

Wood Products End Use Markets Should Outperform During The Upcoming Recession

Paul Jannke
MMPA WM® Millwork Marketplace

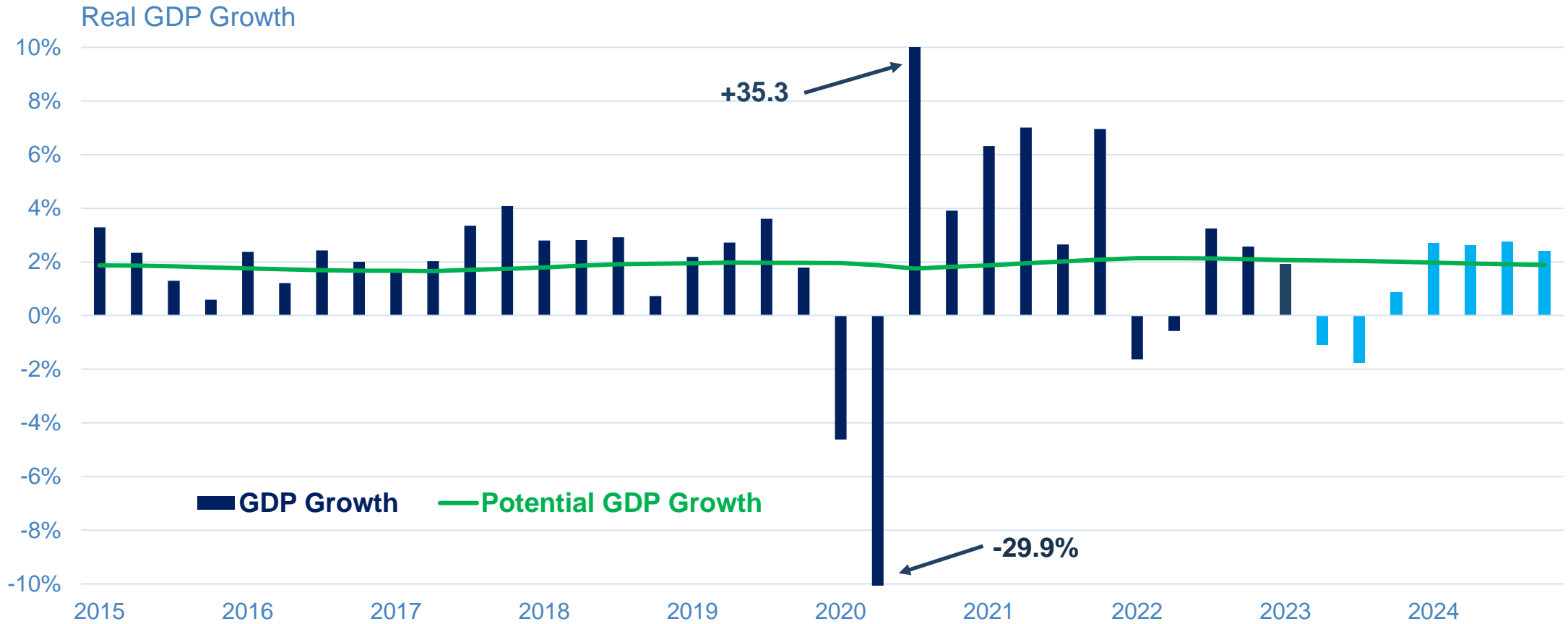
April 2023 [fea.com](https://www.fea.com)

© 2022 Forest Economic Advisors, LLC.

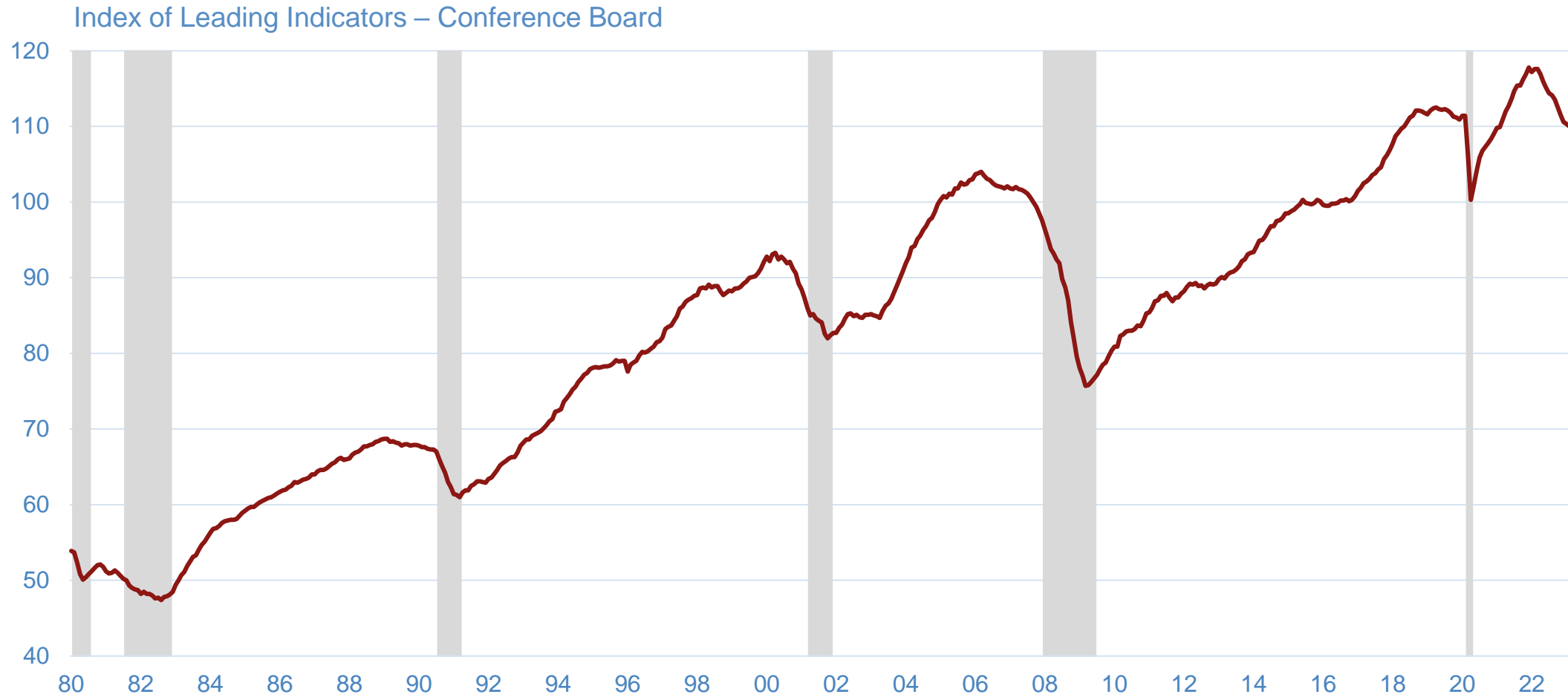
Presentation Outline

- Economic Outlook
- End Use Markets
- Implications for lumber demand
- Costs
- Lumber prices

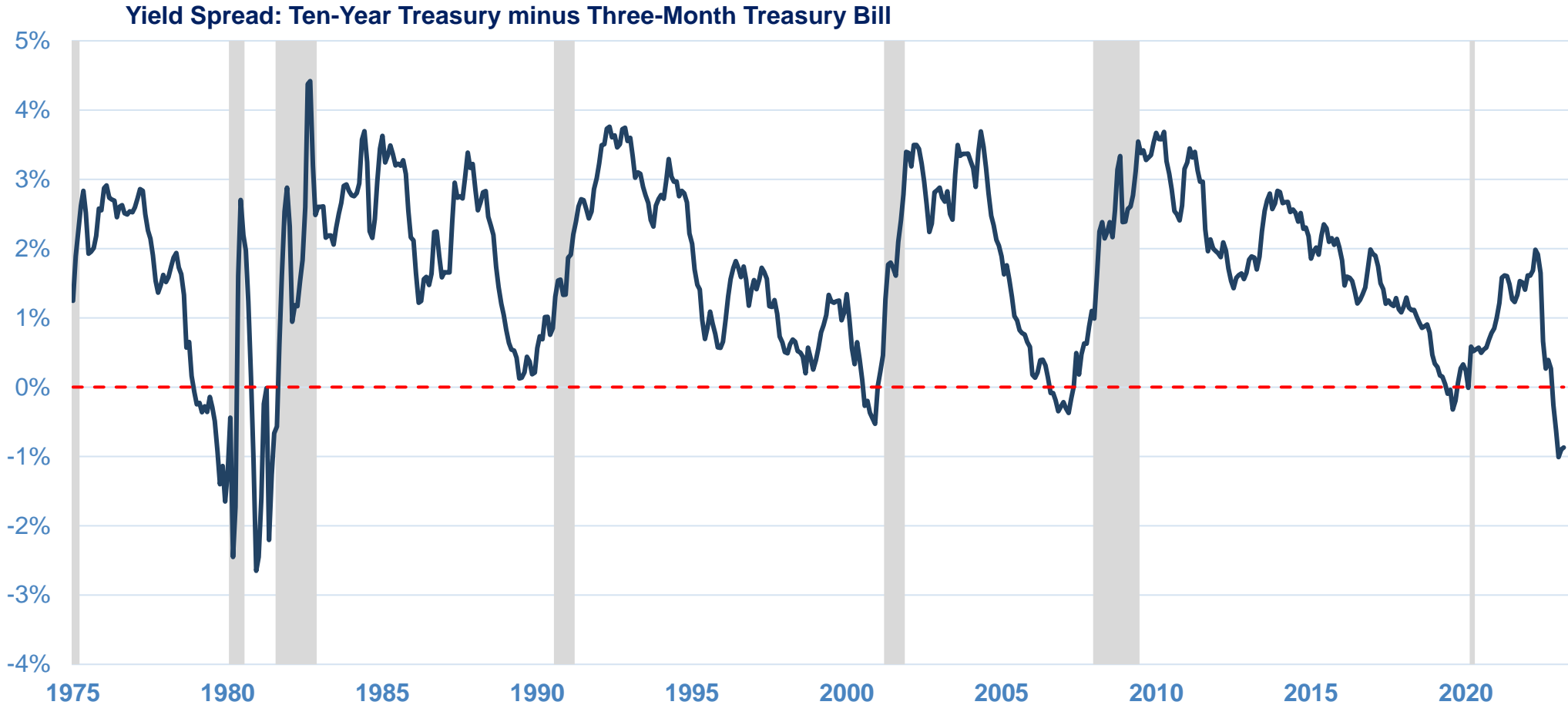
We Expect Real GDP to Contract in the Middle of 2023



The Index of Leading Indicators Has Been Declining for More than a Year



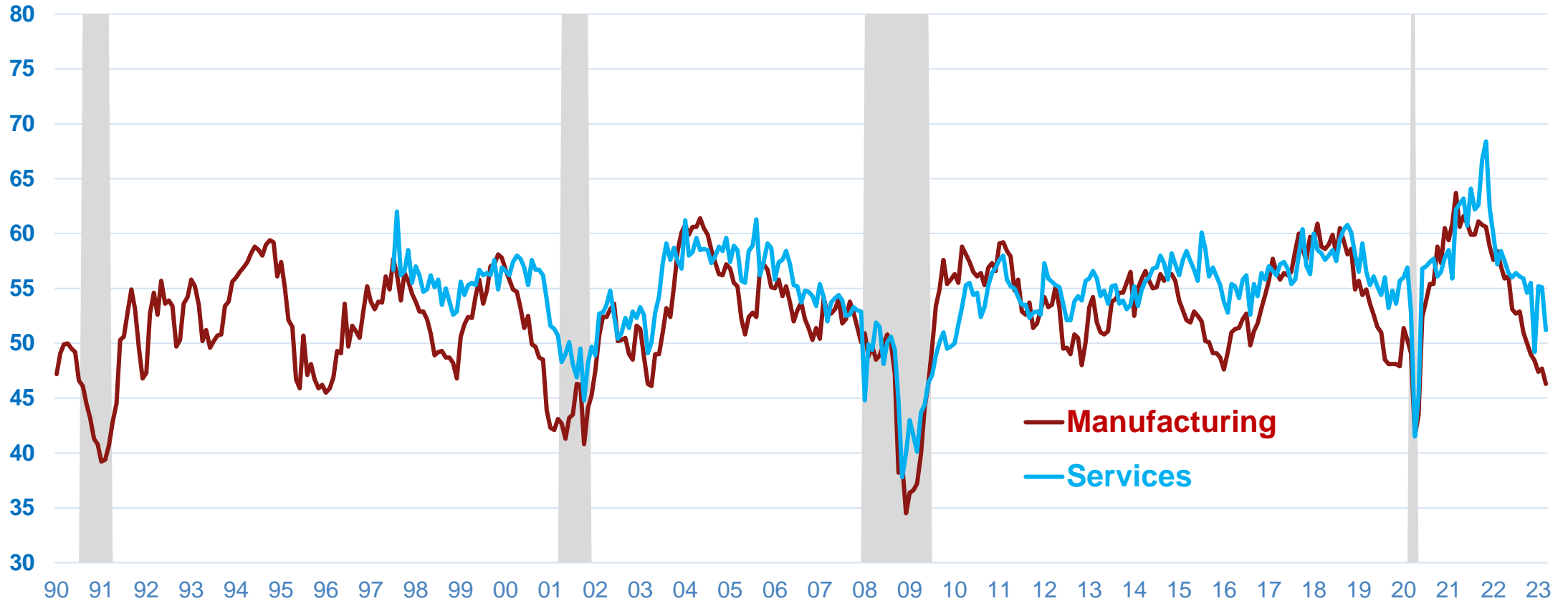
The 10-Year/3 Month Yield Curve Looking Ominous



Source: Federal Reserve

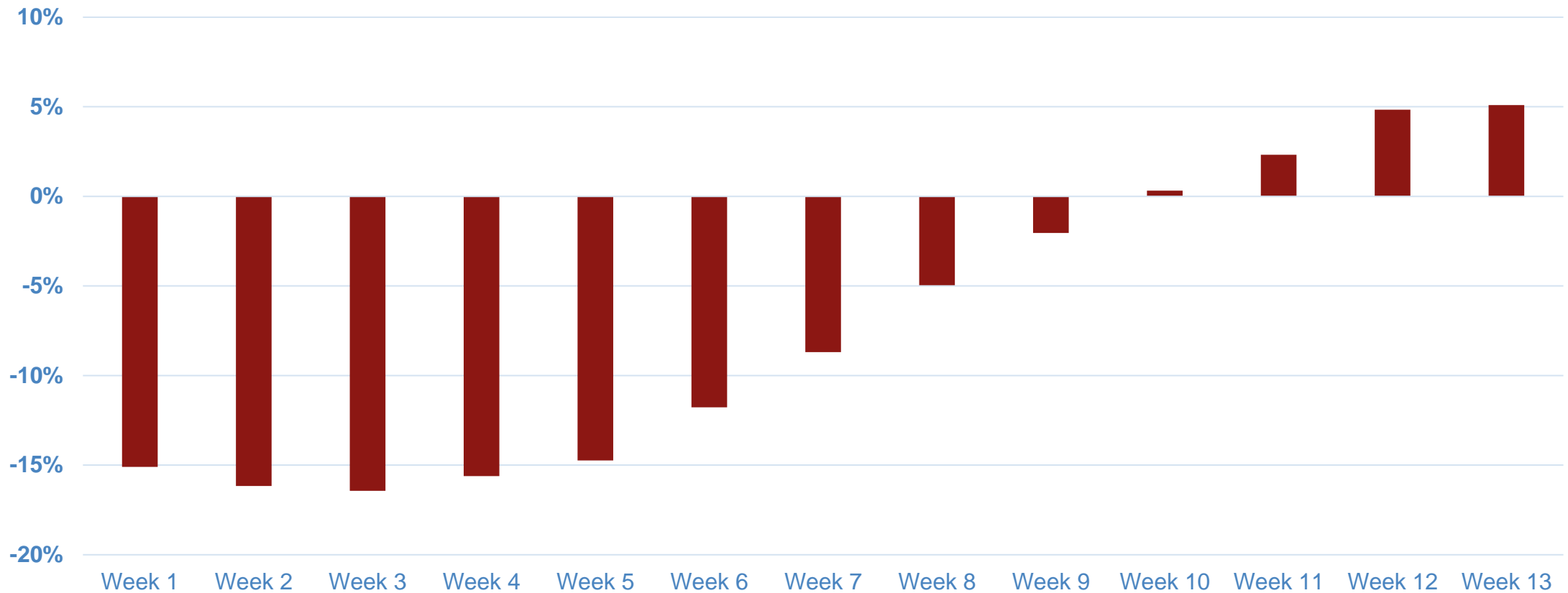
Manufacturing Sector Facing Headwinds

Institute for Supply Management's Composite Indices



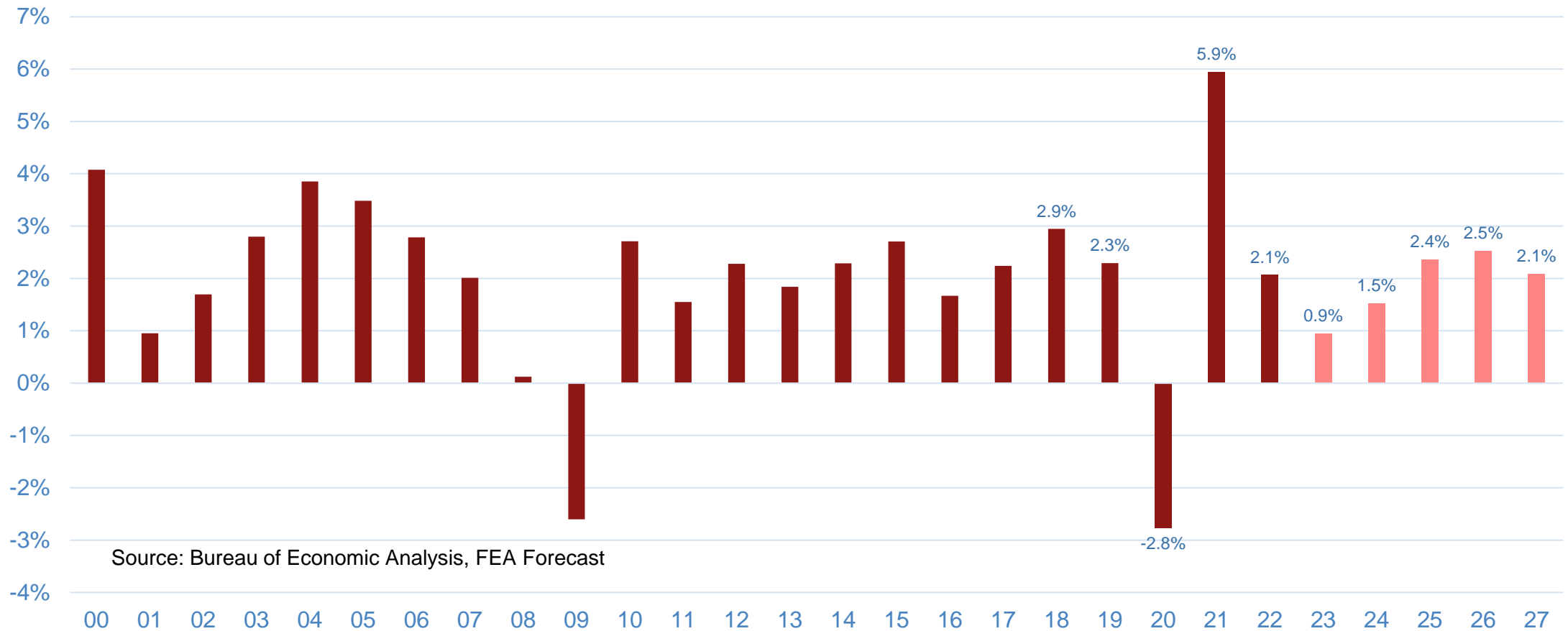
Initial Claims for Unemployment Insurance are Above Pre-Pandemic Levels

4-Week Moving Average of Initial Claims for Unemployment Insurance:
2023 Level relative to 2017 to 2019 Average

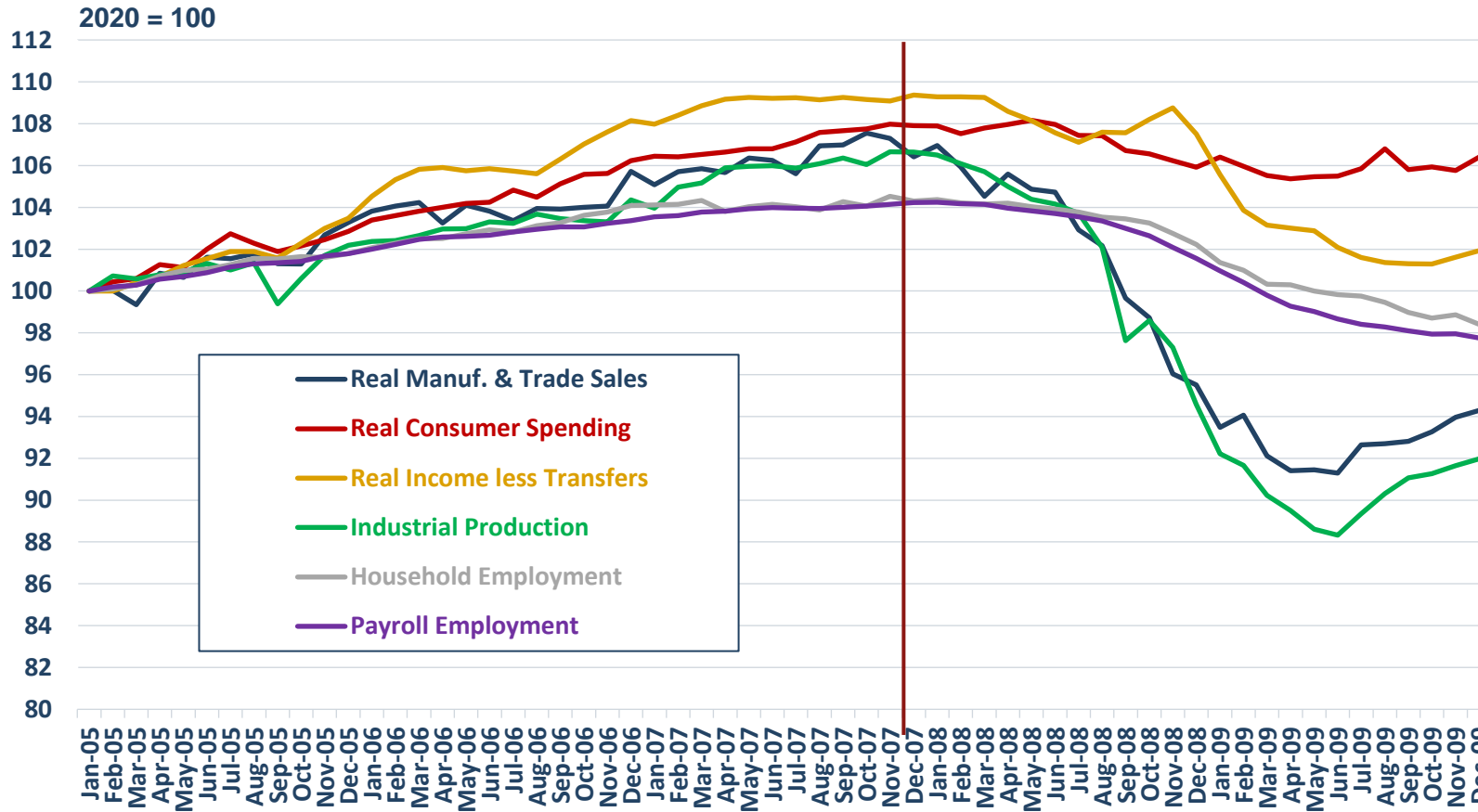


The Recession Is Likely To Be Mild

Real GDP Growth

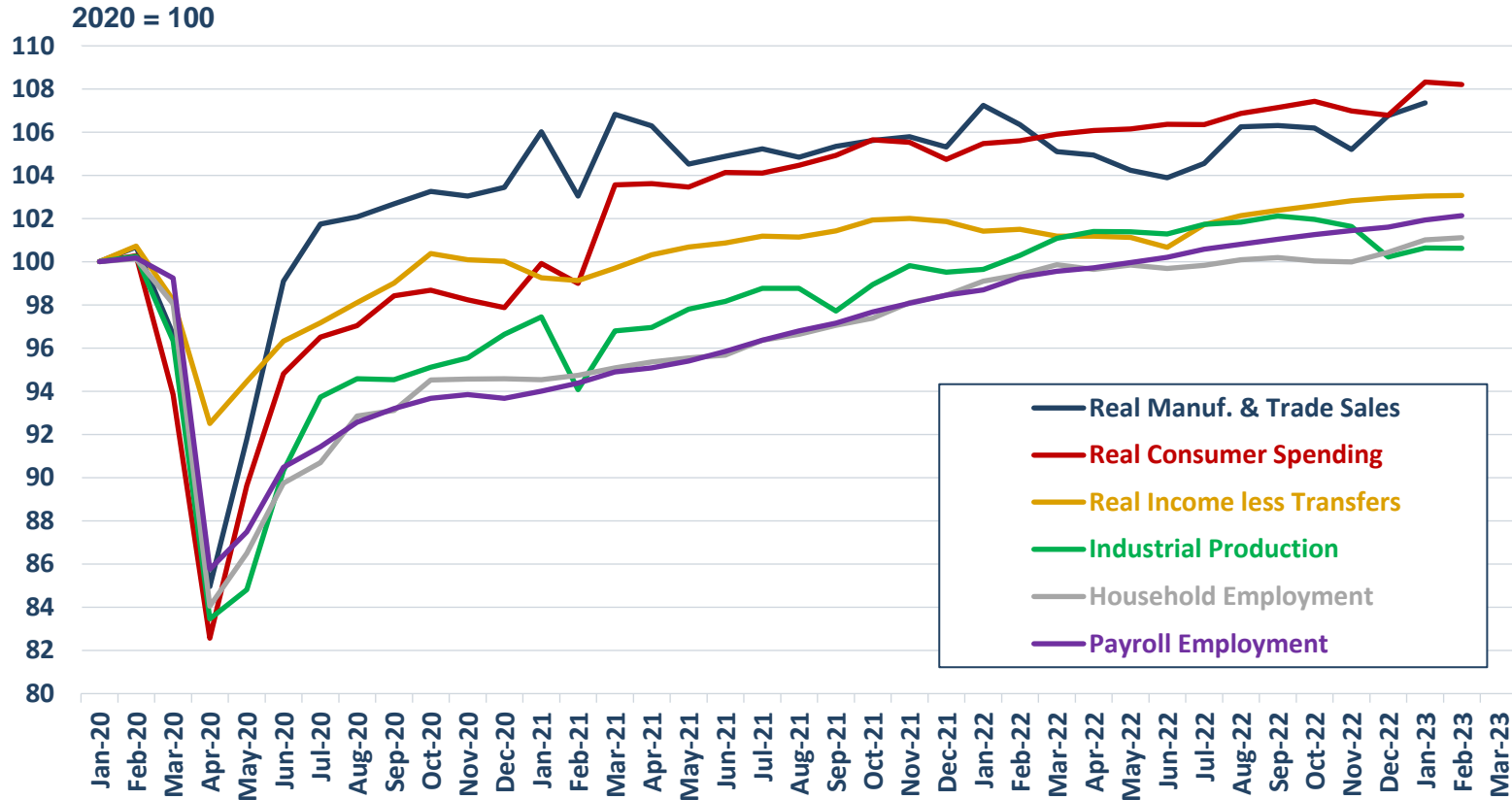


NBER Recession Indicators 2005-2009



Source: FRED Database

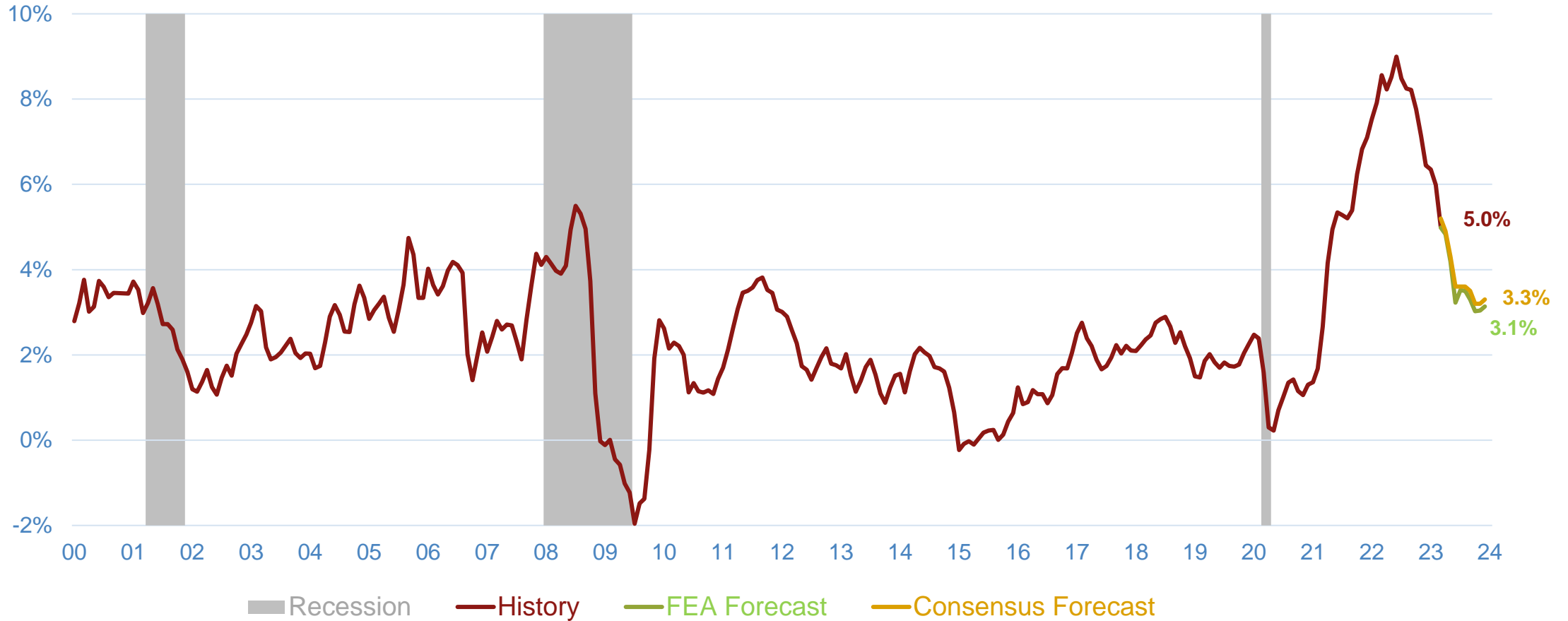
NBER Recession Indicators: January 2020 - Latest



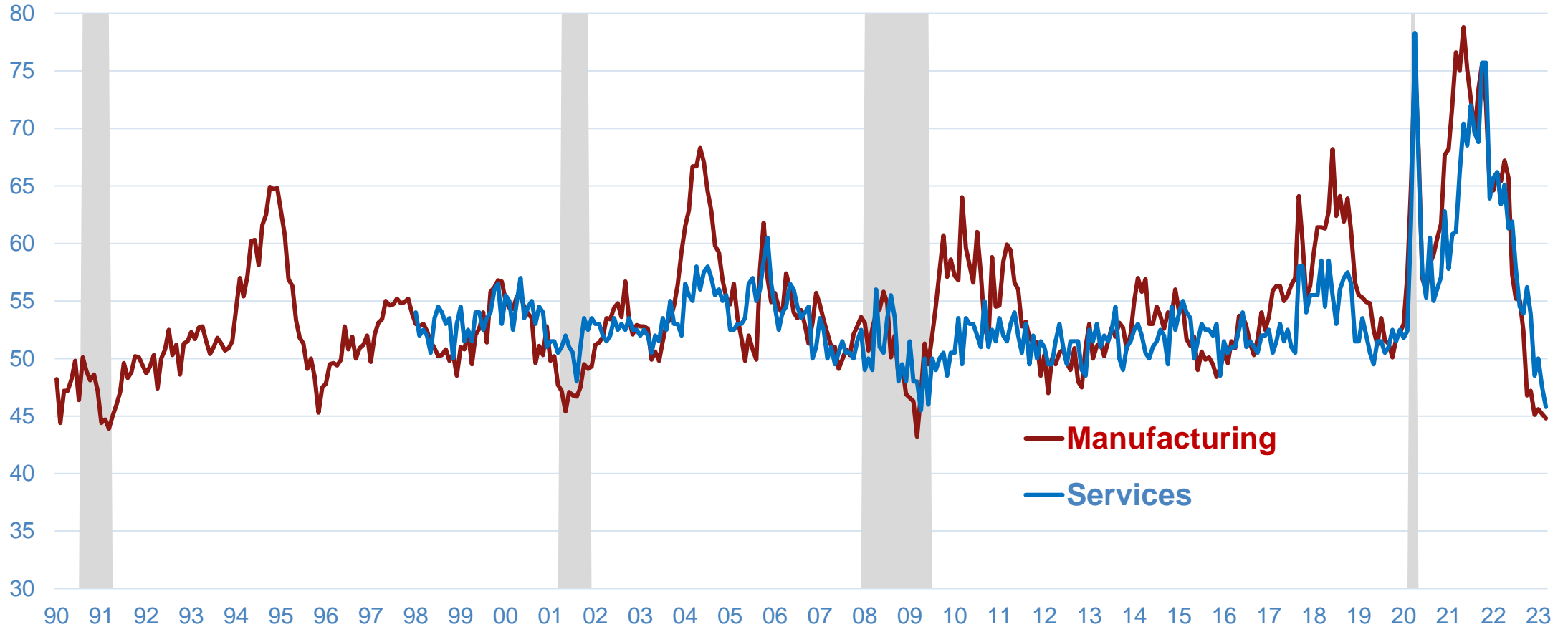
Source: FRED Database

Inflation is Receding Rapidly

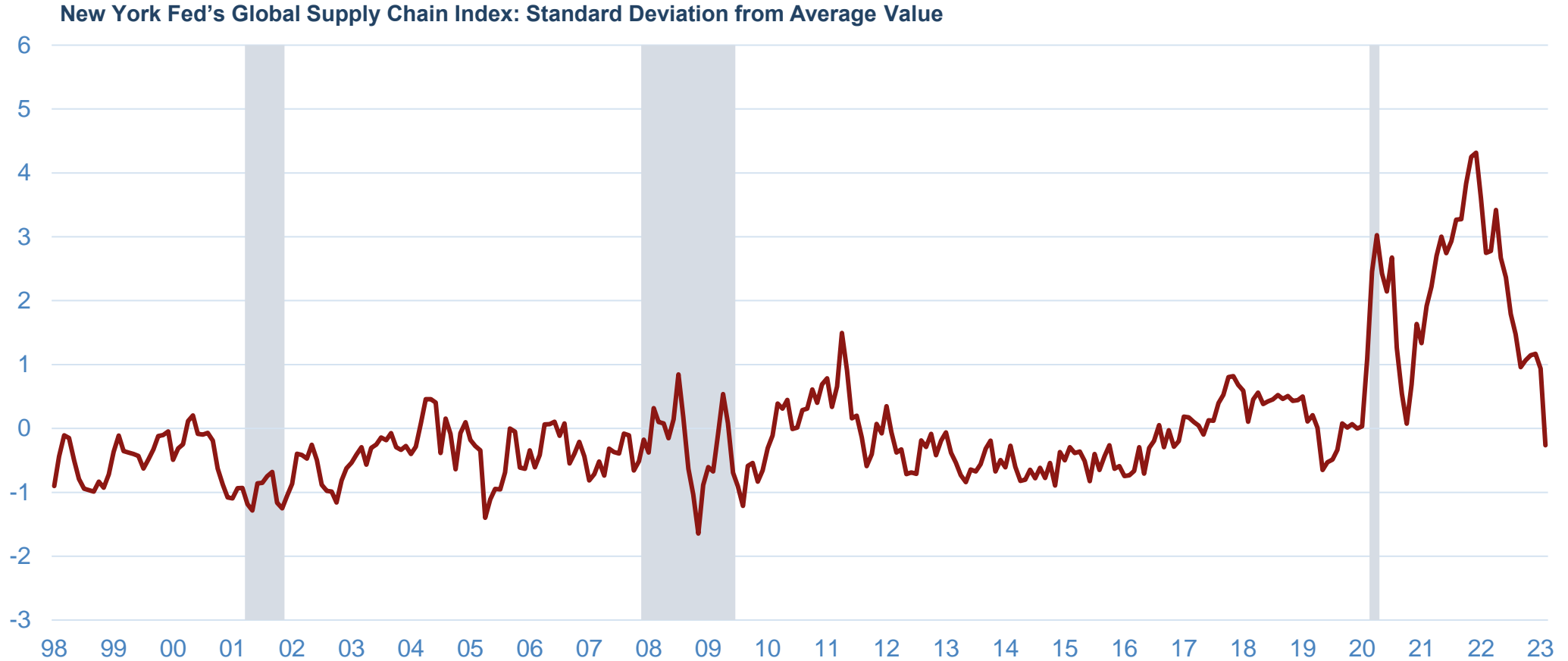
Year-over-Year Change in Consumer Price Index



Supplier Delivery Times Have Improved Markedly

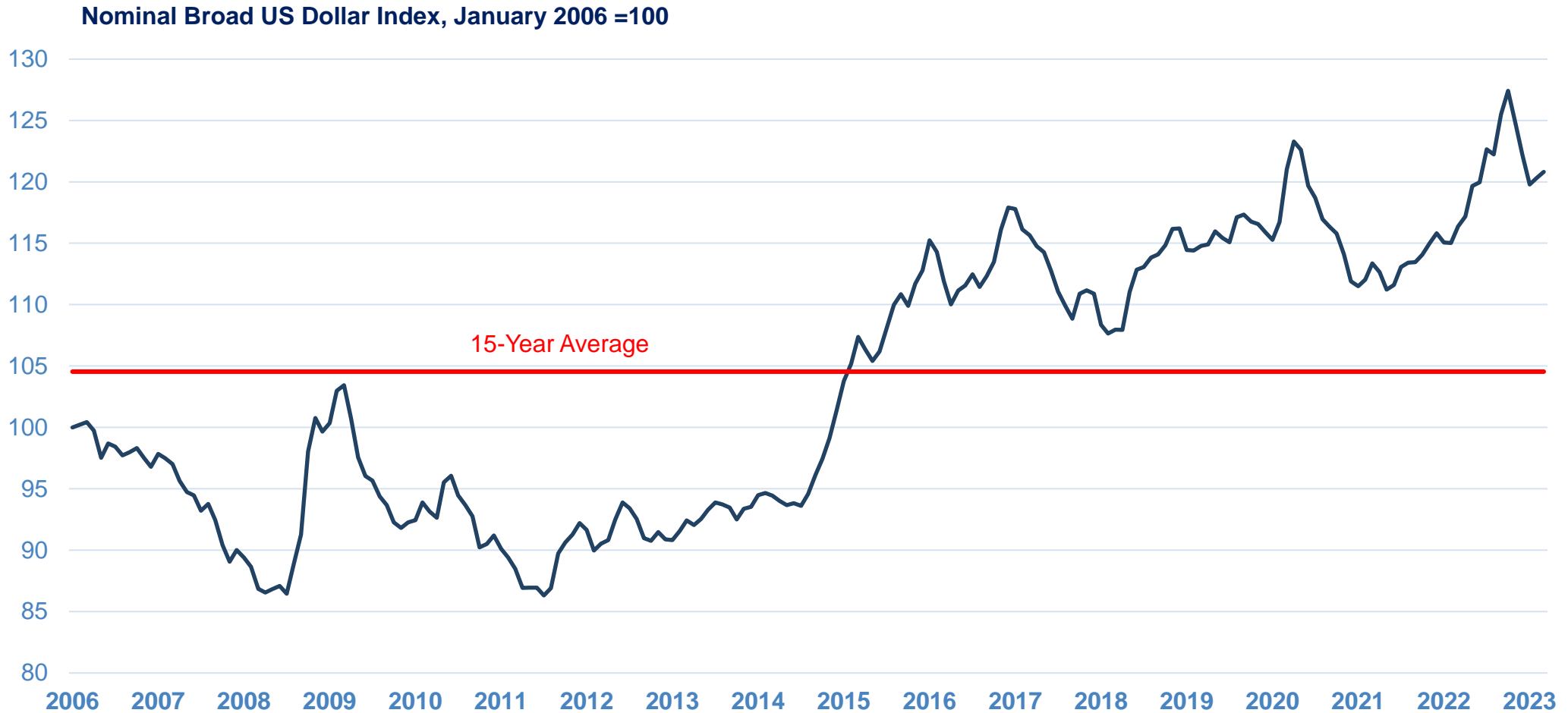


Global Supply Chains Back to Normal



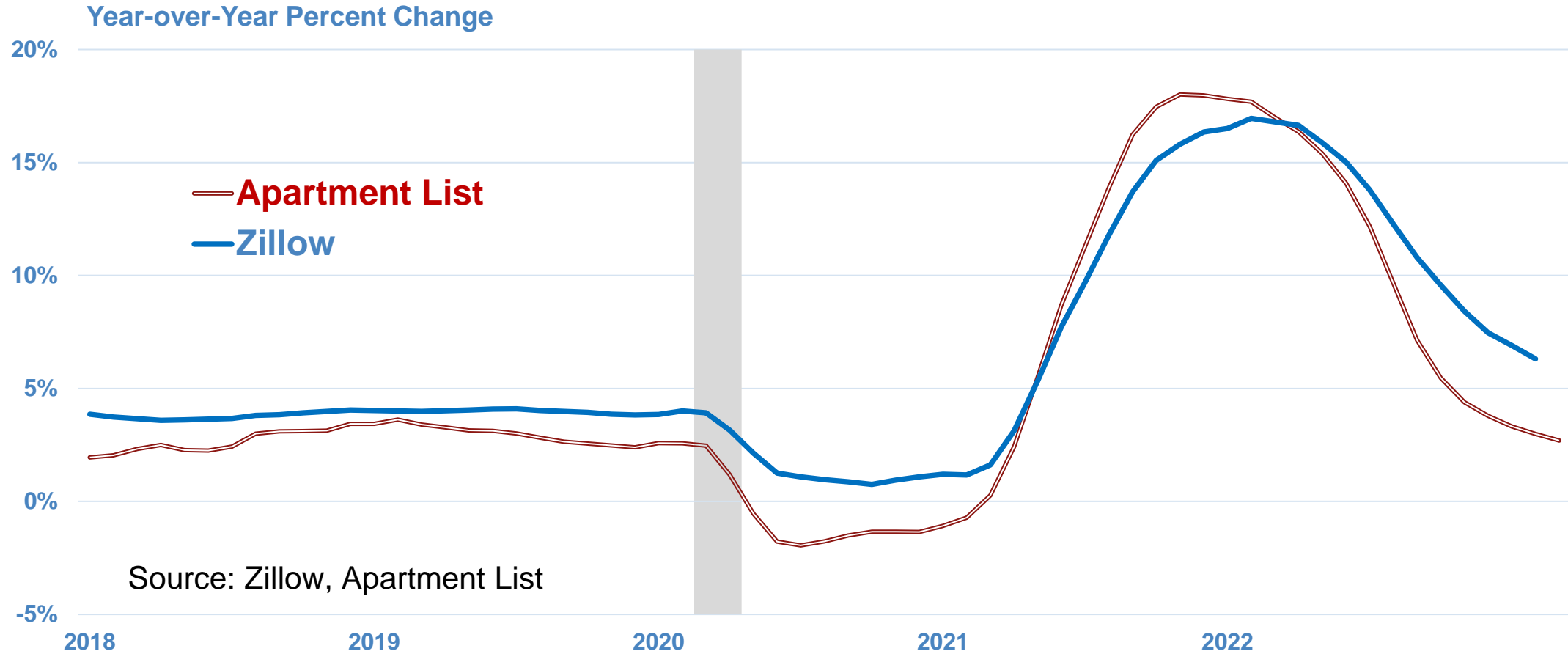
Source: New York Fed

The US Dollar is Still 15% Above its Long-Term Average

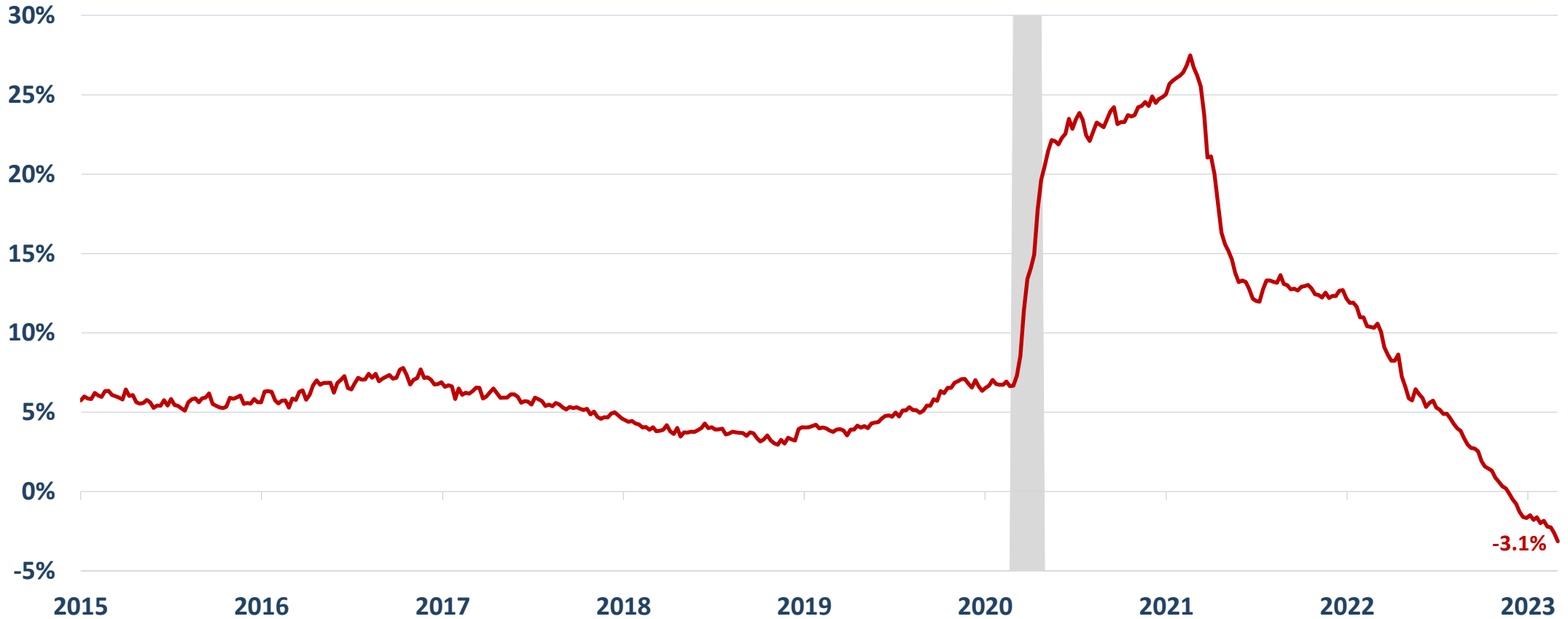


Source: Federal Reserve, Bureau of Labor Statistics

Rent Increases are Coming Down

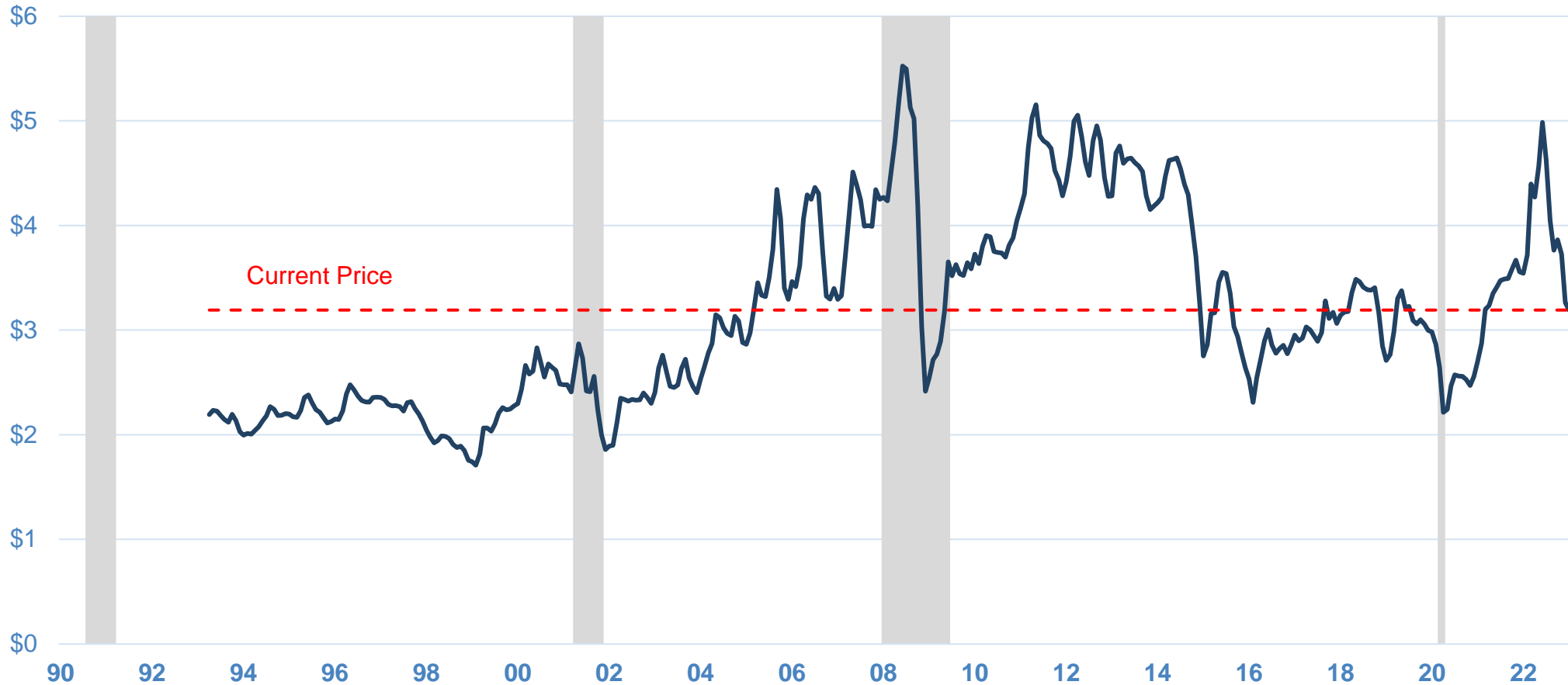


M2 Money Supply Growth is Down Sharply



Real Gasoline Prices Have Turned Over

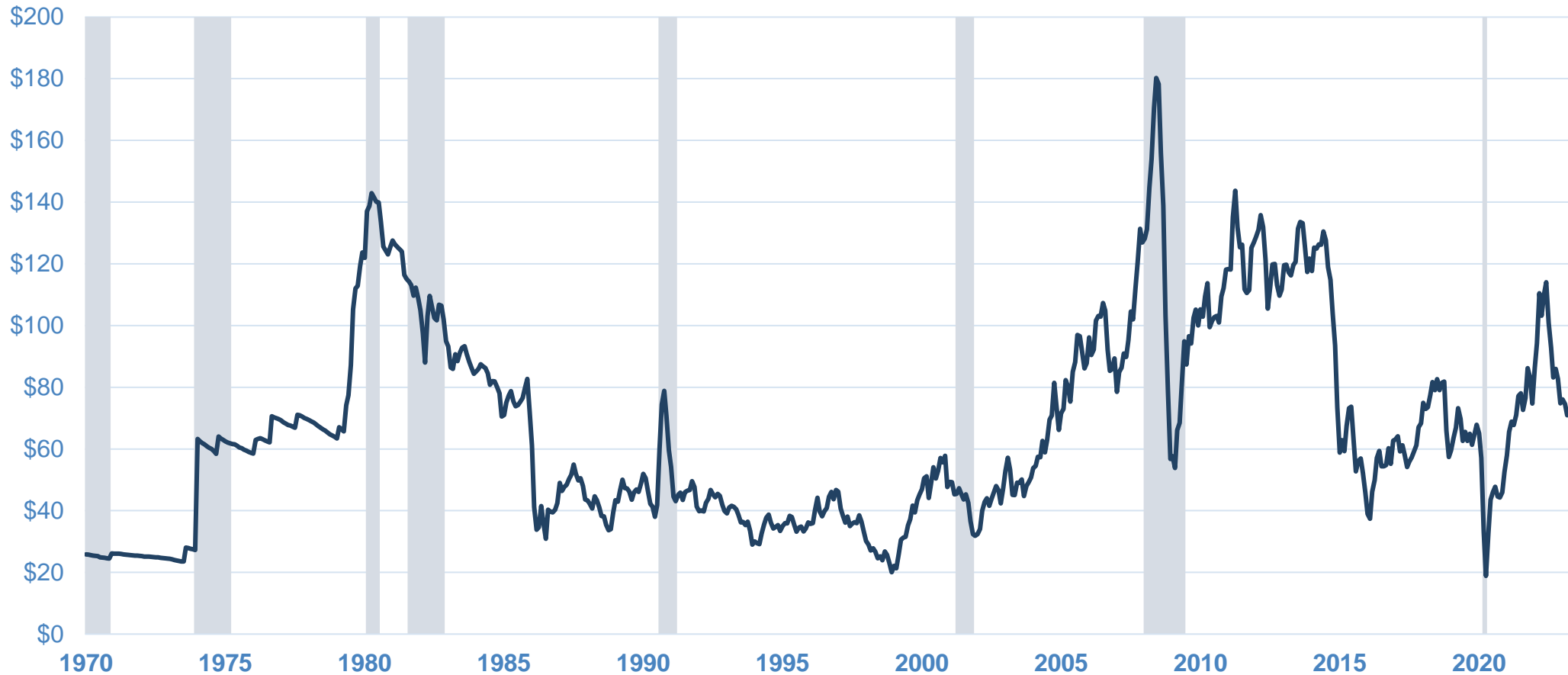
Average US Gasoline Price All Formulations, in 2022 USD, Deflated With CPI



Source: Federal Reserve, Bureau of Labor Statistics

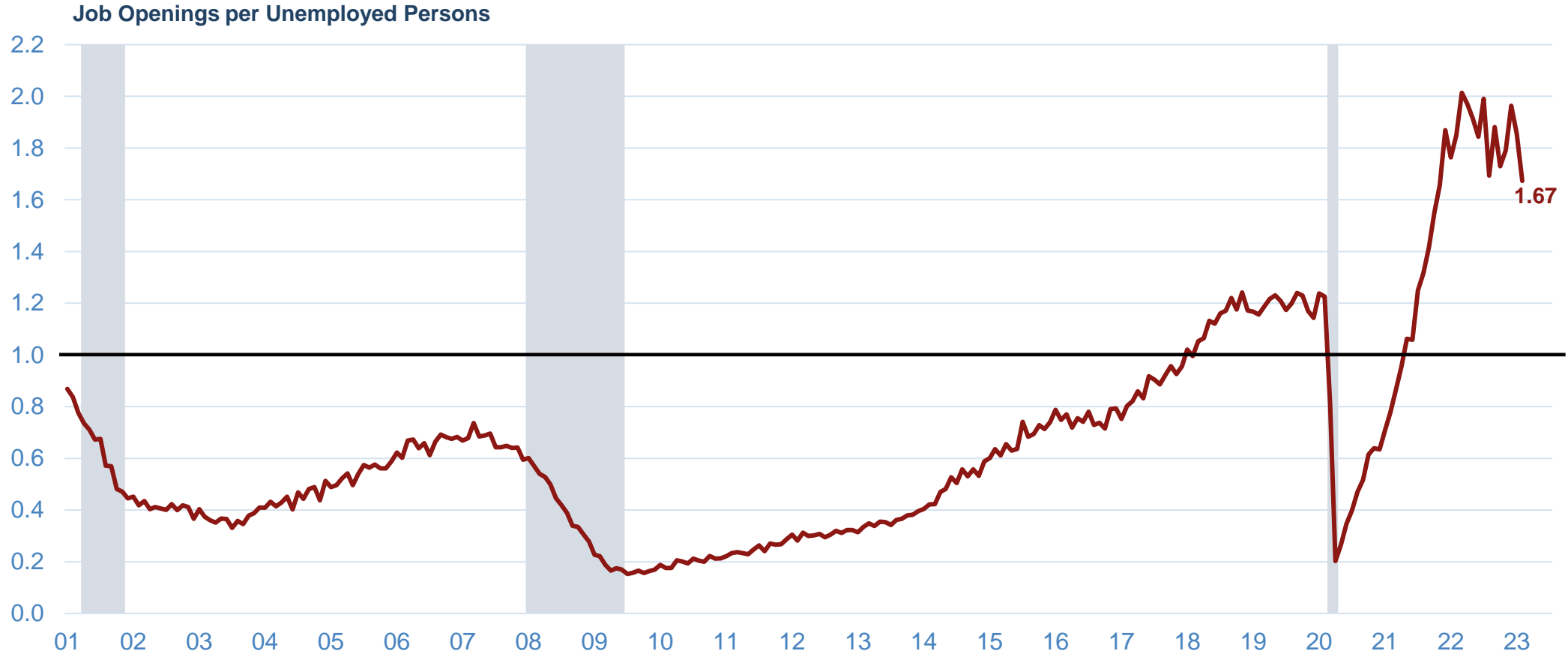
Real Oil Prices Have Receded From Recent Peak

WTI Per Barrel Oil Price in 2022 USD



Source: Federal Reserve, Bureau of Labor Statistics

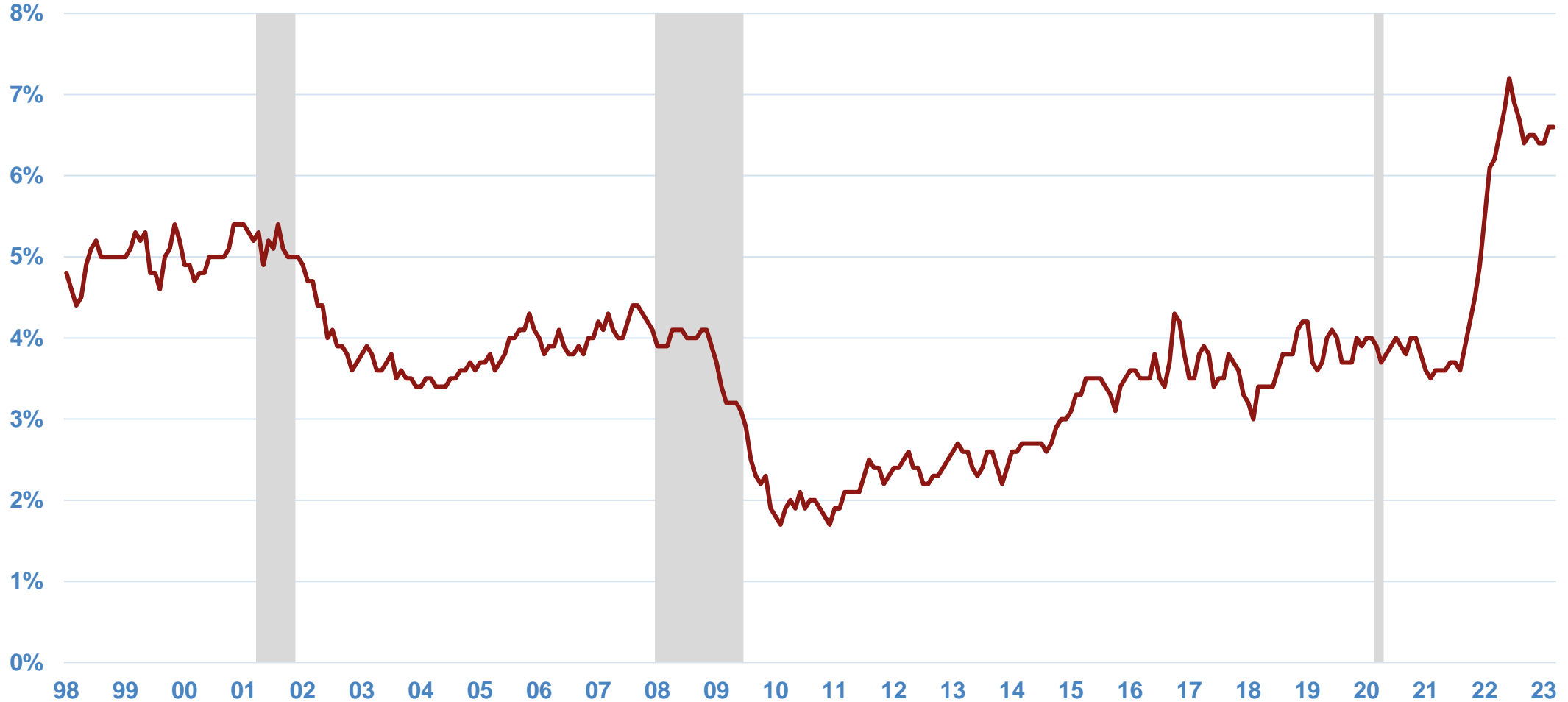
Labor Market Remains Tight



Source: Bureau of Labor Statistics

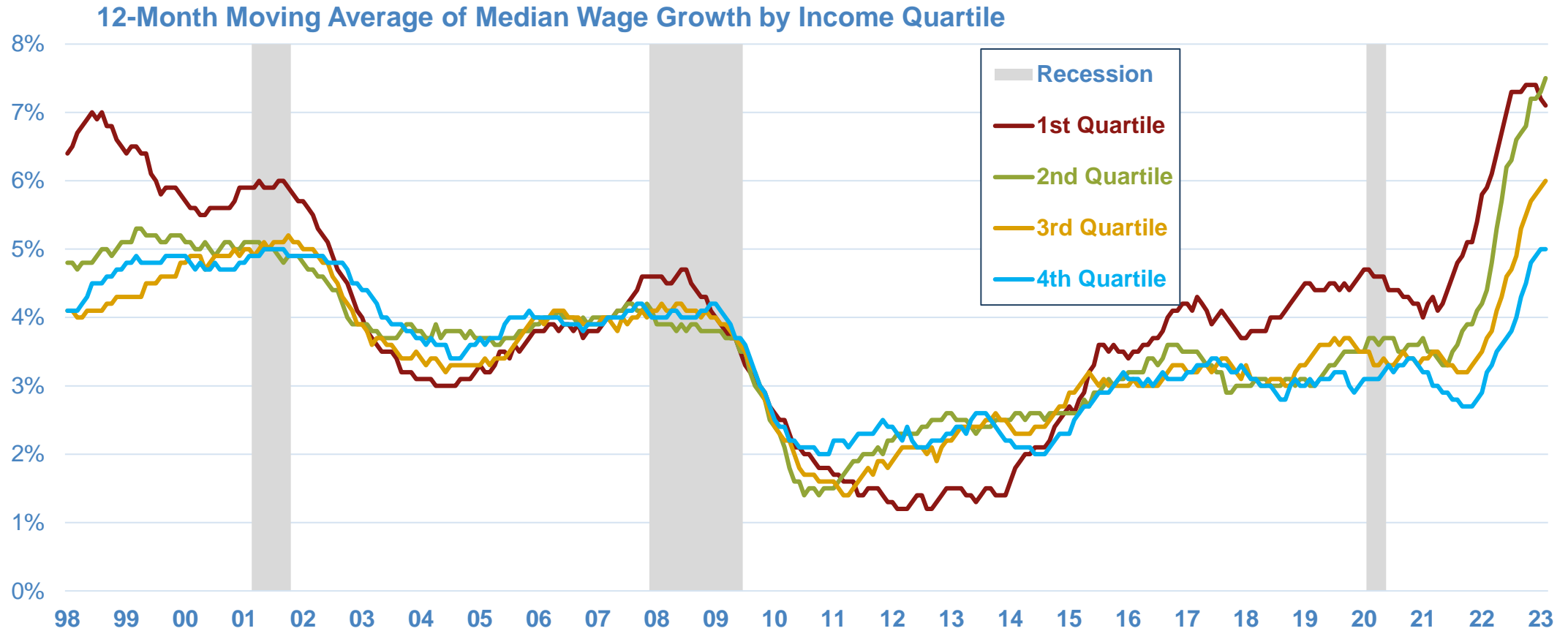
Tight Labor Market Driving Wages Higher

12-Month Moving Average of Median Wage Growth for Prime Age Workers



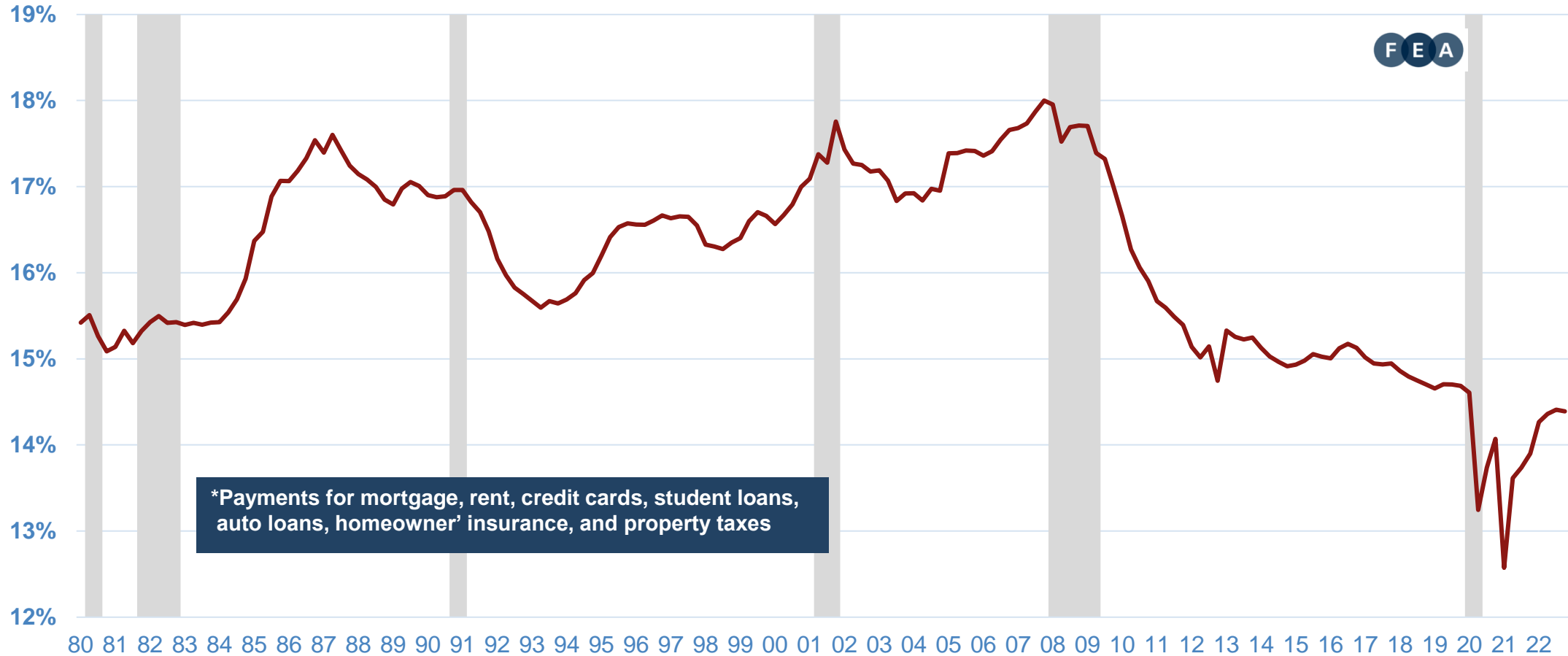
Source: Atlanta Fed

Earnings Are Growing Fastest for Low-Wage Workers

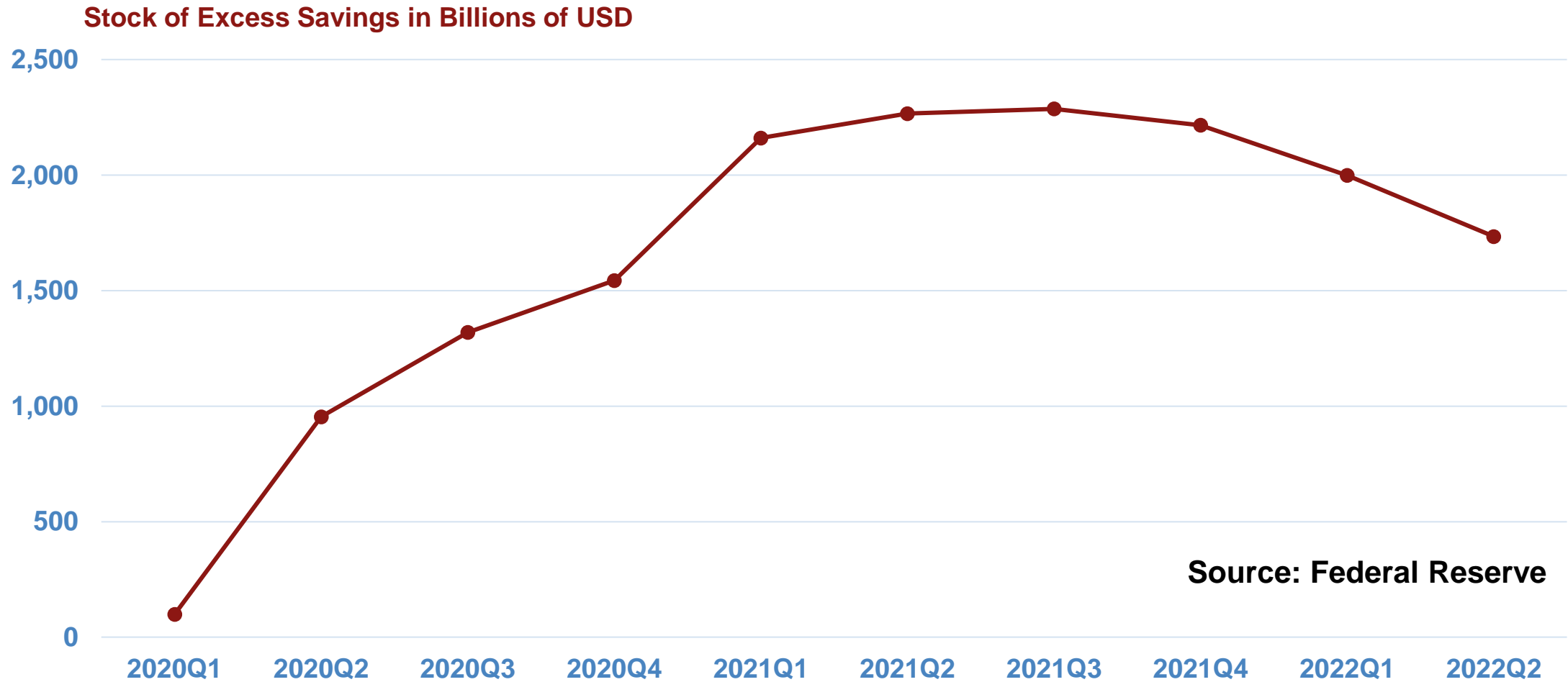


US Household Balance Sheets Are In Great Shape

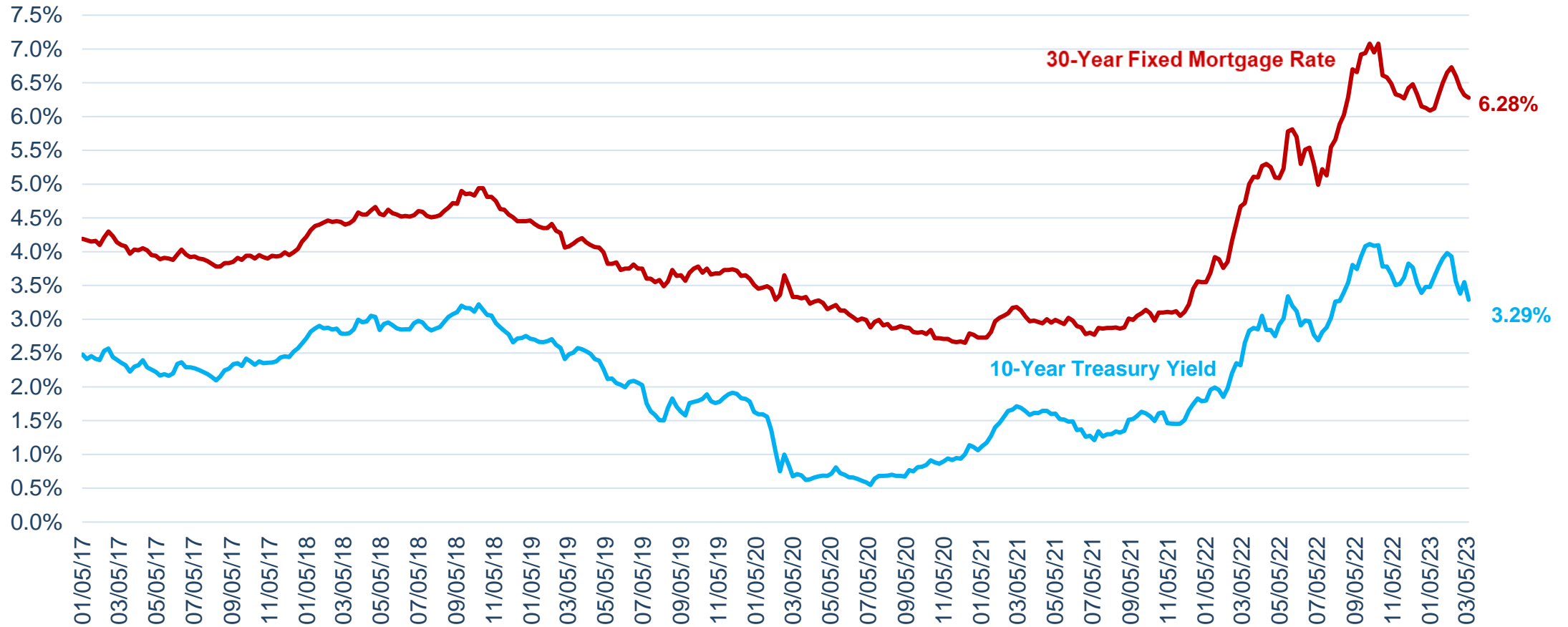
Household Financial Obligations* as a percent of Disposable Personal Income



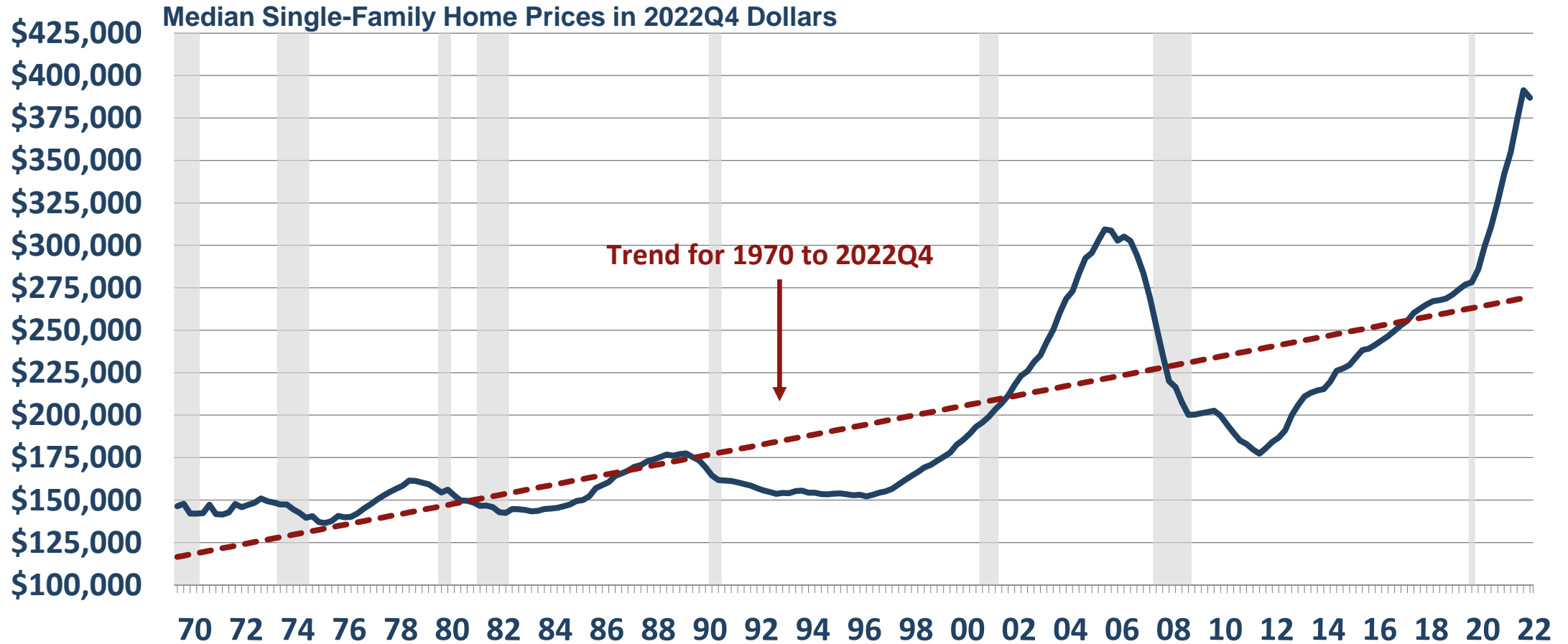
The Fed Estimates That \$1.7 Trillion in Excess Savings Remains from 2020/2021 Stimulus



Long Term Interest Rates Are Still Below Cyclical Peak

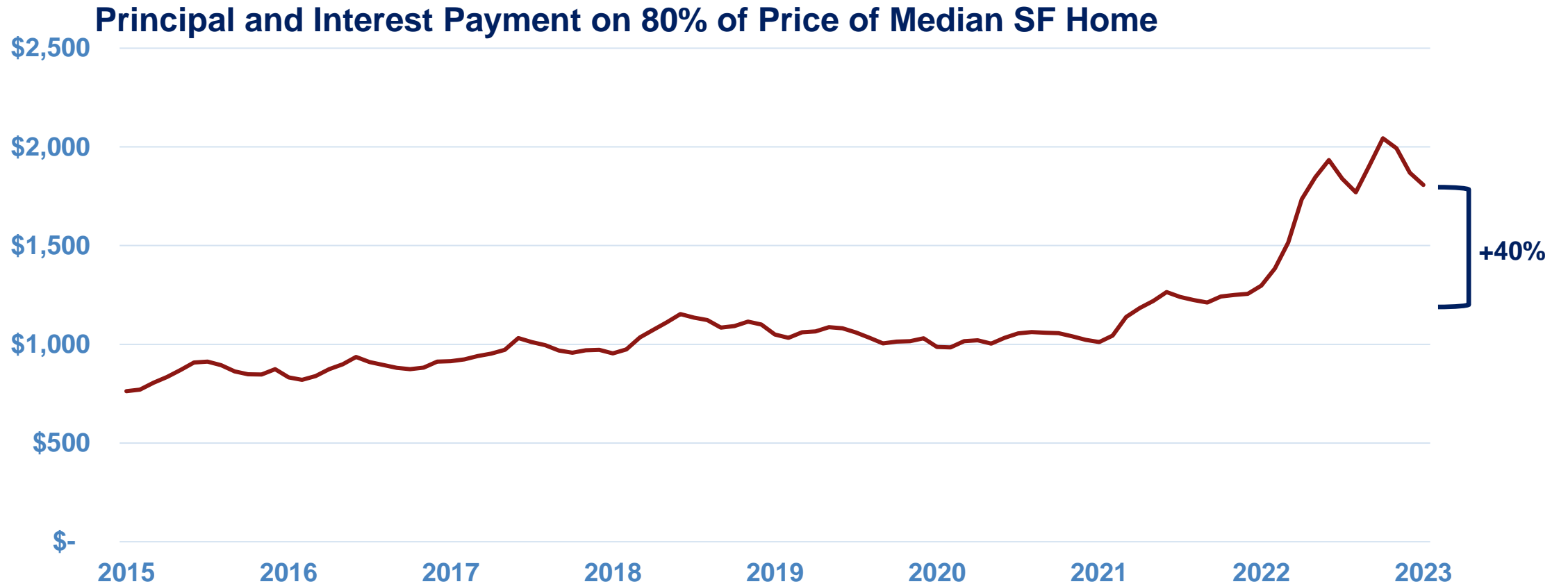


Real Home Prices Were 26% Above 2006 Peak in 2022Q4



Source: Federal Reserve, FEA calculations

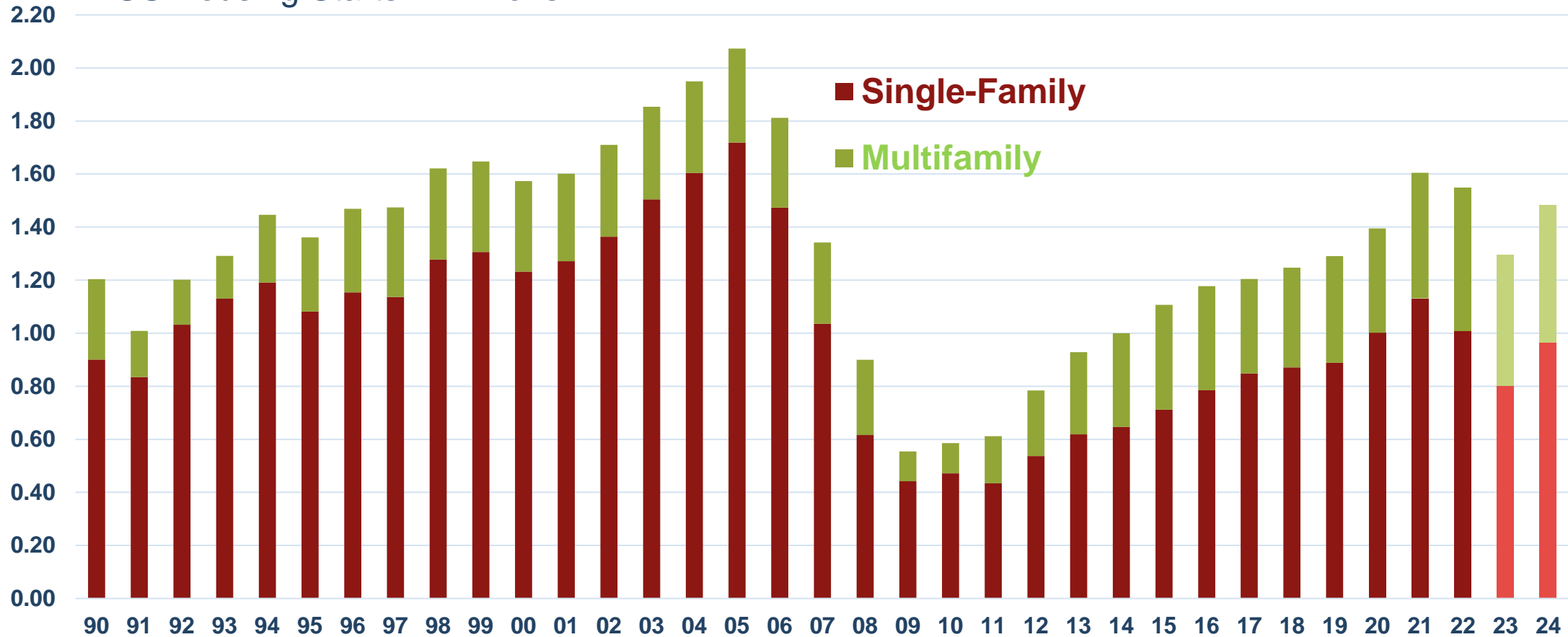
Home Affordability Deteriorated Rapidly



Source: National Association of Realtors, FEA estimates and calculations

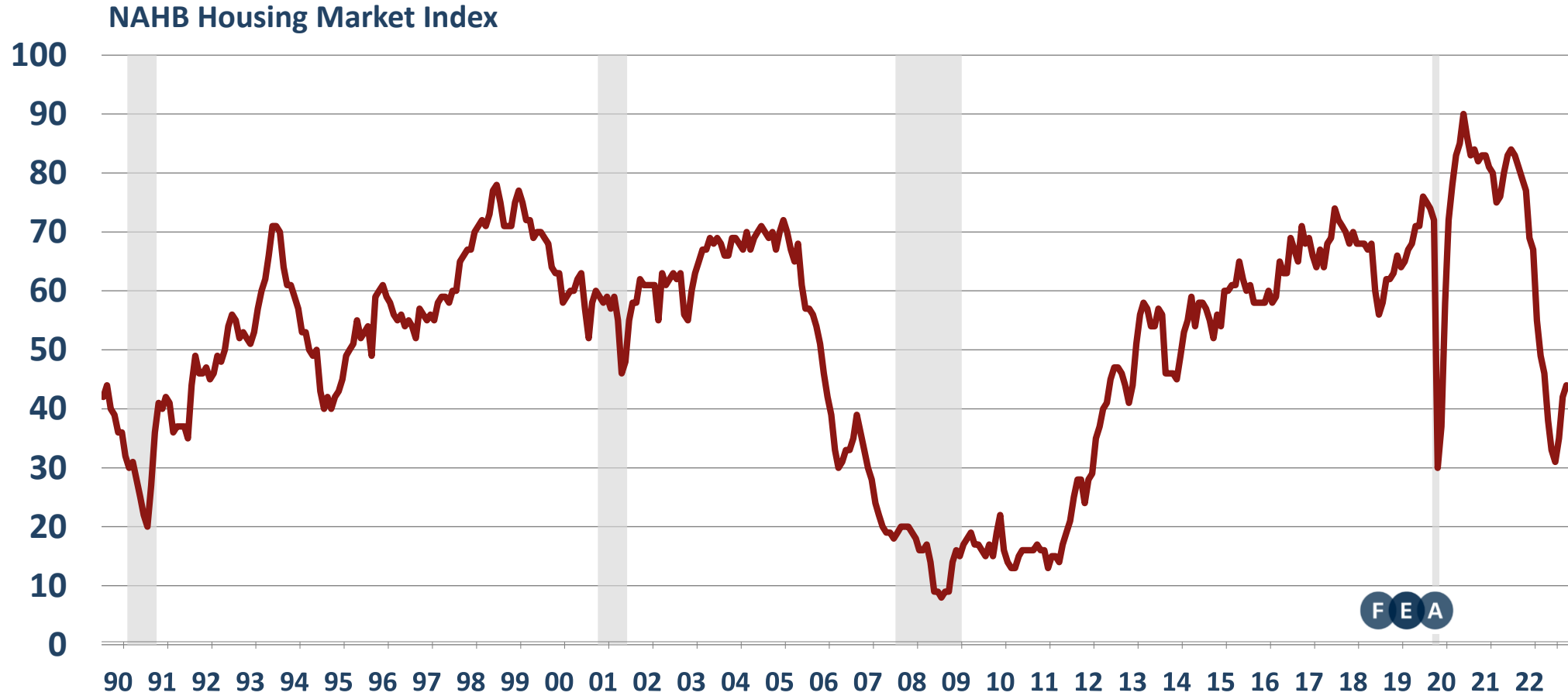
Housing Starts to Decline by 16% in 2023 Before Bouncing Back 14% in 2024

US Housing Starts in Millions



Source: Census Bureau, FEA Forecasts

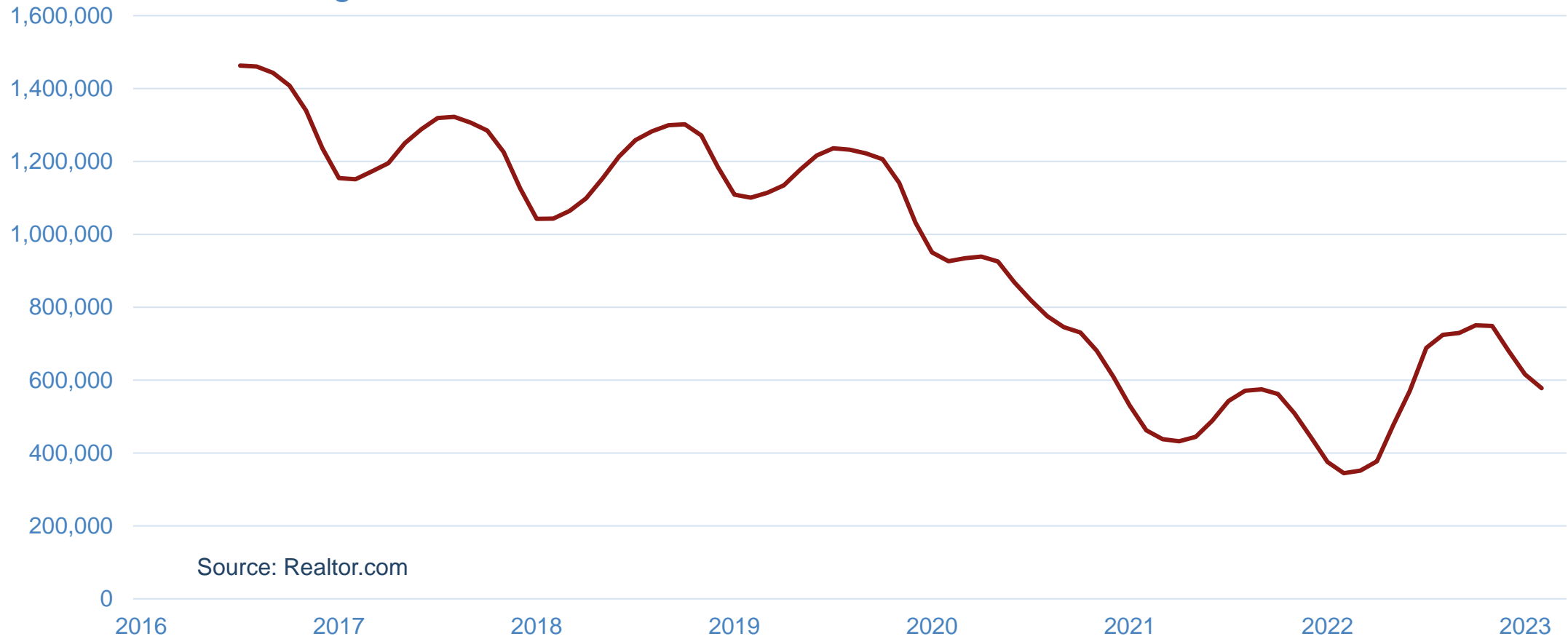
Homebuilder Confidence Has Bottomed



Source: National Association of Realtors

It is Very Difficult to Find a Home to Buy

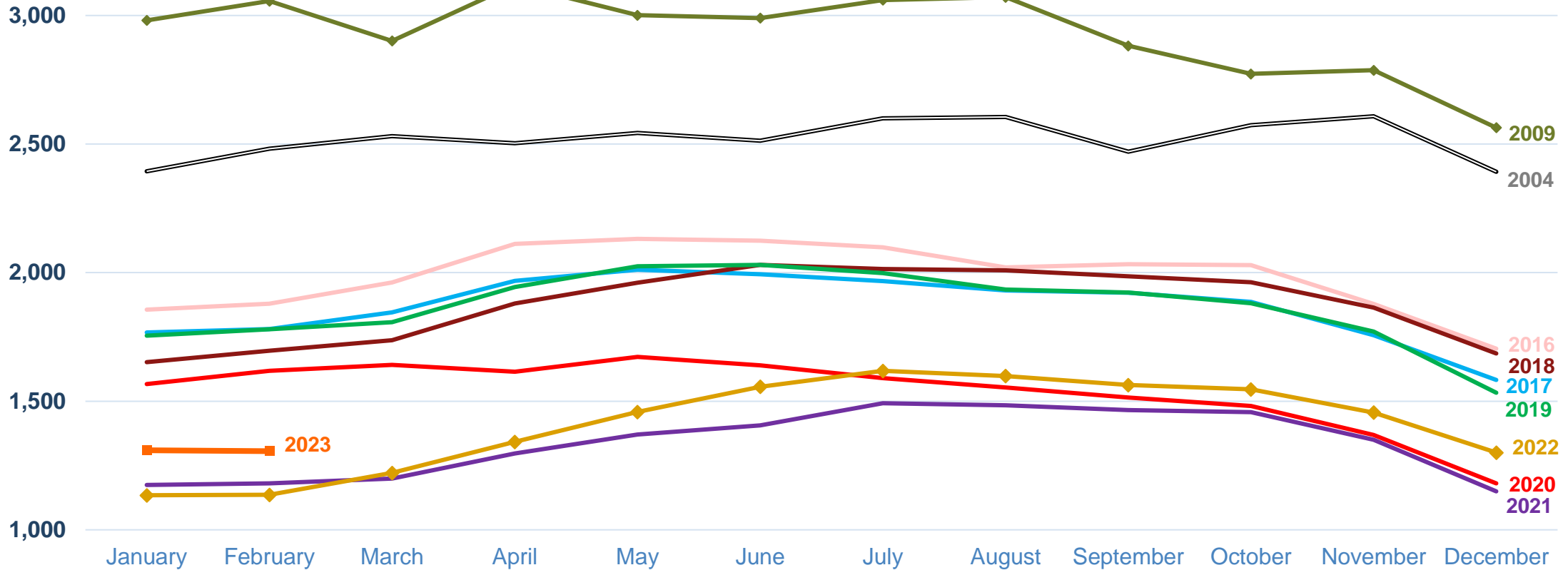
Active Listings of Homes for Sale



Source: Realtor.com

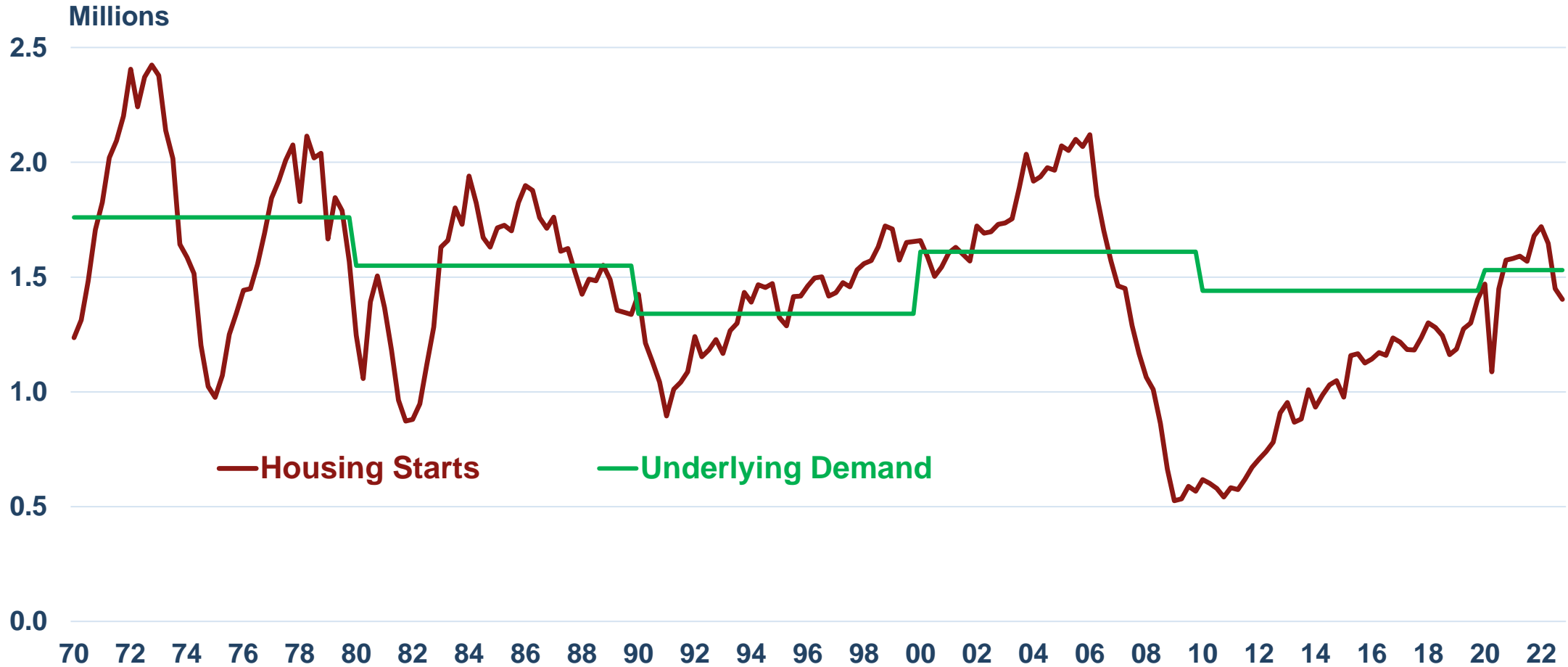
Home Inventories Are Slightly Above 2022 Levels

Existing plus New Single-Family Homes for Sale, Thousands

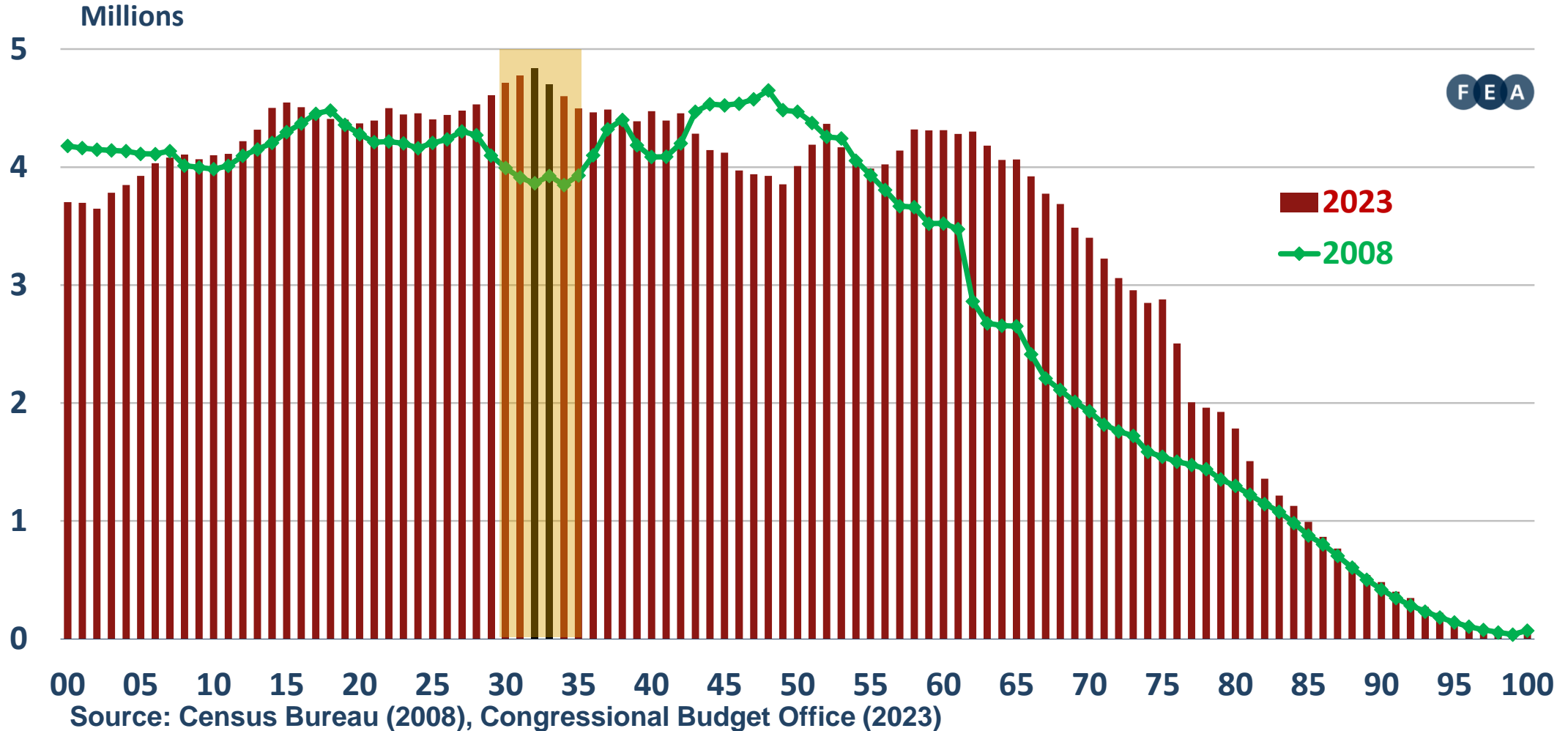


Source: Census Bureau and National Association of Realtors

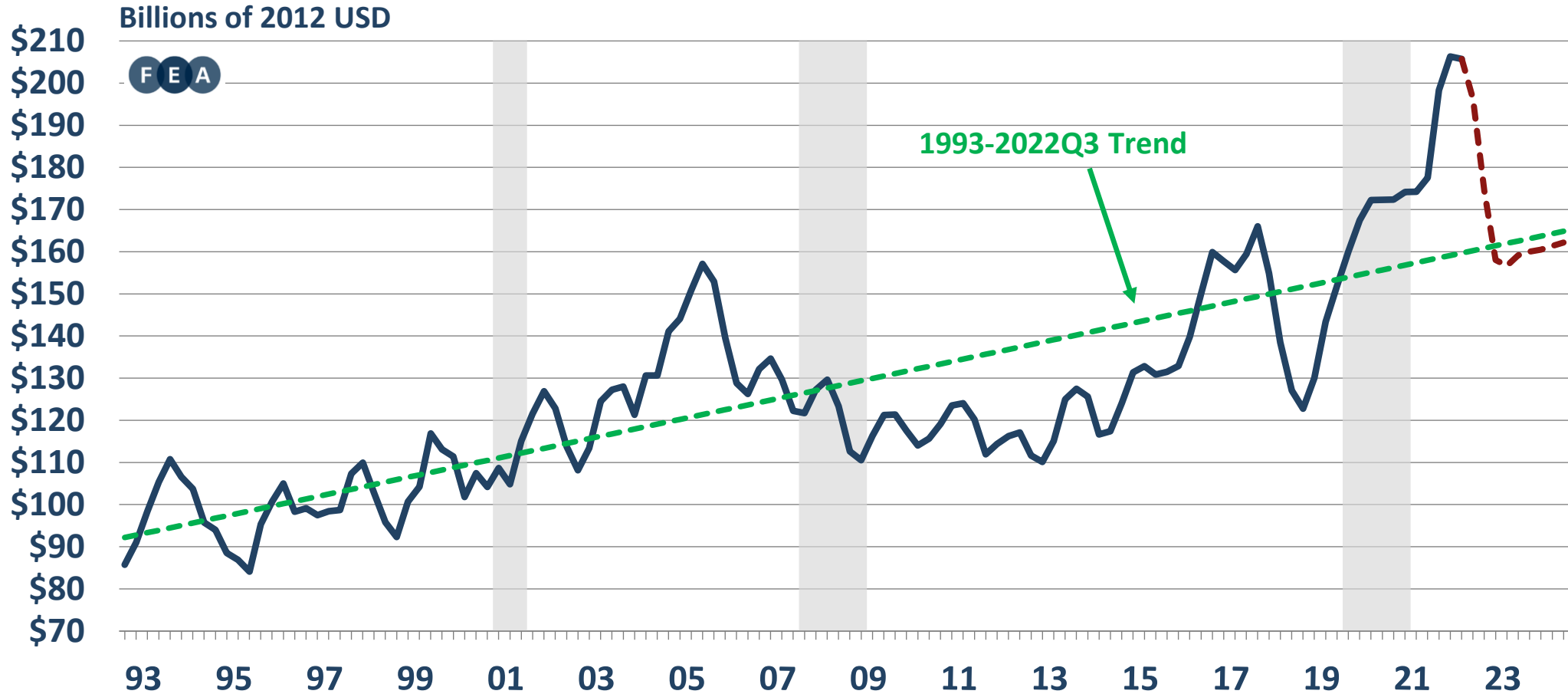
This Recession Will Be Mild: US Housing Starts Exceeded Underlying Demand for Fleeting Moment



2008 – Strong Demographic HEADWIND 2023 – Strong Demographic TAILWIND



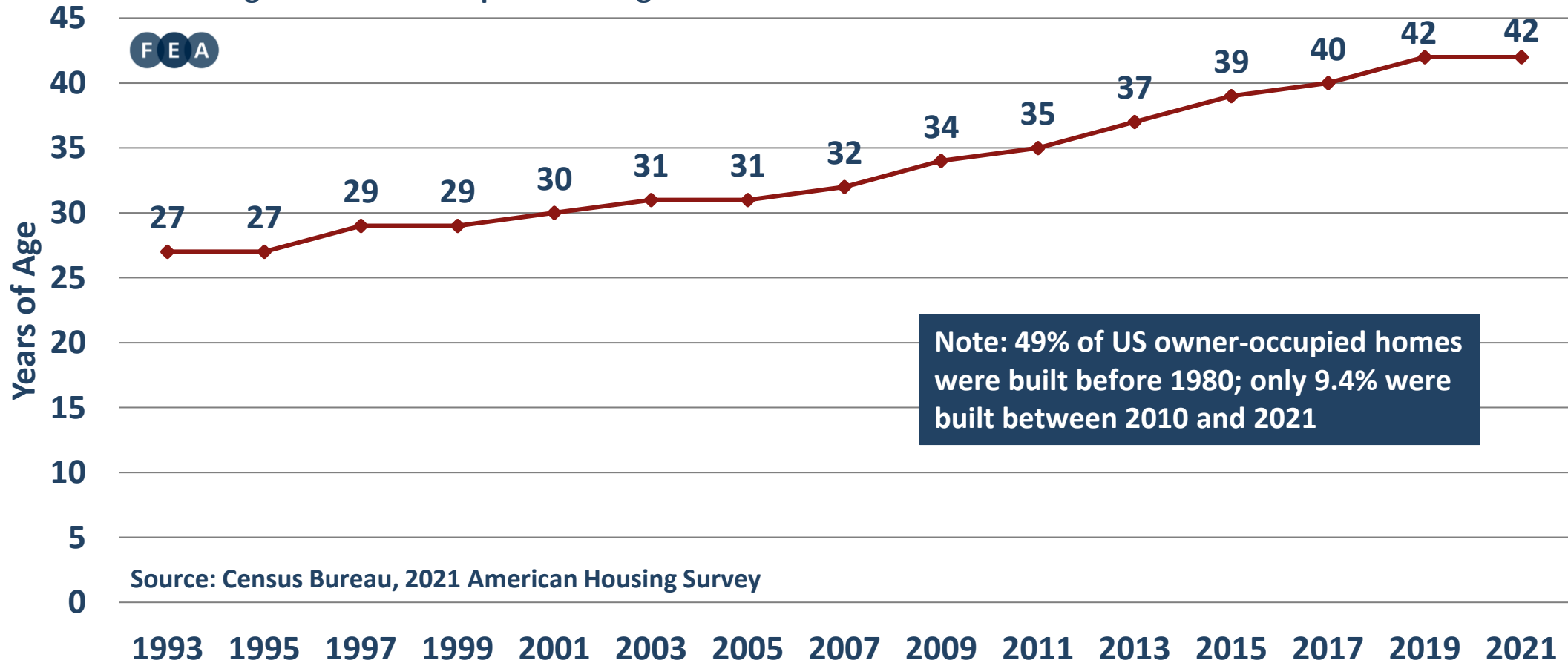
Improvement Expenditures Will Decline from High Level



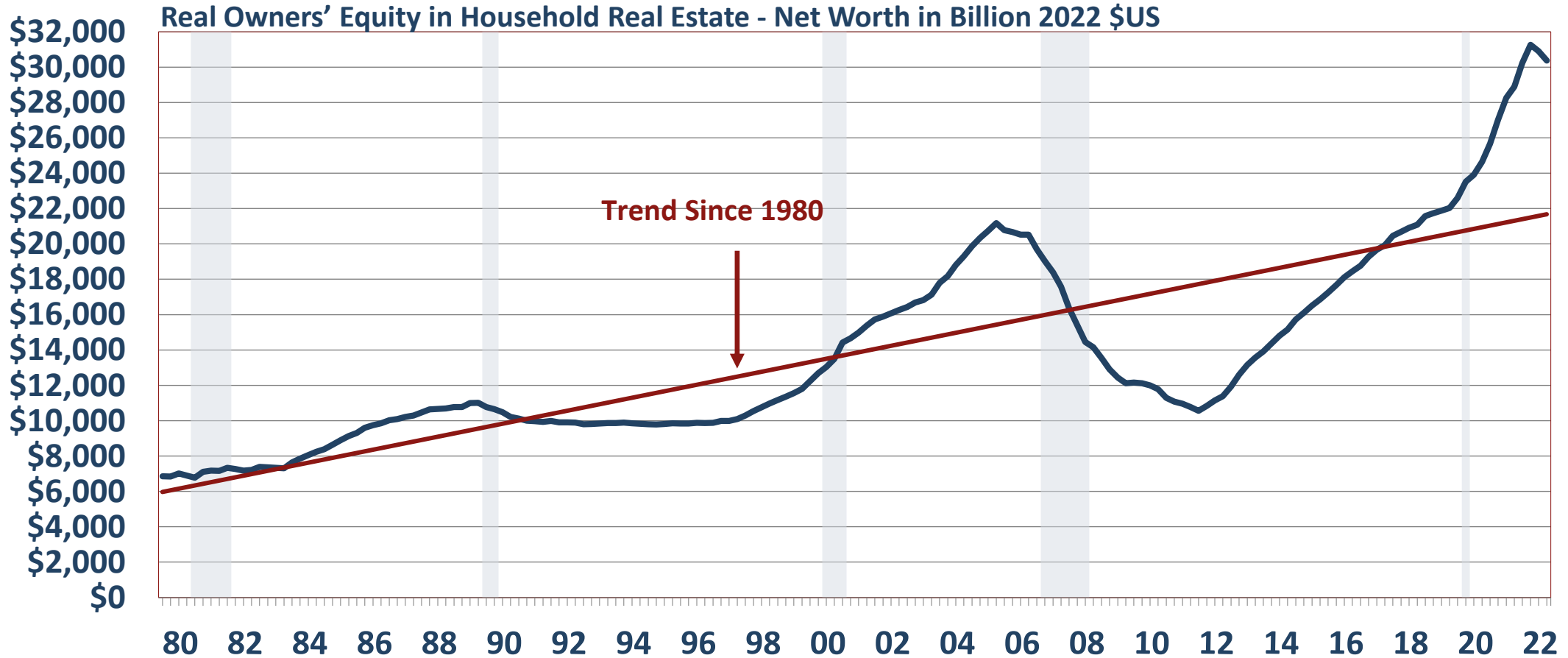
Source: Census Bureau, Bureau of Economic Analysis, FEA calculations

The US Housing Stock Has Aged Considerably

Median Age of Owner-Occupied Housing

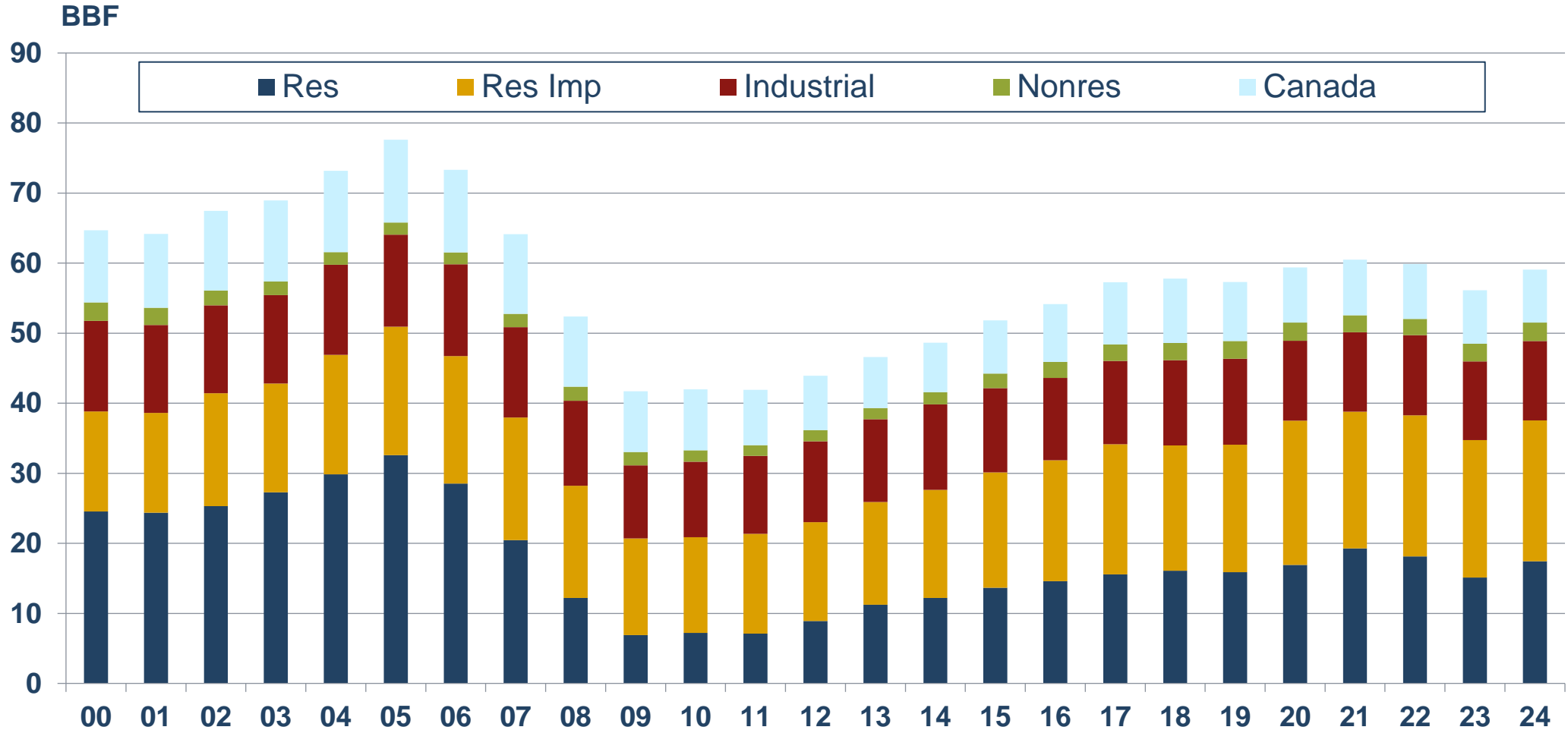


Huge Increase in Home Equity Should Support Improvements

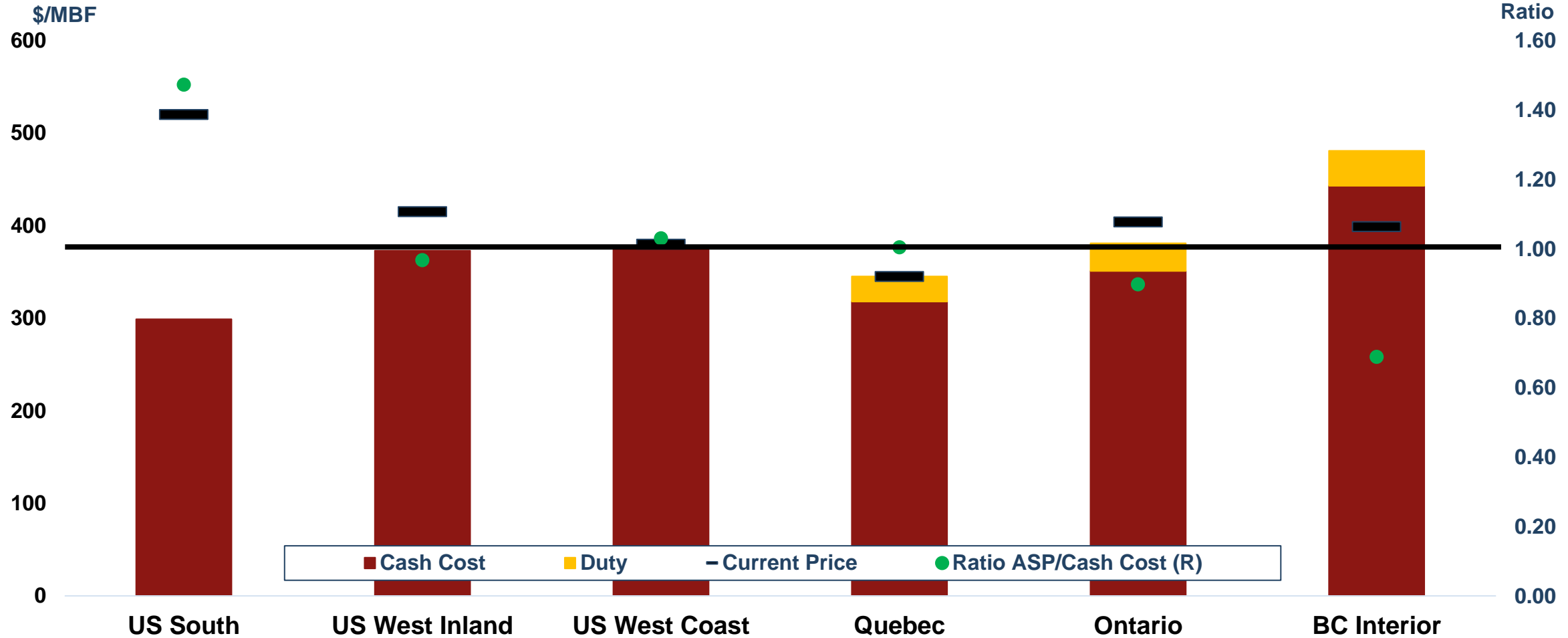


Source: Federal Reserve, FEA calculations

Lumber Consumption Will Decline Modestly



Prices Are Near A Bottom



Capacity Closures/Shift Reductions

Company	Location	Region	Closure Date	Reduction (MMBF)
West Fraser	Perry, FL	US South	Jan-23	100
Vaagan Brothers	Usk, WA	US West	Jan-23	25
Vaagan Brothers	Midway, BC	BC	Jan-23	75
Western Forest Products	Port Alberni, BC	BC	Jan-23	175
West Fraser	Fraser Lake, BC	BC	22Q4	70
West Fraser	Williams Lake, BC	BC	22Q4	100
Canfor	Houston	BC	23Q2	500
Canfor	Chetwynd, BC	BC	23Q2	250
Skeena	Terrace, BC	BC	23Q1	200

Source: FEA

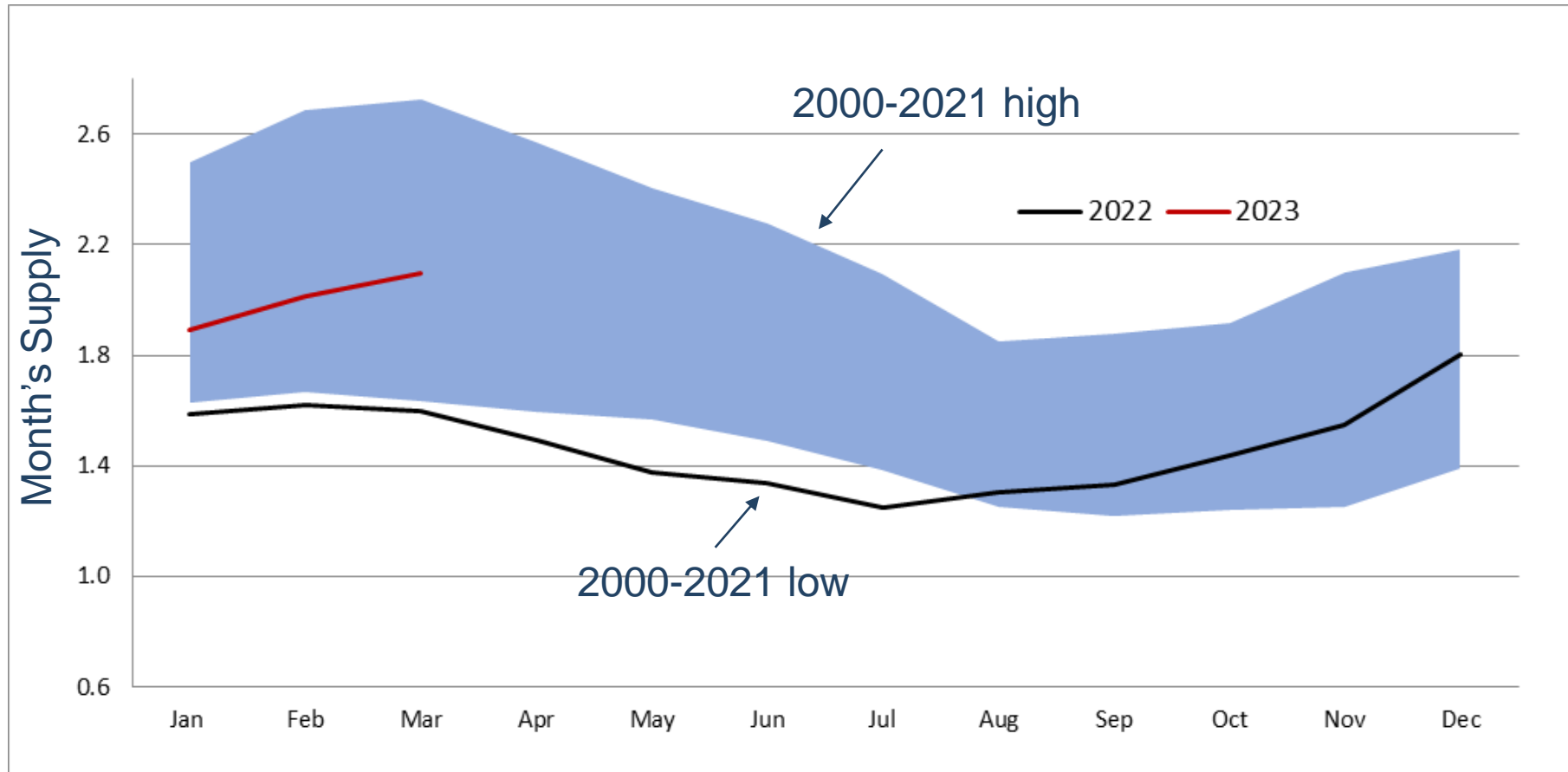
Capacity Temporary Curtailments

Company	Location	Region	Date	Reduction (MMBF)
Conifex	Mackenzie, BC	BC	10/2022	7
Interfor	All		Q4	200
Canfor		BC and Alberta	12/22-1/23	171
Aspen Planners	Merritt, BC	BC	12/2022	8
Shuqualak Lumber	Shuqualak, MS	US South	12/26/2022	
Tolko		BC	1/2023	35
Anthony Timberlands	Malvern, Arkansas	US South	1/2023	10
Skeena	Terrace, BC	BC	1/2023	12
Interfor		All except US South	23Q1	100
Stimson	Clatskanie, OR	US West	2/2/2023	15.6
Stimson	Forest Grove, OR	US West	2//2/2023	28.8
Sinclar Group	3 Mills	BC	1/30/3023	25

Source: FEA

Inventories Have Risen

North American Inventory/Consumption Ratio & Range



Source: FEA

Take Home Points

- The probability of a recession is high, but lumber end-use markets will outperform the overall economy.
- Lumber markets will slip in 2023, but the downturn will be more mild than previous recessions.
- Prices are likely near a bottom
- Likely won't go back to their 2020-22 highs



Questions?

Paul Jannke
Principal, Lumber
Forest Economic Advisors
1-978-496-6336
pjannke@getfea.com
www.getfea.com