

# MADISON'S LUMBER REPORTER

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## News & Updates

### Madison's Forest Pulse 3Q 2014

The 3Q issue of Madison's quarterly Forest Pulse has gone out to subscribers. See details on Page 6!

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CONT'D PAGE 6

### Canada Producer Price, Raw Materials Price Index

The Industrial Product Price Index (IPPI) decreased 0.4 per cent in September, mainly because of lower prices for energy and petroleum products, said Statistics Canada Wednesday. The Raw Materials Price Index (RMPI) declined 1.8 per cent in September, largely as a result of lower prices for crude energy products.

The decrease in the IPPI was led by lower prices for energy and petroleum products, down 1.7 per cent. The decline in this commodity group was mainly due to lower prices for motor gasoline, down 1.2 per cent, light fuel oils, down 3.0 per cent, and diesel fuel, down 2.2 per cent.

Also contributing to the decline in the IPPI in September was primary non-ferrous metal products, down 1.9 per cent.

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### Sawmill Fires

At least 30 firefighters from Maple Ridge and Mission, British Columbia, worked through Saturday night and into Sunday morning fighting a fire that consumed at least half of Whonnock cedar mill's main building at 27400 Lougheed Highway. It could be a few months, at least, before Fraser Cedar Products' shake and shingle operation is back up and operational.

This was the second fire at the mill in the past year. Last November, the mill suffered another massive fire when a welding spark destroyed the chipper building.

Elsewhere, authorities are investigating the cause of a fire Sunday evening that burned a large wooden pole barn filled with lumber at Griffin's Building Materials in Hudson Falls, NY. There were no injuries. The lumberyard, located along the Feeder Canal, is closed Sundays.

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### Southern pine lumber exports up 20% in August 2014

Southern pine exports were approximately 44 million board feet (MMbf) during August 2014, the Southern Forest Products Association said Friday. This volume represents a hefty increase of 20 per cent above the same month last year, and a solid year-to-date boost of 22 per cent when compared with the first eight months of 2013. Offshore shipments during July roughly break down as follows: 20.9 MMbf dressed, 9.1 MMbf rough, and 14 MMbf treated lumber.

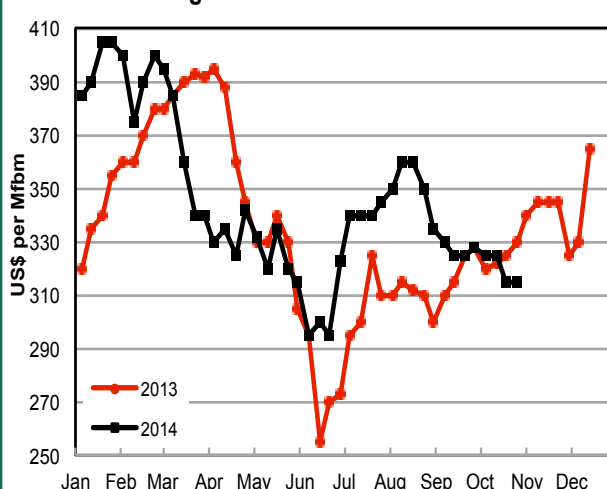
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### New Supplemental Forest Licences, British Columbia

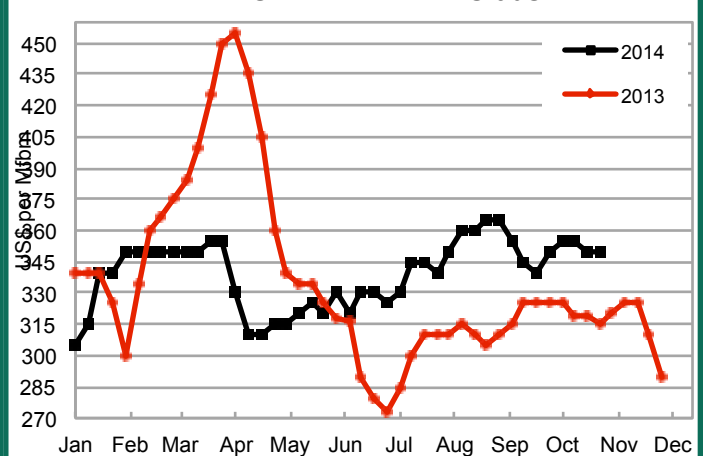
New, non-replaceable, forest licences for residual fibre were announced this week by the BC Ministry of Forests, Lands and Natural Resource Operations.

CONT'D PAGE 9

Douglas Fir Green Std&Btr 2x4



WSPF KD 2x4 PET Studs



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"I am amazed at the data you've been able to collect in this report and find it all very interesting. I can see this kind of information being especially desired by economists / bankers / the investment community and perhaps Industry CFO's and such for help formulating reports and such. I like the trend data on capacity / efficiency plus export import ratios."

- Michael Low | Scotiabank | Director & Group Lead, Commercial Banking

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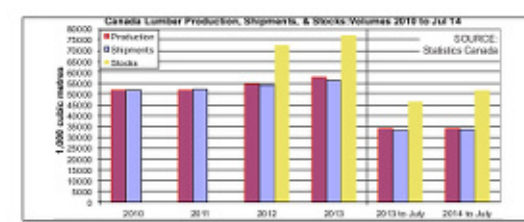
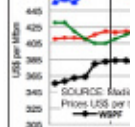
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**3Q 2014 North America Timber Industry Analysis and Projection**  
By Kota Kosman, Publisher and Editor, Madison's Lumber Reporter  
November 1, 2014

**OVERVIEW**

Vague bursts of enthusiasm among North America's lumber and panel traders this summer gave way to dread in September as sales volumes dropped and prices softened somewhat. Negative sentiment was finally overcome in October however, as market fundamentals prevailed and the tenuous supply-demand balance made itself felt.

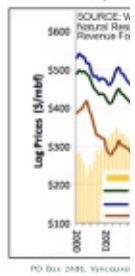
Field inventories of solid wood products across the US and Canada remain extremely weak, forcing customers to continue coming to the table to buy from producers. Discouraging macroeconomic conditions and a striking lumber futures board were not enough to dampen prices, which recovered to one-year ago levels in October.

**KEY 2nd QD R/L LUMBER PRICES October 2013 - 2014**  
[www.madisonreport.com](http://www.madisonreport.com)



**IMPORTANT DATA:**

- US LUMBER prices to one year ago
- US SAWMILL 2014 over 2013
- US SAWMILL, Aug 2014 costs
- Canadian LUM over last year



**SHORT TERM ANALYSIS**

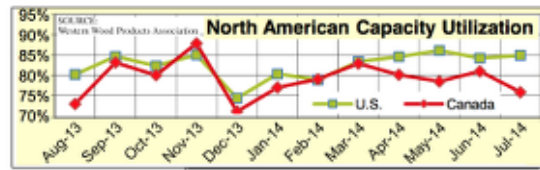
Sawmill capacity utilization rates have been a to the Western Wood Products Association, with manufacturers in both countries were open. As the statistics from both countries show, in August this year are very low over 2013, also direction. This is the kind of stability the industry. The most interesting data set, and one of the most values of production and sales. The run-up of was clearly enough to drive overall values high year, with most expectations of improved but US housing starts will continue to tick up and sales alike can expect to push prices higher. Export volumes to China, meanwhile, remain

**While VOLUMES of LUMBER MANUFACTURED at Canadian sawmills in the first seven months of 2014 remained essentially flat compared to the previous year, VALUE increased in Quebec and Alberta:**

There was a 0.4% increase in VOLUMES of lumber produced in Quebec from Jan-July 2014 compared to last year, while British Columbia and Alberta each dropped by 1.5%.

For Jan-Aug VALUES of lumber manufactured in Quebec and Alberta rose by 14.4% and 4.7% respectively this year compared to 2013. BC values dropped by 0.2%. US consumption of North American solid wood products is driving prices higher.

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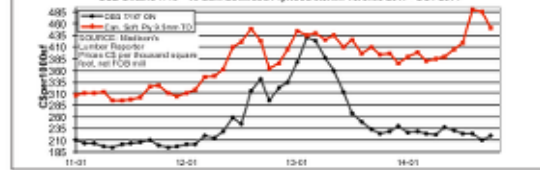
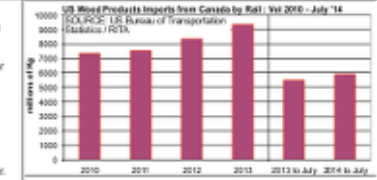


**US WOOD VOLUMES on rail cars from Canada, JAN - JULY 2014, increased compared to the previous year while Canada's total rail car shipments of lumber fell:**

There was a 7.3% rise in VOLUMES of US WOOD products on rail cars from Canada in Jan-Aug 2014 compared to the previous year.

There was a 4.6% drop in Canadian LUMBER rail car VOLUMES in Jan-Aug 2014 compared to the previous year.

Rail car loadings, as well as truck and vessel loads, are an excellent real-time forward indicator of how much lumber is moving in North America.



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# 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	345	350	-5	360	-5	380	-35
WSPF KD R/L 2x6	362	366	-4	365	-3	354	+8
WSPF KD R/L 2x8	358	362	-4	366	-8	344	+14
WSPF KD R/L 2x10	370	374	-4	370	0	450	-80
WSPF KD PET 2x4 Stud	350	350	0	350	0	315	+35
WSPF KD PET 2x6 Stud	380	380	0	375	+5	300	+80
Douglas Fir Green R/L 2x4	315	315	0	328	-13	330	-15
Douglas Fir Green R/L 2x10	413	430	-17	405	+8	510	-97
ESPF KD 2x4 8ft Stud	420	420	0	425	-5	380	+40
OSB Ontario 7/16" (CDN\$)	225	230	-5	212	+13	223	+2
CSplywood Toronto 3/8" (CDN\$)	462	462	0	434	+28	363	+99

## Madison's Weekly Lumber News

### Canada IPPI and RMPI

CONT'D FROM PG 2 Moderating the decrease in the IPPI were higher prices for motorized and recreational vehicles, up 0.6 per cent, said StatsCan Friday.

The IPPI rose 2.5 per cent during the 12-month period ending in September, following a 2.6 per cent gain in August.

The 1.8 decrease in RMPI in September following a 2.2 per cent decrease in August. It was the third consecutive monthly decrease. Of the six major commodity groups, four were down, one was up and one was unchanged.

Crude energy products, down 1.9 per cent, contributed the most to the decline of the RMPI in September, largely as a result of lower prices for conventional crude oil, down 1.8 per cent. This was the third straight monthly decline for crude energy products.

The RMPI decreased 0.9 per cent in the 12-month period ending in September, after declining 0.6 per cent in August.

### Fires, Sawmills

CONT'D FROM PG 2 The fire at Whonnock cedar mill in Maple Ridge, BC, engulfed the older half of the main building, including all the machinery required in receiving and manufacturing logs into shakes and shingles, said the Maple Ridge-Pitt Meadows Times. All the wood in the building was burned, leaving them to sort through mounds of twisted and tangled metal.

As firefighters arrived to the Griffin sawmill building at Hudson Falls, NY, they found a fully involved structure and difficult access to it, according to the Post Star. Hudson Falls Police knocked down a fence to get in. Also, firefighters were not able to attack from the back of the structure because the back was so narrow against the canal.

The roughly 250 feet by 40 feet wooden pole structure with a steel roof was located among several buildings on the property and next to several trees in the back along the canal. At one point the roof collapsed.

### Southern Pine Exports, USA

CONT'D FROM PG 2 Softwood lumber imports to the US during August were just over one billion board feet (Bbf), up 16 per cent from the volume imported during August of 2013, said the Southern Forest Products Association. Year-to-date softwood imports are up 9 per cent when compared with last year.

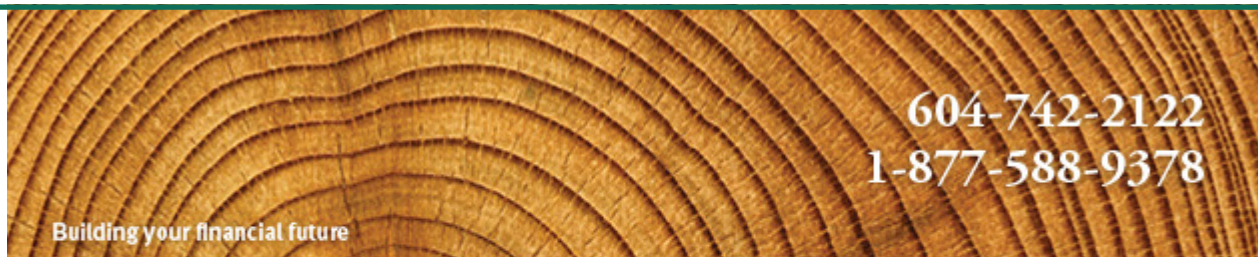
As usual, Canada shipped the great majority into the US during August.

### Calendar

#### November 2014

Wood Pellet Association AGM  
November 17 - 19 - Vancouver, BC  
<http://www.pellet.org/wpac-agm-agenda>

NAWLA Traders Market 2014  
November 12 - 14 - Chicago, IL  
<http://www.nawla.org/events/2014-traders-market/>



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# New BC Forest Licences

## Innovative, Flexible Residuals Licence

This week the British Columbia Ministry of Forests, Lands and Natural Resource Operations announced the creation a new type of forest licence that allows emerging, innovative forestry companies to more effectively respond to fluctuations in the supply of wood fibre. These licences will allow secondary manufacturers, such as pellet producers, to apply for supplemental forest licenses when they can't get enough residual waste from their usual suppliers.

The new Supplemental Forest Licence allows companies to harvest wood only when traditional, business-to-business fibre supplies are reduced. This helps ensure that licence holders - bioenergy companies, pellet producers - have ongoing access to the fibre supply they need to operate.

by Kéta Kosman

The new licence also allows the Province to include conditions in licences that encourage the harvesting of less marketable and harder to access wood, helping to make greater use of the existing allowable annual cut.

BC forest minister Steve Thomson explained to the Vancouver Sun Tuesday applications would be approved upon proving demand and the availability of timber in the area that the applicant would need it. Timber for such a license would be allocated within a region's annual allowable harvest from low-grade tree stands deemed uneconomic for lumber production.

The Legislation has been passed over the years, and last week details of the regulations were worked out in the BC legislature.

These forest licences under the Forests Act, five-to-15 year non-replaceable, are a new variant to previous and existing licences.

Next week the Ministry will publish the final policy.

A preliminary document, obtained by Madison's Thursday, details that "annual rent for a SFL is \$0.25 per cubic metre of Annual Allowable Cut

(AAC). Annual rent will be payable on the issuance of the licence. Note: Annual rent for a restricted forest licence is \$0.37 per m3 of AAC".

Doug Stewart, Director, Forest Tenures Branch, FLNRO, explained to Madison's Thursday in a phone interview that this is a new licences are derived — in part — from the old 'pulp wood agreements' (which were also non-replaceable) under the Forest Revitalization Plan.

"These new licences are intended for companies that rely on business-to-business [relationships] for timber supply," said Stewart to Madison's.

The supplemental licences will specify volume, time frame, and timber profile.

Once issued, a restricted forest licence holder has the same basic harvesting rights as any other non-replaceable forest licence holder. However, a supplemental forest licence holder's harvesting rights are not activated until "need" has been assessed and approved by the Ministry. In deciding whether to advertise a supplemental or a restricted forest licence, ministry staff should first determine if the target timber processing facility audience will require a continual supply of additional volume on an annual basis or whether there is only a supplemental need for volume from time to time.

Example calculation of fibre supply and time frame:

- Supplemental Forest Licence AAC = 50,000 cubic metres
- Term = 5 years
- Maximum to be harvested under the licence = 250,000 cubic metres
- Ministry confirms by way of a letter the licensee's "need" is 20,000 cubic metres in which they can harvest this volume anytime in the next 3 years.

The licensee then submits a cutting permit (CP) under the following potential scenarios:

- a. CP for 30,000 cubic metres
- b. CP for 20,000 cubic metres
- c. CP for 20,000 cubic metres and then another CP for 15,000 cubic metres.

The Ministry must then determine the best course of action associated with the above scenarios.

Stewart explained that the Minister of Forests will advertise opportunities and make them available for competition. These advertisements will be restricted to specific types of operators or geographic areas. Bidders must "hold or intend to hold a pellet plant or OSB mill," said Stewart. "And provide rationale for why they couldn't get sufficient volume attached through business-to-business."

When asked about a timeline for roll-out of these new licences, or in which geographic areas they are likely to be first implemented, Stewart said it's too early to know that yet.

"There is a lot of industry demand," explained Stewart. "The last thing we want to do is put more timber supply on already constrained land. We're going to take the time we need to do this right, where there is real demand."

Wood Pellet Association of Canada (WPAC) executive director Gordon Murray detailed to the Vancouver Sun that the [BC pellet] industry welcomes the change, which he believes will wind up being as much of a tool to gain leverage in securing longer-term contracts to buy wood waste from sawmills as it is a way to access timber directly. Murray expects that the bigger forest-license holders will be more cooperative in signing longer-term fibre deals, giving pellet producers access to the scraps from their harvesting that often wind up being burned, rather than having pellet producers taking up timber allocations.

"We're trying to make something out of everybody's leftovers," Murray said to the Sun. "The barrier to our industry growing is having some secure access to low-grade timber."

In a phone interview with Madison's also Thursday, Murray said, "This is a good start, a good gesture, and an acknowledgment of the hard work we have been doing."

"The major forest companies in BC are still burning post-harvest forest residuals. This kind of waste shouldn't be allowed. WPAC wants more secure access to that fibre. The major forest companies want fibre security to build their sawmills, as do pellet manufacturers to build their plants. It is not competition for the same wood, pellet producers are not interested in sawlog grade timber."