



Forisk News: Forest Industry Analysis – Logging Industry Mechanization – Applied Forest Finance

Forisk News: February 7, 2020

Archives available [here](#).

This quarter, we acquired the *Wood Fiber Review* in Bothell, Washington from Wood Resources International (click [here](#) for the press release) and welcomed Tim Gammell to our team as the Editor. Forisk is also looking to hire an experienced marketing professional (click [here](#) for more info). Thank you to everyone who supports our team and research!

On March 19th in Atlanta, Forisk offers its “Applied Forest Finance” class on financial analysis of timber investments and forest management decisions. [Click here](#) to learn more. **Forisk subscribers receive discounted registration; early registration ends March 5th.**

Timber Price Forecast

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

- [Timber REITs Turnaround in 2019 and Look to 2020](#)
- [U.S. Housing Starts Outlook, Q1 2020 Update: Another Decade of Gains?](#)
- [Timberland Turnover: What Does U.S. Deal Flow Look Like in Forestry?](#)
- [Localized Wood Demand and Logging Capacity: Perspective Matters](#)
- [Canadian Wood Pellet Exports, Q1 2020 Update](#)

The Q1 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 evaluates past performance of Forisk’s Northern hardwood and Southern pine forecast models in the face of changing market conditions. Our market summary, “Forisk and the Trees” includes a discussion on the impact of tariffs, timberland transaction volume, and forest industry executive comments on the role of risk. “Forisk Facts & Figures”, Forisk’s quarterly “story in three slides,” discusses mechanization and employment in assessing logging capacity.

Select FRQ findings include:

- **Macro and Housing:** Real GDP grew 2.3% in 2019. Unemployment remained close to a 50-year low. Inflation rose year-over-year. Forisk projects U.S. housing starts of 1.347 million for 2020, up 4.5% over 2019 actuals. Canadian housing starts declined 2.0% in 2019.
- **Lumber:** Forisk’s Base Case projects U.S. softwood lumber consumption increases 2.7% in 2019, while production increases 4.1%. Total North American softwood lumber capacity reaches 73.0 BBFT in 2020; in the U.S. South, capacity climbs to nearly 25 BBFT, while western Canada declines closer to 16 BBFT. Quarterly softwood lumber prices were up 5.6% from one year ago.
- **Structural Panels:** Forisk projects Base Case U.S. OSB and plywood consumption to increase 3.1% to 31.9 billion square feet (BSF) in 2020. North American structural panel capacity was 40.2 BSF in 2019. North American OSB capacity declined 6.3% in 2019.



- **Pulp & Paper:** Total pulp/paper production increased 0.7% last quarter, driven by packaging (1.3%) as reported by AF&PA. The packaging industry remains the top consumer of U.S. recovered paper, but exports remain a key market. Forisk expects U.S. pulp and paper production to decline 3.9% over five years, despite moderate growth in packaging and household sectors.
- **Wood Bioenergy:** Forisk analysis suggests wood use for “viable” bioenergy projects in the U.S. could reach 80.8 million tons per year by 2029. Through November 2019, U.S. wood pellet export volumes increased 17% year-over-year, while Canadian wood pellet exports declined 2.0%. North American wood pellet capacity projects to reach 19.8 million metric tons in 2020.
 - To download the free *Wood Bioenergy US* Summary, click [here](#).
- **Log & Chip Exports:** Through November 2019, exports of all roundwood and chips declined by 15% on a year-over-year basis. U.S. softwood log exports were down 38%, while U.S. hardwood log exports decreased 22%. In addition to tariffs, U.S. exporters face near-term headwinds from the increased availability of salvaged EU spruce logs to China.
- **Timberland Investments:** Public timber REITs returned 0.3% YTD through Friday January 24th after returning 36.2% in 2019. Among timberland investments tracked in the *FRQ*, Pope Resources led the group with a 71.3% return, largely associated with its announced acquisition by Rayonier. Over the last four quarters, over 1.5 million acres of industrial timberland transactions closed in the U.S.
- **Forest Operations:** North American logging employment was down through Q2 2019. Logging wages grew from 1-7% regionally (1-3% in the U.S. and 4-7% in Canada). Trucking employment grew 3% year-over-year; freight volume growth remained near 5%. While freight volume continues to outpace employment growth, the divergence between the two has slowed from previous years.
- **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 increases for grade (sawtimber and chip-n-saw) and a decrease for pulpwood. The largest increases locally for pine sawtimber are in Georgia, Alabama, and South Carolina. Pine pulpwood stumpage prices increase the most locally in Alabama and Mississippi.
- **Log Prices, Pacific Northwest:** Delivered log prices increased in Q4 2019 for most domestic and international products. Hemlock increased 2-3% in Washington and Oregon, though Douglas-fir export prices declined 3%. Forisk’s Base Case projects an increase in Douglas-fir prices in Oregon in 2020 following the drop in 2019.
- **Hardwood Markets, U.S. North:** The Forisk Hardwood Price Index declined nearly 2% in Q3 2019, led by declines in red oak, hard maple, and ash. Over the next five years, hard maple prices are projected to increase across regions. Export scenarios suggest price forecasts could shift negative if log export declines continue through 2020. New Forisk research confirms hardwood log prices in Appalachia track closely with other regions of the North.

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

Lessons in Timber Price Forecasting

Our featured research this quarter examines the challenges of forecasting prices amidst short- and long-term disruptions to markets. Tariffs on hardwood logs rocked exports and prices on a number of species. Our hardwood price models performed well... with the exception of those species most affected by export volatility. For Southern pine, accumulating supplies continue to dominate analysis of price behaviors. **Individual markets are beginning to respond, but price growth on par with demand remains limited.**



Forisk Facts & Figures: Logging Industry Mechanization

Forisk's quarterly "story in three slides" examines the role of mechanization in the logging industry's ongoing contraction. While logging employment is down 30% over the past twenty years, logging equipment sales only declined 6% nationally, and sales of new equipment increased 2%. Research indicates increased mechanization (and better machinery) boosted logging employee productivity 50% in the past twenty years. Despite higher productivity, local markets see demand outpacing logging capacity. In short, increasing productivity does not solve all issues.

Upcoming Forisk Course

Forisk hosts the "Applied Forest Finance" course in Atlanta, Georgia on March 19th, 2020. 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. *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.*

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

To learn more or register online, click [here](#). Early registration discount ends March 5th and registration closes on March 13th.

News & Upcoming Events

- Effective January 1st, Forisk acquired the *North American Wood Fiber Review* from Wood Resources International. As a result, **Mr. Tim Gammell joined Forisk's team as the Editor of the new *Forisk Wood Fiber Review***. Welcome, Tim!
- **On February 20th, 2020**, Brooks Mendell speaks to the Forest Resources Association (FRA) Executive Committee on "Supply and Demand Expectations for Major Forest Industry Markets" in Atlanta.
- **On February 24th, 2020**, Amanda Lang speaks on the "Impacts of Hurricane Michael on Softwood Supplies" at the Southeastern SAF Annual Meeting in Panama City, Florida.
- **On March 11th, 2020**, Andrew Copley speaks on "North American Timberland and Cap Ex Trends" at the Wood Bioenergy Conference & Expo in Atlanta, Georgia.
- **On May 14th, 2020**, Brooks Mendell speaks on "Strategic Issues in Forest Investment" at the Pacific Northwest Timber Forum in Seattle, Washington.

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