



Timberland Flash Report

New Administration's Economic and Climate Priorities Bode Well for U.S. Timberland Sector in 2021

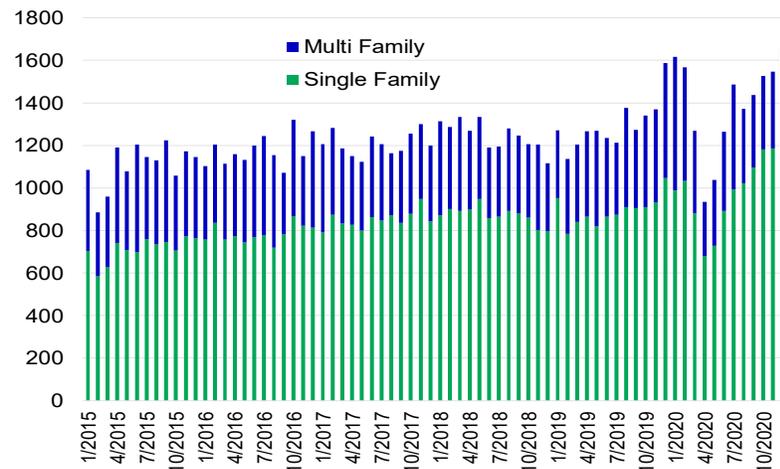
The U.S. forest product sector and timber demand entered 2021 with strong forward momentum. Housing starts were at the highest level in 19 years, softwood lumber prices reached all-time highs, and prices for softwood sawlogs were trending higher. The tailwinds for the timber sector that were developing in much of 2020 should gain some added support from policy initiatives that the incoming Biden administration are considering achieving post-Covid recovery of the economy and the job market. Janet Yellen's accommodative monetary policy coupled with aggressive fiscal stimulus, should be a major boost to residential construction activity in 2021. Forest product manufacturers should also benefit from an expected easing of restrictions on immigration by the Biden administration. In addition, the role of timberlands as a natural climate solution should be increasingly recognized and valued with action on climate change occupying a top spot on the Biden agenda.

Housing

U.S. forest product and timber markets proved resilient in 2020, due to robust residential construction activity for both new home construction and repair and remodeling of existing homes. For the year 2020, U.S. housing starts totaled 1.4 million units, an 8% increase over 2019 (See *Chart 1. U.S. Housing Starts*). In addition, the mix of new home construction shifted to single family homes, with the share of single family homes jumping from 69% in 2019 to 72% in 2020. Single family construction utilizes more wood products than multifamily construction, due to their larger size and dominant construction system (wood vs concrete/steel).

U.S. Housing Starts Begin 2021 Strong

Chart 1: U.S. Housing Starts (SAAR millions)



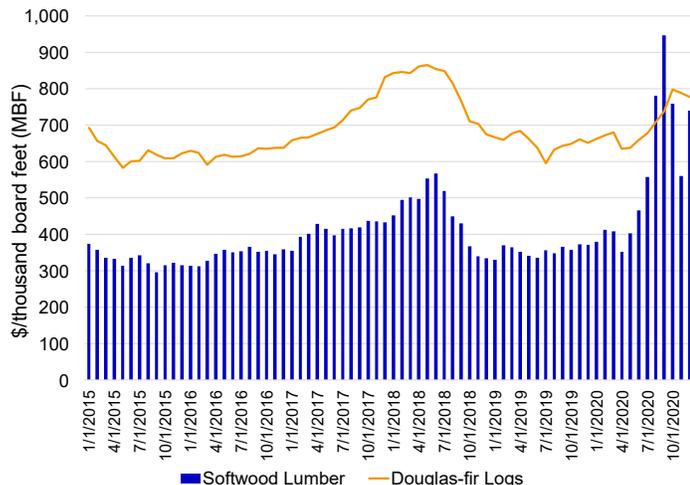
Source: US Bureau of Labor, January 24, 2021

The strong construction activity of 2020 translated into a surge in softwood lumber and wood panel prices and a corresponding lift in timber prices (See *Chart 2. Lumber and Timber Prices*, page 2).

The Random Lengths softwood lumber composite reached a high of \$947/MBF on average, during the month of September, 165% above 2019 levels. The impact of the robust wood products markets on timber values were the most pronounced in the U.S. West Coast, which is characterized by a tight demand/supply balance for timber, and by the final quarter of 2020, timber values were gaining forward momentum across the U.S.

U.S. Prices for Solid Wood Reach Record Levels, Western Log Prices Follow

Chart 2: Lumber and Timber Prices (\$/MBF)



Source: Fastmarkets RISI, January 28, 2021

Mortgage rates are currently near historical lows, and the Federal Reserve has signaled that they will maintain rates at low levels in 2021 even in the face of temporary flare-ups in inflation. This accommodative monetary policy has resulted in extremely favorable credit availability for new home buyers, and these conditions are likely to hold steady in 2021 (See Chart 3, Quarterly Housing Credit Availability Index).

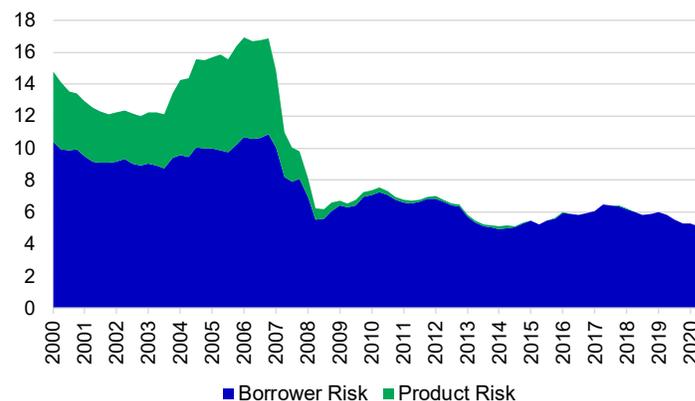
The Biden Administration is currently advancing its \$1.9T Covid stimulus package in Congress. Although the size of the final Covid bill may be reduced through negotiations in the Senate, this next round of federal fiscal stimulus will be impactful, quickly following upon the \$0.9T stimulus package passed in December. As a result of the 2020 federal stimulus programs and curtailed consumption during the pandemic, the U.S. savings rate surged. Preliminary data for 2020 show total savings for 2020 was \$1.6T higher than in 2019¹, providing the financial wherewithal to homebuyers in the coming year.

Increased federal support for the rapid deployment of the Covid vaccination should bolster the economic recovery and help push the unemployment rate lower. The combination of continuing low interest rates, stronger job markets, and healthy household savings should boost consumer confidence and provide a strong foundation for robust demand for housing and construction activity in 2021.

An additional boost to housing markets may develop from President Biden's executive order directing the Department of Housing and Urban Development to take steps necessary to redress racially discriminatory federal housing policies, in particular addressing mortgage discrimination².

Addressing Mortgage Equity May Increase Credit Availability

Chart 3: Quarterly Housing Credit Availability Index (HCAI) 2000 Q1 to 2020 Q3 (Percent)



Source: Housing Finance policy Center, accessed January 28, 2021

Credit availability has tightened as of the 3rd quarter of 2020 – with the Housing Credit Availability Index (HCAI) reaching an historic low. The HCAI tracks the percentage of owner-occupied home purchase loans that are likely to default. A HCAI moving lower indicates that lenders are less willing to tolerate defaults and are imposing tighter lending standards. A shift in federal housing policy could broaden and ease the availability of mortgages particularly to lower-income segments of the market.

Immigration and Climate-Change Policy

In addition to the support for housing resulting from the emerging Biden agenda, the timber sector should also benefit from the administration's move to more accommodation on immigration issues and its strong commitment to addressing global climate-change. An eased stand on immigration compared to the Trump years improves the outlook for availability of labor. In recent years, labor availability in both the construction sector and in moving timber out of the forest and into mills has been challenging. As the economy recovers from the pandemic and unemployment rates head lower, increased flexibility in the labor supply should help facilitate the timber sector's growth.

Institutions and corporations are already formulating goals to achieve net-zero to net-negative emissions by mid-century. The Biden Administration's efforts to place climate first bodes especially well for the timberland asset class, spot-lighting trees based on their ability to sequester carbon, as an option for businesses and other organizations to meet their carbon reduction targets.

The Biden Administration's creation of a Climate Envoy—former Secretary of State, John Kerry—marks the first time the National Security Council will include an official dedicated to climate change. Biden's choice of Michigan Gov. Jennifer Granholm, a strong advocate for zero-emissions to head the Department of Energy, and the immediate re-entry into the Paris Agreement are further strong positives for timberland, suggesting the development of new investment interest in timberland motivated by a more explicit valuation of the carbon capturing capabilities of forests.

¹WSJ 02/03/21, The Risks of too Much 'Stimulus', Phil Gramm and Mike Solon

²Politico 1/26/2021, Biden issues executive orders for racial equity, Nick Niedzwiedek

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