



Forisk News: Timber Forecasts – U.S. Chip Mills – Wood Flows & Cash Flows

Forisk News: August 11, 2020

Archives available [here](#).

In Q2 2020, we hosted “Applied Forest Finance” online with over one-hundred participants from around the world. We also published our second [Forisk Wood Fiber Review](#) with price data on pulpwood, wood chips, and biomass for the U.S. and Canada. In July, Forisk welcomed Dr. Tyler Reeves as a Timber Industry Analyst. He will support the *Forisk Market Bulletin*, which provides market intelligence and tracking of forest industry capital investments and timberland transactions. Thank you for your notes, feedback, friendships and continued support of the Forisk team and our research!

On December 8th, Forisk hosts its 4th “Wood Flows & Cash Flows” Annual Conference. We will host the event virtually this year with details available soon. ***Please save the date!***

Timber Price Forecast

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

- [U.S. Housing Starts Outlook, Q3 2020 Update](#)
- [Long-Term Timber Price Forecasts When Climbing Out of an Economic Hole](#)
- [Pulpwood Demand and Paper Production](#)
- [Local Timber Supply Forecasts](#)

The Q3 2020 *Forisk Research Quarterly (FRQ)* includes industry analysis and market forecasts through 2029 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 looks at approaches for applying short and mid-term timber price forecasts to long-term valuations. Our market summary, “Forisk and the Trees”, discusses forest industry manufacturing production levels during the coronavirus, the wood supply agreement between CatchMark Timber and Georgia-Pacific, and potential softness in the economic outlook. “Forisk Facts & Figures”, Forisk’s quarterly “story in three slides,” examines the role of chip mills in supplying pulpwood for the U.S.

Select FRQ findings include:

- **Macro and Housing:** Real GDP declined at a 32.9% annual rate, the sharpest decline on record. The labor market contracted: 13.3 million jobs were lost and the unemployment rate was 13%, the highest on record. Forisk projects U.S. housing starts of 1.192 million for 2020, down 7.6% over 2019 actuals. Through the first half of 2020, Canadian housing starts declined 5.3%.
- **Lumber:** Forisk’s Base Case projects U.S. softwood lumber production drops 1% in 2020 and recovers in 2021. Forisk’s Slow Case tests a more severe hit to housing and the economy, resulting in a 7% production drop in 2020 and a return to 2019 levels in three years.
- **Structural Panels:** Forisk projects Base Case U.S. OSB and plywood consumption to decline 3.7% to 29.9 billion square feet (BSF) in 2020. North American structural panel capacity was 40.4 BSF in Q2 2020, with 29.8 BSF in the U.S. and 10.6 BSF in Canada.



- **Pulp & Paper:** Total pulp/paper production decreased 0.7% year-over-year in Q2 2020, burdened by collapsing demand for newsprint (-46%) and printing/writing paper (-20%). Roughly 20% of North American pulp/paper capacity curtailed or closed during early 2020 due to coronavirus impacts. Forisk's new U.S. pulp and paper production forecasts from ERA decline 2.9% over five years.
- **Wood Bioenergy:** Forisk analysis suggests wood use for "viable" bioenergy projects in the U.S. could reach 80.2 million tons per year by 2029. Through May 2020, U.S. wood pellet export volumes increased 14% year-over-year while Canadian wood pellet exports rose 4.3%. North American wood pellet capacity is expected to increase 7.2% in 2020, reaching 19.2 million metric tons.
 - To download the free *Wood Bioenergy US Summary*, click [here](#).
- **Log & Chip Exports:** Through May 2020, exports of all roundwood and most chips declined on a year-over-year basis. U.S. softwood log exports were down 21%, while U.S. hardwood log exports decreased 13%. While hardwood chips declined, softwood chip exports from the U.S. increased 8%.
- **Timberland Investments:** Public timber REITs returned -9.7% YTD through the fourth week in July while private timberlands returned 0.2%. Over the past twelve months, of the four timber REITs, only PotlatchDeltic (PCH) outperformed the S&P 500. Over the last four quarters, over 2.7 million acres of industrial timberland transactions closed in the United States (versus 2.9 million as of the prior FRQ).
- **Forest Operations:** Between 2018 and 2019, logging employment in North America dropped 2%, led by a 6% decline in Western Canada. British Columbia employment in Q1 2020 was 21% lower year-over-year, reflecting the impact of sawmill capacity losses. Trucking employment and freight volume peaked in Q3 2019 after years of quarterly growth. Freight volumes dipped in early 2020.
- **Timber Markets, U.S. South:** Last 4Q South-wide average prices declined for all pine and hardwood products. The regional pine forecast for 2020 projects decreases for grade (sawtimber and chip-n-saw) and pulpwood relative to 2019, which flows through to the state-level forecasts. Most states project stumpage price increases over five years. A localized timber supply forecast for the South indicates the region will have a more balanced supply to demand profile in 2025, with coastal areas more constrained and continued timber supply accumulations in South Central states.
- **Log Prices, Pacific Northwest:** Prices decreased over the quarter for domestic logs and increased for export logs. Delivered #2 sawlog prices declined more in Oregon (-9% to -12%) than in Washington (-4% to -6%). Forisk's Base Case projects a decline in prices relative to 2019. The price premium for export logs from the Pacific Northwest versus domestic logs is shrinking, and market participants expect this to continue.
- **Hardwood Markets, U.S. North:** The Forisk Hardwood Price Index increased 3% in Q1 2020, but remains 10% lower year-over-year, led by declines in red oak and hard maple. Our Base Case forecast suggests 2020 prices will fall for all species in the Middle Atlantic region, while the Lake States and New England forecast a mix of increases and declines. Over the next five years, hard maple and red oak prices are projected to increase across regions.

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



Considerations for Applying Long-Term Timber Price Forecasts

Our feature research article this quarter reviews approaches for applying short to mid-term timber price forecasts for longer-term asset valuations. How do practitioners think about this? What are some key assumptions and implications for investors? These questions become increasingly relevant as investors think about the effects of short-term timber price declines on long-term trends and how this might affect estimated cash flows, valuations and returns.

Forisk Facts & Figures: Fiber Supplies from U.S. Chip Mills

Forisk's quarterly "story in three slides" examines fiber supplies from chip mills in the U.S. How does chip mill capacity vary by region across the United States and over time? What determines the balance of pulpwood supplies? While roundwood deliveries satisfy the majority of pulpwood demand nationally, pulp mill raw materials vary by region and mill type. [Forisk's North American Forest Industry Capacity Database](#) suggests **close to 60% of pulp mill wood-using demand in the U.S. is met by roundwood.**

Upcoming Forisk Conference

Save the date for Forisk's 4th Annual "Wood Flows & Cash Flows" conference on December 8th! This year's conference will be hosted virtually. The conference will feature a panel of industry executives, and the Forisk team will share new investment research and strategic analysis for the forest industry, sector by sector. Registration and agenda coming Fall 2020.

Companies that subscribe to the *Forisk Research Quarterly (FRQ)*, *Forisk Wood Fiber Review*, or the *Forisk Mill Capacity Database* receive a discount. Please email Heather Clark (hclark@forisk.com) for the promo code.

News & Upcoming Events

- In July, Forisk welcomed Dr. Tyler Reeves to the team as our new Timber Industry Analyst. He has an undergraduate degree in Biology from Georgia Southern University, and an M.S., MFR and Ph.D. in Forest Resources from the University of Georgia. Welcome, Tyler!
- **On August 11th**, Amanda Lang will speak on timber markets and COVID-19 at the Cahaba SAF chapter meeting.
- **On August 26th**, Brooks Mendell will present "Growth and Potential for Louisiana's Forest Economy" for the Louisiana Forestry Association.
- **On September 2nd**, Brooks Mendell is scheduled to speak on "Forest Economics and Timber Investments" for the Florida Forestry Association Annual Meeting.
- **On November 12th**, Amanda Lang will speak on "Status and Trends in the Forest Industry" for the South Carolina Forestry Association meeting.
- **Save the date for Forisk's 4th Annual "Wood Flows & Cash Flows" conference on December 8th!**



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