

# MADISON'S LUMBER REPORTER

Publisher  
**KetaDesign Productions**

Editor  
**Kéta Kosman**  
Market Analyst  
**Earl Heath**

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www.madisonsreport.com  
madrep@shawcable.com  
604 319-2266  
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## News & Updates

### Stella-Jones to Acquire Ram Forest

Stella-Jones is expanding its wood treating capabilities for the residential lumber market, having signed a letter of intent to purchase Ontario supplier Ram Forest Group and Ramfor Lumber for an undisclosed price.

Ram Forest subsidiaries operate treating facilities in Gormley and Peterborough, ON, that generated about \$90 million in sales last year. A wood milling plant operated by the company in Uxbridge, ON, is not part of the transaction.

The deal announced April 30 is expected to close in October 2015.

Stella-Jones supplies pressure-treated ties and timbers to North American railways, utility poles to electrical utilities and telecom companies and lumber for residential customers.

### US House Prices

The S&P/Case-Shiller index of property values increased 5 per cent from February 2014, the biggest year-to-year gain since August, after rising 4.5 per cent in the year ended in January, the group said Tuesday in New York.

As well, the Federal Housing Finance Agency (FHFA) April 22 released the House Price Index data for February, 2015. House price appreciation has been volatile but averaged approximately 5 per cent from 1991 to 2003 prior to the housing boom. Appreciation accelerated after 2003 and house prices rose rapidly through 2005 with annual growth of reaching 10 per cent.

Since turning positive house price growth rates have recovered returning to the roughly 5 per cent average that was the norm before the boom. CONT'D PAGE 7

### More Quarterly Results

Norbord, out of Toronto, ON, Friday reported a loss of US\$6 million, or US\$0.11 per share, in 1Q 2015 compared to earnings of US\$3 million, or US\$0.06 per share, in the prior quarter and earnings of US\$7 million, or US\$0.13 per share, in 1Q 2014.

Norbord also announced completion of the merger with Ainsworth, making Norbord a leading global wood products company active on three continents. Company integration efforts are well underway in implementing the plan to realize the annual synergies target of US\$45 million.

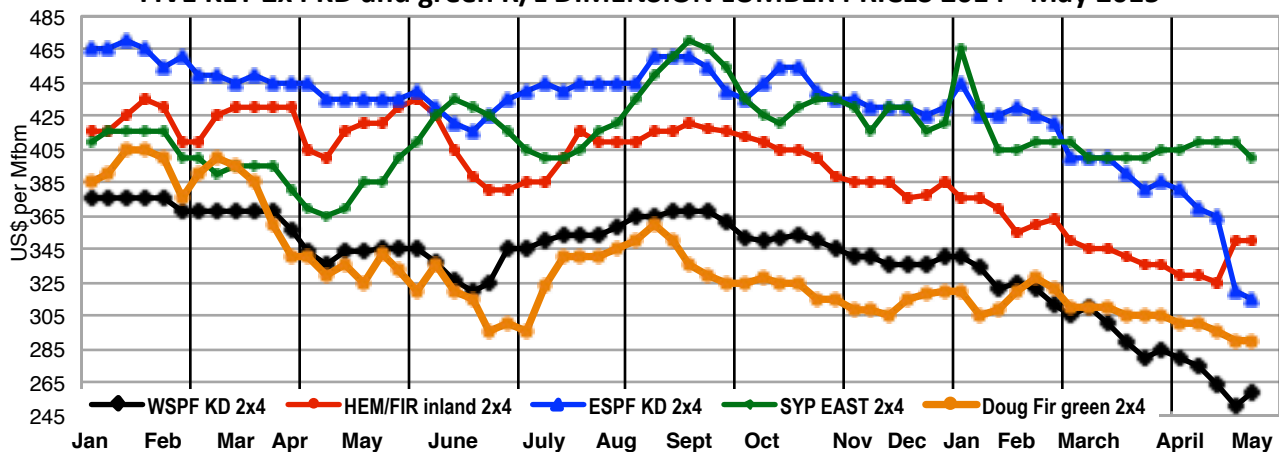
Vancouver, BC's, Interfor Thursday reported a loss of \$163,000, or a loss of less than 1 cent per share, in 1Q 2015. Earnings, adjusted for non-recurring costs, were 5 cents per share.

The lumber company posted revenue of \$415.4 million in the period. Interfor shares have decreased 21 per cent since the beginning of the year. The stock has increased 3 per cent in the last 12 months. CONT'D PAGE 7

### US Forest Products Industry: 2015 USDA Report

This week the US Department of Agriculture, via the US Forest Service Southern Research Station, released it's report, "The Global Position of the US Forest Products Industry". CONT'D PAGE 9

FIVE KEY 2x4 KD and green R/L DIMENSION LUMBER PRICES 2014 - May 2015



## US House Prices, Construction Spending

National Association of Home Builders analysis of US Census construction spending data found Friday that over the last year, the pace of private single-family construction spending increased 7.8 per cent and multifamily construction spending increased 23.4 per cent, despite monthly declines for March.

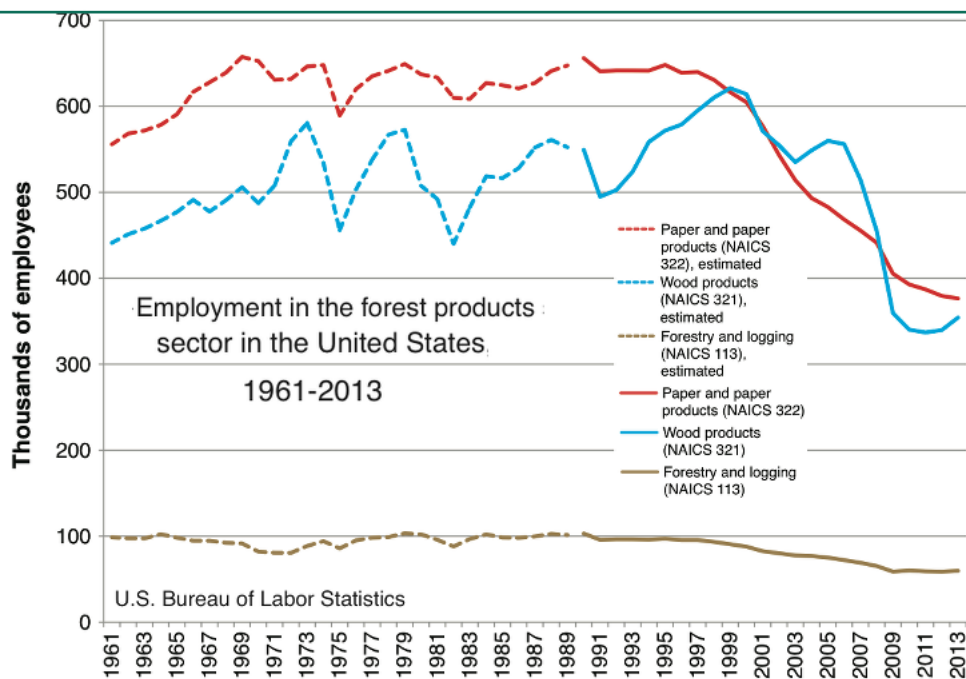
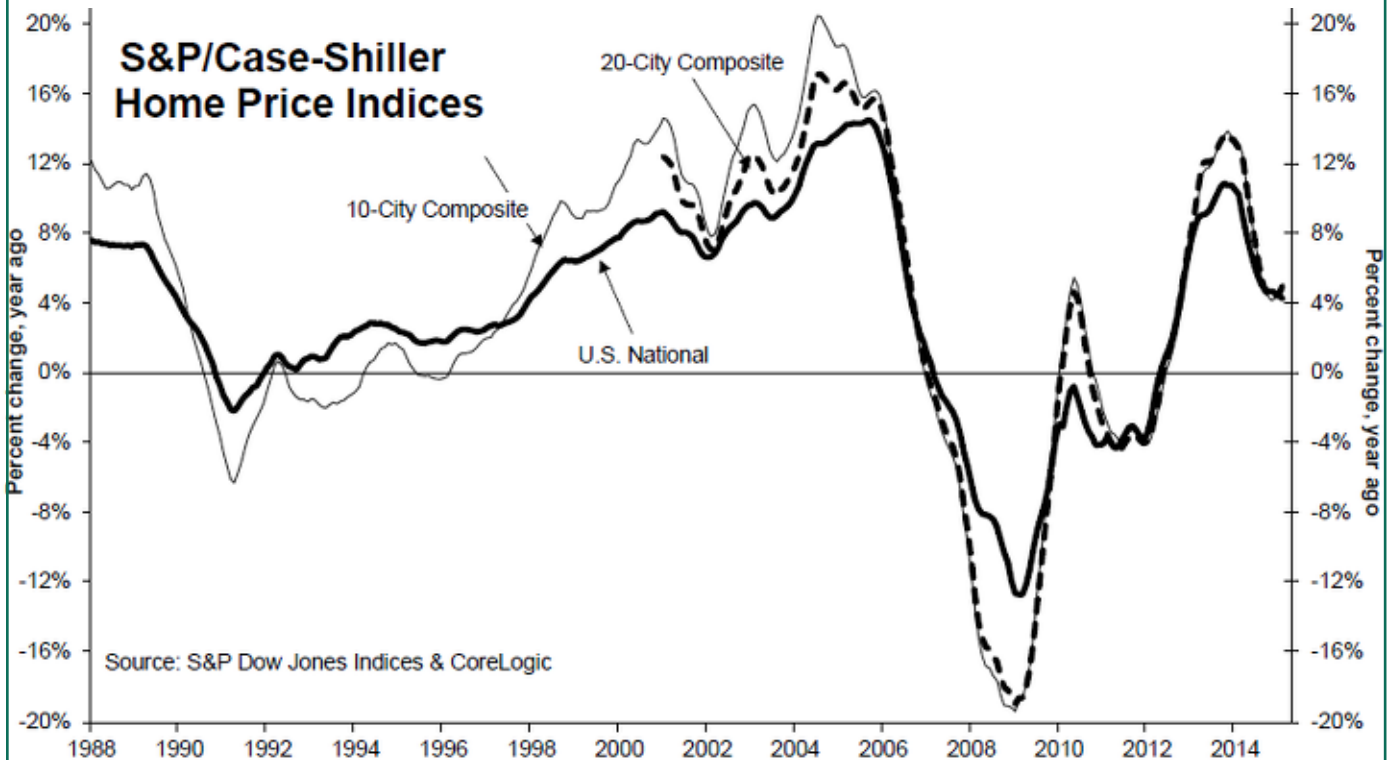
For the month, the seasonally adjusted annual rate of single-family construction spending was US\$200.7 billion, down 1.8 per cent from February. The March rate of multifamily construction spending was US\$49.2 billion, 2.1 per cent lower than February.

It is worth noting that the Census measure for total private residential construction spending shows a 2.6 per cent year-

over-year decline, despite annual gains for single-family and multifamily development. This decline is due to a decrease in the separate improvement category, which contrasts with other measures, including the NAHB Remodeling Market Index, which indicates strength for the home improvement sector.

From March 2014, the pace of combined public and private non-residential construction spending increased 4.7 per cent on a seasonally adjusted annual rate basis to US\$611.8 billion. From February 2015, non-residential spending was effectively flat, declining 0.1 per cent.

The largest year-over-year gains for nonresidential construction spending have been experienced by the classes of manufacturing-related construction, with a 50.7 per cent gain.



## Madison's Weekly Lumber Key Prices Table

[www.madisonsreport.com](http://www.madisonsreport.com)



	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
<small>Prices are in U.S. dollars per 1,000 fbm (net FOB mill)</small>							
WSPF KD R/L 2x4	258	250	+8	285	-22	344	-86
WSPF KD R/L 2x6	258	250	+8	285	-22	332	-74
WSPF KD R/L 2x8	270	274	-4	294	-24	338	-68
WSPF KD R/L 2x10	310	310	0	322	-8	376	-60
WSPF KD PET 2x4 Stud	245	245	0	280	-35	310	-70
WSPF KD PET 2x6 Stud	255	250	+5	290	-35	290	-40
Douglas Fir Green R/L 2x4	290	290	0	305	-10	325	-52
Douglas Fir Green R/L 2x10	340	345	-5	345	0	370	-40
ESPF KD 2x4 8ft Stud	330	330	0	350	-20	390	-65
OSB Ontario 7/16" (CDN\$)	209	215	-6	210	-11	220	-16
CSplywood Toronto 3/8" (CDN\$)	383	380	+3	410	-34	382	+5

## Madison's Weekly Lumber News

### House Prices US

CONT'D FROM PG 2 Back to the S&P/Case-Shiller National Home Price Index, which tracks all nine Census divisions, while price growth across the nation slowed overall, collectively the major American cities saw their prices accelerate. An index tracking single-family home prices in 20 major US cities gained an annual 4.8 per cent in February, up from a 4.3 per cent increase in January; a separate index tracking 10 cities gained 5 per cent in February, compared to 4.5 per cent in January.

The Index has witnessed 34 straight months of year-over-year gains, while all 20 cities have shown year-over-year gains every month since the end of 2012. In February the National Index increased by 0.1% on a month-over-month basis.

Groundbreakings on new homes rose just 2 per cent in March compared to February, and were 2.5 per cent below the level in March 2014. Sales of previously-owned homes hit its highest level in 18 months in March as inventory eased.

Measured from their June/July 2006 peaks, the peak-to-current decline for both the 10- and 20-city measures is approximately 15-17 per cent.

### 1Q 2015 Results

CONT'D FROM PG 2 Canfor Corporation, also out of Vancouver, BC, Wednesday reported net income attributable to shareholders of \$29.3 million, or \$0.22 per share, for 1Q 2015, compared to \$29.9 million, or \$0.22 per share, for 4Q 2014 and \$45.5 million,

or \$0.33 per share, for 1Q 2014.

The Company reported operating income of \$83.7 million for 1Q 2015, up \$21.7 million compared to operating income of \$62.0 million for 4Q 2014. Current quarter results include the consolidation of the Company's recent US South acquisitions of Beadles Lumber & Balfour Lumber and Scotch & Gulf Lumber, which were considered to be controlled by Canfor for accounting purposes on January 2, 2015 and January 30, 2015, respectively.

Still in Vancouver, BC, Acadian Timber Wednesday reported financial and operating results for 1Q 2015. Acadian generated net sales of \$24.7 million on sales volume of 348 thousand cubic metres which represents a \$3.4 million, or 16 per cent, increase in net sales compared to the same period in 2014. The improved performance was driven primarily by a 14 per cent increase in weighted average log selling prices reflecting continued strong market demand along with the positive impact of the strengthening of the US dollar and a higher proportion of hardwood sawtimber in the sales mix.

### Simpson Lumber Mill Closes

Some 270 jobs at Simpson's mills in Shelton and Dayton, WA, are going away by June 30 as Simpson sells those operations to a Northern California firm, Sierra Pacific Industries, says *The Olympian* Friday.

The Shelton mill could be replaced by a new state-of-the-art mill employing about 150 to 200 people in 2017.

### Acadian Timber Announces

Acadian Timber has announced that longtime chief executive Reid Carter is stepping down at the end of the week.

The company said in its earnings reported issued Tuesday after markets closed that Mark Bishop will become president and CEO effective on Friday.

Bishop has more than 25 years of forest industry experience, including the last seven with Brookfield Asset Management, Acadian's manager.

In addition to his new role, Bishop will continue to lead Brookfield's timberland business development activities outside of North America.

Carter, who steps down after nine years as CEO, will continue to lead Brookfield's timberlands platform and intends to remain on Acadian's board, the company said.

### Calendar

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>

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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."*

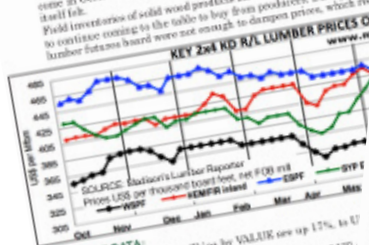
- Michael Low | Scotiabank | Director & Group Lead, Commercial Banking

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- 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

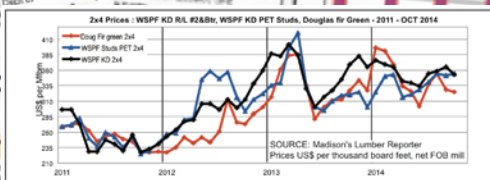
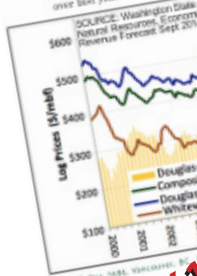
**MADISON'S**  
3Q 2014 North America Timber Industry Analysis and Proj  
By Rita Korman, Publisher and Editor, Madison's Lumber Reporter  
November 1, 2014

**OVERVIEW**  
Vigorous bursts of enthusiasm among North America's lumber and paper mills in September as value volumes dropped and prices softened somewhat, but some in October however, as market fundamentals prevailed and the steel fell.



**IMPORTANT DATA:**

- US LOG exports to China by VALUE up 17% to US\$1.1B in year ago
- 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 up over last year

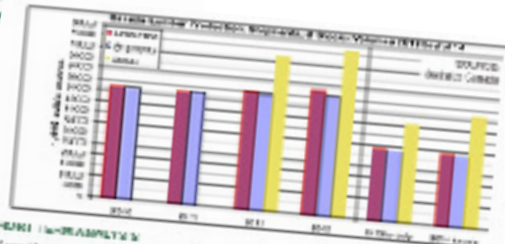


**US WOOD EXPORTS** remain mostly in the US while Canada's exports to the US have increased.

Canada Log Exports Jan-Aug '14:  
China +7.40%  
Japan +8.30%  
S Korea -5.80%  
USA -7.9%

It is interesting to note that the VALUE of both log and lumber exports from each country to China have increased, while VOLUMES remain relatively flat.

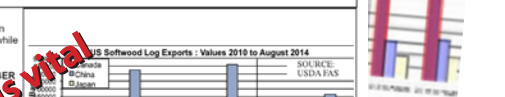
Also noteworthy is the steady increase in VALUES of lumber shipped from Canada to the US in the first eight months of this year.



**US Softwood Log Exports: Values 2010 to August 2014**  
SOURCE: USDA FAS



**Canada Softwood Log Exports by Value - 2010 to Aug 2014**  
SOURCE: Statistics Canada



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# The Global Position of the US Forest Products Industry

The **Key Findings** for the solid wood manufacturing sector in this latest **US Forest Service** report are:

- the US share of global wood products output peaked in 1998 at about 28 per cent, declined to about 24 per cent in 2006, and then fell with the 2007–2009 recession to an unprecedented low of about 17 per cent, where it remained through 2013;
- a combination of cyclical and long-term trend factors largely drove the decline in share observed since the late 1990s;

Technology has influenced solid wood product composition, with particleboard and other engineered wood products (e.g., glulam beams and I-joists), allowing a shift toward utilization of smaller trees, particularly those grown in plantations; and,

- while domestic economic activity dominates US forest products output, global markets are increasing in importance. Most notably, growth in manufacturing output in China has shifted paper and paperboard production toward Asia.

In contrast, the Key Unknowns are:

- wood products market futures over the next 10 years will depend not only on the level of housing demands but also on the composition of new housing (single-family versus multi-unit). Potential effects of altered income distribution on housing demand are unclear;
- tightening resource supplies outside of the United States and especially in Asia might increase the US' comparative advantage in the long run, based

on its sustainable plantation production model; and,

- unknown effects of inventory/supply shocks (related to the mountain pine beetle epidemic) in Canada, a dominant source of US imports, could potentially increase demand for US production.

## USDA Report March 2015

The report goes on to say that the United States exhibited a steady expansion in the consumption of industrial roundwood from 1965 to 2005, with only slight dips in output associated with economic downturns. This growth aligned with an increase in production of manufactured goods in the United States, which consumes paper, especially for packaging. But this growth ceased in 1999 and has since dropped along with the decline of the US manufacturing sector.

Imports of industrial roundwood averaged 34 million cubic metres from 1965 to 1997. The housing market expansion from 1998 through 2007 required import quantities that were more than triple that number, up to 118 million cubic metres. Since 2007, imports have declined to near parity with exports. The housing market contraction in the United States from 2006 to 2009 corresponded with an import contraction, particularly in wood products from Canada, the largest foreign supplier.

As of 2013, coniferous sawnwood production had increased by 10 million cubic metres, or 25 per cent, from its 2009 nadir.

The housing market expansion up to 2006 induced a decline in exports and a rise in the rate of domestic wood consumption. However, as the housing market contracted, exports increased. Between 2007 and 2013, the quantity of exports of coniferous sawnwood increased by 193 per cent, from 1.47 to 4.31 million cubic metres. Imports, especially from Canada, play a strong role in US markets for coniferous sawnwood.

In summary, the report says US forest products consumption and production are heavily correlated with US economic activity. Solid wood products output correlates most strongly with housing construction. Paper and paperboard production correlates very strongly with total manufacturing output. Product mix, raw material (timber) harvest, and labour demand have all been strongly affected by technological changes through this time period. We observe a change in the relationship for softwood lumber between US consumption and production levels in 1992, when the United States substantially reduced timber harvesting from its Federal lands, thereby reducing available timber supply. The decline in Federal timber production led to increased domestic prices and increased demand for imports, largely from Canada, as well as greater reliance on private Southern US timber to meet domestic demands

The United States' dominance in production has narrowed since the late 1990s. The decline from the late 1990s, when global production share was over 22 per cent, can be attributed not just to declining domestic production but

also to increased production in Russia, China, and other countries with significant coniferous resources.

The most recent recovery in US share from the 2010 low of 15.6 per cent to the 2013 share of 17.2 per cent is consistent with the partial construction market recovery; a continuing construction recovery is likely to bring this share closer to its 1961–2012 average of 18.5 per cent.

Full report available here: <http://www.srs.fs.usda.gov/pubs/47916>

by Kéta Kosman

