



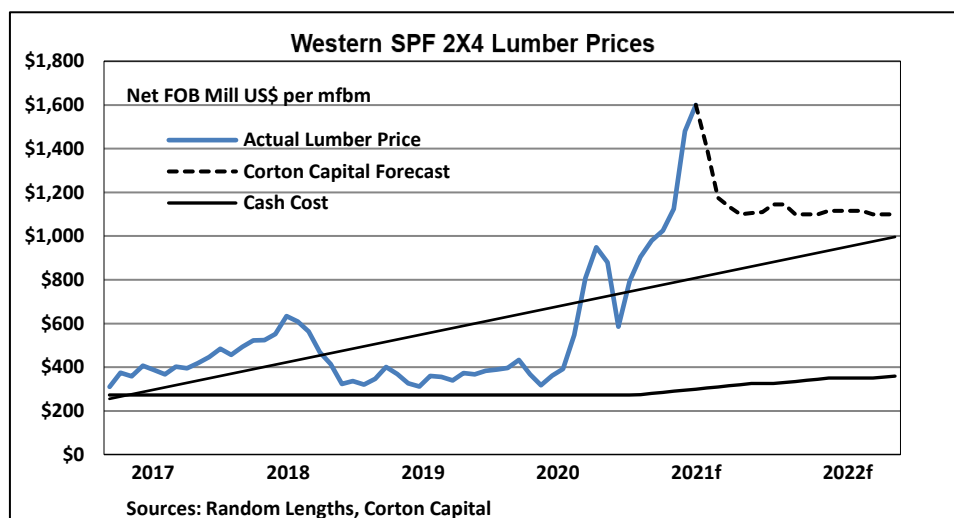
# CORTON GLOBAL TIMBER FUND

Special Report – May 16, 2021

## \$1,600 LUMBER – Where do we go from here?

### Background

- Last summer, in the midst of the first wave of the COVID pandemic, we made the case for \$1,000 lumber prices, prices at that time averaged \$440.
- We reiterated our forecast for long-term higher lumber prices on March 1, 2021, after a very short respite in prices to the \$850 level in mid-January.
- On May 14, 2021, the price for WSPF 2X4 hit an all-time high of US\$1,630 mfbm (fob mill). In Toronto, the price for a thousand board feet of 2X4 studs hit C\$2,240 – up 360% from April 2020.
- Despite very high mill operating rates, inventories remain extremely low, and retail yards are in panic mode to stock their yards as the summer building season begins.
- As illustrated in the graph below, we are forecasting a modest correction in prices between mid-July to August, the result of: some buyer resistance to higher prices, delays/slower construction in the heat of the summer, and improved re-stocking. However, as compared to the majority of bank analysts, we have a new “floor” price of \$1,000 going forward.
- **We are forecasting an average price for Western SPF 2X4 of US\$1,100 for 2021** versus the current analyst consensus of US\$790. The average price in 2020 was US\$553.



### What are the other analysts missing that we see ?

We recently updated our long-term forecast for North American lumber consumption, production, imports, and exports. The following are our key observations:

- **U.S. sawmill capacity** – to grow by 1.2% p.a. from 2020/25, operating rates 91.5% in 2021;
- **U.S. consumption** - to grow by 3.7% p.a. from 2020/25, housing starts 1.585 million in 2021;
- **U.S. offshore imports** – to “peak” at 2.45 billion board feet – up from 2.03 in 2020;
- **U.S. imports from Canada** – stalled at 13.25 billion board feet – market share falls to 24%.

**Limited New Supply is the #1 Reason for Continued High Lumber Prices**

The U.S. South is the only forest region in North America that can support significant new lumber supply. Table 1, lists the “roll-out” schedule of new sawmill capacity in the U.S South over the next 30 months. However, many of the announced expansions have been delayed due to COVID and now are faced with a new concern – **the lack of skilled tradesmen**. Another constraint is the limited number of sawmill engineering firms. There are only two major engineering firms in North America that can build a “greenfield” sawmill on a turnkey basis.

**Table 1 – Sawmill Capacity Changes – U.S. South – 2021-2023**  
(million board feet)

Company	Location	Date	Capacity	Notes
Binderholz	Live Oak, Fl.	Feb 2021	250	Restart - Former Klausner mill
Westervelt	Thomasville, Ala.	Mar 2021	250	Greenfield
Resolute	El Dorado, Ark.	Apr 2021	180	Restart - Former Conifex sawmill
Vicksburg Forest Products	Vicksburg, Miss.	July 2021	105	Expansion – 180 mmfbm
West Fraser	Dudley, Ga.	July 2021	100	Replacement mill – 270 mmfbm
Binderholz	Enfield, N.C.	Dec 2021	250	Restart - Former Klausner mill
Interfor	Eatonton, Ga.	Dec 2021	90	Debottlenecking - 220 mmfbm
<b>TOTAL NEW 2021</b>			<b>545</b>	<b>0.8% of North American Capacity</b>
Biewer Lumber	Winona, Miss.	Jan 2022	250	Greenfield
Tolko/Jasper Lumber	Jasper, Ala.	Mar 2022	130	Expansion – 200 mmfbm
Mission Forest Products	Corinth, Miss.	Nov 2022	250	Greenfield
Interfor	Thomasville, Ga.	Nov 2022	90	Debottlenecking – 250 mmfbm
Idaho Forest Group	Lumberton, Miss.	Dec 2022	200	Greenfield
<b>TOTAL NEW 2022</b>			<b>920</b>	<b>1.3% of North American Capacity</b>
Weyerhaeuser	Holden, La.	2023	100	Debottlenecking – 315 mmfbm
West Fraser	five mills	2023	500e	Expansion
Canfor	Washington , Ga.	TBA - 2023	275	“Shovel Ready” - Greenfield
<b>TOTAL NEW 2023</b>			<b>875</b>	<b>1.2% of North American Capacity</b>

Sources: Company Filings, Corton Capital

**More Permanent Closures in the B.C. Interior ?**

As a result of the Mountain Pine Beetle infestation during the 1980s, timber supply in the B.C. Interior was significantly reduced (40%). The lower wood supply resulted in the permanent closure of a dozen sawmills in 2016/19 removing approximately 7.4% of Canadian lumber supply. The B.C. Ministry of Forests is set to further reduce the allowable annual cut for the largest timber supply area in the B.C. Interior (the Prince George TSA). This reduction will result in the further permanent closure of 4-5 sawmills – **removing another 1 billion board feet of lumber capacity**. We believe these closures will happen over the next 2-3 years.

## U.S. Lumber Offshore Imports – Don’t Count on Europe to Fill the Supply Gap

Similar to North America, lumber consumption in Europe is forecast to grow in 2021. Imports from Europe in 2020 totaled 1.38 billion fbm or 9.2% of total U.S. lumber imports.<sup>1</sup> As illustrated in Table 2, European net exports are forecast to fall by 1.3% in 2021. Lumber exports to the U.S. from Europe are expected to ‘peak’ at 1.5 billion fbm in 2022.

**Table 2 – European Softwood Lumber Net Exports 2020/21**  
(billion board feet)

Demand		Production		Net Exports	
2020	2021e	2020	2021e	2020	2021e
35.574	37.058	45.368	46.725	9.794	9.667
	+4.2%		+3.0%		-1.3%

Source: United Nations Economic Commission for Europe (UNECE)

## Increased Demand is the #2 Reason for Continued High Lumber Prices

Many observers point to the COVID-induced stay-at-home orders at the onset of the pandemic as the primary reason for the increase in lumber demand and prices. As the pandemic fades, they are expecting supply/demand to return to normal levels and lumber prices to fall. However, we believe that the pandemic has actually accelerated the trend towards a **new age of suburbanisation** that was starting to appear a few years ago. Rising incomes in knowledge-economy industries pushed up housing costs in high-wage cities. Housing costs were also being pushed higher by restrictive zoning policies that prevented housebuilding from keeping up with demand. Much of North American house demand is underbuilt. Before the pandemic, about 5% of full-time workdays in the U.S. came from people working from home. That figure rose to above 60% last spring, though it has fallen back since.<sup>2</sup> Global Workplace Analytics estimates that 25-30% of the workforce will be working from home multiple days a week post-COVID.

### 2021 U.S. Housing starts projected at 1.585 million - Up 14.9% from 2020

- Highest since 2006 – large pent-up demand, approximately 3.8 million single-family houses short of what is needed to meet housing demand.
- Low mortgage rates and an increase in working from home have fueled a rapid increase in housing demand. Existing home inventories are extremely low.
- Single-family share of new construction is increasing – **75% vs. 68% during 2015-2019**
- Strong demographic tailwind – a massive wave of young adults is moving into the prime age category for first-time home buying.

### 2021 Home Renovation Markets Will Remain Very Strong – In U.S. - \$433 billion <sup>2</sup>

- Most of the DIY projects in 2020 were small; the bigger projects were delayed by COVID.
- Increase in home equity will boost home improvements.
- Significant pent-up demand for larger discretionary projects such as additions, ADUs.
- U.S. housing stock has aged considerably – median age 42 years <sup>2</sup>.
- Older houses are smaller – new additions add 700-800 square feet per house.

<sup>1</sup> U.S. Department of Commerce

<sup>2</sup> Joint Centre for Housing Studies of Harvard University

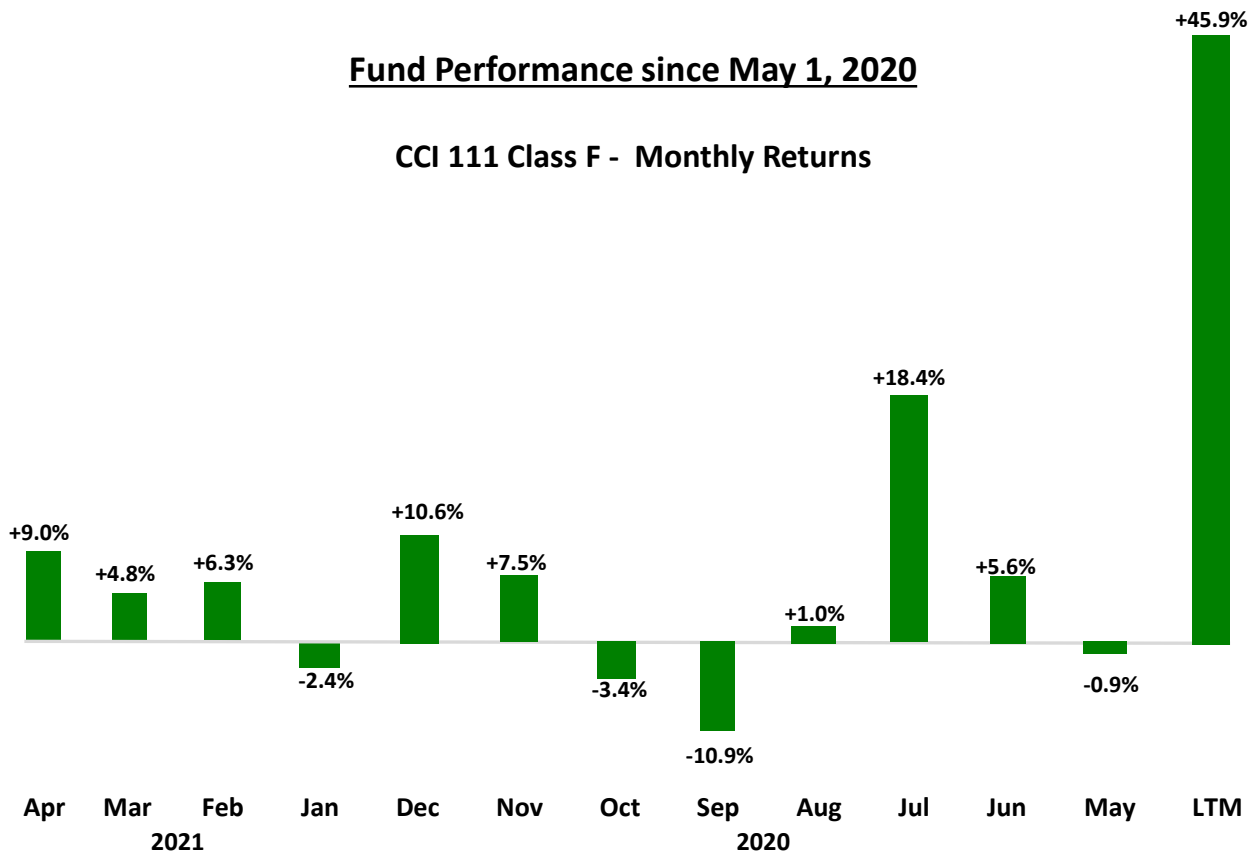


## CORTON Global Timber Fund LP

*“The ONLY actively traded timber fund in North America”*

### Fund Performance since May 1, 2020

#### CCI 111 Class F - Monthly Returns



Source: SGGG Fund Services Inc.

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