



Forest Economic Advisors

North American Lumber Markets

2024 Forest Products Outlook

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Farm Credit East

April 9th 2024

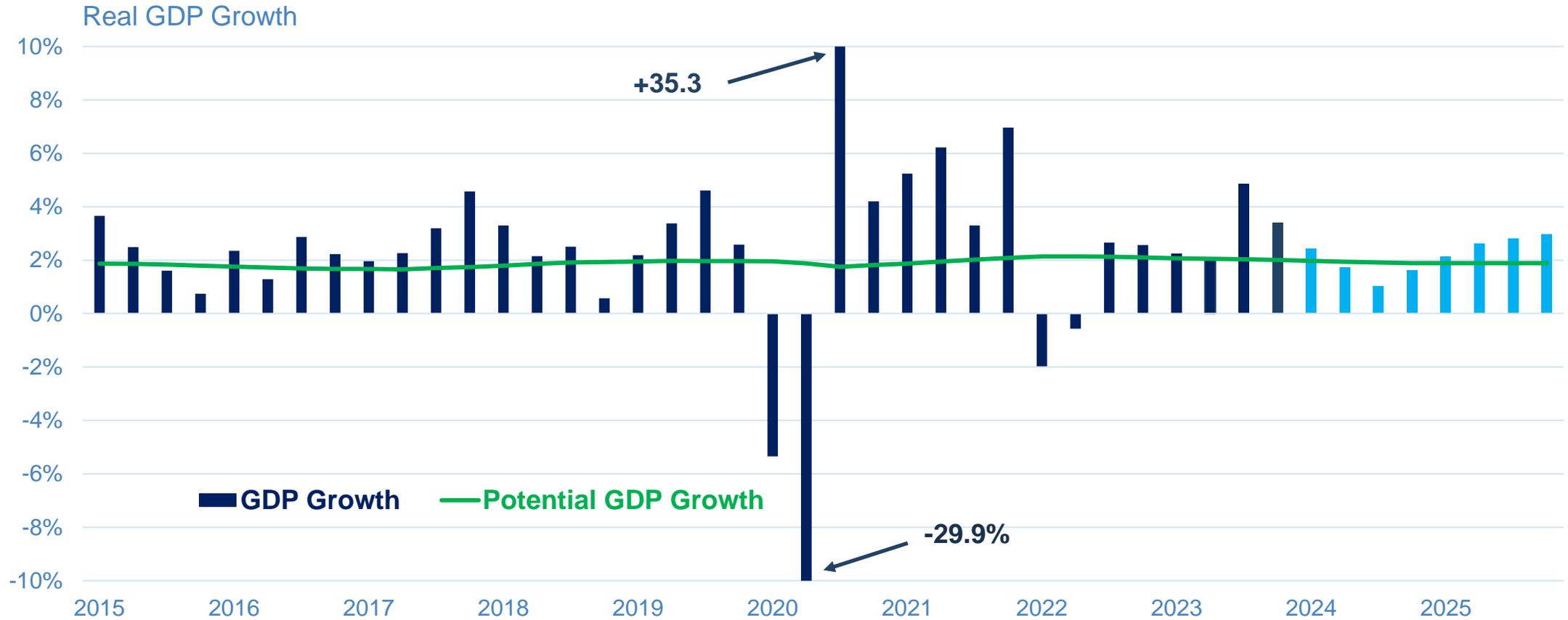
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2023 Take Home Points

- The probability of a recession is high, but declining.
- Lumber markets will slip in 2023, but the downturn will be more mild than previous recessions.
- Costs are elevated, and will hold prices higher.
- Capacity is expanding rapidly, but achieving nameplate output is difficult.
- Exports will remain weak.
- Imports will not fall as much as many expect.

Not Much Has Changed In The Current Outlook

Our Base Case Forecast No Longer Shows a Recession

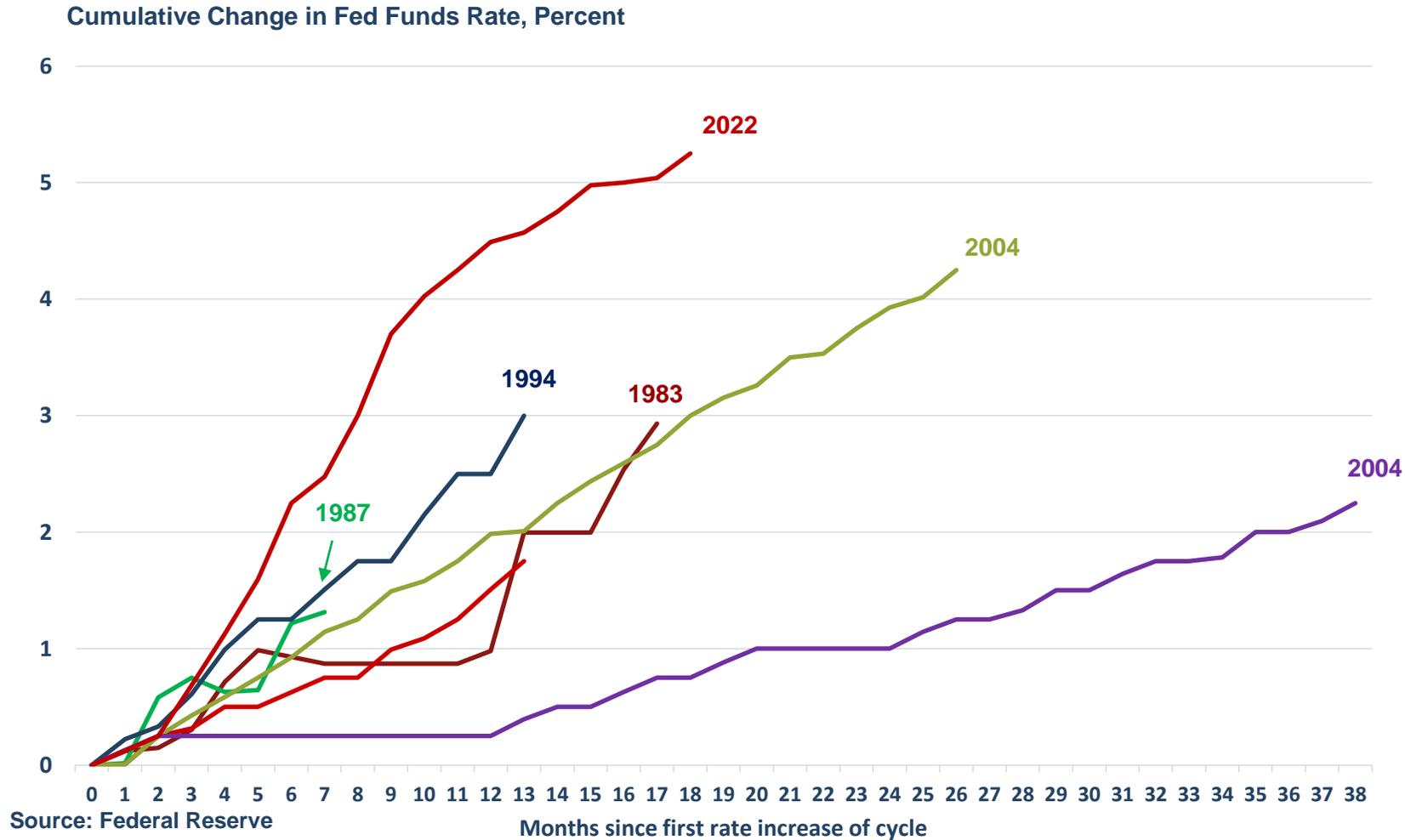


Inflation Rose To Its Highest Level In Decades

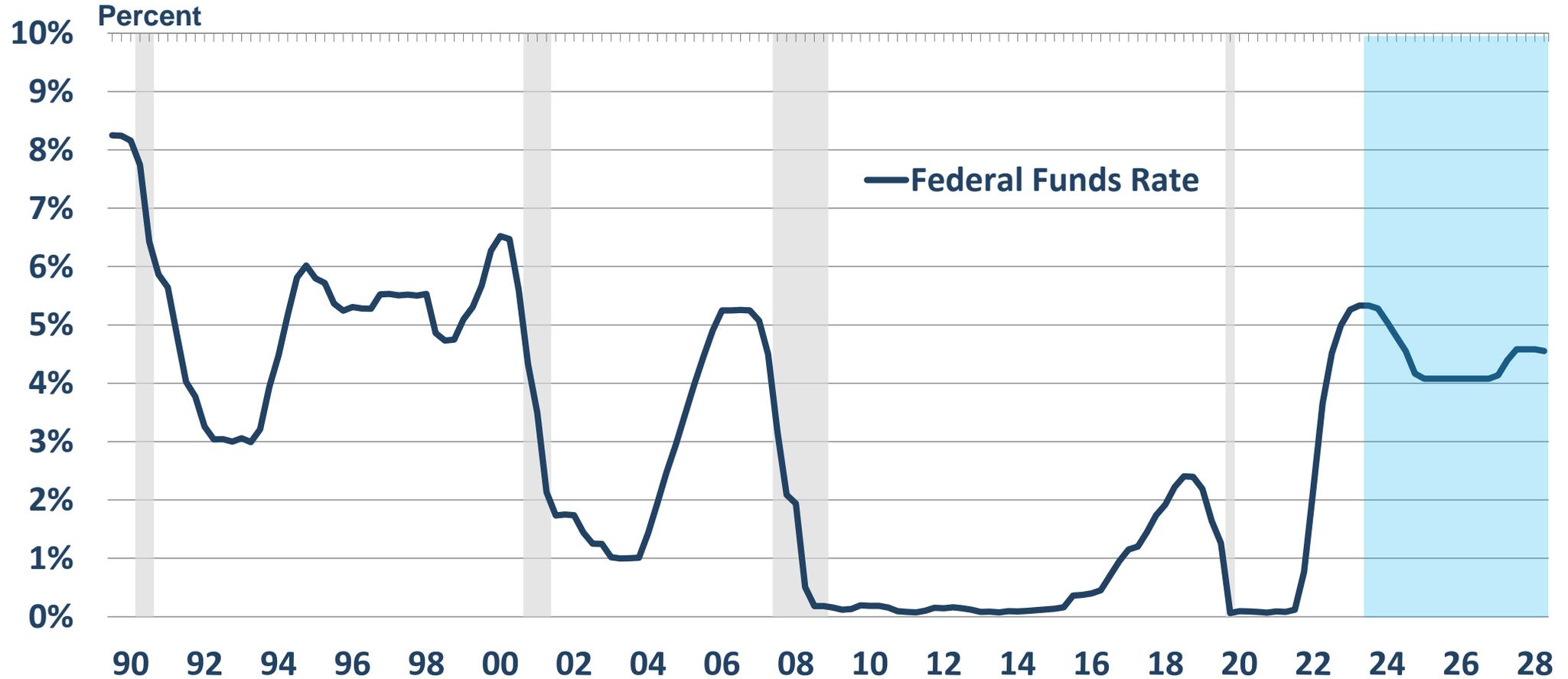
Year-over-Year Change in Consumer Price Index



The Latest Fed Rate Increases Were Fast and Furious

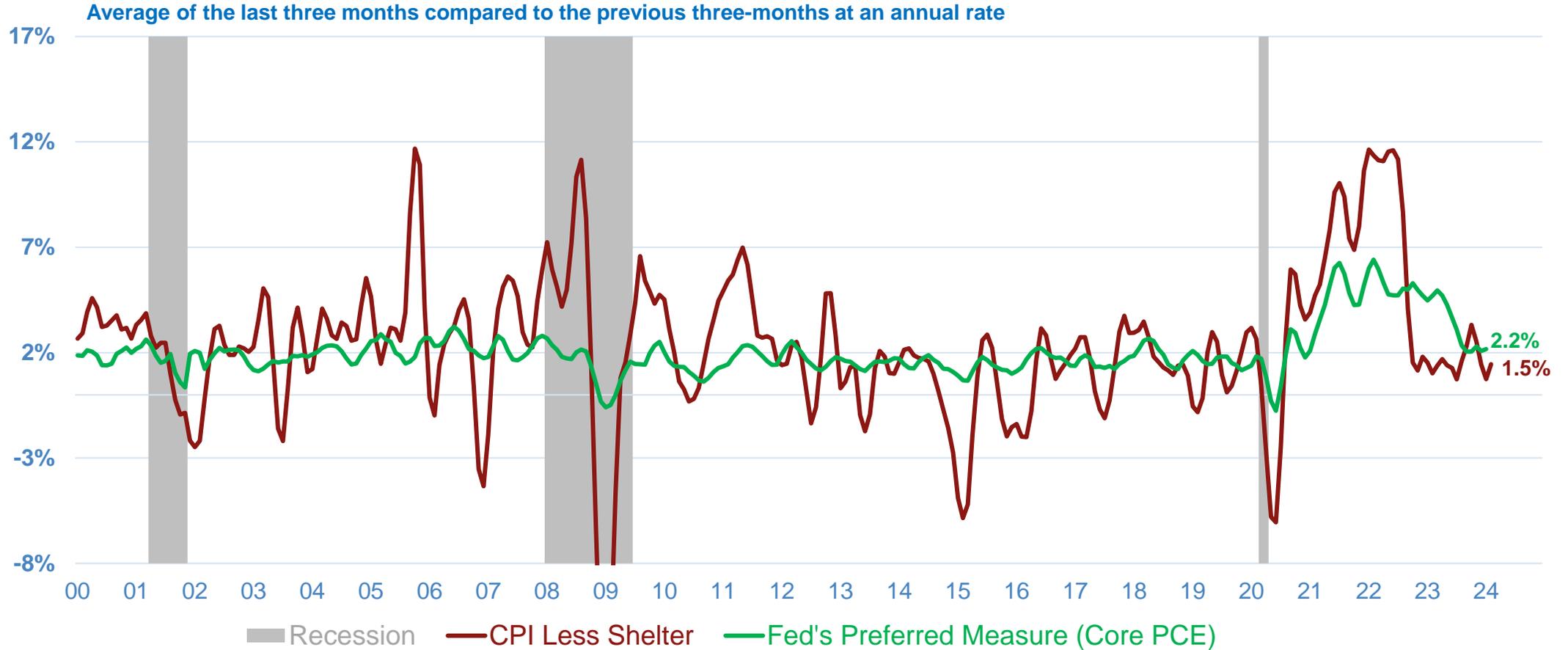


Short-Term Interest Rates Set to Decline in Second Half of 2024

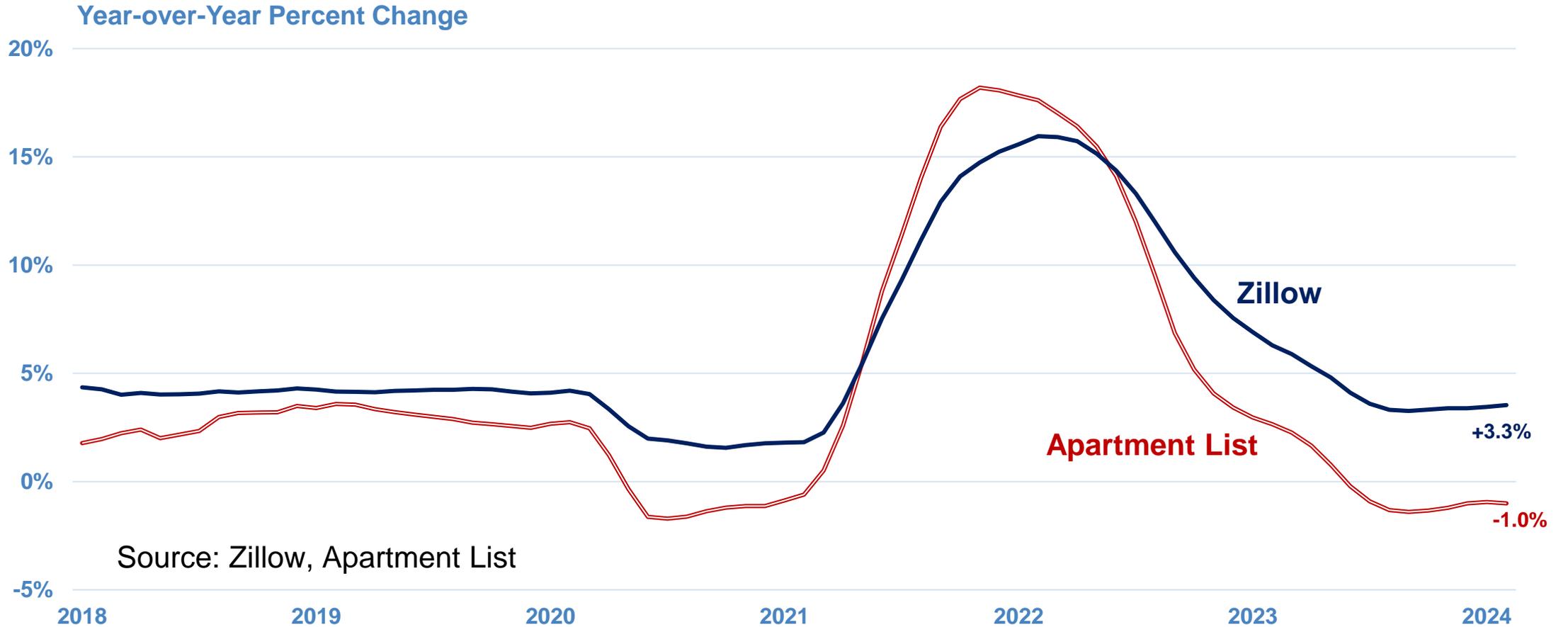


Source: Federal Reserve, FEA forecast

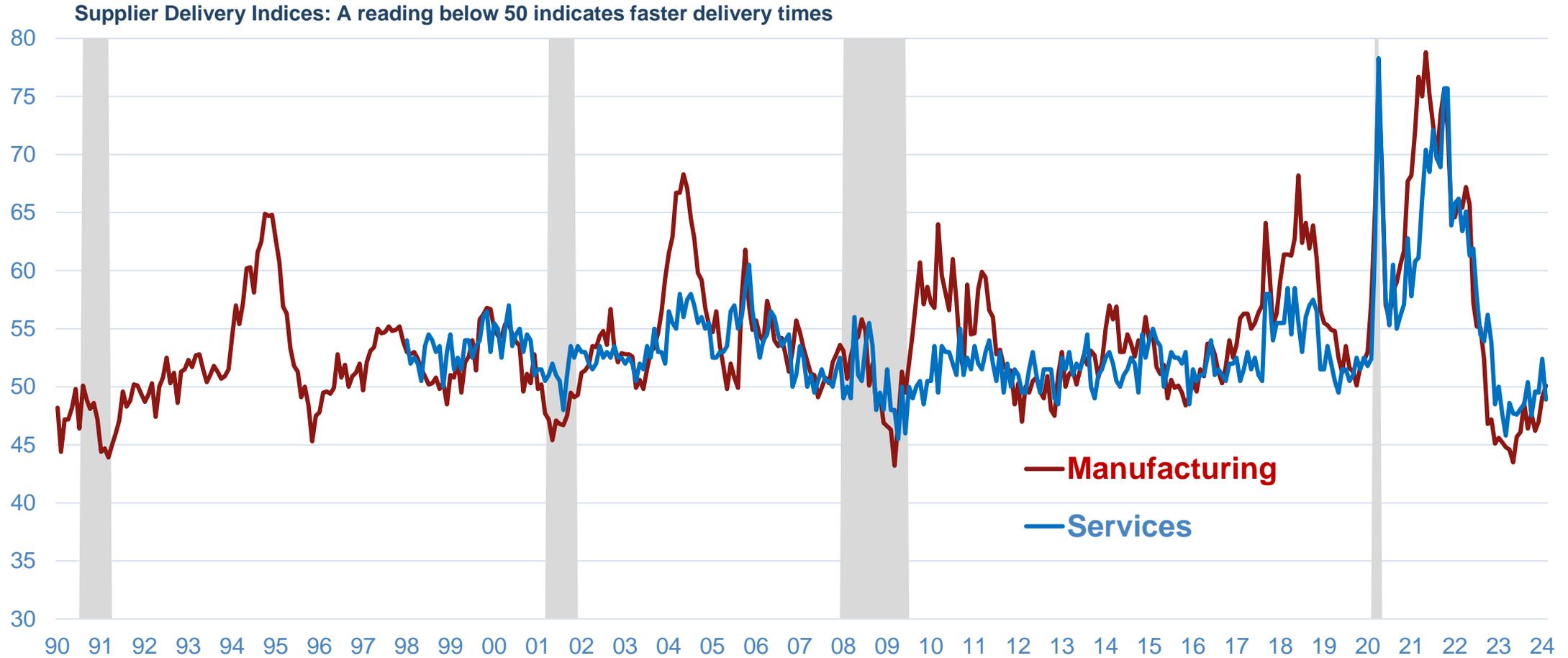
There is a Strong Case that the Inflation Dragon Has Been Slayed



Rent Increases Have Returned to Pre-Pandemic Levels

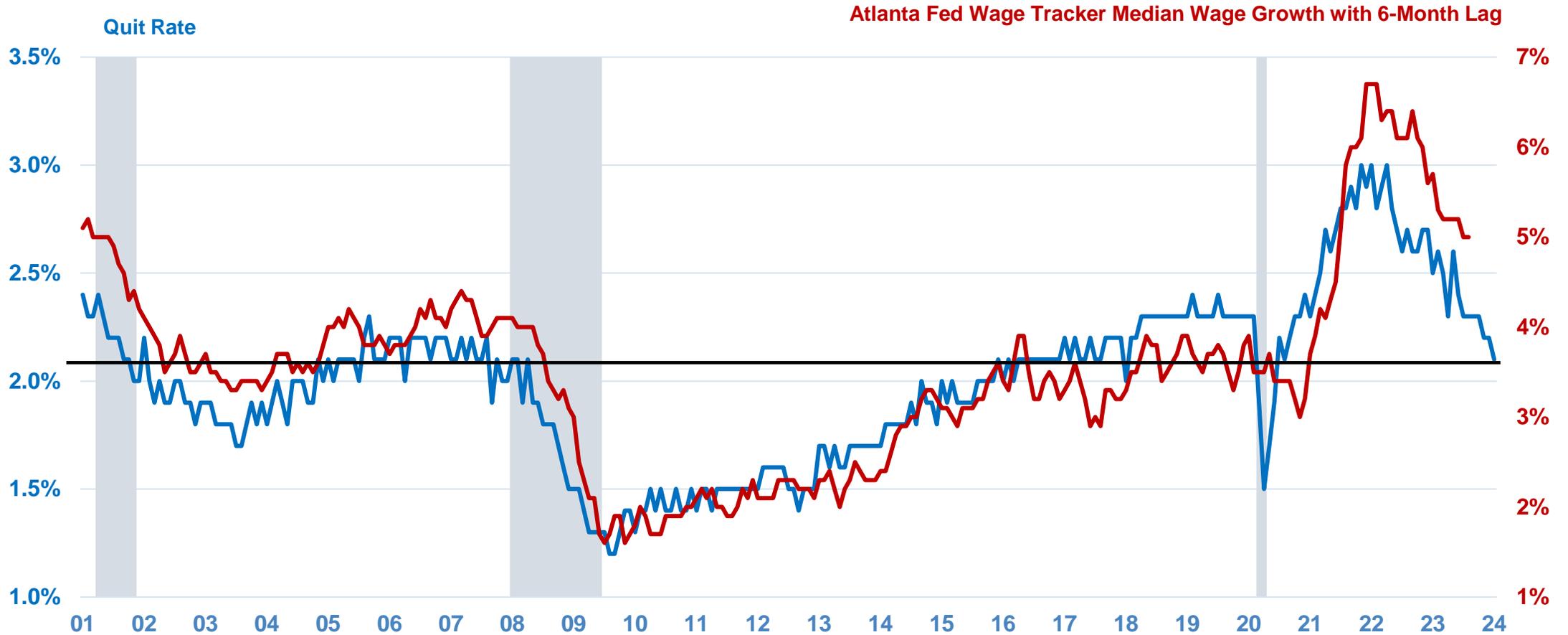


Supplier Delivery Times Are Back to Normal



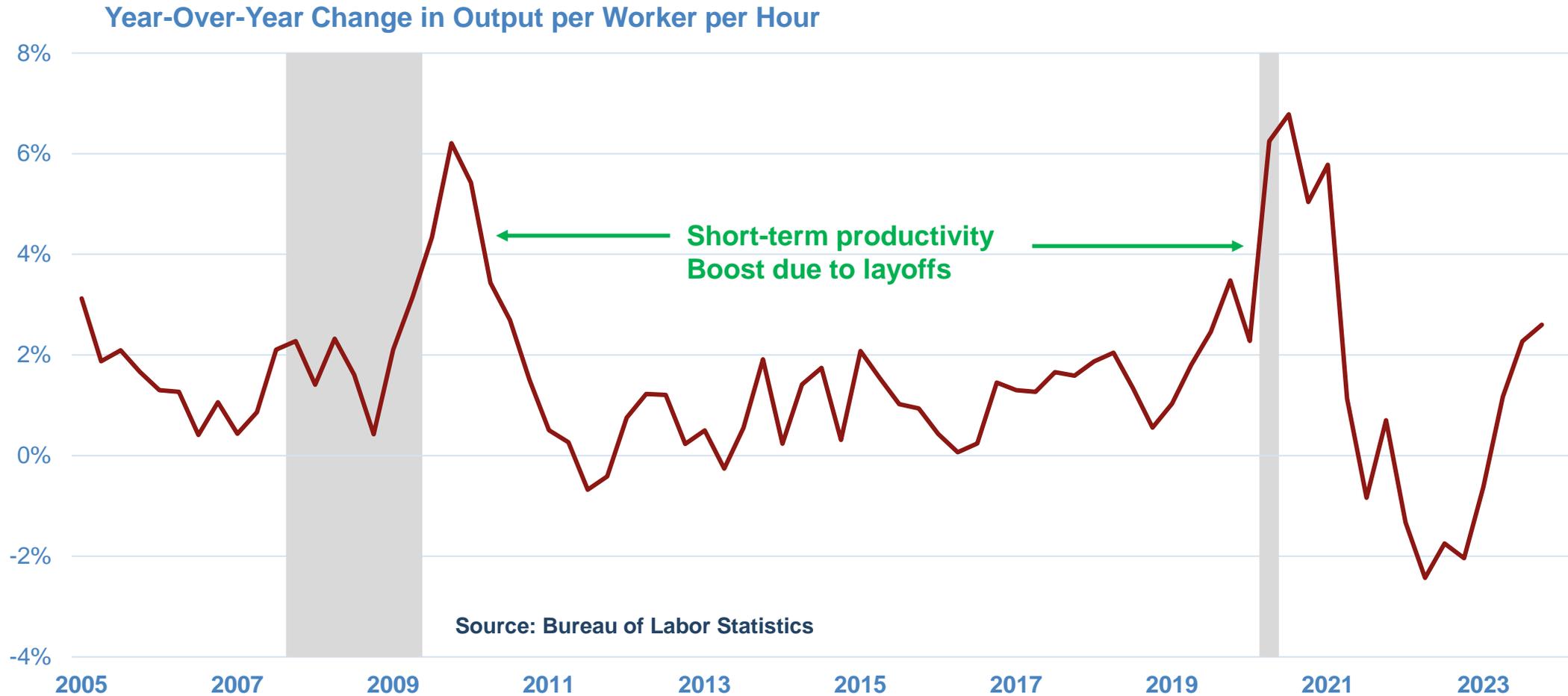
Source: Institute of Supply Management

Where the Quit Rate Goes, Wages Follow



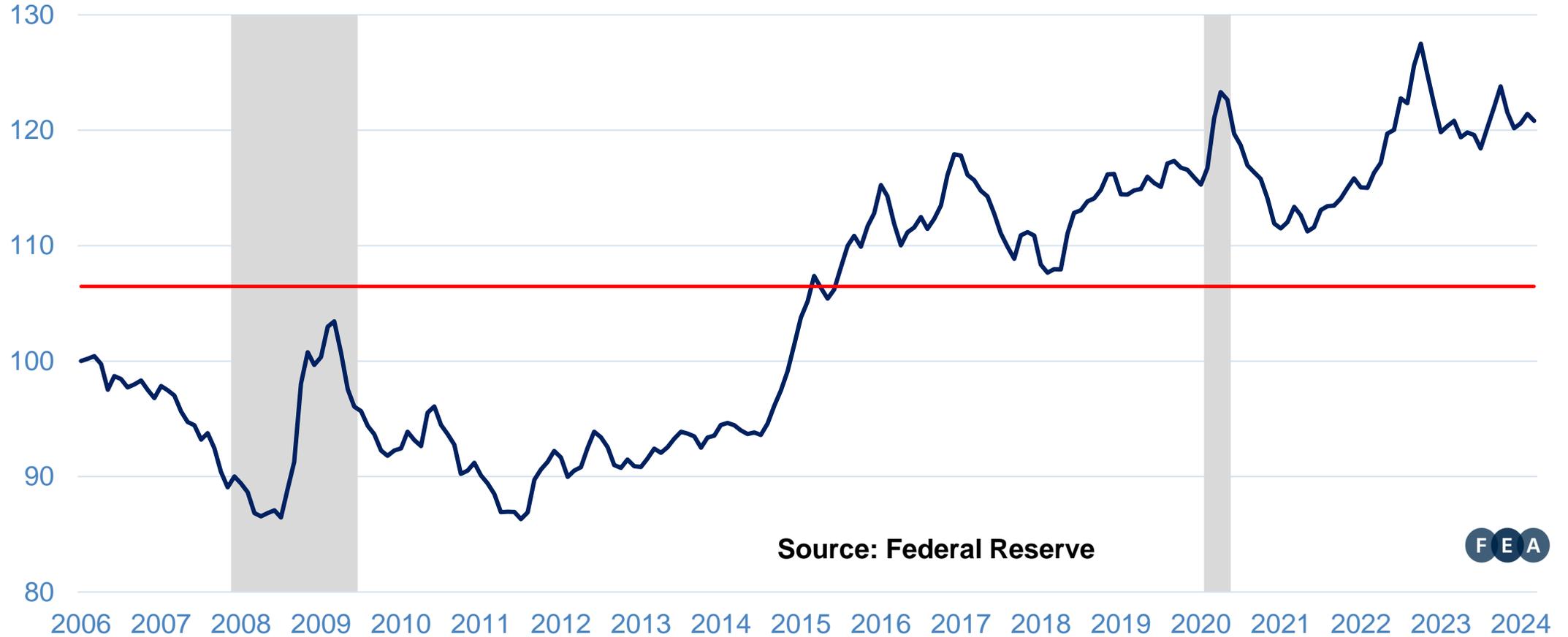
Source: Bureau of Labor Statistics, Atlanta Fed

Has Productivity Turned the Corner?



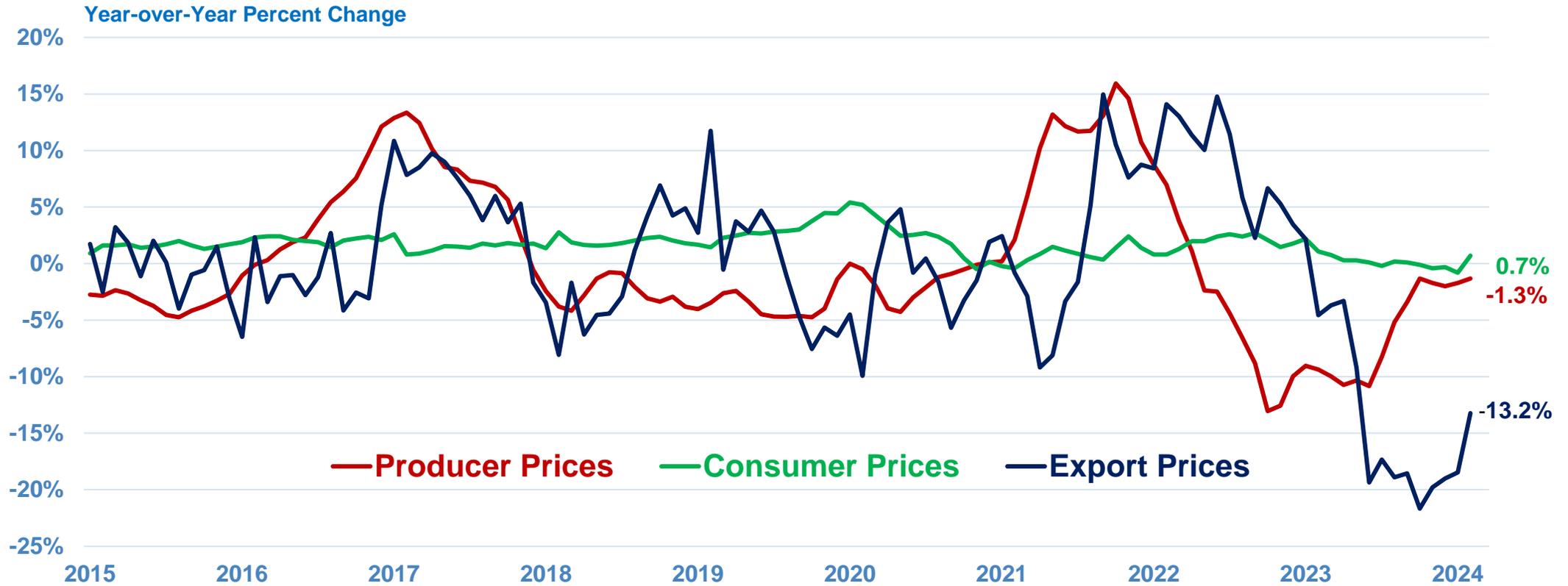
The Trade-Weighted Dollar is 13% Above Its Long-Term Average

Nominal Broad US Dollar Index, January 2006 =100



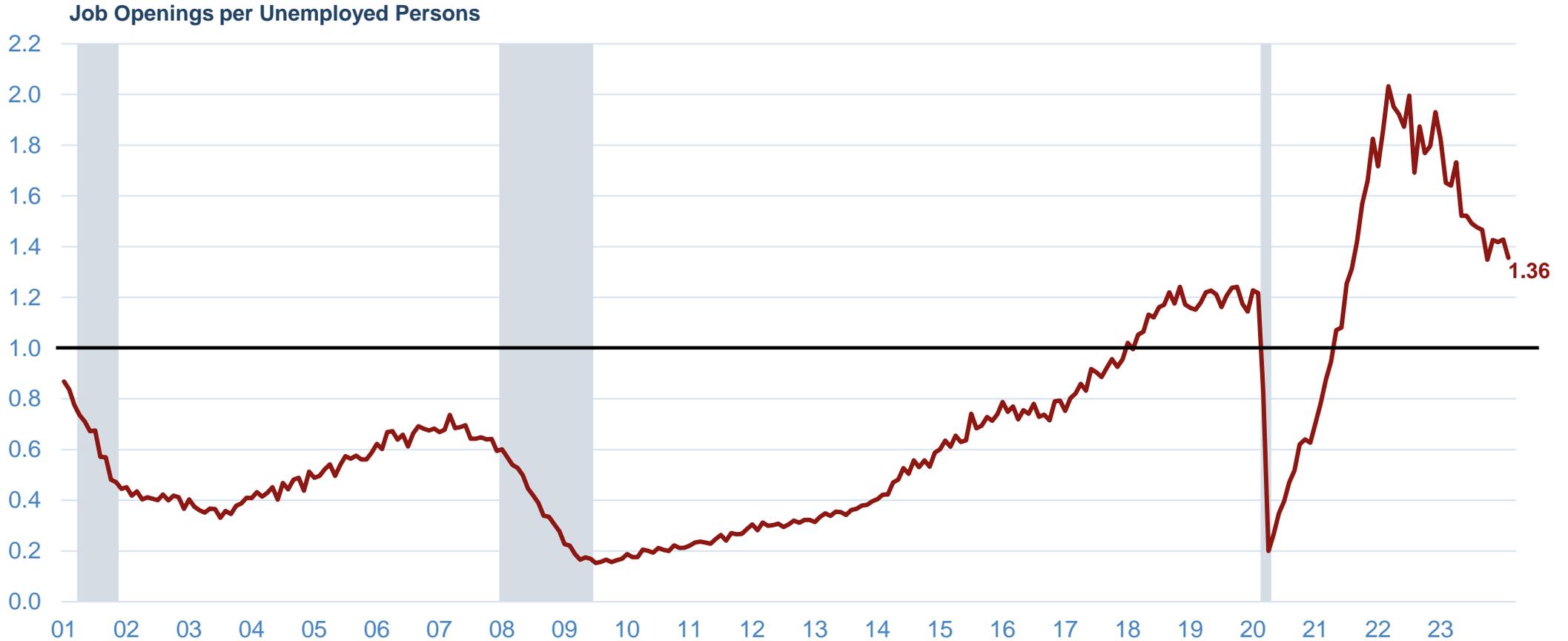
Source: Federal Reserve

China is Exporting Deflation



Source: Chinese National Bureau of Statistics

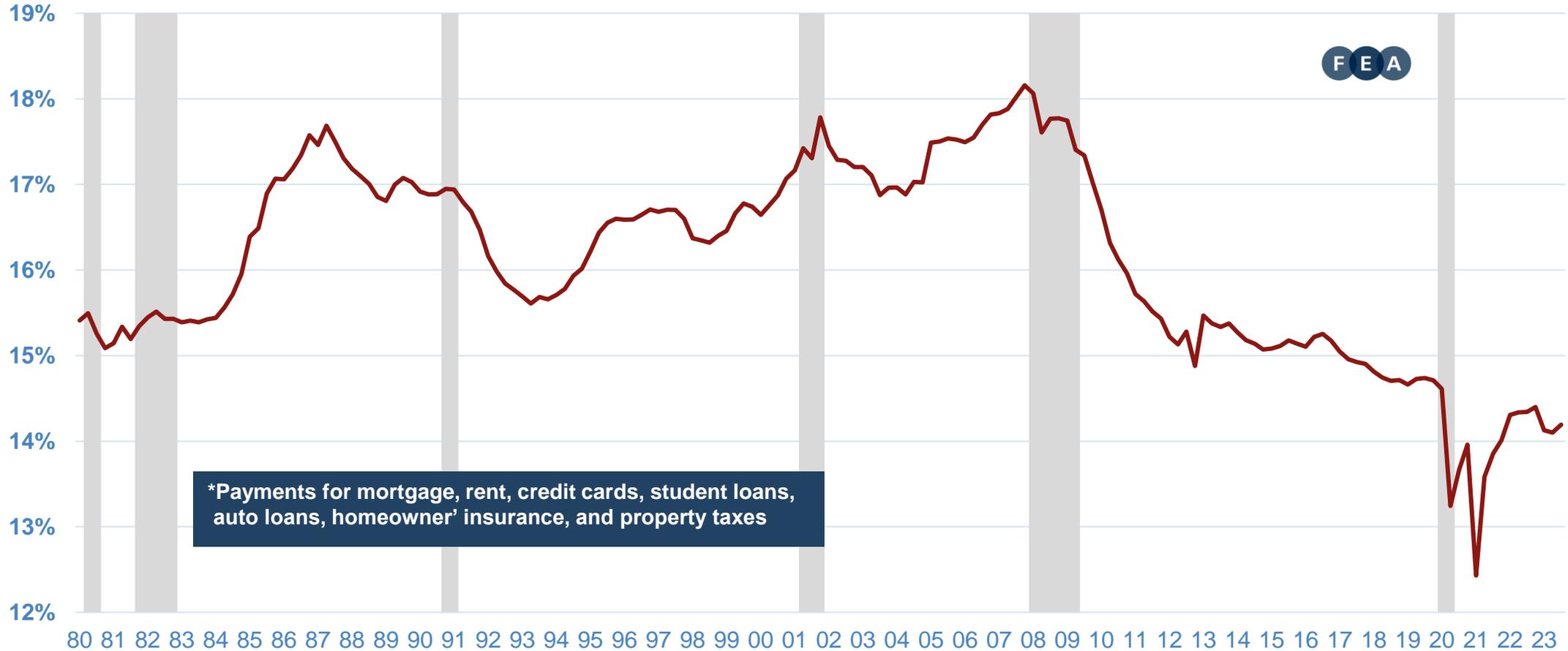
Labor Market Eased, but Remains Strong



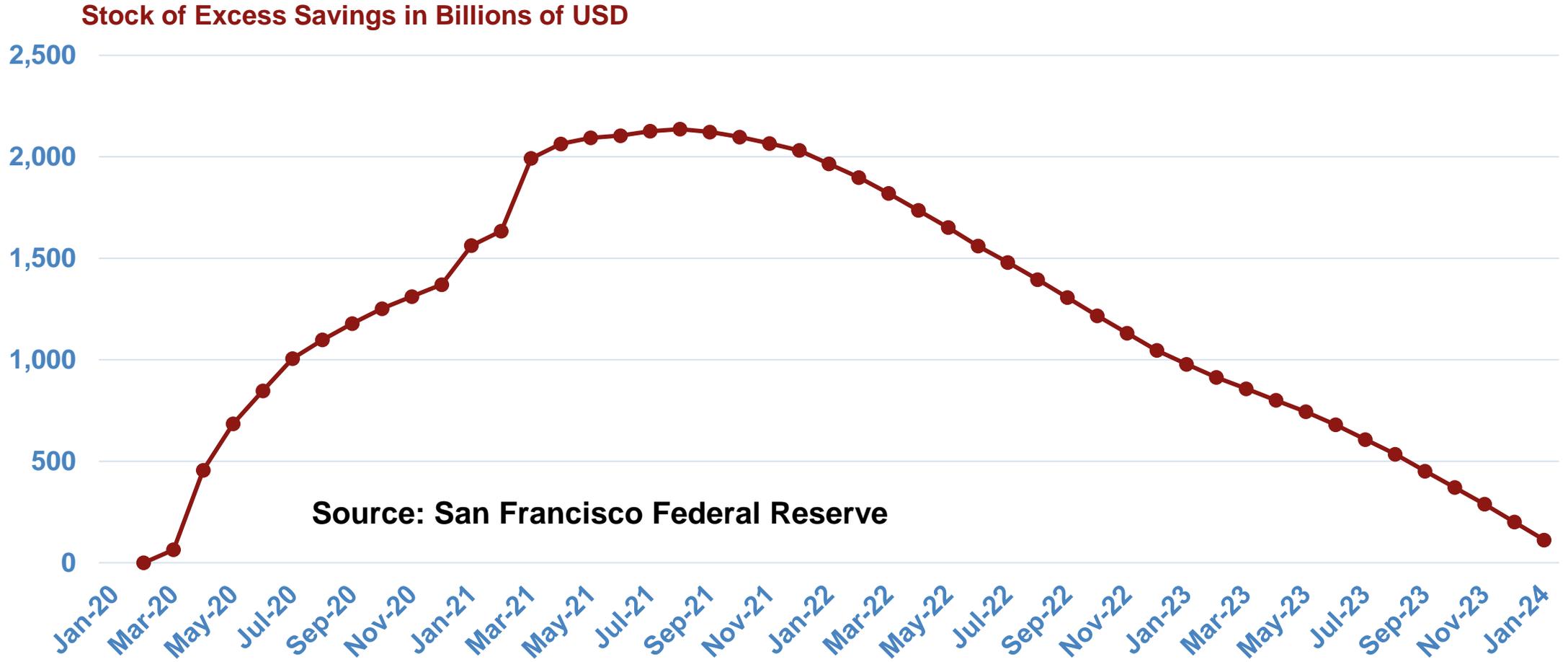
Source: Bureau of Labor Statistics

US Household Balance Sheets Are In Great Shape

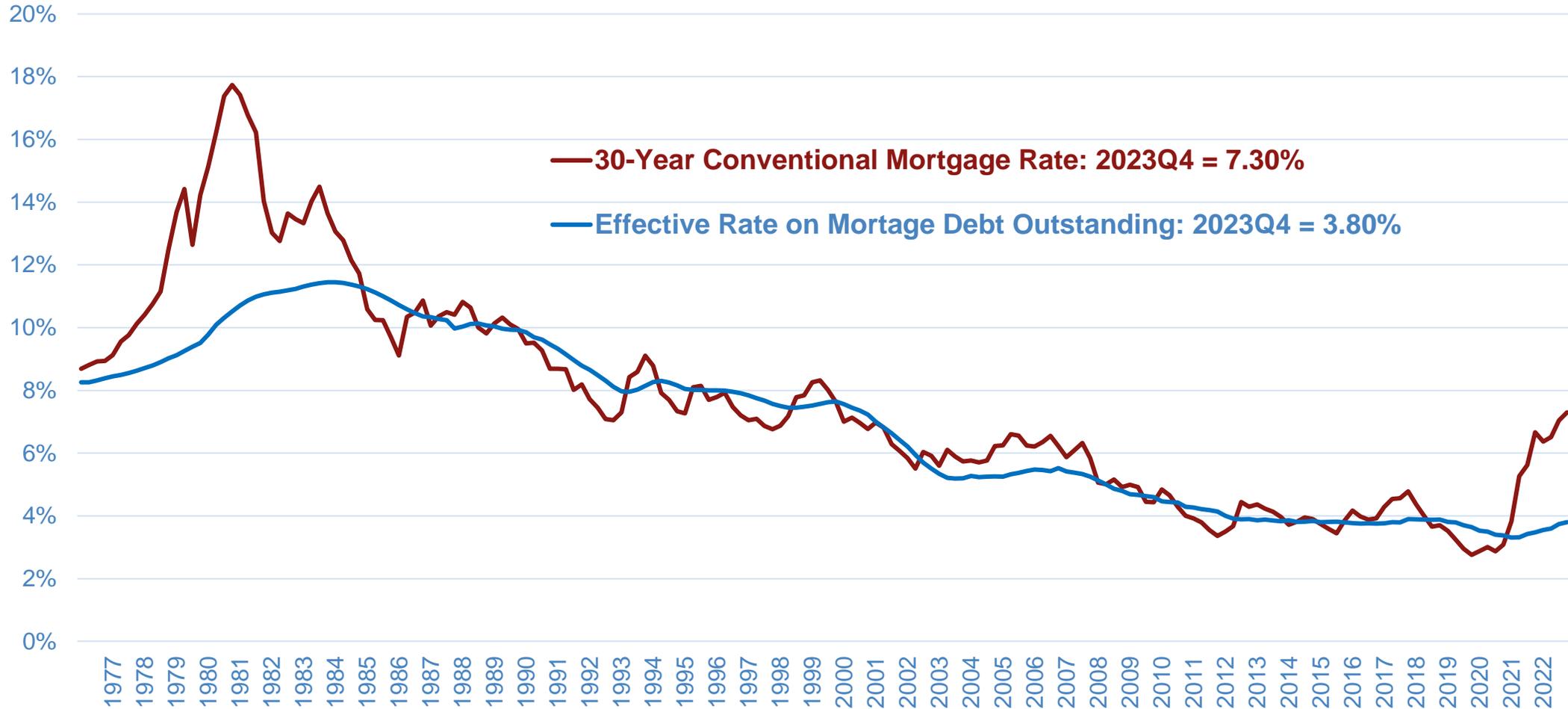
Household Financial Obligations* as a percent of Disposable Personal Income



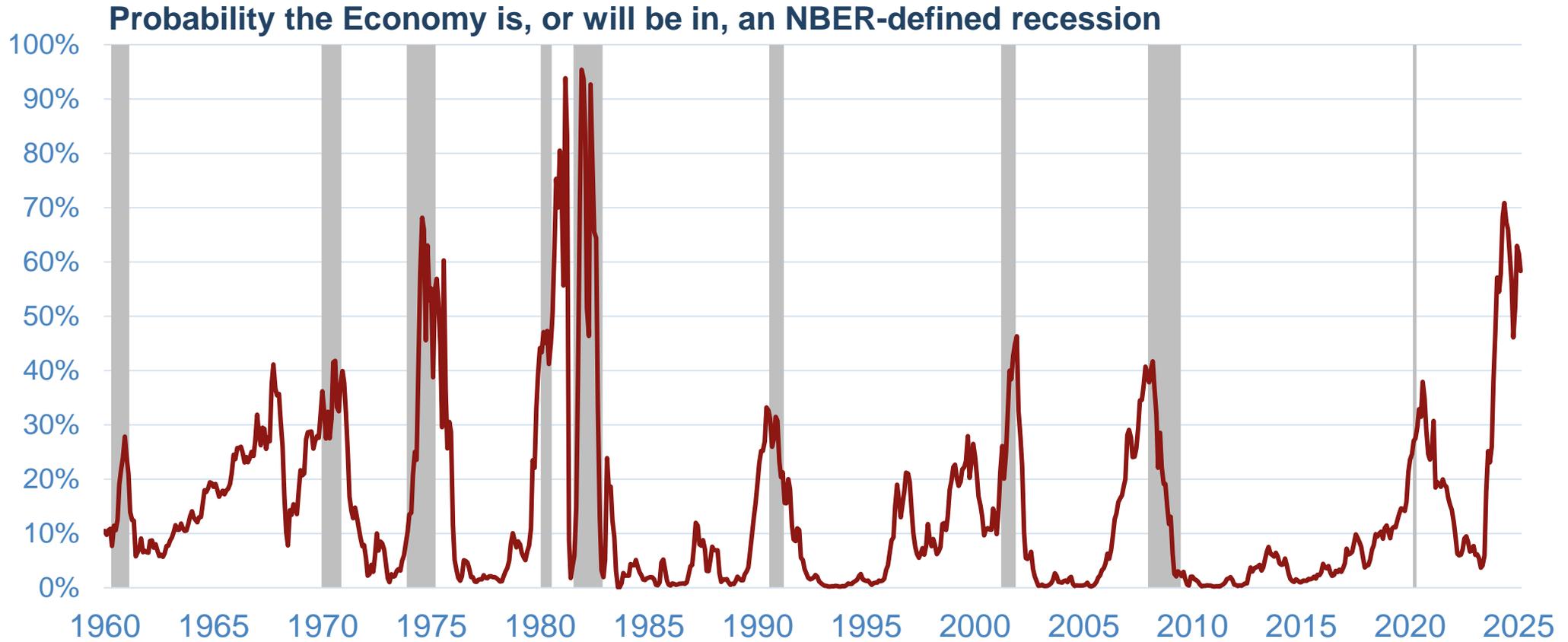
Excess Saving of US Households Have Declined to \$112B



Higher Mortgage Rates Are Not Affecting Most Households



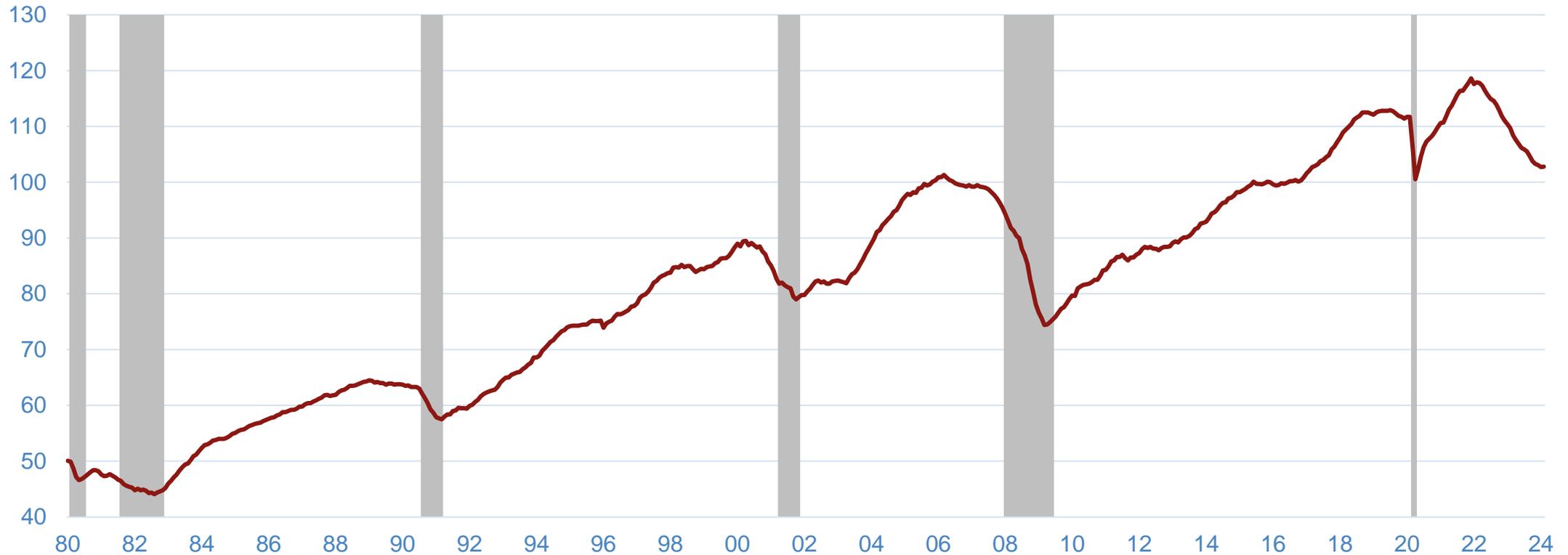
New York Fed Indicator Shows a 58% Chance of Recession Within Next Year



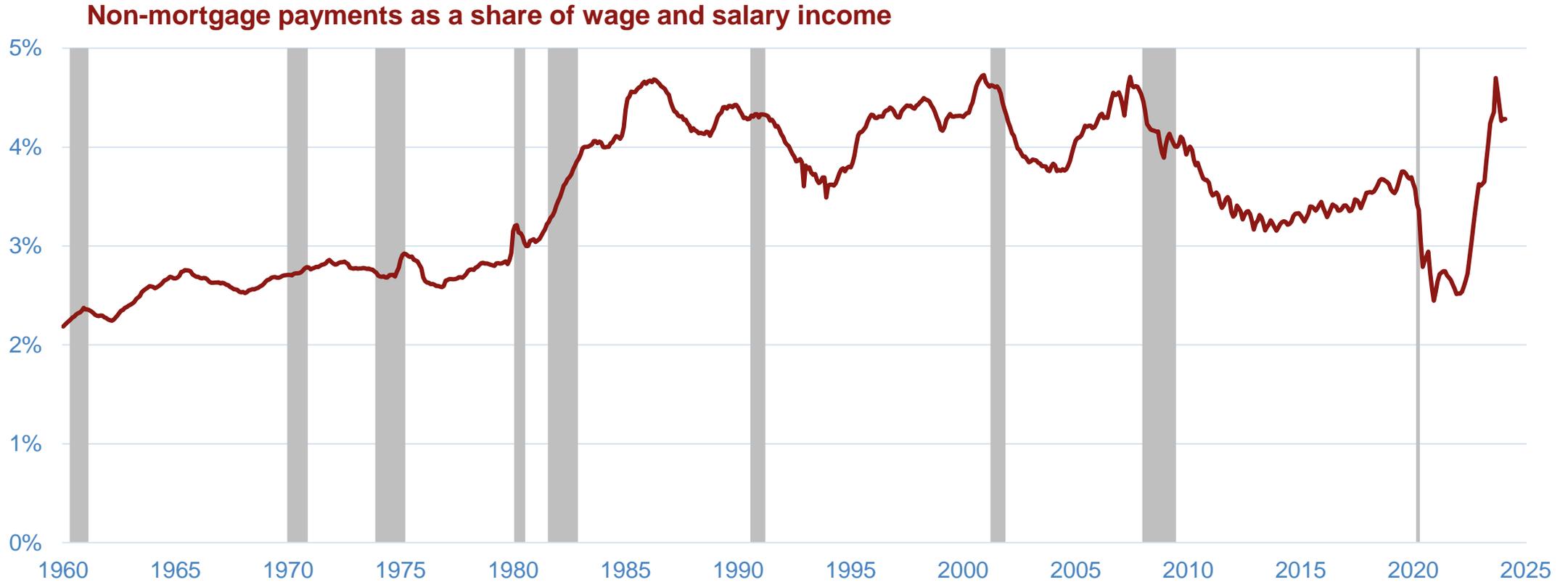
Source: New York Fed

The Index of Leading Indicators Recorded First Positive Reading in 24 Months in February

Index of Leading Indicators – Conference Board



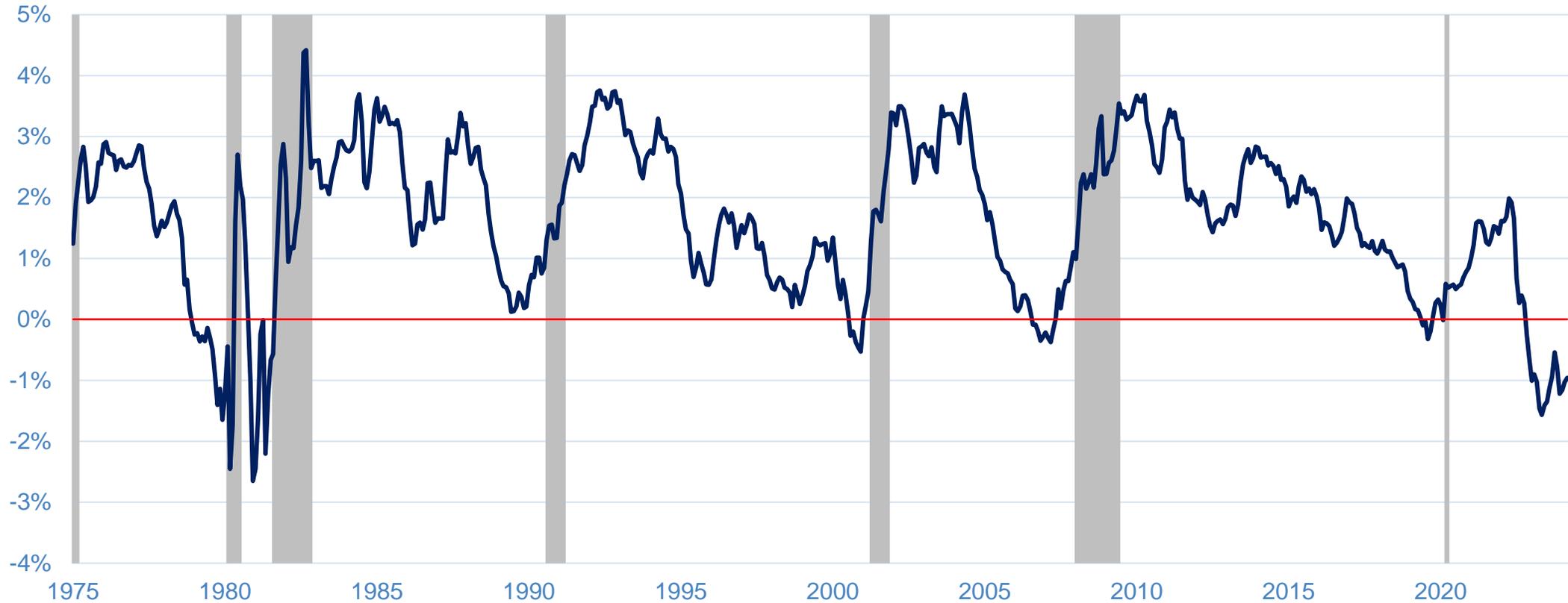
Household Interest Payments on Non-Mortgage Debt Have Surged



Source: Bureau of Economic Analysis

The 10-Year/3 Month Yield Curve Has Been Inverted

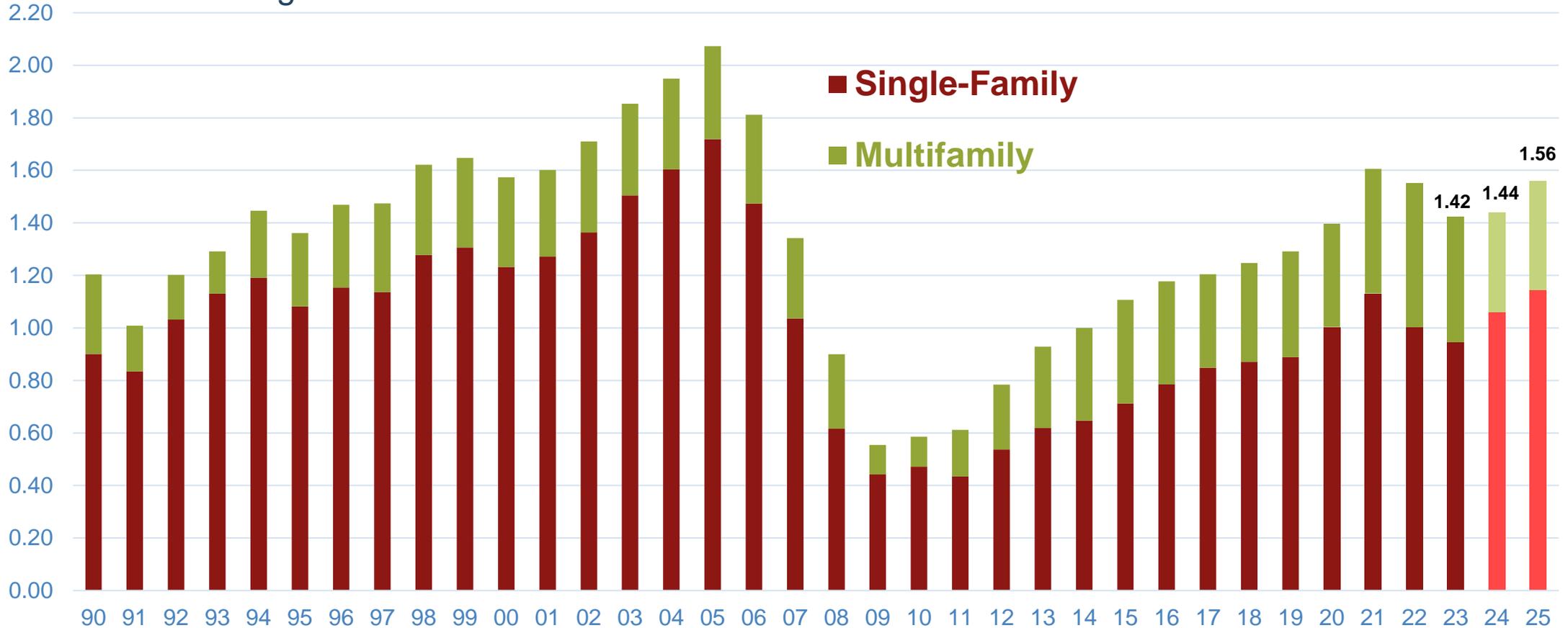
Yield Spread: Ten-Year Treasury minus Three-Month Treasury Bill



Source: Federal Reserve

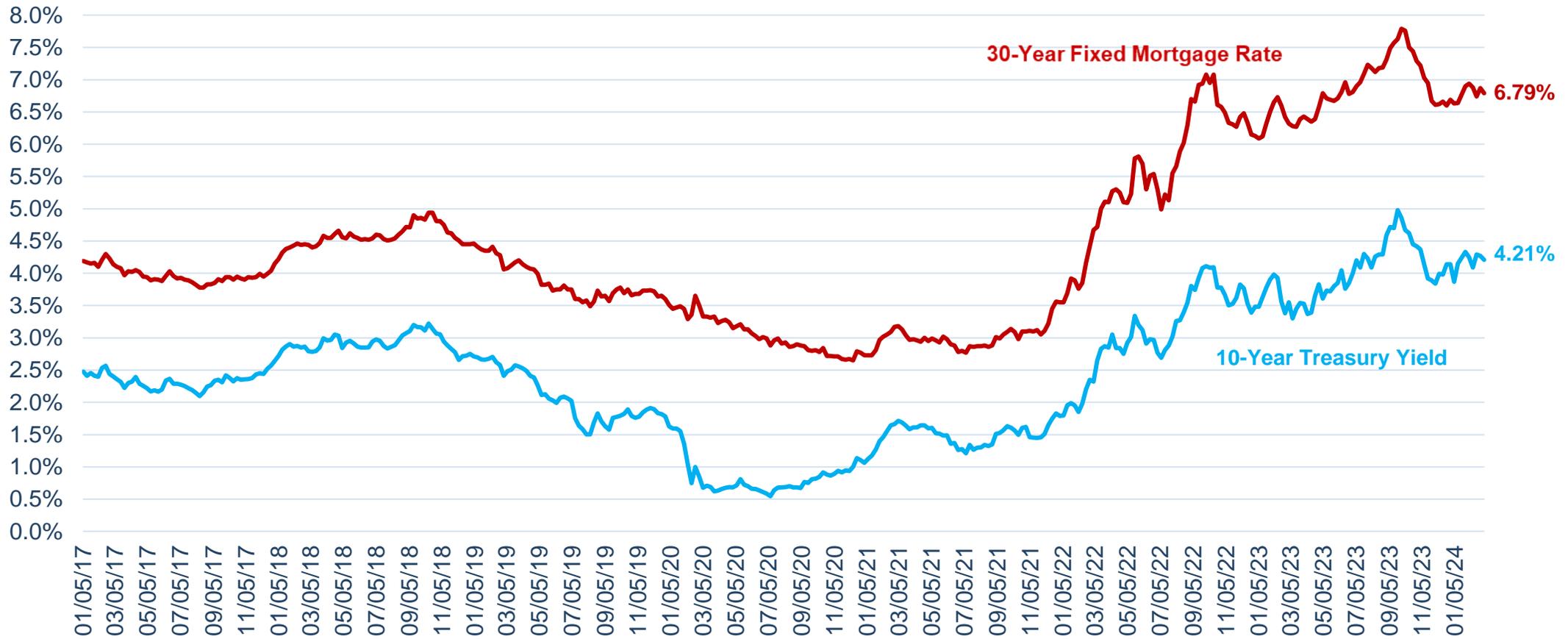
Housing Starts Declined by 9% in 2023 and Tick Up Slightly in 2024

US Housing Starts in Millions



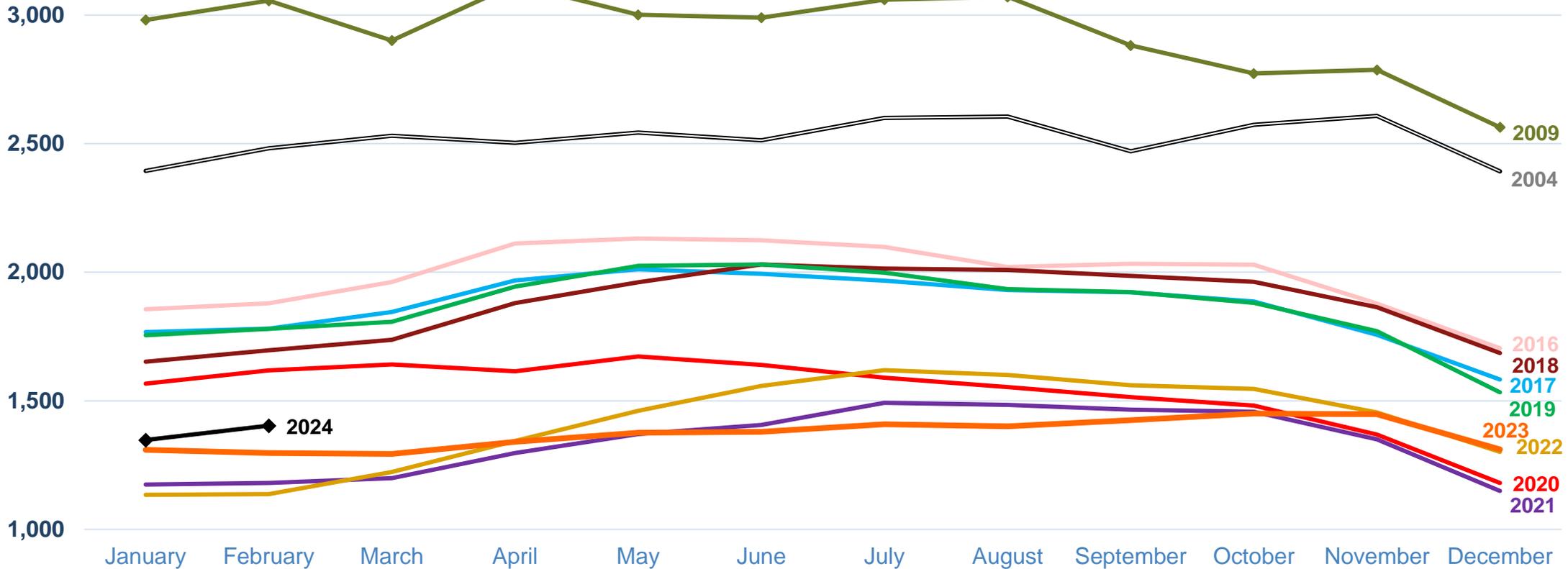
Source: Census Bureau, FEA Forecasts

Mortgage Rates Have Come Off Their Peak



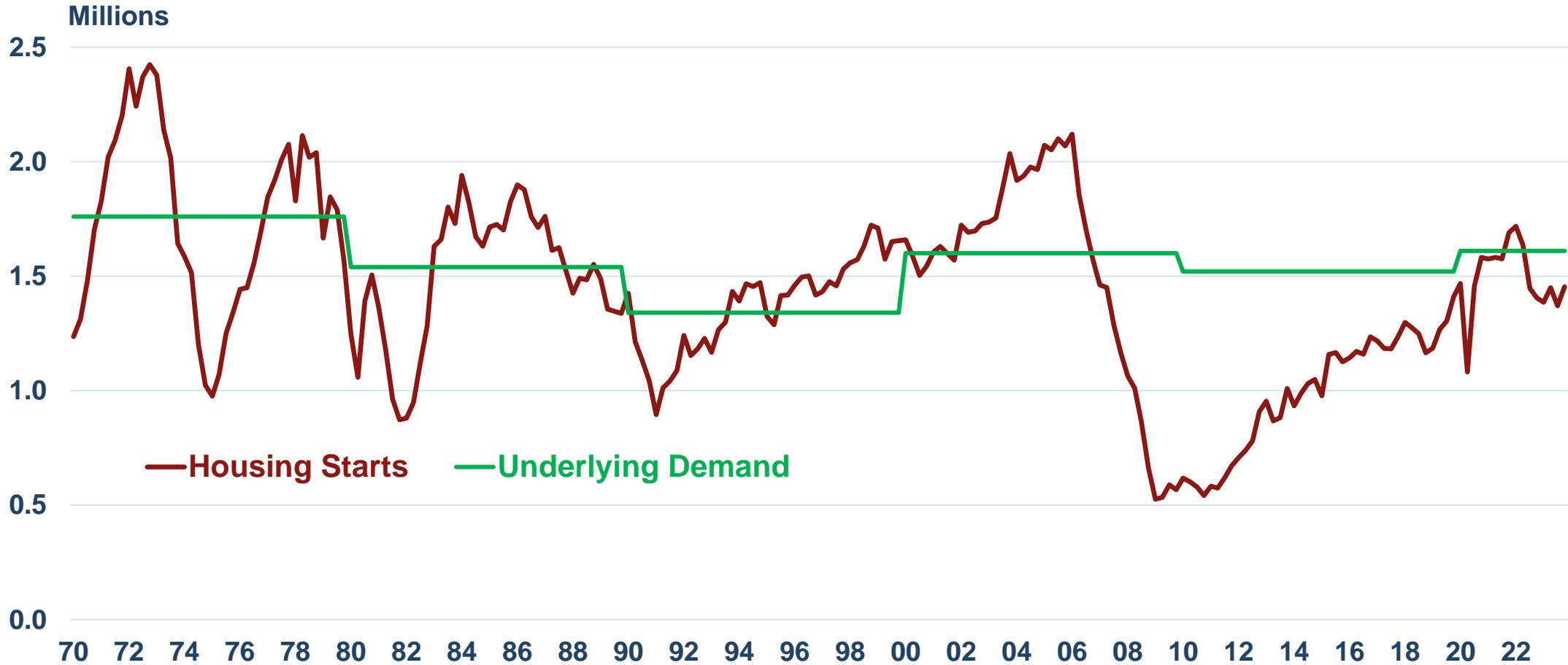
Home Inventories Rising from Rock Bottom Level

Existing plus New Single-Family Homes for Sale, Thousands

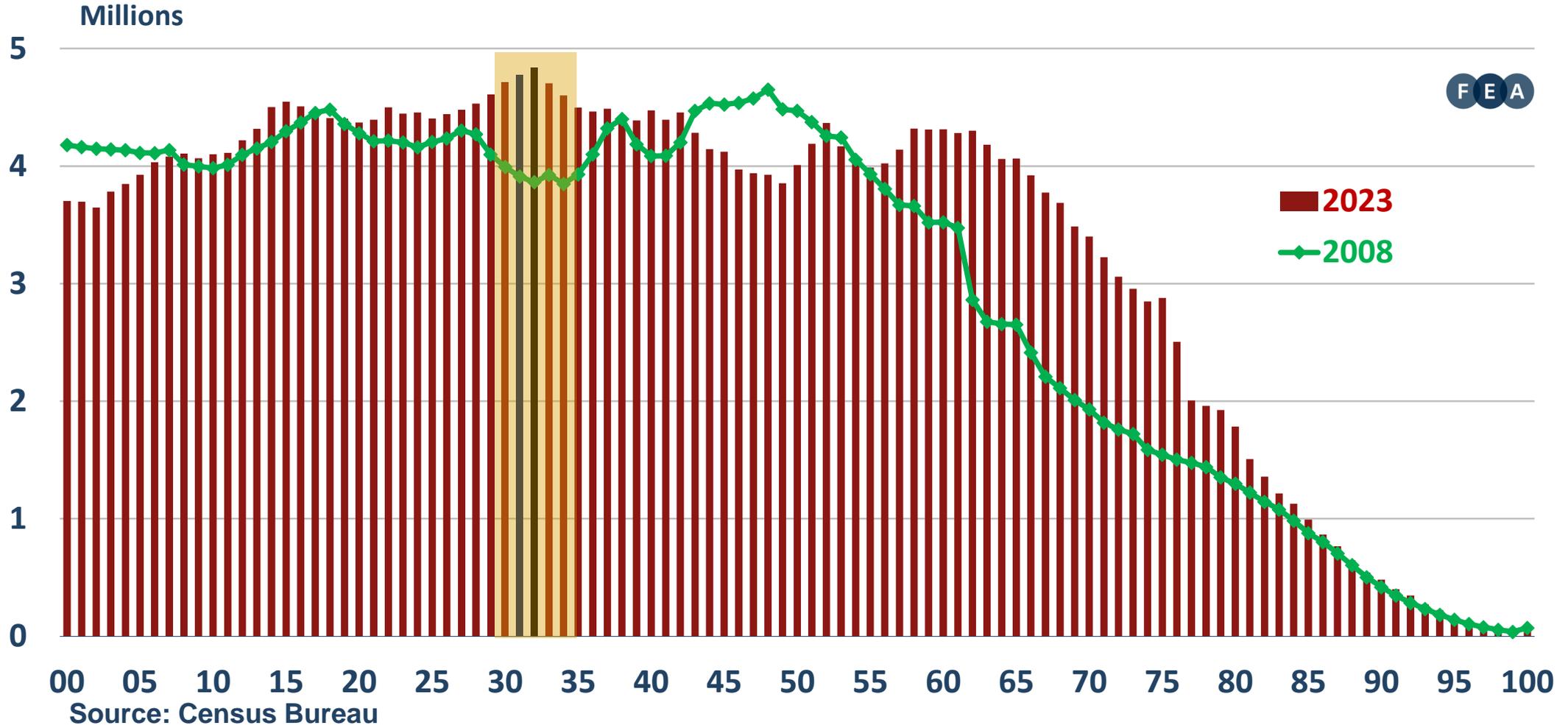


Source: Census Bureau and National Association of Realtors

US Housing Starts Have Been Well Below Underlying Demand For More Than A Decade

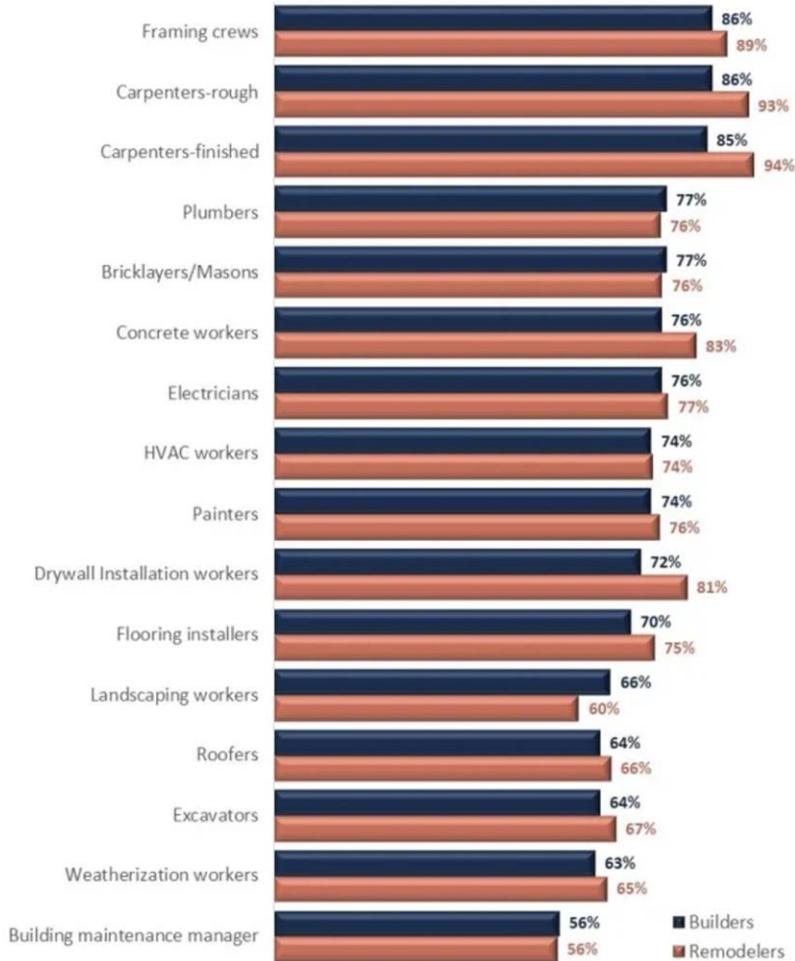


2008 – Strong Demographic HEADWIND 2023 – Strong Demographic TAILWIND

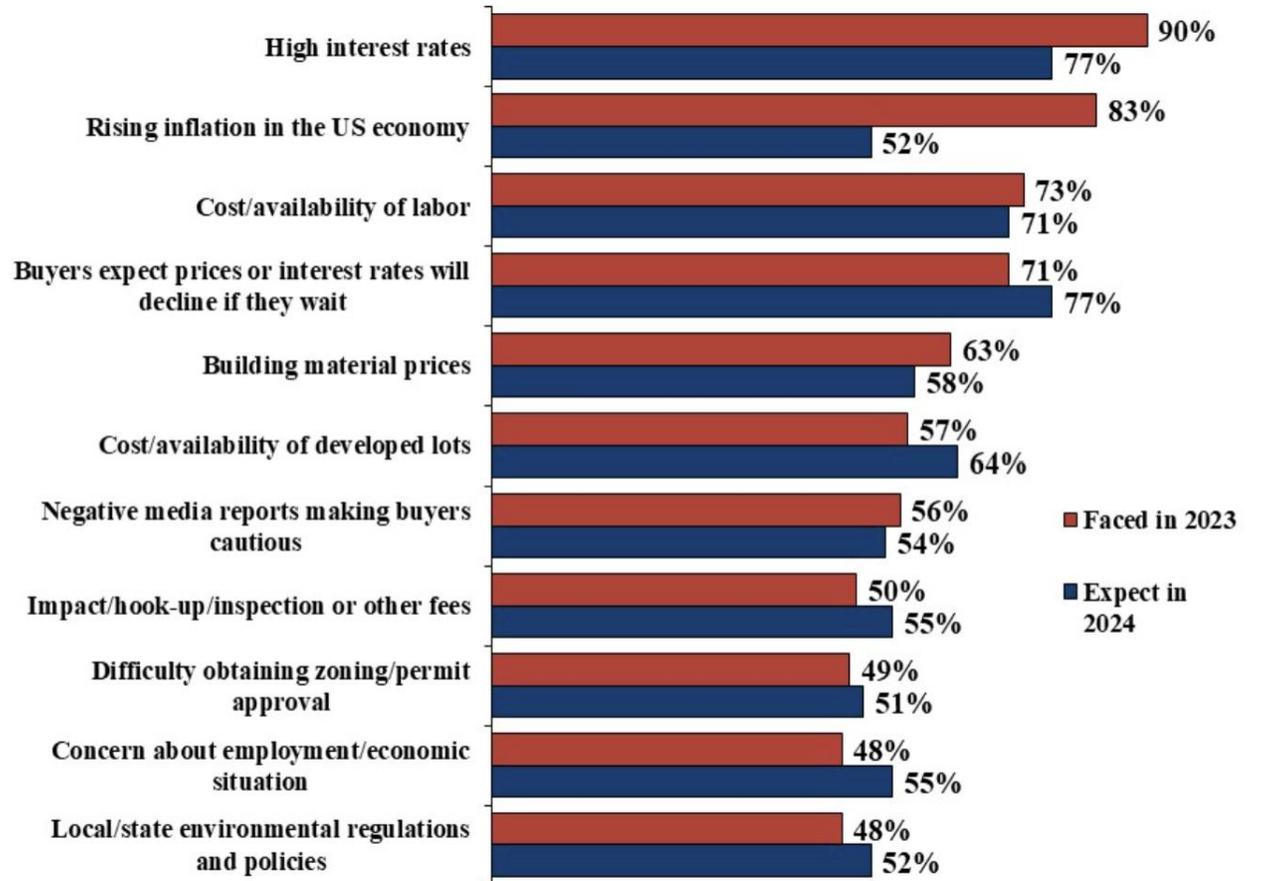


Supply Side Constraints Will Prevent Housing Starts From Rising More

Percent of Builders & Remodelers Reporting Shortages of LABOR (Directly employed)

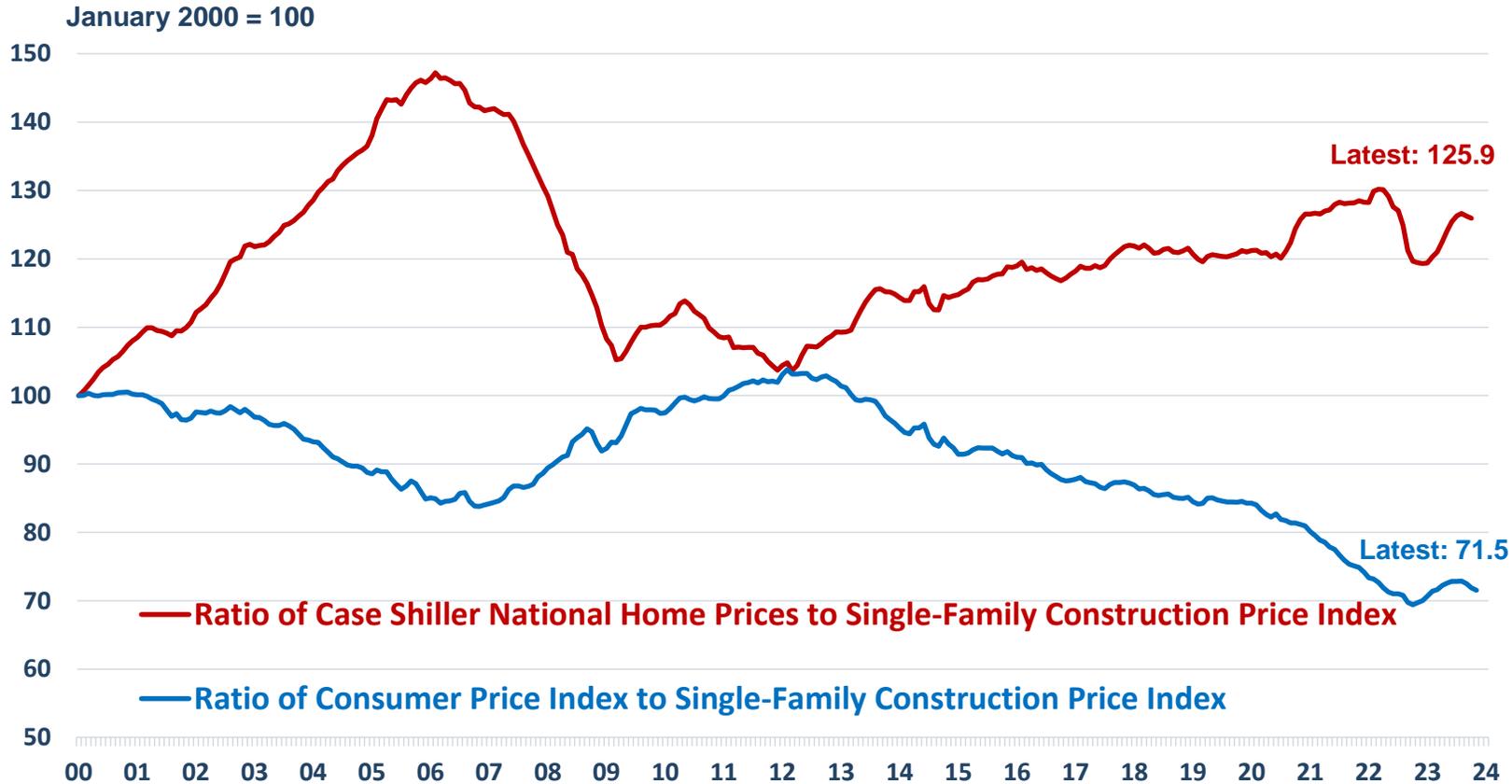


Key Problems of 2023 and Expected Issues for 2024



Source: HMI Special Survey, NAHB EChp.

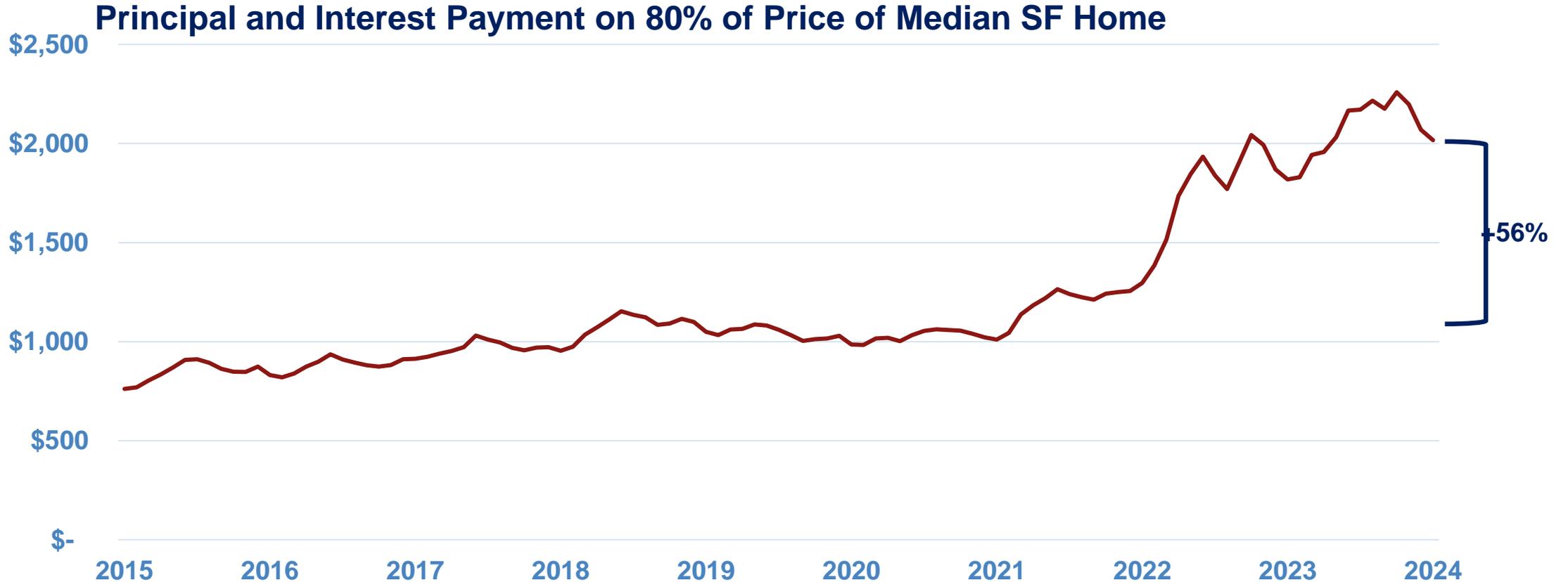
Single Family Construction Costs Have Beat Inflation But Not Home Prices



Source: Census Bureau, Bureau of Labor Statistics, S&P Dow Jones Indices

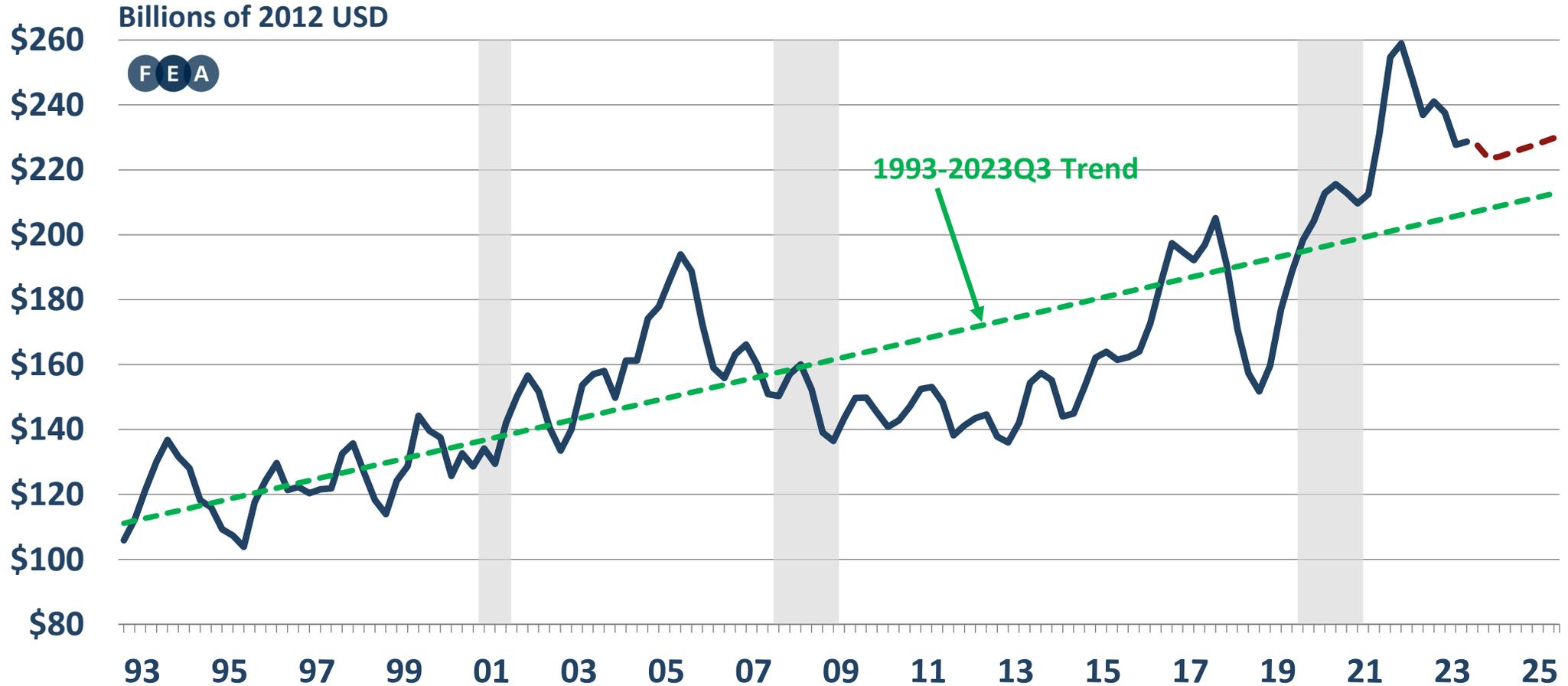
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Homes Are Still Not Affordable



Source: National Association of Realtors, FEA estimates and calculations

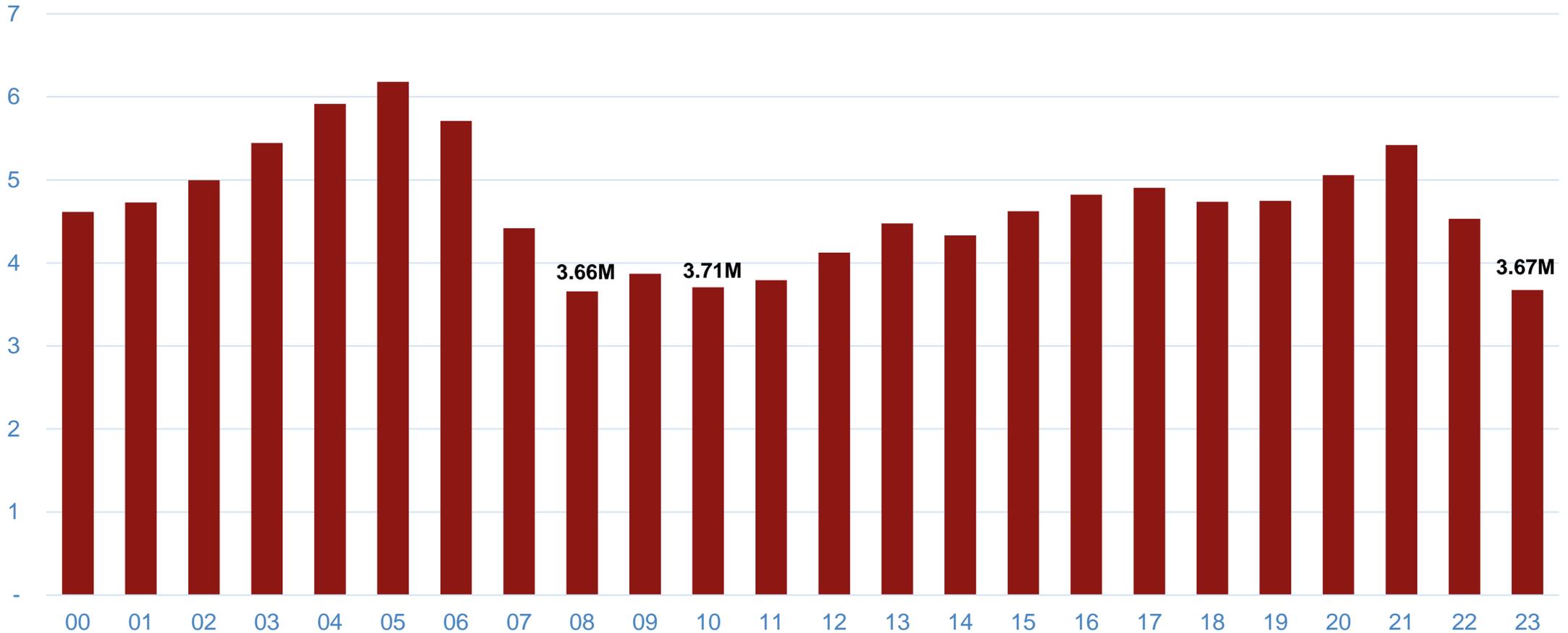
Improvement Expenditures Will Remain Elevated



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

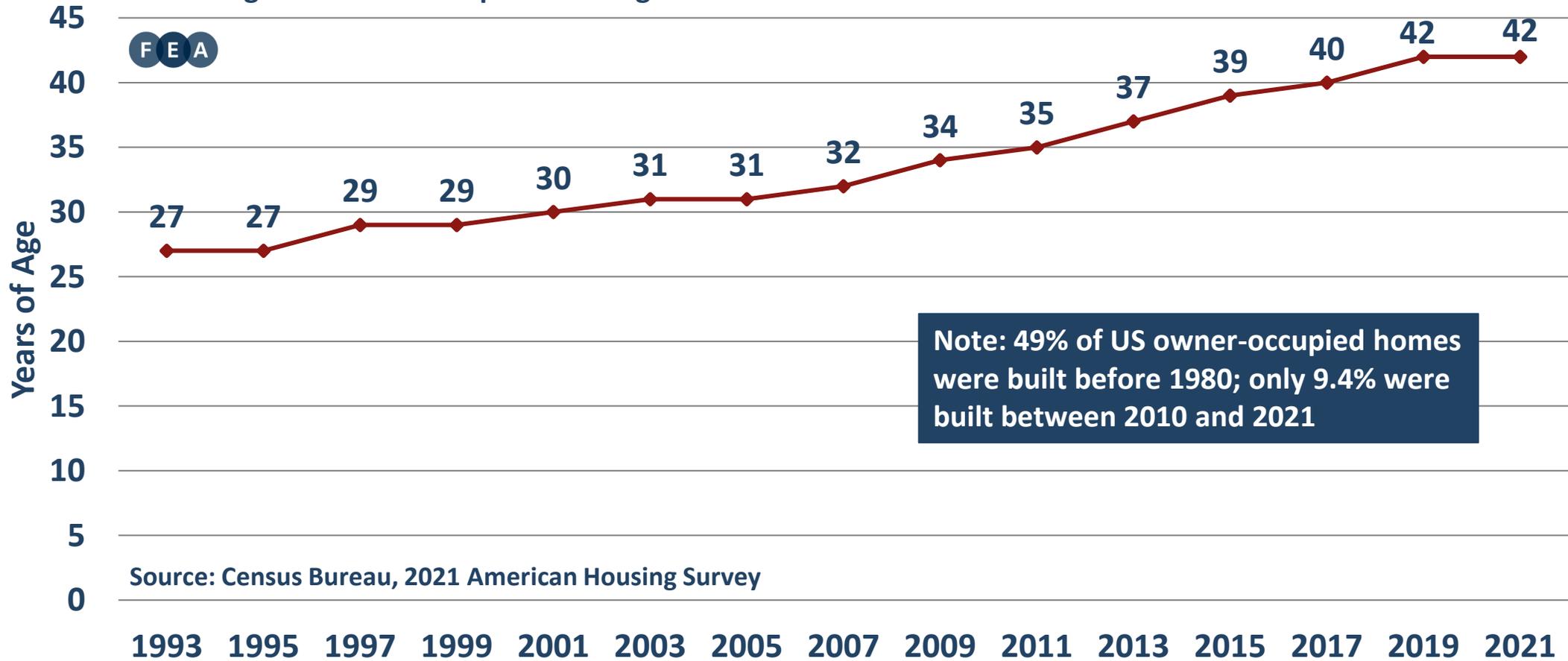
Existing Single-Family Home Sales Were Close to Great Recession Levels in 2023

Existing Single-Family Home Sales in Millions

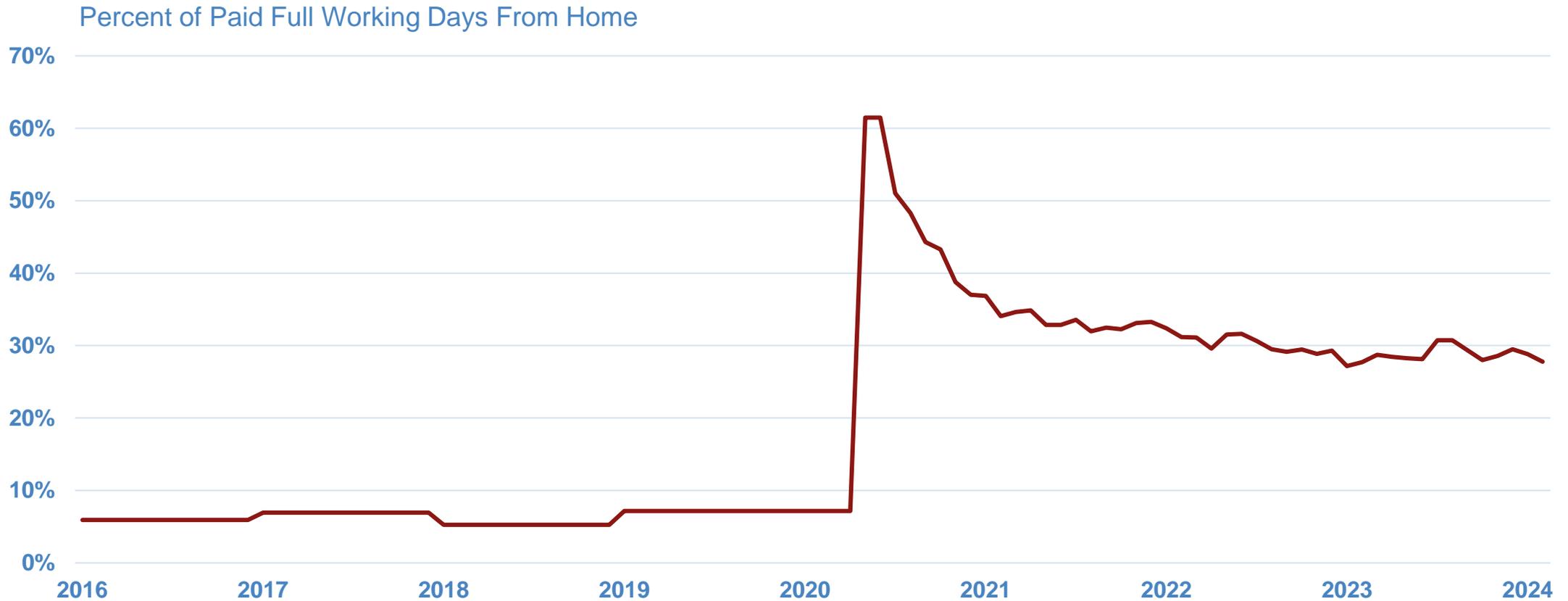


The US Housing Stock Has Aged Considerably

Median Age of Owner-Occupied Housing

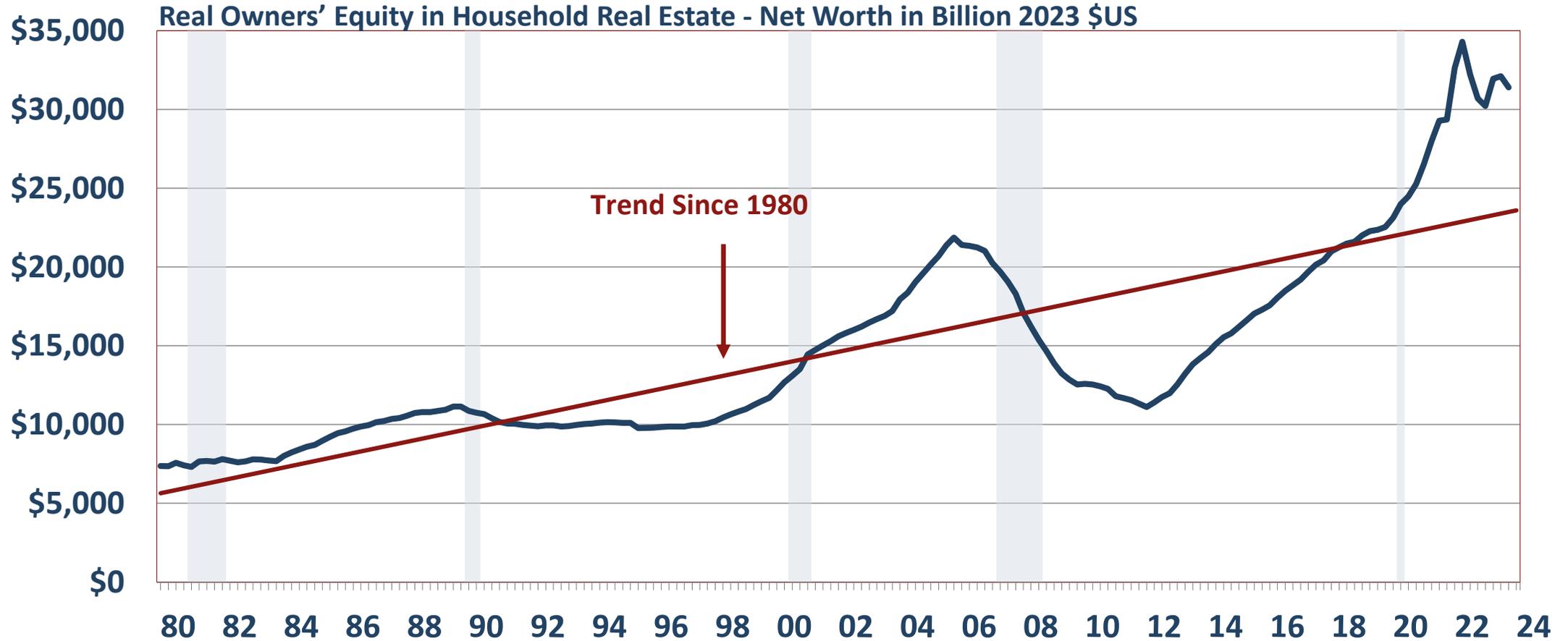


Elevated Work From Home Will Increase Demand For Residential Space



Source: www.wfhresearch.com

Huge Increase in Home Equity Should Support Improvements

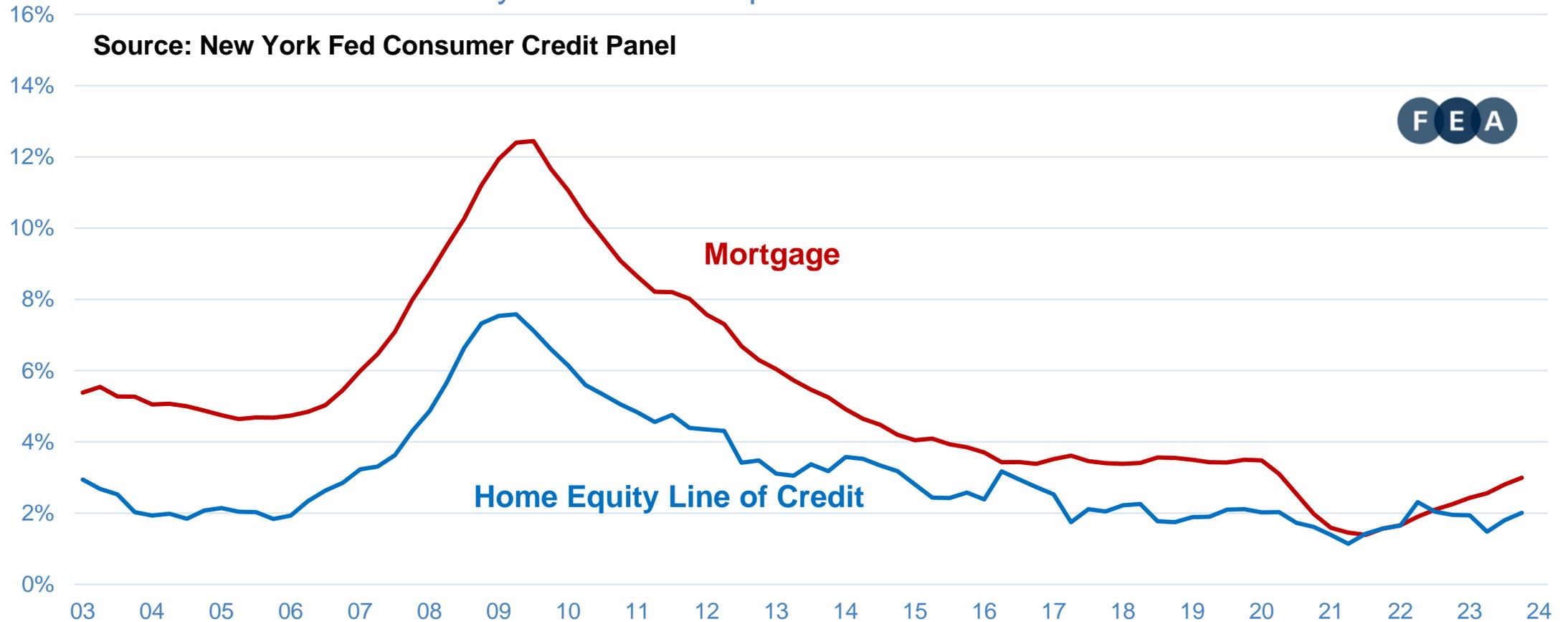


Source: Federal Reserve, FEA calculations

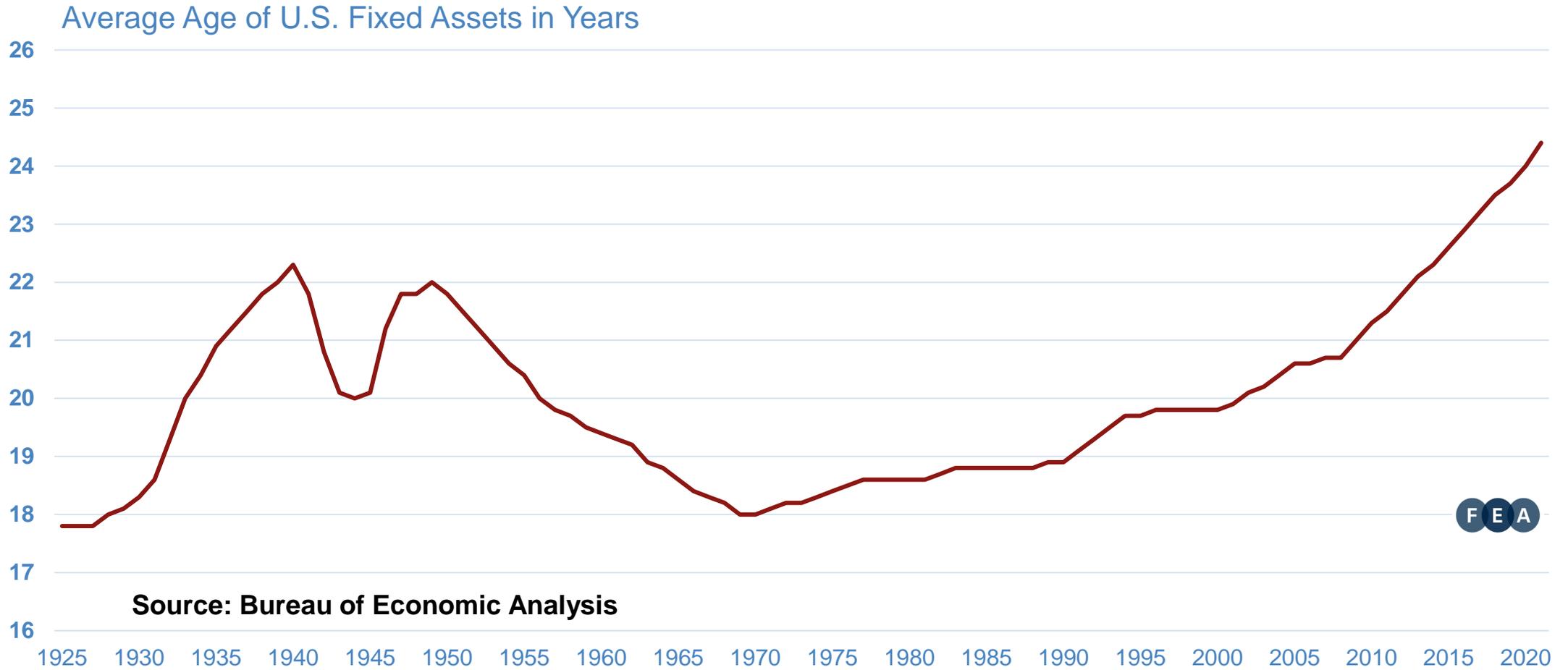
Home Loan Credit Quality is Excellent

New Loan Balances 30 Day or More Delinquent

Source: New York Fed Consumer Credit Panel



The US Capital Stock is Old

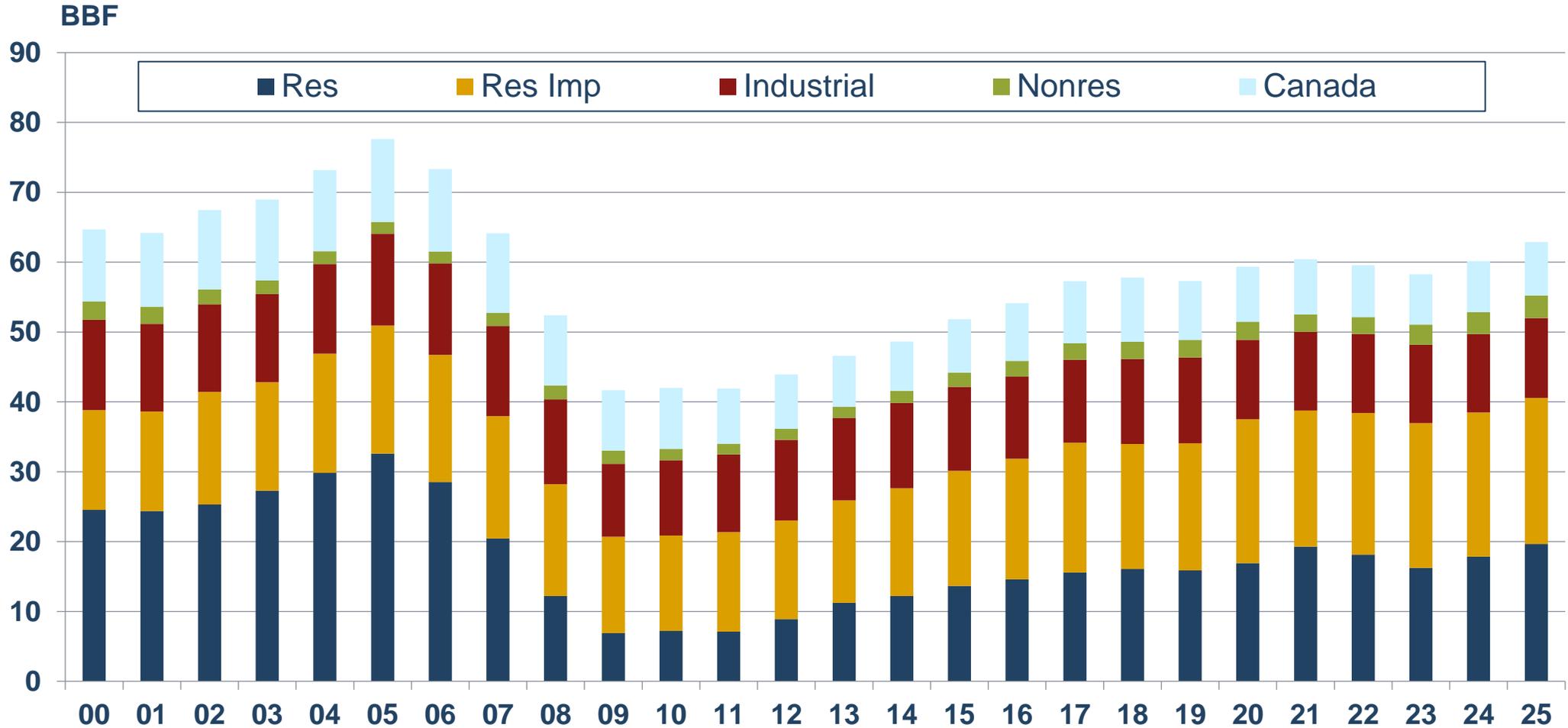


Tech Industry is Aggressively Re-Shoring Back to US

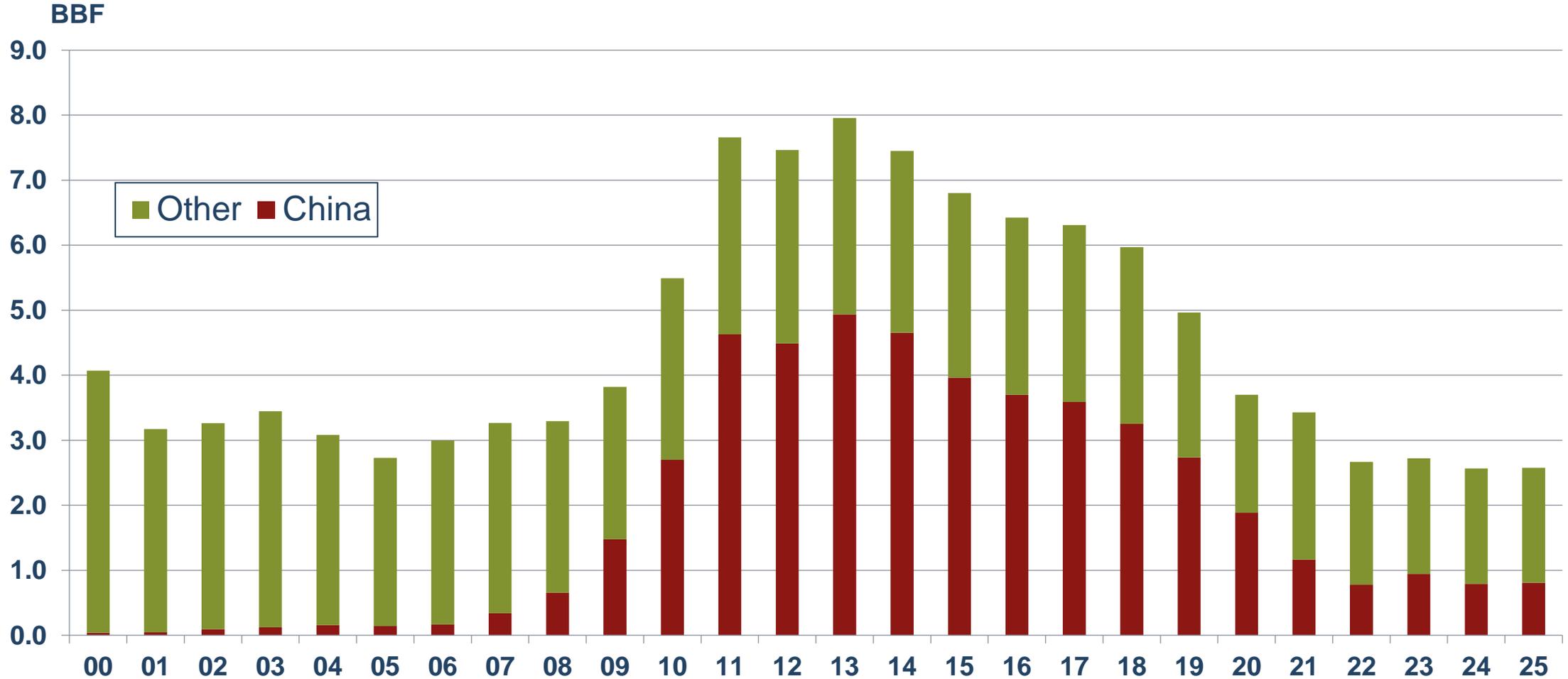
Private Construction Expenditures - Computer/Electronic/Electrical



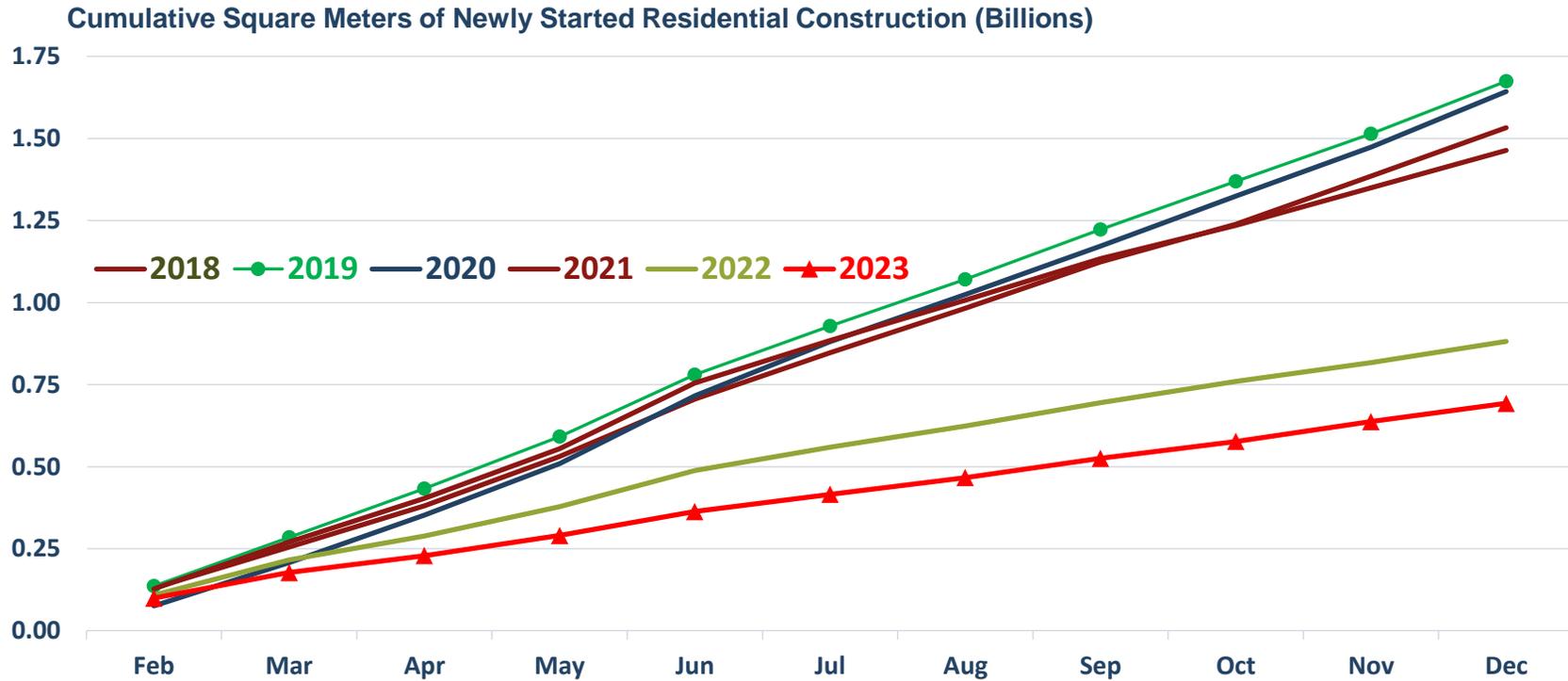
Lumber Consumption Will See Moderate Growth In 2024 And More Robust Growth In 2025



North American Lumber Exports Will Remain Weak

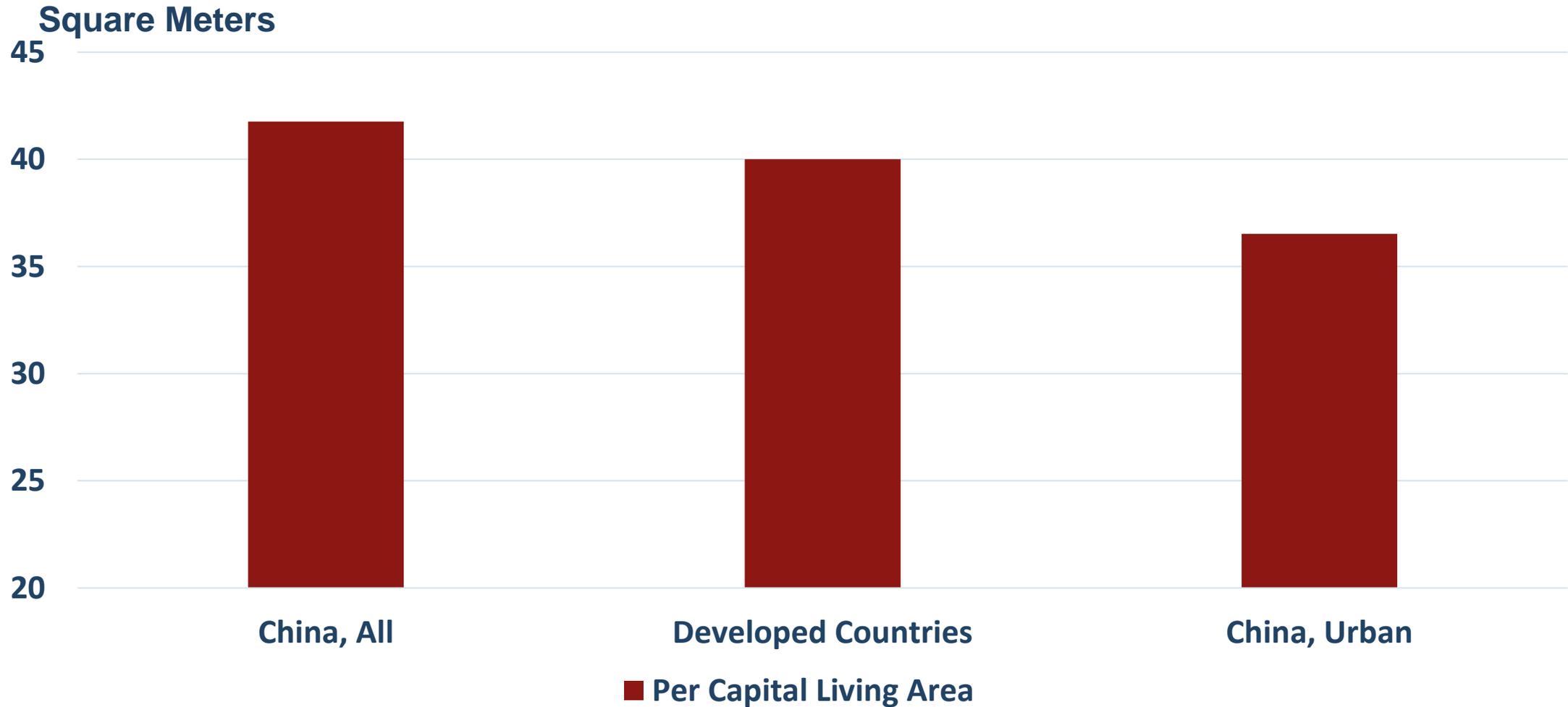


Chinese Residential Construction is About Half of Pre-Pandemic Level

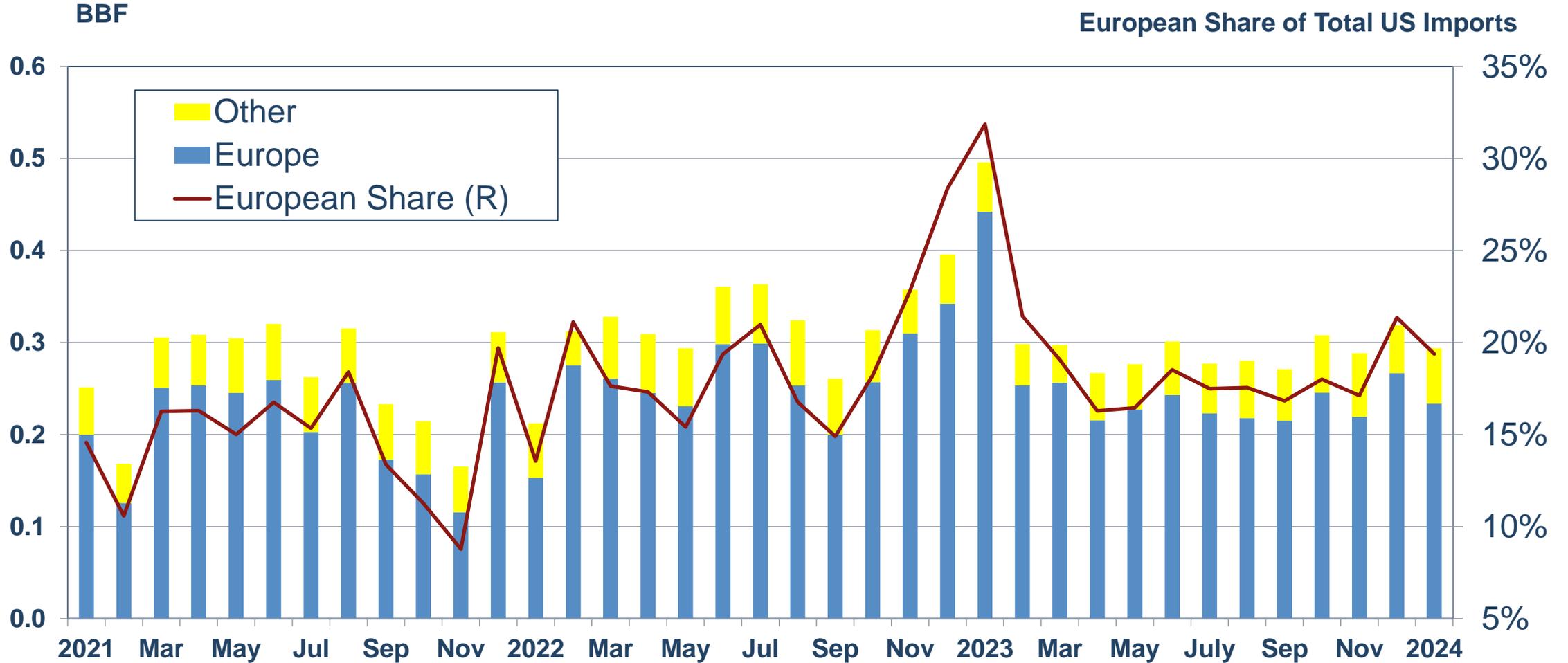


Source: China National Bureau of Statistics

China Has Already Reached Developed Country Levels of Per Capita Floor Space

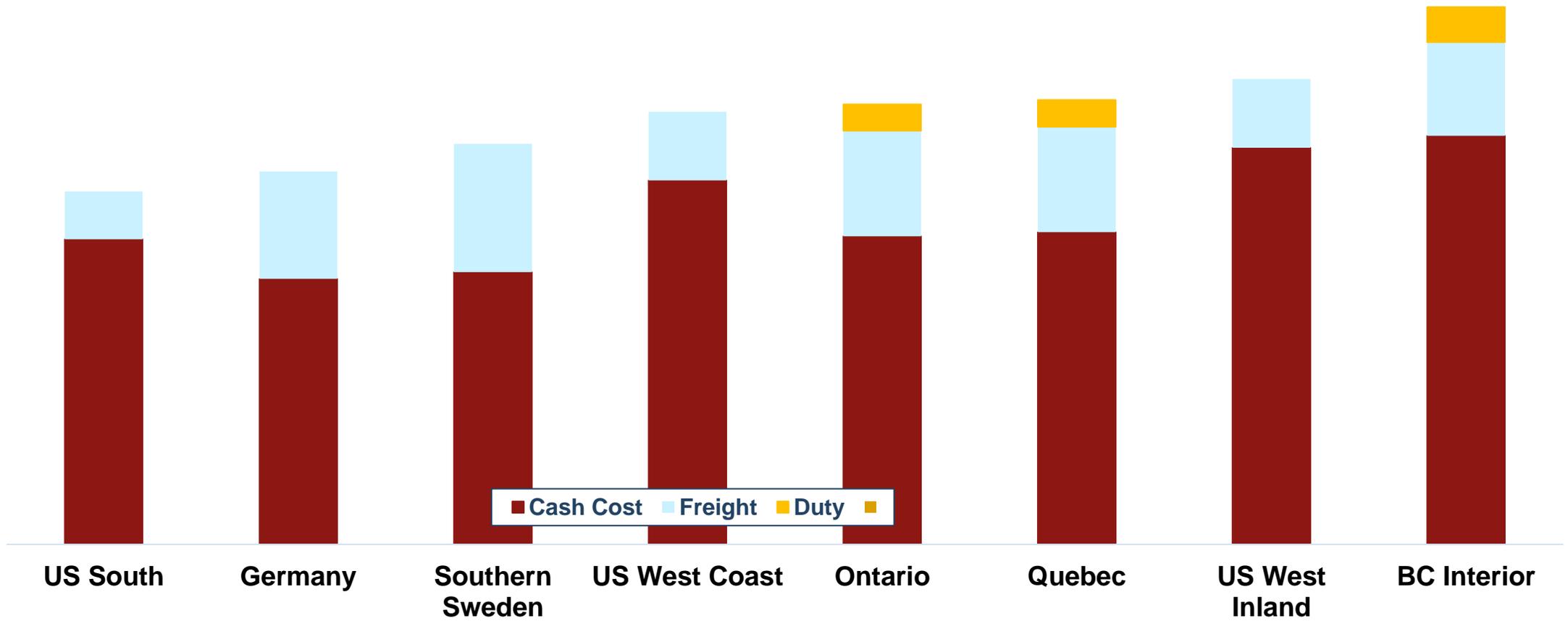


European Imports Have Fallen, But Will Remain Elevated



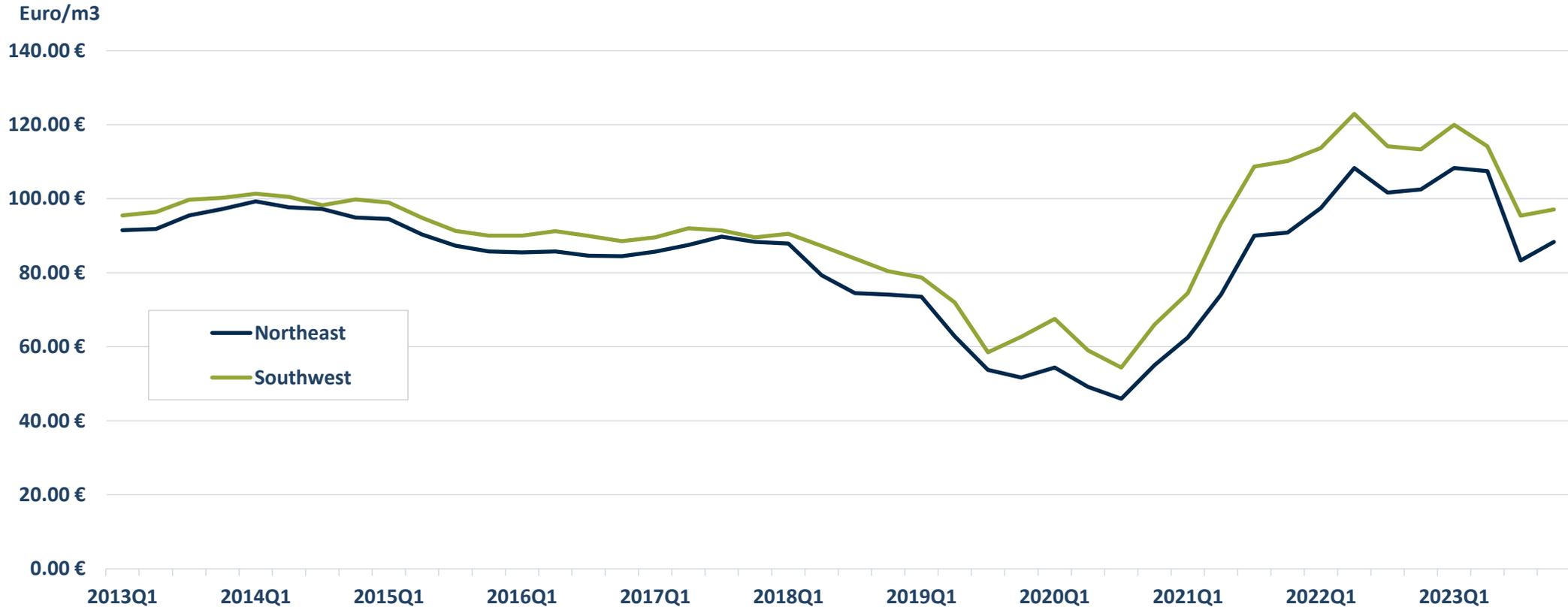
European Producers Are At The Low End Of The Cost Curve

\$/MBF, Delivered Houston



Sawlog Prices in Central European Dropped over most of 2023, but Improved in Recent Months

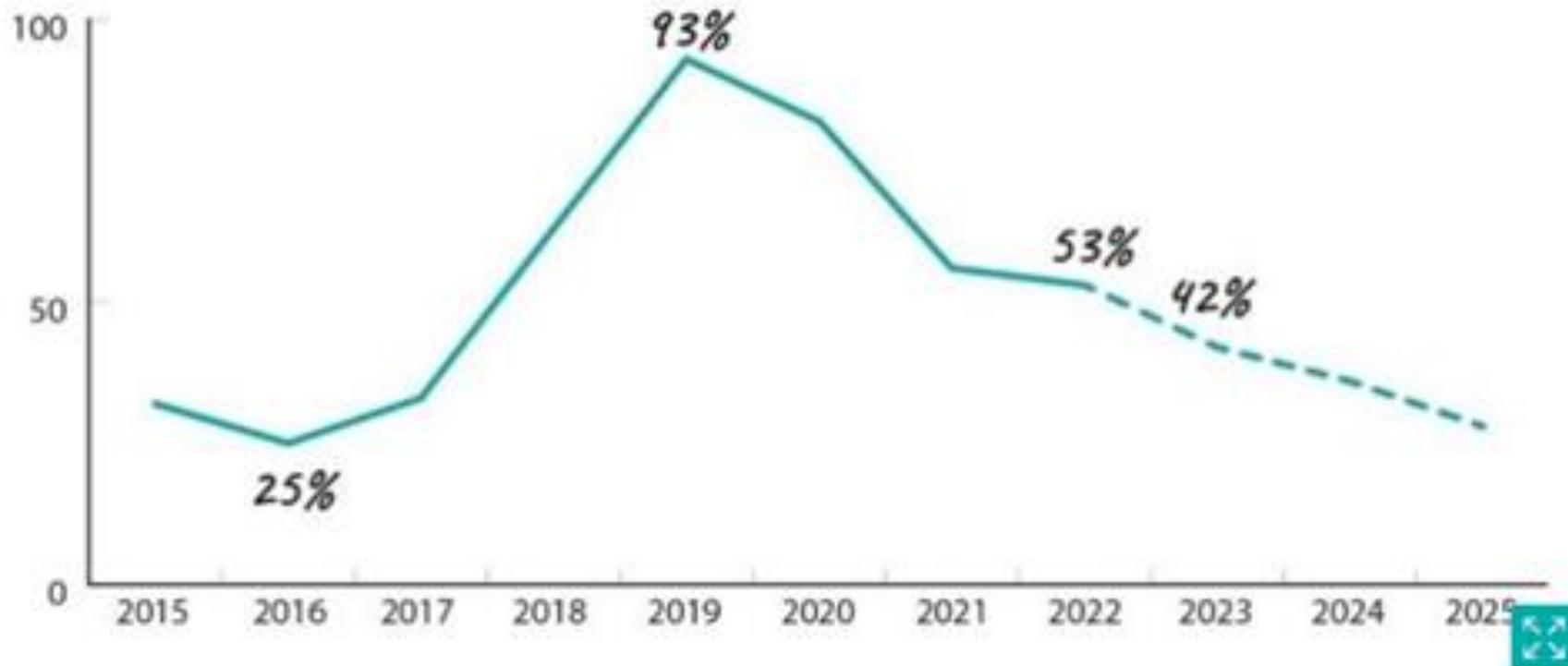
German Spruce 2B Sawlog Prices



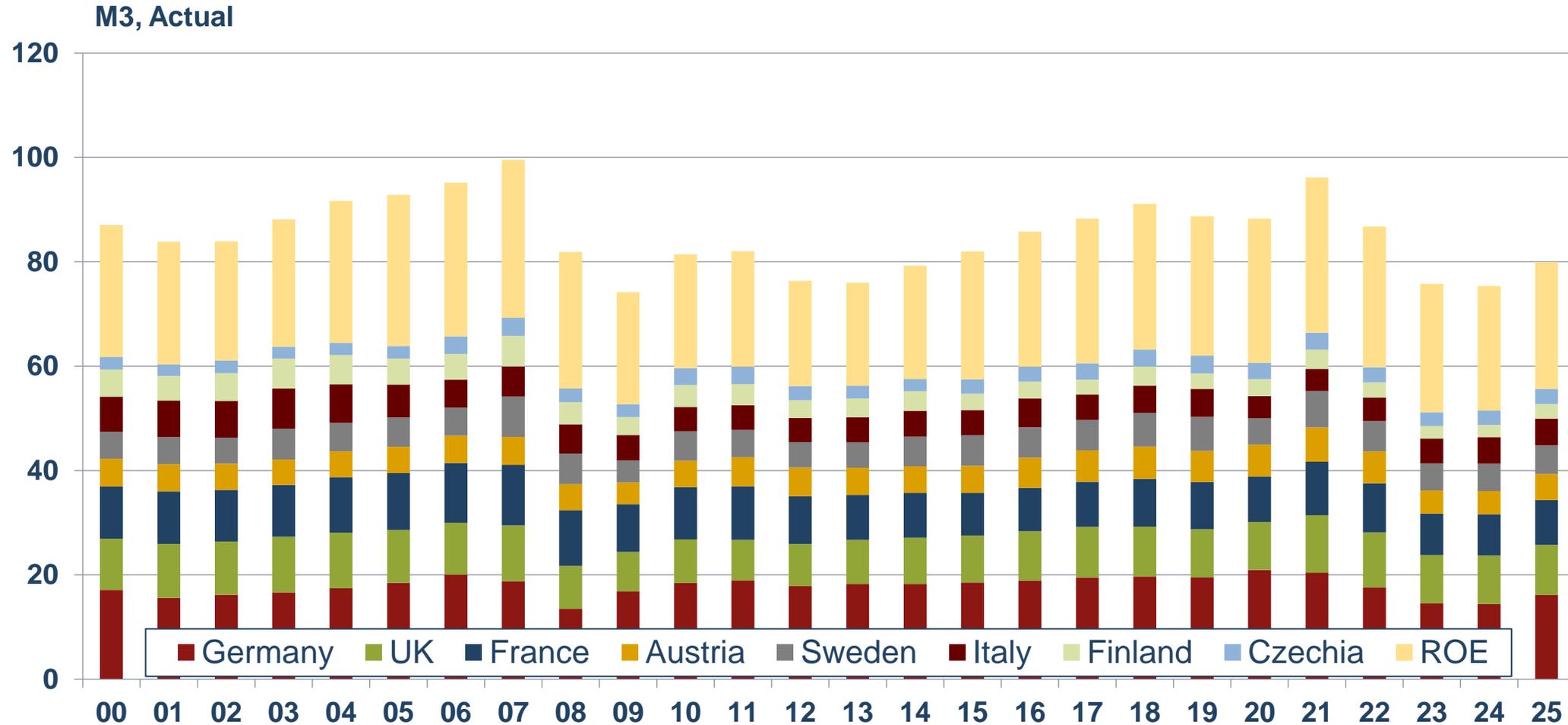
Source: EUWID

Sawlog Prices in Central European Will Remain Low

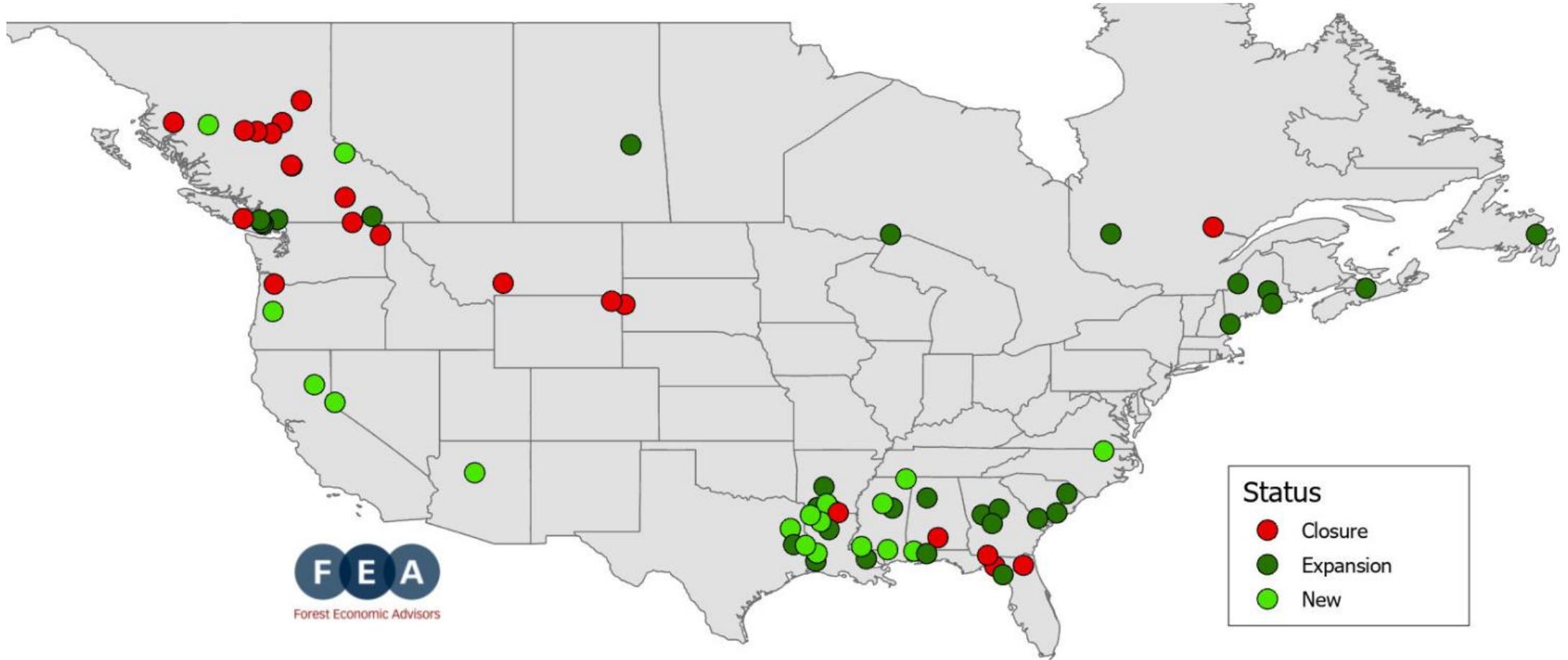
HARVEST / DAMAGED WOOD CENTRAL EUROPE | 2015–2025
Share of damaged wood in total harvest volume in percent



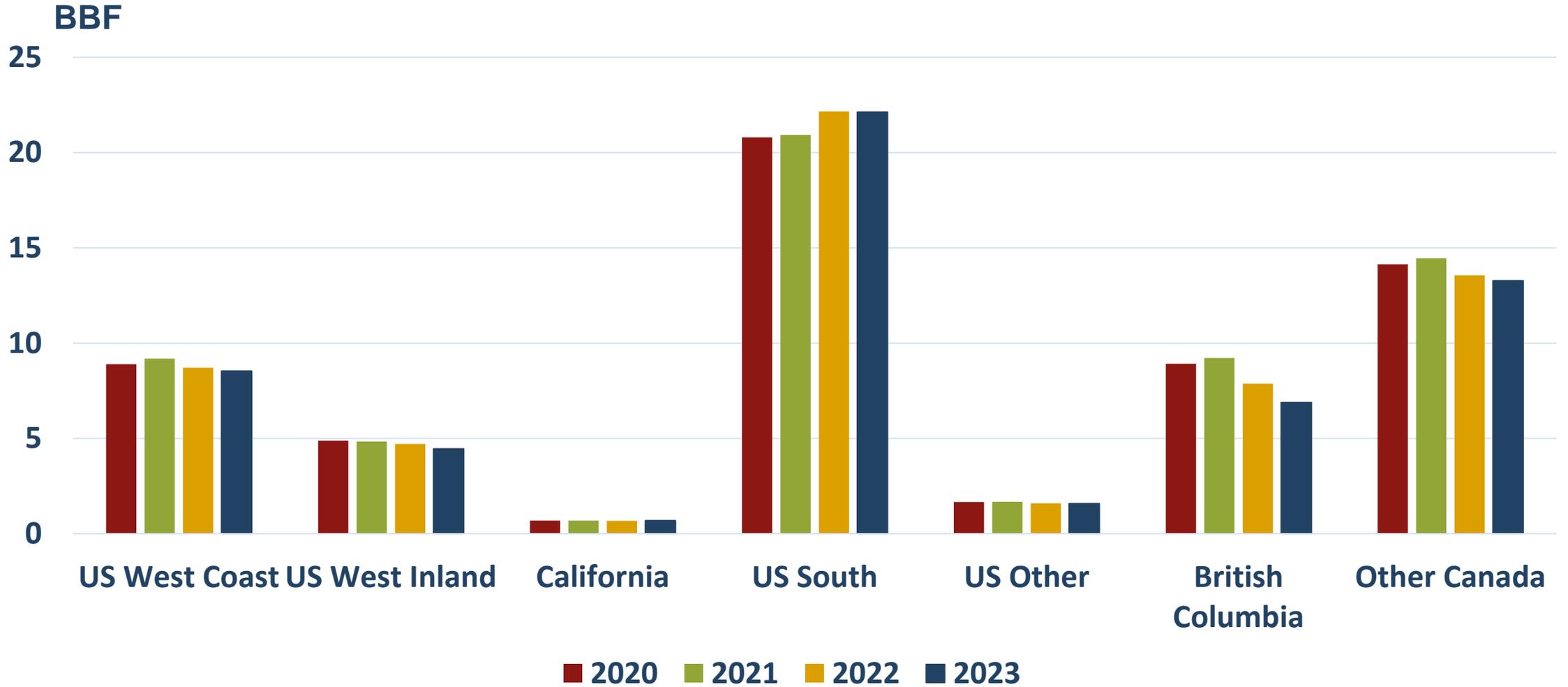
European Consumption Has Plunged



Softwood Lumber Capacity Changes Since 2022

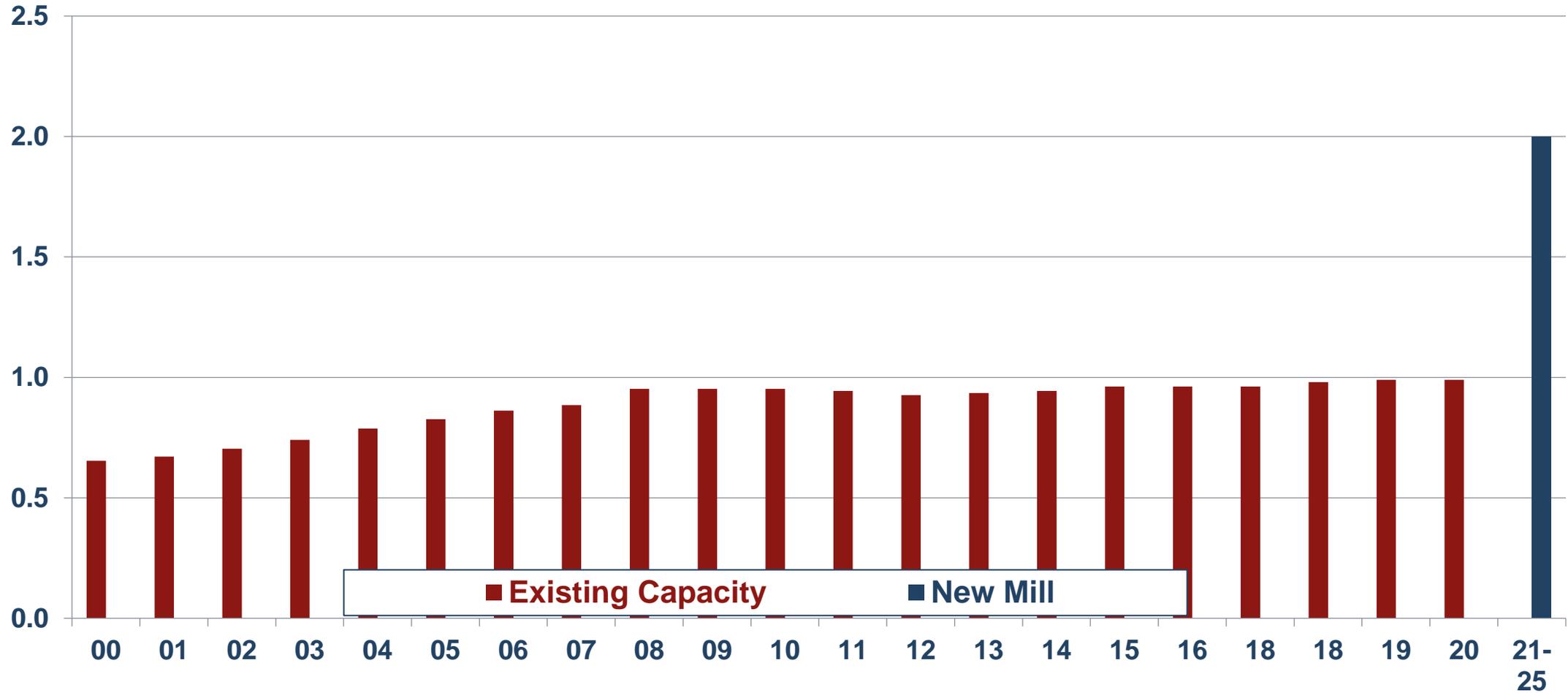


Despite Record High Prices And Heavy Investment In New Capacity, Production In Most Regions Fell

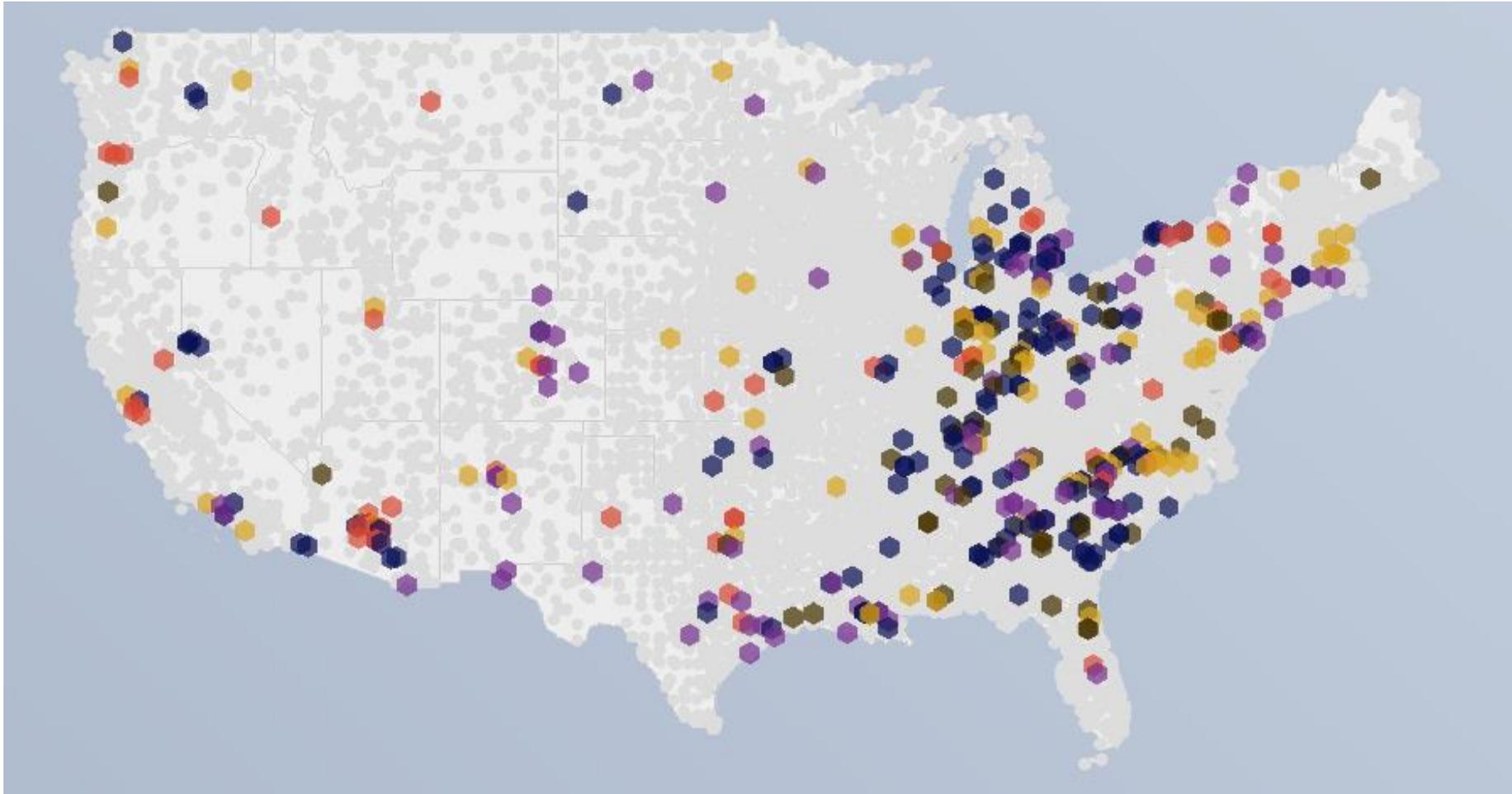


A Modern Sawmill Needs Skilled Labor

Output Per Worker, MMBF



Private Industry Is Investing \$688 Billion In Advanced Manufacturing



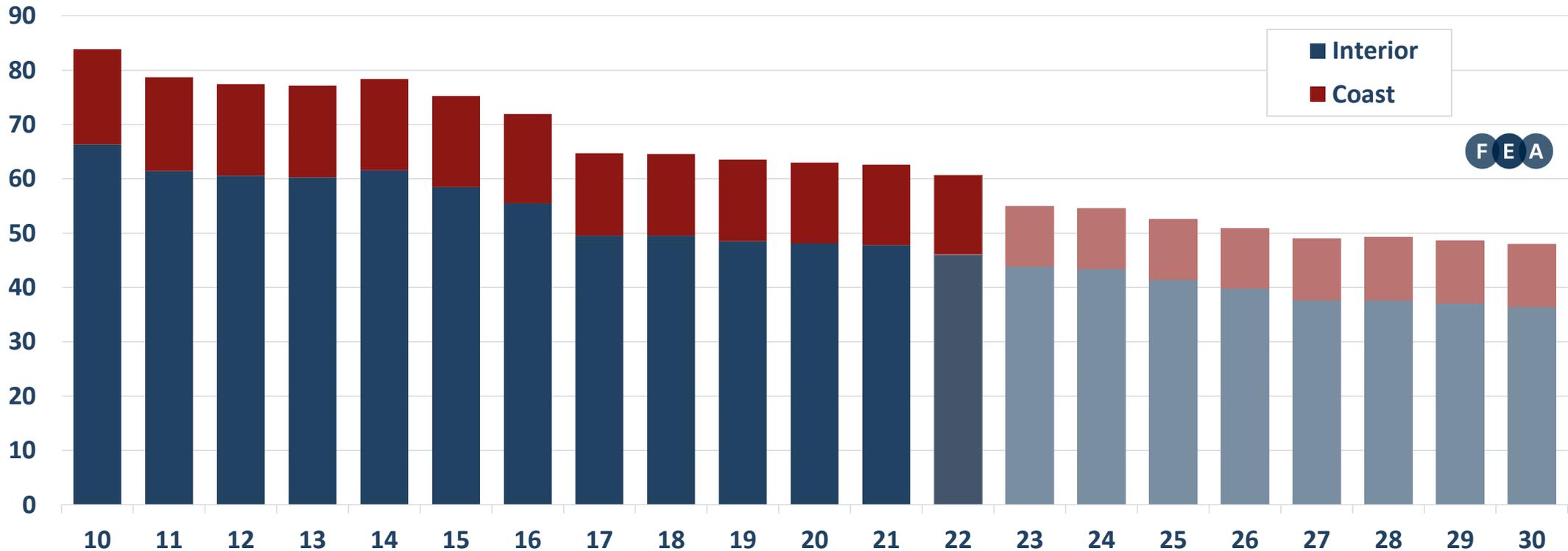
 Semiconductors  Clean Energy  Batteries/EVs  Biomufacturing  Heavy Industry

Source: The White House

Multiple Factors Will Constrain Timber Harvest and Lumber Production in British Columbia

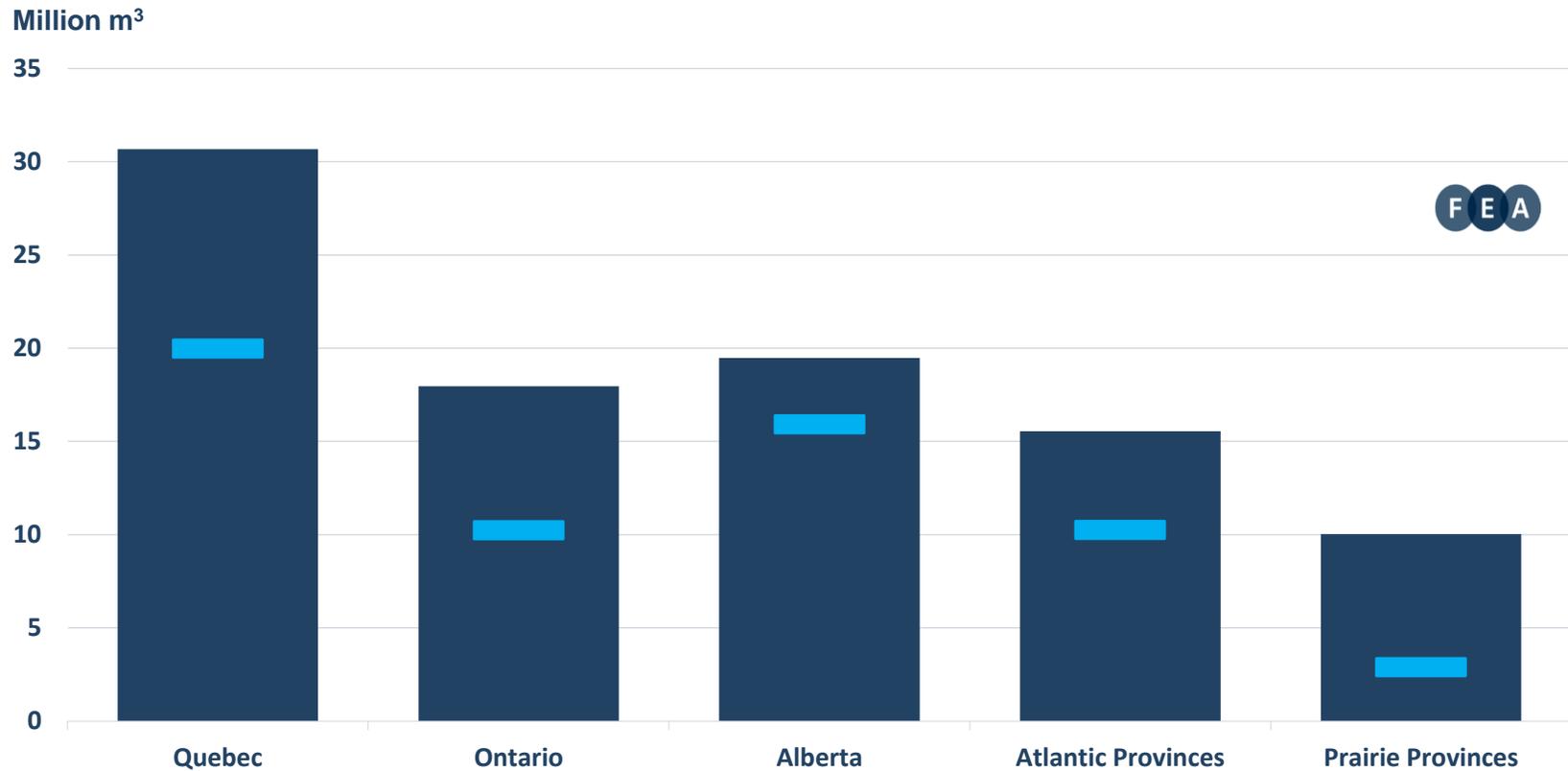
Annual Allowable Cut, British Columbia

Million m³



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

Opportunities to Increase Harvest Levels in Eastern Canada Will Be Increasingly Limited



Source: FEA

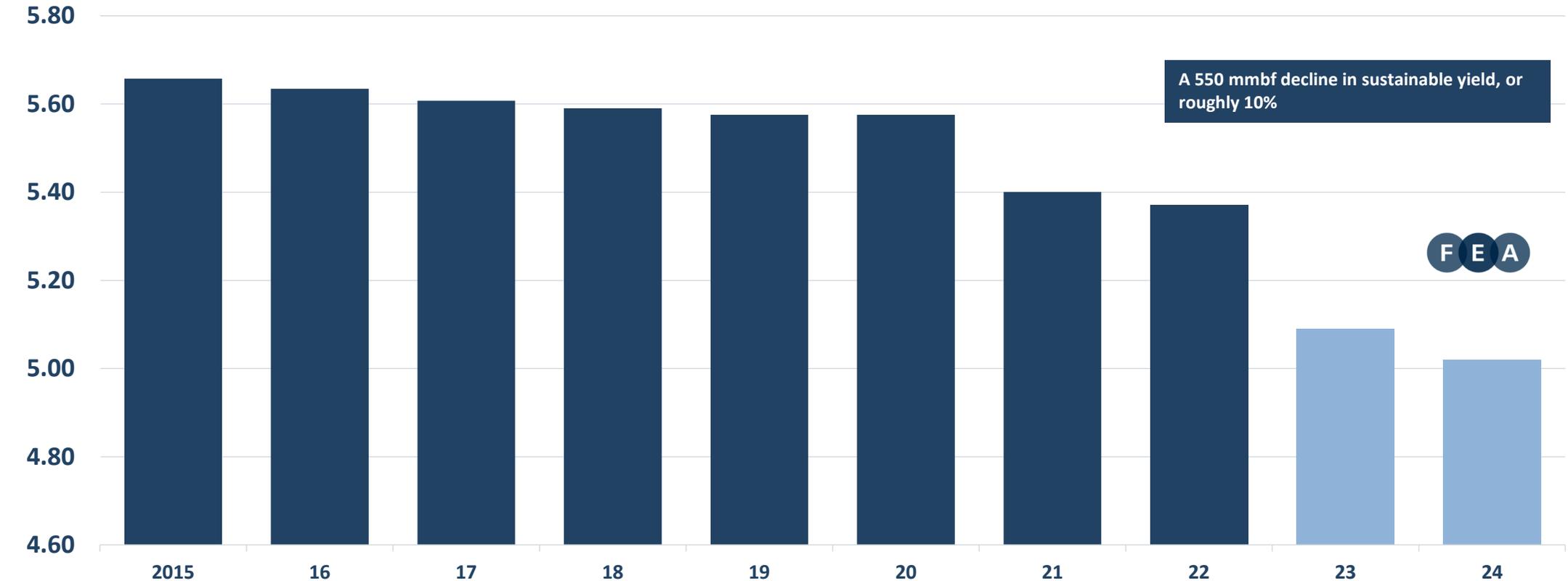
■ Current AAC — 2023 Estimated Harvests

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

Private Softwood Sawtimber Sustainable Yield, US West Coast

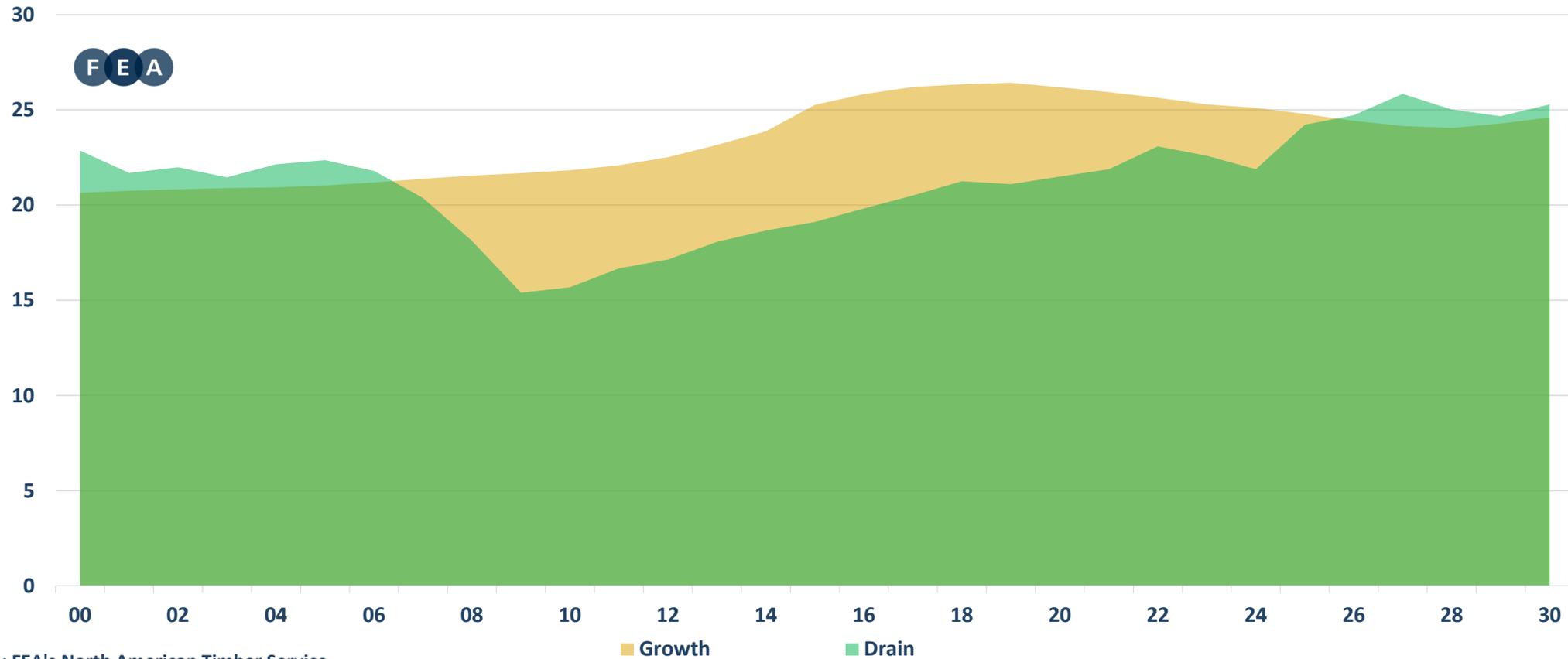
BBF, Int'l 1/4"



Source: FEA's North American Timber Service, 23Q4

The Softwood Sawtimber Supply Conditions in the US South Is Much Different

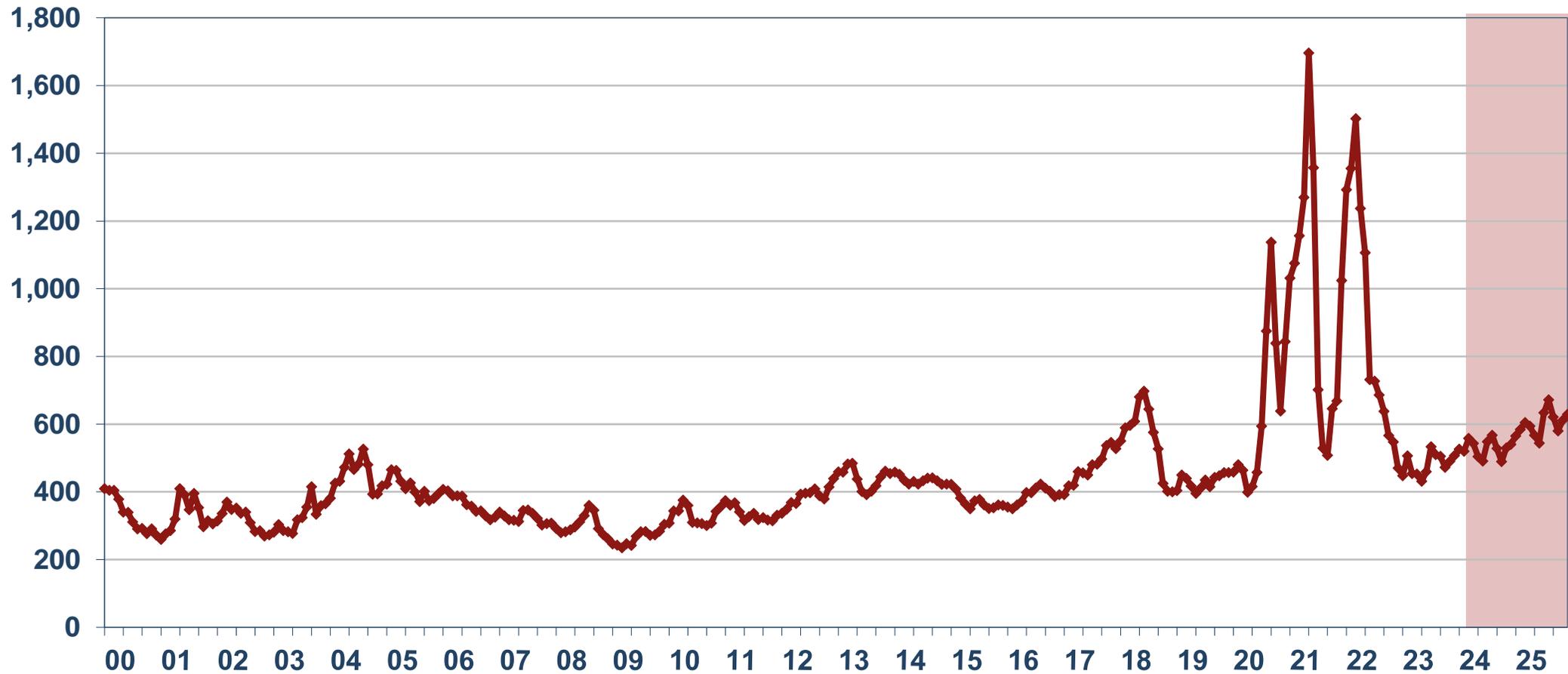
Growth and Drain, BBF Intl 1/4"



Source: FEA's North American Timber Service

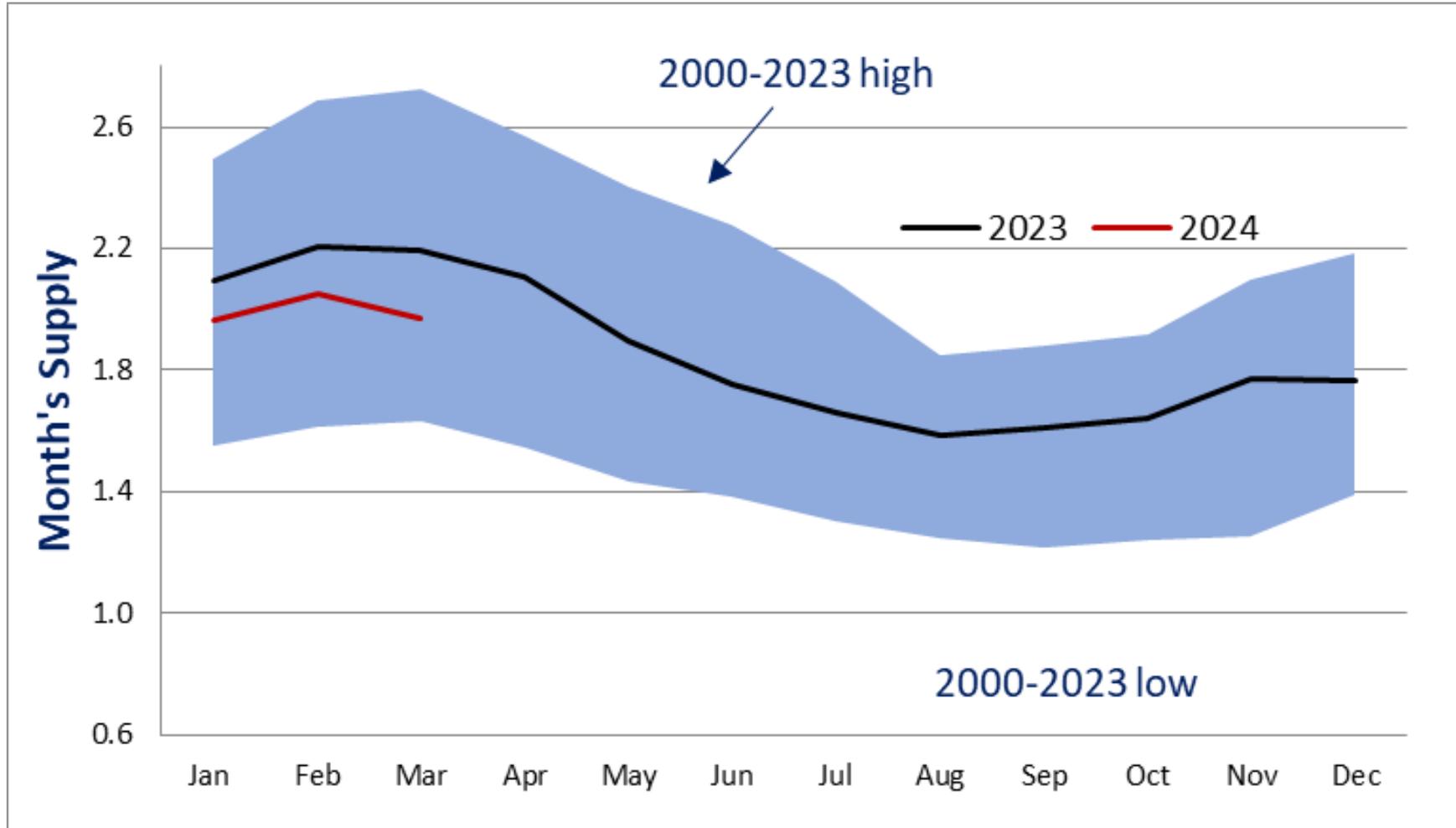
Eastern SPF Prices Will Trend Higher As Supply Contracts

E.SPF 2x4, Del. Boston, \$US/MBF



Inventories Remain Elevated

North American Inventory/Consumption Ratio & Range

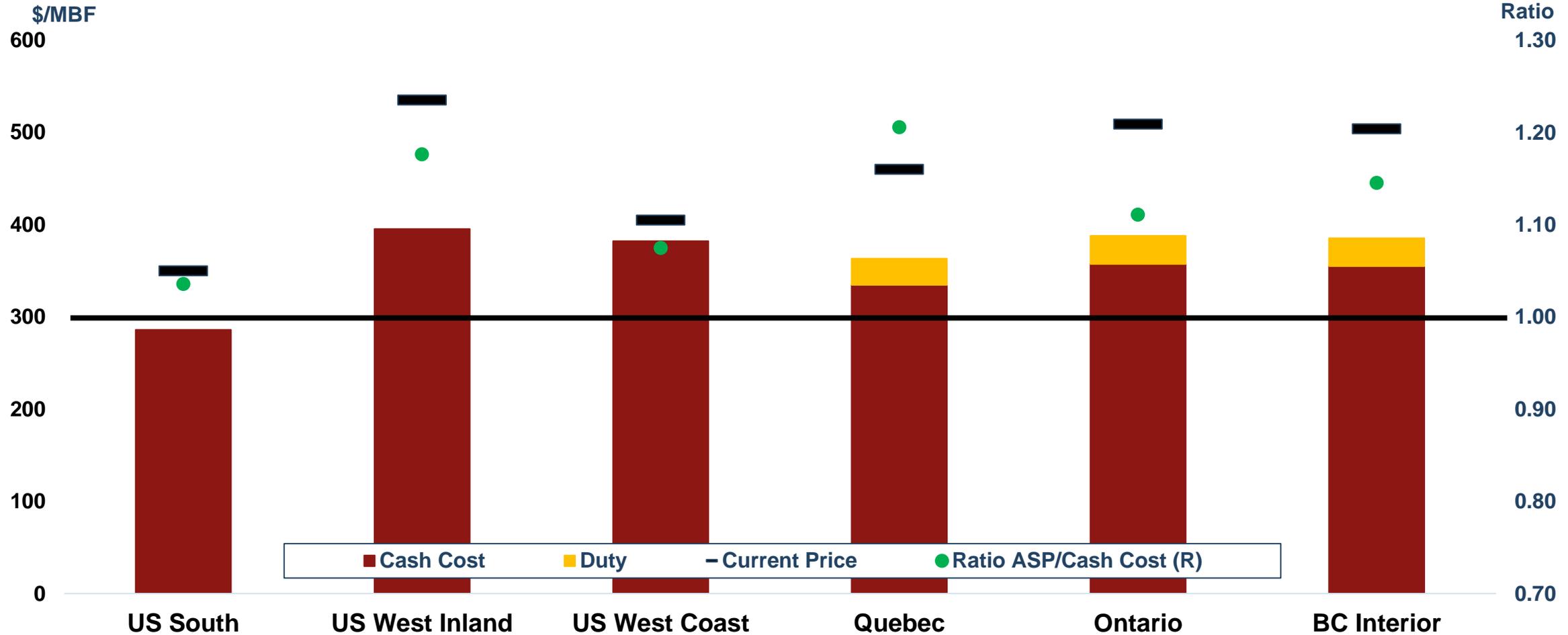


Source: FEA

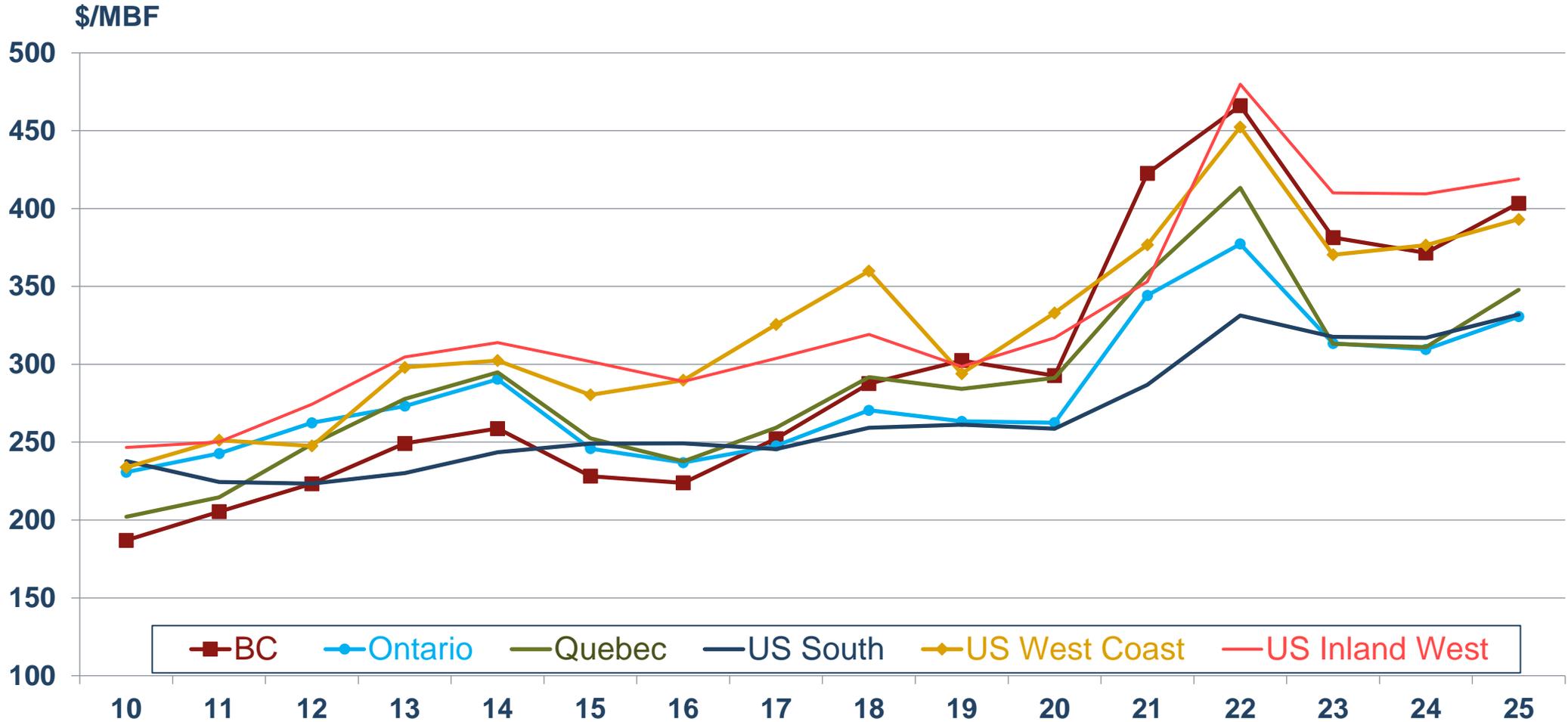
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Margins Have Improved With Falling Costs and Rising Prices



Lumber Costs Have Slipped, But Remain Elevated



Take Home Points

- Lumber markets will at most see modest growth over the next 12-15 months.
- Capacity is expanding rapidly, but achieving nameplate output is difficult.
- Exports will remain weak.
- Costs are elevated, and will hold prices higher.



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