



**Forisk News:** November 10, 2016

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

Subject line: Forisk News: Timber Price Forecast - Future Forest Supplies - Pulp and Paper Sector Analysis - Continuing Education

### **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, Q4 2016 Update](#)
- [U.S. Canadian Softwood Lumber Dispute: So What?](#)
- [Forest Industry Margins and the Value of Wood](#)
- [How Manufactured Homes Affect the Use of Softwood Lumber and OSB](#)
- [President Trump and the Price of Timber](#)

The Q4 2016 *Forisk Research Quarterly (FRQ)* includes industry analysis and market forecasts through 2025 for timber prices, logging costs, lumber and structural panels production, paper and paperboard, forest supplies, and wood bioenergy. The first feature article examines how timber supplies in the South affect prices by pine product class. The second feature is Forisk's annual projection of U.S. paper and paperboard production, with trends and key industry changes. "Forisk Facts & Figures" – Forisk's quarterly "story in three slides" – addresses the "ability-to-pay" for wood raw materials across forest products end markets. Select *FRQ* findings include:

- **Macro:** Real GDP for Q3 2016 increased 0.7%, reaching a 2.9% seasonally adjusted annual rate, its highest SAAR level in two years. Potential headwinds from inflation, unemployment, and capital costs remain muted. Forisk's Score of 3.5 for the U.S. economy in Q3 2016 remains above the stagnant "no growth" score of 2.0.
- **Lumber:** At Forisk's 2016 Base Case of 1.17 million housing starts, we forecast softwood lumber production in 2016 of 13.8 BBFT in the West, 17.3 BBFT in the South, and 1.5 BBFT in the North. The U.S. South gains market share at the expense of the West and accounts for 55.0% of total U.S. softwood lumber production by 2020.
- **Structural Panels (OSB & plywood):** Forisk projects U.S. structural panel consumption to increase by more than 2 billion square feet in 2016 in the Base Case over 2015.
- **Wood Bioenergy:** Forisk is tracking 437 operating and announced bioenergy projects across the U.S., of which 291 pass Forisk's basic viability screening. "Viable" projects represent potential wood use of 79.4 million tons per year, up 2.1% from the July 2016 estimate. Through August, exports of U.S. wood pellets are up 7.7% relative to 2015 volumes.
  - To download the free *Wood Bioenergy US Summary*, click [here](#).
- **Timberland Investments:** Public timber REITs returned 4% as a group YTD through October, as compared to -9% in 2015. Through Q3 2016, there have been 9.2 million acres of completed U.S. timberland transactions and another 2.1 million acres pending.
- **Forest Operations:** Losses in the pulp and paper industry appear to affect Northeast logging employment, as it reached a record low in early 2016. According to the most recently



available data, year-over-year logging wages were higher in every region except the Mid-Atlantic.

- **Timber Prices & Logging Costs, U.S. South:** Over the next five years, pine sawtimber stumpage increases at an average annual growth rate of 5.8% nominal; pulpwood increases at an annualized rate of 4.0% nominal. Hardwood grade prices project an average annualized growth of 2.8% nominal. Logging and hauling out-of-pocket costs expect to follow diesel price trends; they will increase at 1.7% per year over the next decade.
- **Log Prices & Logging Costs, Pacific Northwest:** Regional average logging and hauling costs grow at 1.1% per year over the next decade. The Northwest still leads the country in log exports. Log exports in Washington track 6.2% above 2015 levels; Oregon log exports are up 33% relative to 2015. Starting delivered log prices in the forecast were flat between Q3 and Q4 2016 with less than 0.8% change in prices. Nominal prices forecast to increase at average annual rates of 0.8-1.2% in the next five years.
- **Hardwood Stumpage Prices, U.S. North:** Log exports are tracking below 2015 levels. Total average logging and hauling costs project to grow slightly higher than 1% per year over the next decade driven by slow diesel cost growth. Hard and soft maple log prices are expected to grow the most in the region. Hard maple nominal stumpage prices increase 3-4% annually through 2020 while soft maple prices are expected to grow 2-3% annually.

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

### **How Forest Supplies Affect Timber Prices in Local Timber Markets**

In this research, Forisk updates projections for timber supplies by state in the South, and summarizes implications for timber prices. The update compares 2016 results with the 2015 projections by state as of 2025. For pine grade, inventories increased by an average of 2.6%. Of the 11 states, six have higher inventories and four have lower inventories. Mississippi had nearly identical results in 2016 as in 2015. For pine pulpwood, inventories decreased by an average of 0.4%, accounting for mill capacity changes and investments, including wood bioenergy projects. Of the 11 states, six have higher pulpwood inventories and five states have lower inventories.

The estimated supply effects on stumpage prices vary by state and product as of 2025. For pine pulpwood, state-level prices are, on average, \$0.48 per ton higher. For pine sawtimber, state-level prices are, on average, \$0.93 per ton lower due to growing pine grade inventories at the state level. *The FRQ feature article includes 35 years of historic regional inventories, ten-year state level inventory projections and state-specific stumpage price implications.*

### **Pulp and Paperboard Production in the U.S.: Trends and Expectations**

This second article summarizes U.S. paper and paperboard production trends and changes over the past year, updates Forisk's paper and paperboard production forecast, and discusses growth opportunities for U.S. producers for exports. Our update projects lower production levels of U.S. paper and paperboard production than our forecast last year. The 2015 forecast projected an increase in U.S. production of 2% in five years, in contrast to a forecasted five-year decrease of 5% in the 2016 update. This indicates that declines in printing and writing paper and newsprint



production are not offset by increased paperboard and household/sanitary paper production. Overall demand for wood used to make pulp for U.S. paper declines slightly. However, increases in exports beyond current levels could increase demand for pulpwood more than Forisk projects. *The research includes data and projections by subsector in the pulp and paper industry.*

### **Upcoming Continuing Education Opportunities**

On December 8<sup>th</sup>, Forisk will teach "**Investing in Timberland and Timber REITs**" in **Atlanta, Georgia**. This one-day course details the operations, investment performance, market risks and supply chain/ management costs associated with available timberland investment vehicles. The course includes comparative analysis of typical TIMO fund structures, timber REITs and direct private investments. Key topics emphasize benchmarking investment performance, implied valuations, and sources of variance in operational costs, returns and forest management fees by region in the United States. All *FRQ* subscribers receive a 10% discount. [Click here to learn more and to register.](#)

On January 18<sup>th</sup>, 2017, Forisk will teach "**Case Studies in Timber Finance and Forest Industry Capital Investment**" class in **Vancouver, Washington**. Sponsored by the Western Forestry and Conservation Association, this course reviews key forest finance, market analysis and strategy tools and applies these to hands-on case studies to reinforce concepts and improve decision making related to forest management, capital budgeting and competitive analysis. [Click here to learn more and to register.](#)

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:**

- [Amanda Lang](#) has been promoted to Chief Operating Officer (COO) and VP of Client Services at Forisk. In these roles, Amanda leads Forisk's daily operations, project management and *FRQ* subscriber support activities. Amanda first joined Forisk as an intern in 2005 and became a Partner in 2013. Congratulations, Amanda!
- In October, Amanda Lang was recognized at the 2016 "Distinguished Young Alumnus" of the Warnell School of Forestry & Natural Resources at the University of Georgia.
- The Forest Resources Association published a technical release co-authored by Shawn Baker, titled "Log Truck Performance Derived from On-Board GPS."
- On **January 19, 2017**, Brooks Mendell will present "U.S. Forest Industry Supply Chain Capacity and Costs in Logging, Hauling and Forest Management" at the Mapping the Course Conference in Vancouver, Washington.
- On **January 30, 2017**, Amanda Lang will present "State of the Resource" at the Southeastern Society of American Foresters Annual Meeting in Miramar, Florida.

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