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Timber Industry Slowdown May Signal Recession

by **Sarah Campbell-Miller**

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Conifex Timber Inc. of Vancouver was just one of several Canadian companies that have invested heavily in the forest products industry in Arkansas. (Stephanie Dunn King)

The country may be headed for another recession, timber industry experts told Arkansas Business last week after Conifex Timber Inc. of Vancouver, British Columbia, announced [an indefinite suspension of operations](#) at its El Dorado sawmill.

“Our industry tends to be a leading economic indicator,” said Steve Anthony, president of Anthony Timberlands Inc. in Bearden. “So I’ve been a little bit concerned that perhaps what we have been seeing has been an omen that we are entering a recession. I hope I’m wrong.”

He added: “We’ve been on about a six-year period of pretty good economic expansion. Our market has been, I don’t know how to describe it, other than it’s been very favorable for almost the last six or seven years, which is highly unusual. ... It would be strange for us not to be expecting a recession at some point.”

The sawmill business tends to be cyclical, he said. The industry was hit hard in 2006, just before the Great Recession. It lost much of its capacity, then rebounded — for the most part — when the economy did in 2012.

Matthew Pelkki, associate director of the Arkansas Forest Resources Center, said the country has been experiencing its longest period of economic growth during the past 10 years.



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Now, "We're basically seeing a slowdown, and there's concern about a recession. It's got a lot of people holding back on expansions and operations," he said.

"2008 and 2009 was worse than a recession," he said. "It was a downright depression in the wood products industry. We still haven't recovered to quite the production levels we were at in 2006."

In early 2006, about 2 million homes were being built every year. "Now it's about 65%-70% of that. And about 60% of softwood lumber production goes to homes."

In addition, Pelkki said, demand isn't keeping up with supply, causing the low prices that Conifex cited in its announcement last week about "indefinitely curtailing" operations at the El Dorado sawmill.

"We regret this difficult decision, however, lumber prices are simply too modest to justify continued operations at a site that requires further capital expenditures to realize its potential as an efficient, modern mill," CEO and Chairman Ken Shields said in a news release. "While our wish is to restart the mill as soon we can, our immediate priorities are to identify the scope of a Phase 2 capital investment to help better inform a restart date."

The "curtailment" will be phased in over the next 60 days, the company said, and will affect 92 workers. It is expected to reduce Conifex's U.S. South lumber production by about 21 million board feet this year.

Conifex also announced earlier this month the extension of a "temporary curtailment" of its sawmill operations in Mackenzie, British Columbia, until Sept. 3, again citing market conditions.

'We Are Way Behind'

Anthony confirmed that lumber prices have been "far, far below where they were last year around this time.

"Last summer, the prices were at extremely high levels, and it was about last fall, whenever it started to rain so much, that the prices really took a tumble," he continued. "They're pretty volatile, and pretty cyclical, so they'll trend up and down. But, by and large, we are way behind."

"What Conifex is dealing with is that there's been this huge expansion of Southern pine lumber production," Pelkki said. "Canadian investments have been enormous all across the South. And not only have our Canadian friends bought Southern mills, they've upgraded them."

Canadian investment has totaled more than \$2 billion in the South during the past five years, he said.

Conifex bought the shuttered Georgia-Pacific sawmill and related facilities in El Dorado for \$21 million in 2015. The company announced in January 2017 that it would invest \$80 million in modernizing and restarting the sawmill in El Dorado, creating 120 full-time jobs.

Pelkki said other mills, including those in Monticello, Russellville and Mansfield, have ramped up production in recent years as well. They were anticipating growth in the housing market, which was projected by economic models but didn't materialize, he said.



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“So you’ve got all this expansion and new production, and the market didn’t respond on the demand side, and so that’s kept the prices low,” Pelkki said.

He said that an interest rate cut by the Federal Reserve could help boost the market.

On the upside, the industry is growing more timber than it’s harvesting, so raw material prices have been and will likely remain low for a decade or longer, Pelkki said, although the surplus creates another issue.

“Forty years ago, we had about 600 million tons of standing, live timber, and now we’ve got over a billion in the same amount of forest area,” he said. “While that sounds good and is an indication of good forest management, if you keep packing a lot more trees into the same area” the risk of hazards like fire grows.

“We’re probably finding, with climate change, maybe we want to reduce the number of trees per area,” Pelkki said. “Unfortunately, low timber prices and low demand for wood products is getting landowners to just hold onto their trees. And that’s not always the best thing.”

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