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Forisk News: Q1 2019

This quarter, we published analysis of price forecast models for the Pacific Northwest. Our research considers the implications for timber prices, log exports and forest supplies (see below for highlights from the Q1 2019 *Forisk Research Quarterly*). Thank you to everyone who supports our team and research!

On February 19th in Atlanta, Forisk hosts "Applied Forest Finance," with new case studies and examples for valuing forest investments and timberlands. [Click here](#) to learn more. **FRQ subscribers receive discounted registration. Registration closes on Thursday.**

Timber Price Forecast

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

- [Timber REITs: Tums for 2018 and Truffles for 2019](#)
- [U.S. Housing Starts Outlook, Q1 2019 Update](#)
- [Have We Finally Reached "Peak Sawmill"?](#)
- [Forecasting Pacific Northwest Sawlog Prices](#)
- [Chinese Investment in U.S. Pulp & Paper](#)

The Q1 2019 *Forisk Research Quarterly* (FRQ) includes industry analysis and market forecasts through 2028 for timber prices, logging costs, lumber production, structural panels production, paper and paperboard, forest supplies and ownership, and wood bioenergy markets. Our feature article examines softwood log price models for the Pacific Northwest. Our market summary, "Forisk and the Trees" includes notes on how forest industry executives think about deploying capital, public timber REITs, and the 2018 performance of Forisk's forecast. "Forisk Facts & Figures", Forisk's quarterly "story in three slides," analyzes log exports and Chinese tariffs. *This issue also includes a number of changes to the layout of the FRQ to streamline the publication and make key data more accessible.*

Select *FRQ* findings include:

- **Macro & Housing:** The U.S. economy generated 762 thousand net jobs. Unemployment remained close to a 50-year low and inflation declined year-over-year. For 2019, Forisk projects U.S. housing

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starts of 1.279 million. U.S. housing starts advanced 5.1% year-over-year through November. In 2018, Canadian housing starts declined 3.1% year-over-year.

- **Lumber:** The Forisk Base Case projects U.S. softwood lumber consumption to increase 1.5% to 50.3 BBFT in 2019, while production increases 2.1% to 36.6 BBFT. North American softwood lumber capacity is projected to reach 74.7 BBFT in 2019; U.S. capacity grows to 43.5 BBFT.
- **Wood Bioenergy:** Forisk analysis suggests suggests wood use for "viable" bioenergy projects in the U.S. will be 80.8 million tons per year by 2028. Through October 2018, U.S. wood pellet export volumes increased 18% year-over-year, while Canadian wood pellet exports rose 20%. North American wood pellet capacity projects to reach 18.3 million metric tons by 2019.
 - To download the free *Wood Bioenergy US* Summary, [click here](#).
 - For information on the *Wood Bioenergy US* database, [click here](#).
- **Log & Chip Exports:** Despite tariffs markedly slowing export volumes in the second half of 2018, U.S. softwood log exports were up 4.9% year-over-year through October 2018, while hardwood log exports remained 20% higher. Hardwood chip exports were down 29% relative to this period last year, while softwood chips increased 11%. China remains the largest importer of U.S. logs.
- **Timberland Investments:** Public timber REITs returned 15.6% YTD through the last Friday of January. Over the past twelve months, among tracked timberland investment vehicles, only MLP Pope Resources (POPE) and direct timberlands netted positive appreciation. Over the last four quarters, ~2.5 million acres of industrial timberland transactions closed in the U.S. TIMOs accounted for 66% of acres sold while public timber REITs accounted for 67% of acres acquired.
- **Forest Operations:** Trucking concerns continue to dominate the wood supply chain as capacity shortages nationally are forcing commercial driver salaries higher and challenging the competitiveness of the logging sector for new drivers. Logging wages increased across North America 3-5% year-over-year through Q2 2018, while employment fell 1-2%. Localized impacts varied substantially.
- **Timber Markets, U.S. South:** In general, pine sawtimber price forecasts are lower this quarter versus Q4 2018 due to lower projections of housing and lumber production. The largest pine sawtimber stumpage price increases are expected in Alabama, Georgia, and Arkansas. Pine pulpwood stumpage prices increase the most locally in Mississippi and Texas.
- **Log Prices, Pacific Northwest:** Delivered log prices declined in Q4 for most products; the largest decline was for Douglas-fir and hemlock in Oregon (-20%) and the smallest decline was for export hemlock logs (-4%). Prices in the Base Case are forecast to increase in the next five years from current levels, while the Slow Case assumes that exports will force prices lower.
- **Hardwood Markets, U.S. North:** The Forisk Hardwood Price Index decreased 5%, with declines in all four species tracked. Tariff impacts may have lowered northern hardwood log prices as declines were counter to recent trends. We forecast hard maple prices to end their recent dip and increase across the region. Red oak and hard maple inventories are distributed across the North in opposing patterns, with southern regions largely dominated by red oak and hard maple inventories dominating further north.

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

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Forecasting Timber Prices in the Pacific Northwest

This quarter's featured research examines drivers of domestic and export softwood log prices in Coastal Oregon and Washington. We provide back-tests of previous Forisk log price models and evaluate changes in price-to-demand relationships by state and product. Using historic data on log prices, lumber and plywood production, and log export volumes we defined new relationships which account for the constrained private supply in the Pacific Northwest. Back-tests on the new elasticities reveal improved price responsiveness to shifts in export markets and aggregate demand.

Forisk Facts & Figures: Log Exports and Chinese Tariffs

This quarter's "story in three slides" asks, "given the scale of China's demand for softwood logs and existing U.S. trade flows, what is the impact of the trade war on this market segment?" Context is important here. China is the largest importer of softwood logs in the world. The U.S. represents only 13% of imported logs for the country, while China imports over 50% of U.S. softwood logs exports. Tariffs between the U.S. and China have affected the level and magnitude of these flows. Regionally, the U.S. South and West are most exposed to tariff effects.

Upcoming Continuing Education Opportunity

Forisk will host "Applied Forest Finance" in Atlanta, Georgia on February 19th, 2019. Delivered in an interactive environment, 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 course qualifies for 6.0 hours of CFE credits, CLE/MTH credits, and GA Real Estate/Appraiser 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.

To learn more or register online, [click here](#) . Registration closes on Thursday, February 14th.

News & Upcoming Events

- Since fall 2018, Forisk research and researchers were cited and interviewed in *The Wall Street Journal*, *The Financial Times*, *Capital Press* and NPR.



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- Dr. Shawn Baker, Forisk's Vice President of Research, recently became a Forisk shareholder. Congratulations, Shawn!
- On **February 28th**, Shawn Baker will speak at the PNW Timber Industry Executive Forum in Seattle, Washington.
- On **May 2nd**, Shawn Baker will speak at the Virginia Forestry Summit in Norfolk, Virginia.
- On **June 19th**, Brooks Mendell will keynote the Forest Landowners National Conference in Lake Tahoe, California.
- On **June 21st**, Shawn Baker will speak at the Timber Products Inspection's Annual Meeting in Hilton Head, South Carolina.
- On **June 25th**, Forisk will offer "Timber Market Analysis" in Atlanta, Georgia.
- On **December 5th**, Forisk will host its annual conference, "Wood Flows & Cash Flows" in Atlanta, Georgia.

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

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