

Excerpt

North American Timber Forecast | OCTOBER 2005

Overview

Below are the Table of Contents, List of Tables, excerpts from selected chapters, and an analytical table from the 15-year *North American Timber Forecast*.

The long-term *North American Timber Forecast* provides an analysis and outlook through 2020 for timber markets and timber values in the major U.S. producing regions. The *Forecast* covers the economic environment (GDP, housing, and industrial production) and the demand for solid wood products, paper, paperboard, and pulp. The competitive position of lumber, structural panels, and pulp producers are assessed, and the wood fiber requirements of these industries are translated into estimates of regional timber demand. Timber supply issues such as inventory, growth, management, and the impacts of environmental regulations are addressed at a regional level. The detailed evaluation of timber demand and supply form the basis of a forecast of regional timber prices (sawtimber and pulpwood).

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Table of Contents

Executive Summary	1
Economic Outlook	19
Housing Markets	51
Forest Products Demand and Regional Production	67
Timber Demand	105
Timber Supply	155
Timber Prices	179

List of Tables

Executive Summary

Table 1	Key Timber and Wood Product Prices
Table A1	U.S. Timber and Wood Products Summary
Table A2	Indicators of U.S. Demand for Lumber, Panels, Paper, and Board

Economic Outlook

Table 1	U.S. Economic Outlook
Table 2	Canadian Economic Outlook
Table 3	European Economic Outlook

Housing Markets

Table 1	U.S. Adult Population, Households and Headship Rate
Table 2	Population Growth by Age Class
Table 3	Headship Rates by Age Class
Table 4	Demand for Housing
Table 5	Indicators of Single-Family Housing Affordability
Table 6	Housing Starts and Mobile Home Production
Table 7	Average New Home Sizes
Table 8	Residential Construction Output

Forest Products Demand and Regional Production

Table 1	U.S. Softwood Lumber Demand by End Use
Table 2	North American Softwood Lumber Demand and Trade
Table 3	North American Regional Softwood Lumber Production
Table 5	North American Structural Panel Consumption
Table 4	U.S. Structural Panel Demand by End Use
Table 6	North American Offshore Trade of Softwood Plywood
Table 7	North American Offshore Trade of OSB
Table 8	North American Regional Softwood Plywood Production
Table 9	North American Announced OSB Capacity Expansions
Table 10	North American Regional OSB Production
Table 11	Average Annual Growth in U.S. Paper and Paperboard Demand
Table 12	U.S. Paper and Paperboard Demand and Trade
Table 13	North American Paper and Paperboard Production
Table 14	U.S. Pulp Demand, Trade and Production
Table 15	U.S. Pulp Capacity Closures (1999–2003)
Table 16	North American Regional Wood Pulp Production
Table A1	North American Lumber and Structural Panel Demand
Table A2	U.S. Softwood Lumber and Plywood Consumption by Producing Region
Table A3	U.S. Softwood Lumber and Plywood Market Share by Producing Region
Table A4	North American Lumber and Structural Panel Capacity
Table A5	North American Lumber and Structural Panel Production

Table A6	U.S. Paper and Paperboard Demand and Trade
Table A7	U.S. Paper, Paperboard, and Pulp Capacity
Table A8	U.S. Regional Paper, Paperboard, and Pulp Production

Timber Demand

Table 1	North American Softwood Sawtimber Demand
Table 2	Coastal Softwood Sawtimber Harvest by End Use
Table 3	West Coast Log Exports by Destination
Table 4	Inland Softwood Sawtimber Harvest by End Use
Table 5	Southern Softwood Sawtimber Harvest by End Use
Table 6	Canadian Softwood Sawtimber Demand
Table 7	Fiber Sources for Northern Paper, Paperboard, and Pulp Production
Table 8	Fiber Sources for Southern Paper, Paperboard, and Pulp Production
Table 9	Fiber Sources for Western Paper, Paperboard, and Pulp Production
Table 10	U.S. Roundwood Demand for the Production of Pulp
Table 11	North American Roundwood Demand for the Production of Pulp
Table 12	North American Roundwood Demand for Production of OSB
Table A1	U.S. West Softwood Sawtimber Harvest by End Use
Table A2	U.S. South Softwood Sawtimber Harvest by End Use
Table A3	U.S. Softwood Sawtimber Removals—Public and Private
Table A4	Fiber Consumption for Paper, Paperboard, and Pulp—Northeast
Table A5	Fiber Consumption for Paper, Paperboard, and Pulp—North Central
Table A6	Fiber Consumption for Paper, Paperboard, and Pulp—Atlantic
Table A7	Fiber Consumption for Paper, Paperboard, and Pulp—East South Central
Table A8	Fiber Consumption for Paper, Paperboard, and Pulp—West South Central
Table A9	Fiber Consumption for Paper, Paperboard, and Pulp—West
Table A10	U.S. Softwood Growing Stock Harvest by End Use
Table A11	U.S. Hardwood Growing Stock Harvest by End Use
Table A12	Southern Regional Softwood Growing Stock Harvest by End Use
Table A13	Southern Regional Hardwood Growing Stock Harvest by End Use
Table A14	Canadian Softwood Growing Stock Harvest by End Use
Table A15	Canadian Hardwood Growing Stock Harvest by End Use

Timber Supply

Table 1	U.S. Private Operable Softwood Sawtimber Inventory
Table 2	U.S. Regional Softwood Sawtimber Growth and Drain
Table 4	North Central Private Operable Growing Stock Inventory
Table 3	Northeast Private Operable Growing Stock Inventory
Table 5	Southern Private Operable Growing Stock Inventory
Table 6	Southern Growing Stock Growth and Drain
Table 7	U.S. Regional Softwood Sawtimber Public Harvest
Table 8	U.S. Regional Public Growing Stock Harvest
Table 9	Canadian Annual Allowable Cut by Province (2003)
Table A1	Private Operable Softwood Sawtimber Inventory—U.S. South and West
Table A2	Private Operable Softwood Growing Stock Inventory—U.S. North and South
Table A3	Private Operable Hardwood Growing Stock Inventory—U.S. North and South
Table A4	U.S. Softwood Growing Stock Harvest—Public and Private
Table A5	U.S. Hardwood Growing Stock Harvest Public and Private

Timber Prices

Table 1	Western Washington and Oregon Delivered Log Prices
Table 2	Coastal Softwood Sawtimber Stumpage Prices
Table 3	U.S. West Coast and New Zealand Export Log Prices
Table 4	Inland Softwood Sawtimber Prices
Table 5	Southern Pine Sawtimber Prices
Table 6	Southern Pulpwood Stumpage Prices
Table 7	Northeastern Pulpwood Stumpage Prices
Table 8	North Central Pulpwood Stumpage Prices
Table 9	Southern Delivered Pulpwood Prices
Table 10	Northeastern Delivered Pulpwood Prices
Table 11	North Central Delivered Pulpwood Prices
Table 12	Chip Prices—U.S. South and West
Table A1	U.S. Softwood Sawtimber Stumpage Prices
Table A2	U.S. Softwood Sawtimber Stumpage Prices—Adjusted for Inflation
Table A3	Delivered Softwood Sawlog Prices
Table A4	Delivered Softwood Sawlog Prices—Adjusted for Inflation
Table A5	Pulpwood and Chip-N-Saw Stumpage Prices
Table A6	Pulpwood and Chip-N-Saw Stumpage Prices—Adjusted for Inflation
Table A7	Pulpwood Delivered Prices
Table A8	Pulpwood Delivered Prices—Adjusted for Inflation

Excerpt—Executive Summary

After sustaining solid gains in 2004 and early 2005 across nearly all regions, North American timber prices lost forward momentum in the middle of this year. Although the overall economy has remained strong and U.S. home construction remains at near-record levels, the U.S. forest products industry is facing strong competitive challenges that have adversely affected prices and profitability. The combination of major additions to North American softwood lumber and OSB capacity, coupled with significant increases in imports of softwood lumber and plywood, is eroding mill operating rates and timber prices.

The performance of North American pulp and paper producers fell short of expectations in 2005. Slow and in some cases negative growth in the demand for key grades of paper is signaling a continuation of the downsizing of the North American pulp and paper industry, the dominant consumer of pulpwood. In addition, North American paper and paperboard markets are contending with strong competition from overseas producers.

Excerpt—Economic Outlook

The U.S. economy has continued to grow rapidly in 2005 despite a surge in oil prices, tighter fiscal policy, and a sustained increase in short-term interest rates. Real GDP expanded at a 3.8% annualized rate in the first quarter of 2005 on the heels of 4.4% growth for 2004 as a whole. Our forecast shows real GDP growth moderating over the last three quarters of 2005 due to high energy costs, sluggish external demand, tighter fiscal policy, and the lagged effects of rising short-term interest rates. The economy is expected to enter a multi-year period of strong autonomous real GDP growth starting in mid-2006 despite a further tightening of monetary and fiscal policy. The forecast shows real GDP growth of 3.5% in 2005, 3.3% in 2006, and 3.8% from 2007 to 2009. The long-term forecast shows real GDP expanding at an average rate of 3.25% over the next 15 years.

Excerpt—Housing Markets

This chapter provides a detailed discussion of the major end-use markets for wood products in North America. These markets include housing, repair and remodeling, industrial, and nonresidential construction. The chapter is organized as follows:

A discussion of housing markets focuses first on the long-run demand for housing and then looks at the factors that cause short-term demand to fluctuate around the long-term trend. We then present the RISI forecast for how this demand will be met (housing production). Finally, we turn to other aspects of total residential construction output: the mix of housing starts and the size of new homes started.

The chapter then covers repair and remodeling markets. This section focuses on total repair and remodeling expenditures and the component (improvements and maintenance and repair) shares of those expenditures. Finally, we discuss the trends per household for repair and remodeling expenditures.

Excerpt—Forest Products Demand and Regional Production

After the banner year enjoyed in 2004, U.S. forest products markets have developed cracks in 2005, with market fundamentals softening through the year. Solid wood product prices are down from 2004 levels, and demand for pulp and paper products have moved beyond a lackluster up-cycle. New North American lumber and OSB capacity is pulling down mill operating rates, and more capacity is already in the pipeline and will become operational over the next few years. Offshore competition across all major forest product sectors remains intense despite the weak U.S. dollar.

As interest rates rise in 2006, the economy will slow down and residential construction will slip from current peak levels. Reconstruction efforts associated with Katrina will help buoy demand for solid wood products in the near term, but this support will be soon overshadowed by the expected down-cycle in residential construction activity that will carry through to 2009. Growth in the world's pulp capacity will also outpace consumption, and prices for most grades of pulp and paper products will move lower in 2006–2007.

Excerpt—Timber Demand

North America's demand for sawtimber continues to climb in 2005, driven by strong demand for lumber and panels. Residential construction markets, which have defied gravity, underlie the upward trend in softwood sawtimber demand maintained for the past four years. The strong pricing for lumber and panels supported mill operating rates and producers' willingness to extend procurement distances in order to secure wood fiber to feed their mills. As 2005 draws to an end, reconstruction efforts associated with Katrina have given yet another avenue for growth in demand for lumber and panel products. The rising sawlog demand has driven the gains that will have been achieved in sawtimber prices for the year.

Demand for pulpwood has moved past the cyclical peak established in 2004. Jittery paper markets have challenged pulp mill operating rates, and lower mill realizations have taken a toll on Canada's paper industry. Expanding supplies of manufacturing residuals have also suppressed demand for pulpwood roundwood. OSB continues to be a pillar of support to pulpwood markets, but 2005's capacity additions have not been enough to offset declining roundwood demand for the production of pulp.

Excerpt—Timber Supply

Over the next 15 years, the availability of softwood timber in North America will improve. Increased productivity on private managed softwood forests will boost growth of the U.S. timber resource and offset losses in the commercial inventory to other non-timber uses. The availability of softwood pulpwood will also step up as an increased volume of thinning material is generated from the South's timber plantations. In Canada, salvage harvests in British Columbia continue to contend with the unprecedented mountain pine beetle epidemic, which will boost the production of softwood sawtimber in the province throughout the forecast period.

Reduced supplies of softwood fiber in eastern Canada will be the major exception to an otherwise positive outlook for softwood supply in North America. The Quebec government intends to lower the Annual Allowable Cut (AAC) for softwood by up to 20% over the next three years, responding to concerns about the sustainability of the current harvest.

Excerpt—Timber Prices

After sustaining solid gains in 2004 and early 2005 across nearly all regions, North American timber prices

lost forward momentum in the middle of this year. Although the overall economy has remained strong and U.S. home construction remains at near-record levels, the U.S. forest products industry is facing strong competitive challenges that have adversely affected prices and profitability. In the case of solid wood products, the combination of major additions to North American softwood lumber and OSB capacity coupled with significant increases in imports of softwood lumber and plywood is eroding mill operating rates and timber prices.

The performance of North American pulp and paper producers also fell short of expectations in 2005. Slow and in some cases negative growth in the demand for key grades of paper is signaling a continuation of the downsizing of the North American pulp and paper industry, the dominant consumer of pulpwood. Despite healthy growth in the economy, U.S. demand for newsprint in the first half of 2005 was down 6% compared with the same period in 2004, and over the same period, U.S. demand for uncoated printing and writing papers was only slightly higher (0.1%). In addition, North American paper and paperboard markets are contending with strong competition from overseas producers as the volume of imported paper steadily rises.

Sample Table

Table A3 (Continued)
U.S. Softwood Lumber and Plywood Market Share by Producing Region
Percent

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
SOFTWOOD LUMBER												
United States	61	61	61	60	59	60	60	60	59	59	60	60
South	28	28	28	28	28	28	28	28	28	28	28	28
Coast	18	18	18	18	17	18	18	18	18	18	18	18
Inland	10	10	10	10	9	9	9	9	9	9	9	9
North	3	3	3	3	3	3	3	3	3	3	3	3
Cal. Redwood	1	1	1	1	1	1	1	1	1	1	1	1
Canada	34	34	34	33	33	33	33	33	33	33	33	33
British Columbia	20	20	20	20	20	19	19	19	19	19	19	19
East of Rockies	14	14	14	14	13	14	14	14	14	14	14	14
Non-Canadian Imports	5	5	5	6	8	7	7	7	8	8	7	7
SOFTWOOD PLYWOOD												
U.S. South	58	56	54	50	47	48	50	49	47	47	49	50
U.S. West	27	27	27	28	27	27	29	28	27	27	28	28
Canadian Imports	3	3	3	3	4	3	3	3	3	3	3	2
Non-Canadian Imports	12	14	16	19	22	22	18	20	23	23	20	20