

# 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  
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## News & Updates

### US Residential Construction Spending, Employment

New residential construction spending in the US increased 1.2 per cent on a seasonally adjusted basis in November after soaring 3.8 per cent in October, according to a *Reed Construction Data* release of January 23. Although a solid gain, November marked the first time in eight months that spending increased by less than 1.5 per cent. Not seasonally adjusted year-to-date spending was up 18.7 per cent over 2011.

Single-family construction spending advanced 1.3 per cent in November after increasing 3.7 per cent in October. Multifamily construction spending moved up 0.7 per cent after jumping 4.1 per cent in October. Year-to-date, single-family construction spending was up 18.6 per cent and multifamily spending was up 19.1 per cent compared to the same period in 2011. [READ MORE](#)

### US Home Sales, Prices

New US single-family home sales fell in December although the previous month's reading was revised to show the fastest sales pace in over two years, a sign the country's housing recovery remains on track.

The Commerce Department said Friday sales dropped 7.3 per cent last month to a seasonally adjusted 369,000-unit annual rate. That was below analysts' forecasts of a 385,000-unit annual pace. The Commerce Department raised its estimate for sales in November by 22,000 to a 398,000-unit rate, making the pace of sales in November the fastest since April 2010.

Sales of existing homes fell 1 per cent in December to a 4.94 million annual rate, restrained by the tight supply of available properties, figures from the National Association of Realtors showed yesterday. [READ MORE](#)

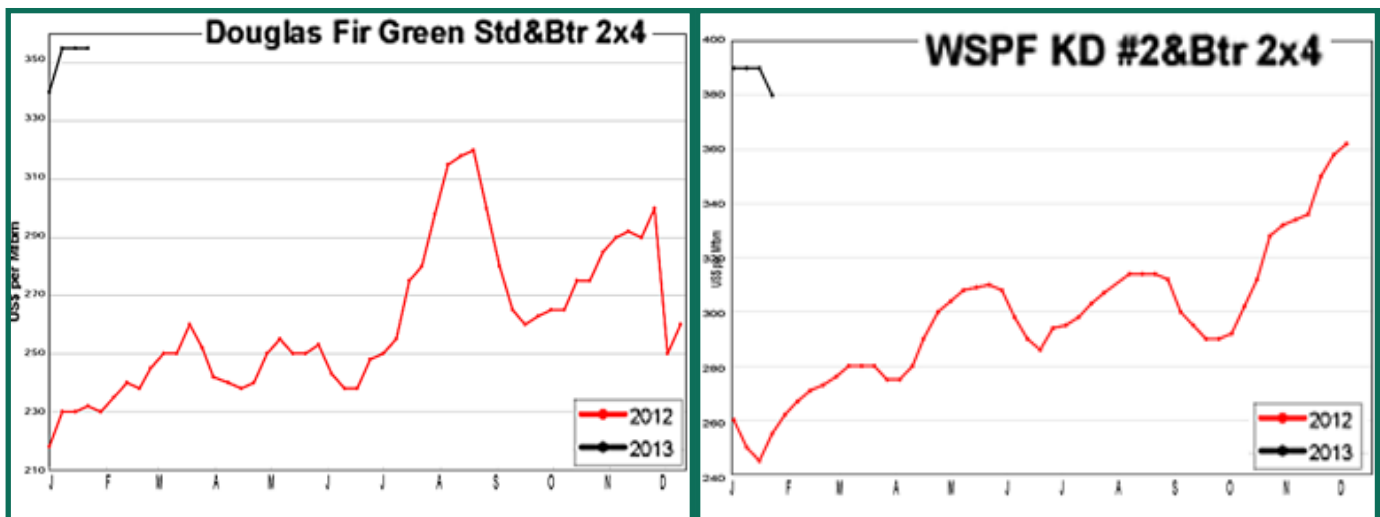
### Construction Activity Projection, US

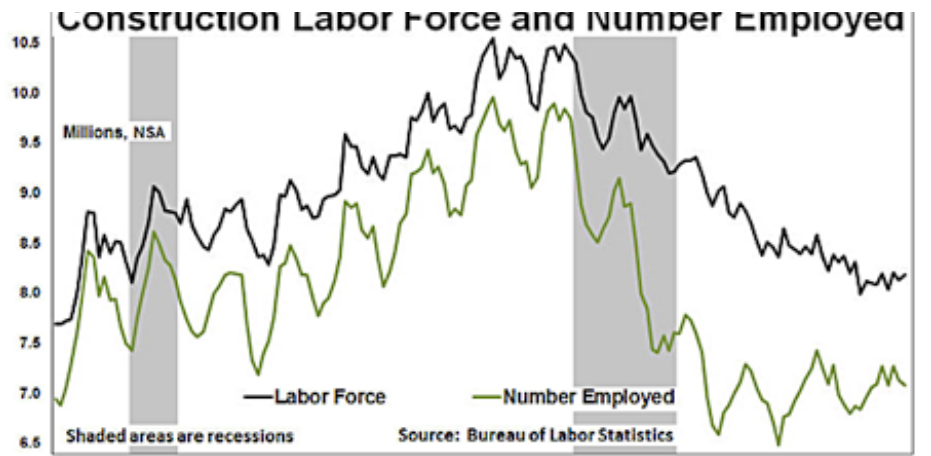
Nonresidential construction activity is projected to see healthy if unspectacular gains this year, with construction spending for buildings rising by 5 per cent in 2013 before accelerating to 7.2 per cent in 2014, said Kermit Baker, Chief Economist at the *American Institute of Architects* January 25. T

The construction of commercial facilities is expected to lead the upturn, with spending gains of almost 9 per cent this year and nearly 11 per cent next year, led by double-digit gains in hotel construction. Industrial construction spending is projected to nearly match the overall nonresidential building totals this year and next, while institutional construction activity should lag behind, with modest single-digit gains over each of the next two years. Healthcare is expected to be the strongest institutional sector. [READ MORE](#)

### BC Truck Logger AGM : Part II

Further to last week's coverage of the first speaker sessions of the Truck Logger Association's AGM in Victoria, BC, this week's story is devoted to the rest of the proceedings. Please refer to the January 18 issue of your *Madison's Lumber Reporter* for Part I. [READ MORE](#)





# Sawmill Hazard Alert

The risk of a dust explosion increases when low humidity levels and colder temperatures, like those seen in winter months, make dust more difficult to control and easy to disperse and ignite. It is important to know how to control the risks associated with combustible dust. To learn more about keeping your workplace safe and to see these and other alerts visit [WorkSafeBC.com](http://WorkSafeBC.com):

- Combustible Dust Winter Alert — Increased Risk in Winter
- Gear Reducer Hazard Alert

[worksafebc.com](http://worksafebc.com)



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	380	390	-10	358	+22	245	+135
WSPF KD R/L 2x6	390	406	-16	368	+22	247	+143
WSPF KD R/L 2x8	385	392	-7	355	+30	246	+139
WSPF KD R/L 2x10	400	412	-12	364	+36	310	+90
WSPF KD PET 2x4 Stud	325	340	-15	320	+5	265	+60
WSPF KD PET 2x6 Stud	315	325	-10	300	+15	305	+10
Douglas Fir Green R/L 2x4	355	355	0	300	+55	232	+123
Douglas Fir Green R/L 2x10	355	358	-3	325	+30	330	+25
ESPF KD 2x4 8ft Stud	410	420	-10	390	+30	310	+100
OSB Ontario 7/16" (CDN\$)	380	375	+5	335	+45	196	+184
CSplywood Toronto 3/8" (CDN\$)	437	451	-14	402	+35	309	+128

## Weekly News

### US Construction Employment

CONTINUED December nonfarm payroll employment increased a seasonally adjusted 155,000, and November's increase was revised up 15,000 to 161,000, said the Bureau of Labor Statistics January 18.

From the pre-recession peak in January 2008 to the recession low in February 2010, payroll employment fell by 8.8 million. Since that low, payroll employment has risen by 4.8 million, which still leaves the economy 4.0 million jobs below its previous peak level.

December's unemployment rate held steady at 7.8 per cent, the fourth month in a row with a below 8 per cent reading. The December not seasonally adjusted unemployment rate for construction workers remained high at 13.5 per cent, but was down considerably from December 2011's 16 per cent.

In 2012, 97,000 construction workers were hired, and the number of construction workers who were unemployed decreased by 222,000. That means 125,000 workers left construction for jobs in other sectors of the economy, retired, or sought some sort of training.

Since the construction unemployment rate peak of 27.1 per cent in February 2010, 497,000 more workers have been hired, and the number of unemployed workers has decreased 1.335 million for a reduction in the construction labor force of 838,000 workers.

### House Prices, US

CONTINUED The median price for a new home rose to US\$248,900 in December from US\$245,600 in November, according to the Federal Housing Finance

Agency Wednesday. US new home prices rose 0.6 per cent from October on a seasonally adjusted basis.

Home values rose 7.4 per cent in November from a year earlier, the ninth straight increase and the biggest gain since May 2006, said CoreLogic last week.

### Construction Projection, US

CONTINUED The predictions from the American Institute of Architects (AIA's) Consensus Construction Forecast Panel, comprised of the nation's leading construction forecasters, are consistent with information derived from the AIA's Architecture Billings Index (ABI). Eight of the 12 months of 2012 showed positive national ABI readings, including the final five months of the year. The ABI readings in 4Q 2012 were the strongest quarter since the downturn began in early 2008, suggesting that construction activity should begin to accelerate significantly in the first half of 2013.

The AIA Consensus Construction Forecast panelists are a bit more optimistic than architecture firms in terms of projected revenue growth. They expect the US\$300 billion in spending for nonresidential structures to increase 5 per cent, to about US\$315 billion in 2013. By 2014, they expect this level to increase another 7.2 per cent, or US\$340 billion. While this is a reasonably healthy growth rate, that level of construction activity is still below the US\$377 billion average in nonresidential construction spending seen over the past decade.

### Canfor Invests

Vancouver, BC-based Canfor announced January 18 that it will be proceeding with capital improvement projects totalling ap-

proximately \$40 million to increase productivity and recovery at its sawmill in Mackenzie, BC.

The investment will include modifications and upgrades to the sawmill, kilns and planer. The capital project will commence this month, with anticipated completion in November 2013.

This announcement brings the total dollar value of the company's capital investments to ensure competitive operation of its British Columbia solid wood, pulp and paper facilities to \$600 million over the last three years.

The reopening of the Vavenby and Radium, BC, mills after significant capital investments resulted in the creation of 305 direct jobs, combined with significant downstream benefits to local economies.

### Interfor Buys

Rayonier has agreed to sell its wood products division and three Georgia lumber mills to a Canadian company Interfor, headquartered in Vancouver, BC. Interfor will buy the division for \$80 million, which includes lumber mills in Baxley, Swainsboro and Eatonton, GA, with a total of 260 employees.

The transaction, which is subject to regulatory approval in the US, is scheduled to close in late February or early March.

The three mills produce about US\$10 million in revenue, Ed Frazier, senior vice president of Rayonier, said. The sale does not include Rayonier's four plants that produce wood chips.

Interfor also has operations in Oregon and Washington, but this will be its first move into the Southeastern United States. It reported \$758 million in sales with a loss of \$13 million in 2011.

Rayonier expects an after-tax gain of about \$40 million from the sale.



# TLA 2013

## AGM Speaker Sessions

CONTINUED Speakers addressed the afternoon session topic, "What Business Needs from Government" with gusto. Moderated by *Globe and Mail* columnist Gary Mason, the presenters covered a wide range of topics and concerns for BC's coastal forest products industry.

Nick Arkle, Chief Forester at Gorman Brothers, was not shy about laying out specific issues which industry needs government to address.

"Gorman Brothers bought the Federated Cooperatives plywood mill in Canoe, BC, and the 750,000 cubic metres of AAC attached to that mill," began Arkle. "The fibre supply is about 75 per cent of what we need. We

by Kéta Kosman

recognize that today we are getting into a whole new industry. There is need for stability, an extended period of stability, to reassure the banks. Since none of us can control the global economies, we really don't need internally generated pressure from our own government. Our industry today is all about partnerships and it is important that those in power don't mess with what we are already doing.

"In the last 15 years there have been three major legislative changes which were very disruptive," detailed Arkle. "In the 1990s the province was putting \$1 billion a year or more into forest management, which has now been reduced to one-tenth of that. We need to start doing that again. The signing of the 2006 Softwood Lumber Agreement brought stability in the least, but the government doesn't want to address issues with the stumpage system due to the Agreement. As an example of one of these issues, the Highway 97 and Highway 16 corridors were designed around an area with a glut of wood, which could provide uplift to the AAC. But this is also the area which took the brunt of the mountain pine beetle attack. So we have a system based on the incremental log, all the mills in that area are chasing the incremental log. So now that same region is very tight for fibre supply."

Dwight Yochim, Executive Director of the TLA, also talked about this problem.

Up next was Jock Finlayson of the BC Business Council. *Madison's* has seen Finlayson speak a few times at various events and he always provides really good data and an overview perspective.

"The forest products industry in BC are price takers," stated Finlayson. "Meaning the government has imposed costs which cannot be passed on, which must be absorbed either in less manufacturing or in smaller margins. The Return

On Capital Invested for BC forest products since 2000 has been less than a BC government bond.

"Cancelling the HST and reverting back to the PST will hit resource industries very hard," continued Finlayson. "The PST will cost the forestry sector over \$100 million per year, and the BC carbon tax will cost another \$100 million. Together, these will give BC the worst tax structure in Canadian history."

Back to the topic of the Highway 97 and Highway 16 corridors, Yochim said, "Further to Jock's explanation of reduced fibre supply in a traditionally well-served area, even with that situation there is a lot of value left on the stump. The government needs to incentive that volume. There is 3 million cubic metres a year from that region that has been sold through BC Timber Sales but has not been harvested.

"On the coast, there was 41 million cubic metres in log exports compared to 58 million cubic metres not harvested. That amounts to between a \$2 and \$4 billion loss to the government in unrealized AAC," said Yochim.

Yochim talked about new markets and new applications for BC wood, including: further incursions into China; Japan, and: non-residential construction in the US.

"FPInnovations is in New Zealand looking at the cost of harvesting on steep slopes," concluded Yochim. "In Canada that is 30 per cent recovery in this difficult terrain, which in New Zealand they are getting 70 per cent recovery. So there is something we can learn from industry elsewhere."

Thursday morning started with excitement, some confusion, and no shortage of opinions of the Minister of Forests, Lands and Natural Resource Operations, Steve Thomson's, speech. The biggest talking point was a change to the Fee-in-Lieu mechanism. This will now include a multiplication factor so the more valuable logs carry a higher fee, as an incentive to keep those log sales domestically. Madison's has since learned that this is part of the surplus test, that this change affects 1 or 2 per cent of BC export log sales. This is the proportion that comes under dispute between a domestic lumber producer and a log seller in a remote location on Vancouver Island. Madison's will dig deeper into this situation in a future issue.

That morning session's topic was, "Harvesting the Allowable Annual Cut: How Do We Get There?" The panel was moderated by BC's Chief Forester, Dave Peterson.

"Across Canada the average harvest level since 2000 has been 25 per cent of the AAC, since 2009 it has been 50 per

cent," stated Peterson. "The coast alone has harvested 53 per cent of its AAC since 2009. When lumber prices are higher, the harvest more closely matches the AAC."

Rick Jeffery, President and CEO of the Coast Forest Products Association, explained the current state of the coastal forest products industry and where the future opportunities are.

"Getting the harvest out is really about capitalization," began Jeffery. "The industry is undercapitalized in all segments, and profitability is elusive. The companies can get higher margins through investment."

Jeffery talked about: LiDAR; the forest inventory (or lack thereof); that optimization is the use of contractor resources and the deployment of contractors; investing in woodlands; re-investing in the mills, and ; new products and markets, including US non-residential construction, sound abatement walls, and building remote resource roads out of hemlock.

"India is screaming for coastal forest products," said Jeffery. "There is a need for high-end wood, for high-end uses. India will have to replace the very high value, exotic, timber it has been using with something else [as global restrictions on the purchase of illegally harvested timber come into effect - ed]. The prices of these are very intriguing.

"In terms of regulation, profitability of the coast forest products sector is highly influenced by government policy," said Jeffery in conclusion. "Administrative rules should not increase costs or impair access. The log scale process is cumbersome, operators should not be hauling wood as many times as they are. We should move to cruise-based permits and stand-as-a-whole sales. BC Timber Sales should have a different way of selling wood so we know it actually gets harvested. And there should be tenure and revenue sharing with the First Nations."

Still on the topic of government regulation, Wayne Drury, CEO of Coast Tsimshian Resources based in Terrace, BC, said, "The forest operators don't even trust our own stumpage system. The government doesn't trust us, we are being regulated to death. Money is going to studies before it goes to the forest. For example, if the government trusted us we wouldn't have to handle wood six times.

"We purchased the TFL and license from the old Skeena mill up in Terrace, which is about 50 per cent hemlock pulp logs. We would leave it behind but that gives us a bad name, it breaks down the trust further. At the same that lower quality fibre is a tremendous opportunity; we are going to use that hemlock to fire the LNG plant at Kitimat."