



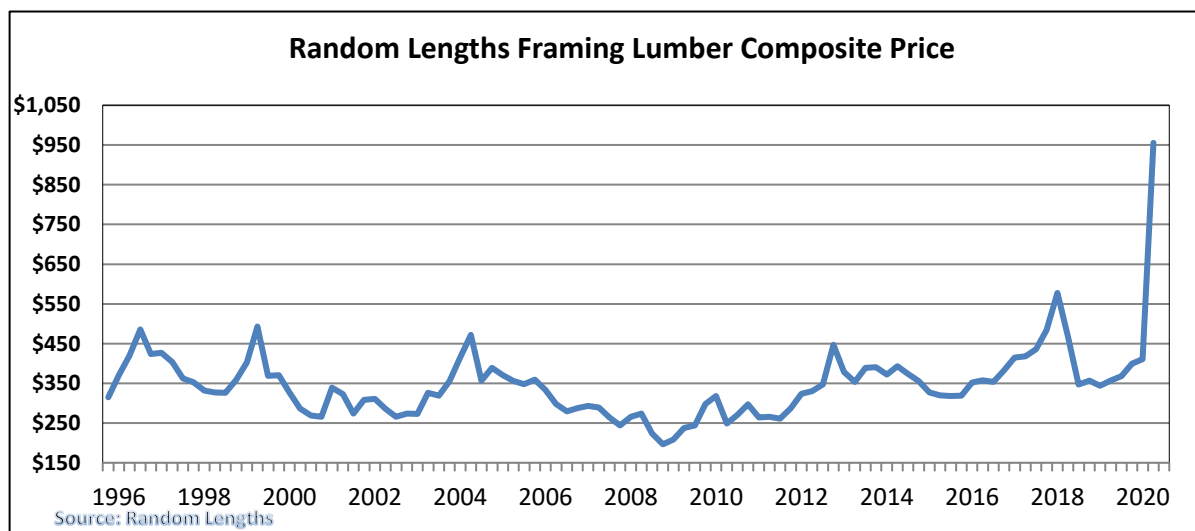
## CORTON GLOBAL TIMBER FUND

Special Report – September 21, 2020

### WHERE ARE LUMBER PRICES GOING?

#### Background

- Over a month ago, we made the case for \$1,000 lumber prices. On September 18, the **Random Lengths Framing Lumber Composite** hit a record high of **US\$955**.
- Last week we saw a slight weakening of Western SPF 2X4 prices, however, western US lumber prices (Douglas Fir and Hemlock) and Southern Pine lumber prices continued to climb with **SYP 2X4** lumber selling in the southeast at **US\$1,005** per mfbm.



#### Where are lumber prices going?

- Most forest product analysts are forecasting a sharp drop in lumber prices over the next three months. Some analysts have actually been predicting a drop in prices for several months now, however, prices have instead sky-rocketed.
- **Forest Economic Advisors (FEA)** at their virtual Strategic Planning Seminar on September 17, predicted a **“plunge”** in lumber prices as **“actual end-use market activity, consumption and ordering will fall in the coming months”**. This forecast was presented despite the FEA economist, at the same seminar, giving a very positive outlook for U.S. housing.

#### We do not expect a sharp fall-off in lumber prices.

- Lumber prices increased sharply over the past four months as most sawmills in Canada and the U.S. ran at 100% of capacity. Lumber imports from Europe are up 27%. Despite the added supply, inventories in the field and at the mills remain at record lows.
- Traditional slower demand as we enter the winter months will be largely countered by continued strong D-I-Y demand and housing projects that were delayed by COVID.
- Recent forest fires in the U.S. Northwest (40% of lumber supply) have resulted in lost production and will result in log supply issues at a time when sawmills are scrambling to fill lumber orders.

**Is \$700 the “new low” in lumber prices?**

- Our lumber price projections, as compared to the bank analysts forecasts and FEA’s forecast, are illustrated in Table 1. Average lumber prices (source: Random Lengths) have historically risen (+7.6%) in the Oct–Jan period, largely due to higher demand as distribution yards start to re-stock lumber inventories ahead of the traditionally strong Spring building season.
- This year, however, could be different depending largely on what happens with the COVID pandemic. Will there be a “second-wave” and further “stay-at-home” orders?
- If the pandemic spreads to rural communities, mills may be forced to shutdown shifts as workers are forced to isolate. This happened at the onset of COVID in April and May.
- If there are further stay-at-home orders, will homeowners continue to renovate their homes?
- With record low interest rates – the cost of carrying extra inventory by distribution yards will be negated and new home construction will continue to be robust. Based on the latest survey by the **National Association of Realtors**, existing home inventories are at “rock bottom”, the lowest in over 20 years. U.S. housing starts in July/August were up 12.1% year-over-year.
- Home builders and stocking distributors may balk at the current record high prices and may temporarily stop purchasing, however, with new buyers and high retail demand they will eventually have to start buying again. **This is the primary reason why we don’t think a drop in prices will be deep or long and prices will “bottom out” at still relatively high levels.**

**Table 1 – Lumber Price Forecast October 2020 – January 2021 and FY2021  
Western Spruce/Pine/Fir 2X4 – US\$/mfbm FOB mill**

| Forecaster                          | Oct* to Nov        | Nov to Dec         | Dec to Jan         | 2019(a)       | 2020 (e)      | 2021 (e)      |
|-------------------------------------|--------------------|--------------------|--------------------|---------------|---------------|---------------|
| Random Lengths<br>Average 2000-2019 | \$283-\$291        | \$291-\$292        | \$293-\$305        | \$360         | -             | -             |
| Change                              | +2.8%              | +0.8%              | +4.0%              | -25.2%        | -             | -             |
| <b>CORTON Capital</b>               | <b>\$940-\$850</b> | <b>\$850-\$760</b> | <b>\$760-\$790</b> | <b>\$360</b>  | <b>\$571</b>  | <b>\$725</b>  |
| <b>Change</b>                       | <b>-9.6%</b>       | <b>-10.6%</b>      | <b>+4.0%</b>       | <b>-25.2%</b> | <b>+58.6%</b> | <b>+27.0%</b> |
| Analyst Consensus                   | \$940-\$510        | \$510-\$350        | n/a                | \$360         | \$484         | \$425         |
| Change                              | -45.7%             | -31.3%             | n/a                | -25.2%        | +34.4%        | -12.2%        |
| FEA                                 | \$940-\$700        | \$700-\$450        | \$450-\$500        | \$360         | \$533         | \$475         |
| Change                              | -25.5%             | -35.7%             | +11.1%             | -25.2%        | +48.1%        | -10.9%        |

Sources: Random Lengths, Forest Economic Advisors, Corton Capital

\* With current prices at US\$948 and most mills reporting four-week order files, we are reasonably confident that October 2020 lumber prices will average at least US\$940.

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