

# MADISON'S LUMBER REPORTER

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## News & Updates

### BC Lumber Trade Council Press Release

The BC Lumber Trade Council is urging the federal government to engage with the US government to determine a way forward following the expiration of the Canada-US Softwood Lumber Agreement, the agency said in a press release Friday.

"It is important for governments on both sides of the border to take steps to avoid another lengthy and unnecessary trade dispute in softwood," said Susan Yurkovich, president of the BC Lumber Trade Council.

BC is the largest Canadian exporter of softwood lumber to the US. The BC forest industry remains a major contributor to the provincial economy, generating \$1.4 billion in revenue for the provincial government and supporting 150,000 forestry-dependent jobs.

### US Mortgage Applications Week Ending Oct 2, 2015

Mortgage applications in the US increased 25.5 per cent from one week earlier, according to data from the Mortgage Bankers Association's (MBA) Weekly Mortgage Applications Survey for the week ending October 2, 2015.

The Refinance Index increased 24 percent from the previous week. The seasonally adjusted Purchase Index increased 27 percent from one week earlier. The unadjusted Purchase Index increased 27 percent compared with the previous week and was 49 percent higher than the same week one year ago.

The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances (\$417,000 or less) decreased to 3.99 percent, the lowest level since May 2015, from 4.08 percent, with points increasing to 0.46 from 0.45 (including the origination fee) for 80 percent loan-to-value ratio (LTV) loans.

CONT'D PAGE 7

### British Columbia New Sawmill Safety Regulations

Measures in Bill 35, introduced Thursday, and drafted in answer to recommendations from the coroner's inquests into the Lakeland and Babine sawmill explosions, include rules requiring employees to immediately report to WorkSafeBC all workplace fires or explosions that could have caused serious injury to a worker.

The legislation will also require employer investigation reports be provided to the workplace health and safety committee or worker health and safety representative, or be posted at the worksite.

CONT'D PAGE 7

### Trade Deals: North America and International

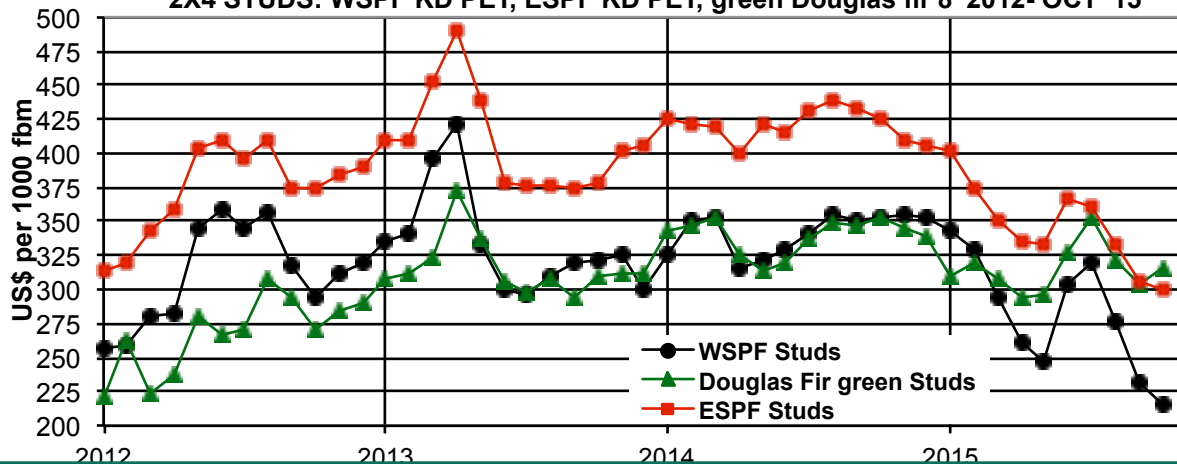
Just as the 2006 Canada-US Softwood Lumber Agreement is expiring, leaving a one-year stand-still period before either country can embark on any kind of trade action against the other, the Trans-Pacific Partnership is signed between twelve Asian and North American countries, including Canada and the US.

That agreement now has to be passed domestically by each of the member countries.

The most important player — for Canada's forest products' industry — by far, is Japan.

CONT'D PAGES 6 and 9

2X4 STUDS: WSPF KD PET, ESPF KD PET, green Douglas fir 8' 2012- OCT '15



# TPP: Japan and Forestry

CONT'D FROM PAGE 2

The effects of the Trans Pacific Partnership on Japan's forestry trade are:

"On lumber and plywood, it is agreed that Japan can set up a safe guard and duty abolishment period in 16 years for the member countries, from which import is large or growth of import is remarkable. Such countries are Malaysia, New Zealand, Canada, Chile, and Vietnam. Also it is agreed to control trade of illegally harvested wood.

On main items from Canada and Malaysia, Japan can maintain safe guard even after the tariff is abolished.

## Japan SPF Imports from Canada

For Canadian SPF lumber, import duty will be reduced from 4.8% to 2.4% until 16 years after ratification. How-

ever if the import volume reaches a certain level, the previous duty rate (before ratification) is applied.

The base volume, at the time the TPP is ratified, of 1,573 million cubic metres, to increase by 31,500 cubic metres every year up to and after the 16 year term of the TPP. Duties on OSB, as a substitute for plywood and lumber, will be abolished step by step.

## Japanese Government Announcement

The Japanese government announced in March 2015 a 'Uniform calculation of economic effect in case import duty is abolished'. In this, production value of forest products will decline by about 49 billion yen by reduction of duty and domestic products would be replaced by the imports and resolution was made that utmost consideration is necessary for import of plywood and lumber."

—Japan Lumber Reports; October 9, 2015

### Japan Imports of North American Logs and Lumber: First Half 2015

#### North American logs and lumber import for the first six months

Logs			Lumber		
Species	Vol.	'05/'04	Species	Vol.	'05/'04
Douglas fir	1,152	72.3	SPF	659	104.5
Hemlock	65	98.2	Douglas fir	241	90.5
Spruce	23	76.5	Hemlock	140	75.5
Yellow cedar	4	33.4	Yellow Cedar	43	84.6
Red cedar	3	230.5	Sitka spruce	7	79.8
Total softwood	1,252	73.3	Others	23	80.8
Oak	14	100.2	Total softwood	1,117	95.0
Other hardwood	15	92.0	Oak	8	100.4
Total hardwood	29	95.9	Others	25	77.2
Grand total	1,281	73.7	Total hardwood	34	82.2
			Grand total	1,151	94.6
U.S.A.	893	85.8	U.S.A.	168	83.4
Canada	387	55.6	Canada	983	96.8

Volume : 1,000 cbms      Comparison: %

SOURCE: Japan Lumber Reports

Japan's import of North American logs decreased by 26.3 per cent, to 1.28 million cubic metres, compared to the first six months of last year. This is an almost 30 per cent drop from the recent peak of 2013.

Log imports from USA dropped by 14.2 per cent, to 893,000 cubic metres, while that from Canada fell by 44.4 per cent, to 387,000 cubic metres.

Conversely, import of North American lumber for January to June this year fell by 5.4 per cent, to 1.15 million cubic metres, compared to the same time in 2014.

Lumber imports from USA dropped by 16.6 per cent, to 168,000 cubic metres, while that from Canada lost only 3.2 per cent, to 983,000 cubic metres.

#### Japan Log Imports

The amount of Japan's log imports for the first half of 2015:

- Douglas fir (sources approx 70% from the US, 30% from Canada) 1.15 million cubic metres, down 27.7%;
- The share of Hemlock logs continued to fall;
- Sitka Spruce log imports fell further as prices continued soaring.

#### Japan Lumber Imports

The amount of lumber products received:

- Spruce-Pine-Fir lumber import (which accounts for 57% of North American lumber imports) 659,000 cubic metres, up 4.5%;
- Douglas fir lumber volumes imported were 241,000 cubic metres, down 9.5%;
- Hemlock lumber imports fell by 24.5%, to 140,601 cubic metres, due to production curtailments by supplying sawmills on the BC coast.

## 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	250	248	+2	245	+5	352	-102
WSPF KD R/L 2x6	244	242	+2	242	+3	366	-122
WSPF KD R/L 2x8	278	280	-2	285	-7	366	-88
WSPF KD R/L 2x10	302	302	0	326	-24	374	-72
WSPF KD PET 2x4 Stud	215	225	-10	225	-10	355	-140
WSPF KD PET 2x6 Stud	240	245	-5	240	0	390	-150
Douglas Fir Green R/L 2x4	295	300	-5	305	-10	325	-30
Douglas Fir Green R/L 2x10	385	395	-10	405	-20	415	-30
ESPF KD 2x4 8ft Stud	300	300	0	300	0	435	-135
OSB Ontario 7/16" (CDN\$/msf)	291	283	+8	272	+19	218	+73
CSplywood Toronto 3/8" (CDN\$/msf)	404	412	-8	434	-30	453	-49

## Madison's Weekly Lumber News

### Mortgage Applications, US

CONT'D FROM PAGE 2 "The number of applications for purchase and refinance mortgages soared last week due both to renewed rate volatility and as many applications were filed prior to the TILA-RESPA regulatory change. The average loan size of applications in the weekly survey increased by 6.9 percent, driven by a 12.1 percent increase in the average size of refinances," said Lynn Fisher, MBA's Vice President of Research and Economics.

### Sawmill Safety Regs, BC

CONT'D FROM PAGE 2 In all, seven recommendations from the inquests were directed at the Ministry of Jobs, Tourism and Skills Training, including:

- Employers must specify "meaningful participation" for worker and employer representatives in accident investigations.

- Specify a role for workplace health and safety committees to provide advice to the employer on significant proposed equipment and machinery changes that may affect worker health and safety.

- Allow WorkSafeBC to proactively assist workplace health and safety committees in resolving disagreements over health and safety matters.

### Federation of BC Woodlot Associations Awards

Ron and Doug Fuller received awards at the Federation of BC Woodlot Associations annual general meeting in Kelowna on Saturday, October 3 for their commitment to managing two woodlots near Hammil Lake and Duck Lake, said the Powell River Peak Wednesday. The area is comprised of approximately 1,000 hectares of crown

land and 244 hectares of private land.

The Fullers received a total of \$5,000 for two Ministers' Awards for Innovation and Excellence in Woodlot Management, one for the coast area, which they were aware of in advance, and another for the province overall. The awards recognize the family's 30-year commitment to forest stewardship since the brothers' now-deceased father, Garry Fuller, received his first woodlot license in 1986. Garry died in 2007 at the age of 71.

The Fullers' woodlots support a variety of uses, including commercial use, such as cedar and fir pole production, and recreation use, such as horseback and quad riding and mushroom picking.

The provincial government funds the annual woodlot awards, which are administered by Federation of BC Woodlot Associations.



# LOG TRADE TRENDS

## A Global Perspective

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Join us for a Region-by-Region Analysis of International Log Suppliers, Market Trends and Forecasts. Optional Port Tour to Longview, WA



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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

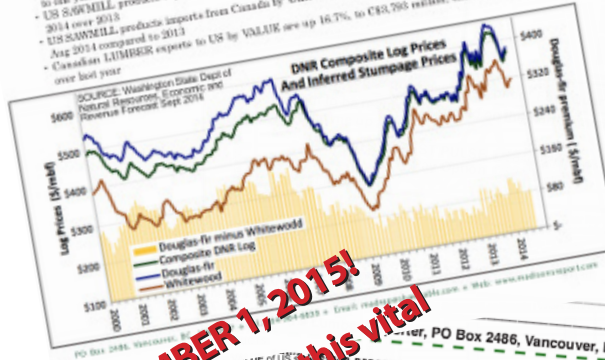
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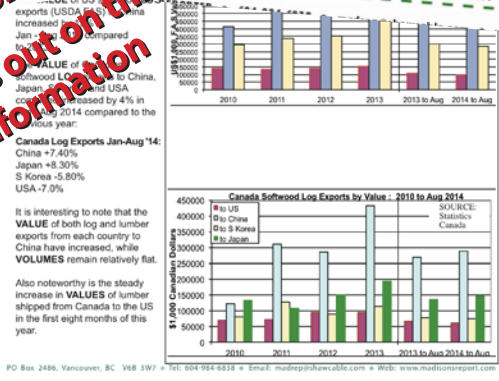
**MADISON'S**  
3Q 2014 North America Timber Industry Analysis and Projection  
By Rita Kaman, Publisher and Editor, Madison's Lumber Reporter  
November 1, 2014



**IMPORTANT DATA:**  
 - US LUMBER exports to China by VALUE are up 17%, to US\$445.5 million, Jan to Aug 2014 compared to same year ago.  
 - US SAWMILL products exports to China by VALUE are up 28.9%, to US\$659 million, Jan to Aug 2014 compared to 2013.  
 - US SAWMILL products imports from Canada by VALUE are up 39.2%, to US\$3,519 million, Jan to Aug 2014 over last year.  
 - Canadian LUMBER exports to US by VALUE are up 16.7%, to C\$1,785 million, Jan to Aug 2014 over last year.



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# Softwood Lumber Agreement 2006: An Econometric Study

CONT'D FROM PAGE 2

Rajan Parajuli, Sun Joseph Chang, and R. Carter Hill  
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<http://dx.doi.org/10.5849/forsci.15-014>

“By estimating a system of supply and demand equations for the US softwood lumber market, this article assesses the possible effects of the export tax on the lumber trade between the US and Canada. Unlike previous studies, this study computes the actual monthly export tax collected by Canada during the period of SLA 2006 and incorporates it into the empirical modeling. The findings reveal that SLA 2006 has no statistically significant effect on the softwood lumber trade between the United States and Canada. The Canadian lumber exports from SLA-included provinces are found to be price elastic, whereas the US domestic supply schedule is price inelastic. Further, Canadian overseas lumber exports significantly influence the Canadian lumber exports to the United States. Given that SLA 2006 is scheduled to expire in October 2015, this article provides useful insights into the decades-long trade battle between the otherwise friendly neighboring nations.”

## Theoretical Framework

“We use an econometric model for the US softwood lumber market that follows the theoretical framework as devised by Myneni et al. (1994), Baek and Yin (2006), and Song et al. (2011). We modify the model specifications of Song et al. (2011) to include an export tax and Canadian overseas lumber exports to evaluate the effects of SLA 2006 on the lumber trade.

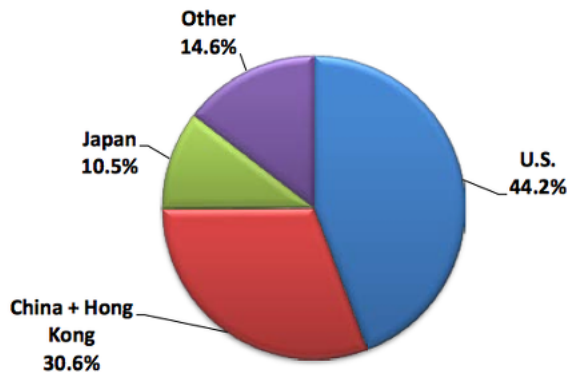
## Conclusions

“The LIML estimates of supply and demand equations for the softwood lumber market show that the Canadian lumber exports from the SLA-included provinces are price elastic, yet US domestic lumber supply is price inelastic. This fact clearly indicates that the monthly lumber composite price alters the quantity of Canadian lumber exports to the United States, but the US domestic supply schedule is less affected by the change in the lumber composite price. More importantly, contrary to the expectation and results of past studies, the export tax is found to be ineffective in limiting the Canadian softwood lumber shipments to the United States during the SLA 2006 period. However, a recently increasing trend in Canadian overseas exports suggests that, in the future these overseas markets will gain in importance, whereas the trade dispute between the United States and Canada will be less important.

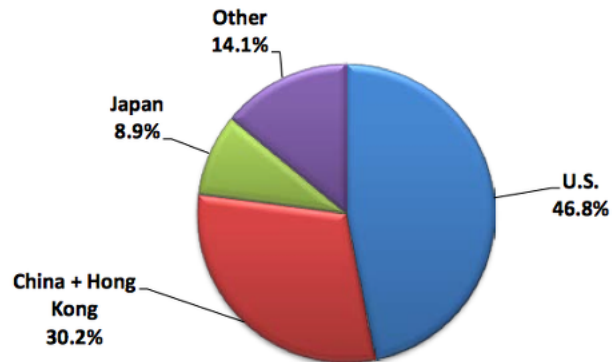
However, if the United States looks for stronger trade barriers to restrict Canadian lumber imports, US consumers would need to bear a higher cost for a smaller benefit to US producers. Because most of the Canadian lumber-producing provinces already started implementing an auction-bid timber-pricing system similar to that of the United States (BC Timber Sales 2015, Farnia et al. 2015), such a development may make the argument of the US Lumber Coalition to lobby for import protection policies against Canadian lumber shipments a moot point and eventually lead to free trade in softwood lumber between the two countries in the long run.”

## B.C. Forest Product Exports - August 2015

**B.C. Forest Product Export Value (C\$8.27 billion)**  
Share by Market, YTD August 2014



**B.C. Forest Product Export Value (C\$8.61 billion)**  
Share by Market, YTD August 2015



B.C. Forest Product Exports - August 2015

## B.C. Forest Product Export Value (C\$ billion) and Share (%) by Market Current Month (August) and YTD, 2014 and 2015

Destinations	Current Month 2014		Current Month 2015		Change %	YTD 2014		YTD 2015		Change %
	\$	Share %	\$	Share %		\$	Share %	\$	Share %	
U.S.	0.46	43.7%	0.57	51.7%	23.8%	3.66	44.2%	4.03	46.8%	10.2%
China + Hong Kong	0.32	30.5%	0.30	26.9%	-7.9%	2.54	30.6%	2.60	30.2%	2.6%
Japan	0.12	11.1%	0.08	7.6%	-28.4%	0.87	10.5%	0.77	8.9%	-12.2%
Other	0.16	14.7%	0.15	13.7%	-2.0%	1.21	14.6%	1.21	14.1%	0.3%
<b>Total</b>	<b>1.06</b>	<b>100.0%</b>	<b>1.11</b>	<b>100.0%</b>	<b>4.6%</b>	<b>8.27</b>	<b>100.0%</b>	<b>8.61</b>	<b>100.0%</b>	<b>4.1%</b>