

MADISON'S LUMBER REPORTER

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News & Updates

Canada - US Softwood Lumber Trade Talks

Chrystia Freeland, the Canadian global affairs minister, and Wilbur Ross, the US commerce secretary, have spoken frequently in recent days and while both Canadian and US officials say there remain serious hurdles to a deal — not least of which is the approval of their respective lumber industries — there is an appetite to resolve the issue ahead of North American Free Trade Agreement negotiations later this year, said the National Post Tuesday.

Canadian officials note that the lumber dispute is similar to the recent sugar trade spat between the US and Mexico. Earlier this month, Ross imposed a new deal the resolve that dispute in the face of industry objections.

The lumber industry remains a powerful voice but, as with the sugar industry, trade lawyers note that petitioners rarely block government-negotiated settlements.

Gary Hufbauer, a trade expert at the Peterson Institute for International Economics, told Reuters the administration is probably willing to compromise some industry-specific concerns to help reach its larger NAFTA goal of reducing trade deficits.

As well, National Association of Home Builders analysis showed that, had that duty been in effect throughout 2017, the effects would include a net loss of 8,241 full-time US jobs, the home builder's agency said also Tuesday.

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Canada Railway Carloadings: April 2017

The volume of rail freight carried in Canada totalled 31.4 million tonnes in April, up 11.3 per cent from the same month last year, according to Statistics Canada Wednesday.

Freight originating in Canada increased 10.6 per cent in April from the same month a year earlier, to 28.3 million tonnes. Non-intermodal freight increased 8.5 per cent to 304,000 carloads in April. The amount of freight loaded into these cars totalled 25.3 million tonnes, up 11.3 per cent from the same month last year.

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Industrial Product, Raw Materials Price Indexes: May 2017

The Industrial Product Price Index (IPPI) declined 0.2 per cent in May, mainly due to lower prices for energy and petroleum products. The Raw Materials Price Index (RMPI) fell 1.8 per cent, primarily due to lower prices for crude energy products, said Statistics Canada Friday.

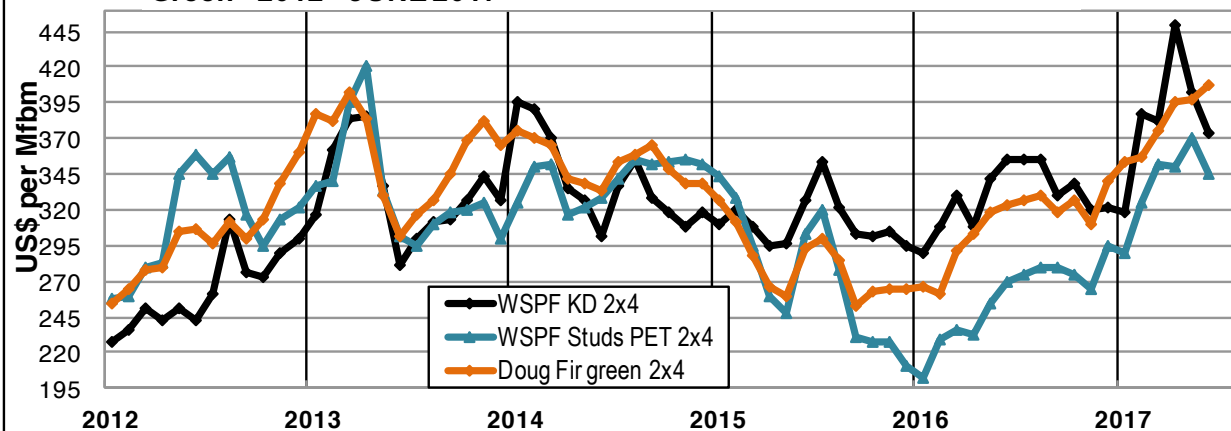
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US House Prices, Pending Home Sales: April & May 17

The S&P/Case-Shiller and the Federal Housing Finance Agency (FHFA) Tuesday released their respective home price indices for April. National home prices increased at a more moderate annual growth rate, while local home price gains varied.

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2x4 Prices : WSPF KD R/L #2&Btr, WSPF KD PET Studs, Douglas fir
Green - 2012 - JUNE 2017



Duties on Lumber to Threaten Thousands of US Jobs - NAHB

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National Association of Home Builders analyzed the effect of the 19.88 per cent countervailing duty (CVD) levied by the Department of Commerce on Canadian softwood lumber exported to the United States. The NAHB analysis showed that, had that duty been in effect throughout 2017, the effects would include a net loss of 8,241 full-time US jobs, the agency said Tuesday.

NAHB explained that starting from this baseline and applying average elasticities (measures of the way markets respond to price changes) taken from a 2011 technical article by Baek yields an estimate that, in 2017, a 26.75 per cent tariff would result in a:

- US\$685.5 million in wages and salaries for US workers,
- US\$481.8 million in taxes and other revenue for governments in the US, and
- 11,336 full-time US jobs.

IMPACT ON US JOBS

The reduction in jobs is not limited to the construction industry, said NAHB, as jobs are also lost in businesses that sell and transport building materials, provide architecture and engineering services, etc. Some jobs are gained in the US sawmill industry, but this is almost entirely offset by losses in other manufacturing industries.

The 2017 baseline that would prevail in the absence of the duty is based on 2016 lumber production and consumptions statistics, mid-2016 prices adjusted for inflation, and construction spending in 2016 adjusted for inflation and anticipated real increase, and wages per job adjusted for inflation. The adjustment factors are taken from NAHB's 2017 forecast for the Consumer Price Index, Residential Fixed Investment, and Housing Starts for 2017. In addition, wages per job are inflated using HUD's estimate of Median Family Income for 2017.

LUMBER PRICES FOR HOME BUILDERS

Home builders are one of the largest consumers of softwood lumber in the US. The effects of the higher prices the tariff would cause them to pay for lumber (assuming the conventional price elasticity for housing demand of -1) include a:

- US\$1,701 increase in the price of an average single-family home
- US\$489 increase in the market value of an average multifamily home
- US\$1.30 billion reduction in investment in single-family structures, and
- US\$200.8 million reduction in investment in multifamily structures.

IMPACT ON US LUMBER PRODUCTION

Recent increases in lumber prices support the notion that Canadian producers will be able to pass along a portion of the cost. The above analysis considers only the impacts of increased output by U.S. sawmills and reduced investment in new residential construction. It does not include any upstream impacts of inputs used by U.S. sawmills, such as timber; nor does it include negative impacts of higher prices on other industries that use lumber, such as residential remodeling.

In addition, the analysis assumes that both duties are in place throughout 2017, estimating annual job losses etc. for calendar year 2017. In real terms, NAHB's estimates of the negative impacts of the duties on Canadian lumber would be somewhat larger in 2018, due to a continuing recovery in the single-family housing market, resulting in percentage reductions being applied to a larger base. Dollar denominated estimates would also be slightly larger in 2018 due to general inflation.

	Year to Date	Previous YTD	Change %	Trend	Full Year 2016	Change % Year Ago	Trend
Five Key 2x4 Lumber Prices: Aggregate US\$/mfbm	(THIS MONTH) 424	(MONTH AGO) 429	-1.1%	▼	(YEAR AGO) 380	+11.7%	▲
VOLUMES							
Canada Lumber Production: softwood, million m ³	17.1	16.7	+2.4%	▲	66.9	+5.8%	▲
BC Lumber Production: softwood, million m ³	7.9	8.1	-2.5%	▼	32.0	+2.5%	▲
VALUES							
Canada Sawmill Manufacturing Sales: million C\$	4,057	4,462	-9.1%	▼	11,284	+15%	▲
US Total Sawmill Products Imports: million US\$	2,235	1,858	+17%	▲	6,128	+20%	▲
US Total Sawmill Products Exports: million US\$	342	328	+14%	▲	1,021	+0.1%	▲
Canada Sawmill Exports to USA: million C\$	2,324	2,144	+7.7%	▲	7,501	+21%	▲
SOURCE: Madison's Lumber Reporter				www.madisonsreport.com			

Madison's Weekly Softwood Lumber Key Prices Table

www.madisonsreport.com



Prices are in U.S. dollars per 1,000 fbm (net FOB mill)	This Week					Month Ago				Year Ago			
	Week	Last Week	Change	%	Trend	Ago	Change	%	Trend	Ago	Change	%	Trend
WSPF KD R/L 2x4	374	374	0	0%	-	378	-4	-1.1%	▼	322	+52	+16.1%	▲
WSPF KD R/L 2x6	366	354	+12	+3.4%	▲	356	+10	+2.8%	▲	290	+76	+26.2%	▲
SYP KD R/L East Side 2x4	415	440	-25	-5.7%	▼	460	-45	-9.8%	▼	425	-10	-2.4%	▼
SYP KD R/L East Side 2x6	330	340	-10	-2.9%	▼	355	-25	-7%	▼	350	-20	-5.7%	▼
ESPF KD R/L 2x4	470	475	-5	-1.1%	▼	465	+5	+1.1%	▲	420	+50	+11.9%	▲
WSPF KD PET 2x4 Stud	365	355	+10	+2.8%	▲	340	+25	+7.4%	▲	270	+95	+35.2%	▲
WSPF KD PET 2x6 Stud	390	380	+10	+2.6%	▲	380	+10	+2.6%	▲	250	+140	+56%	▲
Douglas Fir Green R/L 2x4	430	412	+18	+4.4%	▲	390	+40	+10.3%	▲	360	+70	+19.4%	▲
Douglas Fir Green R/L 2x10	475	460	+15	+3.3%	▲	460	+15	+3.3%	▲	387	+88	+22.7%	▲
ESPF KD 2x4 8ft Stud	465	465	0	-1.1%	▼	470	-5	-1.1%	▼	355	+110	+31%	▲
OSB Ontario 7/16" (CDN\$/msf)	440	440	0	+1.1%	▲	415	+25	+6%	▲	325	+115	+35.4%	▲
CS Plywood Toronto 3/8" (CDN\$/msf)	525	512	+13	+2.5%	▲	473	+52	+11%	▲	440	+85	+19.3%	▲

Madison's Weekly Softwood Lumber News

Railway Carloadings, Canada

CONT'D FROM PG 2 Tonnages of coal (+18.4%), iron ores and concentrates (+9.6%), potash (+26.5%), and wheat (+17.9%) were up in April compared with the same month a year earlier, said Statistics Canada Wednesday.

Conversely, tonnages of sulphur (-22.5%), other refined petroleum and coal products (-21.1%), newsprint (-23.3%) and wood chips (-21.2%) shipped by rail declined in April on a year-over-year basis.

Canada Industrial Products, Raw Materials Prices

CONT'D FROM PG 2 The Indus-

trial Product Price Index (IPPI) in Canada declined 0.2 per cent in May, after rising 0.6 per cent in April, according to Statistics Canada Friday. This was the first decline in the IPPI since August 2016. Of the 21 major commodity groups, 3 were down, 17 were up and 1 was unchanged.

Pulp and paper products (+1.9%) also moderated the decline in the IPPI. The increase in this product group was primarily due to higher prices for wood pulp (+4.7%).

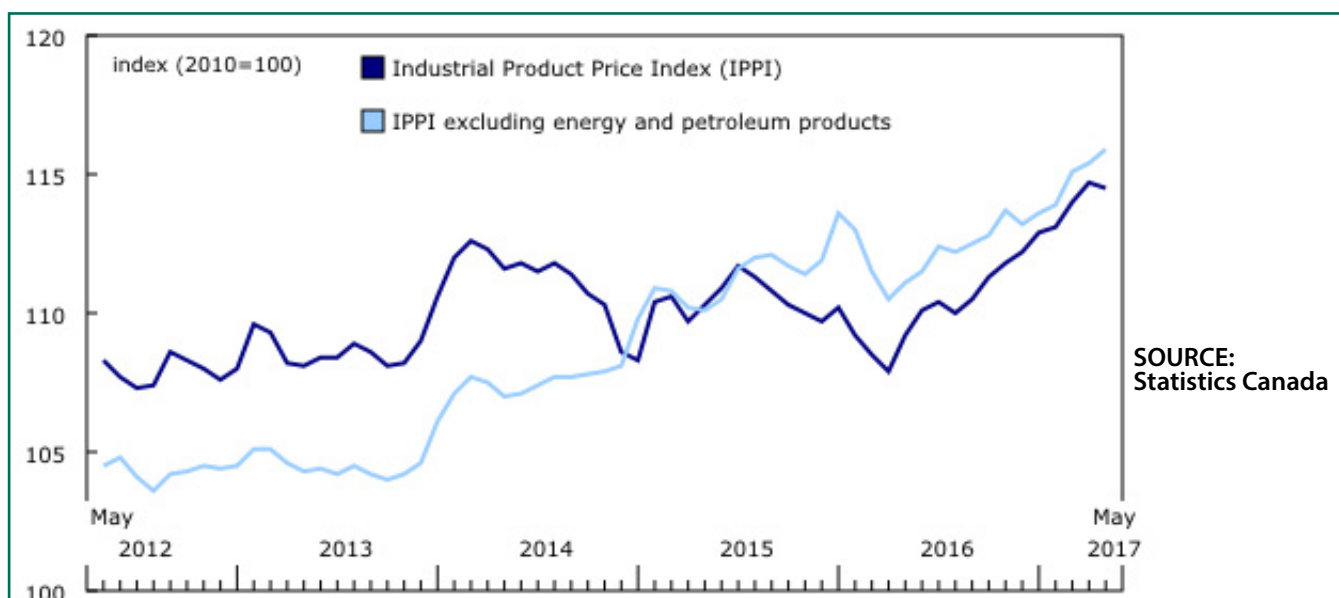
The IPPI rose 4.9 per cent over the 12-month period ending in May, after increasing 6.3 per cent in April.

The year-over-year increase in the IPPI was largely attributable to higher prices for energy and petroleum products.

Meanwhile, the Raw Materials Price Index (RMPI) was down 1.8 per cent in May, following a 1.6 per cent increase in April. This was the largest decline in the RMPI since July 2016. Of the six major commodity groups, three were down and three were up.

The RMPI rose 8 per cent in the 12-month period ending in May, following a 17.7 per cent increase in April.

Compared with May 2016, the increase in the RMPI was largely due to higher prices for crude energy products (+10.3%), primarily conventional crude oil (+10.5%). The RMPI excluding crude energy products rose 6.4 per cent.



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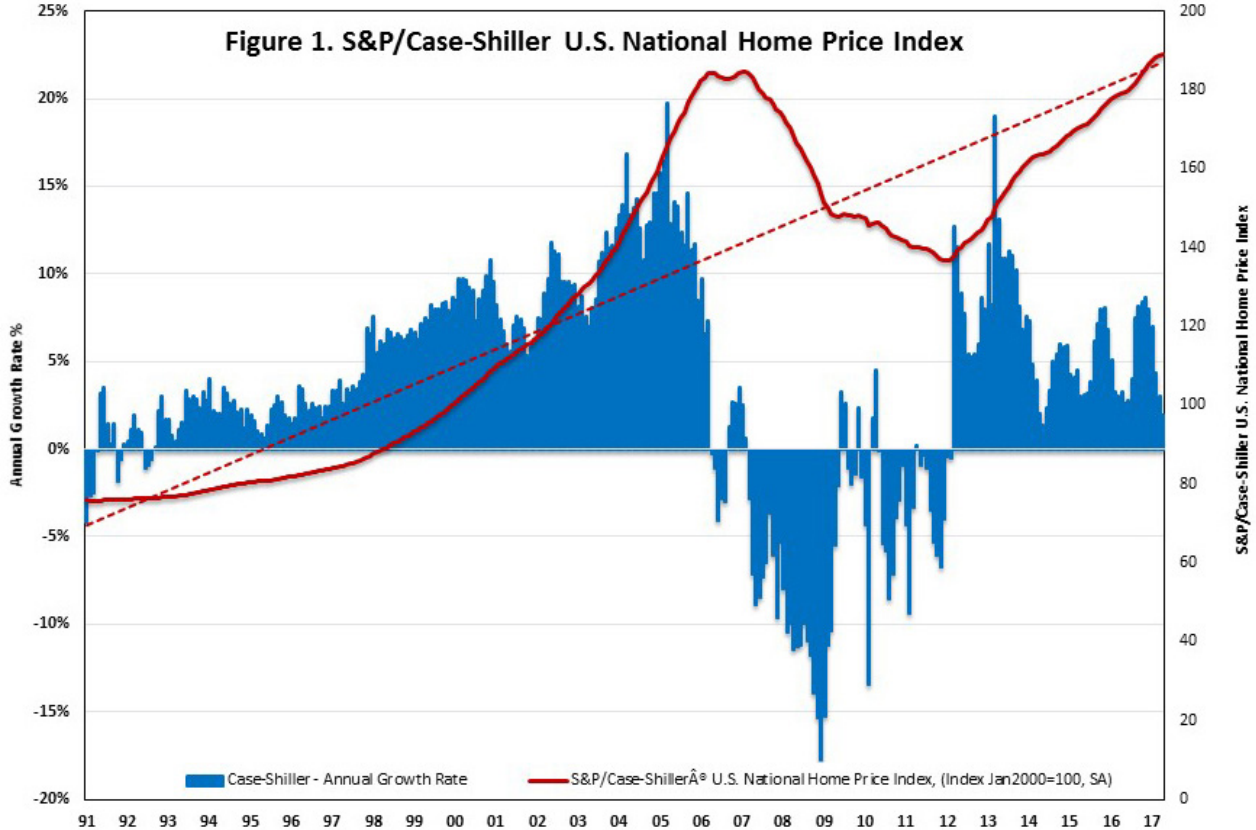


US House Prices, Pending Home Sales: April & May 17

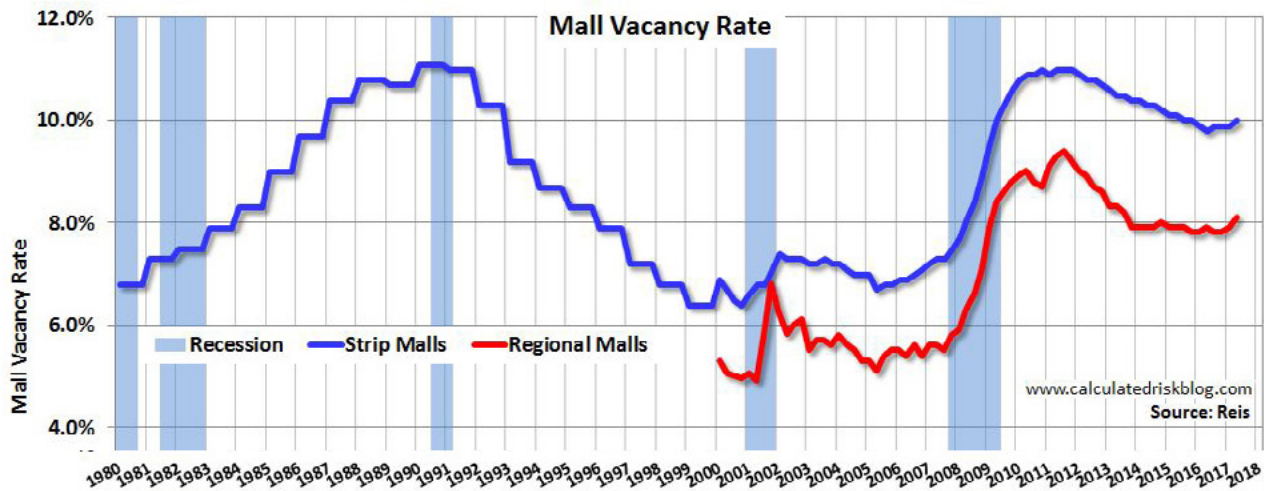
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The Case-Shiller US National Home Price Index, reported by S&P Dow Jones Indices, rose at a seasonally adjusted annual growth rate of 2 per cent in April, down from 3 per cent in March. After reaching 8.7 per cent in November 2016, house price appreciation has been decelerating.

The Home Price Index from the Federal Housing Finance Agency (FHFA) rose at a seasonally adjusted annual rate of 8.3 per cent in April, slower than 8.8 per cent in March, confirming the deceleration in home prices.



Elsewhere, the Pending Home Sales Index decreased for the third month in a row, and annually for the second year in a row, said the National Association of Realtors (NAR) Wednesday. The Pending Home Sales Index decreased to 108.5 in May, down 0.8 per cent from a downwardly revised 109.4 in April, and down 1.7 per cent from the level a year ago. Among the 20 metro areas, Detroit, MI, Seattle, WA, and Las Vegas, NV, had the highest home price appreciation, according to the S&P/Case-Shiller and the Federal Housing Finance Agency (FHFA) release Tuesday. Detroit led the way with 23.7 per cent, followed by Seattle with 13.8 per cent and Las Vegas with a 12.1 per cent increase. Fifteen out of the 20 metro areas had home price appreciation. Moreover, eleven metro areas had higher home price appreciation than the national level of 2 per cent. Home prices depreciated in the remaining five metro areas in April.



US Pending Home Sales Index

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The Pending Home Sales Index (PHSI) remained flat in the Midwest, and decreased in the Northeast, South and West by 0.8 per cent, 1.2 per cent and 1.3 per cent respectively, said NAR Wednesday. Year-over-year, the PHSI increased 3.1 per cent in the Northeast, but fell 1.4 per cent in the South, 2.8% per cent in the Midwest and 4.5 per cent in the West. This was below expectations of a 0.5 per cent increase for this index. Note: Contract signings usually lead sales by about 45 to 60 days, so this would usually be for closed sales in June and July.

May existing sales increased 1.1 per cent, despite two monthly declines in the PHSI. However, National Association of Realtors reported a 7.2 per cent year-over-year decline in sales of homes priced under US\$100,000 and only a 2 per cent year-over-year sales increase in homes priced between US\$100,000 and US\$250,000. Meanwhile, sales jumped 26 per cent for homes priced between US\$750,000 and one million dollars, while sales for homes at a million dollars and up increased 29.1 per cent. The low inventory of homes for sale continues to dampen sales in the first two categories, but the sharp dichotomy suggests a more troubling picture regarding affordability. However, sales of new homes gained 2.9 per cent in May, and as the economy adds jobs, the increased demand among first-time buyers will support new and existing sales in 2017.



US Real House Prices and Price-to-Rent Ratio: April 2017

Said Bill McBride on Calculated Risk Tuesday, in October 2004, Federal Reserve economist John Kainer and researcher Chishen Wei wrote a Fed letter on price to rent ratios: House Prices and Fundamental Value. Kainer and Wei presented a price-to-rent ratio using the OFHEO house price index and the Owners' Equivalent Rent (OER) from the Bureau Labor Statistics.

On a price-to-rent basis, the Case-Shiller National index is back to November 2003 levels, the Composite 20 index is back to August 2003 levels, and the CoreLogic index is back to September 2003.

In real terms, prices are back to early 2004 levels, and the price-to-rent ratio is back to 2003 - and the price-to-rent ratio maybe moving a little more sideways now.

