipping that timber elsewhere so that the people of BC get value from the timber that's removed. "

She adds the practise makes little sense in the current forestry climate where communities devastated by the mountain pine beetle epidemic are looking to log wood from areas currently under conservation.

"Why would you burn it in one area and have a shortage in another?" she wondered to the *CBC*.

CIC Invests

China Investment Corporation has been working on a deal to purchase a 12.5 per cent stake in Vancouver Island-based Island Timberlands from an infrastructure affiliate of Brookfield Asset Management for about US\$100 million, reported the *Wall Street Journal* Tuesday.

The move marks the latest effort by the Chinese sovereign-wealth fund to step up its investment in assets that could help shield its giant overseas portfolio from rising inflation risks, says the *WSJ*.

Closely held Island Timberlands, which is jointly owned by Brookfield and other institutional investors, consists of about 256,570 hectares of freehold timberlands mainly on Vancouver Island.

CIC already has a large stake in Vancouver-based mining giant Teck Resources, buying a 17.2-per-cent stake in 2009 for \$1.5 billion, says the *Vancouver Sun*.

During a visit to Toronto in September, Chen Deming, China's commerce minister, told a gathering at the Canada China Chamber of Commerce that the country's state-owned enterprises should be treated "fairly" and "objectively" when they invest abroad.

Winston Wenyan Ma, a managing director in CIC's representative office in Toronto is a member of the board of the Chinese business association in Canada.

Projections

Economic and US Construction

General Economics

First up is Export Development Canada (EDC), which released its global export forecast for this autumn on October 30. EDC boldly declares that “[global stimulus] spending programs were initiated too soon in the cycle [downturn]. But when the initial effects of the new money wore off, we were back to dealing with those pre-recession excesses. Now, the economy is showing signs of being back in balance – but there’s hardly any policy ammunition left.”

by Kéta Kosman

EDC “American business is in the best shape ever: corporate profits are near an all-time high of US\$1.9 trillion, while businesses are holding US\$1.8 trillion of cash and equivalents, the most liquid balance sheets since the 1950s. US productivity has grown 6.6 per cent since the crisis began in 2009. [. . .] Previously delayed spending reductions will hit the US early in 2013, which together with tax cuts set to expire on December 31, 2012, would slap the US with a fiscal tightening amounting to a massive 5.1 per cent of GDP.

GDP

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“EDC’s estimate of the underlying growth in the US economy is 4.3 per cent, which, net of the 1.5 per cent ‘fiscal cliff’ impact, yields an economic forecast of 2.8 per cent growth for 2013.”

For its part, the Desjardins Economic and Financial Outlook, released October 22, finds that “global GDP growth should remain at 3 per cent in 2012 and 3.4 per cent in 2013. [. . .] The latest estimate for US real GDP growth showed that the country posted growth of only 1.3 per cent last spring, instead of the 1.7 per cent announced in [our] second estimate.

“We expect US growth to accelerate to 1.9 per cent in 3Q, which will help offset 2Q’s poor performance and keep US annual growth for 2012 at 2.2 per cent. The problems arising from the fiscal cliff remain and the assumptions used will slow real GDP growth to 1.9 per cent in 2013.

“Growth forecasts for the [Euro] region remain at -0.4 per cent for 2012 and 0.1 per cent for 2013.

“Recent corrections to Canada’s economic accounts have forced an upward revision to the expected real GDP growth in 2012, to 2.2 per cent. It will remain at this level in 2013,” says Desjardins.

Next is the TD Economics’ Monetary Policy Monitor, released October 19, “Without a corresponding boost from net exports and business investment, Canadian real GDP is forecast to slow below its trend rate for the balance of the year and into early 2013.”

Production and Exports

EDC: “Strong overseas demand for raw materials will combine with rising US demand and the continuation of a decade-long diversification of sales into fast-growing emerging markets, to lift Canada’s merchandise exports growth from 4.9 per cent this year to 6.7 per cent in 2013. Topping growth off at 12 per cent is the Canadian forestry sector, where wood product sales will surge as US homebuilding takes off.”

Desjardins: “US retail sales rose by 1.1 per cent in September, the ISM manufacturing index climbed above the 50 mark during the same month, reaching 51.5, and consumer confidence soared. The residential real estate market also appears to be steadier. In two months, the jobless rate fell from 8.3 per cent to 7.8 per cent.”

Last, but certainly not least, is Reed Construction Data which Thursday held a webinar on US economic conditions in general and construction in particular, now that the question of who will be US President has been answered.

Kermit Baker, Chief Economist for the American Institute of Architects started off somewhat cheekily by saying that the US\$6 billion spent on federal and state elections amounts to a tax on the “One Per Cent”, in the form of donations made to the Super PACs.

“Things look remarkably the same following the election as they did on November 5,” explained Baker. “One big difference is that companies can no longer delay making decisions based on the looming election.

“The fiscal cliff must now be dealt with. Automatic cutbacks in federal spending will affect non-residential construction, however the sequestration targets of US\$2 billion per year decline in major spending for construction spending will not make altogether that much difference. Residential construction played a remarkably small role in this election given its huge role in the financial meltdown.

“There are over 1.5 million US homes currently in foreclosure, and another almost 1.5 million 90 days or more past due.”

Please see chart of household formation forecasts to 2020 on Page 6.

“In terms of architecture billings there has been rocky improvement. Getting credit has been the single greatest difficulty for architects and builders,” concluded Baker.

Up next was Ken Simonson, Chief Economist at the Associated General Contractors of America.

“New building of apartments is booming, for rentals specifically not for owner/occupiers,” began Simonson. “First time buyers are reluctant to step into the housing market. Single family home building numbers are not going to retreat but otherwise remain a question.

“Total construction spending in the US is up 12 per cent, a total positive change from the past year.”

On this point, Bernard Markstein, US Chief Economist for Reed Construction Data added, “Vacancy rates are low, and as rents continue to go up the housing starts for rentals will rise.”

Housing Starts Expected to Increase Almost 25% to 750,000 This Year; Approaching 1 million in 2013

SOURCE: Reed Construction Data

Total Housing Starts (000s)		Fannie Mae	Freddie Mac	Moody's Analytics	MBA	NAHB	NAR	S&P	Wells Fargo	Zelman & Assoc.	Consensus (average)
2012		746	750	782	756	751	769	760	760	770	761 (24%)
2013		888	910	1,124	898	903	1,120	942	890	980	962 (26%)
2014		N.A.	1,200	1,794	N.A.	1,140	N.A.	1,244	1,060	1,225	1,282 (33%)
Forecast Date		Sept-12	Sept-12	Oct-12	Sept-12	Sept-12	Sept-12	Sep-12	Oct-12	Sep-12	

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