

MADISON'S LUMBER REPORTER

Publisher
KetaDesign Productions

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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

Printed in Canada © 2015

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News & Updates

Tariff-Free Canadian Lumber Imports to EU: CETA

Current EU tariffs for forest products range from 2 per cent to 10 per cent; upon Canada/EU bilateral agreement CETA's entry into force, all Canadian forestry products will enjoy duty-free entry to the EU, according to *Lesprom Network* Monday.

The EU is the world's third largest importer of forest products – US\$46 billion in 2015, or 14 per cent of global forest product imports that year. CONT'D PAGE 6

Canada and US Sawmill Capacity: August 2016

This week was released the latest issue of the **Western Wood Products Association's** monthly *Lumber Track*. CONT'D PAGE 6

US Southern Pine Exports Up 17% in August 2016

Exports of Southern Pine lumber remained at a lofty level in August, amounting to almost 56.5 MMbf, as the **Southern Forest Products Association** said in the press release received by *Lesprom Network* Monday. This volume represents an increase of 17 per cent above the same month last year, contributing to a year-to-date increase of 14 per cent when compared with the first eight months of 2015.

CONT'D PAGE 7

Wood Pellet Mill Investment: US, UK

A project seeking to build a wood pellet mill in northeast Vermont has received a US\$2.5 million loan guarantee through the **US Department of Agriculture's** rural development division. The loan will help convert a former paper mill in Lunenburg, VT, into a wood pellet manufacturing facility. CONT'D PAGE 7

Western Forest Products Reports: 3Q 2016

Western Forest Products, out of Vancouver, BC, reported Thursday adjusted EBITDA of \$35.7 million in 3Q 2016, compared to adjusted EBITDA of \$28.7 million reported in the same quarter last year, and \$43.0 million reported in 2Q 2016. A significant increase in lumber and export log sales volumes, combined with improved pricing and a strengthening commodity lumber market, delivered a 24 per cent increase in adjusted EBITDA in 3Q 2016, as compared to the same quarter last year.

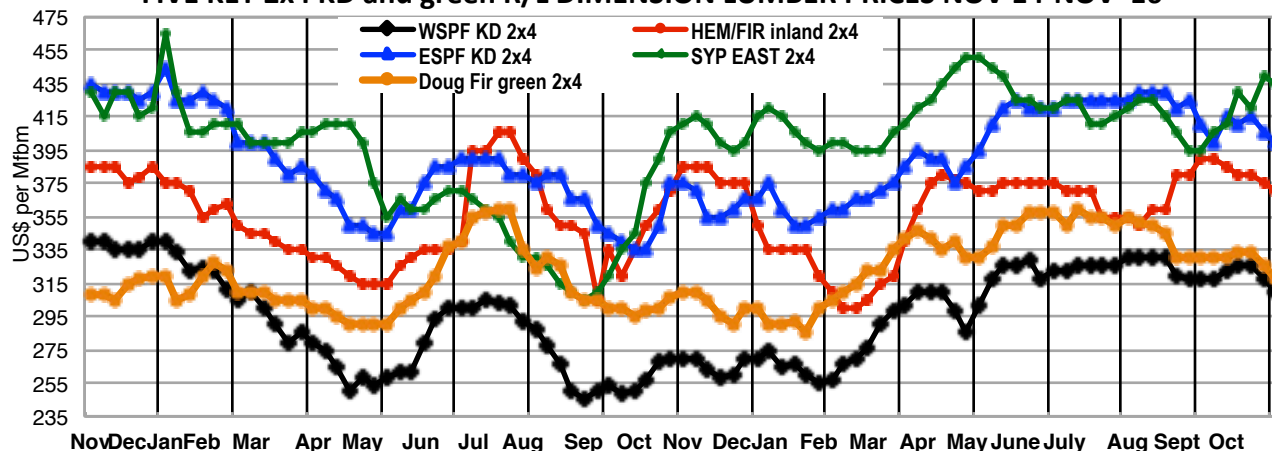
Canada Export Projection: EDC

In a sobering message titled "*The Great Hesitation*", in the latest release of **Export Development Canada's** *Global Export Forecast*, VP and Chief Economist Peter Hall writes, "Growth remains elusive. [...] Performance in the automotive, forestry, agri-food and consumer products industries is expected to continue contributing to overall strength. The outlook pegs no growth this year, rising to 3 per cent in 2017. Fallout from the uncertainty created by anti-trade sentiment in the US and the UK poses the biggest threat to Canada's near-term export outlook. [...] the main message being one of caution during a global inflection point.[...]"

Amid the world's hesitation, it's a great moment of opportunity."

CONT'D PAGES 8, 9 and 10

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



Canada Softwood Lumber Exports to EU: CETA 2016

CONT'D FROM PAGE 2

Canada's advantage includes areas where EU demand is strong, said *Lesprom Network* Monday. Key exports from Canada, such as wood pellets, sawn/sliced coniferous wood, chemical wood pulp of coniferous wood, and seat components, have strong demand in the EU.

Canadian companies can benefit from provisions in CETA related to regulatory cooperation, government procurement, temporary entry, and trade in services. Canada will have a preferential trade advantage with the EU that many competitors will not have.

According to **Statistics Canada**, the main European markets for Canadian softwood lumber in 2015 were UK with 56 thousand cubic meters, Belgium – 64 thou-

sand cubic meters, France – 12 thousand cubic meters. The supplies to EU very small in comparison with export to USA (31 million cubic meters), China (6.5 million cubic meters) and Japan (2.3 million cubic meters).

In 2015 Canada has exported 1.2 million tonnes of wood-pen pellets to UK, 85.5 thousand tonnes to Italy and 14 thousand tonnes to Austria.

SOURCE: Lesprom Network

EU tariff elimination under CETA		
Product	Current Tariff (2015)	Tariff upon CETA's Entry into Force
Components of wooden seats	2.7%	0%
Fiberboard	7%	0%
Maple wood	2.5%	0%
Plywood	7 to 10%	0%
Ash wood	2.5%	0%
Oriented strand board	7%	0%

Top 5 Suppliers of Forest Products to the EU	
Country	Import Market Share
China	25.4%
United States	13.7%
Brazil	9.7%
Russia	6.8%
Switzerland	4.6%
Canada (11th)	2.5%

North American Sawmill Capacity, Lumber Production: August 2016

CONT'D FROM PAGE 2

This week was released the latest issue of the **Western Wood Products Association's** monthly *Lumber Track*.

US softwood lumber production for January to August 2016 was 22,012 MMfbm, a 3.6 per cent increase from 21,250 MMfbm in the first eight months of 2015.

Canada softwood lumber production for January to August 2016 was 18,898 MMfbm, a 3.6 per cent increase from 17,559 MMfbm in the first eight months of 2015.

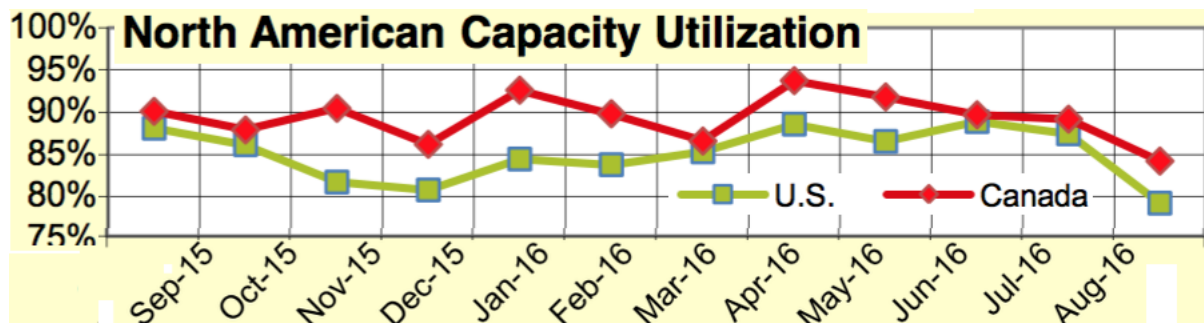
The total increase of US production from the first eight months of 2013 to the same time this year is +8.6 per cent.

The total increase of Canadian production from the first eight months of 2013 to the same time this year is +13.3 per cent.

In 2013, the total volume of Canadian production for January to August was 18.2 per cent of that in the US.

In 2016, the total volume of Canadian production January to August was 14.1 per cent of that in the US.

SOURCE: Western Wood Products Association



Sources: FEA, LLC: *Softwood Sawmills in the United States and Canada*, WWPA

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	310	318	-8	326	-16	270	+40
WSPF KD R/L 2x6	278	278	0	286	-8	262	+16
SYP KD R/L East Side 2x4	435	440	-5	420	+15	410	+25
SYP KD R/L East Side 2x6	355	365	-10	380	-25	345	+10
ESPF KD R/L 2x4	400	405	-5	410	-10	375	+25
WSPF KD PET 2x4 Stud	265	270	-5	275	-10	235	+30
WSPF KD PET 2x6 Stud	220	220	0	220	0	235	-15
Douglas Fir Green R/L 2x4	318	325	-7	333	-15	310	+8
Douglas Fir Green R/L 2x10	320	325	-5	325	-5	410	-90
ESPF KD 2x4 8ft Stud	350	360	-10	370	-20	315	+35
OSB Ontario 7/16" (CDN\$/msf)	365	360	+5	365	0	330	+35
CSplywood Toronto 3/8" (CDN\$/msf)	418	416	+2	425	-7	412	+6

Madison's Weekly Softwood Lumber News

US Southern Pine Exports: August 2016

CONT'D FROM PG 2 Exports of Southern Pine lumber remained at a lofty level in August, amounting to just under 56.5 MMbf. This volume represents an increase of 17 per cent above the same month last year, contributing to a year-to-date increase of 14% when compared with the first eight months of 2015, as the **Southern Forest Products Association** says in the press release received by *Lesprom Network*.

Offshore shipments during August roughly break down as 31.9 MMbf

dressed, 6.2 MMbf rough, and 18.4 MMbf treated lumber.

Softwood lumber imports to the U.S. remained steady in August, reaching 1.36 billion board feet (Bbf), up 15 per cent from the volume imported during August of 2015. Through the first eight months of this year, softwood imports are up 34 per cent when compared with the same period a year ago.

Vermont Pellet Mill Investment

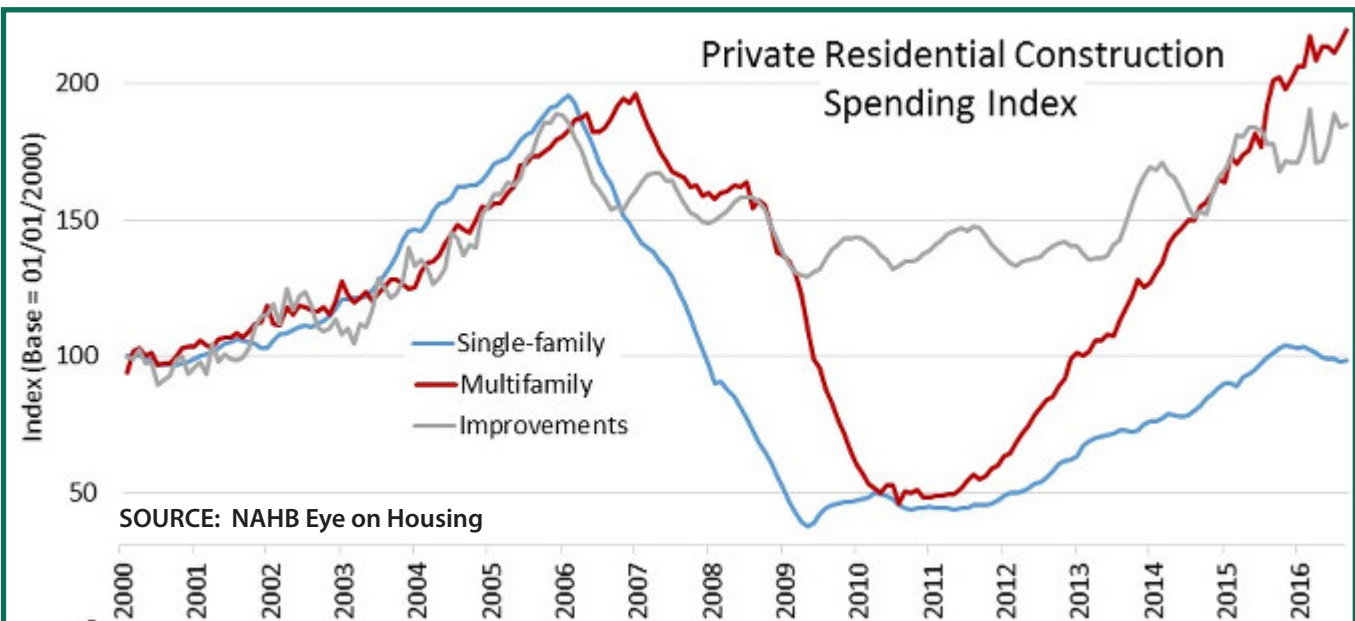
CONT'D FROM PG 2 A project seeking to build a wood pellet mill in northeast Vermont has received a US\$2.5 million loan guarantee through

the US Department of Agriculture's rural development division.

Tabitha Bowling, a partner in the new start-up — Kingdom Pellets — says without the loan guarantee, the project couldn't move forward.

Partners in Kingdom Pellets hope the business will create 21 jobs to operate the 30,000-ton softwood pellet mill in Vermont's Northeast Kingdom.

USDA officials say the purpose of the financial assistance is to help businesses "transitioning to renewable or energy efficient technologies to cut costs and reduce energy consumption."



Canada Export Outlook: Export Development Canada

CONT'D FROM PAGE 2

Canadian businesses can expect to see 3 per cent growth in exports of goods and services next year following a downbeat 2016 that saw exports stall, according to a new global export forecast released Wednesday by **Export Development Canada** (EDC).

Canada's lacklustre performance this year and next masks the success stories. In 2016, the automotive and consumer goods sectors did very well, each seeing a second successive year of double-digit growth. However, this good news story was completely offset by sharp declines in energy exports, fertilizer sales, and shipments of metals.

EDC believes that the modest rebound facing Canadian exporters in 2017 will be led by a sharp recovery in the energy sector, as prices return from significant lows. Decent gains will also be seen in the aerospace, fertilizers and consumer goods industries. Exports of services will also be impressive, rising by 5 per cent in 2017 (after 4 per cent in 2016). EDC's forecast notes that the uptick in the services sector will be driven by tourism, financial, and technology services.



The uneven growth we are seeing this year will continue into 2016. Primary industries are still reacting to the plunge in commodity prices, but with prices now up from early-year lows, 2017 shipments should do better. Robust U.S. demand and a subdued Canadian dollar will continue to boost key manufactured products.”

- Peter Hall, Chief Economist, EDC

UNEVEN GROWTH IN EXPORTS

While the “populous tide” appears to have turned against global engagement, fanned no doubt by anti-trade rhetoric coming out of the U.S. election campaign, demand for products worldwide still seems to be spreading.

Uneven growth in exports will continue through 2016 but should become more steady in the coming year, .

“Primary industries are still reacting to the plunge in commodity prices, but with prices now up from early-year lows, 2017 shipments should do better,” Hall said in a study released Wednesday.

“Robust US demand and a subdued Canadian dollar will continue to boost key manufactured products.”.

Efforts by Canadian companies to grow outside the country are expected to boost exports of goods and services by three per cent overall in 2017, supported by gains in exports to emerging and developed markets.

Canadian Merchandise Export Forecast by Sector	CAD bn	% Share of Total Exports	% Share of Total Exports	Export Outlook (% growth)	Export Outlook
EXPORT FORECAST OVERVIEW	2015	2015	2015	2016 (f)	2017 (f)
Agri-Food	61.4	10.6	9	3	3
Energy	98.9	17.0	-30	-15	12
Forestry	34.7	6.0	7	7	-1
Chemical and Plastics	45.1	7.8	8	3	4
Metals, Ores and Other Industrial Products	73.0	12.5	0	-7	3
Industrial Machinery and Equipment	33.3	5.7	9	0	4
Motor Vehicles and Parts	78.2	13.4	15	16	-7
Total Goods Sector	481.7	82.8	-2	0	3
Total Services Sector	100.1	17.2	5	4	5
Total Exports	581.8	100.0	-1	0	3
Total Goods Nominal (excl. Energy)	382.8	65.8	9	3	1
Total Goods Nominal (excl. Autos and Energy)	304.5	52.3	8	0	3

Sources: Statistics Canada, EDC Economics, 2015 is actual data while 2016 and 2017 are forecast.

SOURCE: Export Development Canada

HANDFUL OF TROUBLING FACTORS

A handful of factors, including trouble in the oil and gas industry has led to a lackluster performance for Canadian exporters this year—but despite the stumble, Export Development Canada expects exporters to get back on their feet next year with stronger growth.

“Primary industries are still reacting to the plunge in commodity prices, but with prices now up from early-year lows, 2017 shipments should do better,” said HALL. “Robust US demand and a subdued Canadian dollar will continue to boost key manufactured products.”

In its latest forecast, EDC said it anticipates Canadian businesses will post three per cent export growth in 2017—just below the 3.4 per cent growth expected for the global economy. With energy prices recovering from their recent lows, the trade financier expects the oil and gas industry to lead the way, while the aerospace, fertilizers and consumer goods industries will also post “decent gains.” A recent bright spot in the Canadian economy, the service export industry, is also expected to record a five per cent 2017 gain.

Among large emerging markets, EDC forecasts India will lead the pack with 7.4 per cent export growth, followed by China at six per cent.

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Muted Forecast

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The greatest threat to the export outlook is the alarming rise in anti-trade sentiment. The Brexit vote puts at risk the world's largest trading bloc, while the US election has revealed widespread discontent with America's current trade architecture.

"After years of slow growth, consumers and businesses around the globe are frustrated," said Hall. "You can't blame them. Seven years seems like an eternity when you're waiting for your first real job, or your next one. But lashing out at globalization is really an attack on one of the key economic remedies."

Canadian Merchandise Export Forecast by Region EXPORT FORECAST OVERVIEW	CAD bn 2015	% Share of Total 2015	2015	Export Outlook (% growth) 2016 (f)	2017 (f)
Developed Markets					
United States	366.5	76.1	-2.6	0	2
Western Europe	37.2	7.7	-5.2	-2	3
Japan, Oceania and Developed Asia	22.0	4.6	-6.2	-4	2
Emerging Markets					
Latin America and the Caribbean	13.9	2.9	4.2	1	3
Emerging Asia	30.8	6.4	10.1	-3	4
Total Goods Exports	481.7	100.0	-2.1	0	3
Total Emerging Markets	56.0	11.6	5.1	-2	4
Total Developed Markets	425.7	88.4	-3.0	0	3

Sources: Statistics Canada, EDC Economics

"With a populous tide turning against global trade, businesses are hesitant to make major moves, opting instead to 'wait and see'," added Hall. "Despite the potential for growing demand that we see in key global markets, they could be shying away from some of the best opportunities in years."

The ongoing progress in the US economy coupled with the weak Canadian dollar will spur Canada's export performance in 2017. For instance, aerospace, fertilizers, and consumer goods will all post solid growth next year, all fuelled by the recovery of US demand.

Another bright spot for Canada is that energy-rich provinces can expect a 12 per cent rebound in energy export growth in 2017. This increase will be supported by ongoing recovery in oil prices and an increase in volumes compared with 2016, when production was negatively affected by the Alberta wildfires.



Globally, EDC forecasts that global GDP growth will be 3 per cent this year and 3.4 per cent in 2017. GDP growth in Canada's primary trading partner, the US, will rise from 1.5 per cent in 2016 to 2.4 per cent in 2017. Among key emerging markets, China is decelerating but still expected to register over 6 per cent growth. India, however, will be leading the pack with expected growth of 7.4 per cent in 2017."

"The downward revision from the last forecast is directly related to anti-trade developments," said Hall. "But the good news is that for now, fundamental drivers of the world's top economies are strong. If they end up boosting near-term activity, now may be the best time

for shrewd Canadian companies to take advantage of opportunities where their foreign competitors are abandoning them."

SUCCESS STORIES

Efforts by Canadian companies to grow outside the country are expected to boost exports of goods and services by three per cent overall in 2017, supported by gains in exports to emerging and developed markets. That boost come after a dismal performance so far this year that "masks the success stories," according to EDC.

Exports of consumer goods, fertilizers and aerospace parts are forecast to growth significantly next year — thanks to a pickup in US demand, in particular. Energy exports are also forecast to rise in 2017 by up to 12 per cent as oil price continues to recover from the collapse two years ago.

Regardless of the November 8 election outcome in the United States, the outlook for that economy is still upbeat and a weak loonie should finally help turn the tide for Canadian exports, according to the EDC — good news for our economy, which has stumbled and is now relying heavily on government spending, and big budget deficits, to eke out growth.

Canada has pursued dozens of free-trade agreements since the global economic downturn, aimed at diversifying goods and expanding markets.

Among them, CETA and the Asia-Pacific Economic Co-operation pact, which has been slowed by protectionist concerns that are shared by US presidential candidates Hillary Clinton and Donald Trump.

"After years of slow growth, consumers and businesses around the globe are frustrated," Hall said in the study.

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Canada Provincial Export Forecast: Export Development Canada

CONT'D FROM PAGE 9

Canadian merchandise export growth is forecast to remain flat in 2016, with contractions in energy, fertilizer and metals-exporting provinces overshadowing positive momentum from provinces with larger manufacturing sectors. In 2017, the baton will again pass to the energy and metal and ore exporters. Gradually recovering prices for these commodities will nudge Canadian exports to a modest 3 per cent gain.

Exports in almost every one of Canada's energy-rich provinces will shrink in 2016. Saskatchewan and Alberta's exports will be hardest hit, losing 15 per cent and 10 per cent, respectively, with Saskatchewan doubly penalized by collapsing fertilizer prices. Low oil prices will also drive export contractions for Newfoundland and Labrador and New Brunswick. Only British Columbia's more diversified exports will escape the same fate and grow 3 per cent.

The outlook for manufacturing provinces and Atlantic Canada's non-energy exporters is more positive for 2016. Ontario will lead with 7 per cent growth driven by rising volumes in auto and other manufacturing. For Quebec and Manitoba, growth will be a more modest 1 per cent.

Both provinces will be held back by low metals prices that mask strong results in manufacturing, chemicals and plastics. Nova Scotia and Prince Edward Island are benefiting from high lobster prices and will record export growth of 3 per cent and 2 per cent, respectively, in 2016.

In 2017, exports from the energy-rich provinces will recover in tandem with oil prices. Newfoundland and Labrador will lead the charge with a 12 per cent export gain, boosted further by increased mining output. Following closely, Alberta exports will expand 10 per cent due to oil and gas price increases and higher output following last year's wild res. In Saskatchewan, energy and fertilizers will power a 5 per cent export expansion. **New Brunswick and British Columbia, which have sizable forestry sectors, are forecast to lag with export growth reaching only 3 per cent and 2 per cent, respectively, as the US will likely impose softwood lumber duties.**

Ontario is set to trail all the other provinces with 0 per cent export growth in 2017; the auto sector lacks capacity to increase exports further. In Quebec, aerospace manufacturing will lift the province to another 3 per cent expansion. Meanwhile, exports from highly diversified Manitoba will increase by 3 per cent, benefiting from increased demand for pharmaceuticals and buses. PEI exports, too, will rise by 6 per cent thanks to pharmaceuticals sales and aerospace. Finally, Nova Scotia exports will remain nearly flat as neither agri-food nor motor vehicles will register growth in 2017.

SECTOR OVERVIEW

Canadian exports of goods and services are projected to see zero growth in 2016, followed by a 3% rise in 2017. It is services exports that will provide lift, while goods exports are forecast to remain flat due to significant contractions registered in three sectors: energy, fertilizers, and metals and ores.

While price declines have in most cases chipped away at goods exports in 2016, growing US demand and the weaker Canadian dollar are moderating the decline to some degree. This year, the contraction in energy and fertilizers, for example, will be partially offset by strong growth in motor vehicles and parts 16 per cent and consumer goods 11 per cent.

The forestry sector will also see a decline, due in part to the likely imposition of new duties on Canadian softwood lumber and the ongoing global decline in demand for paper.

Canadian Merchandise Export Forecast by Province PROVINCES	CAD bn 2015	% Share of Province's Total Exports		Export Outlook (% growth)	
		2015	2015	2016 (f)	2017 (f)
Newfoundland and Labrador*	9.1	1.9	-30	-4	12
Prince Edward Island	1.2	0.3	17	2	6
Nova Scotia	5.4	1.1	2	3	1
New Brunswick	12.2	2.5	-6	-8	3
Quebec	80.1	16.6	8	1	3
Ontario	197.0	40.9	11	7	0
Manitoba	13.7	2.8	2	1	3
Saskatchewan	32.6	6.8	-7	-15	5
Alberta	92.4	19.2	-24	-10	10
British Columbia	36.0	7.5	1	3	2
Territories	2.0	0.4	-11	-30	18
Total Goods Exports	481.7	100.0	-2	0	3

Sources: Statistics Canada, EDC Economics *Includes EDC estimate for crude oil exports (*not included in national total from Statistics Canada)