

MADISON'S LUMBER REPORTER



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News & Updates

Sawmill Curtailments

Tembec is suspending operations at its three sawmills in Québec due to the high cost of wood supply in the Abitibi-Témiscamingue region. The company says the wood costs make its sawmills uncompetitive given the persistent weak market prices for lumber in North America. The move affects 360 direct jobs at Tembec.

Tembec is still trying to obtain from the Québec Ministry of Forests, Wildlife and Parks an additional annual volume of some 300,000 cubic metres of softwood to ensure the long-term operations of its three Abitibi-Témiscamingue sawmills.

As of May 25, Tembec's La Sarre, Senneterre, and Béarn, QC, sawmills will suspend operations for a period of two weeks, removing approximately 12 million board feet of production.

In the west, Interfor will curtail operations at its Tacoma, WA, sawmill on May 22. The company cited high log costs and productivity-related issues. Market conditions and the time it takes to complete operational improvements will factor in any restart date.

Interfor recently bought the sawmill from Tacoma-based Simpson Lumber Company, which built it in 2001.

Interfor has recently reduced hours at its mills in Molalla and Gilchrist, OR and Port Angeles, WA, as well as Canadian facilities in Adams Lake and Grand Forks, BC.

US Housing Starts: April 2015

US housing starts jumped to their highest level in nearly 7-1/2 years in April and building permits soared.

Groundbreaking surged 20.2 per cent to a seasonally adjusted annual pace of 1.14 million units, the highest since November 2007, the Commerce Department said Tuesday. The per cent increase was the biggest since February 1991. Adding to the report's strong tenor, March's starts were sharply revised higher. Groundbreaking for single-family homes, which accounts for the largest share of the market, hit its highest level since January 2008.

While April's sharp acceleration in starts likely reflected pent-up demand during a harsh winter, a 10.1 per cent jump in permits for future home construction to a near seven-year high 1.14 million-unit rate indicated the rebound was sustainable.

CONT'D PAGE 7

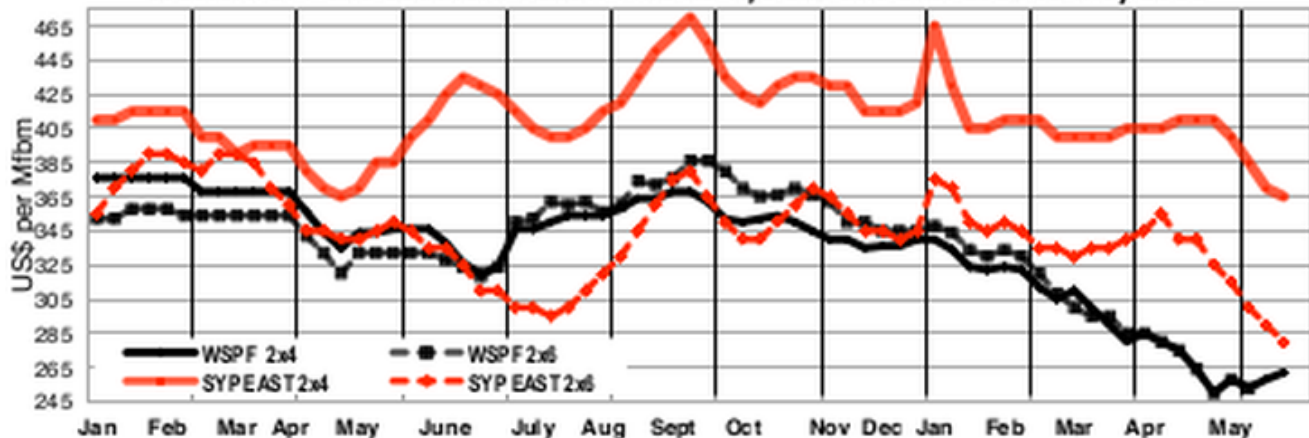
Freight and Rail Transport Data, US: April 2015

The Ontario Trucking Association's 2Q 2015 business conditions survey shows that nearly half of Ontario carriers reported freight volume increases in the previous three months, compared to carriers in the 4Q 2014 survey. CONT'D PAGE 6

US Real Estate Activity: 1Q 2015

Positive US housing starts for April, out this week, are at least in part credited with a pop in lumber futures values. Also examined is the latest data on US home sales, inventory, and prices. CONT'D PAGE 9

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



US Freight and Rail Transport Data: March 2015

This is the first time in 18 months that less than 30 per cent of carriers reported volume improvements, according to the Ontario Trucking Association's second quarter 2015 business conditions survey.

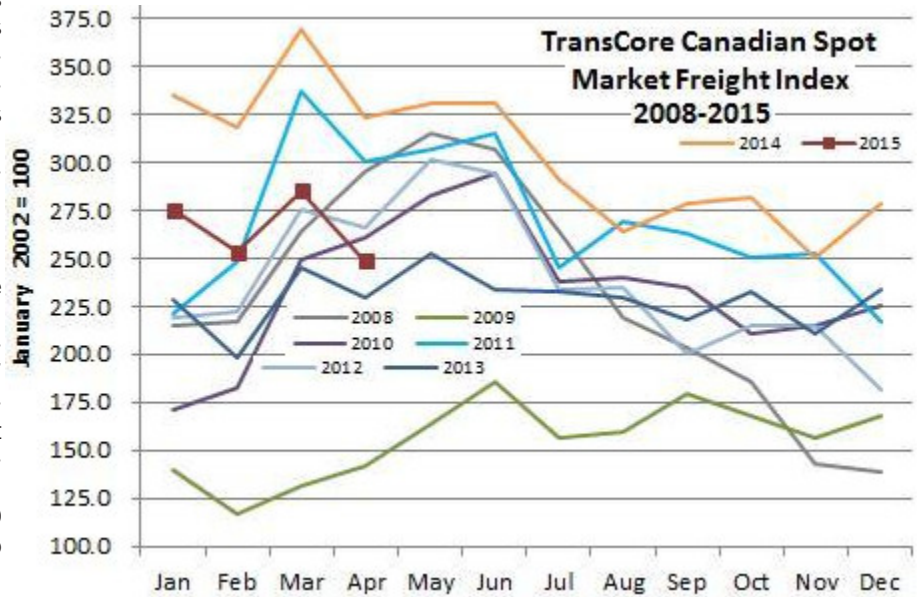
Sixty-seven percent of carriers reported no change.

Intra-provincially, 36 per cent of carriers indicated increased volumes, while 60 per cent who said the same thing exactly a year ago.

The survey also revealed US south-bound volumes also slid as only 27 per cent of carriers reported increases, compared to 55 and 65 per cent of carriers in the previous two quarterly surveys.

That mark is the lowest since 4Q 2013 and the first back-to-back drop since 2Q 2013.

SOURCE: Today's Trucking



US rail intermodal traffic, meanwhile, rose 2.9 per cent in the week ended May 16 compared with the same week last year as carload volume declined for the fourth consecutive week, the Association of American Railroads reported Tuesday.

Year-to-date, US intermodal volume increased 1.9 per cent to 4,959,620 units.

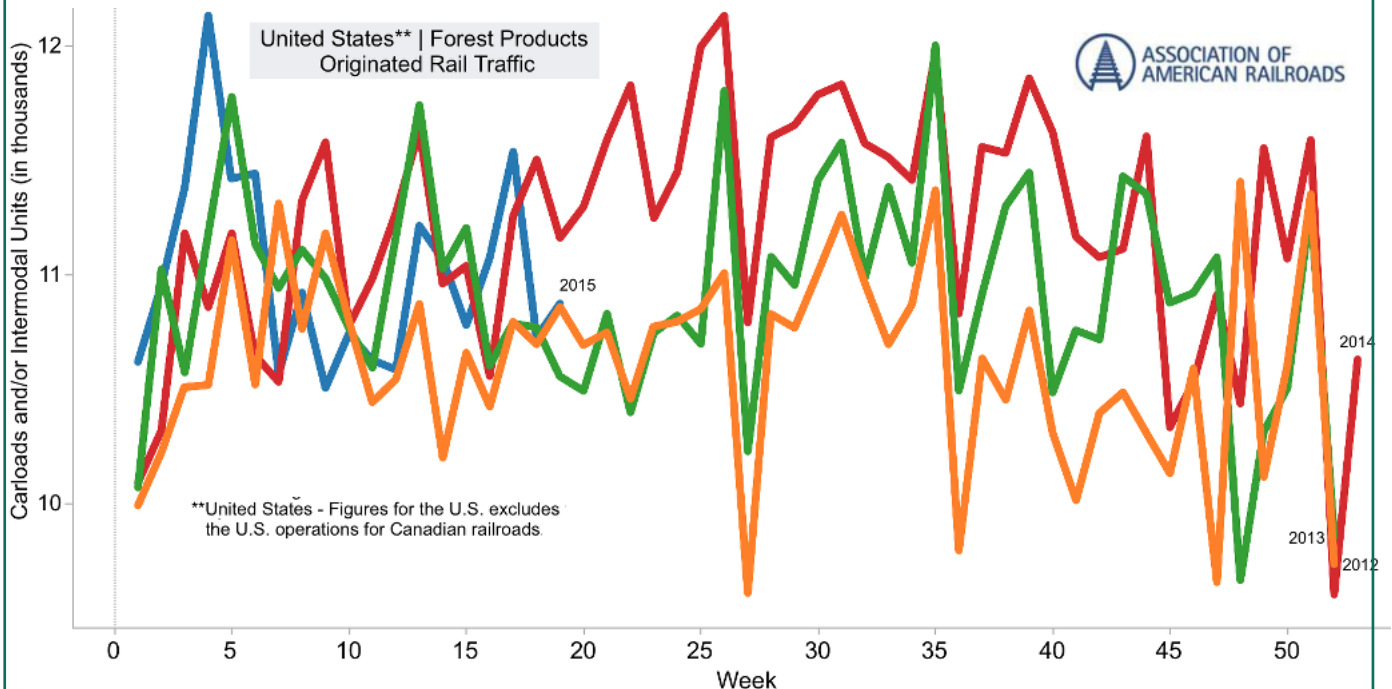
For the first 19 weeks of the year, carloads declined 2.2 per cent to 5,312,651, from the same time last year, Railroads moved 280,107 intermodal trailers and containers, AAR announced May 20 in its weekly report. The rise follows a 3.8 per cent increase the prior week.

Rail carload volume, which excludes intermodal units, dropped 10 per cent year-over-year to 269,092 carloads. The last carload increase was the week of April 18, when volume rose 1.2 per cent.

Intermodal volume for 13 reporting North American railroads increased 5 per cent to 355,252 trailers and containers.

Canadian railroads moved 64,098 intermodal units, a 5.3 per cent rise, according to AAR.

SOURCE: Association of American Railroads



**United States - Figures for the U.S. excludes the U.S. operations for Canadian railroads.

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	262	258	+4	250	+12	346	-84
WSPF KD R/L 2x6	260	258	+2	250	+10	332	-72
WSPF KD R/L 2x8	272	272	0	274	-2	347	-75
WSPF KD R/L 2x10	326	310	+16	310	+16	380	-54
WSPF KD PET 2x4 Stud	255	235	+20	245	+10	325	-70
WSPF KD PET 2x6 Stud	255	245	+10	250	+5	295	-40
Douglas Fir Green R/L 2x4	300	290	+10	290	+10	320	-20
Douglas Fir Green R/L 2x10	350	345	+5	345	+5	370	-20
ESPF KD 2x4 8ft Stud	340	320	+20	330	+10	427	-87
OSB Ontario 7/16" (CDN\$)	230	215	+15	215	+15	245	-15
CSplywood Toronto 3/8" (CDN\$)	415	407	+8	380	+35	406	+9

Madison's Weekly Lumber News

US Housing Starts

CONT'D FROM PG 2 Single-family homes groundbreaking gained 16.7 per cent. Starts for the multi-family homes segment increased 27.2 per cent. Single-family permits increased 3.7 per cent last month. Multi-family permits surged 20.5 per cent.

Home building is being boosted by solid gains in household formation as more young adults find employment and very tight housing inventories.

Last month, groundbreaking vaulted 85.9 per cent in the Northeast.

There were also outsized gains in the Midwest and the West. Though starts fell 1.8 per cent in the South, where most of the home building takes place, building permits were up 9.9 per cent.

Canada Wholesale Trade

Wholesale sales rose 0.8 per cent to \$53.9 billion in March after two consecutive monthly declines, said Statistics Canada Wednesday. Higher sales were recorded in five of seven subsectors, accounting for 66 per cent of total wholesale sales.

In volume terms, wholesale sales increased 1.0 per cent.

Following two consecutive monthly declines, the building material and supplies subsector recorded the largest gain in dollar terms in March, rising 2.8 per cent to \$7.6 billion. Gains in the electrical, plumbing, heating and air-conditioning equipment and supplies industry, up 4.7 per cent, and the lumber, millwork, hardware and other building supplies industry, up 3 per cent, accounted for the increase.

Following two consecutive monthly declines, the motor vehicle and parts subsector increased 0.7 per cent to \$8.9 billion, led by higher sales in the motor vehicle industry, which had an increase of 1.2 per cent.

In March, sales rose 1.9 per cent to \$26.3 billion in Ontario on the strength of gains in the building material and supplies subsector and the motor vehicle and parts subsector.

In British Columbia, sales rose 0.8 per cent to \$5.3 billion, the highest value on record. The building material and supplies subsector contributed the most to the gain.

Meanwhile, inventories rose 1 per cent to \$71.4 billion in March. Gains were recorded in four of seven subsectors, which together represented 62 per cent of wholesale inventories.

The largest gain in dollar terms occurred in the machinery, equipment and supplies subsector, up 2.4 per cent, its fourth consecutive monthly increase.

The inventory-to-sales ratio remained at 1.32 in March. The inventory-to-sales ratio is a measure of the time in months required to exhaust inventories if sales were to remain at their current level.

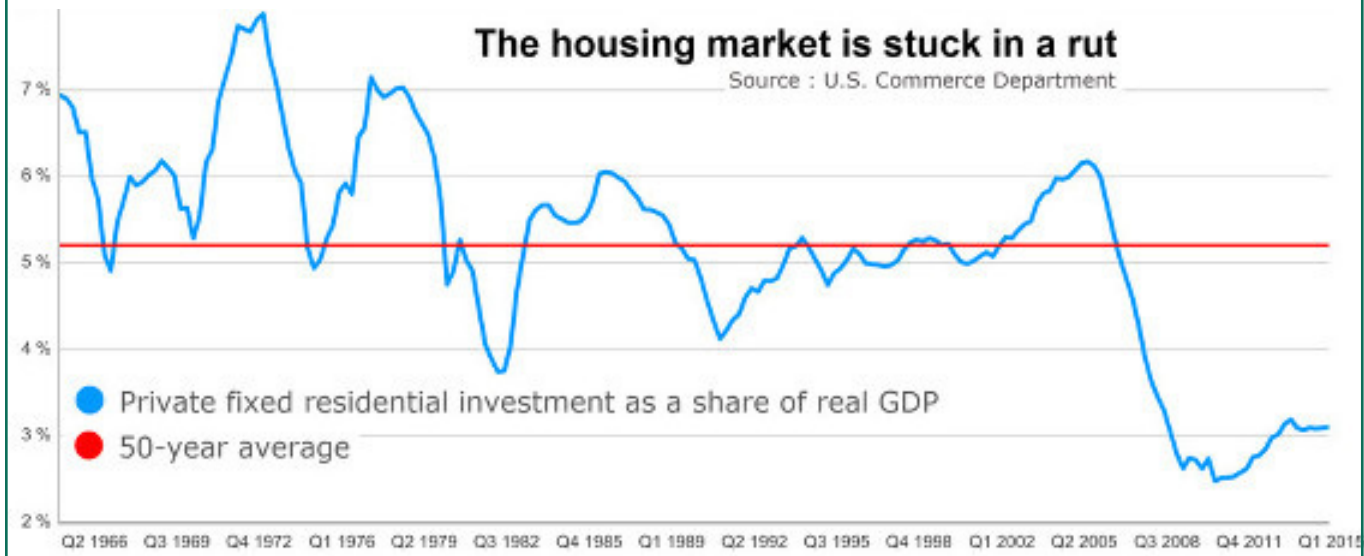
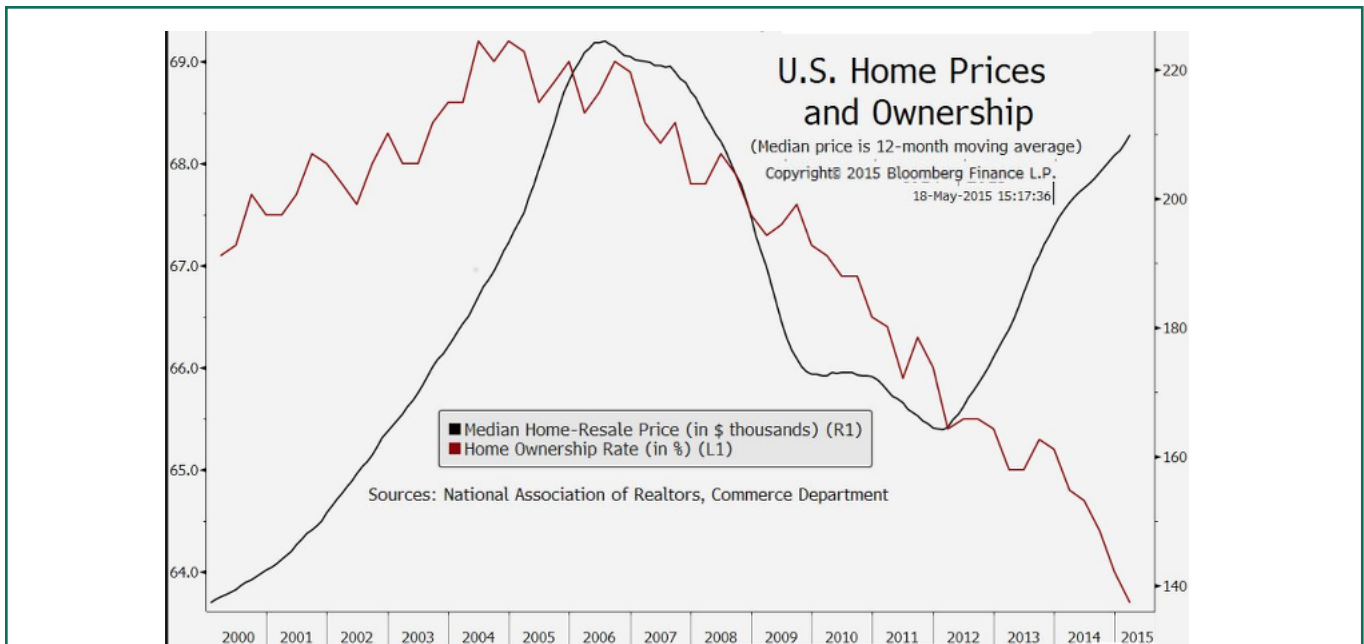
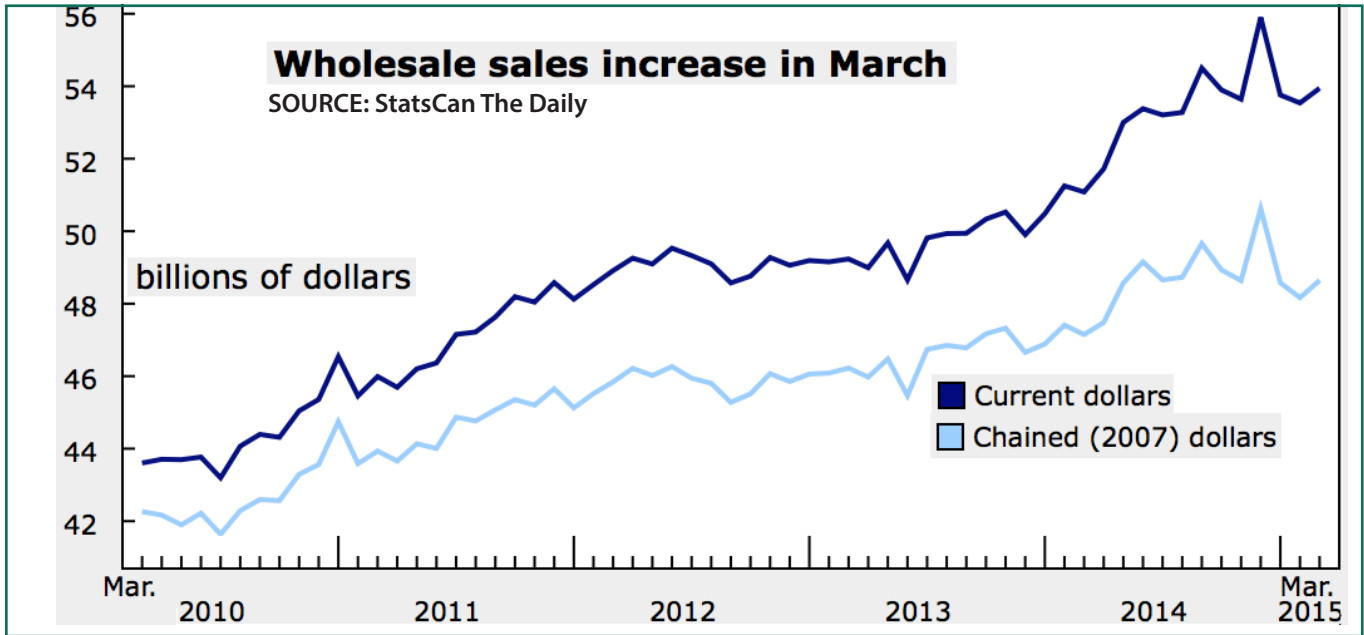
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US Home Building, Sales, Prices

New housing starts data came out of the US this week with a powerful bang. It is important to note that the highest increase in new home building continues to be in the multi-family sector, but for April even single-family building is up more than 10 per cent on a seasonally-adjusted basis.

Other indicators continue troubling.

First off, US housing starts jumped to their highest level in nearly 7-1/2 years in April and building permits soared.

The strength in housing is in stark contrast with weakness in consumption and business spending, which prompted economists to lower their 2Q growth estimates and raised doubts that the Federal Reserve will raise interest rates before the end of 2015.

Groundbreaking surged 20.2 per cent to a seasonally adjusted annual pace of 1.14 million units, the highest since November 2007, the Commerce Department

by **Kéta Kosman**

said Tuesday. The per cent increase was the biggest since February 1991. Adding to the report's strong tenor, March's starts were sharply revised higher. Groundbreaking for single-family homes, which accounts for the largest share of the market, hit its highest level since January 2008.

While April's sharp acceleration in starts likely reflected pent-up demand during a harsh winter, a 10.1 per cent jump in permits for future home construction to a near seven-year high 1.14 million-unit rate indicated the rebound was sustainable.

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Home building is being boosted by solid gains in household formation as more young adults find employment and very tight housing inventories.

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The US housing market may help the economy recover from a slow 1Q.

Housing will be a "stand-out growth contributor," Ted Wieseman, an economist at Morgan Stanley, wrote in a research note Tuesday.

Residential investment has been underperforming for years. But key factors are improving: Young families and other first-time buyers are tip-toeing into the housing market, the jobs environment is steady, and there's rising demand and ability among borrowers to take out a mortgage.

"Household formations appear to be showing a solid underlying pickup to a pace more in line with the demographic trend around 1 million per year based on growth in the adult population after a persistently sluggish post-recession trend closer to 500,000," Wieseman wrote, via MarketWatch.

In 1Q, fixed residential investment made up about 3.1 per cent of real US gross domestic product, below an average of more than 5 per cent over the past five decades.

The US economy grew just 0.2 per cent in 1Q, according to the Commerce Department.

Rising house prices in the face of a falling homeownership rate are a show of strength for the US housing market, according to Pierre Lapointe, Pavilion Global Markets Ltd's head of global strategy and research.

The BloombergBusiness chart on Page 8 shows the contrast by comparing the median home-resale price, based on a 12-month moving average, with the percentage of American households owning their homes. The data are compiled by the National Association of Realtors and the Commerce Department, respectively.

For the three years ended in March, prices for existing homes climbed 28 per cent to an average of US\$209,900, the highest since May 2008. Homeownership fell 1.7 percentage points in the period to 63.7 per cent, matching the lowest level since 1986.

Meanwhile, contract closings on previously owned properties unexpectedly dropped 3.3 per cent to a 5.04 million annualized rate in April after a 5.21 million pace that was the strongest in almost two years, figures from the National Association of Realtors showed Thursday. Prices jumped the most since the start of 2014 as the inventory of houses on the market declined from the same time last year.

US Real Estate

A limited number of homes for sale and higher selling prices are making for one painstaking US housing recovery.

The rebound in residential real estate has been stop-and-go as small

wage gains and lingering concerns about taking on more debt offset the benefits of historically low mortgage rates. In order to strengthen, the economy needs more pronounced momentum from housing as manufacturing remains sluggish.

A series of factory reports Thursday indicated the industry remains tepid this month against a backdrop of weaker global growth and a strong dollar. The Markit Economics preliminary May manufacturing index dropped to the lowest level since January 2014. The Federal Reserve Bank of Kansas City's gauge showed a third month of contraction and is the weakest since April 2009, a product of the slowdown in US oil exploration.

Existing home sales, tabulated when a purchase contract closes, account for more than 90 per cent of the residential market. New-home purchases, which make up about 8 per cent and are tabulated when contracts are signed, are considered a timelier barometer. The Commerce Department will issue those data on May 26.

The median sales price of an existing home climbed 8.9 per cent from a year earlier, the biggest 12-month gain since January 2014, to US\$219,400, the Realtors' report showed.

While increasing property values hurt affordability for prospective buyers, they help bolster owners' household wealth and build confidence among those whose homes are still worth less than their mortgages.

First-time buyers accounted for 30 per cent of all purchases for a second month. A year ago, the share was 29 per cent.

They are slowly coming back into the market -- "very slowly," Lawrence Yun, NAR's chief economist, said at a news conference as the figures were released.

One reason prices are picking up is a lack of supply. The number of previously owned homes on the market fell 0.9 per cent from a year earlier to 2.21 million.

At the current sales pace, it would take 5.3 months to sell those houses compared with 4.6 months at the end of the prior month. Less than a five months' supply is considered a tight market, the Realtors group has said.

Sales of existing single-family homes decreased 3.7 per cent to an annual rate of 4.43 million. Purchases of multifamily properties -- including condominiums and townhouses -- held at 610,000.

Purchases declined in three of four regions, led by a 6.8 per cent drop in the South.