

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions

Editor
Kéta Kosman
Market Analyst
Earl Heath

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

www.madisonsreport.com
madrep@shawcable.com
604 319-2266
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add GST or HST
ISSN 0715-5468

Printed in Canada © 2015

All material contained within is the property
of KetaDesign Productions Inc. Reproduction
or retransmission is expressly forbidden.



News & Updates

Canada-US Softwood Lumber Trade Update

The 2006 Canada-US Softwood Lumber Agreement is officially completely expired. Representatives for both countries continue to meet in efforts to come to a new agreement. Very much work remains.

As of Thursday the US Lumber Coalition had not filed a trade issue, representatives told *Madison's* in a phone interview.

When the previous agreement expired in 2001, the US lumber industry filed a submission to the Commerce Department the very next day.

"A negotiated settlement is still our preference," explained Coalition officials to *Madison's*.

Canadian forestry stakeholders are also meeting among themselves, as well as with Canada's federal Trade Minister, in working towards an agreement with the US.

The filing of a trade case is public so North America's lumber industry players will know right away. Various deadlines are triggered, and after a certain amount of bureaucracy takes place a counter-vailing duty is assessed. In some cases the duty may be retroactive to 90 days.

A duty is imposed at the border, and revisions are submitted by players which the Commerce Department then calculates. Meanwhile the wheels are in motion for an anti-dumping duty, which is assessed later and against individual companies.

The amount of the duty assessed is based on the portion of Canadian producers' sales which go to the US.

In the US proposal currently before Canada, the amount of quota is based on US domestic lumber consumption volumes.

Canada's Trade Position: USA and Globally

The return of a period of open trade conditions on Canadian softwood lumber imported to the US comes at a time when trade between nations, whether bi-laterally or with state or regional organizations, is a very important topic around the world. CONT'D PAGE 6

Two Rivers Lumber Starts Up in Alabama

Plans are underway for the startup of Two Rivers Lumber's first sawmill, a US\$65 million investment that will bring 55 jobs initially, and up to 95 jobs eventually, to west Alabama, said *Woodworking Network* Friday. CONT'D PAGE 7

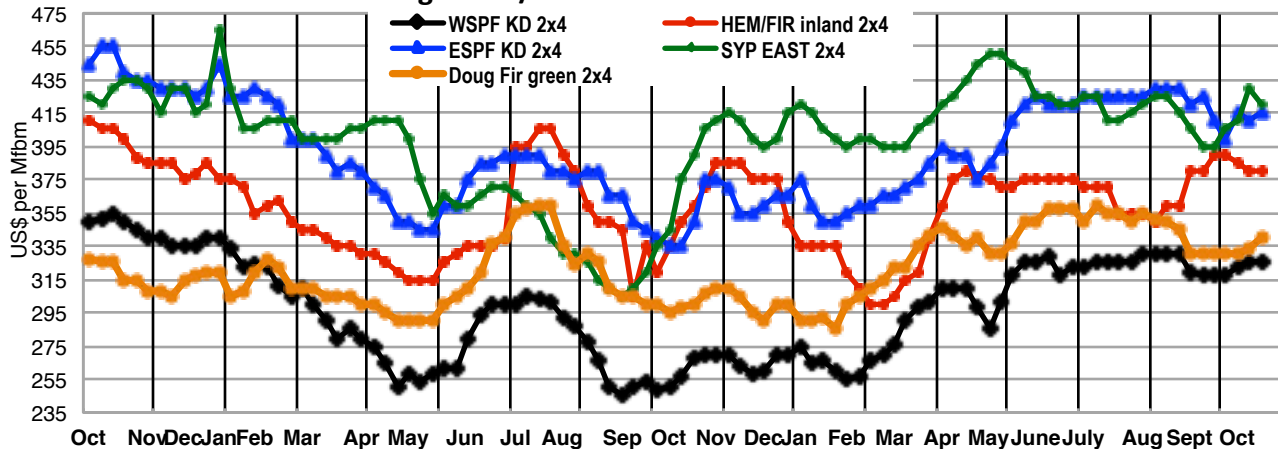
New Lumber Transload Facility, Prince Rupert

A brand new lumber transload facility, CT Terminals, is up and running on Ridley Island at the Port of Prince Rupert, brought to the area by a limited partnership consisting of Tidal Coast Terminals and Coast Tsimshian Enterprises. CONT'D PAGE 7

BC Lumber Export Market: Trends 2015

A new report from FP Innovations, available on the *BC Forestry Innovation Investment* website, gives a very comprehensive picture of British Columbia's solid wood exports in 2015. CONT'D PAGES 8 & 9

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



Canada's Trade and Export Situation

CONT'D FROM PAGE 2

According to Natural Resources Canada, Canadian forest industry products made their way to more than 176 countries around the world in 2015. In addition to softwood lumber and newsprint, Northern bleached softwood kraft pulp was a key export, wrote Susan Smith in *Export Wise* October 6.

Of the \$32.7 billion in exports in 2015, \$22.1 billion went to the US. But shipments to Asia, mostly from BC, have been on the rise. The industry sold \$5 billion worth of products to China 2015, making it the Canadian industry's second-largest export market. Japan was in third place at \$1.4 billion in export sales, with South Korea 4th at \$523 million. India, the UK, Indonesia, Taiwan, Mexico and Brazil completed the forest industry's top 10 export markets.

by Kéta Kosman

Canada's Competitive Trade Position

According to figures provided by the Conference Board of Canada, industry profits declined by 2.7 per cent in 2015, as costs rose at a faster rate than revenues. While a big rebound in profits is forecast for this year, the 2015 dip highlighted the need for the industry to become more efficient and find new revenue streams.

Canadian supply is being curtailed by various impacts including cutbacks in Quebec's harvesting quotas, which were initiated to preserve the health of its forests. In the West, damage caused by the mountain pine beetle is expected to have claimed about half of BC's pine trees by sometime next year.

To offset this supply crunch, technological advances are helping companies better manage forests and gain easier access to hard-to-reach areas for harvest-

ing. The industry is also continuing to develop more sophisticated scanning technology that helps sawmills maximize cuts and get the most value out of each log.

CANADA'S BALANCE OF TRADE

Canada's merchandise trade deficit, reported by Statistics Canada Octobe 5, was recorded at \$1.94 billion in August 2016 compared to downwardly revised \$2.19 billion shortfall in a month earlier, better than market consensus of \$2.6 billion gap. It was the smallest deficit since January as exports rose 0.6 percent while imports were largely unchanged.

Total exports were up 0.6 per cent to \$43.4 billion in August, with 6 of 11 sections recording gains.

The overall rise was attributable to higher exports of consumer goods, metal and non-metallic mineral products, and energy products. In

August, exports excluding energy products were unchanged from the previous month.

Year over year, total exports were down 2.5 per cent.

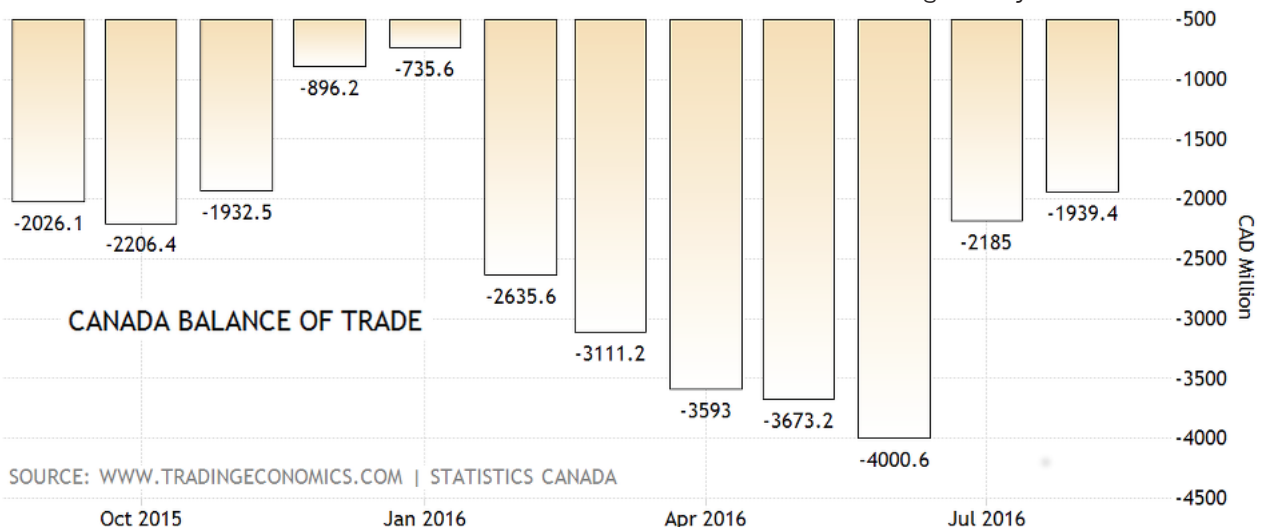
EFFECT OF EXCHANGE RATE

A dropping Canadian dollar could be a positive development, as it could foster more export activity.

The Bank of Canada previously said that exports could help Canada's economy, even as energy prices have fallen over the past two years.

But there's competition out there: currencies in Mexico, Brazil and Argentina have fallen even further against the US dollar, reducing Canada's competitiveness, **Macquarie Research** noted last month.

Macquarie projected that the loonie could fall to the low-70 cents range next year.



Madison's Weekly Softwood Lumber Key Prices Table

www.madisonsreport.com



| | 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 | 326 | 326 | 0 | 318 | +8 | 256 | +70 |
| WSPF KD R/L 2x6 | 286 | 286 | 0 | 290 | -4 | 248 | +38 |
| SYP KD R/L East Side 2x4 | 430 | 420 | +10 | 395 | +35 | 375 | +55 |
| SYP KD R/L East Side 2x6 | 380 | 380 | 0 | 370 | +10 | 335 | +45 |
| ESPF KD R/L 2x4 | 415 | 410 | +5 | 425 | -10 | 350 | +65 |
| WSPF KD PET 2x4 Stud | 280 | 275 | +5 | 280 | 0 | 225 | +55 |
| WSPF KD PET 2x6 Stud | 220 | 220 | 0 | 235 | -15 | 235 | -15 |
| Douglas Fir Green R/L 2x4 | 340 | 333 | +7 | 330 | +10 | 298 | +42 |
| Douglas Fir Green R/L 2x10 | 325 | 325 | 0 | 340 | -15 | 383 | -58 |
| ESPF KD 2x4 8ft Stud | 365 | 370 | -5 | 370 | -5 | 310 | +55 |
| OSB Ontario 7/16" (CDN\$/msf) | 360 | 365 | -5 | 377 | -17 | 302 | +58 |
| CSplywood Toronto 3/8" (CDN\$/msf) | 400 | 425 | -25 | 470 | -70 | 392 | +8 |

Madison's Weekly Softwood Lumber News

New Sawmill, Alabama

CONT'D FROM PG 2 Two Rivers Lumber is a new operation started by area businessmen Jay McElroy, owner of McElroy Trucking, and Roy Geiger, owner of Sumter Timber.

Construction is set to begin January 2017, with the Demopolis, Alabama-based mill scheduled to begin production in September. When completed, the mill will have an annual capacity of 200 million board feet and produce all sizes of southern yellow pine dimensional lumber for sale throughout the United States.

Two Rivers Lumber will pay US\$1,000 a month to rent the land from the city; that amount will in-

crease to US\$10,000 a month after five years. The company has a 40-year lease on the property, with an option to buy after 20 years.

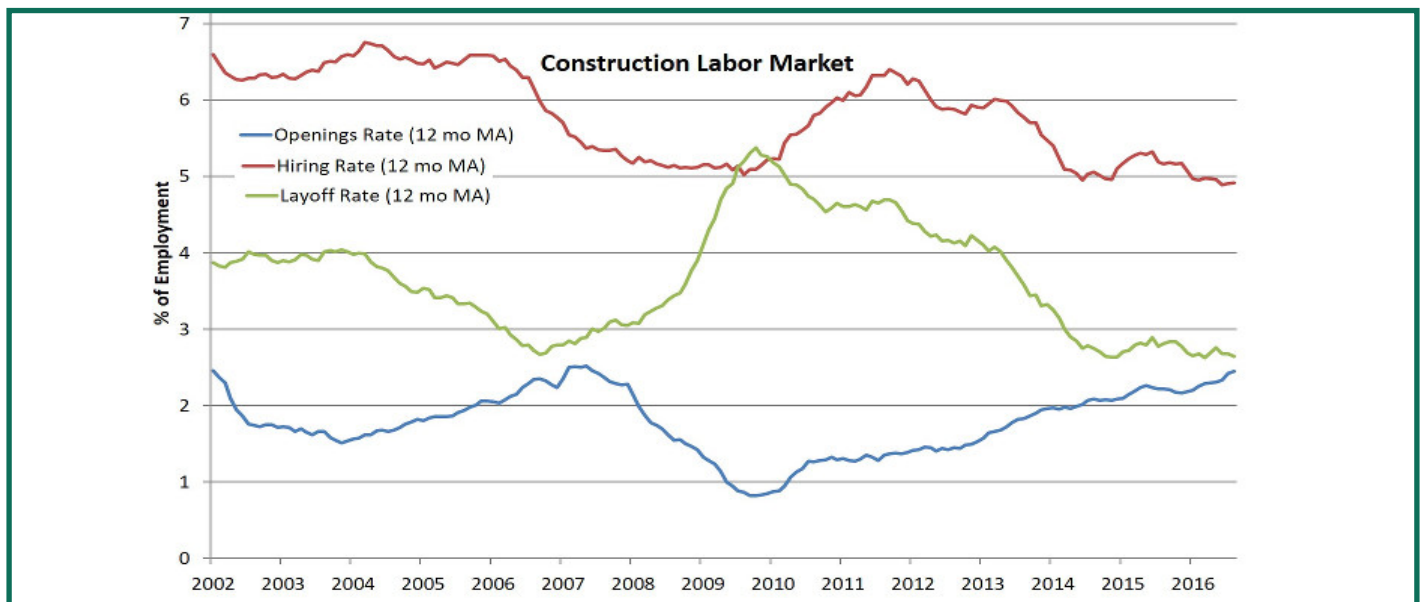
Port of Prince Rupert, Lumber Transload

CONT'D FROM PG 2 The investment complements Tidal Coast Terminals' main operational site at Prince Rupert's Industrial Park at Butze Bay (a former saw mill location) which sorts logs, handles containers, reloads forest products and bagged cargo, and barges breakbulk cargo to vessels.

The lumber transload facility is a key utilization of the Port of Prince

Rupert's Road, Rail and Utility Corridor said Michael Gurney, manager of corporate communications at the Port of Prince Rupert last week, and communications coordinator Kris Schumacher explained the impact that the transload facility is already having.

At the Prince George facility, logs are trucked in from nearby areas such as Quesnel, stuffed into containers and placed on trains bound for Prince Rupert all ready to be exported. As well lumber used to be trucked into a Quickload facility from nearby northwestern locations like Burns Lake, Houston and Smithers. Then it was unloaded, placed in containers and trucked to Fairview Container Terminal, said Schumacher.



British Columbia Lumber Exports: Trends 2015

CONT'D FROM PAGE 2

The top three countries for British Columbia lumber exports in 2015 were the United States (15.5M m3), China (6.6M m3) and Japan (2.2M m3), says a new report by **FP Innovations** for **BC Forestry Innovation Investment**. As the US housing market recovers, Canadian shipments have also come back. In 2015, housing starts (1.11M units) and the volume of BC lumber sold to the US both reported seven-year highs. In China, softwood lumber imported was unchanged at 17.6M m3; however, Canada reported an 11 per cent loss. According to China customs data, the volume lost by Canadian manufacturers was supplied by Russian producers. This development is likely the result of a weakened ruble, which made Russian lumber less expensive than Canadian products. In Japan, wood homes started in 2015 grew 3 per cent to 504,318 units but softwood lumber imported fell 4 per cent to 5.8M m3. While notable supplying regions reported minor sales losses, BC producers were unaffected as shipments improved 2 per cent to 2.2M m3.

2015 BC Exports of Solid Wood Products - m³

| | Softwood Lumber | Softwood Plywood | OSB | Particleboard | MDF & Fibreboard | Total | % of Exports |
|-------|-----------------|------------------|-----------|---------------|------------------|------------|--------------|
| US | 15,521,505 | 199,444 | 1,149,587 | 1,242 | 102,635 | 16,974,413 | 60.7% |
| China | 6,617,913 | 549 | 39,075 | | | 6,657,537 | 23.8% |
| Japan | 2,181,439 | 1,302 | 146,406 | 16 | | 2,329,163 | 8.3% |

BC SOFTWOOD LUMBER AND PLYWOOD EXPORTS

In 2015, the value of softwood lumber exported by BC improved 2 per cent to \$5.9 billion while sales in volume edged higher to 26.2M m3. Recoveries reported in the US, Japan and South Korea were offset by slowing demand in China and EU28. On the other hand, record shipments were observed in Taiwan and the Philippines.

Global sales of BC softwood plywood recovered 18 per cent in 2015. Similar to previous years, the majority of these plywood panels were sold to the US which saw a 19 per cent recovery. Sales to EU28 also saw a 59 per cent jump in volume from 2014.

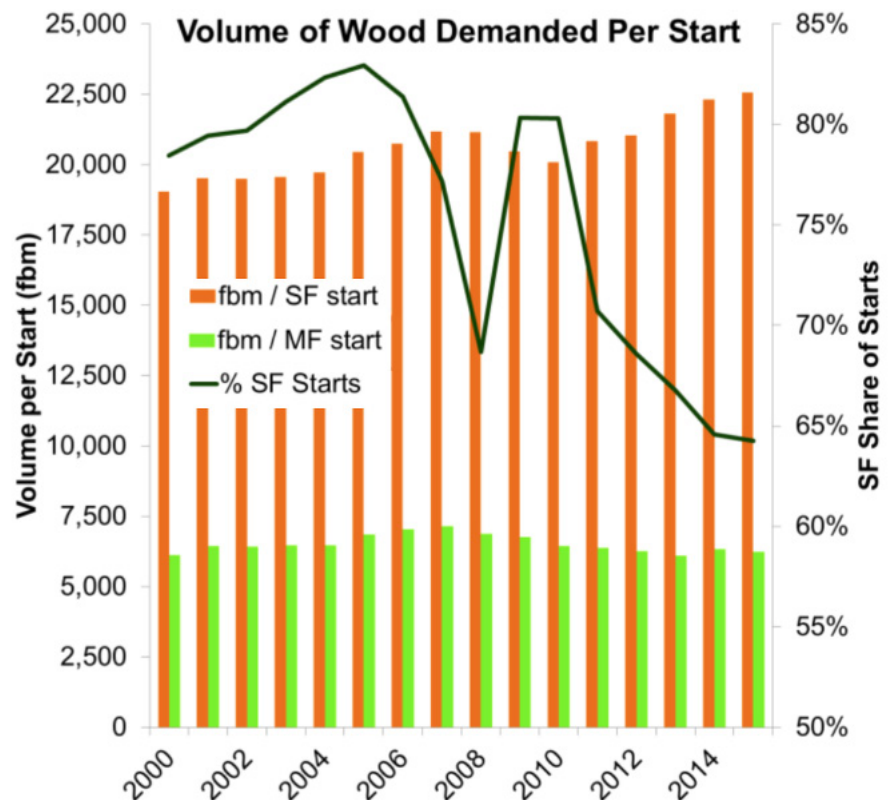
BC LUMBER TO USA

Consumption of softwood lumber in the US increased 4 per cent in 2015. While domestic production remained flat, imports grew 10 per cent to 32.4M m3. Imports of lumber from BC rose 7 per cent, compared to an 11% improvement from the rest of Canada. For the first time since 2001, the volume sold by BC trailed the rest of Canada - by 43,000 m3.

Consumption of wood panels also grew by 4 per cent in 2015.

Once again, flat domestic production was met with a 17 per cent increase in imports. BC exports to the US improved 25 per cent to 1.45M m3, while exports from the rest of Canada increased to 4.97M m3.

As the US housing market recovers, the demand for imported value-added wood products (VAWP) continues to rise. In just four years, imports to the US have increased by more than \$10 billion, from \$13.7B in 2011 to \$24.9B in 2015. Behind China (\$10.9B) and the ASEAN region (\$5.9B), Canada's VAWP exports were valued at \$3.1B in 2015.



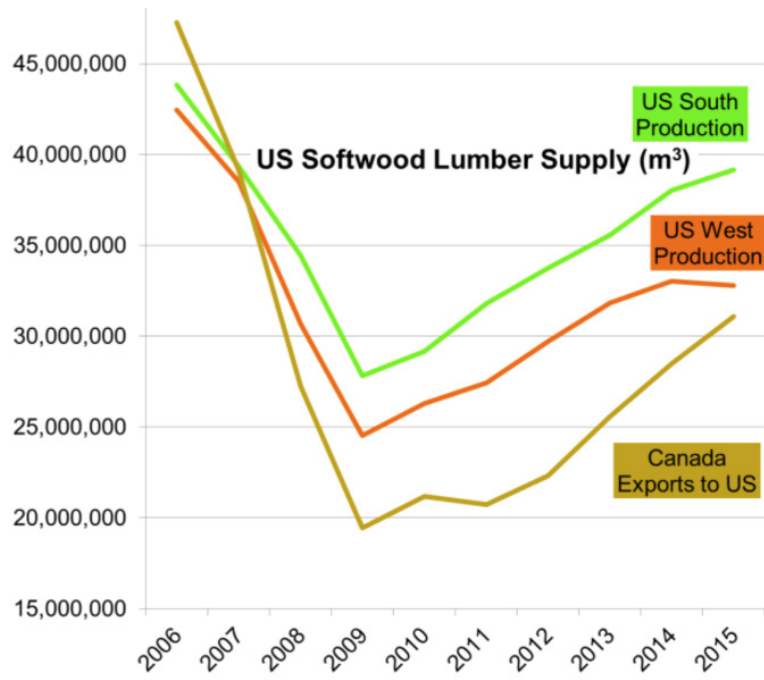
This research was made possible with support from Forestry Innovation Investment.

For more information, please contact James Poon (james.poon@fpinnovations.ca)

US Construction Market Outlook: FP Innovations

CONT'D FROM PAGE 8

In 2015, the US housing market reported the construction of 1.11 million new homes. The share of multi-family (MF) units climbed marginally, from 35 per cent in 2014 to 36 per cent in 2015). Many economists are divided on the future direction of MF construction. The National Association of Home Builders is forecasting a decrease in MF starts, with an estimated 32 per cent share in 2016, and dropping to 26 per cent by 2018. This would be a strong move down towards the “normal” level of 20 per cent seen over the past quarter century. On the other hand, RISI projects that MF construction will continue to rise, making up 37 per cent of all starts in 2016 through to 2018. This forecast represents a delay in, or shift away from, homeownership and a move towards rental housing. In light of these two opposing forecasts, the construction of MF homes will likely remain strong with respect to total starts, as homeownership rates do not yet appear to have bottomed out.



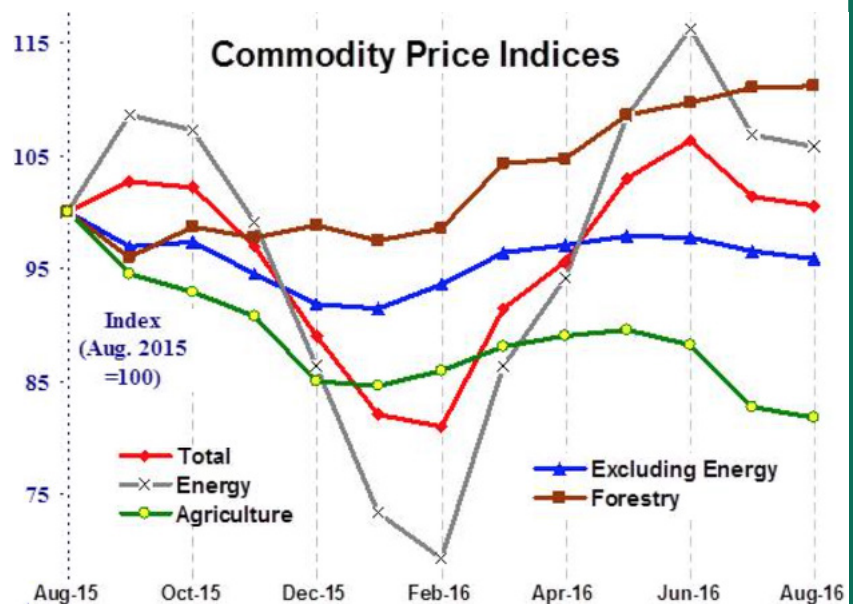
US WOOD SUPPLY UPDATE

During the housing boom, Canada was the leading supplier of softwood lumber to the US market, even ahead of the domestic supplying regions. When the market collapsed, domestic production (US) and imports (from Canada) both plunged. For the last eight years, Canada's volume has been trailing the two main producing regions, the US South and US West. At the time of biggest deficit, Canada trailed the US West and South by a respective 7.4M m³ and 11.4M m³ in 2012.

As the housing market recovers, Canadian shipments have also come back. Since 2009, Canadian sales have improved 60 per cent from 19.5M m² to 31M m³. In 2015, Canada still trailed the US West and US South in US supply by 1.7M m³ and 8M m³ respectively. However, it is also worth noting that Canadian companies have an increasing ownership stake in the US South's production.

The ongoing shift towards MF construction and the move to energy efficiency are changing the sizes of lumber demanded. MF construction heavily utilizes 9-foot 2x6 studs, which are longer and wider than the 8-foot 2x4 studs conventionally used in

detached home construction. However, detached homes are now beginning to use more 2x6 studs as energy efficiency considerations are causing a move to thicker wall cavities to accommodate more insulation. These trends have been reported by some Canadian lumber sales offices and are beginning to show up in market data.





MADISON'S NORTH AMERICAN PELLET PRICE GUIDE



The information tool for your forest management and investment planning decisions.

Our monthly product is tailored to provide you with vital information about North American wood pellet prices, manufacturing, and sales volumes at your fingertips in a timely manner.

Order our PRE-PUBLICATION sale and be the first to use this exciting new information source!

www.madisonsreport.com

madrep@shawcable.com

604 319-2266

PRE-PUBLICATION SALE: SAVE MORE THAN 15% ON THE REGULAR PRICE

Order now and save! Offer expires November 1, 2016

MADISON'S PELLET PRICE GUIDE

**MADISON'S EXCELLENT DATA ON NORTH AMERICAN
WOOD PELLET PRICES AND
PELLET MANUFACTURING VOLUMES**

Get it all in one easy picture!

Current producer prices and succinct market commentary on:

- **Wood Pellet Production** and **Domestic Sales** for Canada and USA;
- **Sales** of Wood **Pellet Stoves**, Boilers, and Burners;
- **North American Wood Heating Pellet Prices** (*Regional, Monthly, Wholesale*).

Don't miss even one issue of this vital information!

- what you need to plan your investment strategy in the North American wood pellet manufacturing industry
- foreshadows spot shortages, overages, and balance of supply with demand
- the latest on North American wood pellet prices, production, and sales
- presented in a six-page format every month

Madison's Pellet Price Guide provides valuable insight combined with the latest statistics on US and Canadian wood pellet production volumes, sales domestically and for export, wood pellet stove and boilers sales, as well as detailed price information provided on a regional basis, with striking graphs and charts used to illustrate our point.

Choose our Easy Pay Option: Four Quarterly Payments of just C\$210

Yes, I want to be regularly informed on the North American wood pellet industry.

Please sign me up for pre-publication sale at more than 15% discount:

_____ **Madison's Monthly PELLET MARKET GUIDE** US\$400/yr

and _____ **Canada / US 2016 Pellet Mill listings** US\$100/yr *GST applies to Canadian subscribers*

Company Name: _____

Attention: _____

Address: _____

Phone: _____ Email: _____

Please charge my VISA/MC: Card No. _____ Exp. ____ / ____

Please bill me: (signature) _____