

# MADISON'S LUMBER REPORTER

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Annual Subscription Prices  
E-mail/Fax: C\$389  
Discounts available for multiple  
subscriptions  
Published 50 times a year

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PO Box 2486 Vancouver, BC  
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In Canada, add GST or HST  
ISSN 0715-5468  
Printed in Canada © 2013

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## News & Updates

### Madison's Investment Rx

This month's issue of *Madison's Investment Rx* has been sent to paying subscribers. The latest lumber prices movements, building materials price indices, and US house inventories and home sales data is examined.

Contact us anytime to subscribe to this vital and timely information!

### Canadian Sawmills : May 2013

Lumber production by Canada's sawmills decreased 4.6 per cent from April to 5,163.2 thousand cubic metres in May, said Statistics Canada Friday. Compared with May 2012, lumber production increased 8.1 per cent. Canadian sawmills shipped 4,903.3 thousand cubic metres of lumber in May, down 3.2 per cent from April.

### US Home Sales, House Prices

US house prices rose 7.3 per cent in the year through May as buyers competed for a small supply of listings, according to the Federal Housing Finance Agency Tuesday. Prices increased 0.7 per cent on a seasonally adjusted basis from April, the FHFA said in a report from Washington.

The median selling price of a new home appreciated 7.4 per cent to US\$249,700 last month, from US\$232,600 in June 2012.

Purchases rose in three of four US regions, led by an 18.5 per cent surge in the Northeast. They climbed 13.8 per cent in the West and 10.9 per cent in the South. Demand dropped 11.8 per cent in the Midwest.

The supply of homes at the current sales rate was 3.9 months compared with 4.2 months in May. There were 161,000 new houses on the market at the end of June, up from 159,000 a month earlier.

Sales of new properties, which are tallied when purchase contracts are signed, are considered a more timely measure of the market than sales of previously owned dwellings, which are counted when a sale is final. New-home sales accounted for about 7 per cent of the residential market in 2012.

Low supplies helped push the median price of an existing home up 13.5 per cent to \$214,200 last month from \$188,800 a year earlier, the report showed. [READ MORE](#)

### Quarterly Results

Major North American lumber producers announcing 2Q results so far this year were West Fraser, Canfor, and Weyerhaeuser. [READ MORE](#)

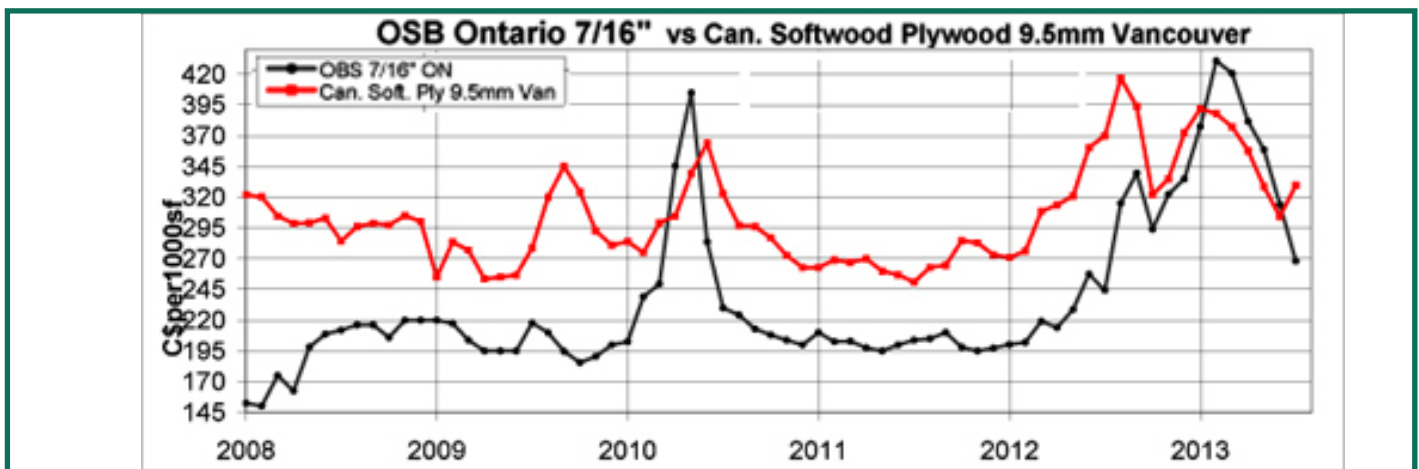
### BC Sawmill Explosion

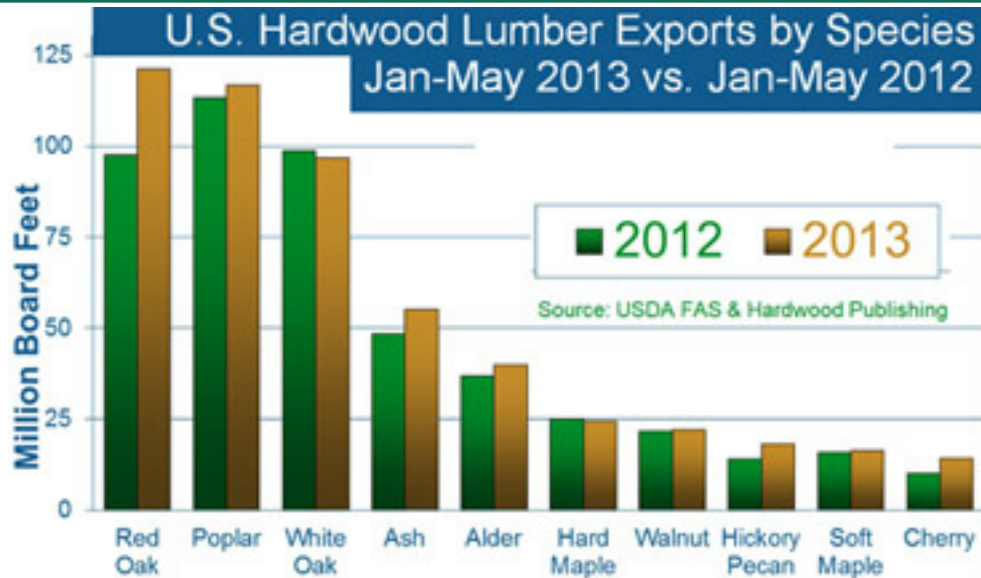
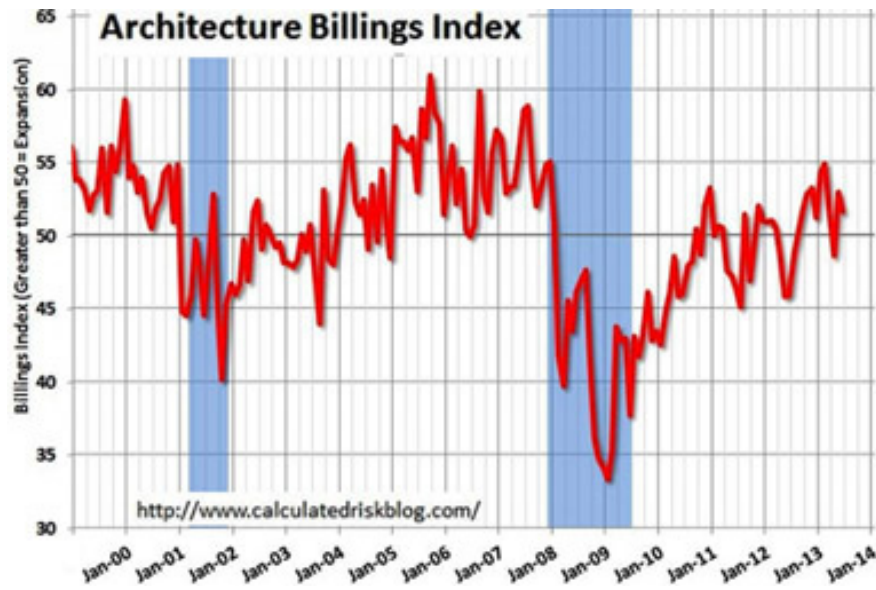
A Prince George lumber company sounded the fire alarms Monday, just as another local sawmill started rebuilding after a fire last year, according to the *Prince George Citizen*. Carrier Lumber, located southeast of the city, had an explosion at their planer mill Monday. Several volunteer fire departments responded to the call.

It's not completely clear what happened Monday afternoon, but mill president Bill Kordyban said it appears the wood shavings and sawdust collection system was shut down due to a small fire. [READ MORE](#)

### US Construction Data and Forecasts

This week Reed Construction Data released the latest figures for US residential and non-residential construction, as well as sector forecasts. [READ MORE](#)





## Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	325	320	+5	294	+31	298	+27
WSPF KD R/L 2x6	300	290	+10	272	+28	294	+6
WSPF KD R/L 2x8	305	286	+19	282	+23	308	-3
WSPF KD R/L 2x10	345	345	0	322	+23	360	-15
WSPF KD PET 2x4 Stud	310	300	+10	280	+30	355	-45
WSPF KD PET 2x6 Stud	280	275	+5	275	+5	355	-75
Douglas Fir Green R/L 2x4	325	325	0	273	+52	280	+45
Douglas Fir Green R/L 2x10	398	385	+13	340	+58	300	+98
ESPF KD 2x4 8ft Stud	380	380	0	355	+25	395	-15
OSB Ontario 7/16" (CDN\$)	270	261	+9	375	-5	252	+18
CSplywood Toronto 3/8" (CDN\$)	387	372	+15	335	+52	421	-34

## Weekly News

### US Home Sales, Prices, Mortgages

CONTINUED The FHFA's report showed prices increased 15.8 per cent from a year earlier in the Pacific area, which includes California and Oregon. In the Mountain region, including Nevada and Arizona, the gain was 12.7 per cent. The East South Central area – including Kentucky and Alabama – had the smallest increase, at 2.7 per cent.

The FHFA index measures transactions for single-family properties financed with mortgages owned or securitized by Fannie Mae and Freddie Mac. The gauge is 11.2 per cent below its April 2007 peak.

As of Thursday, the latest average interest on a 30-year fixed-rate loan is 4.31 per cent a year, according to Freddie Mac. That's down from 4.51 per cent two weeks ago.

Still, current US mortgage rates are also up a full percentage point from where they stood back in January.

Home prices have been rising, boosting consumer wealth, and construction jobs have been aided by a relative shortage of homes for sale.

Many economists say modestly rising mortgage rates aren't likely to stop the housing recovery. For one thing, mortgage rates are still historically low.

History suggests that moves in mortgage rates can exert an influence on home prices – in the opposite direction. But in some cases the damage isn't very bad.

The concern is that the central bank will soon start to taper the pace of a bond-buying program aimed at lowering long-term interest rates and spurring economic growth.

### 2Q 2013 Results

CONTINUED West Fraser Timber reported earnings July 17 of \$109 million, on sales of \$900 million, in 2Q 2013, compared to earnings of \$24 million, on sales of \$774 million for the same period last year.

Canfor Corporation Thursday reported net income of \$110.3 million, on \$843.2 million in sales, for 2Q 2013, compared to \$2.6 million, on \$685 in sales, for the 2Q last year.

For it's part, Weyerhaeuser Friday reported net earnings of US\$196 million, on sales of US\$2.1 billion, for 2Q 2013, compared with earnings of US\$84 million, on net sales of US\$1.8 billion, for 2Q 2012.

### Sawmill Fire, BC

CONTINUED "It was an explosion within the planer blower pipe," said Kordyban. "It transports dry shavings down a 30-inch pipe away from the planer and into a cyclone in a small, separate building off to the side called the blower building, and that's where the explosion happened. The building is clean so there was no secondary explosion, it was a primary explosion contained within the pipe and that's all

there was to the chain of events in this incident."

The [dust collection] system had been shut down to extinguish a small fire within the planer equipment. These are common and minor in nature. Firefighters from the Buckhorn Volunteer Fire Department were on scene in April for one such small blaze.

An initial or primary explosion can disturb fine dust that has accumulated in areas such as rafters, which once airborne can cause a large explosion known as a secondary explosion.

In this case, said Kordyban, the fire seems to have not been extinguished and when the production system was restarted, it led to the explosion within the large pipe.

One worker injured Monday was taken to hospital with minor burns and released several hours later.

The explosion at Carrier Lumber happened the same day as Lakeland Mills in Prince George, the site of the second of the two deadly explosions last year, held an official groundbreaking ceremony for its new mill.

### Calendar

September 2013

Who Will Own the Forest? 9

September 17 to 19 – Portland, OR

<http://wwotf.worldforestry.org/wwotf9/>



# Residential, Non-Residential Construction

## Latest Figures and Outlook

*(Reprinted from Reed Construction Data, July 23)*

### Total Construction Spending and its Major Components

The US Census Bureau reported that total construction spending advanced 0.5 per cent in May to US\$874.9 billion at a seasonally adjusted annual rate (SAAR), following a 0.1 per cent rise in April. Year-to-date not seasonally adjusted (NSA) construction spending was up 4.9 per cent compared to the same period in 2012. The

by Kéta Kosman

numbers incorporate the Census Bureau's annual benchmark revision of the construction spending data over the previous two years (back to January 2011).

Nonresidential building construction fell for the third month in a row, down 1.5 per cent to US\$284.8 billion (SAAR) in May after declining 0.5 per cent in April. Year-to-date spending was 2.2 per cent (NSA) lower than the same period in 2012.

Total residential construction spending, which includes improvements, rose 1.2 per cent in May to US\$328.6 billion (SAAR) after slipping 0.1 per cent in April. New residential construction spending, which excludes improvements, increased 0.8 per cent to US\$203.8 billion after moving 1.5 per cent higher in April. Year-to-date NSA total residential construction spending was up 19.5 per cent, and new residential construction was up 35.9 per cent from the same period in 2012.

### The Forecast

The Reed forecast assumes that the above risks are avoided. Total construction spending is forecast to grow 3.7 per cent this year, due to continued strong growth in new residential construction, and 9.4 per cent in 2014. The forecast assumes that nonresidential building construction is near the end of its retrenchment and will pick up strength soon, improving over the remainder of this year and throughout next year. Heavy engineering (non-building) construction is already back on the growth path. That improved growth should continue through next year and beyond. The main impediment to stronger performance in the sector is limited public funding from the federal government on down to the local level.

### New Residential Construction Spending

New residential construction spending advanced 0.8 per cent on a seasonally adjusted (SA) basis in May after rising 1.5 per cent in April. May marked the third consecutive month that the rate of increase declined from the previous month's rate. Meanwhile, new residential construction spending has increased for 20 months in a row. Year-to-date not seasonally adjusted (NSA) spending was up 35.9 per cent from the same period in 2012.

New single-family construction spending inched up 0.4 per cent in May after growing 1 per cent in April. New multi-family construction spending increased a healthy 2.4 per cent in May after soaring an even stronger 3.6 per cent in April. On a year-to-date NSA basis, single-family construction spending was up 34.5 per cent and multifamily spending was up 42.7 per cent from the same period in 2012.

### Outlook for Residential Construction

The outlook for the housing market continues to be positive, in spite of recent slowing and higher interest rates. Severe weather in much of the country may have been behind this downturn. Housing prices continue their upward movement in much of the country. On a year-over-year basis the April 10-city and 20-city S&P/Case-Shiller® Home Price Indexes were up 11.6 per cent and 12.1 per cent, respectively. On a SA monthly basis, both indexes have increased for 15 consecutive months and prices for all 20 cities rose in each of the last five months.

On a year-over-year basis, the March Freddie Mac House Price Index was up 6.7 per cent, and the April FHFA purchase-only home price index was up 7.4 per cent. Rising home prices increase the equity homeowners have in their house. As a result, some underwater mortgages are raised above water, making it in the homeowners' interest to make their mortgage payments and avoid foreclosure. With house prices rising, prospective homebuyers are more confident in proceeding with a purchase of a new or existing home. Lenders are also more willing to lend to homebuyers and homebuilders.

Mortgage rates have moved higher despite remarks by Federal Reserve Chairman Ben Bernanke that the Fed does not plan to reverse its purchase of mortgages and mortgage-backed securities anytime soon. Although the higher rates have hurt the refinance market, they are likely to push some reluctant potential homebuyers who may have been waiting for lower rates to enter the market or to proceed with a purchase before rates go

even higher. Even with the recent rise in mortgage rates, they remain low by historical standards, keeping affordability high.

The Reed forecast is for new residential construction spending to increase 29.5 per cent this year and to increase 15.9 per cent in 2014.

### Nonresidential Building Construction Spending

Nonresidential building construction spending dropped 1.5 per cent (SAAR) in May following a 0.5 per cent decline in April. On a year-to-date (NSA) nonresidential building construction spending was down 2.2 per cent. The numbers incorporate the Census Bureau's annual benchmark revision of the construction spending data over the previous two years (back to January 2011).

"For lease" private projects spending slumped 1.3 per cent (SA) in May, its third consecutive monthly decline. In spite of the recent reduction in spending, May year-to-date NSA for lease spending was up 2.5 per cent over the same period in 2012. Lodging construction spending has been showing strength of late, increasing 1.3 per cent in May following a 5.2 per cent surge in April. Office construction spending decreased 0.6 per cent after plunging 4.2 per cent in April. Retail construction spending sank 2.5 per cent in May after advancing 0.6 per cent in April. On a year-to-date NSA basis, lodging spending was up 20.8 per cent, office construction spending was down 2.7 per cent, and retail construction spending was up 2.5 per cent compared to the same period in 2012.

Construction spending for institutional projects rose 0.6 per cent in May after slipping 0.2% in April. Year-to-date, NSA institutional spending was down 7.1 per cent from the same period in 2012. Only amusement/recreation construction spending fell for the month, down 1.8 per cent after increasing 1 per cent in April. However, on a year-to-date basis, all of the categories for the group were down from 2012.

Manufacturing construction spending, which was generally increasing for over two years, plummeted 8.1 per cent in May after decreasing 1.2 per cent in April. Further, the Census Bureau reported significant downward revisions in the spending data going back to 2011. The revisions put a damper on the positive news that year-to-date NSA manufacturing construction spending was 4.7 per cent higher than the same period in 2012.

### The Forecast

The nonresidential construction forecast for 2013 is for a 1.8 per cent decrease in overall spending. The forecast for 2014 is for a gain of 7.4 per cent, with all groups contributing to growth.