



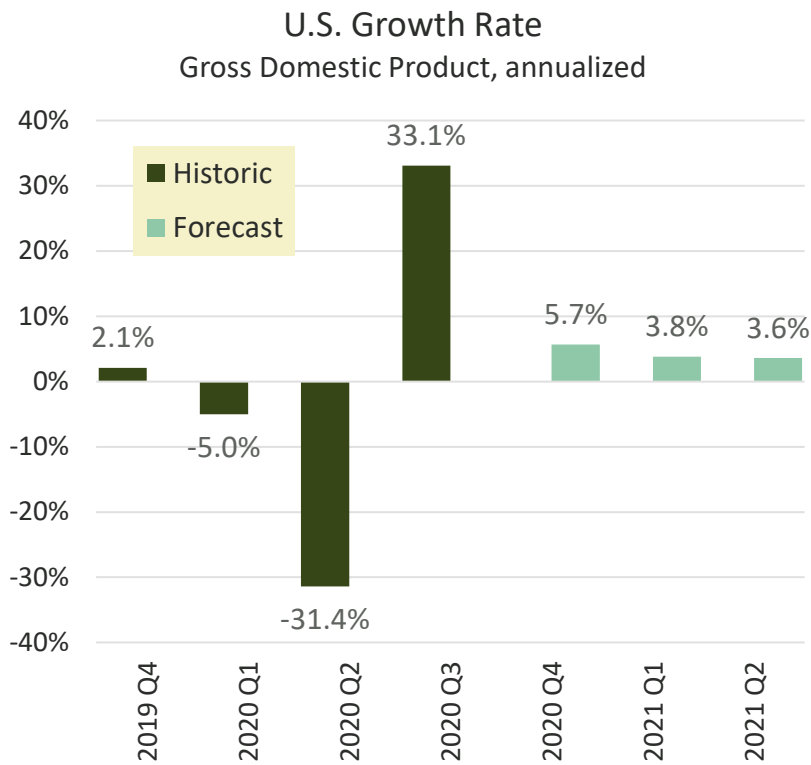
Economy & Markets

18 November 2020
Chung-Hong Fu



U.S. Macroeconomy

The US economy has showed significant recovery in Q3, but faces headwinds of resurgent Covid-19 cases, which could hurt future growth



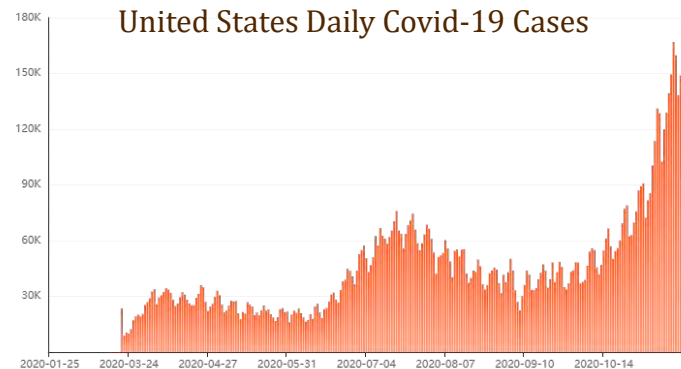
Sources: U.S. Department of Commerce (actual) | Forest Economic Advisors (forecast)

U.S. economic recovery is uneven

- Manufacturing and housing are performing very well
- Many services, hospitality and travel sectors are struggling

After a strong Q3 bounce back, growth will slow

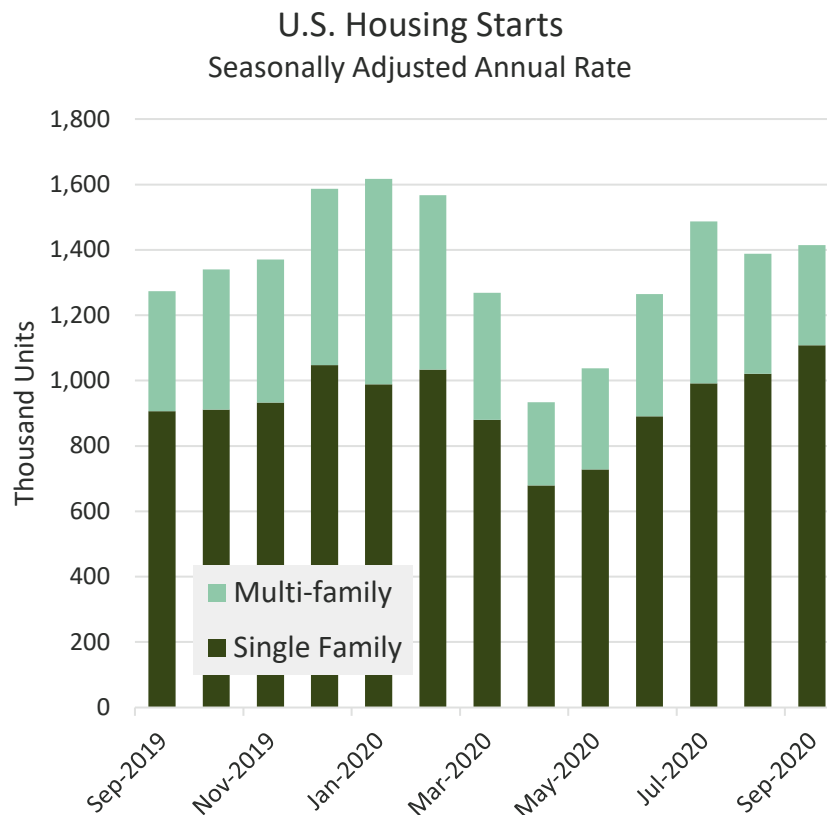
- Nonfarm employment rose for the 6th consecutive month by 638,000 in October. Unemployment rate has fallen to 6.9% (from a high of 14.9% in April).
- After GDP grew at a 33.1% annualized rate in Q3, the U.S. economy was only 3.5% below the 2019 Q4 pre-pandemic peak





Housing Market

Home buyers returned to the market in force. Single-family home construction has already surpassed pre-pandemic levels.



Source: U.S. Census Bureau

Record low mortgage rates is drawing in buyers

- Existing home sales rose 9.4% in August to 6.5 million and is 20.9% above year-ago levels
- Inventory of homes is at a record low of 2.7 months

This has spilled over to new home markets

- September sales of new single-family houses was 32.1% above September 2019 levels

Builders respond by ramping up construction

- Housing starts of 1.42 million in September is 11,1% above year-ago levels. Single-family starts reached a 13-year high.
- Many home builders report strong orders
 - DR Horton – largest homebuilder – saw net orders in October 50% above year-ago levels
 - Taylor Morrison – 5th largest builder – reports net sales for Q3 up 74% Y/Y

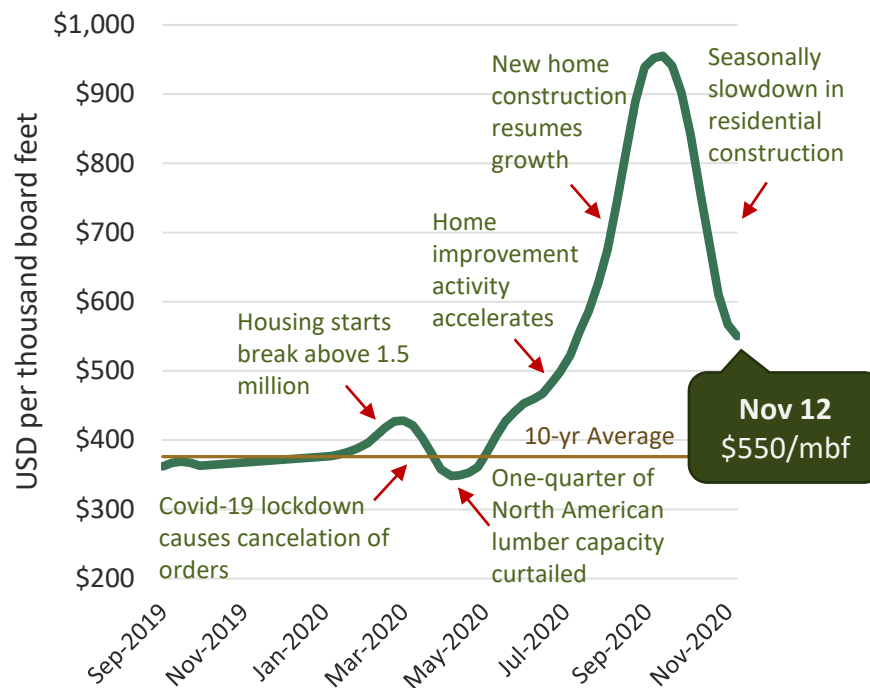


Wood Product Markets

Lumber markets peaked in September but appear to be leveling out in Q4 due to continued strength in new home construction



Random Lengths Structural Lumber
Composite Price



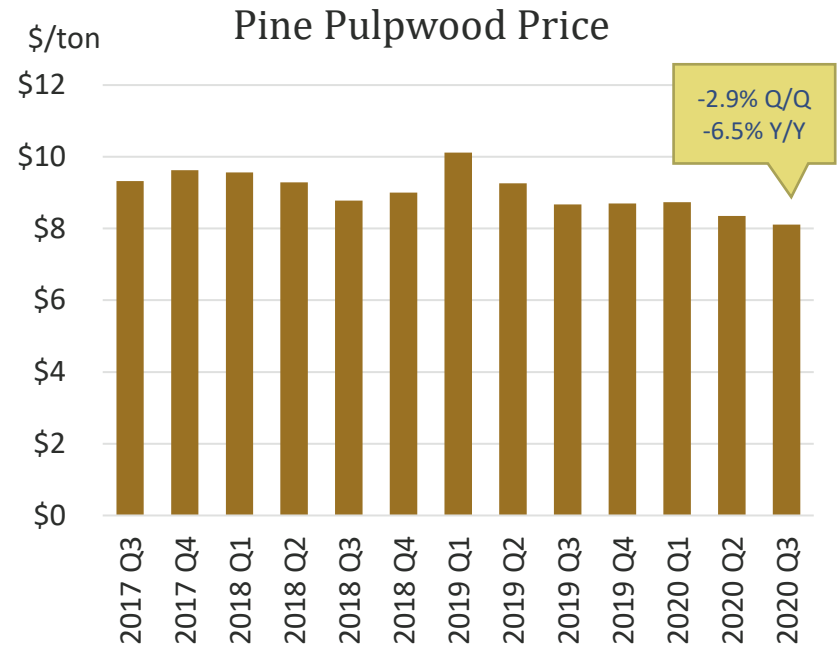
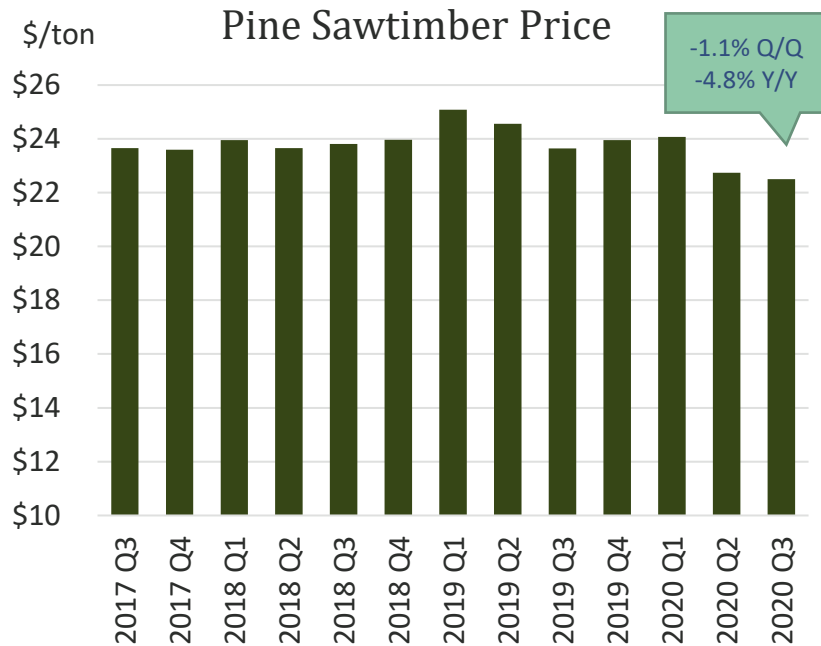
Source: Random Lengths

Lumber markets still strong despite Q4 retreat

- Inventories in the supply channel remain thin and soon dealers and distributors will need to stock up for the spring building season
- There is no surge of lumber production
 - A lot of sawmill capacity in British Columbia has been shut down since 2019
 - Capacity in the Pacific Northwest is limited
 - Many lumber mills in the South have difficulty staffing for an additional shift
- Activity in new home construction and home repair & remodeling remain resilient going into 2020



U.S. South Timber Market



Source: Timber Mart-South

High lumber prices have not translated to higher timber prices yet. There remains a surplus of timber inventory in many parts of the South. However, rising consumption of sawtimber is lifting harvest rates which will lead, we expect, a price response in 2021.

Printing and writing paper demand is down, but tissue and packaging show strength. On balance, pulpwood prices could remain relatively flat in the short term.