



Forisk News: November 19, 2015

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Subject line: Forisk News: Timber Price Forecast – Timberland Investing – Bioenergy

Timber Price Forecast

Recently, we featured a series of posts related to forecasting U.S. timber prices and forest industry activities:

- [Tracking Wood Demand, Sawmill Utilization and Pulp Mill Capital Investments](#)
- [Forisk Forecast: U.S. Housing Starts Outlook, Q4 2015 Update](#)
- [Forisk Forecast: U.S. Log Export Update](#)

The Q4 2015 edition of the *Forisk Research Quarterly (FRQ)* includes industry analysis and forecasts through 2024 for timber prices, [logging costs](#), lumber production, structural panels production, paper and paperboard production, forest supplies, and wood bioenergy. The first feature article evaluates the net asset values (NAVs) of public timber REITs, with a spotlight on the announced Weyerhaeuser and Plum Creek merger. The second feature article details advances in Forisk forecast model development and confirmation of “physical facts” in the modeling approach. Select *FRQ* findings include:

- **Macro:** key measures of U.S. economic productivity remained positive in Q3 2015, while potential headwinds from inflation, unemployment and capital costs remained muted or improved. Forisk’s Score of 3.8 for the U.S. economy was the 17th consecutive quarter the Forisk Score remained above the “no growth” baseline of 2.0.
- **Softwood Lumber:** in the Base Case, the South produces 54% of total U.S. softwood lumber by 2021. At 1.12 million housing starts, we forecast 2015 softwood lumber production of 15.04 BBFT in the West, 17.27 BBFT in the South, and 1.56 BBFT in the North.
- **Pine Sawtimber:** South-wide weighted average price increases 4.0% nominal in 2015 in the Base Case over 2014; states such as Georgia, Arkansas and South Carolina project stronger growth given increased capital investment. Overall, pine sawtimber prices benefit from shifting additional production in Forisk's projections from the Pacific Northwest to the South.
- **Pine Pulpwood:** three factors drive local price changes: new wood bioenergy projects; existing OSB capacity; and high volumes of softwood sawmill residual chips, which serve as a pulpwood substitute and mitigate price increases. The weighted-average South-wide price increases 6.3% in the Base Case over 2014, while price changes vary significantly at the state level.
- **Domestic Douglas-fir and Hemlock:** average log prices for 2015 decrease ~5% across products when compared to 2014; the key change in the Base Case was the additional shift of nearly 1 BBFT in softwood lumber production to the South as housing markets return to 1.5 million starts. This reduced the estimated longer-term growth.

To learn more about the *Forisk Research Quarterly (FRQ)*, click [here](#) or contact Brooks Mendell at bmendell@forisk.com, 770.725.8447.



Valuing Publicly Traded Timber REITs

This feature article is Part II in a series on benchmarking timberland investment vehicles and centers on evaluating the net asset values (NAVs) of public timber REITs. The November 2015 announced merger of the two largest public timber REITs, Plum Creek (PCL) and Weyerhaeuser (WY), further clarifies the challenge of valuing timberland investment vehicles in both public and private markets. The merger, expected to close in early 2016, creates a firm with 13+ million acres in 20 states (and Uruguay) and over three dozen forest products facilities. Analyzing timber REITs, versus pure timberland assets, extends beyond intrinsic value; it also relates to the supply and demand for the underlying stocks. The article (1) summarizes the methodology of the Forisk Timber REIT (FTR) Index, (2) outlines approaches for NAV applications for individual public REITs, and (3) provides context for the announced merger between Weyerhaeuser and Plum Creek relative to the overall timberland investment industry.

Two recent blogs cover Timber REITS:

- [Forisk Forecast: Timber REIT Trick or Treat](#)
- [Splashing in the Bathtub: Putting the Proposed Merger of Plum Creek and Weyerhaeuser into Context](#)

Wood Bioenergy

Overall, the wood bioenergy outlook remains stable in the U.S.; any meaningful growth, if realized, will occur in the next five years. Regionally, the U.S. North still has the largest share (42%) of viable wood bioenergy projects while the South accounts for 54% of the potential wood use for bioenergy. Nationwide, wood bioenergy project failures continue to outpace successes, especially as reflected in the wood biofuels sector, which made little commercial progress YTD in 2015.

Project Tracking: As of October 2015, there were 431 projects in Forisk's *Wood Bioenergy US* database. All announced and operating projects could use a total of 119.4 million green tons of wood per year by 2024. The 299 projects that pass viability screens could consume 84.5 million tons of wood per year.

To download the free *WBUS* summary, click [here](#).

2016 Forisk Continuing Education Calendar

- **March 15-16, 2016** – Financial and Business Management Skills for Forestry and Natural Resource Leaders (Mendell), Portland, OR (sponsored by WFCA)
- **March 29, 2016** – Applied Forest Finance (Mendell), Atlanta, GA
- **October 13, 2016** – Timber Market Analysis (Mendell & Lang), Atlanta, GA
- **December 8, 2016** – Investing in Timberland and Timber REITs (Mendell & Lang), Atlanta, GA

Details about these classes, as well as customized private classes, can be found on the [Education & Speaking](#) page on the Forisk website.



News & Upcoming Events:

- Forisk Press recently published a book about Aunt Fanny, the always-popular character from our blogs! *Aunt Fanny Learns Forestry: Managing Timberland as an Investment* serves any investor, from individual to institution, interested in a tight and entertaining tutorial for prioritizing what matters and what does not when managing their timber assets as an investment. *Aunt Fanny Learns Forestry* is Brooks Mendell's sixth book. His grandmother, the late Frances Collat Mendell, inspired the character of Aunt Fanny. She is sharp, loves salty jokes, wants to learn and enjoys making a little money. However, her recently inherited forestland remains a bit of a mystery to her. This brief book, with drawings by Max Lang, follows Aunt Fanny through her learning of the key concepts and ideas needed to manage her forest as an investment.
 - *The "Aunt Fanny" book is available for sale on [Forisk's website](#) or [Amazon](#).*
- On **January 28, 2016**, Brooks Mendell will present "US Sawlog Inventories, Lumber Production and Southern versus PNW Log Prices" at the Mapping the Course conference in Vancouver, Washington.
- On **April 7, 2016**, Brooks Mendell will present "Trees Grow: Opportunities and Trends for Wood and Timberland Markets" at the Intermountain Logging Conference in Spokane, Washington

Forisk provides research and educational services to executives and analysts making decisions related to timber REITs, timberlands, and wood-using energy and manufacturing facilities.