MADISON'S
LUMBER
REPORTER

Publisher
KetaDesign Productions
Editor
Kéta Kosman
Market Analyst
Earl Heath

Annual Subscription Prices
E-mail/Fax: US$408.45
Discounts available for multiple subscriptions
Published 50 times a year

www.madisonsreport.com
madrep@shawcable.com
604 319-2266
PO Box 2486 Vancouver, BC
V6B 3W7 Canada

In Canada, add GST or HST
ISSN 0715-5468
Printed in Canada © 2015

All material contained within is the property of KetaDesign Productions Inc. Reproduction or retransmission is expressly forbidden.

News & Updates

Softwood Lumber Smack Talk

In a new development best received with foreboding, 25 US Senators this week sent a signed letter to US Trade Representative Michael Froman alleging "Canadian lumber is subsidized, unfairly traded and has had decades worth of well-documented adverse economic impacts in the US."

As a result of this communication, Canada's ambassador to the US, David MacNaughton, on Wednesday pledged to take appropriate steps to protect Canadian interests should the US and Canada fail to reach a new softwood lumber agreement by the end of the litigation standstill in October, and the US then chooses to bring trade cases against the Canadian lumber industry, according to *Inside Trade*. At the same time, he made clear in discussions with members of Congress that a deal is the best solution for all parties involved, said *Inside Trade*.

In the first letter, US Senators Jon Tester and Steve Daines pushed for a new deal to include volume restrictions.

Canada's MacNaughton shot back Wednesday in a missive of his own to US Senator Ron Wyden, saying the Americans' letter contained concerning "mischaracterizations.

"I am disappointed with some of the inaccurate language that is contained in your letter to Ambassador Froman," wrote MacNaughton in the letter obtained by mainstream media.

He added that despite repeated investigations and litigation over the past 35 years, there have never been findings of a countervailing subsidy or of an adverse impact that has survived legal challenge.

US Home Builder Share Prices Increase

Very positive moves by share prices of two of the biggest US home builders, DR Horton and PulteGroup, Thursday — even before US housing starts data came out — provide further indication that the long-suffering US housing market is slowly continuing to improve. CONT'D PAGE 6

Housing Starts, US: June 2016

US housing starts for June surged 4.8 per cent to a seasonally adjusted annual pace of 1.19 million units, the Commerce Department said on Tuesday. May's starts were revised down to a 1.14 million-unit pace from the previously reported 1.16 million-unit pace. CONT'D PAGE 7

North America Rail Traffic: July 2016

The Association of American Railroads reported Thursday that US rail traffic for the week ending July 16, 2016, totalled 520,222 carloads and intermodal units, a 5.6 per cent decrease compared to the same week in 2015. CONT'D PAGE 8

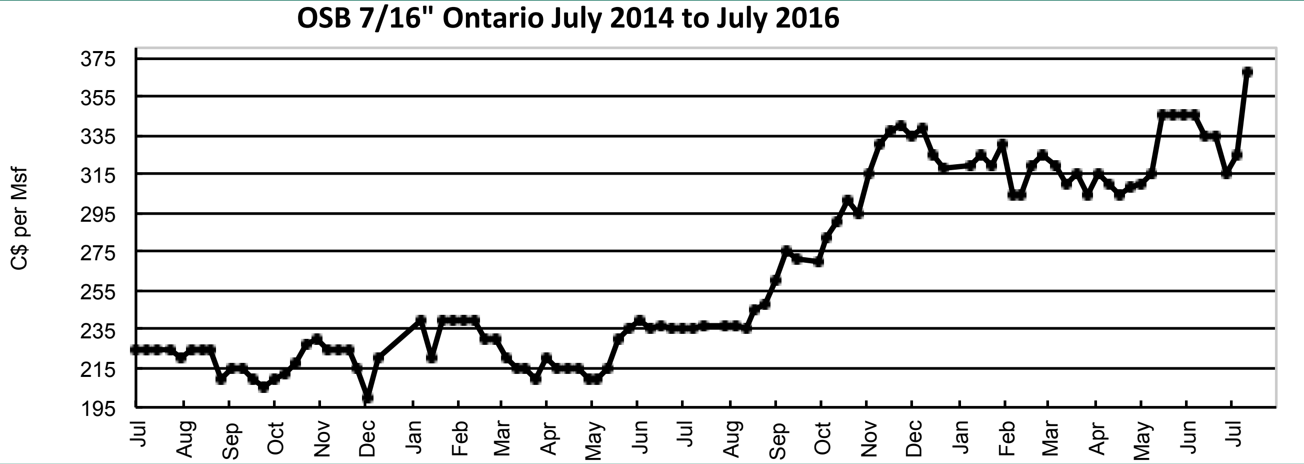
US Existing Home Sales

Total US existing-home sales climbed 1.1 per cent to 5.57 million in June, from a downwardly revised 5.51 million in May, said the National Association of Realtors Thursday. CONT'D PAGE 9

Conference Board of Canada 2016 Growth Forecast

A new Conference Board of Canada report has downgraded its projections for Canada's economic growth in 2016 from 1.6 per cent to 1.4 per cent, despite a strong start to the year. CONT'D PAGE 10

OSB 7/16" Ontario July 2014 to July 2016



US Home Builder Share Prices Rise

CONT'D FROM PAGE 2

Even before new US housing start data for June officially came out Thursday, *CNBC* announced early positive moves by two major US home builders:

DR Horton — Matched estimates with quarterly profit of US$0.66 per share, though revenue was below forecasts. The company did see a 13 per cent increase in sale orders but also had a cancellation rate of 21 per cent.

PulteGroup — Came in US$0.02 a share above estimates, with earnings per share of US$0.34. Revenue beat Street forecasts, as well. The home builder's results were helped by selling more homes at higher prices.

In fact, PulteGroup, which is the number three largest US homebuilder, reported a 14 per cent rise in quarterly profit as it sold more homes at higher prices, said *Reuters* also Thursday.

The company's net income rose to US$117.8 million, or 34 US cents per share, in 2Q, from US$103.3 million, or 28 cents per share, a year earlier.

Total revenue rose about 41 per cent to US$1.80 billion.

PulteGroup's new orders rose 11.3 per cent to 5,697 homes.

As for DR Horton, the largest US homebuilder reported an increase in fiscal 3Q earnings as a limited number of existing properties on the market helped fuel demand for new houses, said *Bloomberg* Thursday.

Net income for the three months through June climbed to US$249.8 million, or 66 US cents a share, from US$221.4 million, or 60 US cents, a year earlier, the Fort Worth, TX-based company said in a statement Thursday.

The company, with it's a heavy presence in the important Texas and Florida markets, is expanding its geographic base and boosting sales volume through the company's entry-level Express brand, which attracts buyers discouraged by tight supplies for existing homes.

Single-family home starts in the US increased 4.4 per cent last month, to the highest level since February, Commerce Department data showed this week.

Back to PulteGroup, the stock rose 4.1 per cent to US$21.26 in afternoon trading Thursday, after the company released it's earnings report and announced a shift in strategy Thursday, outlining plans to slow down its growth in future land spending and make an additional US$1 billion in share repurchases.

As part of an agreement with hedge fund Elliott Management, PulteGroup will aim to reduce selling, general, and administrative expenses to 9 per cent of home sales revenue next year, down from 10 per cent this year. In exchange, Elliott will support the company's board nominees at its annual meeting next May and won't engage in any kind of proxy battle.

The agreement expires in a year. It would also add three new board members a month after Elliott took a 4.7 per cent stake in PulteGroup.

A person at Elliott Management said to *Bloomberg* the company has a significantly longer pipeline of land than its competitors, allowing it to boost earnings by converting that idle land into homes that can be sold. A more efficient land strategy, along with the additional repurchases and other cost controls, should allow the home builder's stock to again trade at a premium to peers.

Dave Miller, a senior portfolio manager at Elliott Management, said in the company appreciated PulteGroup's "ongoing efforts to run a more efficient home-building business and toward building long-term shareholder value."

Madison's Weekly Softwood Lumber Key Prices Table

www.madisonsreport.com

Prices are in U.S. dollars per 1,000 fbm (net FOB mill)

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	326	326	0	322	+4	300	+26
WSPF KD R/L 2x6	306	294	+12	300	+6	305	+1
SYP KD R/L East Side 2x4	410	410	0	425	-15	365	+45
SYP KD R/L East Side 2x6	365	360	+5	330	+35	300	+65
ESPF KD R/L 2x4	425	425	0	420	+5	390	+35
WSPF KD PET 2x4 Stud	280	270	+10	270	+10	315	-35
WSPF KD PET 2x6 Stud	255	255	0	245	+10	295	-40
Douglas Fir Green R/L 2x4	355	355	0	350	+5	355	0
Douglas Fir Green R/L 2x10	330	360	-30	400	-70	390	-60
ESPF KD 2x4 8ft Stud	365	360	+5	350	+15	375	-10
OSB Ontario 7/16" (CDN$/msf)	360	368	-8	335	+25	235	+125
CSPlywood Toronto 3/8" (CDN$/msf)	464	458	+6	454	+10	421	+43

Madison's Weekly Softwood Lumber News

US Housing Starts

CONT'D FROM PG 2 Housing starts in 2Q were a touch higher than the average for the first three months of the year, suggesting that residential construction was probably a small boost to gross domestic product in the second quarter.

Groundbreaking on single-family homes increased 4.4 per cent to a 778,000-unit pace in June. Single-family starts in the South, where most home building takes place, gained 0.5 per cent.

Single-family starts jumped 31.6 per cent in the Northeast and climbed 3.1 per cent in West. Groundbreaking on single-family housing projects increased 7.3 per cent in the Midwest.

Single-family starts are up 13.2 per cent in the first six months of 2016, compared with a year ago. Multi-unit starts starts of fell by 3.9 per cent in the year-to-date from the same period in 2015 to 573,000, the highest since 1974.

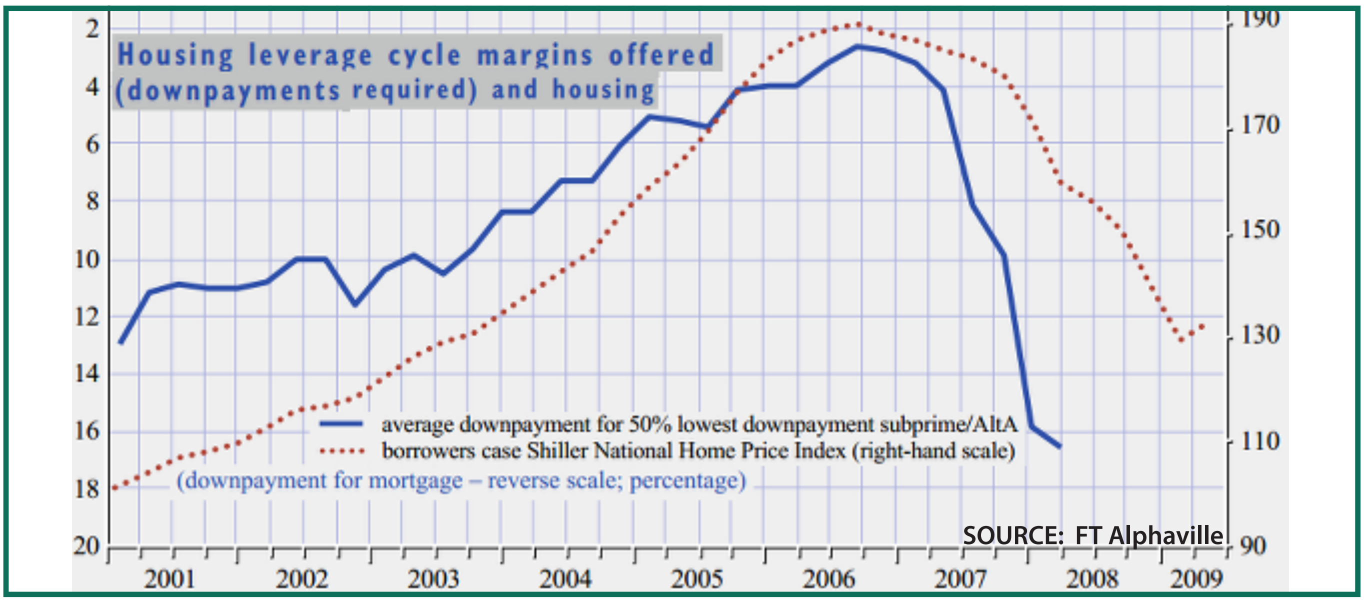
Building permits increased 1.5 per cent to a 1.15 million-unit rate last month. Permits for the construction of single-family homes increased 1 per cent last month to a 738,000-unit rate, while multifamily building permits advanced 2.5 per cent to a 415,000-unit pace.

Canfor Officially Opens Two Pellet Plants

Canfor cut the ribbon on two new pellet plants in Chetwynd and Fort St. John, BC, Tuesday.

The two plants, at a cost of $58 million, were built at Canfor's existing sawmills, and have a combined annual production capacity of 175,000 tonnes of wood pellets. The Chetwynd plant began operations late last year, while the Fort St. John plant reached full operations earlier this year.

The two plants were built at Canfor's existing sawmills and have a combined annual production capacity of 175,000 tonnes of wood pellets, the *Prince George Citizen* reported Thursday.



SOURCE: FT Alphaville

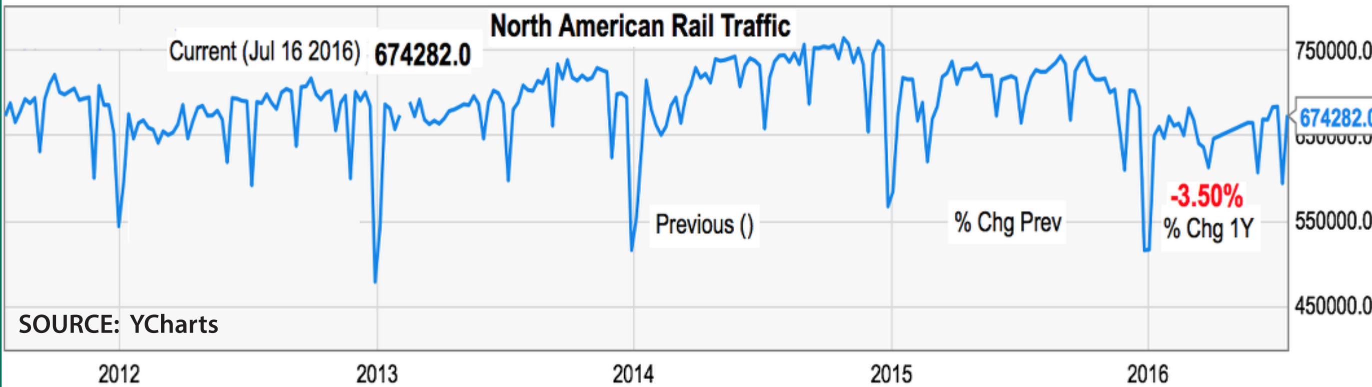
North American Rail Traffic Update: July 2016

CONT'D FROM PAGE 2

US railroads' traffic slump continued for the week ending July 16. Total US weekly traffic was 520,222 carloads and intermodal units, down 5.6 per cent compared with the same week last year, the Association of American Railroads (AAR) reported Thursday.

Total carloads for the week declined 5.4 per cent to 262,202 units, while intermodal volume fell 5.8 per cent to 258,020 containers and trailers compared with the week in 2015.

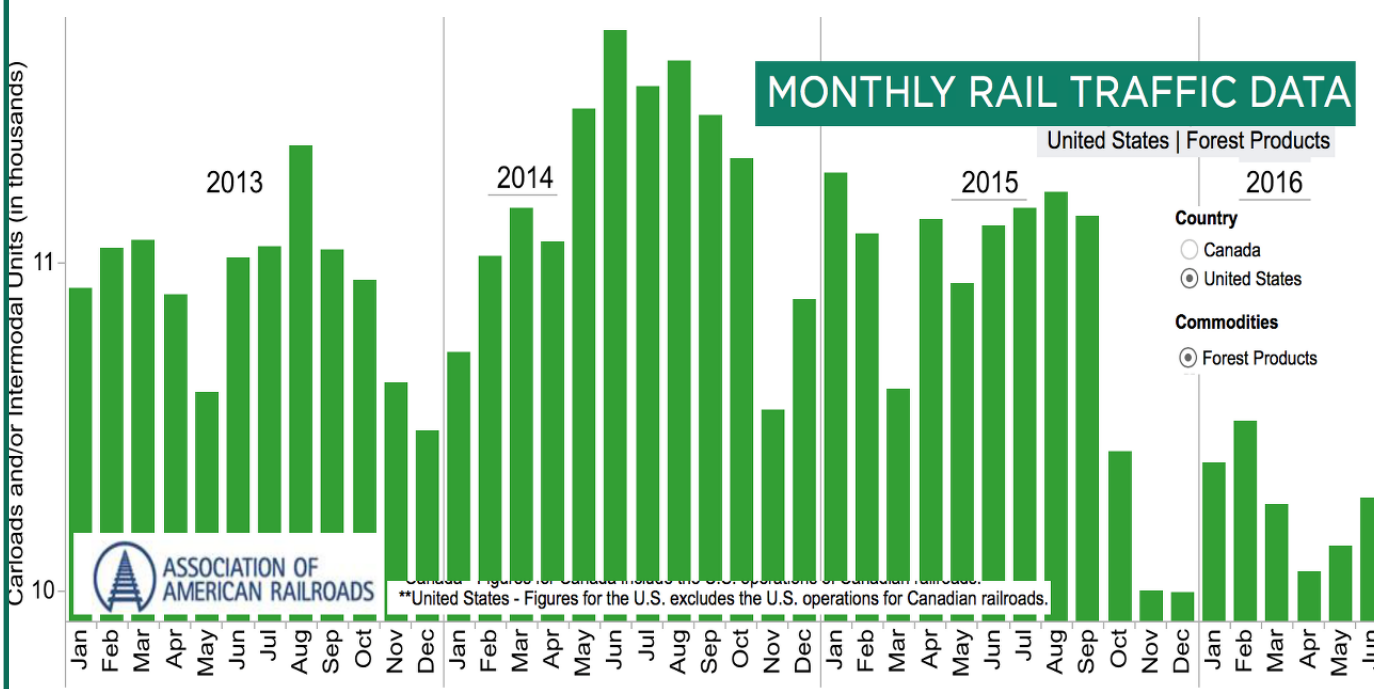
Three of the 10 carload commodity groups posted increases for the week over last year. They were grain, up 25.3 per cent to 25,681 carloads; miscellaneous, up 14 per cent to 10,647 carloads; and chemicals, up 2.9 per cent to 30,917 carloads.



Commodity groups that posted decreases included petroleum and petroleum products, down 15.8 per cent to 11,221 carloads; coal, down 15.5 per cent to 84,272 carloads; and **forest products,** down 10.3 per cent to 9,894 carloads.

Canadian railroads logged 67,832 carloads for the week, down 11.1 per cent, and 59,043 intermodal units, down 5.6 per cent compared with the same week in 2015.

For the first 28 weeks of 2016, U.S. railroads reported a total combined traffic of 13,971,001 carloads and intermodal units, down 7.6 per cent compared with last year's figures. Canadian railroads posted cumulative rail traffic volume of 3,569,667 carloads, containers and trailers, down 7.8 per cent.

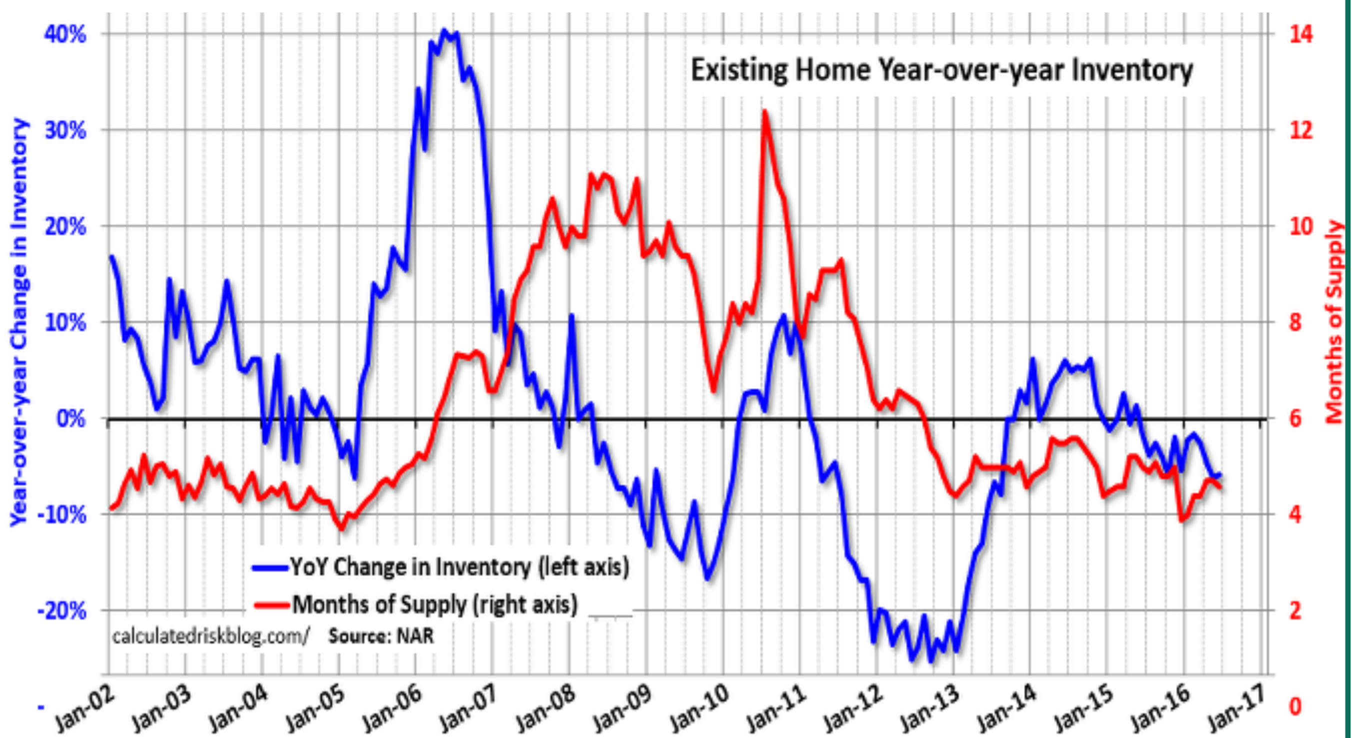


US Existing Home Sales

CONT'D FROM PAGE 2

Total existing-home US sales climbed 1.1 percent to a seasonally adjusted annual rate of 5.57 million in June from a downwardly revised 5.51 million in May, said the National Association of Realtors Thursday. After last month's gain, sales are now up 3.0 per cent from June 2015 (5.41 million) and remain at their highest annual pace since February 2007 (5.79 million).

Total housing inventory at the end of June dipped 0.9 per cent to 2.12 million existing homes available for sale, and is now 5.8 per cent lower than a year ago (2.25 million). Unsold inventory is at a 4.6-month supply at the current sales pace, which is down from 4.7 months in May.



First-Time Buyers

First-time buyers grabbed a 33 per cent share of existing home sales last month, the best performance in four years. June existing sales are up 3.0 per cent from the same month a year ago. Total existing home sales in June increased to a seasonally adjusted rate of 5.57 million units combined for single-family homes, townhomes, condominiums and co-ops, up from a downwardly revised 5.51 million units in May.

Distressed Sales

The distressed sales share was 6 per cent in June, unchanged from May, and down from 8 per cent a year ago. Distressed sales are defined as foreclosures and short sales sold at deep discounts. The June all-cash sales share was 22 per cent, unchanged from last month and a year ago.

Individual investors purchased an 11 per cent share in June, down from 13 per cent last month, and the lowest share since July 2009, continuing to follow a four year pattern of increasing at the beginning of the year and declining by spring.

Distressed Sales as Per Cent of Total

"A rough estimate: Sales in June 2015 were reported at 5.41 million SAAR with 8 per cent distressed. That gives 430 thousand distressed (annual rate), and 4.98 million equity / non-distressed. In June 2016, sales were 5.57 million SAAR, with 6 per cent distressed. That gives 330 thousand distressed - a decline of about 23 per cent from June 2015 - and 5.24 million equity. Although this survey isn't perfect, this suggests distressed sales were down sharply - and normal sales up around 5 per cent."

-*Calculated Risk*

House Price

The June median sales price of US$247,700 was 4.8 per cent above the same month a year ago, and represents the 52nd consecutive month of year-over-year increases. The median condominium/co-op price of US$231,600 in June was up 3.2 per cent from the same month a year ago.

Conference Board of Canada Economic Forecast 2016

CONT'D FROM PAGE 9

The wildfires that damaged much of Fort McMurray, AB, and the surrounding areas, a weakening global economy, and the ongoing and significant deterioration in business investment have dimmed the growth outlook for Canada, said the Conference Board of Canada in it's latest edition of the Canadian Outlook, released Thursday. The Canadian economy is expected to grow by just 1.4 per cent in 2016, a downgrade from the previous 1.6 per cent forecast.

"The economy got off to a good start at the beginning of the year but, unfortunately, that momentum has largely dissipated," said Matthew Stewart, Associate Director, National Forecast, The Conference Board of Canada. "The economy will likely contract in the second quarter and then rebound towards the latter half of the year. However, this won't be enough to offset the second quarter's weakness."

Highlights:

- The Canadian economy is expected to grow by an underwhelming 1.4 per cent in 2016.
- Business investment remains the largest source of weakness in the economy and is forecast to decline again in 2016.
- Despite a low Canadian dollar, exports will slow this year due to sluggish U.S. economic activity and a weaker global outlook.
- The wildfires which engulfed much of Fort McMurray and the surrounding areas in May and June are expected to subtract 0.1 per cent from overall economic growth this year..

The largest source of weakness in the Canadian economy continues to be the slide in business investment. Business investment in the oil and gas sector fell by almost $19 billion last year, and with the price of oil expected to remain near its current level of US $50, investment in the sector is forecast to fall by another $14 billion this year.

Unfortunately, non-energy firms have not picked up the slack. Non-energy investment is expected to decline for the fourth consecutive year in 2016. The agency expects the non-energy investment to pickup in 2017 but stay below previous peak levels until 2018.

The global economy, which is already experiencing lacklustre growth, will be hurt by the UK's decision to leave the European Union and by other shocks to confidence like the terrorist event in Nice, France, and the failed coup in Turkey. Although the direct impact of these events on Canada should be minimal, there could be an impact on already weak business confidence. This, combined with sluggish US investment activity, will hold back export growth through 2016.

Total export growth is forecast to slow to 2.5 per cent in 2016, down from 3.4 per cent last year.

The wildfires that engulfed much of Fort McMurray and the surrounding areas in May and June are expected to subtract 0.1 per cent from overall economic growth this year. Many oil sands operations were forced to shut down production, resulting in a massive short-term loss in output estimated at 57 million barrels, equal to $3.5 billion in lost revenues this year. There are some mitigating effects that will offset some of the short-term production shutdown such as firefighting and clean-up efforts, and insurance payouts.