

Forest Economic Advisors

# Impending Shortage of NA Lumber Capacity: Implications for U.S. Southern Industry

**Alabama Forest Owners' Association Webinar**

Dr. Lynn O. Michaelis, Partner



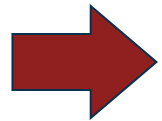
January 15, 2014

## Purpose of Today's Presentation

1. Explain what has happened to industry over the last 10 years
2. Clear understanding why future will be very different

**Key takeaway: Exciting period ahead for U.S. lumber and timber industry, especially for U.S. South**

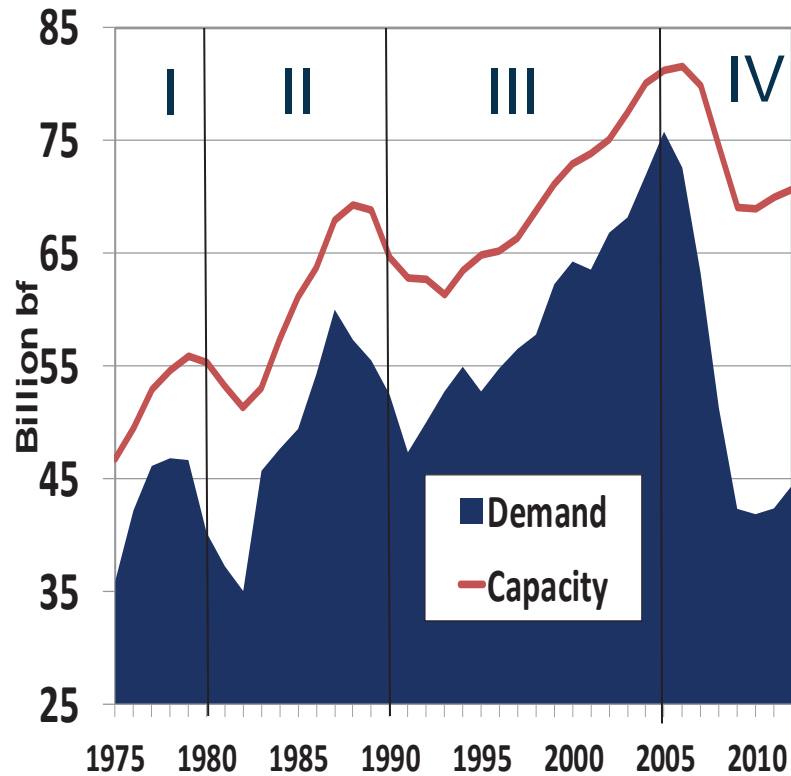
# Agenda for Today



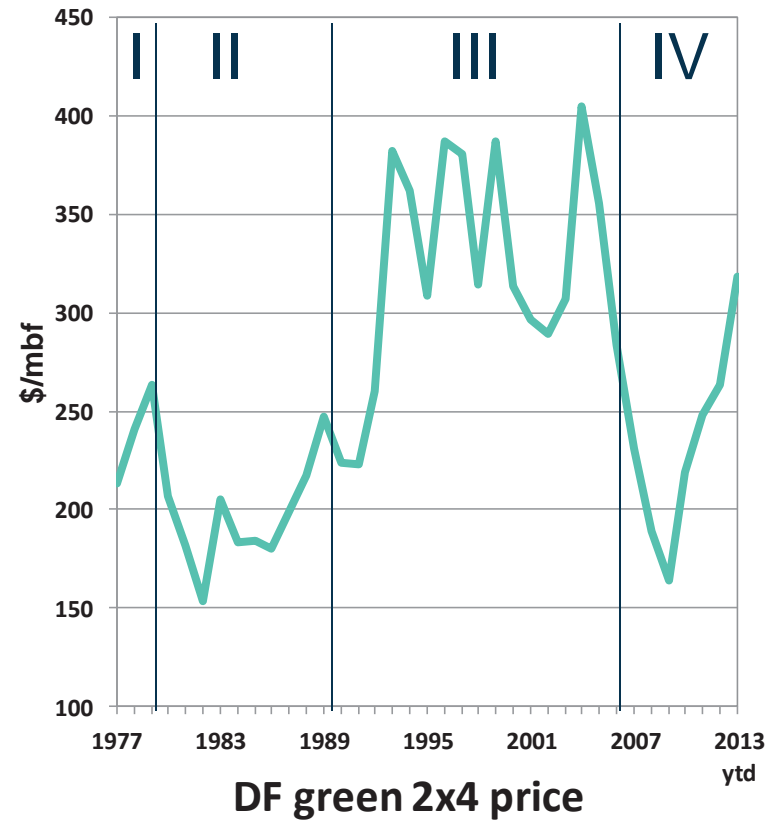
- History: Use Carefully!
- Outlook for Housing and Wood products demand
- Prospects on Southern Sawtimber
- Summary of Key Messages

# Fundamental Change Every Decade!!!

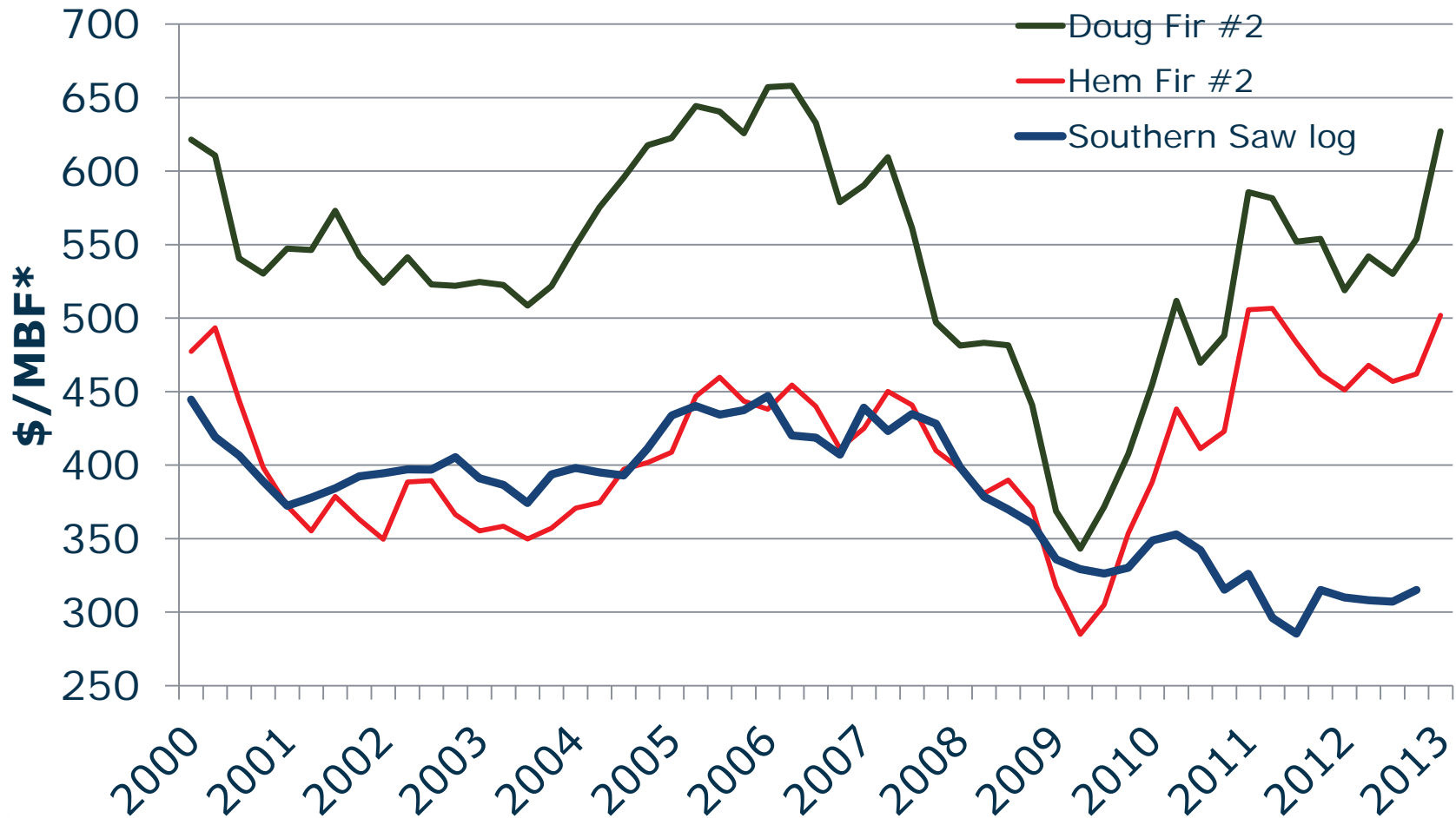
## Demand vs. Capacity



## Lumber Price

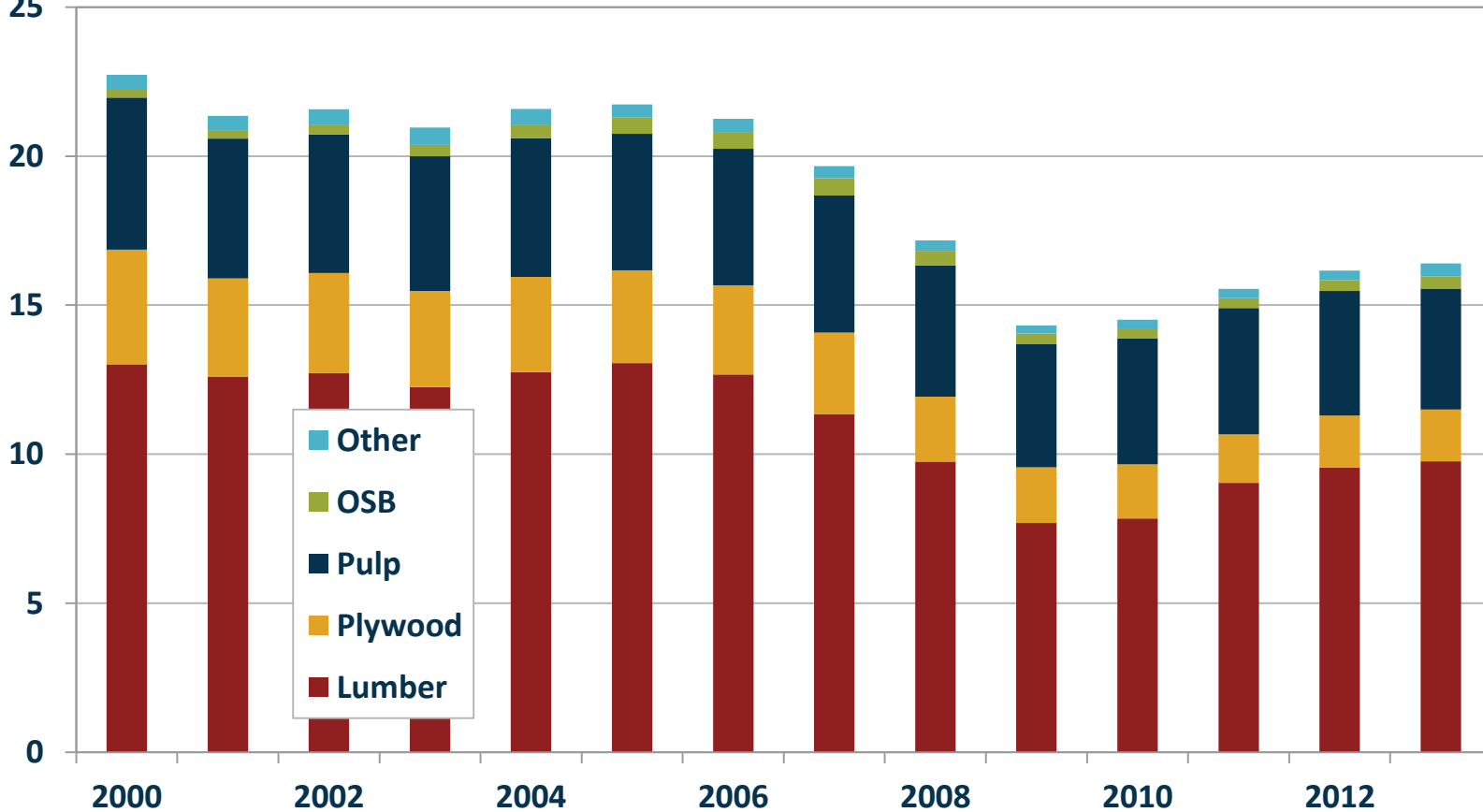


## Southern prices reflect domestic market, while exports boost West



# Sawtimber Demand in the US South Remains Depressed

BBF, Int'l 1/4"

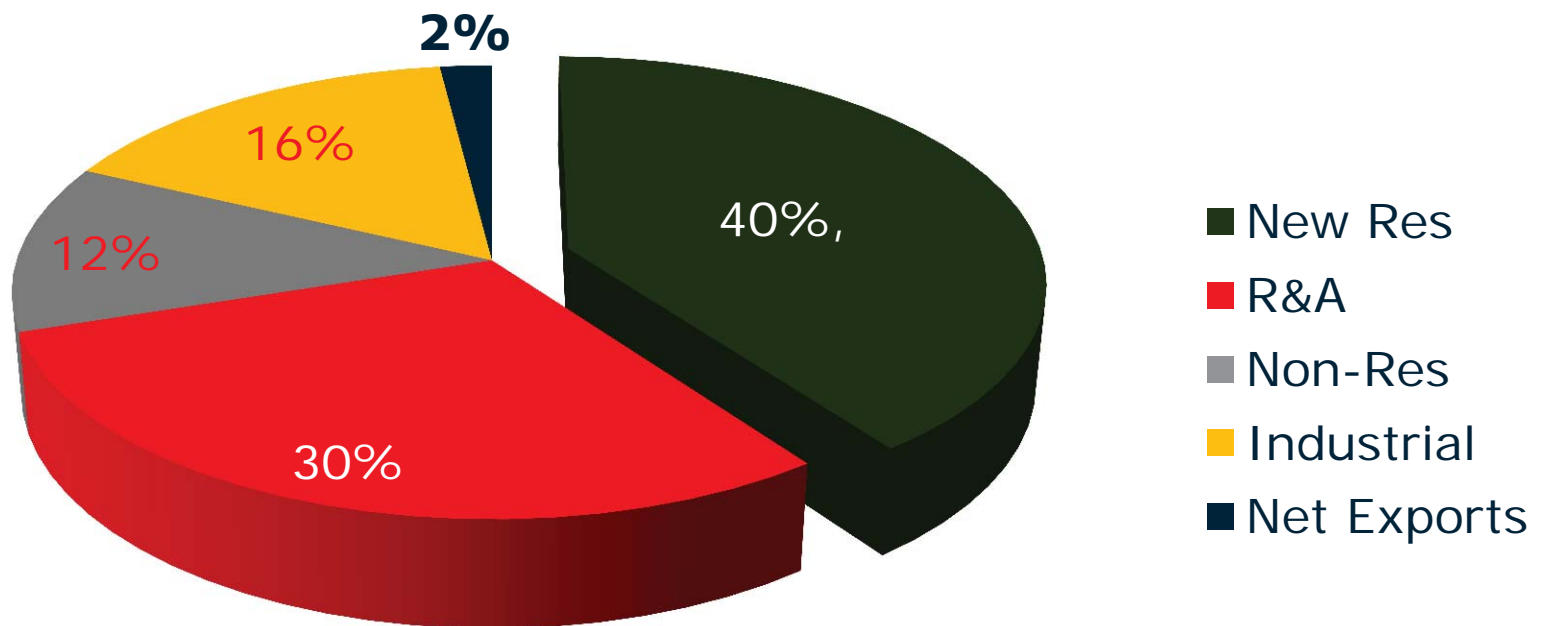


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# Key drivers for U.S. Lumber Demand: Residential

## Lumber Market Share\*

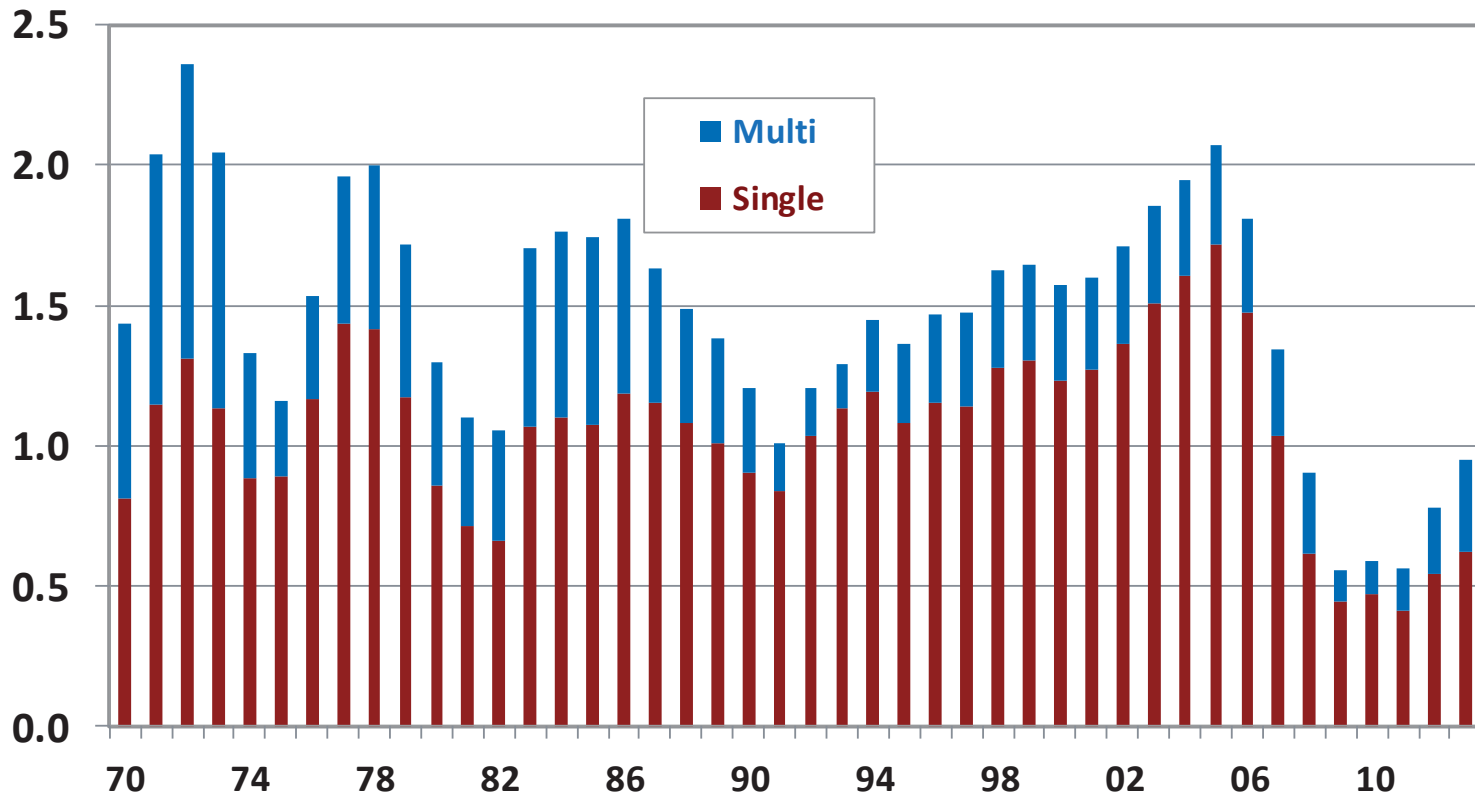


\*Market share average 1998-2007

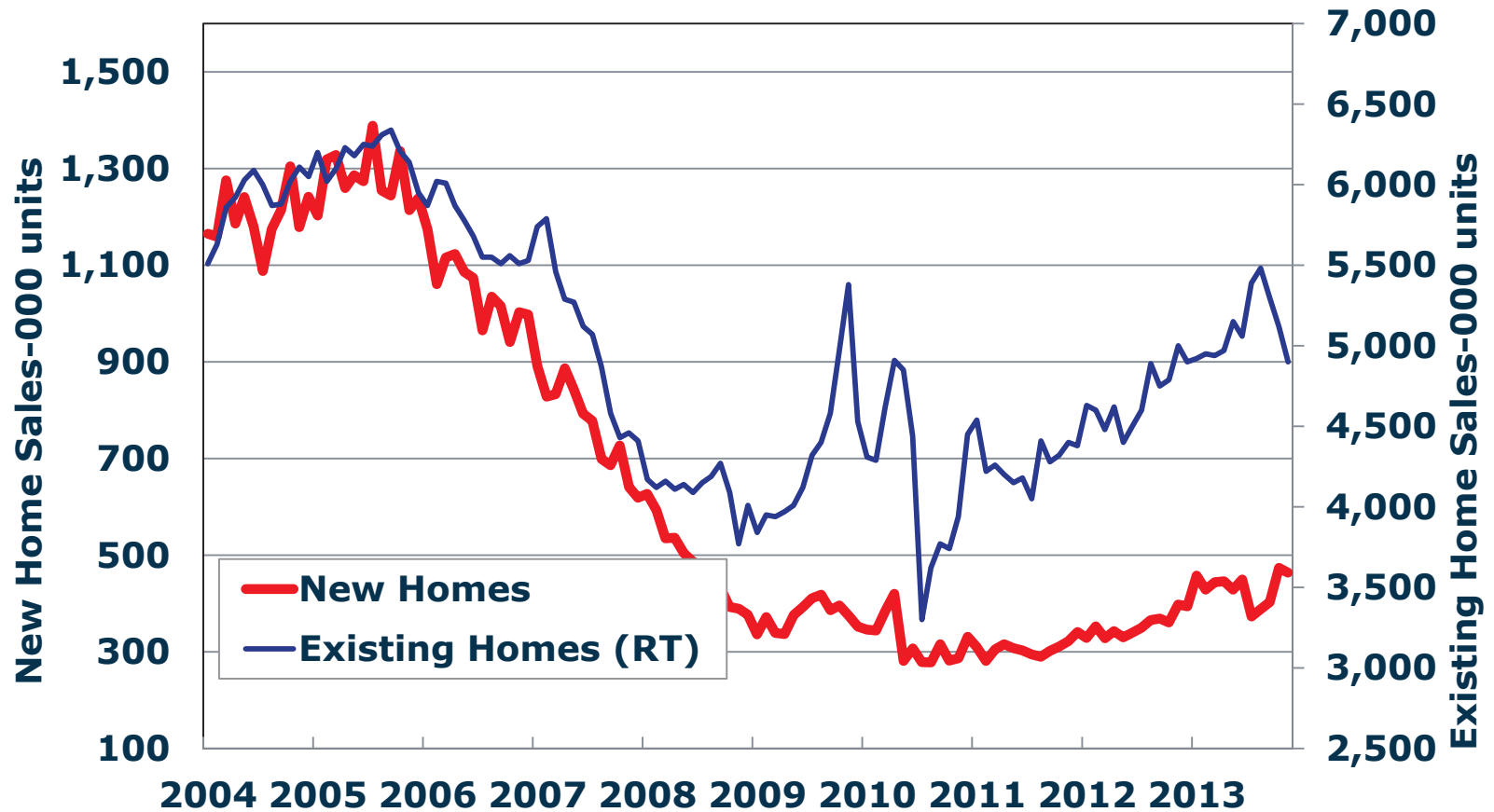


# Unique Housing Cycle: WHY?

Million Units

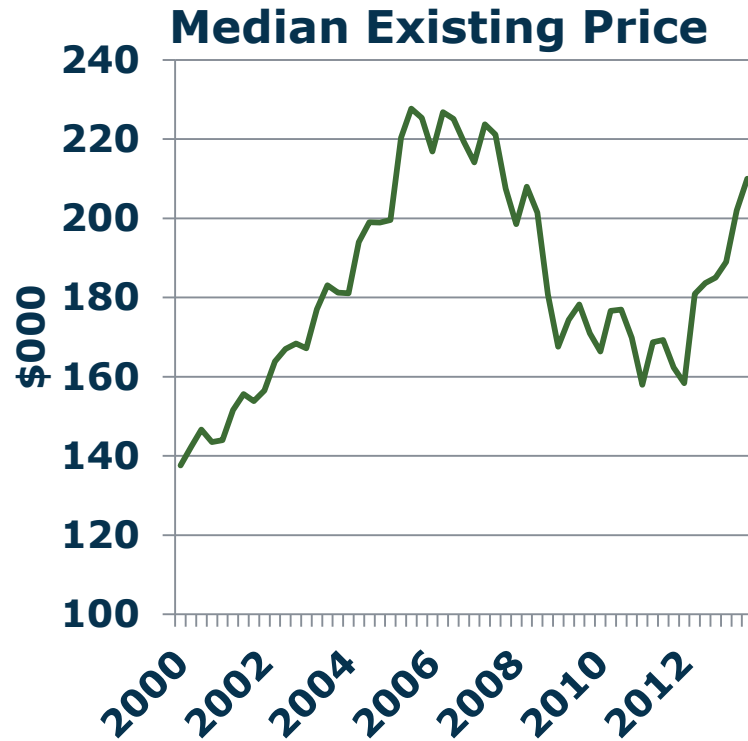


# Mixed messages in home sales data

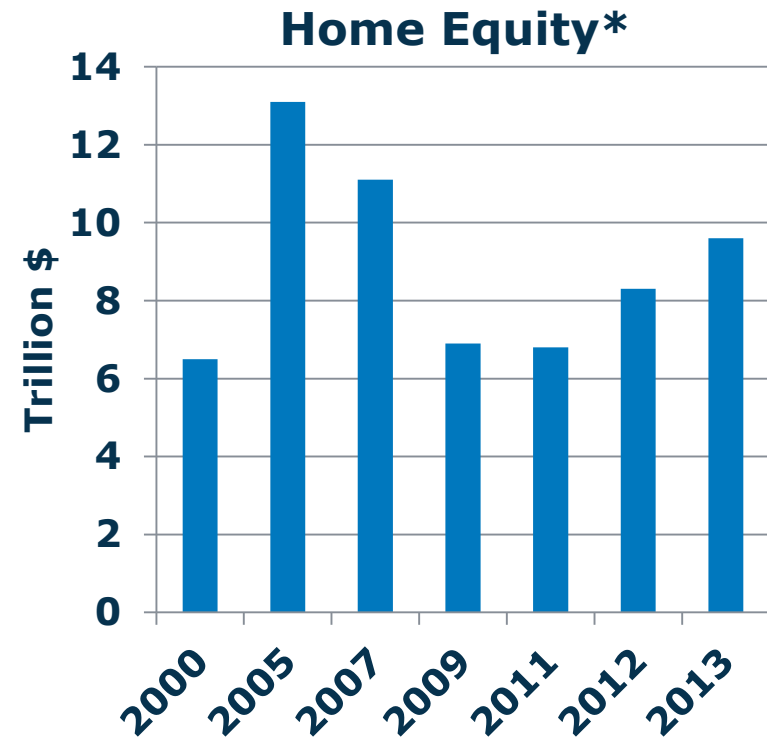


# Price Rebound Should Help Consumer Spending, Especially....

## Rebound in prices



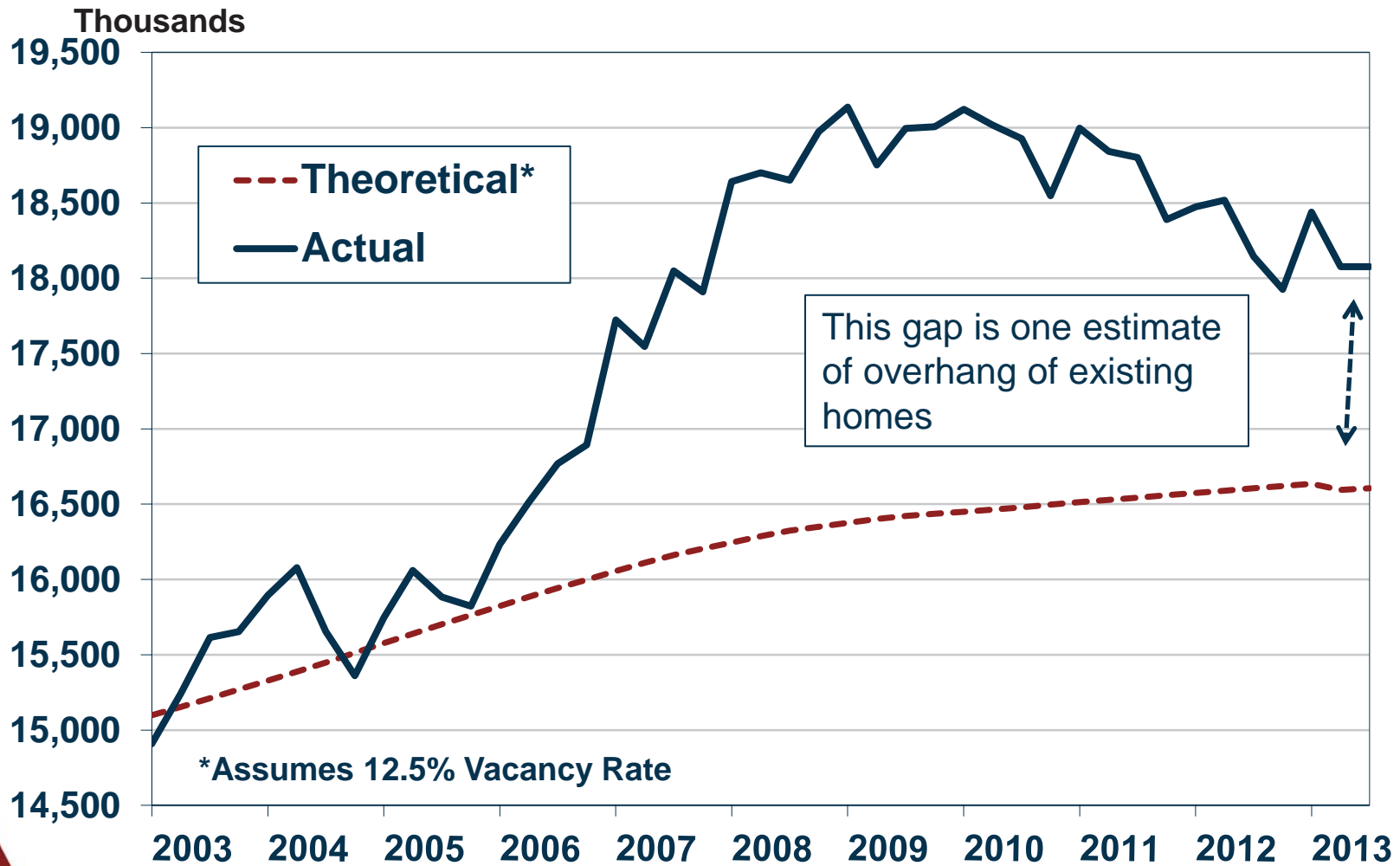
## Helps consumer Balance Sheet



# Housing Collapse Was Due to Excesses: Requires different forecasting approach

- 1. Aftermath of Crisis:** Large vacant inventory and surge of foreclosures
- 2. Demand (Primarily household formations):** will depend on economic and employment growth
- 3. Correction process:** starts stay below demand until excess vacant inventory eliminated

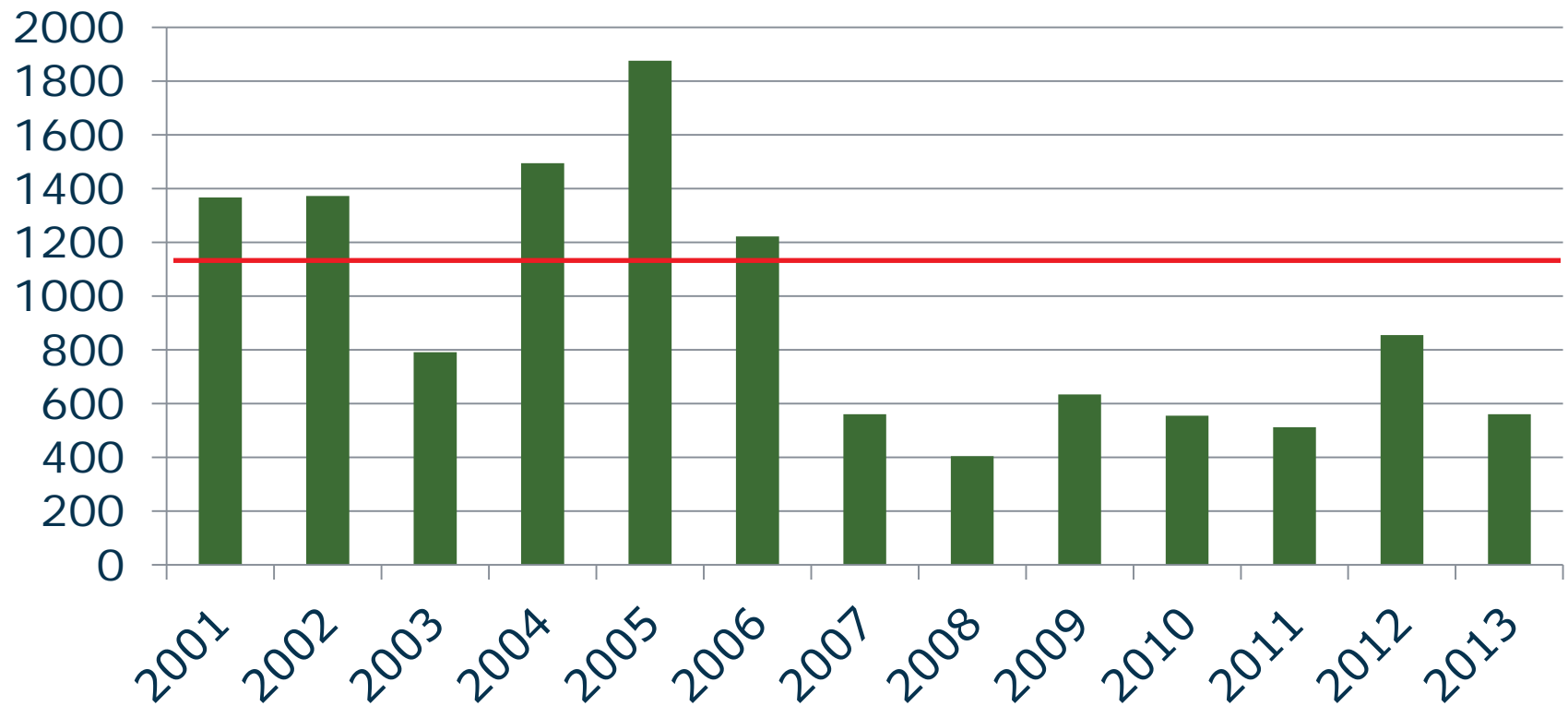
# Inventory correction is underway, but....



# Problem: Below trend household formation rate

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## Household Formations\*

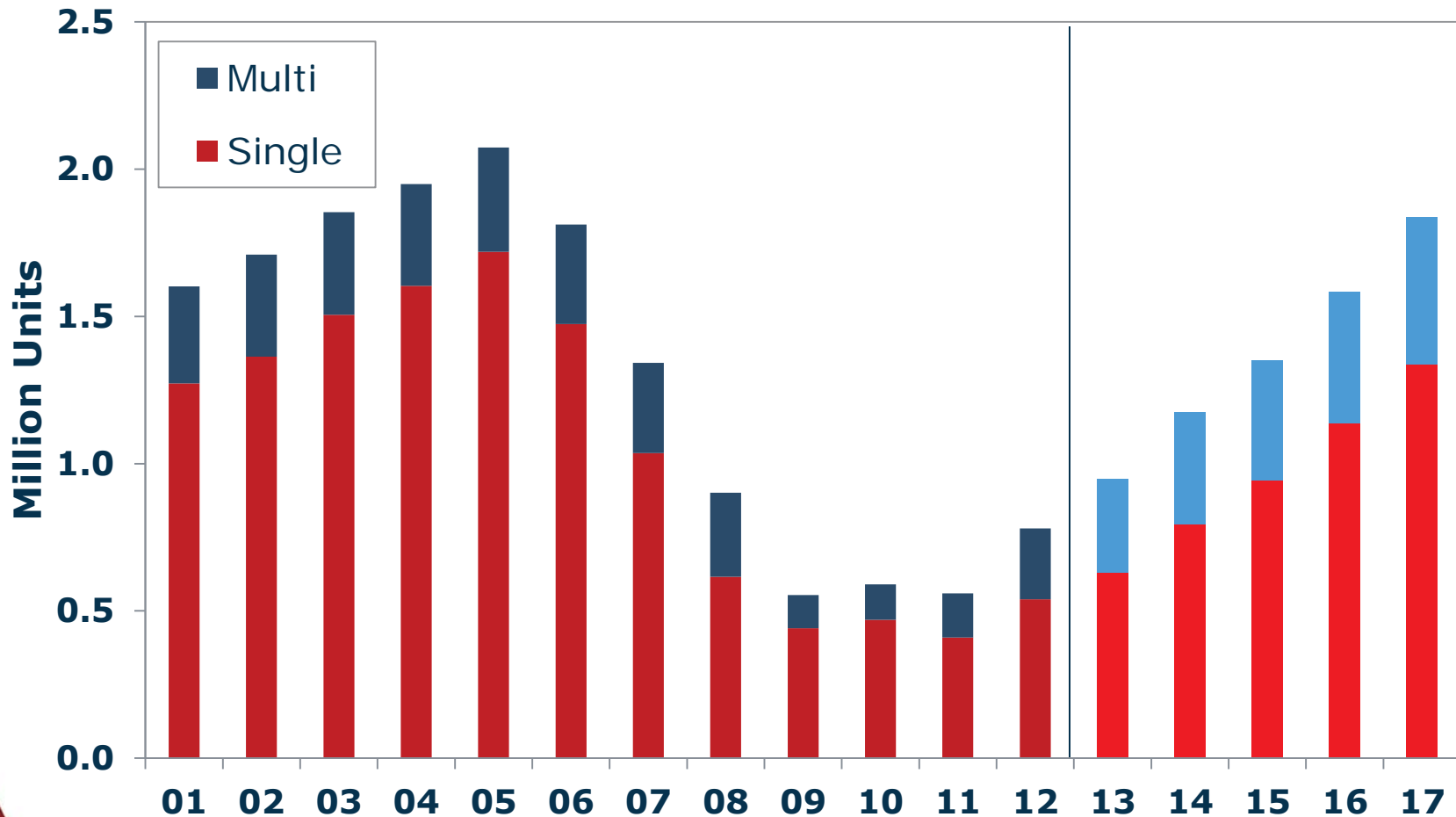


\* Based on occupied housing stock--Census

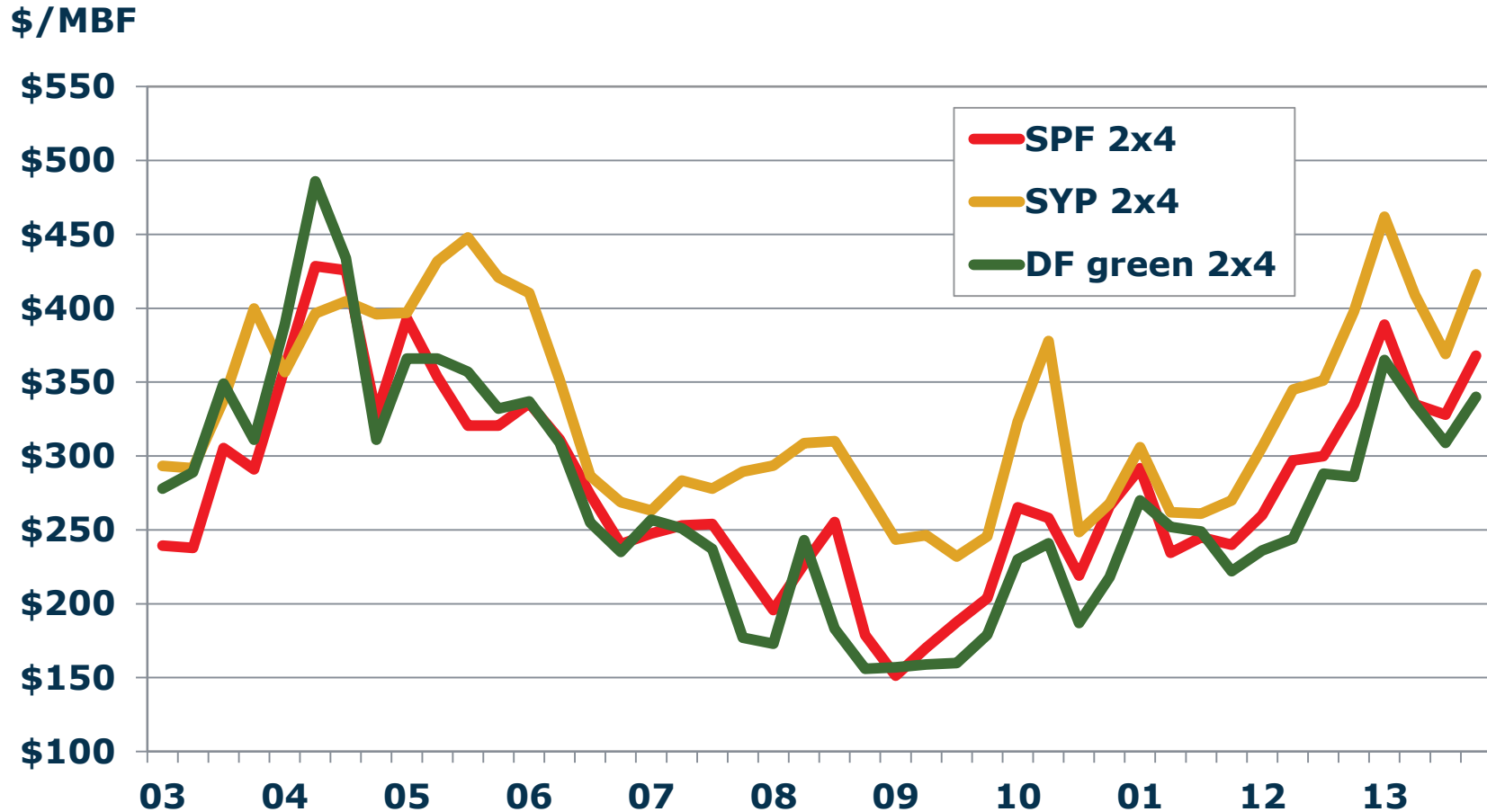
[www.getfea.com](http://www.getfea.com)



# Our Outlook Calls For a Sustained Housing Starts Recovery Through at Least 2017

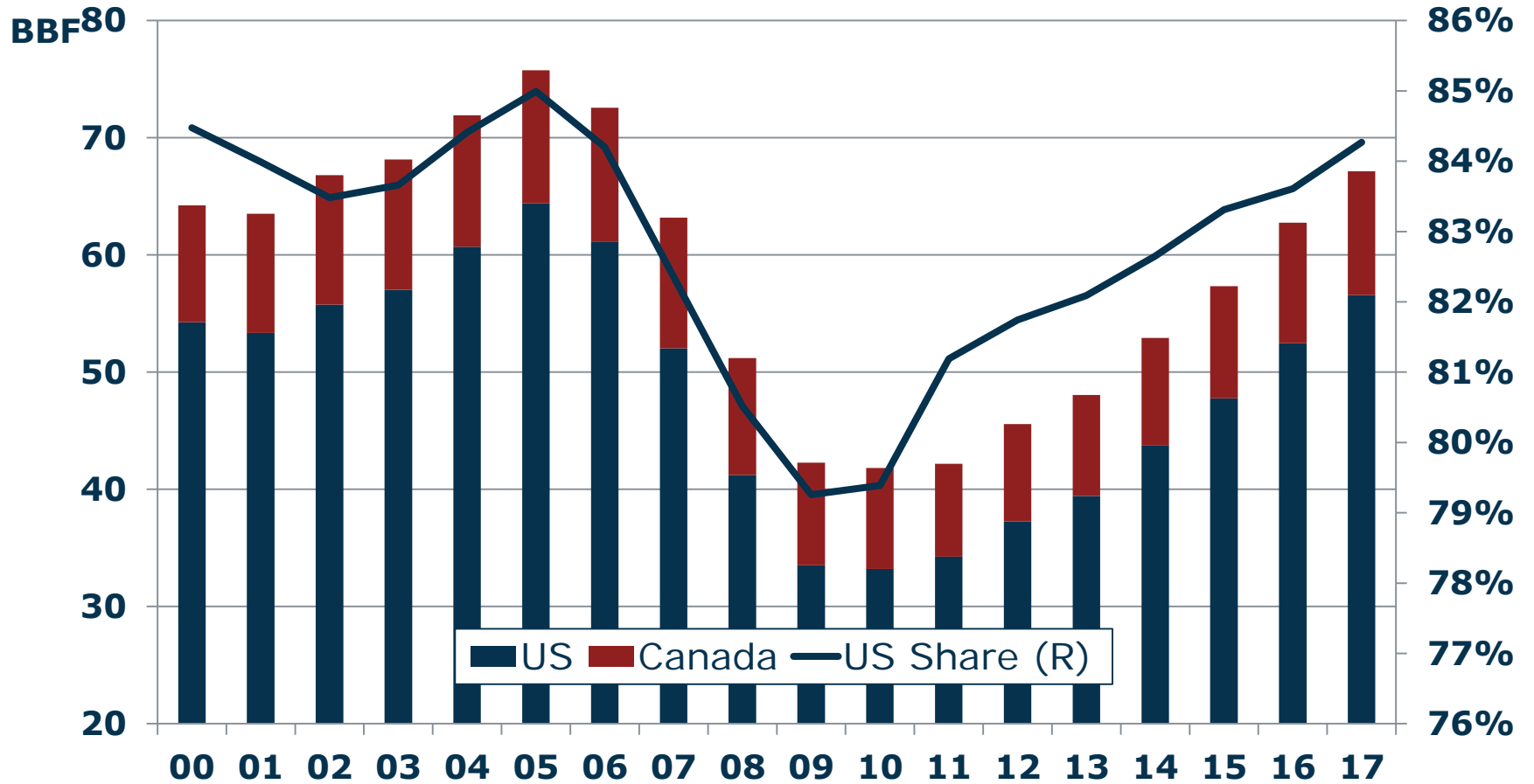


# Deep Cycle for Lumber Prices: Rebounding, but Volatile



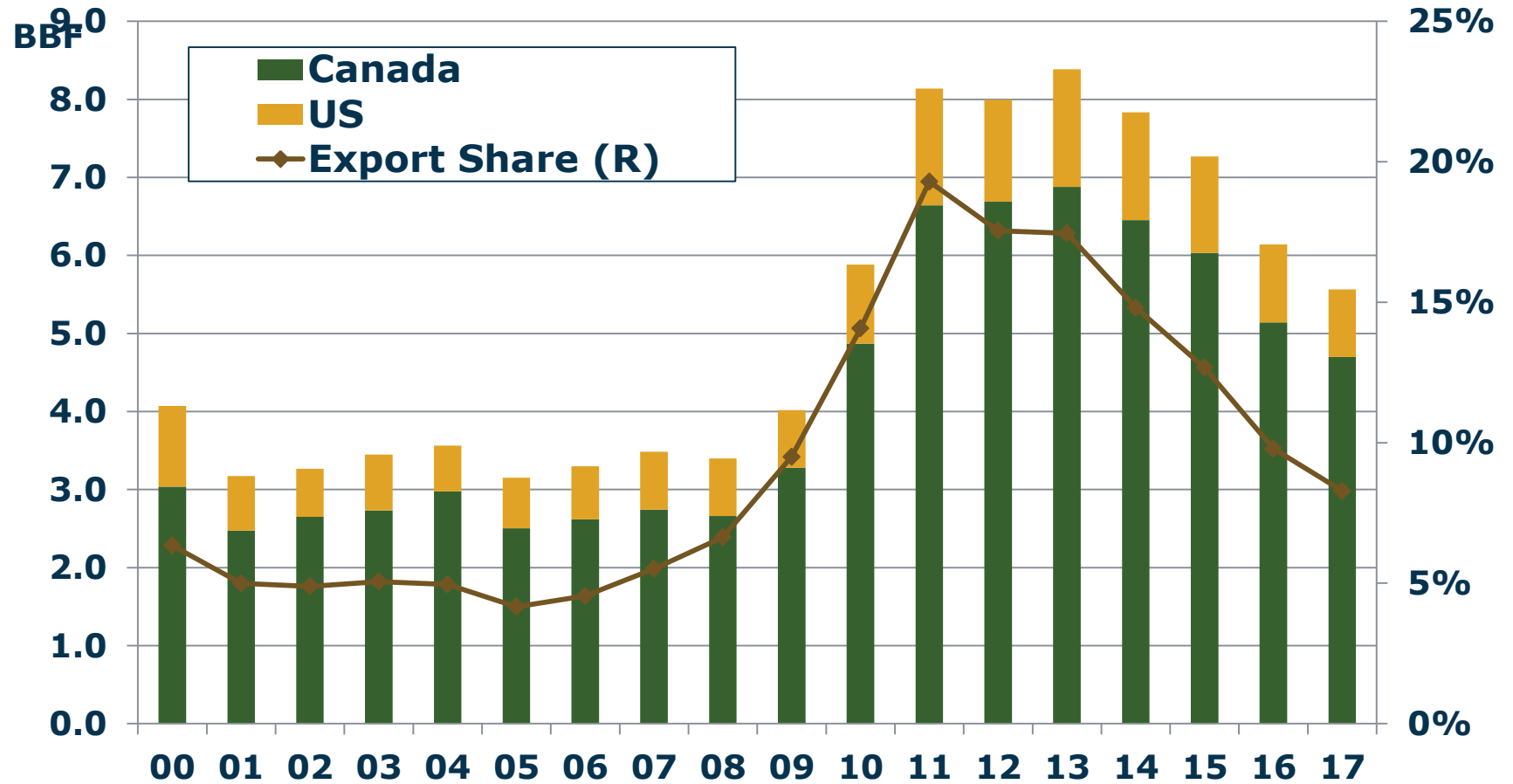


# North American Domestic Lumber Consumption

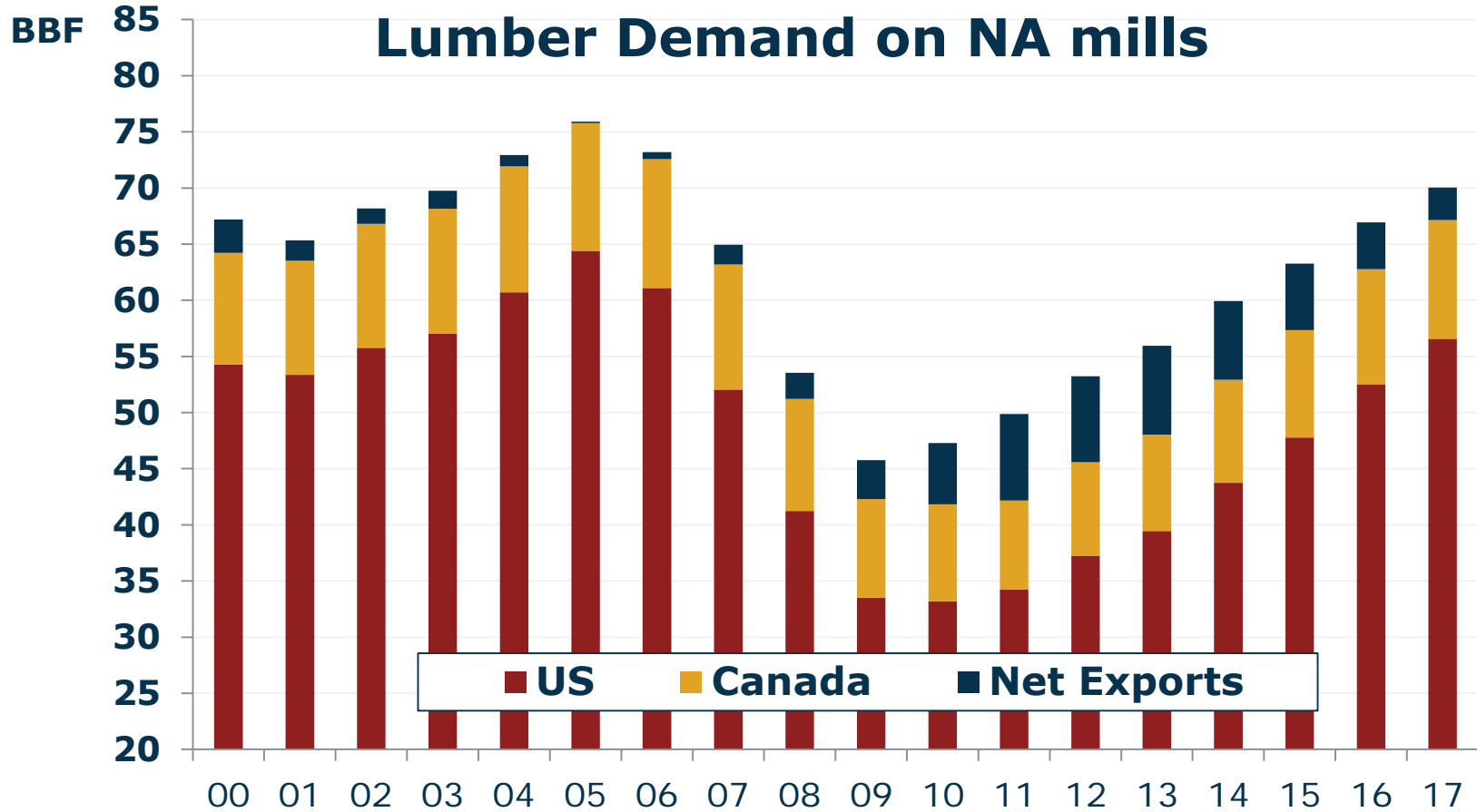


# North American Offshore Trade

## Export Share of Total North American Lumber Consumption

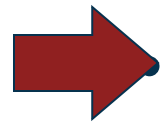


# Overall Lumber demand approaches 70 bbf by 2017



# Agenda for Today

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- Outlook for Housing and Wood products demand



## Prospects on Southern Sawtimber

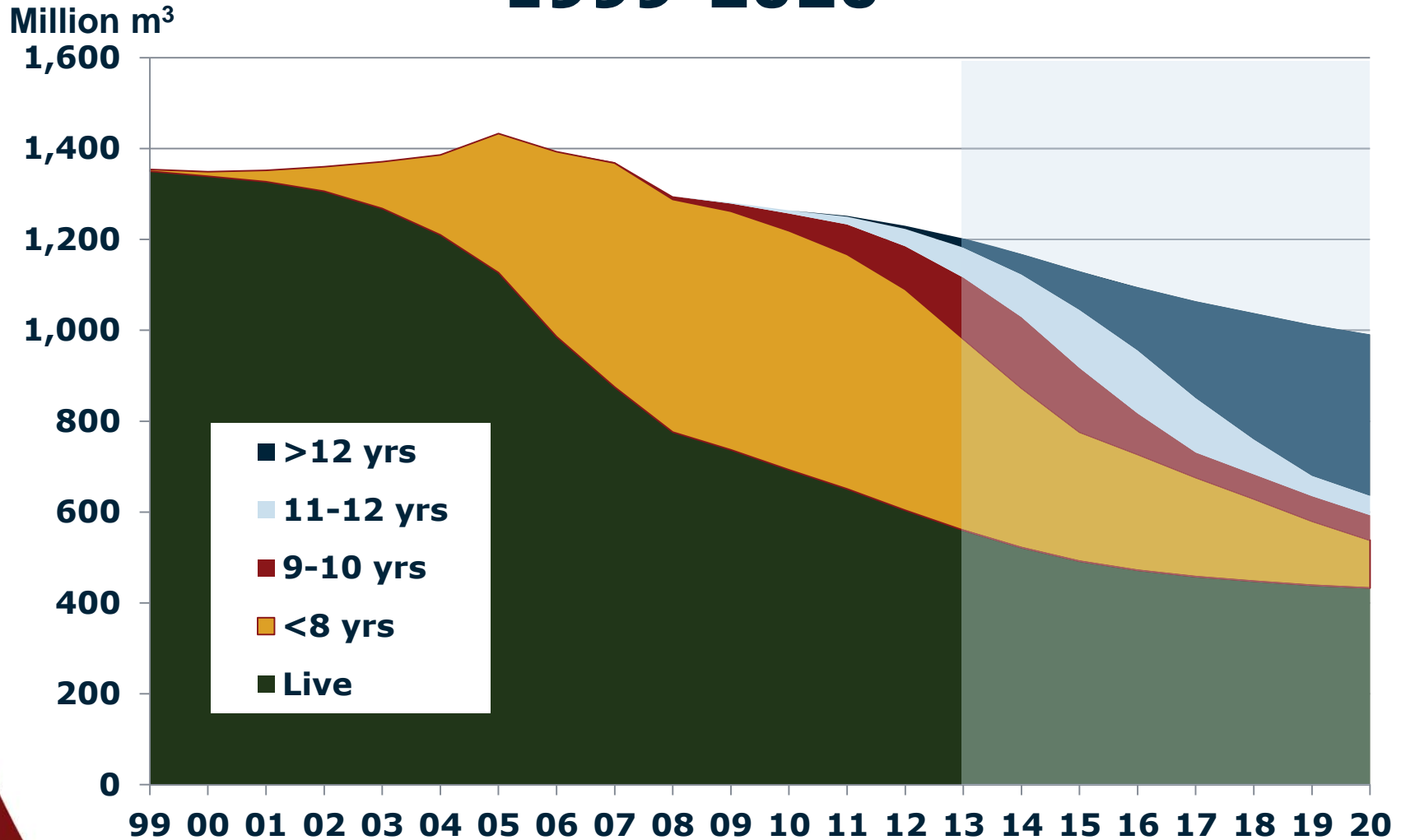
- Summary of Key Messages

# With Projected Capacity, Operating Rate Moves Above 90%

## Lumber Capacity (Billion Board Feet)

Region	2005	2012	2017
<b>Total</b>	<b>81</b>	<b>71</b>	<b>75</b>
<b>U.S.</b>	<b>43</b>	<b>40</b>	<b>44</b>
South	20	19	22
West	21	19	20
<b>Canada</b>	<b>38</b>	<b>31</b>	<b>31</b>
B.C. Interior	18	16	15
East of Rockies	20	15	16
<b>Operating Rate</b>	<b>91%</b>	<b>59%</b>	<b>94%</b>

# Inventory of Available Live and Dead Lodgepole Pine, by Years Since Attack, 1999-2020

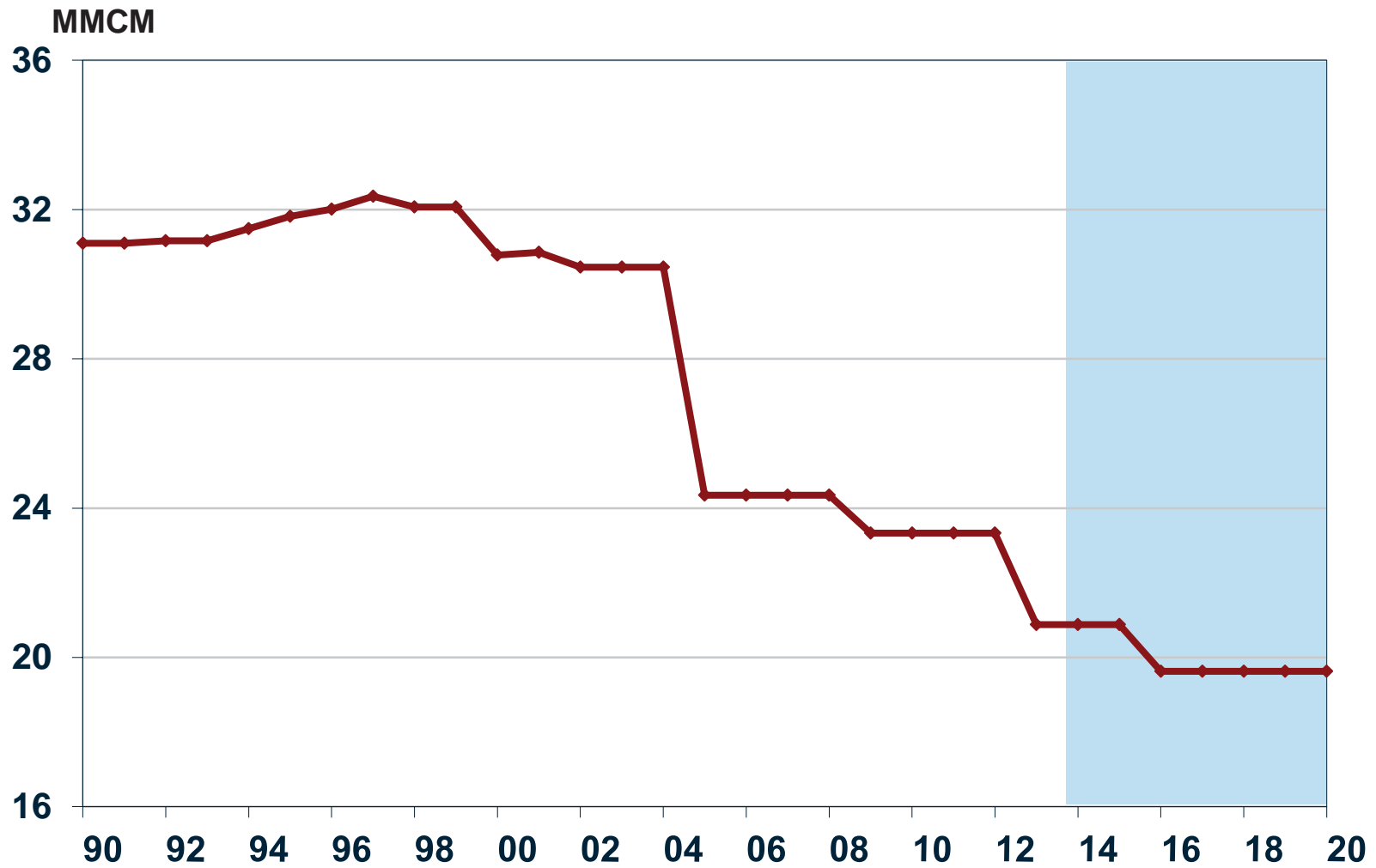


Source: FEA estimates

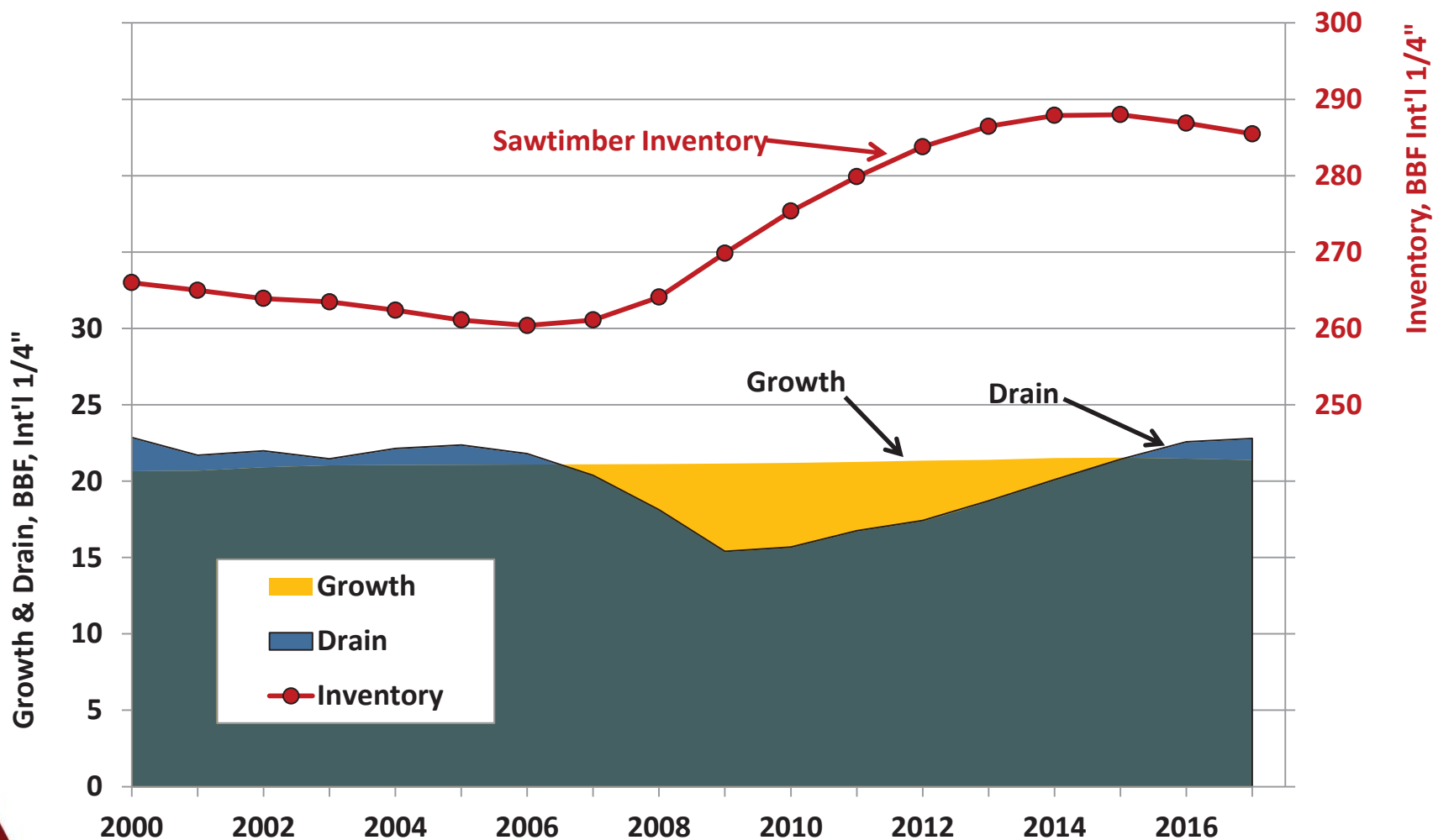
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# Quebec AAC Will Fall Further

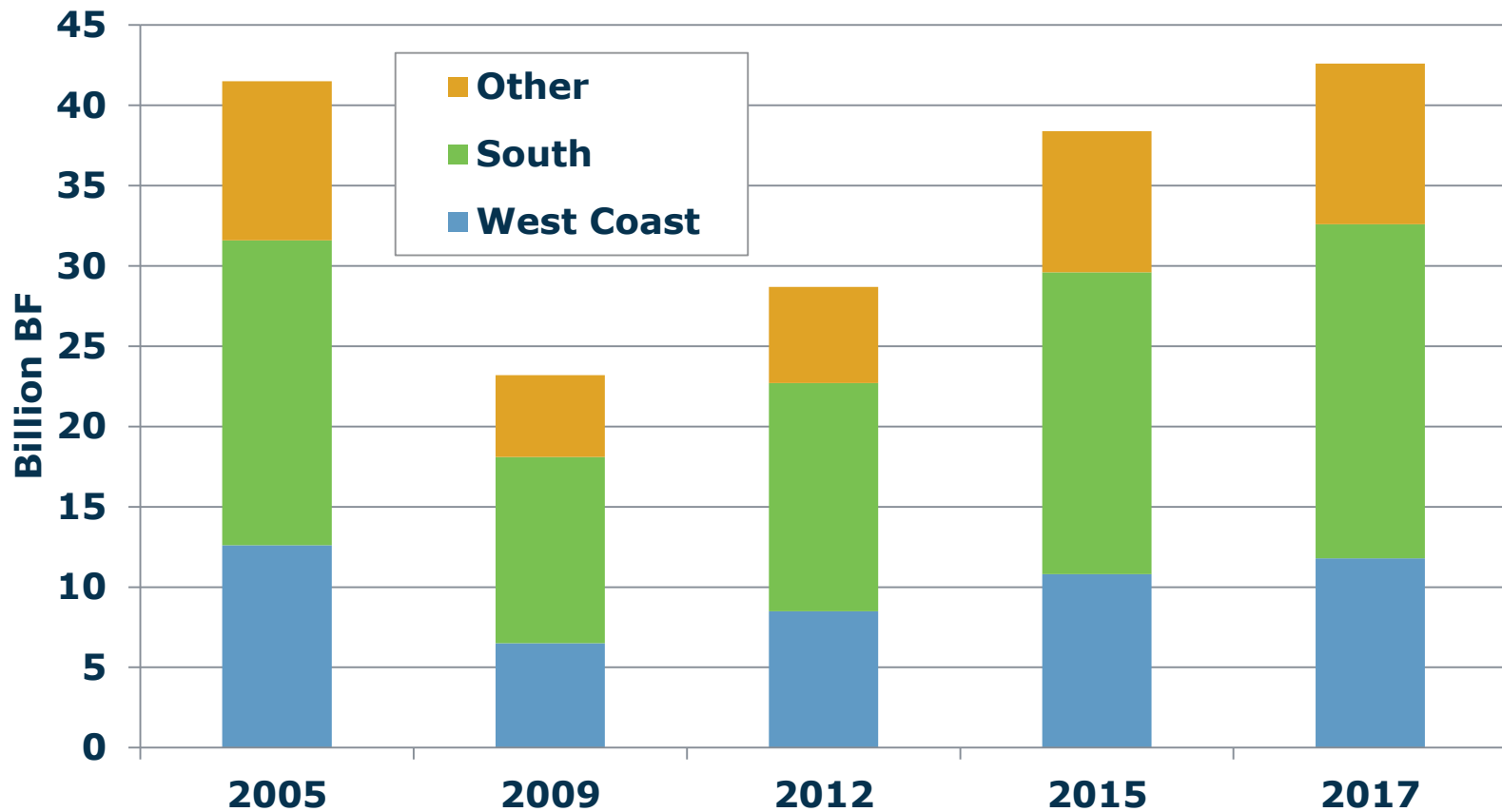


# The Deferred Volume in the South Substantial

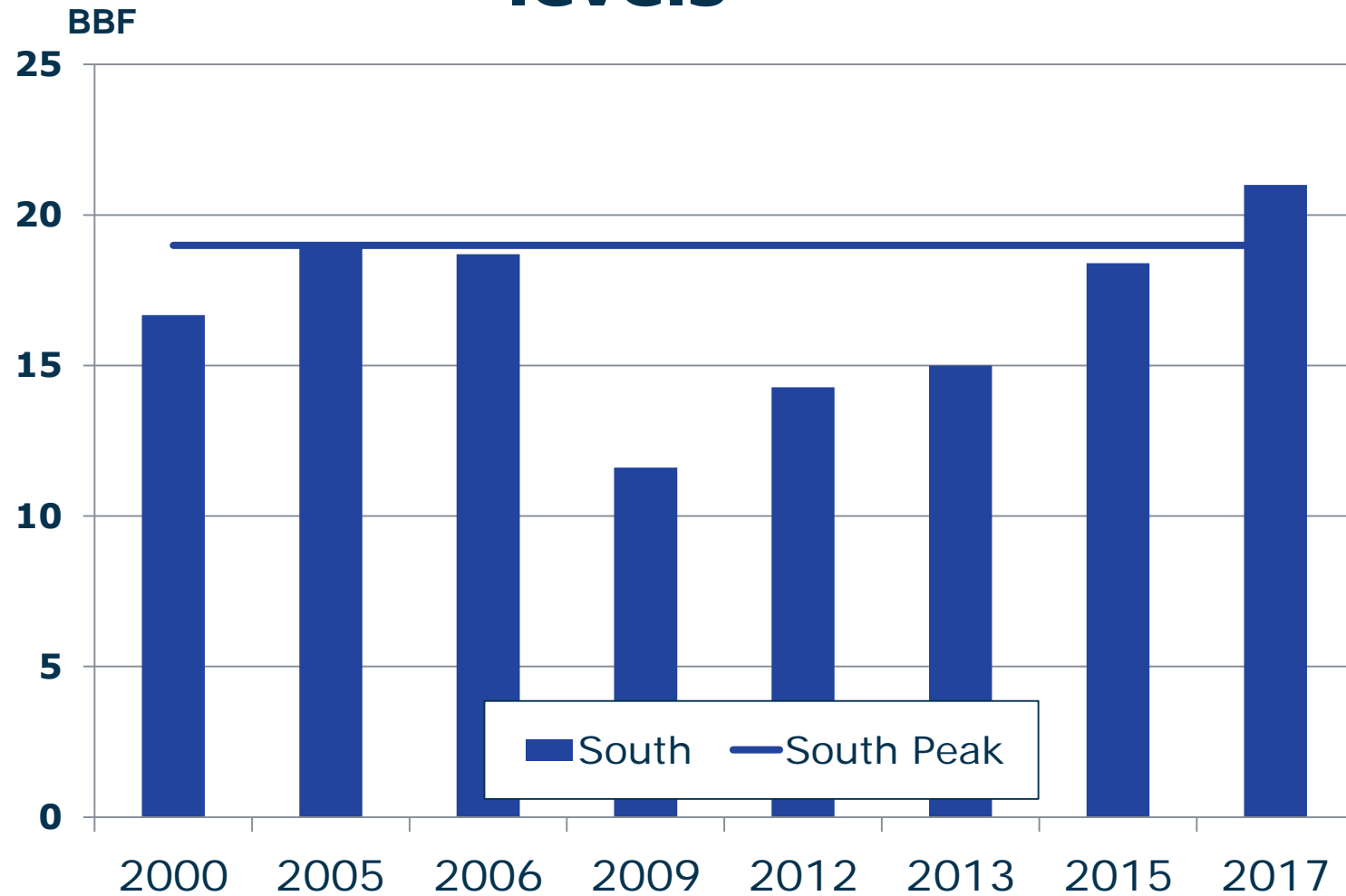




# U.S. Lumber Production: Near or Above Previous Peak

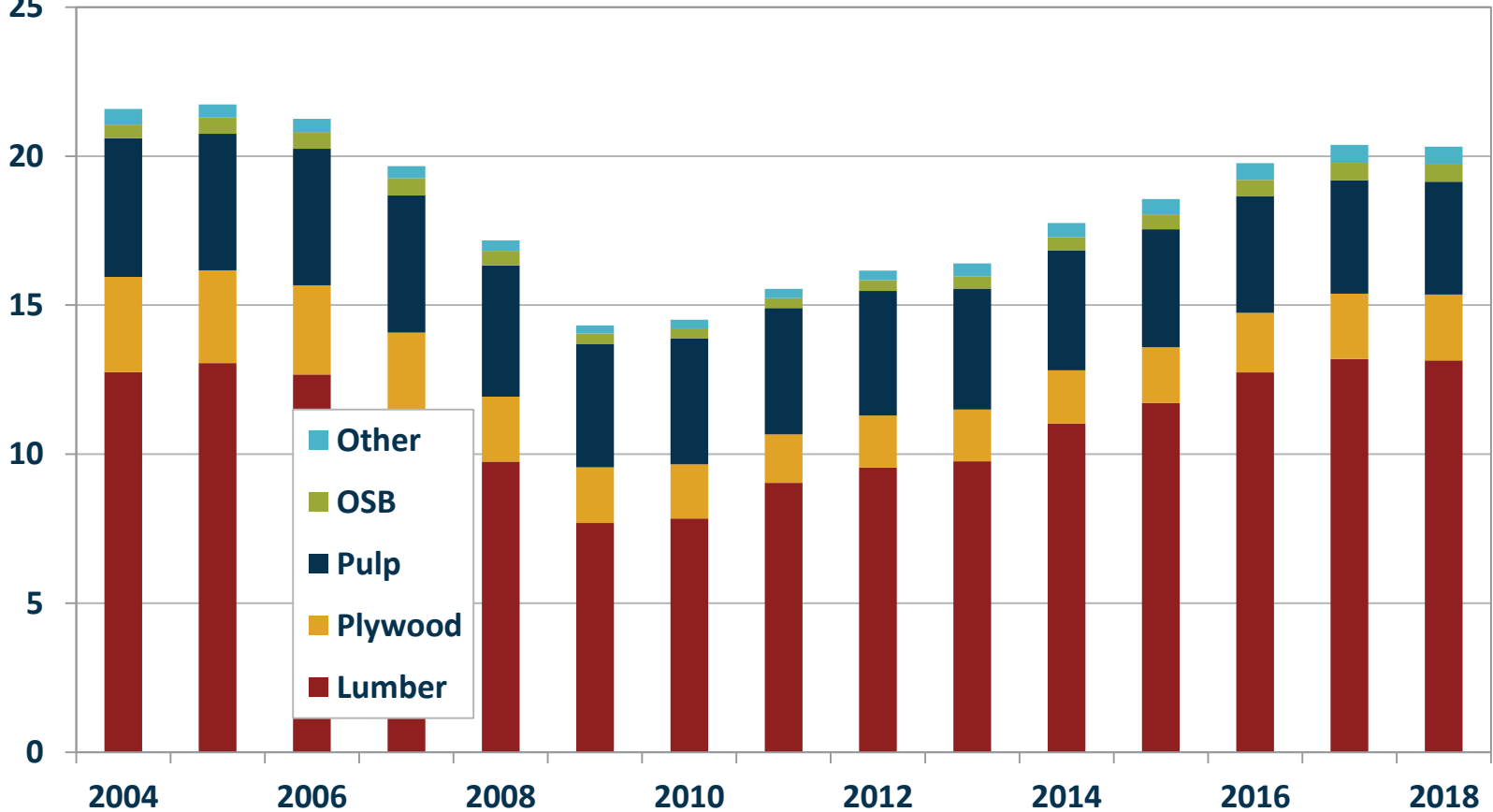


# High mill margins and timber supply, will push South to new peak production levels

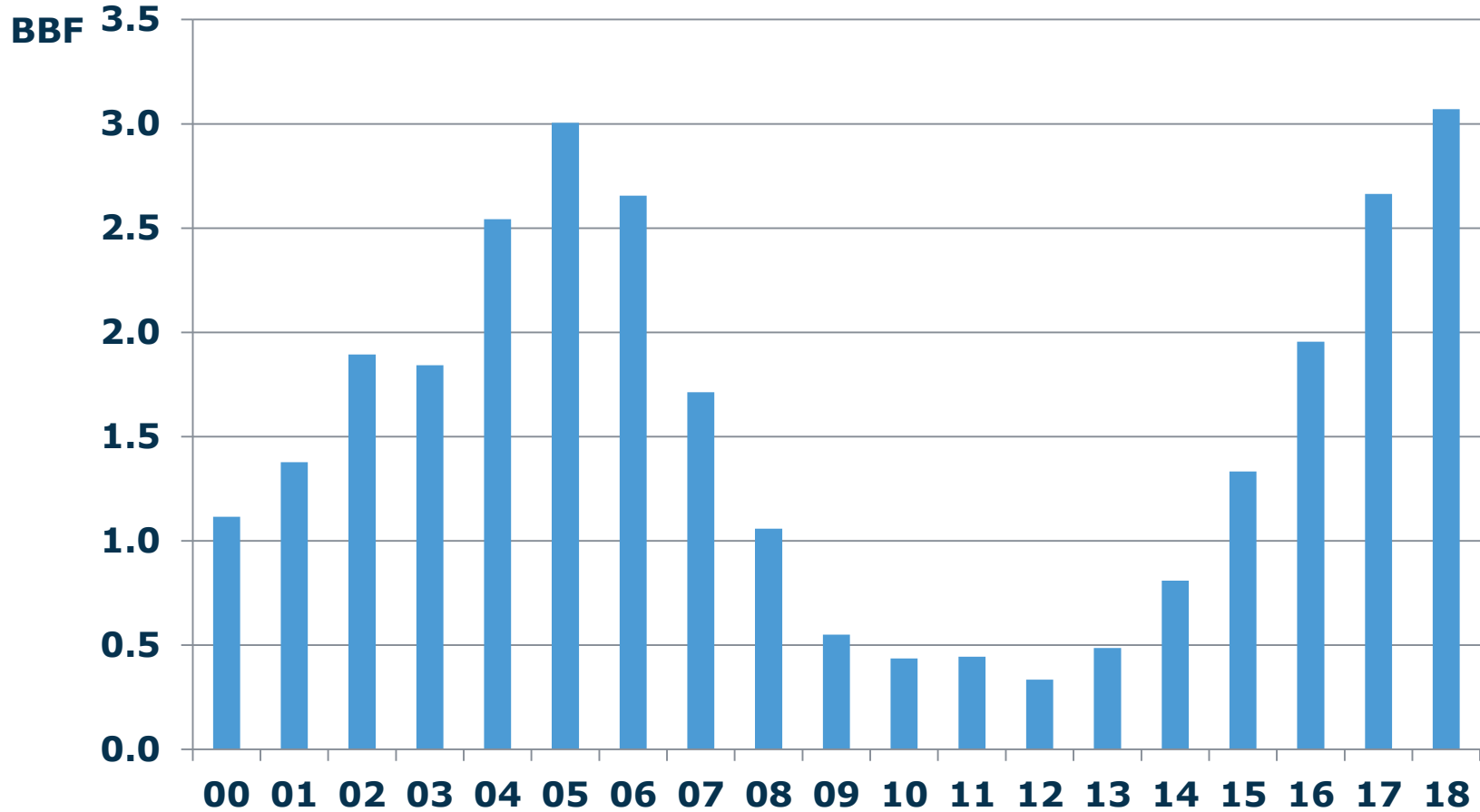


# Sawtimber Harvest returns to 2005 Levels

BBF, Int'l 1/4"

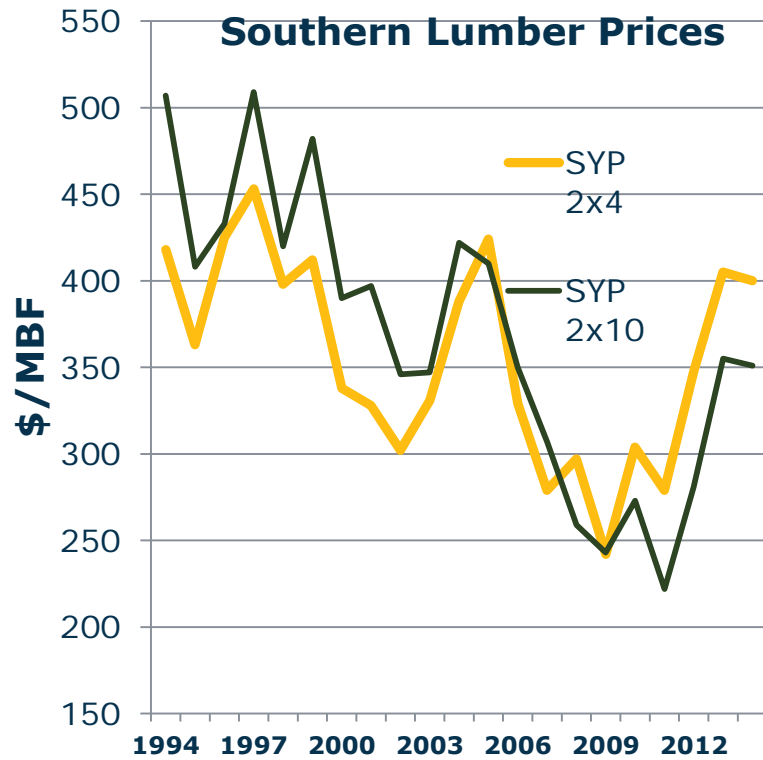


# North American Softwood Lumber Imports

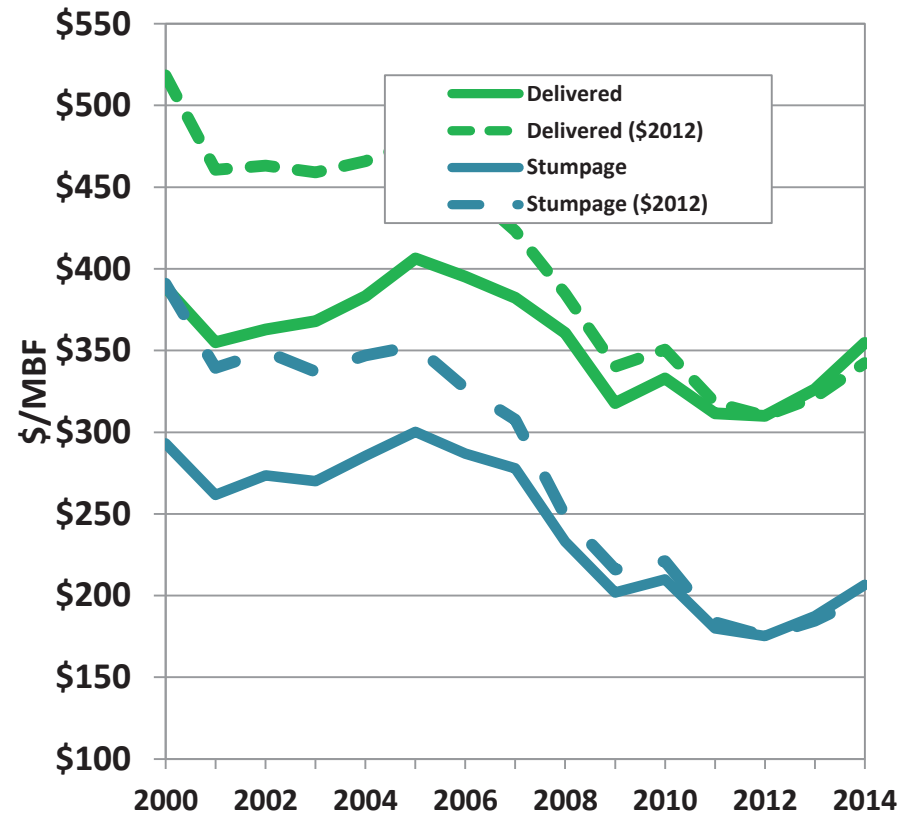


# Log and stumpage prices continue to recover after..

## Southern Lumber Prices

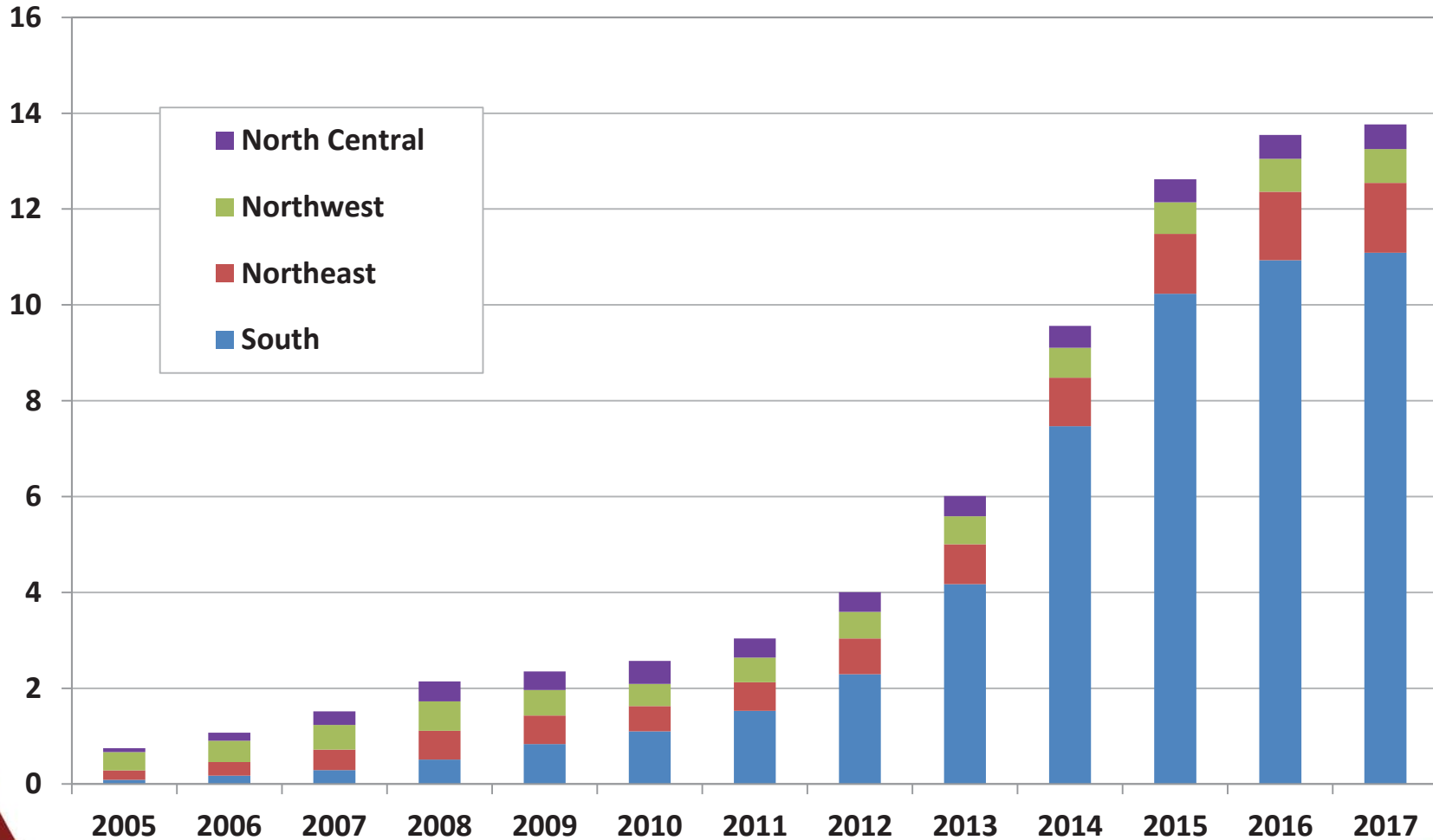


## Southern Log/Stumpage prices



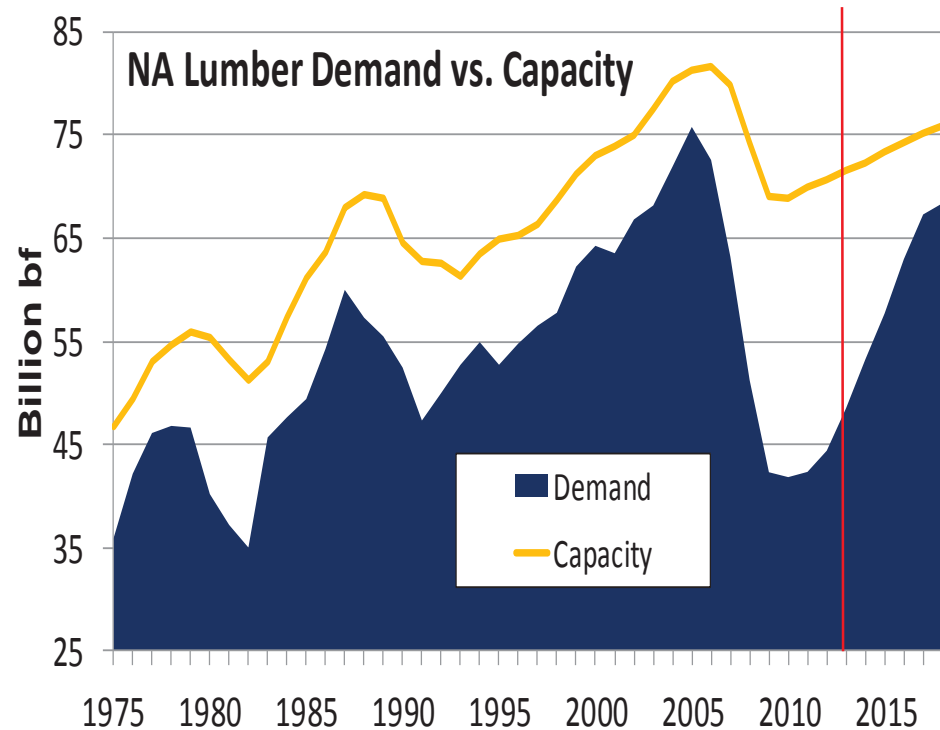
# The US Wood Pellet Industry Is Undergoing Dramatic Growth

Production, Million Tons



# SUMMARY OF KEY MESSAGES: Exciting Period Ahead!!!!

- The industry has improved, but still is not healthy
- Sustained housing and product demand recovery through 2017
- Southern sawtimber harvest back to 2005 levels (2016-17)
- Log/Stumpage prices in South equal/exceed 2005 levels by 2016



# **THE Key Message of Today's Presentation**

**BIG WINNER: Timber Owners—  
South catches up!! (\$\$)**