



Basis Points – May 18, 2021

 westwoodgroup.com/weeklyblog/basis-points-may-18-2021/

Above the Fold

Could Sawmills Be an Economic “Canary in the Coal Mine”?

It’s no secret that consumers are now paying up to four times the typical price for all kinds of lumber. The meteoric rise in prices is adding tens of thousands of dollars to the cost of building many homes and has no doubt strained the pockets and patience of Americans. Even with the abhorrent cost increases, demand remains incredibly strong. So strong that American sawmills can’t keep up with demand and continue to face months-long backlogs. There’s even an oversupply of raw pine trees in the south just waiting to be cut into usable products.

Given the unprecedented price jump, one would think that constructing new sawmills would be a great way to capitalize on the situation, but most mill companies don't see it that way. The industry is certainly enjoying the cash it's raking in, but is taking an ultraconservative approach to expanding operations. This is likely because they realize the boom may very well be short-lived. And since a new mill costs millions of dollars and takes many months, even years to construct, the mill operator could come online just as the demand shrinks back to normal, or worse.

After U.S. wood-product production peaked in 2006, the Great Recession shuttered many older, less-efficient mills. There are some idled mills coming back online slowly and even a few new, smaller mills opening, but certainly not enough to meet demand. The industry seems to be telegraphing that capital investments (new, updated mills) with long lead times are a bad bet this late in the cycle; even with trillions in stimulus.

Three Things

1. *The Pandemic's Peculiar Effect on Rush Hour* – According to the Wall Street Journal, 40 of America's largest metro areas are experiencing road congestion greater than before the pandemic hit; and it's much worse in the suburbs. With consumers working from home, daytime errands, school pickups and the exponential rise in food and goods deliveries are all clogging the smaller arteries of city fringes. Parking is also becoming a struggle in many areas where it was previously a non-issue.
2. *Apple and Amazon Go Lossless* – Audiophiles rejoice! Amazon is dropping the extra fees for Amazon Music HD as Apple announces it will also offer CD-quality, high-res audio music for all Apple Music subscribers. The ironic catch is that high-quality lossless audio will only be available through subscriptions, not purchases. Apple music users will also have to change settings on their phone to hear the best quality.
3. *Former Department Stores Apparently Make Great Schools* – With their large spaces, proximity to dense populations and abundance of parking and access, mall owners are pitching closed department and big-box stores to charter schools. Given the recent pandemic-related shakeup in public education, charter schools are garnering more interest and many are expanding. Favorable locations and relatively reasonable, flexible lease terms could make the mall-school relationship work well, according to many experts.

Did You Know?

Facebook's IPO

Founded in 2004 by Harvard classmates Mark Zuckerberg, Chris Hughes, Eduardo Saverin and Dustin Moskovitz, Facebook would go on to become the world's largest social network. It was on this day in 2012 that the company raised \$16 billion for its initial public offering (IPO). The young

company's IPO would be the largest tech offering, and the third-largest IPO ever. At the time, Facebook was valued at \$104 billion and had 900 million global users. Today, its market cap is close to \$900 billion, with more than 2.8 billion active users.

The information contained herein represents the views of Westwood Wealth Management at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.