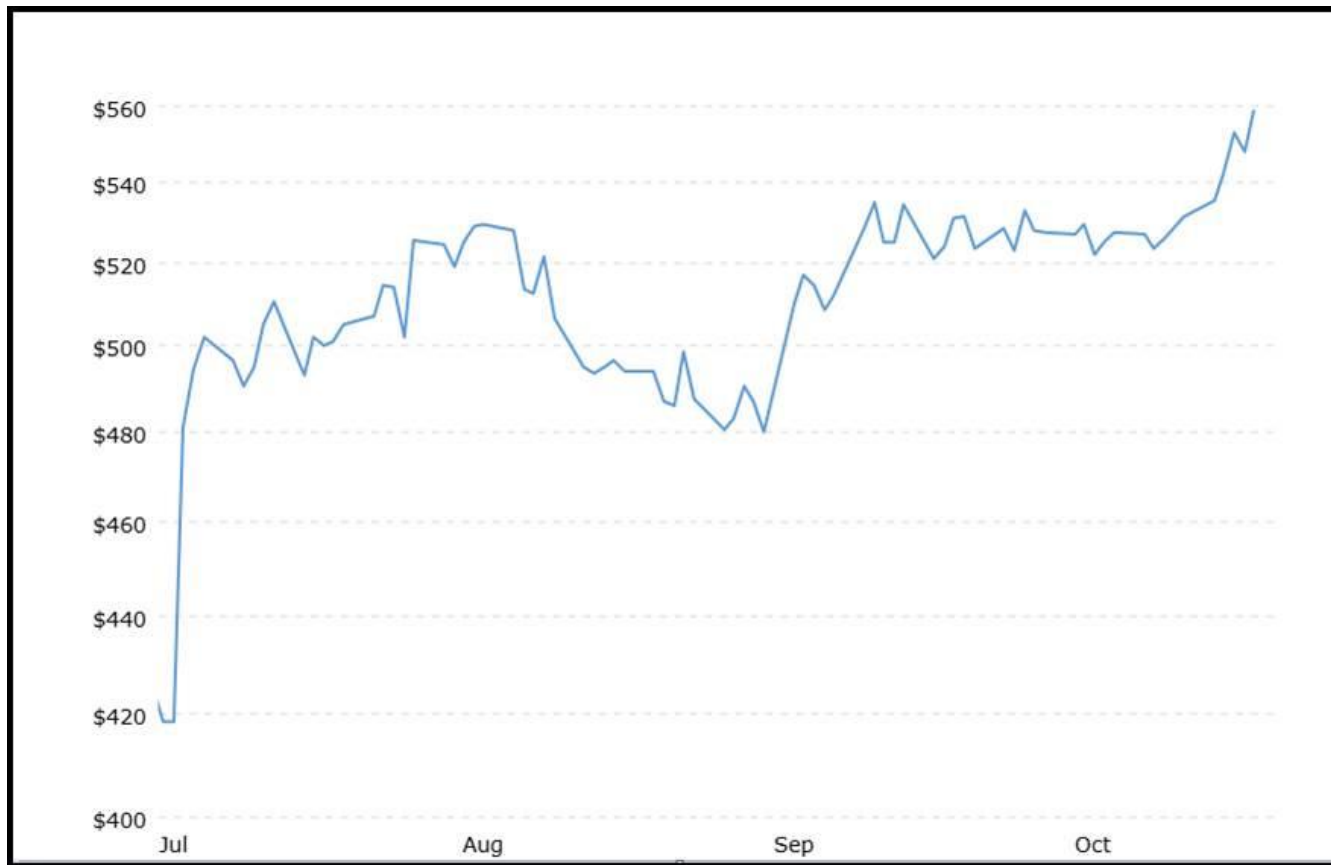


FOREST PRODUCTS MARKETS and ECONOMIC UPDATE Q3 2024

FOREST PRODUCTS MARKETS

Commodity lumber and plywood saw appreciation over the quarter, with both commodity lumber and panels rallying well into the end of October. Why the recent upward price activity? Lumber supply has been dwindling in Canada over the last 18 months, and recent hurricane activity has temporarily curtailed some of the remaining southern US lumber and panel production. In addition to this, recent interest rate reductions on both sides of the border and hurricane repair impact have most likely led to increased demand.

CME Lumber Futures July to end of October



ECONOMIC UPDATE

As we manage our business at Weston Forest, we look to certain trailing indicators to help predict future activity. We keep an eye on things that impact demand in our key markets, which are mostly related to construction and industrial production. The best widely available indices of this activity are Housing Starts and Industrial Production data.

HOUSING STARTS

The Housing Start data indicates that while there has been recent weakness and the 12-month trend is slightly down, the general trend is still in the upward direction as overall demand for housing in both Canada and the US remains strong. The recent rate decreases on both sides of the border is good news for this sector.

In Canada, a housing start is defined as the beginning of construction work on the building where the dwelling unit will be located. This can be described in 2 ways: usually, the stage when the concrete has been poured for the whole of the footing around the structure; or an equivalent stage where a basement will not be part of the structure. We also look at the single/multifamily split and geographic activity.

Housing starts in Canada rose by 5% over a month to 223,808 units in September 2024, below market expectations of 237,500 units, according to the Canada Mortgage and Housing Corporation. The monthly SAAR of total urban housing starts was 6% higher at 210,002 units, as multi-unit urban starts increased 6% to 163,400 units, while single-detached urban starts increased 5% to 46,602 units. The rural starts monthly SAAR estimate was 13,806 units. "Growth in actual year-to-date housing starts has been driven by both higher multi-unit and single-detached units in Alberta, Quebec and the Atlantic provinces. By contrast, year-to-date starts in Ontario and British Columbia have decreased across all housing types. Despite the increase in housing starts in September, we remain well below what is required to restore affordability in Canada's urban centres." said Kevin Hughes, CMHC's Deputy Chief Economist.

In the US, Housing Starts refer to the number of new residential construction projects that have begun during any particular month. Estimates of housing starts include units in structures being totally rebuilt on an existing foundation.

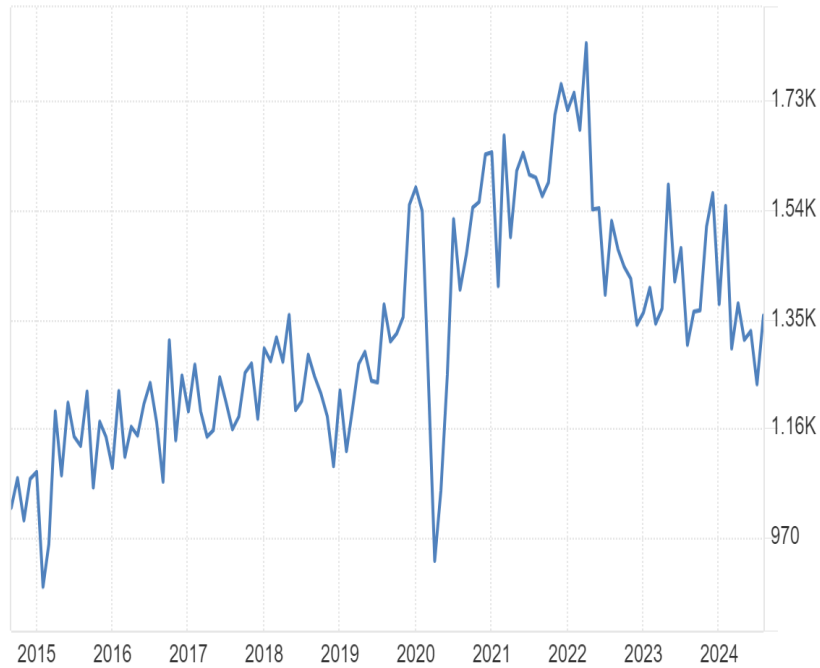


Housing starts in the United States eased by 0.5% from the previous month to an annualized rate of 1.354 million units in September of 2024, in line with market expectations, trimming the downwardly revised 7.8% increase in August. Starts of houses with five units or more sank by 4.5% from the previous month, which totaled an annualized rate of 317 thousand, while starts of single-family homes rose by 2.7%, equivalent to an annualized rate of 1.027 million. Among different geographical regions, starts fell in the south (-3.4% to 738 thousand), the West (-10.1% to 257 thousand), and the Midwest (-9.1% to 179 thousand). On the other hand, housing starts rose sharply in the Northeast (57.9% to 180 thousand).



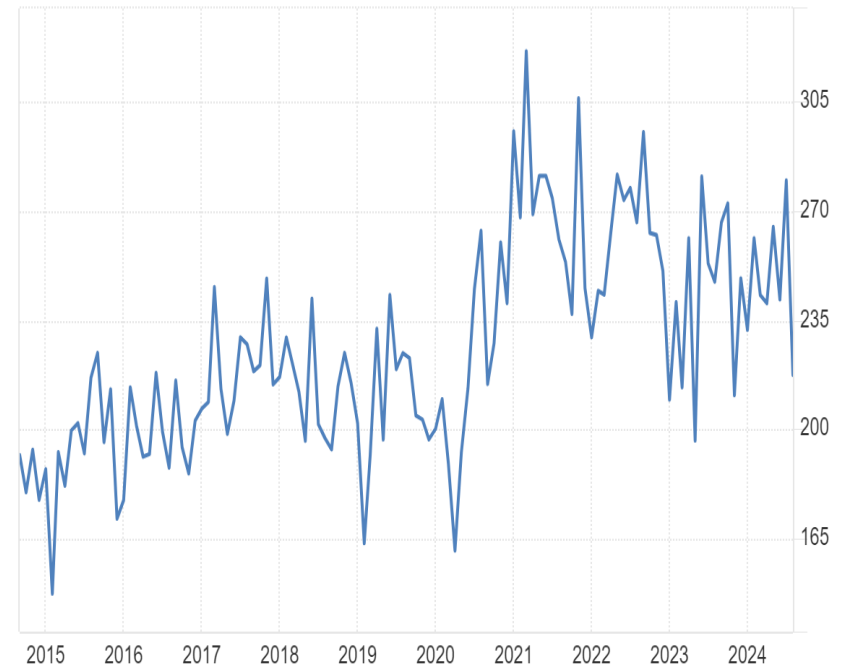
NORTH AMERICAN HOUSING STARTS: 10-YEAR

US Housing Starts - Thousand units



Source: tradingeconomics.com | U.S. Census Bureau

CA Housing Starts - Thousand units



Source: tradingeconomics.com | Canada Mortgage And Housing Corporation



INDUSTRIAL PRODUCTION MoM

The Industrial Production data in both Canada and the US to April 2024 does not show a clear trend, with alternating months of growth and contraction. This is somewhat inconclusive, but we're seeing more of a slowdown in recent months than the reported data to April indicates. The silver lining here is that reduced manufacturing activity might lead to lower inflation numbers, which would signal interest rate decreases. Time will tell.

Industrial production measures the output of businesses integrated in the industrial sector of the economy, such as manufacturing, mining, and utilities.

Industrial Production in Canada decreased 0.50 percent in June of 2024 over the previous month. Industrial Production MoM in Canada averaged 0.10 percent from 1997 until 2024, reaching an all-time high of 6.60 percent in May of 2020 and a record low of -15.80 percent in April of 2020.

Industrial production in the US rose 0.8 percent from a month earlier in August 2024, the most in six months and more than market expectations of a 0.2 percent increase. Manufacturing output, which makes up 78% of total production, advanced 0.9 percent, compared with market forecast of a 0.3 percent increase. Also, mining output went up 0.8 percent, while the output of utilities was flat. Capacity utilization moved up to 78.0 percent in August, a rate that is 1.7 percentage points below its long-run (1972–2023) average.



NORTH AMERICAN INDUSTRIAL PRODUCTION MoM: 5-year

