



Forisk News: August 11, 2016

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Subject line: Forisk News: Timber Price Forecast – Wood Pellet Projection – Hardwood Stumpage Models in Lake States – 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 2016 Update](#)
- [North American Softwood Lumber Production Drives U.S. Timber Prices](#)
- [Projecting Hardwood Log Prices](#)
- [U.S. Pacific Northwest Timber Market Update, Q3 2016](#)

The Q3 2016 *Forisk Research Quarterly (FRQ)* includes industry analysis and market forecasts through 2025 for the U.S. economy, timber prices, logging costs, lumber and structural panels production, paper and paperboard production, forest supplies, and wood bioenergy markets. The first feature article examines the global market for U.S. wood pellets and provides a 10-year outlook for U.S. production and global demand. The second article is Part II in a series on forecasting hardwood stumpage prices. “Forisk Facts & Figures” – Forisk’s quarterly “story in three slides” – details changes in North American institutional timberland ownership over the past 50 years. Select *FRQ* findings include:

- **Macro:** Economic growth continues to increase, while inflation and unemployment remain muted, and interest rates continue to decline. Forisk’s Score of 2.7 for the U.S. economy in Q2 2016 remains above the stagnant “no growth” score of 2.0.
- **Lumber:** Using Forisk’s 2016 Base Case of 1.21 million housing starts, we forecast softwood lumber production in 2016 of 14.6 BBFT in the West, 17.5 BBFT in the South, and 1.5 BBFT in the North. Through May 2016, the South represented 43% of softwood lumber and 48% of hardwood lumber exports.
- **Pulp & Paper:** The sector invested nearly \$3.2 billion in the past three years in the U.S., more than any other forest industry sector over this period. Demand for wood used to make pulp is forecast to decline negligibly in the next ten years, as declines in newsprint and writing papers are offset by increases in paperboard and household/sanitary products.
- **Wood Bioenergy:** As of July, Forisk is tracking 434 operating and announced bioenergy projects in the U.S., 291 of which pass Forisk’s viability screening. “Viable” projects represent potential wood use of 77.7 million tons per year, down 4% from the April 2016 estimate. Exports of U.S. wood pellets are on pace to decline 2.8% in 2016.
 - To download the free *Wood Bioenergy US Summary*, click [here](#).
- **Timber Prices & Logging Costs, U.S. South:** Over the next five years, pine sawtimber stumpage increases at an average annual growth rate of 4.9% nominal, and pulpwood stumpage increases at a similar annualized rate of 5.1% nominal. Hardwood grade prices project an average annualized growth of 3.1% nominal in the South. Softwood export volumes from the South in 2016 are trending much higher than in 2015; log exports are up



22% and chips are up 13%. Logging and hauling out-of-pocket costs are expected to increase on average 1.6% per year over the next decade.

- **Log Prices & Logging Costs, Pacific Northwest:** The Northwest leads the country in log export volume. Annualized log exports in Washington track 2% above 2015 levels; Oregon log exports are up 12% relative to 2015. Average delivered log prices for 2016 are forecast to increase 1.3-1.7% in nominal terms across products. This compares to the last 4 quarter average prices, which have a five-year nominal price growth of 0.9-1.2% annually.
- **Hardwood Stumpage Prices, U.S. North:** Hardwood log exports from the North are tracking 4.5% below 2015 levels. Total average logging and hauling costs are projected to grow just over 1% per year over the next decade, driven by slow diesel cost growth. Hard maple nominal stumpage prices across the region are forecast to increase 3-4% per year through 2020. Soft maple prices also show expected growth of 2-3% annually.

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

North American Pellet Capacity: How Will It Develop Over the Next Ten Years?

Forisk analyzed global pellet markets and updated projected demand associated with power generators in the U.K. and EU. The growth of the wood pellet trade has slowed since its initial surge from 2009 through 2014. Europe remains the largest importer of U.S. wood pellets, with 89% of 2016 volumes destined for the U.K. Forisk projects global demand for wood pellets to grow from 14.3 million metric tons (mt) in 2015 to 26.7 million mt in the next five years, with demand for U.S. wood pellets growing from 4.6 million mt in 2015 to 8.8 million mt by 2020. Construction of additional pellet plants in the U.S., beyond those announced, is unlikely.

The analysis indicates that announced capacity, coupled with shuttered capacity, can satisfy the projected 2020 demand for U.S. pellets. As the U.S. continues to take European market share from Canada, the growing Asian market may buy excess Canadian volumes. *The FRQ feature article includes policy analysis, capital investments and a breakdown of pellet use by country.*

Forecasting Hardwood Log Prices in the U.S., Part II: Methods, Models and Case Study

This second article in Forisk's two-part series on forecasting hardwood log prices in the United States highlights issues unique to evaluating hardwood log markets in the North. Key lessons serve as guidelines for developing models associated with timber pricing and demand projections: (1) understand the underlying data; (2) keep models simple; (3) confirm the physical facts and historic precedents that support the forecast. A case study projecting hardwood prices in the Lake States region and for Wisconsin specifically illustrate the role these lessons have in selection and development of a forecast model. *The case study includes data sources, model drivers and projected prices for maple and red oak products.*

Upcoming Continuing Education Opportunities

On October 13th, Forisk will teach the "**Timber Market Analysis**" class in Atlanta, Georgia. This one-day, CFE-qualifying course is ideal for anyone who wants to learn a detailed process to understand, track, and analyze the price, demand and supply of local timber markets and wood



baskets. Early registration discounts end September 29th. All *FRQ* subscribers receive a 10% discount. [Click here to learn more and to register.](#)

On December 8th, 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 based on public-private comparables, and sources of variance in operational costs, returns and forest management fees by region in the United States. [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 July, [Amanda Lang](#) was named to the University of Georgia's "40 Under 40" for 2016. Congratulations, Amanda!
- The Forest Resources Association published a technical release co-authored by Shawn Baker, titled "Log Truck Performance Derived from On-Board GPS."
- The Forest Resources Association also published a technical release about Forisk's third biennial survey of management trends and silviculture practices for the largest timberland owners and managers in the U.S. South (full study featured in the *Q2 2016 FRQ*).
- On **August 23**, Amanda Lang will present "Wood Markets in Middle Georgia" at the Ocmulgee SAF Meeting in Macon, GA.
- On **September 20**, Shawn Baker will present two papers at the DEMO International Conference in Vancouver, BC. The papers are titled "Follow that tractor: What truck-mounted GPS tells us about log truck performance" and "Are logging rates a driver of logging employment?"
- On **September 22**, Brooks Mendell will present "Forest Management Practices and Costs for Institutional Timberlands" at Who Will Own the Forest? in Portland, OR.

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