

MADISON'S LUMBER REPORTER


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News & Updates

Madison's Notices . . .

Due to the unavoidable constraints of travel arrangements for the week of August 23, *Madison's Lumber Reporter* will be transmitted to subscribers by August 25. Please excuse the inconvenience.

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the latest share prices of the major US home builders, as well as analyst comments and forecasts. Contact us any time to subscribe to this vital and timely information!

West Coast Log, Lumber Exports : 2Q 2013

Log exports from Washington, Oregon, northern California, and Alaska jumped about 28 per cent in 2Q 2013 compared to 1Q, totalling 540 million board feet, according to the US Forest Service's Pacific Northwest Research Station Wednesday. During the same time period, lumber exports increased by 5 per cent to 230 million board feet.

The total value of logs exported from the west coast in 2Q 2013 increased about 34 per cent to US\$398 million, while the total value of lumber exported from the west coast increased about 12 per cent to US\$172 million, compared to 1Q 2013. [READ MORE](#)

Housing Starts, US

US housing starts rose 5.9 per cent from June to a seasonally adjusted annual rate of 896,000 from June's revised figure of 846,000, the Census Bureau said Friday. Single family housing starts in the month, at a seasonally adjusted annual rate of 591,000, were down 2.2 per cent from June. [READ MORE](#)

Japan Housing Starts, US

The Ministry of Land, Infrastructure, Transport and Tourism announced on July 31 that Japan's housing starts in June 2013 grew at double digits in the wake of the previous month with 83,704 units, up 15.3 per cent from July 2012, and that they marked the tenth consecutive month of year-to-year growth. [READ MORE](#)

US Producer Price Index

The US Bureau of Labor Statistics (BLS) released the Producer Price Indexes (PPI) for July Wednesday. Producer prices for finished goods were flat in July after rising 0.8 per cent in June and 0.5 per cent in May. Excluding food and energy, the core index continued its recent stability rising 0.1 per cent. A 0.2 per cent monthly decline in energy prices and flat food prices held the headline index flat despite the 0.1 per cent increase in core prices. [READ MORE](#)

China's Log and Wood Imports to June 2013

The latest data out of the Tropical Timber Market Report shows that lumber and timber imports to China for the first half of this year are still going strong. [READ MORE](#)

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JAPANESE HOUSING STARTS

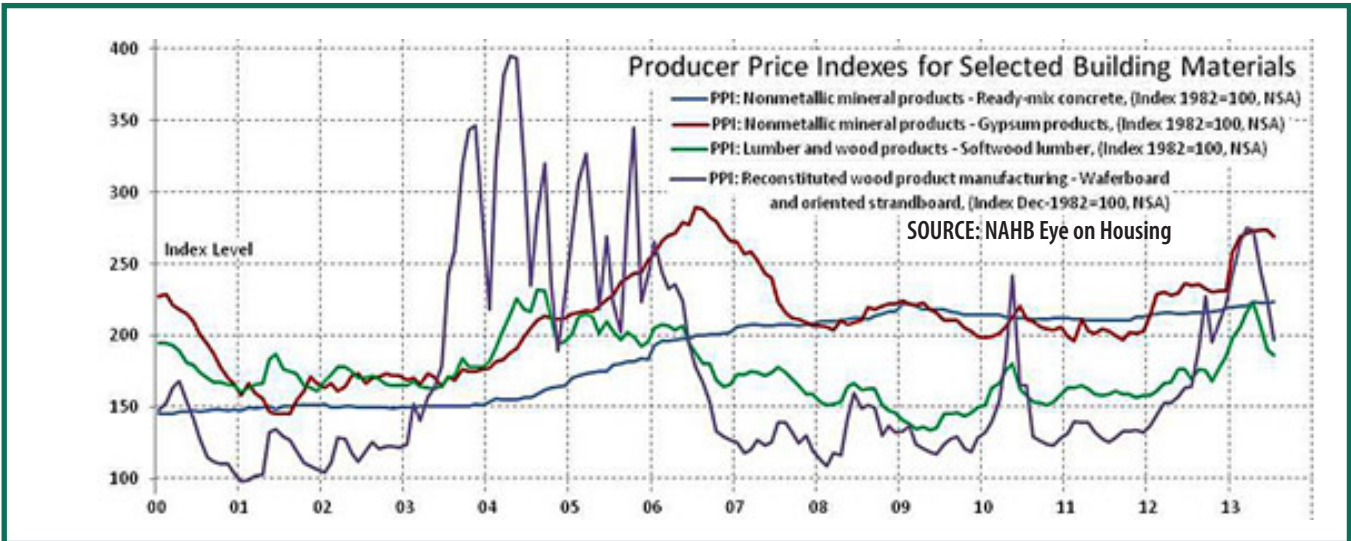
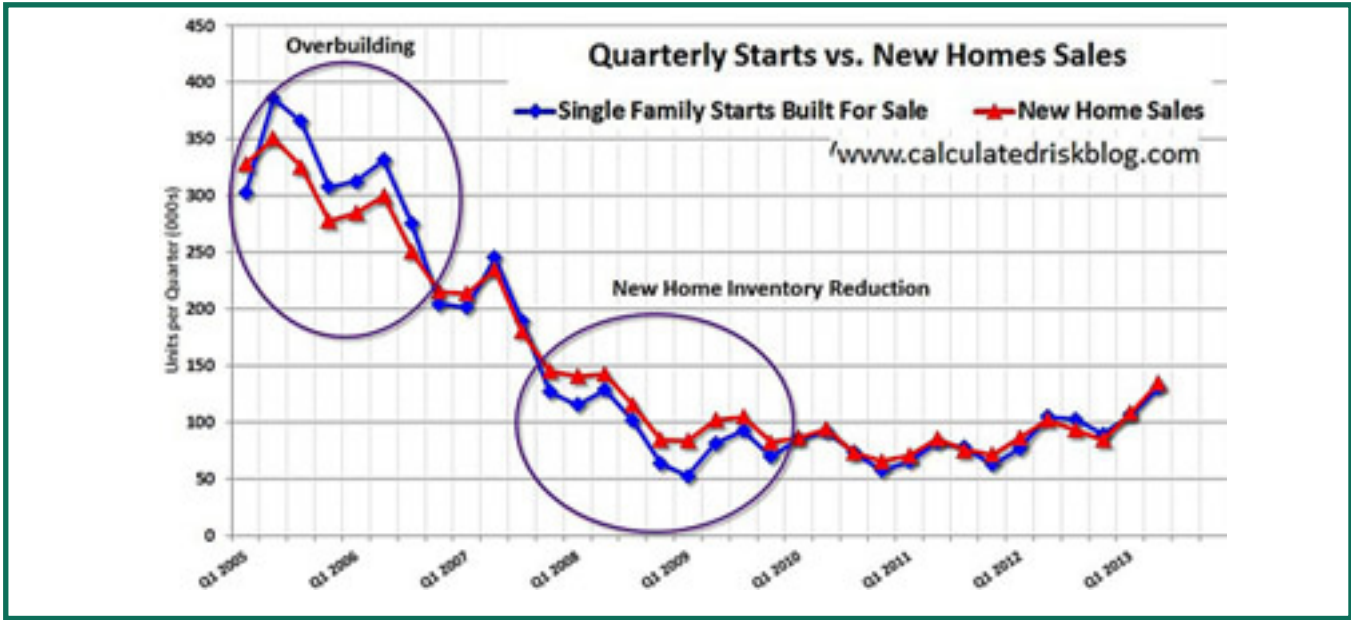
Month	TOTAL	Non-Wood	Wood	%Wood
Jun-13	83,704	36,230	47,474	57
May-13	79,751	36,751	43,000	54
Apr-13	77,894	34,133	43,761	56
Mar-13	71,456	31,819	39,637	55
Feb-13	68,969	33,242	35,727	52
Jan-13	69,289	31,982	37,307	54
Dec-12	75,944	32,392	43,552	57
Nov-12	80,145	34,396	45,749	57
Oct-12	84,251	37,883	46,368	55
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

Source: Japan Wood Products Information and Research Center

U.S. HOUSING STARTS

	Jul-13	Jun-13		Jul-13	Jun-13
Starts			Permits		
Actual	83,700	81,800	Actual	871,000	839,000
SAAR*	896,000	846,000	SAAR*	943,000	918,000
1 Unit	591,000	604,000	1 Unit	613,000	425,000
2-4 Units	(s)	(s)	2-4 Units	27,000	26,000
5+ Units	290,000	231,000	5+ Units	303,000	267,000
Starts by Region			Permits by Region		
Northeast	115,000	82,000	Northeast	108,000	105,000
Midwest	158,000	126,000	Midwest	149,000	145,000
South	401,000	431,000	South	463,000	458,000
West	222,000	207,000	West	225,000	210,000

*Seasonally adjusted annual rate



Scoreboard

	April - June 2013		April - June 2012		SALES 2012-13 (%)
	Sales (\$,million)	Earnings (\$,million)	Sales (\$,million)	Earnings (\$,million)	
Ainsworth	127.5	2.8	164.5	(11.4)	-22.5%
Canfor Corp	227.6	7.6	210.8	3.0	+7.4%
Cascades	982.0	8.0	944.0	5.0	+3.9%
Catalyst	263.4	(28.0)	264.8	(11.7)	-0.4%
Conifex	64.4	2.4	55.8	(2.4)	+13.4%
Domtar	1,312.0	(46.0)	1,368.0	59.0	-4.1%
Eacom	88.3	(17.2)	65.3	(0.9)	+26.1%
Interfor	274.7	15.8	225.4	0.1	+17.9%
Norbord (US \$)	365.0	53.0	272.0	6.0	+25.5%
Resolute FP	1,100.0	(43.0)	1,200.0	(17.0)	-8.3%
Taiga FP	335.8	1.5	309.5	5.9	+13%
Tembec	399.0	(4.0)	415.0	(5.0)	-4.1%
Western Forest Products	262.3	35.5	251.4	10.4	+4.1%
West Fraser	900.0	109.0	774.0	24.0	+14.0%

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	328	324	+4	320	+8	314	+14
WSPF KD R/L 2x6	310	304	+6	290	+20	318	-8
WSPF KD R/L 2x8	318	310	+8	286	+32	312	+6
WSPF KD R/L 2x10	380	360	+20	345	+35	365	+15
WSPF KD PET 2x4 Stud	315	310	+5	300	+15	375	-60
WSPF KD PET 2x6 Stud	280	280	0	275	+5	375	-95
Douglas Fir Green R/L 2x4	315	310	+5	325	-10	318	-3
Douglas Fir Green R/L 2x10	405	399	+6	285	+20	310	+95
ESPF KD 2x4 8ft Stud	385	375	+10	380	+5	415	-30
OSB Ontario 7/16" (CDN\$)	250	260	-10	261	-11	328	-78
CSplywood Toronto 3/8" (CDN\$)	398	387	+11	372	+26	450	-52

Weekly News

West Coast Exports, US

CONTINUED "Demand from China is the major reason for the increased log exports we're seeing," said Xiaoping Zhou, a research economist with the USFS Pacific Northwest Research Station who compiled the data.

In 2Q 2013, China imported 349 million board feet of west coast logs, compared to 243 million board feet earlier in the year. At west coast ports, 65 per cent of outgoing logs and 35 per cent of outgoing lumber were destined for China.

Total US log exports in the first half of 2013 increased by more than 20 per cent compared to the same period in 2012, while the value increased by more than 27 per cent;

Total US lumber exports in the first half of 2013 increased by more than 6 per cent compared to the same period in 2012, while the value increased about 12 per cent;

Sixty-six per cent of total US log exports were shipped from west coast ports during 2Q 2013, a 5-per cent increase compared to 2Q 2012;

West coast lumber exports during 2Q 2013 represented about 27 per cent of the total US lumber export, which is nearly the same share as in 2Q 2012.

US Housing Starts

CONTINUED Although single-family starts hit an eight-month low, year-

to-date total home starts are still up 24 per cent over 2012 levels, showing a clear upswing in construction, says Jed Kolko, Trulia economist.

Building permits for single-family projects in the US climbed to a 613,000 pace in July, the Commerce Department report also showed, exceeding the number of starts and signaling a possible pickup in construction in coming months.

Overall, starts are still 40 per cent below normal levels before the housing bust.

Permits in July were up from June in all four regions of the US, led by a 7.1 per cent jump in the West. Permits were up 2.8 per cent in the Midwest, 1.1 per cent in the South and 1 per cent in the Northeast.

In July, housing starts made their biggest jump in the Northeast, up 40.2 per cent from June, vs. 25.4 per cent in the Midwest and 7.2 per cent in the West. They fell 7 per cent in the South.

Japan Housing Starts

CONTINUED Housing starts during January - June 2013 marked a record high, of 451,063 units, up 8.6 per cent year-to-year, after they reached 544,000 units in the first half of 2008. Among them, growth in owner-occupied houses was up 11.4 per cent, to 159,385 units, which appears to be affected by various policies to promote house acquisition and the scheduled consumption-tax rise.

Housing starts of prefabricated houses and 2 x 4 houses were 13,394 units, up 16.2

per cent and 11,171 units, up 29.1 per cent, respectively.

Total starts of prefabricated houses during January - June 2013, were 66,051 units, up 8.9 per cent from one year ago, and of 2 x 4 houses were 54,584 units, up 18.1 per cent. Those of 2 x 4 houses have such tremendous momentum that their annual total is going to hit a record high.

Producer Price Index, US

CONTINUED PPIs for softwood lumber and OSB continued the descent that began earlier this year. Softwood lumber prices declined 2.3 per cent from June to July, extending the decline from the recent April peak to 16.6 per cent. However, softwood lumber prices are still 9.9 per cent above prices from one year ago before the sharp run-up in late 2012 and early 2013.

Please see graph on Page 6.

OSB prices declined 12.2 per cent in July, extending the decline from the March peak to 28.4 per cent. OSB prices remain 48.8 per cent above prices prior to the housing recovery that began in 2012.

Weekly indicators show wood prices rebounding somewhat in recent weeks, but the sharp declines remain largely intact.

The PPI for gypsum dropped slightly in June and July. Gypsum prices remain 37.3 per cent above housing bust lows and 98.2 per cent of housing boom peaks.



China Lumber and Log Imports: to July 2013

This week Mark Kennedy, CIBC Forest Products Analyst, wrote in a report that China imported 2.200 million cubic metres of lumber in July, up a whopping 28.7 per cent compared to July 2012, when they were 1.710 million cubic metres. Lumber imports for the first seven months of this year were 13.120 million cubic metres, compared to 11.880 million cubic metres for the same period in 2012, an increase of 10.4 per cent.

Interestingly, softwood lumber exports for January to July 2013 from BC are actually down 7.1 per cent compared to the same period in 2012, 3.490 million cubic metres compared to 3.756 million cubic metres. In fact BC exports of softwood lumber to China in June were down hard 19.5 per cent from June 2012.

Kennedy attributes this significant decrease to the higher lumber prices this spring.

"Seeing record lumber pricing from North America, Chinese buyers responded by seeking supply, if available, from other regions. In some cases, Chinese buyers also switched to purchasing logs rather than lumber, which could explain log imports being nearly 20 per cent higher this June over June 2012." While China's lumber imports from Germany, Chile, and New Zealand have reportedly increased significantly, "Russia provided the volume that offset the decline from Canada."

Kennedy suggests a reversal in this trend is underway, noting that Chinese orders from BC "have picked up considerably" in July and August.

(below is an excerpt from Tropical Timber Market Report, Volume 17 Number 15)

PMI indicates optimism on part of manufacturers

In July, China's manufacturing purchasing managers index (PMI) was 50.3 per cent, up by 0.2 percentage point month-on-month.

The PMI for large-sized enterprises was 50.8 per cent, up by 0.4 per cent month-on-month; that of medium-sized enterprises was 49.6 per cent, down by 0.2 per cent month-on-month; that of small-sized enterprises was 49.4 per cent, up by 0.5 per cent month-on-month. In July, of the five sub-indices constituting PMI, four increased while one declined.

The Production Index was 52.4 per cent, up 0.4 per cent month-on-month. The New Orders Index was 50.6 per cent, up 0.2 per cent month-on-month staying above the negative threshold.

The most recent survey shows that the Export and Import Order Index was 49 and

48.4 per cent respectively, an improvement of 1.3 per cent and 0.5 per cent but still in negative territory.

The Production and Business Activity Expectation Index was 56.4 per cent, up 2.3 per cent over last month, ending a three-month downward trend. This indicates that the proportion of manufacturing companies that are optimistic on business activities in the next three months has increased.

Raw material prices down for seven consecutive weeks

According to the Ministry of Commerce as of the end of June prices of raw materials used in manufacturing including timber have fallen for the past seven weeks.

Prices for steel were down 0.4 per cent, prices for agricultural materials dropped 0.1 per cent, prices for building materials declined 0.9 per cent, of which glass, timber, and cement fell 1.7 per cent, 1.1 per cent and 0.6 per cent respectively.

Too many furniture stores

According to recent estimates, since August 2011 twelve mega home furnishing stores have closed in China and over the past six months a further eight large stores have closed.

In addition, another five mega stores are about to relocate. The closures and relocations are in response to the cooling of the property development boom which began in 2010.

The China Furniture Association has calculated that for every 10,000 square metres of furniture store floor area annual sales are in the region of yuan 100 million.

Thus, to service domestic furniture demand for yuan 20 billion (data from 2012) the ideal floor space in the retail sector should be around 20 million square metres but the total area of current domestic home furnishing stores exceeds 40 million square metres.

If the furniture retail sector does not change then 50 per cent of the retail floor area is likely to be unprofitable.

First half 2013 good for China's furniture manufacturers

According to the latest data released by National Bureau of Statistics in the first half of 2013 revenue for furniture manufacturers grew 13 per cent year on year.

The total accumulated profit in the industry reached yuan15.31 billion, a year-on-year increase of 16 per cent.

From January to May 2013 the wooden and metal furniture manufacturing industries contributed most to cumulative profits in the furniture sector.

Cumulative profits for wooden furniture manufacturers accounted for 60 per cent of the total, metal furniture manufacturing industry 26 per cent, other furni-

ture manufacturing industry 10 per cent, bamboo, rattan furniture manufacturing industry 2 per cent, and plastic furniture manufacturing 1.8 per cent.

Amongst the five sub-sectors growth of profits in the bamboo and rattan furniture manufacturing industry exceeded 100 per cent, plastic furniture manufacturing 74 per cent and wooden furniture 2 per cent.

Wood-based panel sales surge

According to the State Forestry Administration (SFA) sales of wood-based panels have grown by an average of 20 per cent annually since 2007, to reach 272 million cubic metres in 2012.

However, new policies in the domestic real estate sector and weak international demand have slowed the expansion of wood based panel sales.

The SFA estimated that production and sales of China's wood-based panel in 2012 were 286 million cubic metres and 272 million cubic metres, up 21 per cent and 17 per cent respectively.

Jiangsu Province timber imports up twelve per cent

The 26 ports in Jiangsu Province handle the highest volume of timber imports in China. In the first half of 2013 timber imports through ports in Jiangsu Province achieved a new record of 8.09 million cubic metres valued at US\$1.6 billion, a year-on-year increase of 12 per cent in volume and value.

Timber imports from North America continue to grow and reached 2.45 million cubic metres in the first half of 2013 making up 30 per cent of the total. Timber imports from Africa fell again and were only 790,500 cubic metres, down 7 per cent.

Hardwood log imports from Oceania were stable but softwood imports increased. Timber imports from New Zealand rose 53 per cent to 1.21 million cubic metres. Sawnwood imports through Jiangsu ports declined 17 per cent to 853,500 cubic metres in the first half.

ASEAN suppliers drive up imports through Nanhai ports

Statistics from the Nanhai Entry-Exit Inspection and Quarantine Bureau for January to April show that log imports through Nanhai ports were worth US\$106 million, a year on year increase of 52 per cent. It was reported that as much as 90 per cent of the timber imports were from ASEAN countries.

The Nanhai international container terminals are in the Sanshan economic development zone in Foshan city in the mid-northern area of the Pearl River Delta in the Guangdong Province.

The port is 84 nautical miles from Hong Kong and 70 nautical miles from Shenzhen. Nanhai port operates seven berths capable of handling both container and general cargo.

The main reasons for the increase in imports are; first, Nanhai is home to major furniture and wood product manufacturing enterprises; second, domestic timber supplies in the area are not adequate to satisfy demand and finally, timber imports from ASEAN countries duty free.