

MADISON'S LUMBER REPORTER

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KetaDesign Productions

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

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PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add GST or HST
ISSN 0715-5468

Printed in Canada © 2013

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* examines the resurgence of US home building levels, and the effect that is having on lumber producing company and large retailer share prices.

Contact us any time for a subscription to this timely and vital information!

China Begins Lumber Futures Trading

China Securities Regulatory Commission on Friday approved trade of fibrewood and plywood futures contracts at the Dalian Commodity Exchange, according to *Xinhua*.

China is the world's largest producer and consumer of the two wood products. They are crucial to forestry, as well as furniture, decoration and packaging sectors.

China has sped up development of commodity futures markets to offer companies more tools to hedge risks while trying to have a bigger say in the pricing of major commodities in the global market.

With these two new futures approved, China is expected to have ten new futures in market this year, including iron ore futures which started trading on October 18 at the Dalian Commodity Exchange.

US Home Foreclosure Inventory

The foreclosure inventory rate in the US is down almost 30 per cent from last year, and 26 per cent from the beginning of 2013 as the housing market stabilizes and fewer homes fall into a state of distress, Lender Processing Services (LPS) said Friday.

The company's First Look Mortgage Report from LPS found that the loan delinquency rate fell 2.8 per cent from the prior report to 6.28 per cent in October.

Additionally, after 18 months of continuous decline, the inventory tumbled to its lowest level since the end of 2008 and fell to 1.28 million loans, or just 2.54 per cent of currently active mortgages.

In its mortgage report, LPS took a closer look at loan level data from its database, examining 70 per cent of the overall mortgage market. Meanwhile, year-over-year delinquencies dropped 10.69 per cent from October 2012.

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Timber Market, UK

The past 12 months has been the most active year yet for the UK forestry market, according the *Forest Market Report*. The report, launched on Monday by Savills, a global real estate services provider, and timber harvesting company UPM Tilhill, claims 50 per cent more coniferous forest was traded in 2013 compared with 2012.

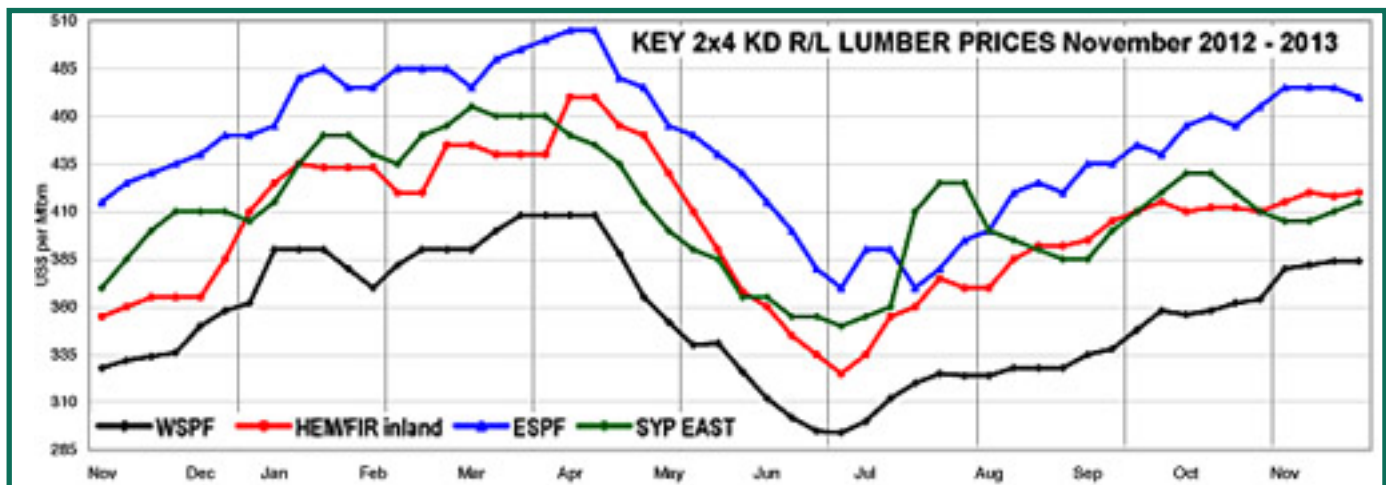
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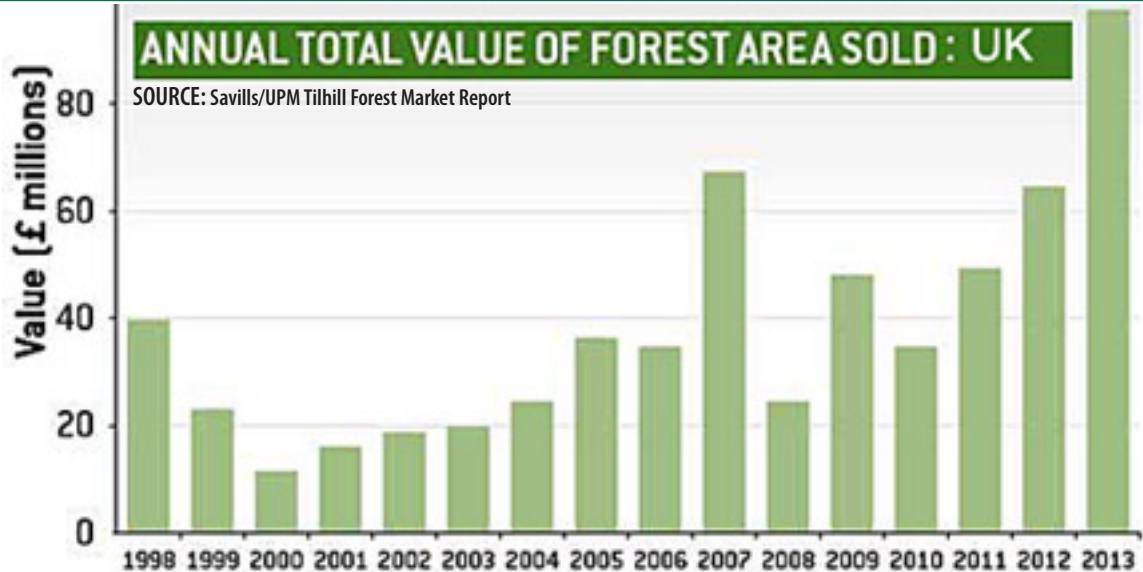
Quebec Forest Industry Challenges

Hard hit by the US economic downturn, forest management issues, and a floundering pulp and paper sector, the forest industry in Quebec this week put out a call for help from the provincial government.

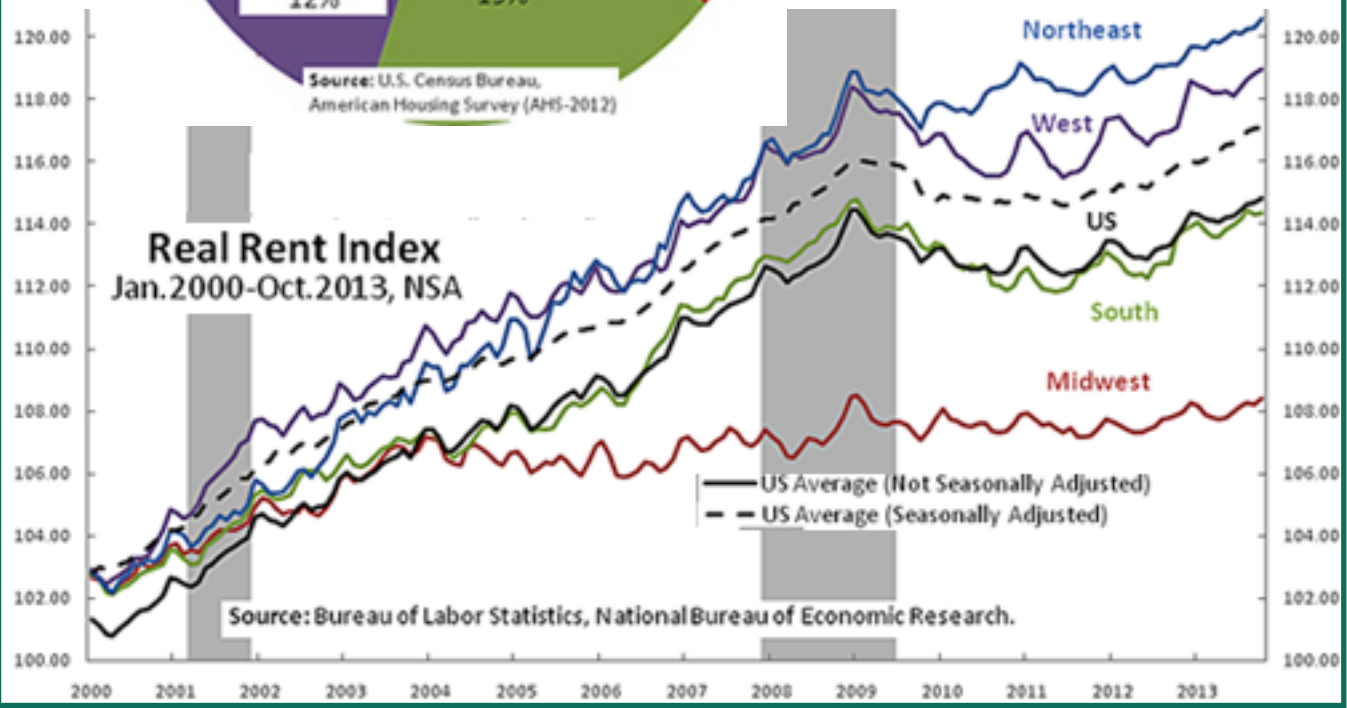
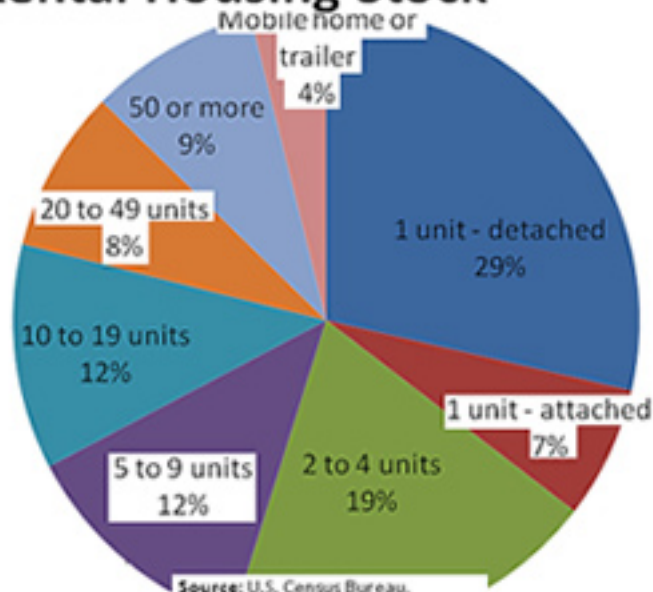
The Quebec Forest Industry Council (QFIC) and senior executives of six major forest companies are urging the provincial government to make a priority of the issues and challenges of competitiveness facing the industry in Quebec.

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Rental Housing Stock



Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	384	384	0	364	+20	336	+48
WSPF KD R/L 2x6	366	366	0	332	+34	336	+30
WSPF KD R/L 2x8	354	354	0	340	+14	315	+39
WSPF KD R/L 2x10	454	448	+6	450	+4	350	+104
WSPF KD PET 2x4 Stud	325	325	0	319	+6	310	+15
WSPF KD PET 2x6 Stud	315	315	0	295	+20	295	+20
Douglas Fir Green R/L 2x4	345	345	0	325	+20	292	+53
Douglas Fir Green R/L 2x10	545	540	+5	485	+60	335	+210
ESPF KD 2x4 8ft Stud	380	385	-5	375	+5	380	0
OSB Ontario 7/16" (CDN\$)	230	235	-5	223	+7	335	-105
CSplywood Toronto 3/8" (CDN\$)	378	378	0	363	+15	363	+15

Weekly News

Home Foreclosures, US

CONTINUED The total foreclosure pre-sale inventory rate continued to mend and hit 2.54 per cent, declining 3.23 per cent month-over-month and 29.61 per cent year-over-year, said Lender Processing Services (LPS) Friday.

A spokesperson for LPS noted that while delinquencies are down 2.8 per cent from last month they are not quite at the lows witnessed back in April, of 6.21 per cent, May's 6.08 per cent or August's 6.2 per cent, but they are heading in that direction.

Furthermore, the number of properties 30 or more days past due dipped to 3.152 million, while the number of properties 90 or more days late fell slightly to 1.283 million.

As a whole, the total pipeline of delinquent loans or properties in foreclosure hit 4.43 million.

UK Timber Market

CONTINUED Trade between October 2012 and September 2013 totalled £97.3m, 8.5 times the value traded in 2000, making it a record year in terms of both the value of the market and its unit price, the *Savills/UPM Tilhill Forest Market Report* said Monday.

The majority of this year's sales came from Scotland – about 69 per cent by value – but there was also a significant increase in Wales, where 16 per cent of sales took place compared with just 4 per cent in 2012, said the report.

Also at record levels is the average value per stocked hectare which is now at £7,057. This has given an annualised average growth since 2002 of 15.4 per cent. The average value of a property is up 29 per cent on 2012 values to £1.23m.

Timber prices are likely to stay high, despite a recent dip.

Prices on Tuesday 19 November were at £367.

Sinclar's Lakeland Stud Mill Rebuild

The weather in British Columbia up until last week was helping the rebuild of Lakeland Mills, according to the *Prince George Citizen* Thursday.

The ground on the new mill in Prince George, BC, was broken on July 22 and so far no major hiccups have occurred, as the first quarter is coming to a close on construction.

"The rebuild is going well," said Greg Stewart, president and CEO of Sinclar Forest Products, principal owners of the Lakeland operation.

What isn't understood yet, however, is whom will be on staff when the mill re-opens. Stewart said many from the previous crew are still involved in therapy and other recovery processes that might keep them off the new crew.

More certain is the demand for Lakeland lumber. "We think there will be a very receptive market for the products that will come out of Lakeland," Stewart said to *Prince George Citizen*.

US Construction Labour Market

September saw another slight rise in the number of unfilled construction sector positions according to the BLS Job Openings and Labor Turnover Survey (JOLTS), released Friday. While the increase of unfilled positions in 2013 is consistent with the increase in construction sector activity, particularly for home building, the data continue to reflect only modest growth in total employment thus far.

For the construction sector, monthly gross hiring was relatively unchanged, falling from 298,000 to 295,000 from August to September. The hiring rate, as measured on a 3-month moving average basis, was also unchanged at 5.2 per cent. The pace of construction hiring has slowed since the end of 2012, and this trend has continued into autumn 2013.

US Construction Labour Market

Also Monday, the Bureau of Labor Statistics (BLS) reported that the Producer Price Index (PPI) for US materials and components used in construction rose 0.4 per cent on a seasonally adjusted (SA) basis in September, according to *Reed Construction Data*. That was up from a 0.2 per cent increase in August. The index was up 2 per cent on a not seasonally adjusted (NSA) year-over-year basis and was 8.5 per cent higher than in September 2010.

Meanwhile, the more volatile prices for raw materials used in construction, or to produce products, used in construction shot up 1.6 per cent after falling 0.2 per cent in August. The index was up 3.3 per cent from September 2012 and was up 7.8 per cent from September 2010.

An index that measures inputs used in nonresidential construction (excluding capital equipment) was flat in September following an advance of 0.5 per cent (NSA) in August. The index was up a modest 0.1% from September 2012 and was 11.0% higher than in September 2010.

An index that measures inputs used in residential construction (excluding capital equipment) rose somewhat faster, up 0.2 per cent (NSA) in September following an increase of 0.3 per cent in August. The index was 1.2 per cent higher than in September 2012 and was 10.8 per cent higher than in September 2010.

Quebec Forests

Timber and Manufacturing

In the same week that stakeholders and forest industry professionals are meeting with government officials in Quebec, two manufacturers in that province had unusual labour disruptions.

First Resolute Forest Products, based in Montreal, QC, felt it necessary to temporarily shut down operations at its Thunder Bay-area sawmill, calling it a “safety break, and sending workers home without pay, said *CBC* Tuesday.

by Kéta Kosman

Resolute’s Director of Communications said it’s not uncommon in mills where accidents are happening on the job.

“At the Thunder Bay operation this year, there have been three ... incidents, two that happened in the last month,” Xavier Van Chau said.

According to Unifor, the union representing those workers, an employee had his nose broken by a falling wrench.

Marvin Pupeza, Unifor spokesperson, called the decision to send employees home without pay Tuesday morning, “bizarre.”

The company is evaluating remuneration options for the nearly 200 workers affected.

Resolute Wednesday announced plans to reopen that sawmill on Sunday night.

Elsewhere, about 100 angry trades workers blocked the gates of a mill in Miramichi, NB, Monday, saying a tender awarded to a Quebec-based company is taking jobs away from local workers, according to *CTV Atlantic*.

Mill owner Arbec Forest Products is shutting down for a two-week maintenance period and the company has hired a company from Quebec to do that work.

A local group of welders, machinists and pipe fitters say they want the province to intervene.

“We’re here to try to put an end to it before it escalates, to let them know we’re a community here with local unemployed workers who are qualified to do the job,” says Calvin Donovan.

Last year, New Brunswick Premier David Alward gave Arbec Forest Products more than \$15 million in provincial funding to reopen the mill. At the time, he promised the reopening would provide work for local people.

The demonstration ended late in the afternoon, after Arbec obtained a court injunction ordering the protesters to leave.

The mill was shut down for almost six years. It reopened last November with the help of the provincial and federal governments.

Also this week, the Quebec Forest Industry Council (QFIC) and the senior executives of six major forest companies urged the provincial government to make a priority of the issues and challenges of competitiveness facing the industry in Quebec, said the agency in a press release Wednesday. The QFIC’s suggested steps toward “a new partnership to support the development of a green economy” would include the creation of a Strategic Forum on the competitiveness and transformation of the forest industry as well as the establishment of programs to support the transformation of the industry by using Quebec’s energy surpluses.

Key government officials are expected to be present later this week at Rendez-vous de la forêt québécoise, a forest industry gathering in St. Félix, QC, to lay the foundations of a new partnership to support the development of a green economy. Steps in that direction would include the creation of a Strategic Forum on the competitiveness and transformation of the forest industry as well as the establishment of programs to support the transformation of the industry by using Quebec’s energy surpluses.

It is difficult for the forest-products industry to transition toward innovative and value-added products just as falling demand and rising production costs are wreaking havoc in its traditional markets. There’s a downward spiral of layoffs in Quebec, long a stronghold of newspaper pulp, where the province’s biggest newspaper chain is almost begging readers to trash their print subscriptions and switch to its free iPad edition to shed printing and distribution costs. The industry once employed more than 100,000 Quebecers, but that’s dropped to 65,000, according to the QFIC. Lumber sawmills are one of the few bright spots in the sector as hammers resonate once more on American construction sites.

Forest industry players are asking the Quebec government for more subsidies for plant conversions – all the while blasting the province’s environmental and sustainable development policies. The wood-allocation reforms spearheaded by the previous Liberal government have led to a 25 per cent increase in the price of fibre since 2011, forestry executives contend, and fibre accounts for roughly half of the industry’s production costs.

The industry has found a new way to approach the government for aid, eyeing reduced electricity rates. Ever since Finance Minister Nicolas Marceau said he

would use Quebec’s electricity surpluses to attract new investors, companies have been lining up to demand lower rates to stay in the province. Talk about backfire. First came Alcoa, which is threatening to close its three aluminum smelters come 2015. Now it’s the forest industry’s turn.

“Before attracting new companies, why can’t we use those surpluses to support the companies that are already here so that they can transform themselves?” suggested QFIC president André Tremblay to the *Globe and Mail* Tuesday.

“ It is difficult for the forest-products industry to transition toward innovative and value-added products just as falling demand and rising production costs are wreaking havoc in its traditional markets ”

While the industry is courting the government once more, it is also threatening to invest elsewhere. Case in point: Tembec, which has to decide how it is going to allocate \$80-million in investments between its Ontario and Quebec sawmills.

“It is an unfortunate truth that if you are faced as an investor with the decision on where to put your money first, it will not be in Quebec – not with this business environment, not with this fibre supply, not with the rapid rise in the cost of wood,” says Jim Lopez, President and CEO of Tembec to the *Globe and Mail*.

Just in time for this week’s release of your **Madison’s Lumber Reporter**, Premier Pauline Marois Friday morning announced a series of measures that would inject \$430 million into Quebec’s forest industry.

The total includes \$100 million in new money and will attempt to stem the bleeding in a sector that has seen 30,000 jobs lost since 2008, a total that represents one-third of the entire workforce.

Marois, in a speech before 200 in Saint-Félicien, Lac-Saint-Jean, QC, promised a “fresh start,” for the industry but also attempted to keep expectations down.

Another \$50 million, to be spent between now and 2020, will go to create a program of residual forest biomass energy production in the aim of reducing fossil fuels and lowering greenhouse gas emissions.

Additionally, \$27 million will go towards a trio of sustainable development initiatives that they hope could yield triple that amount in profits. A further \$67 million will be spent over three years for various forestry management, clearing and reforestation projects.

And \$10 million will go to stimulating the development of private forests through a system of property tax reimbursements that could benefit 130,000 small producers.