

MADISON'S LUMBER REPORTER

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News & Updates

Canada Sawmill Production: February 2016

Lumber production by Canadian sawmills in February increased 1.8 per cent from January, to 5,627.9 thousand cubic metres, according to new data released by Statistics Canada Friday. Compared with February 2015, lumber production rose 12.4 per cent.

Sawmills shipped 5,570.7 thousand cubic metres of lumber in February, up 5 per cent from January. Shipments rose 19.6 per cent compared with February 2015.

More on FPAC "30 by 30" Challenge

As announced in last week's issue of your *Reporter*, the Forest Products Association of Canada this week revealed details of its "30 by 30 Climate Change Challenge".

New FPAC CEO Derek Nighbor explained at PwC Forestry Week Wednesday in Vancouver, BC, that its companies aim to remove 30 megatonnes (MT) a year of carbon dioxide from the atmosphere, representing 13 per cent of the country's overall commitment to reduce greenhouse gas (GHG) emissions by 225 MT between 2005 and 2030. CONT'D PAGE 6

US Lumber Groups Support Timber Innovation Act

The American Wood Council (AWC), American Forest Foundation (AFF), Binational Softwood Lumber Council (BSLC) and Southeastern Lumber Manufacturers Association (SLMA) today announced their strong support for the "Timber Innovation Act", according to an American Wood Council release Monday. CONT'D PAGE 7

CMD Construction Spending Forecast

This week was held another excellent conference call at CMD (formerly Reed Construction Data) on the near- to mid-term US Construction forecast.

Analysts Kermit Baker and Ken Simonson, out of the American Institute of Architects and Associated General Contractors respectively, and Canadian Alex Carrick of CMD. CONT'D PAGE 8 & 9

US REO Inventory Down 23 per cent Y-o-Y: 1Q 2016

FANNIE MAE reported Thursday the number of Real Estate Owned inventory declined to 52,289 at the end of 1Q 2016, compared to 79,319 at the end of 1Q 2015.

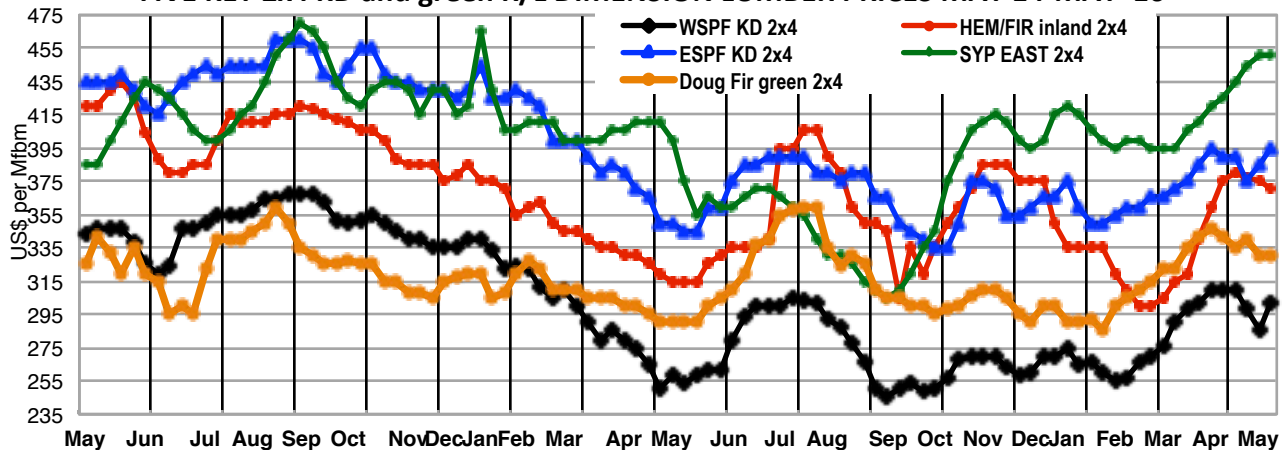
FREDDIE MAC reported the number of REO inventory declined to 15,409 at the end of Q1 2016 compared to 22,738 at the end of Q1 2015. CONT'D PAGE 9

Forestry Week 2016: Vancouver, BC

Demand for tissue and specialty paper globally offset that for printing and writing papers from 2004 to 2015, said the Pulp and Paper Products Council (PPPC), which represents North American newsprint producers, at the group's annual meeting, this week in Vancouver, BC.

Mixed prices and demand for commodities, as well as currency volatility continues to affect the performance of the global forest, paper and packaging industry, Kevin Bromley, PwC Partner Wednesday at that group's annual meeting in Vancouver, BC. CONT'D PAGE 10

FIVE KEY 2x4 KD and green R/L DIMENSION LUMBER PRICES MAY'14-MAY '16



Forest Products Association of Canada “30 by 30” Climate Challenge

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Canada’s forests are carbon sinks, and the forest-products industry argues it can use the land its companies manage to contribute the equivalent of 13 per cent of the federal government’s goals to reduce carbon emissions.

Canada’s forest products industry is aiming to be a major contributor to Canada’s 2030 climate goal, but is touting better forest management and increased use of wood products – rather than emissions reductions at its operations – as the key strategies.

by Kéta Kosman

In a statement Monday, the Forest Products Association of Canada said its companies aim to remove 30 megatonnes (MT) a year of carbon dioxide from the atmosphere, representing 13 per cent of the country’s overall commitment to reduce greenhouse gas (GHG) emissions by 225 MT between 2005 and 2030.

Half of the promised reductions will come from improved forest practices, including the use of the entire harvested tree rather than burning the brush or letting it rot and emit methane. The industry is also targeting expanded use of wood products – which sequester carbon and can displace high-carbon materials – to account for most of the rest of the reductions. It is urging provincial governments to change building codes to allow more wood construction, including in high-rise structures.

The association endorsed the adoption of carbon pricing – either taxes or cap-and-trade systems – to help drive down emissions, and encouraged the use of lower-carbon materials such as wood. New FPAC CEO Derek Nighbor said at the PwC Forestry, Paper and Packaging conference this week in Vancouver, BC, it is important that the revenue generated by the pricing be recycled to support innovation in the industry. He added that provinces need to be careful not to place an onerous burden on Canadian mills when US and other competitors don’t face carbon levies.

Highlights

- **Improved forest management:** FPAC expects to meet half of its target through better practices, using more climate-resistant and higher-yielding tree species to increase the amount of carbon absorbed.
- **Better use of wood products:** One cubic metre of sawn timber holds about one tonne of carbon. The adoption of more wood products into construction and manufacturing could contribute another 13-14 million tonnes of carbon savings.
- **Emissions reductions:** Canada’s forest industry has reduced its emissions by 65 per cent already. More innovation can yield incremental gains that would contribute to its 30 megatonne goal.
- **Innovation:** The industry continues investing in developing new products such as mass-timber, biofuels, and wood-fibre-based materials.
- **Government support:** To make a bigger carbon-consuming impact.

Madison’s caught up with Nighbor Thursday in the midst of the annual Forestry Week frenzy in Vancouver, BC.

“If the provinces are developing new carbon pricing schemes, they need to take into account what Canada’s forest products industry has already done,” detailed Nighbor to *Madison’s* in a phone interview Thursday.

“The ‘heavy lifting’ is done, there has already been a more than 65 per cent reduction in GHG emissions at Canada’s sawmills.”

In answer to *Madison’s* question about accounting for progress already made with energy efficiency, cogeneration, and reduced fossil fuel consumption, Nighbor explained, “Natural Resources Canada, by way of the Canadian Forest Service has already started calculating from the data that is publically available. FPAC took those numbers and has identified some places where we thought we could do better.

“Access to data is important, FPAC will report out on our findings every three years.”

In regards to potential government funding, Nighbor answered *Madison’s*, “Our main message to government is that if there is a provincial program that sawmills will have to pay into, those funds must be redeployed back to mills.

“Also, if they are going to do this, they need to factor in the historic contribution of Canada’s forest industry.”



SOURCE: Forest Products Association of Canada



	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	302	285	+17	310	-8	253	+49
WSPF KD R/L 2x6	288	280	+8	288	0	253	+35
SYP KD R/L East Side 2x4	450	450	0	425	+25	385	+65
SYP KD R/L East Side 2x6	330	330	0	325	+5	300	+30
ESPF KD R/L 2x4	395	385	+10	390	+5	345	+50
WSPF KD PET 2x4 Stud	240	230	+10	240	0	235	+5
WSPF KD PET 2x6 Stud	220	205	+15	205	+15	265	-45
Douglas Fir Green R/L 2x4	330	330	0	342	-12	290	+40
Douglas Fir Green R/L 2x10	390	395	-5	415	-25	340	+50
ESPF KD 2x4 8ft Stud	330	320	+10	320	+10	325	+5
OSB Ontario 7/16" (CDN\$/msf)	315	310	+5	310	+5	210	+105
CSplywood Toronto 3/8" (CDN\$/msf)	415	411	+4	394	+21	400	+15

Madison's Weekly Softwood Lumber News

US "Timber Innovation Act"

CONT'D FROM PG 2 "Advancing the construction of tall wood buildings will help lower the cost of building construction and reduce reliance on fossil fuel-intensive materials," said American Wood Council President and CEO Robert Glowinski in the combined agency release Monday.

"This in turn helps avoid production of greenhouse gases that would have otherwise been emitted during manufacture of alternative products. Tall wood building construction will also support jobs in areas of rural America that have yet to recover from the recession. Given the many national benefits that would occur as a result of bill's passage, the United States has an opportunity to accelerate and lead in the adoption of tall wood buildings and significantly expand markets for wood products."

Up until recently, most wood buildings did not exceed six stories and were constructed of lightweight materials. Recent advances in technology, engineering and safety have now made it possible to build taller wood buildings using newly-developed mass timber products. In the last five years, 17 buildings between seven and 14 stories have been built using heavy timber construction globally. Canada, Norway, Australia, the United Kingdom, Italy, Sweden and France all have constructed and occupied multiple tall-wood buildings.

The proposed bill would:

- Establish performance driven research and development program for advancing tall wood building construction in the United States;
- Authorize the Tall Wood Building Prize Competition through the U.S. Department of Agriculture (USDA) annually for the next five years;
- Create federal grants to support state, local, university and private sector education, outreach, research and development, including education and assistance for architects and builders, that will accelerate the use of wood in tall buildings; and,
- Authorize technical assistance for USDA, in cooperation with state foresters and state extension directors (or equivalent state officials), to implement a program of education and technical assistance for mass timber applications.

Canadian Forest Companies Urge House of Commons

Once again Canadian lumber producers have pressed the federal government on the urgency of moving forward on the softwood lumber trade file, this time appearing before the House of Commons Standing Committee on International Trade in Ottawa Wednesday to voice their support for the Canadian Government's continued efforts to reach a new softwood lumber agreement that is fair and acceptable to the industry in both Canada and the US.

The Canadian Lumber Trade Alliance (CLTA) was formed in 2001 to work with the federal and provincial governments to help defend Canadian softwood producers on trade matters with the US. Today, the CLTA represents 70 per cent of the softwood lumber capacity in Canada that is exported to the US market. The CLTA membership includes independent lumber producers in B.C., Alberta, Saskatchewan, Manitoba, Ontario and Quebec.

"A new softwood lumber agreement, if properly designed, will provide greater certainty and stability for Canadian lumber producers, and ensure customers in the US have access to high quality Canadian products," said Duncan Davies, Co-Chair of the Canadian Lumber Trade Alliance, and President and CEO of Interfor, out of Vancouver, BC. "An agreement would support efforts by lumber producers on both sides of the border to grow markets domestically and offshore."

"Smaller, independent lumber producers in Canada – from coast to coast – would benefit from the certainty provided by a fair trade agreement between Canada and the US on softwood," added Kevin Edgson, President and CEO of EACOM, based in Montreal.

The Canadian forest products industry is vital to the national economy and the economies of many forest dependent communities across the country. The sector generates approximately 370,000 direct and indirect jobs, and contributes over \$20 billion to the national GDP.

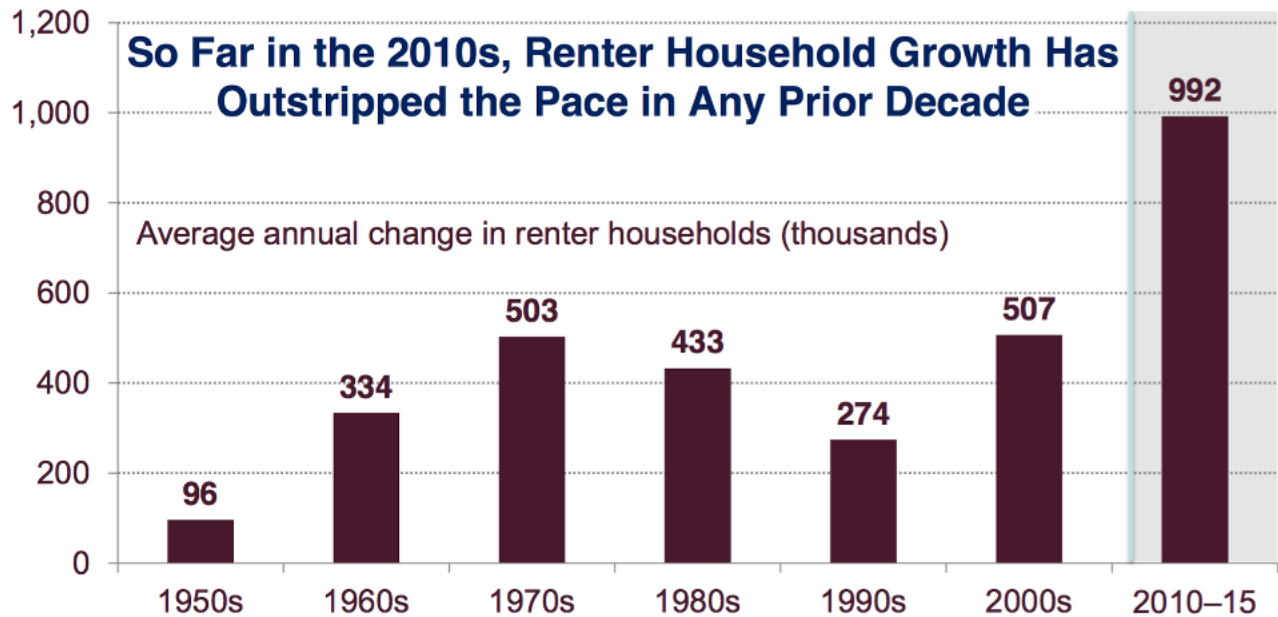
CMD US Construction Spending Forecast

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As always starting with a macroeconomic perspective, Kermit Baker of the AIA projected US GDP growth at 1.5 to 2.5 per cent for the remainder of 2016 and for 2017.

“The construction industry is back on growth, it’s really the only positive sector in the US right now,” detailed Baker. “US home building remains very heavily multi-family.”

by Kéta Kosman



Source: JCHS tabulations of US Census Bureau, Decennial Censuses and Housing Vacancy Surveys.

Renter House Hold Formation

Renter house hold formation is showing “very strong growth,” said Baker. “The latest data has blown away historical house hold formation numbers since the 1970s.”

“The architecture billings index has been up about 5 per cent since 4Q 2012, seems to be at it’s peak now, and will probably slow down 5 per cent through 2016.”

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Summary for 2015, 2016-17 forecast	2015 actual	'16 Q1 actual	forecast 2016 2017
Total spending	11%	9%	6-9% 5-7%
Private – residential	13%	8%	5-10% 5-8%
– nonresidential	12%	12%	5-10% 5-8%
Public	6%	8%	3-5% 2-4%
Goods & serv. inputs PPI	-2%	-2%	0-2% 0-2%
Employment cost index	2.2%	2.3%	3-4% 3-4.5%

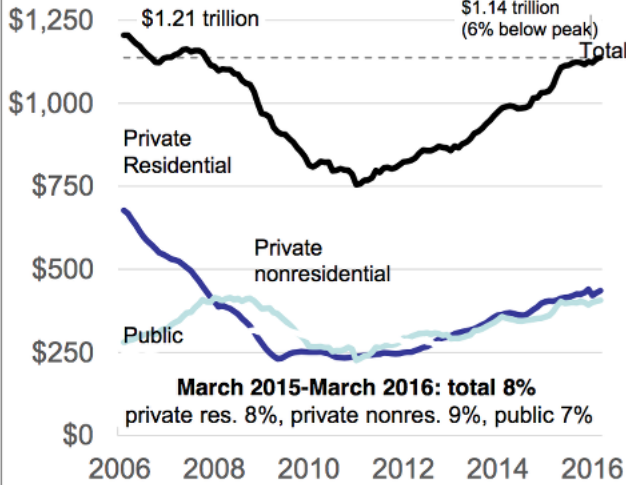
US Construction Spending and Employment: 2006 -2016

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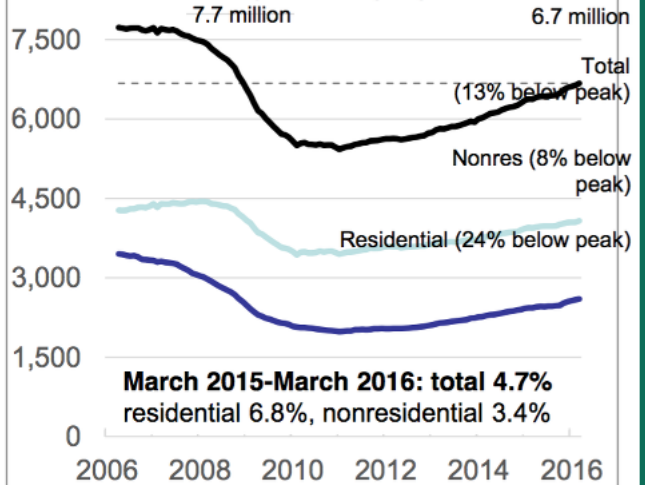
US Construction employment is still down 13 per cent from the peak of 2006, but it is also relevant to ask if “will we ever get back to peak?” said Ken Simonson of the AGC of America.

Construction Spending & Employment, 2006-16

Total spending, Feb. '06 (peak)-Mar. '16
billion \$, seasonally adjusted annual rate (SAAR)



Total employment, Apr. '06 (peak)-Mar. '16
thousands, seasonally adjusted



US Real Estate Owned

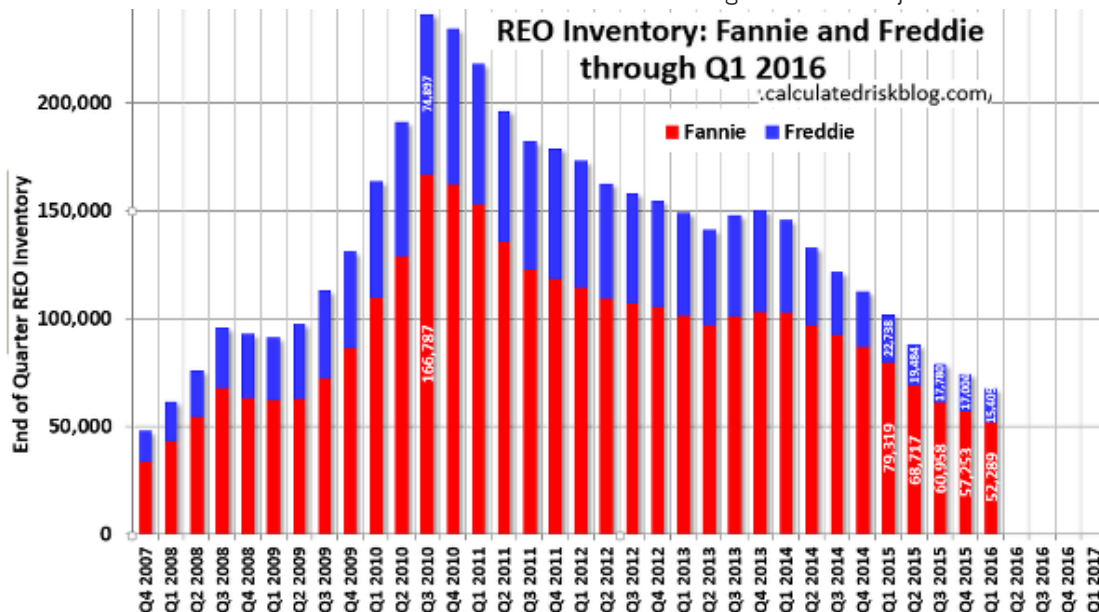
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REO (Real Estate Owned) inventory in the US decreased in Q1 for both Fannie and Freddie, and combined inventory is down 34 per cent year-over-year.

For Freddie, this is the lowest level of REO since Q4 2007. For Fannie, this is the lowest level since Q1 2008.

Fannie Mae reported this week net income of US\$1.1 billion and comprehensive income of US\$936 million for 1Q 2016. The company reported a positive net worth of US\$2.1 billion as of March 31, 2016, which

the company expects will result in its paying Treasury a US\$919 million dividend in June 2016. Delinquencies are falling, but there are still a large number of properties in the foreclosure process with long time lines in judicial foreclosure states.



Forestry Week 2016

CONT'D FROM PAGE 2

by Kéta Kosman

Pulp and Paper Products Council: Paper

Growth of tissue demand has increased about 3.3 per cent per year for the past 15 years and will likely rise 3.5 per cent in 2016 said PPPC analyst Emanuele Bona. Average growth of 3.1 per cent equals approximately 5.5 million tonnes of production per year.

Sixty-five per cent of total growth is in Asia.

There has been an approximately 2.5 per cent growth in North American tissue capacity in 2016.

China demand is expected to rise 6.4 per cent per year to 2018, which remains “more or less similar to past trends,” said Bona.

Qualifying that PPPC only covers wood-based production in China, Bona noted that there will also be increasing tissue capacity in China. Actually capacity is rising faster than demand, as China tries to export there is a “widening gap between capacity and demand.”

World demand will contract by 6.5 million tonnes, at an average of about 1.5 per cent a year, said Bona.

Pulp

Global consumption of softwood pulp increased by 240,000 tonnes in 1Q 2016, detailed PPPC’s Arnaud Franco, while operating rates have risen about 2 per cent.

“This is mostly benefitting eucalyptus producers,” Franco said. “Due to price changes, there has been a lot of tropical grade switching between dissolving pulp and hardwood.”

PwC Forestry, Paper, and Packaging

Despite muted growth, the building product sector fundamentals remain optimistic, with steadily improving US housing starts up 6 per cent in 4Q 2015 compared to the annualized starts in December 2014.

“What we saw in 2015 is the markets starting to stabilize. If we look ahead, the US housing market continues to improve, which has resulted in stronger lumber prices in the first quarter of 2016,” said Kevin Bromley, Partner and PwC Canadian Forest, Paper and Packaging Leader. “Pulp and paper have remained stable in the first quarter of 2016, although significant new global production is coming online later in the year.” “We are keeping a close eye on the softwood lumber negotiations between US and Canada. This could have a significant impact on the Canadian forest industry.”

CEO Panel

As always the CEO panel, the final session of Forestry Week, was the most interesting.

Catalyst Paper CEO Joe Nemeth said his company will be “laying off hundreds of people in Canada and the US in coming years as Catalyst moves out of printing and writing paper and into growing grades such as packaging, specialty, and tissue.”

James Gorman, VP West Fraser explained, “provided we work within social license, government policy won’t lurch.”

While Mike Harkies, VP at Tolko Industries said, “Softwood lumber disputes are geared to improve profitability on the backs of the US consumer. It’s possible the next softwood lumber agreement won’t be until 2019 or 2020,” said Harkies to the chagrin of the room.

