

MADISON'S LUMBER REPORTER



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News & Updates

Madison's Forest Pulse 4Q 2014

The next issue of the quarterly *Madison's Forest Pulse* goes out to subscribers Monday. The data sets, January to November 2014, are shaping up very nicely to demonstrate the current situation with Canadian and US log and lumber sales and exports.

For more information please see Page 6.

Don't miss out on this vital and timely information! Subscribe today to stay completely up-to-date with the North American forest products industry.

Japan Log and Lumber Import Forecast : 2015

The Japan Foreign Timber General Supply & Demand Liaison Conference on December 24 announced the demand forecast for major imported timber for full-year 2015, says the *Japan Lumber Journal*. According to the report, 2015 demand for logs in Japan is forecasted to be 4,100,000 cubic metres, and demand for lumber is forecasted to be 6,211,000 metres. Adding logs and lumber together, total demand for imported wood material in 2015 is forecasted to be 10,311,000 cubic metres, a 3.7 per cent drop compared to the previous year. CONT'D PAGE 7

US Existing, New, & Pending Home Sales, Inventories

Completing an improved second half of 2014, existing home sales in the US increased 2.4 per cent in December, said the National Association of Realtors Monday. Existing home sales exceeded a 5 million sales pace for the sixth time in the past seven months, and were 3.5 per cent above the same period a year ago.

The pace of sales of newly built, single-family homes increased 11.6 per cent in December to a seasonally adjusted annual rate of 481,000 homes, according to the US Census Bureau Tuesday, the highest monthly sales rate since June of 2008.

The Pending Home Sales decreased 3.7 per cent in December, but was up 6.1 per cent from the same period a year ago. The Pending Home Sales Index reported by the National Association of Realtors Thursday, decreased to 100.7 in December, down from a downwardly revised 104.6 in November. CONT'D PAGE 8

Quarterly and Year-End Results

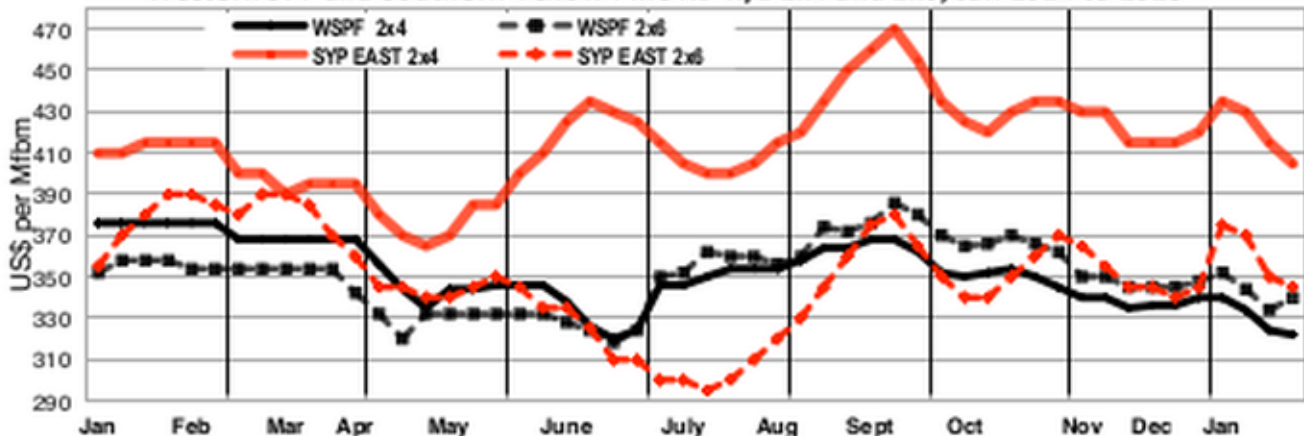
Norbord, Potlatch Corp, and Weyerhaeuser all reported financial results this week.

Norbord Wednesday reported adjusted EBITDA of \$90 million in 2014 compared to \$287 million in 2013, on 31 per cent lower North American benchmark OSB prices. In 4Q 2014, Norbord recorded adjusted EBITDA of \$15 million, unchanged from 3Q, and \$14 million lower than 4Q 2013. CONT'D PAGE 7

Multi- and Bi-Lateral Trade Relations

The long-negotiated Trans-Pacific Partnership, involving countries covering 40 per cent of the world economy, is getting closer to being finalized. Interested nations are in New York City this week to hammer out tricky details for the agriculture sector, with more final talks set for February. CONT'D PAGE 9

Western SPF and Southern Yellow Pine KD R/L 2x4 and 2x6, Jan 2014 to 2015



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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

Don't miss even one issue of this vital information!

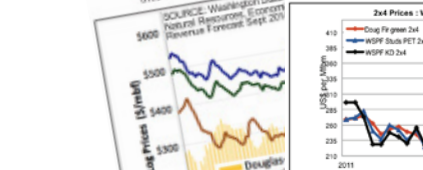
- foreshadows spot shortages, overages, and balance of supply with demand
- the latest on North American solid wood and paper companies
- presented in a compact six-page format every quarter

MADISON'S
3Q 2014 North America Timber Industry Analysis and Projections
By Rita Kuzman, Publisher and Editor, Madison's Lumber Reporter
November 1, 2014

OVERVIEW
Signs of optimism among North America's lumber and panel mills in September as sales volumes dropped and prices softened somewhat. In October however, as market fundamentals improved and the



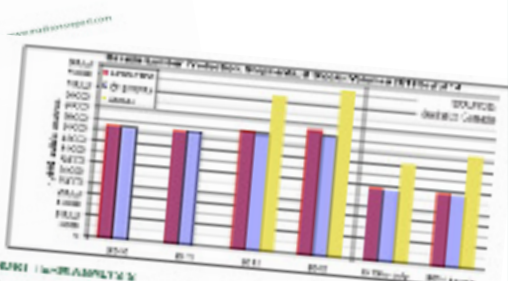
IMPORTANT DATA:
 • US LOG exports to China by VALUE are up 17% to US\$1.06 billion in 2014 over 2013
 • US SAWMILL products exports to China by VALUE: 2014 over 2013
 • US SAWMILL products imports from Canada by VALUE: Aug 2014 compared to 2013
 • Canadian LUMBER exports to US by VALUE are over last year



US WOOD EXPORTS
 mostly in the form of logs while Canada's exports are mostly in the form of lumber and panels. The VALUE of US exports (USDA) has increased by 17% compared to last year. The VALUE of Canadian exports to the US has increased by 4% in 2014 compared to the same year.

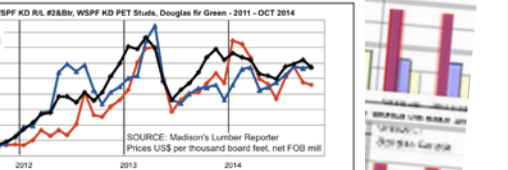
Canada Log Exports Jan-Aug '14:
 China +7.40%
 Japan +5.30%
 S Korea +6.80%
 USA -7.0%

It is interesting to note that the VALUE of both log and lumber exports from Canada to the US in the first eight months of this year.



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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	322	324	-2	340	-18	376	-54
WSPF KD R/L 2x6	330	334	-4	348	-18	358	-28
WSPF KD R/L 2x8	324	328	-4	336	-12	346	-22
WSPF KD R/L 2x10	340	344	-4	354	-14	410	-70
WSPF KD PET 2x4 Stud	330	340	-10	350	-20	340	-10
WSPF KD PET 2x6 Stud	345	355	-10	375	-30	305	+40
Douglas Fir Green R/L 2x4	308	305	+3	320	-12	405	-97
Douglas Fir Green R/L 2x10	380	388	-8	410	-30	495	-115
ESPF KD 2x4 8ft Stud	400	395	+5	405	-5	395	+5
OSB Ontario 7/16" (CDN\$)	220	210	+10	220	0	235	-15
CSplywood Toronto 3/8" (CDN\$)	438	417	+21	454	+21	398	+40

Madison's Weekly Lumber News

Forestry Quarterly Results

CONT'D FROM PG 2 Potlatch Wednesday reported net income of US\$20.1 million, or US\$0.49 per diluted share, on revenues of US\$146.2 million for 4Q 2014, compared to US\$13.7 million, or US\$0.34 per diluted share, on revenues of US\$140.0 million in 4Q 2013.

Net income for the full year of 2014 was US\$89.9 million, or US\$2.20 per diluted share, on revenues of US\$607 million compared to net income of US\$70.6 million, or US\$1.73 per diluted share, on revenues of US\$570.3 million in 2013.

Weyerhaeuser Friday reported 4Q 2014 net earnings of US\$166 million, or 31 US cents per diluted share, on net sales of US\$1.8 billion, compared with net earnings of US\$43 million, or 7 US cents per diluted share, on net sales of US\$1.8 billion for the same period last year.

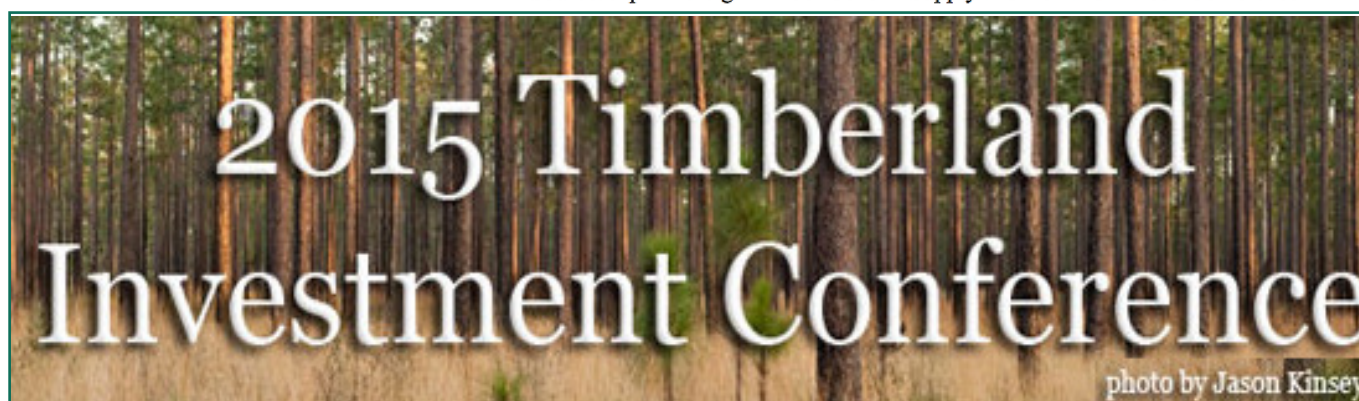
For full year 2014, Weyerhaeuser reported net earnings of US\$1.8 billion, or \$3.18 per diluted share, on net sales of \$7.4 billion, compared with net earnings of \$540 million, or 95 cents per diluted share, on net sales of \$7.3 billion for the same period last year.

Timber Imports 2015, Japan

SOURCE: Japan Lumber Journal

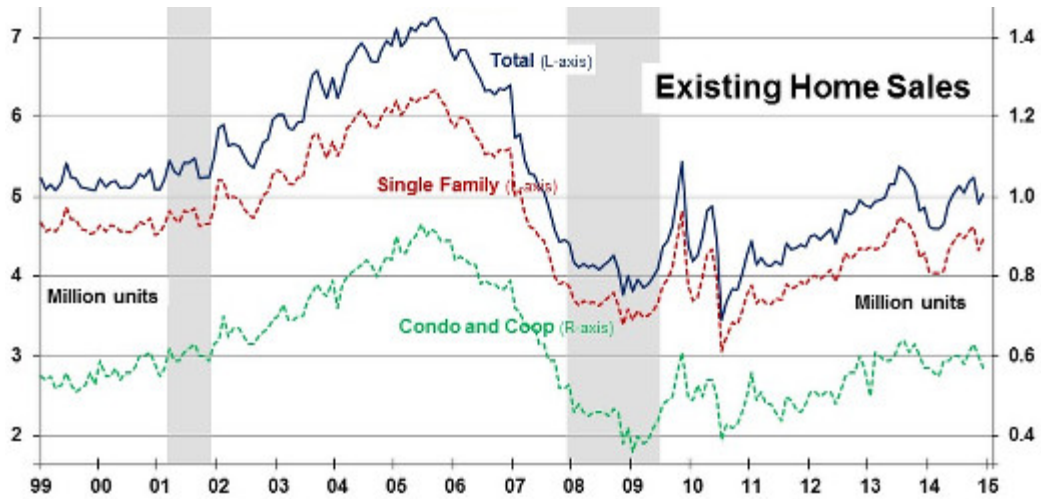
Japan's Demand Major Imported Timber	2014 Results (presumption)		2015 Estimates	
	y/y		y/y	
Logs	(1,000 cubic meters; %)			
<i>Southsea</i>	281	-7.7	290	3.2
<i>for Plywood</i>	207	-3.6	220	6.3
<i>for lumber</i>	74	-17.6	70	-5.4
<i>North American</i>	3,095	-8.9	3,102	0.2
<i>Russian</i>	214	2.9	200	-6.5
<i>New Zealand-Chilean</i>	526	-21.3	500	-4.9
<i>European</i>	9	17.4	8	-11.1
<i>Sub-total</i>	4,125	-10.1	4,100	-0.6
Lumber				
<i>Southsea</i>	583	-0.9	580	-0.5
<i>North American</i>	2,443	-13.9	2,316	-5.2
<i>Russian</i>	644	-14.2	600	-6.8
<i>New Zealand-Chilean</i>	335	16.7	315	-6.0
<i>European</i>	2,571	-19.7	2,400	-6.7
<i>Sub-total</i>	6,577	-14.2	6,211	-5.6
Total	10,702	-12.6	10,311	-3.7

Source: Japan Foreign Timber General Supply and Demand Liaison Conference

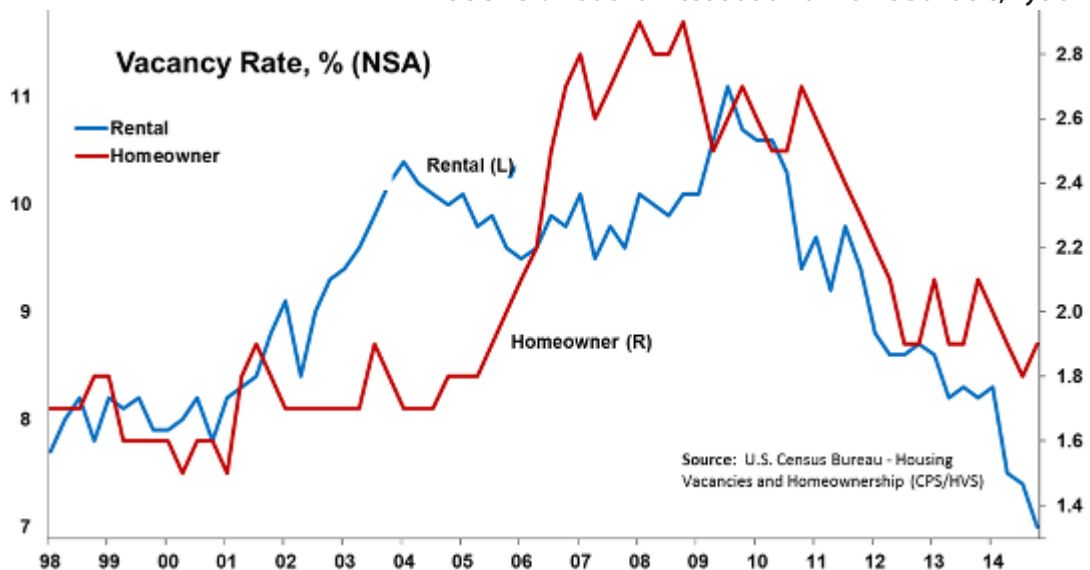


US Home Sales, Prices, Rentals : December 2014

The January 22 US house prices release by the Federal Housing Finance Agency shows that its House Price Index – Purchase Only, rose by 5.3 per cent on a 12-month seasonally adjusted basis in November 2014. This marks the 34th consecutive month of year-over-year growth. Over this period of more than two-and-a-half years, house prices have risen by 19 per cent and have now surpassed their October 2005 level.



SOURCE: National Association of Home Builders, Eye on Housing



International Trade Relations, USA/Canada

And Beyond

As global economic conditions continue volatile, even unstable, Canada is in the midst of negotiating several trade agreements, and is also suffering some trade complications. For the past several years the governments of Europe, Asia, and the Americas have been embarking on multi- and bi-lateral trade deals, with varying levels of success.

Chief among these is the Trans-Pacific Partnership (TPP) — involving countries covering 40 per cent of the world economy — currently in meetings in New York City. The TPP seems to be getting only more complicated as talks progress; this round of talks is addressing more sensitive files like agriculture. A ministerial round is expected sometime in February.

The Office of US Trade Representative website describes the TPP as “a 21st century trade agreement that will boost US economic growth, support American jobs, and grow Made-in-America exports to some of the most dynamic and fastest growing countries in the world.”

Canada’s Foreign Affairs, Trade, and Development website says of the TPP, “[it] is a key pillar of Canada’s pro-trade plan because it will deepen Canada’s trading relationships with dynamic and fast-growing markets in the Asia-Pacific region, as well as strengthen Canada’s traditional partnerships in the Americas.”

US Trade Representative Michael Froman testified before the Senate Finance Committee Tuesday in Washington, DC, that the ambitious trade deal with Asia could be finished in the next few months. Chief negotiators in New York this week include those from twelve Pacific Rim nations, and hope to secure signatures by the middle of March.

Some American interests are criticizing the deal as it is being shaped. One analyst told Global Trade Review this week that what’s emerging looks like a bilateral treaty between America and Japan, and “less attractive side deals for everyone else.”

Other critics point out that Congress could issue any tough demands in its Trade Promotion Authority legislation, according to Forbes Monday.

Meanwhile, Canada’s contentious stance on supply management and pharmaceutical protection came under

heavy fire this week from frustrated American senators and congressional members eager to finalize a deal, said iPolitics Wednesday.

When it comes to supply management, Froman has said repeatedly Canada knows where the US stands, “This has been a high priority for us, and before Canada joined the TPP we had a dialogue with them about this and how this was going to be an important part of a successful outcome. We are engaged with them on a whole range of outstanding issues.”

Probably aware a Canadian federal election is on the horizon, Froman wasn’t setting the bar high Tuesday for increased protection for pharmaceuticals, either.

For his part, Republican Paul Ryan said Tuesday at the Senate hearings, “Canada won’t negotiate.”

Ryan’s home state of Wisconsin accounts for 13 per cent of American milk production and 25 per cent of the country’s cheese.

Speaking of Made-in-America, it seems that disagreements over this policy have resulted in the cancelling of a highly-anticipated new Alaska ferry dock at Prince Rupert, BC, US officials announced Sunday.

This high-level dispute is over US-Canada trade policy. Alaska officials say Canada’s stance on the project will mostly hurt Canadian workers, according to Alaska Dispatch News Sunday.

A federal law called the Buy America Act requires that steel for projects funded by the Federal Highway Administration must be made in the US. The dispute is over who will make the steel for the dock’s pilings and walkways. The ferry terminal is unusual — a US-funded project on land leased from a federal port authority in Canada.

The way the arguments were going, any contractor willing to take on the work would have faced the impossible choice of running afoul of either US or Canadian law, said Barrie McKenna in the Globe and Mail Sunday.

“If Canada and the United States can’t work out the easy stuff, how are they ever going to overcome the larger challenges confounding a vast, complex and increasingly strained relationship?” asks McKenna, rightly.

In an editorial piece to the Globe and Mail Tuesday, Laura Dawson, PhD, President of Dawson Strategic and an expert in international trade

and cross-border issues, said, “succumbing to petty squabbles misses the larger point. Canada and the US are not going anywhere in the global economy if we don’t do it together.”

Elsewhere this week, there was good trade news for Canada’s lumber industry with Mexico agreeing to recognize Canada’s heat treated lumber certification program.

The trade and movement of lumber and wood products are often a pathway for the spread of plant pests, according to the Canadian Food Inspection Agency (CFIA). In Canada, lumber is heat-treated under the CFIA-administered program to reduce this risk and to meet the import requirements of foreign countries.

Under this new arrangement with Mexico, Canadian lumber producers accredited under a heat treatment program overseen by the CFIA are now able to export wood such as spruce, pine, and fir to Mexico without a phytosanitary certificate, said a CFIA press release Monday.

Canadian lumber exports to Mexico were valued at almost \$6 million in 2013. In contrast, Canadian sawmills exported \$4,752 million in softwood lumber to the US in 2013.

Given current global uncertainty, the importance of emerging markets as future new customers, and the various constraints to Canadian and US lumber producers (most notably concentrated around a lack of quality sawlog supply in the BC interior), it is hoped that the two countries will work together to promote the use of North American softwoods in international markets. Rather than squabbling with each other over relatively minor issues.

Tropical hardwood exporters from southeast Asian and north African countries are continuing to adopt globally-recognized certification and sustainability standards (prompted by the imposition of the EUTR legislation for Europe’s forest products importers in early 2013). Emerging markets, especially in India, are gobbling up supplies of hardwood, while Canadian — and even US — softwood lumber exporters are having great difficulty finding volume customers in these regions.

The forest products industries of Canada and the US should be working together to promote the use of softwood lumber in new and emerging markets, rather than arguing with each other over bi-lateral lumber trade issues.

by Kéta Kosman