



## Q1 Forisk News: Timber Forecasts – Global Wood Pellet Markets – Forest Finance & Carbon

Forisk News: February 9, 2021

Archives available [here](#).

Since January 1<sup>st</sup>, 2021, our team communicated with 128 forest industry professionals in the U.S., Canada, Europe and Australia about capital investments, operating conditions and timberland transactions in the U.S. and Canada. And, as highlighted in the most recent edition of the [Forisk Market Bulletin](#), **firms and managers are focused on queueing up deals and operating their mills**. As one analyst shared with us, “if you’re bored right now, it’s a lack of imagination.”

Thank you for the notes, encouragement and feedback on our research and analysis!

**On March 4th, Forisk will offer “[Applied Forest Finance](#).”** This one-day class covers the financial analysis for answering key timberland investment and forest management questions, with new content related to discount rates and forest carbon. **Register by February 19th to get the early registration discount!**

### Timber Price Forecast and Forest Industry Projections

Recently, we posted analysis related to forecasting North American timber prices, forest industry capacity and operations, and the Paycheck Protection Program:

- [Demand, Supply and Timber Prices: A Southern Saga](#)
- [Contemplating Cash Flows and Forest Investments](#)
- [U.S. Housing Starts Outlook, Q1 2021 Update: Getting Better](#)
- [Forest Carbon: Maturing Markets and Growing Pains](#)
- [Top 10 U.S. Lumber Producers in 2020](#)
- [Felling a Tree with the PPP: Loan Program Aids the Logging Industry](#)

The Q1 2021 [Forisk Research Quarterly \(FRQ\)](#) includes industry analysis and market forecasts through 2030 for timber prices, logging costs, softwood lumber production, structural panels production, paper and paperboard production, forest supplies and ownership, and wood bioenergy markets.

#### Select FRQ findings include:

- **Macro and Housing:** Real GDP contracted 3.5% in 2020, the largest decline in 74 years, though it grew in Q4, increasing at an annual rate of 4.0%. The labor market also improved to end 2020: unemployment decreased to 6.8%. Forisk projects U.S. housing starts of 1.481 million for 2021. In 2020, U.S. housing starts increased 7.0% while Canadian housing starts advanced 4.4%.
- **Lumber:** Forisk’s Base Case projects U.S. softwood lumber production increases 6% in 2021. Forisk’s Slow Case models a 3% increase in 2021, when testing a 3.5% increase in 2021 housing starts. Softwood lumber price volatility continued; Q4 pricing was up 59% year-over-year. Three greenfield sawmills were announced in Mississippi late in 2020 as expansion in the U.S. South continues.
- **Structural Panels:** Forisk projects Base Case U.S. structural panel consumption to increase 5.8% in 2021. North American structural panel capacity was 40.6 BSF in 2020, with 30.0 BSF in the U.S. and 10.6 BSF in Canada.



- **Pulp & Paper:** Total pulp/paper production in 2020 declined 2.2%, as gains in packaging and tissue production diminished slightly and plunging demand for newsprint (-48%) and printing and writing paper (-23%) dragged total production lower. Forisk expects growth in packaging and household/sanitary production to lift U.S. pulp and paper production over the next five years despite declines in newsprint and printing and writing papers.
- **Wood Bioenergy:** Forisk analysis suggests wood use for viable bioenergy projects in the U.S. could reach 82 million tons per year by 2030. Through November 2020, U.S. wood pellet export volumes increased 5.0% year-over-year while Canadian wood pellet exports rose 10%. North American wood pellet capacity is expected to increase 16% in 2021.
  - To download the free *Wood Bioenergy US Summary*, click [here](#).
- **Log & Chip Exports:** Through November 2020, North American log exports were down 24% year-over-year. U.S. softwood log exports were down 7.2% while exports from British Columbia were down 49%. U.S. hardwood log exports declined 10% year-over-year.
- **Timberland Investments:** Public timber REITs returned 1.0% YTD through the fourth Friday in January after returning 12.2% in 2020. Over the past twelve months, only PotlatchDeltic (PCH) outperformed the S&P 500. Over the last four quarters, over 1.4 million acres of industrial timberland transactions closed in the United States (versus 2.4 million as of the prior *FRQ* and *Market Bulletin*).
- **Forest Operations:** Over 60% of U.S. logging businesses accessed PPP loans. While employment dropped significantly last spring across the U.S., logging employment stabilized in many regions as summer began. Through Q3 2020, Canadian logging employment and wages are down by greater levels than in the U.S. Trucking employment and freight levels dropped 7% year-over-year in Q2 2020.
- **Timber Markets, U.S. South:** Last 4Q South-wide average prices declined for all hardwood products and increased for pine products. Strong housing and lumber production forecasts fuel increases in 2021 pine sawtimber prices in the Base Case. The pine pulpwood Base Case projects Southern prices to increase 2% in 2021. The largest increases locally for pine sawtimber are in Mississippi and South Carolina. Pine pulpwood stumpage prices increase the most in Arkansas and Alabama.
- **Log Prices, Pacific Northwest:** Prices increased for a second consecutive quarter for domestic and export logs as lumber production increased. Delivered #2 sawlog prices increased 9-15%. Export Douglas-fir and hemlock prices increased 8-9% in the fourth quarter. The Base Case projects an increase in Douglas-fir prices in Oregon for 2020. The Slow Case forecasts flat Douglas-fir prices.
- **Hardwood Markets, U.S. North:** The Forisk Hardwood Price Index rebounded 9% in Q3 2020. Weakness in export markets since Q1 2017 pushed hardwood stumpage prices 21% lower, well below delivered prices which fell only 1%. After-effects of the pandemic held a number of species at or near five-year lows. Our Base Case forecast suggests 2021 prices will recover across species and regions in New England, the Middle Atlantic, and the Lake States.

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.

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## Featured Research: Timber Price Models in the U.S. South

Our featured research in the Q1 2021 *FRQ* re-evaluates Forisk's southern price models, focusing on price performance over the last three years. The previous model, based on a series of back-tests, captured the dynamics of supply and demand at the Southwide level. However, we modified individual states to more accurately match the performance of each to local dynamics. Our revisions, in aggregate, lower our ten-year outlook for pulpwood and sawtimber prices. Supporting analysis examines the effects of increased



timber growth per acre on timber supply projections. Cooperative modeling with SOFAC at N.C. State indicates that increased growth rates lift timber supply forecasts by 2% in ten years and 6% in twenty years.

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## Wood Pellet Markets

Forisk examined wood pellet markets and implications for North American timber investors and forest products manufacturers. In the *FRQ*, we discuss drivers of global industrial wood pellet markets as sources of demand for North American timber products. How will these markets develop over the next ten years? One of the findings, based on project and sector analysis, indicates growth in global demand for industrial wood pellets is expected through 2025, growing at a compound annual rate of 7% and reaching 31 million metric tons before declining to 24 million metric tons in 2029.

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## Upcoming Forisk Workshop: Applied Forest Finance

This one-day class details the step-by-step financial analysis required to answer key investment and forest management questions. Learn how to identify, value, and rank timber and forestry investments. **This year's class features NEW content on discount rates and accounting for forest carbon.**

March 4, 2021

10:00am - 5:00pm Eastern Time (US)

Instructor: Brooks Mendell, President & CEO of Forisk

Live Zoom Webinar

Learn more and register online: <https://forisk.com/education-speaking/applied-forest-finance/>

**Sign up before February 19<sup>th</sup> to save \$80 with the early registration discount!**

Companies that subscribe to the *Forisk Research Quarterly (FRQ)*, *Forisk Market Bulletin*, *Forisk Wood Fiber Review*, or the *Forisk Mill Capacity Database* receive an additional discount. **Please email Heather Clark ([hclark@forisk.com](mailto:hclark@forisk.com)) for the promo code.**

*Earn 6.0 hours of Continuing Forestry Education (CFE) credits, 6.0 hours of Georgia Real Estate/Appraisal CE credits and 6.0 hours Georgia Master Timber Harvester/Continuing Logger Education credits.*

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## Forisk News & Upcoming Presentations

- In October, **Andrew Copley** published an [article in \*Biomass Magazine\*](#) on regional wood fiber prices.
- In November, **Amanda Lang** was interviewed by ["Capital Ideas – Live!" on timber market predictions](#).
- In December, **Brooks Mendell** was elected to the [Georgia Forester's Hall of Fame](#). Congratulations, Brooks!
- In January, the Forest Resources Association featured research by **Shawn Baker** on the [impacts of mill closures on logging businesses](#).
- In January, Forisk promoted **Heather Clark** to Marketing Coordinator and Business Manager. Congratulations, Heather!



- **On March 24th**, Amanda Lang will speak on “Southeastern Timber Market Assessment and Outlook” at the Southeastern Society of American Foresters Annual Meeting (Virtual).
  - **On March 25<sup>th</sup>**, Brooks Mendell will speak on “Timberland Investments and Markets for Wood” at the Forestry Association of South Carolina Annual Meeting (Virtual).
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## **2021 Continuing Education Calendar**

- March 6: Applied Forest Finance Class (held virtually). [Learn more.](#)
  - September 2: Forisk’s Annual Wood Flows & Cash Flows Conference. [Learn more.](#)
  - December 9: Timber Market Analysis Class. [Learn more.](#)
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*Forisk provides research and educational services to executives and analysts making decisions related to timber REITs, timberlands, and wood-using energy and manufacturing facilities.*