



Forisk News: August 10, 2017

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Subject line: Forisk News: Timber Price Forecast – Canada’s Forest Industry – Log Truck Insurance – 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, Q3 2017 Update](#)
- [Forisk Forecast Scorecard: 2017 Projections versus H1 2017 Actuals](#)
- [West Fraser Acquisition of Gilman Continues Trend of Canadian Expansion to U.S. South](#)
- [Truck Insurance Remains a Concern for the Logging Industry](#)
- [Global Industrial Wood Pellet Demand and U.S. Wood Bioenergy Update](#)

The Q3 2017 *Forisk Research Quarterly (FRQ)* includes industry analysis and market forecasts through 2026 for timber prices, logging costs, softwood lumber production, structural panels production, paper and paperboard production, forest supplies and ownership, and wood bioenergy markets. The first of two feature articles summarizes Forisk’s research of Canada’s forest products industry. The second feature article examines key drivers of log truck insurance cost and availability. “Forisk Facts & Figures” – Forisk’s quarterly “story in three slides” – highlights drivers of global industrial wood pellet markets as sources of demand for North American timber products. *This issue also includes state-level rankings of timber markets based on wood demand, projected forest supplies, and stumpage prices.* Select *FRQ* findings include:

- **Macro:** Economic growth picked up during the second quarter of 2017. Real GDP reached 2.6% on an annualized basis. Quarterly unemployment declined to 4.4%. Forisk’s Q2 2017 Score of 3.1 for the U.S. economy remained above the stagnant “no growth” score of 2.0.
- **Lumber:** The Forisk Base Case projects U.S. softwood lumber consumption to increase 3.3% to 48.6 BBFT in 2017, while production increases 5.0% to 34.2 BBFT. U.S. softwood lumber capacity has risen 2.3% in 2017.
- **Structural Panels (OSB & plywood):** Forisk projects U.S. structural panel consumption to increase 5.3% in 2017. Relative to the same period last year, OSB production ticked up 6.0%, while plywood production rose 2.4%.
- **Pulp & Paper:** Although total pulp/paper production held steady in Q2 2017, newsprint and printing/writing sectors continued to decline. Packaging production increases (1.3% for the quarter) buoy the sector. Annualized production from H1 2017 track Forisk’s forecast.
- **Wood Bioenergy:** Forisk is tracking 438 operating and announced bioenergy projects across the U.S., of which 297 pass Forisk’s basic viability screening. The “viable” projects represent potential wood use of 77.9 million tons per year, up 0.6% from the April 2017 estimate.
 - To download the free *Wood Bioenergy US* Summary, click [here](#).
 - For information on the *Wood Bioenergy US* database, click [here](#).



- Timberland Investments: Public timber REITs returned 9.9% YTD through the final Friday of July. Potlatch (PCH) led the sector at 14.2% during this period. Two timberland-owning firms outpaced the S&P 500 YTD: Potlatch and Pope Resources (POPE). Through July 2017, approximately 800,000 acres of industrial timberland transactions closed in the U.S.
- Forest Operations: Logging costs have increased for five quarters as labor and diesel costs accrued, tightening margins for the logging sector amidst flat rates. Nationally, logging employment dropped 1.6% in 2016, led by declines in the West and New England.
- Timber Prices, U.S. South: Announced sawmill capacity increases in the South total 1.5 BBFT, including re-openings and greenfield facilities. Forisk projects a 36% increase in Southern lumber production in ten years. Pine sawtimber stumpage increases at a compound annual rate of 4.5% nominal over the next five years, and pulpwood stumpage increases at a compound rate of 2.1% nominal. *In this issue, Forisk also tested the effects of a 5% increase in sawmill efficiency in the South on timber price forecasts.*
- Log Prices & Logging Costs, Pacific Northwest: The premium paid for Douglas-fir log exports over domestic sawlogs during the past four quarters has come down and now matches the five-year average. Prices are forecast to increase at average annual rates of 0.2-0.7% (nominal) in the next five years. Export log prices increase more than domestic prices, while Oregon prices have the slowest growth. Logging cut and load costs are projected to grow at roughly 1% per year over the next decade due to diesel cost growth.
- Hardwood Stumpage Prices, U.S. North: At least nine grade facilities announced investments for 2016-2019, but log exports from the North declined in 2016 and are on track to decline again in 2017. Wood bioenergy announcements feature offline electricity plants and pellet mill purchases. Total average logging and hauling costs in the region are projected to grow at 1% per year over the next decade, driven by diesel cost growth. Hard and soft maple log prices are expected to grow the most in the region.

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

Sizing Up Canada's Forest Products Industry

Canada is the second largest country in the world by size with the third-largest forest resource. This forest resource supports an export-oriented, forest products manufacturing sector that generates the world's largest forest products trade balance. Reliance on export markets, especially the United States, also creates exposures to currency swings, trade disputes, and changes in demand within other countries, such as the declining use of newsprint. In addition, Canada's forest industry continues to work through the impacts of the mountain pine beetle (MPB) on its current and future sustainable harvest levels. To address these issues, Canada's forest industry has worked to diversify its domestic and export markets, invest in wood-based product development and technologies, and reallocate capital to geographies with great promise for long-term profitability. *This FRQ research article draws from Forisk's research of North American forest supplies and wood-using capacity to profile Canada's forest industry.*



The Winding Roads of Log Truck Insurance

Forisk investigated the key drivers of log truck insurance cost and availability. This *FRQ* research article indicates that profitability of insurance policies covering all commercial tractor-trailers is declining due to increasing accident frequency and claim costs. Premiums are up nearly 40% since the start of 2014 in an effort by insurance companies to stem their losses. Half the logging contractors we interviewed had changed insurance providers because their previous provider no longer offered log truck insurance in their state. Data indicate the frequency and severity of log truck accidents are greater than for the average commercial tractor-trailer, suggesting the effect of higher premiums and stricter underwriting standards may continue to adversely affect the logging industry. Some effort must be made to improve the safety of log hauling or the higher risk profile could dissuade insurers from covering the sector.

Upcoming Continuing Education Opportunities

On December 7th, Forisk will host "**Wood Flows and Cash Flows: Investment Research & Strategic Analysis for the Forest Industry**" in Atlanta, Georgia. The investment in and management of timberland assets and wood-using mills rely on a localized understanding of factors driving forest industry costs, revenues, capital investment and technological shifts. This supports the valuation of timber portfolios and public forest industry firms, projects targeting forest industry efficiencies, and investments in forests and forest product mills. This event details research for analysis supporting investments in the forest industry. All *FRQ* subscribers receive a 10% discount. [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:

- In **September 2017**, Forisk will present "Specific Recommendations for Investors When Evaluating Investment and Manager Performance" at the Who Will Own The Forest Conference in Portland, OR.
- On **September 28th**, Forisk will present "Softwood Lumber Market Issues" at the Timber Products Inspection Board of Advisors meeting in Chateau Elan, GA.
- On **October 5th**, Forisk will present "Forecasting Fiber Supplies by Region and Local Market" at Amerimulch Customer Tribute in New Orleans, LA.
- On **October 25, 2017**, Forisk will present at the Texas Forestry Association Annual Meeting in Nacogdoches, TX.

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