

# MADISON'S LUMBER REPORTER

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## News & Updates

### Western Canada Wildfires

Crews from British Columbia's wildfire management branch are battling a second blaze in the Central Interior. They have been called to a lightning-caused fire about 80 kilometres northwest of Quesnel, BC, near Pelican Lake. It was estimated at about 250 hectares in size as of Thursday morning, according to the *Prince George Citizen* Friday.

Meanwhile, the Little Bobtail Lake and Norman Lake fire, that started on Saturday, has grown to 13,000 hectares and was within 500 metres of the southern shore of Norman Lake as of Thursday. There were 120 firefighters on the scene, along with eight helicopters, 22 pieces of heavy equipment and four airtankers.

Crews focused on getting containment lines on the fire.

The Regional District of Bulkley-Nechako issued the evacuation alert and order this past weekend for residents of Norman Lake and area. An evacuation alert has been put in place for Little Bobtail Lake and Naltesby Lake (Bobtail Lake).

In Alberta, a wildfire burning about eight kilometres northwest of Lodgepole, AB, was still out of control Thursday morning, said the *Edmonton Journal*.

About 100 firefighters are battling the 750-hectare blaze near Drayton Valley in west-central Alberta, about 130 km southwest of Edmonton. When the fire was discovered Tuesday, it had destroyed about two hectares.

Air tankers, helicopters and heavy machinery are being used in an attempt to bring the fire under control.

### US All-Cash Home Sales: February 2015

According to CoreLogic Wednesday, cash sales of US homes made up 37.9 per cent of total sales nationally in February 2015, down from 40.6 per cent in February 2014. February is the 26th consecutive month of declines. CONT'D PAGE 7

### Japan Housing Starts: March 2015

Japan's housing starts in March were 69,887 units (up 0.7 per cent from the same month in the previous year), surpassing the previous year's results for the first time in 13 months. The seasonally-adjusted annual rate was 920,000 units (up 1.7 per cent from the previous month), said *Japan Lumber Journal* and *Japan Lumber Reports*, both Friday. CONT'D PAGE 7

### Housing Starts, Canada: April 2015

The Canadian Mortgage and Housing Corp reported May 8 that the seasonally adjusted annualized rate of housing starts fell to 181,814 in April from a downwardly revised 189,546 units in March. CONT'D PAGE 7

### Forestry Week 2015: Vancouver, BC

Last week was Forestry Week in Vancouver, BC, with the Pulp and Paper Products Council and PwC holding their annual forestry conferences. CONT'D PAGE 9

### CANADIAN HOUSING STARTS

Actual and Seasonally Adjusted Annual Rates

	April 2015		March 2014	
	Actual	SAAR	Actual	SAAR
<b>Canada, all areas</b>	<b>15,689</b>	<b>181,814</b>	<b>13,765</b>	<b>189,456</b>
singles, urban centres	5,045	58,229	3,089	52,252
rural areas	1,445	16,369	722	12,397
multiples	9,199	107,216	9,954	124,897
Atlantic urban centres		3,824		2,820
Quebec urban centres		23,120		25,997
Ontario urban centres		60,688		60,943
Prairie urban centres		40,799		54,975
BC urban centres		37,014		32,414

Source: Canada Mortgage and Housing Corporation

### JAPANESE HOUSING STARTS

Month	TOTAL	Non-Wood	Wood	%Wood
Mar-15	69,887	31,635	38,252	55
Feb-15	67,552	31,553	35,999	53
Jan-15	67,713	31,517	36,196	53
Dec-14	76,416	32,570	43,846	57
Nov-14	78,364	33,263	45,101	58
Oct-14	79,171	36,181	42,990	54
Sep-14	75,882	32,903	42,979	57
Aug-14	73,771	33,104	40,667	55
Jul-14	72,880	32,249	40,631	56
Jun-14	75,757	33,378	42,379	56
May-14	67,791	30,808	36,983	55
Apr-14	75,286	35,251	40,035	53

Source: Japan Wood-Products Information and Research Center

### Canada Manufacturing Sales: March 2015

Manufacturing sales in Canada rose 2.9 per cent to \$51 billion in March, the second increase in six months. An increase in the production of aerospace products and parts coupled with gains in the motor vehicle industry generated higher sales for the month. Partially offsetting the advance was a drop in sales of fabricated metal products. The increase in March followed a 2.2 per cent decrease in February, which was revised to reflect updated information provided by respondents.

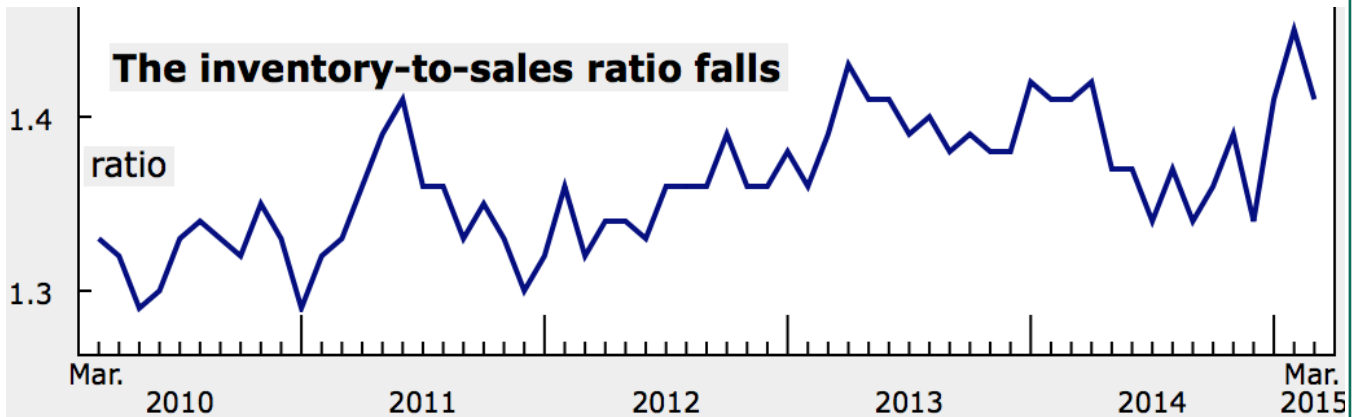
Sales rose in 10 of 21 industries, representing approximately 60 per cent of all Canadian manufacturing.

#### Inventories decline

Inventories held by manufacturers fell 0.4 per cent in March, the second decline in six months.

The inventory-to-sales ratio fell from 1.45 in February to 1.41 in March. The inventory-to-sales ratio measures the time, in months, that would be required to exhaust inventories if sales were to remain at their current level.

SOURCE: Statistics Canada



### US Industrial Production: March 2015

Industrial production in the US decreased 0.3 per cent in April for its fifth consecutive monthly loss. Manufacturing output was unchanged in April after recording an upwardly revised gain of 0.3 per cent in March. In April, the index for mining moved down 0.8 per cent, its fourth consecutive monthly decrease; a sharp fall in oil and gas well drilling has more than accounted for the overall decline in mining this year.

The output of utilities fell 1.3 per cent in April. At 105.2 percent of its 2007 average, total industrial production in April was 1.9 per cent above its year-earlier level.

Capacity utilization for the industrial sector decreased 0.4 percentage point in April to 78.2 per cent, a rate that is 1.9 percentage points below its long-run (1972–2014) average.

Capacity utilization at 78.2 per cent is 1.9 per cent below the average from 1972 to 2012 and below the pre-recession level of 80.8 per cent in December 2007.

Industrial production decreased 0.3 per cent in April to 105.2. This is 25.6 per cent above the recession low, and 4.4 per cent above the pre-recession peak.

SOURCE: US Federal Reserve



## 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	258	253	+5	264	-6	346	-88
WSPF KD R/L 2x6	258	253	+5	264	-6	332	-74
WSPF KD R/L 2x8	272	255	+17	276	-4	342	-70
WSPF KD R/L 2x10	310	314	-4	310	0	380	-70
WSPF KD PET 2x4 Stud	235	235	0	260	-25	320	-85
WSPF KD PET 2x6 Stud	245	250	-5	265	-20	295	-50
Douglas Fir Green R/L 2x4	290	290	0	295	-5	335	-45
Douglas Fir Green R/L 2x10	345	340	+5	340	+5	380	-35
ESPF KD 2x4 8ft Stud	320	325	-5	340	-20	420	-100
OSB Ontario 7/16" (CDN\$)	215	210	+5	215	0	240	-25
CSplywood Toronto 3/8" (CDN\$)	407	400	+7	386	+21	406	+1

## Madison's Weekly Lumber News

### Home Sales, US

CONT'D FROM PG 2 Month over month, the share of all-cash home sales fell by 1 percentage point, said Corelogic Wednesday. Due to seasonality in the housing market, cash sales share comparisons should be made on a year-over-year basis.

The cash sales share peak occurred in January 2011 when cash transactions made up 46.5 per cent of total home sales nationally. Prior to the housing crisis, the cash sales share of total home sales averaged approximately 25 per cent. If the cash sales share continues falling at the same rate it did in February 2015, the share should decrease to 25 per cent by mid-2018.

Real estate-owned (REO) sales had the largest cash sales share in February 2015 at 59.8 per cent, followed by resales (37.6 per cent), short sales (34.3 per cent) and newly constructed homes (15.8 per cent). While the percentage of REO sales that were all cash transactions remained high, REO transactions made up only 9.7 per cent of all sales in February. In January 2011, when the cash sales share was at its peak, REO sales made up 23.9 per cent of total home sales. Resales make up the majority of home sales at about 80 percent, and therefore have the biggest weight on the total cash sales share.

Florida had the largest share of any state at 54.6 per cent, followed by Alabama (51.9 per cent), New York (48.4 per cent), Indiana (47.8 per cent) and Michigan (44.9 per cent). Of the nation's largest 100 Core Based Sta-

tistical Areas (CBSAs) measured by population, Detroit-Dearborn-Livonia, Mich. had the highest share of cash sales at 60.5 percent, followed by Cape Coral-Fort Myers, Fla. (59.4 per cent), Miami-Miami Beach-Kendall, Fla. (59.3 per cent), Fort Lauderdale-Pompano Beach-Deerfield Beach, Fla. (58.5 per cent) and West Palm Beach-Boca Raton-Delray Beach, Fla. (58.4 per cent). Washington-Arlington-Alexandria, D.C.-Va.-Md. had the lowest cash sales share at 16.9 per cent.

### Housing Starts, Japan

CONT'D FROM PG 2 Japan's housing starts of rental houses rose 4.6 per cent to 30,243 units, increasing for the first time in nine months, and this was the main reason for the year-on-year increase, said *Japan Lumber Reports* and *Japan Lumber Journal*. Housing starts of owner occupied houses were down 1.4 per cent to 21,352 units, decreasing for 14 consecutive months, and those of built-for-sale houses also declined 4.9 per cent to 17,560 units, turning from the increase in the previous month to the decrease. The breakdown of other housing starts was 7,575 units for condominiums (down 8.6 per cent) and 9,887 units for single-family houses (down 1.6 per cent).

Two-by-four houses were 8,936 units (up 3.8 per cent), showing an increase for two straight months.

### Canada Housing Starts

CONT'D FROM PG 2 In Canada, condo starts slipped 14.2 per cent to 107,216, said the CMHC. Single-de-

tached starts rose 11.4 per cent to 58,229.

Urban multi-unit project starts were 107,216 units, a 14.2 per cent decline from March.

Quebec and the Prairie region showed the biggest declines in multi-unit starts while Ontario was down to a lesser degree and there were increases in the Atlantic region and British Columbia.

The number of urban single-detached starts across the country was up 11.4 per cent to 58,229 units while rural areas of Canada accounted for 16,369 units started in April.

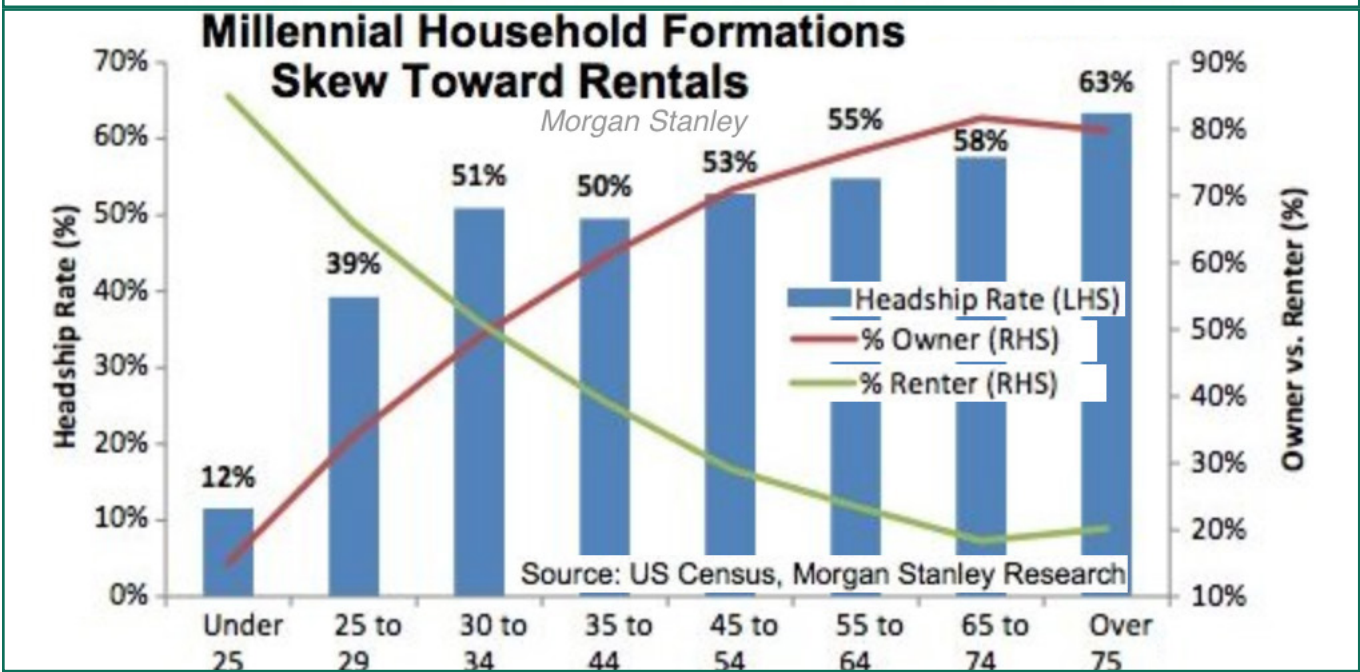
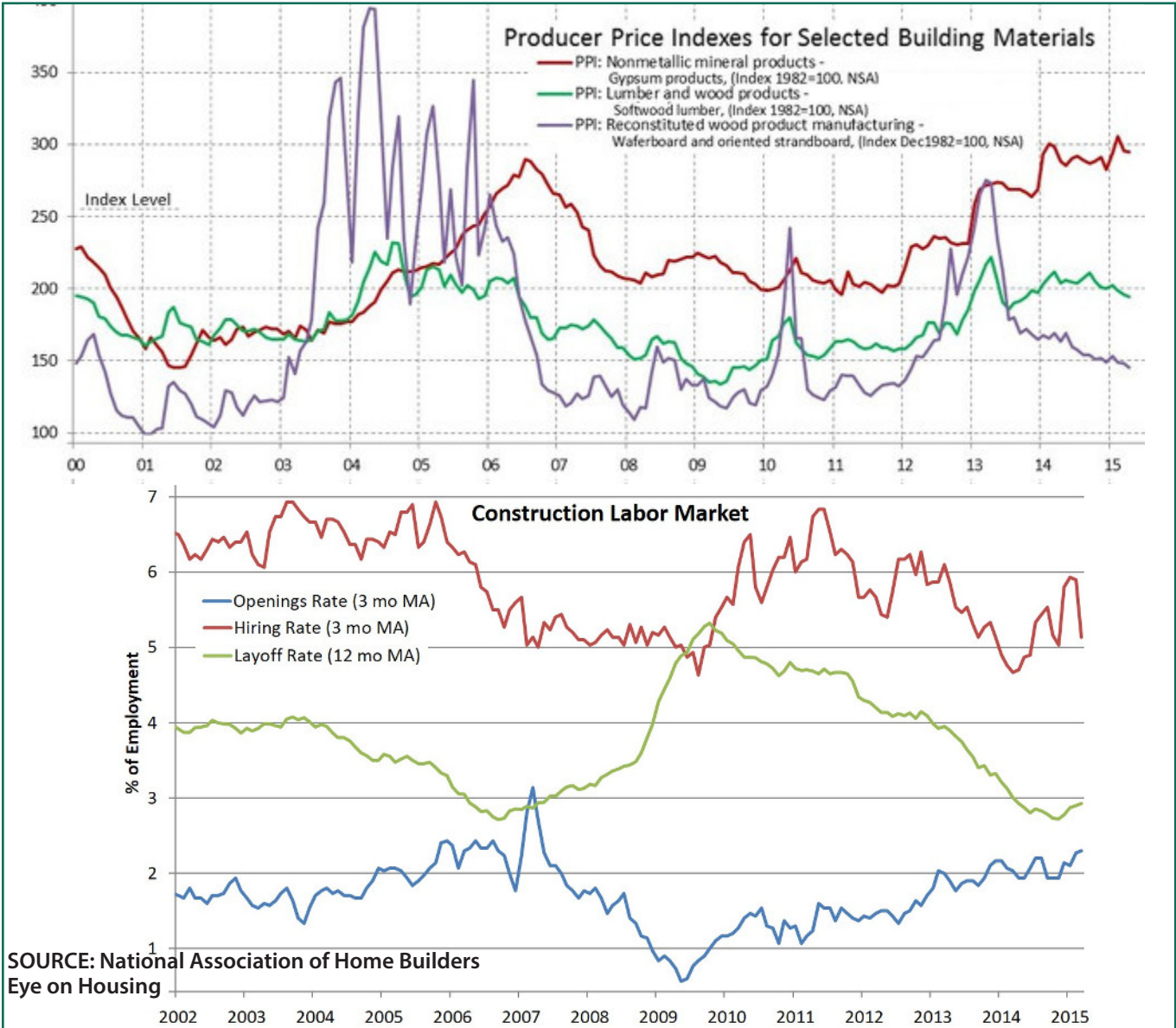
Canada's long housing boom has ended in several key markets, including Calgary and Edmonton, where a decline in oil prices has slowed demand, but construction and buyer demand has continued in Toronto and Vancouver, the two largest markets.

The report showed starts were higher in British Columbia, where Vancouver's hot housing market continues to surge, and in the much smaller Atlantic market.

Groundbreaking slowed in the Prairies, where a drop in oil prices has sideswiped the resource-dependent economy, particularly in the energy heartland of Alberta.

Quebec starts also declined, while construction in Ontario was essentially flat.

"All told, not much to move markets, since housing starts continue on their broadly sideways trend since mid-2013," CIBC World Markets economist Nick Exarhos said in a research note.



# Forestry Week 2015

Last week the Pulp and Paper Products Council and PwC held their annual forestry conferences in Vancouver, BC. As always the events were jam-packed with great speakers providing up-to-the minute information on the latest developments with the forest products industry in North America and internationally. Numerous networking sessions gave the over-capacity crowd a chance to mill about making connections, exchanging information, and just generally catching up with each other.

As always, Madison's took in all the speeches and interfaced with as many attendees as possible.

The downturn in US new home building and macro-economic conditions now behind us, Canadian and US sawmill operators, pulp manufacturers, as well as suppliers and service providers, have been showing improved financial results

by Kéta Kosman

for over a year. Sentiment among conference participants

was quite high; the worrisome volatility of demand and also uncertainty provided by capricious government decisions seem to have worked themselves out — by and large — so players are now more confident in making investment plans and decisions for company growth.

As detailed in *Madison's* coverage of various forestry events in the past year and a half, the projections by industry and analysts have come much more in line with each other, indicating even more confidence in near-term growth of sales volumes — whether solid wood or pulp and paper.

There are, however, significant constraints remain. Some are the same as they always were, others are brand-new. The global forest products industry is facing a brave new world and there remain worrisome unknowns. While some of these can lead to exciting opportunities, others will bring only frustration.

The most important development, and the one inspiring the greatest breadth of scuttlebutt and gossip, was of course the looming expiration of the 2006 Softwood Lumber Agreement and what will transpire next with this important trade issue between Canada and the US.

The US Lumber Coalition made a brief explanation of their position at the Thursday Global Softwood Log & Lumber Conference; suffice to say it struck fear in the hearts of all Canadians present. The rumours were already flying fast and furious in the days leading up to that conference session.

Madison's requested a statement from the US Lumber Coalition at writing Thursday:

"After careful and extensive review and analysis, the U.S. Lumber Coalition has determined that the current Softwood Lumber Agreement should not be renewed on its current terms. The Coalition urges both the U.S. and Canadian governments to engage in pro-active negotiations to bring about a new, effective, stable and sustainable Softwood Lumber Agreement. The Coalition has, some time ago, clearly communicated its position as well as proposed approaches to a new agreement to the U.S. government, and remains hopeful that Canadian industry and government will soon engage in a similar comprehensive process so as to allow both governments to find long-lasting solutions in the form of a new trade agreement."

## PwC and PPPC

On the Canadian side, there is no new information coming out of the events. However conversation among industry

players and government representatives strongly suggests the recent position of "renew the Agreement as-is" is no longer as solidly in place as it was even two weeks ago. Madison's has requested an interview with Martin Moen, Director, North America Commercial Affairs, Department of Foreign Affairs and International Trade, who also spoke at the Thursday conference.

The conference presentations give an excellent snapshot of company positions currently and some insight into future plans.

International Pulp Week, put on by the Pulp and Paper Products Council out of Montreal, QC, kicked off with a great speech by Yogesh Agrawal, Managing Director and CEO of India's BILT Paper, titled "India – Once in a Lifetime Opportunity".

It is unquestionable that emerging markets, specifically India and China, are poised for significant growth of consumption of a wide range of consumer goods. Paper products, specifically in the personal hygiene subsector, as well as solid wood will be in high demand in these emerging markets within the next five years.

As most people know by now, demographic shifts in India mean that 65 per cent of the population is under 35

years old, and life expectancy is going to increase by 14 years over the next 20 years (from 66 to 80 years old), explained Agrawal in a very dynamic and fact-filled presentation.

"Agricultural yield must go up, India will catch up with the rest of the world," detailed Agrawal. "This means more industrialization [at farms]. Currently 75 per cent of the population has access to electricity and/or power, but it is not always available 24 hours a day."

There is a real challenge for fibre supply in India, with wood costs in the highest quadrant, continued Agrawal. Also logistics and supply chain continue to be huge issues.

"The average distance to plant [from major transportation hubs] is 1,500 km," said Agrawal. "There are about 500 pulp mills in India, 400 of them are not in compliance with international environmental standards. The average order size is for 5 metric tonnes, or 1/4 or a truck."

Next up was Haidong Weng, Head of Strategy at China's Xiamen C&D Paper and Pulp, with a great presentation titled "The 'New Normal' of Chinese Pulp Market".

Xiamen C&D Paper and Pulp has 1.49 million tons of annual paper sales and 1.48 million tons of pulp. Company revenue (2014) is US\$2.2 billion, according to Weng's presentation.

Not surprisingly, one of the first topic's in Weng's speech was demographics in China.

"The aging population is a problem," said Weng. "There is a decline of 3.5 million working age people per year. China must keep GDP at 6.5 or 7 per cent. If real GDP falls to 5 or 6 per cent there will be a real problem of deflation."

"The paper industry in China contributes less than 0.5 per cent to GDP but is the largest industrial user of water."

Access to water and protection of water resources was a running theme throughout the conference. This important environmental issue is at the forefront of the pulp and the paper sectors, and does affect solid wood operators as stewards of the forests.

Next week: coverage of the PwC Forestry and Paper conference, as well as more on softwood lumber agreement negotiations.

"The Coalition has, some time ago, clearly communicated its position as well as proposed approaches to a new agreement to the U.S. government, and remains hopeful [...] of a new trade agreement. "

- US Lumber Coalition, May 14, 2015