

# MADISON'S LUMBER REPORTER

Publisher  
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Annual Subscription Prices  
E-mail/Fax: US\$408.45  
Discounts available for multiple  
subscriptions  
Published 50 times a year

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PO Box 2486 Vancouver, BC  
V6B 3W7 Canada

In Canada, add GST or HST  
ISSN 0715-5468

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## News & Updates

### US Housing Starts: October 2015

New-home building in the US declined more than projected in October, led by a slump in apartment construction and showing fitful progress in residential real estate.

Residential starts dropped 11 per cent to a 1.06 million annualized rate, the slowest since March, from a revised 1.19 million pace the prior month, a Commerce Department report showed Wednesday.

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### Producer Price Index, US: October 2015

The Bureau of Labor Statistics (BLS) released the Producer Price Indexes (PPI) for October. Inflation in prices received by producers declined 0.4 per cent in October following a 0.5 per cent decline in September and no change in August. The decline was the combination of a 0.3 per cent decline in prices for services and a 0.4 per cent decline in prices for goods. In contrast to prior months, energy prices were flat. The decline in the overall index was dominated by declines in services and core goods prices (excluding food and energy).

Despite flat energy prices October's decline puts overall producer prices on track for a negative 4Q.

Among wood products, softwood lumber prices ticked up in October after recent monthly declines, but the trend over the last year remains modestly downward. Slowing exports, particularly to China is keeping more supply closer to home and putting downward pressure on prices.

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### Canada Survey of Manufacturing: September 2015

Manufacturing sales in Canada declined 1.5 per cent to \$51.1 billion in September, following a 0.6 per cent decrease in August, said Statistics Canada Wednesday. Lower sales in the motor vehicle assembly and the petroleum and coal product industries were responsible for the decline.

Sales were down in 13 of 21 industries, representing 78.6 per cent of Canadian manufacturing.

Constant dollar manufacturing sales were down 1.6 per cent, indicating that the volume of goods sold was lower in September.

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### Philly Fed Manufacturing Survey, US: November 2015

US manufacturing conditions in the Philadelphia region showed slight improvement this month, according to firms responding to the November Manufacturing Business Outlook Survey, said Calculated Risk Thursday. The indicator for general activity was slightly positive this month, following two months in negative territory.

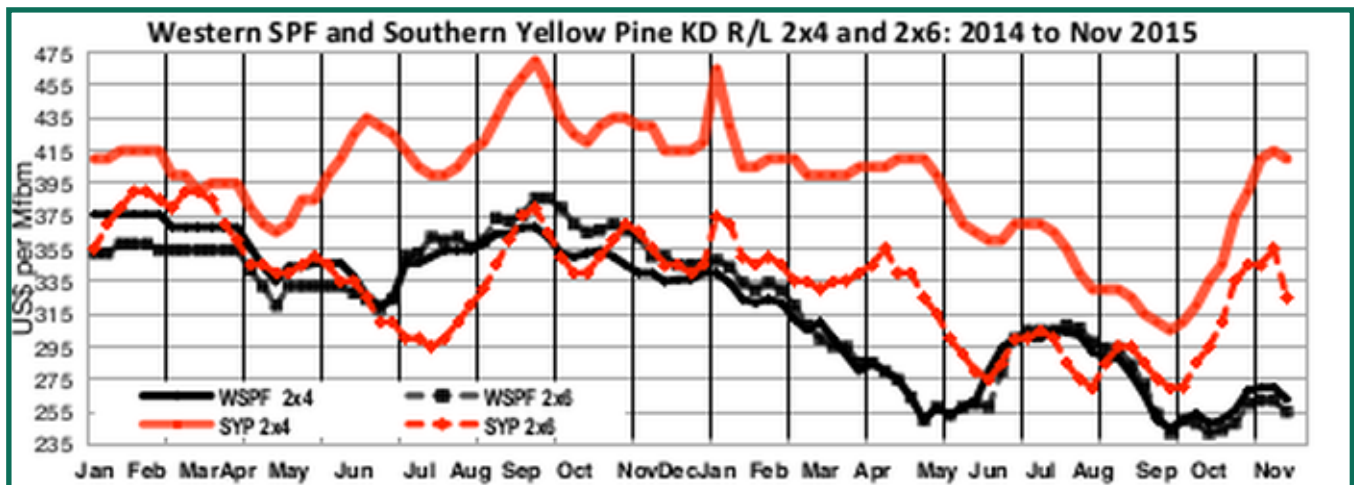
The diffusion index for current activity edged higher this month, from -4.5 to 1.9, its first positive reading in three months.

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### Canada - US Softwood Lumber Trade Update

Canada responds to a new trade dispute launched by the US over supercalendered paper, and Canada's new Minister of International Trade releases a statement about the current state of negotiation for the expired Canada-US softwood trade deal.

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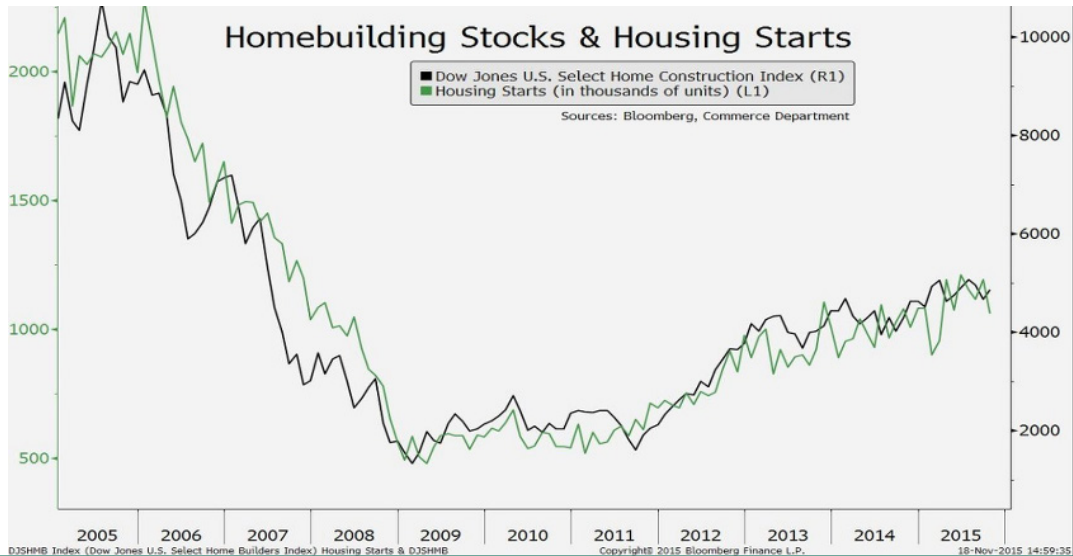


## US Housing Starts: October 2015

The decrease in starts last month was primarily due to a 25.1 per cent slump in work on multifamily homes, the biggest since August 2014. Data on these projects, which have led housing starts in recent years, tend to be volatile.

Construction of single-family houses fell 2.4 per cent a 722,000 rate. The decline was due entirely to a decrease in the South as starts of detached homes picked up in the rest of the country. Two of four regions showed decreases in total starts last month, led by an 18.6 per cent slump in the South, the report showed. Construction fell 16.2 per cent in the West.

Building permits increased 4.1 per cent to a 1.15 million annualized rate. They were led by an increase in applications for single-family homes, which climbed to a 711,000 pace, the strongest since December 2007.



## US Construction Employment: September 2015

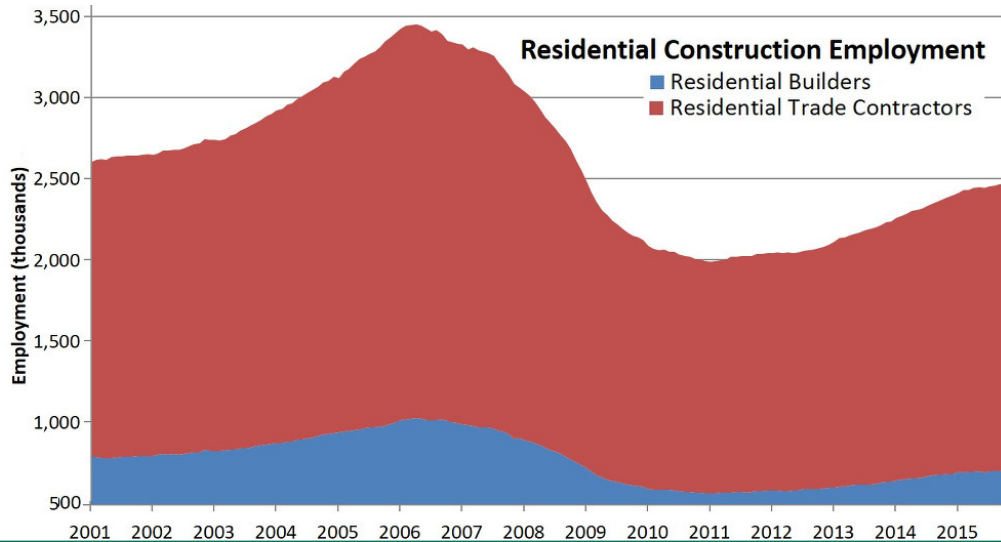
The count of construction job openings declined in September as hiring in the home building sector remained slow. The average monthly employment gain for builders and remodelers has been approximately 4,700 over the last six months.

According to the BLS Job Openings and Labor Turnover Survey (JOLTS) and NAHB analysis, the number of open construction sector jobs (on a seasonally adjusted basis) dipped to 122,000 in September from 136,000 in August. The cycle high of 168,000 was set during March.

Monthly employment data for October 2015 indicate that total employment in home building/remodeling stands at 2.468 million, broken down as 698,000 builders and 1.77 million residential specialty trade contractors.

In October, the unemployment rate for construction workers increased to 7.2 per cent on a seasonally adjusted basis, up slightly from the cycle low of 6.5 per cent set during July. The unemployment rate for the construction occupation reached a peak rate of 22 per cent in February 2010.

**SOURCE: Calculated Risk**





	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	263	270	-7	268	-5	335	-72
WSPF KD R/L 2x6	255	262	-7	260	-5	345	-90
SYP KD R/L East Side 2x4	410	415	-5	390	+20	415	-5
SYP KD R/L East Side 2x6	325	335	-10	345	-20	345	-20
ESPF KD R/L 2x4	355	370	-15	375	-20	425	-70
WSPF KD PET 2x4 Stud	230	230	0	230	0	355	-125
WSPF KD PET 2x6 Stud	235	235	0	235	0	380	-145
Douglas Fir Green R/L 2x4	305	310	-5	300	+5	305	0
Douglas Fir Green R/L 2x10	400	410	-10	395	+5	405	-5
ESPF KD 2x4 8ft Stud	290	305	-15	315	-25	405	-115
OSB Ontario 7/16" (CDN\$/msf)	340	337	+3	295	+45	215	+125
CSplywood Toronto 3/8" (CDN\$/msf)	412	412	0	398	+14	424	-13

## Madison's Weekly Lumber News

### Manufacturing Survey, Canada

CONT'D FROM PAGE 2 In the motor vehicle assembly industry, sales fell 10.3 per cent to \$5.0 billion in September following four months of gains, according to StatsCan. In August, sales had reached \$5.6 billion, their highest level since March 2007. The decline in September mostly reflected lower numbers of vehicles produced.

Sales in the petroleum and coal product industry were down 7.1 per cent to \$4.8 billion in September, the fourth consecutive decline. The decrease largely reflected partial shutdowns at a number of refineries during the month for maintenance work. Higher sales in the machinery and primary metal industries offset some of the declines.

Manufacturing inventories were down 0.4 per cent to \$73.0 billion in September. Inventory levels decreased 4.2 per cent in the petroleum and coal product industry and 2.6 per cent in the primary metal industry. Inventories of machinery (-2.0 per cent) also declined. Inventory levels rose in the aerospace product and parts (+1.4 per cent) and motor vehicle assembly (+5.7 per cent) industries.

The inventory-to-sales ratio rose from 1.41 in August to 1.43 in September. 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.

### US Survey of Manufacturing

CONT'D FROM PAGE 2 The Philly Fed's survey indicators for labour market conditions were mixed this month, explained Calculated Risk. The percentage of firms reporting increases in employment (14 per cent) was slightly greater than the percentage reporting decreases (11 per cent). The employment index increased 4 points, from -1.7 to 2.6. Firms, however, reported overall declines in average work hours in November.

The average of the Empire State and Philly Fed surveys increased in November, but was still negative. This suggests another weak reading for the ISM survey.

### Canada Wholesale Trade: October 2015

Canadian wholesale sales edged down 0.1 per cent to \$55.2 billion in September, according to Statistics Canada Thursday. Declines in the motor vehicle and parts and the building material and supplies subsectors were partially offset by higher sales in the machinery, equipment and supplies and the food, beverage and tobacco subsectors.

Excluding the motor vehicle and parts subsector, wholesale sales rose 0.5 per cent.

In volume terms, wholesale sales decreased 0.4 per cent in September.

Inventories decreased 0.4 per cent to \$73.0 billion in September, the first

decline in 11 months. Decreases were reported in four of seven subsectors, representing 64 per cent of wholesale inventories.

Inventories in the building material and supplies subsector declined 1.1 per cent, a sixth consecutive decrease. The last time this subsector posted as many consecutive declines was in 2009, when inventories decreased for 10 consecutive months.

### Resolute Acquires

Resolute Forest Products Wednesday announced the acquisition of Atlas Paper Holdings, a leading manufacturer of at-home and away-from-home tissue products, including recycled and virgin paper grades.

The purchase price in the transaction, which closed the same day, was \$156 million, including working capital.

### Tembec Reports

Tembec Inc reported 3Q 2015 results Thursday, finding that consolidated sales for the three-month period ended September 26, 2015, were \$373 million, as compared to \$371 million in the same quarter a year ago. The Company generated a net loss of \$32 million, or \$0.32 per share, in the September 2015 quarter compared to net earnings of \$5 million, or \$0.05 per share, in the September 2014 quarter. The current quarter results include a non-cash loss of \$38 million related to the translation of US dollar denominated debt.

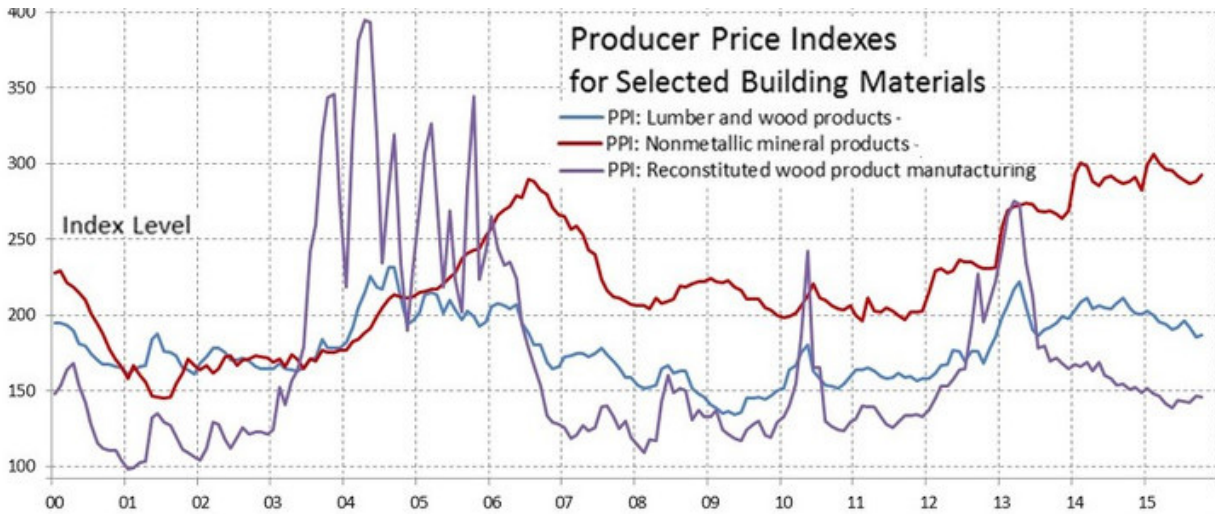
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## US Producer Price Index: October 2015

Among wood products, softwood lumber prices ticked up in October after recent monthly declines, but the trend over the last year remains modestly downward. Slowing exports, particularly to China is keeping more supply closer to home and putting downward pressure on prices.

OSB prices ticked down in October. Monthly volatility may be masking the beginning of some recovery in prices from the recent collapse. Prices are up modestly from a low in May.

Gypsum prices added to September gains giving weight to announced price increases. Major gypsum producers have informed customers that prices will be rising through the end of this year and next (gypsum).



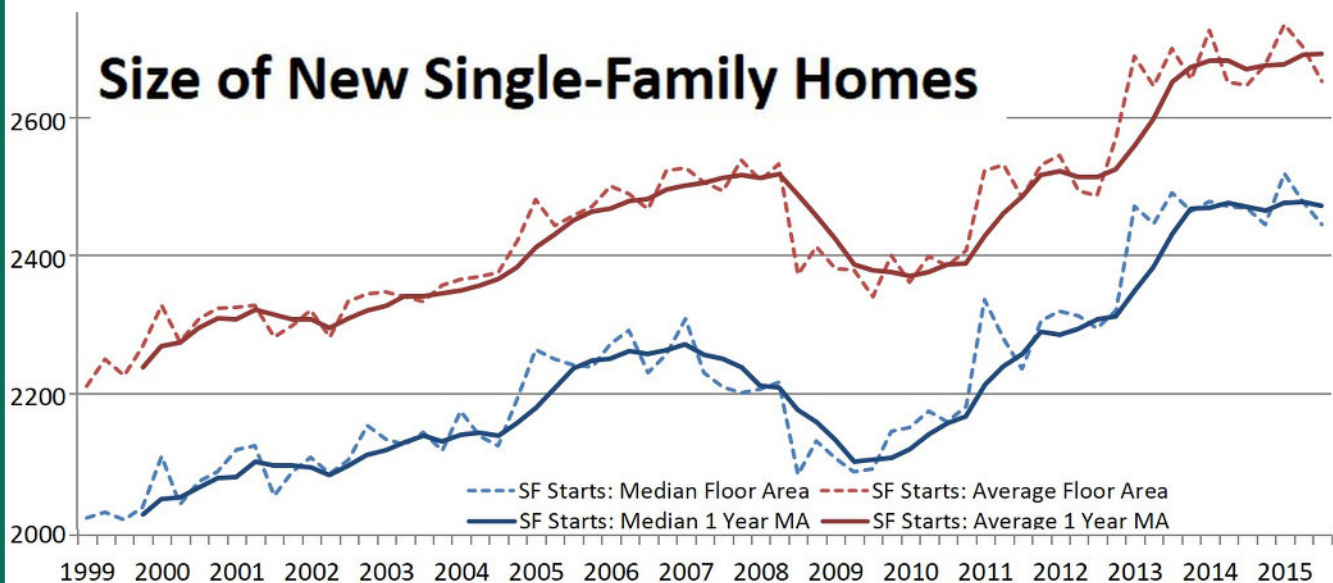
## US Residential Property Values: September 2015

The typical size of newly built single-family homes was effectively unchanged from 2Q to 3Qf 2015, posting a small quarterly decline. The current data is consistent with the general trend of flat growth for the size of typical newly-built homes, a pattern that took hold during 2014. As first-time buyers return to the market, typical home size is expected to trend somewhat lower.

According to third quarter 2015 data from the Census Quarterly Starts and Completions by Purpose and Design and NAHB analysis, median single-family square floor area fell from 2,478 in 2Q to 2,445 square feet. Average (mean) square footage for new single-family homes fell from 2,704 to 2,653 for 3Q.

On a less volatile one-year moving average, the recent trend of leveling home size can be seen on the graph above, although current sizes remain elevated. Since cycle lows and on a one-year moving average basis, the average size of new single-family homes has increased 13 per cent to 2,693 square feet, while the median size has increased 17 per cent to 2,472 square feet.

SOURCE: NAHB Eye on Housing



# Canada-US Softwood Lumber Trade Update

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This week Canada's new Minister of International Trade, Chrystia Freeland, released through the media department a statement:

"Minister Freeland had a productive meeting with Ambassador Heyman on November 12 where they discussed ways our two countries could enhance the Canada-US relationship. Finding a suitable solution to the softwood lumber file is a priority for Canada, and the Government of Canada will continue to promote and defend the interests of the softwood lumber industry."

by Kéta Kosman

## Supercalendered Paper Duty Battle

Also this week, Prime Minister Justin Trudeau challenged a US decision to impose new tariffs on imports of glossy paper, just hours before the new Canadian leader held his first meeting with US President Barack Obama.

Canada has requested a review under the North American free-trade agreement of import tariffs imposed by the US Department of Commerce of as much as 20 per cent on supercalendered paper from four Canadian companies – Catalyst Paper, J.D. Irving, Port Hawkesbury Paper, and Resolute Forest Products. The tariffs were imposed after US producers filed a petition earlier this year claiming the Canadian companies were unfairly subsidized.

"Canada believes that the U.S. Department of Commerce erred in calculating subsidy rates on Canadian exports of supercalendered paper," Trade Minister Chrystia Freeland said in an e-mailed statement to *Globe and Mail* Wednesday.

### Canada Fights

US paper producers Madison Paper Industries and Verso Corp filed a petition with the US government in February, claiming their rivals north of the border were receiving unfair government subsidies. The 21-per-cent slide in the loonie over the past two years has intensified competition in an industry already under pressure. Demand for supercalendered paper, as the glossy paper is known, has fallen by 5 per cent annually over the past three years, according to *Bloomberg Intelligence*, as readers switch to digital products.

Compared with lumber, the market for supercalendered paper is relatively small. Imports from Canada were valued at US\$868-million in 2014, according to the US Department of Commerce. Canadian companies supply about 60 per cent of the supercalendered paper market in the United States,

*Bloomberg Intelligence* said in an October 16 report.

### Twenty Per Cent Paper Duties

The highest duty, at 20 per cent, is directed at Point Tupper, Nova Scotia-based Port Hawkesbury Paper. The US government said the company, owned by Pacific West Commercial Corp, arranged a favourable electricity supply contract that was approved by the provincial government. As such, it constitutes a subsidy, the US said in a July 27 report. Port Hawkesbury said the contract was negotiated with a privately owned utility, according to Gary Horlick, a lawyer for the company. "I'm appalled by this decision," Horlick said.

According to *Bloomberg* Monday, Catalyst has deposited about US\$1.3 million with the US Treasury since August 4 to cover tariff payments on 17,000 tons of paper, the Richmond, BC-based company said in an October 14 statement, even as it vows to seek a review of the duties. JD Irving, Canada's largest producer of supercalendered paper in 2014, is crying foul not only because it denies any subsidies but also because it says it wasn't investigated following the initial complaint. The closely held company continues to appeal for an "immediate resolution," said Mary Keith, a spokesperson for JD. The companies are asking the U.S. Commerce Department for an expedited review. Catalyst has also filed an appeal in US Court of International Trade.

### Softwood Lumber Negotiations

The absence of mention of the expired 2006 Softwood Lumber Agreement from Freeland's ministerial

mandate letters for the new cabinet is cause for concern for the Alberta Forest Products Association.

"I'm hopeful that it's an oversight, rather than a conscious decision to exclude it," said Paul Whittaker, association president and chief executive officer to *iPolitics* Tuesday.

### Expert Legal Opinion: iPolitics

Softwood lumber exports to the US totalled US\$5.6 billion last year. They also account for thousands of Canadian jobs. But export levels can be even higher. In 2005, they totalled US\$8.4 billion. And despite sawmill closures and the mountain pine beetle infestation in BC, recent trends suggest we could be back to those 2005 levels or even higher in the years to come.

*André Albinati and Paul Moen are principals at Earncliffe Strategy Group and former senior advisors to the Chrétien and Martin governments.*

### Change in US Law: 2014

A change in US trade law last year has made it easier for companies to show they've been injured by imports, sparking a number of disputes in paper products and steel, said Caitlin Webber, a Washington-based *Bloomberg Intelligence* analyst.

US industries typically file these types of complaints as a "last resort" when they feel they can't otherwise compete in the market, Webber said.

"That's what the industry wanted when they were lobbying for this," Webber said in a November 13 interview. "They would say it's more fair, an accurate reflection of the company's position."