

# MADISON'S LUMBER REPORTER

Publisher  
**KetaDesign Productions**

Editor  
**Kéta Kosman**  
Market Analyst  
**Earl Heath**

Annual Subscription Prices  
E-mail/Fax: C\$389  
Discounts available for multiple  
subscriptions  
Published 50 times a year

www.madisonreport.com  
madrep@shawcable.com  
604 984-6838

PO Box 2486 Vancouver, BC  
V6B 3W7 Canada

In Canada, add GST or HST  
ISSN 0715-5468

Printed in Canada © 2013

All material contained within is the property  
of KetaDesign Productions Inc. Reproduction  
or retransmission is expressly forbidden.



## News & Updates

### Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest movements with lumber commodity sales and prices, and looks at analyst and economist assessments of what a tanking futures market will mean for investors.

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

### US Housing Starts

US builders broke ground on fewer homes in April, one month after topping the 1 million mark for the first time since 2008. But most of the decline was in apartment construction, which tends to vary sharply from month to month. Applications for new construction reached a five-year peak, evidence that the housing revival will be sustained.

[READ MORE](#)

### British Columbia Floods

As heavy rains and suddenly warmer temperatures hit BC this week, flood warnings were issued for various communities.

A flood warning was maintained Thursday for the Fraser River through Prince George, according to the provincial agency responsible for watching the water. River levels along the Upper Fraser rose this week, and are currently at or near the peak levels, said an update from the BC River Forecast Centre.

[READ MORE](#)

### Sawmill Fire, Forestry Worker Fatality

Firefighters from seven Wisconsin departments battled an intense and smoky fire so hot that heat warped steel beams at a pallet-making company near Holcombe Monday night.

The fire at Walters Brothers Sawmill in Chippewa County destroyed the sawmill, wood debarking area, and an adjoining room, according to Cornell Fire Chief Denny Klass. A manufacturing area was saved in part to a fire wall, he said.

A 59-year-old Wayzata, MN, man was killed Thursday in northern Minnesota when a tree fell and hit him, according to the Lake County Sheriff's Office.

[READ MORE](#)

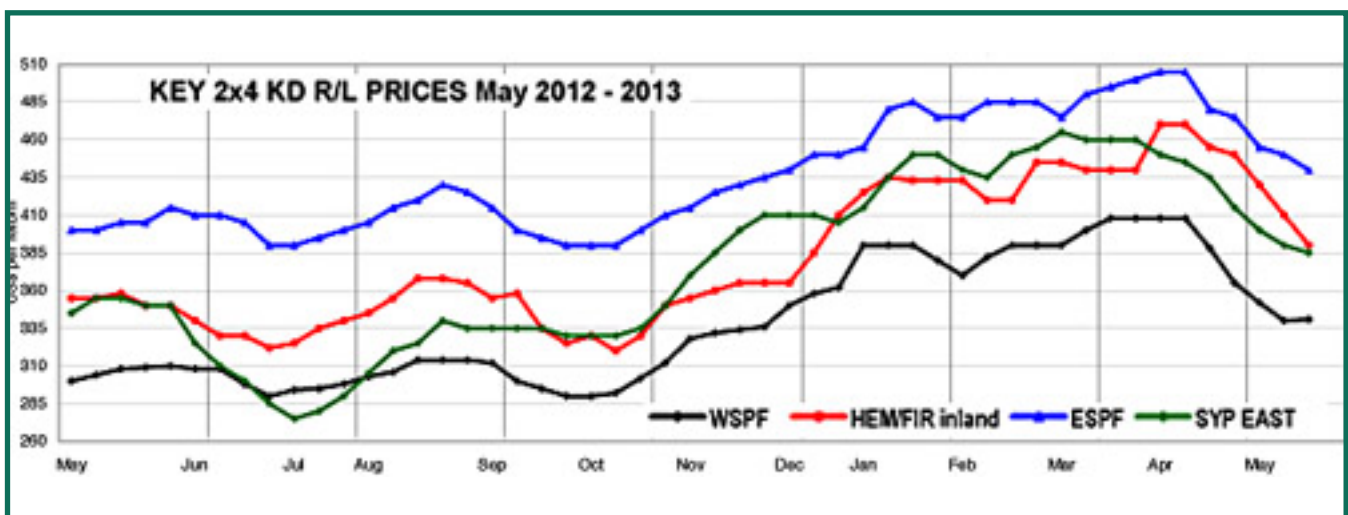
### Forestry and Paper Packaging Week: Vancouver

Last week in Vancouver, BC, the Pulp and Paper Products Council/PwC held their combined Forestry and Paper Week. Higher attendance levels and elevated moods over recent years was only one indicator of improving market conditions for the North American forest products industry.

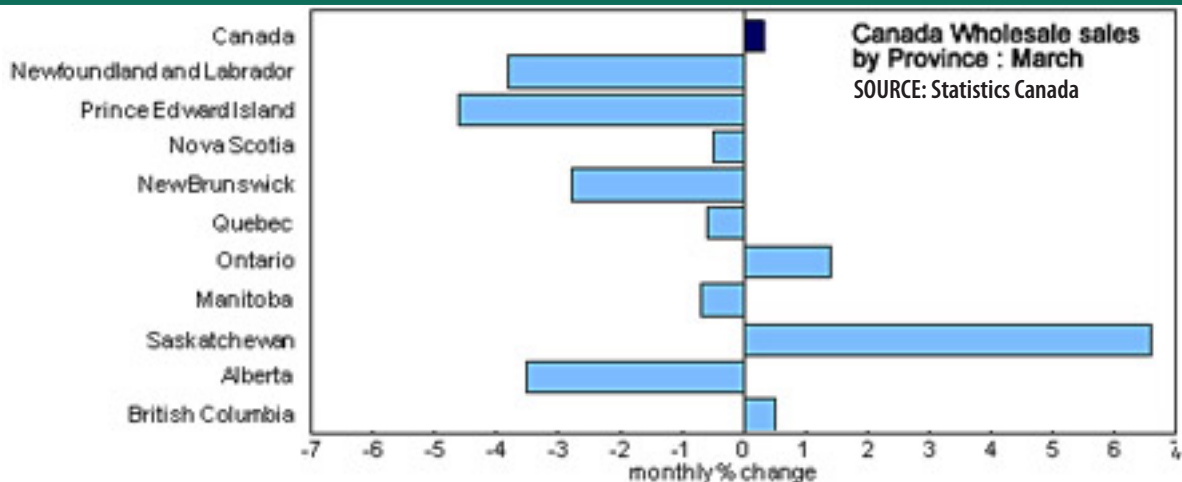
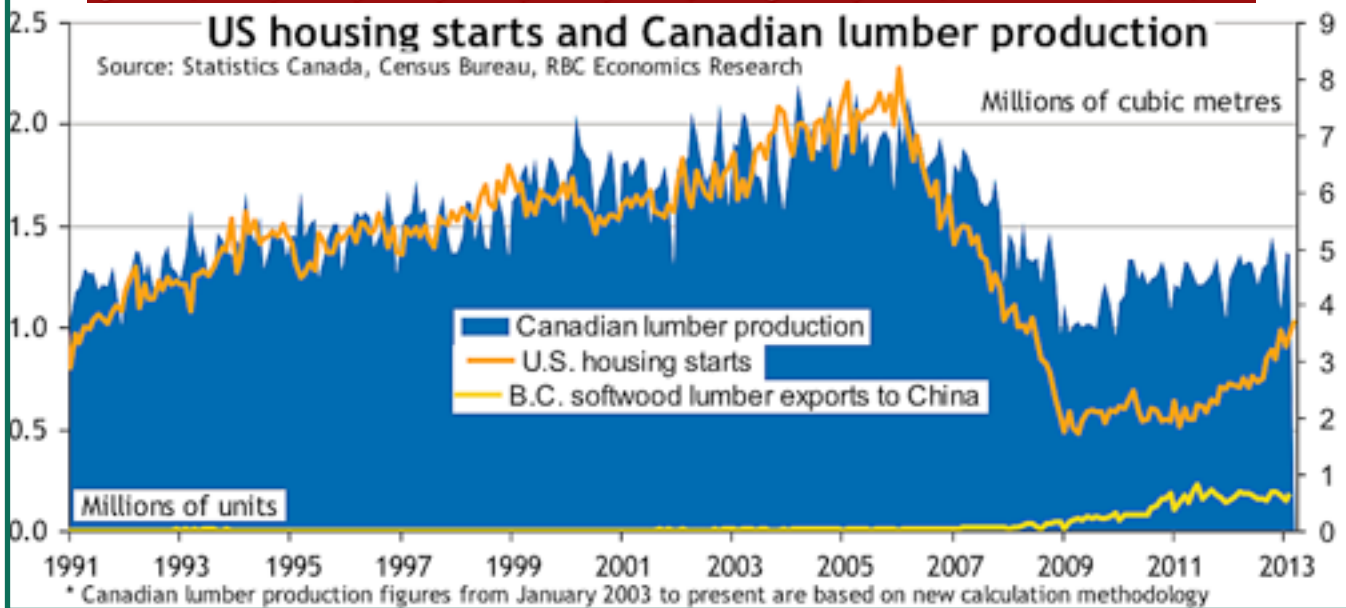
Industry, agency, analyst, and economist presentations covered a wide range of topics including projections for global pulp capacity, log supply issues in various regions, sawmill operating rates and production, and of course outlooks for lumber demand and prices.

Speakers for the PwC 26th Annual Forest and Paper Conference on Thursday, May 9, provided deep insight and updates to a large room jam-packed with attendees.

[READ MORE](#)



Select Slides from Presentations at the PwC Annual Forestry and Packaging Conference in Vancouver, BC



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	341	340	+1	388	-47	308	+33
WSPF KD R/L 2x6	336	340	-4	375	-39	300	+36
WSPF KD R/L 2x8	323	326	-3	362	-39	300	+23
WSPF KD R/L 2x10	350	355	-5	390	-40	374	-24
WSPF KD PET 2x4 Stud	335	340	-5	435	-100	360	-25
WSPF KD PET 2x6 Stud	350	360	-10	435	-85	360	-10
Douglas Fir Green R/L 2x4	340	330	-10	360	-20	260	+80
Douglas Fir Green R/L 2x10	385	380	+5	395	-10	310	+75
ESPF KD 2x4 8ft Stud	440	465	-25	495	-55	410	+30
OSB Ontario 7/16" (CDN\$)	350	363	-13	390	-40	240	+110
CSplywood Toronto 3/8" (CDN\$)	352	359	-7	382	-30	353	-1

## Weekly News

### Housing Starts, US

CONTINUED The Commerce Department said Tuesday that starts at building sites for homes in the US fell 16.5 per cent last month to a 853,000-unit annual rate. Newly issued building permits, a gauge of future construction, rose 14.3 per cent from a month earlier to an annual rate of 1.017 million, the highest level since June 2008.

Near record-low mortgage rates and improving job opportunities are drawing buyers into a market that remains a bright spot for the expansion. The increase in demand is stretching beyond builders, giving a boost to suppliers of construction materials.

New construction of single-family homes declined 2.1 per cent in April to an annual rate of 610,000. Multi-family construction plunged 39 per cent to a rate of 243,000.

Housing starts fell last month in every region except the Midwest, where it rose 11 per cent compared with March. New construction dropped 28 per cent in the South. It fell 13 per cent in the Northeast and 6 per cent in the West.

Even with the sharp drop in construction last month, confidence among builders is rising. The National Association of Home Builders says its builder confidence index rebounded in May to a reading of 44, up from 41 in April. The outlook for sales reached its highest point in more than six years.

Though new homes represent only a fraction of the housing market, they have an outsize impact on the economy. Each home built creates an average of three jobs for a year and generates about \$90,000 in tax revenue, according to data from the homebuilders' group.

Several major homebuilders have reported strong annual increases in orders for the first three months of the year. That

includes the start of the spring home-selling season, the traditional peak period for sales.

### Fraser River Flooding

CONTINUED A rapid snowmelt and unseasonably high temperatures prompted a flood watch Monday morning which was upgraded to a warning the following day.

As of Wednesday morning, the Fraser River at South Fort George was nearing peak levels at 9.75 metres. Officials expected the water could rise up to another three centimetres before dropping in the evening.

By Friday the flood threat was easing in parts of BC.

The BC River Forecast Centre said the Fraser River in the Prince George region reached its peak Wednesday and is expected to drop off without any major flooding.

Although a high water advisory has ended for the North Thompson River, the city of Kamloops has issued a boating advisory for the north and south Thompson Rivers because of strong currents and heavy debris beneath the surface.

A high water advisory remains for the lower Fraser River from Hope to the coast, with peak levels expected on Friday and Saturday.

The forecast centre also says the level of Osoyoos Lake is expected to continue rising over the next few days because of high flows from the Similkameen River.

### Fire at Sawmill, Logger Fatality

CONTINUED Authorities were called to Birch Lake Road, just north of the Birch Lake Campground in Minne-

sota, Thursday. When they arrived, a man who was reportedly a contract worker for the Forest Service had a tree that he was felling land on him as he tried to get out of the way.

The Lake County and St. Louis County Sheriff's Office responded to the scene. The man was taken to Ely Hospital, where he was pronounced dead from his injuries.

The Walters Brothers Lumber factory in Holcombe, WI, on the east side of the factory, was entirely destroyed. Employees left the building at 4:30 p.m. Monday, so no one was there at the time of the fire. No injuries were reported.

A fire wall between the sawmill and the pallet-manufacturing shop halted the blaze and prevented further damage, mill manager Corey Walters said to the *Leader-Telegram*.

### Interfor Buys . . .

Further to its February announcement of purchasing three sawmills in Georgia from Rayonier, Interfor, out of Vancouver, BC, released a statement this week that it has an agreement to buy the assets of Keadle Lumber Enterprises, also in Georgia.

Keadle is a well-regarded producer of high quality southern yellow pine lumber and has been in the business since 1947. The mill currently produces 80 million board feet on a one shift basis. Interfor intends to increase the mill's kiln capacity and add a second shift to the operation, as market conditions improve, bringing production to an annual rate of 160 million board feet.

The transaction is subject to final documentation and Board approval and is expected to close prior to the end of 2Q 2013.

# Forestry Week, Vancouver

## PPPC, PwC

Kicking off the first session, “Global Economic Outlooks” was Craig Wright, Sr VP and Chief Economist at Royal Bank, with a presentation titled, “Economic Outlook: leaning into the headwinds”.

“2012 was the weakest year for economic growth globally,” Wright began. “Emerging economies accounted for 80 per cent of what growth did occur, with the developed world accounting for only 3.5 to 4 per cent of total global economic growth. There is significant inflationary risk worldwide with bank balance sheets running this high.

“The US housing market recovery helps the ‘feel good’ factor for consumers as they are no longer sitting on a negative equity base. In Canada, corporations are sitting on a lot of cash, there is currently \$600 billion on Canadian balance sheets. Company profits are soaring, but investment is weak mainly due to difficulties accessing credit, large pension payments, and continued uncertainty.”

Wright provided details on exchange rates, specifically CA-US and CA-EU, interest rates, and continued financial problems in the EuroZone, saying, “The new normal for the Canadian dollar will probably be 90 to 95 cents US, instead of the 85 cents level held for so many years.”

The next topic was “Financial Performance”, with Michael Vermette, Partner at PwC, speaking first.

In one of the most important statements of the entire week’s proceedings, and an observation *Madison’s* agrees with wholeheartedly, Vermette pointed out that, “We haven’t seen a dynamic yet where China and the US are each creating a demand for lumber at the same time. In the US, log exports will be stressed as recovering US domestic demand looms.

“Forest products companies may have rapid growth in the near future, much like the tech sector has done. There is actually a possibility of companies taking advantage of rapid improvements, for example by investing when the market is on the way up, but they might go too far too fast, they might not have the opportunity to grow organically.”

Daryl Swetlishoff, Director and Head of Research at Raymond James, wasted no time going through his lengthy slide presentation, “Five Fearless Forecasts”.

“There will be a 50 per cent improvement in lumber prices compared to recent years, with the US\$500 mfbm threshold being achieved after 2014. In OSB the party is already over, the best days for OSB are here

right now. Lumber prices won’t get back to 1995 trend levels until 2015.”

There was a question from the floor about TIMOs opening up access to more southern US timber, and also about the direction of log prices in lumber producing regions. In answer to the first question Swetlishoff explained, “The commodity works out but the stocks don’t because the costs are too high. Log costs are two-thirds of total operating costs for southern US mills. The US south has been undercut and new mills will be built in the south, then lumber will be pretty muted until operating rates approach 95 per cent.”

In answer to the second question, Swetlishoff said, “As for BC stumpage rates, right now BC is harvesting about 12.5 billion board feet, therefore log cost pressure will be muted due to sawmill closures, in fact some currently curtailed mills might not ever reopen. And in the US west, log costs are high due to exports to China.”

The rest of the morning was devoted to a “Spotlight on Brazil” which was very pulp and timberland heavy so *Madison’s* will reserve coverage of that for another day.

The afternoon sessions started off with a “Global Industry Outlook Panel”. Donna Harman, President and CEO of the American Forest and Paper Association, gave a presentation titled, “Growing the Future: Global Strategies for Sustainable Success”.

“US forest products account for 4.5 per cent of total domestic GDP. The total revenue for companies combined is US\$200 billion annually, combined payroll is US\$50 billion. The forest industry globally has taken advantage of the last 3 to 5 years and is positioned to grow.”

At last came the consistently best session at the annual PwC forestry conference, the “Executive Perspectives”, informally known as the CEO panel. The participants were given only ten minutes to describe their companies and give their opinions, with the bulk of the time devoted to questions from the floor.

In his brief talk, Jim Lopez, President and CEO of Tembec, said, “Overall the forest industry destroys value. Return on Capital Employed (ROCE) in the last five, ten, fifteen, twenty years has been terrible. Unacceptable. Fragmentation is the enemy of our industry, however some companies and sectors have done an excellent job of consolidating.

“Government subsidies and funding have provided some opportunities in the biomass fuel game but have also resulted in some silliness.”

Lopez also referred to the “biomass fuel game” as “in the third period” to which *Madison’s* submitted a question looking for clarification.

“Governments have well meaning thoughts about doing something about climate change. But how does it make sense to ship bio-material half-way around the world so the consumer can pay \$130/MWh? If people stop focussing on economic energy and focus on uneconomic energy, that spells trouble,” replied Lopez to *Madison’s* submitted question.

Marcelo Castelli, President and CEO of Brazil’s Fibria Celulose agreed, “Subsidies should stop. The markup right now on biomass fuel is 100 per cent due to government incentives. This amounts to guaranteed feed-in tariffs for the next 50 years. This is not R&D and innovation, this is just subsidizing what is going on.”

Kevin Clarke, outgoing President and CEO of Catalyst Paper, responded, “Look at shale gas increases in the US. How will trade flows affect energy in the next five years? The energy profile of the US is going up, and there is too much economic gain not to do something [with biomass fuel].”

During his brief talk, David Scheible, President and CEO of Graphic Packaging International, touched on this topic.

“The packaging we make for cereal boxes gets recycled an average of six times. This is the very definition of sustainable. With pellets, you burn them and its done. There is no sustainability. Without subsidies the business doesn’t work.”

