



28 April 2017



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

To all:

Housing is still limping along in my opinion. For 2016, housing and related activities(direct contribution, plus ancillary activities like real estate activities, appliances, furniture, etc.) contributes about 15% to GDP - historically, it is about 20%. SF housing remains out of reach for many 1st time buyers and the potential 20% lumber tax will not help matters. 1st qtr GDP was an anemic 0.7% - 1.7% for all of 2016. The proposed tax changes don't really address our main problem - jobs for middle income Americans. They suggest a stronger economy will pay for the tax reductions - but, 70% of the economy is consumption, and anemic wage increases are a deterrent to increased consumer spending. Go figure! Another problem for housing is price increases exceeding wage increases - price increases driven primarily by short supply of new homes and resales. Another problem is falling labor force participation rate and weak productivity. That means GDP can't grow faster unless we address those two issues, in spite of mammoth tax reductions.

Finally, we need a government where the liberals and conservatives, and those in between, start working together. Otherwise, I'm afraid we're going to continue a very bumpy, and slow move forward.

Have a great Spring.

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Housing comments – April 2017

- *March starts were down 6.8% to 1.215 (SAAR) - SF at 821,000 (SAAR) – down 6.6% - MF was down 6% – MF is typically quite volatile. YOY, total starts are up 9.2% while SF up 9.3%. Making progress!!*
- *Adjusting for population growth, (starts per 1000 households), SF construction remains near recession levels of early 1980's.*
- *Home ownership rate remains at 63.5% in QTR4 2016 – **lowest ownership rate in 50 years!!!!** Financing problems; changing preferences (to renting); and rising home prices - problem for 1st time buyers. 805,000 new household formed in 4th QTR compared with 2015, but 54% were renters – too many problems for young people to own!*
- *Resale market up 4.4% - 5,710,000 (annual rate) – low inventory (3.8 months) driving prices higher – prices up 6.6% YOY*
- *New home sales were up 5.8% to 621,000 SAAR, up 16% annual basis*
- ***Job creation slowed in March - +98,000 - unemployment to 4.5% - participation rate steady at 63% !!!!***
- *Main problem for housing is lack of supply. This drives prices higher and out of reach, particularly for 1st time buyers. Typical supply is 6 months – today, it is 3.8 for existing homes and 5.2 for new homes. Additional problems include tight credit, and now, rising mortgage rates.*
- *GDP was disappointing at 0.7% for 1st Qtr 2017.*

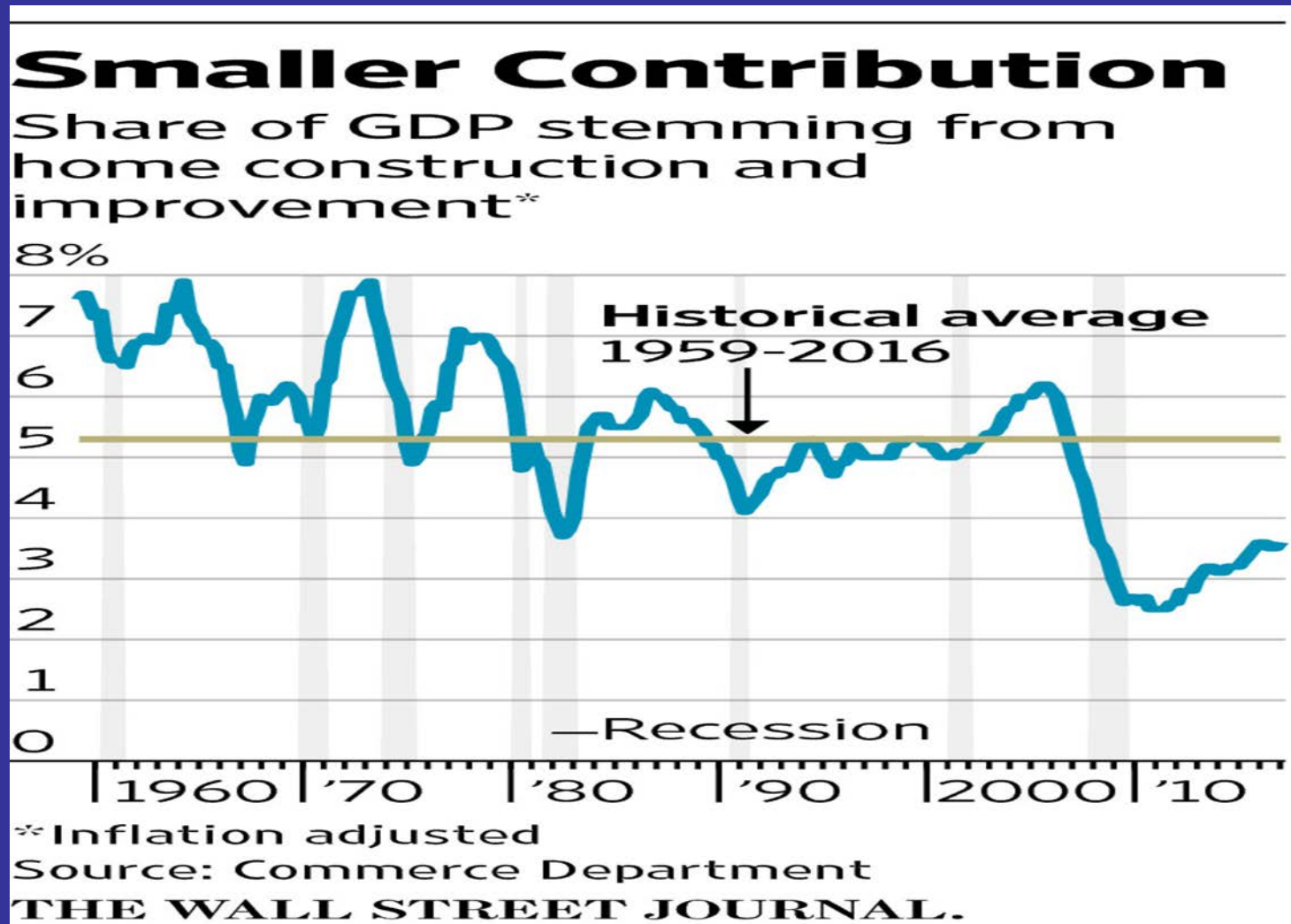
Solution to fixing the economy – get housing
Back to trend levels – yes, this is a “chicken and egg
Type issue”, but as the chart on the next page shows,
Spending on housing is an important contributor to GDP.

Tight credit is a big problem, especially for 1st time
Buyers.

Now, we have the “lumber tax” on Canadian lumber to deal
With. That will only increase construction costs and make
Housing less affordable.

“Housing serves as an economic engine through home construction as well as ancillary activities such as appliance purchases, spending on home renovations and jobs for real-estate agents”. “Total spending on housing fell to 15.6% of GDP in 2016, compared with 19% over past 60 years. A more specific measure - Spending on new construction and remodeling fell to 3.6% of GDP” – see chart below.

Source: WSJ (<https://www.wsj.com/articles/sluggish-housing-recovery-took-300-billion-toll-on-u-s-economy-data-show-1490526643>)



Big problem for housing – too little supply !!!!!

This drives prices higher and out of reach for many buyers, Especially 1st time buyers.

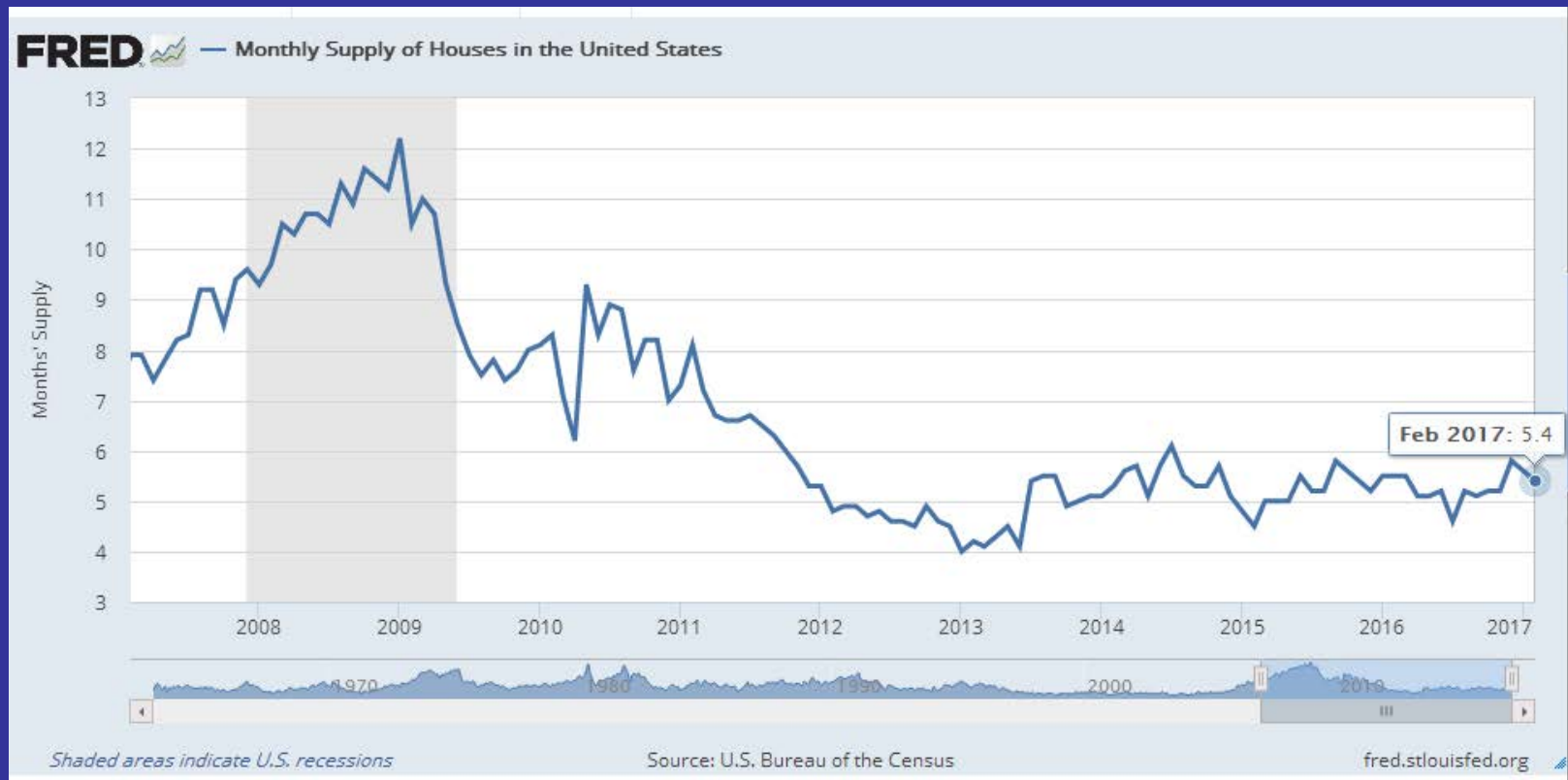
Typically, supply is about 6 months (time it takes to sell Existing inventory at current sales rates). Today, existing Home inventory is 3.8 months while new home inventory is 5.4 months. Many homeowners are reluctant to list their Homes because buying another one is expensive while Builders are reluctant to build new homes due to costs, Driven partly by labor and land shortages in parts of the country.

Today, prices are increasing twice as fast as incomes, so this Problem is actually getting worse. Also, mortgage rates are Increasing, and credit remains tight following new rules In the aftermath of the 2008 financial crisis.

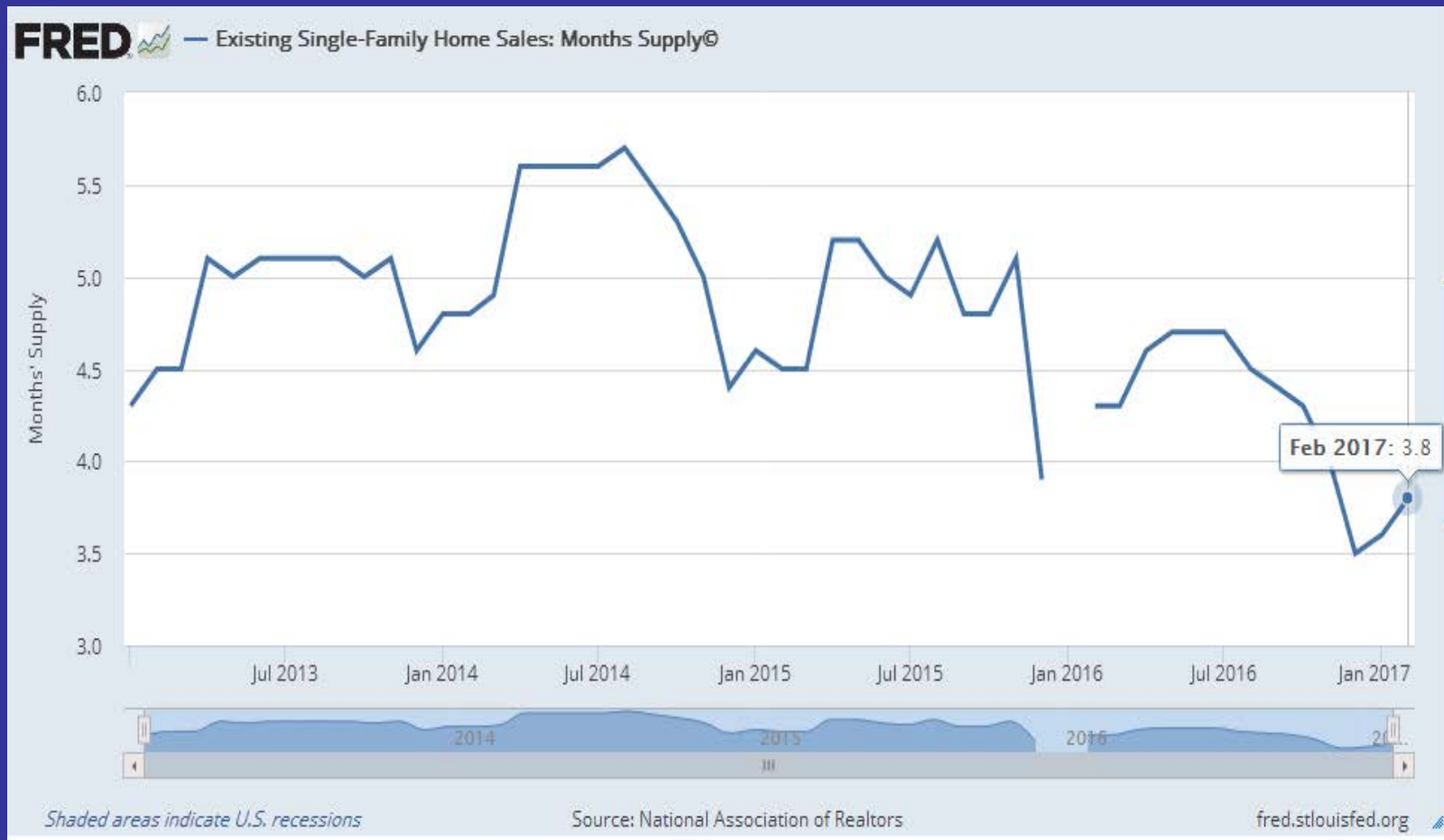
Prognosis – housing could remain below par for some time!!!

Low new home inventory (5.2 months) drives prices higher And out of reach to most 1st time buyers

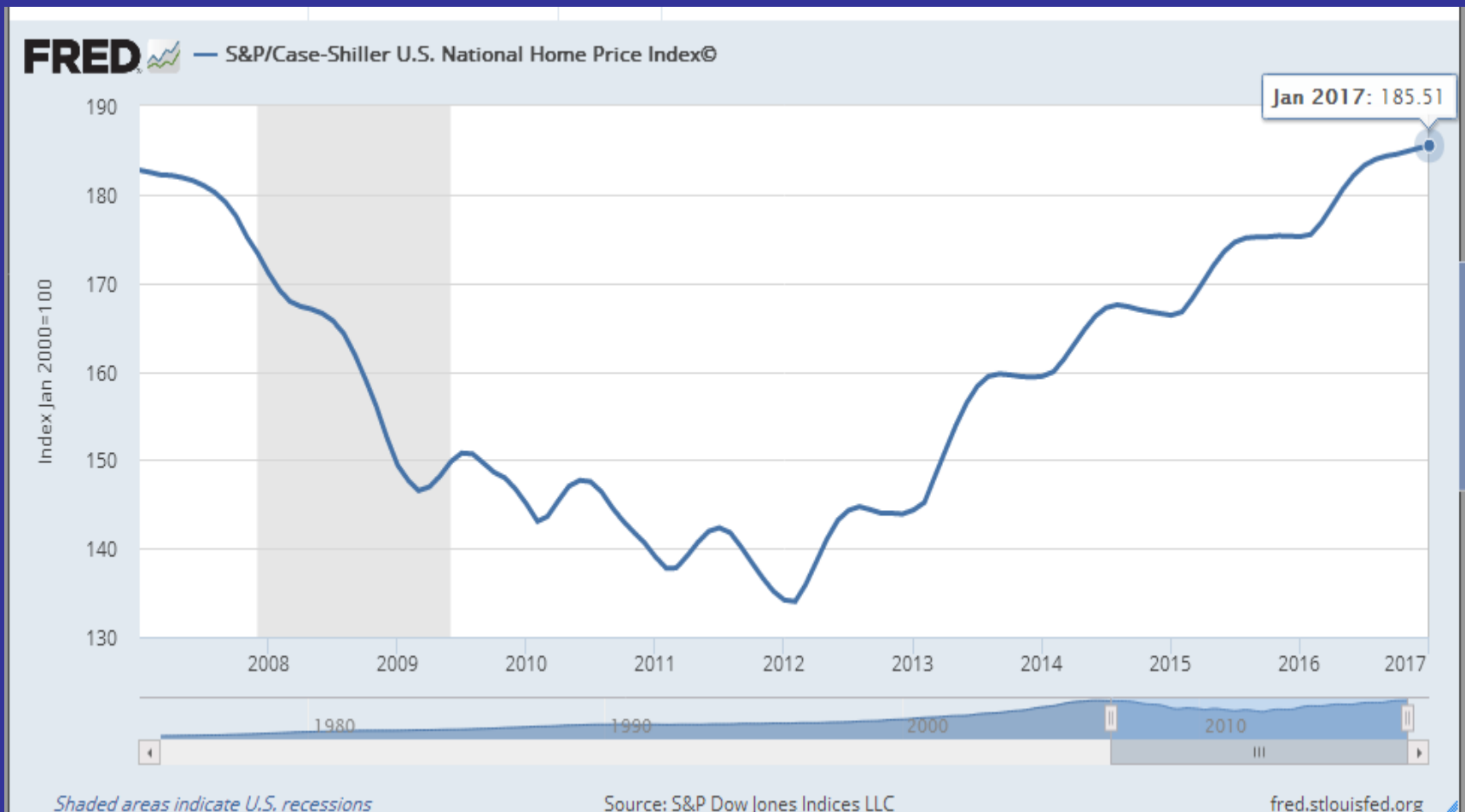
But, builders can't find enough carpenters, masons, electricians, etc.
So construction costs keep escalating = this exacerbates the inventory
Problem – also, land shortages in parts of the country drive costs higher!



Low Existing home inventory (3.8 months) drives prices higher - out of reach to most 1st time buyers.



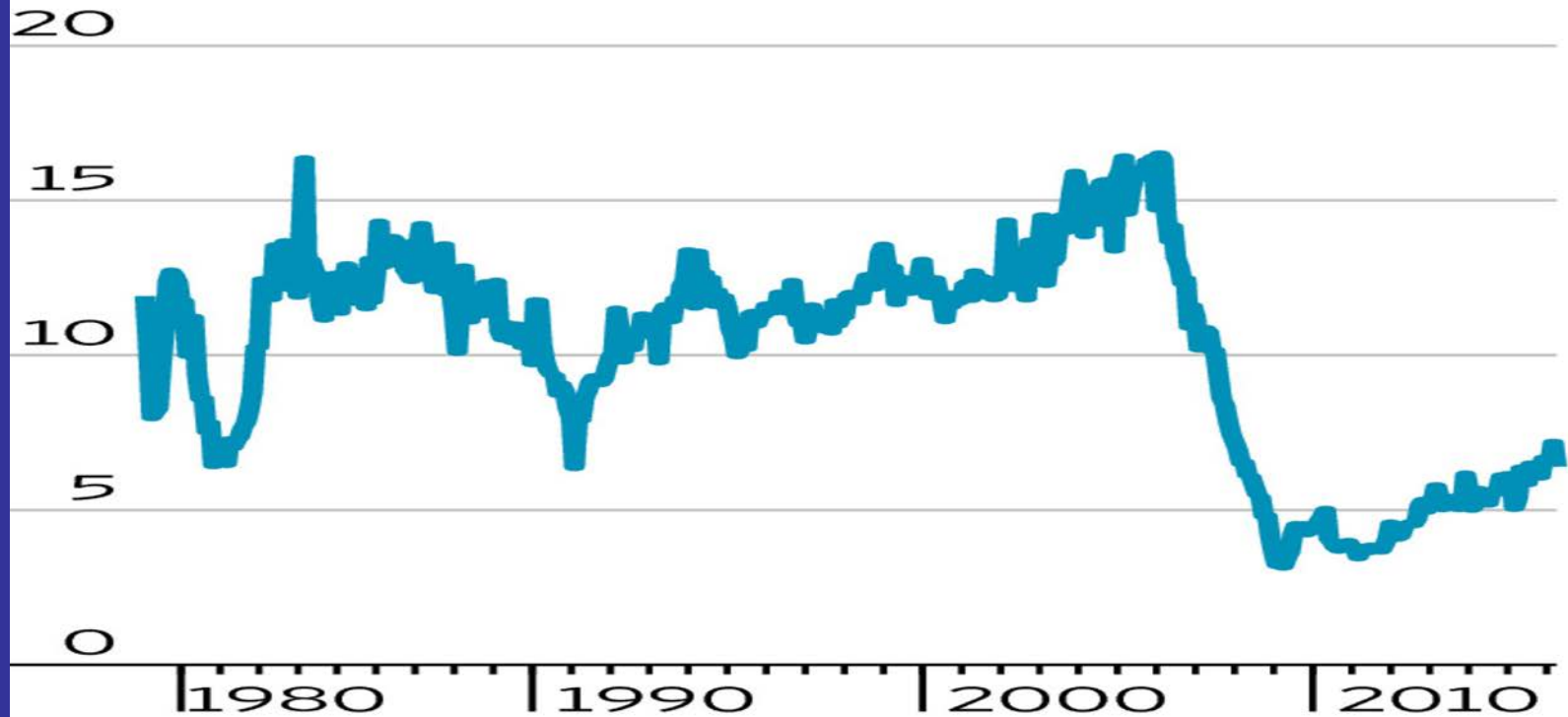
Case Shiller National existing home prices – up 35%
In past 5 years – driven primarily by short supply



“Adjusting for population growth, single-family construction is barely back to the prior troughs of recessions in 1981 and 1991, according to research from mortgage giant \Fannie Mae” (Chris Kirkham, WSJ). Weak demand from young people remains big Problem as job prospects, credit problems and student debt forced many to renting.

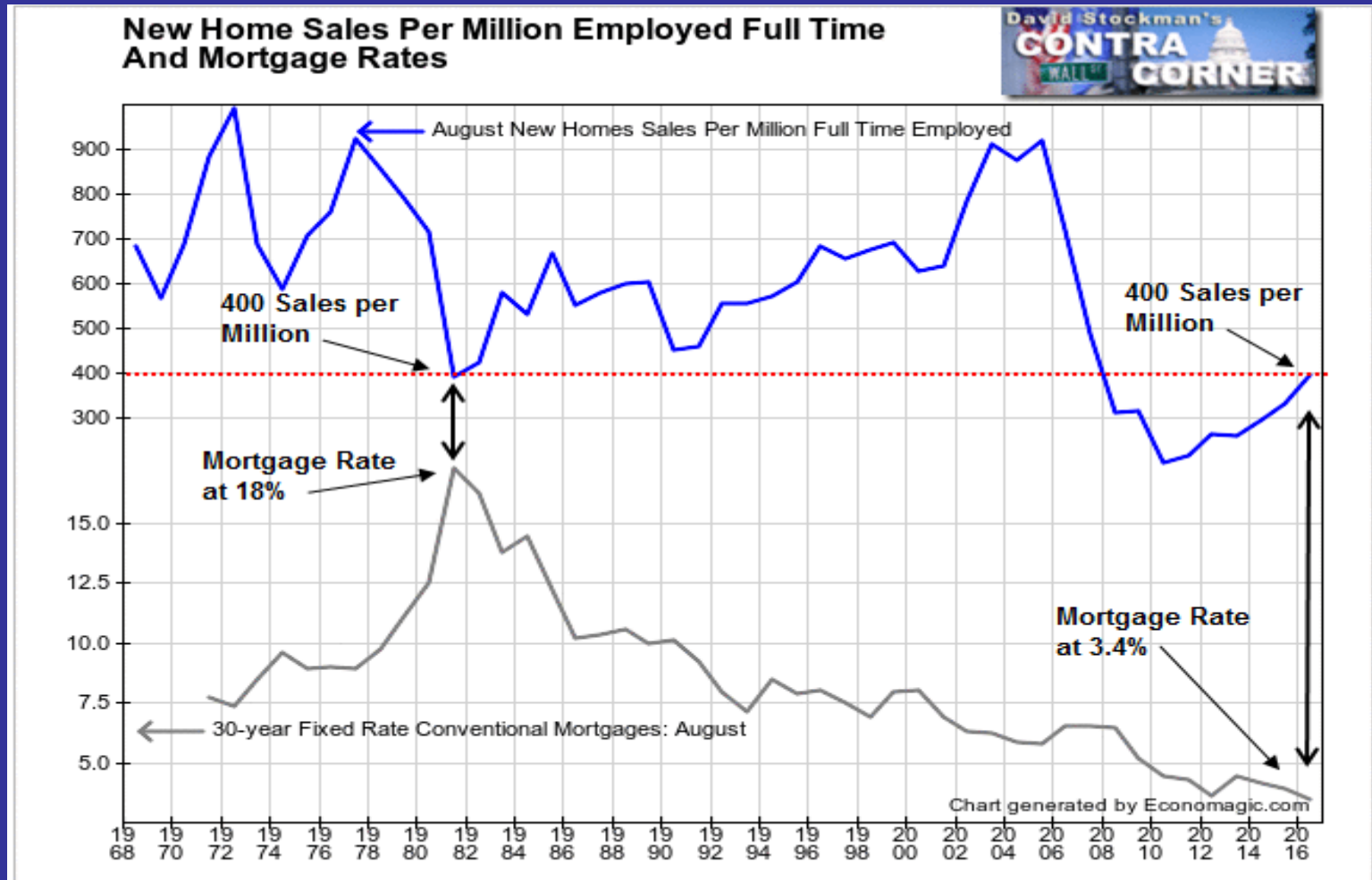
Rebuilding, Slowly

U.S. single-family housing starts per 1,000 households



Source: U.S. Census; Fannie Mae
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Same story showing new home sales versus population – despite Lowest mortgage rates in history, today's new home sales per million are no Better than back in 1980 when mortgage rates were almost 20%. Tells me That low mortgage rates are not the answer – people need good jobs and a Belief in their future – today, both are in jeopardy!!!!



Here is another suggestion on how to fix the economy – a “no brainer” .

GDP = (labor force) (productivity). “Economics 101”

We have an aging work Force and our fertility rate has been falling for decades. That means slow growing labor force. Productivity has been Weak for decades too. Yes, We need to invest for the future – R&D; Infrastructure spending; less regulation; fix K-12 system;.... But, we also need immigrants

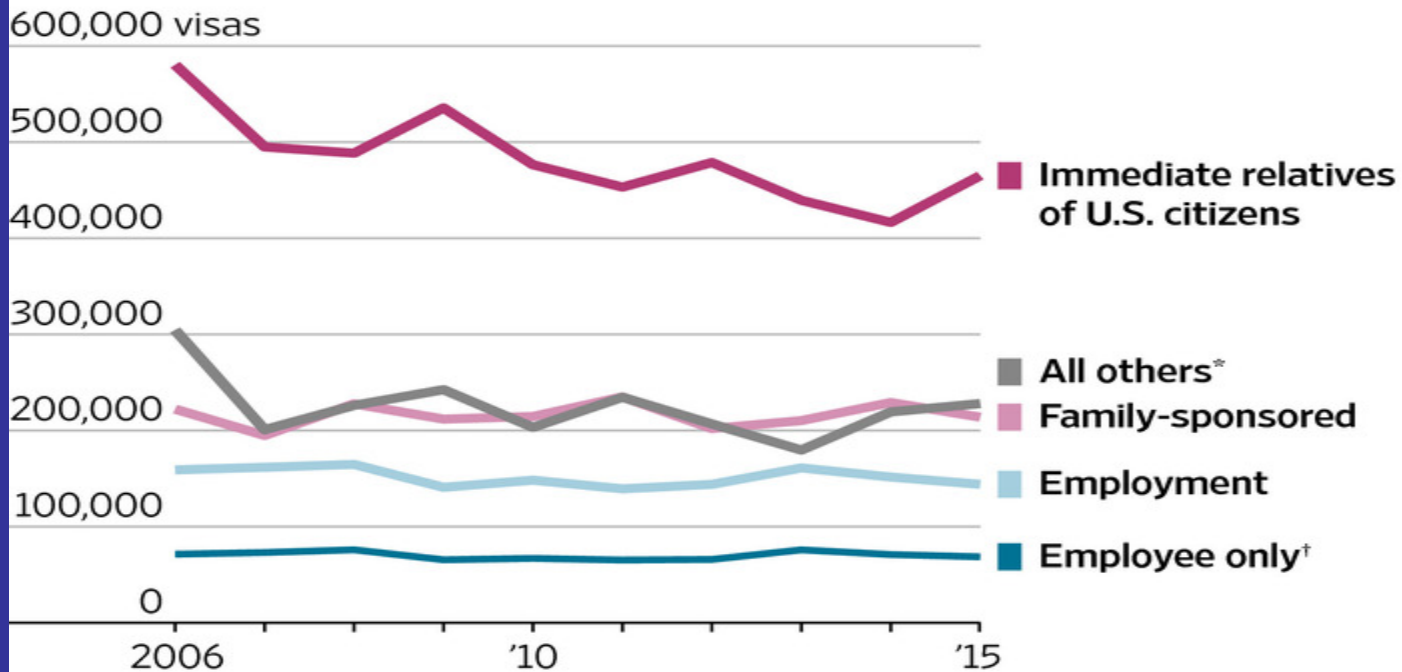
Solution – develop a smart immigration system that brings in Educated, hard working people with technical skills that will Support better productivity growth., and address our shrinking labor force too.

Yes, we still need to bring in refugees too – that is the mark Of a great country. But, the focus today needs to be highly Educated, English speaking (doesn't have to be perfect, but workable)people with technical skills and A strong work ethic.

Immigration system heavily skewed to family – needs to Focus on Employment (skills, education, assimilation) to deal with shrinking workforce and Pathetic productivity - otherwise , GDP will remain weak for Decades. And, housing will remain below par for decades too. (<https://www.wsj.com/articles/a-senate-plan-to-reduce-the-flow-of-legal-migrants-1490197378>)

Family First

Legal immigration is dominated by relatives of citizens and prior immigrants.



*Includes refugees, asylees, and diversity entrants

†Excludes children and spouses included in employment-based

Sources: Department of Homeland Security; Sen. Tom Cotton (employee only)

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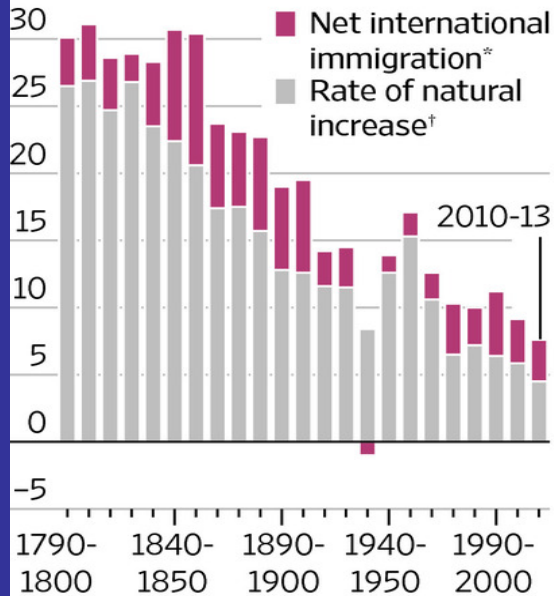
Why we need immigrants – aging population, declining birth rate, and weak productivity means Weak economic growth.

Why? Growth = (work force) (productivity) Basic math – it's that simple. Without a smart immigration policy, we risk following Japan's experience.

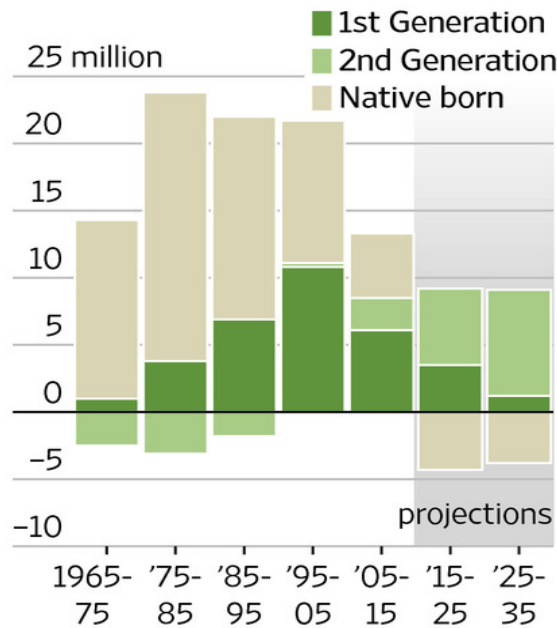
An Antidote to Aging

With the U.S. birth rate declining, curtailing immigration will slash future population growth and make entitlements more burdensome.

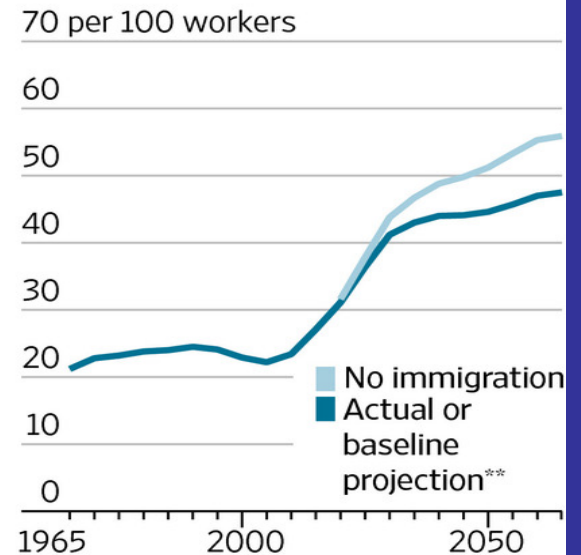
Components of population increase per 1,000 residents, by decade



Contributions to working age population*



Number of elderly-65 and over



*Legal plus illegal immigration minus emigration †Births minus deaths
 **Projections assume annual migration rising from 1.2 million per year now to 1.5 million by 2035.
 Sources: National Academies of Sciences, Engineering and Medicine; Pew Research Center

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More on the economy : Jamie Dimon –his annual letter to JP Morgan shareholders.

(<http://finance.yahoo.com/m/dba8f572-9dec-3b73-b912-762bd04af211/jpmorgan-ceo-dimon-says-in.html>)

"Our problems are significant, and they are not the singular purview of either political party. We need coherent, consistent, comprehensive and coordinated policies that help fix these problems," the head of the largest bank by assets in the U.S. wrote. "The solutions are not binary — they are not either/or, and they are not about Democrats or Republicans. They are about facts, analysis, ideas and best practices (including what we can learn from others around the world)."

Dimon noted that the U.S. is "an exceptional country," but he delineated numerous areas where the country needs to improve. Among them are low wage growth, high health-care costs and overcrowded prisons.

Businesses are overburdened with regulations, the nation's infrastructure needs help, and the education system "is leaving too many behind," he added. Among the other ills: Taxes are making U.S. companies less competitive globally, income disparity is widening, and social mobility is decreasing.

OK – more on the economy --- from Michael Porter

How to Fix the U.S. Economy? Start With the Broken Political System – new report from M. Porter, et. al.
(we started this past November)

Political dysfunction has become the biggest economic stumbling block for the U.S., according to a Harvard report.

Here is the hyperlink to the Porter study

(<http://www.hbs.edu/competitiveness/Documents/problems-unsolved-and-a-nation-divided.pdf>) .

Interesting report from experts on competitiveness. Slow reading, but lots of good analysis, charts, and Recommendations from some of America's leading Thinkers on competitiveness.

Here are suggestions from the Porter study on how to Fix America's economy – **however, to accomplish this, we need A functioning government which we don't have.**

Hopefully, the new administration will begin the process of fixing The problems!!

FIGURE 1: THE EIGHT-POINT PLAN FOR WASHINGTON

1	Simplify the corporate tax code with lower statutory rates and no loopholes
2	Move to a territorial tax system like all other leading nations
3	Ease the immigration of highly skilled individuals
4	Aggressively address distortions and abuses in the international trading system
5	Improve logistics, communications, and energy infrastructure
6	Simplify and streamline regulation
7	Create a sustainable federal budget , including reform of entitlements
8	Responsibly develop America's unconventional energy advantage

Source: Michael Porter and Jan Rivkin. "An eight-point plan to restore American competitiveness." *The Economist: The World in 2013*. (Nov 2012).

What happens when innovation is missing!!!

Dismal productivity growth - - 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?)

Plunging Productivity

Gains in U.S. worker productivity have slowed dramatically since the early 2000s, a trend that could restrain the economy's future growth.

Labor productivity (output per hour)

Percentage change from previous quarter at annual rate,
5-year moving average

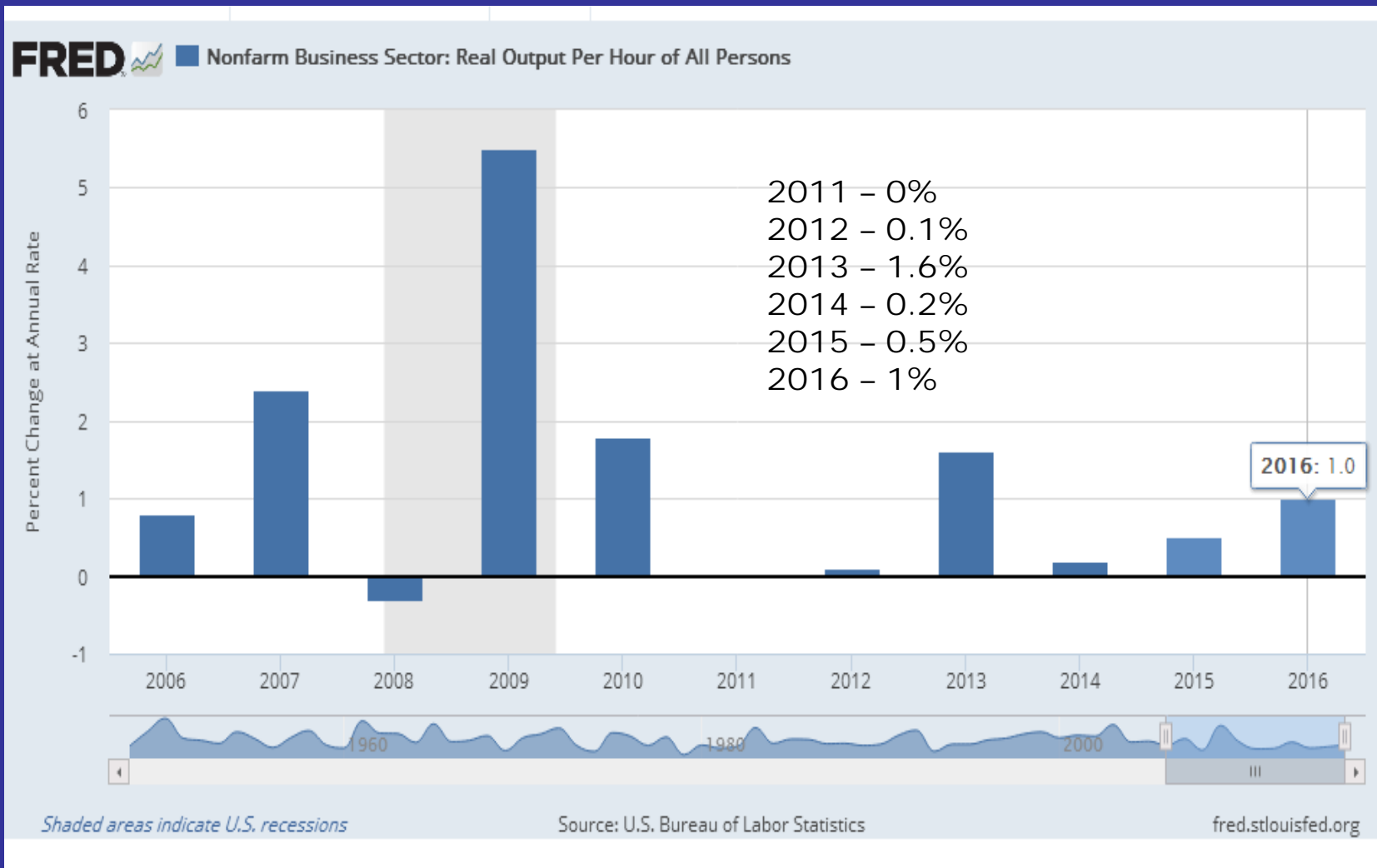


Note: Figures are seasonally adjusted
Source: Labor Department

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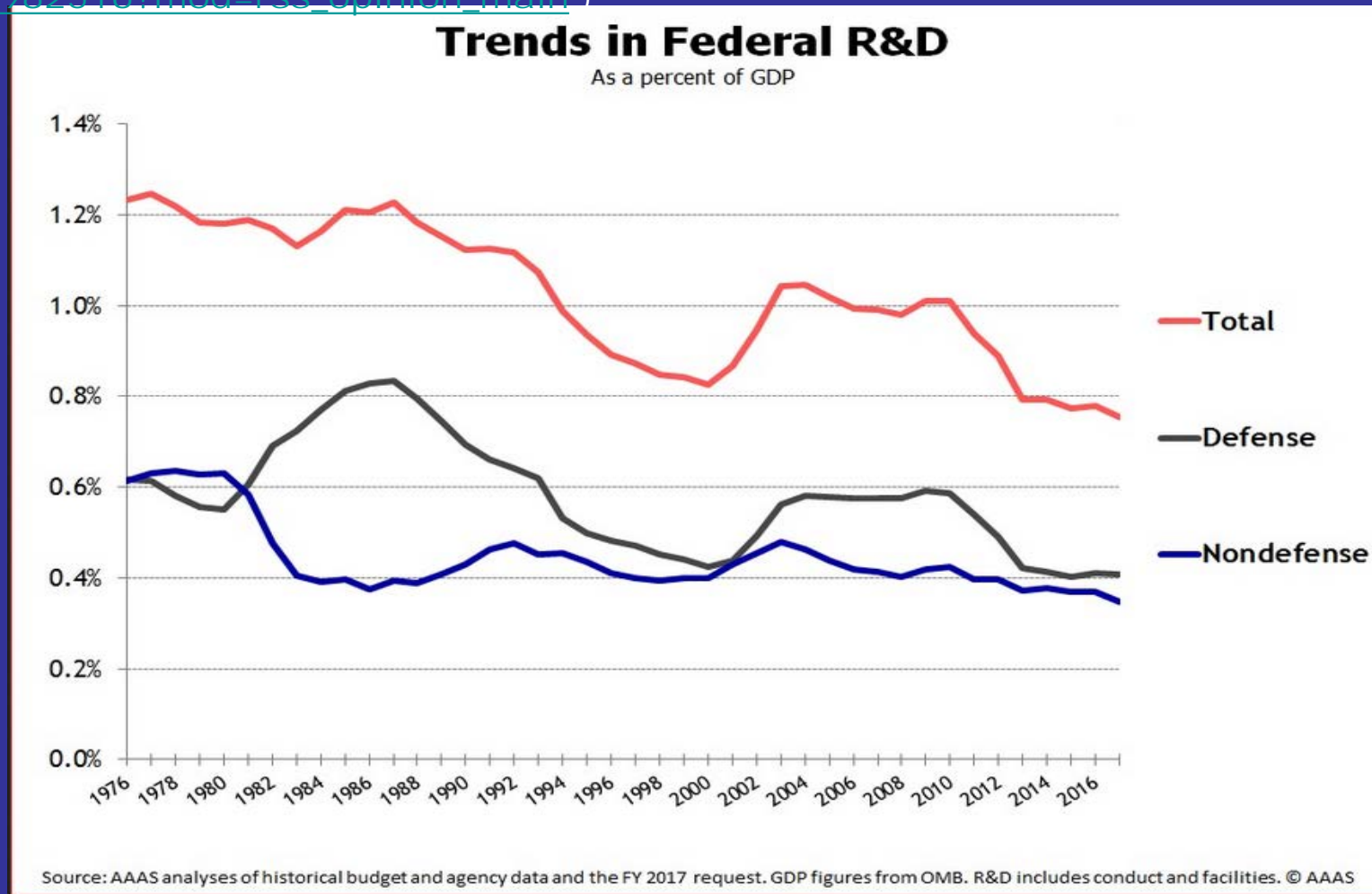
Source: WSJ (<http://www.wsj.com/articles/u-s-productivity-dropped-at-0-5-pace-in-the-second-quarter-1470746092>)

Declining Productivity is a major problem – has averaged 0.6% annually since 2011 – this plus declining work force Means weak GDP and declining standard of living



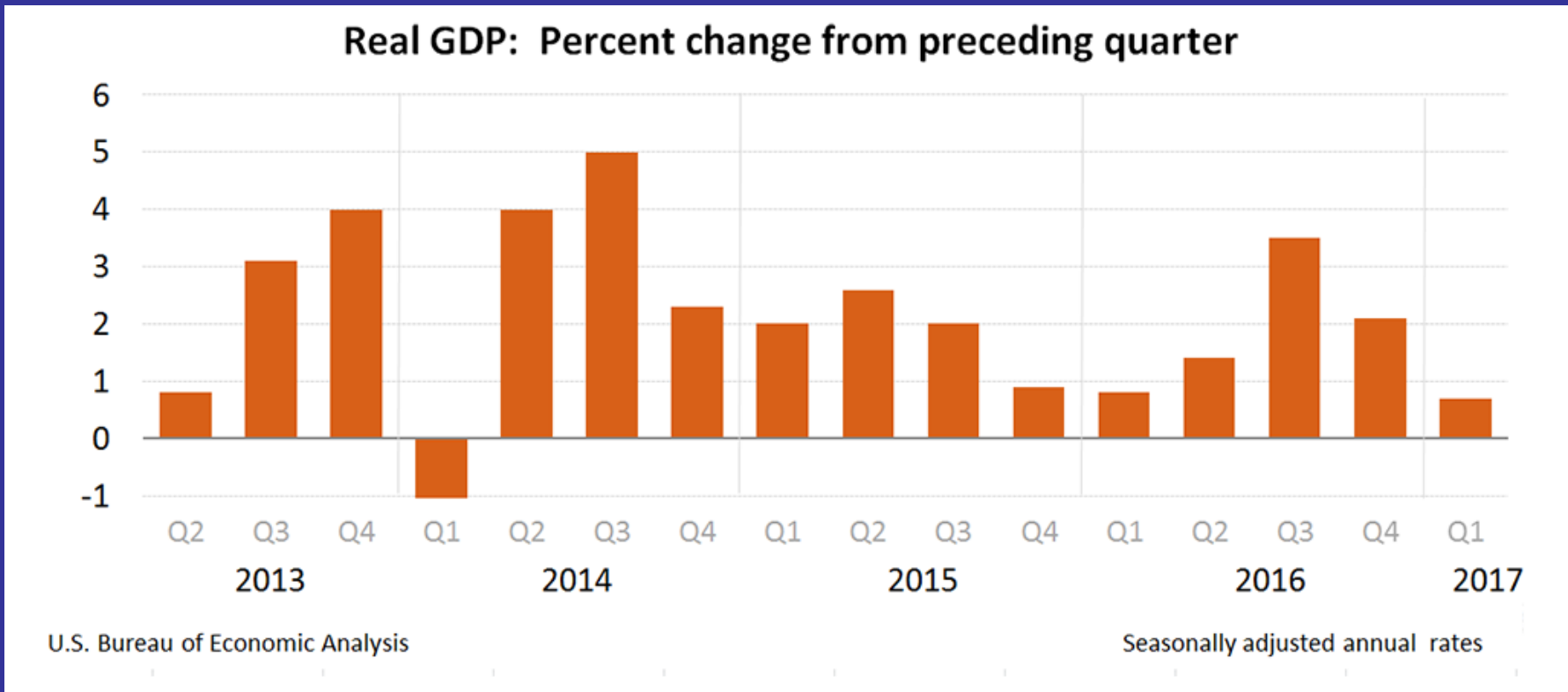
Falling Basic R&D - - funding basic science is declining – big problem that needs fixing

Federal government Funds basic research while industries fund applied research – basic research is critical to development of new technology and innovation in science and engineering - critical to economic and job growth, and productivity (http://www.wsj.com/articles/the-dividends-of-funding-basic-science-1480982516?mod=rss_opinion_main)



U.S. 1st Qtr 2017 Economic growth 0.7% - 1.7% for 2016 - terrible
The slowest expansion since WW11.

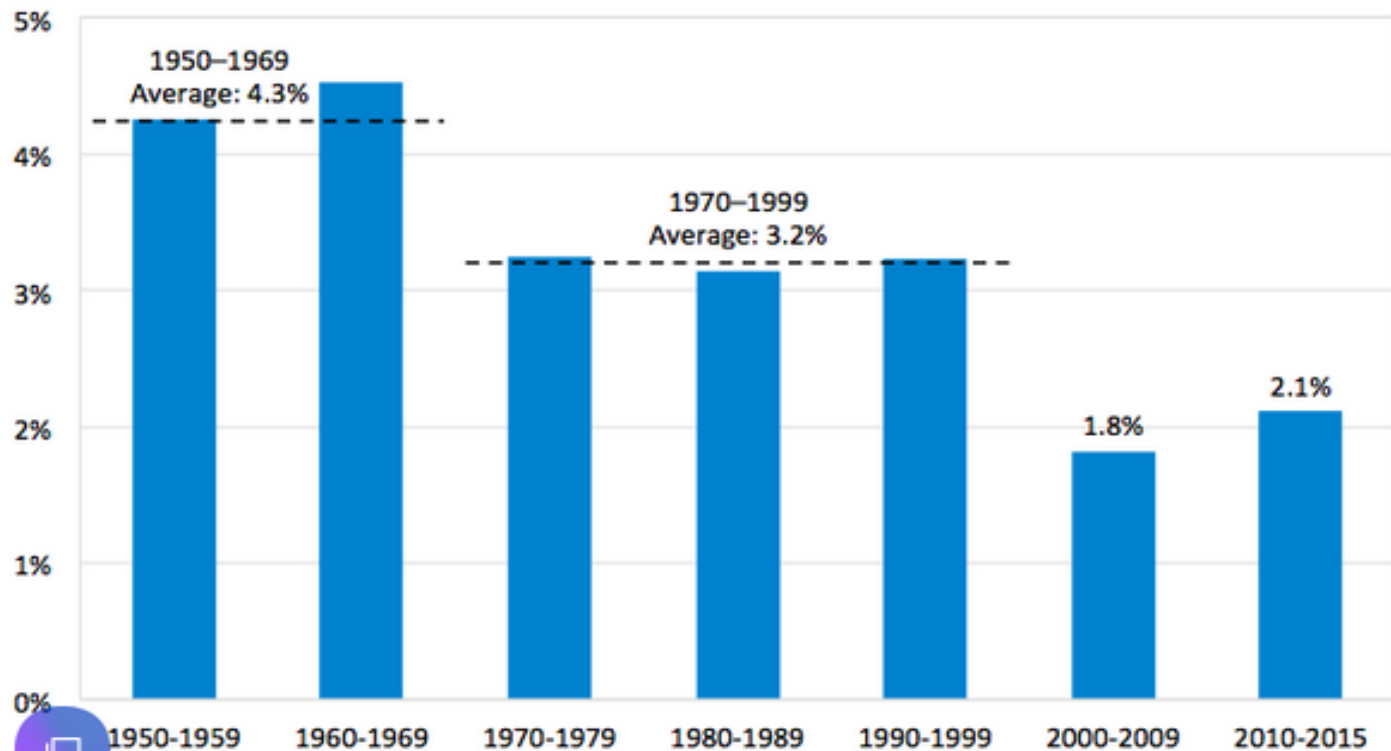
- (1) Slowing world economy (weaker China , European, and South American growth)
- (2) Stronger dollar will reduce exports and increase imports – negative impact on manufacturing jobs which is key to income growth in USA
- (3) Political stalemate/weak leadership, terrorism, currency wars, growing national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



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

Weak growth means weak incomes
And weak housing numbers in the future unless we address
Our competitiveness issues.

FIGURE 1: SLOWDOWN IN ECONOMIC GROWTH RATE BY DECADE
COMPOUND ANNUAL GROWTH RATE OF U.S. REAL GDP BY DECADE, 1950-2015



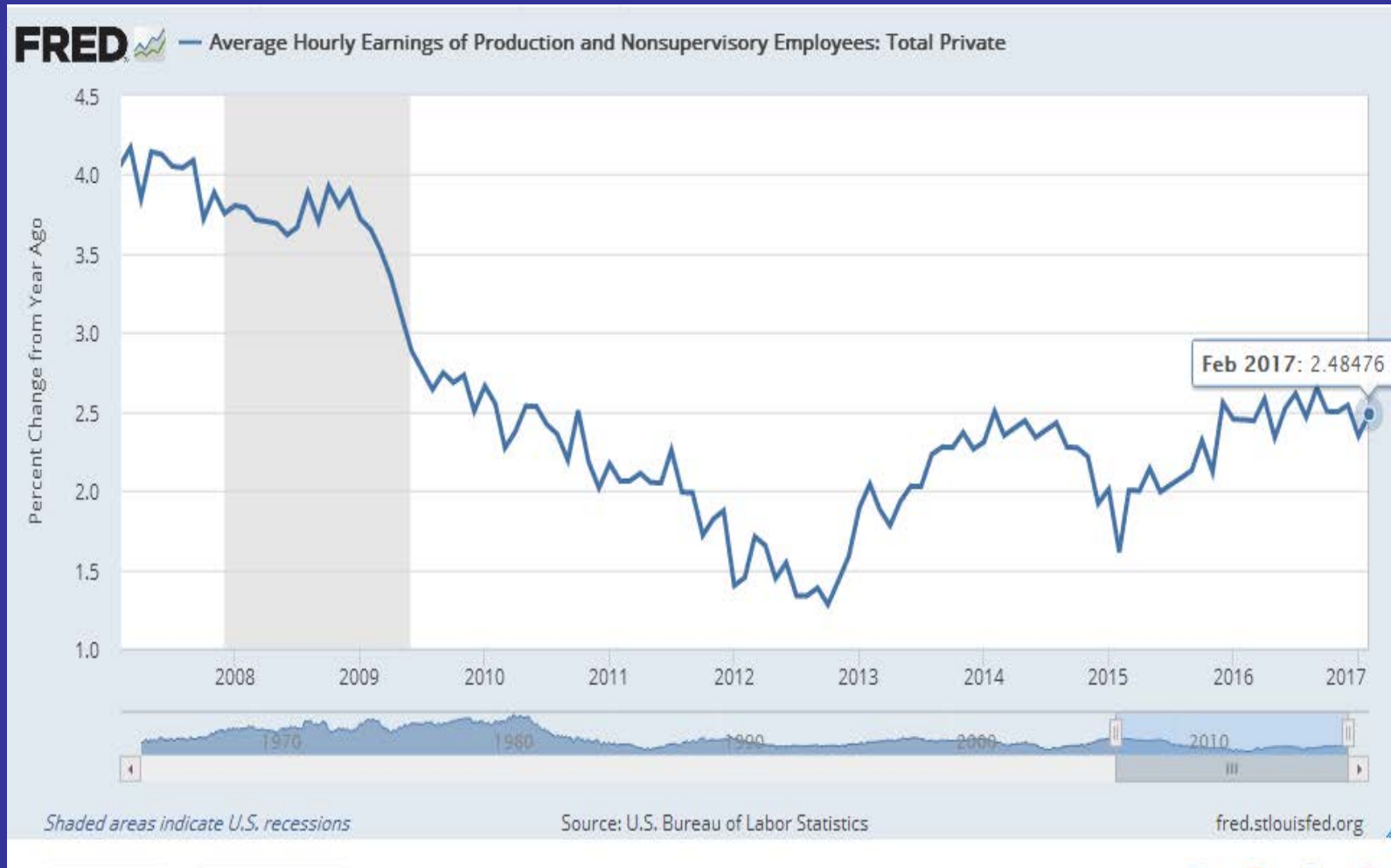
Source: Bureau of Economic Analysis; author's calculations.

Source: Harvard Business School US Competitiveness Project

(<http://finance.yahoo.com/news/us-competitiveness-project-harvard-business-school-hbs-michael-porter-030021739.html>)

Here are a few slides on labor market conditions – problems
Persist, but there are solutions

Wage trend is good, but not spectacular

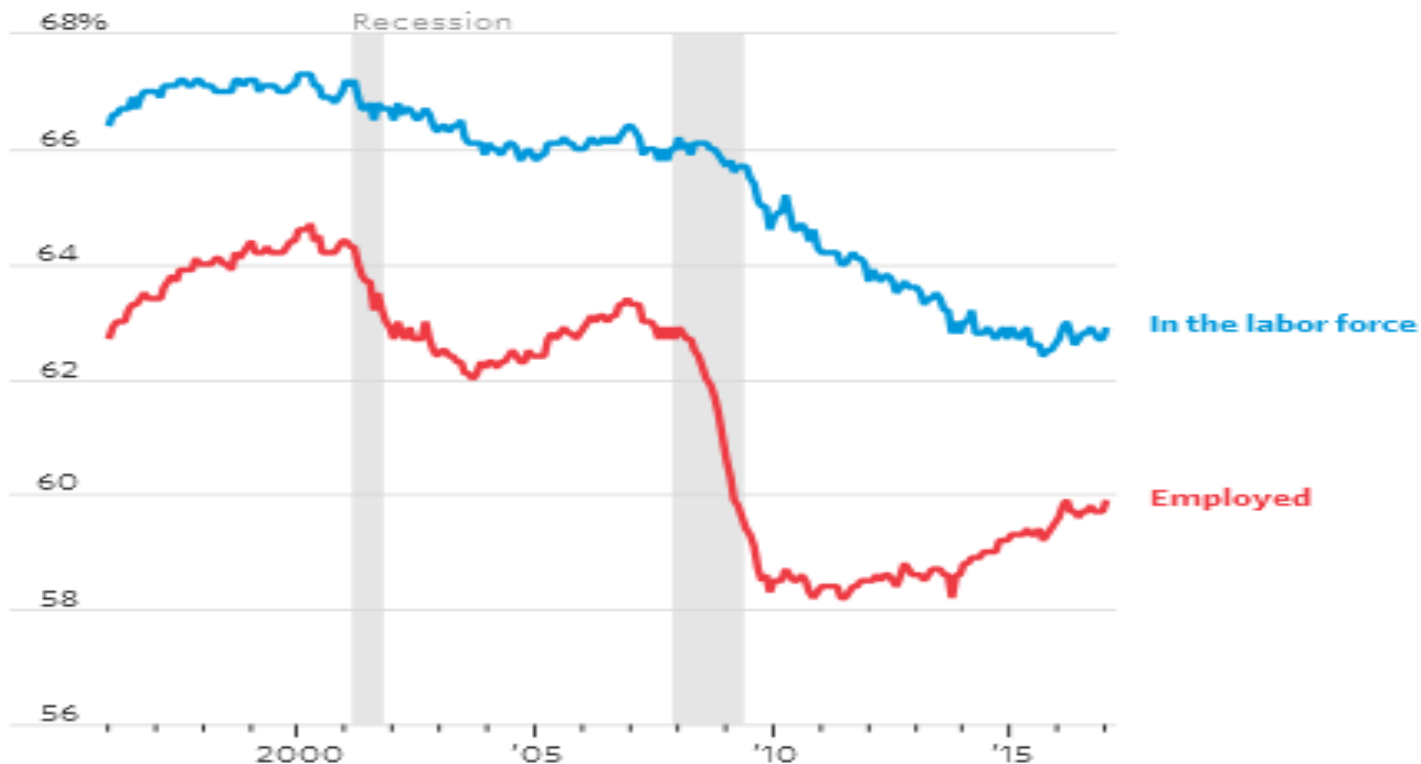


(<https://fred.stlouisfed.org/series/AHETPI#0>)

Not a good trend for the economy – employment
Population ratio keeps decreasing – my opinion – too
Much welfare, plus many people don't have the required job skills
(half the population on some form of welfare – food stamps, Medicaid, long
Term disability, housing allowances, etc.) – **yes, aging work force and retiring
Baby boomers is another reason the participation rate is dropping**

Labor Force

Share of the population that is...



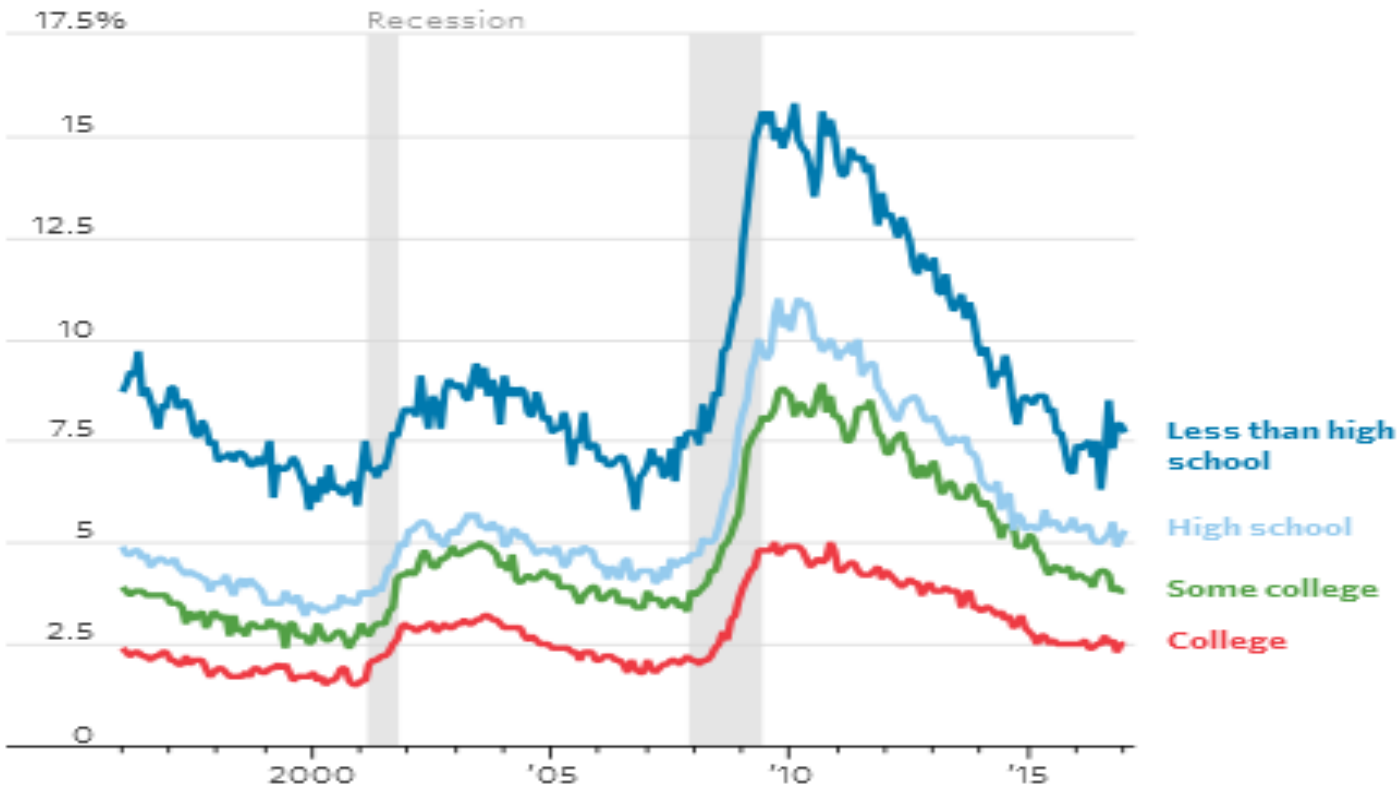
Note: Seasonally adjusted
Source: Labor Department

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Education will help keep you out of the unemployment line

School Work

Unemployment rate by educational attainment, age 25 and over



Note: Seasonally adjusted
Source: Labor Department

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Additional housing comments

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



March 2017 - - 821,000, up 9.3%
Versus March 2016

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

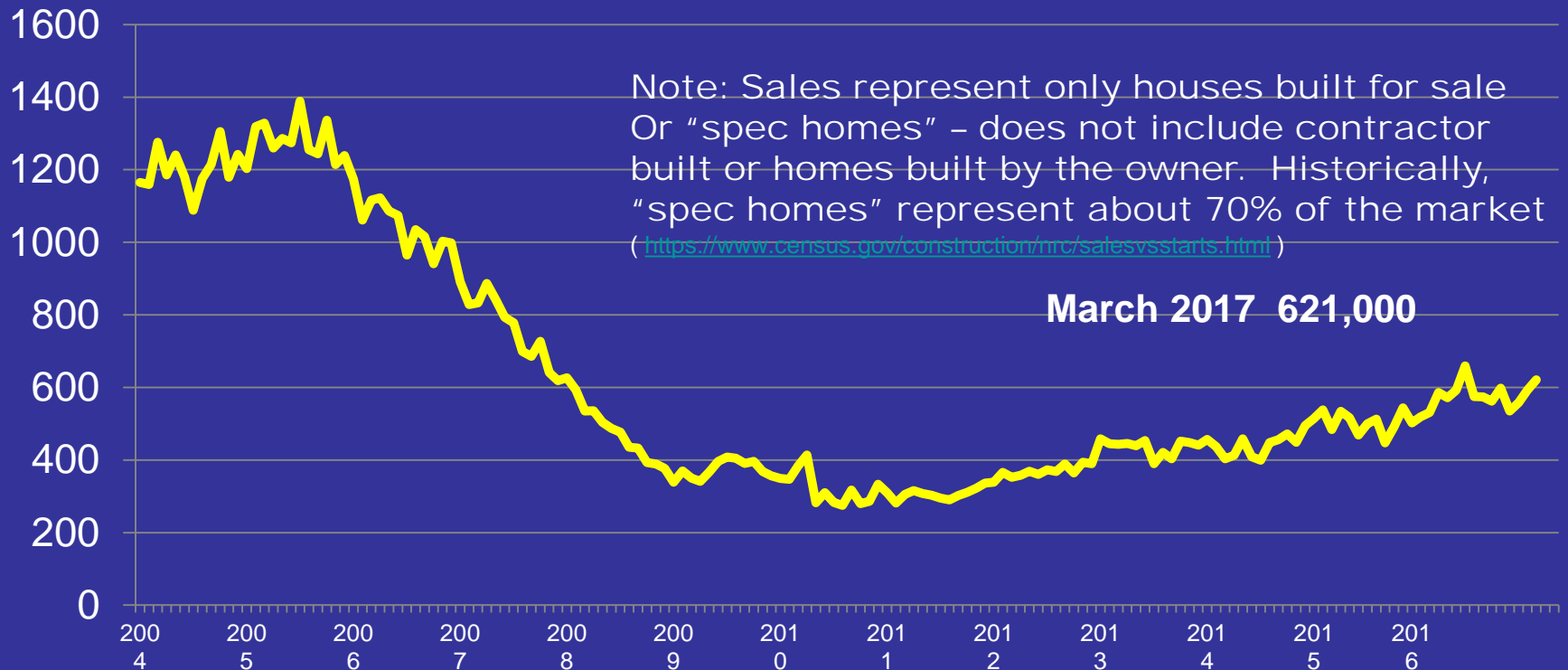
New Single Family Home sales are the key statistic to watch for wood Products demand – Sales drive housing starts – this drives demand for wood products!!!

up 16% year over year!!!!

OK. We're making progress, but still

A relatively weak market

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 3.8 months, remains a problem. Healthy market is about 6months supply. Median prices are up 8%, annual basis - 59th consecutive Monthly increase. Here is good report from NAR on 2016 totals (<https://www.nar.realtor/news-releases/2017/01/existing-home-sales-slide-in-december-2016-sales-best-since-2006>) **1st time buyers, at 33%, remain Below trend of 40%.**

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

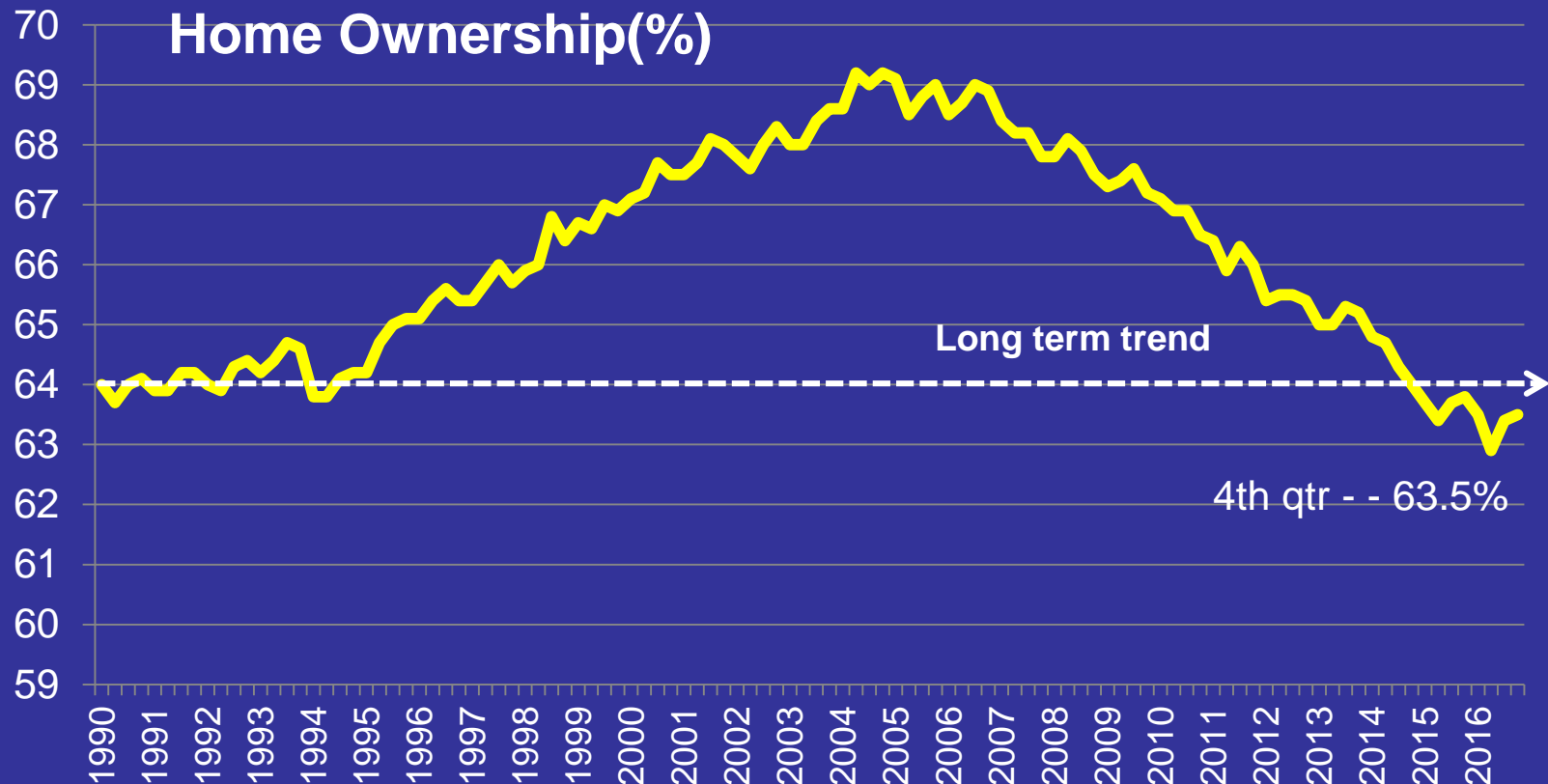


Source: NAR (<http://www.realtor.org/news-releases/2015/06/existing-home-sales-bounce-back-strongly-in-may-as-first-time-buyers-return>)

Household formations 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>)

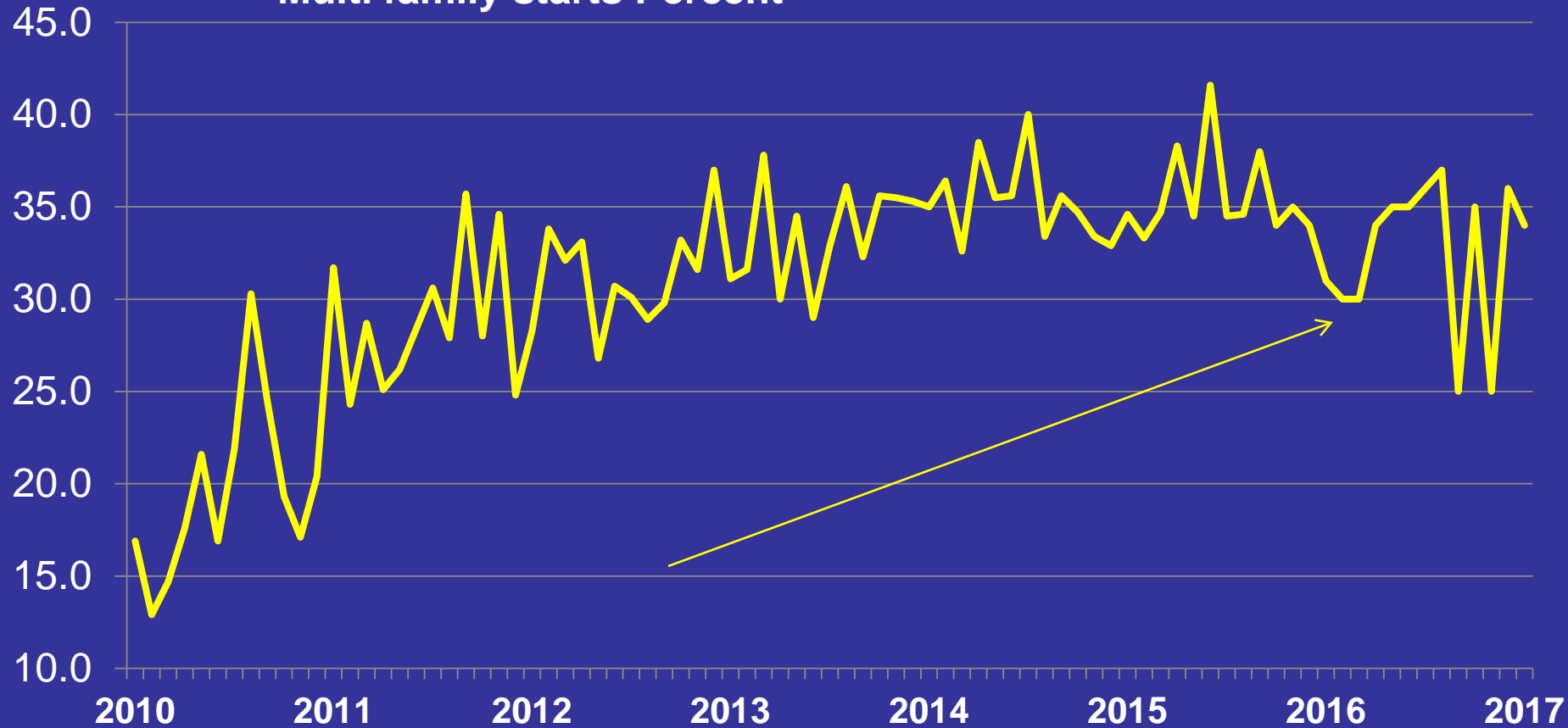
Homeownership lowest in 50 years



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

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 15% 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/>)

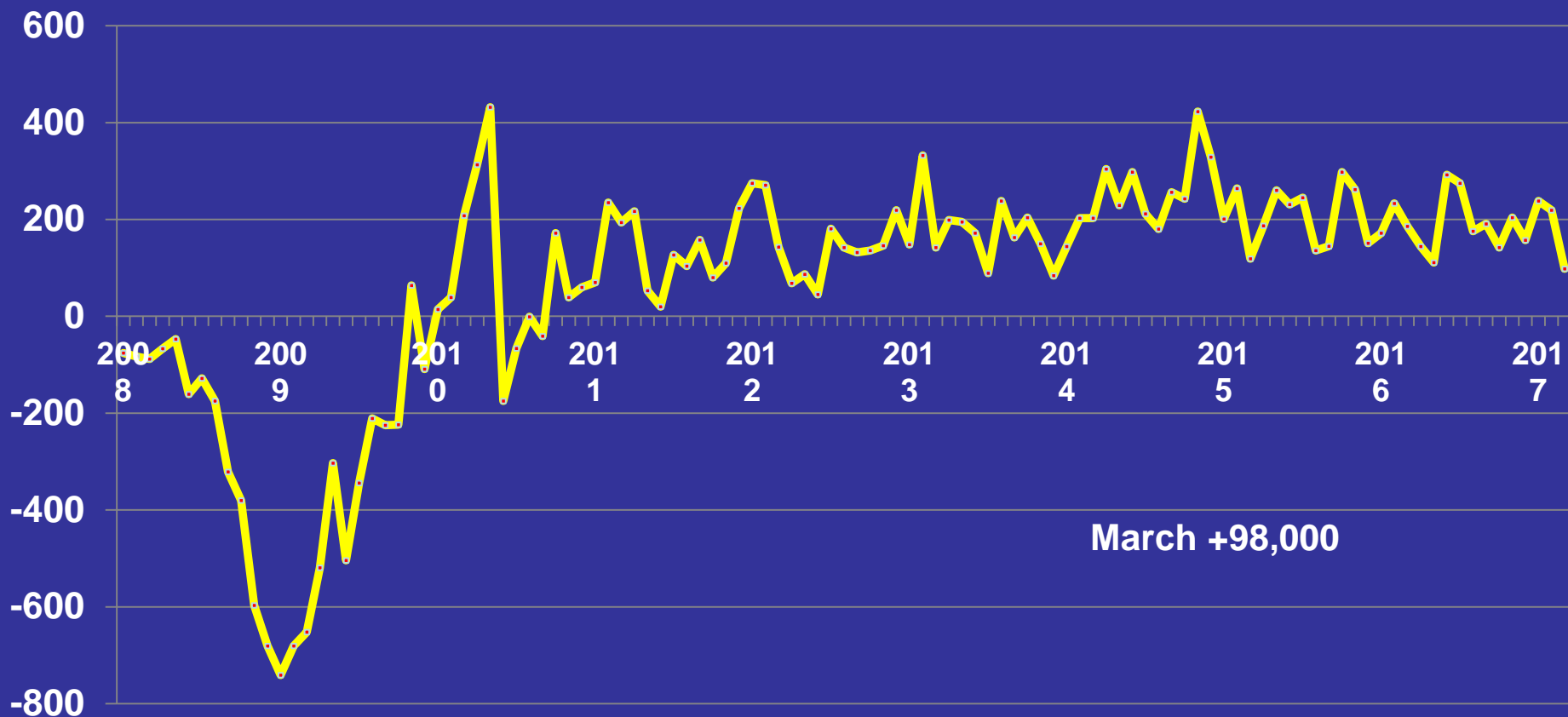
Multi family starts Percent



More News on the labor front

Employment situation - our biggest problem – stuck around 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 and more research

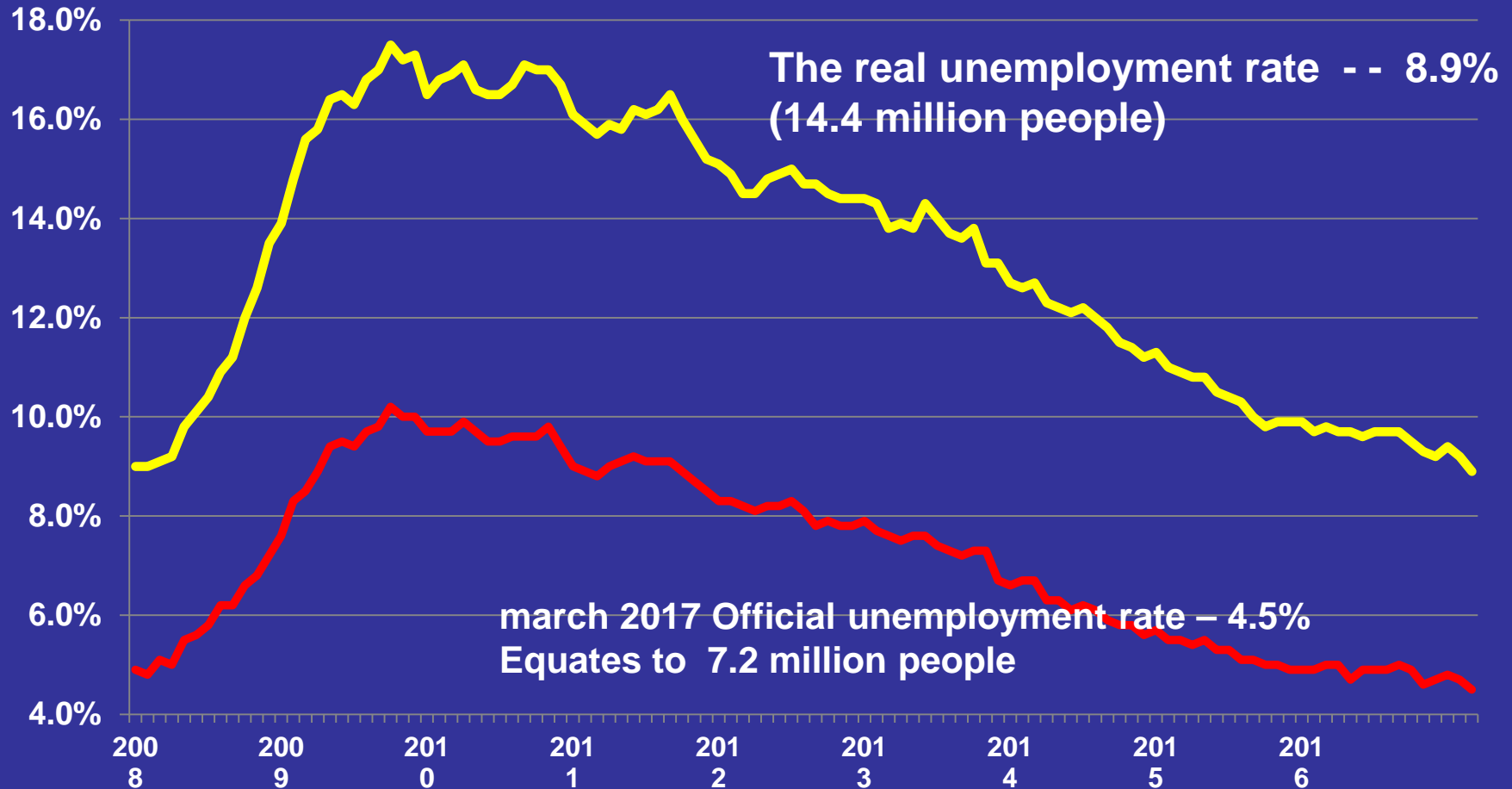
Net change in non farm payrolls – monthly, thousands



March +98,000

Source: U.S. BLS (www.bls.gov)

Unemployment rate keeps coming down – but, 5.6 million remain “underemployed” – working part time, but want full time jobs – another 1.6 million are “marginally attached” including 460,000 discouraged – total = 14.2 million including official 7.2 million unemployed



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#>)



But, taking a closer look,, from July 2015 – February 2017,
More people are returning to the work force. That's a good
Sign!!!



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

- (1) Economy is improving (slowly) -- **2016 growth was 1.9% while 2017 expected to be about the same.**
- (2) Housing market still not healthy - 1st time buyers (33% today) are below trend (42%) - 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 competitiveness problems!
- (5) ***Weak/no leadership from Obama administration and Congress, - our biggest problem – maybe “the Donald” will fix our problems – so far, no improvement – GOP Health care legislation a disaster!!!***
- (6) The fed increased rates in December, finally, with several more increases expected in 2017. Low rates are not the solution to the weak economy!!! Innovation, investment, tax reform, is the solution, but that will be challenging with \$20 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. Plus, we need a smart immigration policy.