

MADISON'S LUMBER REPORTER

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News & Updates

Canada/US Softwood Lumber Negotiations Update

Last week *Madison's* was contacted by representatives at the US Lumber Coalition, for their update on negotiations between the US Trade Department and Global Affairs Canada about the now-expired Softwood Lumber Agreement.

"Our goal is to have market share negotiated, implemented using border measures," detailed US Coalition reps. "A quota is our answer. The 2006 Agreement used both quotas and export taxes as border measures; US industry is not satisfied that this has provided any remedy in the past.

This quota would be based on US lumber consumption volumes."

The unpleasant part was this reality: after October 12, 2016 the US is no longer obligated to not file a trade case.

In response to *Madison's* query, the media department at Global Affairs Canada sent a general email answer which did not address the specifics detailed above.

Intrepid US customs border agent [Micheal Jones](#) explained to *Madison's* in an email Friday that should there be a hard quota, any volumes overages would be subject to a surcharge "collected on exports being made at the time", either as a Canadian tax or a US duty.

"This is why Canada was wise to continue their Export Permit requirements; to be able to determine how much was shipped by whom, enabling them to properly allocate volumes in the event of another SLA," detailed Jones.

US Construction Employment Crisis

US construction employment slipped from July to August for the fourth time in five months, according to an analysis by the Associated General Contractors of America released September 2.

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Canada Housing Starts: August 2016

The seasonally adjusted annualized rate of Canadian housing starts fell to 182,703 units in August from a revised 194,663 in July, data from the CMHC showed Thursday.

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Japan Housing Starts: July 2016

Japan's Ministry of Land, Infrastructure and Transport disclosed Japan housing total starts at 85,208 units, and 8.9 per cent increase over one year ago and a 0.1 per cent drop from June, said the *Japan Lumber Reports* Friday.

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US Rental Rate Increases

USA Today reported Tuesday that apartment lease renewals hit an all-time high of nearly 54 per cent in 2016. This is up from 52.9 per cent last year and a more-conventional 45 per cent in the mid 2000s.

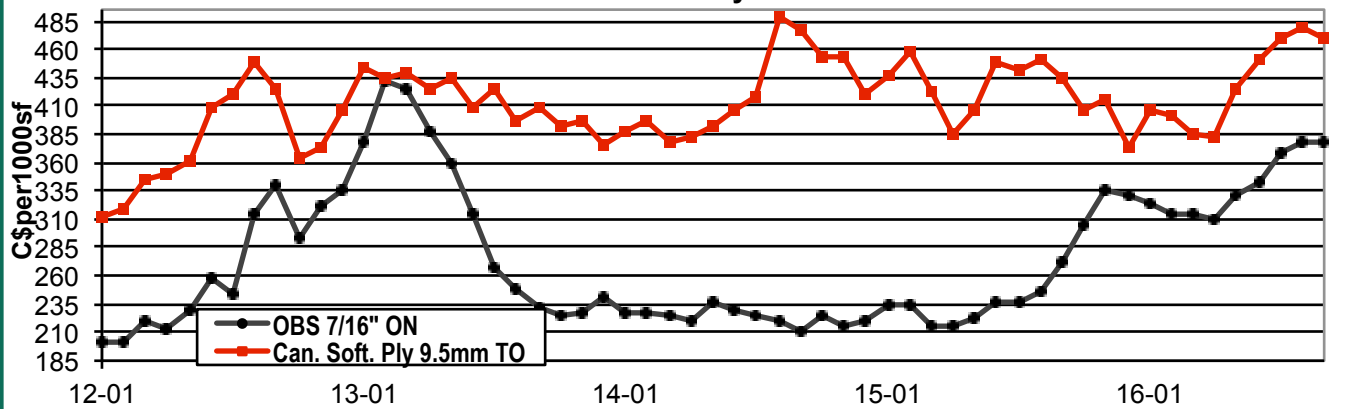
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Housing Market, US: Mid-2016 Update

The US housing market is on a roll and is showing no signs of slowing down — that's the key takeaway from Goldman Sachs' most recent *Housing Monitor* research report, released Thursday.

CONT'D PAGES 9 & 10

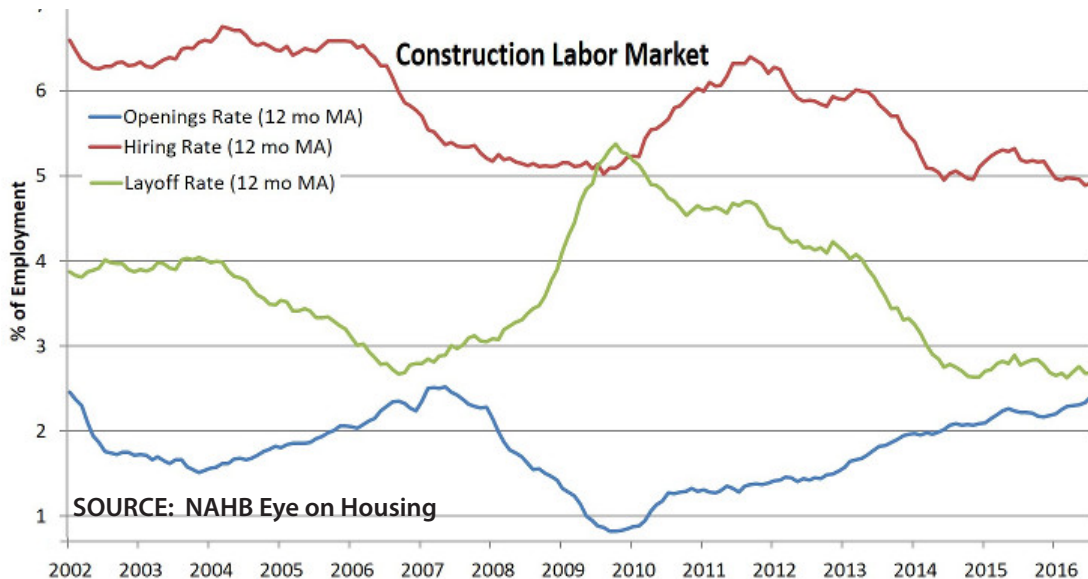
OSB Ontario 7/16" vs Can. Softwood Plywood 9.5mm Toronto 2012-SEPT '16



US Construction Employment Problem

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US construction employment slipped from July to August for the fourth time in five months, but spending data suggest the recent weakness is due to firms having a hard time finding workers rather than lack of demand, according to an analysis by the **Associated General Contractors of America** released September 2.



Construction employment in the US totalled 6,640,000 in August, a dip of 6,000 from July but an increase of 199,000 or 3.1 per cent from a year ago, said the **Associated General Contractors of America** September 2. That rate of increase in construction employment was nearly twice as fast as the 1.7 per cent increase for total nonfarm payroll employment.

There were 454,000 unemployed jobseekers in August who last worked in the construction industry, the lowest total for August in 16 years, Ken Simonson, the association's chief economist added.

Residential construction—comprising residential building and specialty trade contractors—added 11,000 jobs in August and 132,000, or 5.4 per cent, compared to a year ago. Nonresidential construction—building, specialty trades, and heavy and civil engineering construction firms—lost 17,000 jobs for the month but gained 67,000 employees compared to August 2015, a 1.7 per cent rise. There were year-over-year gains for nonresidential building and specialty trades contractors but job losses among heavy and civil engineering construction firms.

ANNUAL JOB GAINS COMPARISON

Year-over-year job gains and recently released spending data suggest the recent weakness is due to firms having a hard time finding workers rather than lack of demand. Association officials said its recent survey that found two-thirds of contractors are having a hard time finding qualified craft workers underscores the need for measures to boost recruitment and training on new workers.

Average hourly earnings, a measure of wages and salaries for all workers, increased 2.8 per cent in construction over the past year to US\$28.22 in August, nearly 10 per cent more than for all nonfarm jobs, the economist noted. For the private nonfarm sector, earnings rose 2.4 per cent over the past 12 months to US\$25.73.

Association officials cautioned that workforce shortages run the risk of undermining the industry's continued recovery and could stall broader economic growth. They noted that firms can only do so much to improve their efficiency before workforce shortages force them to reconsider bidding on projects or delaying schedules. If that happens, overall demand for new development projects could dampen.

In a separate report, released August 31, the AGC said two-thirds of construction firms report they are having a hard time filling hourly craft positions that represent the bulk of the construction workforce, according to the results of an industry-wide survey. Association officials said that many firms are changing the way they pay and operate to cope, but warned that labour shortages could undermine broader economic growth and called for new workforce measures to improve the pipeline for recruiting and training new craft workers.

Of the 1,459 survey respondents, 69 per cent said they are having difficulty filling hourly craft positions, said Stephen Sandherr, CEO of the AGC. Craft worker shortages are the most severe in the Midwest, where 77 per cent of contractors are having a hard time filling those positions. That region is followed by the South where 74 per cent of contractors are having a hard time finding craft workers, 71 per cent in the West and 57 per cent in the Northeast.

The labour shortages come as demand for construction continues to grow. Sandherr noted that construction employment expanded in 239 out of 358 metro areas that the association tracks between July 2015 and July 2016, according to a new analysis of federal construction employment data the association also released today. Growing demand for construction workers helps explain why 75 per cent of firms report it will continue to be hard, or get harder, to find hourly craft workers this year.



	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	318	320	-2	330	12	250	+68
WSPF KD R/L 2x6	290	304	-14	310	-20	254	+36
SYP KD R/L East Side 2x4	395	405	-10	420	-25	310	+85
SYP KD R/L East Side 2x6	370	375	-5	380	-10	275	+95
ESPF KD R/L 2x4	425	420	+5	425	0	365	+60
WSPF KD PET 2x4 Stud	280	285	-5	285	-5	240	+40
WSPF KD PET 2x6 Stud	235	235	0	255	-20	260	-25
Douglas Fir Green R/L 2x4	330	330	0	355	-25	305	+25
Douglas Fir Green R/L 2x10	340	340	0	345	-5	400	-60
ESPF KD 2x4 8ft Stud	370	365	+5	365	+5	315	+55
OSB Ontario 7/16" (CDN\$/msf)	377	375	+2	378	-1	275	+102
CSplywood Toronto 3/8" (CDN\$/msf)	470	491	-21	476	+15	443	+48

Madison's Weekly Softwood Lumber News

Housing Starts, Canada

CONT'D FROM PG 2 Starts of multiple urban buildings such as condominiums fell 7.3 per cent to 111,378 units, while single-detached urban starts dropped 3.7 per cent to 56,501 units.

The standalone monthly SAAR for all areas in Canada was 182,703 units in August, down from 194,663 units in July. The SAAR of urban starts decreased by 6.1 per cent in August to 167,879 units. Multiple urban starts decreased by 7.3 per cent to 111,378 units in August and single-detached urban starts decreased by 3.7 per cent to 56,501 units.

The geographic split revealed that starts decreased in the Prairies, Brit-

ish Columbia, Ontario, and in Atlantic Canada, but increased in Quebec.

Japan Housing Starts

CONT'D FROM PG 2 Japan's housing starts have been above 85,000 units for two months in a row, as well seasonally-adjusted annual starts have been over one million since May, according to *Japan Lumber Reports* Friday.

Fastest advancements were made in rental units, which have been increasing for three months straight. Rental starts were over 37,000 units for the first time since December 2008.

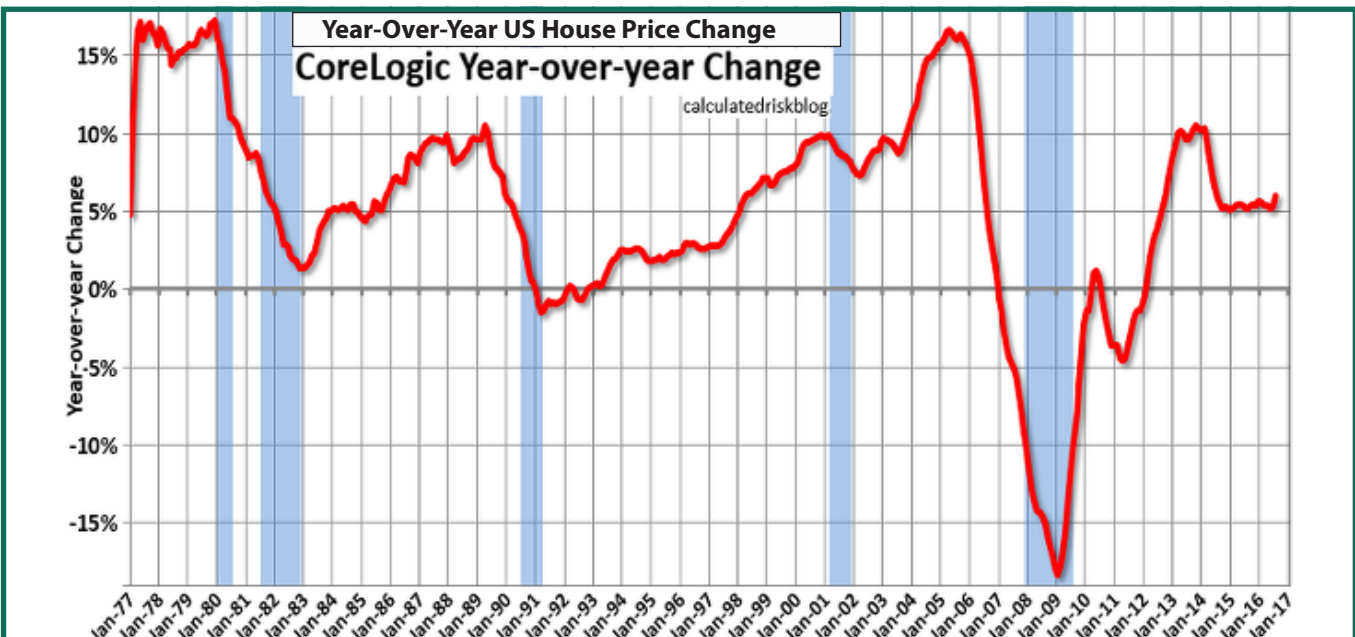
Starts of detached units built for sale increased for nine months in a row.

The increase of inheritance tax since January 2015, in addition to record-low mortgage interest rates stimulated construction starts of rental units by land owners, said the *Reports*.

Canada Lumber Production: June 2016

Lumber production by sawmills increased 2.3 per cent from May to 5,896.7 thousand cubic metres in June, said Statistics Canada Tuesday. Compared with June 2015, lumber production was up 5 per cent.

Sawmills shipped 6,044.4 thousand cubic metres of lumber in June, up 4.4 per cent from May. Shipments rose 4.1 per cent compared with June 2015.



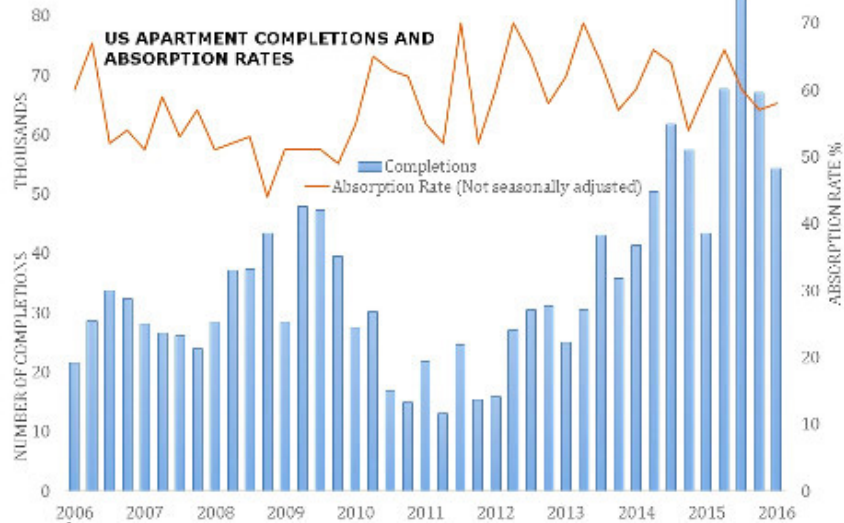
US Rental Rates

CONT'D FROM PAGE 2

Millennials are faced with student debt and expensive home buying options, which drives them into metro areas where developers have started putting up luxury apartment buildings, according to *USA Today* Tuesday.

Elsewhere, Real estate research firm **CoStar** released a report in August that found many luxury apartments across the nation are left vacant, growing from 3.4 per cent four years ago to 5.5 per cent last month.

Then there's a reluctance to move once millennials settle into apartments. This reduces the number of available apartments in American cities, RealPage chief economist Greg Willett told *USA Today*, and rents rise as a result.



SOURCE:
NAHB Eye on Housing

RENTAL UNIT BUILDING

An estimated 330,000 apartments will be built this year, a slight increase from the 230,000 built in 2015, *USA Today* reported. But with more developers building on expensive land, Willett said affordable apartment complexes won't be profitable." Meaning the high rents stay.

The US stands out in unfavourable ways, says Harvard Joint Center for Housing Studies senior research fellow Michael Carliner, to the *Chicago Tribune* September 2. Americans are in worse shape than people in any other country when it comes to being able to afford the apartments and houses they rent.

SURGE IN RENTAL DEMAND

The trend comes after an unprecedented surge in rental demand in the US. During the decade that began in 2005, renter households grew 9 million to 43 million households. The combination of 8 million homeowners losing homes to foreclosure and the resulting damage to credit scores kept millions from buying again and forced people into rentals. In addition, Harvard researchers have noted that falling incomes and changing tastes for homeownership after the pain and shock of the crash have contributed to the competition for apartments and rental homes. That surge in demand has sparked large price increases, and high rents have been especially brutal for people with low incomes.

RENTAL DEMOGRAPHIC

The large majority of people renting in the US and in every country studied have incomes below average.

About 12 per cent of renters in the US are in the top fifth of incomes. About 55 per cent are in the lowest fifth.

The average household renting in the US has an income of US\$46,916, while the average household owning a home has an US\$85,017 income.

US HOME OWNERSHIP RATES

"According to census data, homeownership has dropped from 69.1 per cent of households in 2005 to 62.9 households recently, the lowest level since 1965. In most countries, the Harvard study found, the median income among renters was about half that of homeowners."

-US Census Bureau

HOUSE PRICES

Compared with their incomes, housing costs for renters in the US are the highest of any country studied. And the share of Americans with the most severe cost burdens is greater than the other countries. More than 28 per cent of renters in the US are devoting more than 50 per cent of their gross income to paying rent. That's far in excess of the rule of thumb, to spend no more than 28 per cent on housing.

In another recent study, the John D. and Catherine T. MacArthur Foundation found that 48 per cent of renters in the Chicago area are spending more than 30 per cent of their income on housing. To make ends meet, some reported cutting back on healthy food and health care or settling for dangerous areas.

US Housing Market: Mid-2016 Update

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According to the **Goldman Sachs** research, US house prices have continued to grow close to a 5 per cent rate throughout 2016. This view runs against the Case-Shiller and FHFA house price indices, which appear to show that the housing market slowed during the 2Q. However, Goldman believes that this slowdown was driven by 'seasonal adjustments' and after adjusting for these adjustments arrived at the 5 per cent growth figure.



US HOUSE INVENTORY

The lack of inventory also appears to be skewing the figures. Pending home sales are up only 1 per cent year over year, and existing home sales are down 2 per cent for the year. Together these two numbers paint a disappointing picture of the market. Nonetheless, Single-family inventory for sale is below 1995-2005 average levels despite the growth in population since that time. Simply put, home sales are trending lower because prices are rising as homebuilders are not meeting the market demand. It could be the case that the financial crisis is still fresh in the minds of many homebuilders, and they are unwilling to hold a large inventory of homes on their balance sheet for fear of another downturn.

The undersupply of homes appears to be particularly acute in the lower tiers of the housing market. This is where price gains are strongest as traditional supply/demand economics force buyers to pay more for those homes in regions where inventory is in short supply. In Denver, the low tier (defined as the bottom one-third of homes, as ranked by price) has seen house prices grow by 16 per cent over the past year vs. 6 per cent for the high tier (top one-third) of the market. Nationwide, the lowest tier is up 8 per cent year over year while the high tier is up 3 per cent.

While low inventory may keep house price growth strong over the near term, we think that over the longer term house price growth will moderate to a 2-3 per cent range, consistent with trends in incomes. We expect 3.5 per cent growth in 2017, but low inventory, if it persists, could create an upside risk to the forecast," sums up **Goldman Sachs** in its report.

US HOME VALUES

US home values are at or past peak levels in roughly a quarter of US markets, signaling a recovery since the housing bubble bust, but a growing divide between renter and homeowner sentiments persists, highlighting two very different trends in the housing market right now.

"The overall health of the housing market looks great at first glance, but dig a bit deeper you'll find inequality between renters and homeowners," says Zillow Chief Economist Svenja Gudell. "Even though the majority of homeowners are confident and believe now is a good time to sell, they're holding off because they expect home values to continue to appreciate and want to ride the wave. They also don't want to turn around and become buyers in a competitive market. On the flip side, renters aren't nearly as confident as homeowners — they're discouraged by the shrinking number of homes for sale and rapidly rising prices. As housing gets more and more expensive, these trends are not sustainable in the long-run, especially once mortgage rates start to rise."

US DEMOGRAPHICS

Over the past four decades, the US has seen a dramatic increase in the proportion of homeowners to the US population, peaking just short of 70 per cent in 1Q 2005, according to the US Census Bureau. Since then, homeownership has declined to the low 60s, said National Mortgage News Tuesday.

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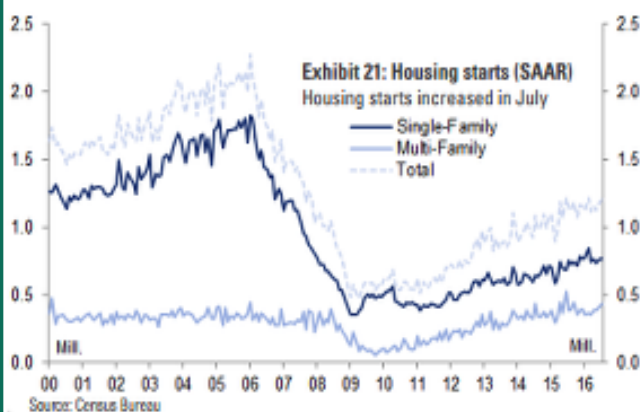
US Housing Market Update

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The rate of homeownership in the US is likely to continue to decline further into the mid-to-low 50s as changes in demographic trends, increased regulation and stagnant real incomes all work to make the dream of homeownership more difficult to achieve, continued *National Mortgage News*.

The housing boom of the 2000s was a bubble supported not just by easy credit, but also by a wave of Americans entering peak childbearing and household-spending years. As these relatively affluent households age and migrate away from single-family homeownership, there is an insufficient supply of new homeowners to replace them.

While the recovery of U.S. home prices from their nadir in 2012 was largely driven by a lack of supply, the longer term challenge facing the industry will be a dearth of demand — namely, homebuyers and mortgage credit.



SOURCE: Goldman Sachs

US Housing Market Assessment: Mid-2016

Last month, the *Financial Forecast* compared the status of the current US housing market to that of mid-2005, when the rush to buy US housing reached the feverish climax shown on this long term chart of U.S. homebuilding stocks. The price pattern shows that housing appears to be on the cusp of return to the crisis environment that figured so prominently in the Great Recession.

The Financial Forecast observed last month, “Optimism toward housing prices appears as strong now as it was in July 2005.”

June was the 50th straight month of annual national home price appreciation. According to CNBC (August 29), home prices are only 1 per cent shy of their 2006 peak.

Sales for high-end properties stalled earlier this year. The decline picked up speed in July. In Miami-Dade County, the year-over-year decline in sales jumped to 20.8 per cent. Over the same span, Southern California sales fell 10.7 per cent. For the US, the National Association of Realtors reports that in July, existing home sales dropped 3.2 per cent from a month earlier.