

MADISON'S LUMBER REPORTER



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News & Updates

Weyerhaeuser - Plum Creek Merger

Weyerhaeuser's planned all-stock acquisition of smaller rival Plum Creek Timber represents a big bet that scaling up can boost profits in the heavily splintered US timber industry, said the *Wall Street Journal* Monday.

The two largest corporate timberland owners in the US—which had a combined market capitalization of US\$23 billion as of Friday—are also wagering on a recovery in US housing construction. This has proven elusive for an industry that has relied heavily on housing starts for growth.

Federal Way, WA-based Weyerhaeuser estimates the combination would generate US\$100 million in annual cost savings. It expects the deal, announced late Sunday, to close late in 1Q or early in 2Q.

Plum Creek shareholders would receive 1.6 shares of Weyerhaeuser for each share of Plum Creek. BMO Capital Markets said that represented a 21 per cent premium based on the companies' Friday closing prices.

Lumber Production, Sawmill Capacity: August 2015

The latest issue of the **Western Wood Products Association's** *Lumber Track* shows Canadian and US softwood lumber production and sawmill capacity utilization continuing on a path of stable recovery begun last year.

Please see graph on Page 5.

US Home Sales, House Prices: 3Q 2015

Home prices climbed in 87 per cent of US metropolitan areas in 3Q, with gains nationwide slowing to a healthier pace, the National Association of Realtors said Thursday.

CONT'D PAGE 7

US Construction Employment: September 2015

The count of construction job openings declined in September as hiring in the home building sector remained slow, according to the BLS Job Openings and Labor Turnover Survey and NAHB analysis released also Thursday. The average monthly employment gain for builders and remodelers has been approximately 4,700 over the last six months.

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EDC Export Forecast

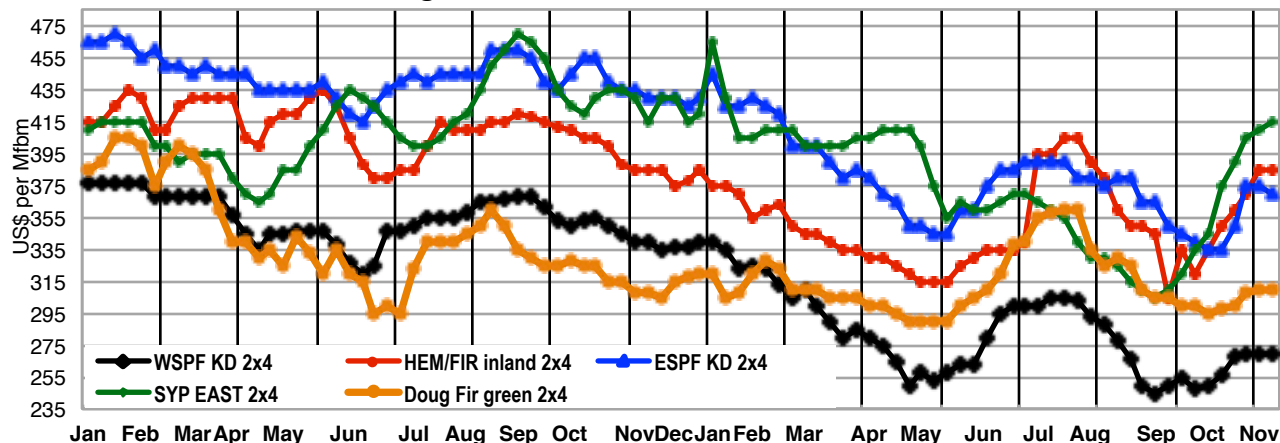
This week Export Development Canada released its "*Global Export Forecast Fall 2015*".

The Fall 2015 edition of the report, released on November 3, confirms that lower oil prices have pushed down Canadian exports in the energy sector which, given how important energy exports are for Canada, has tempered overall growth in our economy, said EDC.

The report also shows that all other sectors are experiencing rising exports this year and, more importantly, it forecasts continued growth in all sectors – including energy – in 2016. And that, in turn, is expected to lead to growth in Canada's gross domestic product next year of 2.3 per cent, almost double the 1.3-per-cent growth forecast for this year.

CONT'D PAGE 8

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



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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.

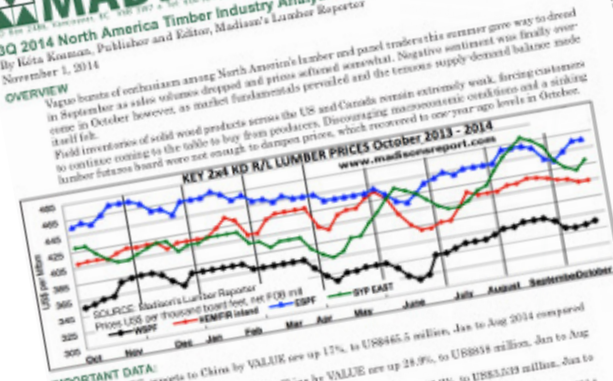
I like the trend data on capacity / efficiency plus export import ratios."

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

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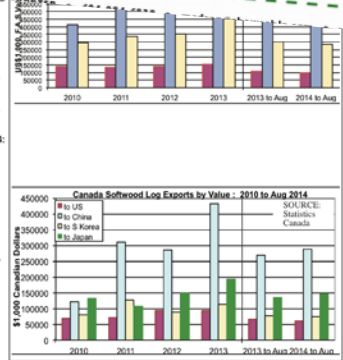
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3Q 2014 North America Timber Industry Analysis and Projection
By Keith Kusman, Publisher and Editor, Madison's Lumber Reporter
November 1, 2014



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Canada Log Exports Jan-Aug '14: China - 7.40%, Japan +8.30%, S Korea -5.80%, USA -7.0%

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.

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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	270	270	0	250	+14	340	-70
WSPF KD R/L 2x6	262	262	0	248	+14	350	-88
SYP KD R/L East Side 2x4	415	410	+5	375	+40	430	-15
SYP KD R/L East Side 2x6	335	345	-10	335	0	355	-20
ESPF KD R/L 2x4	370	375	-5	350	+20	430	-60
WSPF KD PET 2x4 Stud	230	235	-5	225	+5	355	-125
WSPF KD PET 2x6 Stud	235	235	0	235	0	380	-145
Douglas Fir Green R/L 2x4	310	310	0	298	+12	308	+2
Douglas Fir Green R/L 2x10	410	410	0	383	+27	415	-5
ESPF KD 2x4 8ft Stud	305	315	-10	310	-5	410	-105
OSB Ontario 7/16" (CDN\$/msf)	337	330	+7	302	+35	230	+107
CSplywood Toronto 3/8" (CDN\$/msf)	412	412	0	392	+20	462	-50

Madison's Weekly Lumber News

House Prices and Sales, US

CONT'D FROM PAGE 2 Total existing-home sales, including single family and condo, increased 3.4 per cent to a seasonally adjusted annual rate of 5.48 million in 3Q from 5.30 million in 2Q, and are 8.3 per cent higher than the 5.06 million pace during 3Q 2014.

The median price of an existing single-family home rose from a year earlier in 154 of the 178 areas measured, the group said in a report Thursday. In 2Q, 93 per cent of metropolitan areas had price increases.

Price growth in much of the country is being fueled by a combination of rising employment, low borrowing costs and a tight supply of properties on the market. Sales of existing homes rebounded in September to the second-highest level since February 2007, the Realtors group reported last month.

Lawrence Yun, NAR chief economist, says there's no question the housing market had its best quarter in nearly a decade.

"The demand for buying picked up speed in many metro areas during the summer as more households entered the market, encouraged by favorable mortgage rates and improving local economies," he said in the Realtors' statement. "While price growth still teetered near or above unhealthy levels in some markets, the good news is that there was some moderation despite the stronger pace of sales."

In 3Q, 21 regions had price increases of 10 per cent or more, down from 34 areas in 2Q, the Realtors said. Prices declined in 24 areas.

The national median single-family home price was US\$229,000 in the third quarter, up 5.5 per cent from a year earlier, the Realtors group said. In 2Q, the median price was up 8.2 per cent from a year earlier.

Also on the rise were mortgage rates, according to the latest Freddie Mac data. The 30-year fixed-rate mortgage averaged 3.98 per cent this week, up from 3.87 per cent last week, while the 15-year fixed-rate mortgage averaged 3.20 per cent, up last week's from 3.09 per cent.

US Construction Employment

CONT'D FROM PAGE 2 The number of open construction sector jobs in the US dipped to 122,000 in September from 136,000 in August. The cycle high of 168,000 was set during March.

On a three-month moving average basis, the open position rate (jobs openings as a percent of total employment) for the construction sector ticked down to 2 per cent for September. The overall trend for construction open jobs has been increasing, although the current open rate is down from the cycle high last reached in May (2.4 per cent).

Over the last 12 months home builders and remodelers have added 99,000 jobs on a net basis. Since the low point of industry employment following the

Great Recession, residential construction has gained 482,100 positions.

Boise Cascade Downtime

Boise Cascade, out of Boise, ID, will take lumber operations downtime due to market-related conditions at the following locations: Pilot Rock, OR, from November 23 to December 7, the company announced Tuesday.

Mt Emily - La Grande, OR, November 23 to November 30. The head rig at La Grande will continue on curtailment through the week of December 7. And Kettle Falls, WA, from November 23 to November 30.

Boise Cascade will take maintenance-related downtime during Thanksgiving week at two of its Southern Pine plywood mills.

Chester Plywood in Chester, SC, will be down for six days, and the company's mill in Oakdale, Louisiana, will be down for five days.

Canfor Closes

The main employer in the village of Canal Flats in BC's East Kootenay region shut down Tuesday.

Vancouver, BC's, Canfor Corp. announced the closure of the mill on September 9. The last processing work concluded at the end of September, and employees have been doing shut down work since then to prepare the plant for final closure.

In a statement, Canfor blamed low lumber prices and available trees, as well as a depressed economy for the closure.

Canfor said all employees would have the chance to transfer to other mills.

Export Development Canada Key Economic Estimates:

“What does this mean for world growth? Developed markets will lead the charge, if not in the rate of growth, then in acceleration. Collectively, growth in the developed world is forecast to increase from 2 per cent this year to 2.4 per cent in 2016. Emerging markets will post growth of 3.8 per cent this year and 4.4 per cent next, continuing to contribute a higher share of overall output, but clearly following the lead of the advanced economies. This will bring world growth to 3 per cent this year and 3.6 per cent for 2016, marking a steady march into the new growth cycle.

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EXPORT FORECAST OVERVIEW	2012	2013	2014	2015 (f)	2016 (f)
GDP (% y/y)			Sources: Statistics Canada, EDC Economics		
Canada	1.9	2.0	2.4	1.3	2.3
United States	2.2	1.5	2.4	2.5	2.9
Euro Area	-0.8	-0.4	0.8	1.4	1.8
Japan	1.8	1.6	-0.1	0.9	1.5
Developed Markets	1.2	1.4	1.8	2.0	2.4
Emerging Asia	6.8	7.0	6.8	6.6	6.7
Latin America and the Caribbean	3.1	2.9	1.3	0.3	1.6
Emerging Europe	3.3	4.2	3.4	-1.2	0.7
Africa and Middle East	4.8	2.5	2.7	2.6	3.8
Emerging Markets	5.2	5.0	4.6	3.8	4.4
World Total	3.4	3.4	3.4	3.0	3.6
Commodity Prices					
WTI	\$94	\$98	\$93	\$51	\$56
Lumber (WSPF, US\$ per thbf)	\$255	\$318	\$349	\$333	\$392
Copper (USD/MT, LME)	\$7,947	\$7,322	\$6,862	\$5,616	\$5,838
Other					
US housing starts ('000s)	781	925	1,006	1,160	1,435

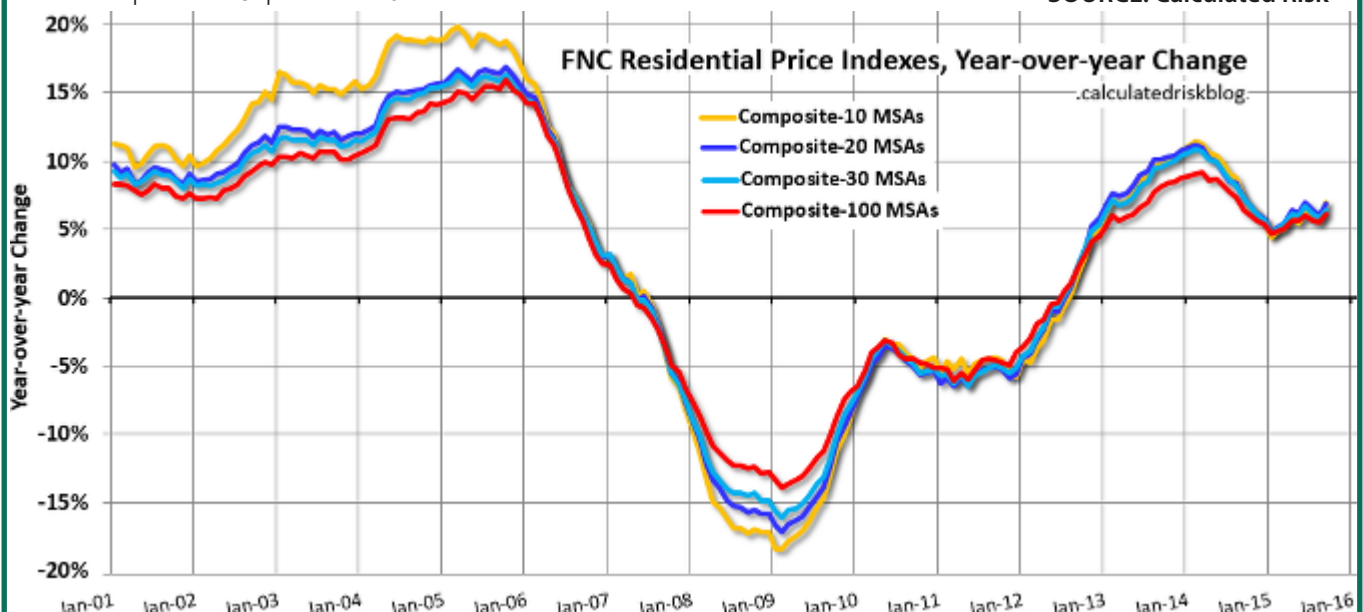
US Residential Property Values: September 2015

FNC released their September 2015 index data Wednesday, reporting that their Residential Price Index™ (RPI) indicates that US residential property values increased 0.2 per cent from August to September (Composite 100 index, not seasonally adjusted).

The 10 city MSA increased 0.5 per cent (NSA), the 20-MSA RPI increased 0.2 per cent, and the 30-MSA RPI increased 0.2 per cent in September. These indexes are for non-distressed home sales.

The year-over-year (YoY) change was larger in September than in August, with the 100-MSA composite up 6.1 per cent compared to September 2014.

SOURCE: Calculated Risk



EDC - Global Export Forecast Fall 2015

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“Up is supposed to be smooth. In economy-speak, it's the moment when the recent past nasties are shaken off, and we get on with our lives again. We expect turbulence when the economy is in freefall. It's also to be expected when the economy is in a directionless funk, making it more vulnerable to surprises. But in a rising economy, even if there are bumps, they don't feel the same. Hopes are up, resilience is higher, money is being made – all factors that smooth the experience.”

by **Kéta Kosman**

“ Volatile Is the New Up ”

“One look at the Chicago Board Options Exchange (CBOE) volatility index tells the tale: market volatility is now higher than at any point in the last three years, and it's rising. And that's US market volatility; what about other markets that are experiencing much wilder swings?”

“We remain convinced that the US market is fundamentally strong, and that it's leading the world back to a new global growth cycle. It's the growth itself that is prompting a reversal that many in today's workforce have never experienced. In fact, in one very great respect, the reversal is almost unique in history. In that sense, it creates a huge grey zone for the planet's immediate growth path. What is the reversal, and how is it likely to affect global conditions in the coming months and years?”

GEF Executive Summary

What of the equity market slump? Sure, the Shanghai Composite Index is down 31 per cent from its peak in June, but significantly, it is still up about 40 per cent on a year-on-year basis at the time of writing. While the correction is significant, unlike in developed markets, equity markets in China play a very limited role in the real economy. Equity markets account for less than 5 per cent of capital for corporates and approximately 9 per cent of Chinese households own equities, not surprising given the stage of China's overall market development. As such, despite the volatility and the headlines, the economic impact of equity market movements will likely be contained.

Despite today's bumpy performance, China remains the world's second-largest economy and a strong prospect for Canadian exporters. Canadian exports to China grew on average by 13 per cent annually from 2000 to 2014, while Canada's overall export performance on the same basis was a modest 2 per cent. China was a

USD 10 trillion economy in nominal terms in 2014, compared with a USD 1.2 trillion economy in 2000. Here's a quick sense of what that change means: even if China were to grow by 5 per cent annually over the next few years, the additional annual GDP would be the same as it was averaging from 2005 to 2008. As such, even a slow-growth China remains a huge opportunity for Canadian exporters.

China's economy is going through a complex transitional phase on a number of fronts. The measured slowdown is bound to unearth a few more surprises down the road and lead to a bumpier ride than we are accustomed to. Given the opportunity, the bumps will, in general, be worth it.

Canada Overview

Canadian exports of goods and services are projected to see a mild 1 per cent contraction in 2015 due largely to plunging oil prices. Excluding energy and special transactions, all categories of goods as well as services exports will post gains supported by growing US demand and a weaker Canadian dollar. Exports to emerging markets will grow faster than to developed markets this year. But next year, developed markets led by the US will gain traction as strong demand growth and rebounding energy prices are forecast to lead to a 7 per cent export recovery.

Energy exports will drop CAD 43 billion this year due to sharply lower crude oil and natural gas prices, resulting in a 31 per cent contraction. Although crude oil volumes are set to increase over the forecast, this will not outweigh the effect of the projected 37 per cent price drop

this year. Canadian energy exports will post a 17 per cent rebound in 2016 as prices stage a partial recovery.

Industrial commodities and building materials, including metals, ores, petrochemicals, plastics and forestry products will post gains ranging from 4 per cent to 8 per cent over the forecast horizon, generally driven by recovering US demand. Pharmaceuticals and forestry gains are tied to rising US consumer demand.

Most manufacturers stand to gain from the lower value of the Canadian dollar and healthy demand. The auto sector will see a solid 14 per cent gain this year followed by a 5 per cent rise in 2016, as American shoppers replace older car models.

US manufacturers are running at record capacity levels, offering an opportunity to the less stressed Canadian sector. Aerospace exports will also post a whopping 29 per cent rise in 2015, as Bombardier takes advantage of a global industry that has rising order backlogs. The entry into service of the CSeries aircraft in early 2016 supports a further 17 per cent gain in sector exports next year.

Forest Products: Canada

The weak loonie combined with continued strong US economic and housing growth is forecast to boost Canadian forestry exports by 6 per cent in 2015. EDC Economics is forecasting the value of the Canadian dollar to be relatively stable in 2016, resulting in a fading effect of the currency on trade. When combined with a tightening Canadian fibre supply, forestry products export growth will slow to 4 per cent in 2016.”