MADISON'S LUMBER REPORTER

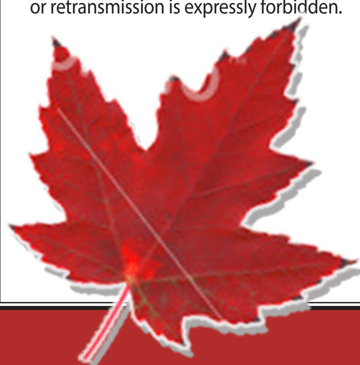
Publisher
KetaDesign Productions
Editor
Kéta Kosman
Market Analyst
Earl Heath

Annual Subscription Prices
E-mail/Fax: C$389
Discounts available for multiple subscriptions

Published 50 times a year

www.madisonsreport.com
madrep@shawcable.com
604 319-2266
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add GST or HST
ISSN 0715-5468



News & Updates

Groupe Savoie Sawmill to Close

Forty-five people work at the Westville Sawmill in Westville, Pictou County, NB, owned by Groupe Savoie, which will be forced to shut down next week, according to CBC Tuesday. The sawmill has only enough hardwood supply to keep working for another week. CONT'D PAGE 7

US Housing Starts: February 2014

US housing starts plunged 17 per cent from a month earlier to a seasonally adjusted annual rate of 897,000 in February, the Commerce Department said Tuesday. Starts on single-family units, which exclude apartments and represent almost two-thirds of the market, dropped 14.9 per cent. Multifamily units, including apartments and condominiums, fell 20.8 per cent.

Housing starts plummeted 56.5 per cent in the Northeast last month and 37 per cent in the Midwest, regions that have seen record snowfall and below-normal temperatures this winter. But they also dropped in the 18.2 per cent in the West and 5.9 per cent in the South. CONT'D PAGE 7

International Day of Forests

The Forest Products Association of Canada is underscoring the crucial role played by the forest sector in mitigating climate change. This comes as the 2015 United Nation's International Day of Forests on March 21st focusses on the theme of "*Forests and Climate Change*."

As well, the US Forest Service celebrates the International Day of Forests by bringing awareness about our involvement with international partners to continue to protect the health of forest worldwide. CONT'D PAGE 7

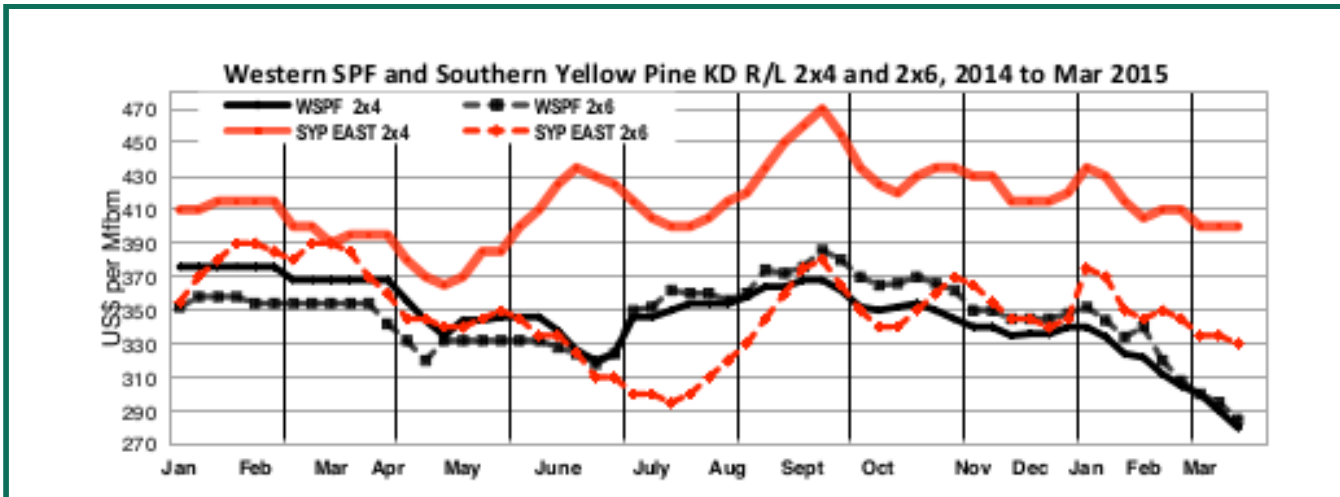
WA Dept of Natural Resources March 2015 Highlights

Lumber and Log Prices: Lumber and log prices increased markedly in 2013 and somewhat less so in 2014. Washington log prices moved up sharply from a two-year plateau in 2013 and continued to rise in 2014. The average price for a 'typical' DNR log delivered to the mill reached US$591/mbf in 2014, and has averaged US$560/mbf so far in 2015.

Timber Sales Volume: DNR has sold 248 mmbf thus far this fiscal year, which is about half of the revised 491 mmbf planned for FY15. Given current timber sales plans—and absent a new sustainable harvest calculation—sales volumes are still pegged at about 500 mmbf in each future year.

Timber Sales Prices: The FY14 sales price averaged $356/mbf. Weighted by volume, sales prices have averaged US$375/mbf through February. Sales prices in FY15 are predicted to average US$352/mbf, down three percent from November's US$365/mbf forecast. This reduction is primarily due to the continued slowdown in export markets, particularly China; to lower demand in end-use markets; and to an ample regional supply of logs

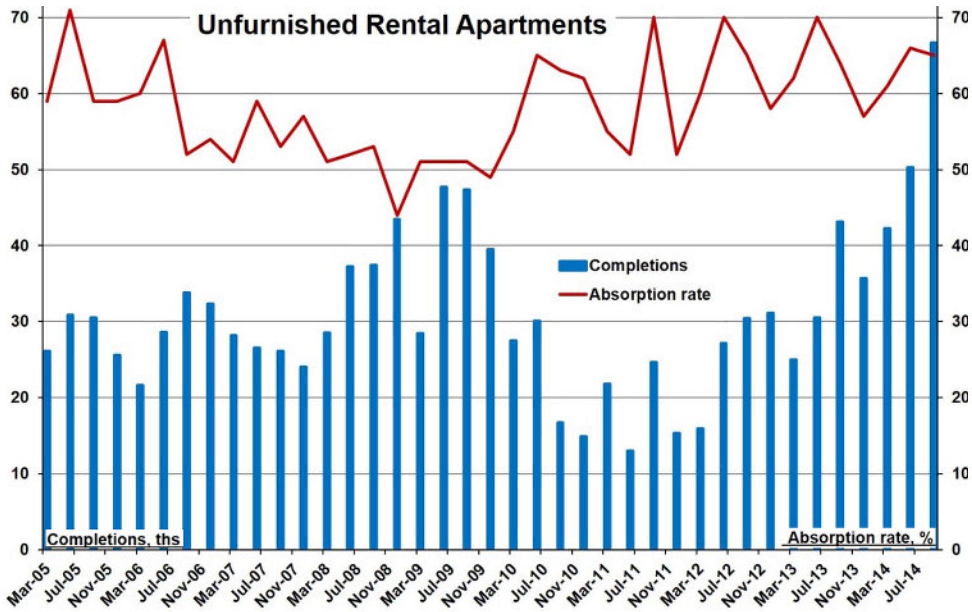
— *Washington State Department of Natural Resources,* March 18, 2015
CONT'D PAGE 9



US Rental Apartment Absorption Rates: 3Q 2014

Absorption completions continued to rise during 3Q 2014. While for-rent apartment absorption rates remained strong at the end of 2014, there was a drop in short-term absorptions for the condominium and co-op market

According to NAHB analysis of the most recent data from the Census Bureau and Department of Housing and Urban Development Survey of Market Absorption of Apartments, completions of privately financed, unsubsidized, unfurnished rental apartments in buildings with five or more units totaled 194,900 residences for the four quarters ending with 3Q 2014, a 50 per cent increase from the prior four quarter total.



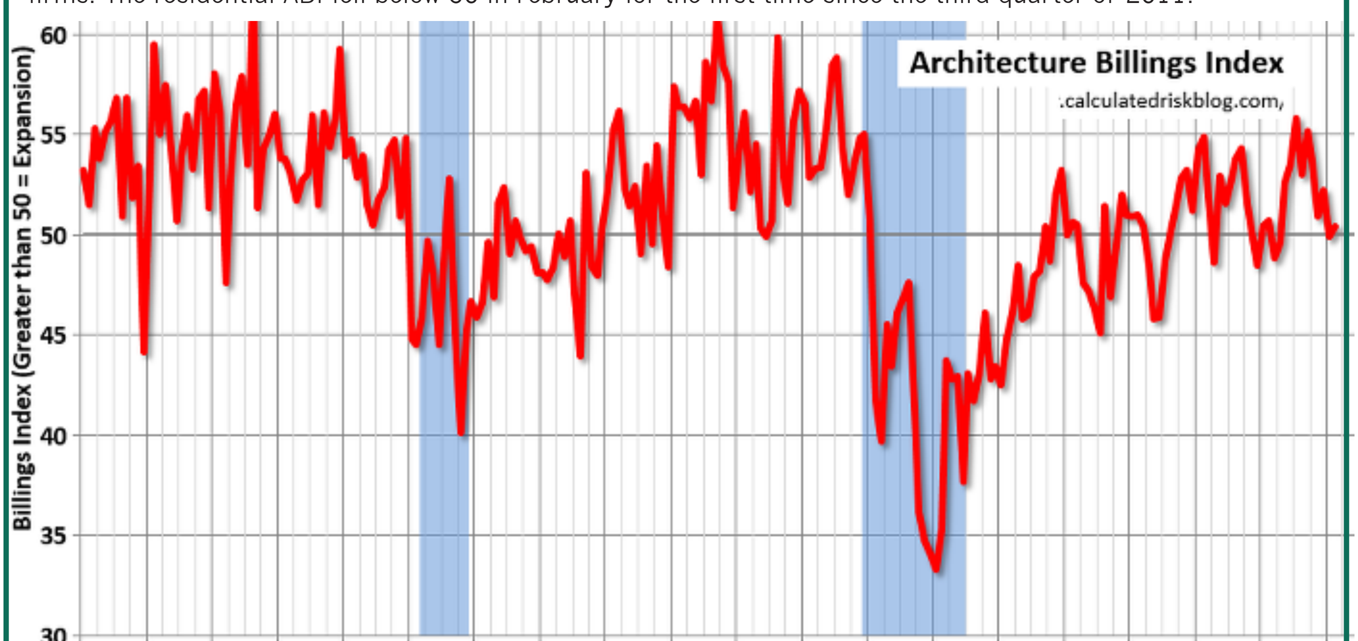
SOURCE: NAHB Eye on Housing

US Architecture Billings Index: February 2014

Architecture Billings Index was at 50.4 in February, up from 49.9 in January, the American Institute of Architects said Wednesday.

The new projects inquiry index was 56.6, down from a reading of 58.7 the previous month. New project inquiries, though indicating growth, were at their slowest pace of increase in two and one-half years.

Institutional firms have now reported nine straight months of gains in billings, reflecting healthy growth levels over this period. However, offsetting the improving situation at institutional forms is the weakness at residential firms. The residential ABI fell below 50 in February for the first time since the third quarter of 2011.



Madison's Weekly Lumber Key Prices Table

www.madisonsreport.com

Prices are in U.S. dollars per 1,000 fbm (net FOB mill)

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	280	290	-10	312	-32	368	-88
WSPF KD R/L 2x6	285	295	-10	320	-35	354	-69
WSPF KD R/L 2x8	290	300	-10	320	-30	338	-48
WSPF KD R/L 2x10	322	315	+7	340	-18	400	-78
WSPF KD PET 2x4 Stud	275	305	-30	330	-55	350	-75
WSPF KD PET 2x6 Stud	285	295	-10	330	-44	305	-20
Douglas Fir Green R/L 2x4	305	300	+5	322	-17	360	-55
Douglas Fir Green R/L 2x10	330	348	-18	385	-55	427	-97
ESPF KD 2x4 8ft Stud	345	360	-15	380	-36	400	-66
OSB Ontario 7/16" (CDN$)	215	215	0	240	-25	225	-10
CSPlywood Toronto 3/8" (CDN$)	428	428	0	460	-32	370	+58

Madison's Weekly Lumber News

Housing Starts, US

CONT'D FROM PG 2 January's starts were revised up to a 1.08 million-unit pace from the previously reported 1.07 million-unit rate. February's decline was likely a temporary setback for housing as permits for future construction rose 3 per cent last month.

Permits have been above a 1 million-unit pace since July.

Single-family permits fell 6.2 per cent last month to a nine-month low. Multi-family permits surged 18.3 per cent.

Day of Forests

CONT'D FROM PG 2 Forests cover one third of the Earth's land mass, performing vital functions around the world. Around 1.6 billion people — including more than 2,000 indigenous cultures — depend on forests for their livelihood, says the UN.

New Brunswick Sawmill to Close

CONT'D FROM PG 2 Mill manager Andrew Watters says the same supply constraints that forced two local flooring companies to close recently — Finewood Flooring of Cape Breton and River's Bend, Antigonish County — are also hurting its business.

Fewer people working in the woods has reduced the flow from private wood lots from 70 to 50 per cent. Westville procurement manager John Vautour says many contractors left to work out west as the number of sawmills have dropped by half over the past 10 years.

Vautour said the Department of Natural Resources figures indicate the problem is not a shortage of hardwood trees in the province, although some stands in Cape Breton now produce fewer sawlogs.

As a result of the 2012 Forestry Utilization Licensing agreement with the province that was part of a deal to save jobs at the former NewPage mill, all 175,000 tonnes of hardwood on Crown lands in seven counties of northern Nova Scotia is licensed and controlled by Port Hawkesbury Paper.

Calendar

April 2015

Council of Forest Industries Convention 2015
April 8-9, 2015 – Prince George, BC
http://www.cofi.org/

May 2015

Global Forest Products Leadership Summit 2015
May 3-7, 2015 – Vancouver, BC
http://www.forestproductssummit.com

PwC 28th Annual Global Forest & Paper Industry Conference
May 6, 2015 – Vancouver, BC
http://www.pwc.com/

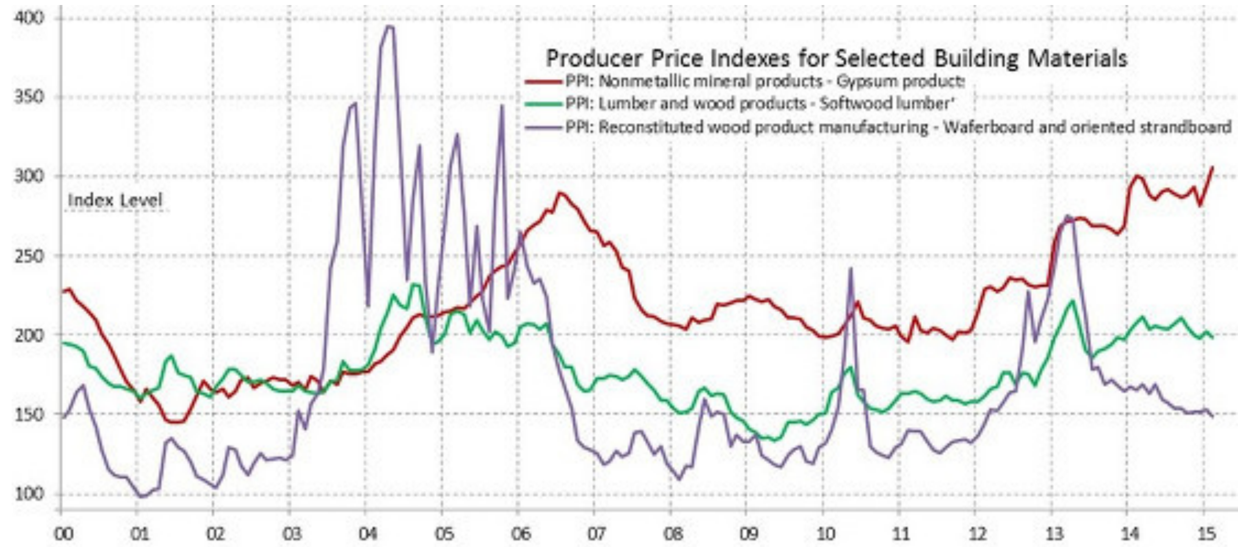
International Pulp Week
May 3-6, 2015 – Vancouver, BC
http://www.internationalpulpweek.com

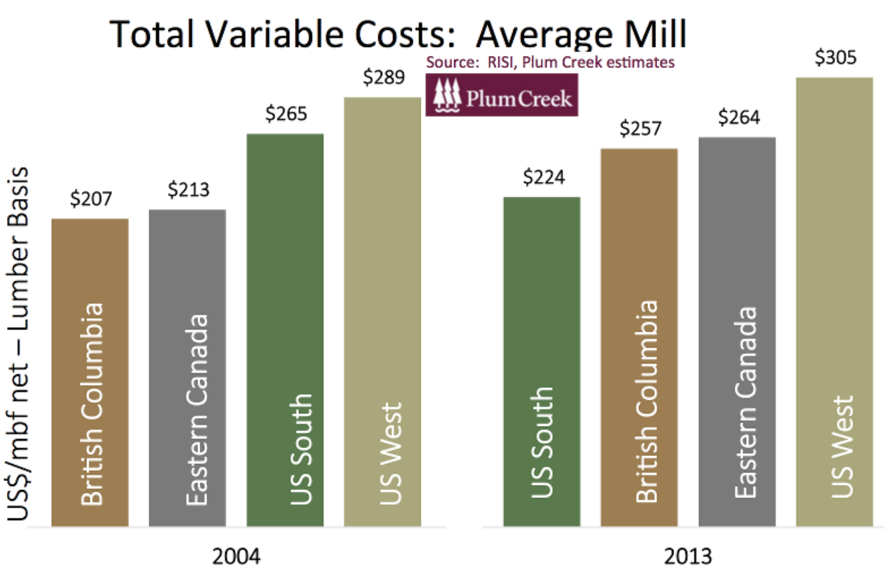
US Producer Prices, Building Materials: February 2015

Inflation in US prices received by producers (prior to sales to consumers) declined 0.5 per cent in February, according to the The Bureau of Labor Statistics March 13. The decline was dominated by a decline in prices for services and within services prices for trade, transportation, and warehousing. Prices for goods also declined led by falling food prices. Energy prices levelled off in February after declines accelerated through the second half of last year and reached -10.3 per cent in January.

Softwood lumber prices declined 1.6 per cent in February. Analysts point to softer than expected US single family construction in 2014, inventory management on the part of distributors, and softening overseas markets as factors. Additional declines will be tempered going forward by possible log shortages and continuing transportation bottlenecks.

Prices for OSB declined 2.9 per cent after modest upticks in the prior three months. The return of mothballed capacity since 2013 has supply outpacing demand. The PPI for OSB indicates a 46 per cent decline from the price peak in March 2013.





SAWLOG PRICE COMPARISON

2003

British Columbia: 2Q
SPF Interior sawlog $55.00 /m3

Washington State and Oregon: 2003 Average
(average value of combined timber sold) US$98.76 mfbm

US South: 2Q
Southern Pine average US$38 / ton

2014

British Columbia: 2Q
SPF Interior sawlog $65.94 /m3

Washington State and Oregon: 2014 average
(average value of combined timber sold) US$84.50 mfbm

US South: 2Q
Southern Pine average US$26 / ton

(**SOURCES**: BC Timber Sales, US Forest Service, Timber Mart-South)

State of Lumber Manufacturing: North America 2003 vs 2014

by Kéta Kosman

The forest products manufacturing sectors in Canada and the US are slowly moving further into recovery, after the epic crash of US home building from September 2006 through 2011. But what does that recovery look like? How does it compare to business prior to the run-up of US housing starts from 2004 to mid-2006? As always, a deep look at the data and numbers reveals the most accurate story.

In 2003, Canada's three main lumber producing provinces — British Columbia, Quebec, Alberta — together manufactured 62.3 million cubic metres of softwood lumber, an 18.6 per cent improvement over 2014 when it was 50.7 million cubic metres, according to Statistics Canada.

Put another way, in 2003 sawmills in those three provinces sold $11.5 billion worth of lumber, 20.9 per cent more than the $9.1 billion sold in 2014, also from StatsCan.

In the US, softwood lumber production in 2003 was 85.6 million cubic metres as reported in the March 5, 2004 issue of *Lumber Track* by the Western Wood Products Association, which is 10.8 per cent more than the 77.6 million cubic metres produced in 2014.

In the US, total sawmill product imports (C.I.F. value) in 2003 were US$6.9 billion, 10.1 per cent higher than US$6.2 billion for full-year 2014, according to US Census data. The vast majority of these imports came, of course, from Canada. As for exports, US total exports of sawmill products (F.A.S. value) to the world were US$1.95 billion in 2003, 48.7 per cent lower than US$3.8 billion in 2014. US sawmill product exports to Canada were largely unchanged from 2003 to 2014, while that to China increased by 966 per cent (from US$133.5 million to US$1,293.9 million in 2014).

In Canada, total exports by sawmills were $7.3 billion in 2003, which is 17 per cent lower than the $8.8 billion for 2014 sawmill total exports. Plummeting demand from the US is responsible for this decrease.

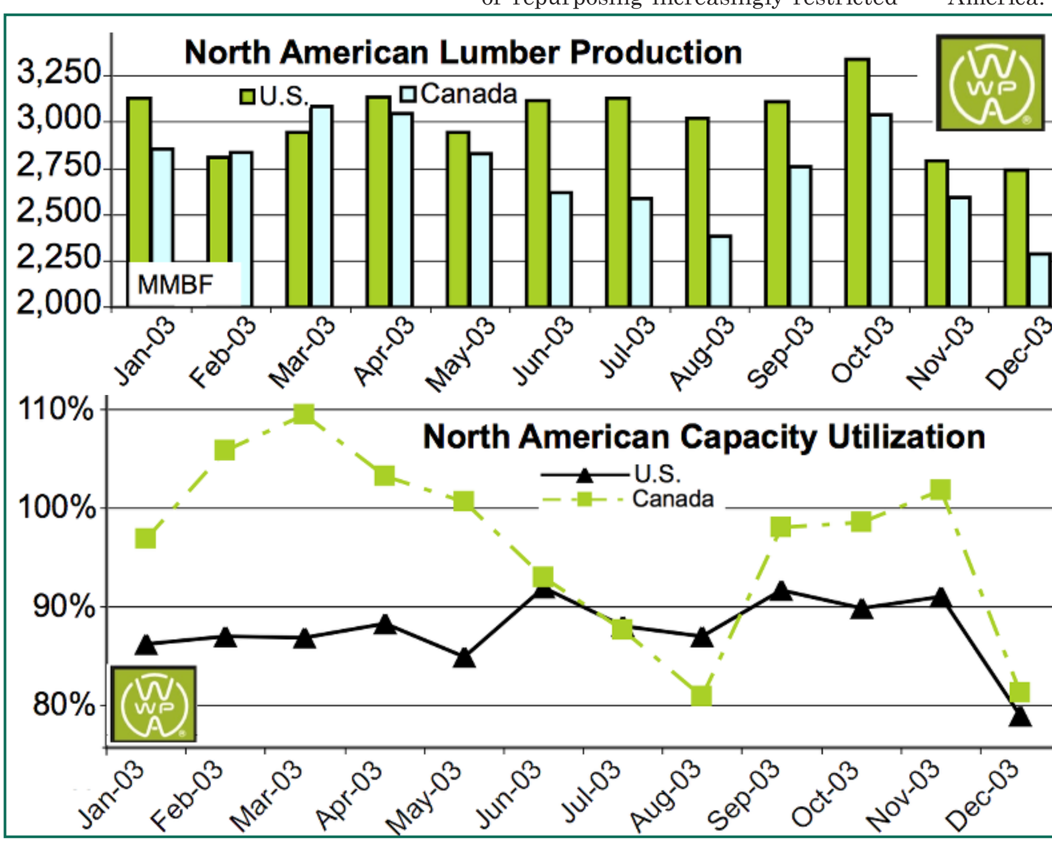
Perhaps the most interesting of all the North American lumber manufacturing data are the sawmill capacity utilization rates. Industry players are painfully aware of the massive change in operations that has taken place since 2003. Rampant sawmill closures and/or repurposing increasingly restricted sawlog timber supply in mountain pine beetle-affected regions, as well as a continued reduction of AAC in Quebec playing against some amount of new, ultra-modern sawmill building and the undeniable migration of the three largest lumber manufacturers from British Columbia to the US southern pine belt.

> " Delivered log costs are one of the largest drivers under which sawmills operate, and which cause sawmills to curtail or shut.
>
> In particular when lumber demand and prices are lower than normal. "
>
> - *Rick Doman, Madison's Lumber Reporter, October 9, 2009*

In 2003, total sawmill capacity utilization in the US was 88 per cent, a 2 per cent drop from 90 per cent the previous year, according to WWPA. In Canada, sawmill capacity utilization rates were 96 per cent, almost unchanged from 2002.

However WWPA data for 2014 tells a very different story: US total capacity utilization was 83 per cent in 2014, a 3 per cent increase over 2013 when it was 80. As for Canada, the rate was flat in 2014 at 79 per cent compared to the previous year.

These are some very interesting changes for anyone interested in the forest products industry in North America.



Occasional guest writer Rick Doman, formerly of Doman Industries and more recently CEO of EACOM Timber for several years, wrote in the October 9, 2009 issue of your ***Madison's Lumber Reporter***, "Delivered log costs are one of the largest drivers under which sawmills operate, and which cause sawmills to curtail or shut. In particular when lumber demand and prices are lower than normal." This piece was a follow-up to his contribution in the February 20, 2009 issue.

Please refer to Page 8 for a very useful chart of log price comparison and a graph illustrating the change in mill cost structure in different regions of North America, 2004 vs 2013.