



Forest Economic Advisors

# North American Lumber Markets

## Will US Recession be Delayed or Denied?

**Paul Jannke**

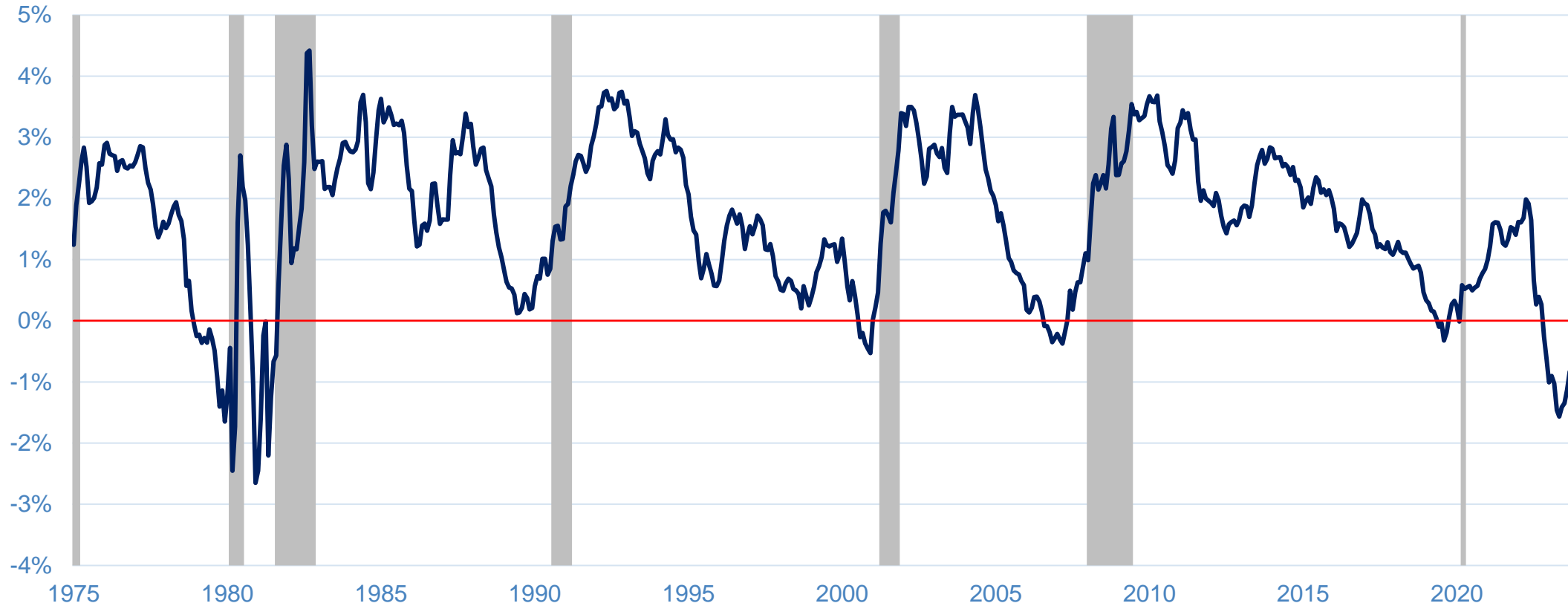
**71<sup>st</sup> International Softwood Conference**

**October 12<sup>th</sup> 2023**

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# The 10-Year/3 Month Yield Curve Looking Ominous

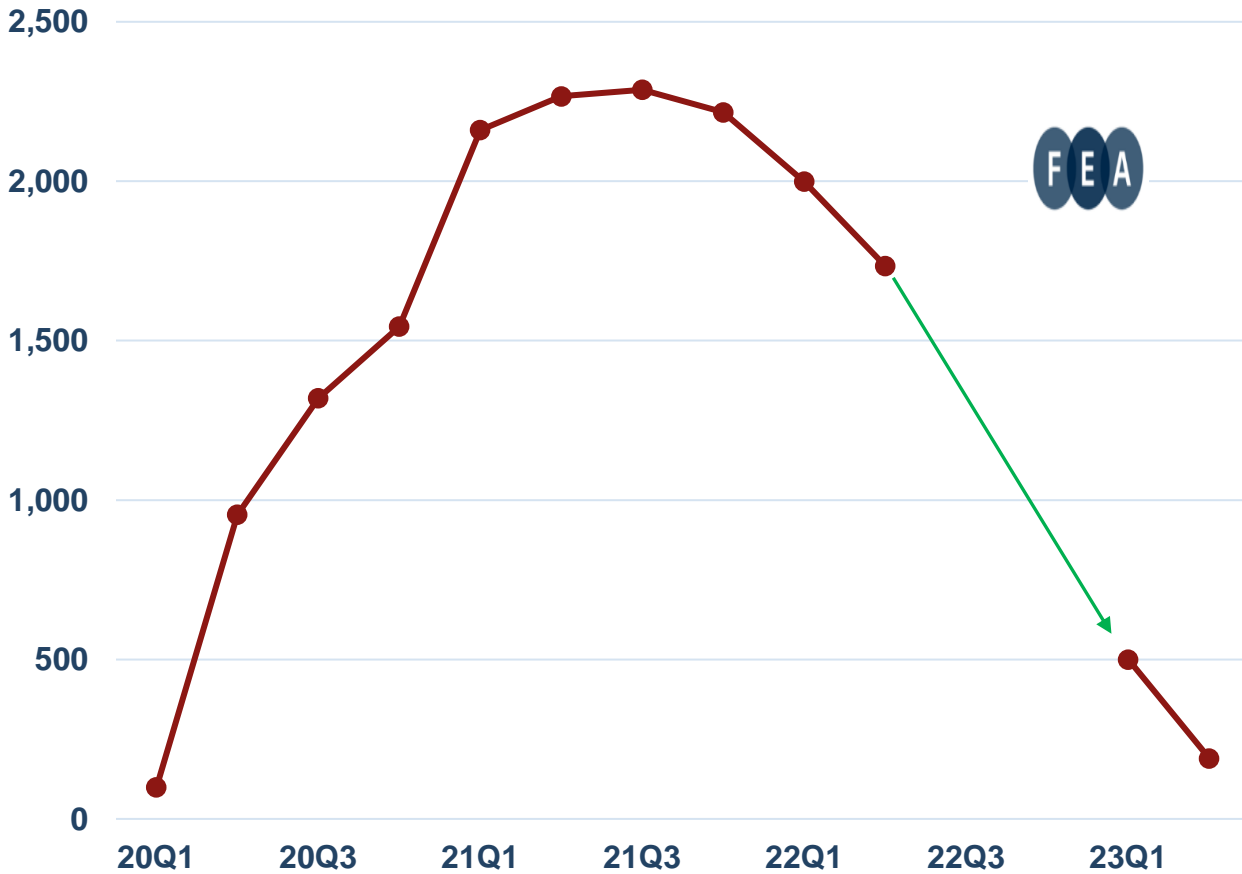
## Yield Spread: Ten-Year Treasury minus Three-Month Treasury Bill



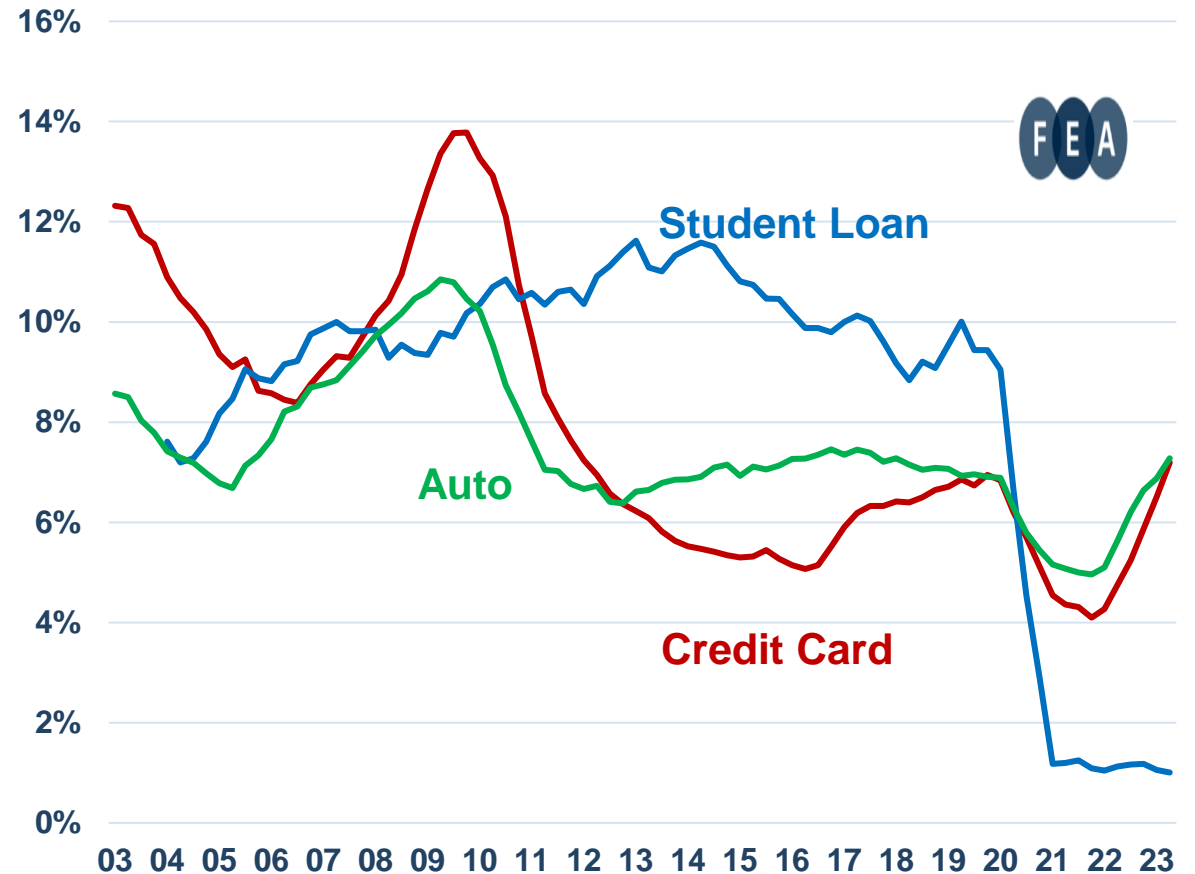
Source: Federal Reserve

# The Economy Has Been Artificially Propped Up

Stock of Excess Savings in Billions of USD



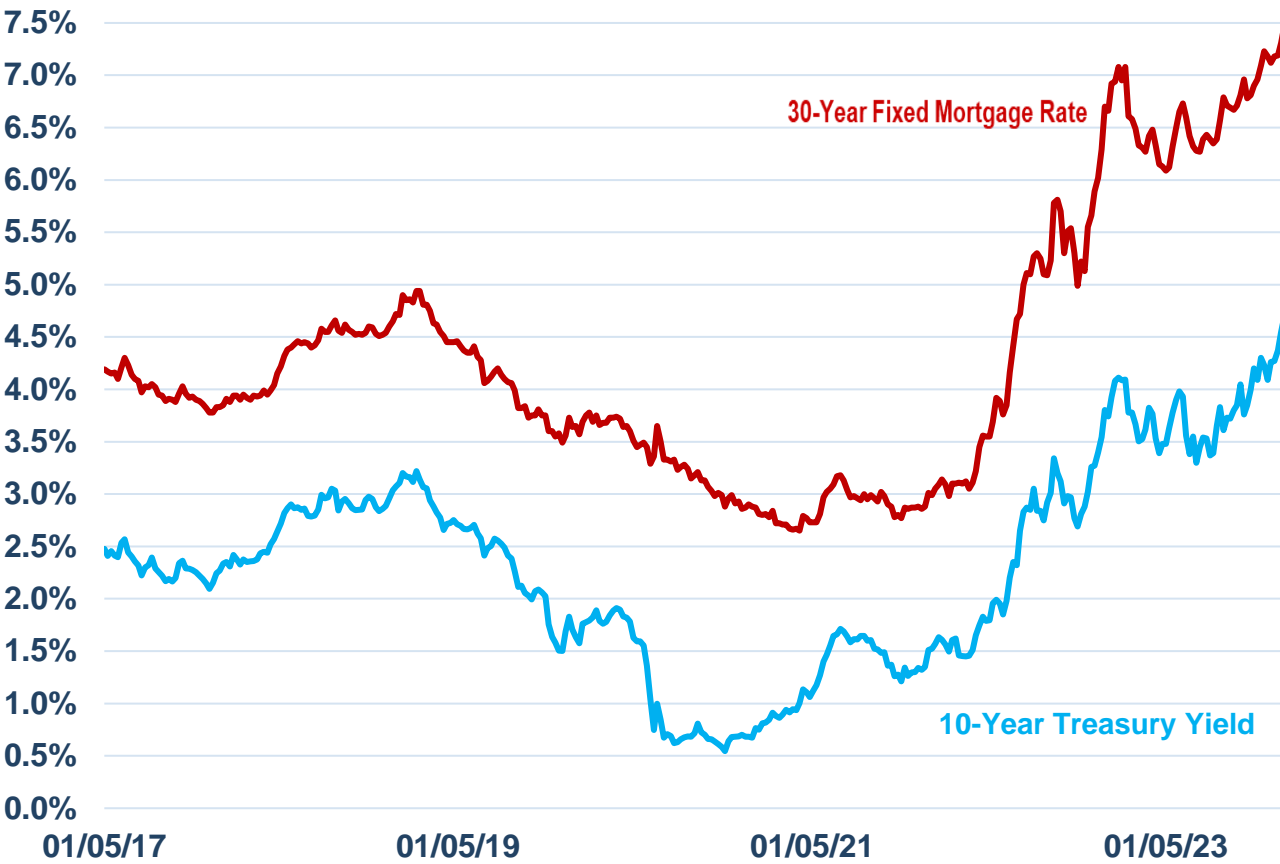
New Loan Balances 30 Day or More Delinquent



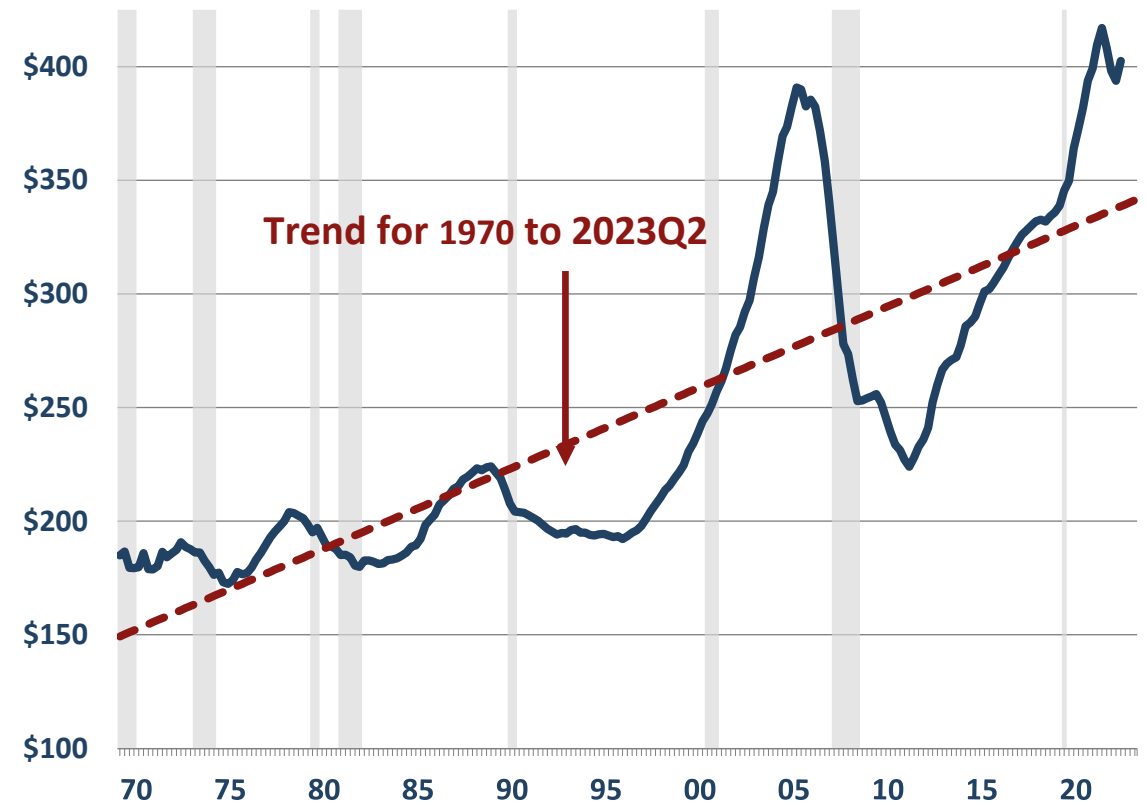
Source: San Francisco Federal Reserve  
www.getfea.com

Source: New York Fed Consumer Credit Panel

# Mortgage Rates Reached Highest Level in 22+ Years

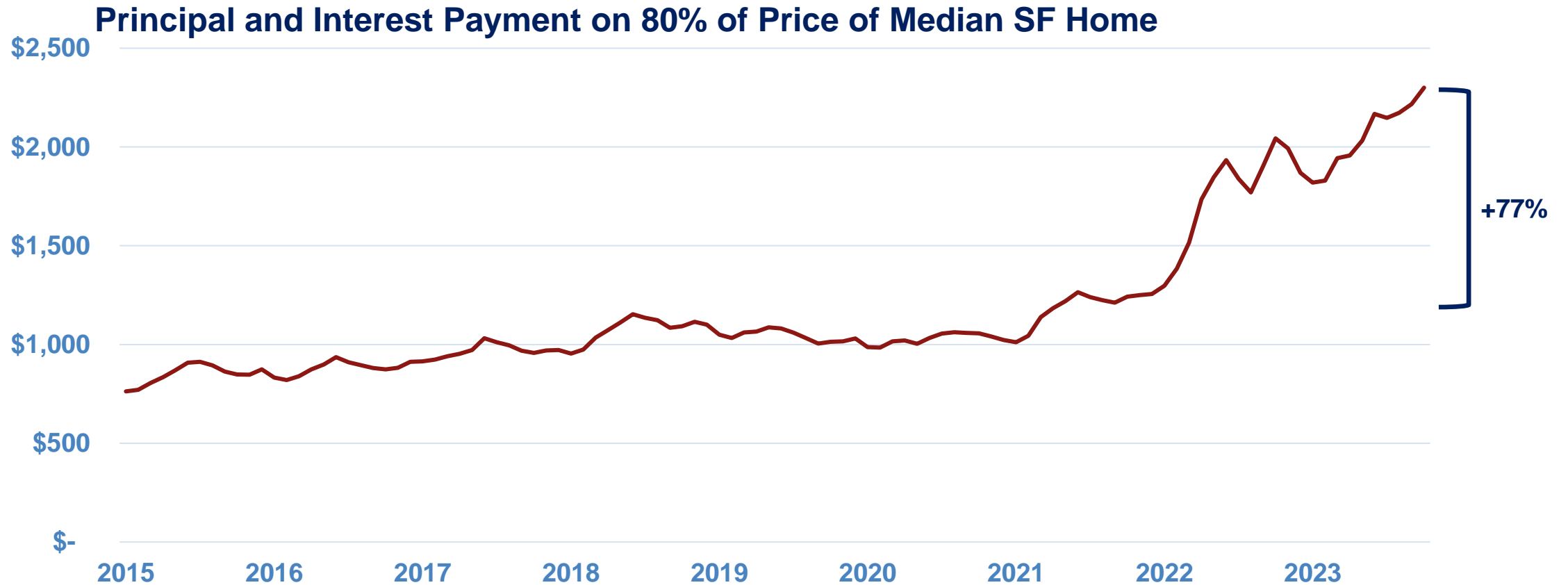


Median Single-Family Home Prices in 1,000 2023Q2 Dollars



Source: Federal Reserve, FEA calculations

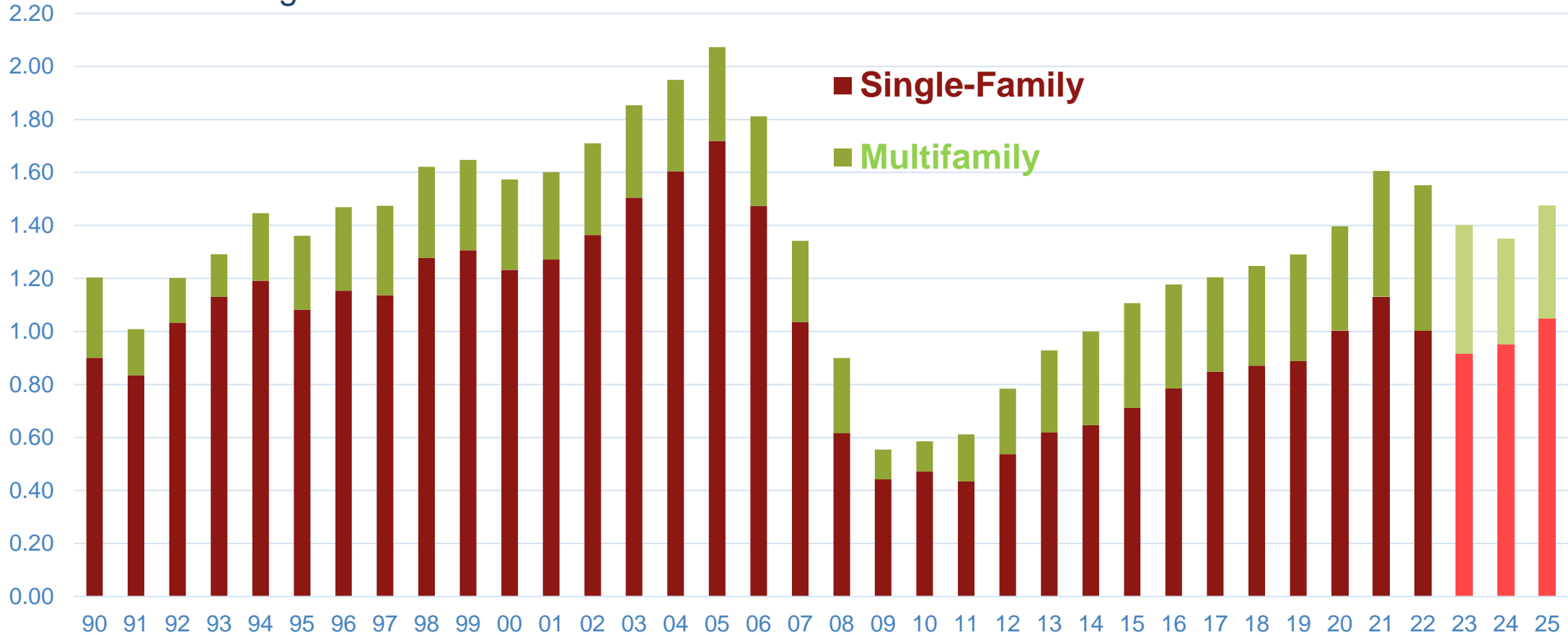
# Home Affordability Has Deteriorated Rapidly



Source: National Association of Realtors, FEA estimates and calculations

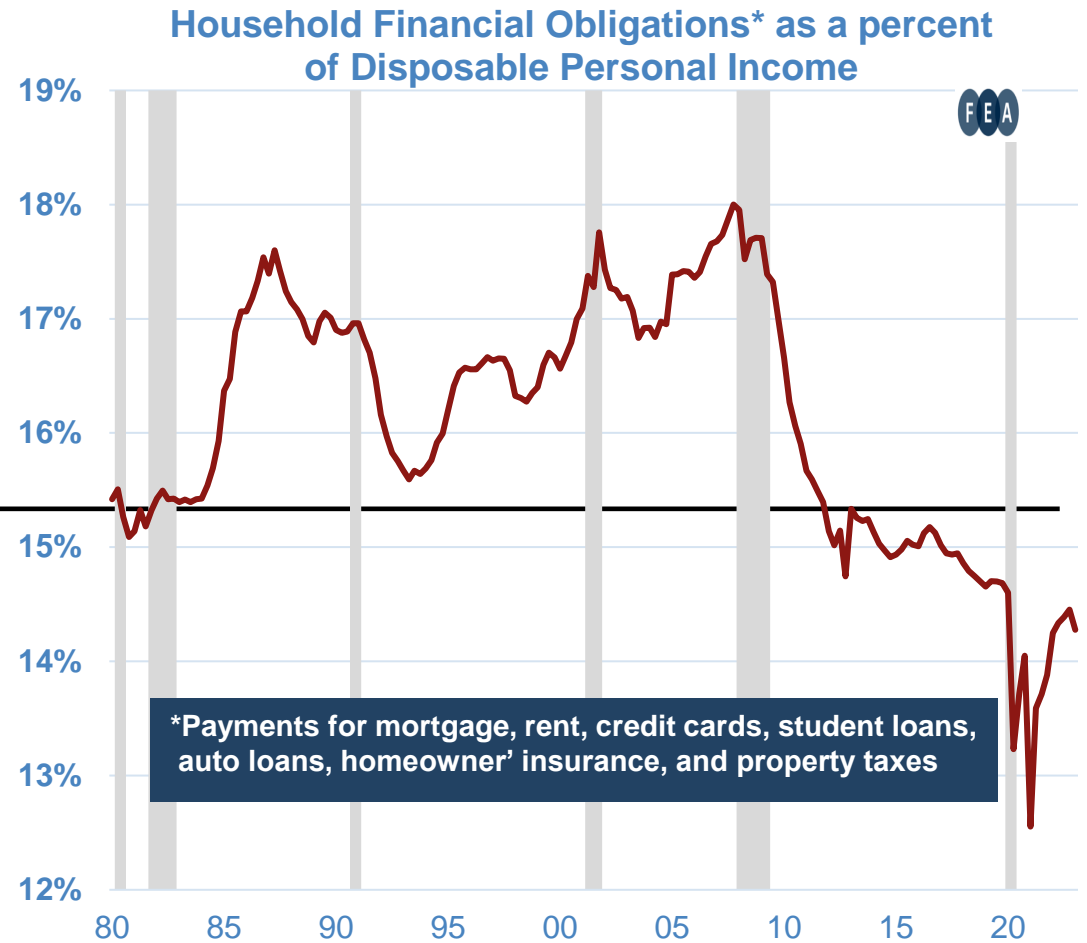
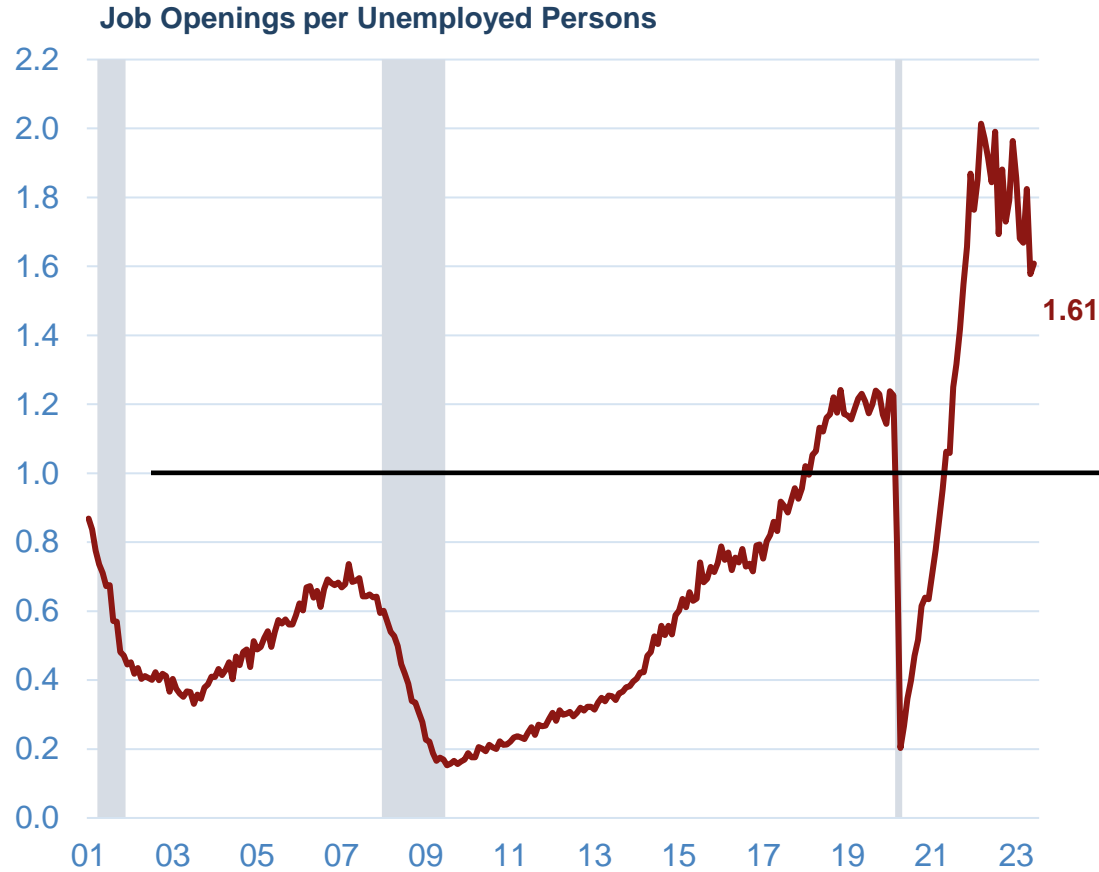
# Housing Starts to Decline by 10% in 2023 And Edge Up 2% in 2024 and 11% in 2025

US Housing Starts in Millions



Source: Census Bureau, FEA Forecasts

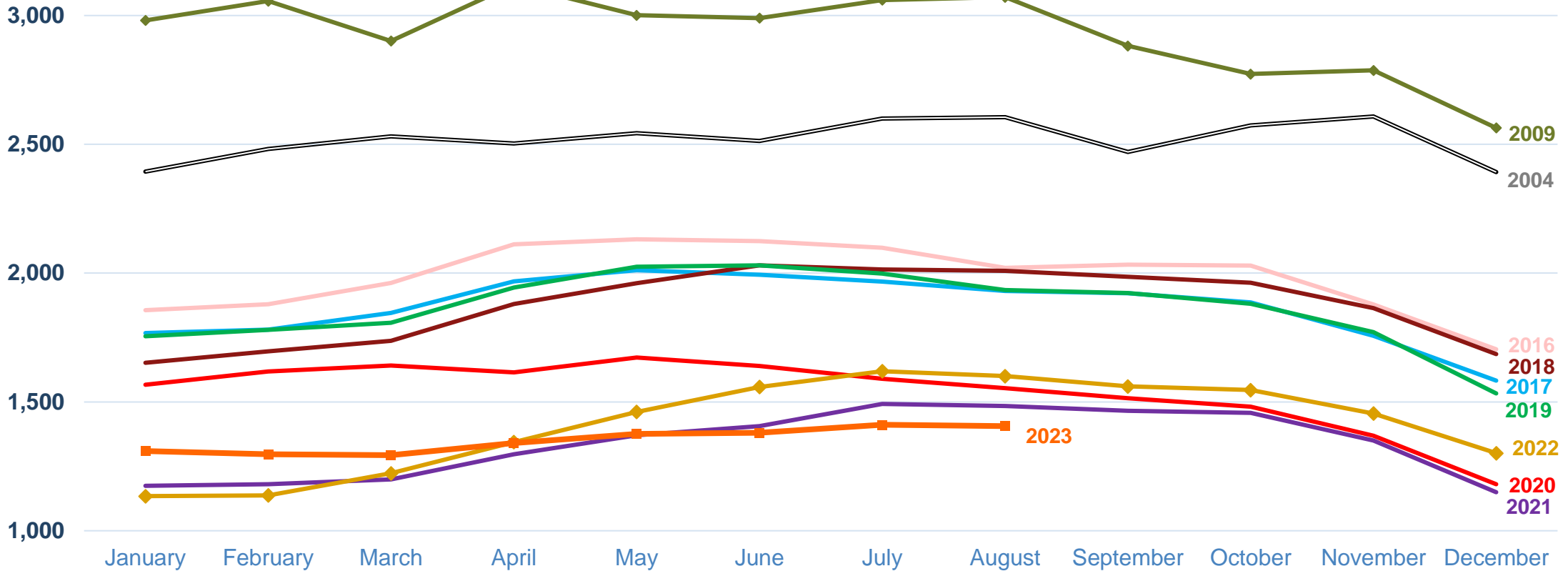
# Recession Will Be Mild



Source: Bureau of Labor Statistics

# Home Inventories Are at Rock Bottom

Existing plus New Single-Family Homes for Sale, Thousands

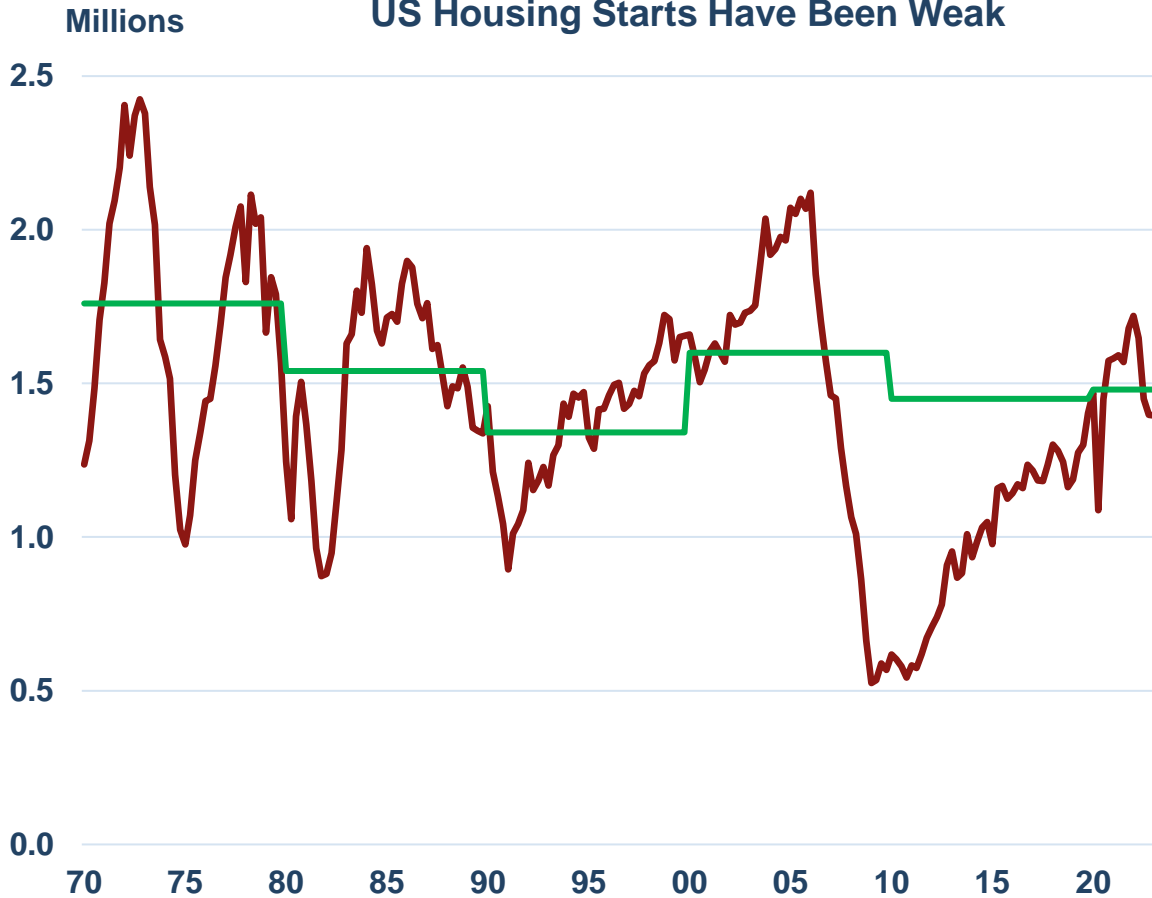


Source: Census Bureau and National Association of Realtors

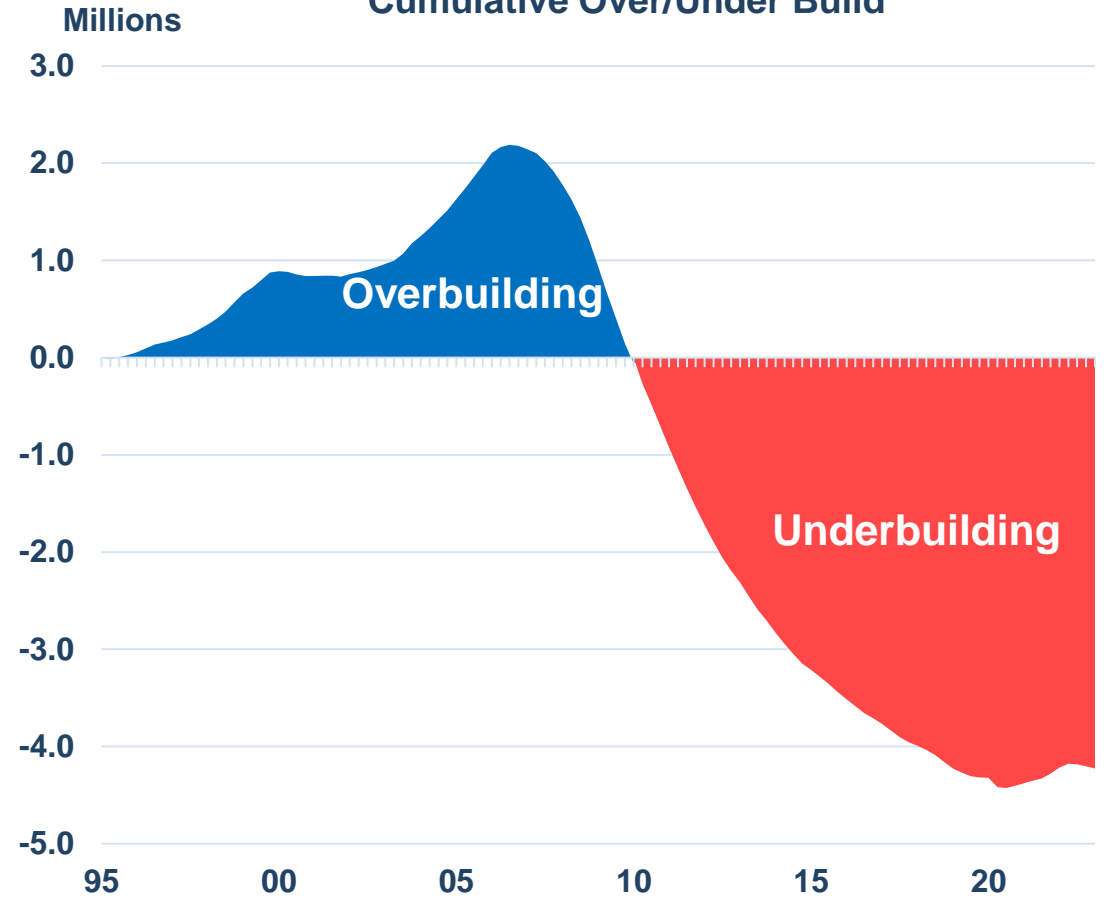


# US Housing Markets Are Backed By Strong Pent-Up Demand

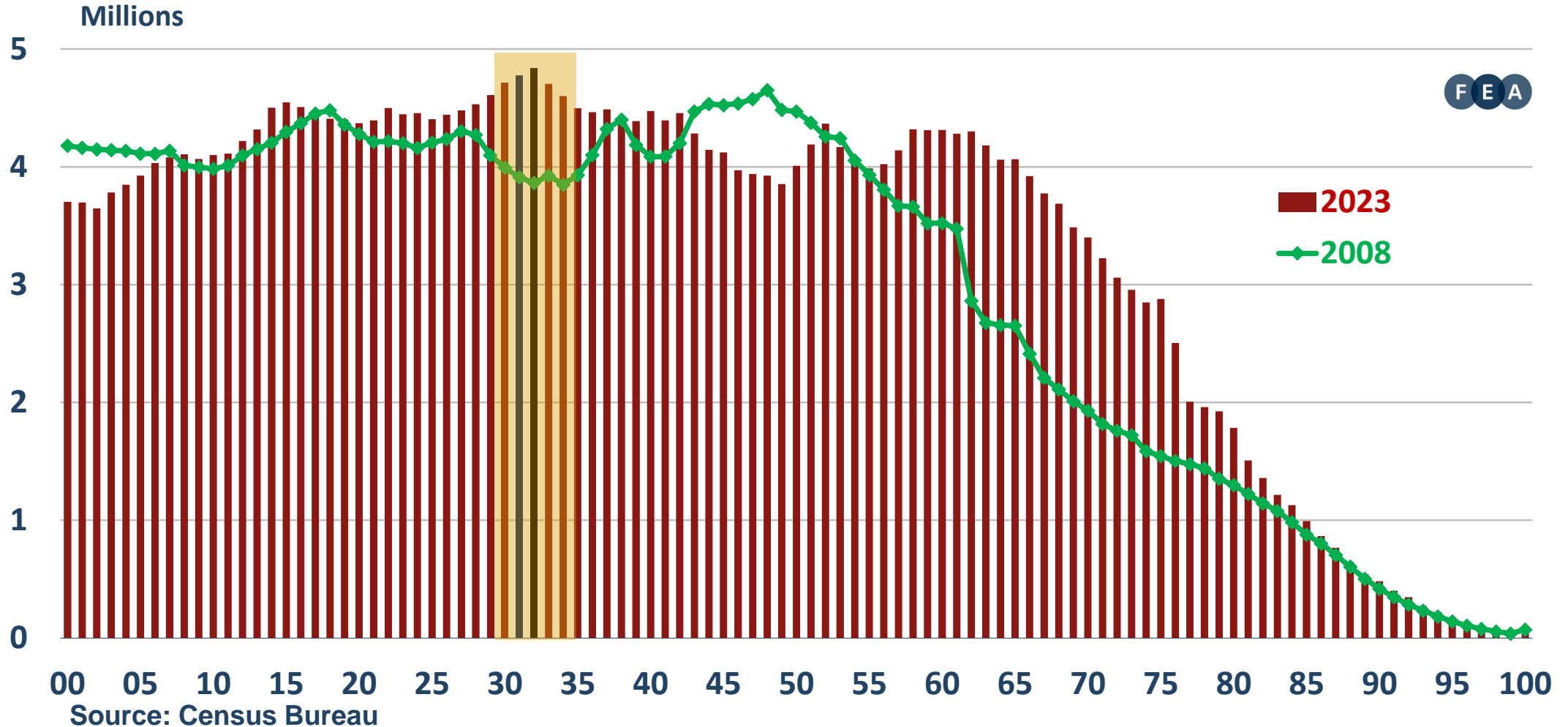
US Housing Starts Have Been Weak



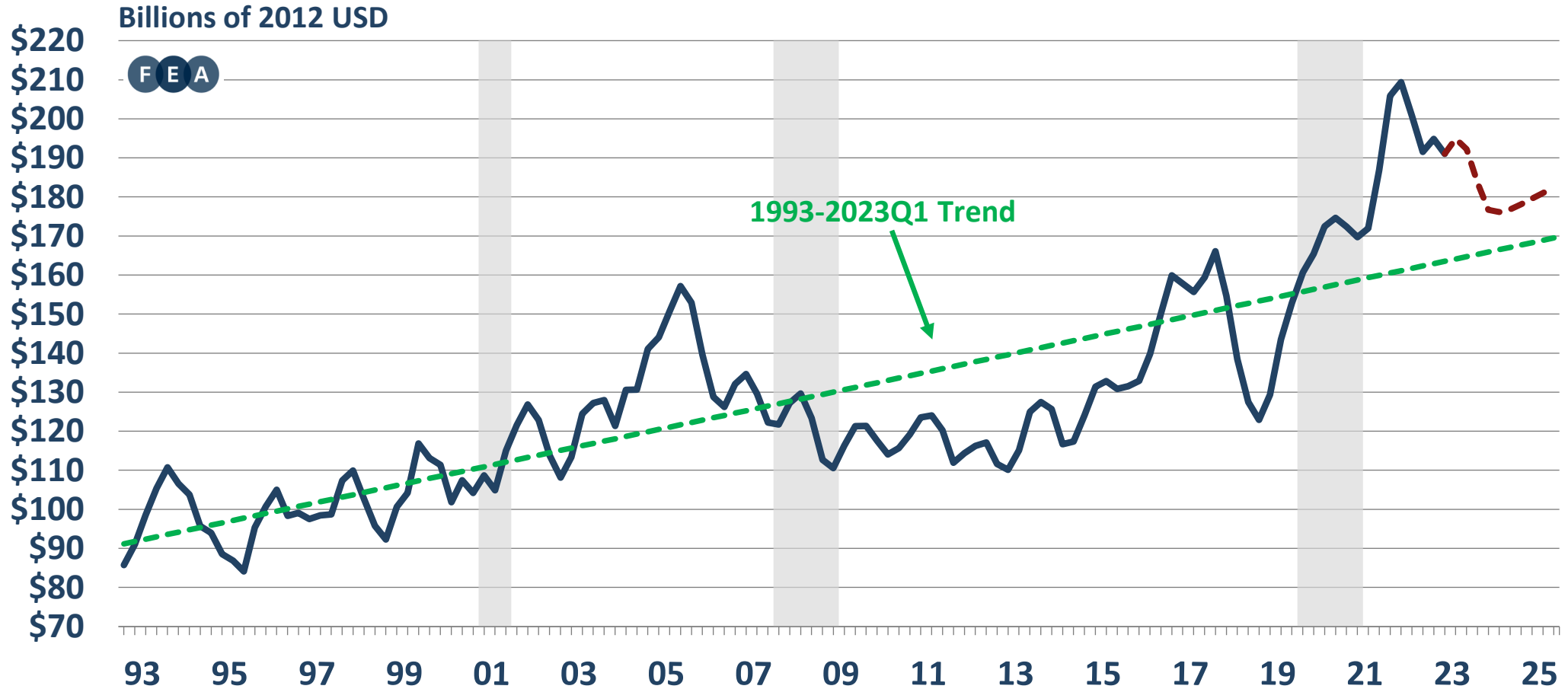
Cumulative Over/Under Build



# 2008 – Strong Demographic HEADWIND 2023 – Strong Demographic TAILWIND



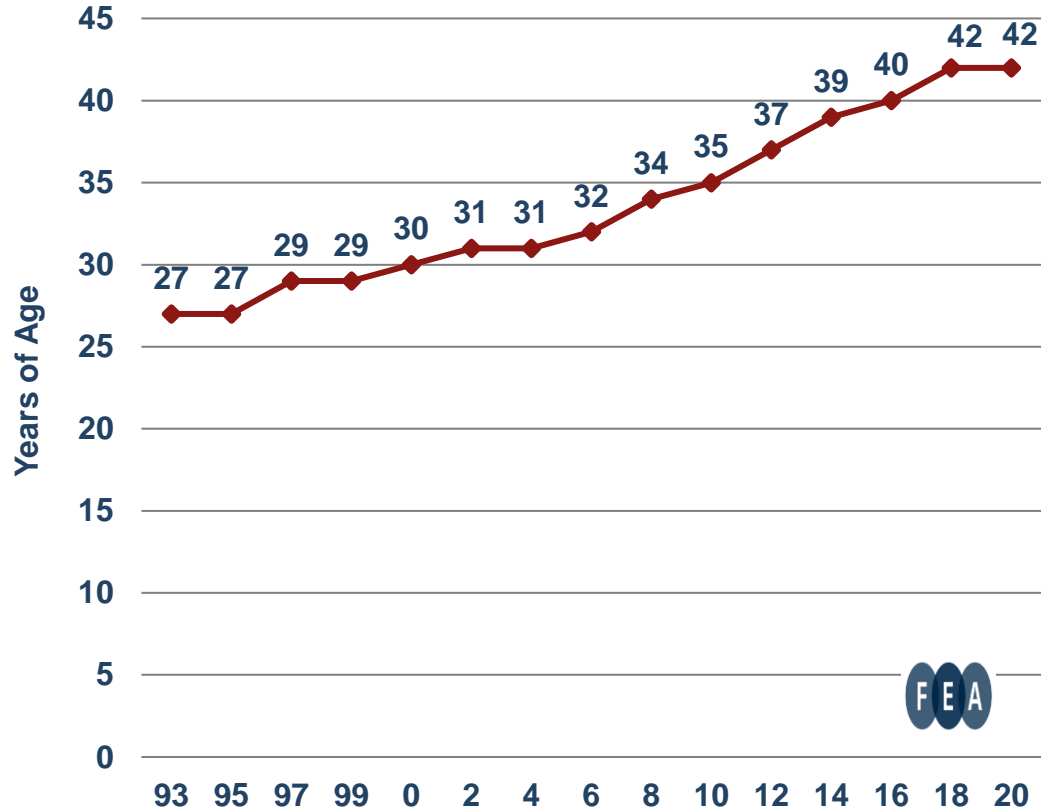
# Improvement Expenditures Will Decline from High Level



Source: Census Bureau, Bureau of Economic Analysis, FEA calculations

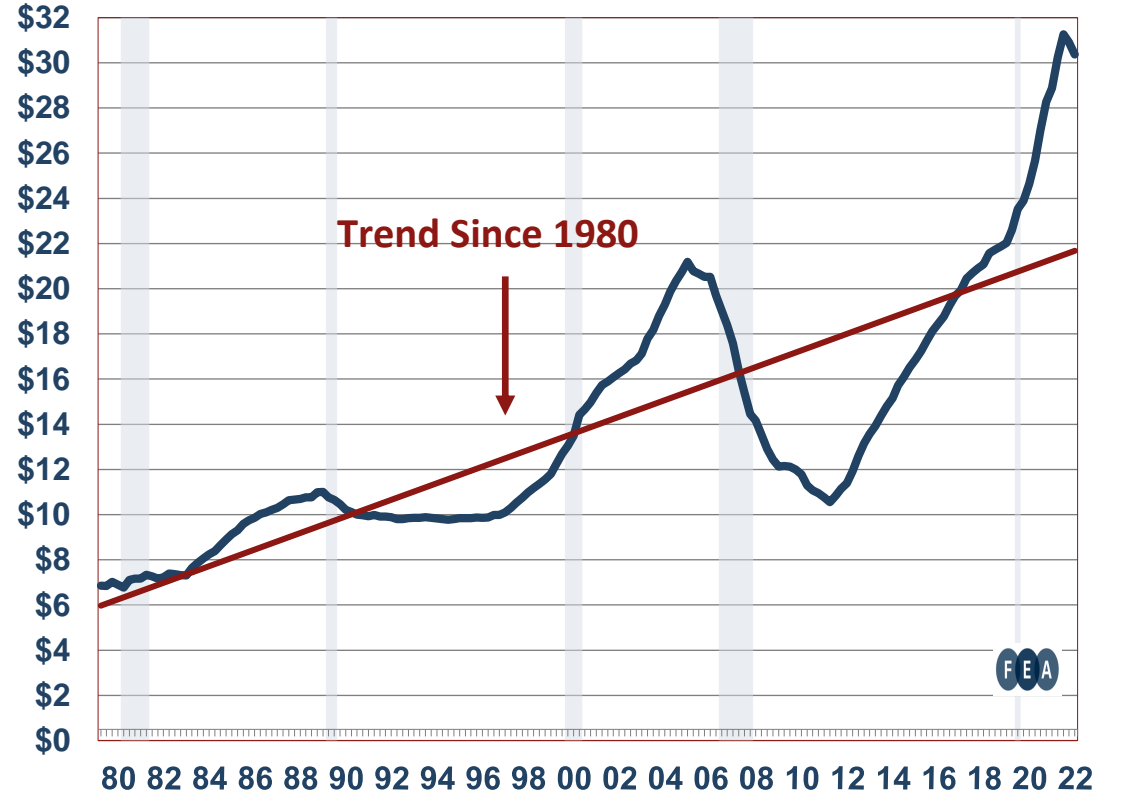
# But Fundamentals Are Strong

Median House Age



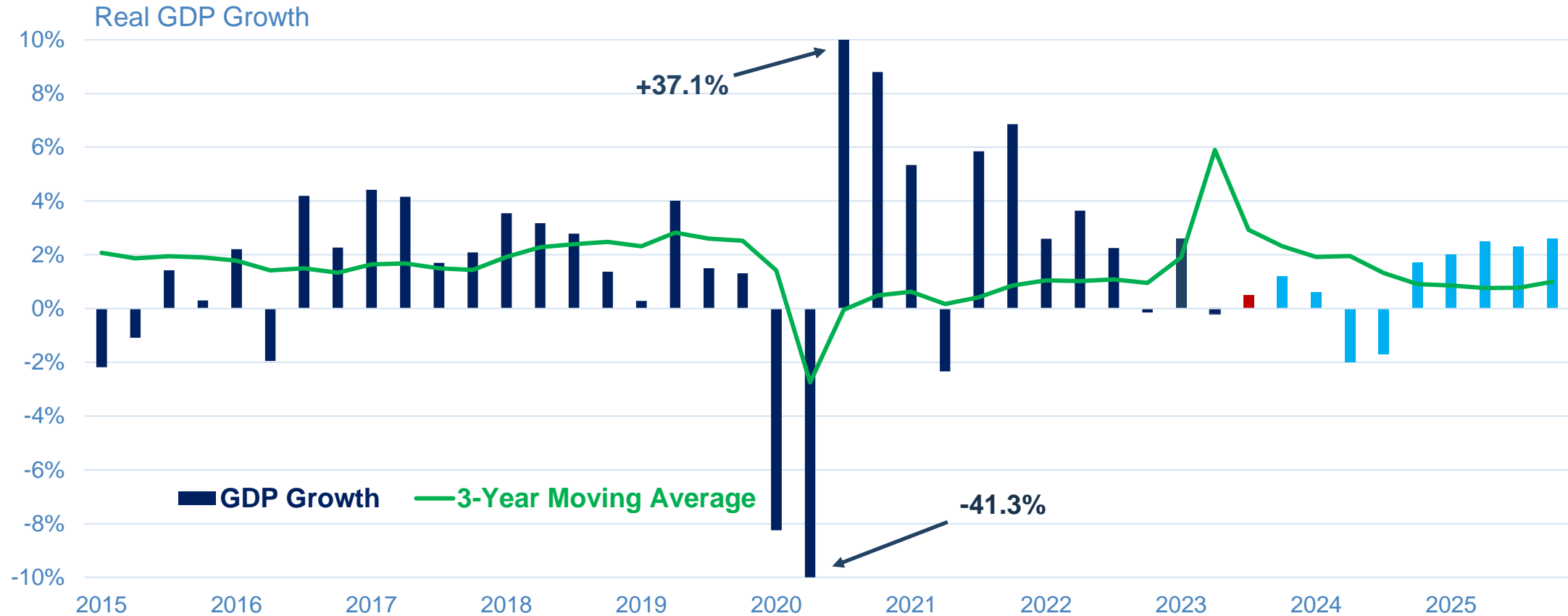
Source: Census Bureau, 2021 American Housing Survey

Trillion \$US Real Owners Equity

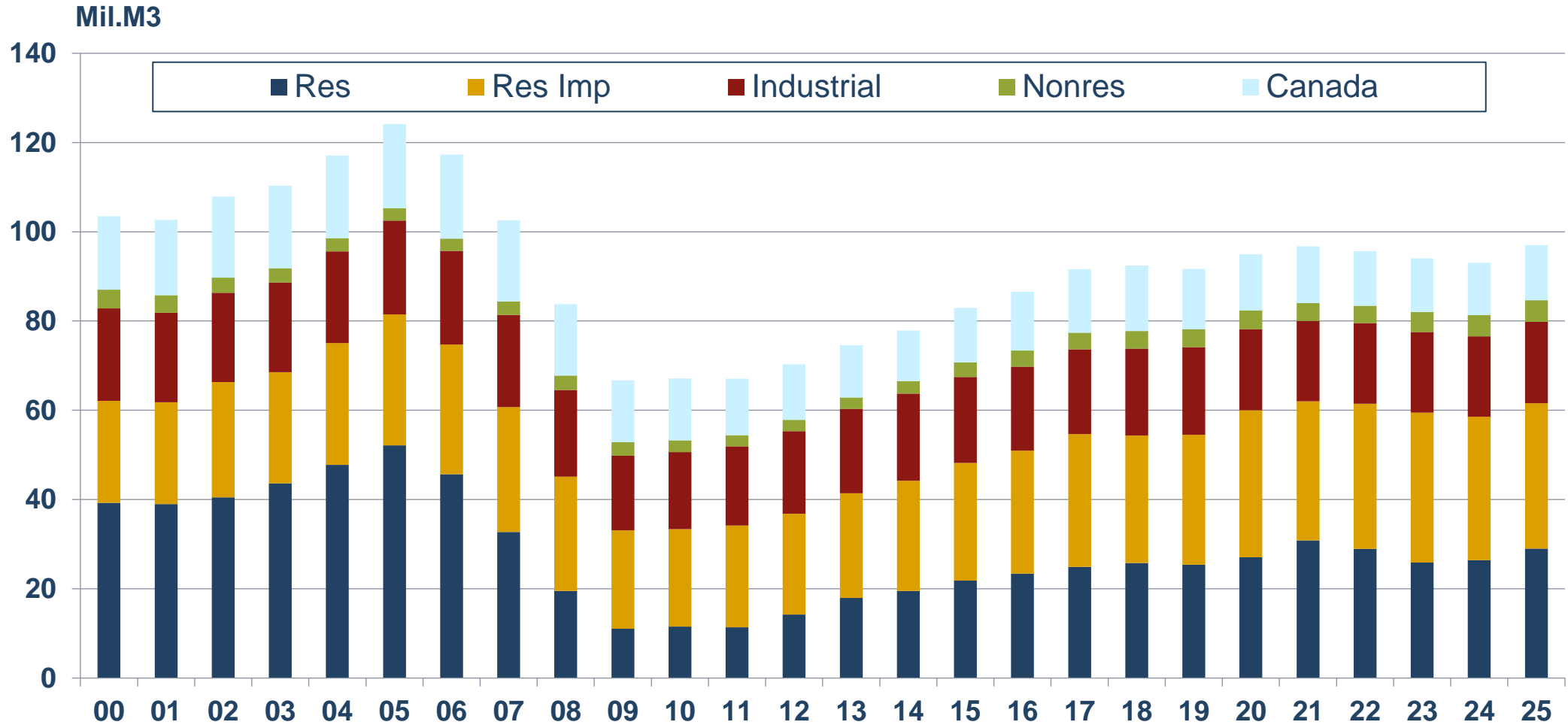


Source: Federal Reserve, FEA calculations

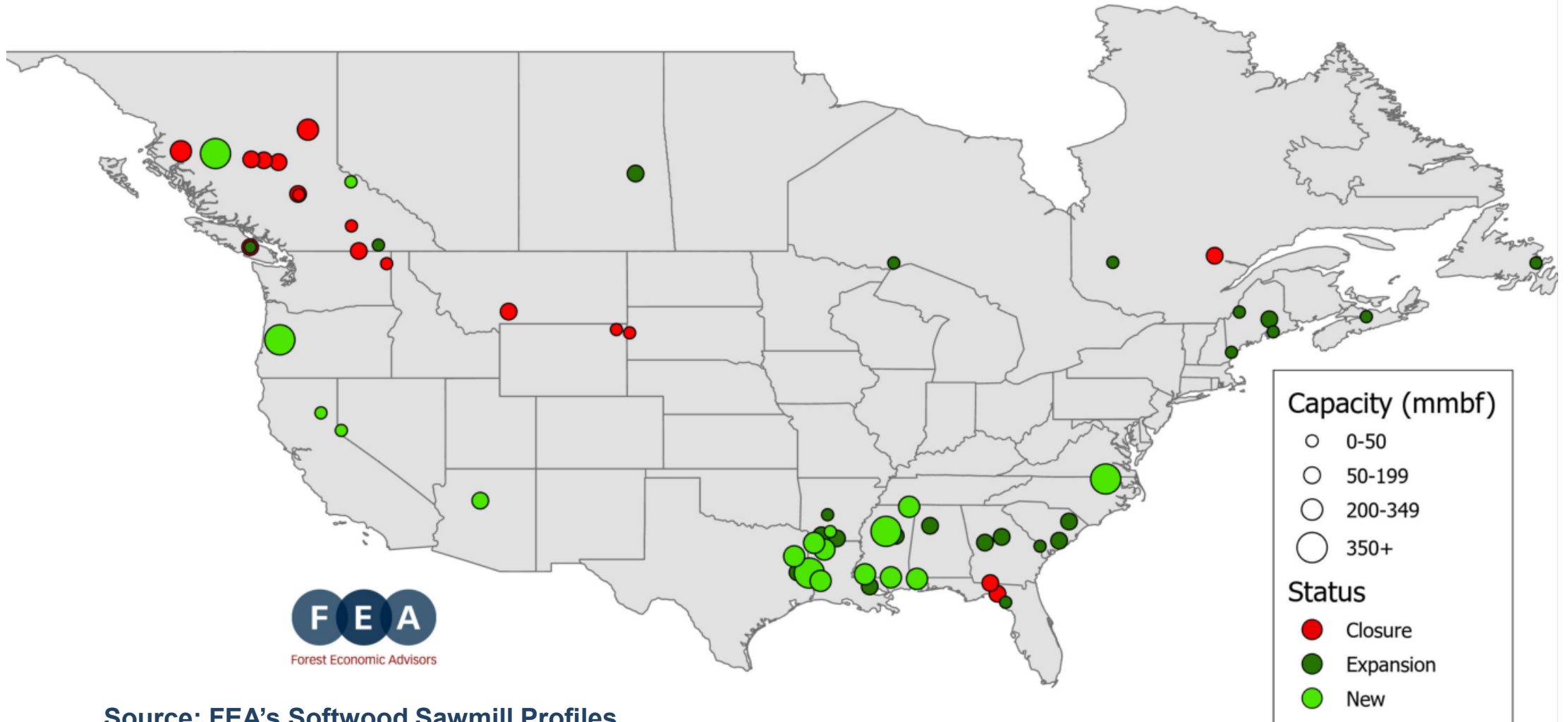
# Canadian Economy Will Underperform US For Next Year



# Lumber Consumption Will See Little Growth Until 2025

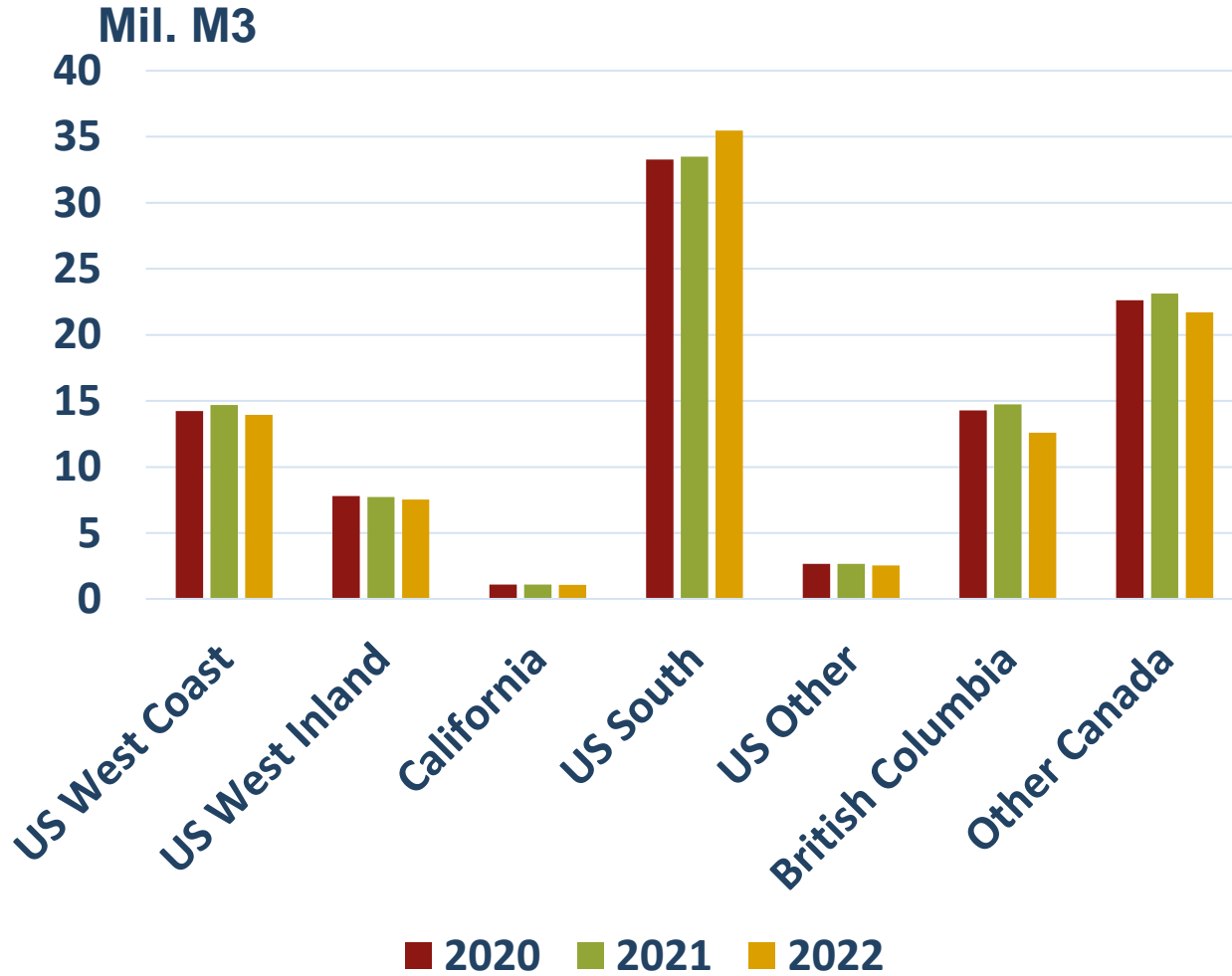


# Industry Has Invested In Significant New Capacity



Source: FEA's Softwood Sawmill Profiles

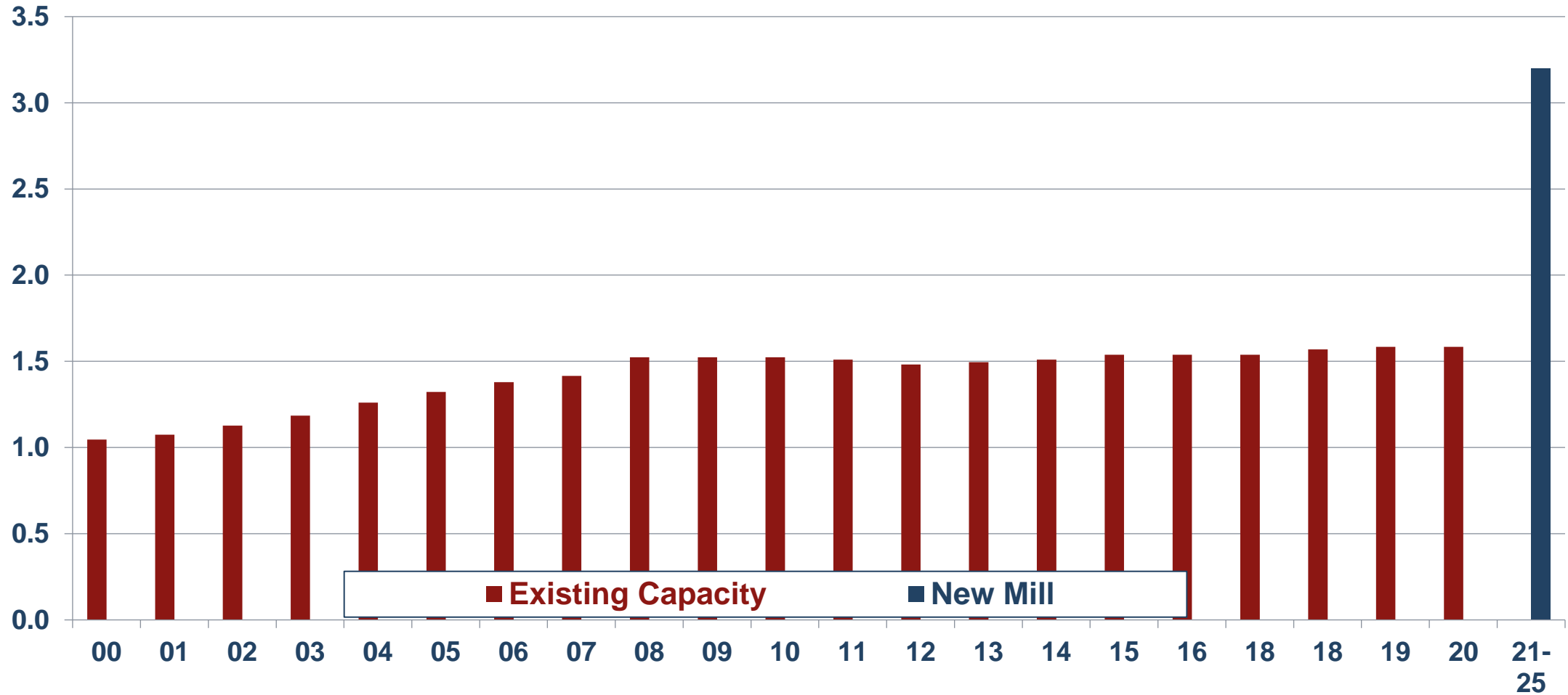
# Despite Record High Prices And Heavy Investment In New Capacity, Production In Most Regions Has Fallen



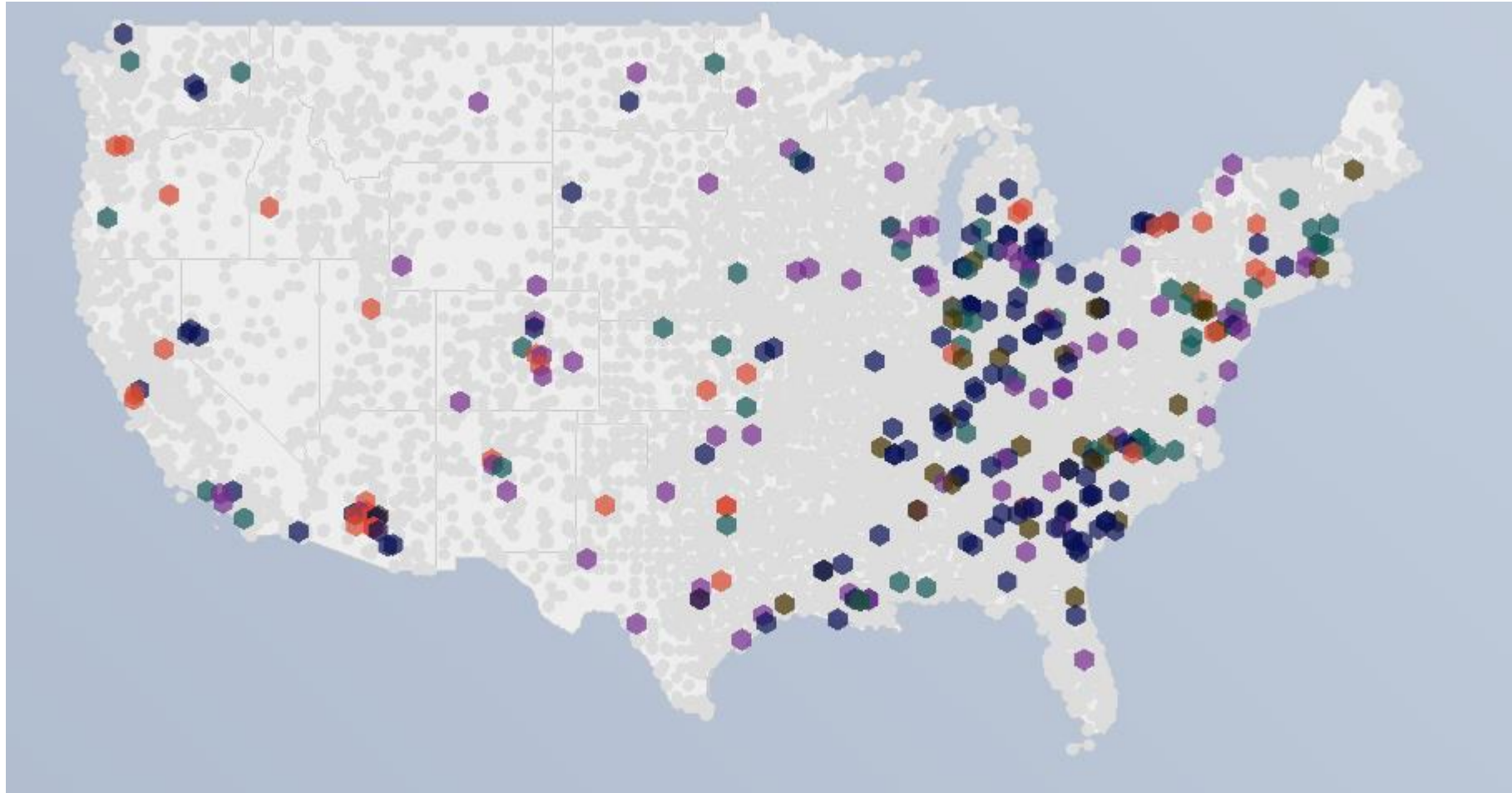


# A Modern Sawmill Needs Skilled Labor

Output Per Worker, 1,000 M3



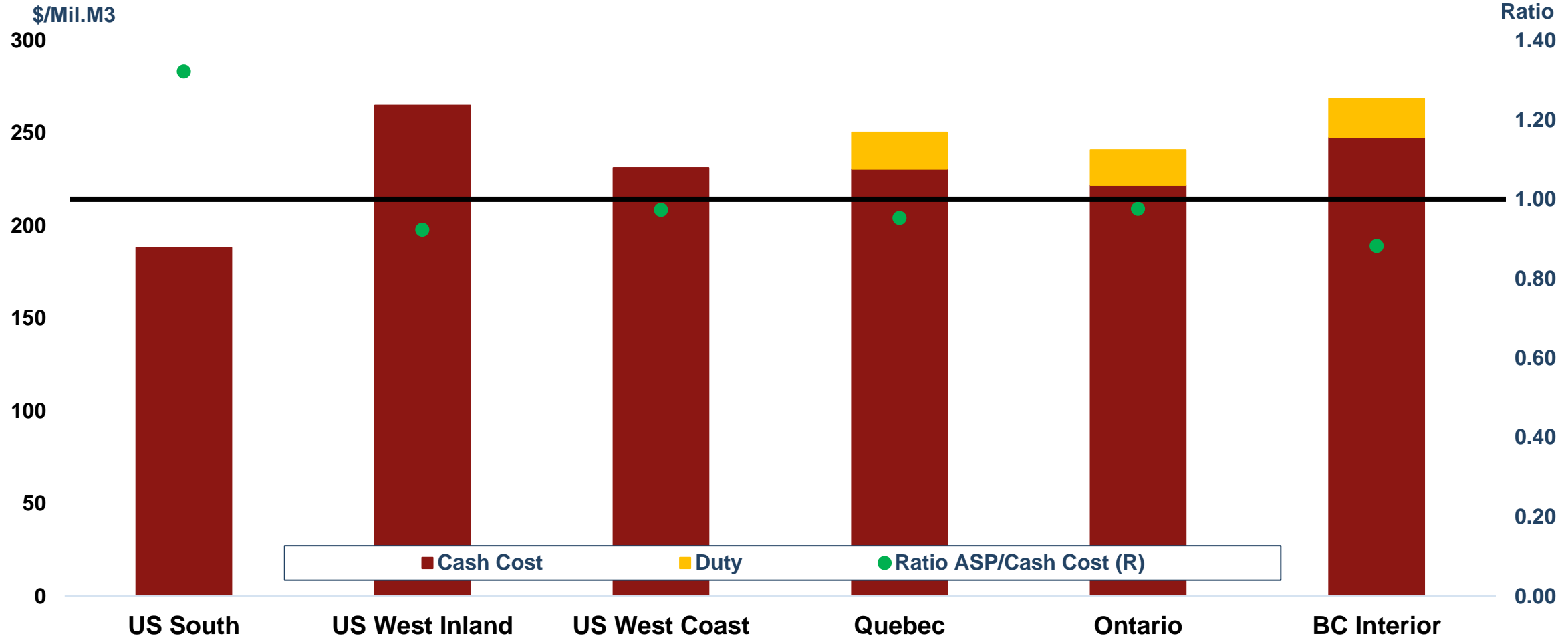
# Private Industry Is Investing \$511 Billion In Advanced Manufacturing



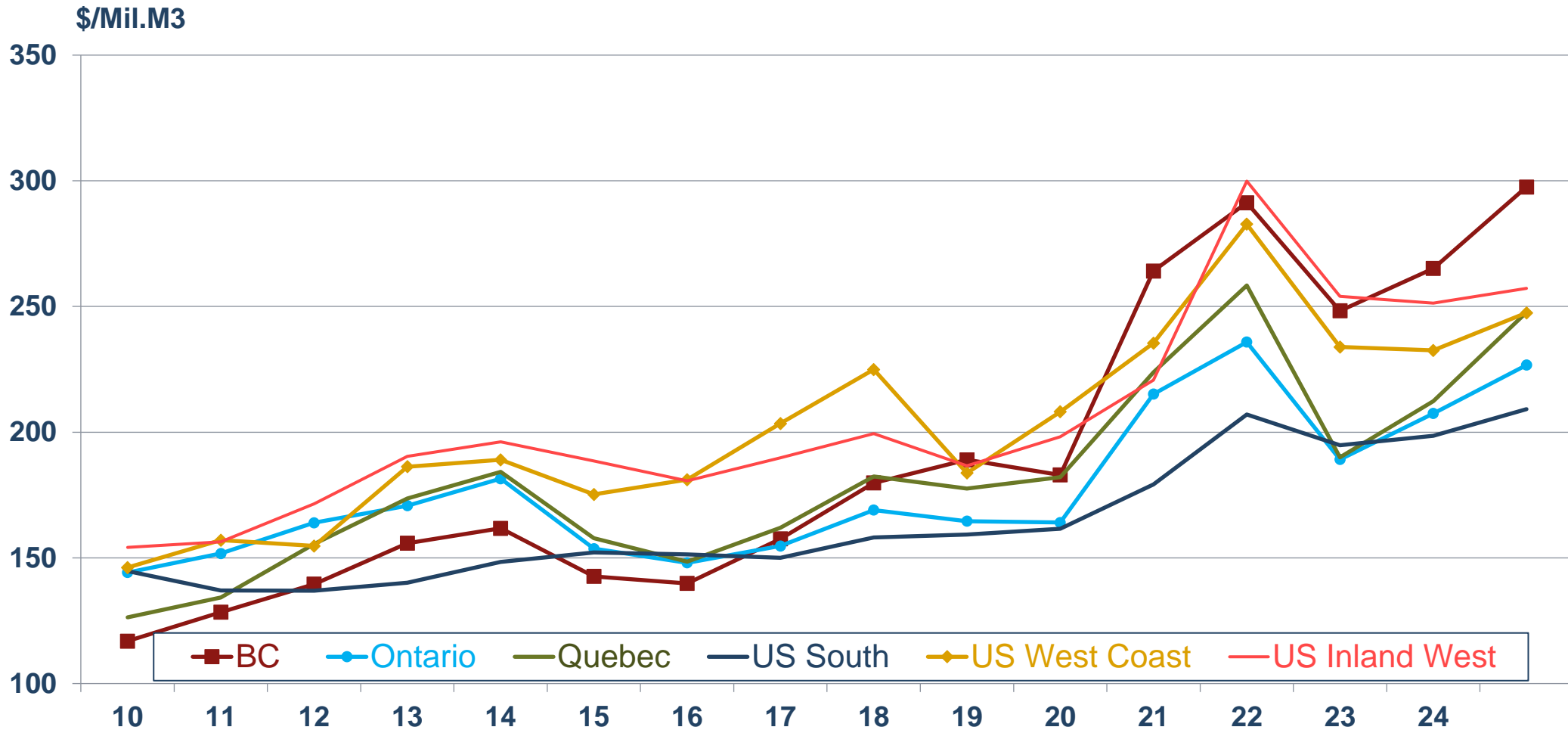
 Semiconductors    Clean Energy    Batteries/EVs    Biomanufacturing    Heavy Industry

Source: The White House

# Markets Will Remain Tough, But We're Likely Near The Bottom

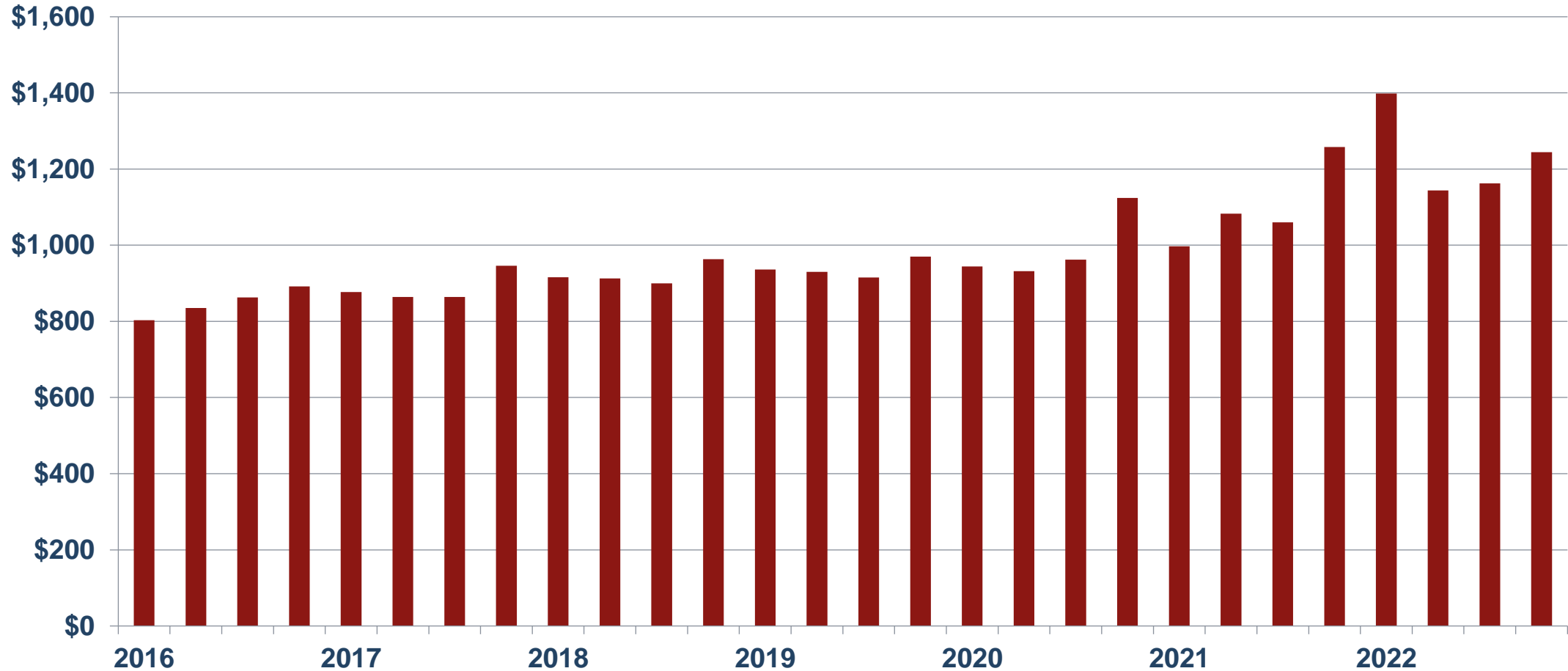


# It Will Become More Expensive To Make Lumber



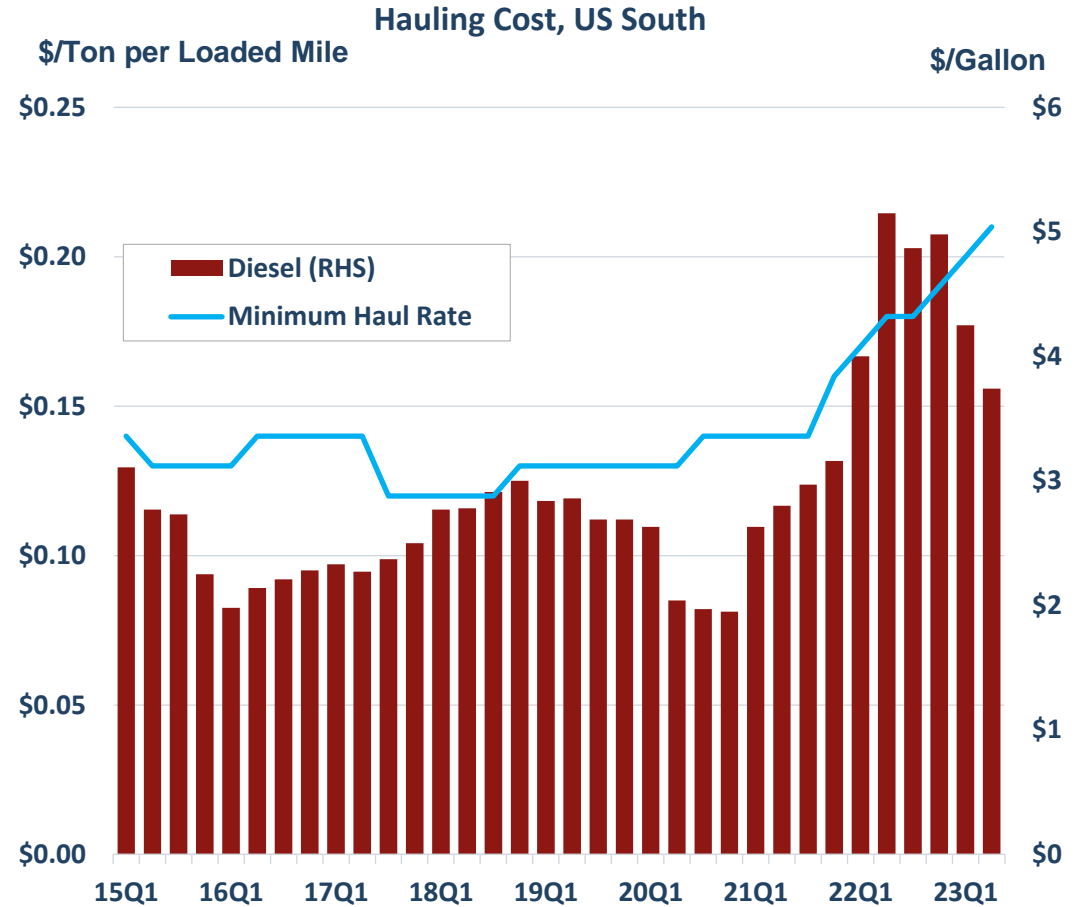
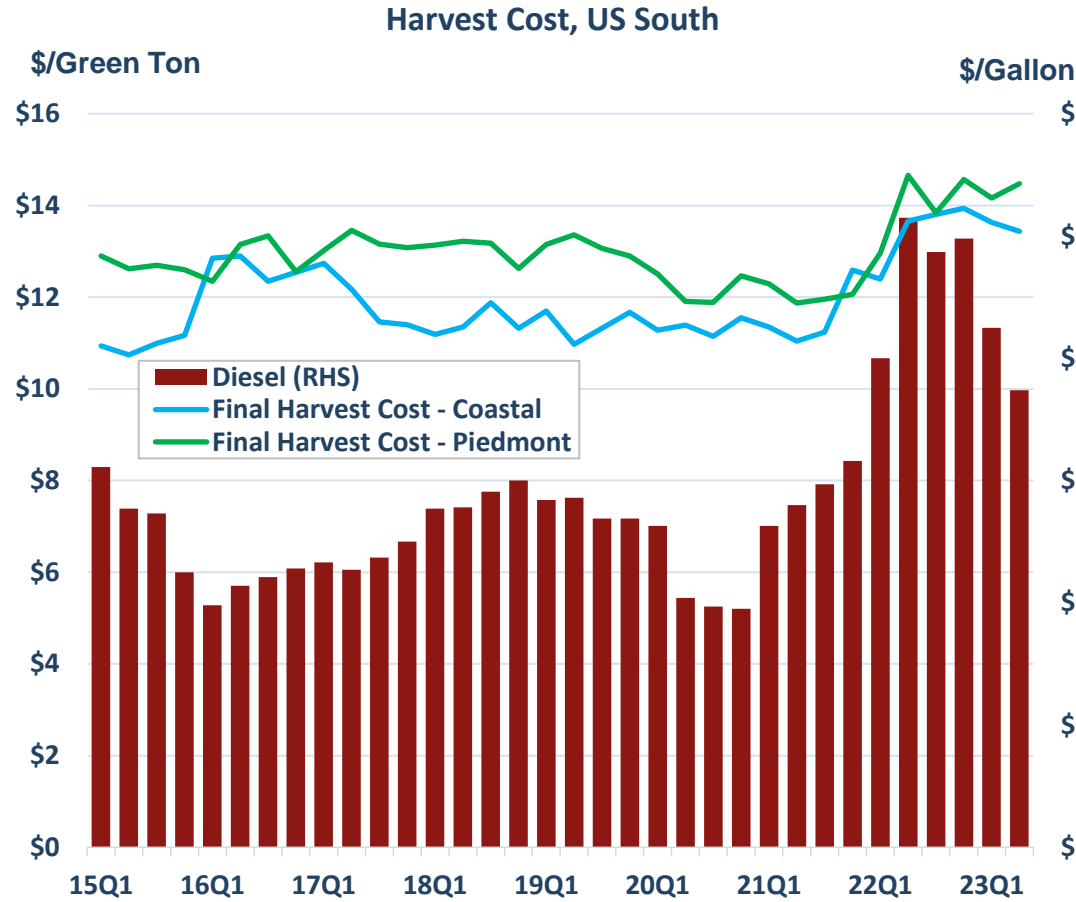
# Labor Shortages Can Be Seen In Increasing Costs

Average Weekly Wage, Sawmills



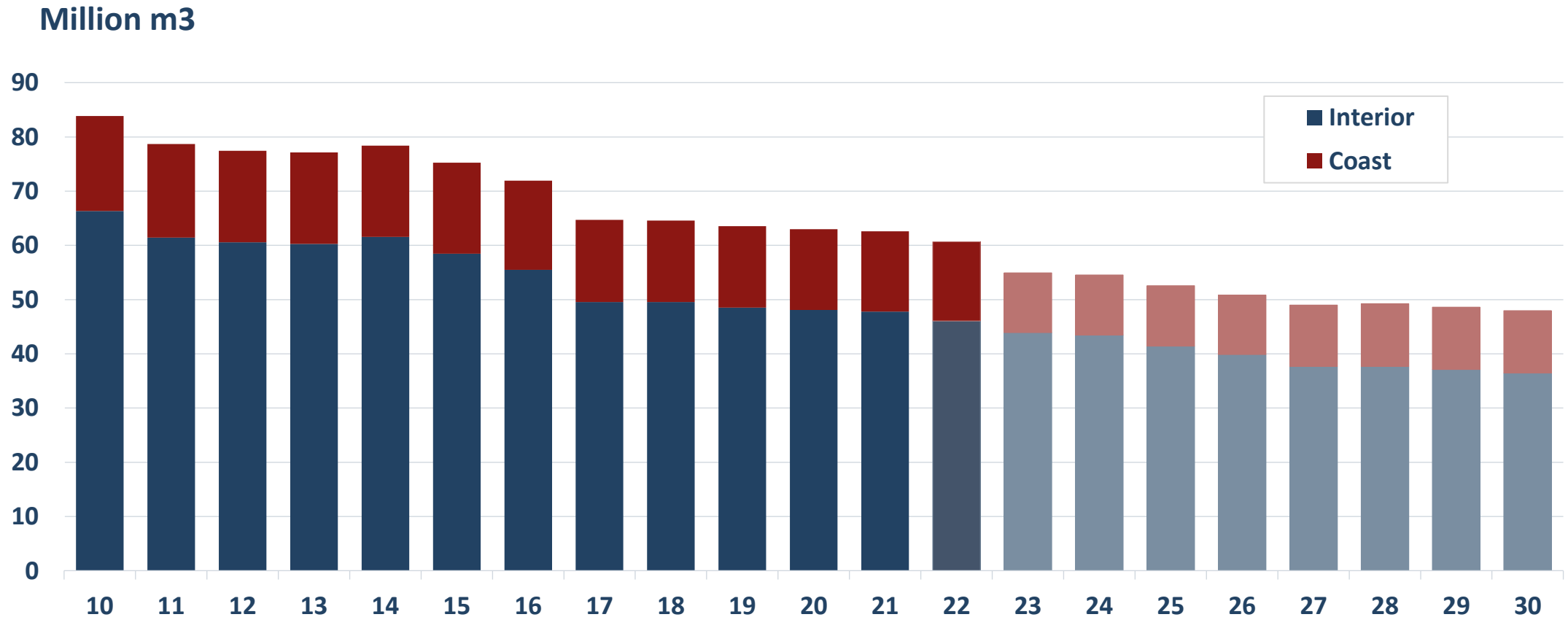
Source: BLS, Quarterly Census of Employment and Wages

# Both Logging and Hauling Costs Remain Elevated



Source: TimberMart-South

# Multiple Factors Will Constrain Harvest Levels and Production in British Columbia

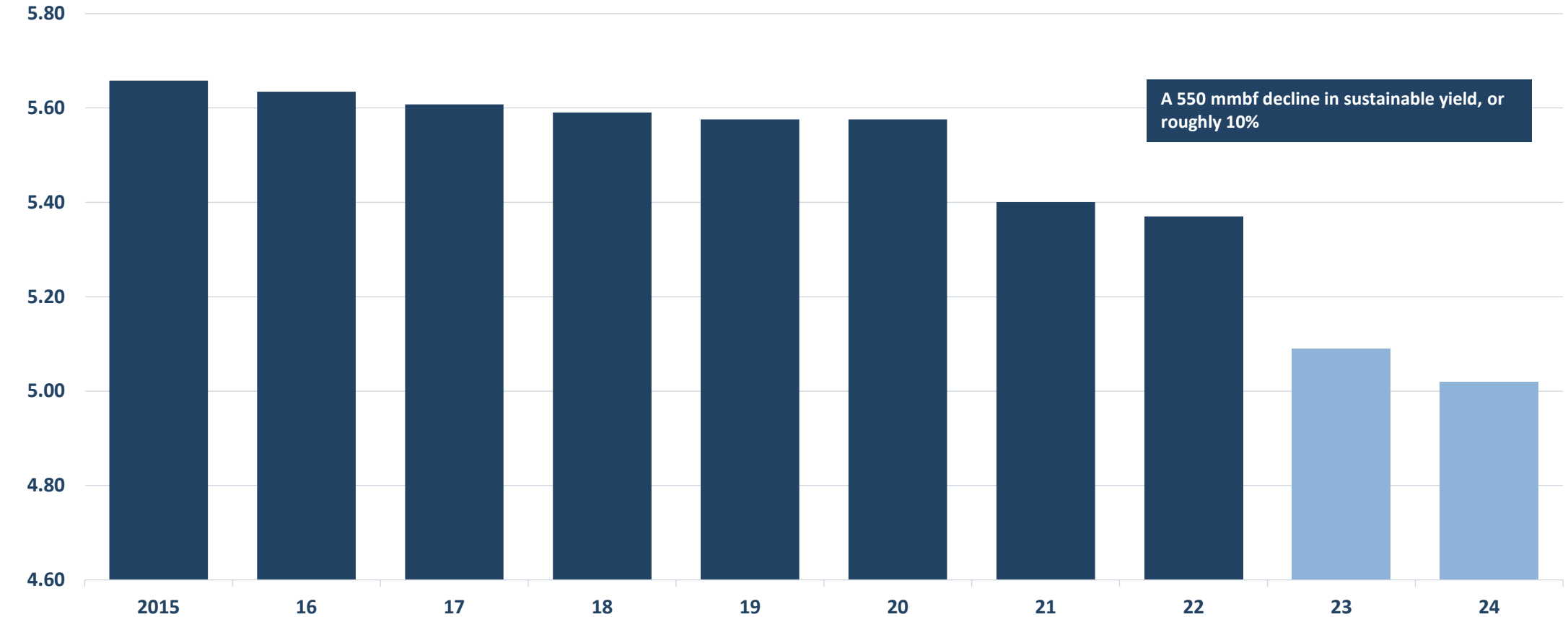


Source: BC Ministry of Forests, Land, Natural Resource Operations and Rural Development

# The Outlook for Available Log Supply in the US West Coast Continues to Erode

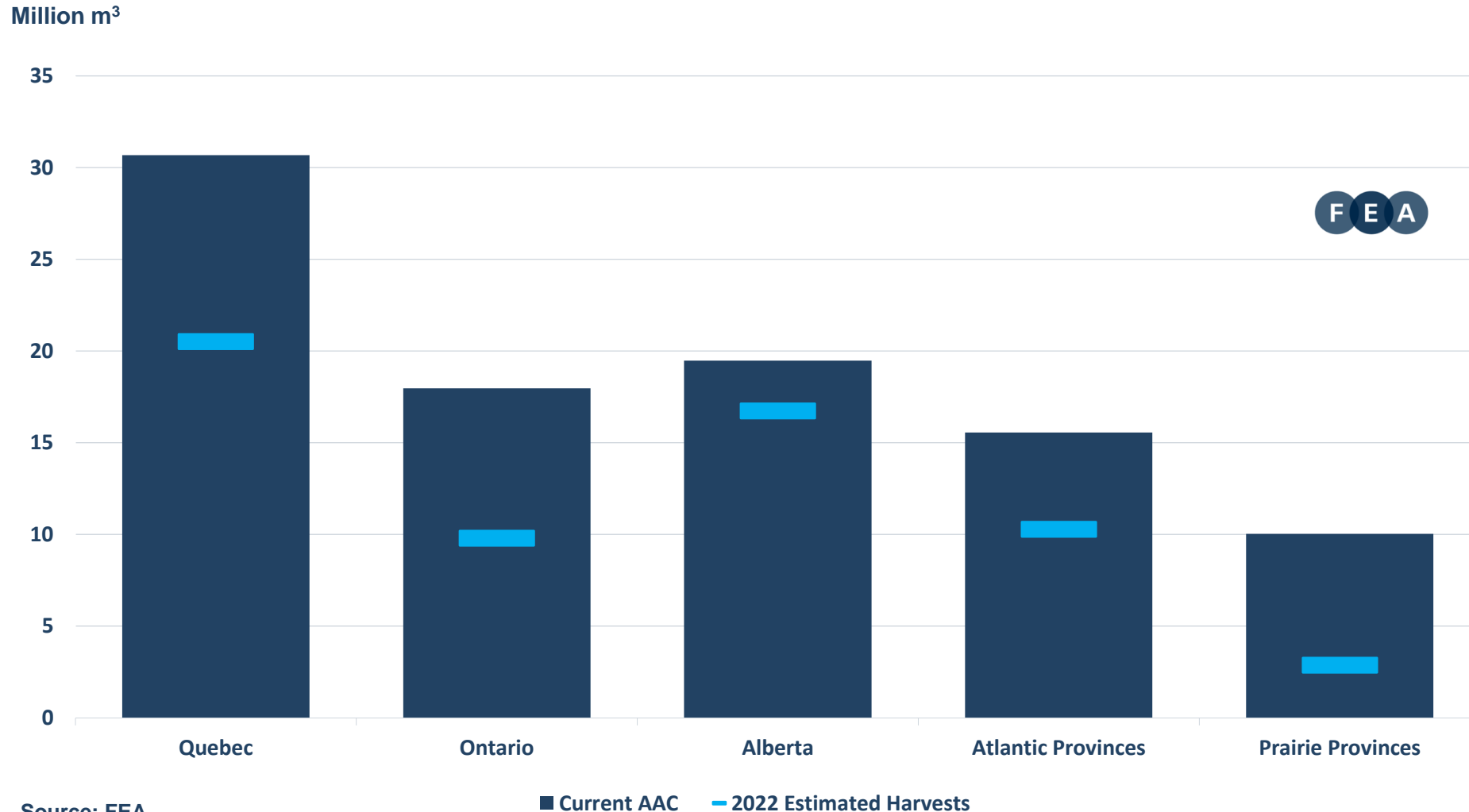
## Private Softwood Sawtimber Sustainable Yield

BBF, Int'l 1/4"

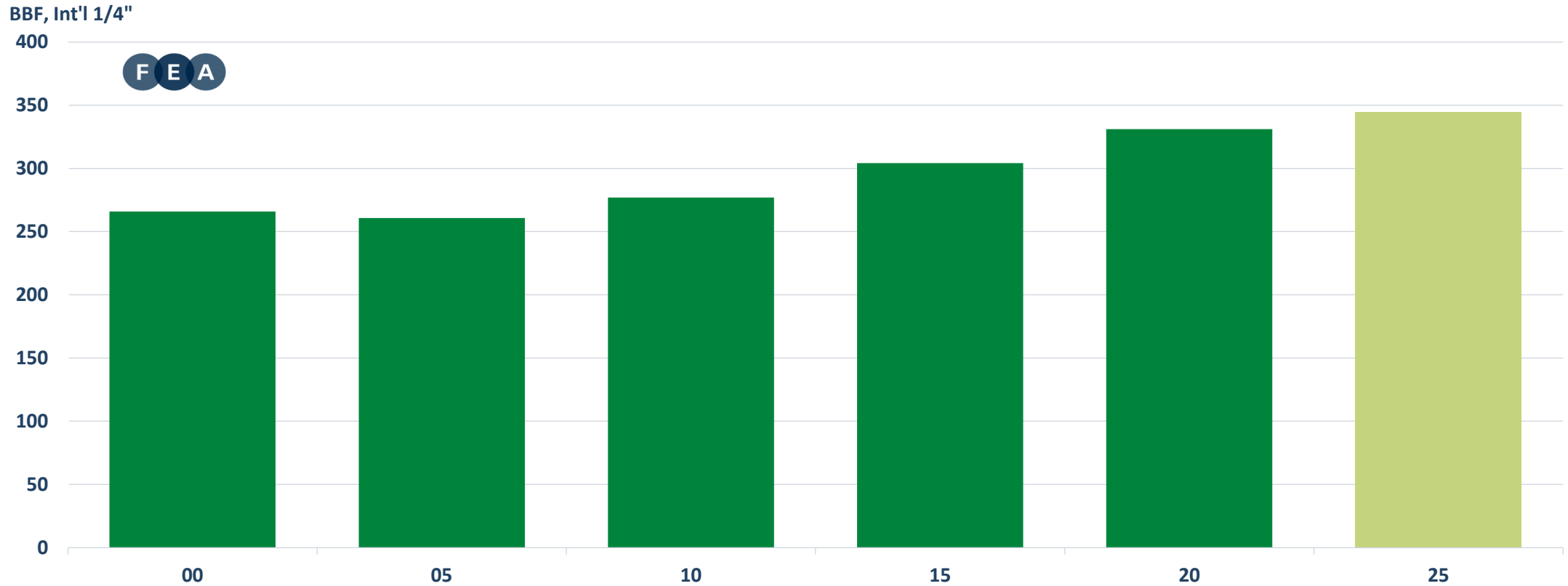




# Some Limited Opportunities to Increase Harvest Levels in Eastern Canada

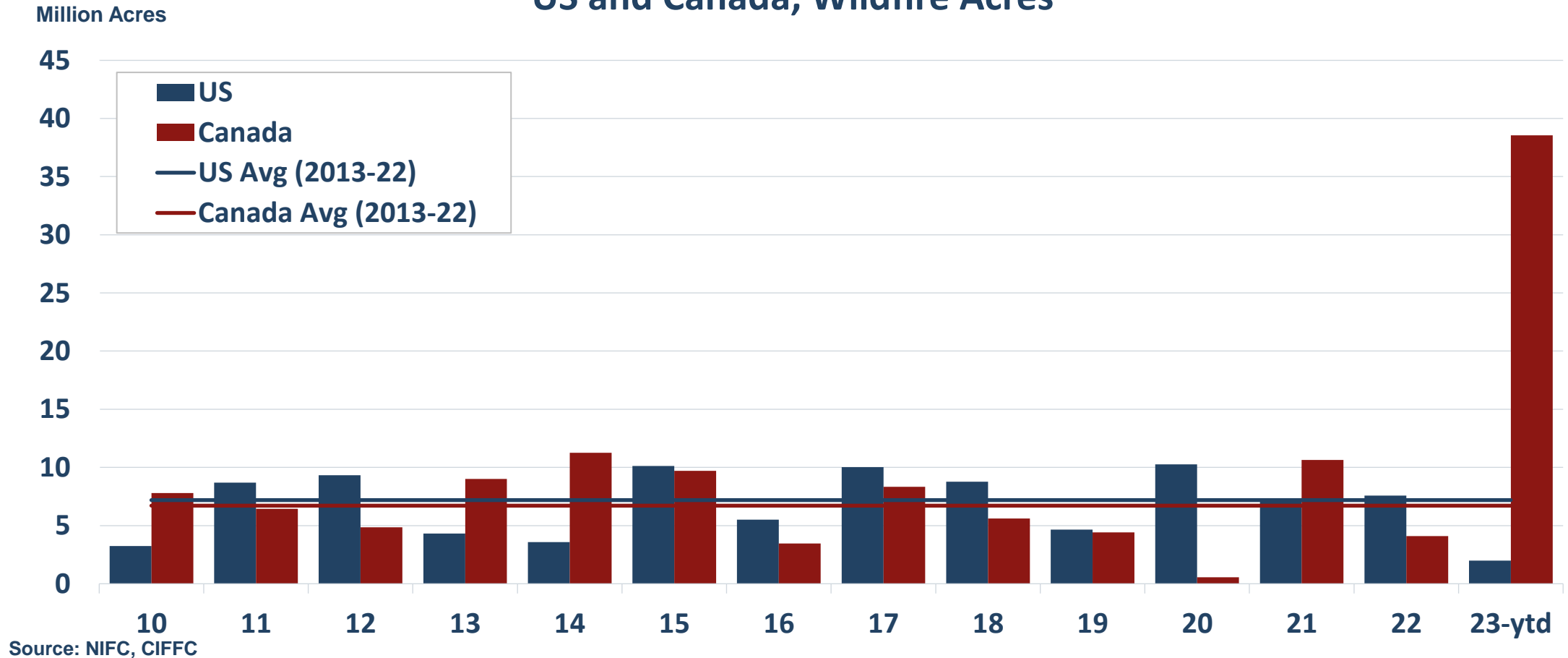


# US South's Sawtimber Supply Continues to Grow



# The Severity of Canada's Wildfire Season is Clear

## US and Canada, Wildfire Acres



# Wildfires Having an Impact on Near-term Supply

## Canadian Softwood Lumber Capacity in Proximity of Large Wildfires\*

	<u>Mills within 50 miles</u>			<u>Mills within 100 miles</u>		
	# of Mills	Capacity (BBF)	% of Total Capacity	# of Mills	Capacity (BBF)	% of Total Capacity
Alberta	20	3.7	85%	24	4.2	97%
Quebec	16	2.2	29%	36	4.2	56%
B. Columbia	31	5.2	46%	60	9.4	82%
Ontario	2	0.3	9%	12	1.0	35%

\*Wildfires larger than 10,000 hectares

# Lumber Take Home Points

- Lumber consumption will see little growth over the next 12-18 months.
- Capacity is expanding rapidly, but achieving nameplate output is difficult.
- Costs are elevated, and will hold markets higher.
- Supply is constrained outside of the US South.
- Recent fires will increase near-term supply, but decrease longer-run timber availability



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