

# MADISON'S LUMBER REPORTER

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## News & Updates

### US Sues Two Quebec Lumber Producers

The United States sued two Canadian lumber companies in the U.S. Court of International Trade Monday, claiming they misclassified over US\$3.8 million worth of softwood imports as hardwood in order to avoid paying more than US\$675,000 in duties, according to Law360 Tuesday.

In its complaint against Scierie Nord-Sud and the now-defunct Les Produits Forestiers Forexam, two companies owned by Quebec-based businessperson Claude Roy, the government accused Roy of making misleading or false statements to import US\$3,871,265 worth of softwood lumber into the U.S. as hardwood, thus avoiding US\$263,395.25 in anti-dumping duties and US\$413,908.70 in countervailing duties.

According to the United States' complaint, between May 2002 and August 2003, Forexam brought 165 different imports of softwood lumber into the United States, which it miscategorized as hardwood, thus avoiding payment duties.

When the U.S. Customs and Border Protection discovered the violations, it contacted two of Forexam's U.S. consignees, who confirmed that they had ordered and invoiced for softwood lumber from Forexam. It then interviewed Roy.

The government seeks damages in the amount of US\$1,548,506 under a gross negligence theory, equaling 40 per cent of the imports it says were brought in with gross negligence, or, alternatively, US\$774,253 under a negligence theory, equaling 40 per cent of the imports it says were brought in negligently.

### Japan Housing Starts : Oct

October housing starts in Japan jumped by 4.3 per cent over September but were 12.3 per cent less than October last year, at 79,171 units, according to the Japan Lumber Reports Friday.

On a seasonally adjusted basis Japan's housing starts were 904,000 units, a 2.7 per cent increase over one year ago. CONT'D PAGE 7

### North America Softwood Lumber Production : Sept

Production of softwood lumber in the US increased by 4.9 per cent for the first nine months of 2014 compared to last year, to 23,718 million board feet, said the Western Wood Products Association Lumber Track Friday.

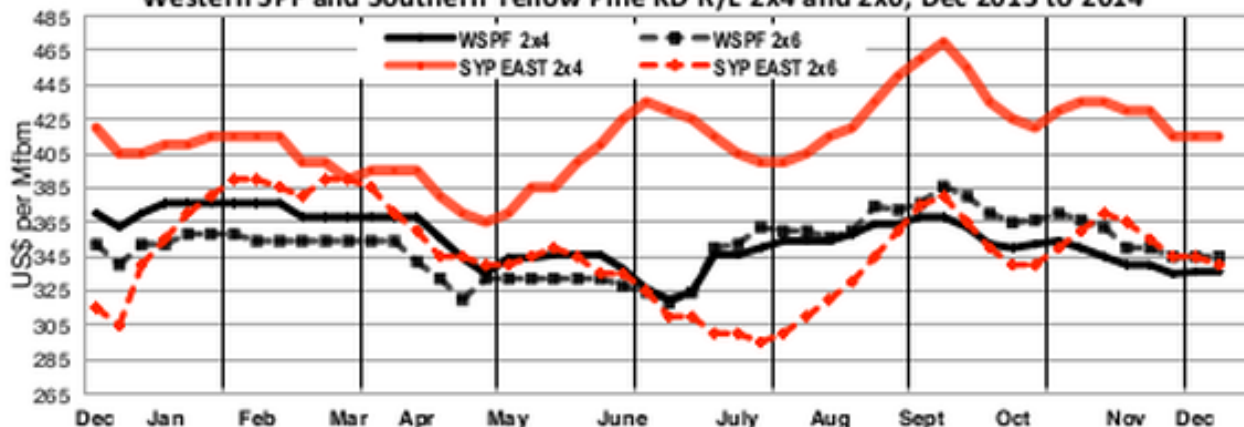
Softwood lumber shipments across America also increased, by 5.1 per cent, to 23,772 million board feet from January to September compared to the same time in 2013.

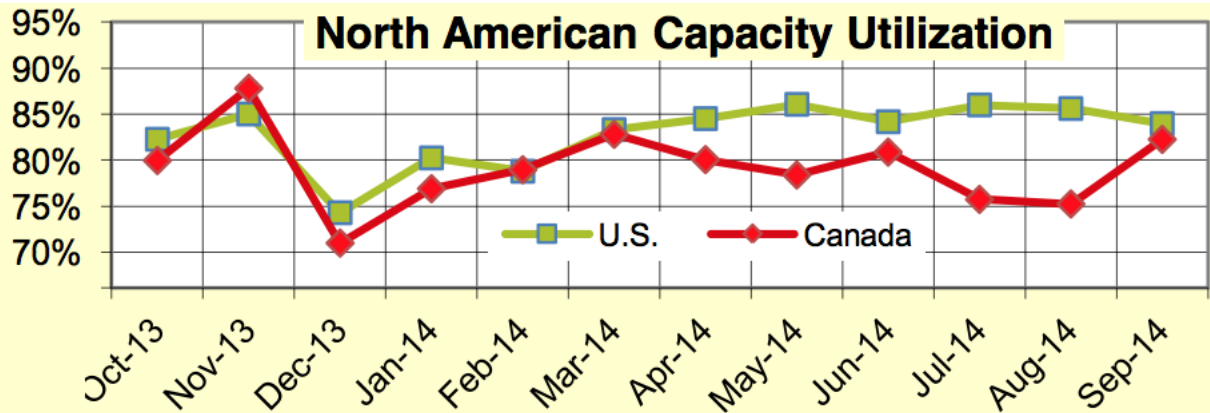
US inventories, meanwhile, dropped by 0.6 per cent in September compared to the same month in 2013, from 2,939 million board feet last year to 2,922 million board feet. CONT'D PAGE 7

### North American Railroad Shipper Survey : 2015

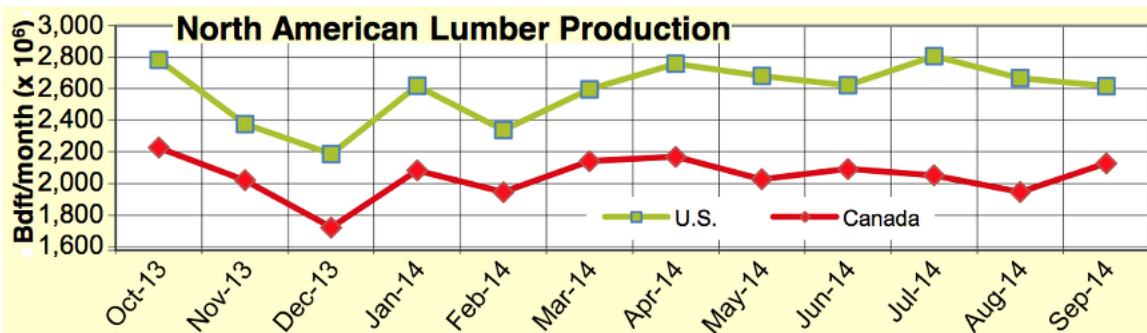
It will be no surprise to the forest products industry in North America that respondents to this year's railroad shipper survey were overwhelmingly negative on rail service and rail car supply. CONT'D PAGE 9

Western SPF and Southern Yellow Pine KD R/L 2x4 and 2x6, Dec 2013 to 2014



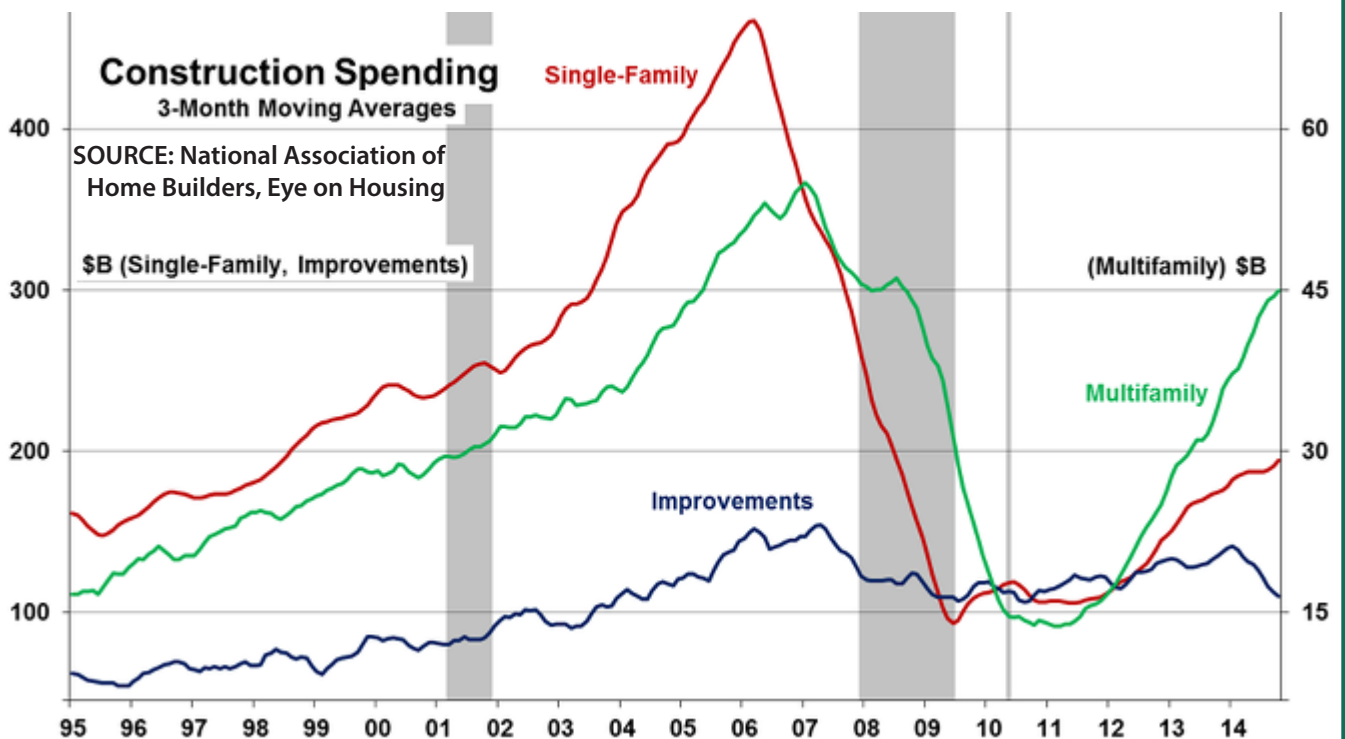


Sources: FEA, LLC: Softwood Sawmills in the United States and Canada, WWPA



Source: Southern Forest Products Association, U.S. Census Bureau, Council of Forest Industries-CAN, WWPA

SOURCE: Western Wood Products Association, Lumber Track



# Madison's Weekly Lumber Key Prices Table

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	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	336	336	0	340	-4	370	-34
WSPF KD R/L 2x6	345	345	0	350	-5	352	-7
WSPF KD R/L 2x8	342	342	0	350	-8	336	+6
WSPF KD R/L 2x10	360	360	0	375	-15	438	-78
WSPF KD PET 2x4 Stud	355	355	0	355	0	310	+45
WSPF KD PET 2x6 Stud	380	380	0	380	0	305	+75
Douglas Fir Green R/L 2x4	318	315	+3	308	+10	325	-7
Douglas Fir Green R/L 2x10	405	402	+3	415	-10	500	-95
ESPF KD 2x4 8ft Stud	405	405	0	420	-15	375	+30
OSB Ontario 7/16" (CDN\$)	200	215	-15	230	-30	230	-30
CSPLYwood Toronto 3/8" (CDN\$)	417	425	-8	462	-45	386	+31

## Madison's Weekly Lumber News

### Housing Starts, Japan

CONT'D FROM PG 2 The recent decline in Japan's housing starts seems to be easing, said the Ministry of Land, Infrastructure and Transport, according to Japan Lumber Reports.

New units built for owners dropped by 28.6 per cent in October compared to last year, to 24,245 units, likely due to the 8 per cent increase in consumption tax which came into effect this April.

Home builders in Japan say that the inventories of units built for sale, new building of which maintained above 20,000 units in October, have been declining since last summer but high property costs in populated regions continues to hamper further development.

### North America Lumber Production, Capacity

CONT'D FROM PG 2 In Canada, softwood lumber production remained almost level for the first nine months of 2014, at 18,581 million board feet, compared to last year said the WWPA. Inventories at Canadian mills, meanwhile, increased by 7.9 per cent from January to September compared to the same time last year, to 2,726 million board feet from 2,526 million board feet. This increase was driven mostly by producers in the British Columbia region.

Capacity at American sawmills improved to 84 per cent for the first nine months of this year compared to the same time in 2013 when it was 80 per cent. In Canada, sawmill capacity remained level at 79 per cent from January to September 2014 compared to last year.

### US Housing Construction Spending Post Gains

The North American Association of Home Builders' analysis of total private residential construction spending Census data finds that all three components increased in October. Single-family spending increased 1.8 per cent, multifamily spending increased 1 per cent, and home improvement spending increased 0.6 per cent from revised September estimates.

Total private residential construction spending (all three components combined) increased from the revised September estimate to a seasonally adjusted annual rate of US\$353.8 billion. On a 3-month moving average basis, from October 2013, the annualized pace of total private residential construction spending increased 1.3 per cent.

The growth in annualized private residential construction spending matches market sentiment, which has been solidly positive. The November NAHB/Wells Fargo Housing Market Index, for example, rose four points to a level of 58 for the 5th consecutive month above 50. Additionally, NAHB's Multifamily Production Index (MPI) has had 11 consecutive quarters above 50.

The home improvement spending component of residential construction spending has experienced weakness in 2014 due to year-over-year declines in the rate of existing home sales and the expiration of an energy-efficient retrofit tax credit. However, recent gains in existing home sales and rising remodeler confidence point to growth in 2015. The Remodeling Market Index (RMI) rose one point to 57 in the third

quarter of 2014, the sixth consecutive 3-month period the index has been over 50.

Total (private and public) nonresidential construction also increased in October. The annualized pace of spending on commercial, transportation, power, education and other nonresidential projects was up 1 per cent from September and 4.3 per cent from October of 2013.

### Sawmill Curtailments, Closures

Reduced demand for dimensional lumber in China has resulted in Western Forest Products closing its Ladysmith, BC, Sawmill effective Friday.

According to company spokesperson Amy Spencer, the mill will be shut down temporarily.

The mill, which has 85 employees, is expected to continue to run some maintenance and shipping shifts, so it's unclear how many employees will be affected.

Western's other mill in Ladysmith, the Saltair mill, is not affected by the closure.

As well, the California Redwood Company announced Thursday it's closing the Korbel, CA, sawmill in February affecting 106 workers.

The company, a subsidiary of Green Diamond Resources, has been trying to sell the mill since mid-October. In a news release, California Redwood President Douglas Reed said only that there is no purchaser at this time.

The company has been cutting back operations since May. Reed said employees affected will be provided employment counseling and other resources.

# North American Railroad Shipper Survey

2015

RBC Dominion Securities this week released its RBC Compass, 2015 North American Railroad Shipper Survey.

The survey taps into the views of the Class 1 railroads' top customers, with key findings focusing on shippers' expectations for 2015 regarding: the direction of rail rates; volume growth; and service performance.

This year, the survey also solicited shippers' views on recent changes to Canadian rail regulation as well as anticipated market shifts between Canadian National Railway (CNR) and Canadian Pacific Railway (CP), said analyst Walter Spracklin.

The main takeaways from the survey are as follows:

1) Pricing gains to accelerate. Survey findings reflect a strong upward shift in pricing expectations as the share of respondents forecasting rate increases of 4 to 6 per cent more than doubled to 53 per cent (from 25 per cent last year).

2) Volume pipeline continues to build. Shippers' volume expectations once again converged on flat to modest growth, between 1 to 5 per cent; "however, the survey notes a positive shift in respondents' forecasts as the share of participants anticipating modest growth increased to 51 per cent (from 40 per cent last year)."

Based on discussions with shippers, "we believe these findings signal greater business confidence due to favourable macro trends notwithstanding recent oil price volatility. Survey findings on volume reinforce our growth outlook for the Class 1 railroads as we are assuming volume increases of 1.4 to 5.1 per cent across the group in 2015. The positive shift in shippers' volume expectations points to strengthening demand and we see potential upside to the consensus outlook as shippers' forecasts historically have reflected a healthy dose of conservatism," Spracklin said.

3) Shipper sentiment sours on North American rail service.

Survey findings indicate that shippers' view of rail service has deteriorated in 2014 as negative ratings ("Fair" or "Poor") surged to 77 per cent of all responses, up from 32 per cent last year.

While the negative service trend is significant, the decline in customer satisfaction is being viewed as a temporary sentiment shift driven by unforeseen factors that were out of carriers' control (largely weather-related).

Notwithstanding the temporary nature of the negative service trend, and the positive trend in share values, the survey indicates that rail players should concentrate on service levels in the year ahead.

"We consider the decline in customer satisfaction to be a temporary sentiment shift caused by unforeseen factors that were largely out of carriers' control," Spracklin wrote.

Spracklin said the poor grade shouldn't hurt the railways' stock price due to the strong price and volume outlook by shippers for 2015.

Canadian National Railway received the most positive ratings of the six large railways in Canada and the U.S. The next best performer was Union Pacific Railway.

Rankings for the other four, including Canadian Pacific, were not given.

Montreal-based CN benefited from relatively strong operating metrics such as train speeds and dwell time in terminals to beat rivals. Still, the proportion of shippers who gave CN just a fair or a poor rating doubled to 63 per cent this year. Just seven per cent rated CN's service as excellent, down from 15 per cent last year and 22 per cent in 2013.

Criticism focused on capacity constraints, railcar shortages, and transit time issues.

"Service has been terrible, but CN Rail has been the best of the group," said one shipper, who was not named.

Shippers want an ongoing review of the Canada Transportation Act to recommend holding the railways accountable for service by imposing financial penalties for poor performance.

Service was the leading factor for shippers in deciding which carrier to use this year, with freight rates not playing a prominent role, the survey said. Service and price were equally important to shippers who shifted their business between the two Canadian railways last year.

About 80 per cent also expect trucking prices to increase by up to six per cent next year, compared with last year's forecast for flat or modest rate increases.

BMO Capital Markets analyst Fadi Chamoun said rail demand to move heavy crude from Western Canada is unlikely to be impacted by the recent

decline in crude prices.

"With limited pipeline capacity available until 2018 or later, ... (the) projected production ramp-up over the next two years is expected to be shipped by railroads," he wrote in a report.

Chamoun said frack sand is most vulnerable if lower prices curtail drilling. But reduced demand for crude or frac sand shipments would help the railways restore overall service levels.

2014

By way of comparison, the 2014 North American Railroad Shipper Survey last year noted that key findings of the study focus on shippers' expectations for 2014 regarding: the direction of rail rates; volume growth; and service performance.

In addition, that year a set of questions were added to get shippers' perspective on the impact of recent management changes at Canadian National Railway and Canadian Pacific Railway.

As in previous years, that survey focused on rail customers' views on recent trends and expectations for 2014 related to the direction of rail rates (i.e. core pricing excluding fuel surcharges); anticipated levels of business activity (i.e. volume growth); the potential to transfer freight between modes (truck and rail); the level of service provided by the Class 1 railroads; and the impact of the current regulatory environment.

The 2014 survey had also solicited Canadian shippers' views on the provisions of the Fair Rail Freight Service Act and whether they experienced any change in service levels from CNR or CP following the ratification of this Act in June.

In terms of key takeaways, the 2014 survey found that most shippers had expected a slowdown in the pace of rail rate increases. A strong majority of respondents, 71 per cent expected rail rates to increase in 2014 with the largest group, 42 per cent, forecasting 1-3 per cent growth. For the second consecutive year, shippers' outlook on pricing growth had moderated as the proportion of respondents that expected rates to rise in excess of 4 per cent had more than halved over the previous two years, from 65 per cent for 2012 to 28 per cent for 2014.

Although pricing gains appeared to be slowing, it was important to note that very few respondents, 3 per cent, expected rates to actually decline the next year, which was consistent with previous survey results.