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Industry Updates & Trends

The Forest Focus

Autumn 2008

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Every change offers opportunity for your operation!

State of the industry:

Markets for many U.S. forest products continue to suffer from a downturn in demand, related to slower housing markets and softer global demand.

In September of 2004, the Kiln-Dried Index from the *Hardwood Review* stood at \$1,440/MBF. Since then, prices steadily fell by 5% per year to \$1,180/MBF today. Markets for domestic softwood lumber and panels have also weakened compared to historic highs that were driven by strong construction trends earlier this decade.

Market opportunities:

The comments above relate to the building products sector of our industry, which covers only a portion of the greater forest products marketplace. Other forest products markets are not subject to sluggish U.S. housing trends and are doing rather well. The following are some bright spots and opportunities afforded by our industry's current situation:

1. **Hardwood low-grade lumber prices have increased** steadily since 2004 (3% per year) due to stable demand and a tight supply chain.
2. With the exception of hardwood pulpwood, U.S. **timber stumpage prices are currently lower than historic averages** for all species and products.
3. **Wood-related energy markets** include wood pellets (sawdust) and firewood, which **have seen sharp increases in demand** as a home heating alternative. Cellulosic ethanol and other wood-related energy technologies present additional future opportunity to market fiber that's been historically under-utilized. However, those markets are still developing.

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4. **Packaging markets (paper and paperboard) remain stable** while raw material supplies have tightened due to slower sawmill production, which furnishes chips to large pulp mills. Tighter supply markets have pushed up pulpwood and chip prices in some locations and allowed suppliers to grow their operations. Paper products for packaging markets historically trend with U.S. gross domestic product (GDP) since nearly all commerce and product delivery require some form of packaging. U.S. GDP has grown *every year* in the past 10 years.
5. Similar to packaging markets, transportation-related wood products trend with GDP. **Railroad ties, blocking, pallets and dunnage markets prove resilient** as long as U.S. GDP continues to expand, even at modest levels of growth.
6. Homeowners want bark mulch to maintain basic landscaping even during slower economic times. Furthermore, hospitals, schools, colleges and other businesses continue purchases of bark mulch for playgrounds and landscaping. **Mulch markets have remained strong** while bark supplies have tightened due to less sawmill production in recent months.

Part of the short supply predicament that gives rise to the opportunities listed above, is that they're all byproducts of lumber and plywood supply chains to some extent. Continued strong demand for the raw material needed to make energy, packaging, goods-transportation and property maintenance forest products, can spell success for those suppliers willing and able to grow market share in uncertain times.

You can expect more consolidation in lumber, plywood and timber markets as supplies continue to correct for today's lower level of demand. However, today's changing markets provide attractive opportunities for you and your operation.



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