

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.madisonsreport.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

Steelworkers Issue Strike Notice

The United Steelworkers' Wood Council Thursday issued 72-hour strike notice against Canfor's Chetwynd and Plateau, BC, operations. The Union has been negotiating with the employer to set a pattern agreement for bargaining in British Columbia's northern interior and southern interior regions.

Upon receiving the strike notice, Canfor immediately asked for mediation, which effectively freezes job action. The USW told *Madison's* late Thursday that the Union has requested mediation to begin Monday.

At issue is a sticking point regarding wages vs lump-sum payments. Both sides assured *Madison's* at the end of the week that they believe a settlement is achievable with the help of an impartial third-party.

Legally, under the BC labour code, an agreement must be reached within ten days of the start of mediation, the negotiators explained.

Madison's will be in contact with both sides next week to report developments. Subscribers wishing to be immediately informed may want to follow us on Twitter:

<https://twitter.com/LumberNews>

Housing Starts, US

The Commerce Department said Wednesday US housing starts increased 0.9 per cent to a seasonally adjusted annual rate of 891,000 units, while July's starts were revised down to show a 883,000-unit pace instead of the previously reported 896,000 units.

Groundbreaking for US single-family homes rose in August and permits for future-construction hit a five-year high however, pointing to resilience in the housing market recovery in the face of higher mortgage rates.

Single-family starts surged 7 per cent to an annual rate of 628,000 units last month, the highest level in six months.

[READ MORE](#)

Washington State Lumber Company Fined for Injury

State regulators have fined a south-central Washington lumber company more than US\$244,000 for dozens of safety and health violations after a worker got caught in machinery and was seriously hurt. The SDS Lumber Co of Bingen, WA, has appealed the citations from the Washington Department of Labor and Industries, according to *Claims Journal* Tuesday.

[READ MORE](#)

Canada Factory Sales July, US Industrial Output August

Canadian factory sales rose at the fastest pace in five months in July on gains for makers of commodities from crude oil to lumber to fabricated metals.

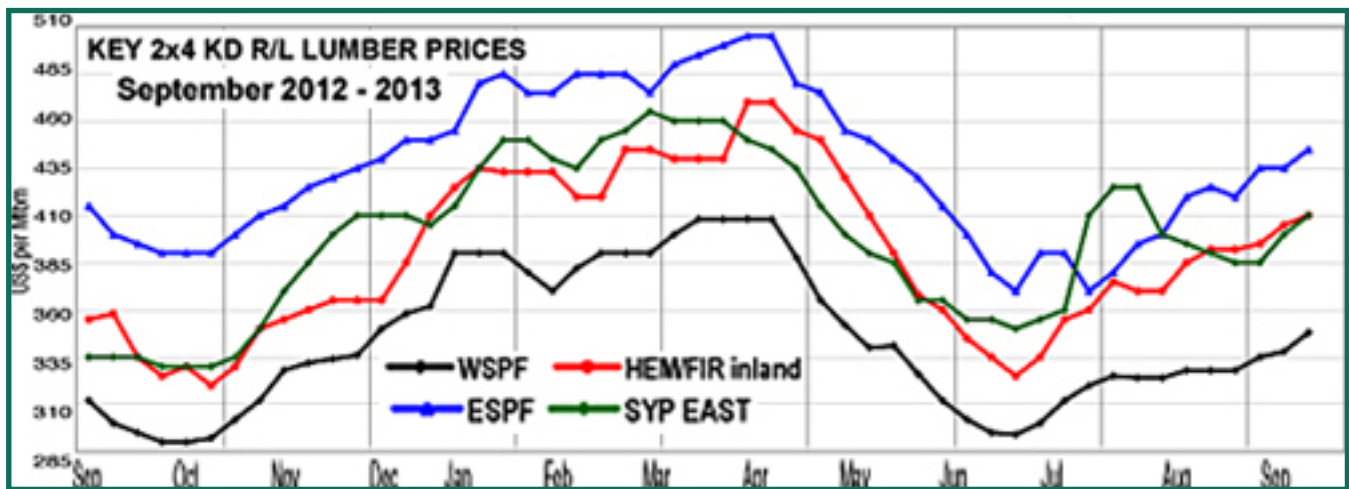
Meanwhile, US industrial production rose in August as a bounce back in motor vehicle assembly lifted manufacturing output, a hopeful sign for the economy after growth got off to a slow start in 3Q.

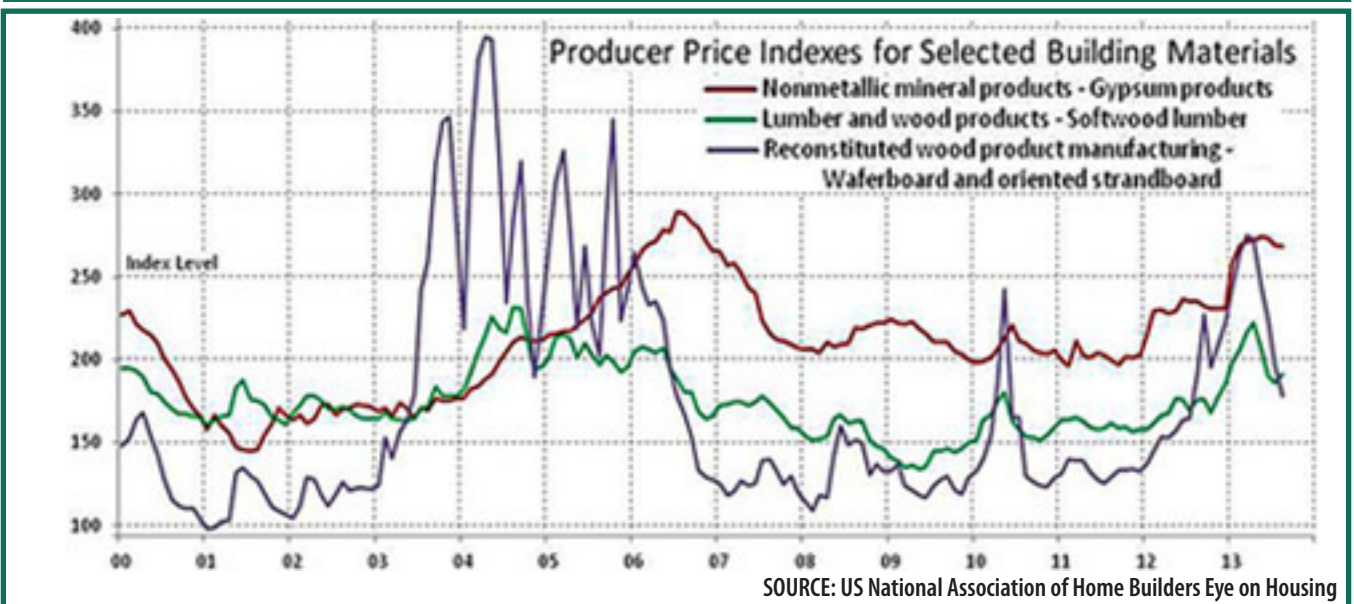
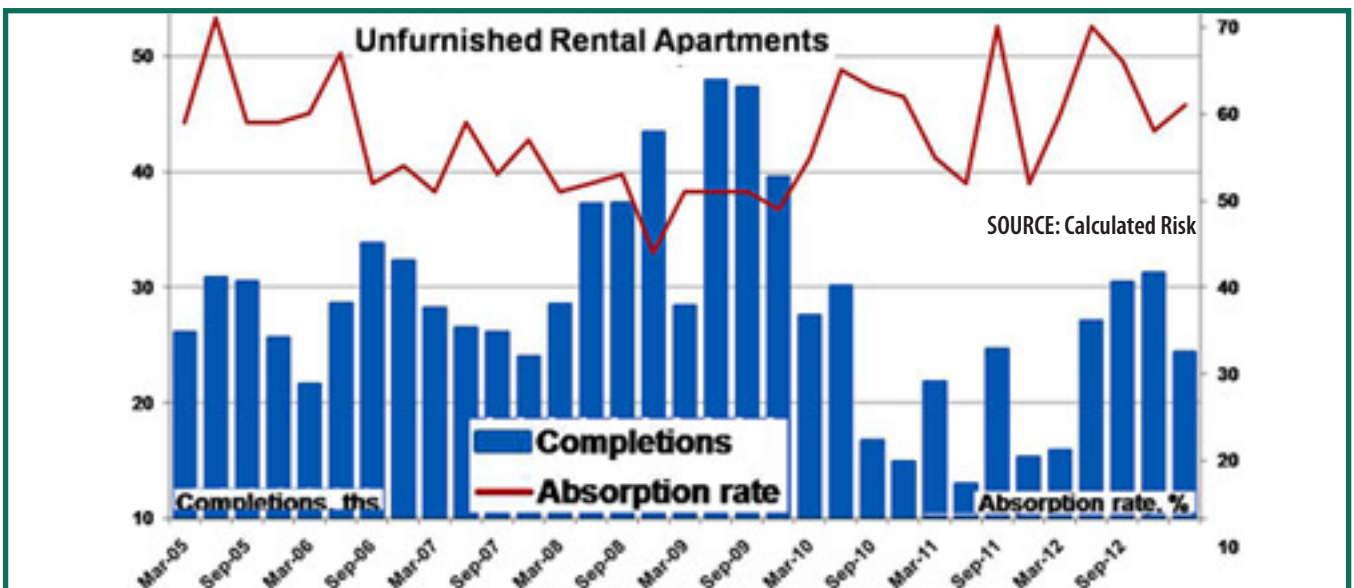
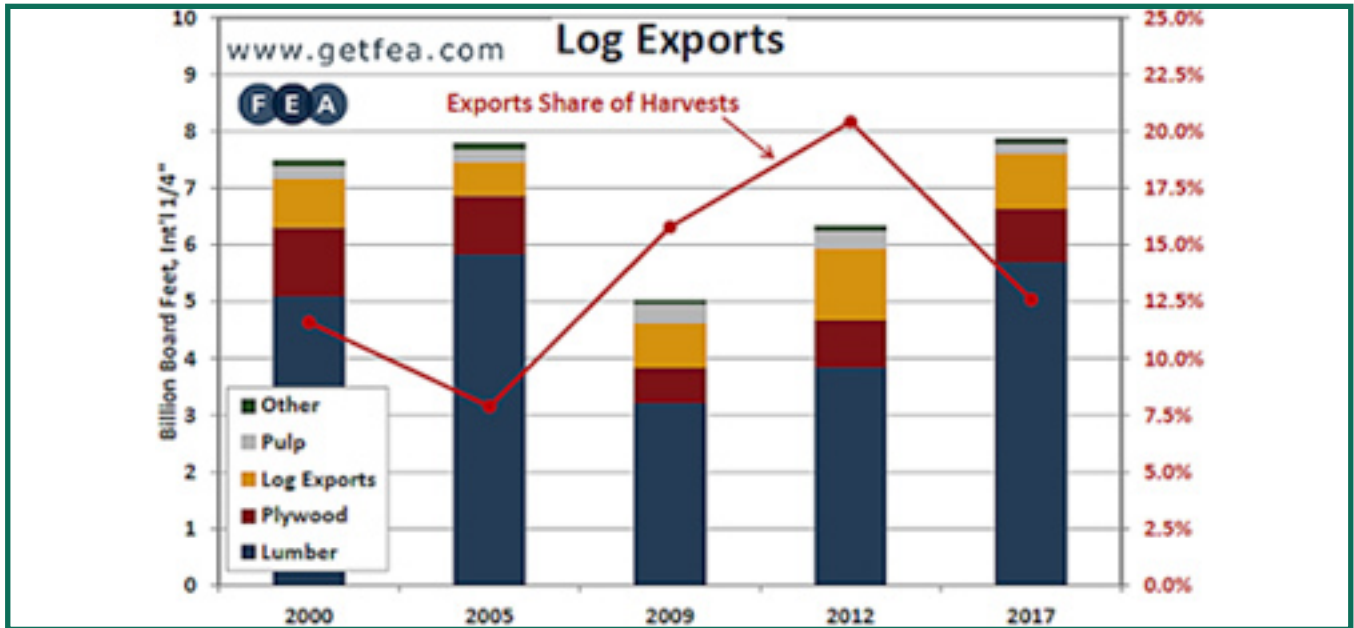
[READ MORE](#)

Timber, Lumber, and the Economy

The ninth annual *Who Will Own the Forest?* timberland summit was held this week in Portland, OR, to a record number of attendees. Topics covered included macroeconomic conditions and forecasts, wood demand outlook, timber supply analyses, as well as financing, tax, timber valuations plus more.

[READ MORE](#)





Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	348	338	+10	328	+20	295	+53
WSPF KD R/L 2x6	334	324	+10	312	+22	315	+19
WSPF KD R/L 2x8	328	328	0	318	+10	300	+28
WSPF KD R/L 2x10	424	424	+10	380	+54	356	+78
WSPF KD PET 2x4 Stud	325	315	+10	310	+15	318	+7
WSPF KD PET 2x6 Stud	290	280	+10	280	+10	325	-35
Douglas Fir Green R/L 2x4	315	310	+5	312	+3	265	+50
Douglas Fir Green R/L 2x10	415	418	-3	405	+10	280	+135
ESPF KD 2x4 8ft Stud	375	375	0	370	+5	390	-15
OSB Ontario 7/16" (CDN\$)	230	235	-5	223	+7	325	-95
CSplywood Toronto 3/8" (CDN\$)	378	373	+5	398	-20	426	-48

Weekly News

US Housing Starts

CONTINUED Starts for multi-family homes tumbled 11.1 per cent to a 263,000-unit rate.

Permits for multifamily homes, however, dropped 15.7 per cent last month, pushing down overall permits 3.8 per cent to a 918,000-unit pace.

Recent data from the Census and from the National Association of Realtors showed declines in housing sales in July, while the rapid run-up in prices has started to ease.

Home prices rose 12.1 per cent for the 12 months ended in June, according to the S&P/Case-Shiller index, down slightly from a gain of 12.2 per cent for the 12 months ended in May.

In a separate report, the Mortgage Bankers Association said this week applications for loans to buy homes rose last week as mortgage rates eased off recent highs. Since early May, rates on 30-year mortgages have risen about 1.2 percentage points.

Sawmill Worker Injury

CONTINUED The government agency said in a press release that a lack of training and proper safety procedures left a plywood plant worker with severe injuries last March when his arms became entangled in machinery while trying to clear a jam.

The investigation found that supervisors were aware that workers routinely bypassed machinery safety guards to try and clear jams while machinery was still in motion. SDS President Jason Spadaro says the company "strongly disagrees" with that conclusion.

SDS says it has cooperated fully with the investigation. Labor and Industries says many of the violations were corrected during the inspections.

Factory Output Canada; Industrial Production US

CONTINUED In Canada factory sales climbed 1.7 per cent to \$49.5 billion (US\$48 billion), Statistics Canada reported Tuesday, with the total boosted by upward revisions to the prior two months.

Petroleum and coal sales rose 2.4 per cent to \$7.03 billion, the highest since February, as prices rose. Fabricated metal sales climbed 5.9 per cent to \$2.81 billion, and wood products gained 6.3 per cent to \$1.97 billion, bringing the gain over the past 12 months to 14.7 per cent.

Jewelry and silverware sales led a 23.9 per cent jump in the miscellaneous category to \$1.13 billion, rebounding from a similar decline the month before.

In the US, industrial output increased 0.4 per cent last month after being flat in July, the Federal Reserve said Monday.

The industrial production report showed manufacturing production advanced 0.7 per cent, more than reversing the prior month's 0.4 per cent drop, as automobile assembly rebounded 5.2 per cent after slumping 4.5 per cent in July.

But revisions to July's manufacturing data to show a big drop in output took some of the shine from the August recovery.

In a separate report, the New York Federal Reserve said also Monday its Empire State general business conditions index slipped to 6.29 from 8.24 in August. A reading above zero indicates expansion.

OfficeMax to Pay for Cleanup

A California judge Wednesday rejected OfficeMax's bid to shut down a suit seeking contributions to US\$31 million in cleanup costs at a polluted lumber mill site,

saying a sale contract with Georgia-Pacific did not clearly transfer future liability, according to *Law360* Thursday.

In late summer 2012, the City of Fort Bragg, CA, received a Claim for Damages from OfficeMax, formerly Boise Cascade, alleging that the City's current and historical storm-water system conveys significant quantities of toxic substances onto the G-P mill site.

Boise Cascade had sold that mill site to G-P in 1973.

Vaagen Brothers Awarded Contract . . .

The Colville National Forest in Oregon has awarded a 10-year stewardship contract to a Northeast Washington sawmill owner, allowing logging in return for restoration work, according to the *Spokesman-Review* Thursday.

Vaagen Brothers Lumber was the sole bidder on the contract, which is valued at up to US\$30 million.

The goods-for-services contract will allow Vaagen to log up to 50 million board feet of timber throughout the next decade. In return, the lumber company will undertake stewardship of the land such as thinning dense stands of trees, maintaining roads, and conducting prescribed burns and watershed restoration projects.

The contract covers 54,000 acres in the Three Rivers Ranger District's Mill Creek watershed.

The number of Colville National Forest employees has dropped by about 70 per cent during the past 20 years, with current budgets allowing the forest to harvest about 40 million board feet of timber per year.

Using a contractor shifts upfront planning costs onto private industry, so the agency doesn't have to foot those bills, said the *Spokesman-Review*.

Timber and the Economy

Log and Lumber Supply and Demand

This week was held the ninth annual **Who Will Own the Forests?** timberland investment summit at the World Forestry Center in Portland, OR. Host to a sold-out crowd of 425 attendees, the event was buzzing with the latest news, information, and asset class analyses by participants from around the world. Players from the US, Europe, Asia, Oceania, South America, and Canada enjoyed presentations on everything from macro-economic conditions to the latest lumber

by Kéta Kosman

production and demand data, from US taxation policies to the carbon market and biomass fuels.

Kicking off the sessions, George Hosfield of Ferguson Wellman Capital Management featured a presentation titled, "*Taper Tantrum' . . . a Tempest in a Teapot?*" Given that much of the investing world was ostensibly waiting – that very morning – to see what the US Federal Reserve was going to do with Quantitative Easing (QE), that title seems especially apt.

"When measuring a recession in terms of its duration and employment," started off Hosfield with a bang. "Historically it takes two years to get job losses back. The dot com crisis of the early 2000s did not create such a loss of jobs, but it took four years for employment to recover. The 2008 recession will probably take five years to get lost jobs back.

"The US needs more than 200,000 new jobs monthly to make a dent in the unemployment rate. Right now job growth is at approximately 170,000 a month. The US Fed target is for an unemployment rate of 6.5 per

FEA	2010	2011	2012	2013	2014	2015
Housing Starts (Mil. Units)	0.58	0.61	0.78	0.95	1.18	1.35
	5.6%	4.6%	28.0%	20.8%	24.2%	14.9%
Improvements (Bil. \$2005)	109.2	116.6	107.2	118.5	126.1	132.1
	0.1%	6.8%	-8.1%	10.6%	6.4%	4.8%
Industrial (2007=1)	0.906	0.936	0.970	0.993	1.025	1.056
	5.7%	3.4%	3.6%	2.3%	3.2%	3.0%
Nonresidential Con. (Bil. \$2005)	456.6	421.5	431.0	417.8	452.6	482.0
www.getfea.com	-13.8%	-7.7%	2.3%	-3.1%	8.3%	6.5%

cent before there will be any change to monetary stimulus. This month the unemployment rate stands at 7.3 per cent, but this small improvement is only because the participation rate declined (people simply gave up looking for work).

"The Federal Reserve has said it wants to be finished with QE in May 2014, when unemployment is expected to be 7 per cent. It will not be until January 2015, when unemployment will probably be down to 6.5 per cent, that the Fed will start raising interest rates."

"As for GDP," Hosfield continued. "The US government has been negative for nine out of 11 quarters. Businesses have been deferring expenditures, but once business leaders know what the government policies will be they will formulate plans and carry on.

"When US industrial capacity utilization rates start flirting with 85 per cent there will start to be inflationary risk. Stock prices are up over 20 per cent in the past two years. Corporate America has been cost-cutting its way to earnings

growth, but with diminishing returns. The stock market is overdue for a correction.

"Interest rates will trend higher," Hosfield concluded. "But moderately. There will be a wealth effect: real estate will improve, and auger in favour of equities."

Next up was Lynn Michaelis, formerly of RISI but now with Forest Economic Advisors (FEA), presenting his "*Outlook for Forest Products Markets*".

Echoing the very message that *Madison's* has been spreading, Michaelis started off by cautioning, "Be very careful using the last period of time to forecast the next period."

"Historically, housing would have been a contributor to a growing US economy, but this time is missing-in-action," Michaelis said. "We are still not above 1 million starts annualized six years into the financial crisis. Housing starts will remain below demand until the inventory is liquidated.

"A combination of housing and exports will push US lumber demand up to 70 or 73 billion board feet, possibly by 2017. In 2017 British Columbia will produce less lumber than it will in 2015.

"In 2012, 20 per cent of US log production went to China. The US west has not accrued much of a deferred harvest during this downturn, but the south has. We see the future ramp up of lumber production coming from the southern US, up to 22 billion board feet in 2017 – from 19 billion in 2012.

"Southern timber prices have not moved like Douglas fir has," explained Michaelis. "This is due to excess inventory. Timberland ownership in that region is highly fragmented, with very many small owners. They thought the decline in housing starts and lumber prices went on for too long and quite a few sold their timber at a discount."

The next session was a panel discussion, "*Manufacturers Perspectives on the Timber and Wood Fibre Sectors*". *Madison's* will report the extremely important information from this panel in next week's issue.

