

MADISON'S LUMBER REPORTER

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News & Updates

Canada-US Softwood Lumber Unofficial Update

The Government of Canada Friday released a statement regarding ongoing negotiations for a bilateral Softwood Lumber Agreement with the US:

<http://news.gc.ca/web/article-en.do?nid=1086569>

“Following this initial 100 days of intensive engagement, the United States and Canada have made significant advances in exploring the key issues and priorities,” but no other word on what these advances might be, what happens next, or any kind of time frame.

Meanwhile, BC Premier Christy Clark said to the Quesnel, BC, Chamber of Commerce Wednesday:

“We are not going to accept a deal that imposes quotas in Canada because it would be bad for BC jobs. We hope we’re going to get there by the end of the summer but every day hope dims a little bit,” according to *My Prince George Now*.

Elsewhere, and much more ominously, at *Inside US Trade* June 9:

<https://insidetrade.com/inside-us-trade/us-lumber-proposal-rejected-canadian-negotiators>

“Canadian negotiators rejected a proposal on a new softwood lumber agreement that the US floated during a senior-level meeting in Ottawa on May 26, according to informed sources. The Canadians balked at the US offer of a market share for Canadian lumber in the US market starting at 28 per cent, which would gradually decline to 22 per cent over four years, said sources familiar with the negotiations.”

US Housing Starts: May 2016

US housing starts slipped in May as the construction of multifamily housing units dropped, but there were further gains in building permits.

Groundbreaking fell 0.3 per cent to a seasonally adjusted annual pace of 1.16 million units, the Commerce Department said on Friday. That of single-family homes rose 0.3 per cent to a 764,000-unit pace last month. **CONT'D PAGE 6**

Wildfires

A wildfire in Southern California more than tripled in size overnight and forced officials to close a major highway, while another blaze in New Mexico had communities on edge after destroying two dozen homes, according to *Reuters* Friday. It grew from 1,200 acres (486 hectares) on Thursday night to more than 4,000 acres (1,619 hectares) early Friday, said Kerry Bierman, a spokesperson for the joint operations centre fighting the fire. **CONT'D PAGE 6**

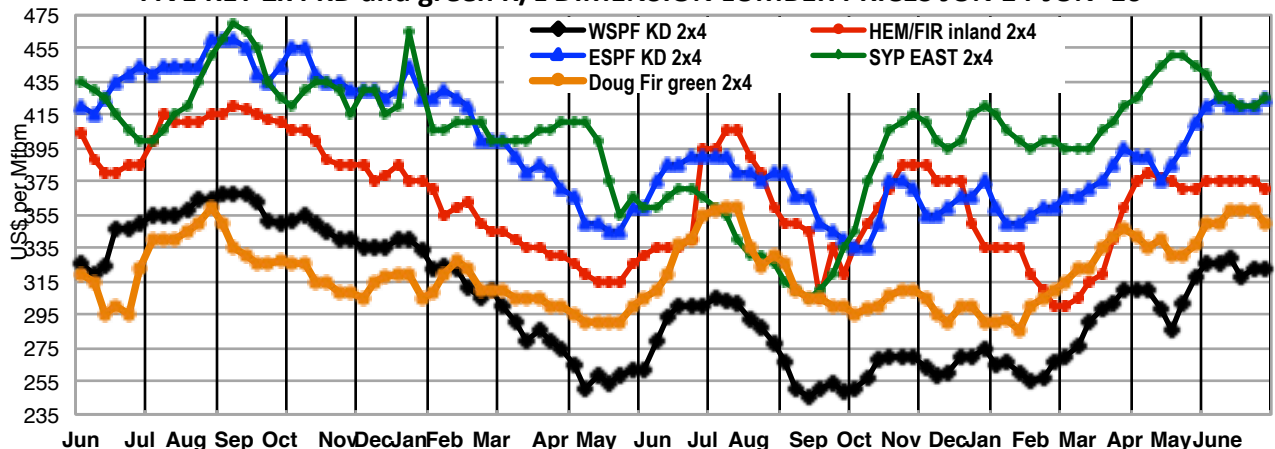
Canada and US Manufacturing Survey

Manufacturing sales in Canada rose 1 per cent to \$50.4 billion in April, following two consecutive monthly declines, according to Statistics Canada Wednesday. As well, regional Fed surveys and the ISM manufacturing index were released in the US this week. **CONT'D PAGE 7**

US Real Estate, Home Sales, Prices

“US housing starts in May rebound in year-over-year terms, rising 9.5 per cent. That’s a refreshing change from April’s mild decline. Nonetheless, Friday’s update reflects a relatively subdued rate in residential housing construction vs. recent history,” said James Picerno on *Seeking Alpha* Friday. **CONT'D PAGES 8 & 9**

FIVE KEY 2x4 KD and green R/L DIMENSION LUMBER PRICES JUN'14-JUN '16



US Housing Starts: May 2016

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Starts on single-family homes, which account for roughly two-thirds of new construction, rose 0.3 per cent in May. Starts on structures with two or more units sank 1.2 per cent. New applications for building permits increased 0.7 per cent to 1.138 million, from a revised April rate of 1.130 million.

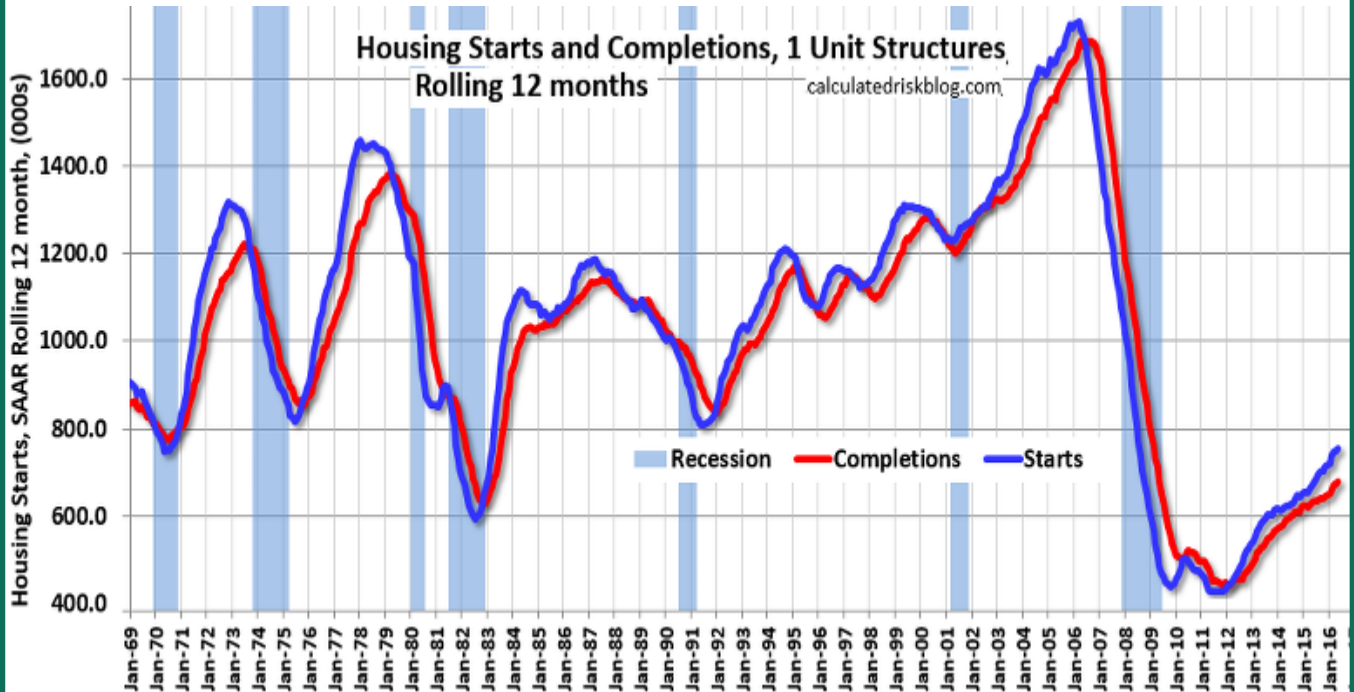
Single-family starts in the Northeast surged 12.7 per cent. In the West, groundbreaking on single-family housing projects rose 1.9 per cent. But single-family starts in the Midwest tumbled 14.7 per cent to a six-month low.

Housing starts for the volatile multifamily segment fell 1.2 per cent to a 400,000-unit pace. The drop followed an 11.9 per cent jump in April. The multi-family segment of the market continues to be supported by strong demand for rental accommodation as some Americans remain wary of homeownership in the aftermath of the housing market collapse.

Multifamily home construction is also being aided by rising household formation as a fairly strong labour market increases employment opportunities for young adults.

Building permits rose 0.7 per cent to a 1.14 million-unit rate last month. Permits for the construction of single-family homes fell 2.0 per cent last month to a 726,000-unit rate, while multi-family building permits increased 5.9 per cent to a 412,000-unit pace.

There was more stability regarding housing completions: single-family housing completions in May were at a rate of 717,000, which is 2.3 per cent above the revised April rate of 701,000, and privately-owned housing completions in May were at a seasonally adjusted annual rate of 988,000, which is 5.1 per cent above the revised April estimate of 940,000—but, nonetheless, it is 3.5 percent below the May 2015 rate of 1,024,000.



Wildfires

CONT'D FROM PAGE 2

The California fire, which broke out on Wednesday in the Los Padres National Forest for reasons that remain under investigation, has not caused any injuries and officials have reported little property damage. Hundreds of firefighters working on the blaze had it about 5 per cent contained on Friday.

In another part of the Southwest, firefighters on Friday sought to make headway against a wildfire in central New Mexico that has burned more than 16,000 acres (6,475 hectares) of timber and logging zones, and forced hundreds of residents to evacuate, officials said to *Reuters*.

As well Friday morning, major wildfires burning in New Mexico and Arizona have prompted evacuations and a state of emergency as weather conditions do little to assist firefighters, said the Weather Network.

The fire, which started on Tuesday morning approximately 25 miles southeast of Albuquerque, prompted Governor Susana Martinez to declare a state of emergency on Thursday as the fire pushes toward the north-east.

Meanwhile in Arizona, fire crews made “good progress” overnight in fighting the so-called Cedar Creek Fire, according to Friday morning updates.



	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	322	322	0	326	-4	294	+28
WSPF KD R/L 2x6	300	304	-4	308	-8	290	+10
SYP KD R/L East Side 2x4	425	420	+5	440	-15	365	+60
SYP KD R/L East Side 2x6	330	315	+15	320	+10	290	+40
ESPF KD R/L 2x4	420	420	0	420	0	380	+35
WSPF KD PET 2x4 Stud	270	270	0	255	+15	295	-25
WSPF KD PET 2x6 Stud	245	245	0	230	+15	280	-35
Douglas Fir Green R/L 2x4	350	357	-7	350	0	320	+30
Douglas Fir Green R/L 2x10	400	410	-10	415	-15	360	+40
ESPF KD 2x4 8ft Stud	350	355	-5	350	0	366	-15
OSB Ontario 7/16" (CDN\$/msf)	335	345	-10	345	-10	235	+100
CSplywood Toronto 3/8" (CDN\$/msf)	454	458	-4	441	+13	448	+6

Madison's Weekly Softwood Lumber News

Canada, US Manufacturing

CONT'D FROM PG 2 Canada's manufacturing sales increased in 10 of 21 industries, representing 55 per cent of Canadian manufacturing sales.

In constant dollar terms, sales were up 1.4 per cent, indicating that higher volumes of manufactured goods were sold in April. Prices for the manufacturing sector fell 0.5 per cent, according to the Industrial Product Price Index.

Sales increased in six provinces, with Alberta, Quebec and Ontario posting the largest gains.

Inventories fell for the third consecutive month in April, decreasing 0.4 per cent to \$70.9 billion, the lowest level since December 2014. Inventories dropped in 15 of 21 industries.

Transportation equipment recorded the largest decrease, with inventory levels down 1.2 per cent.

This decline was the result of lower inventories of aerospace products and parts (-1.4 per cent), motor vehicles (-1.7 per cent), and motor vehicle parts (-1.5 per cent).

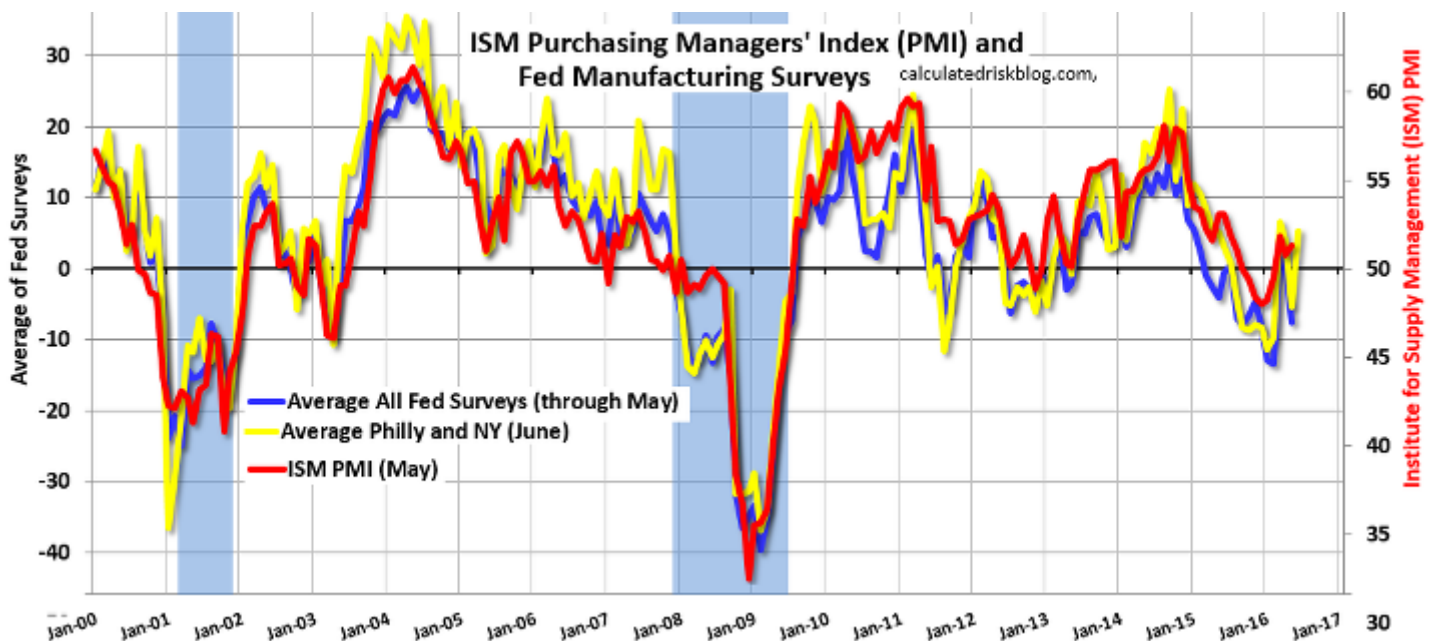
These declines were partly offset by higher inventories of primary metals (+2.0 per cent).

Meanwhile, in the US, from the Philly Fed: June 2016 Manufacturing Business Outlook Survey:

The diffusion index for current activity rose almost 7 points, to 4.7, and returned to positive territory this month after two consecutive negative readings.

The average of the Empire State and Philly Fed surveys turned positive in June (yellow). This suggests the ISM survey will probably indicate expansion this month.

This was above the consensus forecast of a reading of 2.0 for June.



US Real Estate

CONT'D FROM PAGE 2

James Picerno, *Seeking Alpha*

The mixed profile of this month's US housing starts data also shows up in the year-over-year changes for both indicators, albeit in reverse.

The key takeaway: the recent slowdown in housing construction growth will probably linger for the foreseeable future. That's not dire news, but today's update suggests that the housing sector's ability to boost economic growth generally may be waning.

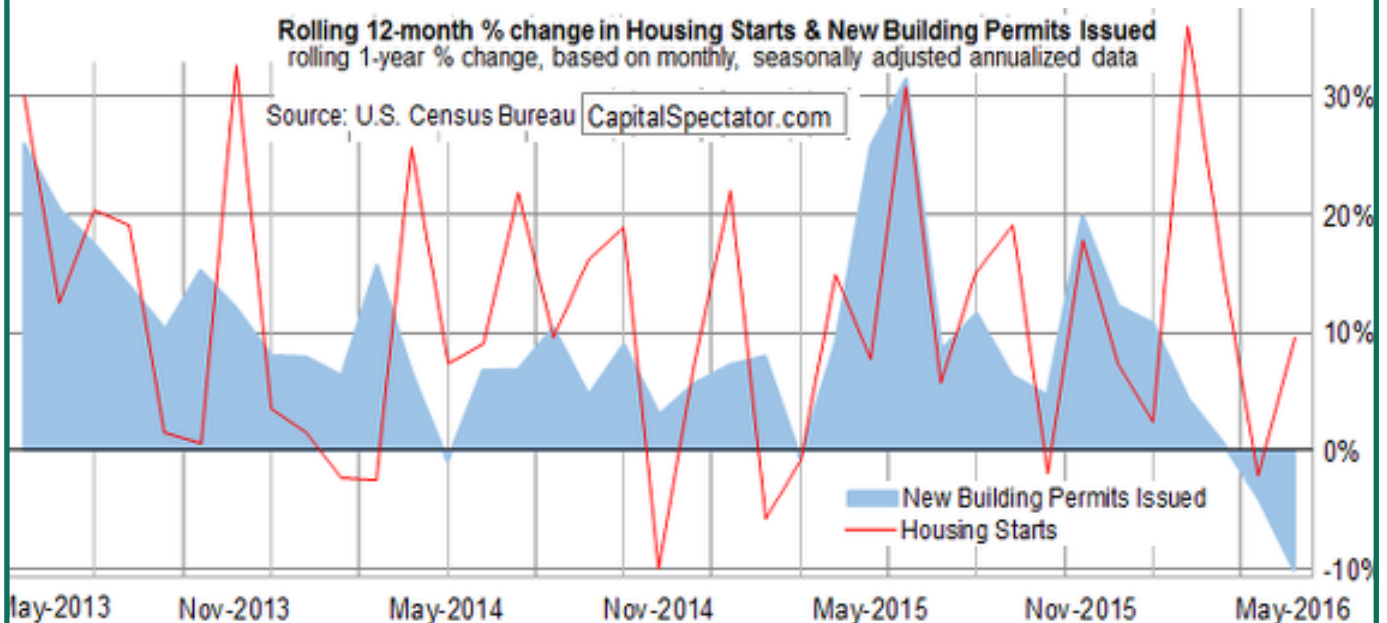
Note that building permits fell on a year-over-year basis for the second month in a row. Considered a leading indicator for construction activity, permits slumped 10.1 per cent in May vs. the year-earlier level—more than twice the annual decline in April.

The optimistic view is that housing will continue to grow at a modest pace. A degree of support for this outlook can be found in this week's survey data from the National Assoc. of Home Builders (NAHB). The

trade group's Housing Market Index in June rose to its highest reading in five months.

"Builders in many markets across the nation are reporting higher traffic and more committed buyers at their job sites," NAHB Chairman Ed Brady said in a statement. The implication: We'll see firmer numbers in construction activity in this year's second half.

Perhaps, although the weak link in the upbeat outlook is the slide in permits in annual terms. The back-to-back declines mark the weakest run for this indicator in five years. If the June report for permits makes that three in a row, the case for thinking positively about the housing market may be headed for an attitude adjustment.



US House Sales

"May home sales increased at a rate that's slightly higher than the average monthly increase," said Dave Liniger, RE/MAX CEO and Chair, to National Mortgage Professional Friday.

"This is despite the fact that inventory in many markets remains very low. At the same time, interest rates appear to have stabilized, which helps encourage potential homebuyers. Price increases continue to moderate and are rising at a more sustainable rate. This market is offering current homeowners more incentive to sell, which could have a positive impact on overall inventory levels."

"Rising home sales, an improving economy and the fact that the HMI gauge measuring future sales expectations is running at an eight-month high are all positive factors indicating that the housing market should continue to move forward in the second half of 2016," said NAHB Chief Economist Robert Dietz.

"On our analysis, US housing is just at an average level of affordability historically," said Marty Young, Research Analyst at Goldman Sachs Wednesday.

"However, according to a cross-country comparison, US housing looks relatively affordable having seen milder house price inflation than many other DM countries over the past two decades."

US House Prices

Housing market analysts do not appear moved by an April surge in pending and new home sales. New US single-family home sales recorded their biggest gain in nearly a quarter century in April, touching a more than eight-year high.

Property analysts are forecasting a steady 5.4 million unit annualized pace of existing home sales over the coming year, about where it was in April, far below its peak above 7 million in 2005, before the housing market crash and financial crisis.

The most optimistic view was for an average 6.08 million unit annualized pace in the first three months of 2017.

The share of first-time buyers crept up to 32 per cent in April from 30 per cent both in March and a year ago, according to data from the National Association of Realtors.

Investors also appear to have a fair amount of confidence in the future performance of the housing market. The Standard and Poor's homebuilding sub-index .SPLRCHOME has risen more than 11 percent in the last three months.

Shares of the three largest U.S. homebuilders -- D.R. Horton Inc (DHI.N), Lennar Corp (LEN.N) and PulteGroup Inc (PHM.N) -- are up between 5 per cent and 15 per cent over the same period.

The NAHB/Wells Fargo Housing Market Index, which rose two points this month to hit the 60 level, its highest reading since January 2016.

The three segments that make up the index all registered increases: The component gauging current sales conditions rose one point to 64, the index charting sales expectations in the next six months increased five points to 70, and the component measuring buyer traffic climbed three points to 47.

Also on the rise, according to RE/MAX, are housing sales. The company's latest data analysis determined that home sales in May increased 10.3 per cent from April and were 5.1 per cent higher from a year earlier.

The median sales price in May was US\$222,475, up 3.5 per cent from the previous month and up 4.2 per cent from a year earlier.

But one thing that was not on the rise was inventory. RE/MAX reported that May's inventory was 14.8 per cent below last year's level, while the average for days on the market for all homes sold in May was 58, down six days from the average of 64 from the previous month and one year earlier.

Dave Liniger, RE/MAX CEO and Chair, noted that a tight inventory level did not handcuff sales activity.



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MADISON'S
3Q 2014 North America Timber Industry Analysis and Projection
By Kora Koutson, Publisher and Editor, Madison's Lumber Reporter
November 1, 2014

OVERVIEW
Vigorous bursts of optimism among North America's lumber and panel traders this summer gave way to dread in September as sales volumes dropped and prices softened somewhat. Negative sentiment was finally over-ruled in October however, as market fundamentals prevailed and the tenuous supply-demand balance made for a positive outlook for the rest of the year. Disappointing macroeconomic conditions and a striking lumber futures board were not enough to dampen prices, which recovered to near-year-ago levels in October.

KEY 2x4 KD R/L LUMBER PRICES October 2013 - 2014
www.madisonreport.com

IMPORTANT DATA:
 - US LOG exports to China by VALUE see up 17%, to US\$845.5 million, Jan to Aug 2014 compared to one year ago.
 - US SAWMILL products exports to China by VALUE see up 28.9%, to US\$858 million, Jan to Aug 2014 over 2013.
 - US SAWMILL products imports from Canada by VALUE see up 31.2%, to US\$3,033 million, Jan to Aug 2014 compared to 2013.
 - Canadian LUMBER exports to US by VALUE see up 16.7%, to C\$3,793 million, Jan to Aug 2014 over last year.

DNR Composite Log Prices And Inferred Stumpage Prices
SOURCE: Washington State Dept of Natural Resources, Economic and Revenue Forecast Sept 2014

Canada Log Exports Jan-Aug '14:
 China +7.40%
 Japan +8.30%
 S Korea -5.80%
 USA -7.0%

It is interesting to note that the VALUE of both log and lumber exports from each country to China have increased, while VOLUMES remain relatively flat.

Also noteworthy is the steady increase in VALUES of lumber shipped from Canada to the US in the first eight months of this year.

Canada Softwood Log Exports by Value : 2010 to Aug 2014
SOURCE: Statistics Canada

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