

# MADISON'S LUMBER REPORTER

Publisher  
**KetaDesign Productions**

Editor  
**Kéta Kosman**

Market Analyst  
**Earl Heath**

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www.madisonsreport.com  
madrep@shawcable.com  
604 984-6838

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V6B 3W7 Canada

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## News & Updates

### Study: Manufacturing 2013, Canada

Canadian manufacturing sales increased in 2013 for the fourth year in a row, Statistics Canada announcement Monday. Sales edged up 0.3 per cent and have almost fully recovered from the recession of 2008-2009. By contrast, constant dollar sales fell 0.9 per cent year over year, indicating a drop in volumes. Constant dollar sales in 2013 remained well below pre-recession levels.

In 2013, four industries accounted for over three-quarters of the overall increases: wood, food, aerospace product and parts, and chemical manufacturing.

The wood product industry had the largest gain in sales, increasing \$3.6 billion from 2012 to \$23.8 billion, up 17.8 per cent, in 2013. Since the recession of 2008-2009, improved economic conditions and increased exports to the US and China have contributed to higher sales for the Canadian wood products industry.

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### US Supply of New Homes: August

The August increase of the pace of new home sales pushed the months' supply measure of inventory to its lowest level in more than a year.

According to estimates from the Census Bureau and HUD released Thursday, on a nonseasonally adjusted basis the inventory of for-sale newly built homes stood at 206,000 in August. This was a slight increase from the July estimate of 202,000.

Of this total, 48,000 homes were completed, ready-to-occupy residences. Another 37,000 were for-sale units that had not yet begun construction. The largest component of inventory, homes under construction, came in at 121,000 in August.

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### New Home Sales, US

In a joint release the Census Bureau and Department of Housing and Urban Development reported Wednesday that newly constructed single family homes sold at a seasonally adjusted annual pace of 504 thousand in August, up 18 per cent from July and 33 per cent from August 2013. The supply of new homes available for sale inched up to 203 thousand from 201 thousand in July.

That month's advance is a positive single for the ongoing housing market recovery. After a disappointing pause in the first half of the year the gain in sales represents a resumption of the momentum that built steadily through 2012 and 2013. The increase in inventory reflects builders' growing confidence in the recovery but also caution not to get too far ahead of demand.

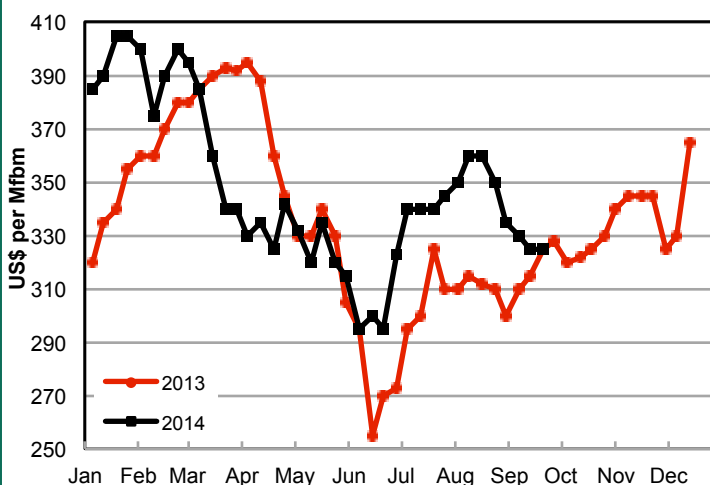
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### Canada-US Softwood Lumber Agreement 2006

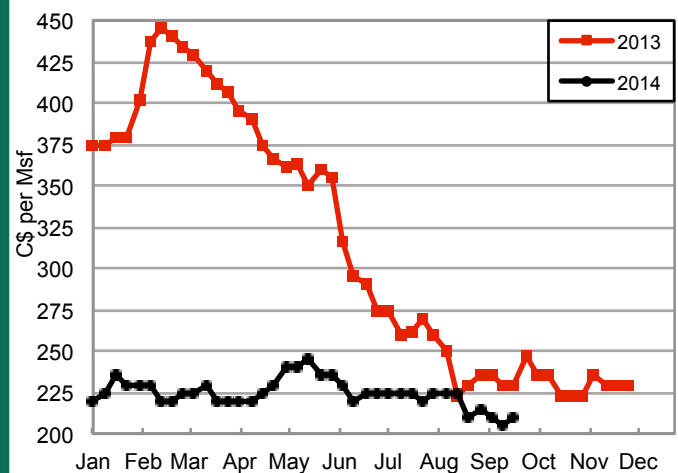
After being smoothly renewed by both sides at its initial expiry date in 2013, the SLA officially expires in October next year. The US Lumber Coalition publicly stated last week it does not support simple renewal of the Agreement as it is currently written.

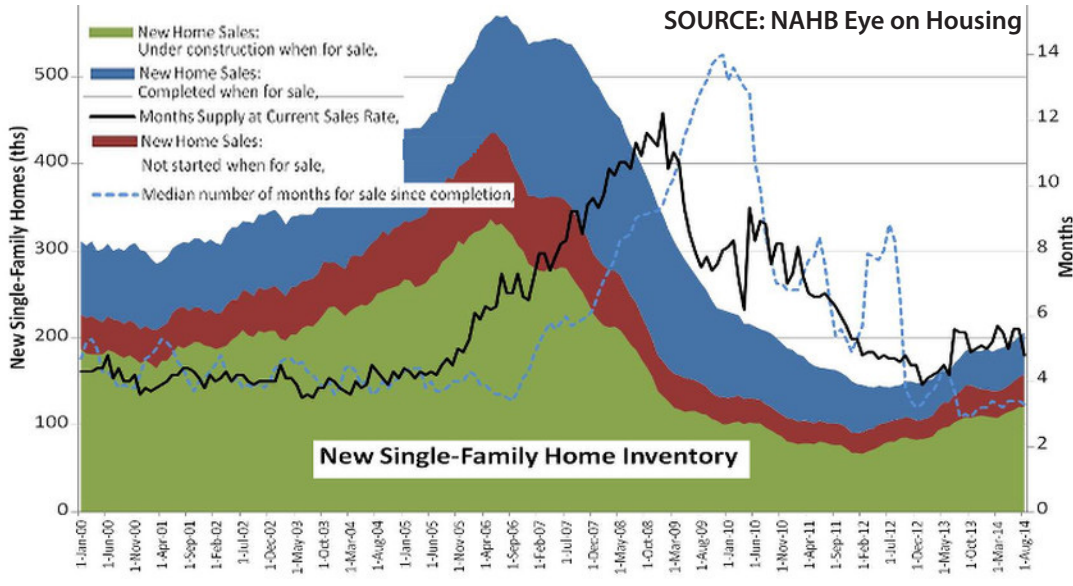
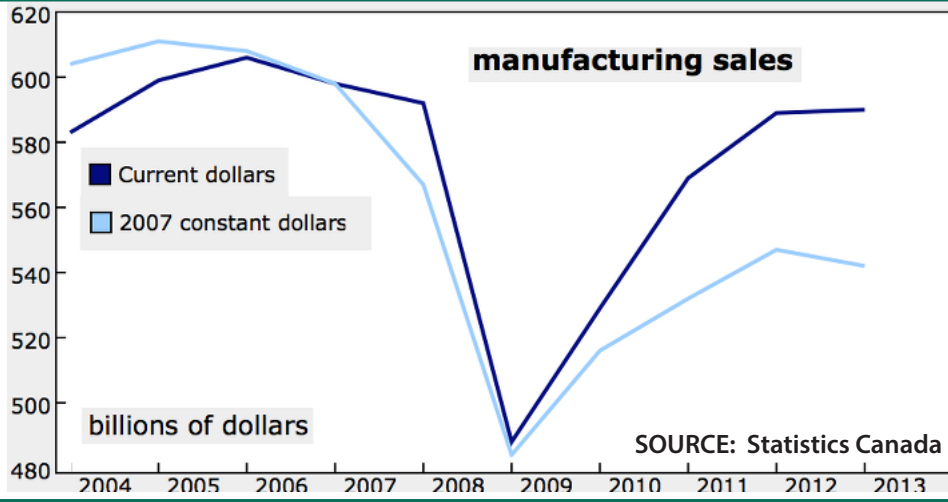
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Douglas Fir Green Std&Btr 2x4



OSB 7/16" ON

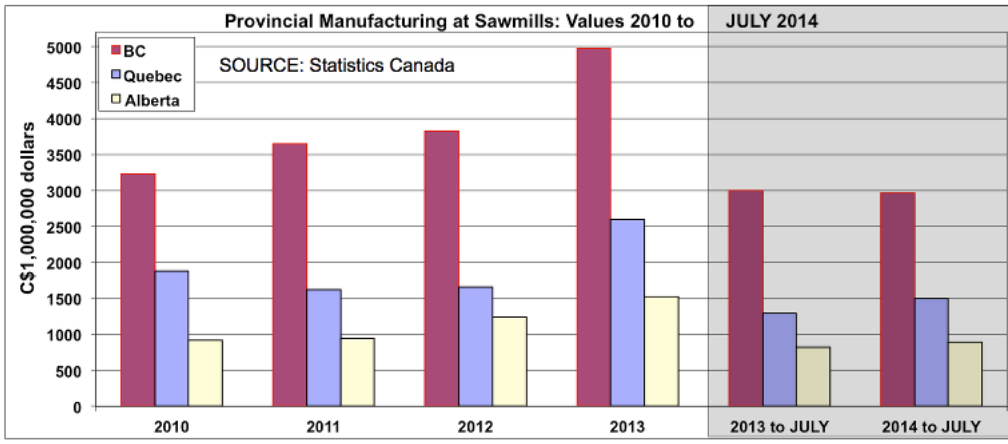




**Madison's Weekly Slideshares: <http://www.slideshare.net/KetaKosman>  
Lumber Production and Manufacturing (Canada), Lumber Prices : July and August 2014**



**Provincial Softwood Lumber Manufacturing at Sawmills, Canada by Province  
VALUES 2010 to JULY 2014**



**VALUE of British Columbia lumber produced Jan – Jul 2014: \$2.96 billion (down 1.1%) [compared to 2013]**  
**VALUE of Quebec lumber produced Jan – Jul 2014: \$1.50 billion (up 14%)**  
**VALUE of Alberta lumber produced Jan – Jul 2014: \$0.89 billion (up 7.6%)**

# Madison's Weekly Lumber Key Prices Table

www.madisonsreport.com



	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
Prices are in U.S. dollars per 1,000 fbm (net FOB mill)							
WSPF KD R/L 2x4	352	362	-10	368	-16	358	-6
WSPF KD R/L 2x6	370	380	-10	376	-6	338	+32
WSPF KD R/L 2x8	370	378	-8	375	-5	344	+26
WSPF KD R/L 2x10	378	388	-10	390	-12	455	-77
WSPF KD PET 2x4 Stud	340	345	-5	365	-25	325	+15
WSPF KD PET 2x6 Stud	335	340	-5	375	-40	295	+40
Douglas Fir Green R/L 2x4	325	325	0	350	-25	325	0
Douglas Fir Green R/L 2x10	395	380	+15	390	+5	430	-35
ESPF KD 2x4 8ft Stud	420	435	-15	445	-25	375	+45
OSB Ontario 7/16" (CDN\$)	210	205	+5	210	0	230	-20
CSplywood Toronto 3/8" (CDN\$)	457	457	0	486	-29	382	+75

## Madison's Weekly Lumber News

### Canada Manufacturing

CONT'D FROM PG 2 The industries posting the largest declines in 2013 included primary metals, petroleum and coal products, fabricated metal products, and automotive (the motor vehicle assembly and motor vehicle parts industries combined).

Manufacturing sales for the primary metal industry were down \$2.4 billion to \$43.4 billion in 2013, down 5.3 per cent, mostly as a result of lower prices. Sales for the petroleum and coal product industry recorded a 2.8 per cent decline to \$82.7 billion, largely due to lower volumes. This was the result of extended and unplanned shutdowns at several refineries in 2013.

### New Home Inventory, US

CONT'D FROM PG 2 In August, the median months-for-sale time for new single-family homes fell to 3.3 months. This is higher than the 2.9 months registered a year ago.

In terms of months' supply (the time required for the existing inventory to be sold at the current pace of sales), the inventory of new single-family sales fell to 4.8 months (on a seasonally adjusted basis). Due to the increase in the August rate of sales, this is a notable drop from the 5.6 months' supply reported in July and is the lowest measure of supply since June 2013.

These numbers counter claims made last week that home builders are constructing new homes faster than they can be occupied. Single-family construction is occurring at a pace about half of the normal, sustainable rate determined by population growth and the need for replacement of older housing.

While vacancy rates for some kinds of single-family housing remain elevated, newly built homes offer multiple benefits over older housing, including lower maintenance and upkeep costs and cost saving green and energy efficiency features. Comparing new homes with vacant, older homes, likely in need of repair/modernization, is comparing apples with aging bananas.

### US New Home Sales

CONT'D FROM PG 2 Broader trends suggest new-home purchases have picked up but are still running below historical averages. August's new-home sales were up 33 per cent from a year earlier. But before the last recession, new-home sales typically reached 1 million a year.

The August results may have been elevated due to several special factors. Last month included more weekend days—prime buying periods—than July 2014 and August 2013. In addition, home sales fell off in the second half of last year as interest rates began to rise, meaning the year-earlier figures to which the latest results are compared are relatively low. Wednesday's report showed the number of homes on the market fell sharply, a development that could bode well for the economy.

The Commerce report comes days after the National Association of Realtors said sales of previously owned homes—roughly 90 per cent of the market—slipped in August, ending four months of gains. The Realtors report is considered a more reliable barometer of the overall housing market because it reflects the majority of sales.

### Fort Francis Possible Buyer

The kraft pulp mill across the Rainy River in Fort Frances, ON, could have a buyer, according to a report this week in the Fort Frances Times.

The mill had previously been closed permanently in May by owner Resolute Forest Products, which followed a January announcement of an extended period of market-related outage on its remaining paper machine. The kraft pulp mill and another paper machine have been idled since November 2012.

Wednesday, the Times reported municipal representatives met with Wisconsin-based Expera Specialty Solutions, which reportedly has signed a letter of intent with Resolute Forest Products.

### New Labour Market Information Study

The Wood Manufacturing Council (WMC) in June launched its project to conduct a new national Labour Market Information (LMI) Study for the Advanced Wood Processing Sector. The Council will work with sector stakeholders to produce a comprehensive LMI sector study to identify short- medium- and long-term Human Resources issues and challenges, which will serve as a basis for the development of a Human Resources strategy for the future of the sector. The project will also include a second component, which is the updating of five of the Council's National Occupational Standards (NOS), to support standardization and labour mobility.

For more information on the WMC, its members, programs and activities, please visit <http://www.wmc-cfb.ca/>

# 2006 Softwood Lumber Agreement Expires October 2015

Last week at the Forest Economic Advisors' Forest Products Forum at the World Forestry Center in Portland, OR, the US Lumber Coalition stated it does not support simply extending the 2006 Canada-US Softwood Lumber Agreement when it expires on October 12, 2015.

The agreement was renewed in 2013 with no changes. If it is allowed to lapse next year, there is a one-year 'stand-still' period during which neither side can file cases. This important trade deal, flawed as it is according to both Canadian and US players, has provided stability to industry by eliminating the constant rounds of trade disputes in various forums that were going on for decades.

Madison's spoke to representatives of the US Lumber Coalition this week to get some clarity on this latest announcement.

"A simple extension won't provide a platform for a stable agreement moving forward," said Zoltan van Heyningen, Coalition representative and speaker at the FEA conference, during a phone interview with Madison's Tuesday. There are three main issues the Coalition membership has with the current SLA:

- there has been a dramatic shift in North American log prices due to market forces since the Agreement was signed in 2006;
- continued concern over the exit ramp and market conditions in Quebec; and,
- enforceability of the SLA in light of the recent grade 4 decision.

"There has been a dramatic shift in the cost of doing business for operators globally, due to increased exports to China and other factors, except for those in Canada," detailed van Heyningen on the first point. "The gap in log prices between Canadian and US producers has increased since the 2006 SLA was signed. Canadian companies are insulated from global market forces therefore don't follow suit when log prices change."

According to van Heyningen, this circumstance renders the border measure [export tax] mechanism less ef-

fective given log prices, and the trigger of US\$365 mfbm on the lumber composite is not what it used to be "if you have to pay world prices for logs".

Eventually, van Heyningen said, the US producers will reach a breaking point where they would ask why they are in this Agreement and would consider "tearing it up".

The second point, on Quebec and the exit ramp, has been detailed in previous issues of your Madison's Lumber Reporter.

By way of explanation, van Heyningen said, "Currently, Quebec can promise to undergo some fashion of reform that does affect [log] pricing toward market but can still fall short of actually achieving global log prices.

"The problem with the current Agreement," van Heyningen detailed, "is that it doesn't recognize incremental measures toward market. The Coalition would like to see more flexibility."

By way of explanation, van Heyningen said, for example, if Quebec or another province made changes to its log pricing policy such that it was at a competitive disadvantage to other provinces, that province might argue it should no longer be subject to the softwood lumber export tax. The Coalition's position is: if a province moves toward market pricing but hasn't achieved it, then why should operators there get a free pass on the tax?

As for the price of Grade 4 logs in BC, the Coalition believes that the LCIA ruling on the most recent arbitration "undermined the integrity of the Agreement", said van Heyningen.

"That tribunal ruling created a road map where a province could make changes [to log pricing] which amount to a subsidy but as long as it is not officially written down [by Canada] there is no breach.

"The tribunal ruled that there was no document from a Canadian province proving a subsidy. BC changed scaling guidelines but didn't prove how many cubic metres of logs were graded as #4, which could lead to the conclusion that 'everyone' now knows how to reduce stumpage in the next down market cycle."

"This means the 2006 SLA can't be enforced effectively," stated van Heyningen.

The Coalition's understanding is that Canada's current mandate is lim-

ited to "renewing this Agreement", and "for how many years will we extend the Agreement?" The Coalition is hopeful that the two governments will be able to engage in discussions that go beyond such a limited mandate. Madison's sent inquiries to the Softwood Lumber Division and to the media department at International Trade on Tuesday morning but still had not heard back by press time Friday. "We are hoping for a sustainable agreement for 2015 because that's what everyone wants," said van Heyningen. "Our priority is to have an agreement that is sustainable and works. The alternative would be seeking relief under the U.S. trade laws to manage the differences between the two systems."

Madison's subscribers will remember the inflated costs of previous trade filings and disputes on the lumber file between Canada and the US. In the end it was only the lawyers who made any true gains. In terms of moving forward, Madison's asked if all this means a re-write of the current Agreement. "The Coalition is still working on having a comprehensive proposal," answered van Heyningen. "There needs to be a will [on both sides] to actually negotiate.

The Coalition says it is "hoping to break out of a cycle of a lack of willingness to discuss" the Agreement. "If the Canadian position is to just hold firm and not negotiate then this trade deal will crumble," said van Heyningen.

Madison's reached out to Foreign Affairs, Trade and Development Canada also Tuesday for comment.

The reply, from media spokesperson Caitlin Workman was:

"The Canada-U.S. Softwood Lumber Agreement will expire in October 2015. There is general interest in Canada to maintain the predictability and stability that the North American industry has enjoyed as a result of the Agreement.

• Canada looks forward to continue working with the U.S. government on ways to foster a positive trade environment for the North American industry.

• The federal government will continue to defend the interest of the softwood lumber industry across Canada, recognizing it's vital economic importance for all regions."