



Q3 Forisk News: Timber Price Forecast – Forest Industry Capital Investments – Wood Flows & Cash Flows

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Archives available [here](#).

This quarter, we published analysis of “churn” of softwood sawmill investments to estimate “how much is left?” and taught our annual “Timber Market Analysis” workshop in Atlanta. We also [posted an opening for a full-time Analyst](#) (so feel free to apply or forward to those who might have interest). Later this quarter, we will publish a multi-client study, “North American Forest Market & Industry Rankings” and North American Mill Database (click [here](#) for more info). Thank you to everyone who supports our team and research!

On December 5th in Atlanta, Forisk hosts its annual “**Wood Flows & Cash Flows**” conference on investment research and strategic analysis for the forest industry. Registration is now open, so reserve your seat! [Click here](#) to learn more. **FRQ subscribers receive discounted registration; early registration ends November 21st.**

Timber Price Forecast

Recently, we posted analysis related to forecasting North American timber prices and forest industry activities:

- [U.S. Housing Starts Outlook, Q3 2019 Update](#)
- [Cash Yields from Public Timberland Investments](#)
- [U.S. Logging Employment Over 15 Years](#)
- [Who’s Who in Lumber Update: Top 10 U.S. Lumber Producers](#)
- [North American Wood Pellet Exports, Q3 2019 Update](#)

The Q3 2019 *Forisk Research Quarterly (FRQ)* includes industry analysis and market forecasts through 2028 for timber prices, logging costs, softwood lumber production, structural panels production, paper and paperboard production, forest supplies and ownership, and wood bioenergy markets. Our feature article investigates factors that support the resilience and competitiveness of plywood in the structural panels market. Our market summary, “Forisk and the Trees” includes notes on how to rank wood baskets, context for sawmill investments, and cash yields from public timberland investments. “Forisk Facts & Figures”, Forisk’s quarterly “story in three slides,” examines the pace and scale of softwood sawmill investments in North America.

Select FRQ findings include:

- **Macro and Housing:** The economy slowed in Q2 2019. Real GDP grew at a 2.1% annual rate, down from 3.1% last quarter. Unemployment remained close to a 50-year low. Inflation remained muted. Yields on 10-year U.S. Treasuries dropped to 2.07%. Forisk projects U.S. housing starts of 1.253 million for 2019, up 0.3% over 2018 actuals. Canadian housing starts decreased 5.9% year-over-year.



- **Lumber:** The Forisk Base Case projects U.S. softwood lumber consumption to increase 0.5% to 48.6 BBFT in 2019, while production increases 1.7% to 35.5 BBFT. North American softwood lumber capacity projects to reach 72.9 BBFT; U.S. capacity grows to 43.5 BBFT; Canada shrinks to 29.4 BBFT.
- **Wood Bioenergy:** U.S. wood bioenergy project announcements have slowed. Forisk analysis suggests wood use for “viable” bioenergy projects in the U.S. will be 80.4 million tons per year by 2028. Through May 2019, U.S. wood pellet export volumes increased 15% year-over-year, while Canadian wood pellet exports rose 1%. North American wood pellet capacity projects to reach 18 million metric tons in 2019.
 - To download the free *Wood Bioenergy US* Summary, click [here](#).
 - For information on the *Wood Bioenergy US* database, click [here](#).
- **Log & Chip Exports:** Through May 2019, exports of all roundwood and chips declined by over 15% on a year-over-year basis. U.S. softwood log exports were down 36%, while U.S hardwood log exports decreased 18%. Through May 2019, 50% of all U.S. roundwood exports were destined for China.
- **Timberland Investments:** Public timber REITs returned 18.5% YTD through the last Friday of July. Over the last four quarters, approximately 1.1 million acres of industrial timberland transactions closed in the United States (versus 2.2 million as of the prior FRQ). TIMOs accounted for 58% of acres sold and for 49% of acres acquired over this time period.
- **Forest Operations:** The U.S. matched a 4% logging wage increase in 2018 to 0.1% logging employment growth. Canadian wages grew 9%, and employment is trending upwards. Localized employment trends varied with moderate declines in logging employment across the South and Lake States. Trucking employment was 3% higher in 2018 than in 2017, despite a 7% increase in over-the-road freight. A regulation on shipping fuel looks likely to increase demand for diesel-fuel and similar distillates by 4% starting in January 2020.
- **Timber Markets, U.S. South:** Despite quarterly declines, the last 4Q Southwide average price for pine sawtimber increased, lifted by increases from Q1 2019, while the average pulpwood price for the last 4Q declined slightly. The regional pine sawtimber forecast for 2019 is consistent with last quarter’s estimate. The largest increases locally for pine sawtimber are in Alabama, Georgia, and South Carolina. Pine pulpwood stumpage prices increase the most locally in Mississippi.
- **Log Prices, Pacific Northwest:** Delivered log prices increased in Q2 for Washington but were stable in Oregon; export prices declined 2-4%. Starting prices, measured as the last 4Q averages, declined this quarter as we continue to roll from peak pricing in mid-2018. Forecasts are in line with the Q2 2019 publication, although slightly lower this quarter due to lower starting prices.
- **Hardwood Markets, U.S. North:** Hardwood stumpage prices in New England fell for all species, led by nearly an 11% decline in red oak. Tariffs on red oak logs appear to have disproportionately affected New England stumpage prices. New York and Vermont have the highest inventories of ash in the North and are most susceptible to future impacts of the emerald ash borer.

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

Exploring the Persistence of Plywood

Recent research into the role of substitution and forest industry capital investments speak to the ability of forest products to adjust, evolve and persist. One example is plywood. This feature highlights three aspects of plywood’s resilience: 1) investments in technology and scale within the industry reduced variable and fixed costs; 2) the fundamental economics of depreciated and “paid for” plants which still



generate cash in the face of new competition; and 3) external factors, such as consumer preferences and lower log costs in the South, which enhance plywood's relative position in the market place.

Forisk Facts & Figures: Softwood Sawmill “Churn” and Upgrades

Forisk's quarterly “story in three slides” examines the pace and scale of softwood sawmill investments in North America. How much of the installed capacity has been upgraded and what proportion could we reasonably expect to improve yields moving forward? As of 2019, 45% of softwood sawmills in the U.S. South had no known capacity improvements in the preceding ten years, but they represent only 22% of capacity in the region.

Upcoming Continuing Education Opportunity

Forisk will host the annual “Wood Flows & Cash Flows” conference in Atlanta, Georgia on December 5th, 2019 where the entire Forisk team shares investment research and strategic analysis for the forest industry, sector by sector. The conference also features a panel of industry executives and concludes with a networking mixer. *Applications will be submitted for 6.0 hours of Continuing Forestry Education (CFE) credits and 6.0 hours of Georgia Real Estate/Appraisal CE credits.*

Companies that subscribe to the *Forisk Research Quarterly (FRQ)* receive a discount. Please email Heather Clark (hclark@forisk.com) for the promo code.

Registration is now open! To learn more, click [here](#). Early registration ends November 21st.

News & Upcoming Events

- Forisk is now hiring for a [Forest Industry Analyst position](#) based in Athens, Georgia. Applications should be submitted by Friday, August 16th.
- On **August 28th**, Brooks Mendell will keynote the Louisiana Forestry Association Meeting in Lake Charles, LA.
- On **September 16th**, Brooks Mendell will speak at Yale University in New Haven, CT.
- On **September 18th**, Amanda Lang will speak at Who Will Own the Forest? In Portland, OR.
- On **September 20th**, Brooks Mendell speaks at the Alabama SAF Annual Meeting in Birmingham, AL.
- On **October 3rd**, Brooks Mendell will speak at the North Carolina Forestry Association Annual Meeting in Wilmington, NC.
- On **October 23rd**, Brooks Mendell presents at Northwest Farm Credit Services and Moss-Adams in Eugene, OR.
- Finally, save the date for **December 5th**, when Forisk will host its annual conference, “[Wood Flows & Cash Flows](#)” in Atlanta, GA. Registration is now open!

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