

MADISON'S LUMBER REPORTER

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News & Updates

Canada Sawmill Production: July 2016

Lumber production by sawmills fell 10.1 per cent from June to 5,300 thousand cubic metres in July, said Statistics Canada Thursday. Compared with July 2015, lumber production rose 1.3 per cent. Sawmills shipped 5,504 thousand cubic metres of lumber in July, down 8.9 per cent from June, but up 7.3 per cent from July 2015.

US Home Sales, Home Prices: August & July 2016

Sales of newly-built, single-family homes in the US fell 7.6 per cent on a monthly basis in August to a 609,000 seasonally adjusted annual rate according to estimates from the **Census Bureau** and **HUD** Monday.

New home sales for August were almost 21 per cent stronger than August of 2015, and on a year-to-date basis, sales of new single-family homes are 13.3 per cent higher than this time last year. **National Association of Home Builders** expects continued growth in the year ahead given tight new and existing home inventories.

Case-Shiller National Home Price Index for July rose at a seasonally adjusted annual growth rate of 5 per cent, faster than the 2.1 per cent in June. House prices have decelerated since the beginning of 2016 due to the sharp decline in existing home sales at the end of 2015. But, home prices started to accelerate in May and home price appreciation increased to 5 per cent in July.

The Home Price Index from the **Federal Housing Finance Agency** rose at a seasonally adjusted annual rate of 5.8 per cent in July, following 3.4 per cent in June, confirming the reacceleration in home prices. CONT'D PAGE 6

Price-to-Rent Ratio, US: July 2016

While the Case-Shiller National House Price Index increased 5.1 per cent year-over-year in July, on a price-to-rent basis, the Case-Shiller National index is back to July 2003 levels, the Composite 20 index is back to April 2003 levels, and the CoreLogic index is back to June 2003. In real terms, and as a price-to-rent ratio, prices are back to late 2003, and the price-to-rent ratio may be moving a little more sideways.

Japan Forestry Investment: 2015

The Japan Finance Corporation released the results of its financing to the agriculture, forestry, and fisheries sectors for fiscal 2015, said the *Japan Lumber Journal* Friday. According to the report, the highest record of 376 billion yen was financed to the sectors in the year since the corporation was established in fiscal 2008. CONT'D PAGE 7

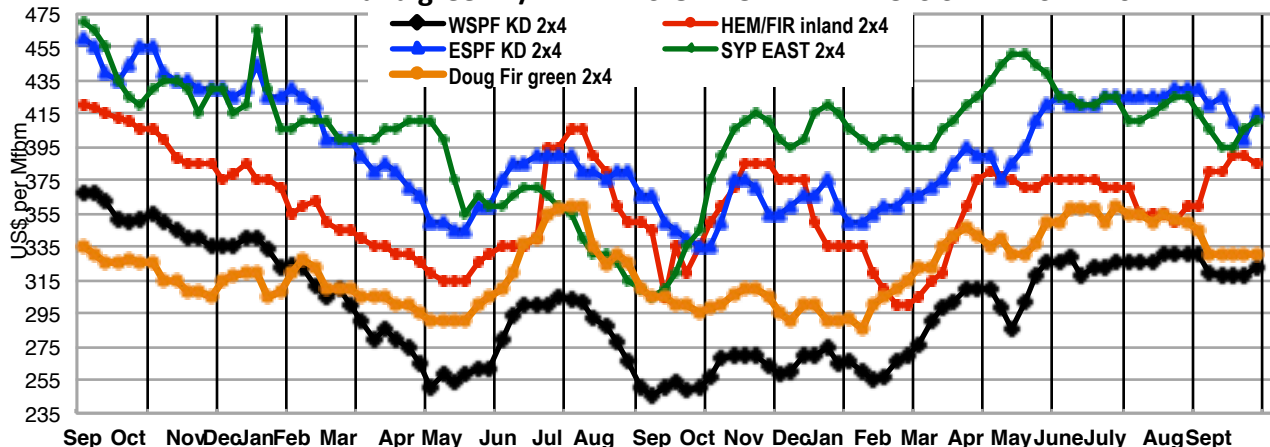
BMO North America Wood Market Forecast

It was that time again this week when the fellows at **Forest Economic Advisors** held a conference call together with Mark Wilde, Packaging & Forest Products Analyst at **BMO Capital Markets**. CONT'D PAGE 8

State of Canada's Forest Annual Report 2016

Also this week, **Natural Resources Canada** released *The State of Canada's Forests: Annual Report 2016*. This report describes the current status of a renewable resource that is vital to the economic, social and cultural health of communities across Canada. CONT'D PAGES 9 & 10

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

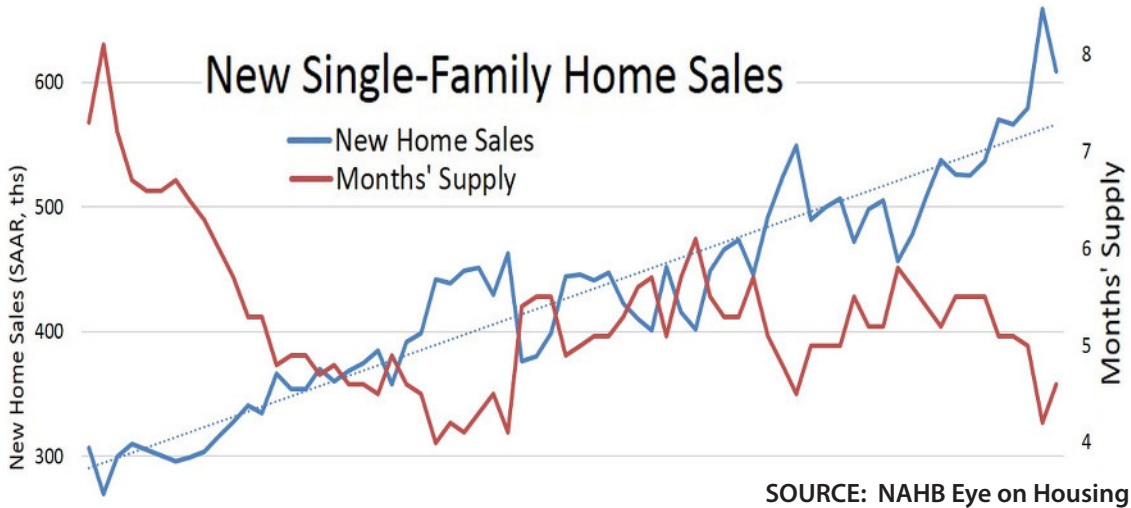


US Home Sales: August 2016

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New home Inventory did manage a slight gain in August said the **US Census Bureau** Monday. However, with just 235,000 homes for sale (seasonally adjusted), at the current sales pace there exists a thin 4.6 months' supply. On a non-seasonally adjusted basis, there were only 56,000 completed, ready-to-occupy homes on the market as of August.

A broadening of the supply mix also continued for the new, single-family home market. Median sales price of new home sales fell from US\$300,200 from August 2015 to US\$284,000 last month.

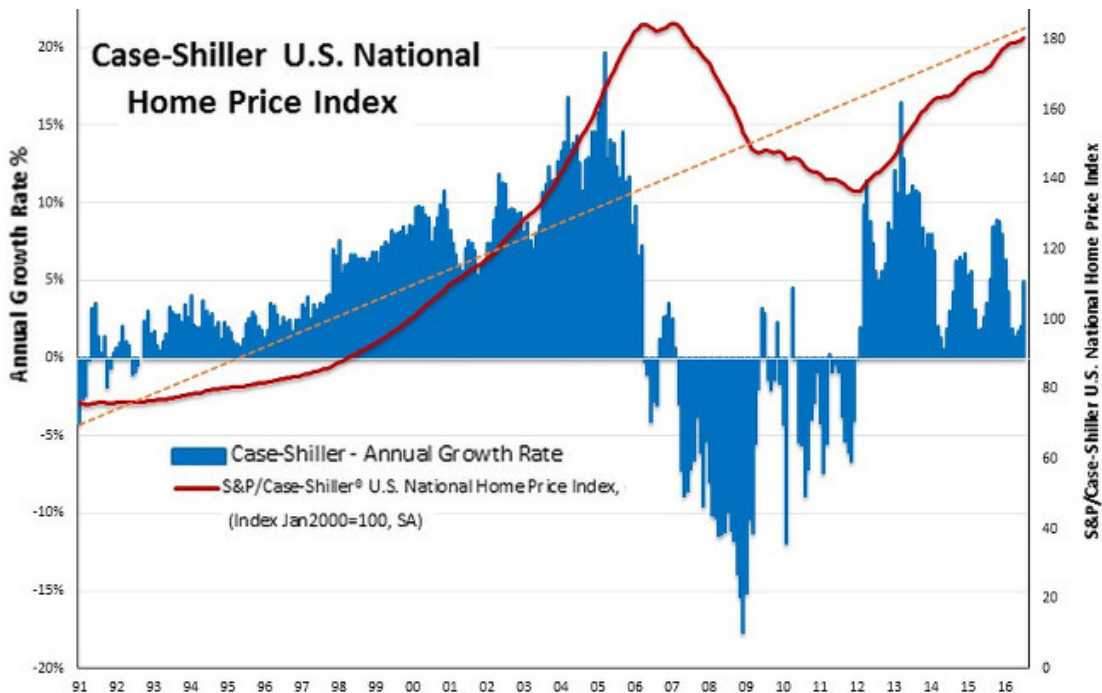


US Home Prices: July 2016

Local housing markets varied greatly, according to the **Case-Shiller National Home Price Index**, released Monday. There was home price appreciation for 20 major US metropolitan areas in July.

Twelve out of the 20 metro areas had positive home price appreciation. The highest one in the list was Portland, OR, with an annual rate of 8.2 per cent, followed by Denver, CO, with an annual rate of 6.6 per cent. Phoenix, AZ, placed third with an annual rate of 5.9 per cent.

Home price appreciation in the remaining eight metro areas was negative. They are San Francisco, CA, Washington, DC, Atlanta, GA, among others. Home price appreciation in Chicago, IL, was -5.9 per cent, the lowest among 20 metro areas.





	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	318	+4	330	-8	254	+68
WSPF KD R/L 2x6	286	282	+4	310	-24	248	+38
SYP KD R/L East Side 2x4	410	405	+5	415	-5	320	+90
SYP KD R/L East Side 2x6	380	375	+5	385	-5	285	+95
ESPF KD R/L 2x4	415	400	+15	430	-15	340	+75
WSPF KD PET 2x4 Stud	270	270	0	295	-25	230	+40
WSPF KD PET 2x6 Stud	215	215	0	235	-20	250	-35
Douglas Fir Green R/L 2x4	330	330	0	345	-15	300	+30
Douglas Fir Green R/L 2x10	325	330	-5	340	-15	395	-70
ESPF KD 2x4 8ft Stud	365	365	0	375	-10	300	+65
OSB Ontario 7/16" (CDN\$/msf)	365	360	+5	395	-30	270	+95
CSplywood Toronto 3/8" (CDN\$/msf)	452	462	-10	491	-39	385	+67

Madison's Weekly Softwood Lumber News

Japan Forestry Investment: 2016

CONT'D FROM PG 2 Japan's investment in the forestry sector reduced to 21.4 billion yen from the previous year, but those financing to woody biomass power plants and related facilities conspicuously increased 3.1 billion yen to 8.3 billion yen from a year ago, said the *Japan Lumber Journal* Friday.

Main investments included Kyusyu Mokuzai Ichiba, Ltd. (Oita Prefecture, dealing with around 150,000 cubic metres of logs) was financed with 167 million yen as facility funds for agriculture, forestry, and fisheries businesses, in order to launch a new auction market of logs in the Hita Wood Industrial Complex.

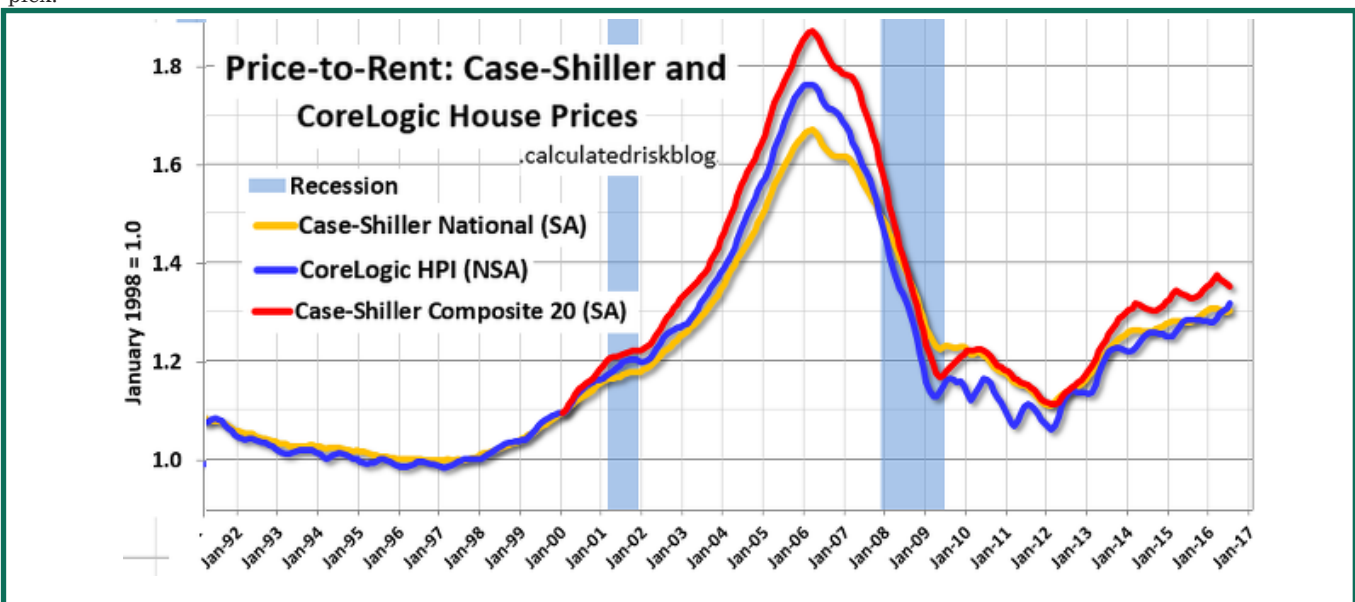
Yakushima Local Cedar Processing Center Co. (Kagoshima Prefecture) was financed with 30 million yen as funds for revitalization of hilly and mountainous areas, for the company was to set up facilities for primary processing of logs in order to expand demand for building materials made of Yakushima local cedar.

And finally, Wood Energy (Miyazaki Prefecture), promoting more use of Cross Laminated Timber as a new structural material, was financed with 140 million yen for its three-story office building, a combined structure of wooden post & beam and steel frame, for which CLT is applied, as facility funds for agriculture, forestry, and sheries businesses.

Weyerhaeuser Invests....

Weyerhaeuser, out of Federal Way, WA, announced Friday its decision to make significant investments over the next several years towards upgrading of its sawmill located in Millport, AL. The investment is part of the company's existing plan for capital investment aimed at cutting the cost and improving its long-term viability.

The upgrades will increase the mill's capability by enabling it to produce boards up to 2" x 12" x 20' lengths. The facility has so far been producing 2" x 4" x 8" studs which are extensively used by housing and commercial construction industry.



BMO and FEA Wood Markets Update

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BMO Tuesday hosted an update call on wood products markets with **Forest Economic Advisors**. FEA believes that a resolution of the US/CA lumber trade dispute is unlikely before the mid-October expiration of the one-year “standstill” period. FEA expects the US to impose preliminary duties of 20-30 per cent on Canadian imports by end of 1Q 2017.

Increase to Achieve 2017 Forecast for Housing Starts

	FEA	
New Single-Family Home Sales	587*	625**
Owner Build Share	26%	26%
Single-Family Starts Needed to Replenish Sales	793	845
Not All Starts Completed	98.5%	98.5%
Single-Family Starts Needed to Replenish Sales	805	867
Single-Family Share	66%	66%
Total Housing Starts Needed to Keep Inventories Flat	1,220	1,299

* Average of the last six months

** Number Needed to Average of 2017 Forecast

FEA continues to expect a gradual US housing recovery, with a forecast of 1.2 million annualized starts in 2016 and 1.3 million in 2017 – in line with BMO.

LUMBER

FEA believes that at the moment, the US Lumber Coalition wants a quota on Canadian lumber coming into the US. The major BC producers have flatly rejected a quota. FEA's Paul Jannke noted that duties could be applied retroactively, but only up to 90 days prior to the determination of the preliminary duties. FEA argued that given current market conditions, about 50 per cent of the duties could be passed on to the customers in the form of higher lumber prices. At current price levels, this would imply US\$75-100/mbf in duties and a corresponding price increase of US\$38-50/mbf.

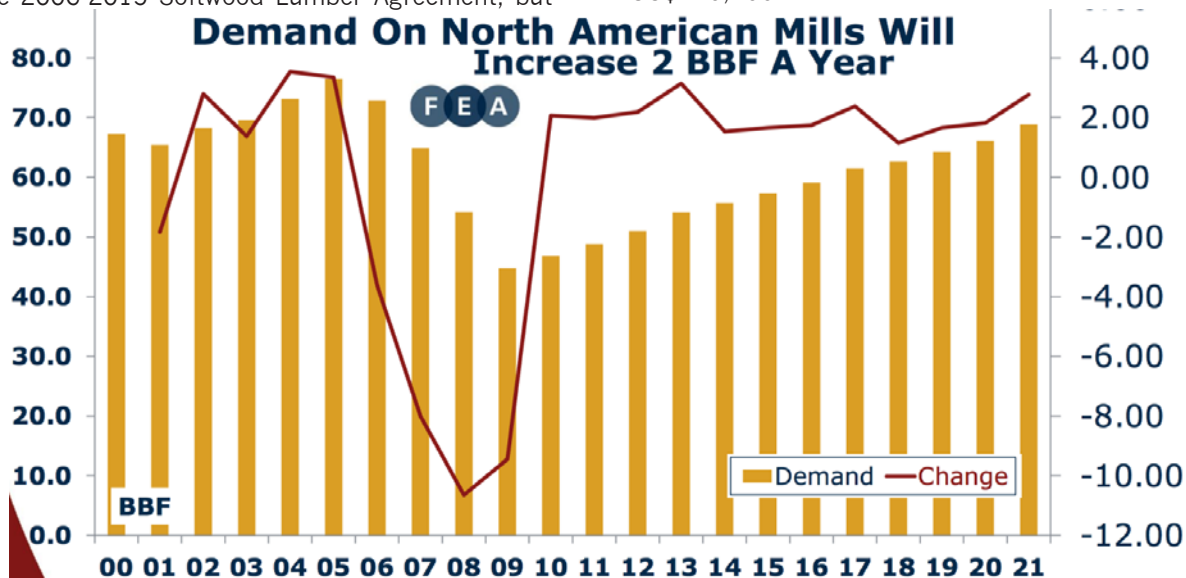
Ultimately, FEA believes a new agreement to be more like the 2006-2015 Softwood Lumber Agreement, but

with: a) higher trigger points; b) a “super-trigger” with lower prices, but a much higher tax rate; and c) taxes tied to US\$/CN\$.

[the US Lumber Coalition has told Madison's that a penalty based on lumber prices has not provided any remedy so it's unlikely a new agreement will include this criteria -- ed]

BMO's VIEW

A higher trigger point appears to be the more likely outcome. We believe US producers may have floated the concept of quota allocations that could be bought/sold amongst Canadian producers. FEA expects North American lumber demand to improve gradually, while exports to China are likely to drop from a combination of weaker Chinese demand and market share loss to Russia (due to a weaker ruble). With inventory tight, the median house price rose 5.1 per cent from a year ago to US\$240,200 last month.

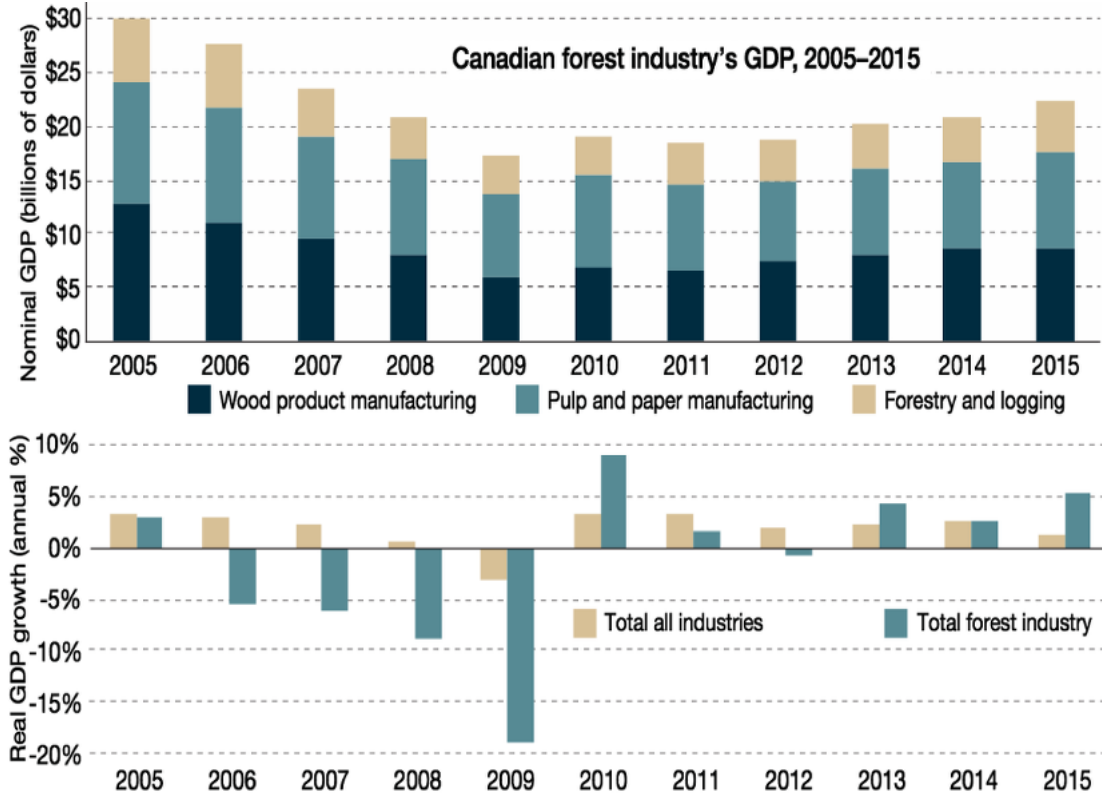


State of Canada's Forest Annual Report 2016

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Canada's forest industry contributed \$22.1 billion – or 1.2 per cent – to nominal GDP in 2015. Based on current trends in related data, this figure is expected to rise slightly for 2016. The forest industry outperformed the Canadian economy in 2015 in real terms: the forest industry's real GDP grew by 5 per cent from 2014 to 2015, while the Canadian economy grew by only 1 per cent.

The forest sector continues to recover from the US housing crash and the financial crisis. As a result, forest industry growth has tracked Canadian GDP in the past few years and has consistently accounted for approximately 1.2 per cent of the total Canadian GDP. However, growth within sub-sectors has been variable in the past decade and mainly concentrated in forestry and logging, as well as in wood products.



In the short term, increases in the solid wood manufacturing sub-sector will continue to be offset by declines in select grades of pulp and paper manufacturing.

The longer-term evolution of the forest industry's contribution to GDP is less clear: while a reduced fibre supply could challenge the industry's growth, ongoing industry transformation – aided by current government initiatives – is expected to add to growth.

The Canadian forest industry is an export-oriented manufacturing sector, accounting for almost 7 per cent of all Canadian exports in 2015 (\$32.7 billion). Traditional forest products form the backbone of the Canadian forest sector: Canada is the world's largest producer of newsprint and northern bleached softwood kraft pulp and the second-largest producer of softwood lumber. In recent years traditional and other forest products have contributed 8 to 10 per cent of Canada's manufacturing gross domestic product (GDP).

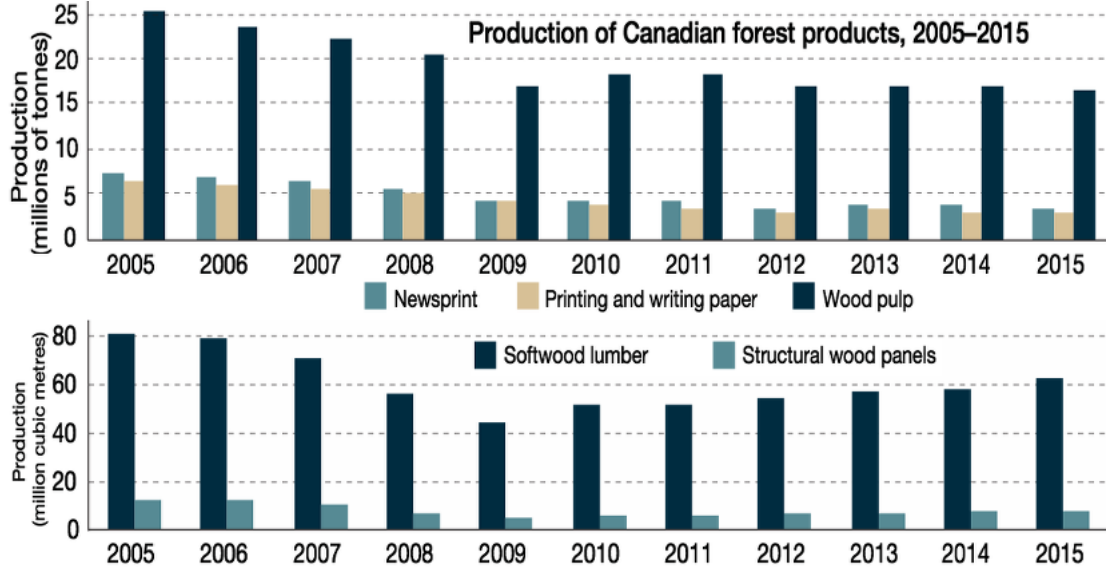
Benefits to Canada's economy, 2015			Balance of trade per dollar of value added	Number of jobs per million dollars of value added
SECTOR	Contribution to GDP (billions of dollars)	Exports per dollar of value added		
Forests	\$22.1	\$1.50	\$1.00	9.1
Minerals and metals	\$60.2	\$1.50	\$0.20	6.2
Energy	\$131.9	\$0.70	\$0.40	2.0

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State of Canada's Forest Annual Report 2016 cont'd

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Thanks to the recovery of the US housing sector, production levels of softwood lumber and structural panels continued to increase in 2015, by 8 per cent and 4 per cent, respectively, reaching their highest levels since the 2008 financial crisis. However, pulp and paper production declined across the board, with production of wood pulp down by 2 per cent, printing and writing paper down 7 per cent, and newsprint production down 13 per cent. The benefit gained by producers from a weaker Canadian dollar against the US dollar was negated by declining market demand.



In 2015, the value of Canada's forest product exports increased by 6.3 per cent over 2014, rising to \$32.7 billion from \$30.8 billion.

On the wood product side, the US housing recovery continued to drive Canadian softwood lumber exports. In 2015, softwood lumber exports totalled \$8.6 billion, a 3 per cent increase over 2014. The value of wood panel exports increased by 18 per cent, to \$2.68 billion, with significant increases in all panel types, especially plywood (29 per cent) and breboard (28 per cent).

As for pulp and paper, wood pulp exports increased 6.5 per cent over 2014 levels, to \$7.7 billion. In 2015, exports of printing and writing paper barely grew (by 1 per cent), while newsprint exports fell 10 per cent from the previous year.

CHANGING INDUSTRY STRUCTURE

Over the past decade, the Canadian industry has adapted to changes in both end-use markets and fundamental drivers of the global forest sector. As in other industries, there has been increased global integration through trade and multinational firms. Canadian industry consolidated and firms refocused business lines. Canadian firms also acquired more assets in the US to capture investment opportunities, driven in large part by a shift in the global concentration of fibre, from the slow-growing wood of northern regions to the fast-growing wood of southern regions. The sector structure has shifted from Canadian companies in North American markets to North American companies in global markets.

