

MADISON'S LUMBER REPORTER

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News & Updates

Construction Spending, Canada and US

The value of investment in Canada's new residential building construction rose 4.3 per cent year over year to \$4.7 billion in October, following a 4.8 per cent gain the previous month, said Statistics Canada December 22.

The increase at the national level was mainly attributable to higher construction spending on apartment and apartment-condominium buildings, which offset declines in investment related to single-family and semi-detached dwelling construction.

Elsewhere, the US Census Bureau of the Department of Commerce announced Monday that construction spending during November 2015 was estimated at a seasonally adjusted annual rate of US\$1,122.5 billion, 0.4 per cent below the revised October estimate of US\$1,127.0 billion. The November figure is 10.5 per cent above the November 2014 estimate of US\$1,016.1 billion. CONT'D PAGE 6

Canada and US Manufacturing Index: December 2015

The RBC Canadian Manufacturing Purchasing Managers' Index (PMI), released Monday, fell to a seasonally adjusted 47.5 in December from 48.6 in November. This was the lowest level for the survey that goes back to 2010.

In the US, the ISM manufacturing index indicated contraction in December, according to the Institute of Supply Management also Monday. The PMI was at 48.2 per cent in December, down from 48.6 per cent in November. The employment index was at 48.3 per cent, down from 51.3 per cent in November, and the new orders index was at 49.2 per cent, up from 48.9 per cent. CONT'D PAGE 6

Building Permits, Canada: November 2015

The value of building permits issued by Canadian municipalities was down 19.6 per cent from October to \$6.2 billion in November, falling below the \$7-billion mark for first time since May 2015, according to Statistics Canada Friday.

The value of residential building permits fell 17.8 per cent to \$4.0 billion in November, the third decline in four months. CONT'D PAGE 6

Apartment Vacancy Rates, US: 4Q 2015

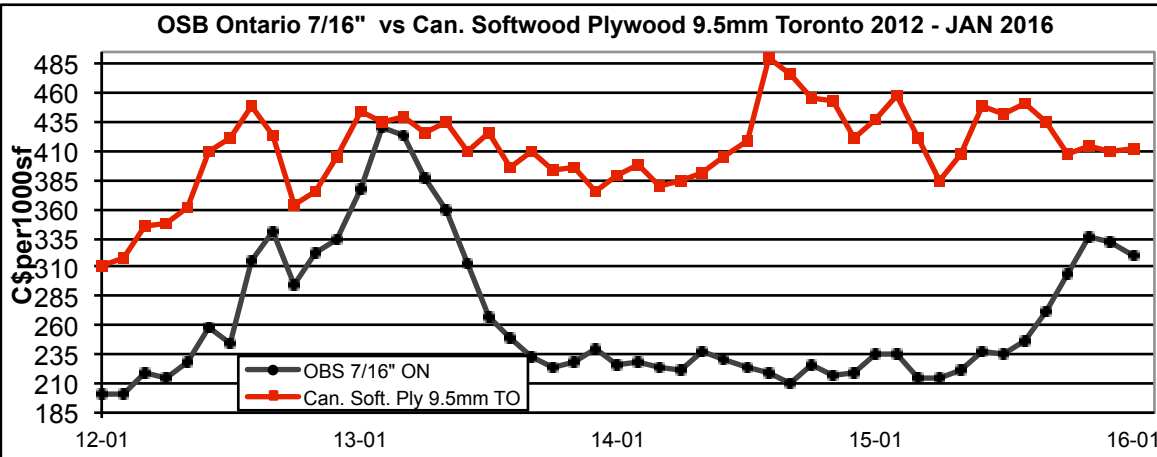
Reis reported Wednesday that the apartment vacancy rate in the US increased in 4Q 2015 to 4.4 per cent, up from 4.3 per cent in 3Q, and up from 4.3 per cent in 4Q 2014. The vacancy rate peaked at 8.0 per cent at the end of 2009, and appears to have bottomed at 4.2 per cent. CONT'D PAGE 7

US Home Prices: October and Year-End 2015

Home prices across the US, including distressed sales, increased by 6.3 per cent in November 2015 compared with November 2014 and increased by 0.5 per cent in November 2015 compared with October 2015, according to the CoreLogic HPI released Thursday. CONT'D PAGE 7

North America Lumber & Timber Industry Update 2016

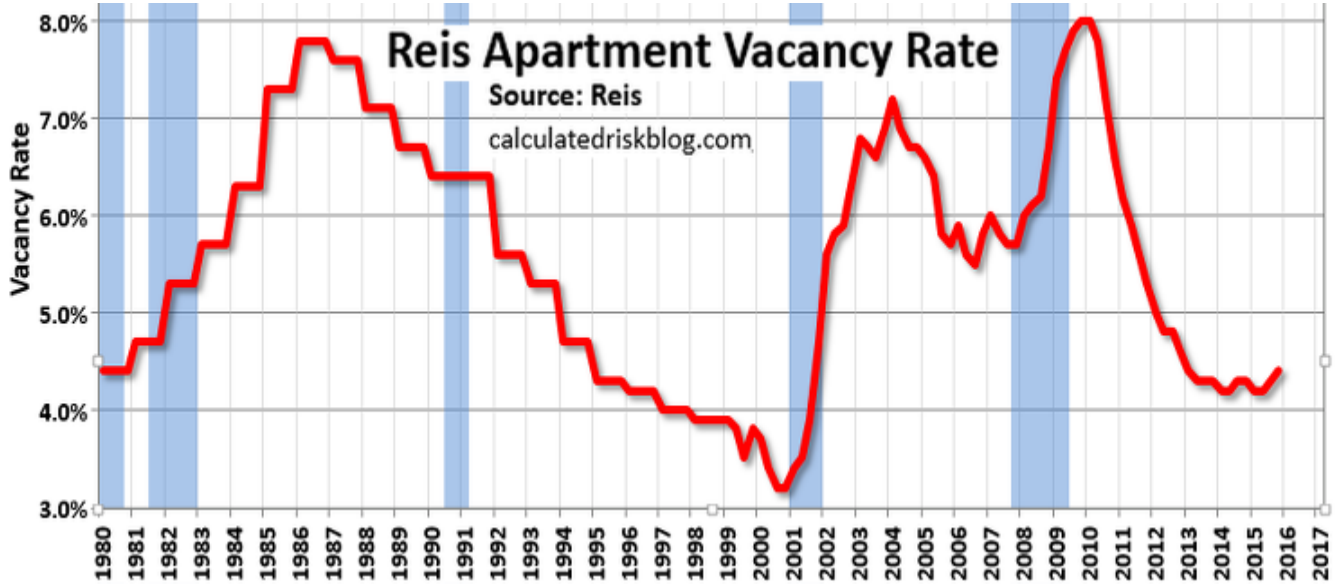
An overview of North America's lumber and timber industries for the end of 2015 and the beginning of this year. CONT'D PAGES 8, 9



US Apartment Vacancy Rates: 4Q 2015

US vacancy once again increased by 10 basis points to 4.4 per cent during the quarter with construction slightly outpacing net absorption, said REIS Wednesday. Gradually, construction is overtaking net absorption by a wider margin, putting increasing upward pressure on vacancy. During 2Q construction exceed demand by 3,471 units. During 3Q that difference had risen to 12,350 units and during 4Q it registered 15,263 units.

On a calendar-year basis, rent growth continues to accelerate. Asking and effective rents grew by 4.5 per cent and 4.6 per cent, respectively, during 2015. This is greater than 2014's growth rates of 3.7 per cent and 3.9 per cent for asking and effective rents and is the strongest performance during a calendar year since 2007 before the recession. The low vacancy rate, improving economy, tightening labor market and gradually rising income growth is providing all of the fodder for continued rent growth, even in the face of rising construction.

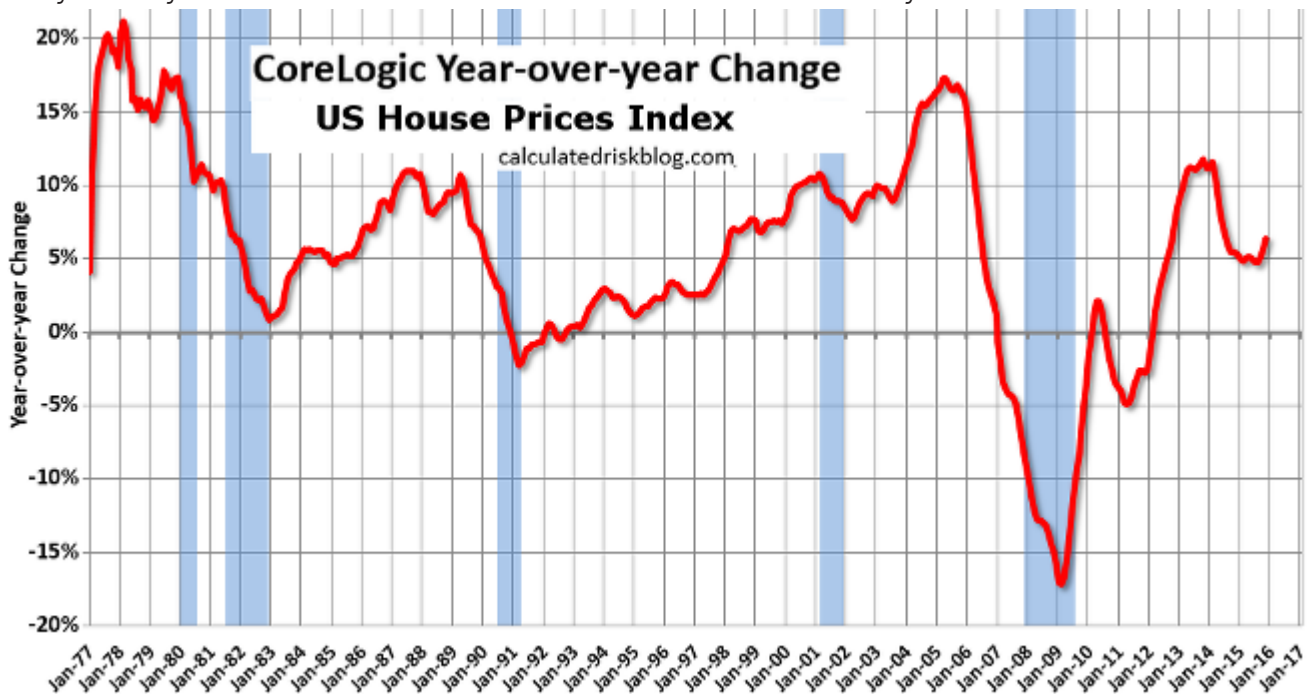


US House Prices: October and Year-End 2015

The Black Knight current month US home prices are up 0.2 per cent for October and up 5.5 per cent Year-Over-Year. At US\$254K, the national level HPI is now just 5.3 per cent off its June 2006 peak of US\$268K, and up 26.9 per cent from the market's bottom in January 2012.

The Black Knight HPI is off 5.3 per cent from the peak in June 2006 (not adjusted for inflation).

The year-over-year increase in the index has been about the same for the last year.



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	275	270	+5	258	+17	340	-65
WSPF KD R/L 2x6	275	266	+9	254	+21	352	-77
SYP KD R/L East Side 2x4	420	415	+5	400	+20	435	-15
SYP KD R/L East Side 2x6	320	315	+5	310	+10	375	-55
ESPF KD R/L 2x4	375	365	+10	355	+20	445	-70
WSPF KD PET 2x4 Stud	205	205	0	215	-10	345	-140
WSPF KD PET 2x6 Stud	215	220	-5	225	-10	360	-145
Douglas Fir Green R/L 2x4	290	300	-10	295	-5	320	-30
Douglas Fir Green R/L 2x10	345	350	-5	385	-40	405	-60
ESPF KD 2x4 8ft Stud	295	290	+5	290	+5	410	-115
OSB Ontario 7/16" (CDN\$/msf)	320	318	+2	335	-15	240	+80
CSplywood Toronto 3/8" (CDN\$/msf)	412	412	0	408	+4	457	-45

Madison's Weekly Lumber News

Canada and US Construction Spending

CONT'D FROM PG 2 Canadian investment in apartment and apartment-condominium building construction rose 27.6 per cent to \$1.8 billion in October compared with the same month in 2014, said StatsCan December 22. This was the sixth consecutive double-digit advance. Spending on row house construction increased 2.1 per cent from October 2014 to \$438 million.

Investment in single-family dwelling construction declined for the fifth consecutive month year over year, down 6.9 per cent to \$2.2 billion in October.

In the US, during the first 11 months of this year, construction spending amounted to US\$1,011.9 billion, 10.7 per cent above the US\$913.9 billion for the same period in 2014, according to the US Census Bureau Monday. Spending on private construction was at a seasonally adjusted annual rate of US\$828.2 billion, 0.2 per cent below the revised October estimate of US\$829.7 billion.

In November, the estimated seasonally adjusted annual rate of public construction spending was US\$294.3 billion, 1.0 per cent below the revised October estimate of US\$297.3 billion.

Manufacturing Index, Canada and US

CONT'D FROM PG 2 "Business conditions in the Canadian manufacturing sector fell at a survey-record

pace in December as weaker domestic demand and ongoing uncertainty in the energy sector continues to take its toll," said Craig Wright, senior vice-president and chief economist, RBC. "Across Canada, Alberta, and BC experienced the sharpest deterioration in conditions, while Ontario continued to be a national bright spot, posting a sustained rise in output production. As the US economy strengthens, we expect to see improvements in Canadian manufacturing sector activity levels."

US economic activity in the manufacturing sector contracted in December for the second consecutive month, while the overall economy grew for the 79th consecutive month, said the latest Manufacturing ISM®.

Canada Building Permits: November 2015

CONT'D FROM PG 2 In the non-residential sector, the value of permits decreased 22.7 per cent to \$2.2 billion in November, following slight gains the two previous months, said StatsCan Friday.

The value of building permits for multi-family dwellings fell 33.7 per cent to \$1.7 billion in November, the third decline in four months. Decreases were recorded in nine provinces.

The value of building permits for single-family dwellings, which was fairly stable at around \$2.3 billion for the last three months, edged down 0.6 per cent in November.

Sawmill Fires

The Grande Prairie Fire Department was called to a fire at the Canfor mill in Alberta Monday.

Fire Crews found moderate smoke conditions and a smoldering fire being controlled by the sprinkler systems in the sawmill.

The fire was caused by a seized/overheated bearing in the machinery, say officials. Canfor officials estimate the fire damage to be between \$25,000-\$50,000. There were no injuries.

Elsewhere, fire crews were working to put out a fire that started on New Year's Eve at the pine sawmill owned by Anthony Timberlands in Bearden, AR. The major fire destroyed one of the primary breakdown departments of the mill.

The newer, higher production, small log processing Sharp Chain mill was not damaged.

The cause of the fire is unknown and no employees were injured.

A Reader Responds...

"Just curious if it would be possible to e-mail this report at the same time and or more consistently at the same time rather than sporadically ?? Earlier on Fridays would be better!!"

Madison's Reply:

"yes indeed!

Thank you for your comment, *Madison's* always welcomes comments from readers:

We were adjusting our production process and expect to be back to regular transmission of 2pm Fridays Vancouver-time in the New Year."

Lumber Revival After a 5-Year Low?

[GUEST CONTRIBUTOR - January 4, 2016](#)
[Guest Post from Monika Sosnowska, of Mintec](#)

“US lumber prices have started to climb after reaching a 5-year low in September, although they remain around 20 per cent lower compared with last year. The expiry of the Softwood Lumber Agreement (SLA) between the US and Canada in October, and lack of news on whether it will be renewed, has brought uncertainty to the market.

Last year, difficult winter weather conditions affected both the demand and distribution of wood, pushing US prices down. The price increases seen toward the middle of 2015 were fueled by a rise in demand for exported lumber and good performance of the housing and construction market. New housing starts increased by around 30 per cent from February to April this year and have stayed at relatively high levels since then.

However, this rise in demand was not strong enough to sustain prices, which began to drop in June and fell to a 5-year low in September. A mixture of factors contributed to this: weaker demand from China, high production in both the US and Canada, and the trade agreement coming to an end.

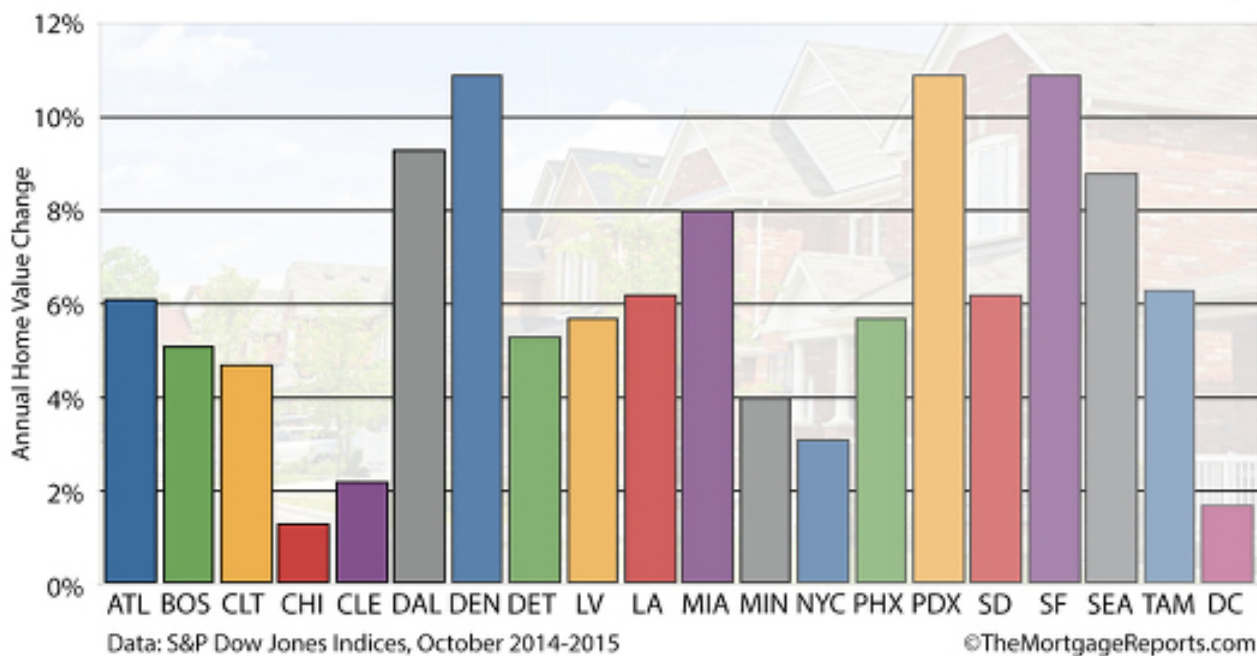
The agreement came to an end in October and debate continues as to whether there will be a new agreement. The US currently shows little interest in resigning the deal, unless the conditions can be renegotiated, as the US views the current settings as outdated. The US is Canada’s largest lumber market and the end of the agreement has brought a significant amount of uncertainty and increased the risk of trade disputes between the two countries.

So, what is the next move? If Canadian producers sell their lumber at a low price, the US government might put restrictions on trade with Canada. This could lead to price increases on the US domestic market due to less competition, which might be beneficial for US lumber producers in the short term — but could also harm the recovery in the housing market if lumber becomes significantly more expensive.

New housing starts in the US increased 10 per cent month-over-month in November, up 16 per cent year-over-year, and are expected to soon reach the high levels seen in 2007, prior to the financial crisis. The US housing market is expected to continue to grow in 2016, with the housing starts expected to almost reach the levels seen back in 2007, before the market crashed.

Hopefully a newer agreement will be introduced soon to remove any potential conflicts. Fortunately, there was a window built into the old agreement that prevented litigation in the 12 months after the agreement finished, so they have until next October to try and get a new agreement in place.”

Case-Shiller Index: Annual Home Value Change



Technical Analysis of the Lumber Commodity Market

CONT'D FROM PAGE 2

By EconMatters for MarketOracle January 4, 2016

US Housing Demand Thesis

“The last two years rents have been rising primarily due to supply and demand issues. There hasn't been enough multifamily housing to keep up with the demand, and as the employment levels go up and more millennials move out of their parent's house, I expect the housing market to continue to be on the slow but steady upswing of the last several years for 2016.

I think more and more single family homes will have to be built to keep up with the demand as renters for the last couple of years start to want to build equity in real estate versus throwing the money away on rent. And I expect the trend of more multifamily housing projects being built to continue for 2016 as well due to the escalating rents as the population growth has outstripped the conservative building strategies following the housing bubble that led to the financial crash in 2007/08. The builders were just very cautious and financing was subdued to say the least and now there is a lot of catchup going on in the housing sector.

Nationally, the number of single-family detached house rentals increased by 3.2 million between 2004 and 2013, according to Harvard's Center for Housing Studies.

Technical History for 2015

The March Lumber futures contract is trading at around US\$255 per mbf on Wednesday as the calendar year of 2015 comes to a close.

The Lumber contract reached a low of US\$226 per mbf in September of 2015 when the rest of the financial market was looking vulnerable during the end of 3Q selling that picked up steam on China Recession concerns. The Lumber market has been putting in higher lows into year end, and it seems to be setting up nicely for a move higher into 2016.

2016 Technical Levels to Watch

The play is relatively straight forward as there is four month overhead resistance at US\$270 per mbf on the charts and a breakout above this level with a buy stop letting buyers take you into the trade is one way to play this projected rise in lumber prices for 2016. I would put my protective stop at US\$255 per mbf if I entered on the breakout of the US\$270 resistance level. My initial target would be US\$310 per mbf for a 2.67:1 Reward/Risk profile for the trade. I would judge the price action from there and the overall market sentiment with the idea of letting it ride from this initial profit target.

The next area on the two year chart for a profit target to the upside is the US\$340-\$360 per mbf level. If you like to take half off and let the other half ride on the trade then this would be one way to play it by taking half off at the first profit level around \$310 per mbf and then taking the second half off at \$360 per mbf. One could also break the trade into 3 sections by having 1/3 of the trade riding for a breakout of the \$360 level.

Just for perspective there is 15 year resistance around the US\$400 per mbf area; but one thing about financial markets is that a trader wants to see how the contract reacts to price at key action levels. Therefore it would be nice to pocket a nice chunk of profits moving your protective stop up in a conservative manner and letting the last 1/3 of the trade prove to you that the trade is done to the upside. If we ever broke US\$450 per mbf the charts say that US\$500 per mbf is definitely possible, as back in March 1993 the Lumber futures went as high as US\$493.50 per mbf.”

