

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 © 2017

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



News & Updates

New US Trade Representative, White House Trade Council

US President-Elect Donald Trump has appointed a new US Trade Representative and created a special White House council just for trade issues. Lawyer Robert Lighthizer is to head the US Trade Representative office, said *Bloomberg* Wednesday.

Lighthizer, 69, was deputy trade representative during the Reagan administration. Trump has also created two entirely new positions in government designed to deal with trade. He named Jason Greenblatt, his longtime business lawyer, as his "special representative for international negotiations." And Peter Navarro, an early Trump backer and economist best known for his manifesto "*Death by China*".

The newly-formed **White House National Trade Council**, which is expected to "advise on innovative strategies in trade negotiations, coordinate with other agencies to assess US manufacturing capabilities and the defense industrial base, and help match unemployed American workers with new opportunities in the skilled manufacturing sector," according to a press release from the Trump Transition Team obtained by *MEMA Washington Insider* Wednesday.

Canada Sawmill Exports, Manufacturing Sales at Sawmills: October 2016

Manufacturing sales by Canadian sawmills continued their sharp increases of previous months, up by 10.6 per cent, to C\$8,652 million from C\$7,755 million, for the top three lumber producing provinces combined — British Columbia, Quebec, and Alberta — for January to October 2016 compared to the same time last year.

CONT'D PAGE 6

Southern Pine Lumber Exports: October 2016

Exports of Southern Pine lumber amounted to just over 63.6 million board feet (MMbf) in October, said the **Southern Forest Products Association** in a press release Tuesday. This represents an increase of 10 per cent above the same month last year, and a year-to-date increase of 14 per cent when compared with the first ten months of 2015.

CONT'D PAGE 7

Canada Industrial Product, Raw Materials Price Indexes: November 2016

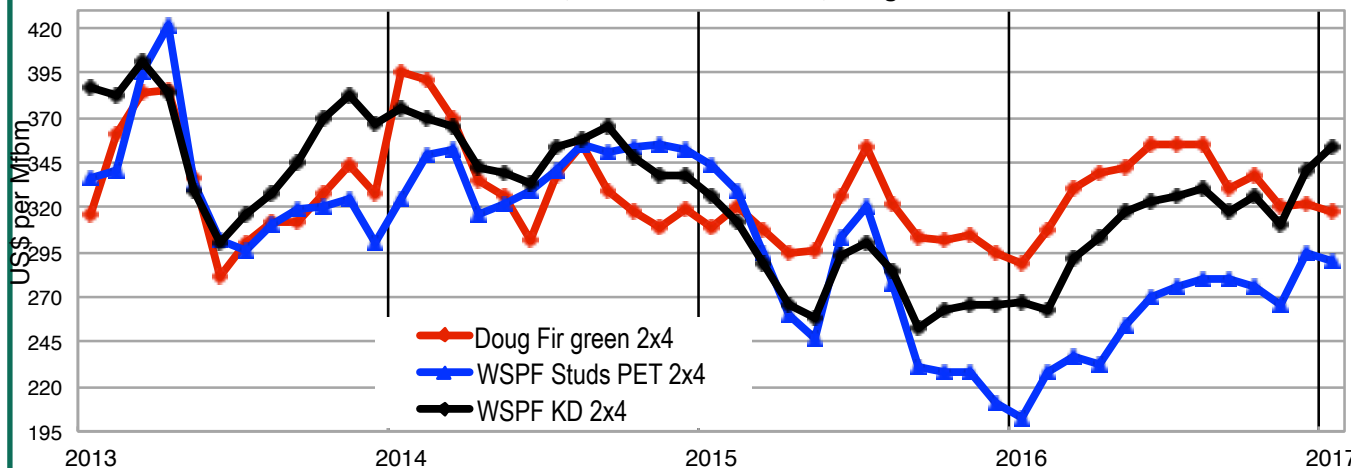
The Industrial Product Price Index in Canada rose 0.3 per cent in November, said **Statistics Canada** Thursday. The Raw Materials Price Index decreased 2 per cent, mainly due to lower prices for crude energy products. CONT'D PAGE 7

US Real Estate, Home Sales, House Prices: Nov 2016

Sales of newly-built, single-family homes — by far the largest driver of increased construction and building in the United States — grew 5.2 per cent on a monthly basis in November to 592,000 according to estimates from the Census Bureau and HUD December 23. The growth in November is consistent with an expectation of sales growth in 2017. The November rate was the second highest sales pace since the end of the recession.

CONT'D PAGES 8, 9 and 10

2x4 Prices : WSPF KD R/L #2&Btr, WSPF KD PET Studs, Douglas fir Green - 2013 - JAN 2017

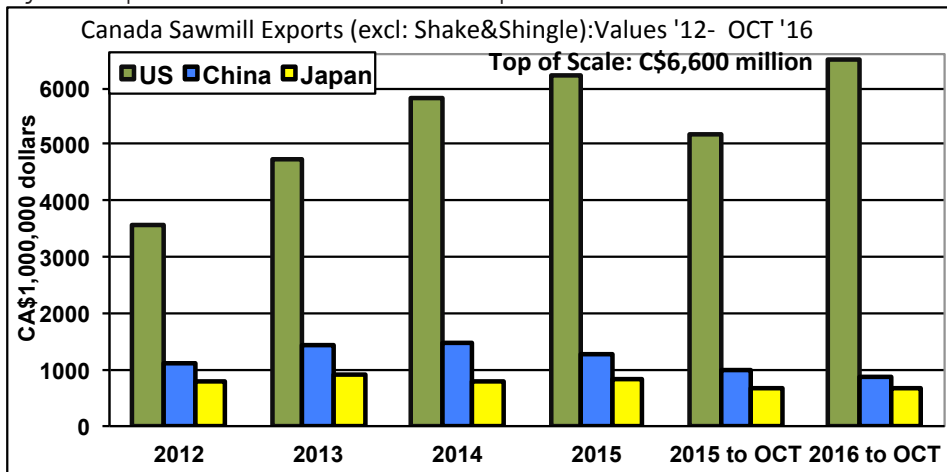


Canada Sawmill Exports, Manufacturing Sales at Sawmills: October 2016

CONT'D FROM PAGE 2

Canada Sawmill Exports: October 2016

Data released in December by **Industry Canada** shows softwood lumber exports to the world improved also by 14.2 per cent for the first ten months of 2016, to C\$8,743 million from C\$7,501 million, driven largely by a 20.7 per cent increase in lumber exports to USA, to C\$6,515 million from C\$5,168 million the previous year, and impaired by a 11.5 per cent decrease to China compared to 2015.



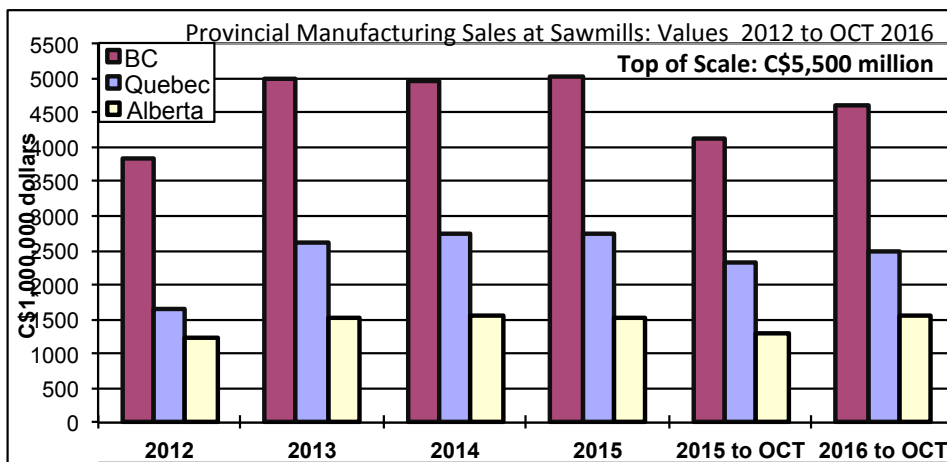
VALUES	2015 to OCT	2016 to OCT	Y-o-Y
US	C\$5,167.6 million	C\$6,515.1 million	20.70%
China	C\$1,008.4 million	C\$892.1 million	-11.50%
Japan	C\$688.9 million	C\$671.1 million	-2.60%
to World	C\$7500.7 million	C\$8,743.2 million	14.20%

Manufacturing Sales at Canadian Sawmills: October 2016

Canadian manufacturing sales in October dropped 0.8 per cent to C\$48.7 billion after three-straight monthly increases, other sectors stepped in to make up for a decline in fossil fuels and the aerospace products and parts industries, said **Statistics Canada** last month.

Vehicle parts, computer and electronic products and wood products sales increased for the month.

Manufacturing sales by sawmills continued their sharp increases of previous months, up by 10.6 per cent, to C\$8,652 million from C\$7,755 million, for the top three lumber producing provinces combined — British Columbia, Quebec, and Alberta — for January to October 2016 compared to the same time last year.



	2015 to OCT	2016 to OCT	Y-o-Y
BC	C\$4,135.8 million	C\$4,622.9 million	6.20%
QUEBEC	C\$2,324.2 million	C\$2,485.0 million	-0.60%
ALBERTA	C\$1,294.8 million	C\$1,544.3 million	6.40%
Total TOP 3	C\$7,754.8 million	C\$8,652.3 million	4.40%

Madison's Weekly Softwood Lumber Key Prices Table

www.madisonsreport.com



	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	318	322	-4	314	+4	275	+43
WSPF KD R/L 2x6	292	292	0	282	+10	275	+17
SYP KD R/L East Side 2x4	460	460	0	430	+30	420	+40
SYP KD R/L East Side 2x6	355	355	0	345	+10	320	+35
ESPF KD R/L 2x4	410	410	0	395	+15	375	+35
WSPF KD PET 2x4 Stud	290	295	-5	280	+10	205	+85
WSPF KD PET 2x6 Stud	265	255	+10	240	+25	215	+50
Douglas Fir Green R/L 2x4	354	342	+12	330	+24	290	+64
Douglas Fir Green R/L 2x10	375	360	+15	330	+45	345	+30
ESPF KD 2x4 8ft Stud	365	370	-5	355	+10	295	+70
OSB Ontario 7/16" (CDN\$/msf)	375	375	0	365	+10	320	+55
CSplywood Toronto 3/8" (CDN\$/msf)	417	429	-12	417	0	412	+5

Madison's Weekly Softwood Lumber News

Southern Pine Lumber Exports: October 2016

CONT'D FROM PG 2

The Southern Forest Products Association said Tuesday that Offshore shipments during October roughly break down as 33 MMbf dressed, 10.5 MMbf rough, and 20.1 MMbf treated lumber.

Softwood lumber imports to the US edged higher in October, reaching 1.38 billion board feet (Bbf), up 7 per cent from the volume imported during October of 2015.

Through the first ten months of this year, softwood imports are up 27 per cent when compared with the same period a year ago.

Exports of Southern Pine lumber remained on an upward track in October, amounting to just over 63.6 million board feet (MMbf). This volume represents an increase of 10 per cent above the same month last year, contributing to a year-to-date increase of 14 per cent when compared with the first ten months of 2015.

Offshore shipments during October roughly break down as 33 MMbf dressed, 10.5 MMbf rough, and 20.1 MMbf treated lumber.

Softwood lumber imports to the U.S. edged higher in October, reaching 1.38 billion board feet (Bbf), up 7 per cent from the volume imported during October of 2015.

Through the first ten months of this year, softwood imports are up 27 per cent when compared with the same period a year ago.

Canada Industrial, Material Prices: Nov 2016

CONT'D FROM PG 2

The IPPI rose 0.3 per cent in November, following a 0.7 per cent increase in October, said Statistics Canada Thursday. Of the 21 major commodity groups, 14 were up, 2 were down and 5 were unchanged.

The rise in the IPPI in November was mainly attributable to higher prices for motorized and recreational vehicles (+1.1 per cent) and primary non-ferrous metal products (+2.3 per cent).

The IPPI rose 1.4 per cent during the 12-month period ending in November, following a 0.8 per cent increase in October.

Compared with November 2015, the increase in the IPPI was largely attributable to higher prices for primary non-ferrous metal products (+12.0%), which posted their largest year-over-year gain since September 2011. The increase in this commodity group was driven by unwrought precious metals and precious metal alloys (+14.4%) and other unwrought non-ferrous metals and non-ferrous metal alloys (+28.3%).

The RMPI decreased by 2 per cent in November following a 3.3 per cent increase in October. Of the six major commodity groups, two were up, three were down and one was unchanged.

Conifex Secures Financing

Conifex Timber, out of Vancouver, BC, has received syndication lenders take-up for a new \$130 million secured revolving credit facility being arranged by a major US bank to fund the mod-

ernization and restart of its sawmill complex in El Dorado, AR, as well as to replace and discharge its existing revolving credit facilities and senior notes, the company said in a press release Monday.

The Credit Facility will have a term of 5 years and be secured by substantially all of Conifex's assets (other than its bioenergy segment assets), and is scheduled to close on or about January 6, 2017.

Conifex had previously announced that it was working towards finalizing capital and financing plans to reconstruct its currently idled sawmill complex in El Dorado, AR.

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

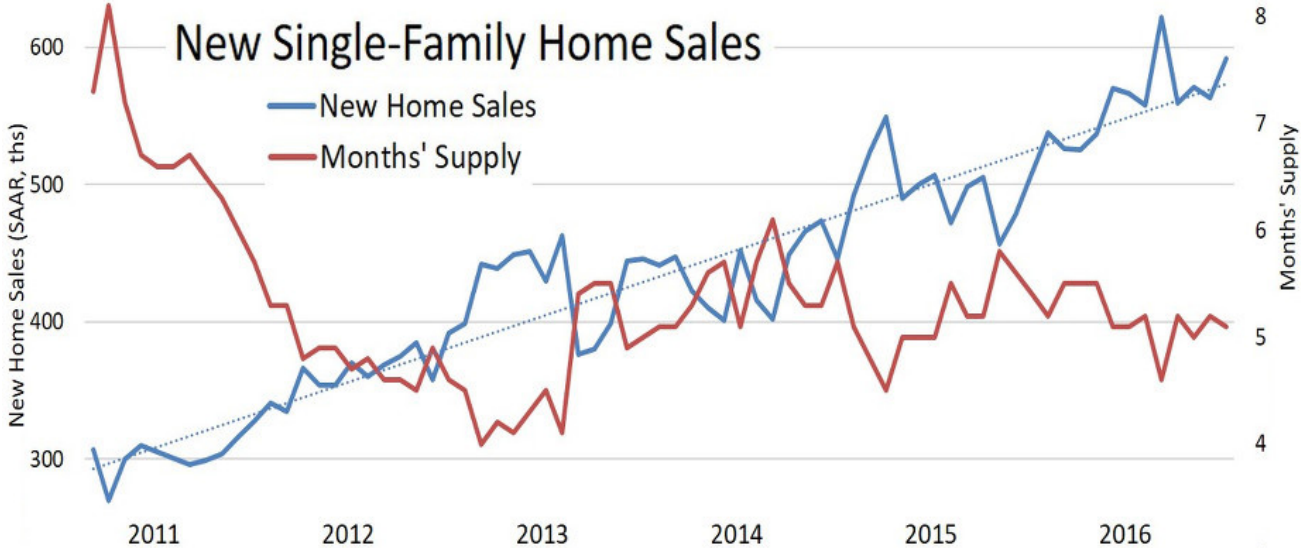
February 22-24, 2017 – Prince George, BC
<https://abcfp.ca/ABCFCConference/>

US New and Pending Home Sales: November 2016

CONT'D FROM PAGE 2

Sales of newly-built, single-family homes grew 5.2 per cent on a monthly basis in November to a 592,000 seasonally adjusted annual rate according to estimates from the **Census Bureau** and **HUD** released Tuesday.

The **Pending Home Sales Index** decreased 2.5 per cent in November 2016 to its lowest level since January 2016, and is 0.4 per cent below November 2015. The Index decreased to 107.3 in November 2016 from 110.0 the previous month.



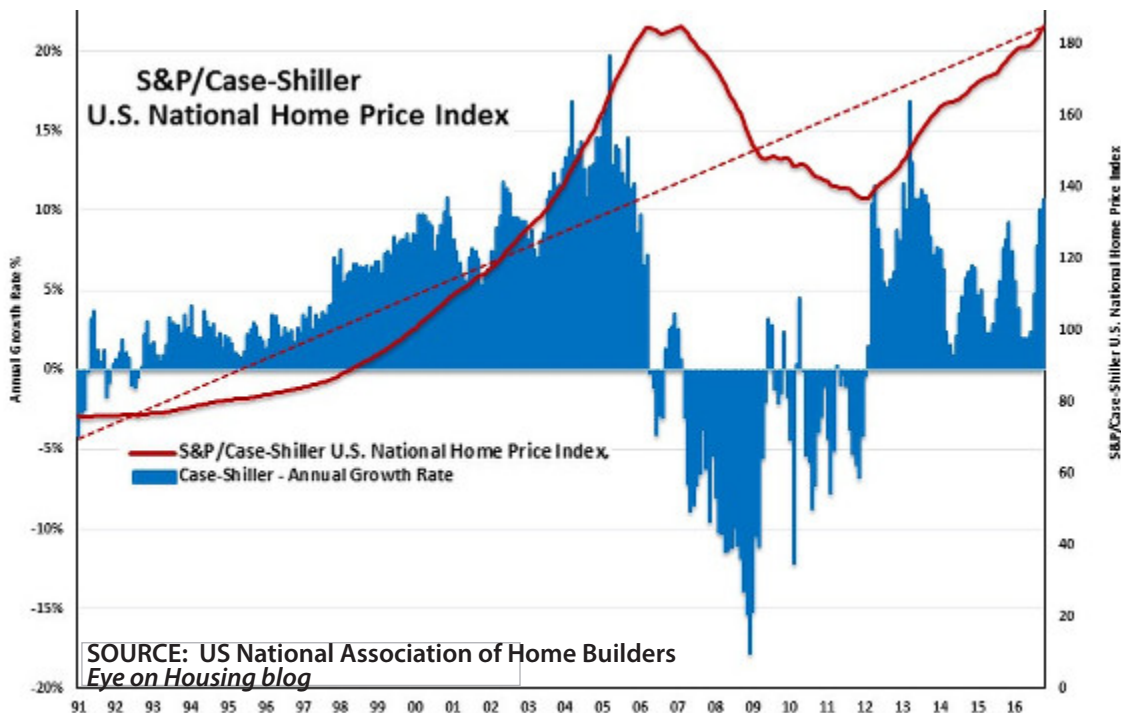
PENDING SALES RETREAT

The PHSI increased 0.6 per cent in the Northeast, but fell 1.2 per cent in the South, 2.5 per cent in the Midwest, and 6.7 per cent in the West. Year-over-year, the PHSI increased 5.7 per cent in the Northeast, but decreased 1.0 per cent in the West, 1.3 per cent in the South and 2.4 per cent in the Midwest.

NAR recently reported a decline in confidence among renters who are contemplating the best time to buy a

home. The **Freddie Mac Weekly Survey** reported a 30-year commitment rate of 3.54 per cent on November 3, which increased to 4.30 per cent for the week ending December 22, 2016. However, November existing sales continued a solid year-end path, and total 2016 existing sales are expected to reach the highest level since 2006. As the economy adds jobs, increased demand among first-time buyers will help fuel existing sales into 2017.

CONT'D PAGE 9



SOURCE: US National Association of Home Builders
Eye on Housing blog

US House Prices, Residential Construction Spending: October and November '16

CONT'D FROM PAGE 8

US HOUSE PRICES

The **Case-Shiller (CS) National Home Price Index**, released by **S&P Dow Jones Indices**, continued to rise in October. The CS Home Price Index rose at a seasonally adjusted annual growth rate of 10.7 per cent, up from 10.1 per cent last month. Due to tight inventory and high demand, house prices have accelerated since May and reached the pre-recession peak of 2006.

Along with the increases in national home prices, local home prices also increased in varying degrees in October. Figure 2 shows the annual growth rate of home prices for 20 major US metropolitan areas.

All of the 20 metro areas had positive home price appreciation, ranging from 3.5 per cent to 18.3 per cent. Atlanta had the highest home price appreciation at 18.3 per cent, while Chicago had the lowest but still positive growth at 3.5 per cent. Home price appreciation in seven of the 20 metro areas was higher than the national level of 10.7 per cent.

SINGLE-FAMILY CONSTRUCTION

NAHB analysis of **Census Construction Spending** data released Tuesday shows that total private residential construction spending fell 0.7 per cent in November to a seasonally adjusted annual rate of US\$462.9 billion.

Multifamily construction spending slowed for the first time since July to a seasonally-adjusted annual rate of US\$61.9 billion, down 2.9 per cent from the revised October estimate. Despite the slowdown, multifamily spending was still 10.7 per cent higher than the rate one year prior. In contrast, single-family construction spending increased by 1.7 per cent over the month, posting its second consecutive gain. However, single-family construction spending still slipped down by 0.9 per cent over November 2015. Though not as pronounced as the drop-off in multifamily construction spending, home improvements still fell by a substantial 3.5 per cent. On a year-over-year basis, spending on home improvements increased by 6.8 per cent.

The NAHB construction spending index illustrates the recent convergence, though small, of single-family spending with that of multifamily and home improvements.

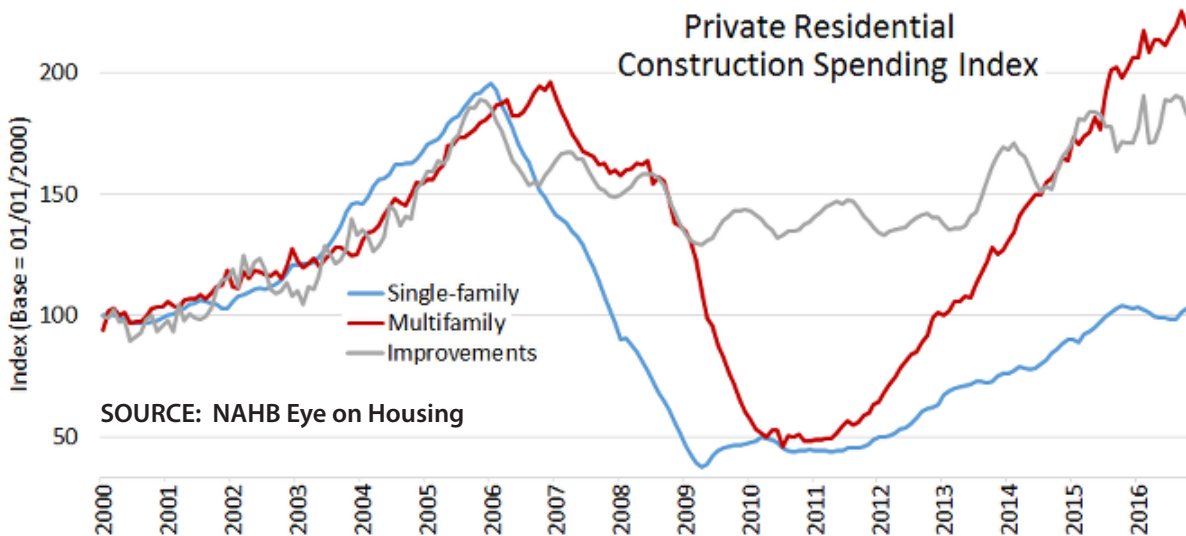
The pace of private nonresidential construction spending increased by 2.5 per cent over the month, more than offsetting the 2.1 per cent October decline, reaching a pace 6.4 per cent higher than one year ago. The primary drivers of this month-over-month increase were spending on structures to be used for lodging (+6.9 per cent) and religious (+9.8 per cent) purposes.

MORTGAGE RATES

The **Mortgage Interest Rate Survey** conducted monthly by the **Federal Housing Finance Agency** reported also Tuesday that contract mortgage rates rose in November 2016. Over the month, rates on all loans increased from 3.60 per cent to 3.64 per cent. Contract rates on both purchases of newly built homes and purchases of existing homes climbed during the month. Rates on purchases of newly built homes increased by 5 basis points to 3.59 per cent while the average rate on purchases of existing homes rose by 4 basis points to 3.66 per cent.

The monthly data provided by the FHFA covers the trend in mortgage rates up to the month of November, but the weekly mortgage rate data from Freddie Mac, which includes most of December as well, indicates that rates have clearly begun to rise. Moreover, the increase in mortgage rates follows the increase in the 10-year Treasury note.

A major concern fueled by rising mortgage rates is the response of home sales. However, the level of new home sales is also informed by other economic indicators such as employment growth, wage growth, household balance sheet health, consumer confidence and housing inventory to name a few.



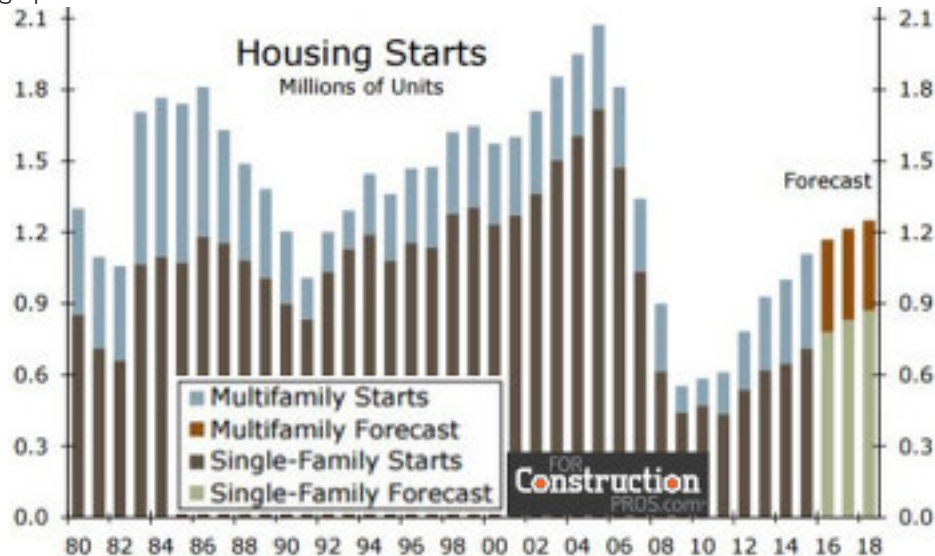
US Real Estate Projections: 2017

CONT'D FROM PAGE 9

SOURCE: Wells Fargo Construction, January 5, 2017

Following another year of modest gains in home sales and new single-family home construction, the new year brings forth considerable promise and genuine concerns. Stronger 2016 job and income growth has clearly bolstered consumer confidence, nudging more potential buyers into the housing market.

With for-sale inventories incredibly lean across much of the country and construction restrained by land development costs and an onerous zoning approval process, home prices have continued to firm at a pace well ahead of wage and salary growth. Rising mortgage rates are set to compound the sting of higher prices, particularly for first-time homebuyers struggling to save the necessary down payment for a home. The apartment market also appears to be at a crossroads, with a surge in completions leading to outright declines in asking rents in some of the largest and fastest-growing apartment markets.



US HOUSING MARKET GROWTH: WELLS FARGO

Most forecasts anticipate another year of modest recovery. Sales of new and existing homes are expected to rise, and new home construction should post gains similar to this past year. The latest NAHB/Wells Fargo Housing Market Index survey supports this scenario, with buyer traffic increasing solidly and sales gaining momentum heading into 2017.

As we begin a new year, that will likely see a unique set of risks and rewards, **Wells Fargo Economics** addresses what they believe to be the five most important questions for the housing market in 2017:

- How will higher mortgage rates impact home sales?
- Will home prices continue to outpace inflation and wages?
- Will the homeownership rate rise from its recent lows?
- Will first-time homebuyers return to the housing market?
- Has the apartment market topped out?

MORTGAGE RATES

While mortgage rates are widely expected to remain at historical lows, our current rising-interest-rate environment will clearly create some roadblocks. Home sales are more interest rate sensitive today than they have been in the past due to the combination of persistently sluggish wage and salary growth, rising home prices and more stringent mortgage qualification requirements. Lower interest rates have helped offset some of these drags, but even when rates moved broadly lower, as global rates tumbled following the Brexit vote, relatively few buyers rushed into the market.

HOUSE PRICES VS WAGES

Home price appreciation moderated throughout much of 2016, and Wells Fargo forecasts price gains to decelerate further in 2017. The S&P CoreLogic Case-Shiller 10-City Home Price Index is expected to have risen 4.5 per cent in 2016, while the 20-City Index rose 5 per cent.