



Forisk News: February 23, 2016

Archives available at: <http://forisk.com/events-and-news/newsletter/>

Subject line: Forisk News: Timber Price Forecast – Forest Operations – Wood Bioenergy

Timber Price Forecast

Recently, we posted analysis related to forecasting U.S. timber prices and forest industry activities:

- [Forisk Forecast: U.S. Housing Starts Outlook, Q1 2016 Update](#)
- [Forisk Forecast Scorecard: 2015 Projections versus Year-End Actuals](#)

The Q1 2016 *Forisk Research Quarterly (FRQ)* includes industry analysis and forecasts through 2025 for timber prices, logging costs, lumber production, structural panels production, paper and paperboard production, forest supplies, and wood bioenergy markets. The first feature article is Part I in a series on forecasting hardwood log prices in the United States. The second feature article examines the logging industry and evaluates drivers of logging employment over the past thirty years, both regionally and locally. Select *FRQ* findings include:

- **Macro:** key measures of U.S. economic productivity slowed while remaining mostly positive in Q4 2015; potential headwinds from inflation, unemployment and capital costs softened. Forisk's Score of 2.9 for the U.S. economy, a decline from 3.8 in Q3, was the 18th consecutive quarter that the Forisk Score remained above the "no growth" baseline of 2.0.
- **Softwood Lumber:** in Forisk's Base Case, the U.S. South gained market share at the expense of the West and accounts for 54% of total U.S. softwood lumber production by 2020. At 1.26 million housing starts, we forecast softwood lumber production in 2016 to be 15.8 BBFT in the West, 18.9 BBFT in the South, and 1.6 BBFT in the North.
- **Structural Panels (OSB & plywood):** U.S. structural panel consumption is expected to increase 11.3% in 2016. In Forisk's Base Case, total structural panel consumption increases from 30.4 billion square feet in 2016 to over 34 billion square feet in 2018.
- **Pine Sawtimber:** Southwide weighted average price increases 10.0% nominal in 2016 in the Base Case over 2015; states such as Arkansas, North Carolina and Mississippi project stronger relative price growth given increased capital investment.
- **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 Southwide price increases 6.4% in the Base Case over 2015, while price changes vary significantly at the state level. A primary driver is increased OSB production.
- **Domestic Douglas-fir and Hemlock:** average log prices for 2016 increase ~4% across products when compared to 2015. Over the past 4 quarters, log export prices for Douglas-fir and Hemlock averaged premiums of 35% and 11% over domestic #2 logs respectively.

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



Forest Operations: Logging Rates and Logging Employment

The feature article on logging operations in the Southeast examines data on the logging industry to evaluate drivers of employment over the past thirty years. We focus on the relationship between logging rates, wood demand and logging employment – regionally and locally – during four periods: the last period of employment growth in the industry during the late 1980’s and early 1990’s, the period of moderate employment losses from the mid-1990’s to the mid-2000’s, the start of the recession from 2004 through 2009, and the recovery from the recession from 2009 through 2014.

Across the South, annualized changes in logging employment have been closely tied to wood demand, while rate changes closely followed consumer inflation until the recession. Conventional wisdom that logging rates drive employment is not supported by the available data. In the five post-recession years, logging rate growth outpaced inflation and wood demand recovered at a strong clip, but employment grew minimally. This contrasts the employment drivers observed over the preceding 25 years, suggesting that since the recession, we’ve seen different logging industry behavior and operational approaches. This research compares key trends and effects across 18 markets in the U.S. South.

A recent blog addresses technology trends in the logging industry:

- [Automation and the Logging Industry: Is Paul Bunyan Retiring?](#)

Wood Bioenergy

Overall, the U.S. wood bioenergy outlook remains stable; meaningful growth, if realized, will occur in the next five years. Regionally, the U.S. North maintains the largest share (41%) of viable wood bioenergy projects while the South accounts for 53% of the potential wood use for bioenergy. Nationwide, bioenergy project failures continue to outpace successes, especially as reflected in the wood biofuels sector, which made little commercial progress in 2015. The entire wood biofuels sector has a maximum potential capacity of 150 million gallons per year, or enough fuel to power cars for less than 1/2 a day in the U.S.

Project Tracking: As of February 2016, there were 433 projects in Forisk’s *Wood Bioenergy US* database. All announced and operating projects could use a total of 119.2 million green tons of wood per year by 2025. The 297 projects that pass viability screens could consume 80.9 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)
 - Click [here](#) for the link to WFCa’s registration.
- **March 29, 2016** – Applied Forest Finance (Mendell), Atlanta, GA
 - [Early registration ends March 15th](#).
- **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:

- In January, [Andrew Copley](#) joined the Forisk team as an Analyst and Project Manager. Andrew earned degrees from the University of North Carolina and the University of Georgia. His experience includes work in the wood bioenergy sector. *Welcome, Andrew!*
- On **March 4, 2016**, Brooks Mendell will present “Forests as Financial Assets and the Future of U.S. Wood Supplies” at the National Wooden Pallet and Container Association Annual Leadership Conference in Orlando, Florida.
- On **March 24, 2016**, Shawn Baker will present “Logging Capacity – Is this still an issue?” at the Forest Bioenergy Conference in Forsyth, Georgia.
- 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.