

LOUISIANA TIMBER MARKET ANALYSIS 2014
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Introduction

Timber and timber product markets showed continuing recovery during 2013, and the prospects for further improvement in 2014 are positive. Louisiana Department of Agriculture and Forestry reported that stumpage prices paid for pine sawtimber during the fourth quarter of 2013 averaged \$248.48 per thousand board feet. This average represents a .16 percent increase from the previous quarter and .48 percent increase compared to a year ago.

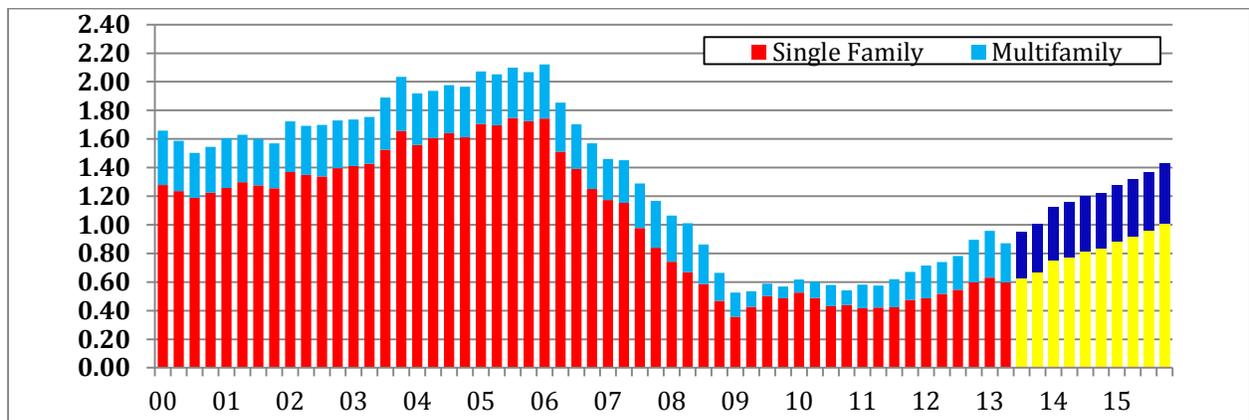
Prices paid for mixed hardwood sawtimber during the fourth quarter of 2013 averaged \$491.53 per thousand board feet which is a 39.11 percent increase from the previous quarter and 17.93 percent higher than a year ago. Pulpwood stumpage prices averaged \$23.14 per standard cord for pine and \$22.94 per standard cord for hardwood.

This higher price indicates an improvement in demand, albeit slight, for all products with some products more improved than others. Continued improvement for the more valuable timber products, such as saw timber and chip-n-saw, depends largely on continued improvement in the United States housing market.

Housing

Housing showed improvement during 2013, and all indicators pointing towards continued improvement in 2014. A 4% increase in existing-home sales, to 5.3 million, up from 5.1 million in 2013. Sales growth will drop from the strong 9.3% increase in 2013 because of expected increases in interest rates and tighter mortgage rules from the Consumer Financial Protection Bureau effective Jan. 10, 2014.

Figure 1. Housing starts from 2000-2015.



Note that inventories of existing homes are moderately low at 5.1 months (as of November 2013). This is close to the average in the housing market prior to the housing bubble and an indication that previous foreclosures coming into the market are no longer creating an oversupply of homes. Sales of new single-family homes, however, are likely to climb by a robust 15% or so to 500,000 in 2014, on the heels of strong growth of 18.4% in 2013 and 20.2% in 2012. Inventories of new homes remain extremely tight. In November 2013, new homes stayed on the market for an average of 3.1 months before being sold, far below the average 5.5 months of the past 30 years.

Look for construction of about 1.07 million new homes to begin in 2014, as builders continue to respond to tight inventories. That's a 16% jump from estimated 2013 starts of around 920,000. November's 20.8% increase in single-family starts is unlikely to last, as permits rose by only 3.2%. As of November 2013, housing construction is up 25.4% from this time last year and is up 86.2% from the record low set in April 2009. In April 2009, the seasonally annual adjusted rate (SAAR) for housing starts fell to 477,000 units.

Building permits for new home construction are also trending in a positive direction. Permits are up 26.8% over the past year. These positive signs are not unexpected as events are in line with a 2012 housing construction forecast by the National Association of Home Builders indicates United States housing starts will reach over one million units SAAR by 2014.

Fueling the recent increase in new home construction are sharp declines in both newly constructed and existing home inventories. The two inventories are both measured in month supplies and have decreased to lows not seen since prior to the housing bubble collapse. These declines in inventories are a very favorable sign the Louisiana timber markets should see continued improvement during 2014. Given this forecast, the production of lumber and other wood building products should increase over 2014 with continue increase into 2015. See Figure 1 for price details and Figure 2 for quantity.

North American lumber production is expected to increase by almost 3 billion bf (+5.4%) in 2014 – an increase over 2013's estimated gain of 2.6 billion bf (+5.0%). The stud lumber segment is expected to see the most volatility when U.S. housing starts increase rapidly (i.e., more than 175,000 units per year) and/or as the supply chain tightens.

Figure 2. Lumber Prices Are Likely at a Near-Term High; longer term should see increases.

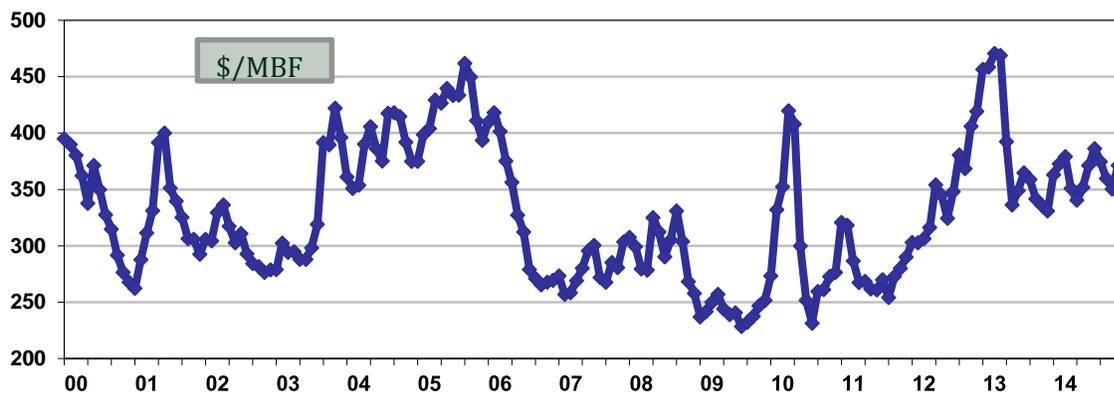
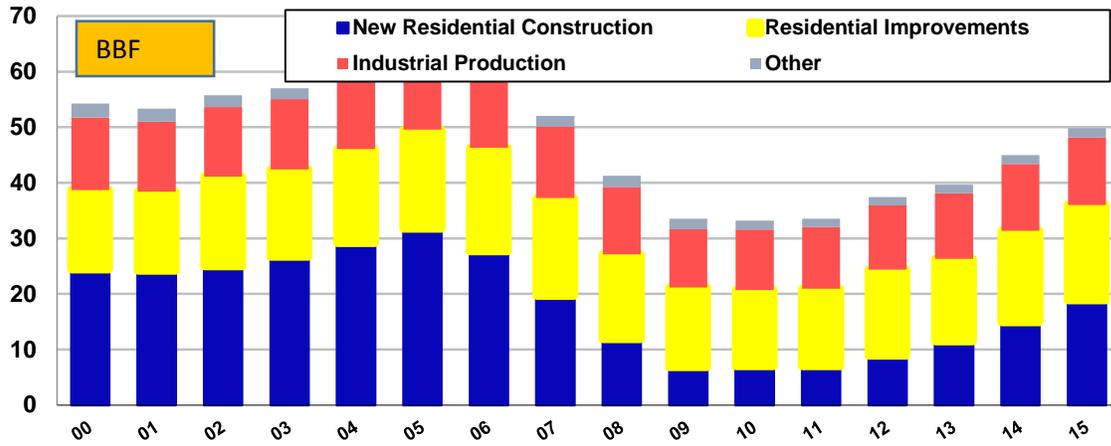


Figure 3. US Lumber Demand by End-Use Sector through 2015

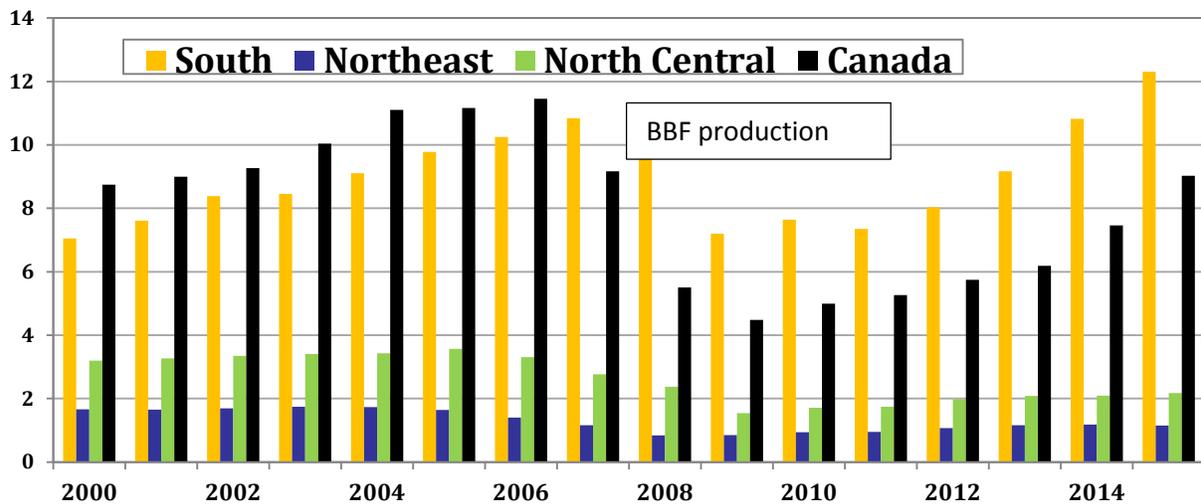


Products

Forecasts on OSB are also strong (Figure 4), but not as high as what are in store for lumber. By comparison, the particle board and MDF (medium density fiberboard) sector will see more limited growth, but higher demand and prices are also forecasted.

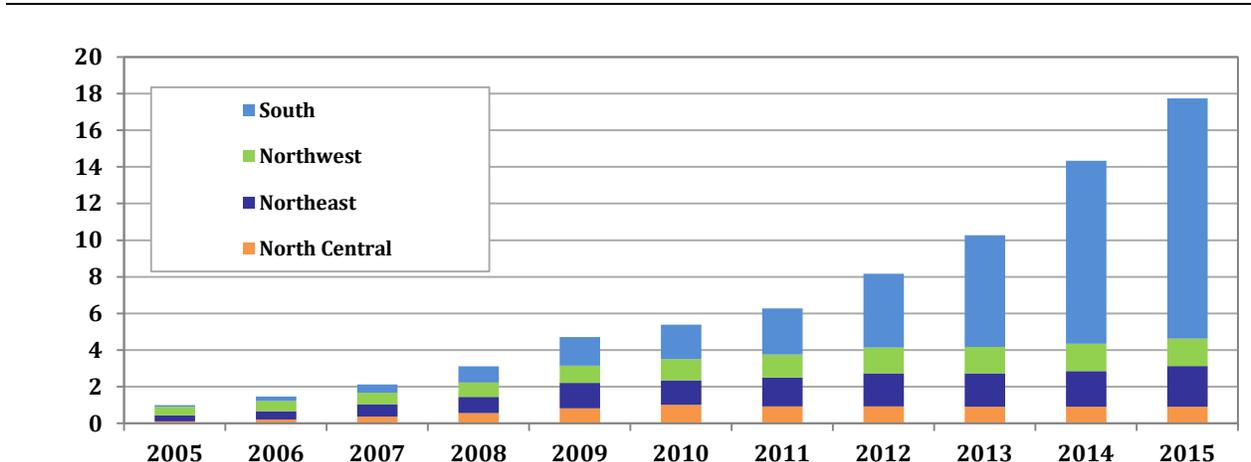
Demand for pulpwood should also show slight improvement during 2014 as demand in the pulp market is correlated with GDP growth. The demand for softwood pulpwood in the US South is expected to move upward to nearly 3.3 BCF by the end of the forecast period. The demand for pulpwood by the OSB industry will expand as new capacity finally ramps up closer to their operational capacity.

Figure 4. OSB Production in the US and Canada



Growth in the bioenergy industry, particularly in the wood pellet sector, will also strengthen pulpwood demand (Figure 6). This will help counter lower demand from more traditional end users of pulp, where lower production levels (Figure 7).

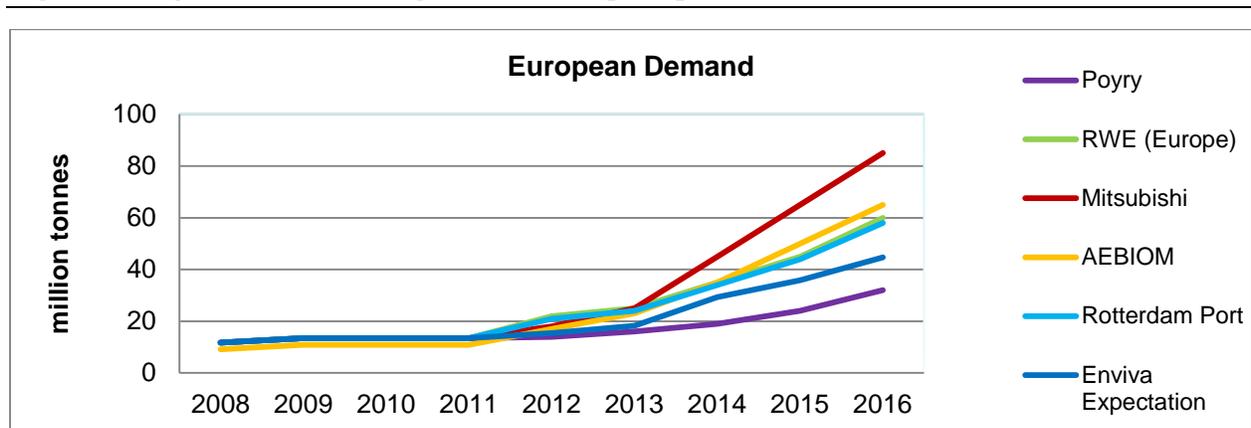
Figure 5. Production Capacity for U.S. wood pellets.



While expectations are for incremental growth in the wood pellet markets servicing the residential heating markets, the bulk of expected growth in wood pellet production will be destined for the European market (Figure 6). Policies aimed at promoting renewable energy in Europe has fostered demand for wood pellets for electricity generation. Numerous projects have started to supply this market.

Projected increases in the use of pine pulpwood and logging residuals by bioenergy projects will increase stumpage prices in the U.S. South. According to the 2013 Mid-Year Forisk Forecast, pine pulpwood stumpage prices are projected to average \$13.76 per ton in the U.S. South by 2023, an increase of 48% from the current price. On average for the U.S. South, 77% of the increase in pine pulpwood stumpage prices is associated with increased demand from viable wood bioenergy projects. However, gains in price will be modest for the next two to three years.

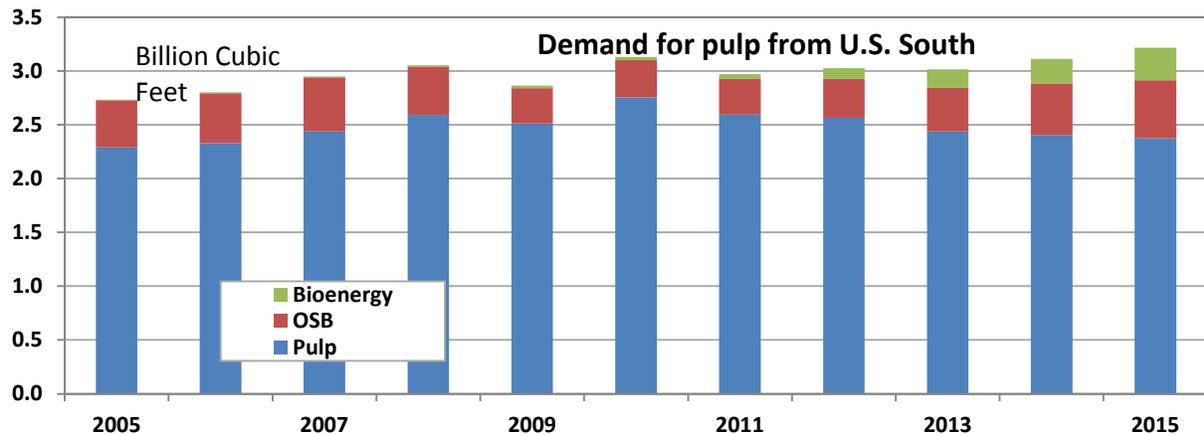
Figure 6. Projections for future growth of European pellet markets.



Harvests of hardwood pulpwood in the region will also increase over the next five years. Consumption by pulp and paper producers will trend lower due to decreased production of hardwood grades, and no significant demand growth is expected from OSB producers. This will be offset by consumption by the bioenergy industry, primarily from pellet mills in the northern Atlantic region.

US paper consumption has been on a long downward trend, victim to the structural shift from paper to electronic media. The decline in paper consumption was accelerated by the economic downturn in 2009, falling more than 15%.

Figure 7. Distribution of pulp production by end use.



After stabilizing in 2010, paper consumption has fallen lower over the last two years, dropping to 37.90 million tons in 2012. Over the next five years, the expectation is that paper consumption will remain weak for the next several years.

Paperboard and packaging consumption has remained relatively more robust. After falling 8.5% in 2009, consumption levels have improved, bouncing above 40 million tons over the past three years. Looking forward, we expect paper packaging consumption levels will continue to improve alongside a strengthening US economy. Paperboard production will benefit from recovering domestic demand and a positive trade balance. By 2017, US paperboard production will near 53 million tons, 10% above 2012 production levels.

Local Conditions

While much related to forest land is somewhat local in nature (how much a landowner gets for stumpage is a factor of local characteristics such as access, volume of pine sawtimber per acre, weather, time of the year), there is still a significant amount of the entire equation that depends on what is happening in our general economy. However, harvesting appears to be out of the doldrums of 2009. See Table 1 for more detail.

In terms of general economic conditions, Louisiana is expected to experience above average (3%) GDP growth¹. Driving this growth are the rising profits and productivity in natural gas, petroleum refining and petrochemical industries which will keep Louisiana growing faster than average.

Table 1. Pre/Post Recession Timber Harvest in Louisiana.

Year	Sawtimber (Br. Feet)	Cordwood Products (crds.)	Tax Revenue in \$
2007	1,157,504,181	6,504,758	16,084,330
2008	908,476,146	6,607,572	14,585,055
2009	710,479,091	6,081,382	12,579,055
2010	811,976,162	6,386,253	13,615,196
2011	828,637,892	5,844,089	12,101,456
2012	871,653,268	5,957,169	12,074,943
2013	991,163,551	6,326,984	12,764,419

Timber Mart South's price report for the second quarter of 2013, shows that generally, stumpage prices are stable to positive relative to the year prior. Sawtimber prices for pine, oak, and mixed hardwood are up 6%, 2.8%, and 10%, respectively. Pine chip-n-saw is down 4.9%, pine pulpwood increased 8.5%, and hardwood pulpwood decreased by 1.5% but had experienced a 30% jump the prior year. It must be noted that individual landowners should not look at Timber Mart South Prices as an indication of what they will get for timber sold on their land, but rather as a gauge to judge price trends and directions. See my first quarter price report for a more up-to-date price information for Louisiana²

Conclusion

Overall there is reason to be optimistic about wood markets here in the South for the next few years. Many of the problems for the economic recovery; continued struggles to clear housing markets of foreclosed homes, unemployment rates, and general financial insecurity are still serious concerns but appear to be improving. Other encouraging news is the passage of the 2014 Farm Bill. The bill includes a number of provisions for forests, including new market opportunities for forest products, more conservation tools to forest owners, strengthened

¹ Forecasts for GDP growth for the United States economy vary, but most predict growth around 2.5% to 3% in 2014.

² <http://www.lsuagcenter.com/NR/rdonlyres/CF5AC4FD-7304-4AFE-8001-BC4DF61886B3/97328/QuarterlyPricereportIssue1volume1.pdf>

programs to fight invasive forest pests, and protection for woodland owners from unnecessary permit requirements on forest roads.

Look for continued improvement in demand and production over the next 12 months but not much movement in stumpage prices, though nominal price increases are expected. The outlook for the 2014 timber market is the brightest since the housing bubble collapsed during the recent recession.