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<http://www.lsuagcenter.com/en/blogs/stumpagespeak/>

<http://www.freddiemac.com/finance/ehforecast.html>

<http://water.weather.gov/precip/>

<http://graphics.wsj.com/us-housing-market/>

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**Louisiana Timber Market Report:**

**Outlook 2016**

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Staff Report # 2016-06

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What markets look better for small woodland owners in the U.S. South<sup>1</sup>?

*"Wall Street indices predicted nine out of the last five recessions!"  
--Paul A. Samuelson in Newsweek, Science and Stocks, 19 Sep. 1966.*

*"I am describing the outlook that I see as most likely, but based on many years of making economic projections, I can assure you that any specific projection I write down will turn out to be wrong, perhaps markedly so."*

*--Janet Yellen, Speech at the Providence Chamber of Commerce, Providence, Rhode Island  
May 22, 2015*

### Introduction

The above quotes are a quick reminder to all of that making predictions can range from tough to impossible. As economic predictions go, forestry can be on the higher end of that scale. Not only do you have to predict what the economy will do, you have to factor in the weather as well. Given the two quotes and that sobering proviso, we'd like to try and give the reader insight into the forest markets in the coming year. As is always the case, take these predictions with the proverbial grain of salt.

### Housing and Lumber Outlook

More of the same in 2016 for lumber markets. In the coming year, a number of conditions will conspire against lumber prices. However, there are strong indications of positive economic conditions in the years to come. Demographics trends in the U.S. and Canada will benefit timber markets in the U.S. South. However, there were a lot production expansions and reopening of mills over the last 2 years in Canada and in U.S. South and West which has driven up output, while housing starts in 2015 have been below forecasts.

It's a good news / bad news on housing, with multifamily dwellings having rebounded but single family starts continue to lag behind. Many potential new home buyers continue to prefer to rent as wages are still stagnant and economic uncertainty continues to exist. This obviously benefits multifamily starts, which unfortunately use less wood than single family starts. Softwood lumber prices will remain mostly *flat*. Factors such as the U.S. currency being strong against our typical trading partners, slow domestic consumption, weak exports to China,

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<sup>1</sup> Reprinted in National Woodland Owners Association Magazine in the Winter 2015 issue.



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and the expiring Softwood Lumber Agreement between the U.S. and Canada will all work to keep price forecasts modest for lumber products and timber.

However, according to Forest Economic Advisors (FEA), lumber prices are thought to be at a bottom. Russia has limited ability to supply China, mills in British Columbia are facing supply limitations in the wake of the Mountain Pine Beetle timber epidemic, and annual allowable cuts are dropping in Eastern Canada. Despite these supply concerns, U.S. consumption is expected to remain on a slow but steady) growth track.

The real driver in the longer term is simply people. By 2020, the largest two age groups in the U.S. will be the 25-29 and 30-34 years-olds, generating stronger longer-term demand for housing. In addition, the aging U.S. owner-occupied housing stock — now at a median of 37 years — will push home improvement spending back up to pre-recession levels by 2020. However, the composition is still thought to be weighted heavily in multifamily dwellings.

**Outlook for 2016:** 1.175 to 1.225 million new housing starts and average lumber prices to improve 1-2% from this time to next January. However, it will be a bumpy ride as companies struggle with how much unused capacity to bring online given financial volatility in world markets.

### **Oriented Strand Board (OSB)**

According to Pete Stewart at Forest2Market, demand for pine fiber will increase caused in part by growth in OSB production and pulp and paper production. Unlike in lumber markets, OSB market share is much more concentrated, with the top five producers controlling ~ 80% of the market share. So there is a very high price premium predicted in those markets according to Moody's.

On the supply side, the reduction in sawtimber harvests due to the slow housing recovery has reduced the amount of pulpwood available to the market as replanting efforts have been subdued over the last 8 years. That should be some small solace to those that did harvest sawtimber and replanted since the 2007-2009 recession as they will be ideally placed to reap benefits of having pulpwood class products ready in the very near future. However, with Brazil's recent economic woes, it is likely we will see more of Brazilian pulp and wood chips in the U.S., though this effect may be blunted a bit by increased demand from other Latin American countries.

**Outlook for 2016:** A combination of these demand and supply pressures will keep OSB prices elevated throughout 2016, along with the ability of OSB producers to better control capacity nationally. This may lead to a double digit surge in OSB prices, making it the big winner this year in terms of price appreciation. OSB and engineered wood products will improve as U.S. housing starts continue to move towards trend levels, albeit slowly. This may benefit timber producers in these product markets depending upon the timber supply in those markets.



## Pulp

Most of the growth in demand for pulp and paper products will come from the non-Western world. Demand in both North America and Europe will be flat to lower, while Africa, Asia Pacific, Latin America and the Middle East will all see upticks.

Brazil and China have quite a bit of monetary and fiscal housekeeping to undertake to help stabilize the global economy. Their current slippage has severe impacts for U.S. timber markets. First and foremost, western softwood will not go overseas in as great a quantity. While western sawtimber mills are adjusting capacity accordingly it will take some time to rebalance supply and demand conditions, so those products will seek markets with U.S. housing being the most likely alternative given proximity and currency imbalances.

U.S. south pulpwood markets are under siege as well. Despite the tightness in supply in the south for pulpwood products as explained above, pulp exports from Brazil will continue to seek a home in U.S. and European markets as their economic collapse makes their exports attractive. This may also lead to increased movement of pellets to Europe. Thankfully, other Latin American countries continue to grow and contribute to the rising demand for pulp and paper products so this should offset some of that downward price pressure.

North American market pulp prices across most grades (hardwood, softwood, dissolving pulp) will remain flat or decrease as capacity increases and supply from foreign markets are strong. As additional pulp capacity comes on-line, inventory management across the fragmented global pulp industry will remain critical to balancing supply and demand. Latin American market pulp producers will continue to enjoy structural cost advantages over North American and Western European producers due to their shorter tree-harvesting cycles and financial positions.

**Outlook for 2016:** Higher quality pulp (both softwood and hardwood) is projected to see drops of 2-3%, while low end pulp is expected to be flat in the coming year. Pulpwood prices will remain modest in spot areas until local supply reflects the past several years of lower planting and lower timber harvesting following the recession.

## Timberland

Timberland exemplifies real asset investment characteristics. Analysis shows that the asset class can provide a hedge against inflation, has low correlation with other assets, and has better risk-adjusted returns compared to other assets. While returns over time have dropped, they are still attractive relative to other investment vehicles at this time, particularly stands in the U.S. South.

The year 2014 saw some resurgence in transactions; approximately USD 2.7 billion in turnover covering just short of 1 million hectares. However, most transactions were small and only seven sales were larger than 20,000 hectares. The expectation is that over the next three or four years timberland sales will remain robust, as some major investments made in the 2000-2007 period begin to roll over.

Of the 875,000 acres of U.S. timberland transactions year-to-date in 2015, about 200,000 were in the South. The average price per acre nation-wide was \$1,135 per acre year-to-date, and the south-wide average was \$1,425.



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**Outlook 2016:** This really depends on the inflation rates expected over the next several years. Real assets do well in inflationary environments. Increases of 1.5- 2% is what the projections say, with 2017 being a bit higher. However, while timberland values in the Northwest will drop, the belief is that the U.S. South will bump 2-3%. If inflation were to tick upward more quickly, timberland owners would see increased interest from potential buyers looking for safer investment vehicles.

### **Weather**

NASA says this year's El Nino "shows no signs of waning," and its biggest impact on the U.S. is expected to hit early in the New Year, this can disrupt small landowners' ability to replant after harvest operations or much needed management activities. NASA projections at current suggest the current El Nino is on track to rival or even surpass the biggest one ever recorded, in the winter of 1997-98. The satellite images show similar, unusually high sea surface heights along the equator in the Pacific Ocean, an indication of warmer waters -- "the signature of a big and powerful El Nino," NASA said in the latest update posted online. The warmer ocean waters pump heat and moisture high into the atmosphere, altering the jet stream and affecting storm tracks all over the world. This can make it tough on logging operations to get their work done, which is never a good thing in a workforce already stretched thin from the recession. Profitability is key here and if your stand is not optimal, it may be hard to attract logging opportunities as they scramble to make up for lost work days.

**Outlook 2016:** Wet weather will certainly benefit those forest landowners with well drained and accessible properties. This may or may not raise prices across the entire U.S. South, but certainly in spot markets it will restrict some of the supply that is out there from getting to the mills in a timely manner. This will push prices up, all other things equal.

### **Timber Inventory**

As mentioned earlier, the typical response to lower sawtimber prices is to delay harvest. As more landowners delay harvest and as timber continues to grow out of pulpwood and chip-n-saw product classes into sawtimber classes, the standing sawtimber inventory in the U.S. South has increased substantially. Effectively this results in an outward shift of the supply curve for sawtimber meaning that lower prices are being realized as timber harvest volumes increase, which would not have been the case before the recession of 2007-09.

To demonstrate the inventory growth since the recession, consider estimates of standing timber volume produced by the USDA Forest Service's Forest Inventory Analysis (FIA) in Table 1. The net volume of growing-stock trees shows an increase from 2007 to 2013 of 13% for pine sawtimber in the U.S. South. Over the same period oak sawtimber has increased by 10%. Demand and prices for hardwood sawtimber recovered much more quickly following the recession of 2007-09 where pine sawtimber's recovery has only started to show over the past couple of years.

While the implications of increased pine sawtimber inventory is downward pressure on pine sawtimber prices even as demand continues to gradually increase over the next several years, there is still a silver lining here. The ample inventory in the U.S. South combined with declining inventories in the western U.S. and Canada resulting from Mountain Pine Beetle losses, has resulted in increased investment in the U.S. South by both western U.S. and Canadian forest product companies. So in the not so distant future the U.S. South will have more markets and greater demand for timber products, which will ultimately result in improved prices for products such as sawtimber.



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Turning our attention to Table 2, forecasts for demand for the major products in the U.S. South are slightly positive with pine sawtimber expected to increase by 2.5%, with the largest growth in Arkansas and Louisiana. Hardwood Sawtimber is expected to increase by 3.5%, with the largest increases in Georgia, Louisiana, and South Carolina all above 5%.

With respect to pine pulpwood markets, the south wide projections in demand increases around 3.5% with Texas, Mississippi, Alabama, and Tennessee all seeing increases of 5% or more. Hardwood Pulpwood markets will tick up by 2.5%, with Tennessee and Alabama carrying that average and most of that in the first quarter of 2016.

The reader will note that with respect to prices, several more years of increased timber harvesting will be needed, if housing starts maintain their slight uptick, in order to see real upward movement in sawtimber prices. Pulpwood prices should continue to trend upward as result of sawtimber overhang, but how much depends on capacity of mills in the local market and access conditions to property. Look for pulpwood prices along the east coast to reap the benefits of having the tightest demand/supply conditions, which is likely why the increases for pulpwood demand are coming the more western states within the southeast regions in the coming months.

**Table 1. Inventories in U.S. South States Volume: MM Cu.Ft.**  
 Source: USFA FIA Net volume of growing stock trees

	AL			AR			FL			GA		
Product	2013	2007	% chng.	2013	2007	% chng.	2013	2007	% chng.	2013	2007	% chng.
Pine PW	9818	8618	14%	5550	4791	16%	6198	5604	11%	12303	11402	8%
Pine ST	5848	4878	20%	6063	4599	32%	3009	2384	26%	7083	5739	23%
Oak PW	2346	2389	-2%	3350	3480	-4%	669	621	8%	1059	2448	-57%
Oak ST	4367	3990	9%	6044	4984	21%	1059	909	17%	4633	4337	7%
	KY			LA			MS					
	2013	2007	% chng.	2013	2008	% chng.	2013	2006	% chng.			
Pine PW	381	373	2%	5205	4185	24%	8508	7312	16%			
Pine ST	364	323	13%	5010	4685	7%	5788	4877	19%			
Oak PW	1831	1964	-7%	1011	981	3%	1503	1607	-6%			
Oak ST	5670	5264	8%	3263	3236	1%	4502	4315	4%			
	NC			OK			SC			TN		
	2013	2007	% chng.	2013	2007	% chng.	2013	2007	% chng.	2013	2007	% chng.
Pine PW	6883	6119	12%	985	863	14%	6700	6157	9%	1347	1085	24%
Pine ST	4719	4034	17%	812	583	39%	4793	3768	27%	1213	942	29%
Oak PW	2101	2067	2%	1093	704	55%	1157	1219	-5%	2323	2848	-18%
Oak ST	5121	4517	13%	1079	725	49%	2428	2271	7%	6913	6213	11%
	TX			VA			U.S. South					
	2013	2007	% chng.	2013	2008	% chng.	2013	2006-08	% chng.			
Pine PW	4672	4109	14%	4911	4545	8%	73461	65161	13%			
Pine ST	5302	4960	7%	2928	2163	35%	52931	43935	20%			
Oak PW	1137	1464	-22%	2901	2887	0%	22481	24678	-9%			
Oak ST	2154	2720	-21%	7414	6001	24%	54648	49481	10%			

**Table 2. South-wide Wood Demand by Product (in green tons x 1000) forecast for 2016**

Source: Center for Forest Business, Wood Demand Report

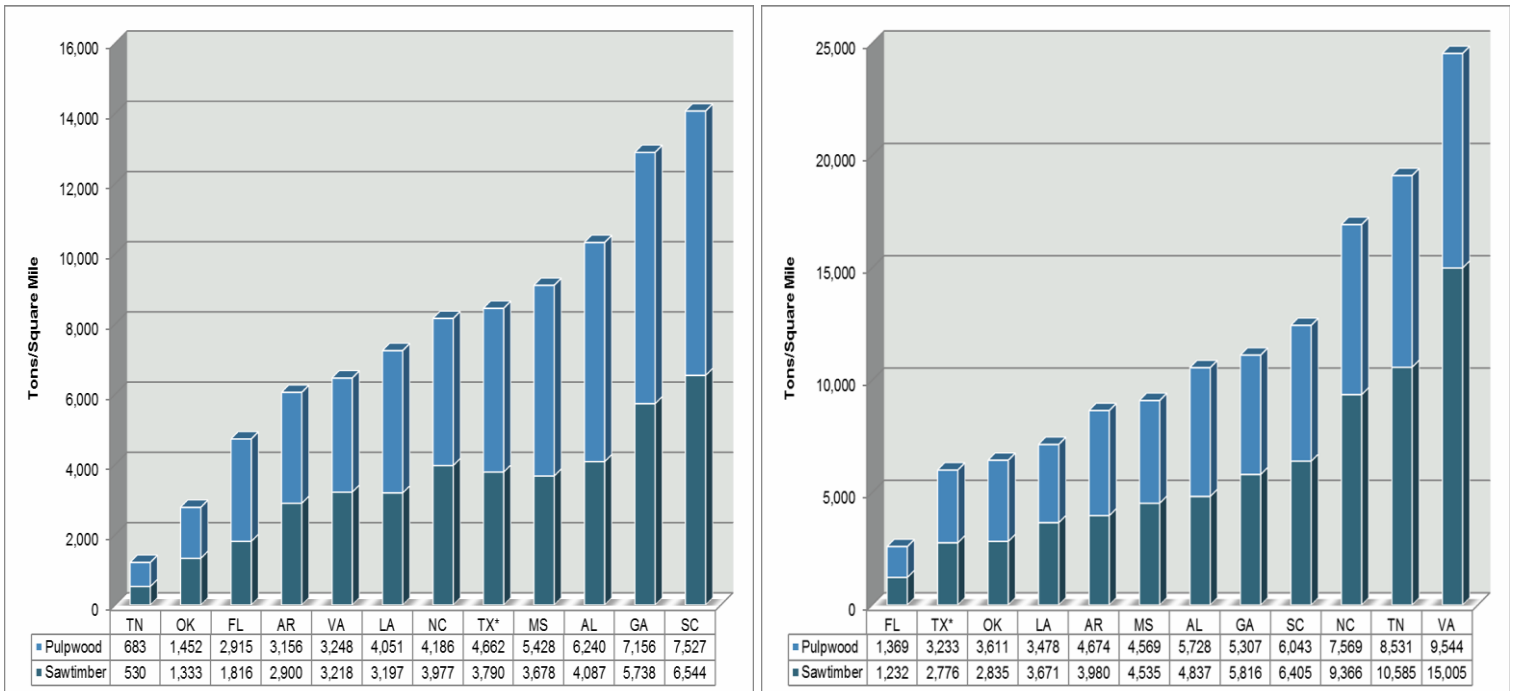
Product	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Pine PW	29,090	29,465	29,759	29,684	30,209	30,581	30,636	29,751
Pine ST	19,967	20,481	20,817	20,968	20,852	20,968	21,082	21,503
Oak PW	7,767	7,852	7,930	7,836	7,940	8,117	8,126	8,111
Oak ST	6,020	6,018	6,053	6,264	6,254	6,245	6,260	6,419

**Table 3. Louisiana Wood Demand by Product (in green tons x 1000) forecast for 2016**

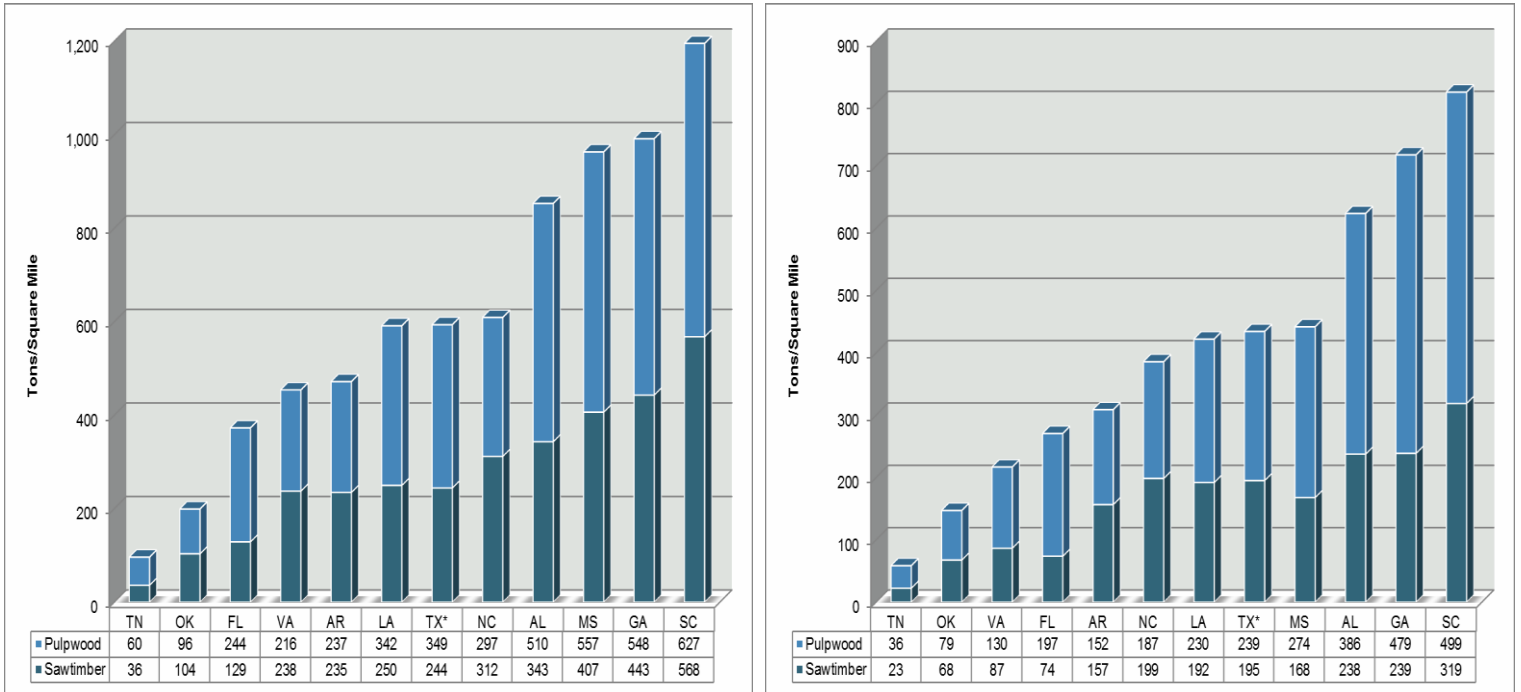
Source: Center for Forest Business, Wood Demand Report

Product	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Pine PW	2,557	2,500	2,589	2,597	2,592	2,599	2,604	2,604
Pine ST	1,723	1,767	1,889	1,774	1,853	1,859	1,888	1,911
Oak PW	752	698	698	698	709	713	713	711
Oak ST	144	144	144	144	165	170	171	174

**Figure 1. Inventory/Tons per Square Mile (Softwood and Hardwood Species)**



**Figure 2. Growth and Removals (Softwood Species)**



**Figure 3. Growth and Removals (Hardwood Species)**

