

MADISON'S LUMBER REPORTER

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News & Updates

Lumber Production, Sawmill Capacity: June 2015

US lumber production increased 2.7 per cent through June compared to the same 6 month period last year, according to the **Western Wood Products Association's** latest *Lumber Track*, released Tuesday. Total US production through June was 16.02 BBF, up from 15.59 BBF last year. Production in the West increased 0.9 per cent in the first 6 months to 7.12 BBF, while in the South, production increased 4.5 per cent to 8.19 BBF.

Canadian lumber production, meanwhile, improved 5.9% for the same time period, said the **WWPA**. Total production through June was 13.20 BBF, up from 12.46 BBF for the first six months of last year. Production in British Columbia rose by 2.3 per cent for January to June to 6.59 BBF, while East of the Rockies, Canadian production increased 9.8 per cent to 6.61 BBF. **CONT'D PAGE 7**

Housing Starts, Canada: August 2015

Housing starts in Canada rose 12.2 per cent to an annual rate of 216,924 units in August, surpassing expectations, reflecting a jump in condo activity in Toronto, Canada's largest city.

Urban starts rose 13.6 per cent last month to 201,312 units, **Canada Mortgage and Housing Corp** said Wednesday. In the urban segment, multi-unit starts rose 19.5 per cent to 142,927 units, while single-detached starts rose 1.4 per cent to 58,385 units, it said.

Meanwhile, rural starts in Canada came in at an annual rate of 15,612 units, August housing starts came in at the highest level since late 2012.

Also Wednesday, Statistics Canada reported building permits data for July. It said building permits issued by Canadian municipalities fell 0.6 per cent to C\$7.74 billion that month. The drop followed a 15.5 per cent jump in building permits in June. **CONT'D PAGE 7**

Canada Industrial Capacity Utilization Rates: 2Q 2015

Canadian industries operated at 81.3 per cent of their production capacity in 2Q, down from 82.6 per cent in 1Q, said **Statistics Canada** Thursday. This was the second consecutive quarterly decline. As in the previous quarter, the mining, quarrying, and oil and gas extraction and manufacturing industries led the decline.

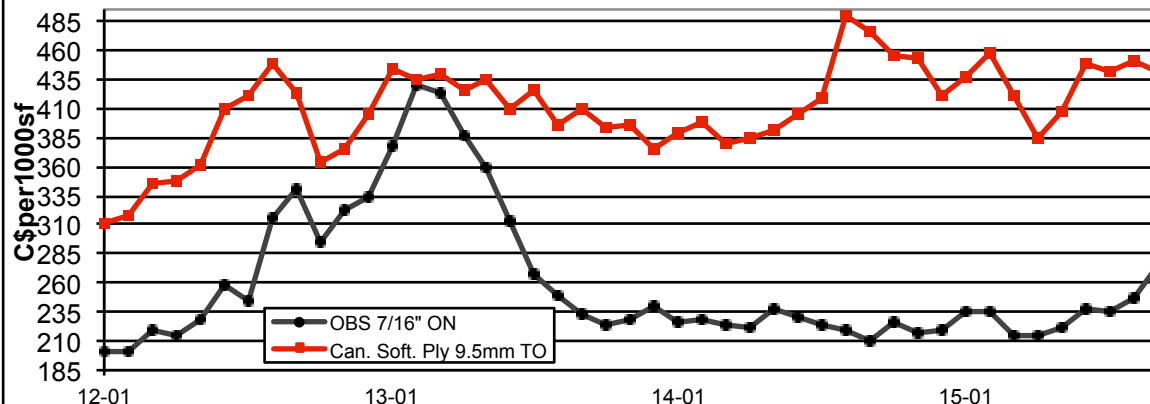
Outside of manufacturing, capacity utilization decreased in every industry covered by the survey except forestry and logging. **CONT'D PAGE 7**

US Real Estate and General Economic Indicators

"There's still plenty of pent up activity in the housing sector. And it's hard to see the US economy running out of steam with this much upside left in residential investment, according to some economists and analysts," said *Bloomberg Business* Thursday.

"New [home] foreclosures have dropped to precrisis levels and sales of previously owned homes—the bulk of the market—have climbed to the pace of the early 2000s. Rising housing prices have made homeowners feel better about spending on their homes," according to *Wall Street Journal* Monday. **CONT'D PAGE 8**

OSB Ontario 7/16" vs Can. Softwood Plywood 9.5mm Toronto 2012 - AUG 2015



Madison's **new** Interactive Web Price Graphing Tool

Madison's web-based interactive lumber price graphing tool is beta testing!

This extremely useful tool is driven by the historical dimension lumber and panel prices listed in your weekly *Madison's Lumber Reporter*. To access simply visit: <http://mlrdemo.gobi.ca>

Username: **portland**

Password: **Pine2014**

Instructions:

All commodities listed in your weekly *Madison's Lumber Reporter* (except Cedar for the time being) are available from the pull-down menu.

Simply start typing the species name of the desired item then select grade and size.

Click "update".

Select "view" for yearly, quarterly, monthly, or weekly.

Click "Graph Tools" at the top left to return to the previous screen and enter a different selection of commodities.

[For more information please contact our office.](#)

Enter Lumber Commodity

1: WSPF KD Econ 2x8	Average	#e0642e
2: Hem/Fir KD Coast Utility 2x4	Average	#e0d62e
3: Douglas Fir Green #2&Btr 2x6	Average	#2e97e0
4: SYP (East) KD S4S #2&Btr 8ft 2x4	Average	#b02ee0
5: SYP (West) KD S4S #2&Btr 8ft 2x8	Average	#e02e75

Enter Graph Options

Show by: Year

To: 2010-12-31

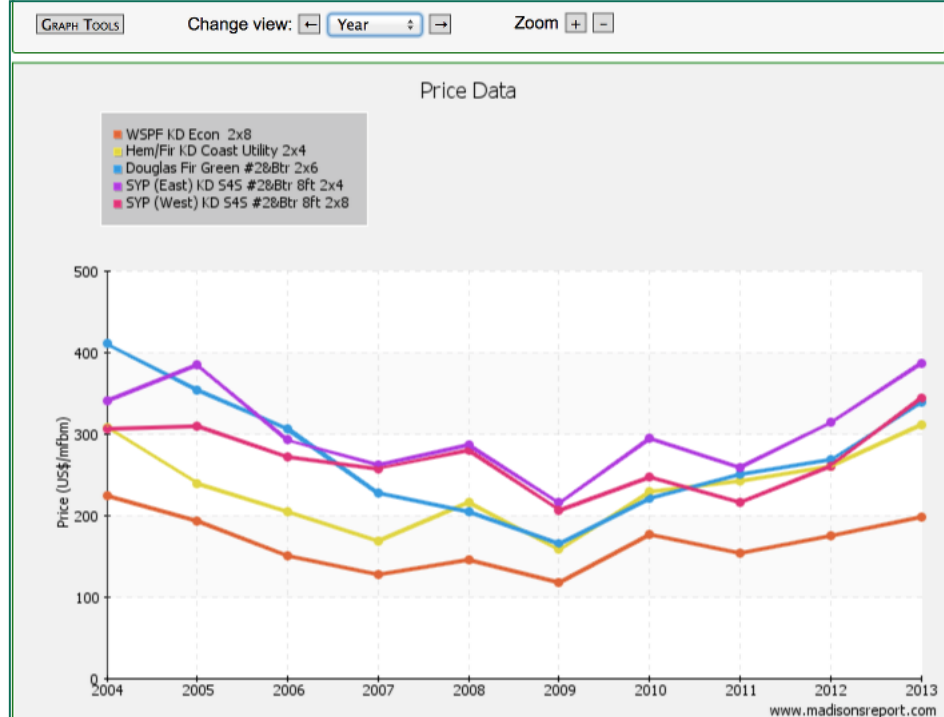
Search Tips HIDE

Tips

Use the starting letters of the lumber commodity you are looking for in the search.

For example - Species:

- WRC: Western Red Cedar
- WSPF: Western Spruce-Pine-Fir
- ESPF: Eastern Spruce-Pine-Fir
- DF: Douglas Fir
- LARCH: Fir/Larch
- HEM: Hem/Fir
- SYP: Southern Yellow Pine
- ENG: Englemann Spruce
- PON: Ponderosa Pine
- EAS: Eastern White Pine
- FIR: Fir
- HEML: Hemlock



*This is a demo version of the interactive graph.

**It is stable in the current versions of Firefox and Chrome web browsers

Madison's Weekly 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	245	250	-5	288	-43	368	-123
WSPF KD R/L 2x6	242	254	-12	294	-52	386	-144
WSPF KD R/L 2x8	285	290	-5	308	-23	378	-93
WSPF KD R/L 2x10	326	326	0	368	-42	390	-64
WSPF KD PET 2x4 Stud	225	240	-15	265	-40	355	-130
WSPF KD PET 2x6 Stud	240	260	-20	275	-35	385	-145
Douglas Fir Green R/L 2x4	305	305	0	330	-25	330	-25
Douglas Fir Green R/L 2x10	405	400	+5	415	-10	385	+20
ESPF KD 2x4 8ft Stud	300	315	-15	335	-35	435	-135
OSB Ontario 7/16" (CDN\$/msf)	272	275	-3	245	+27	210	+62
CSplywood Toronto 3/8" (CDN\$/msf)	434	443	-9	440	-8	463	-29

Madison's Weekly Lumber News

Sawmill Capacity, Canada and US

CONT'D FROM PAGE 2 Sawmill capacity utilization in the US meanwhile increased 2 per cent through June 2015, to 84 per cent, according to the WWPA Tuesday.

Canadian sawmill capacity utilization also grew by 2 per cent for the same time period, to 86 per cent.

Canada Housing Starts

CONT'D FROM PAGE 2 Building-permit data, which reflect early intentions of building activity, tend to be volatile on a month-over-month basis. On a 12-month basis, permits declined 13.4 per cent, according to StatsCan, reflecting the overall weakness in the Canadian economy fueled by a swift drop in commodity prices — in particular crude oil, the country's top export.

As for housing starts, those in Ontario's urban areas almost doubled, jumping 89 per cent to 92,422 units in the month, while multi-unit starts rose

to 142,927 across Canada, the highest since April 2012.

CMHC Chief Economist Bob Dugan said the strong condo activity in Toronto comes amid a shift in demand from higher-priced single detached homes towards lower-priced alternatives. And while Toronto is hot, other markets are cooling.

Canada's largest market had seen a cooling in condominium building in 2014 amid fears of a looming correction, but home prices and sales have barely paused since 2009.

Canada Industrial Capacity

CONT'D FROM PAGE 2 The capacity utilization rate in the mining, quarrying, and oil and gas extraction industry decreased from 78.9 per cent in 1Q to 75.9 per cent in 2Q, according to StatsCan. Lower demand for support activities for mining and oil and gas extraction as well as decreased oil extraction more than offset the increase in gas extraction.

The capacity utilization rate of the construction industry fell from 83.2 per cent to 82.3 per cent, the third consecutive quarterly decline. This decline was the result of lower production in all industry subsectors.

Capacity utilization in the forestry and logging industry rose from 86.9 per cent to 89.5 per cent as a result of increased production.

Calendar

September 2015

Who Will Own the Forests? 2015

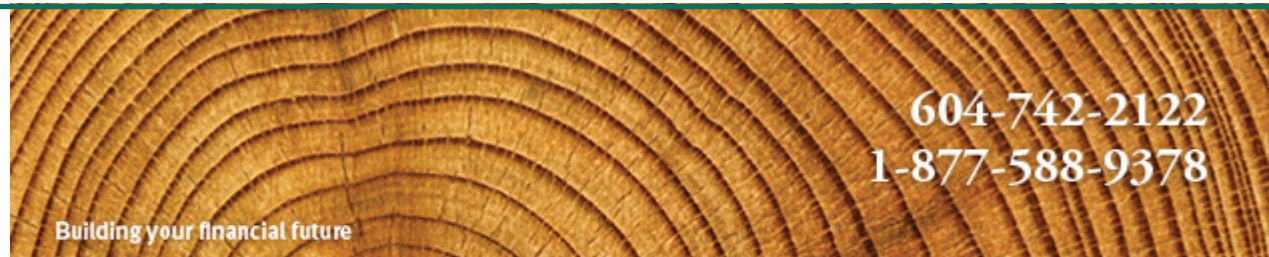
September 15-17, 2015 – Portland, OR

<http://wwotf.worldforestry.org/wwotf11/>

Forest Products Forum 2015

September 15, 2015 – Portland, OR

<https://www.getfea.com/FPF2015>



Wealth Advisors to the Lumber & Logging Industry

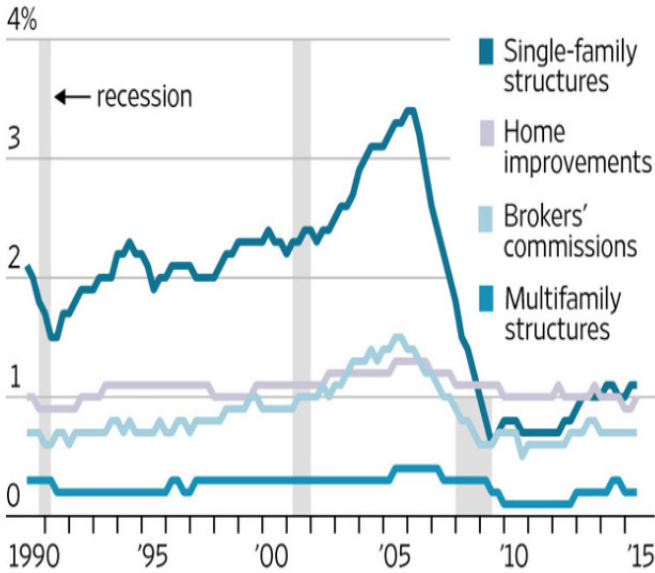
National Bank Financial is an indirect wholly-owned subsidiary of National Bank of Canada which is a public company listed on the Toronto Stock Exchange (NA: TSX). National Bank Financial is a member of the Canadian Investor Protection Fund (CIPF).



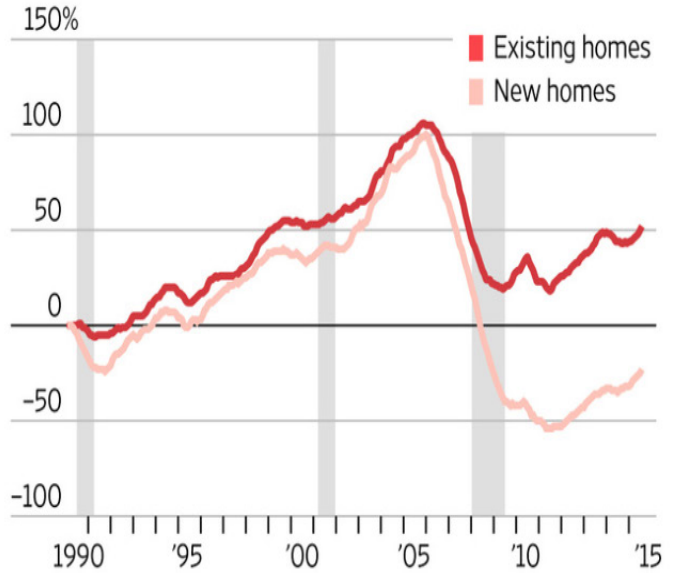
Changing Landscape

Single-family home building is providing less of a boost to the economy as construction is down, even as sales of existing homes rebound...

Components of residential investment
as a share of GDP

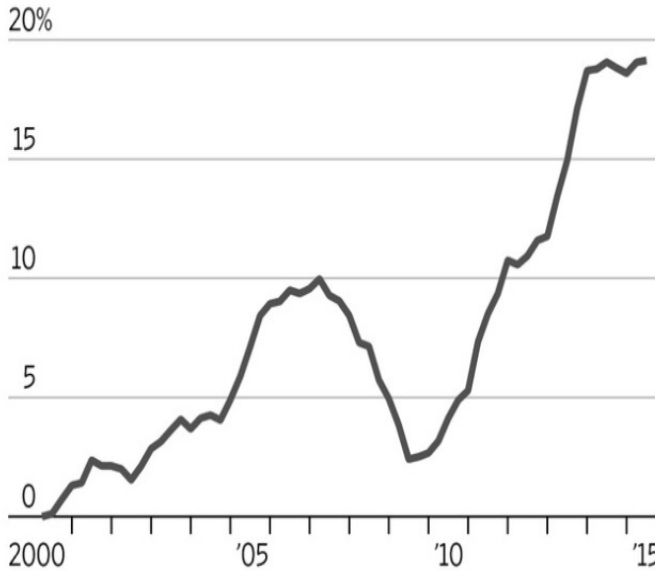


Change in the 12-month moving average of homes sold
since 1989

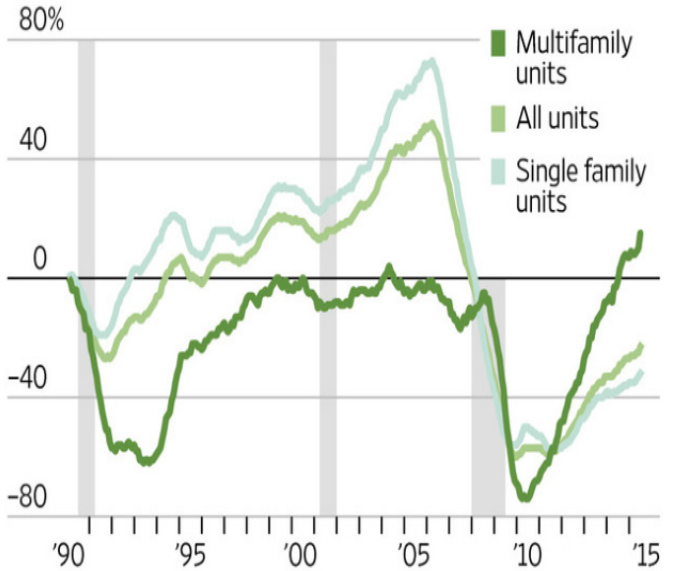


...and the industry has focused on building larger single-family homes and many more apartments amid soaring demand for rentals.

Change in median square footage of new homes under construction since 2000, four-quarter moving average



Change in housing units constructed
since 1989, by type



Sources: Commerce Dept. (residential investment, square footage); Labor Dept. (homes sold, housing constructed)

US Real Estate Activity

While US housing and auto sales showed strength over the summer, manufacturers were feeling pressure from China's economic slowdown and the oil industry was squeezed by lower energy prices. That's the US economic picture that emerges from the Federal Reserve's latest look at business conditions around the country, said *Associated Press Economics* September 5. The Fed said 11 of its 12 regional banks reported that the economy grew at least modestly in July through mid-August. One of the Fed's regions — Cleveland — reported only slight growth.

The Fed report, known as the beige book, will be used for discussion when the central bank meets next on Sept. 16-17. The gathering will be closely watched because of the possibility it will decide to start raising interest rates from record lows near zero.

The recent stock market turbulence, triggered by worries about China's slowdown, has led some analysts to lower the odds for a Fed move in September. But other economists still believe a Fed rate hike this month is likely, especially if markets stabilize and Friday's unemployment report shows strong job gains continued in August.

Residential Investment, US

The *Bloomberg* chart on this page shows US residential investment's share of nominal gross domestic product, with the start of the previous six rate hike cycles denoted with a circle. The severity

of the housing bust prompted activity in this sector to stay at depressed levels, even with the Great Recession getting farther away in the rear view mirror.

Residential investment accounts for 3.34 percent of nominal gross domestic product, as of Q2 2015, well below its long-run average of 4.56 percent, as Macquarie analyst David Doyle has observed. The Fed has not initiated a series of rate hikes at a time when residential investment's share of gross domestic product is more than one standard deviation below its long-run average since at least 1970.

US Single-Family Construction

During the past year, single-family construction added up to just 1 per cent of gross domestic product, roughly half the contribution during the 1990s, said *WSJ*. Even though new-home sales are running more than 20 per cent ahead of last year's pace, that pace is still well below almost every year of the 1990s.

Contracted sales of newly built, single-family homes accounted for 16 per cent of the annual unit volume of all single-family home sales in the 1990s, on average. Last year, that ratio was 9.2 per cent. With homes for sale in short supply, price gains are outstripping income growth. Inflationary pressures are modest throughout the economy, save housing. The consumer-price index's measure of core inflation, which excludes the volatile food and energy categories, is up 1.8 per cent over the past year. It would be half that if shelter costs were excluded.

Home Inventory and Demand, US

Both the absolute level of inventory of new and existing homes (now 2.3 million units total) and inventory as a percentage of households (now 1.6 per cent) are at or near 15-year lows, according to *Barron's* Monday. Over the past year, 1.5 million new households have formed; that compares with less than 1.2 million new housing units.

In addition, over 30 per cent of 18- to 34-year-olds are living at home. What does this mean? A lot of pent-up demand, and if it picks up, as we expect, housing starts will likely rise toward 1.5 million units (or higher) in the next two to three years.

Simply put, with residential investment spending at 3.3 per cent of GDP, the US has been significantly under-building relative to long-term demand (the 55-year average is 4.5 per cent of GDP—see graph on Page 5).

At this juncture, owning a house is incredibly cheap—both from a historical affordability perspective and relative to the cost of renting.

Although some have expressed concerns rising rates will reduce affordability, keep in mind that it would take a two percentage point rise in mortgage rates to go back to the long-term average.

A very modest pickup in mortgage rates, which are currently under 4 per cent, can be handled by an economy adding 3 million jobs in the private sector alone, in our view, said *Barron's*.

