

MADISON'S LUMBER REPORTER

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News & Updates

Western US Timberland Owners Close Lands

Hancock Forest Management, Weyerhaeuser Columbia Timberlands, Stevenson Land Company, Broughton Lumber Company, Kreps Ranch, Kreps Family, Western Pacific Timber, and American Forest Management are closing their lands to public entry effective July 26 until further notice, said the Golden Sentinel Wednesday. The closure is taking place due to extreme fire danger. The closure is for lands in Klickitat, Skamania, Yakima, Hood River and Wasco counties of Washington State. Total lands closed are approximately 250,000 acres.

These properties will remain closed to all public entry until Washington State Department of Natural Resources determines the fire danger rating of the Industrial Fire Precaution Level (IFPL) is reduced to IFPL 1. Security patrols have been assigned to strictly enforce the closure. The companies state it is the public's responsibility to know whose property they are on.

US Home Sales

New-home sales in the US fell in June and May's reading was revised significantly lower, the Commerce Department said Thursday. Sales of new single-family homes fell 8.1 per cent from May to a seasonally adjusted annual rate of 406,000,

Meanwhile, May sales were revised down to a rate of 442,000 from a previously estimated 504,000. The initial May reading would have been the strongest pace since the recovery began, but the revised figure isn't even the best of the year.

Meanwhile existing home sales bumped up again in June as inventory levels eased, data released by the National Association of Realtors Tuesday shows.

Sales of existing, or previously owned, homes last month rose 2.6 per cent to an annualized, seasonally adjusted pace of 5.04 million, the highest pace since October 2013, when the pace was 5.13 million. However, June's sales pace is still 2.3 per cent below the 5.16 million level one year ago.

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Softwood Lumber Imports, UK

United Kingdom lumber consumption in 2013 totalled 8.4 million, with 90 per cent of that softwoods. Import volumes have increased by 4.3 per cent in 2013, and will increase even stronger in 2014. The UK consumes nearly 5 million cubic metres of wood per year, 57 per cent of that imported.

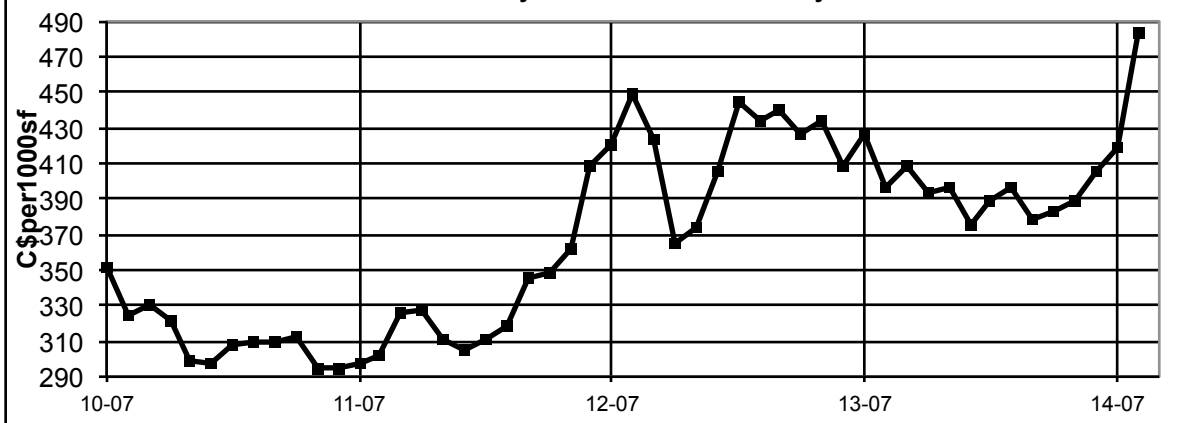
All this favourable economic context is helping the lumber industry which has registered high levels of imports at the start of this year. Therefore, according to the latest Eurostat statistics, the UK has purchased, in value, a quarter more softwood lumber from the European Union countries in the first four months of 2014, if compared to the same period of 2013. UK bought €372 million worth of softwood lumber from the EU, an increase of €70 million over January-April 2013.

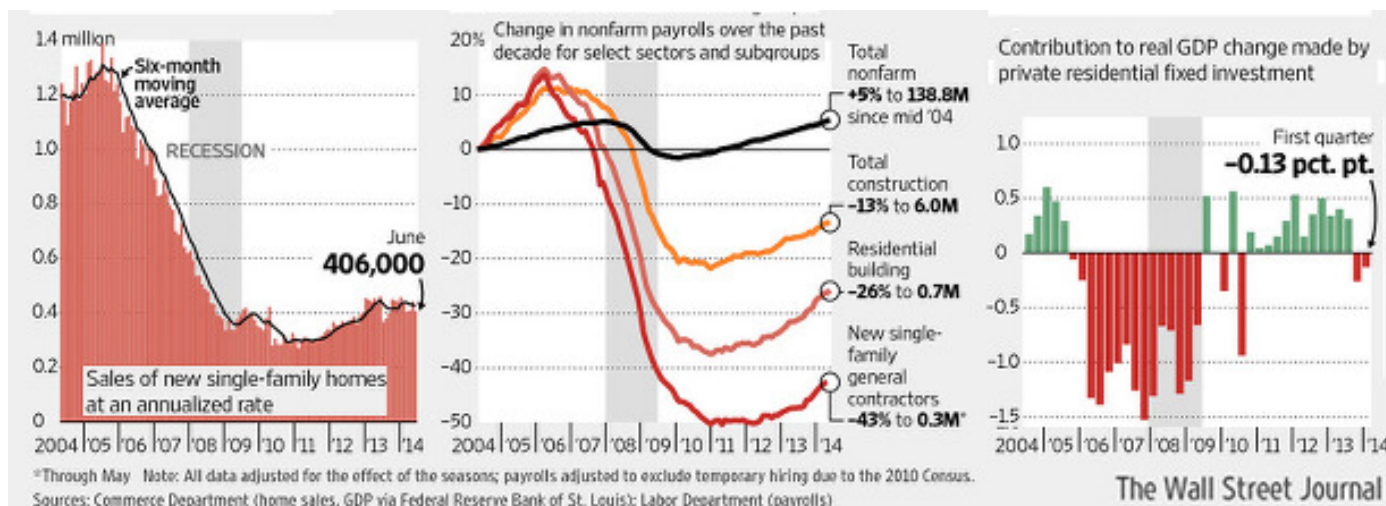
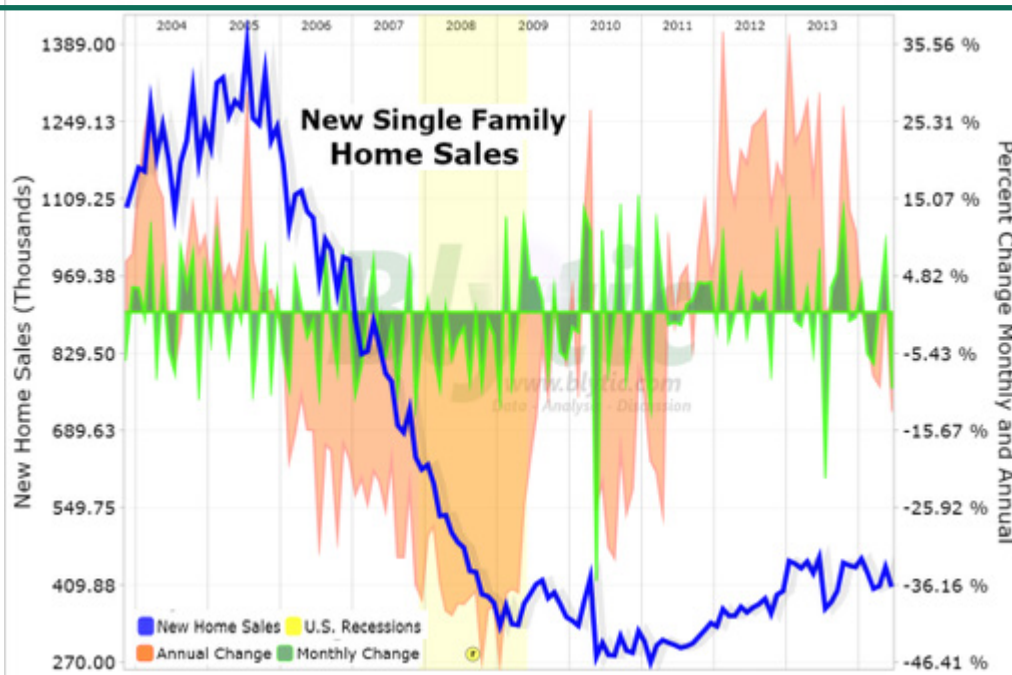
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BC Pulp Mill Funding

The British Columbia Ministry of Energy and Mines Thursday announced funding to greatly improve energy efficiency at BC pulp mills. CONT'D PAGE 9

Canadian Softwood Plywood 9.5mm Toronto July 2010 - 2014





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Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	354	354	0	320	+34	325	+29
WSPF KD R/L 2x6	362	360	+2	318	+44	300	+62
WSPF KD R/L 2x8	354	354	0	336	+18	305	+49
WSPF KD R/L 2x10	402	402	0	374	+28	345	+57
WSPF KD PET 2x4 Stud	340	345	-5	320	+20	310	+30
WSPF KD PET 2x6 Stud	345	335	+10	295	+50	280	+65
Douglas Fir Green R/L 2x4	345	340	+5	295	+50	325	+20
Douglas Fir Green R/L 2x10	360	345	+15	335	+25	298	-38
ESPF KD 2x4 8ft Stud	430	430	0	400	+30	380	+50
OSB Ontario 7/16" (CDN\$)	225	225	0	230	-5	270	-45
CSplywood Toronto 3/8" (CDN\$)	483	447	+36	398	+85	387	+96

Weekly News

Home Sales, US

CONT'D FROM PG 2 The median existing-home price for all housing types in June was US\$223,300, 4.3 per cent higher than one year earlier. Home prices have now been increasing on a year-over-year basis for 28 consecutive months. Distressed homes in June were 11 per cent of sales, down from 15 per cent one year earlier. Foreclosures sold for an average discount of 20 per cent in June, short sales 11 per cent.

Sales of newly built homes account for about 10 per cent of US home-buying activity. From a year earlier, new-home sales were down 11.5 per cent in June.

The supply of homes on the market is increasing. There was a 5.8-month supply of new homes on the market at the end of last month, up from a 5.2-month inventory at the end of April.

Inventory levels are improving. Total housing inventory rose 2.2 per cent to 2.3 million existing homes available for sale at the end of June, which represents about a 5.5-month supply at the current sales pace.

US Census Bureau Quarterly Sales by Price and Financing data indicates that count of cash-based new home sales rose to 10,000 for 2Q, matching a cycle high, explained the National Association of Realtors Friday. During the 2002-2003 period, cash sales made up only 4 per cent of purchases. In contrast, cash purchases constitute a considerably larger share of the existing home market – 32 per cent of sales in June 2014 for example.

Another measure of cash sales for total new construction, from CoreLogic, shows a higher level of cash sales than the Census: 17 per cent in April 2014.

New home sales due to FHA-backed

loans fell to 11 per cent of the market during 2Q. This is down from 28 per cent in 1Q 2010 and is closer to the 10 per cent average in 2002-2003. As the conventional mortgage financing share has risen, the share of new single-family home sales due to FHA-backed mortgages has declined, says the NAR.

These sources of financing serve distinct market segments, which is revealed in part by the median new home price allocable to each. For the second quarter, the median new home price due to FHA financing was \$212,500. The median price for VA-backed loans rose to \$274,800.

UK Wood Imports

CONT'D FROM PG 2 Purchases from almost all major UK European trade partners rose in 2013. Traditionally, Sweden is UK's main source of lumber and in January-April Swedish exports stepped-up by 27 per cent. Latvia overpassed Finland and became the second exporter with a year-on-year rise of almost 50 per cent. Surprisingly, purchases from neighbour country, Ireland, dipped by 4 per cent, while imports from Germany jumped 12 per cent.

Sawmill Fire

Fire destroyed a sawmill in Marysville, ID, on Thursday night.

The fire was burning in stacks of firewood and timber at Fisher Logging near Ashton. Firefighters were able to protect other buildings. Damage was estimated at US\$250,000.

The sawmill had not operated for past six months, but there were 10-foot-high piles of sawdust on the ground.

Several spot fires were started on nearby grassland as a result of the fire.

Temperatures were so hot that fire-

fighters were rotated through ambulances.

The state fire marshal is on his way to the fire and determine the exact cause.

Weyerhaeuser Invests

Weyerhaeuser is investing US\$57 million over a three-year period to install two continuous direct fired kilns and a new planer mill at its softwood lumber mill in Philadelphia, MI, the company announced Wednesday.

The mill produces approximately 220 million board feet of Southern Yellow Pine two-inch dimension lumber, 2x4 through 2x12.

Canfor, Canfor Pulp Report

Canfor Corporation Thursday reported net income of \$54.3 million, or \$0.39 per share, for 2Q 2014, compared to \$110.3 million, or \$0.77 per share, for 2Q 2013.

Canfor Pulp Products also Thursday reported net income of \$18.8 million, or \$0.27 per share, for 2Q 2014, compared to \$7.6 million, or \$0.11 per share, for 2Q 2013.

Calendar

September 2014

Who Will Own the Forest? 10
September 16 - 18 – Portland, OR
<http://wwotf.worldforestry.org/wwotf10/>

Alberta Forest Products Association
71st AGM
September 25 - 27 – Jasper, AB
<http://www.albertaforestproducts.ca>

BC Pulp Mills

Energy Costs

In the same week that Canfor Pulp Products announced 2Q financial results, the BC Ministry of Energy and Mines announced a new Power Smart program that will reduce electricity costs for pulp and paper producers.

Canfor Pulp's net income, reported on Wednesday, was \$18.8 million, or \$0.27 per share, for 2Q 2014, compared to \$25.7 million, or \$0.36 per share, for 1Q and \$7.6 million, or \$0.11 per share, for 2Q 2013. For the six months ended June 30, 2014, the Company's net income was \$44.5 million, or \$0.63 per share, compared to \$18.5 million, or \$0.26 per share, for the six months ended June 30, 2013.

Canfor Pulp had an operating income of \$29.6 million for 2Q 2014, a decrease of \$6.8 million from operating income of \$36.4 million for 1Q, as the impact of pulp and paper maintenance outages and higher fibre costs more than offset increased pulp and paper shipments.

The new BC government/BC Hydro program will help pulp producers remain globally competitive, supporting thousands of jobs throughout the province and reducing overall electricity demand to keep rates low for all customers over the long-term, according to a Ministry of Energy and Mines release Thursday.

The new program builds on existing initiatives for industrial customers where BC Hydro provides a financial incentive of up to 75 per cent of the project cost to support investments in more energy efficient equipment.

Under the new program, thermo-mechanical pulp and paper producers, which have electricity costs that account for as much as 30 per cent of their operating budgets and represent 10 per cent of BC Hydro's annual power sales, will be eligible for increased incentives ranging from \$5 million to \$25 million for projects that can reduce their power consumption.

The program is expected to reduce electricity consumption by 300 gigawatt hours per year which will save pulp and paper producers \$17.5 million

in annual power costs. In addition, by reducing overall electricity demand by this amount, BC Hydro will avoid the need to acquire new sources of power generation, saving ratepayers up to \$265 million and keeping rates low for all customers, says the Ministry.

There are seven thermo-mechanical pulp and paper operations in BC operated by four companies: Canfor (Taylor), Catalyst Paper (Crofton, Port Alberni, and Powell River), Paper Excellence (Chetwynd and Port Mellon), and West Fraser (Quesnel).

The companies must submit project applications to BC Hydro by autumn 2015 for approval.

BC's industrial sector accounts for approximately 32 per cent of BC Hydro power usage, mostly from sawmills, pulp and paper mills, mines, and chemical plants, said the government release.

Catalyst, which was recovering from bankruptcy protection, warned it had already absorbed a 27 per cent rate hike over the last three years and the new increases would raise its \$124 million annual Hydro bill to \$150 million within the first two years. The company has 1,550 workers. The new government program would see Catalyst eligible for up to \$19 million in funding at its Powell River plant, \$10 million at Port Alberni, and \$16 million at Crofton, all on Vancouver Island.

The company's former boss said at the time the looming electricity hikes would have wiped out all the cost savings accomplished in the restructuring. Catalyst briefed politicians during the 2013 election campaign about the implications of the rate hike.

The program has been in the works since last November, according to the Times Colonist Thursday, when a long-range electricity plan was unveiled that included significant rate hikes for the next several years. The five-year plan includes a staged 28 per cent rate hike for most users.

The calculation at that time was that the overall hike would amount to an average \$139,000-a-month increase for industrial customers by the end of the five-year plan.

The new program adds to the \$1.6 billion that BC Hydro will spend on Power Smart initiatives as part of the

10 Year Plan, according to the Ministry announcement. Earlier this month, government, BC Hydro and FortisBC announced an expansion of energy-efficiency programs to help customers, particularly those on low-incomes, reduce their electricity and gas bills.

Pulp is produced using refiners to mechanically break down material. The refiners are run using very-large horsepower motors, hence the high electricity consumption. Thermo-mechanical pulp is different than craft pulp and a much higher amount of electricity is used to produce this pulp. BC's thermo-mechanical pulp sector is the largest single industry segment and consumes approximately 10 per cent of BC Hydro's supply. This sector has many opportunities for large energy efficiency projects with proven technologies.

The Ministry details that thermo-mechanical pulp (TMP) industry in BC can be split into two sectors: market-oriented and internally-oriented.

The Interior mills, Quesnel River Pulp, Canfor - Taylor, and Paper Excellence - Chetwynd all produce TMP for the global market. The TMP is sold to paper producers who convert it into uncoated paper products such as newsprint, coated paper products such as magazines, and paperboard for packaging materials. A smaller, but growing, market is tissue products, primarily paper towels and napkins. The TMP is sold to North American and Pacific Rim customers. Competition comes from global producers of hardwood and softwood Kraft pulp, with hardwood being the prime competitor.

The Coastal mills are internally-oriented. The TMP produced is used within the mill and converted into paper products. These mills cannot sell TMP directly into the market because they do not have a pulp dryer section. Catalyst produces newsprint, directory-grade paper, coated paper for magazines, and specialty paper. Howe Sound Pulp and Paper produces newsprint. In North America, the competition comes from Resolute Paper, Norpac Paper, and Verso. In the Pacific Rim, European producers such as Stora Enso, UPM Kymene, and Norske Skog have entered the market along with regional producers in South Korea, Japan, and China.

by Kéta Kosman