

MADISON'S LUMBER REPORTER

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News & Updates

Softwood Lumber Negotiations Update and NAFTA

The latest movement from the new **US Administration** on trade issues is this week bringing forward **NAFTA discussions** to the US Congress.

Of most interest to the Canadian and US softwood lumber industry, a component of the Administration's letter appears related to the **softwood lumber dispute** with Canada. **The draft calls for eliminating a provision of NAFTA that Canadians could use to appeal any duties the United States imposes on Canadian softwood in retaliation.**

There is much to happen in the coming months; most notably in less than 30 days the **US Commerce Department** will announce the scope of **counter-vailing duties** against Canada, and whether those are **retroactive to January**. In May will come that for **anti-dumping**, possibly **retroactive to February**.

The Trump administration has taken an early step in **renegotiating the North American Free Trade Agreement**, sending the US Congress Thursday a draft list of priorities for the negotiation that expresses hope for change in a broad range of areas, according to *Canadian Press*.

Now Congress will be involved in revising that list.

The administration will issue a formal notice that it wants to renegotiate the deal and spend a minimum of 90 days consulting lawmakers and industry, meaning formal talks with Canada and Mexico could begin in the summer or autumn.

CONT'D PAGE 6

Canada Rail Transportation 2015, Railway Carloadings: January 2017

Operating revenue for the Canadian railway industry edged up 0.6 per cent from 2014 to \$14.4 billion in 2015, said **Statistics Canada** Friday. Freight transportation revenue, which accounted for 91.2 per cent of total revenue, was up 0.3 per cent to \$13.1 billion. In 2015, operating expenses fell 5.3 per cent to \$10.0 billion.

Meanwhile, the **volume of rail freight carried** in Canada totalled 29.3 million tonnes in January, up 6.9 per cent from the same month last year, according to **Stats-Can** Wednesday. In January, freight originating in Canada increased 6.6 per cent from the same month last year to 26.6 million tonnes.

CONT'D PAGE 7

US Real House Prices, Price-to-Rent Ratio: Jan 2017

The **Case-Shiller US National Home Price Index** rose at a seasonally adjusted annual growth rate of 7.9 per cent, slower than the 9.2 per cent increase in December, according to the **S&P Dow Jones Indices** Tuesday.

In real terms, and as a **price-to-rent ratio**, [US house] prices are back to late 2003 / early 2004 - and the price-to-rent ratio maybe moving a little more sideways now, wrote Bill McBride in **Calculated Risk** Tuesday.

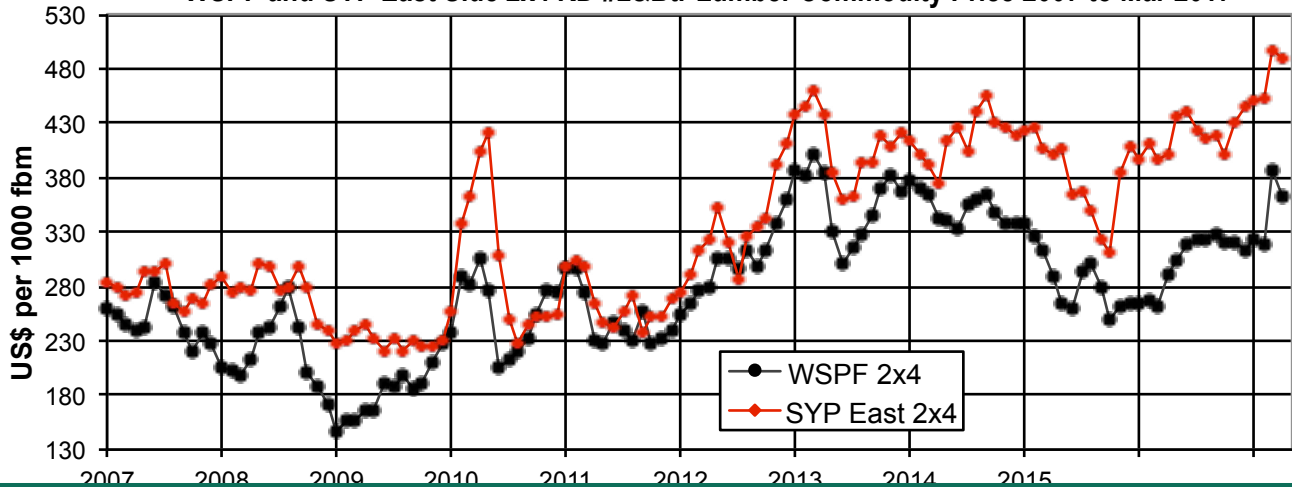
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Pending Home Sales, US: January 2017

US Pending Home Sales improved 5.5 per cent in February 2017 to its highest level since April 2016, and the second highest since May 2006, said the **US National Association of Realtors** Wednesday.

CONT'D PAGES 9 and 10

WSPF and SYP East Side 2x4 KD #2&Btr Lumber Commodity Price 2007 to Mar 2017



NAFTA Machinations in the US

CONT'D FROM PAGE 2

US ADMINISTRATION INITIATES NAFTA CONVERSATION IN CONGRESS

This preliminary consultation is required under the so-called fast-track law that allows trade deals to pass Congress with a simple majority and an up-or-down vote, with no amendments.

The letter includes vague references to making changes in a number of areas, including agriculture, government procurement, tax policy, intellectual property, rules of origin for things like car parts, telecommunications and dispute resolution.

Canadian-American trade lawyer Mark Warner told *Canadian Press* Thursday it's too early to draw conclusions about how simple, or how elaborate, the talks might become on the basis of this single draft letter.

He says Congress will want to toughen it.

"I expect bilateral irritants will be pushed to be included by Congress," he said.

"SAFEGUARD" MECHANISM

The highlight of the package is a proposed "safeguard" mechanism in cases where imports from Canada or Mexico cause or threaten serious injury to US industry – seemingly fulfilling President Donald Trump's "America First" threats, said former **Canadian trade negotiator Andrei Sulzenko** in *Globe and Mail* Thursday. That's interesting, because the North American free-trade agreement already has such a provision that works in tandem with safeguard provisions under the World Trade Organization.

In other words, continues Sulzenko, there's no free lunch; and that's why safeguards are used relatively seldom. A US push to change existing rules, say to lower NAFTA threshold levels for safeguard action, would be a non-starter, as Canada and Mexico would be better off under more stringent WTO provisions.

DEPARTURES FROM PAST US POLICY

Stephen Vaughan, **Acting US Trade Representative** explained to the *Washington Post* also Thursday that there are several lines in the letter that indicate departures from past policy. One of the objectives listed is to "seek to level the playing field on tax treatment," a brief and cryptic phrase that could suggest duties on Canadian and Mexican products.

Other language in the letter suggests the administration is skeptical of a process for resolving disputes between governments and multinational firms that has been criticized by liberal figures including Senator Elizabeth Warren (D-Ma.), who say corporations have exploited the system at the expense of the public interest. Some on the right have objected to the process as well, arguing that it impinges on American sovereignty by giving international tribunals authority that would otherwise belong to US courts.

REFERENCES TO SOFTWOOD LUMBER

Another component of the Administration's letter appears related to an old dispute with Canada over softwood lumber. **The draft calls for eliminating a provision of NAFTA that Canadians could use to appeal any duties the United States imposes on Canadian softwood in retaliation.**

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Calendar

March 2017

NAWLA 2017 Leadership Summit

March 12 -14, 2017 – Tucson, AR

<http://www.nawla.org/ld/fid=240/>

Montréal Wood Convention

March 28 - 30, 2017 – Montréal, QC

<http://www.montrealwooden/>

April 2017

**Council of Forest Industries
Annual Convention**

April 5-7, 2017 – Vancouver, BC

<http://www.cofi.org-glance/>

National Heavy Equipment Show

April 6-7, 2017 – Mississauga, ON

<http://www.nhes.ca>



	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	362	362	0	382	-20	310	+52
WSPF KD R/L 2x6	350	350	0	276	-26	290	+60
SYP KD R/L East Side 2x4	490	490	0	515	-25	420	+70
SYP KD R/L East Side 2x6	370	365	+5	390	-20	320	+50
ESPF KD R/L 2x4	440	445	-5	450	-10	395	+45
WSPF KD PET 2x4 Stud	330	325	+5	352	-22	240	+90
WSPF KD PET 2x6 Stud	320	320	0	320	0	205	+115
Douglas Fir Green R/L 2x4	375	370	+5	375	0	347	+28
Douglas Fir Green R/L 2x10	475	465	+10	465	+10	420	+55
ESPF KD 2x4 8ft Stud	425	420	+5	425	0	320	+105
OSB Ontario 7/16" (CDN\$/msf)	405	405	0	390	+15	315	+90
CSplywood Toronto 3/8" (CDN\$/msf)	459	464	-5	442	+17	390	+69

Madison's Weekly Softwood Lumber News

Canada Railway Traffic

CONT'D FROM PG 2 In 2015, the volume of commodities transported by Canadian rail carriers decreased 1.4 per cent to 304.9 million tonnes. This was the first year-over-year decrease since 2009. Higher shipments of iron ores and concentrates (up 5.7 million tonnes) and potash (up 1.0 million tonnes) were offset by lower shipments of coal (down 6.3 million tonnes), fuel oils and crude petroleum (down 3.9 million tonnes), and wheat (down 2.0 million tonnes). In 2015, over half (56.7 per cent) of all rail shipments by weight originated in three provinces: British Columbia (61.3 million tonnes), Alberta (59.1 million tonnes) and Saskatchewan (52.4 million tonnes).

From 2014 to 2015, tonnage loaded in containers-on-flat-cars increased 2.3 per cent to 36.4 million tonnes, while tonnage loaded in trailers-on-flat-cars decreased 28.1 per cent to 329,113 tonnes. Shipments of coal and wheat decreased in 2015 but these products remained the top commodities by weight. The top six commodities shipped by Canadian railways accounted for 43.4 per cent of the total tonnage in 2015.

INCREASES IN OPERATING REVENUES AND EXPENSES

From 2010 to 2015, total operating revenue earned by Canadian railways increased 36.1 per cent, while total operating expenses rose 15.9 per cent. The total cost of diesel fuel increased

10.9 per cent over this period and total diesel fuel consumed was up 5.3 per cent.

In terms of output, the tonnage of revenue freight increased 5.7 per cent from 2010 to 331.5 million tonnes in 2015. The number of revenue passengers declined 8.8 per cent during this same period.

INCREASES IN OPERATING REVENUES AND EXPENSES

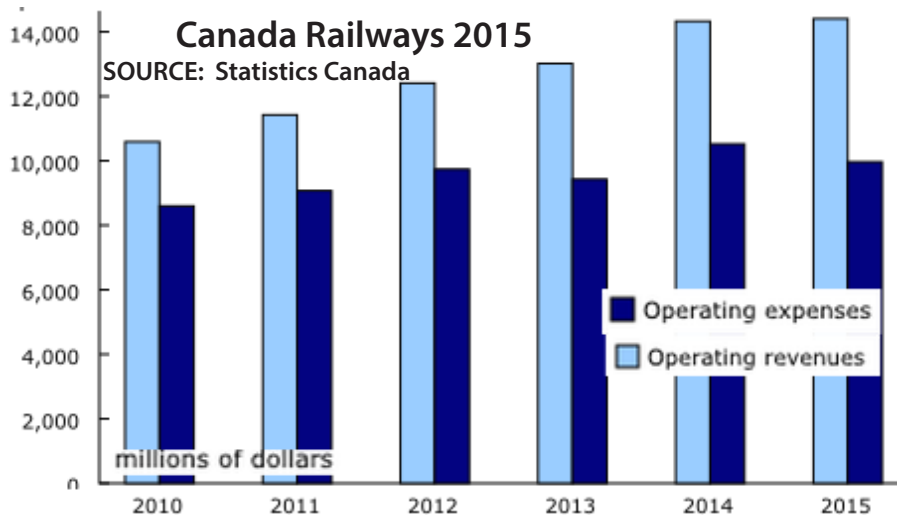
The volume of rail freight carried in Canada totalled 29.3 million tonnes in January, up 6.9 per cent from the same month last year.

In January, freight originating in Canada increased 6.6 per cent from the same month last year to 26.6 mil-

lion tonnes. Non-intermodal freight increased 6.5 per cent to 290,000 carloads in January. The amount of freight loaded into these cars totalled 23.7 million tonnes, up 6.3 per cent from the same month last year.

Intermodal freight loadings rose 7.2 per cent to 191,000 units from January 2016 to January 2017. The increase stemmed from a 6.9 per cent gain in containers-on-flat-cars and a 22.1 per cent gain in trailers-on-flat-cars. In terms of weight, intermodal traffic rose 9 per cent to 2.9 million tonnes.

Freight traffic received from the United States rose 10.1 per cent to 2.7 million tonnes as a result of an 11.5 per cent increase in non-intermodal freight and a 4.8 per cent decline in intermodal freight from the United States.



US Real House Prices, Price-to-Rent Ratio: January 2017

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US HOUSE PRICE INDEX

S&P Dow Jones Indices released the **US Home Price Index** for January 2017 today. The Case-Shiller US National Home Price Index rose at a seasonally adjusted annual growth rate of 7.9 per cent, slower than the 9.2 per cent increase in December. House prices dropped to the lowest level in the first month of 2012. Five years later, house prices surpassed the pre-recession peak of 2006 and hit the highest level historically.

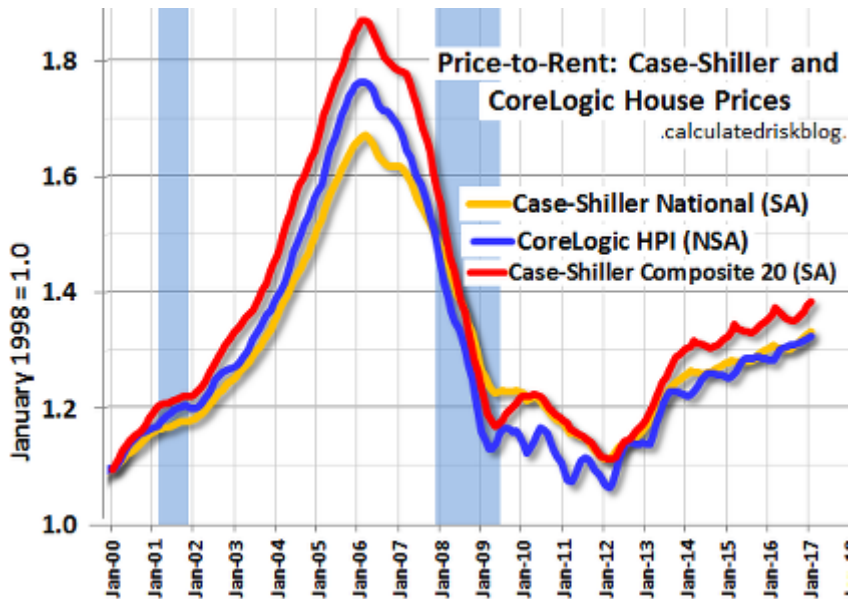
HOUSE PRICE REGIONALLY

Along with the increases in national home prices, local home prices also increased in varying degrees in January. The annual growth rate of home prices for 20 major US metropolitan areas had positive home price appreciation,

except Cleveland. Cleveland was the only one that had negative home price appreciation (-0.8%). The positive home price appreciation ranged from 5.2% to 22.6%. Seattle had the highest home price appreciation at 22.6%, followed by Chicago (16.5%) and Denver (14%). Miami had the lowest positive growth at 5.2 per cent. Fifteen out of the 20 metro areas had the same or higher home price appreciation than the national level of 7.9 per cent.

US HOUSE PRICE-TO-RENT RATIO

In real terms, and as a price-to-rent ratio, [US house] prices are back to late 2003 / early 2004 - and the price-to-rent ratio maybe moving a little more sideways now, wrote Bill McBride in **Calculated Risk** Tuesday.



JOB CENTRE

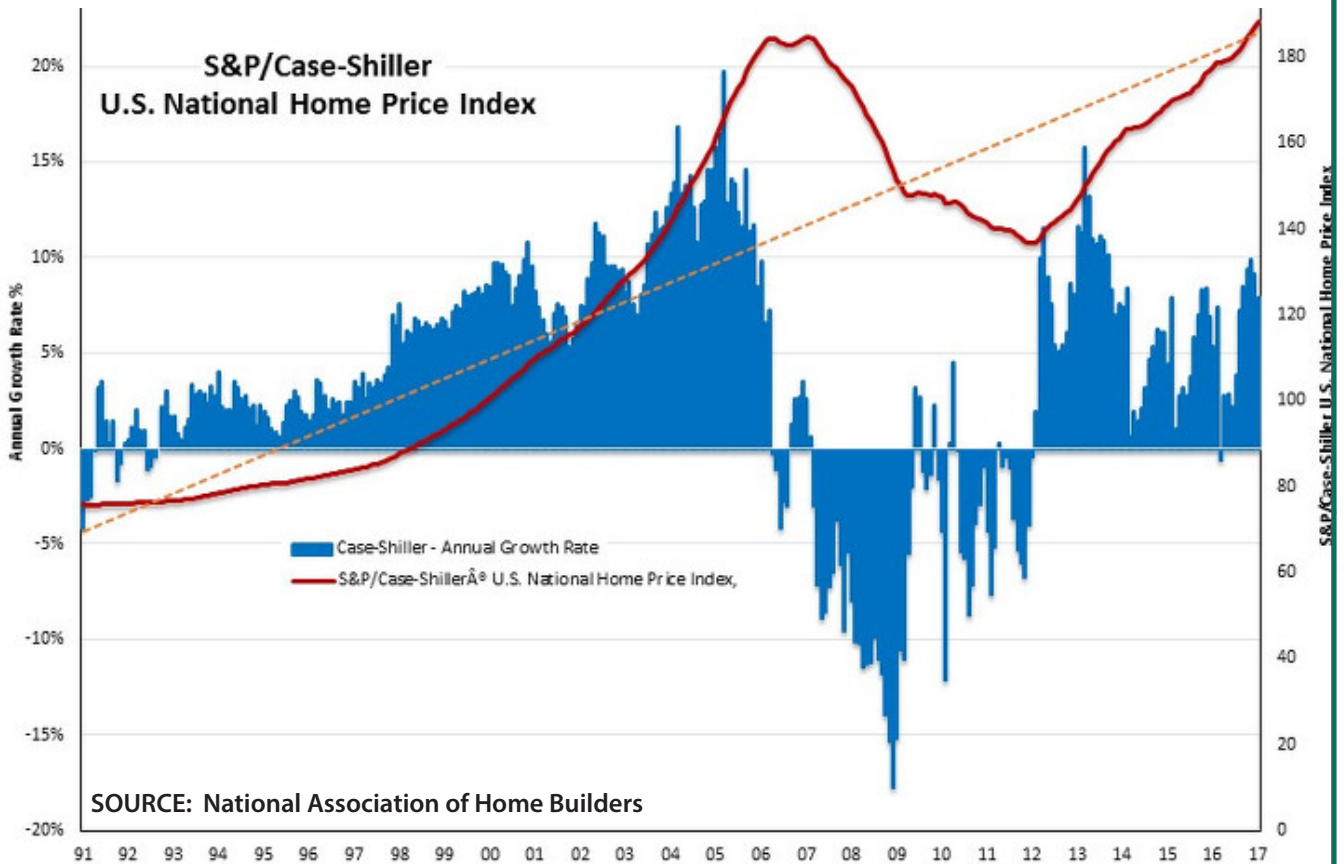
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US Pending and Existing Home Sales: January 2017

CONT'D FROM PAGE 2

The **US Pending Home Sales Index** increased 5.5 per cent in February 2017 to its highest level since April 2016, and the second highest since May 2006. The Pending Home Sales Index (PHSI), a forward-looking indicator based on signed contracts reported by the **National Association of Realtors** Thursday, increased to 112.3 in February, up from 106.4 in January and up 2.6 per cent from the same month a year ago.

US EXISTING HOME SALES

The pending home sales index increased in all four regions, ranging from 11.4 per cent in the Midwest to 3.1 per cent in the West. Year-over-year, the PHSI increased 6.6 per cent in the Northeast and 4.2 per cent in the South, while falling slightly in the West and Midwest.

February existing sales were slowed by inventory constraints, and these shortages are expected to continue, especially in the lower- and mid-market price ranges. However, builder sentiment remains strong, and new home sales are trending positive. As the economy continues to add jobs, increased demand among first-time buyers will help fuel new and existing sales in 2017.



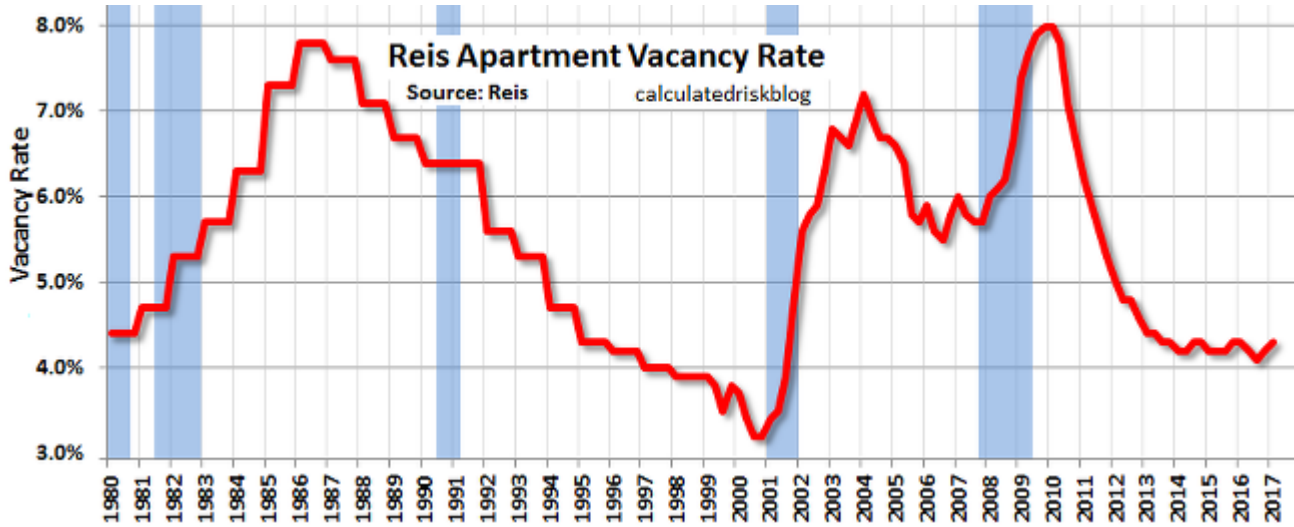
SOURCE: National Association of Home Builders

US Apartment Vacancy Rate: 1Q 2017

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Reis reported Friday that the **US apartment vacancy rate** was at 4.3 per cent in Q1 2017, up from 4.2 per cent in 4Q 2016, and unchanged from 4.3 per cent in 1Q 2016. The vacancy rate peaked at 8 per cent at the end of 2009.

From Reis: Effective Apartment Rents Decline in 23 of 79 Metros Across the US. The National Effective Rent Grew 0.3 per cent in the Quarter, 3.1 per cent over the Year



Apartment markets are slowing in 23 metros across the US as indicated by a decline in effective rents in these metros. Effective rents net out landlord concessions which suggests that rents are flat in most of these markets but landlords have boosted free rent and other concessions to maintain occupancy.

At 4.3 per cent, the national vacancy rate increased 10 basis points in the first quarter of 2017 from 4.2 per cent in the previous quarter. One year ago, the vacancy rate was also 4.3 per cent. New apartment construction has been robust across the US, yet occupancy growth has moved in step with supply growth for most metros.

