



29 July 2016



SENT TO LSU AGCENTER/LOUISIANA FOREST PRODUCTS DEVELOPMENT CENTER - FOREST SECTOR / FORESTY PRODUCTS INTEREST GROUP

To all:

Here is brief summary from the attached report.

- June starts were up 4.8% to 1.189 ( SAAR) - SF at 778,000 (SAAR) – up 4.4% - MF still 35% of total – year over year, total starts down 2% while SF up 13% - a good trend
- Home ownership rate fell to 63.5% in QTR1 2016 – lowest ownership rate in 50 years!!!! Financing problems; changing preferences ( to renting); and rising home prices - problem for 1st time buyers
- Resale market at highest level since 2010 - 5,570,000 (annual rate)
- Latest jobs report was good - although unemployment inched up to 4.9%, it was due to more people entering the work force ( a good thing). Real unemployment rate still a problem - 16 million people, but it is improving!!
- The Fed capitulated again – doesn't know what to do, so they do nothing. Soon, we will join Germany and Japan with negative real interest rates . Current expansion, at 8 years, is getting “long in the tooth”. When the next recession arrives, the FED has few options, and, with \$19 trillion debt, government fiscal policy is a non option.
- The unemployment problem ( and weak demand ) can be addressed by reducing welfare and get government out of the way of innovation and business investment. Innovation creates jobs – government doesn't.
- Half of the population gets a check from “Uncle Sam”! We have too much government - - it is stifling innovation and risk taking - main reason why the economy is so lethargic and will remain that way!!!!

As you can surmise, things are getting better, but it seems that we're plateauing at a level significantly below where we were 10 years ago. The current expansion is 8 years old - long for an expansion, and "cheap money" isn't fixing our main problem - weak demand. Innovation is the key to job creation and the key to innovation is risk taking ( and investment).

My opinion - too much government is stifling risk taking - that needs to change if America is going to move forward instead of sideways or backwards.

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## Housing comments – July 2016

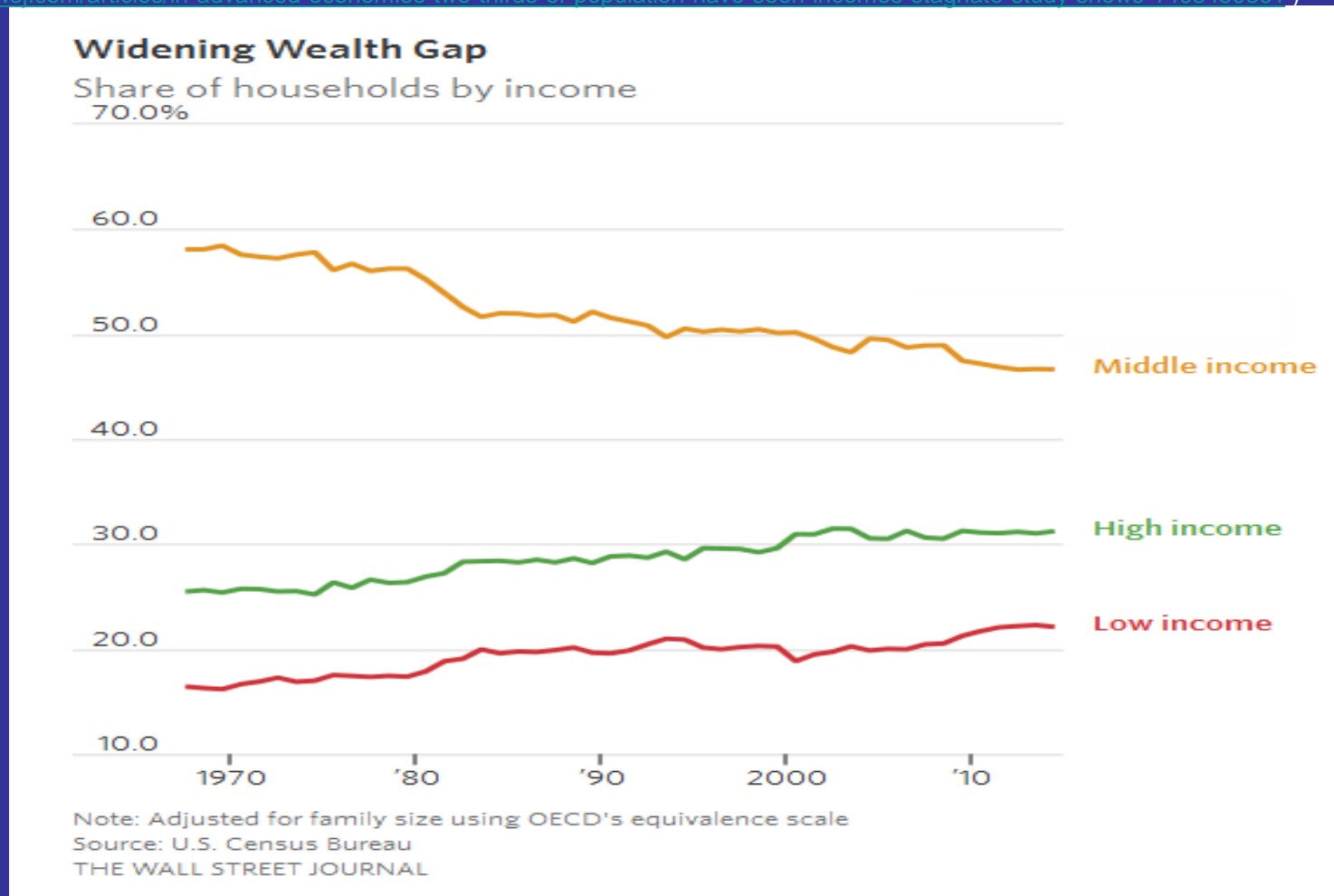
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**Comments on the economy – getting better, but problems  
Remain**

**Innovation – Productivity – Income inequality**

**More on Income inequality : (1) more high income families – (2) More low income families – (3) fewer middle income families**  
**Conclusion - - 30% of population doing well, but 70% losing ground**  
**Similar story for 2/3<sup>rd</sup>s of western world - 500 million people!!!**

(<http://www.wsj.com/articles/in-advanced-economies-two-thirds-of-population-have-seen-incomes-stagnate-study-shows-1468450861>)



(<http://blogs.wsj.com/economics/2016/06/28/the-imfs-grim-long-term-u-s-outlook-in-six-charts/>)

Despite being the richest country, we do A poor job in meeting the basic human needs of our population – we’re ranked 19<sup>th</sup>. *The cost of being the “world’s policeman” is immense and siphons off Money we could use to help our citizens. – rest of world needs to contribute more!! Of the countries in the top ten, only the UK And Australia spend at least 2% of their GDP on defense. The USA spends 4%*

(<http://blogs.wsj.com/economics/2016/06/30/the-u-s-now-ranks-19th-in-social-progress-with-finland-and-canada-topping-the-list/>)

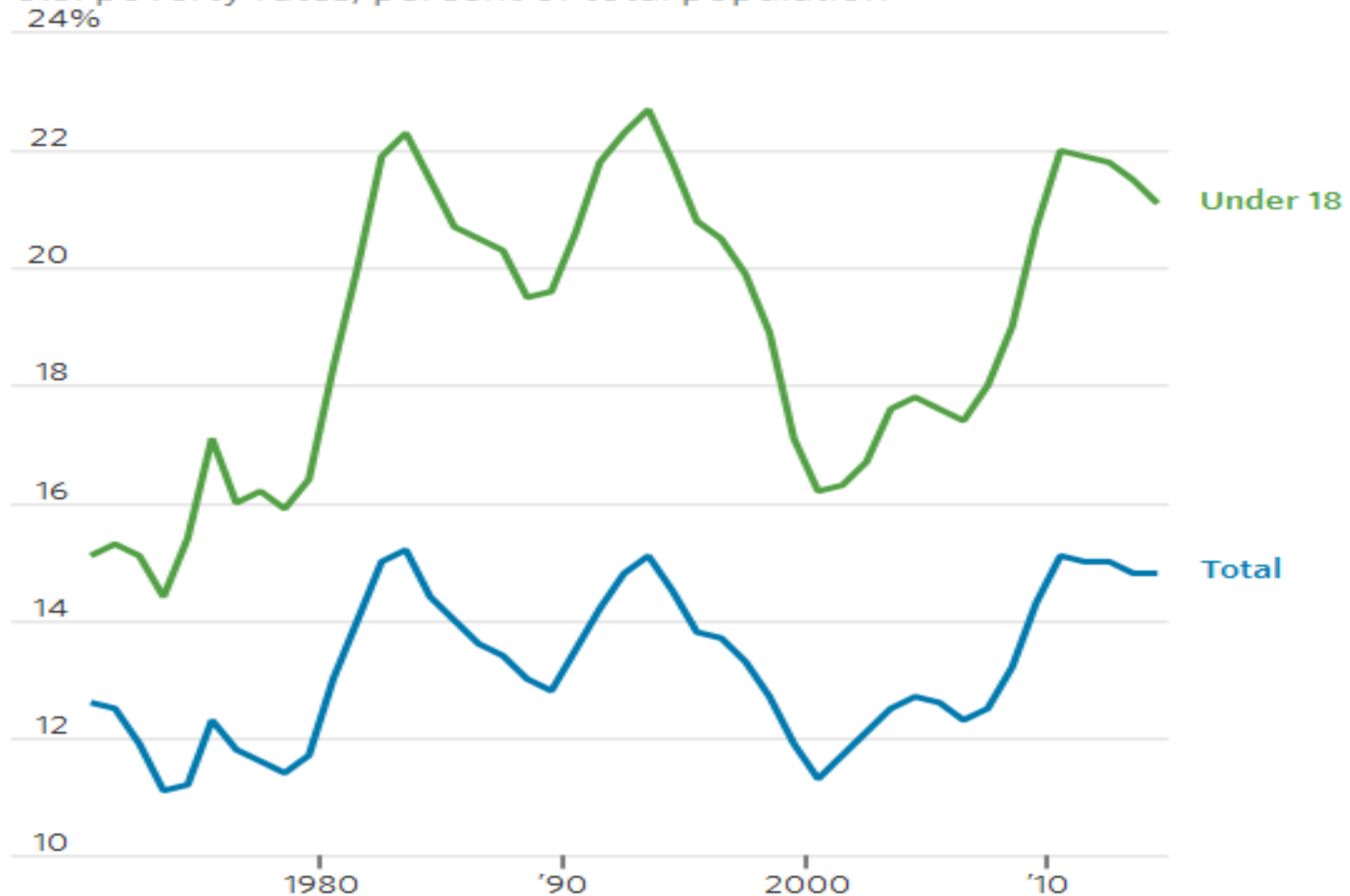
## U.S. is ranked 19th

Countries	Ranking	Progress ^	Needs	Wellbeing	Opportunity
Finland	#1	90.09	96.11	87.61	86.56
Canada	#2	89.49	95.14	83.76	89.58
Denmark	#3	89.39	96.63	88.56	82.97
Australia	#4	89.13	94.81	85.72	86.84
Switzerland	#5	88.87	96.26	88.44	81.89
Sweden	#6	88.8	95.42	88.68	82.31
Norway	#7	88.7	95.19	89.37	81.55
Netherlands	#8	88.65	95.23	88.86	81.85
United Kingdom	#9	88.58	93.04	87.91	84.79
Iceland	#10	88.45	95.27	85.71	84.36

# Sad commentary on past 16 years here in USA - - Both parties are to blame for letting the country down

## Hard Times

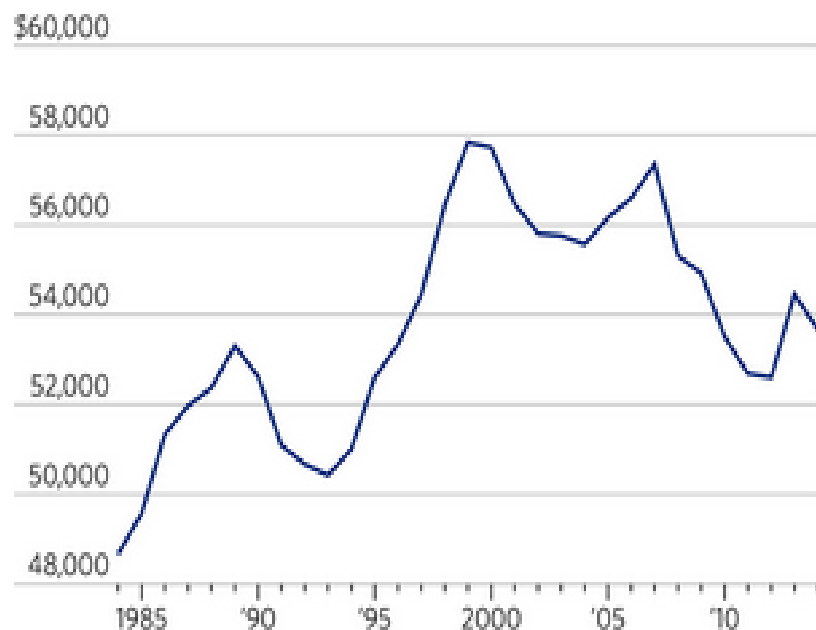
U.S. poverty rates, percent of total population



Source: U.S. Census Bureau, Haver Analytics and IMF  
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**Real incomes down 7% since 2000 – 80% say America headed  
In wrong direction!!! Both parties are to blame for the past 16  
year slide. – again, lack of leadership!!!!!!!!!!!!!!!!!!!!!!**

**Median household income, adjusted for  
inflation**



**Percentage satisfied with where things are  
going in the U.S.**



Sources: Labor Department (income); Gallup (satisfaction)



**What's the answer?? We need new direction and we  
Have a chance to begin that process in November.**

**Americans need to “do their research” – “due diligence”,  
And decide who and which party can lead this country  
Forward. I use to be a Republican, but now I'm an  
Independent. Problem( for me) - America is a two party  
system, And that's probably best. Look to Europe and Canada  
To See some of problems ( gridlock) with multiple parties.  
Of course, Two party system in USA has given us political  
Gridlock For past 8 years. Difficult times but we will  
Persevere because this is still the greatest country in the  
World . That said – we have lots of problems,  
many of which We created ourselves.**

**We need to do better job in investing in our future – consume  
Less ( for now) , and invest more on infrastructure, research,  
education, .... The tax system is broken – let's fix it !!!!!!!**

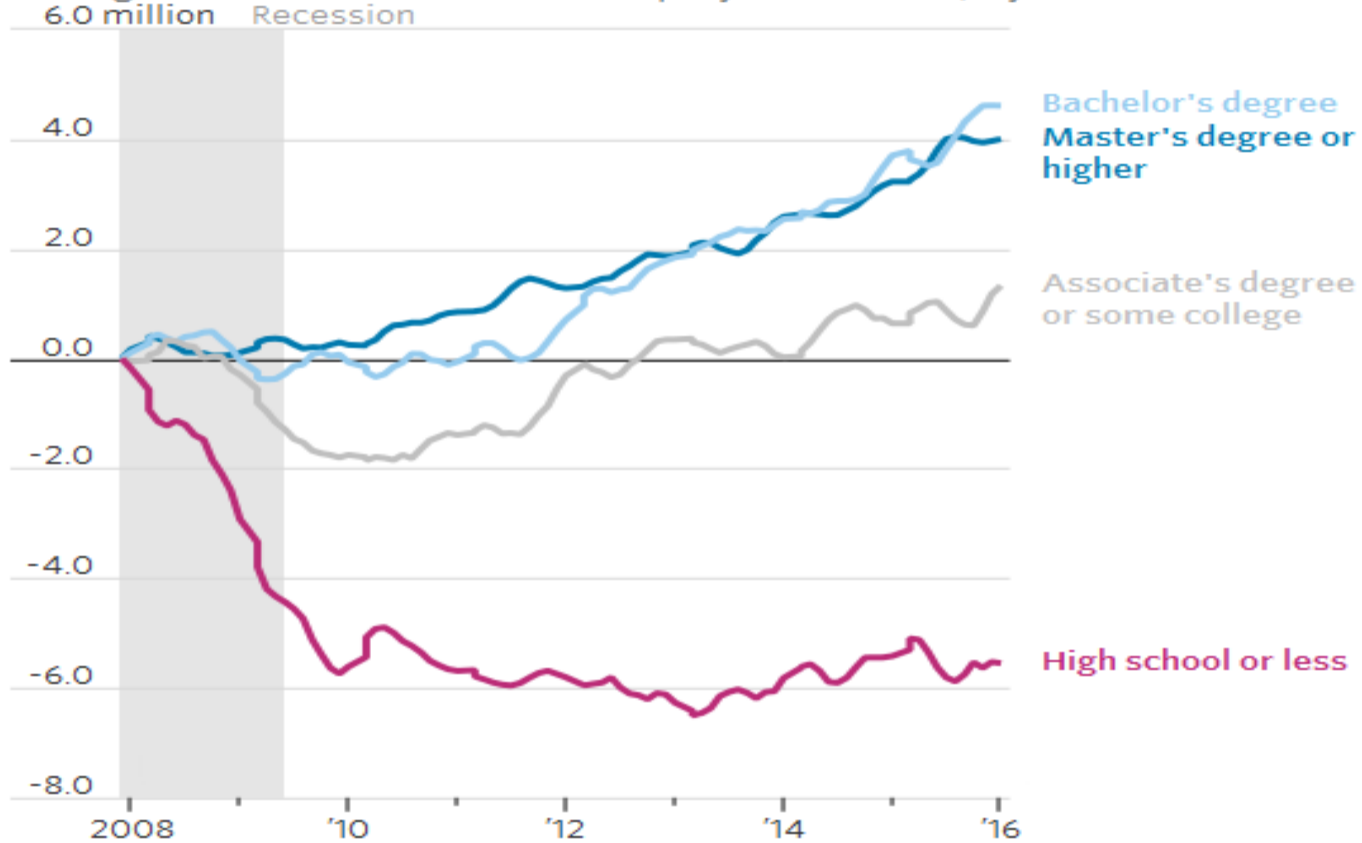
**Education ( K-12) is a mess – let's fix it !!!!!!!!**

**Higher education is too expensive for most people !!!!**

# Yet, we know more education is better

## Jobs in the Recession and Recovery Differed by Education Level

Change since the recession in employment levels, by education

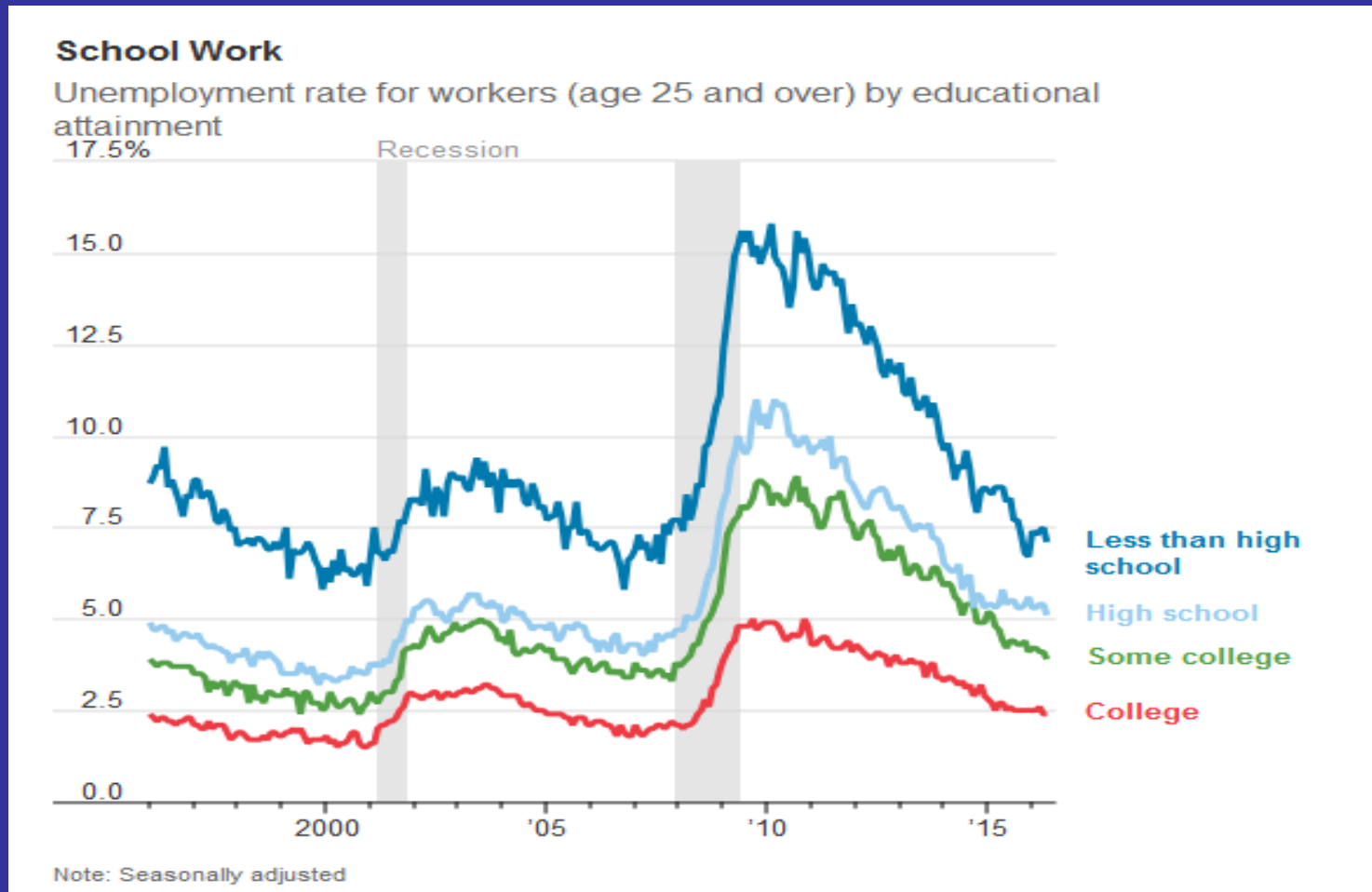


Note: Based on a four-month average of seasonally-adjusted data

Source: Georgetown analysis of Census Bureau data

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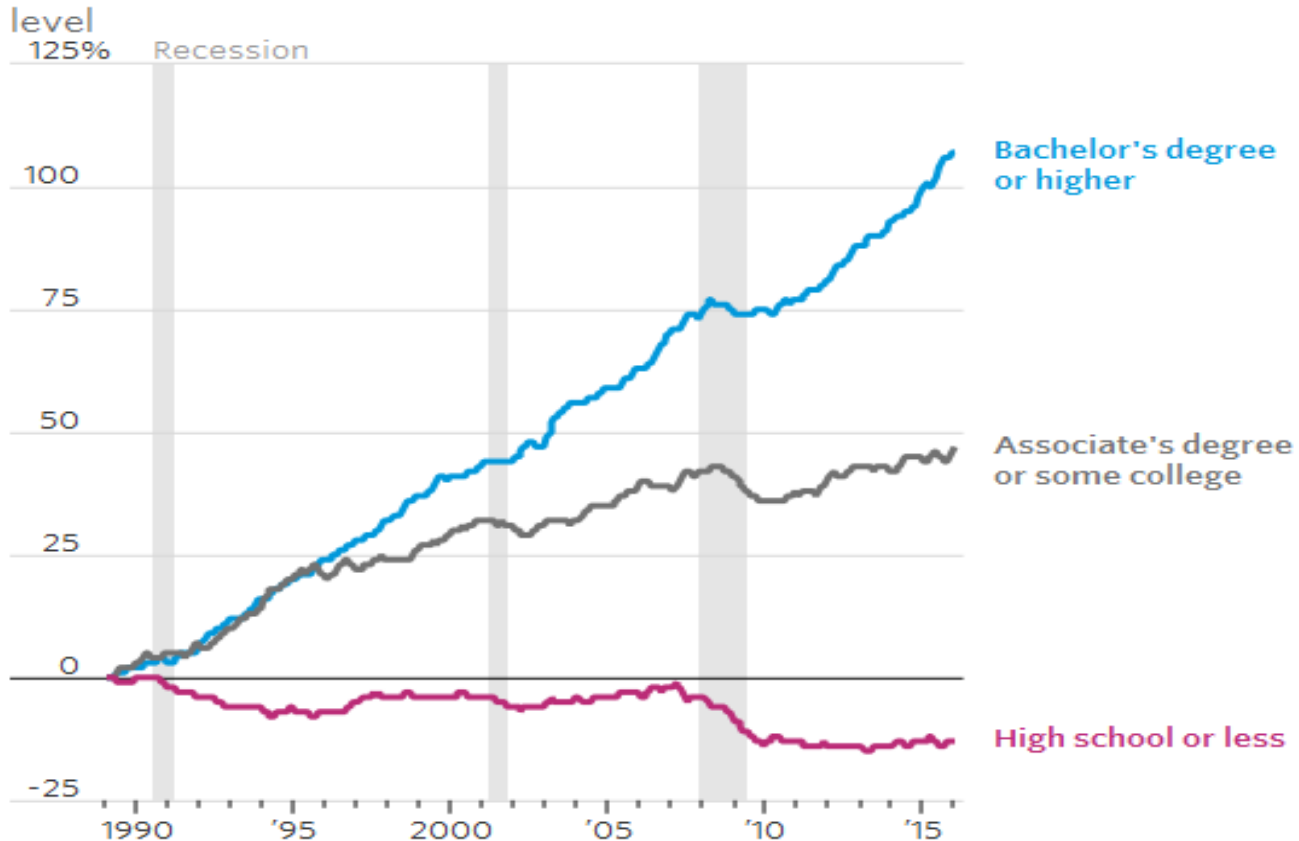
# Education: Best way to improve productivity and incomes --- education improves your chances of staying out of the unemployment line ( and buying a house)



# Education is best route to employment and Quality of life

## College Workers Are the Biggest Share of the Job Market

Percentage change since 1989 in employment, by education level



Note: Based on a four-month average of seasonally-adjusted data

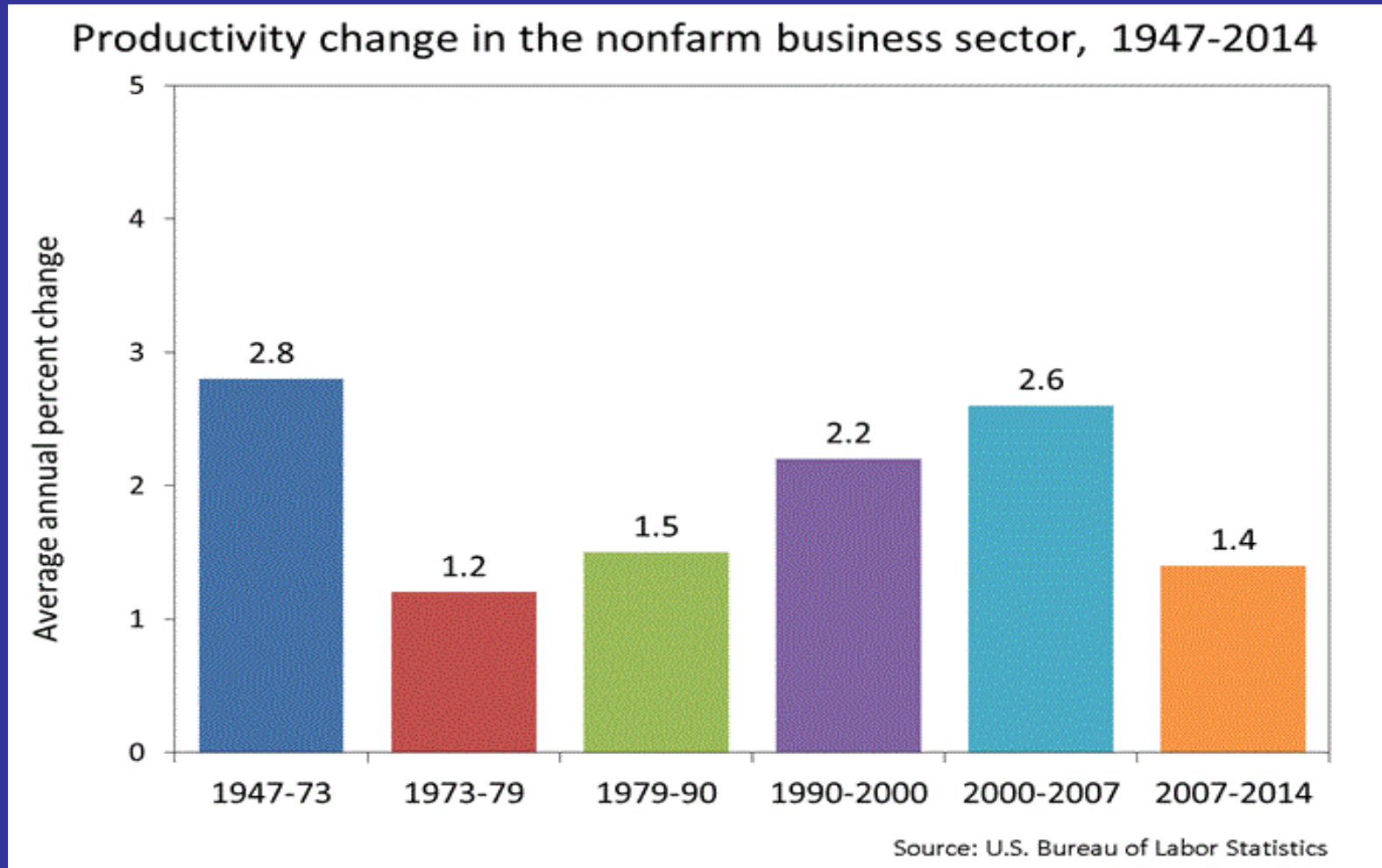
Source: Georgetown University analysis of Census Bureau data

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**Also, We need to invest more ( and consume less) to become More competitive, create better paying jobs -**

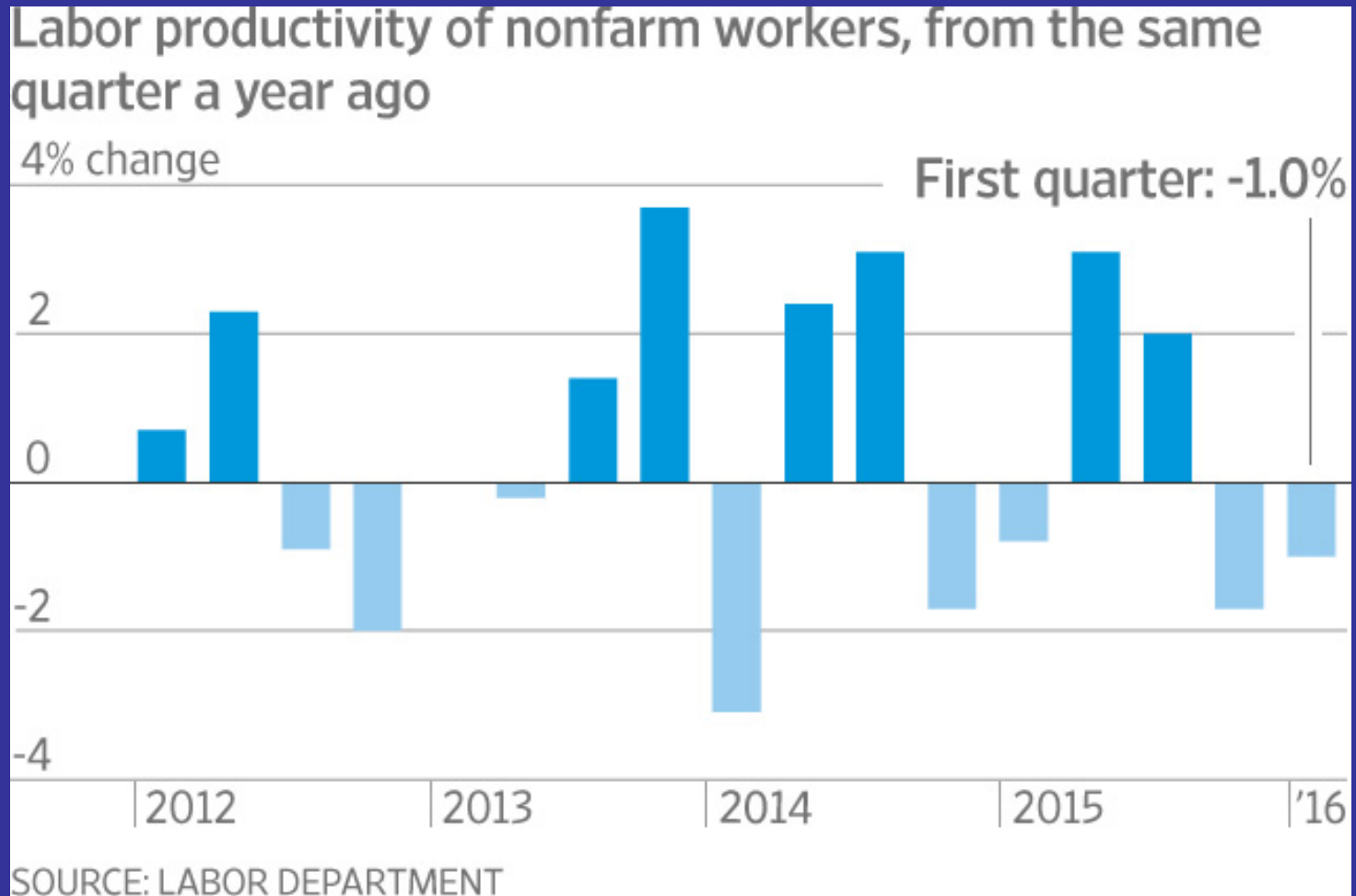
GDP = number of workers multiplied by productivity (real GDP/worker)

**Innovation and entrepreneurship is key to increasing productivity**

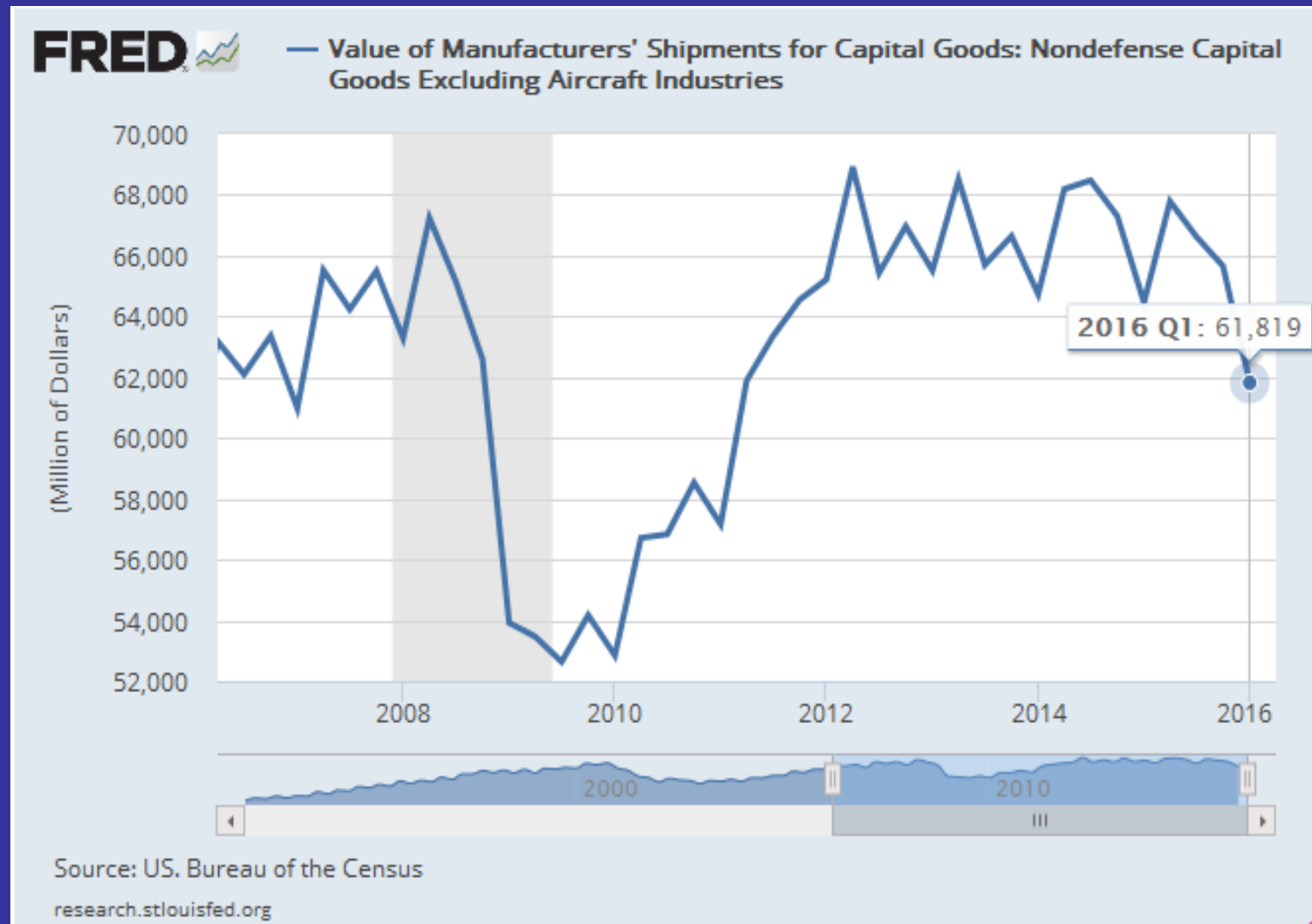


## What happens when innovation is missing!!!

**Dismal productivity growth - - 1.3% annually since 2009 – worst Performance for US economy since the 1980's when we experienced Back to back recessions.** *(PS – I understand that productivity measurement is a problem as new products/services quality is difficult To measure so maybe we are underestimating real productivity?)*



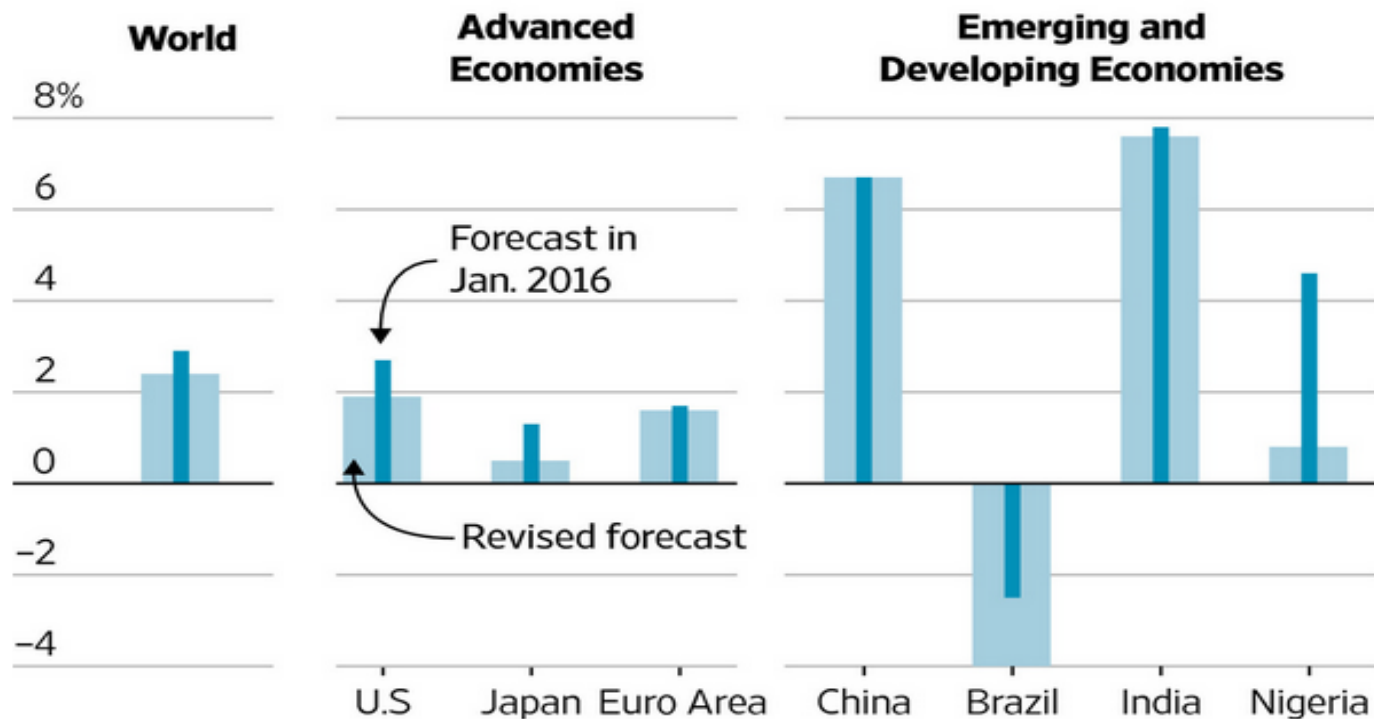
# Capital spending has been trending lower for past 4 years Why? Companies not so confident of future – uncertainty!!!!



# World Bank downgrades growth ( again) in 2016 to 2.4% as problems in developed and developing world mount

## Souring Outlook

The World Bank revised down its forecasts for the global economy, warning that the weaker outlook raised the risk of a sharp slowdown ahead.



Source: World Bank

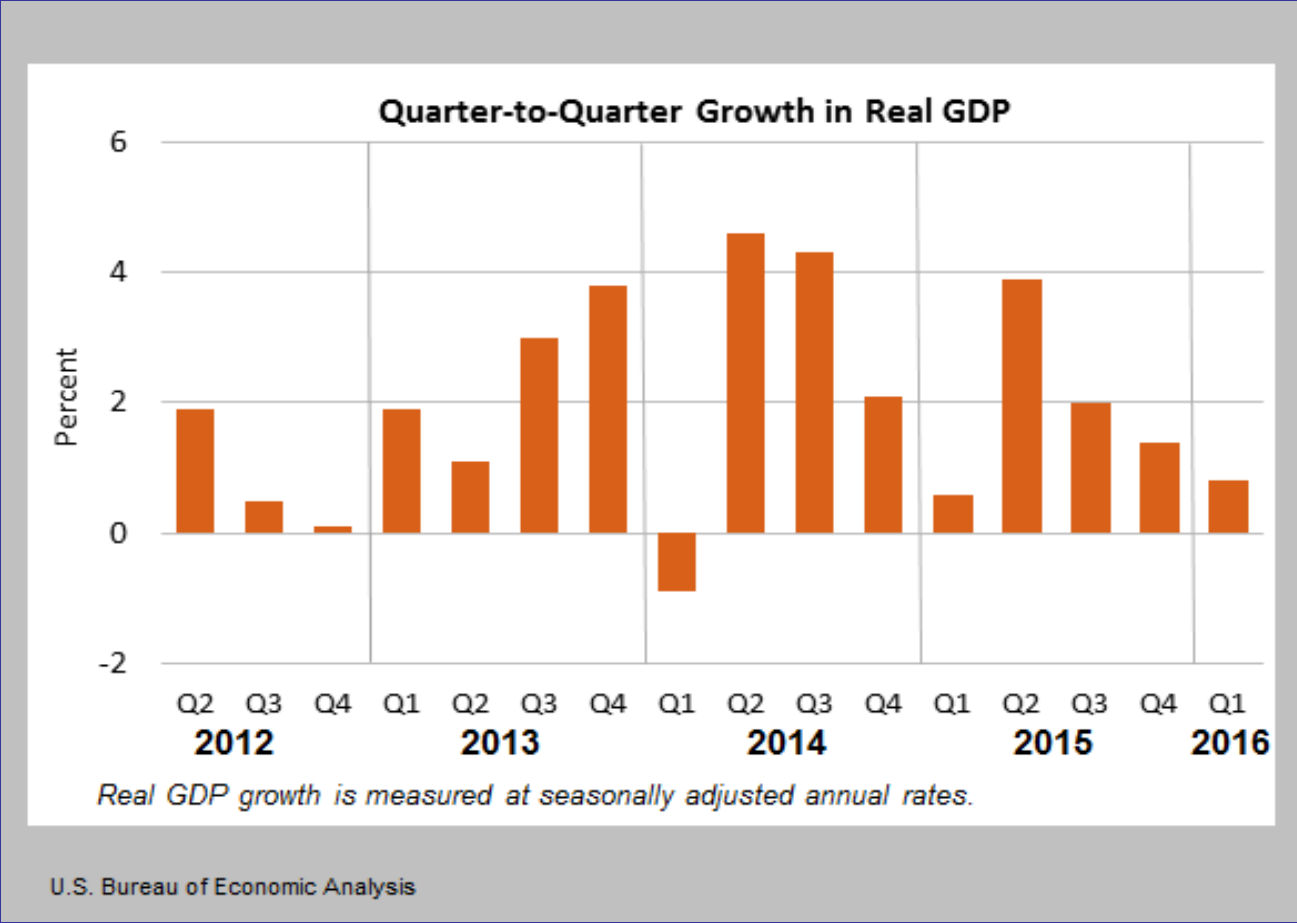
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# U.S. 1st Qtr 2016 Economic growth a dismal 1.1%

## Downward trend for last 4 Qtrs

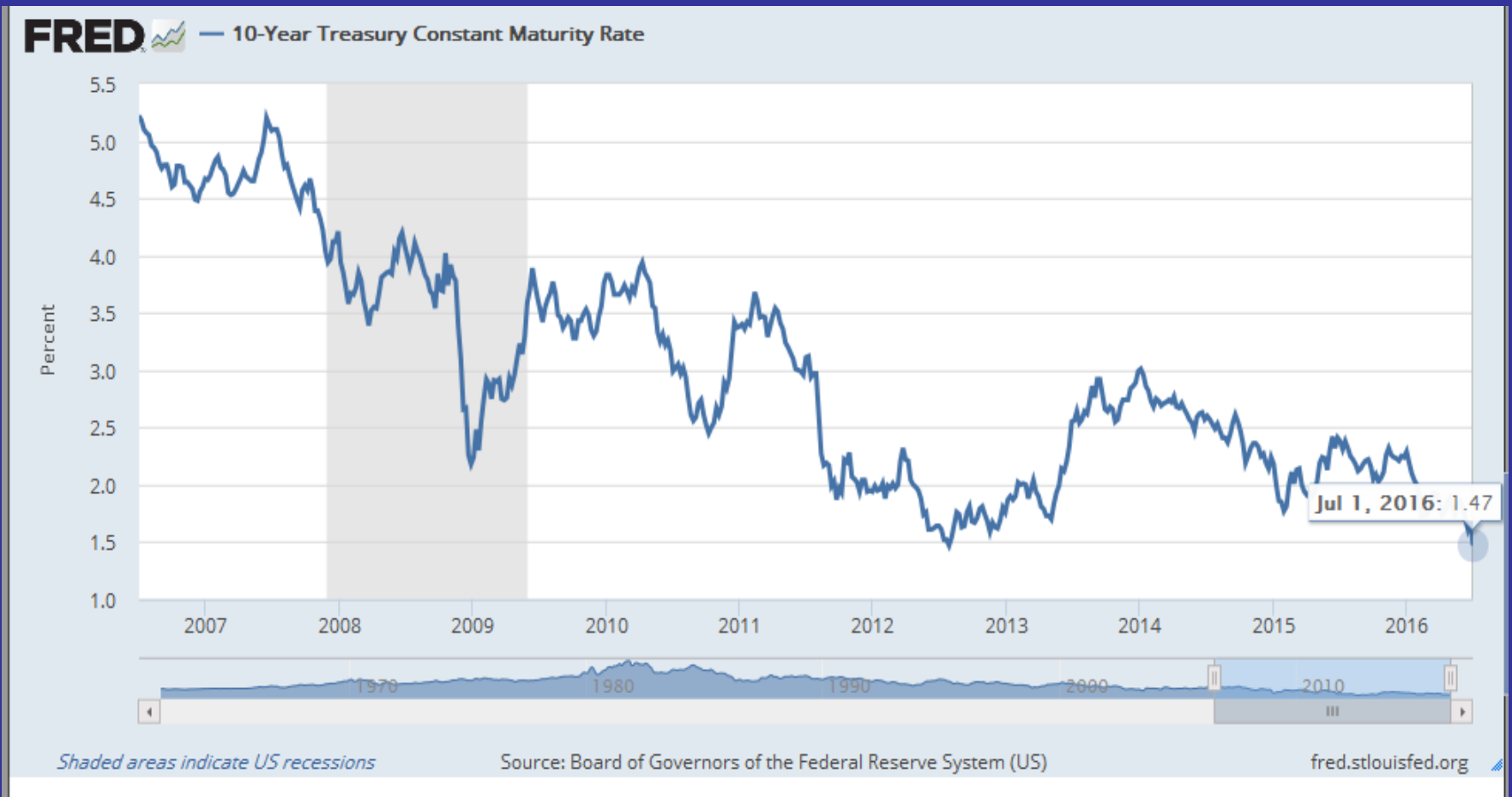
- (1) Slowing world economy ( weaker China , European, and South American growth)
- (2) Stronger dollar will reduce exports and increase imports – negative impact on manufacturing jobs which is key to income growth in USA
- (3) Political stalemate/weak leadership, terrorism, currency wars, growing national debt, ...
- (4) Weak income growth and continuing high “real unemployment”



Source: BEA ([http://www.bea.gov/newsreleases/national/gdp/gdp\\_glance.htm](http://www.bea.gov/newsreleases/national/gdp/gdp_glance.htm))

## 10 year U.S. Treasuries - - lower interest rates are not the answer !!!!!!!!!!!!!!!

Problems – lowest interest rates in decades. Some due to “flight to safety” ( drives bond yields lower) , but, weak demand is the main problem. Monetary Policy can’t do it all – **we need responsible Leadership from Washington, and that is non existent.** Furthermore, the yield curve ( difference between short And long term rates), Is flattening. That suggests a recession could be coming soon. ([http://fortune.com/2016/07/06/deutsche-bank-recession/?xid=yahoo\\_fortune&yptr=yahoo](http://fortune.com/2016/07/06/deutsche-bank-recession/?xid=yahoo_fortune&yptr=yahoo) )

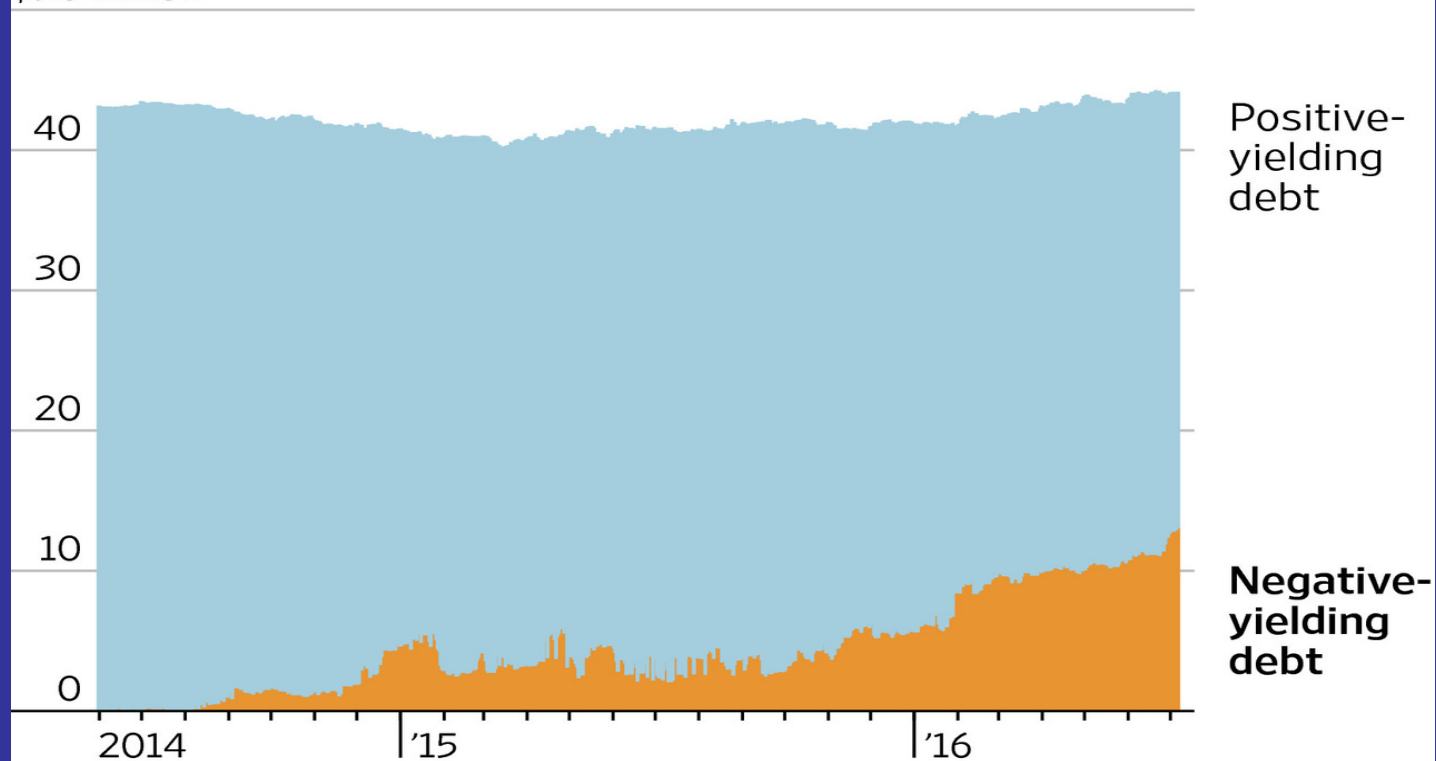


**13% of global government debt is ‘negative yielding’ - Central banks are trying to jump start economies with “helicopter money”  
And low interest rates - it’s not working – **central banks are trying to do the job abdicated by gutless legislative and executive branches****

## Rising Tide

The pool of global negative-yielding debt is climbing.

\$50 trillion



Source: Bank of America Merrill Lynch

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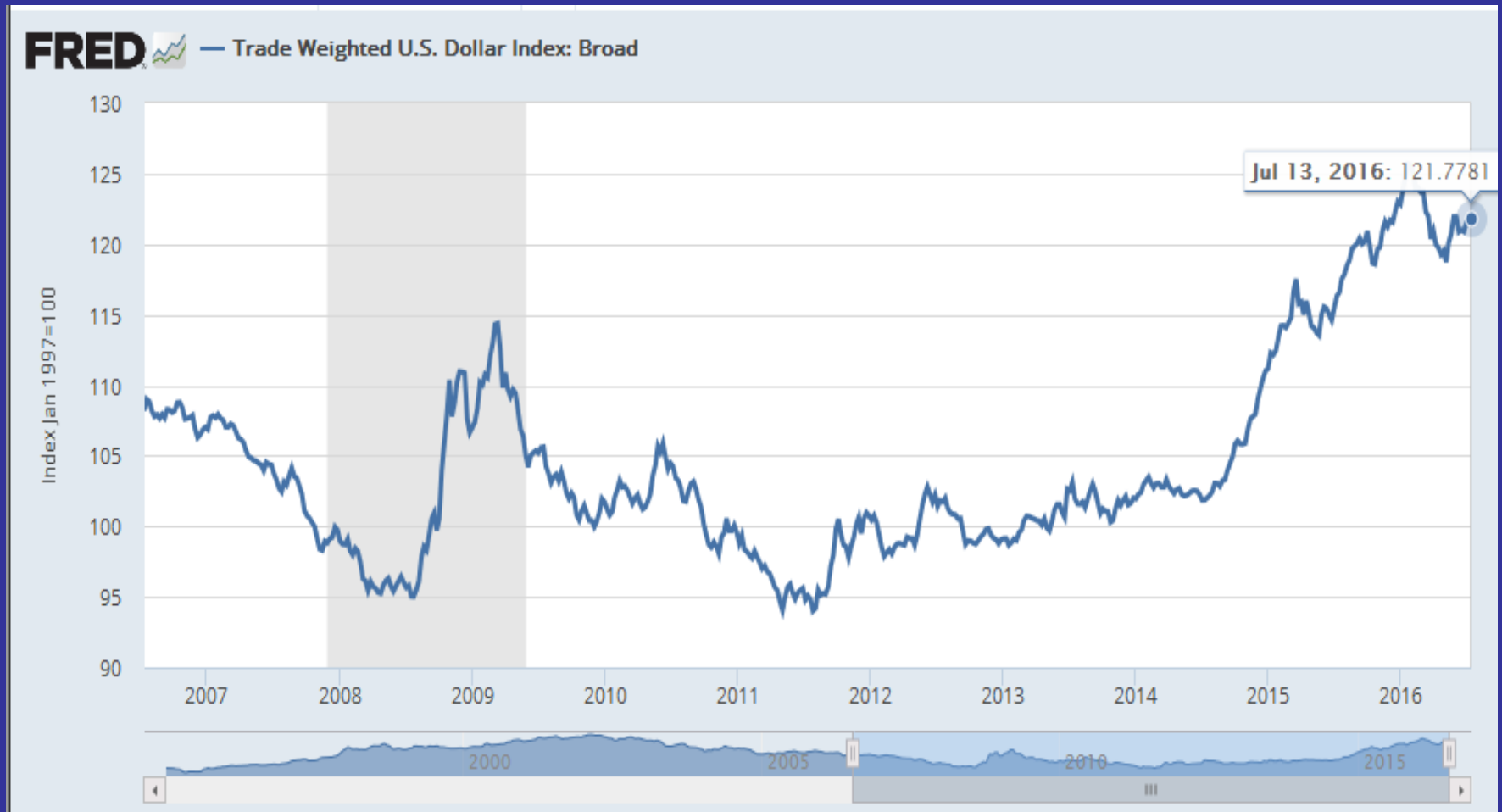
( <http://www.wsj.com/articles/black-hole-of-negative-rates-is-dragging-down-yields-everywhere-1468174982> )

**Today, we're having a race to the bottom as central Bankers around the world print money and devalue their Currencies in an attempt to "juice up" their economies. We have negative interest rates in Germany and Japan (nominal rates) while real rates (inflation adjusted) are Also negative here in the U.S. It is common sense that Quantitative easing/printing money, etc. Works only If you are only one doing it. If everybody does it, there is just a race To the bottom and we all lose as the world economy collapses From Massive debt. **There are only two outcomes, both Bad - - hyper inflation or collapse of demand and depression.****

**We need to smarten up and tackle the problems with Better solutions. Globalization and a more interconnected World is going to make that extremely difficult. It won't Happen without strong world leadership, cooperation, and Shared Understanding that "we're all in this together". OK, World leadership won't happen so that leaves the USA to retake the leadership role – the next administration will need to Restore our world leadership position.**

# Strengthening dollar another headwind for U.S. economy

**Keeps inflation down, but hurts exports from key manufacturing sector**  
**Most countries are deflating their currencies to prop up weak economies**

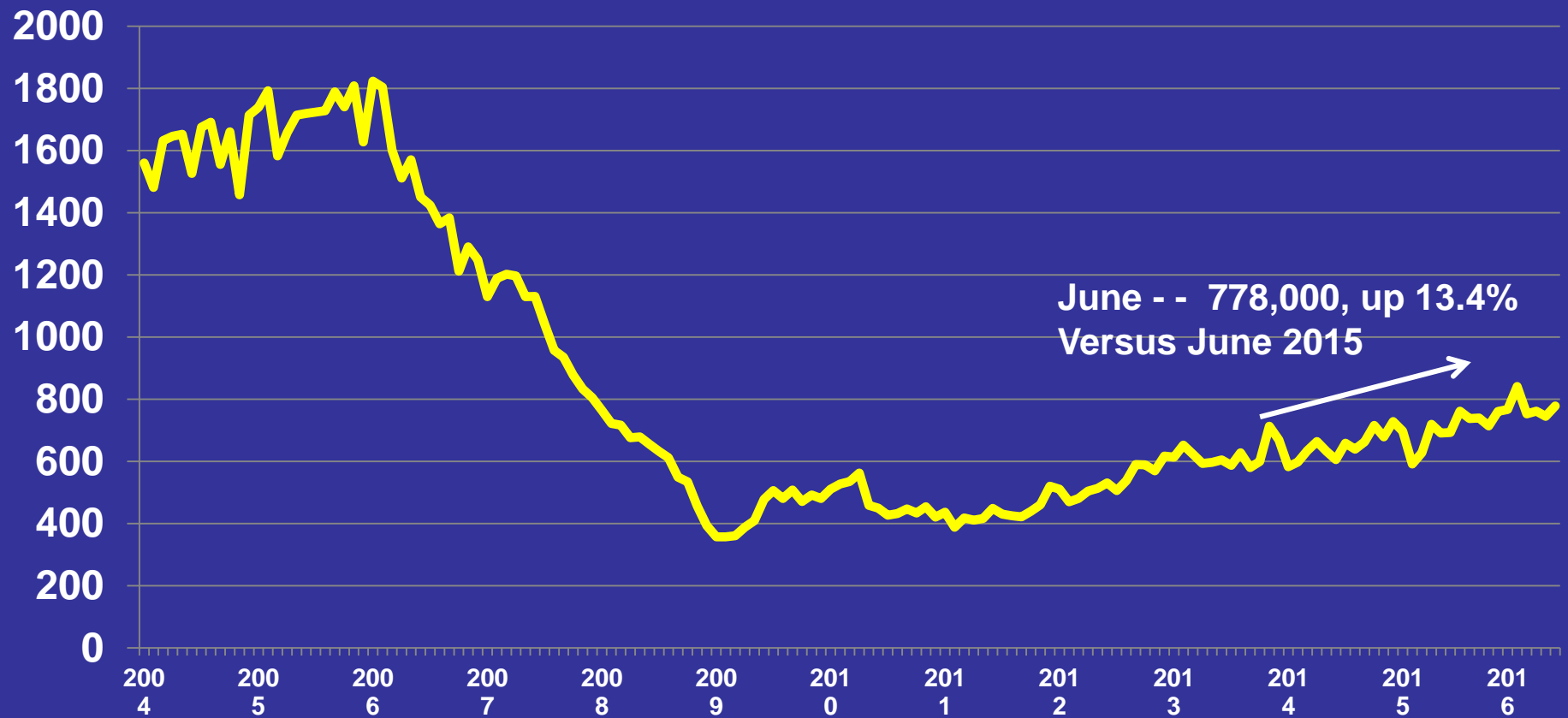


( <https://fred.stlouisfed.org/series/TWEXB> )

# **Housing trends – getting better, finally**

**Starts are inching forward – But, Low Interest rates can't fix housing!!! this is basically a two tiered market – healthy upper end versus weak entry level housing - - not sustainable**

Single family starts, Thousand units, SAAR



June - - 778,000, up 13.4%  
Versus June 2015

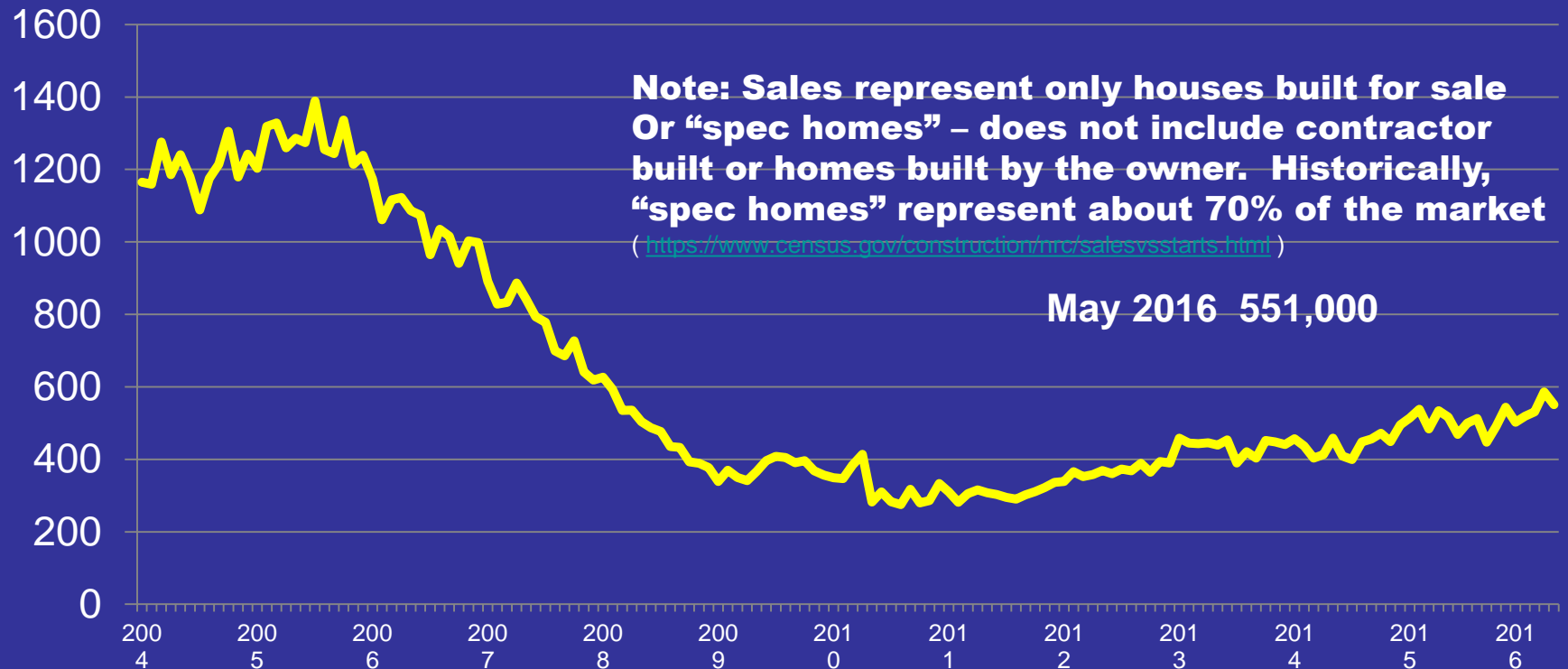
Source: Census (<http://www.census.gov/const/www/newresconstindex.html>)

# New Single Family Home sales are the key statistic to watch – Sales drive housing starts – this drives demand for wood products!!!

**up 8% versus May 2015**

**OK. We're making progress, but still 56% below the 2006 peak**

Thousands, SAAR



Source: Census (<http://www.census.gov/const/www/newressalesindex.html>)



**Resale market continues to improve** - however, tight Supply (which drives prices), currently at 4.4 months, remains a problem. Healthy market is about 6 months supply. **Median prices are up 4.8%, annual basis**

Single family (incl condos), Monthly, Thousand units, SAAR

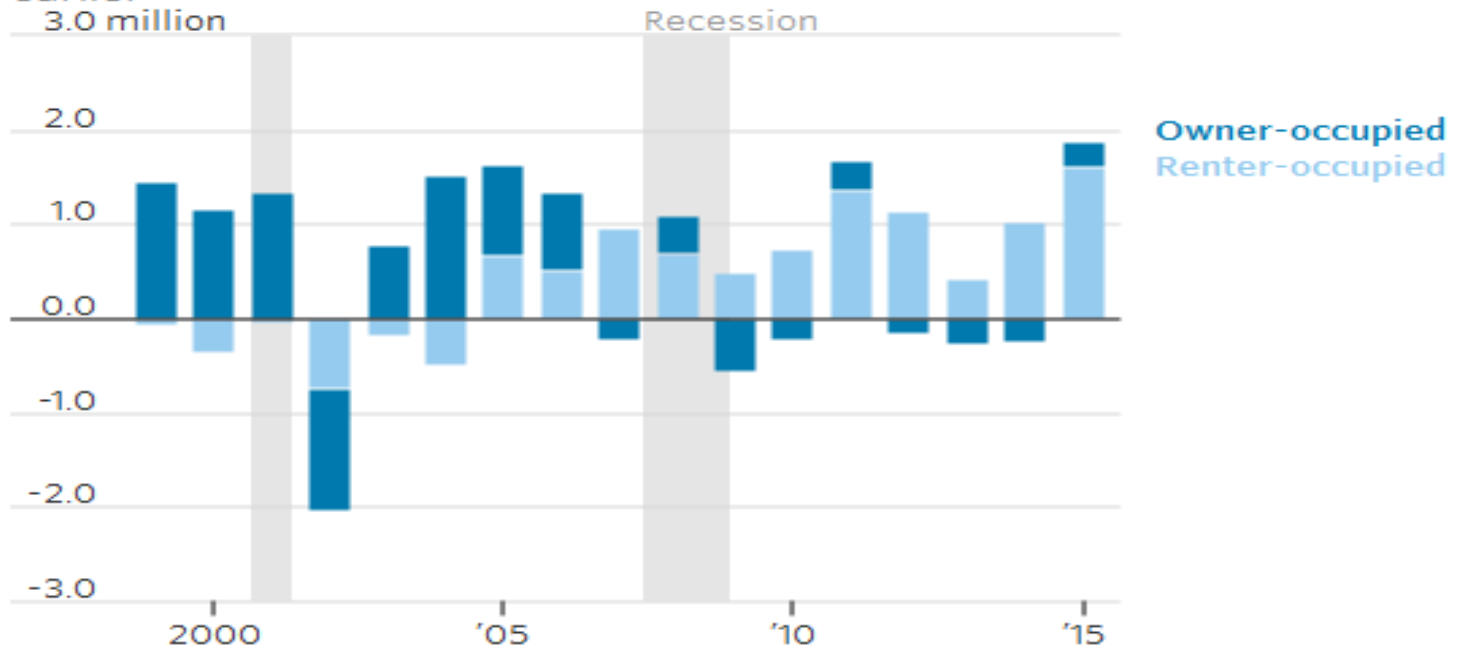


Source: NAR ( <http://www.realtor.org/news-releases/2015/06/existing-home-sales-bounce-back-strongly-in-may-as-first-time-buyers-return> )

# Household formations (HH) are starting to pick up, but since 2007 The bulk of new HH are renting!!

## Household Formation

The number of occupied housing units, change from one year earlier

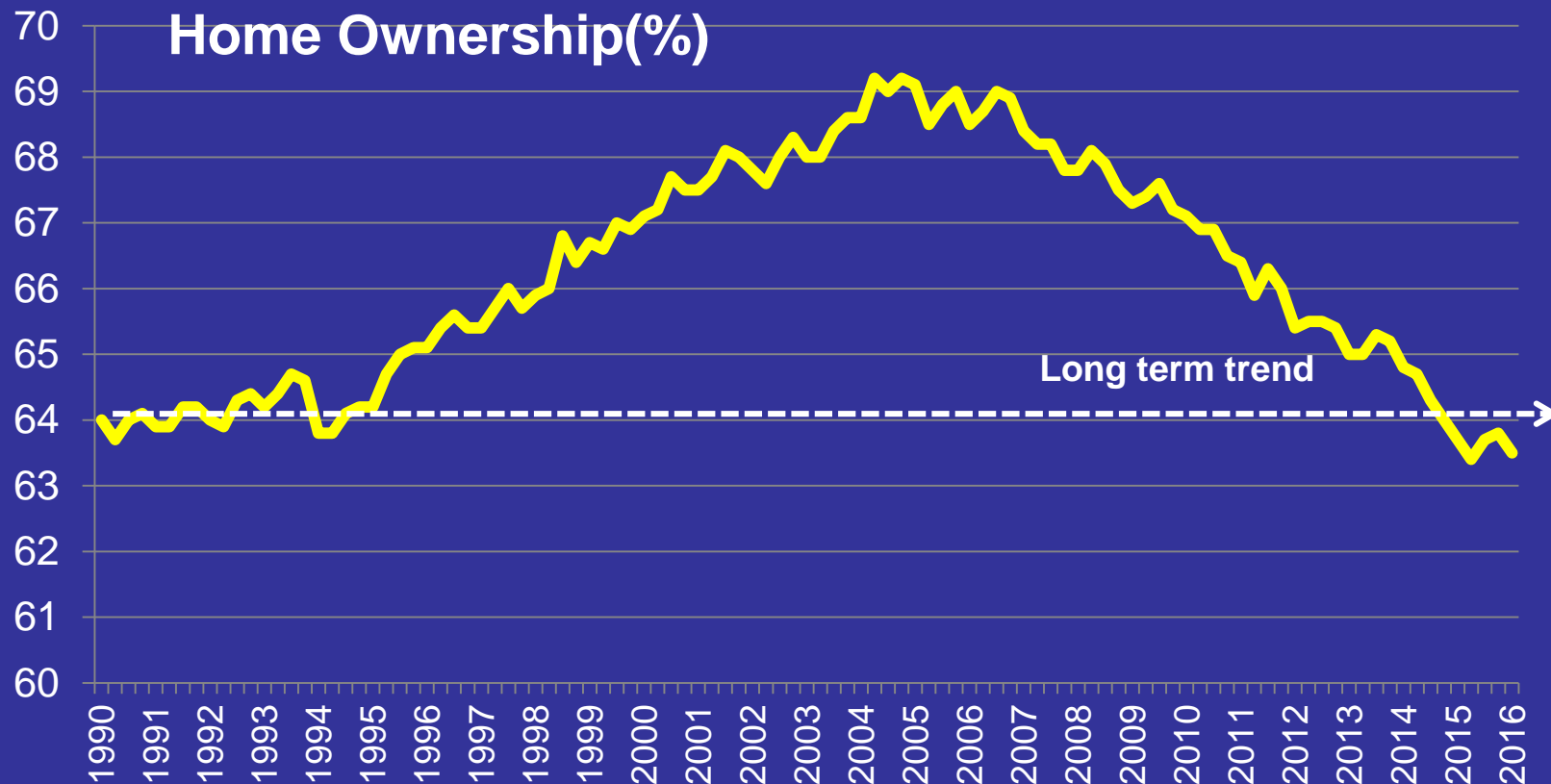


Source: Census Bureau  
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## Household formations and shift to renting - - Falling Homeownership Rate for millennial's - use to be 43% - now it is 33% - young people are renting

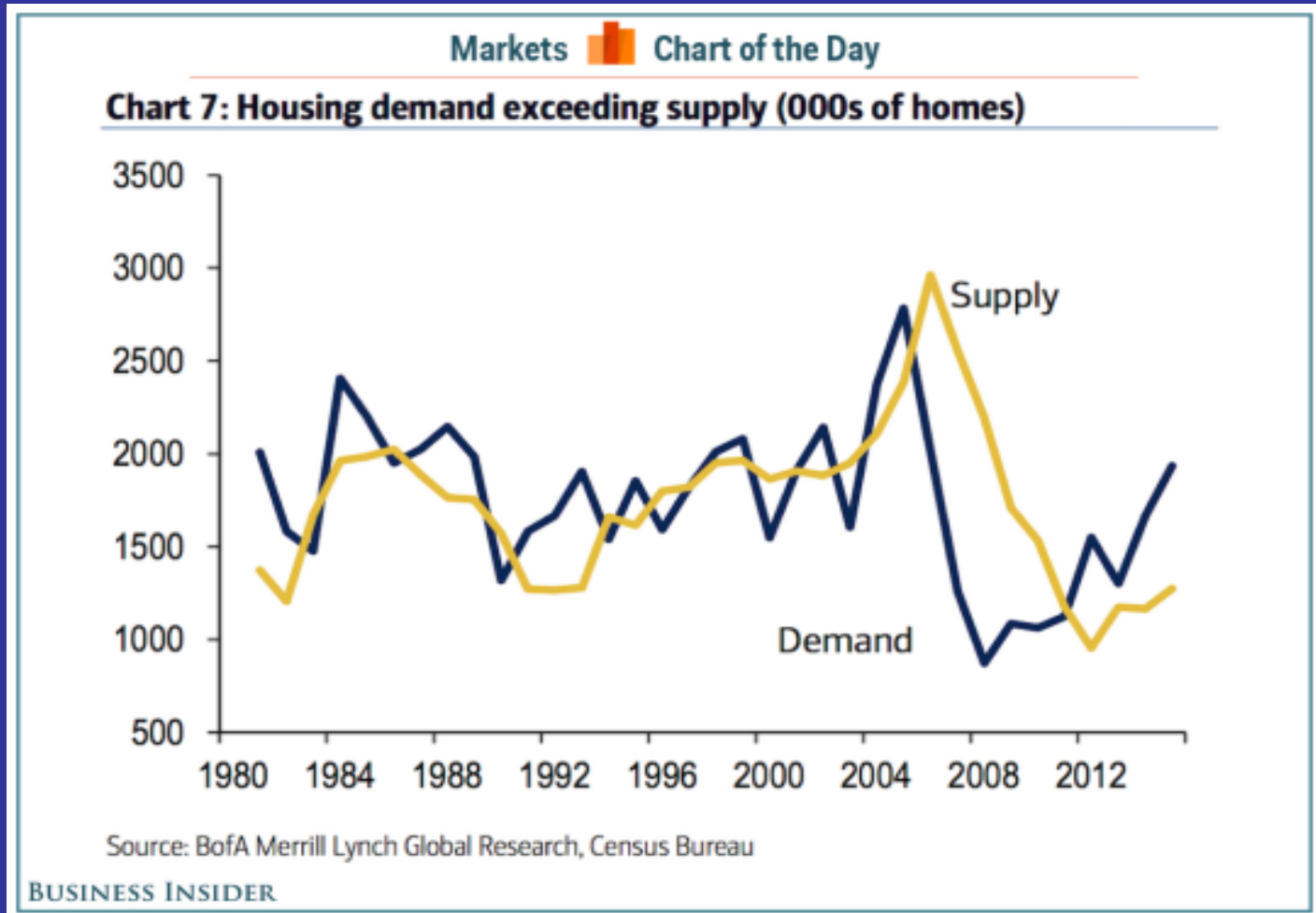
**Recent study shows that people with college degree takes 5 years to save Enough for down payment for starter home ( with student debt – 10 years), No college – 16 years ( <http://www.wsj.com/articles/homeownership-elusive-for-young-adults-without-college-degrees-1463909402> )**

### Homeownership lowest in 50 years



Source: Census ( <https://www.census.gov/housing/hvs/data/q413ind.html> )

# Tight supply drives up prices – existing homes At 4.7 months supply – normal supply is 6 months



## Rental demand versus single family housing ---

Rental demand will continue to increase for years – a recent study by the Urban Institute suggests it may continue for another decade or two

( <http://www.wsj.com/articles/new-housing-crisis-looms-as-fewer-renters-can-afford-to-own-1433698639> )

Why - - demographics; growing minority population; student debt; weak income growth; .... E.g., Minorities ( nonwhite) will make up 75% of net household growth over the next 10 years, and 85% during 2020- 2030. They are less likely to own homes ( lower incomes is main reason) so home ownership continues to fall toward 60% by 2030. During this time, rental demand will increase dramatically. Although this is just one study, it provides food for thought. One potential question with the study, however, is other studies show that although immigrants, for example, rent initially, but, over time they purchase homes at a rate equal to or higher than native born Americans. Why – people come to the U.S. to improve quality of life, and for most, this means homeownership. This suggests that the U.S. has to find solutions to immigration issues like “illegal immigrants” while encouraging legal immigration. This country was founded by immigrants seeking a better life, and they are key to our future. **And, incomes for all Minorities has to improve if home ownership is to return to “good old days”**

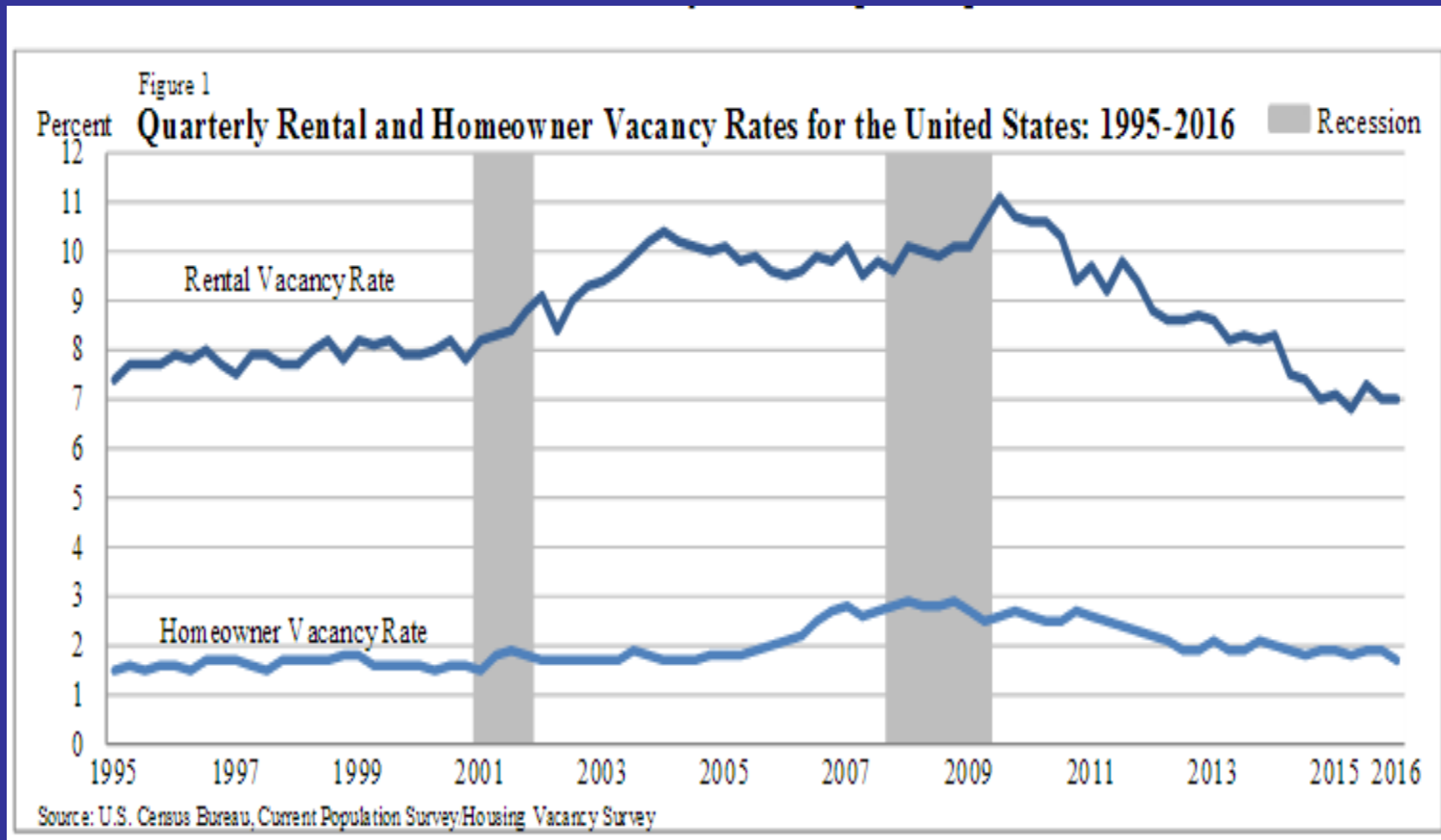
( [http://www.engineeredwood.org/Data/sites/3/documents/EngWoodJournal/EWJ\\_Spring2010.pdf](http://www.engineeredwood.org/Data/sites/3/documents/EngWoodJournal/EWJ_Spring2010.pdf) )

Anyway, this has potential implications for home ownership; single family construction; and demand for wood products – lots of variables and scenarios.

# Rental vacancy rates lowest in 20 years

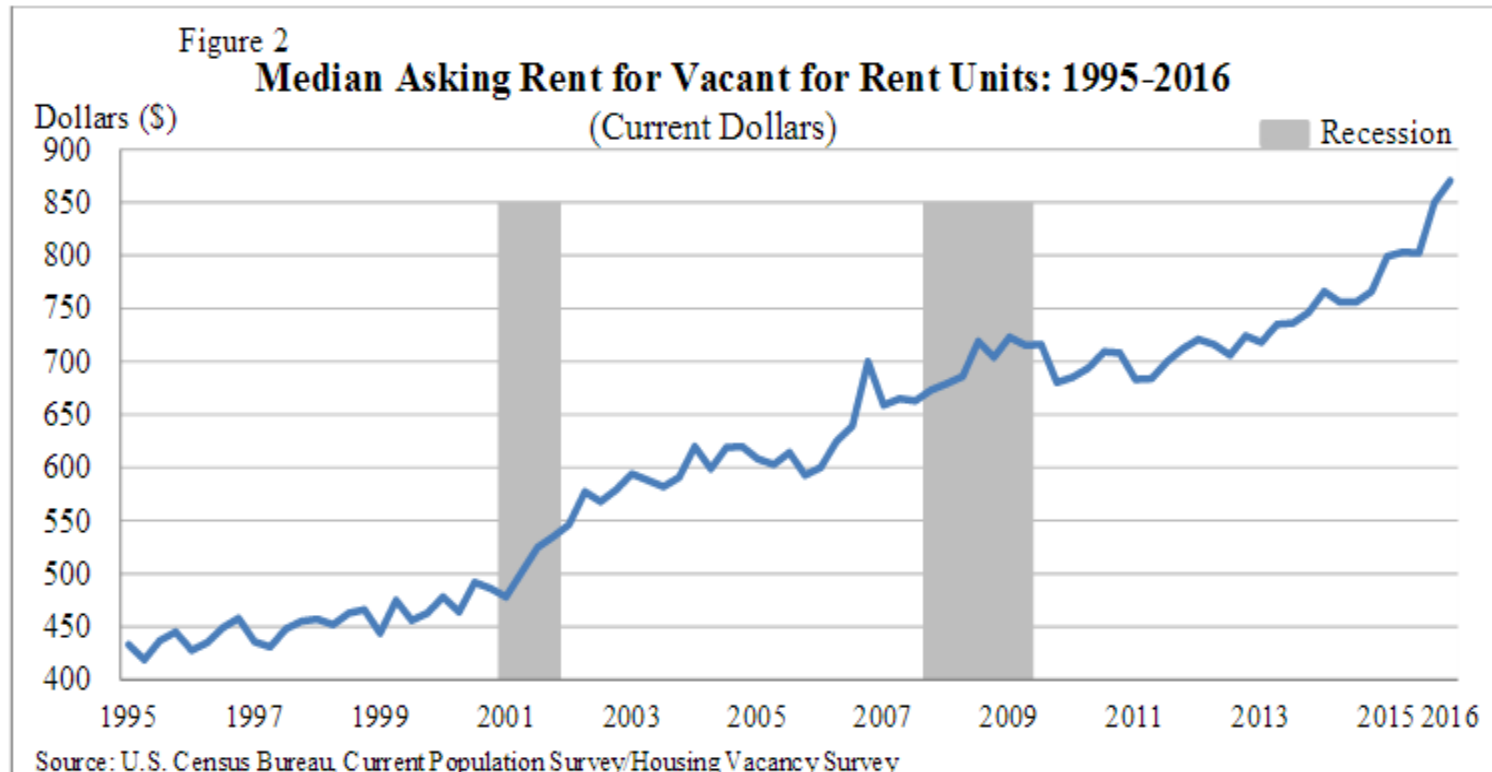
Falling rental vacancy rates will drive rental prices higher

And this will drive multi family construction – Economics 101 – *if I were a Builder, I would focus on rental construction*

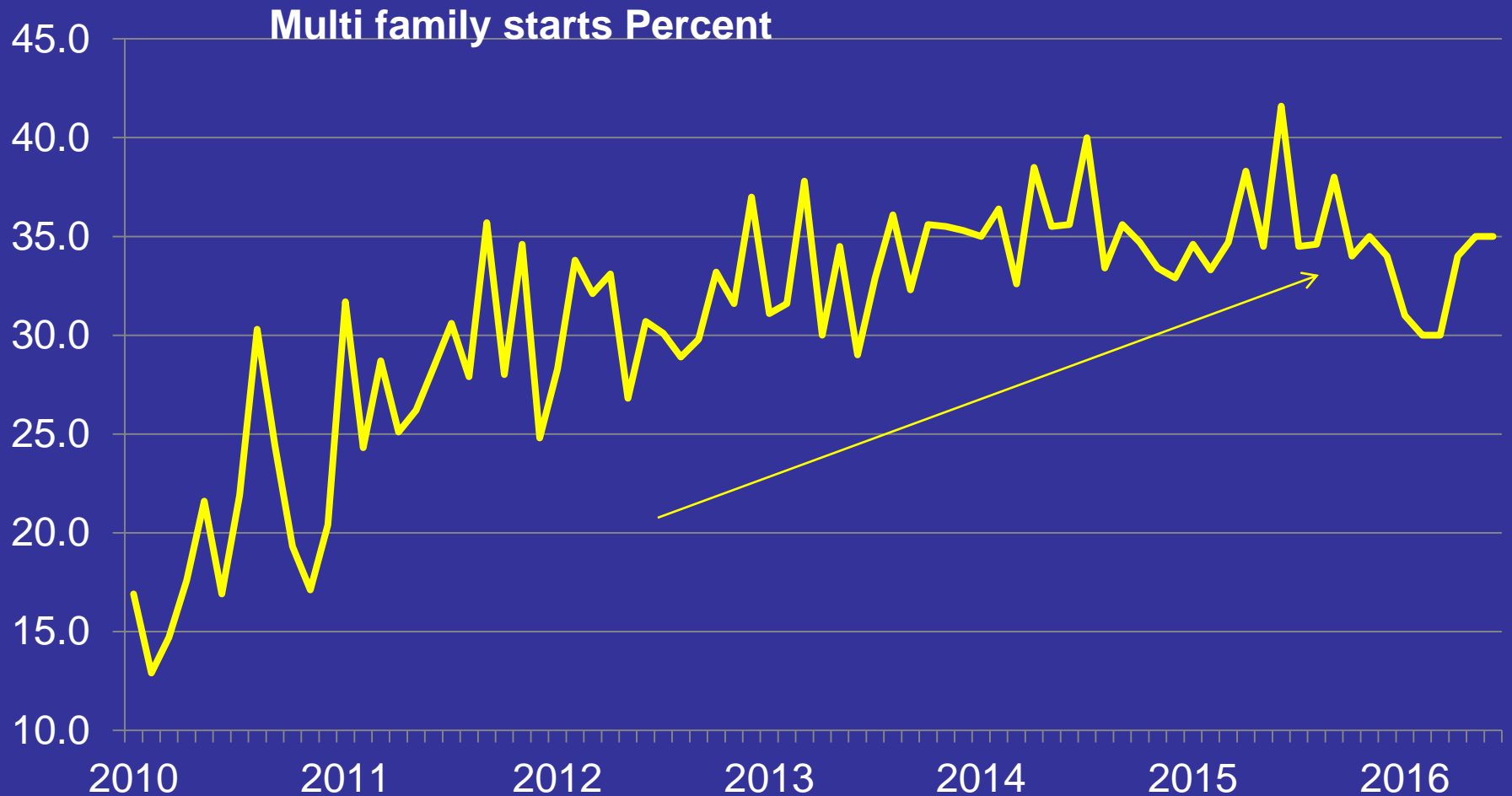


# Increasing rents are slowing housing starts - - more difficult for renters to save for down payment for house purchase

In the first quarter 2016, the median asking rent for vacant for rent units was \$870.



**Multi family share of housing starts – upward trend expected to continue for Some time. Also, since the housing crash in 2008, **Single family rentals** have now reached 13% of overall housing stock, up from 9% in 2005** (<http://blogs.wsj.com/economics/2015/07/20/signs-of-overheating-in-the-single-family-rental-market/>)

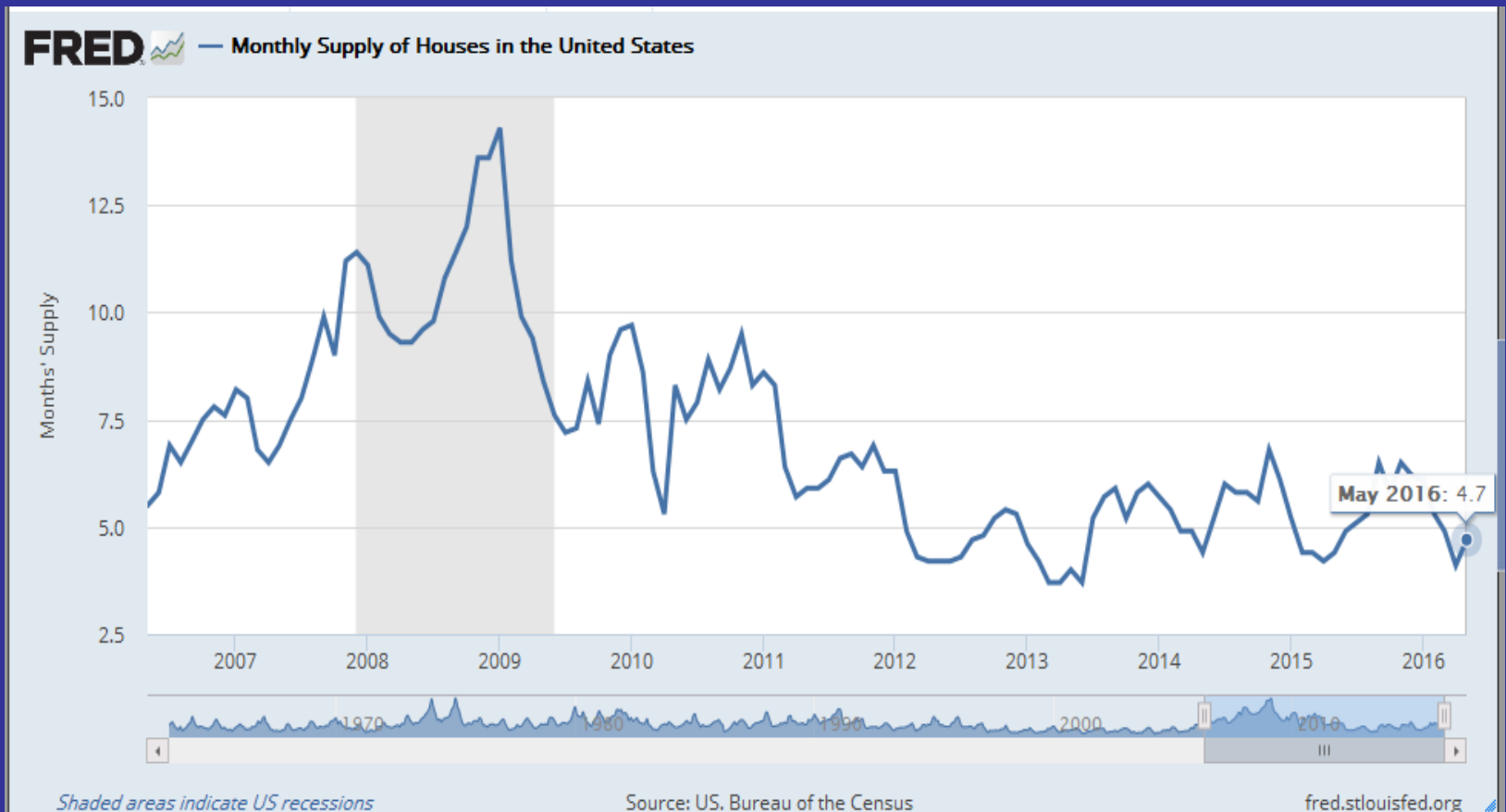


Source: Census



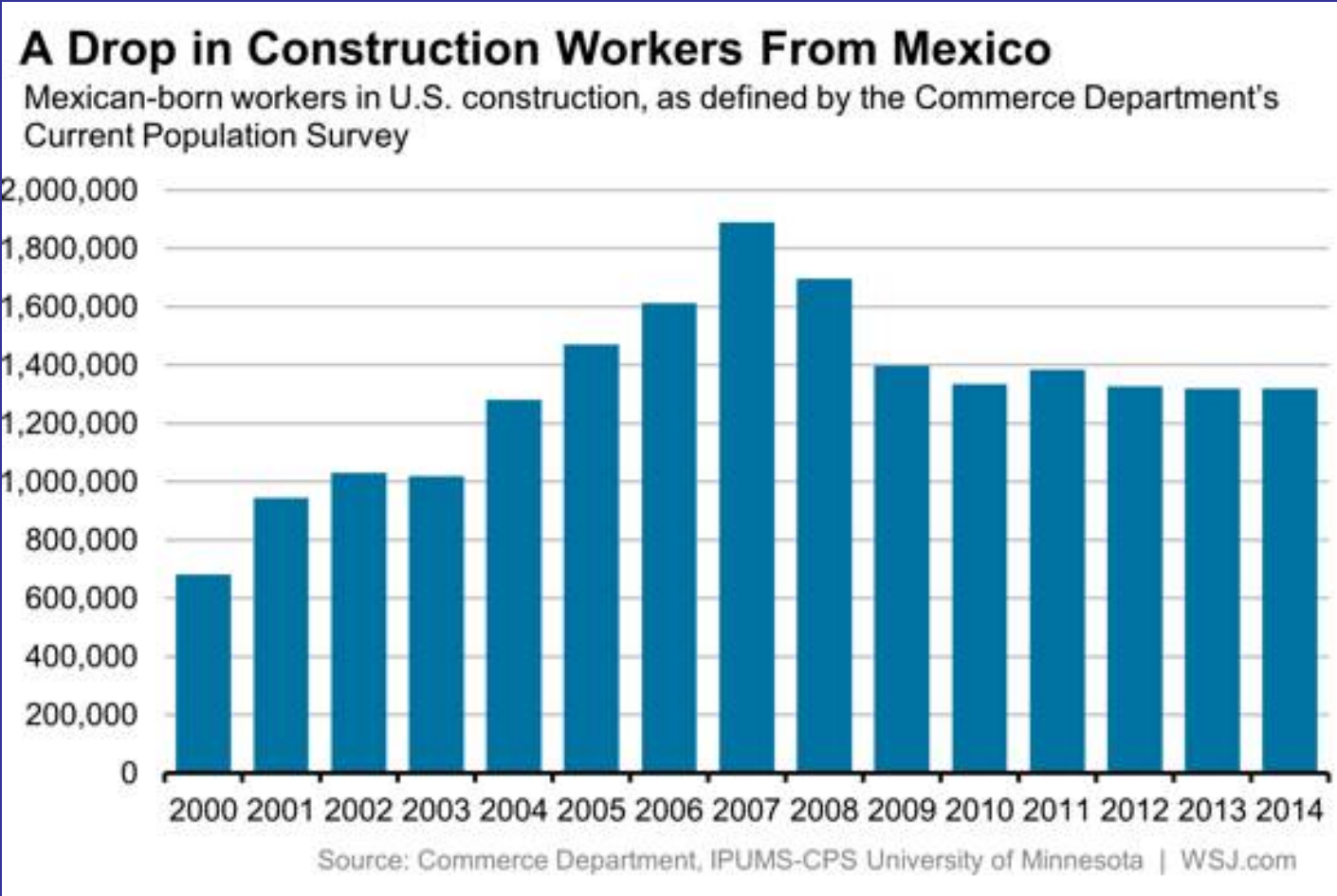
## Low new home inventory drives prices higher And out of reach to most 1<sup>st</sup> time buyers

But, builders can't find enough carpenters, masons, electricians, etc.  
So construction costs keep escalating = this exacerbates the inventory  
Problem – also, land shortages in parts of the country drive costs higher!



# **News on the labor front**

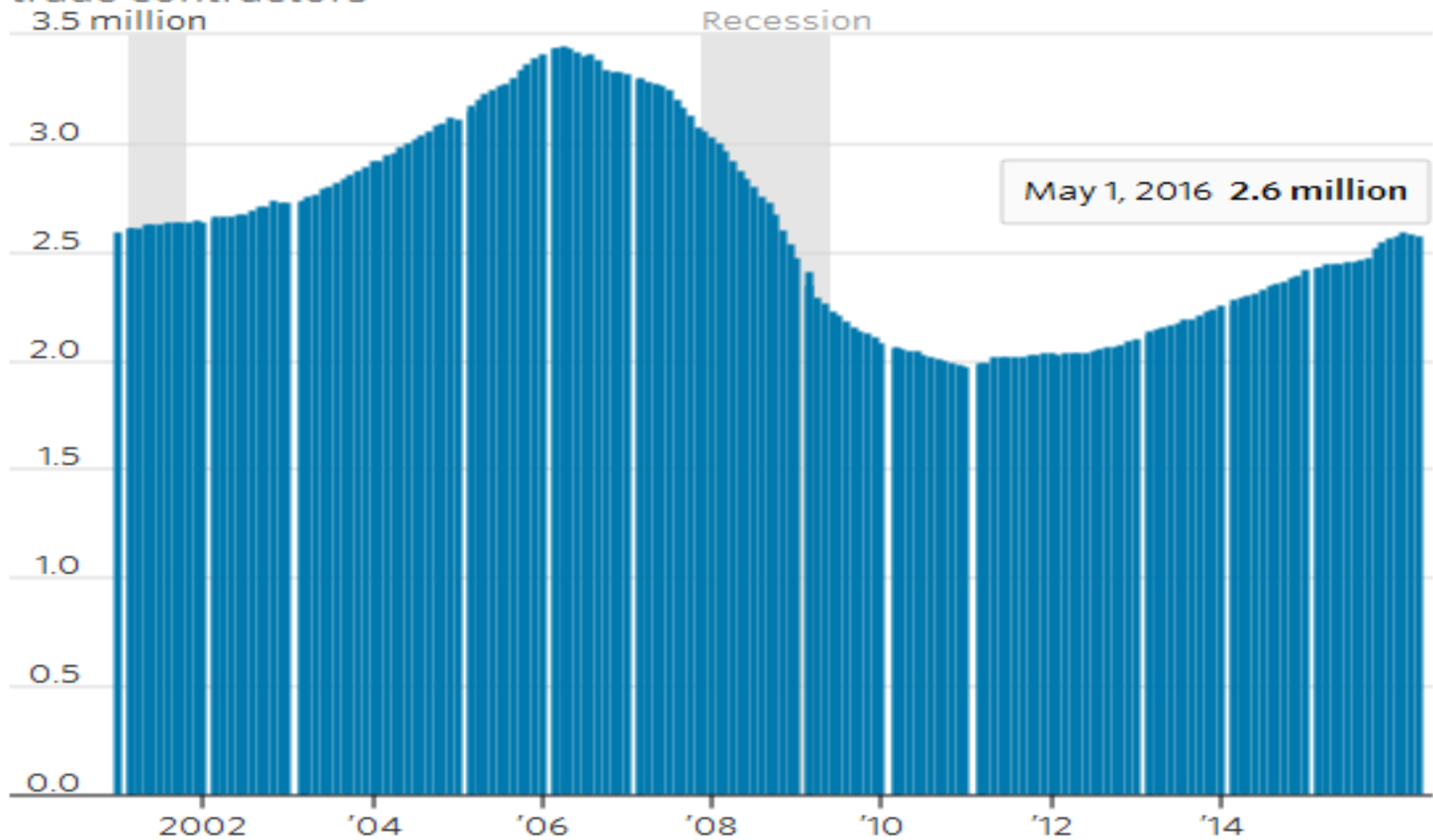
**Another problem (like we need more) for housing is labor shortages - - - Fewer immigrants from Mexico, plus aging demographics with native born Americans suggest that construction costs will increase driving prices higher And slowing home construction** (<http://finance.yahoo.com/news/surprising-problem-holding-back-housing-170900724.html>)



Source: WSJ (<http://blogs.wsj.com/economics/2015/09/21/how-immigration-has-contributed-to-the-construction-worker-shortage/>)

## Hard Hats

Employment in residential building and residential specialty trade contractors



Seasonally adjusted

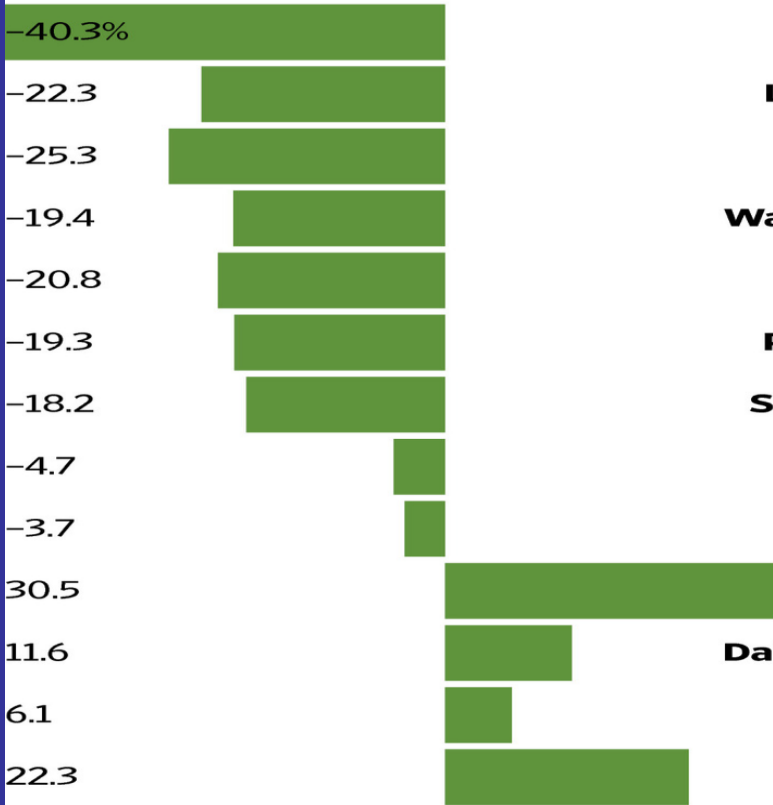
Source: Labor Department

# Construction cost increases due to labor crunch

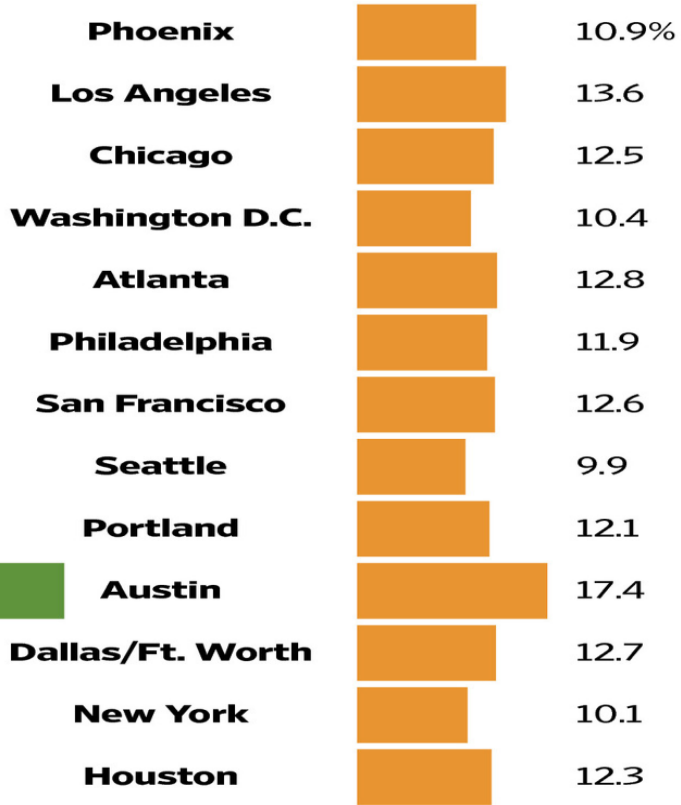
## Labor Crunch

While some markets, such as Texas, have seen construction employment grow over the past decade, the loss of workers has accompanied cost increases in many other markets.

**Change in construction employment**  
May 2005 vs. May 2015



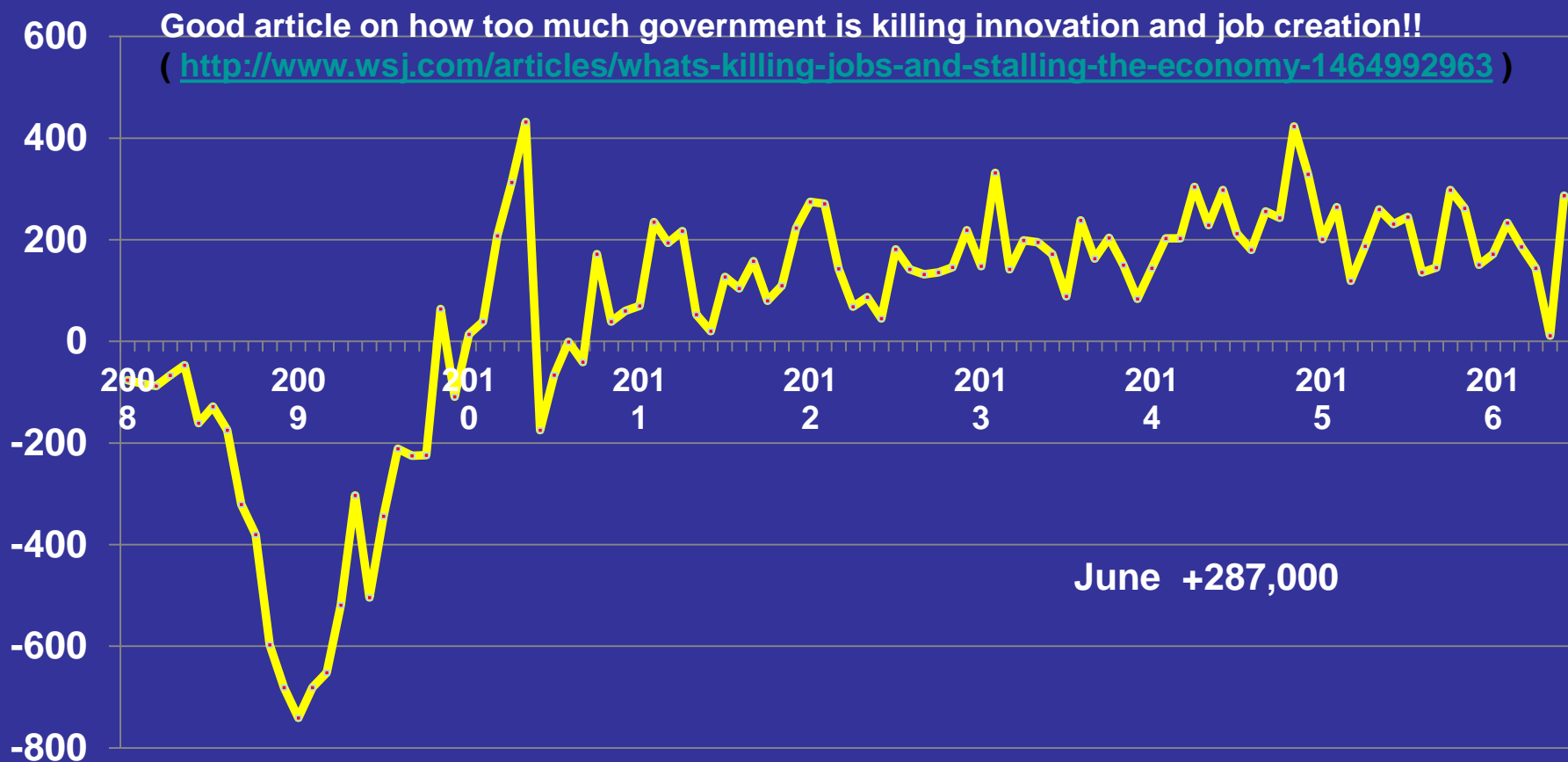
**Change in construction costs**  
Jan. 2011 vs. Jan. 2016



Source: CBRE analysis of Bureau of Labor Statistics, RS Means Construction Cost Index data.

**Employment situation - our biggest problem – stuck near 200,000, and many of these jobs are part time with little or no benefits – not conducive to Driving housing demand higher - need to encourage innovation and investment in future - that means less government**

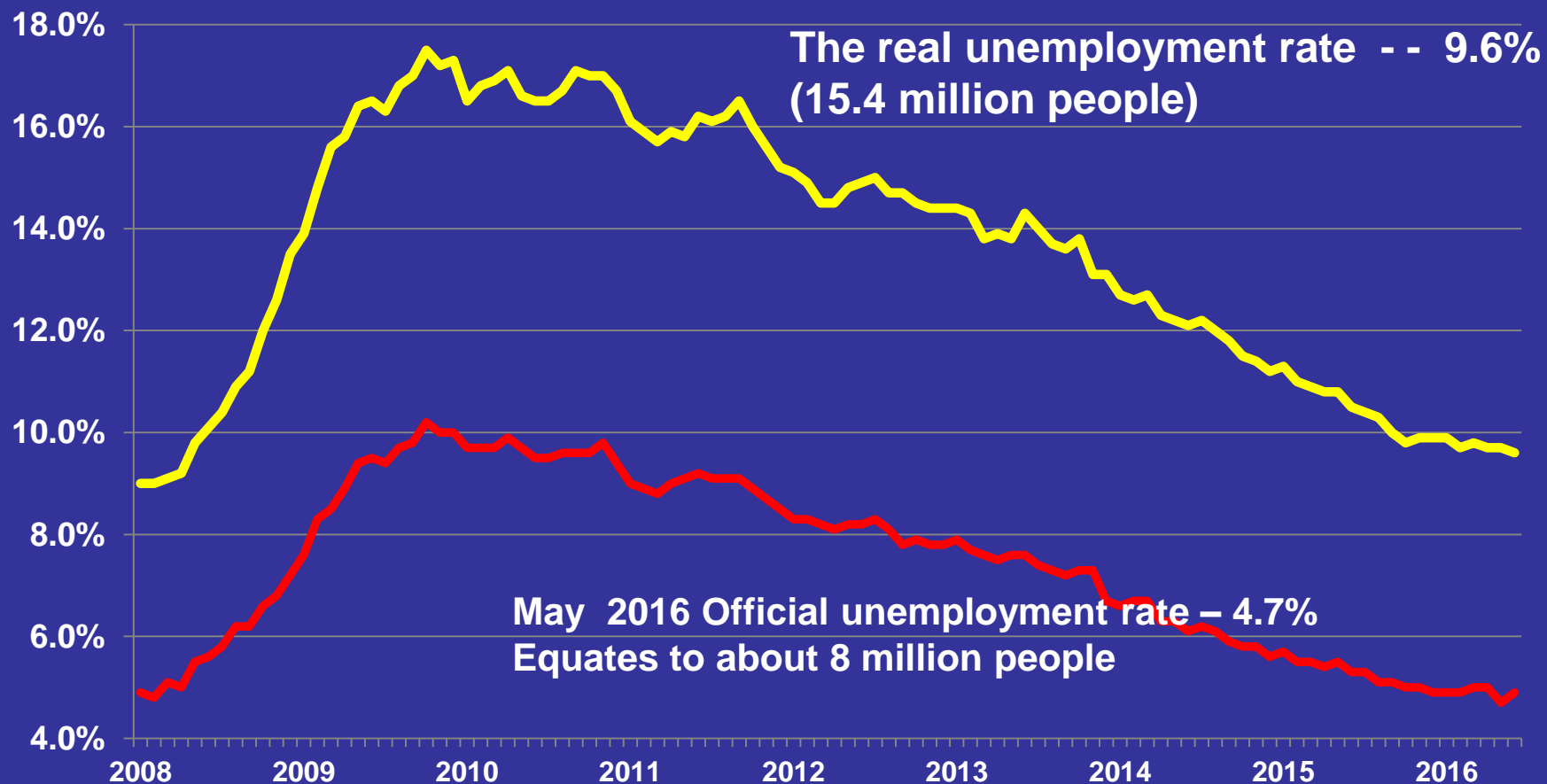
Net change in non farm payrolls – monthly, thousands



Source: U.S. BLS ( [www.bls.gov](http://www.bls.gov) )

## Unemployment rate keeps coming down – but, nearly 7 million remain “underemployed” – working part time, but want full time jobs

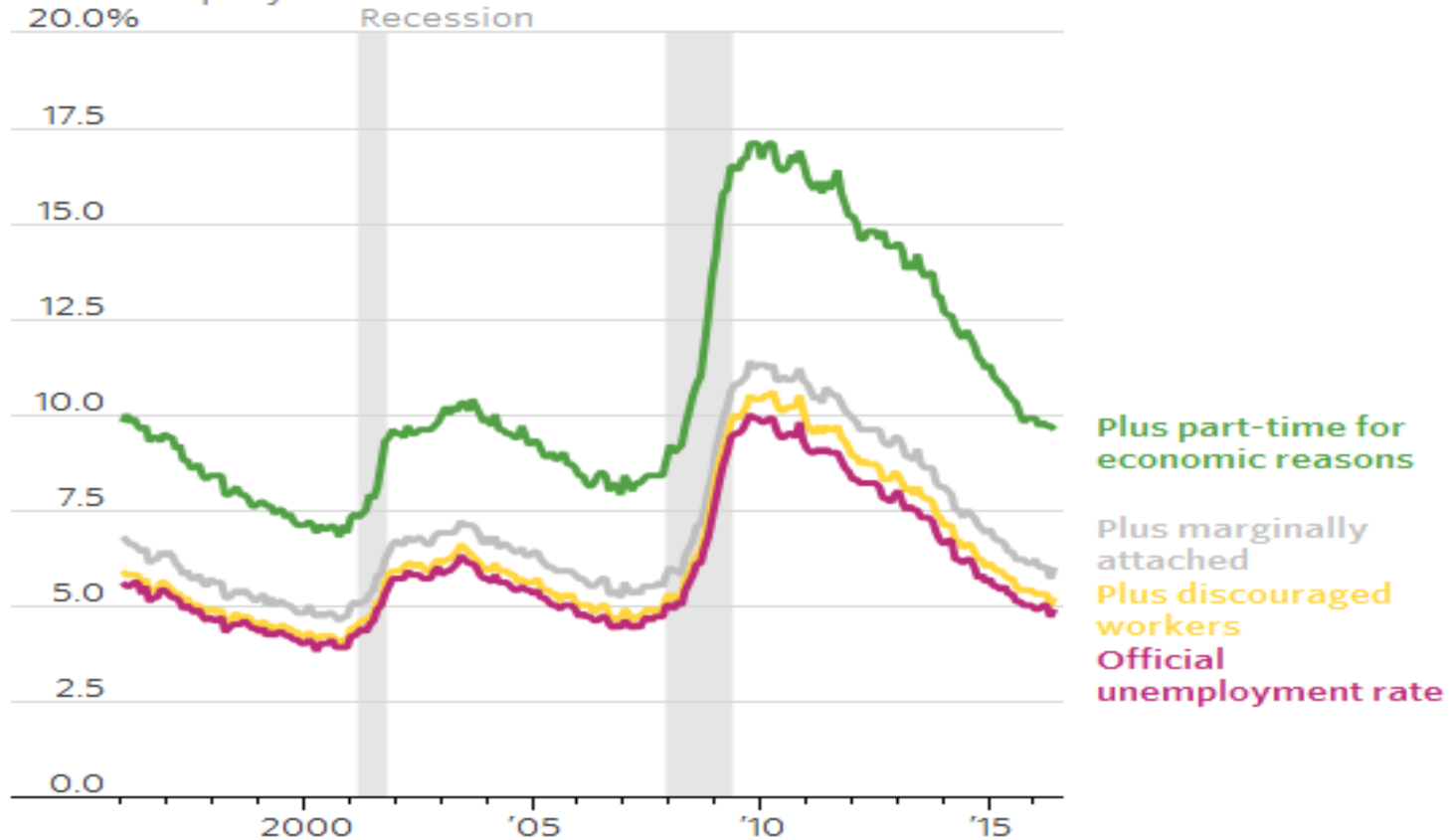
\*\*There are about 16 million people either unemployed, underemployed, or stopped Looking – **Key reason why wage increases are stagnant!!!**



**But, things are improving – that's a good thing!!!**

### Unemployment Below 5%; Underemployment Falls

Alternate measures of the unemployment and underemployment rate



Note: All figures are seasonally adjusted.

Source: Labor Department

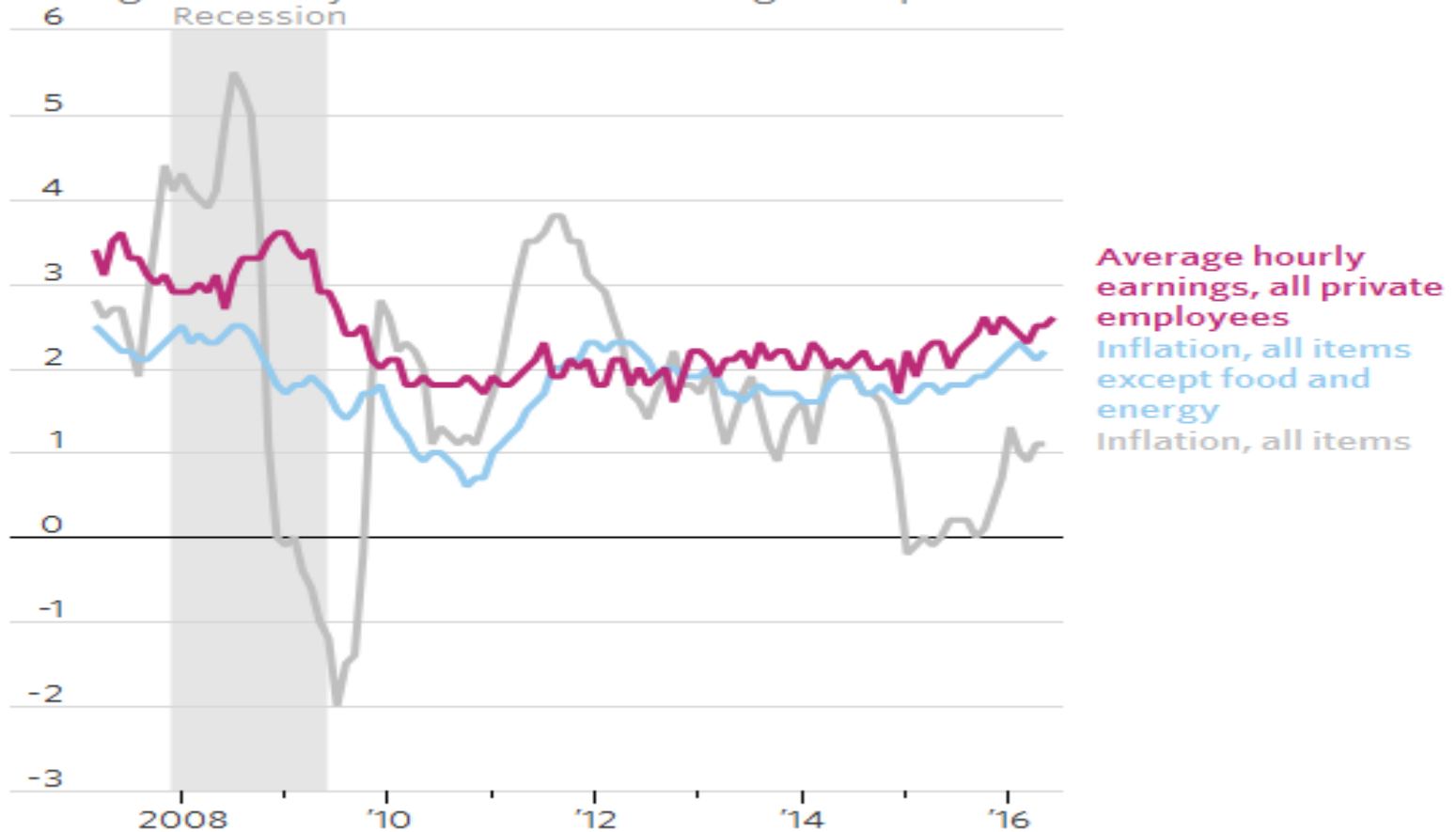
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# And, recent earnings growth shows signs of improving Slowly, but nonetheless, improving

## Earnings Growth Remains Strong

Change from a year earlier in earnings and prices



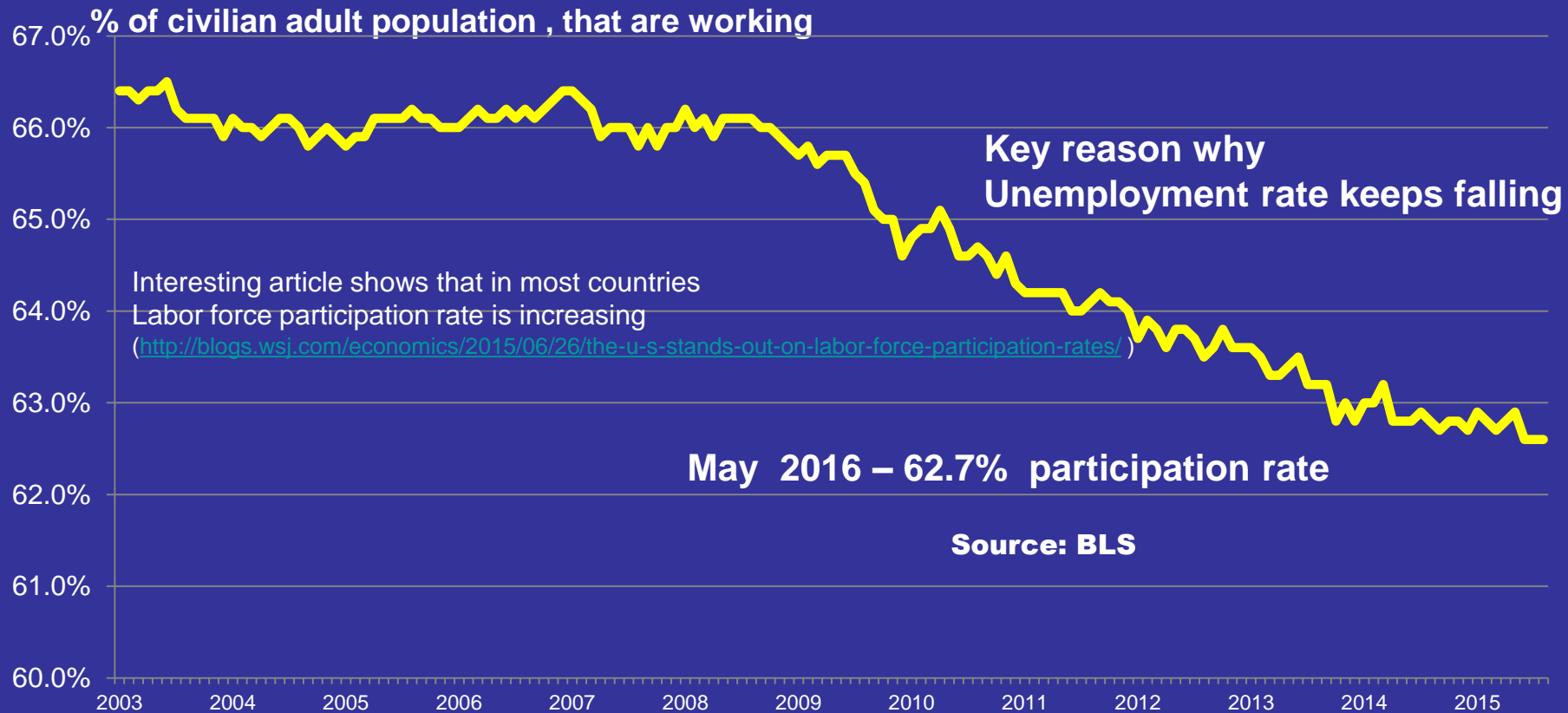
Note: All figures seasonally adjusted

Source: Labor Department

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**Labor force participation rate is shrinking – demographics is one reason – Another reason – bloated welfare system – 130 million people on some form of welfare ( food stamps, long term disability, housing allowances, Medicaid, ...) - - we'll see skilled labor shortages increase over the next decade - we're already seeing construction related shortages with brick layers, masons, electricians, plumbers, etc.**

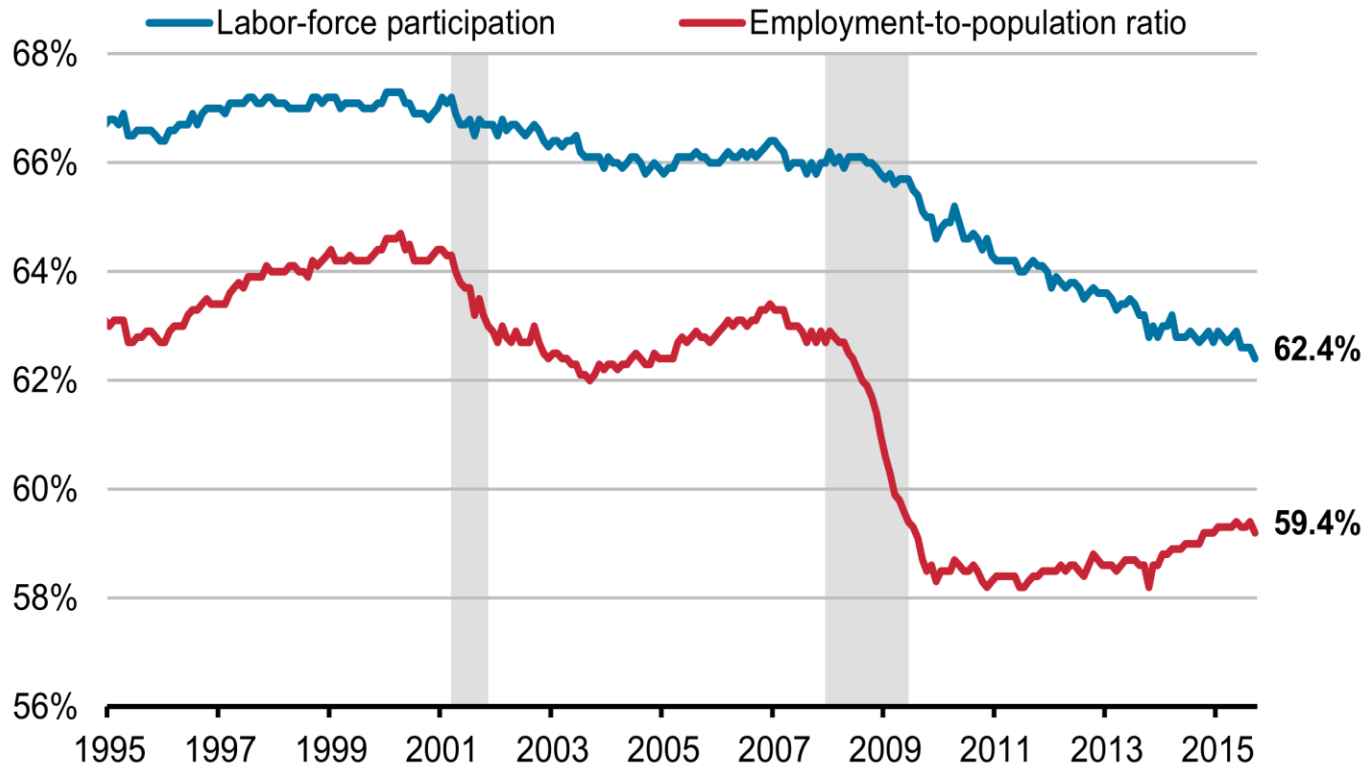
Excelent article (<http://finance.yahoo.com/news/should-i-go-to-a-trade-school-162413337.html#> )



**Aging population is part of the problem, but weak economy and mismatch  
Between skills of job seekers and available jobs isn't helping - and, bloated  
Welfare system encourages too many people to vegetate**

## Not Participating

Share of civilians in the U.S. labor force and employment-to-population ratio, seasonally adjusted, as of September



Source: Labor Department | WSJ.com

**Some conclusions – housing continues to improve albeit very slowly  
And this will not change soon for the reasons listed below:**

- (1) Economy will continue to sputter -- **2016 growth expected to be about 2.0%**
- (2) Housing market not healthy - 1<sup>st</sup> time buyers (31% today) are below trend (45%) - household formations are improving, but more people will continue to rent
- (3) Productivity a major problem for U.S. economy – real GDP driven by population (number of workers) and real GDP/worker or productivity. During past 7 years, productivity has grown 1.7% annually whereas the average over previous 17 years was 2.4%.
- (4) “QE” not working – bulk of “printed money” hoarded by the banks to shore up capital positions – not being loaned out to the economy - GDP languishes - We need a new and more effective approach to our demand problems!!!!
- (5) ***Weak/no leadership from current administration and Congress, - our biggest problem – neither Hillary nor “the Donald” will fix our problems***
- (6) The fed can't make decisions – doesn't know what to do – confused – soon, the U.S. will Join Europe and Japan with negative real interest rates. Negative rates are a clear sign of weak demand. Innovation, investment, tax reform, is the solution, but that will be challenging with \$19 trillion (and counting) federal debt and 41% of the population on some form of welfare. Many business leaders have lost confidence in where the country is headed so they are not investing.