

MADISON'S LUMBER REPORTER

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News & Updates

Canada - US Softwood Lumber Trade Developments

Canada's Minister of Natural Resources, the Honourable Jim Carr, announced Wednesday the creation of the Federal-Provincial Task Force on Softwood Lumber, which will share information and analysis to understand potential impacts and assess how to address the needs of affected workers and communities. Minister Carr will chair the domestic task force, while Canada's Minister of Foreign Affairs, the Honourable Chrystia Freeland, leads softwood engagement with the United States.

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J.D. Irving to replace Doaktown sawmill

JD Irving announced Monday plans to go ahead with the replacement of its Doaktown, NB, sawmill this year after two years of delays. The company confirmed that it will start work on the project, which was originally scheduled to get underway in the spring of 2015.

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New and Existing Home Sales, US: January 2017

US existing home sales, as reported Wednesday by the **National Association of Realtors (NAR)**, increased 3.3 per cent in January, reaching the fastest pace since February 2007. At the current sales rate, the January unsold inventory represents a 3.6-month supply, unchanged from December. January existing sales were up 3.8 per cent from the same month a year ago, and advanced to a seasonally adjusted rate of 5.69 million from an upwardly revised 5.51 million in December. Total existing home sales include single-family homes, townhomes, condominiums and co-ops.

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US Real Estate Market Update

Real Estate Owned (REO) inventory decreased in 4Q for both Fannie and Freddie, and combined inventory is down 33 per cent year-over-year, according to agency releases Monday.

Delinquencies are falling, but there are still a number of properties in the foreclosure process with long time lines in judicial foreclosure states - but this is getting close to normal levels of REOs.

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British Columbia Invests in Tree Planting

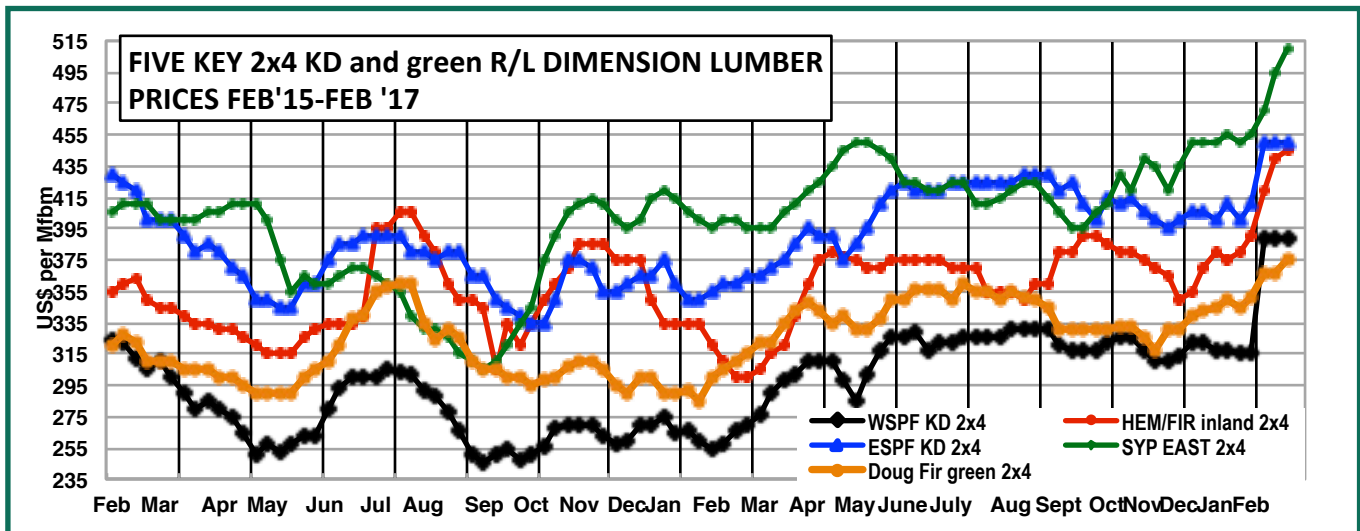
British Columbia is spending \$150 million to plant tens of millions of trees, which it says will help fight climate change and create 3,000 jobs in rural parts of the province, said a government press release February 17.

BC Premier Christy Clark says the funding will go to the Forest Enhancement Society of B.C. to advance environmental stewardship and focus on reforestation initiatives throughout the province.

She says the new trees are one plank in the province's plan to fight climate change, and over the next 10 years her government will spend \$800 million in B.C.'s forests and create 20,000 jobs.

The province's Climate Action Plan drew criticism from environmentalists last year who said planting trees would not pay off for decades, as forests need to be mature in order to capture significant amounts of carbon.

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Softwood Lumber Trade Developments

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Wednesday, Canada's Minister of **Natural Resources**, the Honourable Jim Carr, announced the creation of the Federal-Provincial Task Force on Softwood Lumber, which will share information and analysis to understand potential impacts and assess how to address the needs of affected workers and communities. Minister Carr will chair the domestic task force, while Canada's Minister of Foreign Affairs, the Honourable Chrystia Freeland, leads softwood engagement with the United States.

ENGAGEMENT

There has been ongoing engagement with the provinces, territories and industry over the past two years as the Government of Canada has sought to negotiate a new deal with the US on softwood lumber, said the **NRCan** press release. Canada believes that a negotiated agreement that brings predictability and stability to industry on both sides of the border is the best possible outcome. The Government will continue to work closely with provinces, territories and the softwood lumber industry to vigorously defend the interests of the middle-class Canadians who depend on the industry. This work will continue outside of the task force.

The new **Federal-Provincial Task Force on Softwood Lumber** will assess current federal and provincial programming and ensure coordination of government initiatives to promote innovation, market diversification and transformation of the forest sector.

The forest sector is an important part of Canada's economy. It directly employs more than 200,000 people across Canada. Softwood lumber exports were valued at \$8.6 billion in 2015 — close to 70 per cent of which was exported to the US, details **NRCan**.

US PERSPECTIVE

The **US National Association of Home Builders** posted on their website February 17, that any further negotiations on a resolution between the two countries are expected to be on hold until **confirmations of a new Secretary of Commerce and a new US Trade Representative**.

The NAHB maintains that leaves home builders – and their customers – caught in the middle and probably looking at price hikes.

US HOME BUILDER COALITION

Last year, **NAHB** formed a coalition to encourage policies that promote free trade and a stable supply of lumber without the unpredictable price swings that raise the costs of building and make homeownership less affordable. "The voice of the home builder must be heard, because we are the drivers of the American economy," said NAHB CEO Jerry Howard.

Meanwhile, NAHB is urging domestic lumber companies to increase production and make it available for US home builders.

At the same time, the association leadership is in contact with lumber producers in other countries in an effort to open up new sources of supply.

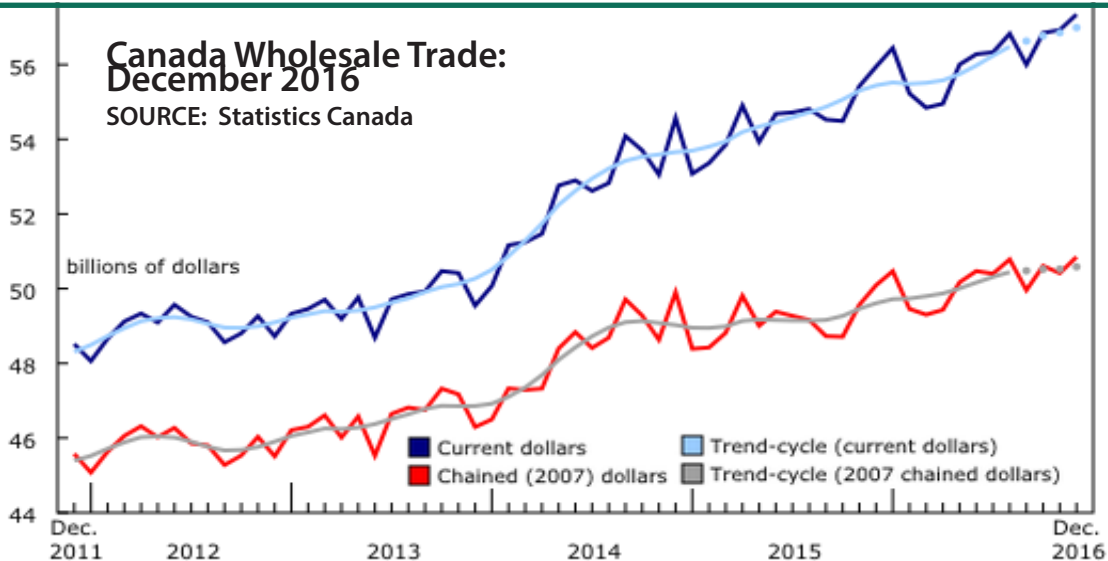
And the NAHB Construction Liability, Risk Management and Building Materials Committee sent Strauss a sample cost escalation clause contract addendum, said **NAHB**.

BRITISH COLUMBIA BUDGET PROBLEM

The softwood-lumber fight between the United States and Canada has thrown a wrench in the BC government's forecasting for the forestry sector.

"The budget 2017 economic and fiscal plan does not incorporate any estimates of potential impacts associated with the current trade dispute involving softwood lumber exports to the US," according to a warning in budget documents released Tuesday in Victoria.

Tribunals under the North American free-trade agreement have generally sided with Canada's position, the BC government said in the documents.



Madison's Weekly Softwood Lumber Key Prices Table

www.madisonsreport.com



	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	388	388	0	316	+72	270	+118
WSPF KD R/L 2x6	382	282	0	288	+94	268	+114
SYP KD R/L East Side 2x4	510	495	+15	450	+60	395	+115
SYP KD R/L East Side 2x6	380	365	+15	320	+60	295	+85
ESPF KD R/L 2x4	450	450	0	400	+50	365	+85
WSPF KD PET 2x4 Stud	345	340	+5	285	+60	240	+105
WSPF KD PET 2x6 Stud	315	305	+10	265	+50	220	+95
Douglas Fir Green R/L 2x4	375	367	+8	345	+30	315	+60
Douglas Fir Green R/L 2x10	455	435	+20	395	+60	380	+75
ESPF KD 2x4 8ft Stud	415	420	-5	355	+60	300	+115
OSB Ontario 7/16" (CDN\$/msf)	395	395	0	358	+37	325	+70
CSplywood Toronto 3/8" (CDN\$/msf)	442	438	+4	393	+49	396	+46

Madison's Weekly Softwood Lumber News

JD Irving Sawmill

CONT'D FROM PG 2 The delay of re-opening Doaktown prompted South-west Miramichi-Bay du Vin Progressive Conservative MLA Jake Stewart to rethink his support for his own party's forestry plan.

The company has recently spent \$75 million on other projects that were not part of the 2014 forestry plan announcements.

US Home Sales

CONT'D FROM PG 2 After increasing and leveling off in recent years, new single-family home size continued along a general trend of decreasing size during the fourth quarter of 2016, the US National Association

of Home Builders said Wednesday. This ongoing change marks a reversal of the trend that had been in place as builders focused on the higher end of the market during the recovery.

According to 4Q 2016 data from the Census Quarterly Starts and Completions by Purpose and Design and NAHB analysis, median single-family square floor area was slightly higher at 2,453 square feet. Average (mean) square footage for new single-family homes increased to 2,661 square feet.

For its part, total housing inventory of existing homes, which decreased 10.8 per cent last month, rebounded by 2.4 per cent in January, but remains 7.1 per cent below the Jan-

uary 2016 level, and has declined year-over-year for 20 consecutive months.

The January median sales price jumped 7.1 per cent to US\$228,900, representing the 59th consecutive month of year-over-year increases. The January median condominium/co-op price of US\$217,400 was up 6.2 per cent from the same month a year ago.

The January increase in existing sales was consistent with the December increase in pending sales. Builders continue to address the low inventory of homes as builder sentiment settled back to sustainable levels in February. Both jobs and incomes are growing, suggesting an improving market for new single-family construction.

JOB OPPORTUNITY



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Manager*

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Calendar

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/ABCFPConference/>

US Real Estate Update: Full Year 2016

CONT'D FROM PAGE 2

REAL ESTATE OWNED

Freddie Mac reported the number of REO declined to 11,418 at the end of 4Q 2016 compared to 17,004 at the end of 4Q 2015. This is down 85 per cent from the 74,897 peak number of REOs in 3Q 2010. For Freddie, this is the lowest since at least 2007.

Fannie Mae reported the number of REO declined to 38,093 at the end of 4Q 2016 compared to 57,253 at the end of 4Q 2015. This is down 77 per cent from the 166,787 peak number of REOs in 3Q 2010. For Fannie, this is the lowest since 4Q 2007.

US HOUSING AFFORDABILITY

Another excellent indicator of future home building are shortages of buildable lots and skilled labor, along with excessive regulations, rising mortgage interest rates and ongoing home price appreciation pushed housing affordability in the fourth quarter of 2016 to its lowest point since the third quarter of 2008, according to the **National Association of Home Builders/Wells Fargo Housing Opportunity Index (HOI)**.

In all, 59.9 per cent of new and existing homes sold between the beginning of October and end of December were affordable to families earning the US median income of US\$65,700. This is down from the 61.4 per cent of homes sold that were affordable to median-income earners in the 3Q.

US HOUSE PRICES

The national median home price increased from US\$247,000 in 3Q 2016 to US\$250,000 in 4Q. Meanwhile, average mortgage rates edged higher from 3.76 per cent to 3.84 per cent in the same period.

Four of the five least affordable small housing markets were in California. At the very bottom of the affordability chart was Salinas, CA, where 15.2 per cent of all new and existing homes sold were affordable to families earning the area's median income of US\$63,500.

US MORTGAGE DELIQUENCY RATES

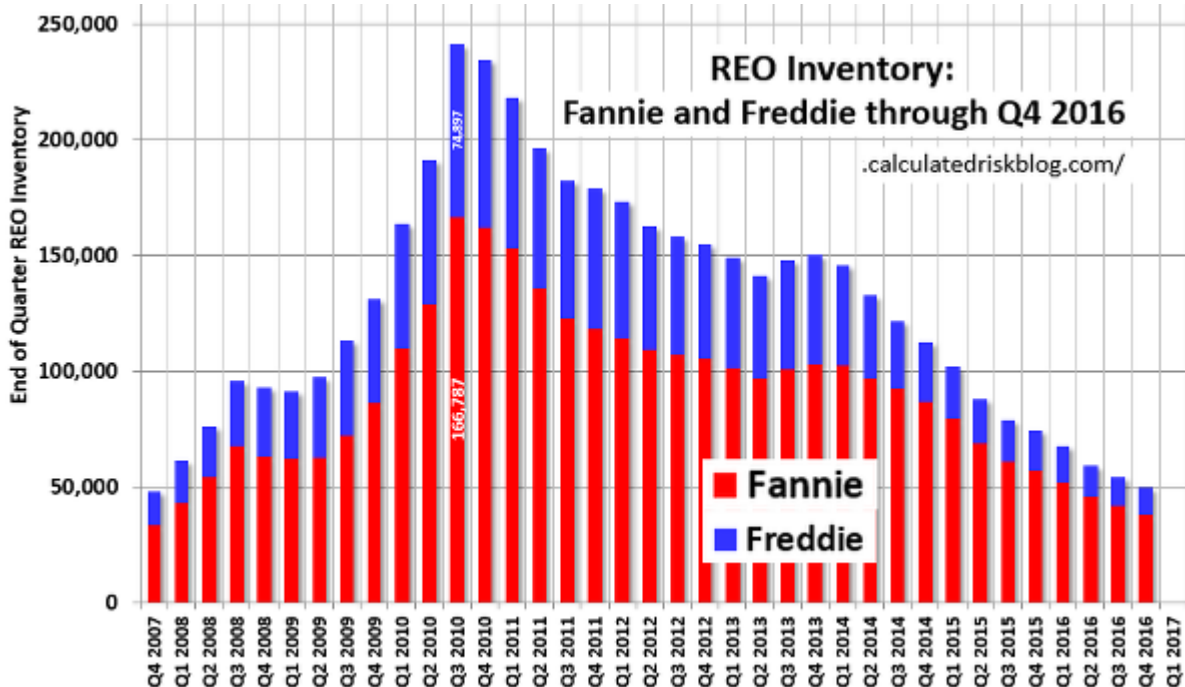
Serious delinquency rates on 1-4 family mortgages rose over the 4Q 2016 from 3Q. According to the **National Delinquency Survey (NDS)** released by the **Mortgage Bankers' Association (MBA)**, the proportion of mortgages seriously delinquent, those that are 90 or more days delinquent or starting the foreclosure process, rose 17 basis points to 3.13 per cent. Despite the

increase, the current rate of serious delinquency remains closer to its 10-year low than its recession-era peak.

Serious delinquency rates on conventional, FHA, and VA loans all recorded a quarterly increase. The rate of serious delinquency in all of these loan types has declined significantly from the recession-related peak levels. However, the 18 basis point increase on seriously delinquent conventional loans to 2.88 per cent at the end of 2016, ensured the rate had not returned to its 2005-2006 average level of 1.6 per cent.

US MORTGAGE ORIGINATION

According to the **Federal Reserve Bank of New York's Household Debt and Credit Report**, mortgage originations grew in the 4Q 2016. Largely resulting from 4Q growth, origination volume in 2016 exceeded its level in 2015. This marks the second consecutive year of growth in originations.

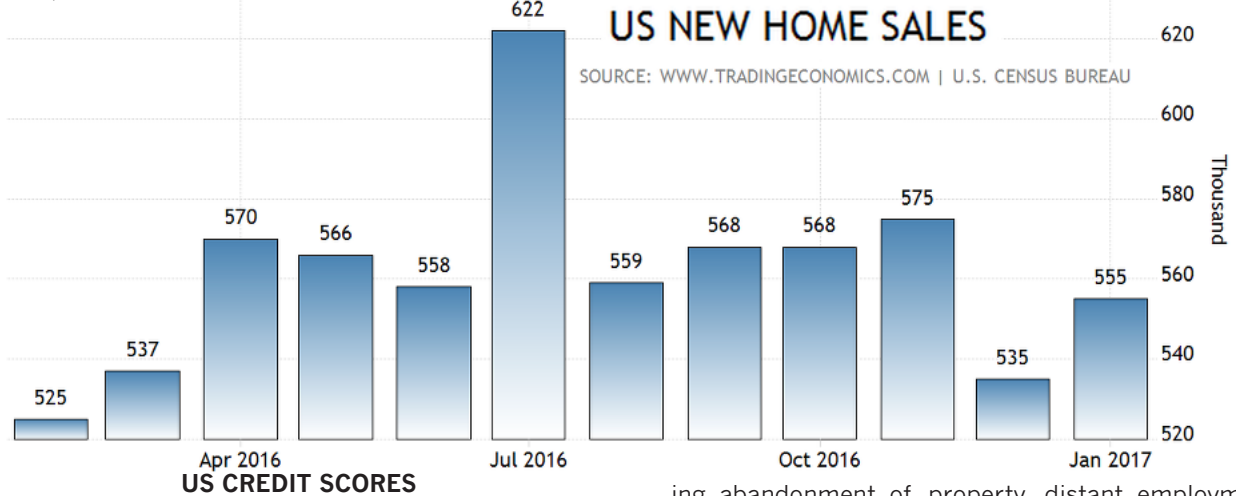


US Real Estate Update: Full Year 2016

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US MORTGAGE ORIGINATION

There were approximately US\$617 billion in mortgage originations over the 4Q 2016, 29.3 per cent above origination volume in the 3Q, at US\$477 billion, and 41.2 per cent more than the volume of originations in one year earlier, at US\$437 billion. The growth over the past 4 quarters more than offset the 4-quarter declines in the both the 2nd and 3rd quarters of 2016. As a result, total origination volume in 2016 reached US\$1.9 trillion, 8.5 per cent above its level in 2015, and its second consecutive annual increase.



US CREDIT SCORES

According to the Household Debt and Credit Report, median credit scores ended the year at 763, 16 points below its 2010 peak level, but 56 points above its 2006 level, 707. Similarly credit scores at the 25th percentile are 22 points below their peak level, but 66 points above their 2006 level of 639. Meanwhile scores at the 10th percentile are 3 points below their 2010 level but 77 points above their 2006 level. Overall, in the years since the recession ended credit scores remain near their peak level.

REASONS FOR MORTGAGE DELINQUENCY

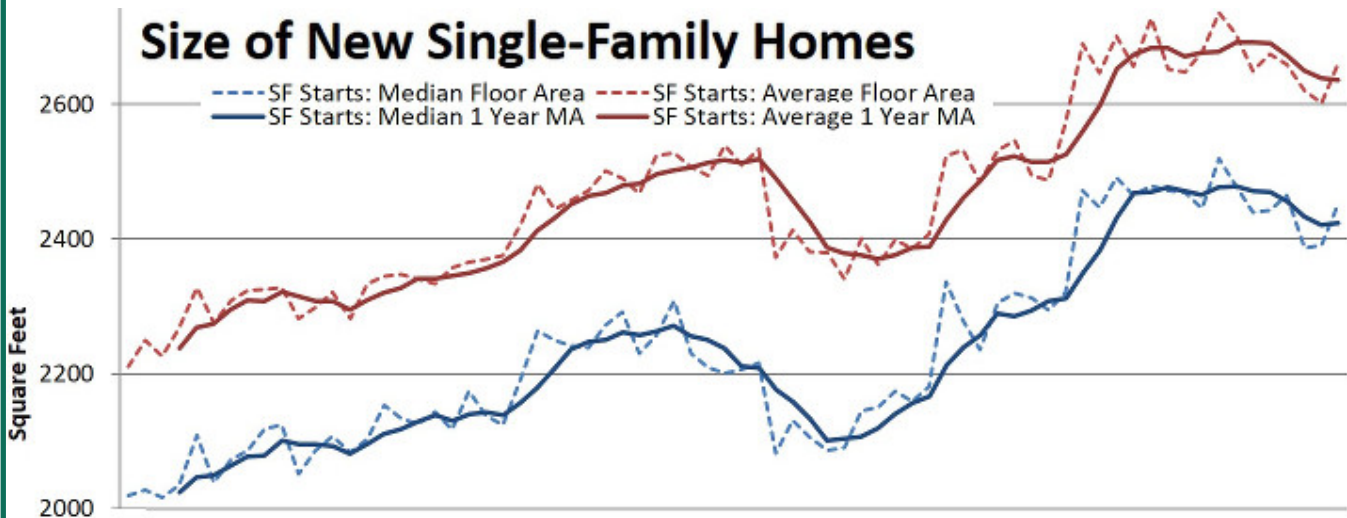
Over the 4th quarter-to-date, ending in November, there has been a decrease in the share of new delinquencies due to unemployment or income reduction. Between 3Q 2016 and November 2016, the shares attributable to excessive debt obligations or death or marital problems also fell. The most significant increase has been in the share marked Other, which covers a myriad of reasons includ-

ing abandonment of property, distant employment transfer, neighborhood problems, property problems, inability to sell or rent property, military service, business failure, and more.

ARCHITECTURE BILLING INDEX

The **Architecture Billings Index (ABI)** dipped slightly into negative territory in January, after a very strong showing in December. As a leading economic indicator of construction activity, the ABI reflects the approximate nine to twelve month lead time between architecture billings and construction spending. The American Institute of Architects (AIA) reported the January ABI score was 49.5, down from a score of 55.6 in the previous month. This score reflects a minor decrease in design services (any score above 50 indicates an increase in billings). The new projects inquiry index was 60.0, up from a reading of 57.6 the previous month.

Size of New Single-Family Homes

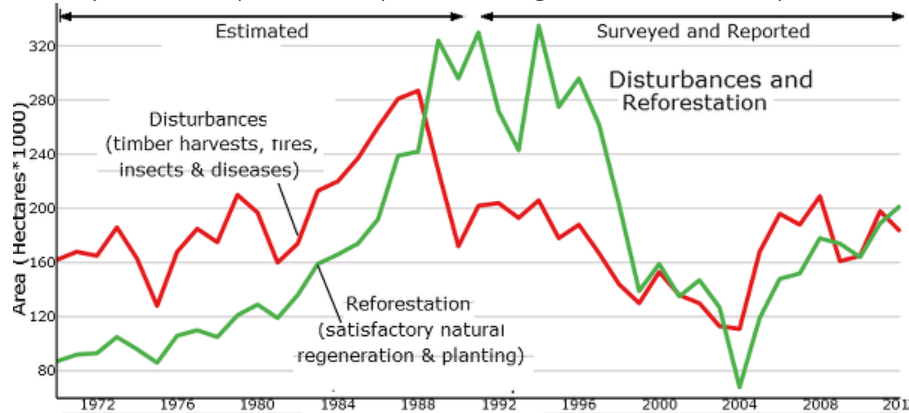


British Columbia Silviculture Investment

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British Columbia Premier Christy Clark said February 17 new funding will go to the Forest Enhancement Society of BC to advance environmental stewardship and focus on reforestation initiatives throughout the province.

British Columbia is spending \$150 million to plant tens of millions of trees, which it says will help fight climate change and create 3,000 jobs in rural parts of the province, the government said in a press release at the time.



SOURCE:
Environmental
ReportingBC

BC FOREST ENHANCEMENT SOCIETY

The **Forest Enhancement Society of BC** is an arms-length organization created by the B.C. government that supports projects that aim to mitigate wildfires and rehabilitate damaged or low value forests.

This one-time investment builds on existing programs within the Ministry of Forests, Lands and Natural Resource Operations to support the implementation of the Forest Carbon Initiative. This initiative includes a suite of activities under BC's Climate Leadership Plan, which target the reduction of carbon emissions in the forest sector and the capture of carbon through the restoration of forests damaged by disease and wildfire.

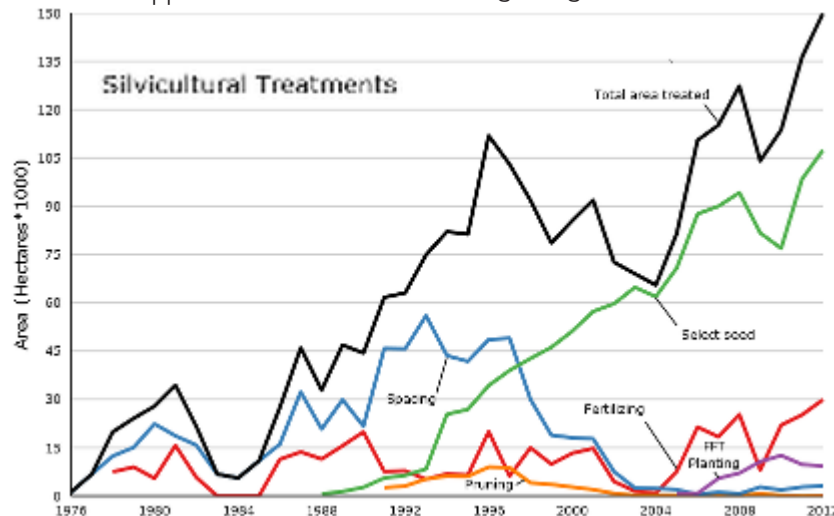
Clark says the province is also working to open up new markets for BC lumber in China and India, which she says will help insulate the province from events like a softwood lumber dispute with the US.

She says currently high value lumber goes to the U.S. and low value lumber goes to Asia, but she wants more valuable wood going to India and China as well as to increase the overall amount shipped to those countries.

WESTERN SILVICULTURAL CONTRACTORS' ASSOCIATION RUMOUR MILL: FEBRUARY 17

This latest funding would bring total funding to date to the FESBC to \$235-million taking into account the original funding it received when it was created about a year ago by our government, the **Western Silvicultural Contractors' Association** posted on their website February 17. It would also make the arm's-length-from-government society a major component in delivering on two of the BC Liberals' principal strategies: job creation and climate change. Given that the society is just approaching its second year it shows our government has considerable confidence in the organization and its business model.

In our modest view some of that confidence may be justified, said WSCA. By giving the funding to the FESBC the money becomes exempt to some of the rules around government fiscal budgets and immune to the shifting priorities and claw backs that forestry funding has occasionally suffered from in the past. It also sets up the possibility of attracting federal funding being the FESBC's mandate is separate.



SOURCE:
Environmental
ReportingBC