

MADISON'S LUMBER REPORTER

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News & Updates

Rayonier Advanced Materials to Buy Tembec

In a stunning move sure to overjoy shareholders, Montreal, QC's, Tembec Thursday announced it is entertaining a takeover bid by Rayonier Advanced Materials, based out of Jacksonville, FL.

Tembec is selling to Rayonier for \$4.05 a share in cash or the equivalent in Rayonier shares. The \$320-million offer, which also includes the assumption of \$487-million in debt, represents a 37-per-cent premium to Tembec's share price at Wednesday's close. **CONT'D PAGE 6**

Quebec Construction Strike

Major construction projects around Quebec are on hold this morning after the union representing 175,000 construction workers launched a general unlimited strike.

Construction companies and labour federations negotiated through the night and into Wednesday morning, but were unable to reach a deal said CBC Thursday.

Workers in the industrial sector want more fixed work schedules, while salaries are believed to be the main stumbling block in the residential sector.

The collective agreements expired April 30.

Construction workers aren't the only ones on the picket line today.

Roughly 1,400 Quebec government engineers also walked off the job at midnight.

Employer groups have said the province's anti-strikebreaker law does not apply to the 175,000 construction workers.

This is the second general strike in the Quebec construction industry in four years. All construction sectors are out of work and pickets have been installed at the entrance to several sites. **CONT'D PAGE 7**

Domestic Wood Demand, Japan: Full-Year 2016

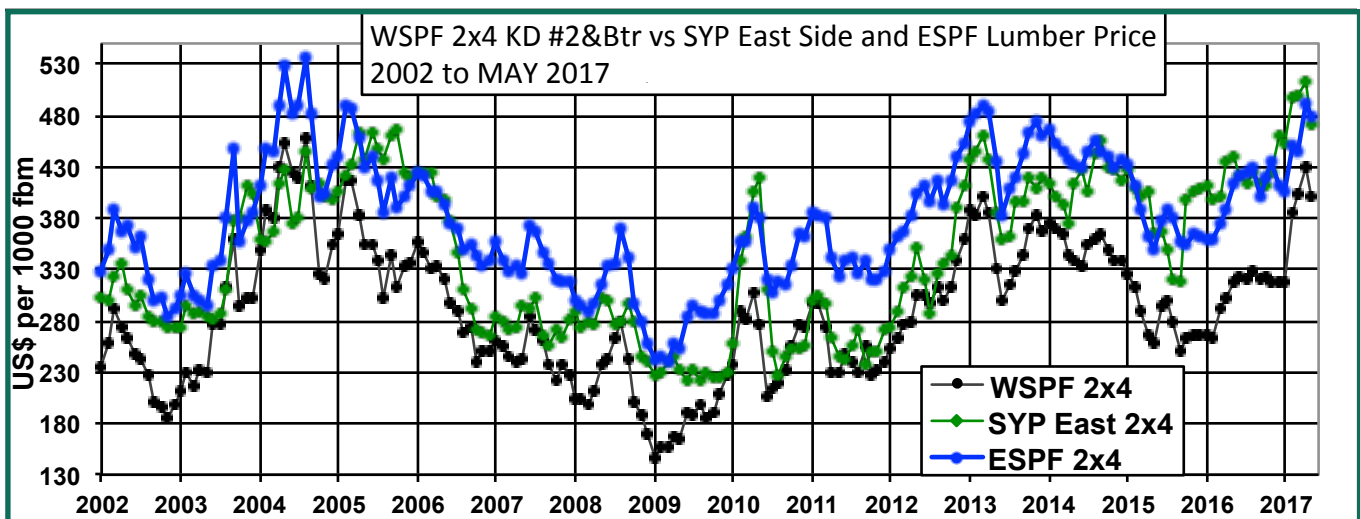
Demand for domestic wood in 2016 was 20,628 million cubic metres, a 3 per cent increase over the previous year, according to *Japan Lumber Reports* Friday. Driving this increase was growing demand for new housing.

Log demand for plywood was very active at 3,682 million cubic metres, a 9.7 per cent increase over 2015. **CONT'D PAGE 7**

US Lumber Imports, House Size, Home Sales

The US imported a total of 8.456 million cubic metres of softwood lumber from Canada in 1Q this year which, according to the figures from the US Department of Agriculture, Foreign Agriculture Service (FAS), equates to a reduction of 16 per cent against last year.

The FAS also recorded a reduction in US softwood lumber exports for 1Q. At a total of 782,448 cubic metres, the exports were 4 per cent below the figure for a year earlier. The main reason for the drop was the 18 per cent reduction in exports to Asia, to 194,315 cubic metres whereby deliveries to China and Japan both fell sharply, by 15 per cent and 23 per cent respectively, to 122,840 cubic metres and 50.961 cubic metres. **CONT'D PAGE 9 and 10**



Rayonier Makes Bid for Tembec

CONT'D FROM PAGE 2

Rayonier Advanced Materials, out of Jacksonville, FL, will “come to bat” to protect the interests of Montreal, QC’s, Tembec in the cross-border battle over softwood lumber, the head of the timber REIT and specialty cellulose company said Thursday after announcing a friendly takeover of the Canadian forestry firm.

The deal, valued at US\$807 million including debt, would see the merged entity keep a Canadian head-quarters in Montreal, with the main corporate office in Jacksonville.

Sales in the company’s second quarter rose slightly to \$387 million, with more than 70 per cent from paper, pulp and specialty cellulose pulp.

TEMBEC BALANCE SHEET

Founded in 1972, Tembec produces lumber, paper, pulp and specialty cellulose pulp. It has about 3,000 employees in Canada and France.

Tembec says the agreement will bolster its balance sheet and give it more resources to invest in growth.

Rayonier gains more diversification in product line and geography while cutting its currency risk. The combined company is expected to generate annual earnings before interest, taxes, depreciation and amortization of \$400-million on revenue of \$2-billion.

Tembec makes forest products, including high-purity cellulose, but also lumber, pulp and paper. It has 3,000 workers spread out over 17 mills and plants in Canada, the United States and France.

Rayonier officials said Tembec’s recently-announced \$136-million (Canadian) capital spending plans for its Quebec sites will be maintained while the combined company’s Canadian headquarters will stay in Montreal.

Earlier Tuesday, Tembec reported earnings of \$24 million or 24 cents per share in the quarter ended March 25, down slightly from its profit of \$27 million or 27 cents per share a year earlier.

RAYONIER’S MAIN BUSINESS

Rayonier Advanced Materials is a supplier of high purity cellulose, used in cellphones, computer screens, filters, textiles and pharmaceuticals. It has about 1,200 workers with plants in Florida and Georgia.

Rayonier Advanced Materials’ main business is supplying high-purity cellulose, a natural polymer used by its customers to make cellphones, flat-panel televisions, tires, paint and pharmaceuticals. It has 1,200 employees and seven facilities, including five for wood-chipping.

Paul Boynton, President and CEO of Rayonier Advanced Materials said Tembec made for an attractive acquisition because it complements his company’s specialty cellulose business and it allows it to enter new operations like packaging, forest products, newsprint and pulp.

TEMBEC EXISTING INVESTORS

Tembec investors will vote on the deal in a special meeting to be held in July. Prem Watsa’s Fairfax Financial, which holds a nearly 20-per-cent stake in Tembec, supports the tie-up, the companies said.

Tembec had a market capitalization of barely \$300-million before Rayonier’s offer. But its corporate history is the stuff of legend. Founded by entrepreneur Frank Dottori in 1973, Tembec parlayed one shuttered saw mill in Temiscaming, QC, into a multinational empire. The National Film Board made a documentary about Mr. Dottori and the town’s struggle to survive.

	This Quarter	Previous Quarter	Change %	Trend	Full Year	Change %	Trend
Five Key 2x4 Lumber Prices: Aggregate US\$/mfbm	425	382	+10%	▲	369	+13%	▲
VOLUMES							
Canada Lumber Production: million cubic metres	5.71	5.39	+5.6%	▲	66.9	+5.8%	▲
BC Lumber Production: million cubic metres	2.61	2.65	+1.5%	▲	32.0	+2.5%	▲
VALUES							
Canada Sawmill Manufacturing Sales: million C\$	1,487	1,607	-7.5%	▼	11,284	+15%	▲
US Total Sawmill Products Imports: million US\$	164	158	+3.8%	▲	1,021	+0.1%	▲
US Total Sawmill Products Exports: million US\$	1,002	863	+14%	▲	6,128	+20%	▲
Canada Sawmill Exports to USA: million C\$	1,231	1,130	+8.3%	▲	7,501	+21%	▲
SOURCE: Madison’s Lumber Reporter				www.madisonsreport.com			

Madison's Weekly Softwood Lumber Key Prices Table

www.madisonreport.com



Prices are in U.S. dollars per 1,000 fbm (net FOB mill)	This Week		Last Week			Month Ago			Year Ago		
	Price	Change	Price	Change	% Trend	Price	Change	% Trend	Price	Change	% Trend
WSPF KD R/L 2x4	384	-10	394	-10	-2.5% ▼	435	-51	-12% ▼	326	+58	+18% ▲
WSPF KD R/L 2x6	366	-10	376	-10	-2.7% ▼	395	-29	-7.3% ▼	308	+58	+19% ▲
SYP KD R/L East Side 2x4	460	-5	465	-5	-1.1% ▼	520	-60	-12% ▼	425	+35	+8.2% ▲
SYP KD R/L East Side 2x6	355	-10	365	-10	-2.7% ▼	410	-55	-13% ▼	310	+45	+15% ▲
ESPF KD R/L 2x4	475	0	475	0	0.0% ▼	500	-25	-5.0% ▼	425	+50	+12% ▲
WSPF KD PET 2x4 Stud	360	-5	365	-5	-1.4% ▼	370	-10	-2.7% ▼	270	+90	+33% ▲
WSPF KD PET 2x6 Stud	380	0	380	0	0.0% ▼	380	0	0.0% ▼	235	+145	+62% ▲
Douglas Fir Green R/L 2x4	390	-5	395	-5	-1.3% ▼	400	-10	-2.5% ▼	350	+40	+11% ▲
Douglas Fir Green R/L 2x10	460	-10	470	-10	-2.1% ▼	505	-45	-8.9% ▼	415	+45	+11% ▲
ESPF KD 2x4 8ft Stud	475	-5	480	-5	-1.0% ▼	485	-10	-2.1% ▼	360	+115	+32% ▲
OSB Ontario 7/16" (CDN\$/msf)	420	-20	440	-20	-4.5% ▼	440	-20	-4.5% ▼	345	+75	+22% ▲
CSplywood Toronto 3/8" (CDN\$/msf)	478	+9	469	+9	1.9% ▲	483	-5	-1.0% ▼	441	+37	+8.4% ▲

Madison's Weekly Softwood Lumber News

Construction Strike, Quebec

CONT'D FROM PG 2 At press time Friday, the two sides involved in Quebec's construction strike were back at the negotiating table as the government-imposed deadline to reach a deal approaches.

Premier Philippe Couillard, who is in Israel on a trade mission, issued an ultimatum Thursday, saying that if no deal is reached by Monday, the government will table back-to-work legislation.

Also Thursday, Labour Minister Dominique Vien announced the addition of a fourth mediator to help fa-

cilitate the negotiation sessions. She urged the two parties to find a swift resolution to the labour conflict, saying the government won't let it drag on.

The 10-day work stoppage in 2013 resulted in a drop of 1.1 per cent in the province's gross domestic product, said *CBC* Friday.

Japan Domestic Wood

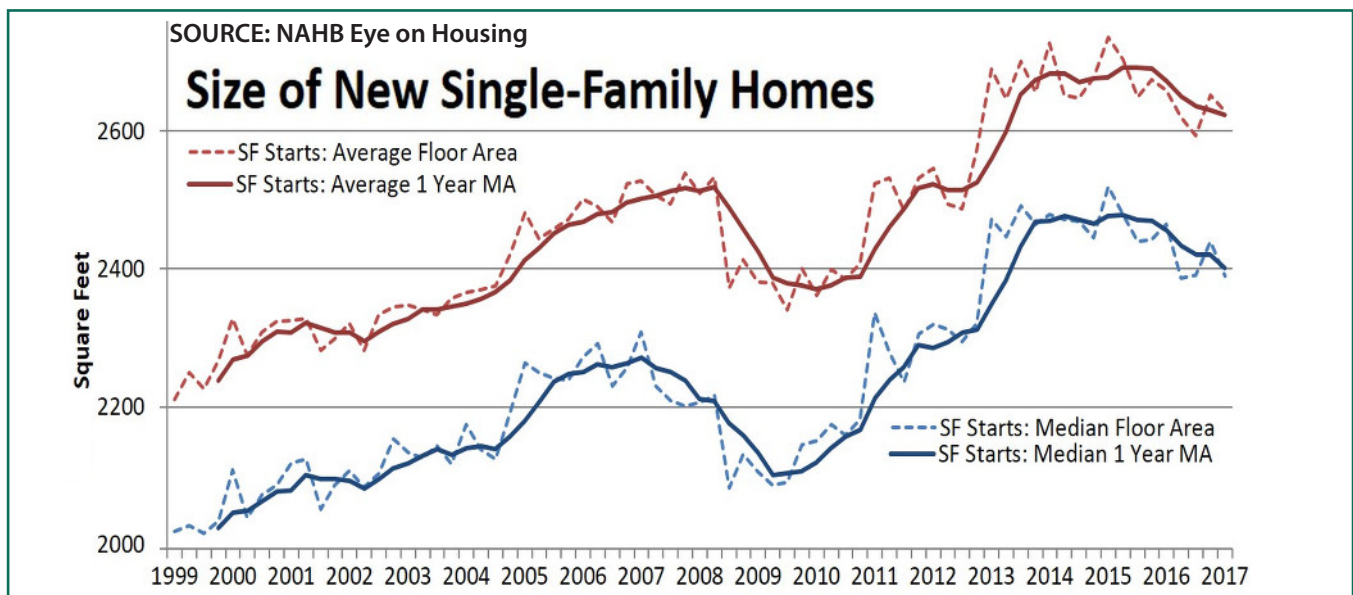
CONT'D FROM PG 2 Total log demand for Japan in full year 2016, including imports, was 26,029 million cubic metres, a 3.7 per cent increase over the previous year, said *Japan Lumber Reports* Friday. The volume of logs imports was 5,370 million cubic metres, a 6.4 per cent increase, while

those just from North America were 4,106 million cubic metres, which is up 8 per cent from 2015.

Japan domestic demand of logs for lumber were 12,180 million cubic metres, a 1.5 per cent improvement over the year before, while logs for wood chips were 4,791 million cubic metres, a 2.3 per cent increase from 2015.

Volumes of logs consumed by sawmills was similar to the previous year, at 12,182 million cubic metres.

Logs used by plywood mills were 4,638 million cubic metres, which is a 10 per cent gain from the year before. Of that supply 3,628 million cubic metres were sourced domestically within Japan, representing a 9.7 per cent increase from 2015.



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ANNOUNCEMENTS



“PEFC is pleased to support initiatives of its members that are unique and innovative such as the **SFI Fiber Sourcing Standard**, which provides an **effective mechanism to demonstrate compliance with PEFC Chain of Custody requirements** concerning controversial sources at a global level, while promoting the responsible procurement of wood fibre for SFI manufacturing facilities across the USA and Canada.”

BEN GUNNEBERG

CEO and Secretary General of PEFC International



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US Forest Industry Performance: 1Q 2017

CONT'D FROM PAGE 2

US forest industry performance in March and April was recently reported by both the **US government** and the **Institute for Supply Management**:

Total industrial production (IP) in the US increased 0.5 per cent in March (+1.5 per cent YoY), thanks to a largest-ever jump of 8.6 per cent in the output of utilities as the demand for heating returned to seasonal norms. For 1Q 2017 as a whole, total IP also rose at an annualized rate of 1.5 per cent, reported *Forest2Market* Tuesday.

While total IP stepped up in March, manufacturing output fell 0.4 per cent (+0.3 per cent expected), led by a large step-down in the production of motor vehicles and parts; factory output aside from motor vehicles and parts decreased by 0.2 per cent.

US TOTAL INDUSTRIAL PRODUCTION



- The producer price index (PPI) also inched lower (-0.1 per cent), led by a 4.1 per cent drop in the index associated with loan services. The PPI rose 2.3 per cent YoY, the largest increase since March 2012's 2.4 per cent.

- Pulp, Paper & Allied Products rose 0.5 per cent (+2.5 per cent YoY)
- Lumber & Wood Products: +1.0 per cent (+3.1 per cent YoY)
- Softwood Lumber: +2.3 per cent (+12.9 per cent YoY)
- Wood Fiber: +0.3 per cent (+0.5 per cent YoY)

US REMODELLING ACTIVITY

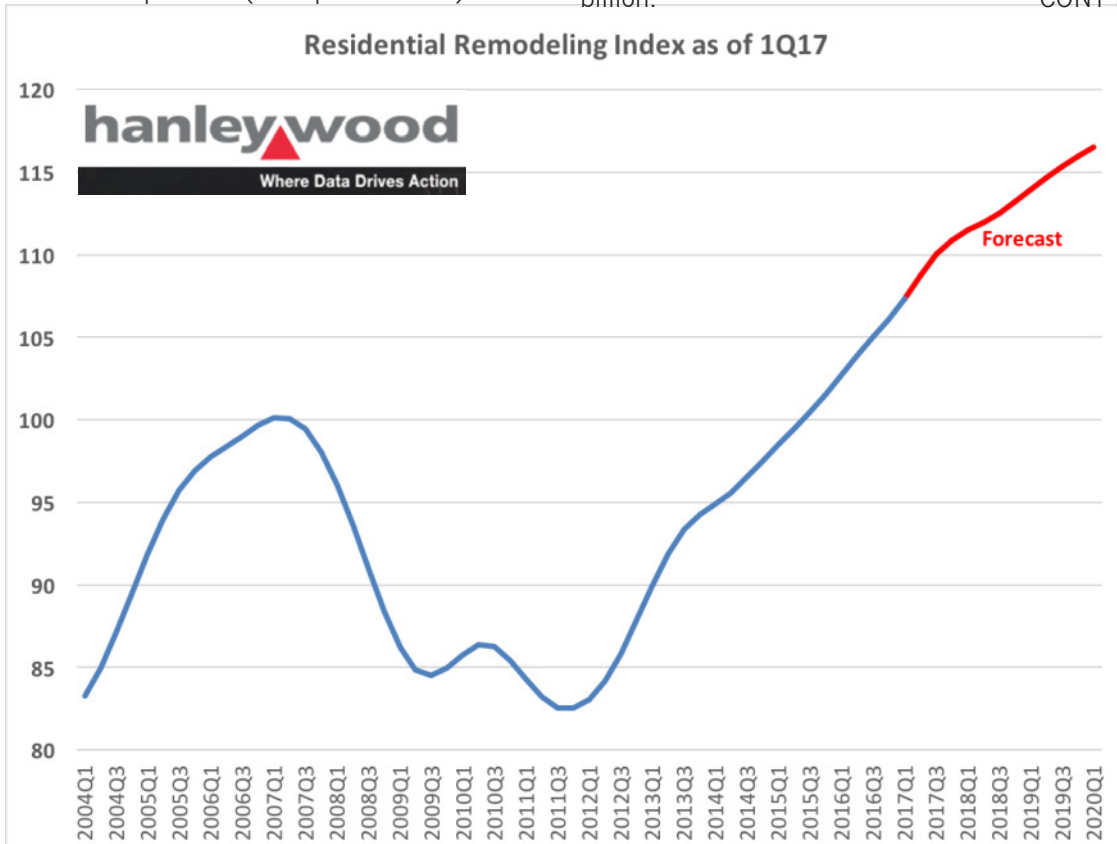
Pro-worthy remodeling activity nationwide recorded its 20th straight quarter of growth during 2017's first three months and looks set to keep rising, albeit a bit more slowly, through 2020, this week's release of **Metrostudy's latest Residential Remodeling Index (RRI)** indicates, according to *Hanley Wood* Monday.

The index hit a new high of 107.3, which means remodeling-friendly conditions are 7.3 per cent better than they were during the previous peak in spring 2007 and are 4.5 per cent ahead of where the index was in 2016's first quarter. And unlike past years, in 2017 all 381 Metropolitan Statistical Areas across the country can expect to see year-over-year growth in remodeling and replacement projects.

Metrostudy, a sister company to REMODELING, extrapolates its RRI from a combination of economic indicators and other factors, such as remodeling permit counts, that together give a portrait of how many replacement and remodeling jobs worth at least US\$1,000 are occurring in each of the 381 MSAs. The national RRI is a composite of those local market reports.

There were roughly 11.4 million pro-worthy remodeling and replacement projects nationwide last year worth US\$170.62 billion, Metrostudy estimates. This year, it predicts the number will rise to 11.9 million worth US\$180.05 billion.

CONT'D PAGE 10

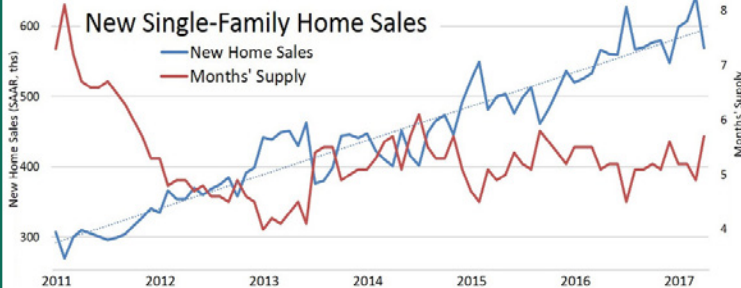


US New and Existing Home Sales, New Building of Rentals

SOURCE: NAHB Eye on Housing

CONT'D FROM PAGE 9

Contracts for new single-family home sales in the US declined 11.4 per cent to a 569,000 seasonally adjusted annual rate according to estimates from the joint data release of HUD and the Census Bureau Tuesday. The drop occurred after solid, positive revisions for new home sales for the first three months of the year.



All told, total new home sales for 2017 stand at 210,000, a 11.3 per cent gain over the 2016 comparable total of 189,000.

EXISTING HOME SALES

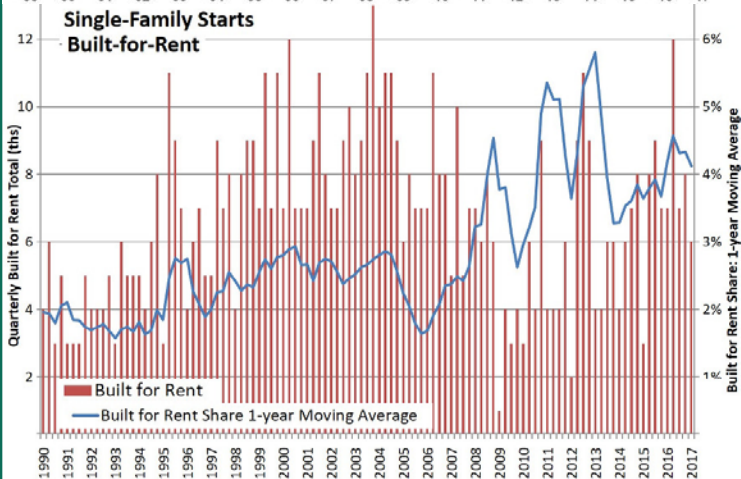
Existing home sales declined 2.3 per cent in April as inventory fell year-over-year for the 23rd consecutive month, while the velocity of sales increased to the highest level since the National Association of Realtors (NAR) began tracking the monthly sales timeframe.



At the current sales rate, the April unsold inventory represents a 4.2-month supply, up from the March 3.8-month supply, but down from a 4.6-month supply a year ago. April existing sales remain up 1.6 per cent from the same month a year ago, and reached a seasonally adjusted rate of 5.57 million compared to a downwardly revised 5.70 million in March. Total existing home sales include single-family homes, townhomes, condominiums and co-ops.

SINGLE-FAMILY BUILT-FOR-RENT

The number of single-family homes built-for-rent fell slightly at the start of 2017, falling to 6,000 for the quarter. Over the last four quarters, total production of this type of housing was 33,000 homes.



According to data from the Census Bureau's Quarterly Starts and Completions by Purpose and Design and NAHB analysis, the market share of single-family homes built-for-rent, as measured on a one-year moving average, stood at 4.1 per cent of total starts as of the first quarter of 2017.

Given the small size of the market segment, the quarter-to-quarter movements are not typically statistically significant. The current market share remains higher than the historical average of 2.8 per cent but is down from the 5.8 per cent reading registered at the start of 2013.

US MULTIFAMILY BUILT-FOR-RENT

The share of multifamily housing starts built for-rent fell to a historical low of 47 per cent during the third quarter of 2005. It is currently (95 per cent) above the approximate 80 per cent share recorded during the 1980-2002 period due to elevated levels of rental demand.

The reason for some of the change in multifamily average size is due to market mix. Renters tend toward smaller units than owner-occupiers. In 2012, for example, the median size of all multifamily units completed was 1,098 square feet..

