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# THE FOREST FOCUS

SPRING 2019

## INDUSTRY OUTLOOK AND TRENDS

*Thad Taylor, Vice President and Forest Products Specialist*

During the past 15 years, U.S. forest products markets enjoyed significant expansion, endured severe contraction, adjusted and then returned to expansion. While domestic housing fueled our U.S. solid wood products markets prior to the Great Recession, foreign demand played a leading role in the post-recession marketplace. Pulpwood, logs, ties and blocking are all moving in most Pennsylvania markets. Meanwhile, hardwood grade lumber prices are down 10% year-over-year. That price decrease, combined with weak bark demand, has challenged both landowners and lumber producers in AgChoice's territory. This issue of the **Forest Focus** will address a few noteworthy trends and provide a brief outlook.

home-ownership rate, at 64.8% according to the most recent Census Bureau data, continues steady growth since the Great Recession. Over the past 10 years, the U.S. labor force participation rate has fallen from 66% to 63%, but remains well above 1950-1970 levels. These statistics, and low U.S. unemployment, suggest labor markets will remain tight in our industry. Historically, the industry responds with significant, creative capital investments in automation and technology.

U.S. housing construction averaged about 1,430,000 units per year between 1959 and 2019. The high-water mark for U.S. housing starts was 2,500,000 units in early 1972 (and we nearly hit that mark again in the mid-2000s). The record low-point for U.S. housing starts

was 478,000 units in 2009. Housing starts remain at a below-average 1,160,000 units, and fell 8.7% from the prior reporting period. Slower-than-average U.S. housing growth and strong Asian demand for U.S. forest products

followed by China. U.S. hardwood lumber exports were \$2.5 billion in 2018, down from \$2.6 billion in 2017. January's pace is off 5% compared to the same time last year. U.S. hardwood log exports were \$841 million in 2018 compared to \$861 million in 2017, off 24% when comparing January 2019 to January 2018.

Historically, global forest products demand trends upward as global economies develop and global population expands. Over time, natural resource output tends to migrate to regions with world-class production and processing advantages. The U.S. has a rule of law, climate, soils and technology that allow us to continually grow more than we harvest and produce 36% of the world's forest products while possessing only 18% of the world's forestland. The other global "timber basket" regions have not been able to match that special mix. You play a critical role in an industry that supports global human needs. Despite market volatility the past 15 years, the U.S. forest products industry is positioned to meet those needs.

Real GDP: Percent change from preceding quarter



U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates

The U.S. economy saw a 2.2% annualized increase in gross domestic product during 2018's fourth quarter, down from 3.4% in the prior quarter, as noted in the chart. Economists forecast 2019 growth around 2.0%, which should support continued demand for our forest industry's pallets, crating and packaging products.

U.S. debt-to-GDP rose to 105.4% in the past decade and can be reduced to historic levels with strong economic expansion. Unfortunately, GDP-growth forecasts aren't robust enough to make a difference in the near-term. The U.S.

has fundamentally changed the hardwood log-and-lumber marketplace in AgChoice's lending territory during the past decade. Foreign demand is likely to drive all significant movements in Pennsylvania hardwood grade lumber and log prices in 2019.

Total U.S. forest products exports held steady from 2017 to 2018, near \$9.5 billion, with China and Canada being our top two foreign markets, respectively. Total U.S. imports of all forest products was \$20.6 billion in 2018. Canada is the leading importer of forest products to the U.S.,



THAD TAYLOR



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