

MADISON'S LUMBER REPORTER

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News & Updates

Canada Sawmill Exports, Manufacturing Sales: September 2016

The pace of **Canadian manufacturing sales** slowed in September, while volumes fell, data from **Statistics Canada** showed on Wednesday. The 0.3 per cent increase in sales was a step down from August's hefty 0.9 per cent increase.

It was also driven largely by gains in the transportation equipment sector. Although sales were up in 12 out of 21 industries, a 1.5 per cent increase in the sector accounted for more than 85 per cent of the total gain in manufacturing sales.

Manufacturing sales by sawmills, however, increased sharply. These were up by 10 per cent for the top three lumber producing provinces combined — British Columbia, Quebec, and Alberta — for January to September 2016 compared to the same time last year.

Data released Thursday also by **Statistics Canada** shows **softwood lumber exports to the world improved also by 10 per cent** for the first nine months of 2016, driven largely by a 15 per cent increase in lumber exports to USA and impaired by a 7 per cent decrease to China compared to 2015. CONT'D PAGE 6

Japan Wood Consumption: FY 2015

The results of Japan's intensive campaign to foster a **domestic lumber production industry** over the past couple of years are in; **Japan's Forestry Agency** released the data for the **Wood Supply and Demand in 2015** to the public on September 27, said *Japan Lumber Journal* Thursday.

According to the report, the total amount of demand for the year (after conversion to the log equivalent) was 75,300,000 cubic metres, which is **down 0.7 per cent** compared with the previous year, and the first decrease in four years. Among the total amount of demand, domestic output was 25,058,000 cubic metres (up 6 per cent) and import was 50,242,000 cubic meters (down 3.7 per cent).

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US Building Material Prices: October 2016

The latest **Producer Price Index (PPI)** release by the **Bureau of Labor Statistics** revealed that the prices for the building materials softwood lumber, OSB, gypsum products, and ready-mix concrete all fell during October. **National Association of Home Builders' Eye on Housing** staffer David Logan takes a look at the declines for these materials, specifically pointing out the decline OSB (0.7 per cent) as paltry following a cumulative 25 per cent price increase since February.

CONT'D PAGE 7

US and Canada Wood Pellet Exports: Sept & June 2016

More good news in the fast-growing North American wood pellet industry; wood pellets used for energy exports are up so far in 2016 according to **Statistics Canada** and the **US Census**.

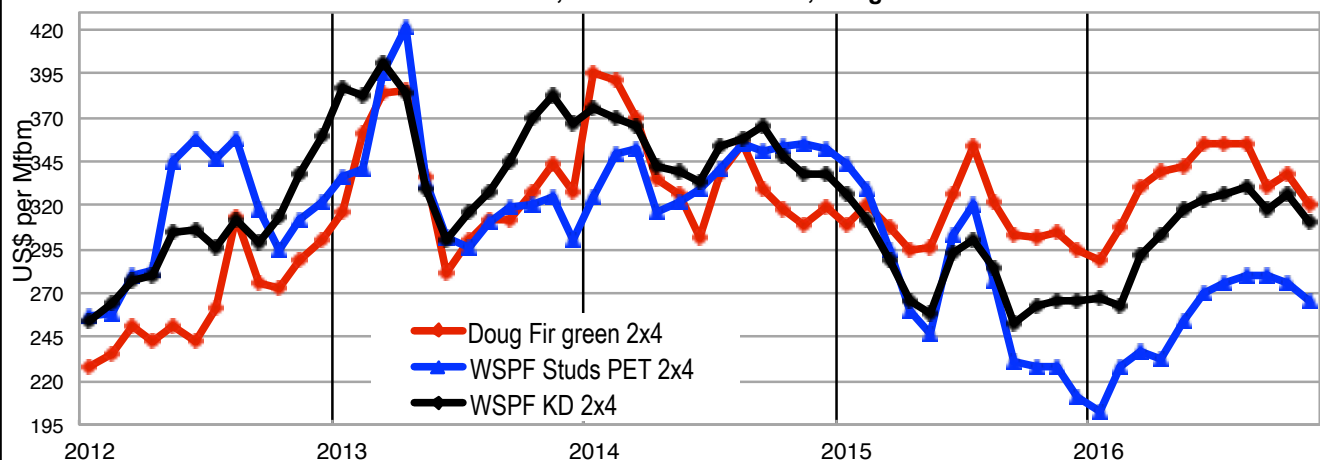
CONT'D PAGES 8 and 9

US Housing Starts: October 2016

US Housing Starts Jump 25.5 per cent in October.

CONT'D PAGE 10

2x4 Prices : WSPF KD R/L #2&Btr, WSPF KD PET Studs, Douglas fir Green - 2012 - NOV 2016



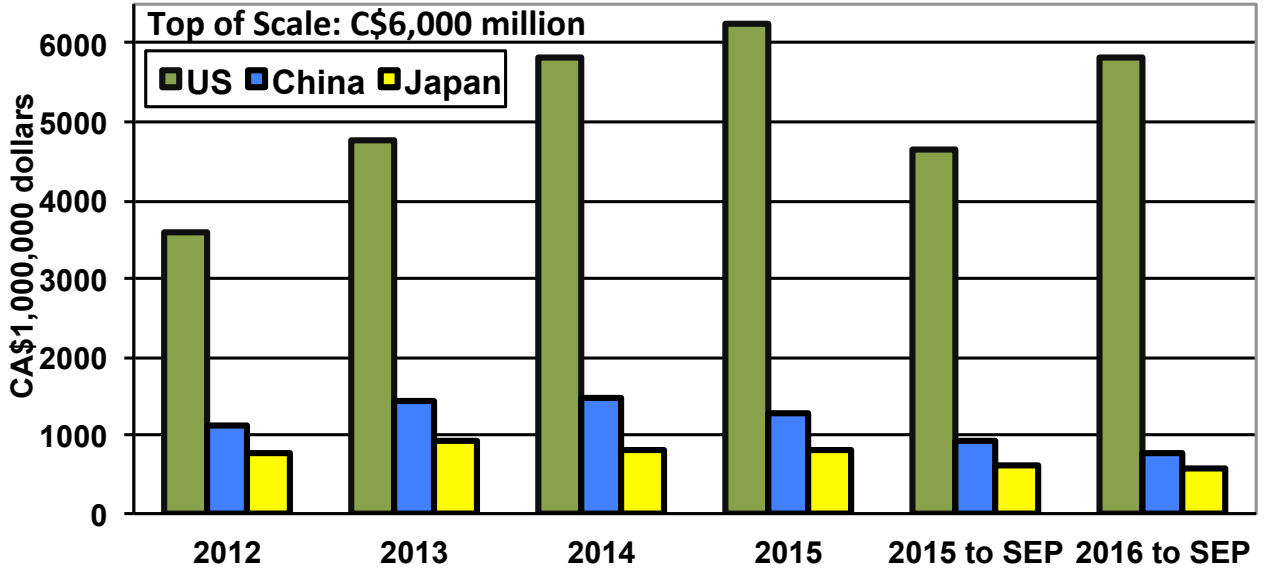
Canada Sawmill Exports: September 2016

CONT'D FROM PAGE 2

SOURCE: Industry Canada

| VALUES | | | Sep-16 |
|----------|-------------|-------------|---------|
| US | 4640 | 5818 | 25.40% |
| China | 935 | 789 | -15.70% |
| Japan | 620 | 595 | -4.10% |
| to World | 6772.122 | 7798.928 | 15.20% |
| | 2015 to SEP | 2016 to SEP | |

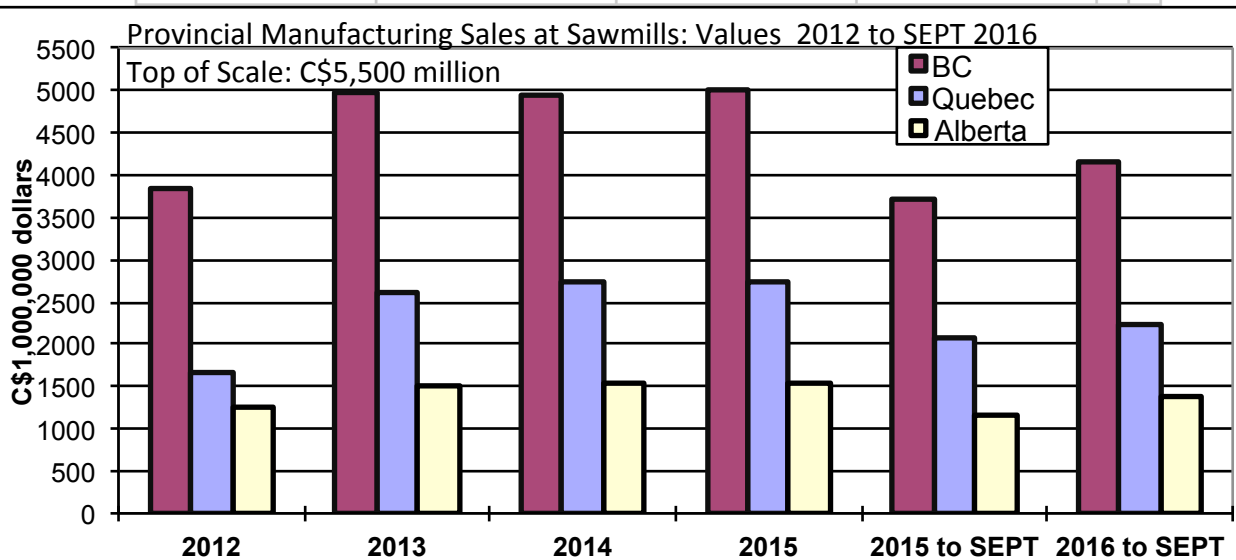
Canada Sawmill Exports (excl: Shake&Shingle): Values '12- SEP '16



Canada Manufacturing Sales at Sawmills: September 2016

SOURCE: Statistics Canada

| VALUES | | | SEPT |
|---------|--------------|--------------|--------|
| BC | 3,721 | 4,153 | 10.40% |
| Quebec | 2,064 | 2,222 | 7.10% |
| Alberta | 1,158 | 1,387 | 16.50% |
| TOTAL | 6943.041 | 7,762 | 10.60% |
| | 2015 to SEPT | 2016 to SEPT | |



Madison's Weekly Softwood Lumber Key Prices Table

www.madisonsreport.com



| | 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 | 306 | 310 | -4 | 326 | -20 | 263 | +43 |
| WSPF KD R/L 2x6 | 275 | 275 | 0 | 286 | -11 | 255 | +20 |
| SYP KD R/L East Side 2x4 | 430 | 425 | +5 | 435 | -5 | 410 | +20 |
| SYP KD R/L East Side 2x6 | 345 | 350 | -5 | 375 | -30 | 325 | +20 |
| ESPF KD R/L 2x4 | 395 | 390 | +5 | 415 | -20 | 355 | +40 |
| WSPF KD PET 2x4 Stud | 265 | 270 | -5 | 280 | -15 | 230 | +35 |
| WSPF KD PET 2x6 Stud | 220 | 220 | 0 | 220 | 0 | 235 | -15 |
| Douglas Fir Green R/L 2x4 | 315 | 315 | 0 | 333 | -18 | 305 | +10 |
| Douglas Fir Green R/L 2x10 | 315 | 310 | +5 | 325 | -10 | 400 | -85 |
| ESPF KD 2x4 8ft Stud | 355 | 345 | +10 | 365 | -10 | 290 | +65 |
| OSB Ontario 7/16" (CDN\$/msf) | 365 | 365 | 0 | 360 | +5 | 340 | +25 |
| CSplywood Toronto 3/8" (CDN\$/msf) | 417 | 417 | 0 | 422 | -5 | 412 | +5 |

Madison's Weekly Softwood Lumber News

Japan Wood Consumption: FY 2015

CONT'D FROM PG 2 The total demand in Japan for sawn timber for 2015 amounted to 70.9 million cubic meters, a decline of 2.3 per cent from the previous year's result, said *Japan Lumber Journal* Thursday. Of the figure, demand for wood for lumber decreased 3 per cent to 25.4 million cubic metres, and that for plywood diminished 11 per cent to 9.9 million cubic metres. These sectors saw drops for the second consecutive year. On the other hand, demand for wood for pulp and woodchip increased (up 1.1 per cent) to 31.8 million cubic metres increasing for 2 consecutive years.

Domestic production of sawn timber grew 1.4 per cent to 21.8 million cubic metres, of which 21.9 million cubic meters were logs (up 1.5 per cent) and

217,000 cubic meters were wood remaining in forests (down 6.1 per cent).

On the contrary, Japan's import of sawn timber dropped 3.9 per cent to 49.1 million cubic metres. The self-sufficiency in sawn lumber rose 1.2 points from the previous year's result to 30.8 per cent. Also Japan's export of sawn lumber increased 13.5 per cent to 2.3 million cubic metres.

US Construction Materials Prices

CONT'D FROM PG 2 Prices received for softwood lumber, OSB, gypsum products, and ready-mix concrete all fell in October according to the latest Producer Price Index (PPI) release by the Bureau of Labor Statistics.

OSB prices declined 0.5 per cent in October, ending a 7-month trend that had made the commodity the most ex-

pensive it had been in over three years. The small percentage decrease, while welcome, is paltry compared to the cumulative 25 per cent price increase OSB had experienced since February. Prices received for ready-mix concrete, gypsum products, and softwood lumber declined by 0.1 per cent, 0.5 per cent, and 1.2 per cent, respectively.

The US dollar remains relatively strong against the Canadian dollar, and further currency appreciation appears on the horizon as Federal Reserve officials signal that they will raise the US benchmark interest rate in December, says *NAHB Eye on Housing* Wednesday. A strengthening US dollar makes Canadian softwood lumber cheaper to import, which may prove increasingly important as softwood lumber litigation picks up in an uncertain international trade environment.

Wood Supply & Demand for 2015

SOURCE: Japan Lumber Journal

unit: 1000 cubic meters

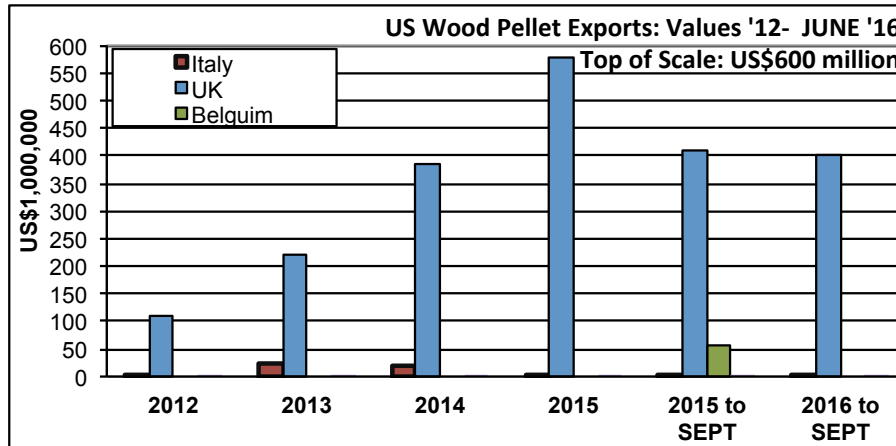
| | Total Demand | | | | | Domestic Consumption | | | | | Export |
|-----------------|--------------|--------|----------------|---------|--------|----------------------|--------|----------------|---------|--------|--------|
| | Total | lumber | woodchips/pulp | plywood | others | Total | lumber | woodchips/pulp | plywood | others | |
| Total Supply | 75,300 | 25,358 | 31,783 | 9,914 | 3,829 | 73,011 | 25,262 | 30,421 | 9,799 | 3,120 | 2,288 |
| Logs | 26,404 | 15,886 | 4,988 | 4,451 | 1,080 | 24,123 | 15,790 | 3,626 | 4,336 | 371 | 2,281 |
| Logging residue | 217 | 0 | 217 | 0 | 0 | 217 | 0 | 217 | 0 | 0 | 0 |
| Imported wood | 44,262 | 9,472 | 26,578 | 5,463 | 2,749 | 44,262 | 9,472 | 26,578 | 5,463 | 2,749 | 0 |
| Domestic-Total | 25,058 | 12,004 | 5,202 | 3,530 | 1,061 | 22,773 | 11,909 | 3,840 | 3,419 | 353 | 2,285 |
| Logs | 21,580 | 12,004 | 4,985 | 3,530 | 1,061 | 19,303 | 11,909 | 3,623 | 3,419 | 353 | 2,277 |
| Logging residue | 217 | 0 | 217 | 0 | 0 | 217 | 0 | 217 | 0 | 0 | 0 |
| Imported-Total | 50,242 | 13,354 | 26,581 | 6,384 | 2,767 | 50,238 | 13,353 | 26,581 | 6,381 | 2,767 | 4 |
| Logs | 4,824 | 3,882 | 3 | 921 | 18 | 4,820 | 3,882 | 3 | 918 | 18 | 4 |
| Wooden products | 44,262 | 9,472 | 26,578 | 5,463 | 2,749 | 44,262 | 9,472 | 26,578 | 5,463 | 2,749 | 0 |

Canada and US Wood Pellet Manufacturing Industry: 3Q 2016

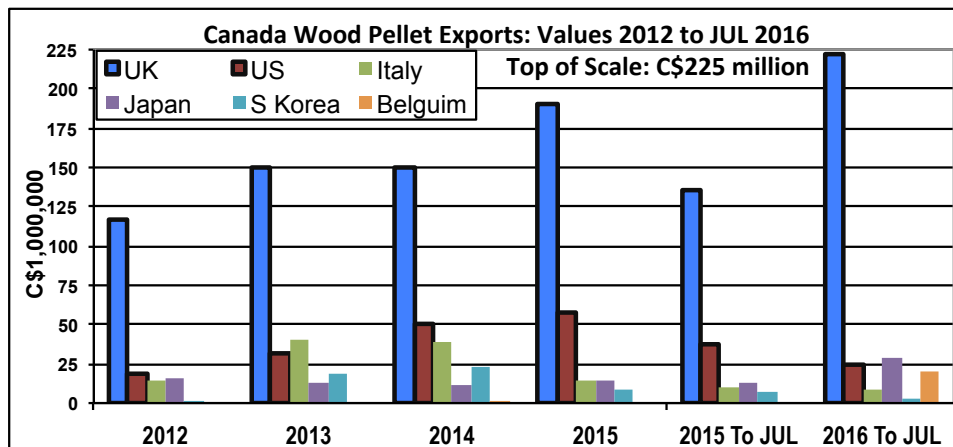
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An industry poised to grow by orders of magnitude over the next ten and twenty years, wood pellet production and sales globally starting to show a picture of what to expect in that near-term future. Data out just this week by **Statistics Canada** and the **US Census** illustrates how Canadian and US wood pellet exports are shaping up.

In a very interesting development, **Belgium** suddenly this year is showing up as a customer of significant volumes of wood pellets from Canada and the US. That country did not import North American wood pellets before this year, demonstrating that this new industry has many surprises in store:



| | US \$1,000,000 | SOURCE: US Census | | | | | Sep-16 |
|----------------|----------------|-------------------|--------|--------|--------------|--------------|--------------|
| China | 0.16 | 0.28 | 0.00 | 0.05 | 0.04 | 0.02 | -50% |
| Italy | 2.63 | 23.91 | 18.36 | 0.36 | 0.72 | 0.01 | -87% |
| UK | 108.82 | 219.69 | 384.89 | 578.77 | 410.29 | 403.10 | -1.70% |
| Belgium | | | | | 56.21 | | +100% |
| WORLD | 258.23 | 370.98 | 522.41 | 682.98 | 485.18 | 446.65 | -7.80% |
| | 2012 | 2013 | 2014 | 2015 | 2015 to SEPT | 2016 to SEPT | |



| | C\$1,000 million | SOURCE: Statistics Canada | | | | | Jun-16 |
|----------------|------------------|---------------------------|-------------|--------|-------------|-------------|-------------|
| UK | 116.86 | 150 | 150 | 190.29 | 135.769271 | 222.45 | 38.70% |
| US | 18.18 | 32 | 51 | 57.20 | 37.984085 | 24.09 | -36.80% |
| Italy | 14.31 | 40 | 39 | 14.71 | 10.468125 | 9 | -14.30% |
| Japan | 15.71 | 12 | 11 | 13.76 | 13.537566 | 29 | 53.40% |
| S Korea | 0.46 | 18 | 22 | 8.34 | 6.975106 | 2 | -71.40% |
| Belgium | | | 0 | | | 20 | 100% |
| TOTAL WORLD: | 208.25 | 260 | 275,987,791 | 284.70 | 205.055094 | 307 | 33.20% |
| | 2012 | 2013 | 2014 | 2015 | 2015 To JUL | 2016 To JUL | |

Wood Pellets: Globally

CONT'D FROM PAGE 8

Global wood pellet production has steadily increased from 2 million metric tons in 2000 to some 25 million metric tons in 2014.

The EU-28 were by far the world's largest producer of wood pellets, producing some 13.5 million metric tons of wood pellets in 2014, according to *Statista, The Statistics Portal*. Increased fossil fuel prices in 2005 have stimulated the demand for wood pellet heating in the EU and North America. The wood pellet market is expected to reach 38 million metric tons in the EU by 2025. Due to high consumption of wood pellets in the EU, most European countries also import a larger share of resources from other countries. Denmark imported over US\$425 million worth of wood pellets in 2013. In 2015, the EU produced 10.7 million metric tons of wood pellets.

ESTABLISHED MARKETS IN EUROPE

Markets such as those in Austria and Sweden are already well-established but continue to grow; other new markets are also emerging across Europe. As of 2014, the EU-28 produced some 13.5 million metric tons of wood pellets, accounting for about half of the global production. In comparison, North America produced some 8 million metric tons.

That same year, Germany was by far the largest wood pellet producer, accumulating 2.35 million tons. Like Germany, Austria and Italy use wood pellets primarily for heat production in residential areas while other countries like the United Kingdom and Netherlands use wood pellets primarily for power generation in the industrial sector.

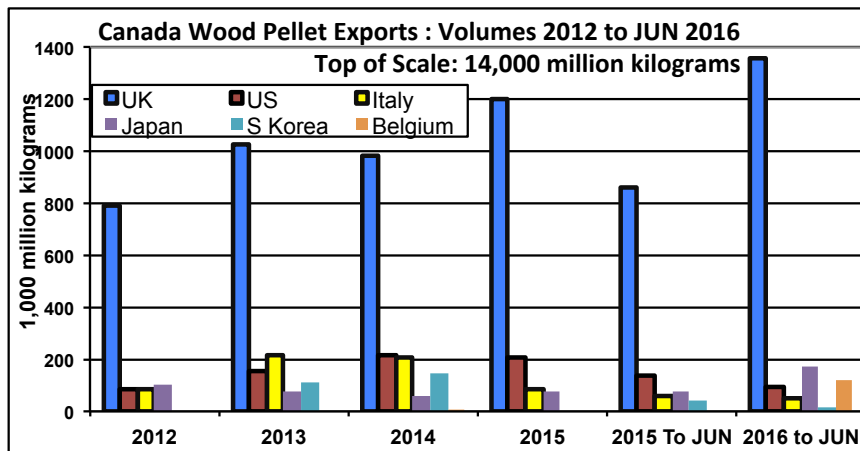
In Sweden and Denmark, wood pellet consumption in both sectors is common. Due to high volumes of consumption in the region, replacing raw resources with feedstocks is of increasing necessity. Residual wood and agricultural biomass for pellet production are common types of feedstock bases.

BIOTRADE2020PLUS REPORT: US SOUTHEAST

Despite economic development and growing population, the total amount of forested land in the US has remained largely unchanged throughout the past century.

Historically, the US has been both the largest producer and the largest consumer of woody biomass in the world. The US share of global wood product production peaked at 28 per cent in 1998 and has since fallen to below 20 per cent.

The use of wood for energy in the US was 2,336 PJ in 2014 or about 146 million dry tonnes of wood. This represents 2.2 per cent of total energy and 23 per cent of renewable energy use. While this was a 2 per cent increase from 2013, it is still 18 per cent below the 1985 peak. While most of the increase is coming from increasing pelletization and generation of bioelectricity, the majority of the wood use for energy is still for home heating. Approximately 2.1 per cent of US households are heated primarily with wood, and another 7.7 per cent use it as a supplemental heating source.



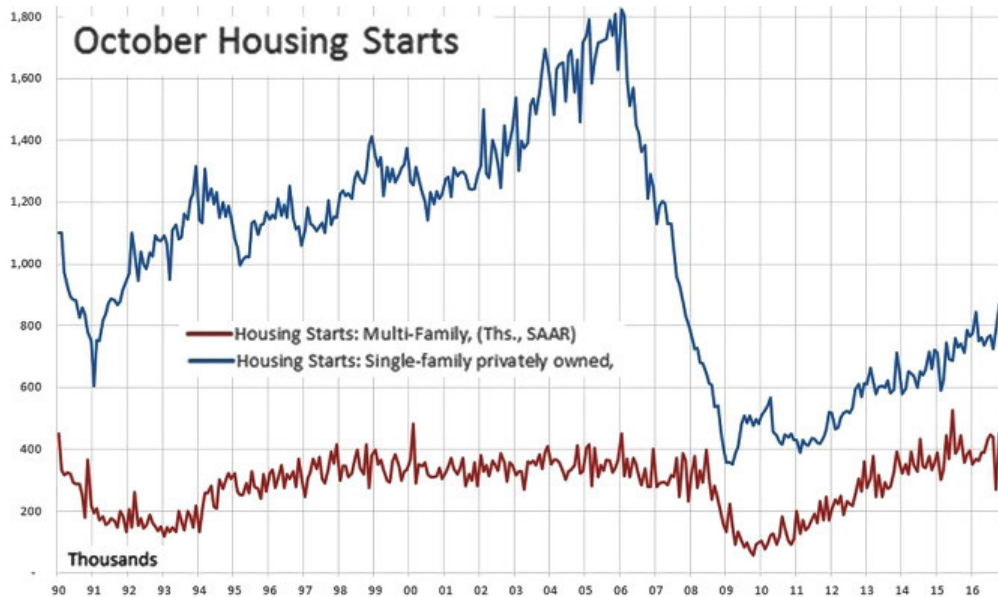
SOURCE: Statistics Canada

| | 1,000 million kilograms | | | | | | Jun-16 |
|----------------|-------------------------|-------|-------|-------|-------------|-------------|-------------|
| UK | 794 | 1,027 | 983 | 1,206 | 862.922759 | 1,360 | 36.50% |
| US | 87 | 152 | 219 | 206 | 141.798892 | 93 | -34.50% |
| Italy | 85 | 220 | 205 | 86 | 61.326227 | 49 | -19.70% |
| Japan | 106 | 76 | 62 | 80 | 78.975132 | 174 | 54.60% |
| S Korea | | 113 | 150 | | 41.460941 | 16 | -53.70% |
| Belgium | | | 0 | | | 122 | 100% |
| TOTAL | 1,369 | 1,640 | 1,637 | 1,628 | 1187.59197 | 1,815 | 34.50% |
| WORLD: | 2012 | 2013 | 2014 | 2015 | 2015 To JUN | 2016 to JUN | |

US Housing Starts: October 2016

CONT'D FROM PAGE 9

A big jump up in single family starts combined with an anticipated rebound in multifamily to push the annual pace of total housing starts above 1.3 million in October. In a joint release the **Census Bureau** and **Department of Housing and Urban Development** reported that the seasonally adjusted annual rate of single family housing starts was 869 thousand in October, up 10.7 per cent from the September pace of 785 thousand.



Starts in structures with 5 or more units rebounded from 255 thousand to 445 thousand, a pace more consistent with recent months. Overall, total housing starts quickened from a pace of 1.054 million in September to 1.323 million in October, a 25.5 per cent annualized gain.

The rebound in multifamily starts was expected after the sharp fall-off in September, but the real strength in this report comes from the acceleration in the pace of single family starts. The surge in October was well ahead of

SOURCE: National Association of Home Builders

the average pace of 768 thousand so far in 2016, and reminiscent of the pop in February, which was followed by slower but still strong growth. We expect single family starts to remain strong, if not at the October pace, through the end of the year and continue to strengthen in 2017. Over the medium term we expect momentum to shift as the pace of single family starts accelerates and the recovery in multifamily mature.

