

# MADISON'S LUMBER REPORTER

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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 © 2014

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## News & Updates

### Export Development Canada Spring 2014 Report

A forecast by Export Development Canada (EDC), released Thursday, predicts that the global economy is on the verge of a rush of economic growth.

While key risks still threaten the outlook, the forecast notes their declining severity thanks to increasing momentum and firmer growth fundamentals.

The forecast noted that OECD nations, accounting for roughly half of global GDP, are currently driving global growth with key indicators rising steadily for well over a year. The US economy is leading the charge, with growth predicted to increase from 3 per cent this year to just under 4 per cent in 2015.

Revived global trade is forecasted to reboot emerging market growth to 4.9 per cent in 2014 and 5.5 per cent in 2015.

EDC forecasts Canada's GDP growth will accelerate from 2.2 per cent this year to 2.7 per cent in 2015. Export growth will reach 2.5 per cent this year and rise to 5.8 per cent in 2015. **CONT'D PAGE 6**

### US Home Builder Financial Results

D.R. Horton and PulteGroup, the two biggest US homebuilders, said Thursday a tight supply of homes is helping them to raise prices, suggesting that the market is regaining strength ahead of the crucial spring selling season, according to Reuters. A dwindling number of existing homes for resale and a scarcity of ready-to-build land is allowing US homebuilders to hike their prices. **CONT'D PAGE 7**

### US Transportation Improvement Bill

US Transportation Secretary Anthony Foxx Tuesday announced that President Obama plans to provide lawmakers with a legislative proposal for renewing federal transportation spending. Obama called on lawmakers to pass a four-year, US\$302 billion bill to revitalize the nation's transportation infrastructure.

The president was previously criticized for failing to provide a specific bill proposal during the last infrastructure funding debate in 2012, when lawmakers approved the 2012 Moving Ahead for Progress in the 21st Century (MAP-21) Act, according to TheHill. **CONT'D PAGE 7**

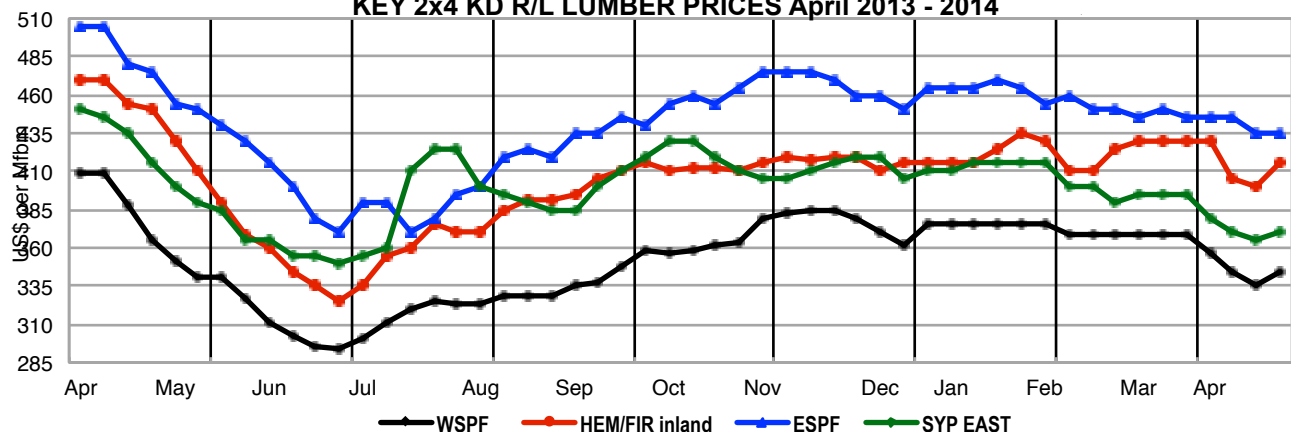
### Council of Forest Industries of British Columbia

At the beginning of April was held the Council of Forest Industries of British Columbia convention in Kelowna, BC. Founded in 1960 by various logger and lumber manufacturer organizations, COFI is now a "CEO-lead organization", as Ted Seraphim, CEO of West Fraser Timber, put it during his speech.

The convention was attended by over 400 delegates representing senior industry, government, and customer representatives, as well as elected officials from local, provincial, and federal governments. This year the trade show floor and speaker sessions were equally packed.

Sentiment was positive however a general feeling of continued forest industry uncertainty for the next couple of years permeated most conversations. **CONT'D PAGE 9**

KEY 2x4 KD R/L LUMBER PRICES April 2013 - 2014



## Export Development Canada Forestry Products Export Forecast : Spring 2014

The strengthening recovery in the US housing sector and rising lumber demand from China are expected to sustain a remarkable boom in Canadian lumber exports. Meanwhile, pulp and paper shipments will receive a boost due largely to the weakness in the Canadian dollar. Overall, total forestry exports are forecast to grow by 12 per cent in 2014 and 11 per cent in 2015.

For the first time since 2008, housing starts in the US are forecast to break the

1 million mark, reaching nearly 1.2 million in 2014 and 1.4 million in 2015. With demand from China growing by 6 per cent in 2013 for construction-related wood products, the outlook for Canadian lumber products is robust. This has resulted in a number of producers that have reopened shuttered mills and begun new investments, including Resolute expanding capacity at mills in Ontario and Quebec in 2014 and Tolko starting sales from its Athabasca plant near Slave Lake, Alberta.

While demand for lumber products is expected to be robust, fibre supply constraints from damage caused by the mountain pine beetle are starting to hit the forest sector in British Columbia. Mills in Houston and Quesnel, British Columbia, are expected to close by mid-2014 due to a lack of timber supply. More closings are expected

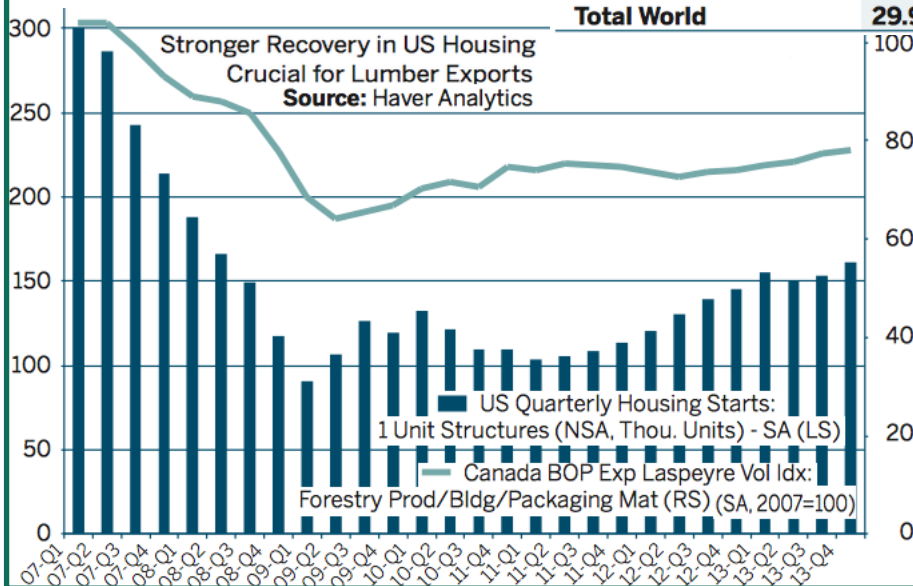
in the medium term which will reduce the volume of British Columbia's lumber exports, but increase prices, just as demand is growing.

Pulp and paper exports are expected to benefit from a softer Canadian dollar in 2014. However, there is significant excess capacity worldwide for many forms of pulp, so growth will be subdued even as demand from China increases.

Many producers are investing in new technologies to increase efficiency of their current plants. An excellent example of this is Tembec's \$235-million 2014-15 investment program to increase efficiency at its Temiscaming, Quebec, pulp mill.

### Forestry Export Outlook by Region

Sources: Statistics Canada, EDC Economics	CAD bn	% Share of Exports	Export Outlook (% growth)		
TOP MARKETS	2013	2013	2013	2014 (f)	2015 (f)
<b>Developed Markets</b>					
United States	19.2	64.3	13.3	14	11
Western Europe	1.1	3.6	-2.2	-8	0
Japan, Oceania and Developed Asia	2.6	8.6	9.7	7	10
<b>Emerging Markets</b>					
Latin America and the Caribbean	0.8	2.6	0.3	1	3
Emerging Europe and Central Asia	0.3	0.9	31.9	6	8
Africa and the Middle East	0.3	1.0	21.5	22	18
Emerging Asia	5.7	18.9	15.7	12	12
<b>Total Developed Markets</b>	<b>22.8</b>	<b>77</b>	<b>12.0</b>	<b>12</b>	<b>10</b>
<b>Total Emerging Markets</b>	<b>7.0</b>	<b>23</b>	<b>14.6</b>	<b>11</b>	<b>11</b>
<b>Total World</b>	<b>29.9</b>	<b>100</b>	<b>12.6</b>	<b>12</b>	<b>11</b>



## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	344	335	+9	368	-24	365	-21
WSPF KD R/L 2x6	332	320	+12	354	-22	362	-30
WSPF KD R/L 2x8	338	340	-2	338	0	350	-12
WSPF KD R/L 2x10	376	385	-9	400	-24	375	+1
WSPF KD PET 2x4 Stud	310	310	0	355	-45	405	-95
WSPF KD PET 2x6 Stud	290	290	0	305	-15	420	-130
Douglas Fir Green R/L 2x4	325	335	-10	340	-15	345	-20
Douglas Fir Green R/L 2x10	370	388	-18	405	-35	390	-20
ESPF KD 2x4 8ft Stud	390	380	+10	395	-5	480	-90
OSB Ontario 7/16" (CDN\$)	220	220	0	230	-10	375	-155
CSplywood Toronto 3/8" (CDN\$)	382	382	0	385	+5	367	+23

## Weekly News

### Transportation Bill, US

CONT'D FROM PG 2 Foxx said Tuesday on the Department of Transportation's website that the Obama administration will soon issue a draft of a proposed MAP-21 reauthorization bill, reversing the president's 2012 decision to defer the details on funding levels to Congress.

Obama has already signaled that he thinks lawmakers should use US\$150 billion in anticipated savings from corporate tax reform to close the Highway Trust Fund shortfall, which is projected to reach US\$20 billion annually without congressional action. But an agreement on tax reform is unlikely, leaving lawmakers to find another funding source.

The current two-year highway bill is set to expire November 1, and the gasoline-tax-reliant trust fund is expected to run short of money in the heart of the summer highway repair and construction season, according to the Washington Post. When that happens, money that states use to pay for those projects will trickle to a halt.

The president's plan to fill the gap in the trust fund would represent a major policy shift. It relies on a one-time, US\$150 billion boost from corporate tax reform — a proposal that Obama has floated before and that has been largely ignored by Congress.

Obama's plan would end almost 60 years of reliance on a user fee — the gas tax — to pay for transportation, substituting significant direct funding from the general tax fund.

### Home Builder Revenue: 1Q

CONT'D FROM PG 2 D.R. Horton, out of Fort Worth, TX, reported

Thursday that net home orders in 1Q totalled 8,569, up 8.8 per cent from 1Q 2013. Horton's average community count last quarter was up 11 per cent from a year ago, according to Calculated Risk. The company's sales cancellation rate, expressed as a per cent of gross orders, was 19 per cent, unchanged from a year ago. Home deliveries totalled 6,194 last quarter, up 13.4 per cent from the comparable quarter, at an average sales price of US\$271,230, up 11.8 per cent from a year ago. The company's order backlog at the end of March was 10,059, up 5.3 per cent from last March.

D.R. Horton's revenue from home sales, excluding land sales, rose 22.7 per cent to US\$1.68 billion. Net income rose to US\$131 million, or 38 cents per share, from US\$111.0 million, or 32 cents per share, a year earlier.

PulteGroup, based in Bloomfield Hills, MI, reported also Thursday that net home orders in 1Q 2014 totalled 4,863, down 6.5 per cent from the comparable quarter of 2013. The company said that absorptions per community were up from last year. Home deliveries last quarter totalled 3,436, down 10.4 per cent from the comparable quarter of 2013, at an average sales price of US\$317,000, up 10.5 per cent from a year ago. The company's order backlog at the end of March was 7,199, down 8 per cent from last March, said Calculated Risk.

PulteGroup's net income dropped to US\$74.8 million, or 19 cents per share, from US\$81.8 million, or 21 cents per share, in the same quarter of 2013. Home sales revenue fell 1 per cent to US\$1.09 billion.

D.R. Horton and PulteGroup re-

ported a 10 per cent rise in average selling price for the first three months of the year.

### EACOM Reconstruction

The reconstruction Eacom's sawmill in Timmins, ON, is just a couple of months from being completed, according to Timmins Press Sunday.

It will be take longer, however, before mill operators can settle back and declare the job done.

"We expect the construction to be finalized within the next two months," explained Guy Fleury, general manager of the mill.

However, the mill and the new equipment that was installed needs to be run for at least a full year while exposed to different conditions in order to evaluate their performance.

Eacom has invested about \$25 million to rebuild the mill, much of which was destroyed by a large fire in January 2012. The mill was shut down for more than a year as a result. Reconstruction began last year.

## Calendar

### May 2014

27th Annual Global Forest & Paper Industry Conference

May 6, 2014 – Vancouver, BC

<http://www.pwc.com/ca/en/forest-paper-packaging/annual-global-forest-paper-industry-conference.jhtml>

Quebec Forest Industry Council (QFIC) Annual Convention

May 14 to 15, 2014 – Quebec, QC

<http://www.cifq.com/en/news-and-events/events/2014-annual-convention>

# Council of Forest Industries AGM

## COFI Convention

CONT'D There were so many speakers on such a wide range of topics; this week Madison's will focus on industry projections and macroeconomic forecasts.

In contrast to three short years ago, the US housing starts and North American lumber production forecasts of various analysts are relatively close to each other. At the same time, all speakers cautioned about continued future constraints for solid wood manufacturers in the near- to medium-term future. Specifically, transportation, labour, and fibre supply issues were most often mentioned.

In a fitting start to the busy event, Patricia Mohr, VP, Economics & Commodity Market Specialist at Scotiabank Group, gave a measured and in-depth presentation not just on wood products but on commodities in general.

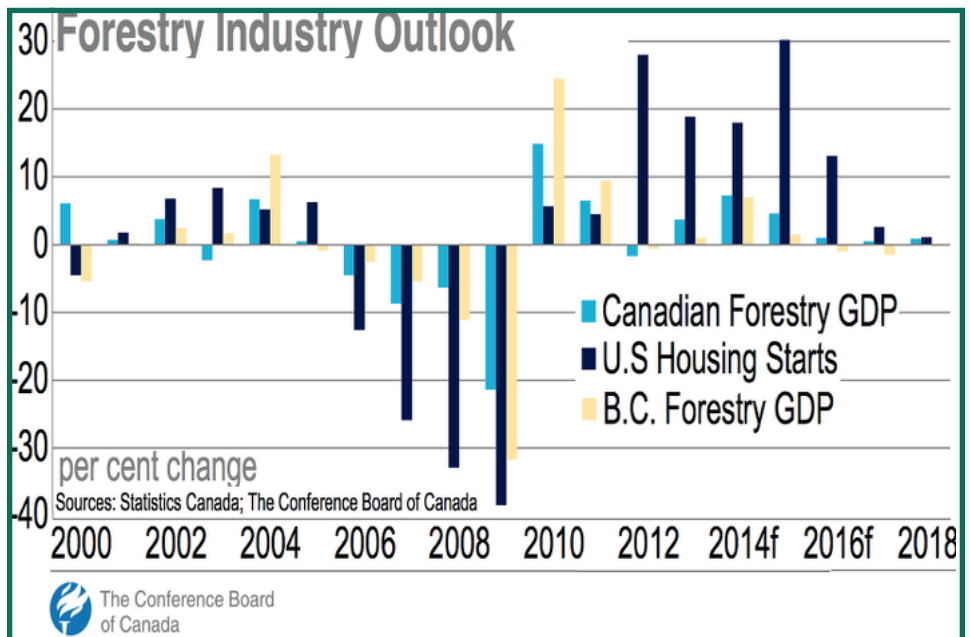
Both China and the US's economies are stable or improving, explained Mohr, although a recent drop in the Purchasing Managers Index (PMI) for China could indicate a possible slowdown this year for that country.

"Global PMI is a very nice indicator to commodity markets," Mohr detailed. "China's share of global

consumption of the four key base metals is now four times bigger than that of the US.

"Copper prices will mount a nice recovery in the second half of 2014."

As for lumber, "One hundred and forty sawmills have closed across Canada and the US since 2007," said Mohr. "Supplies are limited, especially in OSB which experienced almost panic buying in 2012. Sco-



tiabank is optimistic for spring lumber buying in 2014. We project US housing starts to be 1.14 million annualized this year and 1.4 - 1.5 million in 2015.

"However the multi-family segment will have a higher share of total than in 2005-06," Mohr cautioned. "US bankers will be providing new financing for new home buyers, but not so much re-financing."

Up next was Glen Hodgson, Senior VP and Chief Economist at Conference Board of Canada, with an 'Economic Outlook for BC & Forest Sector.'

"Emerging markets now make up half the world," began Hodgson. "Future economic growth is in emerging markets."

"Housing starts represent 6 per cent of US GDP, while consumer products represent 70 per cent. In 2014, we project US housing starts to be 1.1 mil-

lion annualized, 1.4 million next year, and more than 1.5 million in 2016."

As for macroeconomic conditions, "Neither the US nor Canada has seen zero per cent interest rates for more than five years, which is why the Bank of Canada is worried about deflation," Hodgson explained.

"In British Columbia, forestry output has levelled off, thus producers must attract more value from the forest. The BC forest products industry should think really hard about value-added products."

The next day's morning session started off with an examination of lumber markets. Chris McIver, VP of Lumber Sales and Corporate Development at West Fraser, spoke about 'North American Markets.'

"The slow 2.5 months at the start of this year are going to keep US housing starts around 1 million annualized for 2014," explained McIver. "Canada's annual lumber shipments to China are now the equivalent of 300,000 new US houses."

"Producers in BC have a problem getting our product to market as 2,000 independent operators have gone out of business since the US housing boom and crash. Transportation of all types: rail, truck, and vessel, as well as labour and employment, are huge problems."

"Demand for wood products will improve more slowly than forecast, especially the 'super-cycle' forecast," concluded McIver. "Fibre supply is only going to get tighter and tighter for North American producers."

Exciting presentations on the future of the BC bioeconomy and alarming data about tight labour conditions for the forestry sector and the industries which serve it, as well as the always-fascinating CEO panel, will be examined in an upcoming issue of your Madison's Lumber Reporter.

