Trends and Outlook

Sales
U.S. hardwood grade lumber prices fell 16% since this time last year, as have blocking, pallet and tie prices. U.S. forest products exports created a strong positive influence in the post-recession recovery. Exports increased 9% from 2013 to a record high $9.67 billion in 2014. 2015’s exports were 9% off the 2014 pace, yet respectable in terms of historical levels. Look for foreign demand, for U.S. forest products, to match 2015 levels due to slightly lower growth in China, Canada and Europe.

Implication: 2016 hardwood grade lumber sales should remain in line with late 2015. Per species prices will certainly vary. On the aggregate, 2016 should approach 2015 in terms of grade lumber. Pallet and tie markets could see additional softening. Pennsylvania and New York chip and roundwood prices may retreat, following a mild winter (slower fiber demand at wood pellet mills) and strong sawmill residual chip production.

Housing
U.S. housing construction hasn’t responded like economists forecasted, but is moving in the right direction. U.S. single-family residential construction is the backbone of domestic hardwood grade lumber demand. Housing starts have slowly and steadily increased to 1.17 million units per year, which is a respectable rate, compared to the unsustainable highs and lows of the last decade. Continued domestic economic recovery in housing will provide further stability to the U.S. building products industry, which relies heavily on the forest products industry. Noteworthy: as the U.S. employment-to-total-population ratio continues to decline from 48% to 45% (and beyond), the U.S. economy will respond differently to various stimuli than in past decades. Similarly, as the U.S. national debt-to-GDP ratio climbed from 80% to 104% during the past 25 years, post-recession gains in employment, wages and housing starts have materialized slowly relative to past recoveries. Implication: 45% employment-to-total-population, combined with the lower 63% home ownership rate, and a 104% debt-to-GDP ratio, is not the realm of “familiar waters” for the U.S. economy. As such, a steady, predictable ride from 1.17 million housing starts (QR1) to 1.3 million (long-term historical average) is no guarantee, given these fundamental changes in the underlying economic landscape. Stay positioned to endure a slow, lengthy domestic housing recovery, with hardwood lumber markets’ continued reliance on Chinese demand.

World Economies
The U.S. economy ranks number one in nominal GDP, at $18.125 trillion. China is number two at $11.39 trillion. Japan is number three at $4.2 trillion. And, India is way down the list at number seven with $2.28 trillion. Noteworthy: of the top 10 economies in the world, India ranks number one in terms of annual GDP growth rate at 7.5% and is home to 1.3 billion people (similar to China). Implication: in the longer term, look for India and China to both play major roles (rather than just China) in global demand for forest products.

Russia
Although the Russian Federation owns over 20% of the world’s forested acreage, and is geographically positioned to fulfill China’s growing forest products appetite, Russia remains number 15 in terms of global economic power (nominal GDP) and accounts for only 4% of the global forest products trade. Implication: until Russian economic policy and infrastructure align with its forest resource capabilities (unlikely in the near term), Russian forest products output will remain disproportionately low in global terms.

Infrastructure
U.S. hardwood lumber output surged from 7 billion board feet (BBF) per year a few years ago (Great Recession) to 11.5 BBF by 2015, responding to strong overseas orders and recovering domestic demand. Logging and log trucking capacity has not responded likewise, leaving continued opportunity for additional, high-quality entrants to those fields. Implication: continued access to supplemental, skilled labor, timber harvesting capacity and trucking capacity will challenge manufacturers, creating opportunity for operators interested, innovative and able to expand existing harvesting and trucking output.

The AgChoice forestry team developed four educational videos for woodland owners. Find the two-minute videos addressing pests, timberland security plans and log-trucking capacity has not responded likewise, leaving continued opportunity for additional, high-quality entrants to those fields. Implication: continued access to supplemental, skilled labor, timber harvesting capacity and trucking capacity will challenge manufacturers, creating opportunity for operators interested, innovative and able to expand existing harvesting and trucking output.