

MADISON'S LUMBER REPORTER

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Editor
Kéta Kosman
Market Analyst
Earl Heath

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www.madisonsreport.com
madrep@shawcable.com
604 319-2266
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News & Updates

Canada Lumber Production at Sawmills: Sept 2016

Lumber production by Canadian sawmills rose 3 per cent from August, to 5,918 thousand cubic metres in September, according to **Statistics Canada** Thursday. Production was 6.4 per cent higher than in September 2015.

Sawmills shipped 6,037 thousand cubic metres of lumber in September, up 5.4 per cent from August. Shipments were 7.6 per cent higher than in September 2015.

Anticipated Duties on Softwood Lumber to Dampen Canadian Wood Products Industry Outlook

Canada's wood products manufacturers are on track to post pre-tax profits of \$1.4 billion this year—their highest levels since 2004, according to **The Conference Board of Canada's Canadian Industrial Outlook: Canada's Wood Products Manufacturing Industry**. Going forward, however, the imposition of U.S. duties on softwood lumber will slow export growth and weigh on the industry's bottom line.

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Final Arguments in Canada Gypsum Tariff

Final arguments started Wednesday in a hearing on whether to continue a controversial drywall tariff one Edmonton contractor says has cost his company almost \$35,000, said the *Edmonton Journal* Wednesday.

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American Building Interest Groups Comment on Softwood Lumber Trade with Canada

The **US National Association of Home Builders** said Tuesday duties or volume caps on imported lumber will raise the price of lumber, adding more than \$1,300 to the cost of a new single family home, according to *Cambridge Times*.

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Canada Housing Starts, Building Permits: Oct 2016

Canadian housing starts were at a seasonally adjusted annual rate of 183,989 units in November, down from 192,297 units in October. The SAAR of urban starts decreased by 5 per cent in November to 166,828 units.

The value of residential building permits in Canada rose 7.7 per cent to \$5.2 billion in October, said **Statistics Canada** Thursday. This was the third consecutive monthly increase. Advances were posted in eight provinces, led by Alberta and followed by British Columbia and Ontario.

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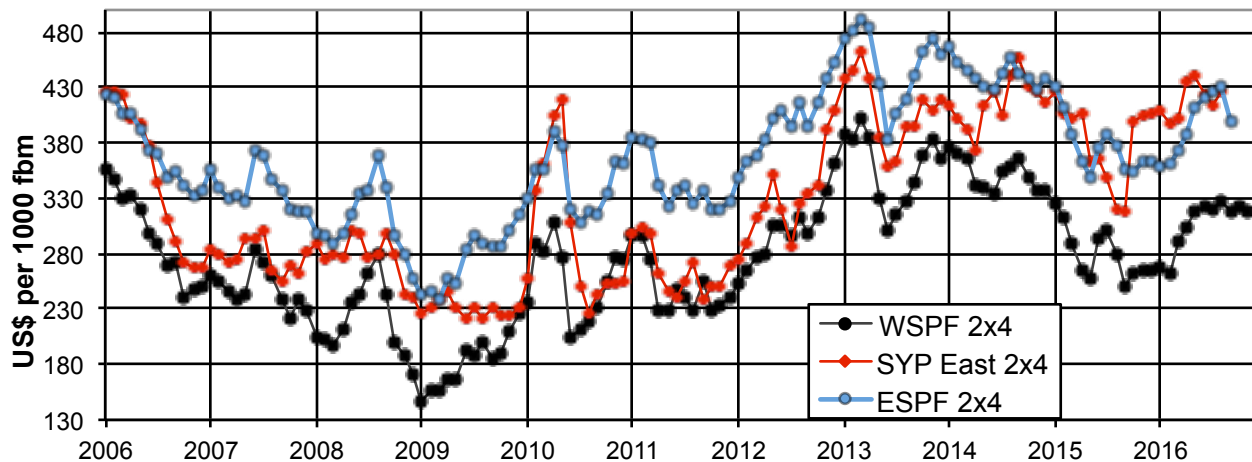
US Construction Outlook 2017: ConstructConnect

In US residential construction, the multi-family homebuilding segment has returned to a level of starts on a par with before the Great Recession, said **Alex Carrick, Chief Economist for ConstructConnect** (formerly **Reed Construction Data**), December 1. Single-family groundbreakings, while considerably better than they were in 2010, are still languishing below their previous 'norm'.

Many analysts are fond of saying there is an accumulation of pent-up demand.

CONT'D PAGES 8, 9 and 10

WSPF 2x4 KD #2&Btr vs SYP East Side and ESPF Lumber Price 2006 to DEC 2016



Canada Softwood Lumber Outlook 2017: Conference Board of Canada

CONT'D FROM PAGE 2

Canadian Industrial Outlook: Canada's Wood Products Manufacturing Industry

Canada's wood products manufacturers are on track to post pre-tax profits of \$1.4 billion this year—their highest levels since 2004, according to **The Conference Board of Canada's Canadian Industrial Outlook: Canada's Wood Products Manufacturing Industry**, released Wednesday. Going forward, however, the imposition of US duties on softwood lumber will slow export growth and weigh on the industry's bottom line.

"With no end in sight for the longstanding trade dispute between the US and Canada on softwood lumber and increasingly protectionist sentiment south of the border, it is more likely that Canadian producers will face trade action by the US and heightened restrictions in the coming year," said **Michael Burt, Director, Industrial Trends**.



"Trade action will likely come in the form of import duties, which would increase the costs of exporting to the US. With softwood lumber accounting for more than half of industry's wood product exports to the US, various producers must evaluate whether they can continue to export to the U.S. profitably."

- Michael Burt, Director, Industrial Trends

HIGHLIGHTS

- After seeing pre-tax profits shrink in 2015, wood products manufacturers can expect to see pre-tax profits reach \$1.4 billion this year.
- With no new agreement in sight, it is increasingly likely that Canadian producers will face heightened restrictions on lumber exports to the US in the coming year.
- In addition to potential trade protectionism from the US, the Canadian lumber industry will have to contend with decreased demand from China and an aging workforce.

B.C. Forest Product Export Value (C\$ billion) and Share (%) by Product
B.C. Forest Product Exports - October 2016 Current Month (October) and YTD, 2015 and 2016

| Products Category | Current Month 2015 | | Current Month 2016 | | Change % | Current Month 2015 | | Current Month 2016 | | Change % |
|----------------------|--------------------|-------------|--------------------|---------------|--------------|--------------------|---------------|--------------------|---------------|-------------|
| | \$ | Share % | \$ | Share % | | \$ | Share % | \$ | Share % | |
| Lumber (softwood) | 0.45 | 44.3% | 0.60 | 51.3% | 33.0% | 4.80 | 45.2% | 5.77 | 49.7% | 20.2% |
| Pulp | 0.26 | 25.0% | 0.23 | 19.3% | -11.2% | 2.74 | 25.8% | 2.48 | 21.4% | -9.4% |
| Other Wood Products | 0.19 | 18.4% | 0.20 | 17.2% | 7.3% | 1.63 | 15.3% | 1.97 | 17.0% | 21.2% |
| Other Paper Products | 0.08 | 8.0% | 0.08 | 6.7% | -3.9% | 0.91 | 8.6% | 0.78 | 6.7% | -14.6% |
| Logs | 0.04 | 4.2% | 0.06 | 5.4% | 46.0% | 0.55 | 5.2% | 0.61 | 5.3% | 11.1% |
| Total | 1.03 | 100% | 1.18 | 100.0% | 14.8% | 10.64 | 100.0% | 11.62 | 100.0% | 9.3% |

Data Source: B.C. Stats tabulation from Statistics Canada data

Prepared by Alex Barnes of Competitiveness and Innovation Branch, Ministry of Forests, Lands, and Natural Resource Operations

IMPACT OF FUTURE SOFTWOOD LUMBER DUTIES

The anticipated imposition of duties by the US on Canadian lumber will have numerous implications for the wood products industry. In the near-term, duties are expected to cut Canada's shipments to the United States. However, the severity of the production cuts will depend on factors such as the location and size of the sawmills. Producers in Central and Eastern Canada are heavily dependent on US demand. In the case of Ontario, over 95 per cent of wood exports are destined south of the border. Smaller firms will also face greater difficulties in adapting to the new import duties as they typically have less ability to redirect production to distant markets.

Western Canadian producers will also be made worse off by the new tariff, but in contrast to the rest of Canada, BC producers have made great inroads in diversifying their trading partners, with more than

one-third of its wood product exports destined for markets beyond the US. Moreover, large companies have been able to make significant investments in US mills, diversification that should allow these companies to better manage the duties when they come into play.

CURRENTLY RELATIVELY HEALTHY US ECONOMY

Current economic conditions also play a role. In the current economic climate, a relatively healthy US economy is supporting a strong housing market, with housing starts forecast to grow to 1.79 million units by 2021. Domestic American firms would likely only satisfy 65 to 70 per cent of US lumber demand. As a result, the US will continue to need to source a decent portion of their lumber demand through imports.

Revenues will record a sturdy gain in 2016 as both production and prices are forecast to push higher, resulting in an uptick in industry margins and profitability this year.

<http://www.conferenceboard.ca/>



| | This Week | Last Week | Change | Month Ago | Change | Year Ago | Change |
|---|-----------|-----------|--------|-----------|--------|----------|--------|
| Prices are in U.S. dollars per 1,000 fbm (net FOB mill) | | | | | | | |
| WSPF KD R/L 2x4 | 322 | 322 | 0 | 310 | +12 | 270 | +52 |
| WSPF KD R/L 2x6 | 292 | 292 | 0 | 275 | +17 | 266 | +26 |
| SYP KD R/L East Side 2x4 | 460 | 450 | +10 | 425 | +35 | 400 | +60 |
| SYP KD R/L East Side 2x6 | 355 | 345 | 0 | 350 | +5 | 300 | +55 |
| ESPF KD R/L 2x4 | 410 | 405 | +5 | 390 | +20 | 365 | +45 |
| WSPF KD PET 2x4 Stud | 295 | 280 | +15 | 270 | +25 | 210 | +85 |
| WSPF KD PET 2x6 Stud | 255 | 240 | +15 | 220 | +35 | 225 | +30 |
| Douglas Fir Green R/L 2x4 | 340 | 340 | 0 | 315 | +25 | 300 | +40 |
| Douglas Fir Green R/L 2x10 | 345 | 340 | +5 | 310 | +35 | 360 | -15 |
| ESPF KD 2x4 8ft Stud | 365 | 360 | +5 | 345 | +20 | 280 | +85 |
| OSB Ontario 7/16" (CDN\$/msf) | 365 | 365 | 0 | 365 | 0 | 325 | +40 |
| CSplywood Toronto 3/8" (CDN\$/msf) | 417 | 417 | 0 | 418 | -1 | 409 | +8 |

Madison's Weekly Softwood Lumber News

Canada Gypsum Tariff

CONT'D FROM PG 2 The Canada Border Services Agency ruled companies were selling the product below the price in their home market, undercutting local suppliers — CertainTeed, with the only drywall plants in the West, has said dumping was making it impossible to compete, according to the *Edmonton Journal* Wednesday.

But David Lessard, vice-president of Edmonton's DCL Drywall, said the industry wasn't consulted about the tariff, which boosted drywall costs by 30 per cent, including products the company agreed to supply for jobs but hadn't purchased yet.

The average 200-square-metre bungalow has about 630 square metres of drywall. The price rise will add approximately \$600 to the cost of the house, cutting DCL's profit on a typical residential project by as much as half, Lessard said.

DCL has 20 full-time workers and employs 60 contractors.

US Building Groups on Softwood Lumber

CONT'D FROM PG 2 The US National Association of Home Builders also forecasts higher lumber prices will result in a net loss of almost 8,000 jobs if 25 per cent of duties are imposed on Canadian lumber flowing into the US, said *Daily Commercial News* Thursday. About US\$450 million in wages would be lost along with US\$320 million in government taxes.

The association, which this year formed the **American Alliance of Lumber Consumers**, claims that about 153,000 households would no

longer qualify for average mortgages with every US\$1,000 increase the home prices.

As well, a group representing independent US lumber distributors says terms similar to the 2006 agreement would be acceptable as long as it doesn't include a quota that would limit access to Canadian wood.

"Ultimately you want to be able to sell to your customers what they want and if what they want is Canadian spruce for example, you want to make sure that it's available," said Ben Gann, vice-president of legislative and political affairs for the **National Lumber & Building Material Dealers Association**.

The group worries that US producers would be unable to make up the shortfall, which the home builders estimate would be two billion board feet per year.

Canada Housing Starts, Building Permits

CONT'D FROM PG 2 The decline in starts was sharper than analysts had expected but a separate report showed the value of building permits jumped 8.7 per cent in October, suggesting housing starts could bounce back in the coming months.

Separate reports by **Statistics Canada** showed building permits surged unexpectedly in October, mainly due to plans for increased construction in Alberta ahead of changes to the province's building code.

Construction intentions for non-residential buildings increased 10.7 per cent to \$2.5 billion in October, following a 21.4 per cent drop in September.

Gains were registered in eight provinces, led by Alberta. Quebec and Manitoba reported declines in the non-residential sector.

The 8.7 per cent jump in permits was well above economists' forecast for a decline of 0.7 per cent.

Permits rose in every province except Quebec, with Alberta up 40.4 per cent. Overall, residential building permits climbed 7.7 per cent while non-residential buildings jumped 10.7 per cent.

In the same month, new home prices rose 0.4 per cent, topping economists' forecasts for a gain of 0.2 per cent. Overall, prices were up in 13 of the survey's 21 markets.

Calendar

January 2017

3rd Annual Western Forest Industry Conference

January 17, 2017 – Vancouver, WA
<http://westernforestry.org/-2017>

Truck Loggers Association Convention & Trade Show

January 18-20, 2017 – Vancouver, BC
www.tla.ca/convention

February 2017

Western Silvicultural Contractors' Association Annual Conference

February 1-3, 2017 – Victoria, BC
<http://wsca.ca/wsca-agm/>

Association of BC Forest Professionals AGM

February 22-24, 2017 – Prince George, BC
<https://abcfp.ca/ABCFCConference/>

US Construction Outlook 2017: ConstructConnect

CONT'D FROM PAGE 2

In residential construction, the multi-family homebuilding segment has returned to a level of starts on a par with before the Great Recession, said **ConstructConnect's** (formerly **Reed Construction Data**) chief economist, Alex Carrick in the organization's *US Construction Outlook Heading into 2017* released December 1. Single-family groundbreakings, while considerably better than they were in 2010, are still languishing below their previous 'norm'.

SINGLE FAMILY HOMEBUILDING

While this trend will fuel growth in single-family homebuilding in the next several years, it may not become as pervasive as in times gone by. There's now a lot to like about downtown living, even with children in tow, as attempts by civic leaders to reduce pollution and crime have met with success. Also, the excitement that comes with near-at-hand cultural, entertainment and shopping venues is undeniable.

Over the next several years, single-family homebuilding will almost certainly forge ahead faster than the multi-family market, but the latter may show a liveliness that will catch many by surprise.

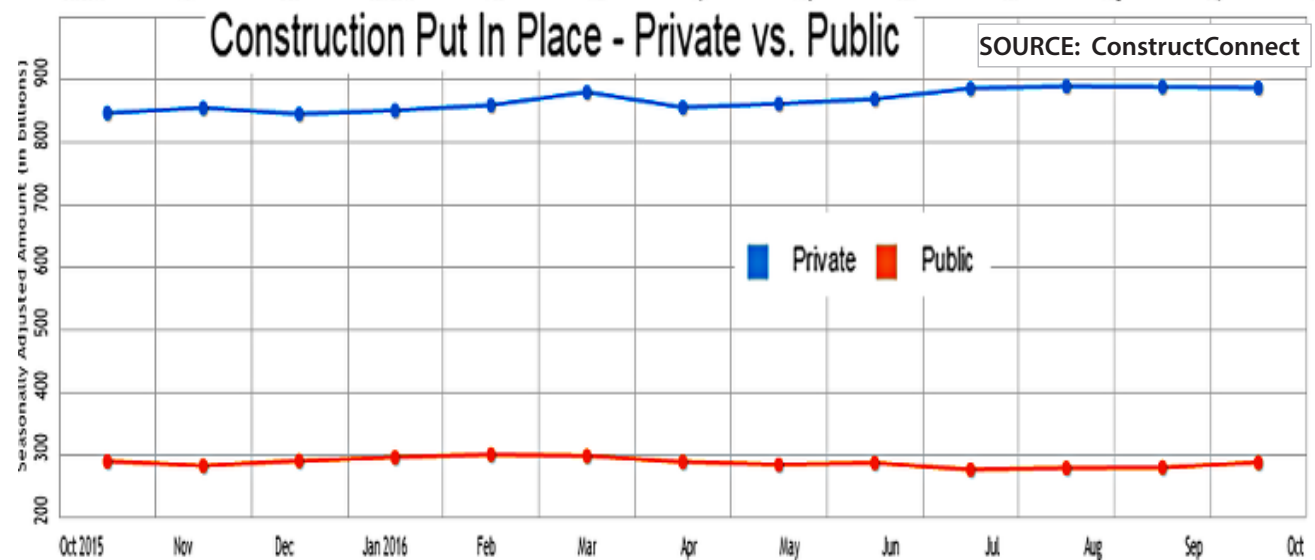
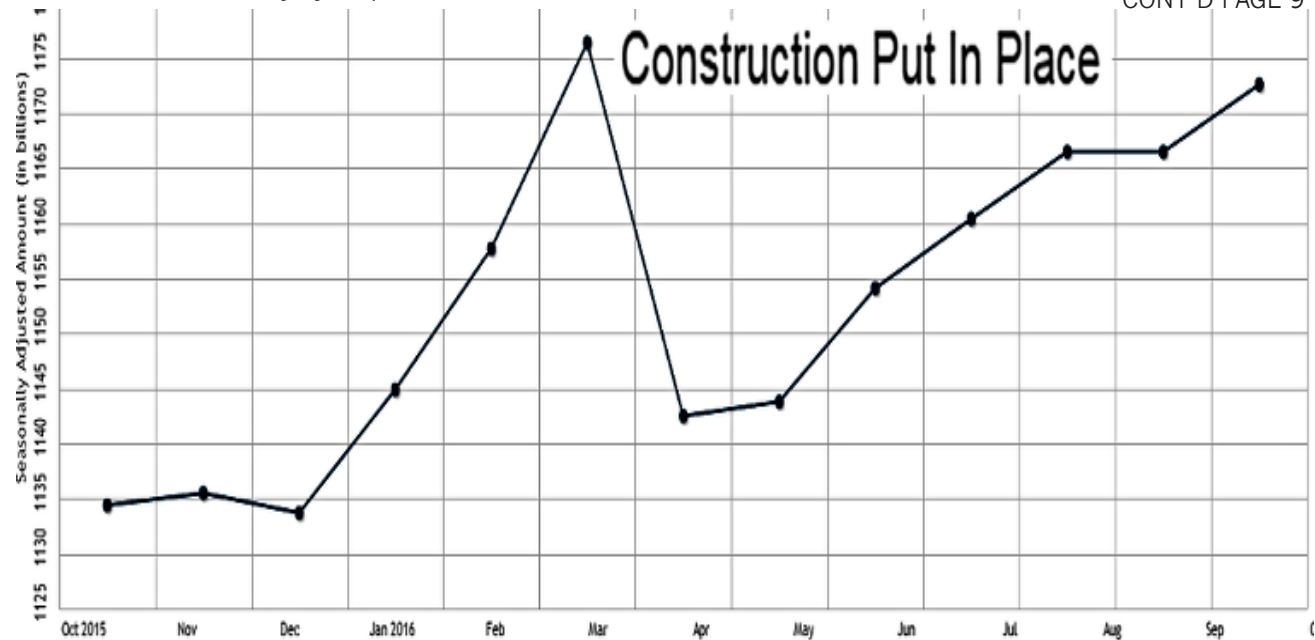
NONRESIDENTIAL BUILDING

Retail

Retail sales over the Internet have been surging. They've established a growth rate approaching +10 per cent per year since 2000.

Nevertheless, 'actual' retail construction has managed a growth pattern that has been unexpectedly upbeat. The savviest of shopkeepers have learned that to attract clientele, it helps if they offer visitors a memorable 'experience.' In-store owner-doggie spas at PetSmart and yoga classes at Lululemon locations are two examples.

CONT'D PAGE 9



SOURCE: ConstructConnect

US Construction Spending: ConstructConnect

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Office Buildings

Private office building construction has been on a tear over the last couple of years. Vacancy rates have diminished to their best levels in a decade in most major urban centers. Many of the highest profile career designations that lease space have been registering strong jobs advances.

Compared with the 'Big Dip' in 2008-09, staffing with architectural and engineering firms, accounting and book-keeping firms, computer and design services companies and with financial services corporations is vastly better. Only the 'legal services' profession stands out for its failure to recover. One possible explanation may lie with the Web. Many residential real estate transactions in America have shifted to the Internet, while also embracing a do-it-yourself methodology.



"There remains a great deal of lost ground to be made up in single-family construction. Many analysts are fond of calling this an accumulation of pent-up demand."

- ConstructConnect

MANUFACTURING

Campaigning during the most recent election season made clear the fervent hope in heartland America that manufacturing jobs can be repatriated from outside the

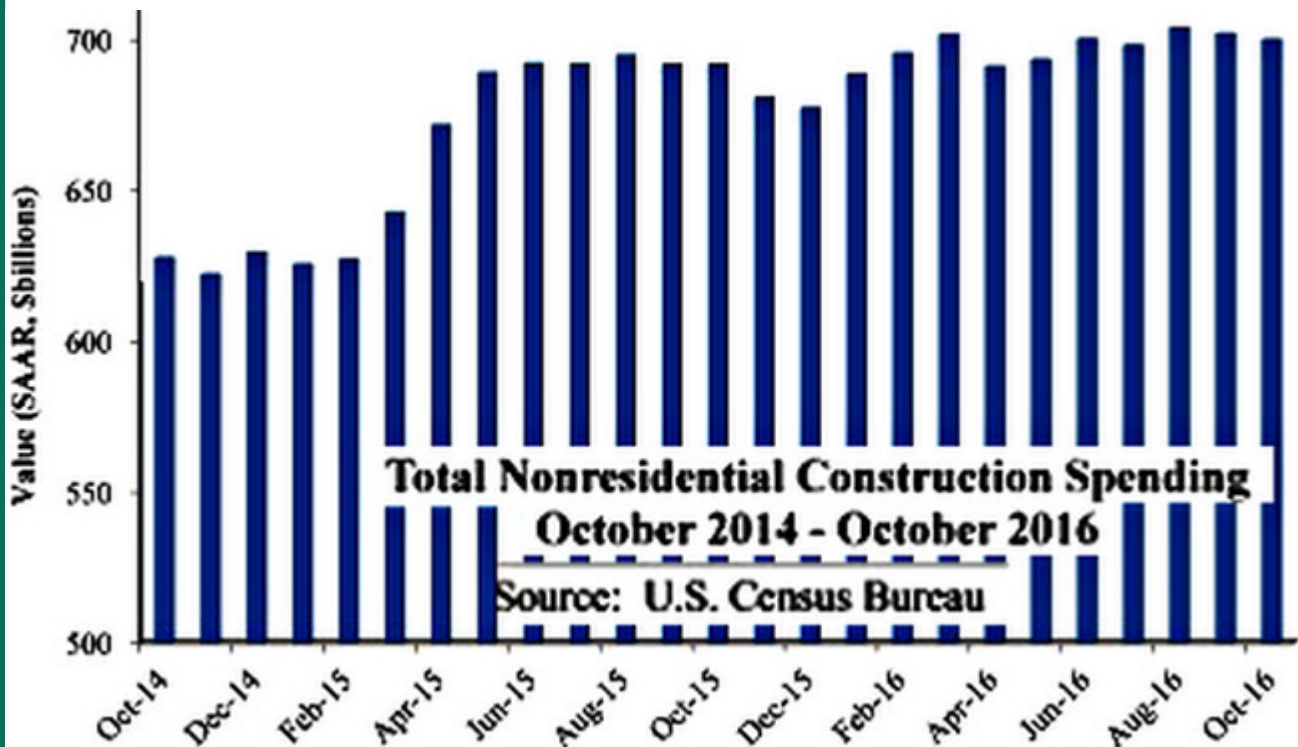
country. Proposals by the new Trump administration to lower corporate taxes and to encourage companies to bring their foreign profits home point to more funds becoming available for new capital projects in the U.S.

But some of that money will be diverted into share buybacks, dividend increases and merger and acquisition activity, none of which contributes to the construction of new square footage. There are other headwinds to the creation of new manufacturing jobs to consider as well. Much of the decline in assembly line employment has resulted from a massive shift to the usage of robotics and automation, forms of production that will only become more pronounced in the years ahead.

There would seem to be opportunities in petrochemical investment. Thanks to new hydraulic fracturing sites, the U.S. now has abundant and cheap supplies of oil and natural gas. Gas from the Marcellus shale rock deposit in Pennsylvania is even supplanting shipments from Alberta in the Ontario and Quebec industrial and home heating marketplaces.

For the first time in decades, the US is exporting energy thanks to new liquefied natural gas (LNG) terminals at Sabine Pass in Louisiana and Cove Point in Maryland. Kudos should also be extended to the expanded Panama Canal which provides easier access to potential energy product customers in Asia and along South America's Pacific Coast.

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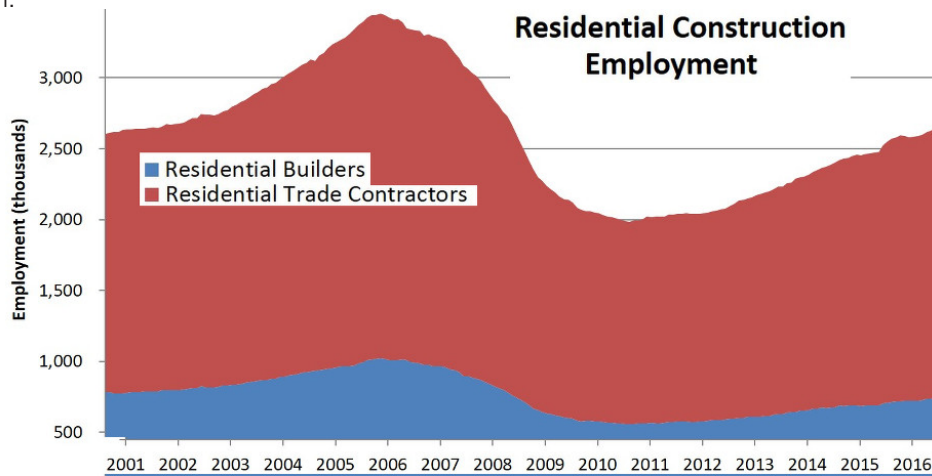
US Non-Residential Construction Spending: Associated Builders and Contractors

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Nonresidential construction spending in the US totalled US\$699.7 billion on a seasonally adjusted, annualized basis in October, a 0.3 per cent decrease from September's significantly upwardly revised total, but an increase of 2.6 per cent year-over-year. according to analysis of **US Census Bureau** data released today by **Associated Builders and Contractors** (ABC).

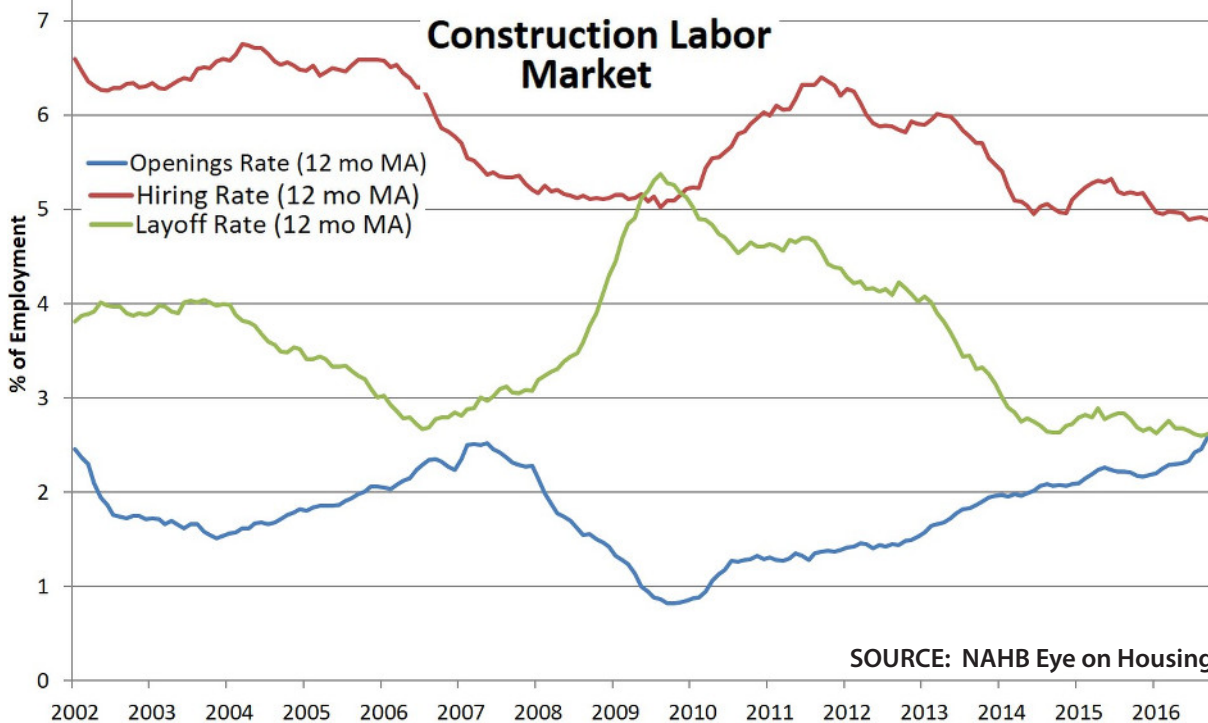
September's nonresidential spending estimate was revised from \$690.5 billion to \$701.7 billion, a 1.6 percent increase. August's estimate received a similar revision, increasing from \$696.6 billion to \$703.6 billion. Nonresidential spending is now 2.6 percent higher than at the same time one year ago.

October's estimate is 3.4 per cent higher than a year ago. The October 2015 seasonally adjusted annual rate was US\$1,134.4 billion. During the first 10 months of 2016, construction spending totalled US\$972.2 billion, 4.5 per cent higher than the same time period last year. Construction spending through the first 10 months of 2015 was at US\$930.7 billion.



PUBLIC CONSTRUCTION SPENDING

The seasonally adjusted annual rate of public construction spending rose 2.8 per cent in October to US\$286.8 billion. September's estimate was revised up from US\$270.3 billion to US\$279.1 billion. August's estimate was also revised up US\$272.8 billion to US\$278.1 billion. Despite some increases over the past couple of months, October's estimate is 0.6 per cent below the October 2015 figure of US\$288.7 billion.



SOURCE: NAHB Eye on Housing