

MADISON'S LUMBER REPORTER

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News & Updates

US Housing Starts : Dec 2014

Housing starts in the US rose 4.4 per cent in December from a month earlier to an annual rate of 1.089 million, the Commerce Department said Wednesday. Starts on single-family homes, which exclude apartments and reflect the bulk of the market, rose to a rate of 728,000, the highest level since March 2008.

Building permits for single-family homes climbed 4.5 per cent, the biggest increase since September 2012. Permits for all private housing, however, fell 1.9 per cent to an annual rate of 1.032 million amid a decline in demand for apartment construction. **CONT'D PAGE 6**

US Lumber Imports/Exports : Nov 2014

Values of US imports of sawmill products from Canada January to November 2014 improved 8.9 per cent, to US\$4,939 million (CIF value), compared to the value at the same time last year, US\$4498 million, according to the latest US Foreign Census data. **CONT'D PAGE 8**

Quantitative Easing, Japan

Japan's central bank expanded its quantitative easing program in October, swelling Japan's monetary base by around 80 trillion yen (US\$682.9 billion) per annum. The BOJ was expected to cut its consumer price index forecasts to 1.5 per cent when it wraps up its two-day meeting Wednesday, according to local media reports. **CONT'D PAGE 7**

Canada Manufacturing Survey : Nov 2014

Canadian manufacturing sales declined 1.4 per cent in November, to \$51.5 billion, reflecting lower sales of motor vehicles, chemicals, primary metals, and food, said Statistics Canada Tuesday. This was the third decrease in four months. Year-to-date sales in 2014, however, were 5.2 per cent higher than those in the first 11 months of 2013.

Sales declined in 16 of 21 industries, representing more than 80 per cent of total Canadian manufacturing.

The inventory-to-sales ratio rose to 1.38 in November from 1.36 in October.

CONT'D PAGE 8

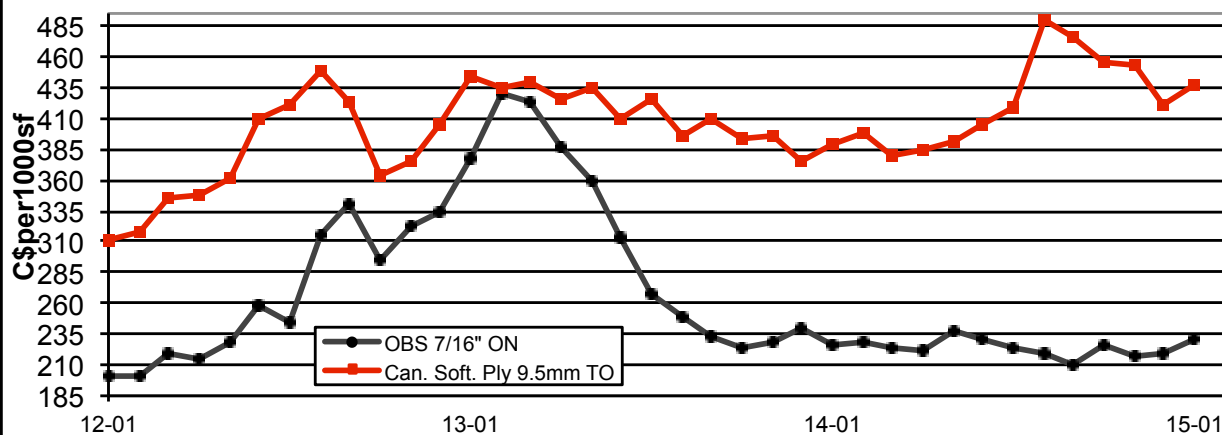
CP Rail Reports

Canadian Pacific Railway, Canada's second-largest railroad operator, reported a higher-than-expected quarterly profit Thursday as freight volumes jumped and operating efficiency improved. CP Rail's operating ratio - or operating costs as a percentage of revenue - improved to 59.8 per cent in 4Q 2014, from 92.9 per cent a year earlier. **CONT'D PAGE 7**

Coastal Forest Products Industry : Canada

This week was held the 72nd Annual Truck Logger Association AGM in Victoria, BC. At the same time, operators in British Columbia's coastal forest products industry were making major announcements, with attendant movements in company share valuation. **CONT'D PAGE 9**

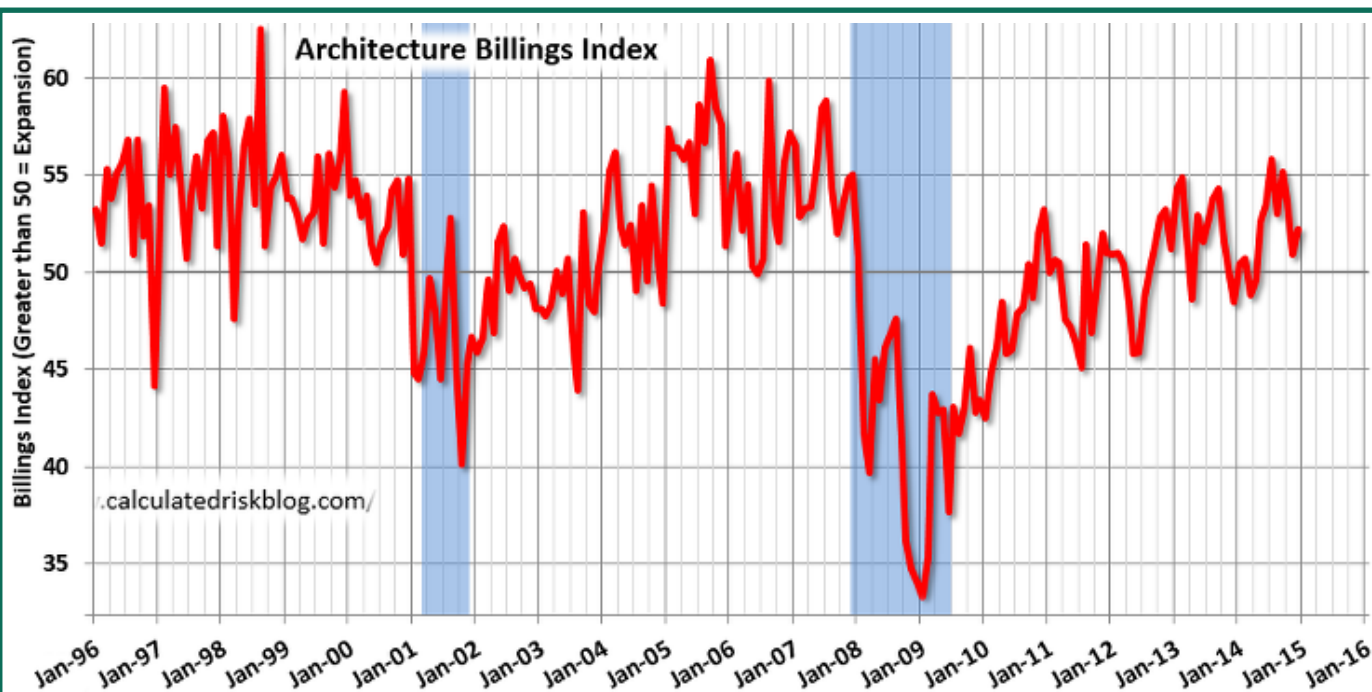
OSB Ontario 7/16" vs Can. Softwood Plywood 9.5mm Toronto 2012 - Jan 2015



US Housing Starts and Permits : December 2014

The increase in single-family starts offset a 0.8 per cent fall in groundbreaking for the volatile multi-family homes segment. For all of 2014, groundbreaking increased 8.8 per cent to 1.01 million units, the highest since 2007.

Homebuilder shares were trading higher on the data, helping the housing index to outperform the broader US stock market. DR Horton, the largest homebuilder, rose 0.65 per cent, while Lennar Corp gained 1.03 per cent and Pulte Group was up 0.19 per cent.





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	324	334	-10	336	-12	376	-52
WSPF KD R/L 2x6	334	344	-10	345	-11	358	-24
WSPF KD R/L 2x8	328	338	-10	342	-14	346	-18
WSPF KD R/L 2x10	344	350	-6	360	-16	405	-61
WSPF KD PET 2x4 Stud	340	345	-5	355	-15	340	0
WSPF KD PET 2x6 Stud	355	360	-5	380	-25	305	+50
Douglas Fir Green R/L 2x4	305	305	0	318	-13	405	-100
Douglas Fir Green R/L 2x10	388	390	-2	405	-17	500	-112
ESPF KD 2x4 8ft Stud	395	405	-10	405	-10	385	+10
OSB Ontario 7/16" (CDN\$)	210	225	-15	200	+10	225	-15
CSplywood Toronto 3/8" (CDN\$)	417	435	-18	417	0	394	+23

Madison's Weekly Lumber News

Japan, QE

CONT'D FROM PG 2 The latest figures from November show that the targeted core consumer price index inflation, which strips out volatile items like food, is just 0.7 per cent, having plunged since last April. It's been dragged down by oil prices which have fallen by about 50 per cent since their peak in the summer. The drop in CPI led to the BOJ pledging to inject more cash to the tune of more than \$700 billion yen a year to meet its inflation target and end 15 years of deflation, or price falls.

Japan's government announced emergency economic stimulus at the end of December in the amount of 3.5 trillion yen, according to *Japan Lumber Reports* Friday.

Included in the measures is stimulative for housing, specifically in energy savings and lowered mortgage rates.

Quarterly Results, CP Rail

CONT'D FROM PG 2 CP Rail's net income rose to \$451 million, or \$2.63 per share, from \$82 million,

or 47 cents per share, a year earlier, when the company had taken an impairment charge of \$435 million.

Excluding items, CP Rail earned C\$2.68 per share.

Europe Hardwood Production, 2014

Production of hardwood lumber in the 33 countries which make up the UNECE sub-region Europe will probably have increased in 2014 to 12.75 million cubic metres, said EUWID Thursday.

This emerged from an evaluation of production estimates on the occasion of the 72nd meeting of the ECE Committee on Forests and the Forest Industry which was held from 18 to 21 November 2014 in Kazan, Russia. That order of volume for European hardwood production had already been forecast a year ago.

For 2015, hardwood-lumber production in Europe is expected to reach 12.79 million cubic metres. However, hardwood-lumber production in the individual countries in the UNECE

sub-region of Europe in 2014 showed differing trends, at least according to figures available for the period up to November 2014. Production in Rumania had declined to 1.70 million cubic metres. For 2015, the production forecast for Rumania is comparable to the figure for 2014, at 1.70 million cubic metres of hardwood lumber. But in spite of that, Rumania remains the biggest European producer of hardwood lumber, with the exception of Turkey, not only for 2014 but also for 2015. In contrast to the situation in Rumania, production in France in 2014 will probably have increased to 1.40 million cubic metres. An increase is also expected in 2015, with further growth to 1.45 million cubic metres, said EUWID.

Calendar

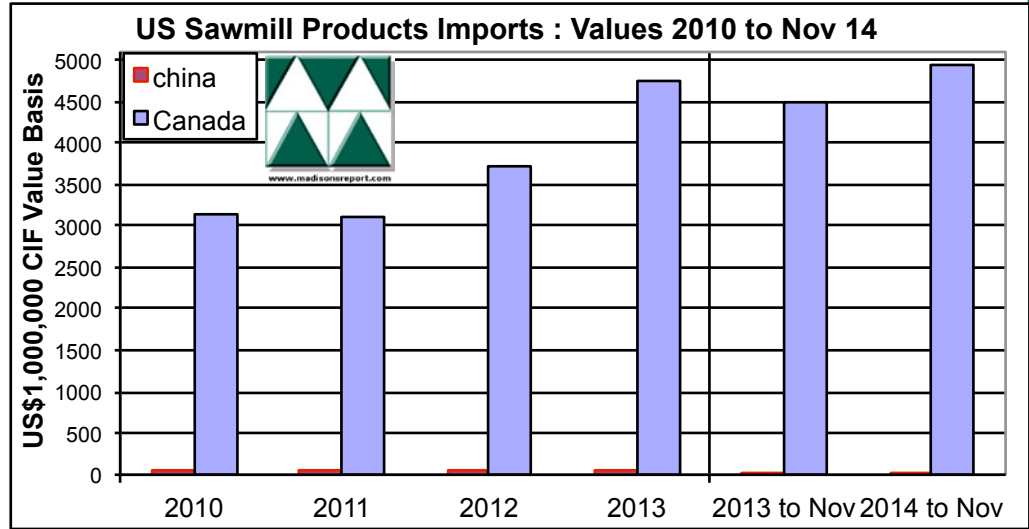
February 2015

UGA Center for Forest Business
Timberland Investment Conference
 February 18th to 20th – Amelia Island, FL
<http://www.ugacfb.com/timberlandaset/>



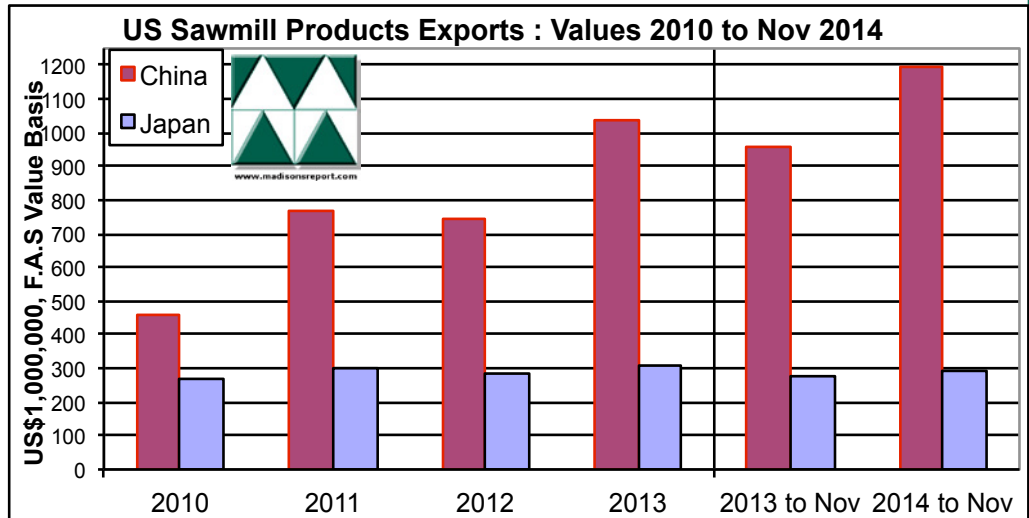
US Softwood Lumber Imports and Exports : November 2014

Values of US imports of sawmill products from Canada January to November 2014 improved 8.9 per cent, to US\$4,939 million (CIF value), compared to values for the same time last year, US\$4498 million, according to the latest US Foreign Census data.



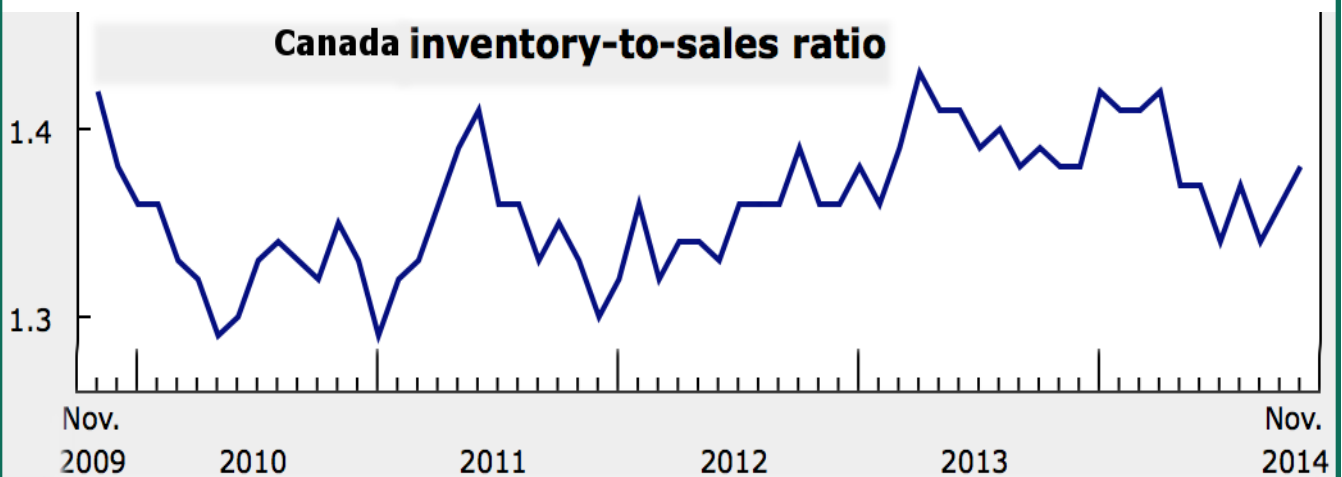
SOURCE: US Census

Values of US exports of sawmill products to China January to November 2014 well surpassed full-year 2013 levels. At US\$1,199 million (F.A.S. value), exports improved 20.1 per cent compared to values for the same time period last year, US\$958.7 million.



Exports to China were US\$1,034 million for full-year 2013.

Canada inventory-to-sales ratio



SOURCE: US Census

Coastal Forestry

British Columbia

Just as the 72nd Annual Truck Logger AGM kicks off this week in Victoria, BC, bringing west coast Canadian forestry stakeholders, operators, and contractors together, major announcements are coming out of BC's coastal forest products manufacturers. Most notable among these is Western Forest Products, a major employer on Vancouver Island and the mainland coast.

Western Forest Products will reopen its Ladysmith, BC, mill on Monday, the company announced January 16, bringing back all 85 workers affected by the closing. That sawmill shut down in the first week of December due to weakness in the Asian market.

"We want to keep the mill running for as long as we can. We have an order file for two months but more are coming after that," said company Director of Communications Amy Spencer to the Cowichan Valley Citizen Wednesday.

Western's Saltair mill, which is also in Ladysmith, was not affected.

Western permanently closed its sawmill in downtown Nanaimo, BC, last year, while it invested \$10 million to modernize its Duke Point mill, where it will add another shift.

The 62 employees who had been working at the Nanaimo mill were to be offered jobs at other mills, including Duke Point.

The idea behind the consolidation was to increase production at both the company's Duke Point and Saltair sawmills while reducing costs.

In addition, Western was in the final weeks of negotiation Thursday to close a \$25.5 million deal with Woodfibre LNG for the 2013 purchase agree-

ment for the former Woodfibre pulp mill site on the Howe Sound at Squamish, BC, which closed in 2006. That sale should be finalized by mid-February.

Also this week, Western announced the appointment of J. Barrie Shineton to its Board of Directors Board. Shineton is the past President and CEO of Norbord, and currently serves as the Vice Chair at Norbord, and as a Director of Stella-Jones.

Western went ex-dividend at the end of last year, for its quarterly dividend of \$0.02, payable on December 19, 2014. It is interesting to note that January 15, shares of Western crossed below their 200 day moving average of \$2.34, changing hands as low as \$2.26 per share.

Despite seeing its shares gain almost 80 per cent in value over the last year, Western trades at only 9 times earnings.

Western Forest Products has a price-to-earning ratio (P/E) of 9.77 and on Thursday an earnings yield of 0.104.

Another company with operations on the BC coast, Vancouver, BC's Interfor, already this year has capitalized on recent plans and decisions.

In the second week of January Interfor priced a three million-share offering at \$20.10 each. The proceeds would be used to help fund the 2014 purchase of four sawmills in two different areas of the US, in acquisitions expected to close in 1Q.

At the time the \$20.10 price is about 8 per cent above the \$18.65 share closing price that day.

Almost immediately following the share offering, it was also announced

that underwriters RBC Capital Markets and Raymond James agreed to a bought deal at the offering rate, which is expected to close on January 27. If demand is sufficient then the two can sell an extra 300,000 shares.

At the time the shares were trading at \$20.77.

Under the terms of such offerings, those receipts will be converted to common shares (on a one-for-one basis) if and when the acquisition closes this quarter as expected. If the deal doesn't close by the end of April, the holders will get their money back plus some interest, according to the Financial Post January 7.

Interfor shares were trading at \$20.59 at market close Thursday.

There are three forestry companies among seven Canadian manufacturing stocks that have reported high capital expenditure (greater than \$10 million) and strong asset turnover ratio (greater than 1.0) during their latest reported quarter, said Small Cap Power Wednesday. Moreover these stocks are expected to report decent operating profit margins for 4Q 2014. During the past one month, the majority of the these stocks have registered price gains with daily average trading volumes in excess of 100,000.

As a comparison, iShares Global Timber & Forestry ETF shares closed Thursday at US\$53.80, close to the 52-week high of US\$54.32. The 52 week low was US\$46.69, and the dividend yield was 0.97 per cent. The ETF's P/E was 25.55 and dividend yield was 0.97 per cent.

For its part, on Thursday Interfor had a P/E of 23.21 and an earnings yield of 0.043.

SMALLCAPPPOWER			Market						
Company Name	Ticker	Exchange	Cap (C\$ Mn)	Last Price	Average Volume (1- Month)	Price Change (1-Month)	Capex for latest reported quarter (C\$ Mn)	Asset Turnover Ratio	Operating Profit Margin Q4'FY14E
Canfor Corp	CFP	TSX	3,515.7	25.97	498,432	-9.8%	63.5	1.2	11.7%
Cascades Inc	CAS	TSX	677.3	7.20	179,700	5.9%	43.0	1.0	4.0%
Interfor Corp	IFP	TSX	1,234.5	18.50	637,594	-12.9%	22.4	1.5	5.2%