

MADISON'S LUMBER REPORTER

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News & Updates

Softwood Lumber Negotiations Lack of Update

Canada and the United States remain “far apart” on several important points concerning a new agreement on softwood lumber, according to the Canadian government’s chief negotiator, said *CBC* Thursday.

Testifying before the House of Commons committee on international trade on Thursday, Martin Moen, an official with the department of Global Affairs, said there have been a dozen face-to-face meetings and numerous teleconferences between Canadian and American officials.

But, he added, the two sides have yet to agree on the structure and details of market share, appropriate exclusions, the treatment of high-value products, anti-circumvention provisions and joint market development.

Liberal and Conservative MPs jostled Thursday over the need for another irregular mid-summer meeting of the House Trade Committee, this time on softwood lumber negotiations, according to *Hill Times* also Thursday.

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US Housing Starts: June 2016

US residential starts increased 2.1 per cent to a 1.211 million annualized rate in June, Commerce Department data showed Tuesday. Permits were little changed.

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Canada, US Manufacturing Surveys

The index for current US manufacturing activity for it’s region rose 5 points to only 2.0 in August, the Philly Federal Reserve said Thursday. The survey’s indicators of employment weakened considerably. The employment index fell 18 points to -20.0, which is its largest negative reading for the current year.

Meanwhile, manufacturing sales in Canada rose 0.8 per cent to \$50.2 billion in June, following a 1 per cent decline in May said Statistics Canada Tuesday.

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North America Commodity Lumber Price Comparison

As *Madison’s* is preparing the next issue of our quarterly *Forest Pulse*, this seems like a good time to update readers on a ten-year price trend comparison of several of the most commonly-traded softwood lumber commodity prices.

CONT'D PAGES 8 and 9

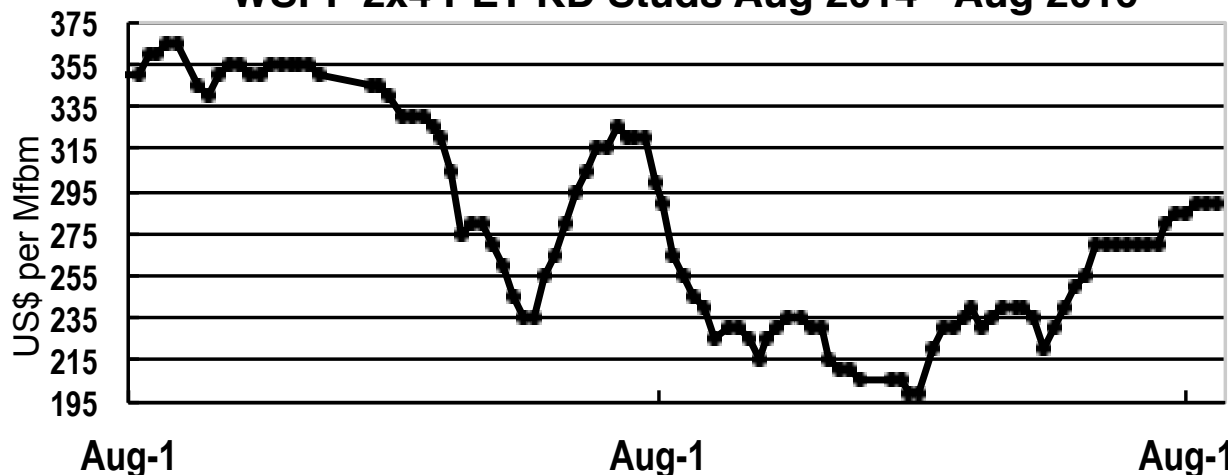
US Negative Equity Rate, Home Property Values

According to the Zillow Negative 2Q Equity Report, released Thursday, the overall US negative equity rate as of the end of 2Q 2016 – the share of homeowners that were underwater, owing more to their lenders than their home was worth – was 12.1 per cent. That’s down from 12.7 per cent in 1Q and 14.4 per cent at the same time a year ago .

Elsewhere, FNC released their June 2016 index data Monday, reporting that their Residential Price Index™ (RPI) indicates that US residential property values increased 1.1 per cent from May to June.

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WSPF 2x4 PET KD Studs Aug 2014 - Aug 2016



Canada-US Softwood Lumber Lack of Agreement

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Failure to reach a deal by October 15, 2016 — the one-year anniversary of the expiry of the old, nine-year pact — would allow US producers to petition Washington to impose new duties. Moen said without an agreement in place, Canadian officials are unsure what US industry would actually do — and when.

“We have had 12 face-to-face meetings with the US government and numerous teleconferences. Although the discussions have been constructive and have led to a better understanding of each party’s positions and concerns, Canada and the US ... I have to be honest, we do remain far apart on several key issues,” Moen told a special meeting of the all-party, international trade committee, according to *CBC* Thursday.

Little Hope of Reaching Agreement Before October

Those gaps, Moen said, include the appropriate structure of the agreement:

- **how to combine export charges and export quotas that result in keeping Canadian exports below an agreed-upon share of the US market;**
- **regional exclusions for the Atlantic provinces and the territories;**
- **provisions for company exclusions, for mills that source inputs from the U.S. or private lands;**
- **the treatment of high-value products, and;**
- **the treatment of re-manufacturers.**

Canadian Forest Industry Input

“Canadian stakeholders continue to tell us very clearly that no deal is better than a bad deal, so we need to be prepared for the possibility that a new agreement may not be concluded and that Canada will be forced back — potentially, this is a risk — into a trade remedy investigation,” Moen said.

“We’re continuing to be intensely engaged in trying to see if a new deal is possible. However, we are preparing for all eventualities, and are prepared to vigorously protect and defend the interests of softwood lumber producers if there is a return to trade action, to litigation.”

Parliamentary House Trade Committee Discussions

The Conservatives proposed a motion to the committee Thursday that sought to call on International Trade Minister Chrystia Freeland to establish a roundtable consisting of herself, provincial government officials, industry stakeholders to develop a national position on a new deal.

After opposition members asked for it, the committee unanimously agreed to sit Thursday morning to be briefed by and question the top public servants on the softwood file, as an October deadline for possible trade penalties by the United States on Canadian lumber exporters creeps closer, said *The Hill Times*.

““

There are considerable gaps that will need to be bridged in order for a new agreement to be concluded. Negotiations are continuing with the goal of reaching an agreement by the end of the standstill period. ””

Martin Moen

Canada’s chief negotiator in the softwood-lumber talks with the United States

Conservative and Liberal Committee Member Comments

Tory MP Randy Hoback argued in favour of the motion, saying there’s confusion in the industry.

But the Liberal-dominated committee voted down the motion, with Liberal MP Kyle Peterson saying it would duplicate the ongoing process and slow things down.

“It’s just politics that they asked us today to be here,” Liberal MP Linda Lapointe said of the call from the opposition Conservative and NDP MPs for the unusual summer committee meeting. Most House committees stopped meeting regularly when the House rose for the summer in June.

The next talks between Canadian and US officials are scheduled for August 24.

South-wide Average 2Q16 Stumpage and Delivered Prices \$/ton

Product	Stumpage Price		Delivered Price	
	Price	Q/Q Change	Price	Q/Q Change
Pine Sawtimber	\$24.94	(\$0.62)	\$43.85	(\$0.18)
Hardwood Sawtimber	\$32.62	\$0.24	\$52.56	\$0.12
Chip-n-saw	\$17.18	(\$0.15)	\$35.63	(\$0.17)
Pine Pulpwood	\$10.31	(\$0.30)	\$29.94	(\$0.65)
Hardwood Pulpwood	\$9.47	(\$0.76)	\$30.72	(\$0.43)



	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	330	330	0	326	+4	288	+42
WSPF KD R/L 2x6	310	310	0	306	+4	294	+16
SYP KD R/L East Side 2x4	425	425	0	410	+15	330	+95
SYP KD R/L East Side 2x6	395	395	0	365	+30	295	+100
ESPF KD R/L 2x4	430	430	0	425	+5	380	+50
WSPF KD PET 2x4 Stud	290	290	0	280	+10	265	+25
WSPF KD PET 2x6 Stud	245	245	0	255	-10	275	-30
Douglas Fir Green R/L 2x4	350	352	-2	355	-5	330	+20
Douglas Fir Green R/L 2x10	345	350	-5	330	+15	415	-70
ESPF KD 2x4 8ft Stud	375	380	-5	365	+10	335	+40
OSB Ontario 7/16" (CDN\$/msf)	385	380	+5	360	+25	245	+140
CSplywood Toronto 3/8" (CDN\$/msf)	491	480	+11	464	+27	440	+51

Madison's Weekly Softwood Lumber News

US Housing Starts

CONT'D FROM PG 2 The pace of housing starts is the second-fastest of the expansion behind the 1.213 million in both February and June 2015.

The starts data, while very volatile from month to month, have held in a narrow range over the past year, indicating residential real estate will have trouble adding to its post-recession rebound. Still, the report showed a wide range for error, with a 90 per cent chance that last month's figure fell between a 6.7 per cent decline and a 10.9 per cent gain.

Permits were little changed at 1.15 million annualized rate in July, indicating there was less scope for addi-

tional gains in housing starts in coming months.

What's more, builders already had more homes under construction in July than at any time since January 2008. The number of multifamily dwellings with five or more units under construction reached the highest level since October 1974.

Construction of single-family houses rose 0.5 per cent to a 770,000 rate, also the most since February.

Groundbreaking on multifamily homes, such as townhouses and apartment buildings, increased 5 per cent to an annual rate of 441,000, the most since September.

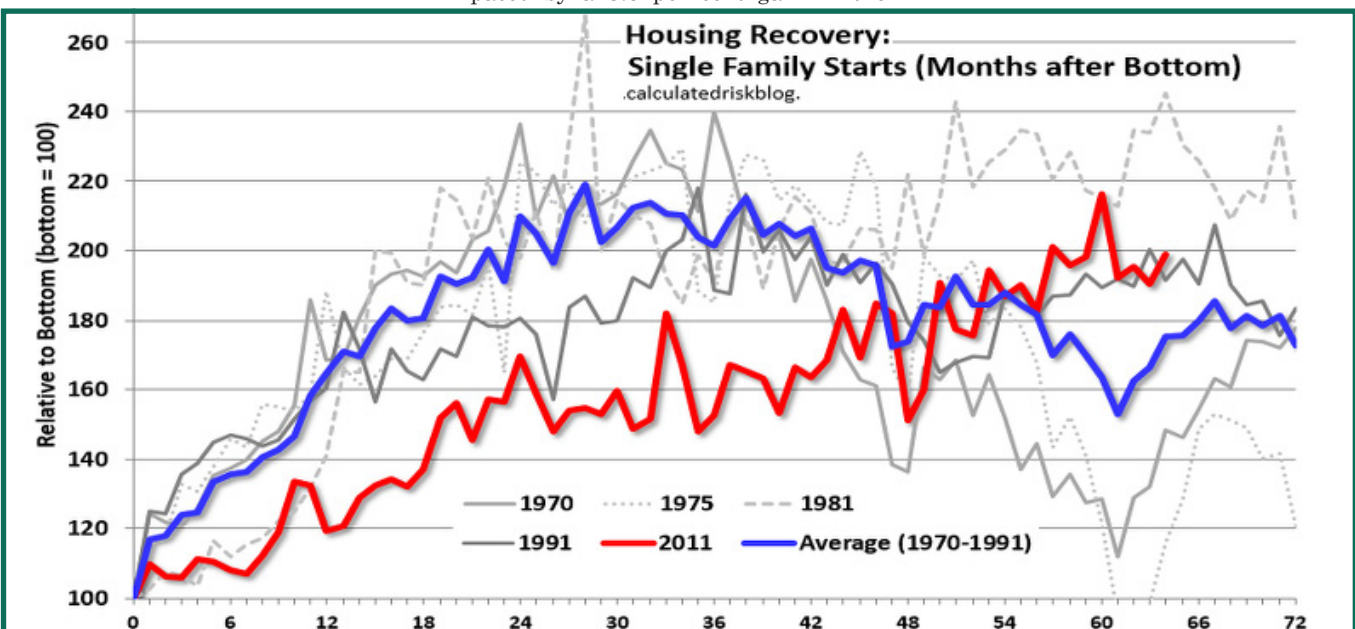
Starts rose in three of four regions, paced by a 3.5 per cent gain in the

South and a 2.3 per cent increase in the Midwest. Construction was up 15.5 per cent in the Northeast and down 5.9 per cent in the West.

Manufacturing, Canada and US

CONT'D FROM PG 2 Elsewhere, US industrial production rose 0.7 per cent in July after moving up 0.4 per cent in June, said the US Federal Reserve Tuesday.

In Canada, higher sales of machinery and transportation equipment products were largely responsible for the 0.8 per cent gain in manufacturing sales, to \$50.2 billion in June, following a 1 per cent decline in May.

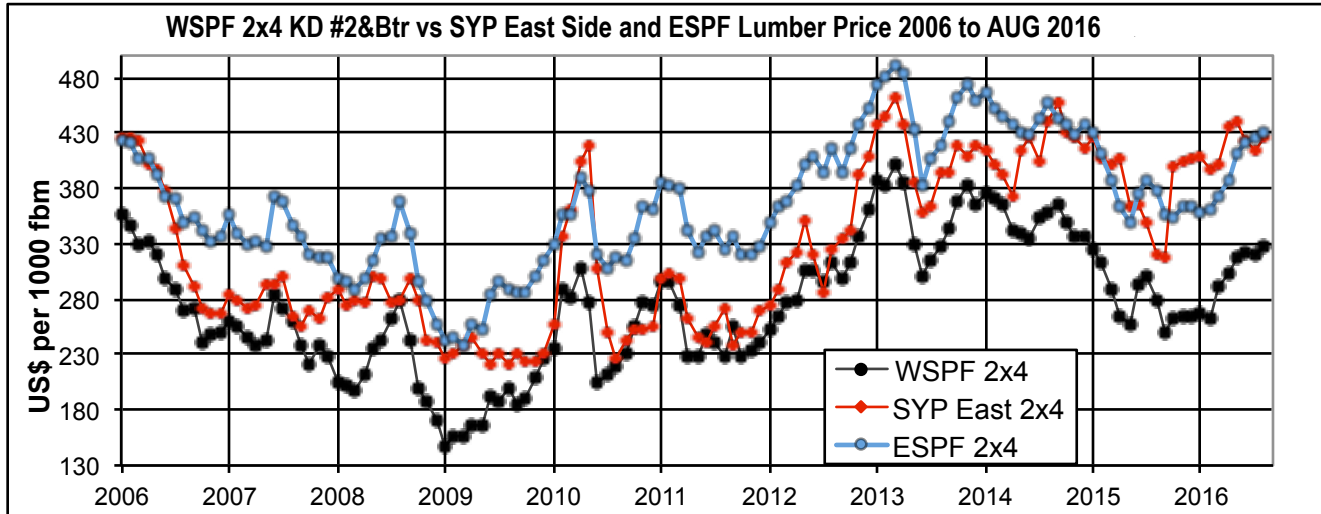


Three Main 2x4 Construction Framing Dimension Lumber Prices: 10 Years

CONT'D FROM PAGE 2

Benchmark Western Spruce-Pine-Fir KD 2x4 #2&Btr Prices Ten Year Trend

The value WSPF 2x4 lumber dropped to a low of US\$146 mfbm in January 2009, then popped to a high of US\$401 mfbm in February 2013 before landing at US\$330 mfbm this week.



Eastern Spruce-Pine-Fir KD 2x4 #2&Btr Prices Ten Year Trend

The value ESPF 2x4 lumber dropped to a low of US\$245 mfbm in February 2009, then popped to a high of US\$483 mfbm in February 2013 before landing at US\$430 mfbm this week.

Eastern Spruce-Pine-Fir KD 2x4 #2&Btr Prices Ten Year Trend

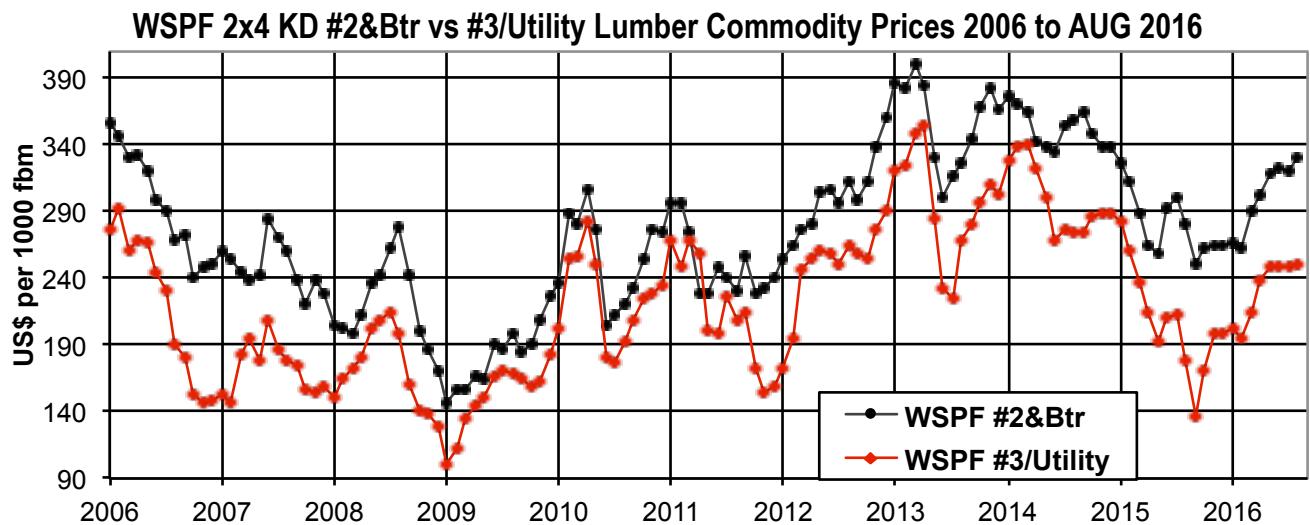
The value Southern Yellow Pine 2x4 East Side lumber dropped to a low of US\$221 mfbm for most of 2009, then popped to a high of US\$433 mfbm in February 2013 then US\$456 mfbm in September 2014, before landing at US\$425 mfbm this week.

Western Spruce-Pine-Fir Standard Construction Grade vs Utility Grade: 10 Years

Since the sharp increase of China imports of Canadian lumber in 2010, the price relationship between WSPF 2x4 standard grade and utility grade has been closely watched, because #3/Utility grade was the largest volume purchased by customers in China.

But for the past couple of years, due to a drop in volumes bought by China, the relationship of WSPF KD 2x4 #3/Utility prices to #2&Btr has again loosened.

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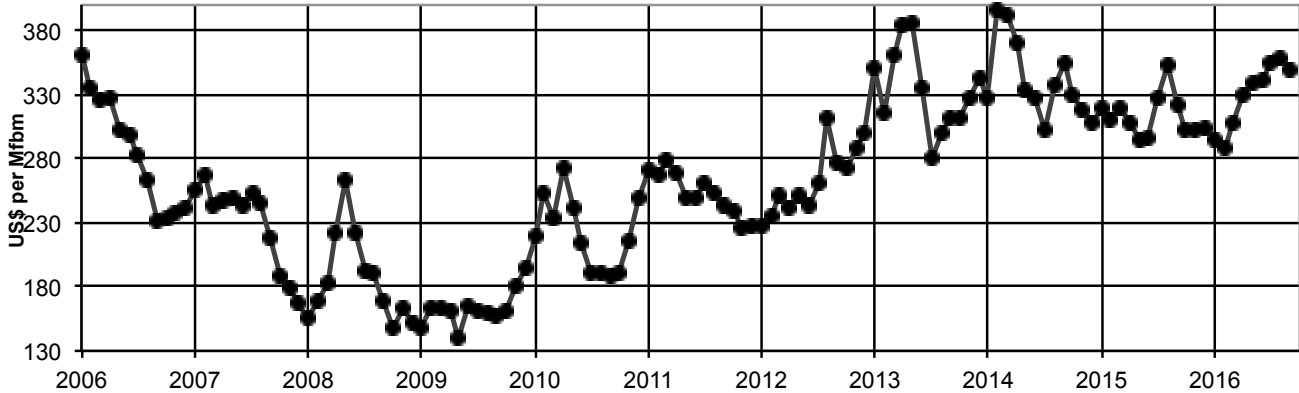
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Western Spruce-Pine-Fir KD 2x4 #3/Utility Prices Ten Year Trend

The value WSPF KD 2x4 #3/Utility lumber dropped to a low of US\$101 mfbm in January 2009, then popped to a high of US\$348 mfbm in January 2013. It then hit another low, of US\$137 mfbm in mid 2015, before landing at US\$252 mfbm this week.

Douglas Fir green 2x4: 10 Years

Douglas Fir Green 2x4 #2&Btr 2006 to AUG 2016



Douglas fir green 2x4 #2&Btr Prices Ten Year Trend

The value Douglas fir green 2x4 lumber dropped to a low of US\$140 mfbm in March 2009, then popped to a high of US\$384 mfbm in February 2013. It then hit another high, of US\$396 mfbm in January 2014, before landing at US\$250 mfbm this week.

Canadian Softwood Plywood Vancouver vs OSB Ontario: 10 Years

Oriented Strand Board 7/16" Ontario Prices Ten Year Trend

The value OSB 7/16" panel dropped to a low of C\$152 msf in January 2008, popping briefly to a high of C\$405 msf in March 2010 then immediately dropping back down.

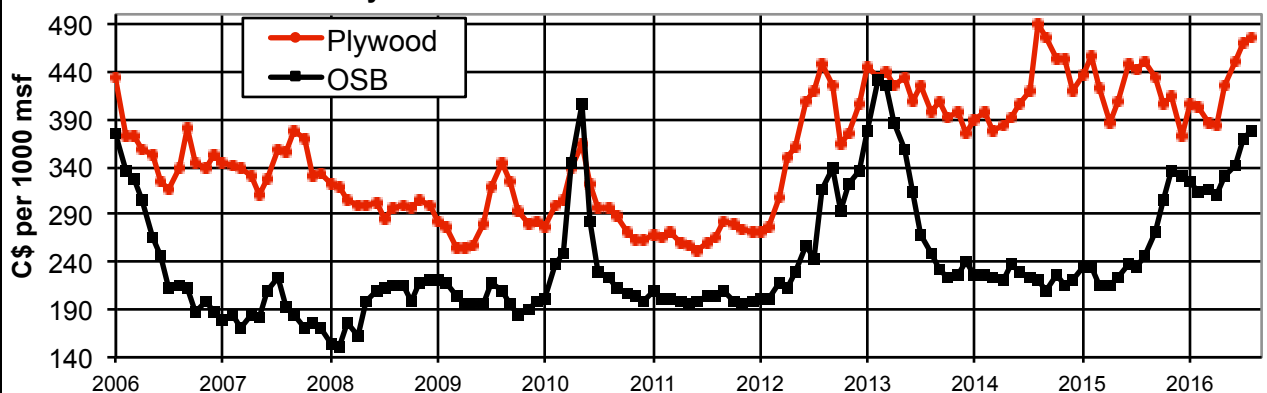
The next high was C\$461 msf in January 2013, before limping up to C\$385 msf this week.

Canadian Softwood Plywood 9.5 mm Vancouver Prices Ten Year Trend

The value Canadian Softwood Plywood 9.5 mm Toronto panel dropped to a low of C\$253 msf in March 2009, popping briefly to a high of C\$365 msf in March 2010 then immediately dropping back down.

The next high was C\$450 msf in mid 2012 then plywood prices struggled to maintain their levels, eventually reaching a new high of C\$490 in mid 2014 msf before landing at C\$481 msf this week.

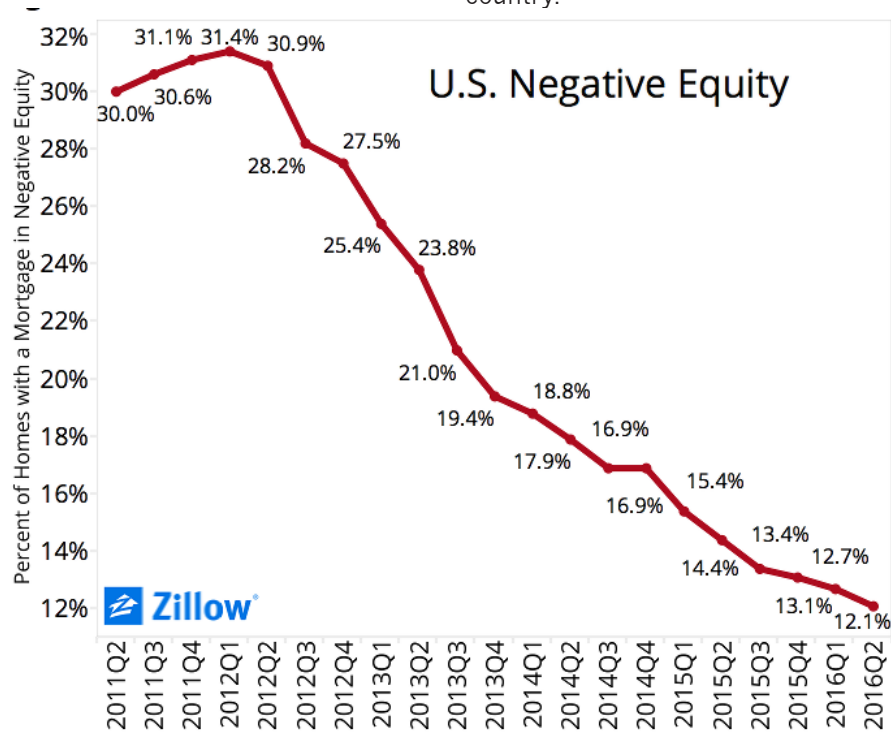
Cdn Softwood Plywood 9.5mm Vancouver vs OSB 7/16" Ontario 2006 - AUG 2016



Zillow: US Negative Home Equity Rate

When examining the negative equity rate in urban and suburban areas, we found that 13.7 per cent of homeowners in urban areas and 11.2 per cent of homeowners in suburban communities were underwater at the end of 2Q.

Despite steady improvement in the overall negative equity rate, pockets with relatively high shares of underwater homeowners remain, especially in the Midwest. Five of the 10 largest metros with the highest rates of negative equity are in the middle of the country.



FNC: US Residential Property Values

The FNC June 2016 US Residential Property Value index data still down 10.7 per cent from the peak in 2006 (not inflation adjusted).

The 10 city MSA increased 1.3 per cent (NSA), the 20-MSA RPI increased 1.2 per cent, and the 30-MSA RPI increased 1.1 per cent in June. These indexes are not seasonally adjusted (NSA), and are for non-distressed home sales (excluding foreclosure auction sales, REO sales, and short sales).

The below graph shows the year-over-year change based on the FNC index (four composites) through June 2016. The FNC indexes are hedonic price indexes using a blend of sold homes and real-time appraisals.

Most of the other indexes are also showing the year-over-year change in the mid single digit range.

