



What Could Recovery Look Like?

Western Forest Economists Meeting, May 5-6, 2009

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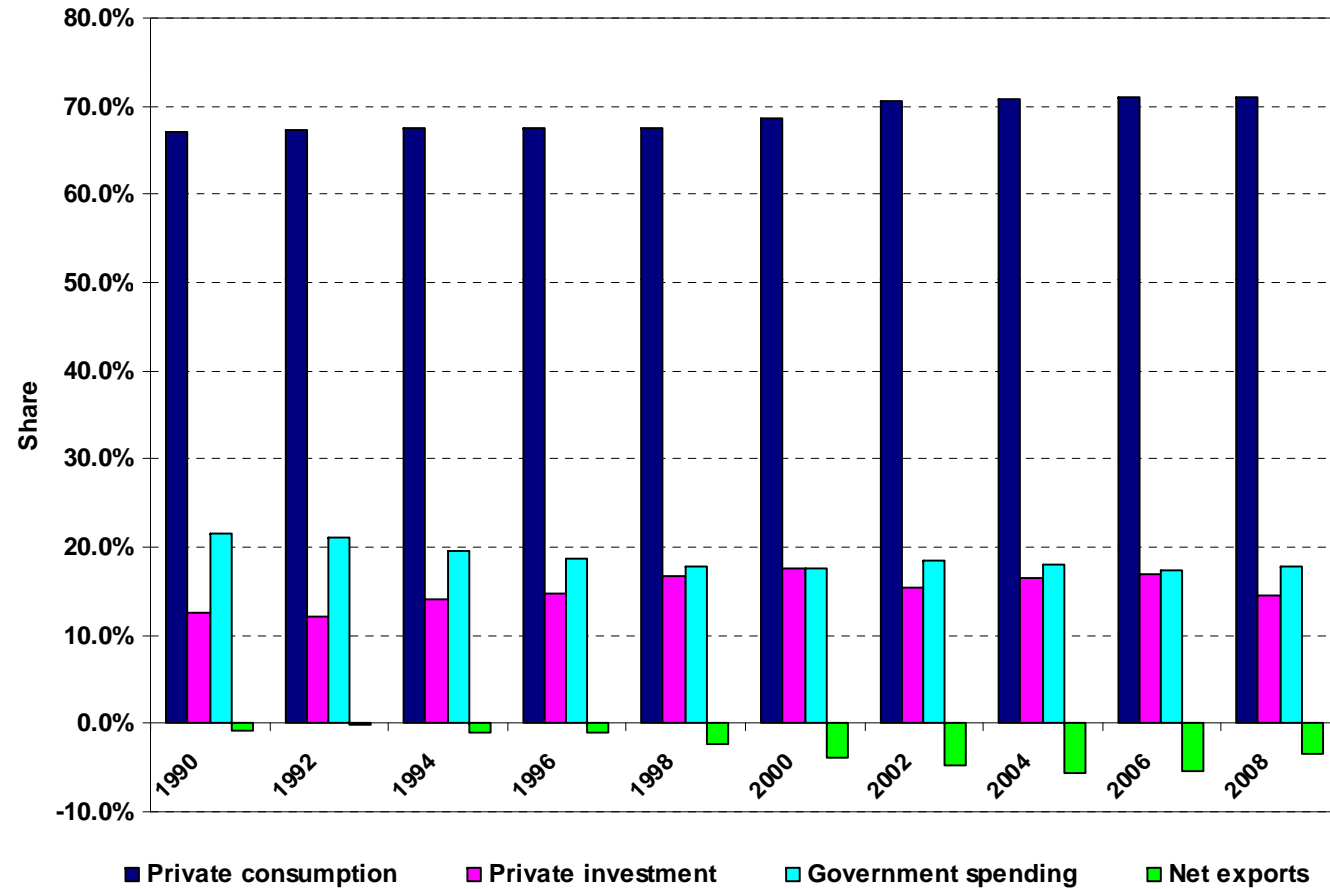
May 3-5, 2009





Consumer Spending: Largest Share of GDP

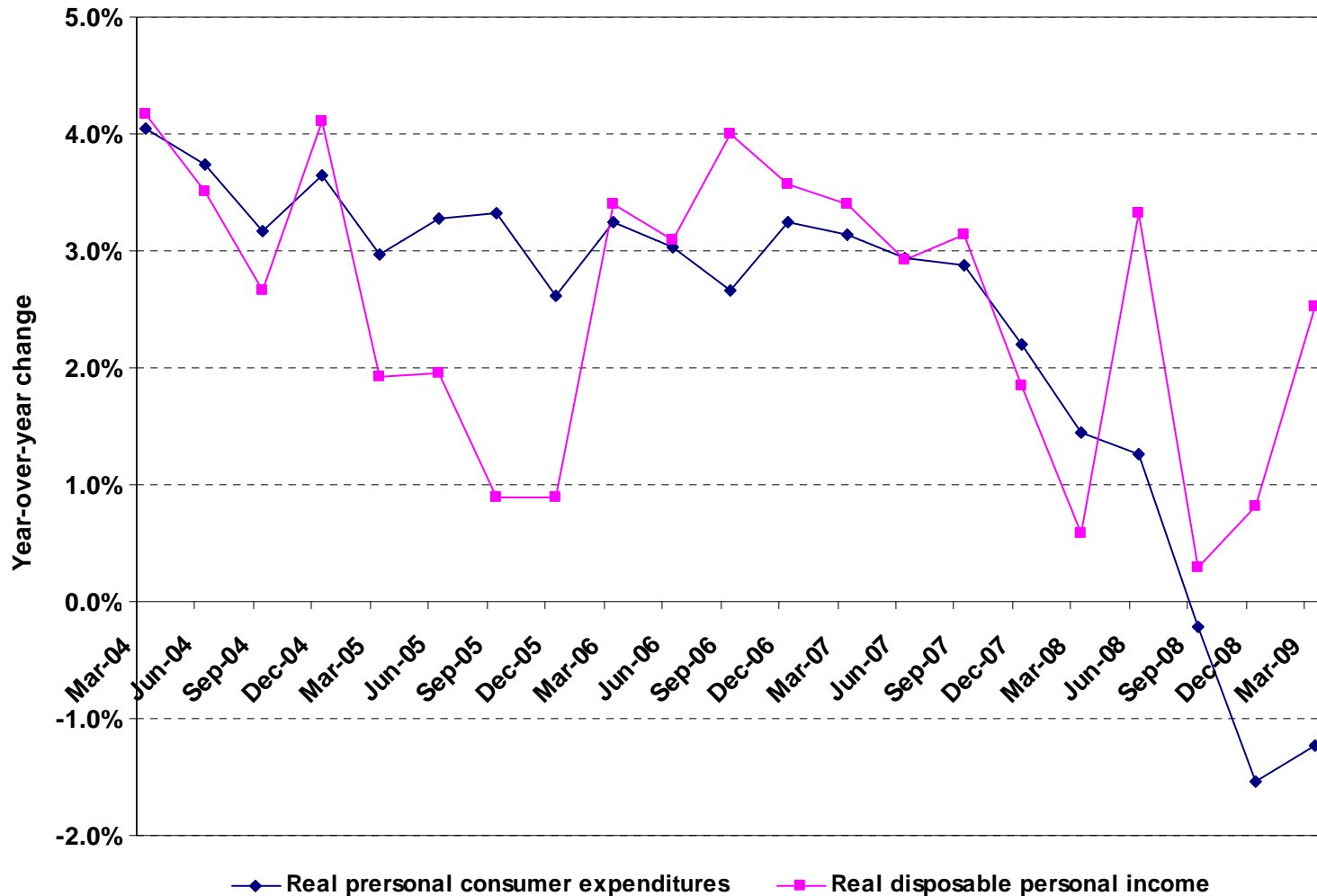
Structure of GDP by share of contributing component



Source: BEA

Current Context: Real Disposable Income Growth Outpacing Real Spending Growth

Growth in real disposable income compared with real consumer spending

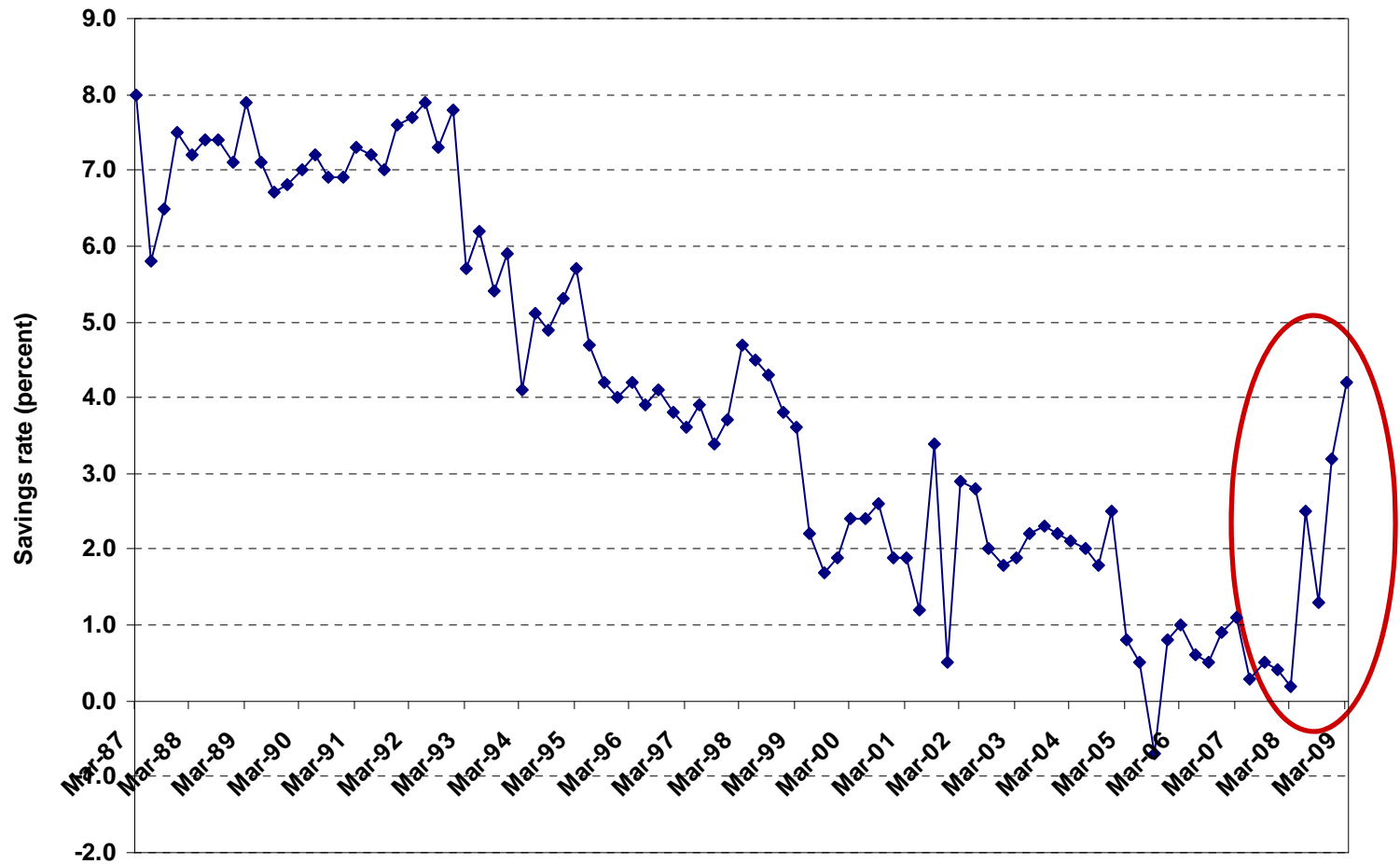


Source: BEA



Saving: Still An Unnatural Act?

Personal saving as a percentage of disposable personal income

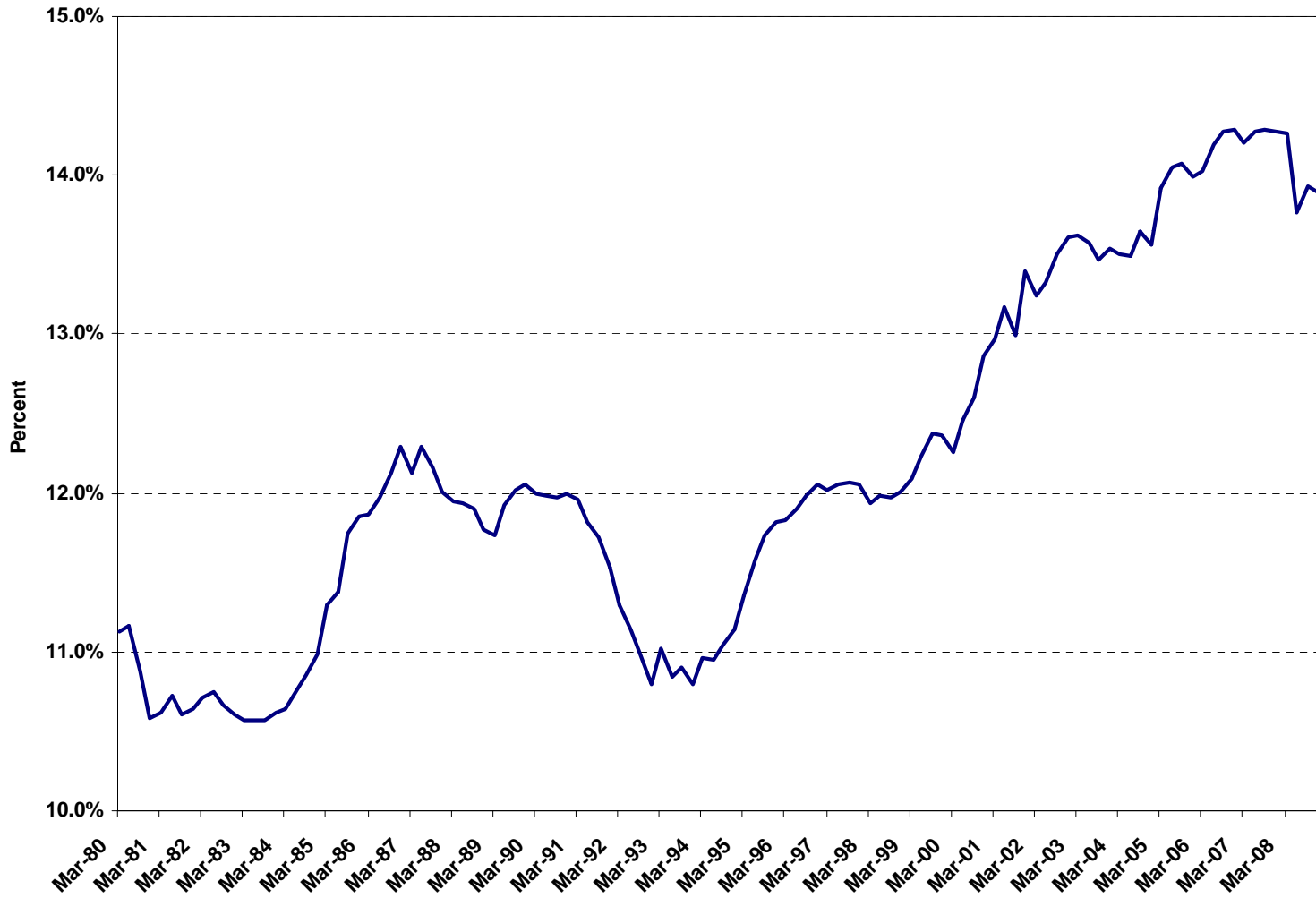


Source: BEA



Consumer Has More Debt to Pay Off

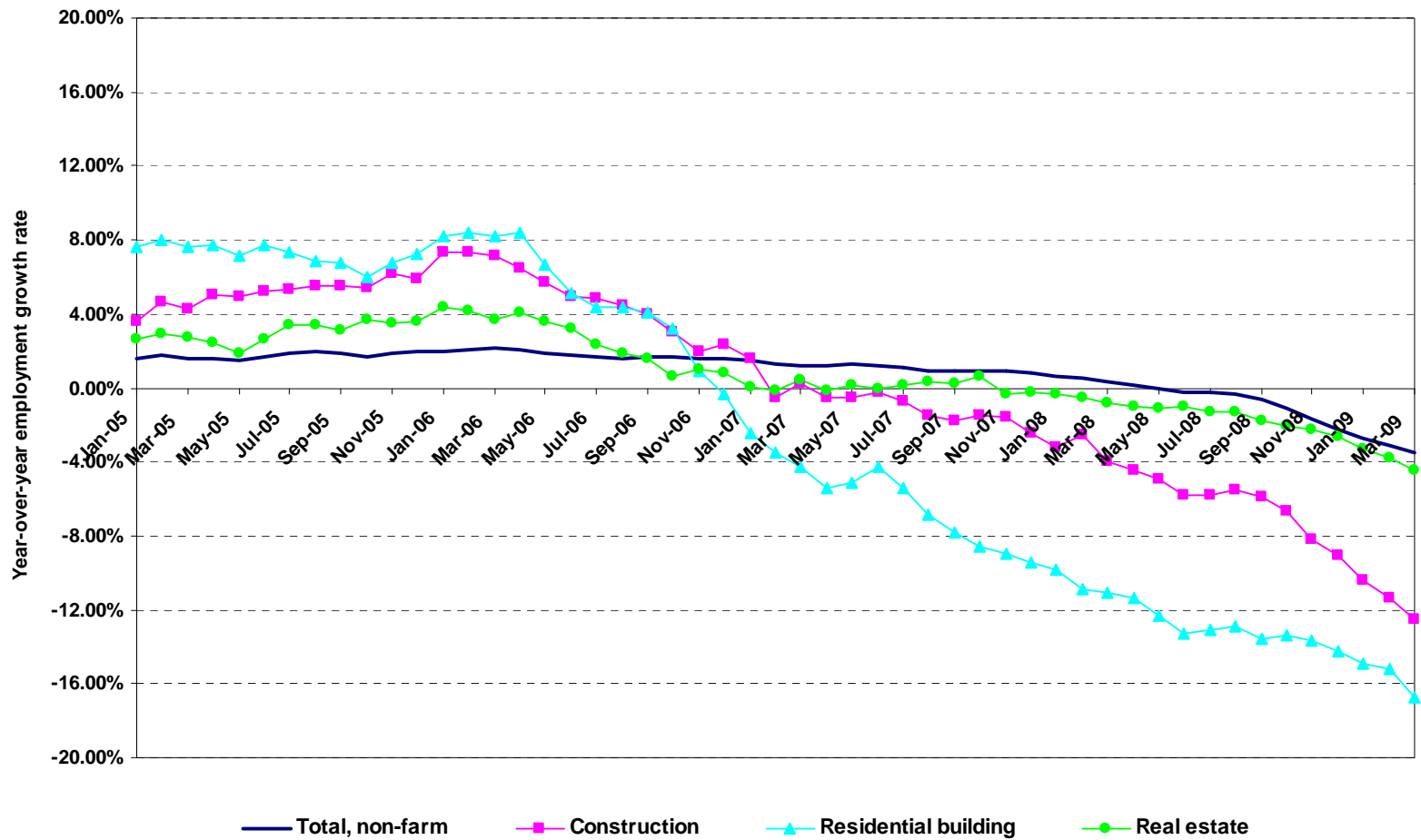
US household debt payments as a proportion of disposable personal income



Source: FRB

Employment “Growth” Saps Confidence And Contributes To Deflationary Pressures

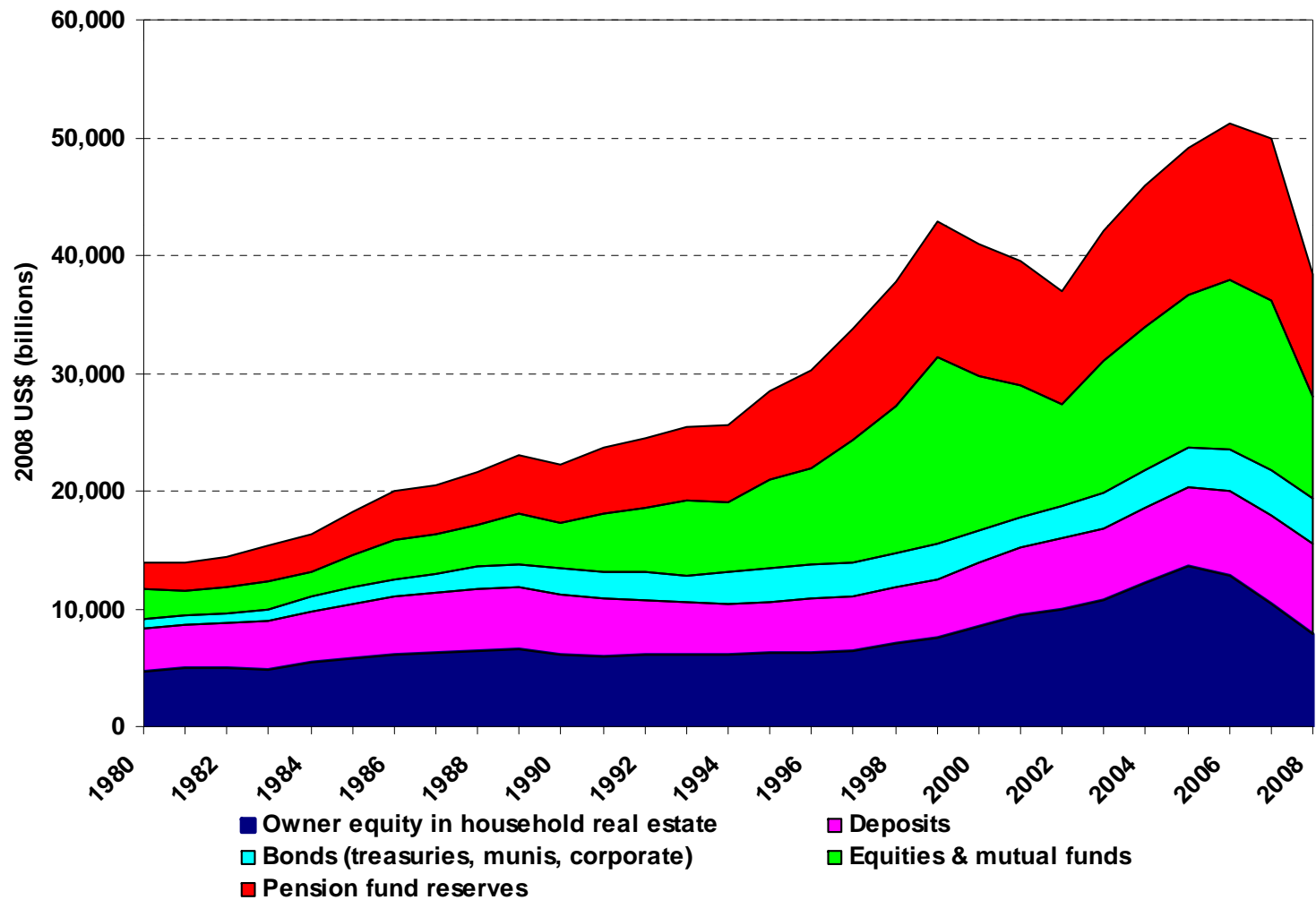
US employment growth by selected sectors



Source: BLS

What Assets Does the Consumer Have (Left) to Monetize?

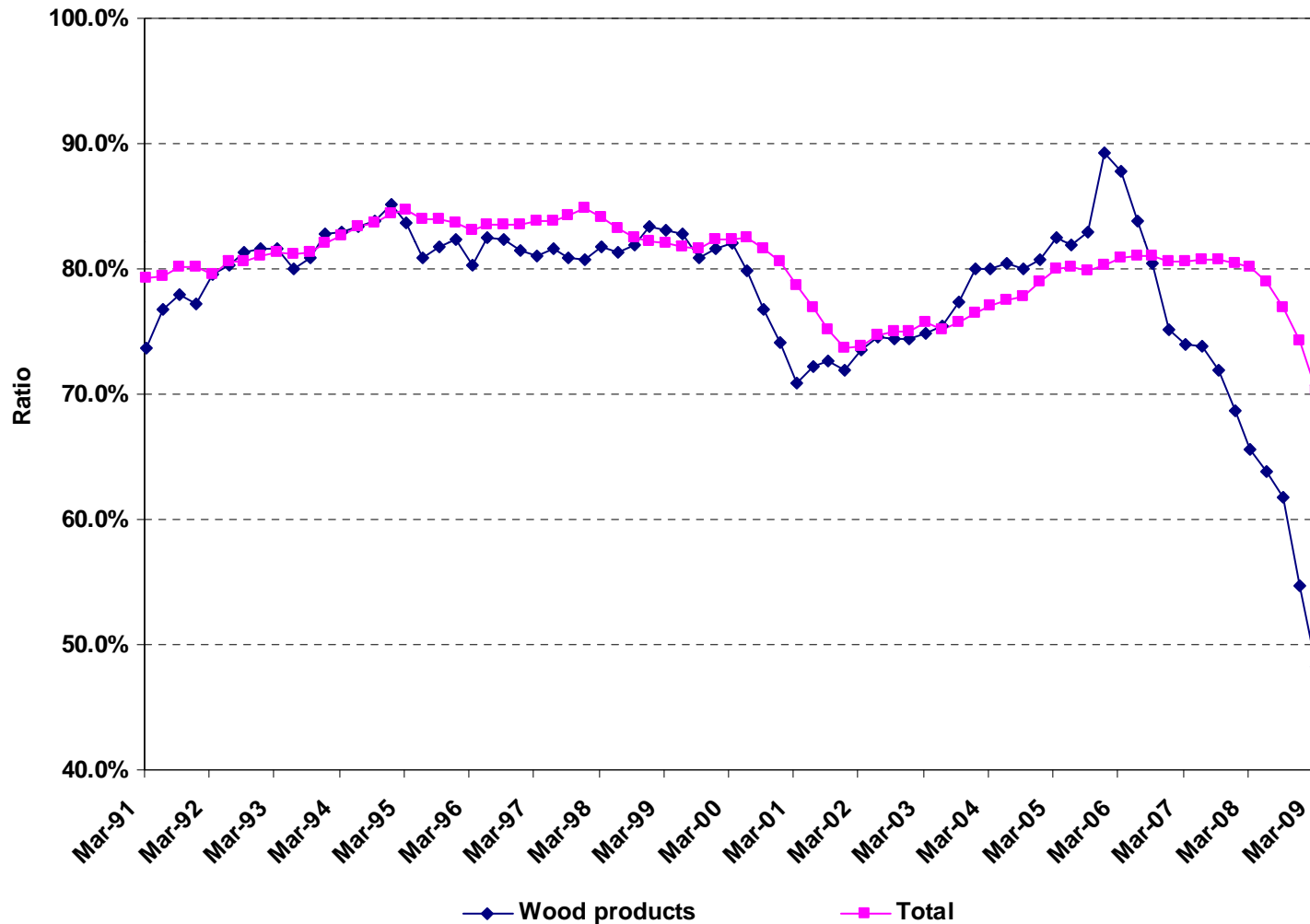
Real values for selected household assets



Source: FRB

Investment Spending: Capacity Adjustment May Also Be Deflationary

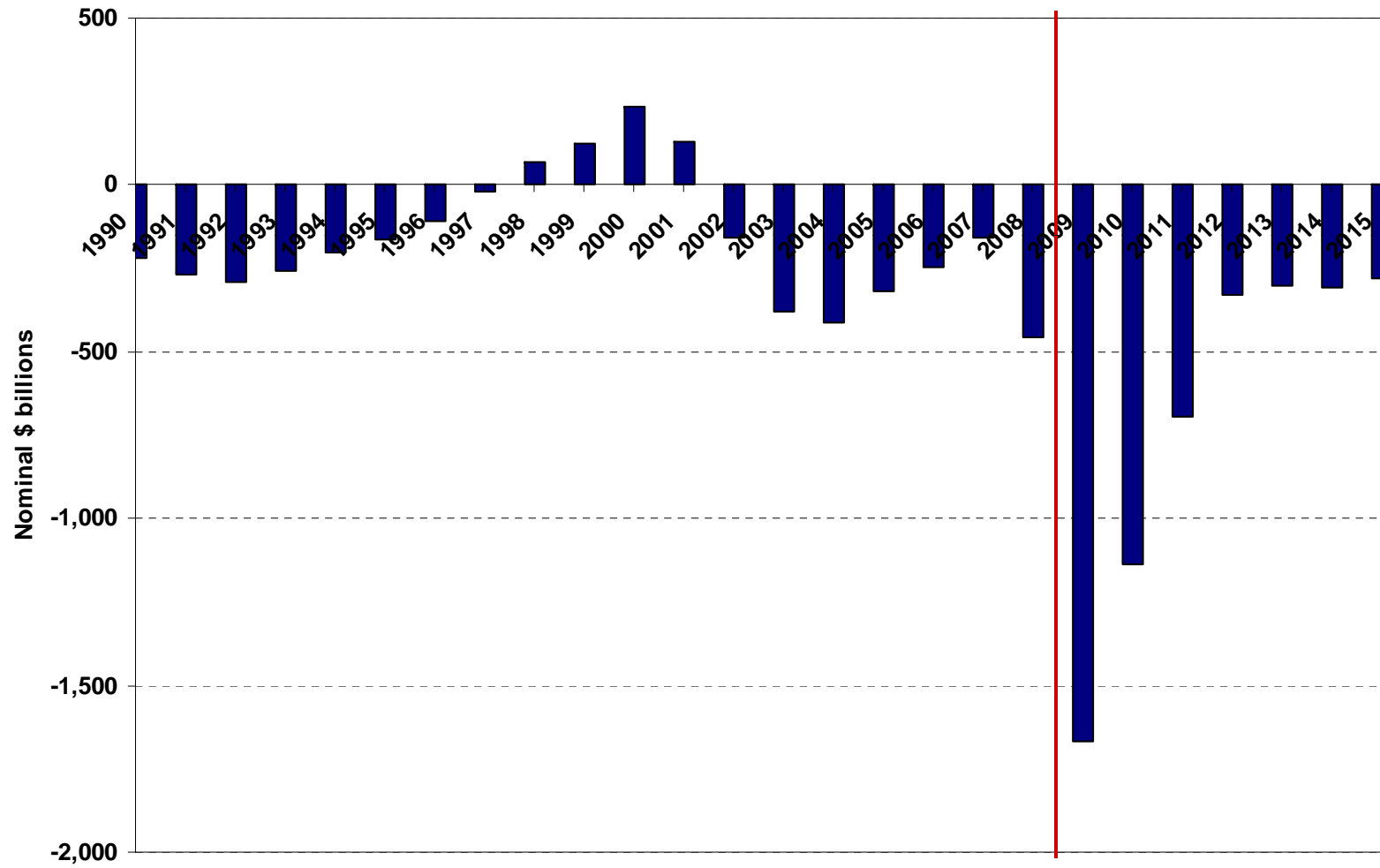
US capacity utilization: Wood production compared with Total



Source: FRB

Government Spending: Expanding Debt Has Interest Rate Implications

Historical compared with projected Federal budget balance



Source: CBO



Interest Rate Implications

- What will the FRB response be to inflation once economic stimulus really takes hold?
 - Live with all/some of it
 - Increase interest rates
 - A new FRB chairman on the cards?
- Bond buyers may seek higher returns to offset inflationary pressures
- How quickly will challenges facing wood products fade?

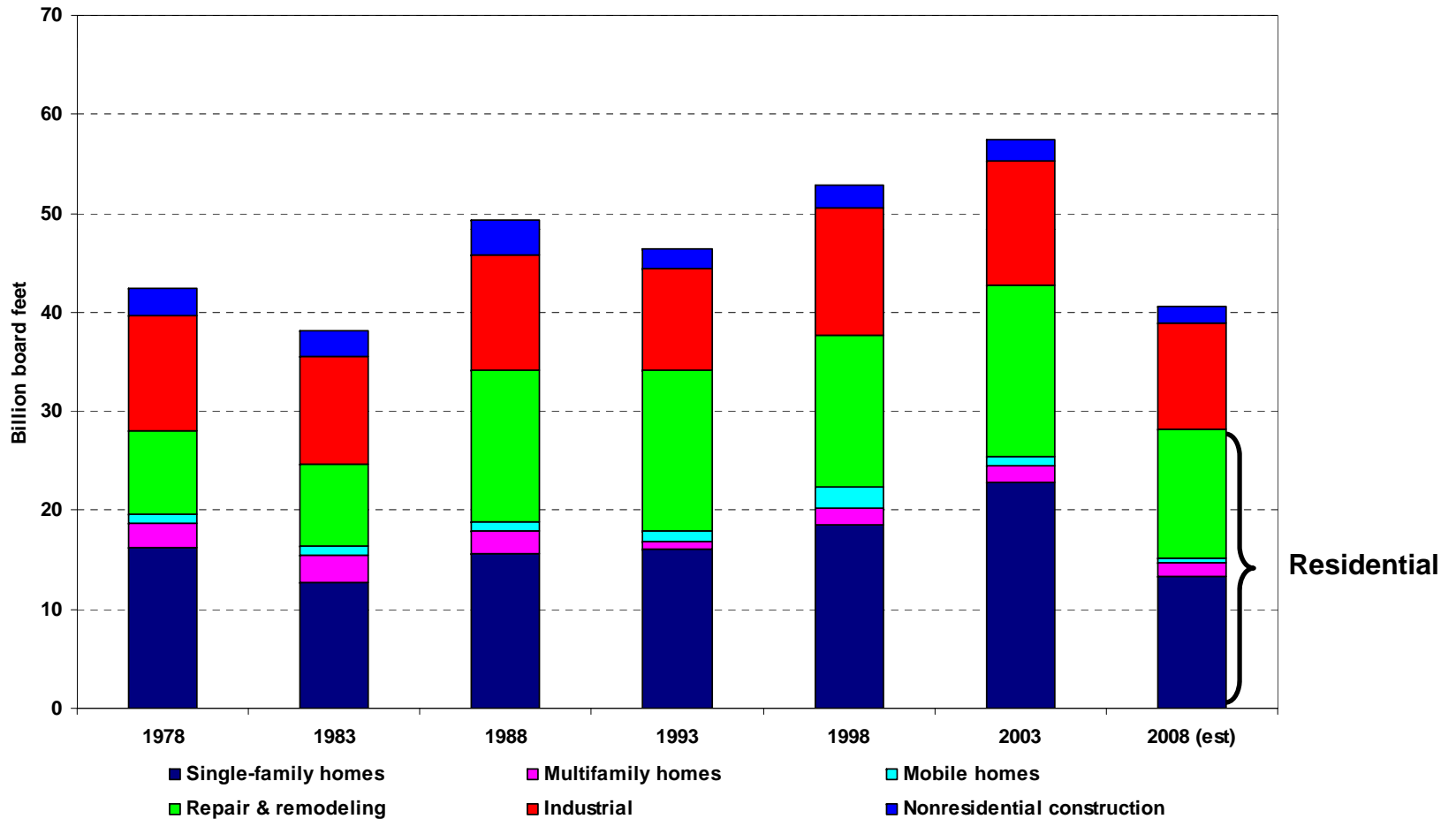


What Might Recovery Look Like?

- Consumer-led
 - Largest spending component of GDP
 - Transition from government spending carries risk of a double dip
 - Will income growth pick up as government spending fades?
 - Will interest rates rise?
 - Recovery in trade sector to follow recovery in consumer spending
 - Whither the US dollar?
- Recovery unlikely 'just around the corner'
 - Likely rapid when it does take hold (pent-up demand)

Timber Economy: Residential Construction Drives Softwood US Lumber Demand

US consumption of softwood lumber by end use

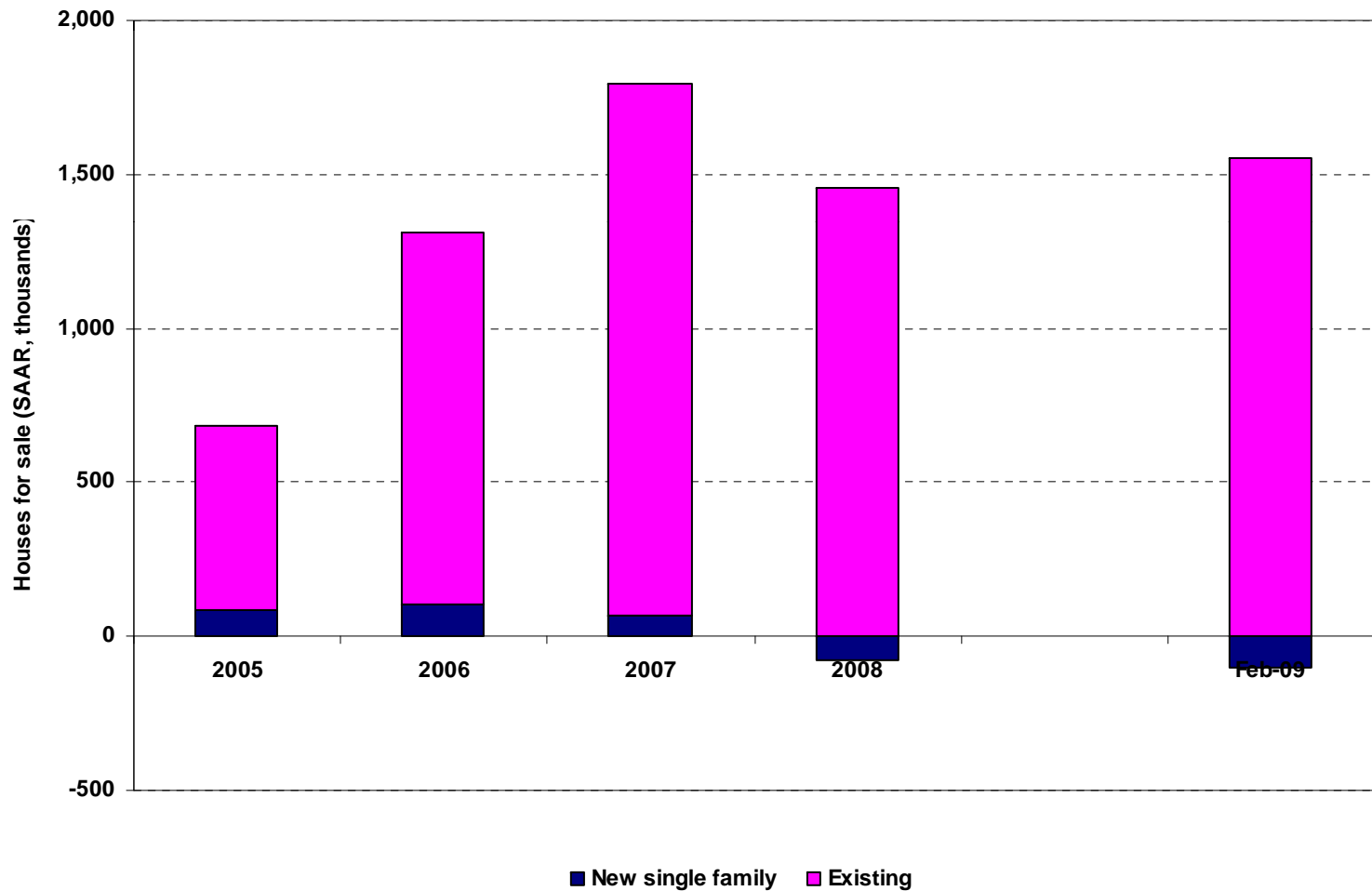


Sources: RISI, Random Lengths



Unsold Housing Inventories: Existing Housing Poses Key Challenge

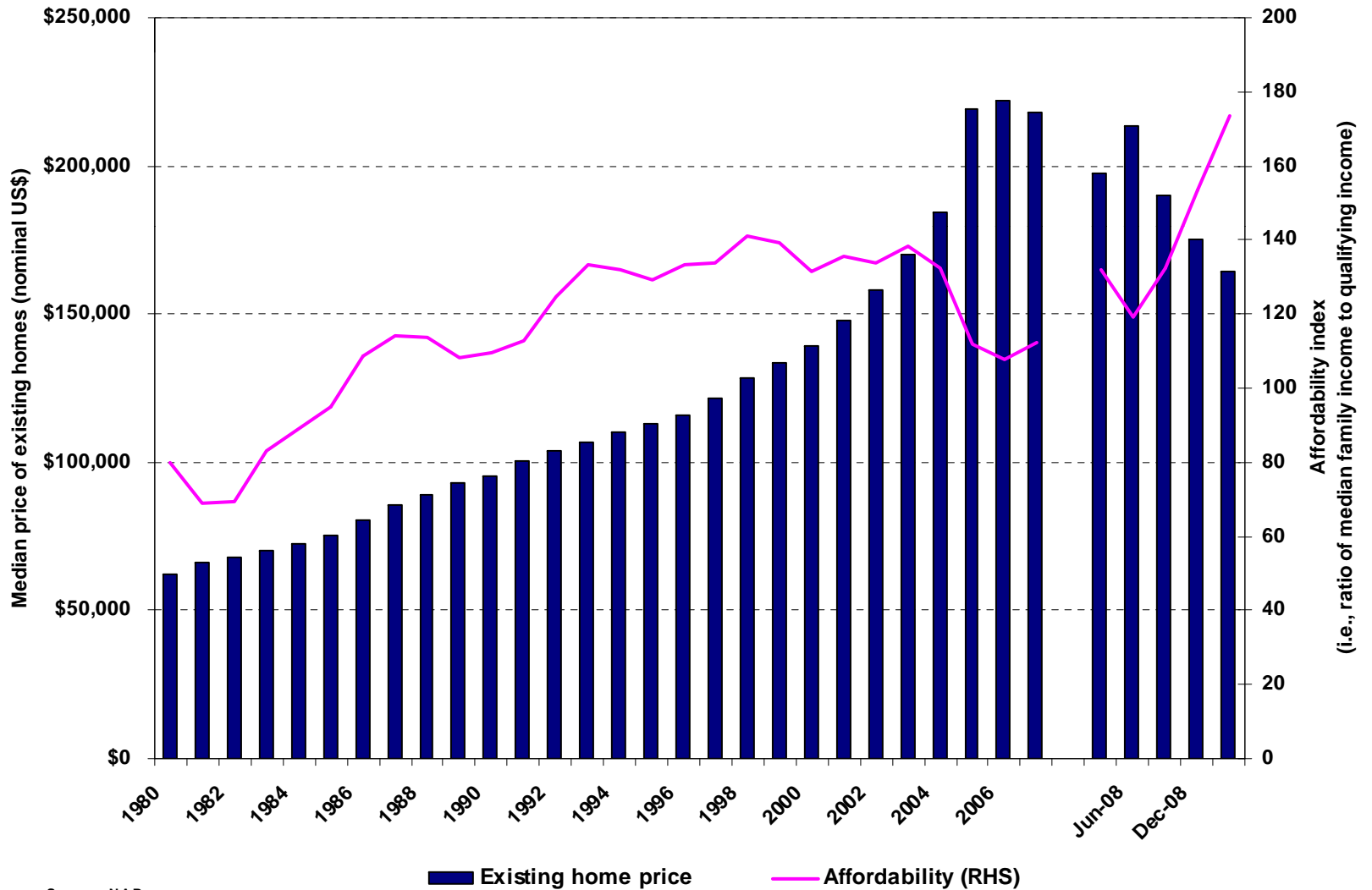
Inventory build of unsold new single-family and existing houses compared with 2004 year-end levels



Sources: US Census Bureau, National Association of Realtors

Declining House Prices And Low Interest Rates Have Boosted Affordability

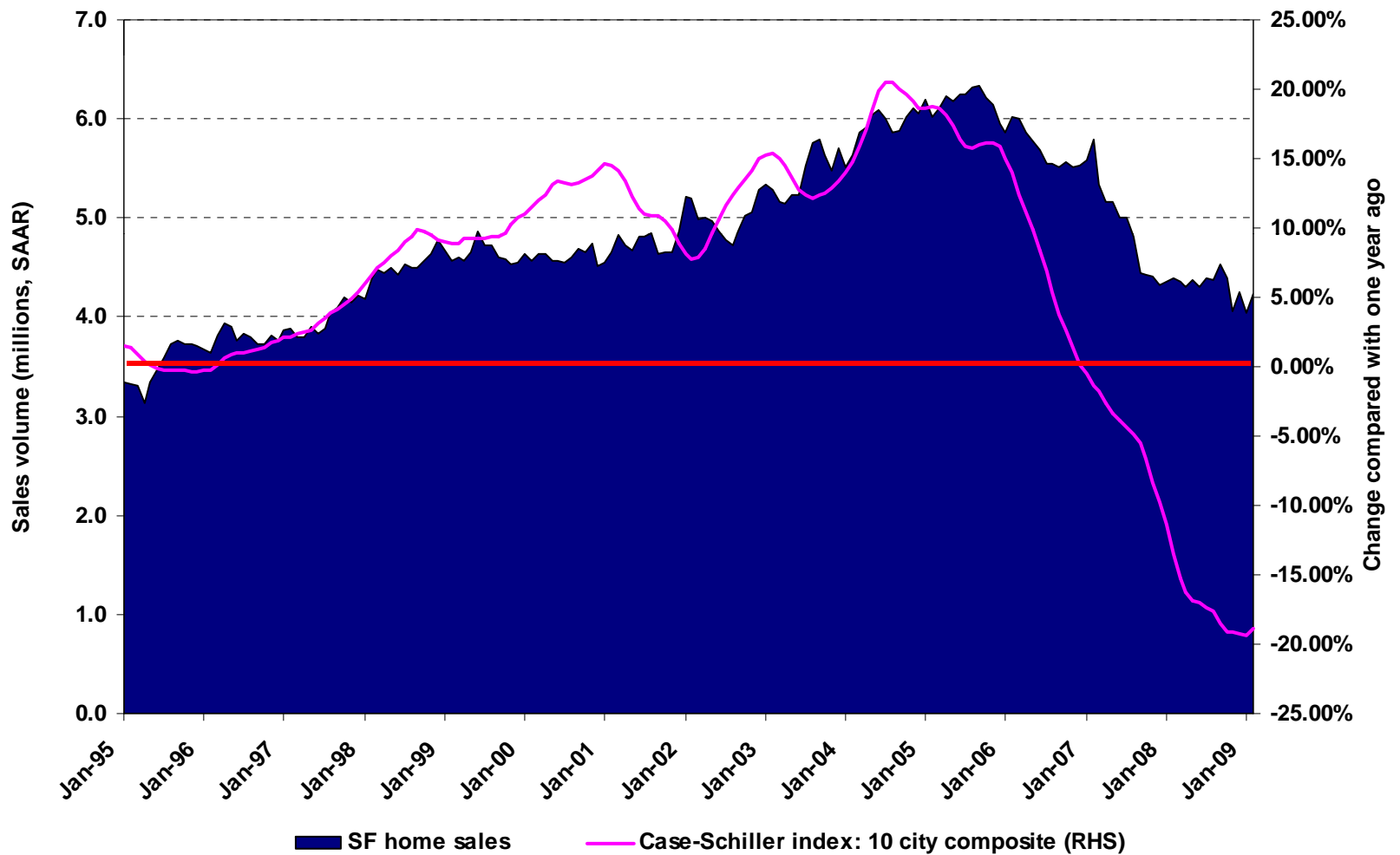
Comparison of median price for existing homes with home affordability index



Source: NAR

Market is Working to Clear Unsold Inventory; New Housing Struggling To Compete

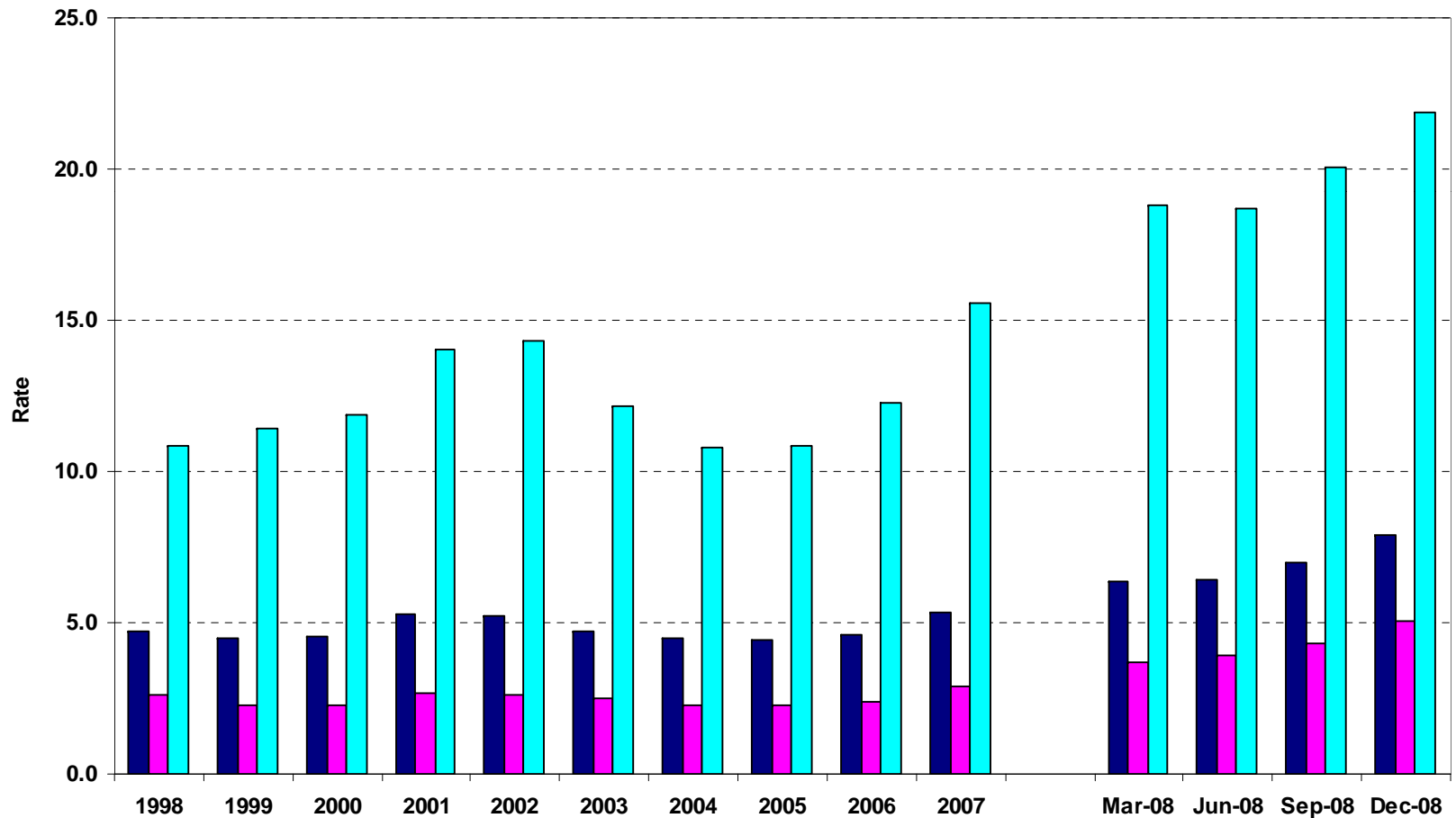
Comparison of existing single-family home sales in the US with changes in existing home prices



Sources: NAR, Standard & Poors

Refinancing/Government Policy Will Reduce Foreclosures—But The Hidden Inventory ...?

Mortgage delinquency rates for conventional loans



Source: Mortgage Bankers Association

■ All loans ■ Prime only ■ Subprime only



Slow Housing Recovery Widely Anticipated

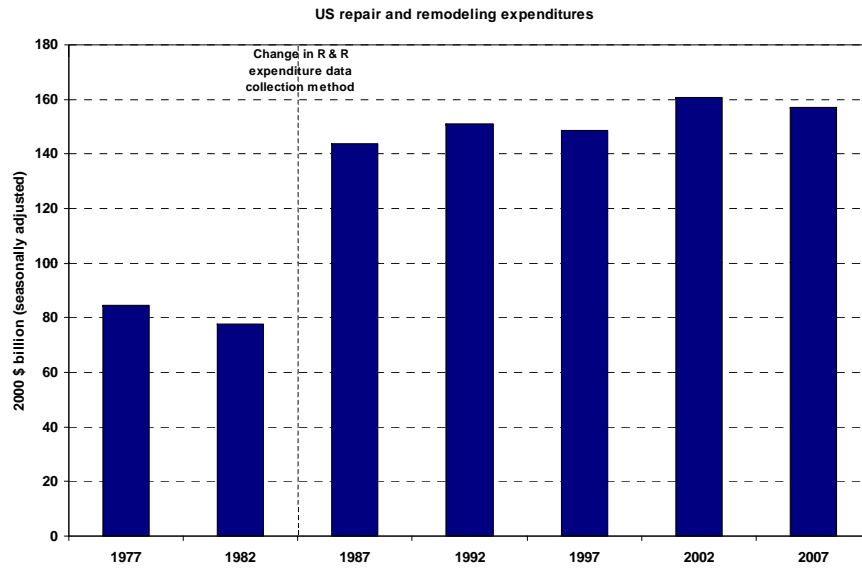
New Housing Starts (million, SAAR)						
	CVA (3/09)	RISI (4/09)	WWPA (3/09)	Consensus (4/09)	NAHB (4/09)	NAR (4/09)
2008	0.91	0.91	0.91	0.91	0.91	0.91
2009	0.54	0.62	0.43	0.56	0.49	0.52
2010	0.68	1.24	0.55	0.79	0.65	0.67
2011	1.04	1.56	0.81	n.a.	n.a.	n.a.
2012	1.43	1.59	1.15	n.a.	n.a.	n.a.
2013	1.74	1.89	n.a.	n.a.	n.a.	n.a.
2014	1.86	n.a.	n.a.	n.a.	n.a.	n.a.

Notes:

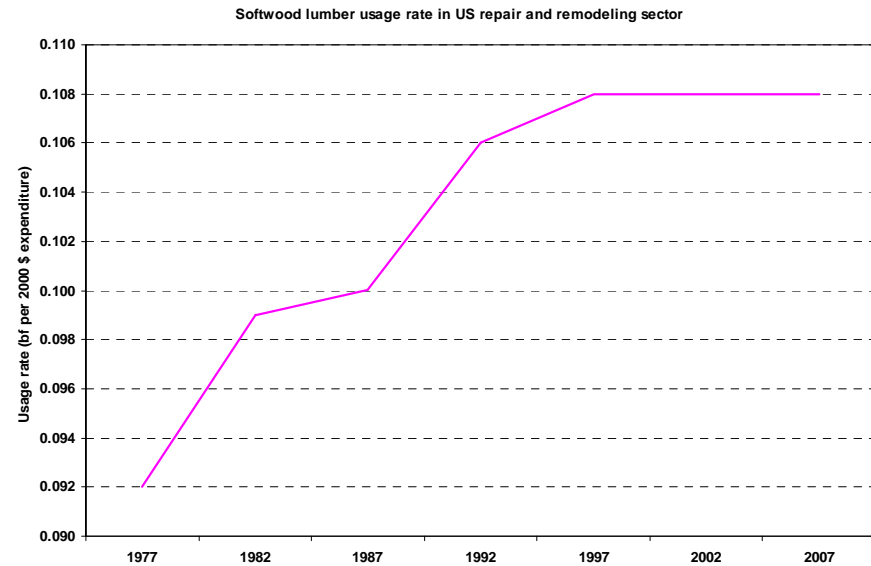
n.a. = not available

CVA = Clear Vision Associates; RISI = Resource Information Systems, Inc.; WWPA = Western Wood Products Association; Consensus = Consensus Economics; NAHB = National Association of Home Builders; NAR = National Association of Realtors

R&R Softwood Lumber Consumption Largely Driven By Rising Expenditures



Source: RISI

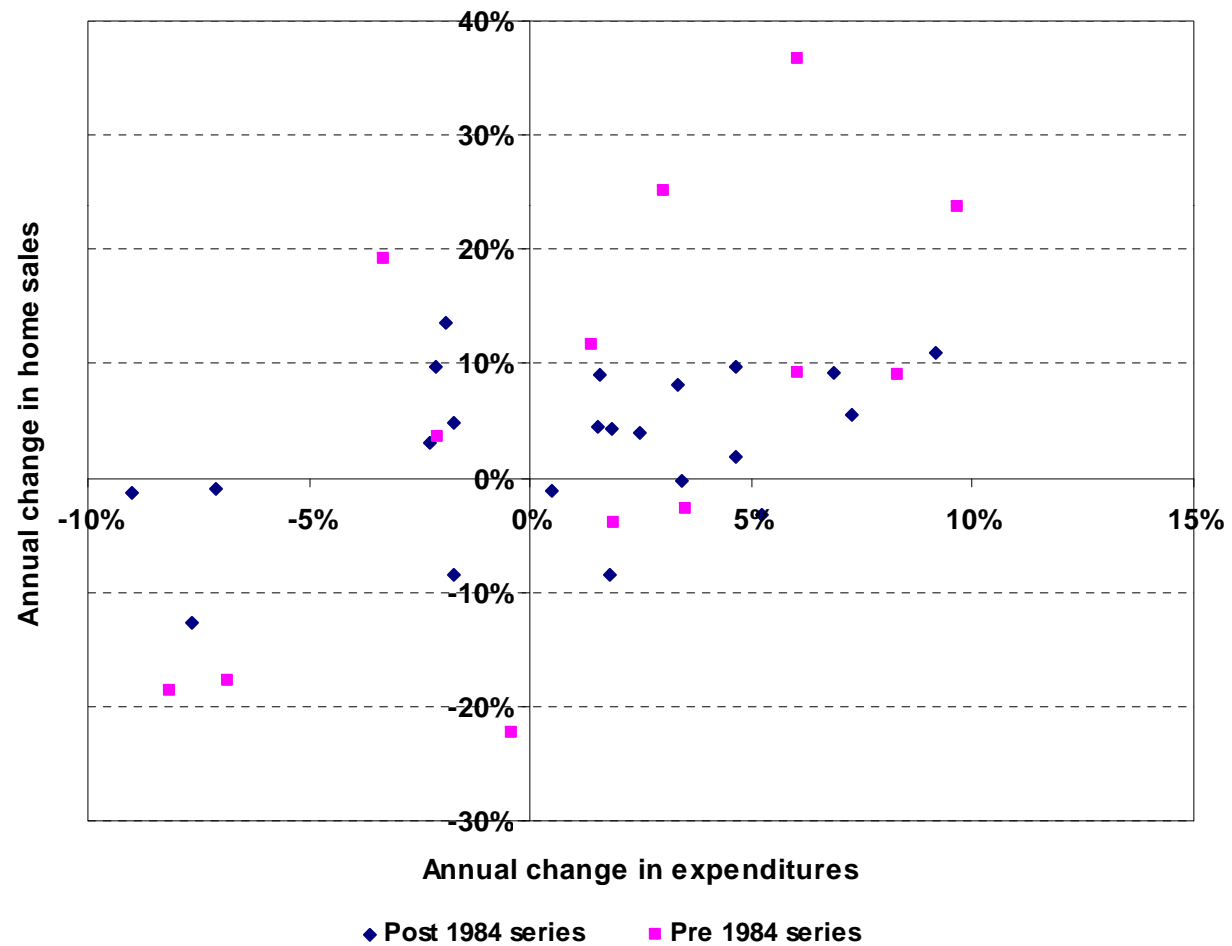


Source: RISI



R&R Expenditures Positively Correlated With House Sales

Percentage change in real repair & remodeling expenditures compared with percentage change in sales of existing homes



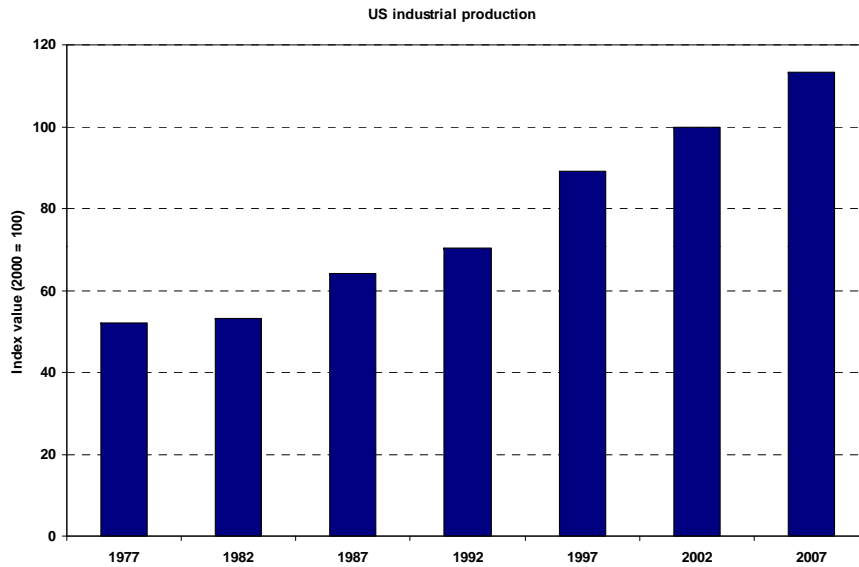
Source: RISI



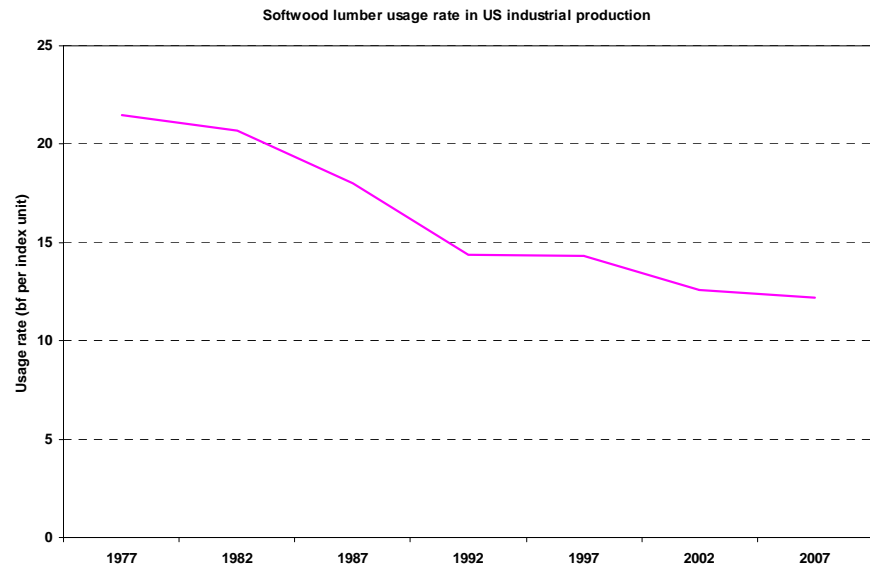
R&R To Lead Timber Economy Out Of Slump?

- Work down of unsold inventory implies increase in sales volumes
 - Potential additions to unsold inventory could extend work down duration
 - Hidden inventory
 - Further foreclosures
- Could lending for R&R activity be perceived as carrying less risk than home purchase?

Industrial Softwood Lumber Consumption: Rising Industrial Production More Than Offsets Declining Usage Rate



Source: FRB, RISI

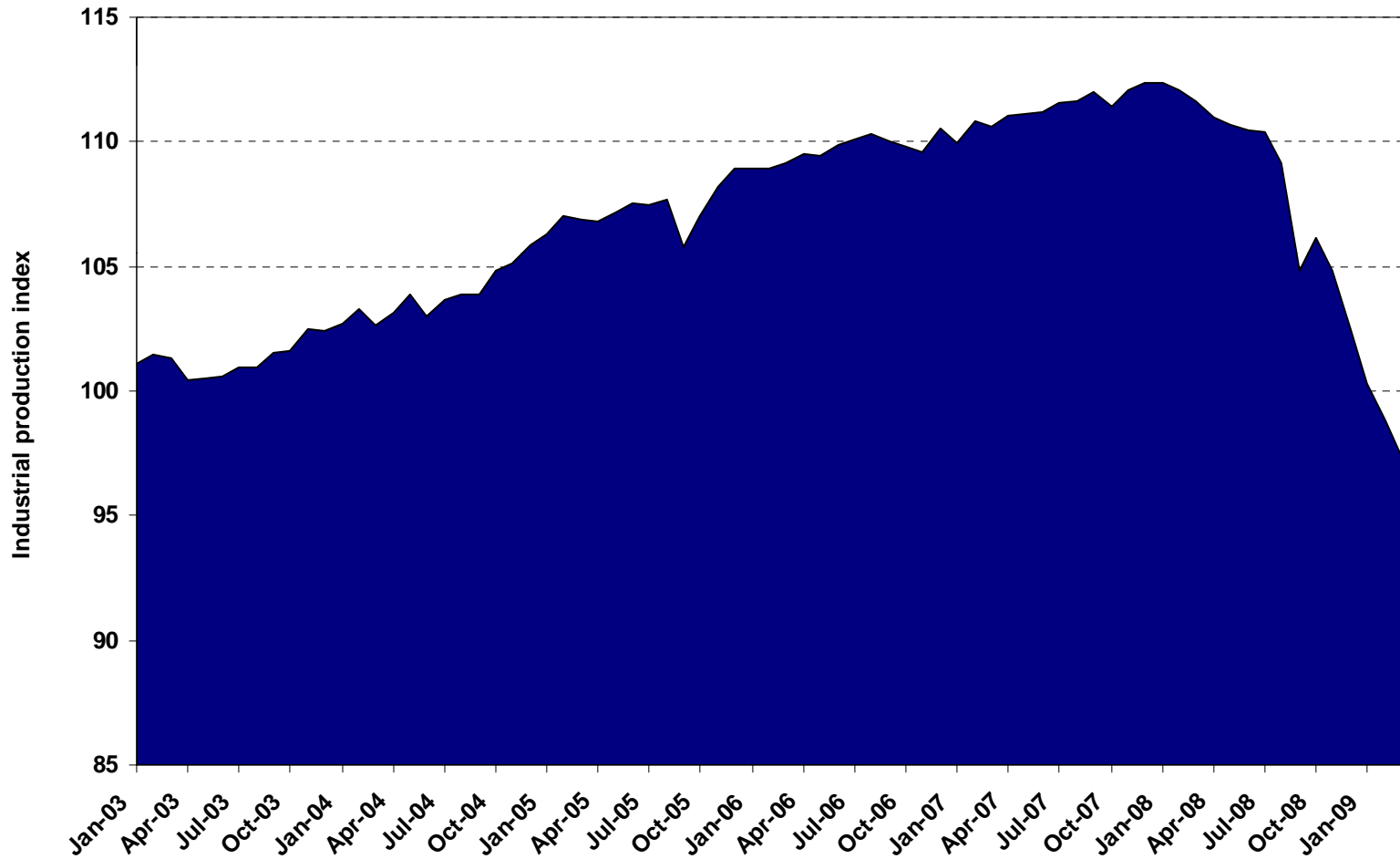


Source: FRB, RISI



But Industrial Production Has Yet To Turn

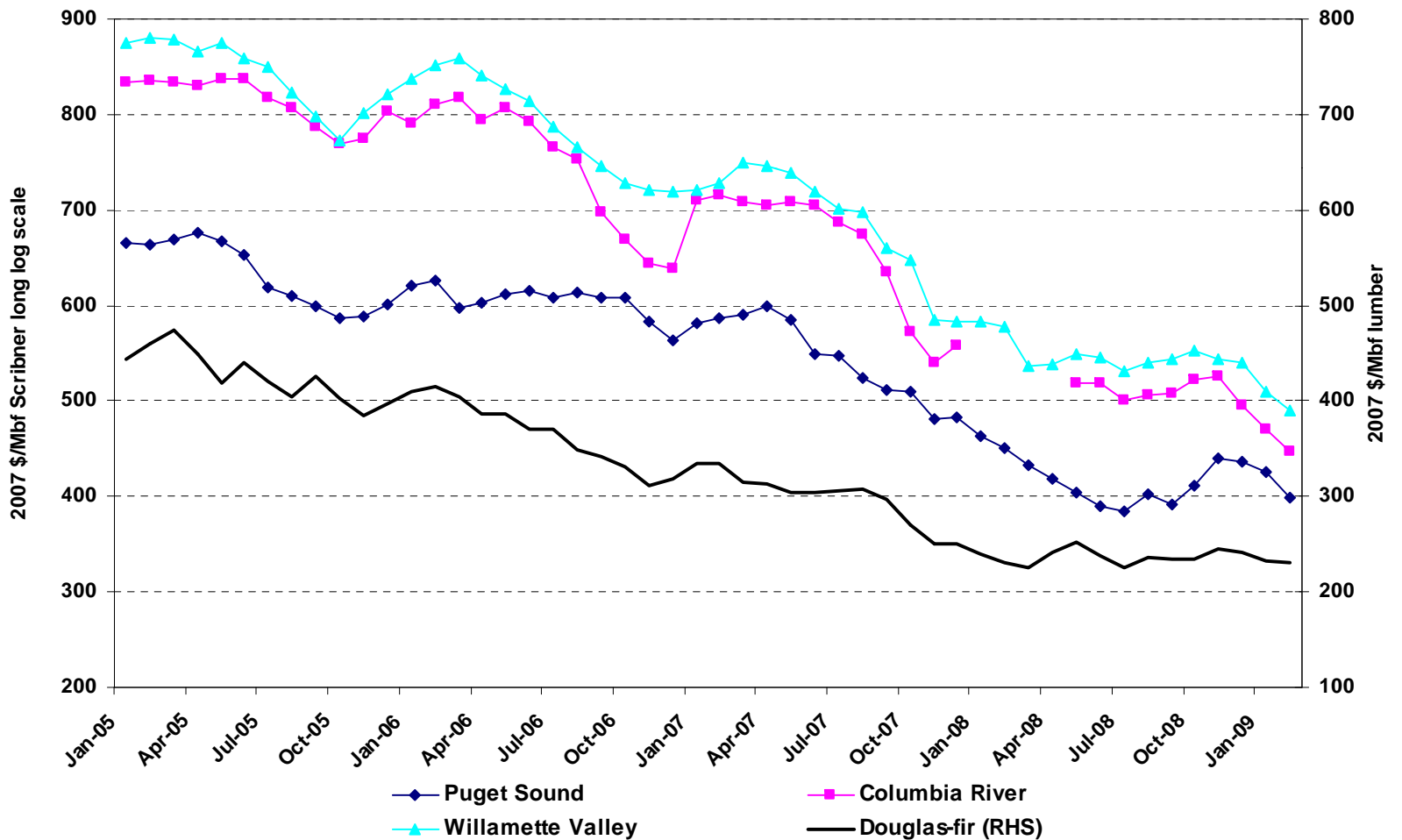
US industrial production



Source: Federal Reserve Bank

Western Log Prices Bouncing Around Cost Floors

Delivered price for Douglas-fir #2 sawlogs in US West Coast region compared with Douglas-fir lumber price index



Sources: Loglines, WWPA



Slow Adjustment In Log And Lumber Markets

- Permanent capacity closures in lumber industry would speed the process
 - NIMBY!
 - Sawmills: Worse than the Phoenix



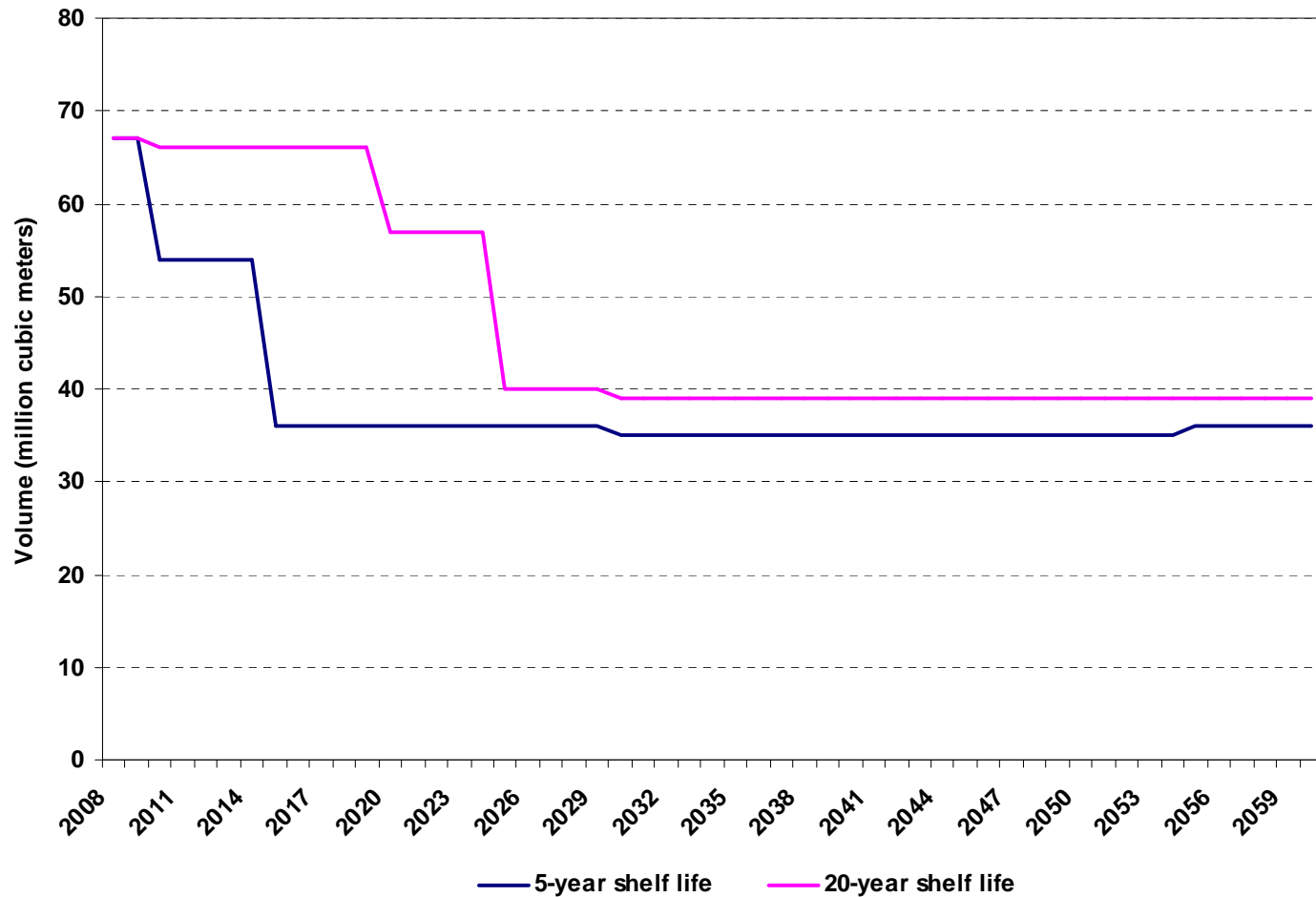
Which Will Arrive First?

- Supply-side relief?
 - Work-down of unsold existing housing inventory
 - Consolidation in home-building industry underway
 - Sawmill capacity adjustment
- Demand-side relief?
 - Residential construction recovery



Longer-Term Supply Outlook Remains Favorable

Interior British Columbia: Estimated Allowable Annual Cuts for 5 and 20 year shelf life periods



Source: BC MOFR



About That Light At The End Of The Tunnel...

- A portal or a train?
 - Light is still dim
 - Most likely a portal
- Recovery will take time
- Transition from G to C will be critical
- Downside risk: Dead-cat bounce



Recovery In The Timber Economy Will Take Time Too

- Work down of unsold existing housing inventory
 - How big is it anyway?
- Watch R&R for a cue
- Pent-up demand likely to make for a steep housing recovery
 - When it finally arrives
- Log prices at cost floor levels
 - Pending demand recovery and/or capacity adjustment
- Long-term: Supply outlook remains favorable



Questions Are Welcome

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