

MARKET SNAPSHOT
Forest Products

June 28, 2023

12-Month Profitability Outlook



Executive summary

AgWest Farm Credit's 12-month outlook sees forest products manufacturers and timberland owners as slightly profitable. Drivers include reduced demand for lumber and logs and limited availability of skilled labor.

Industry drivers

Lumber demand down

The housing market has cooled and lumber buyers are placing orders at minimum levels to limit the risk of holding excess inventory. While single-family housing starts experienced a surprise rebound in May, the trend is notably downward as elevated interest rates discourage existing and prospective homeowners from purchasing new homes. Recent bank failures, falling consumer savings, declining commercial real estate values and a contracting manufacturing sector have led to caution among lumber buyers. While lower demand is pressuring lumber prices and impacting profitability, wood product companies have sufficient cash reserves to weather a moderate housing downturn.

Framing Lumber Composite Index, \$/MBF



Lumber prices are near the average cost of production for Northwest region mills

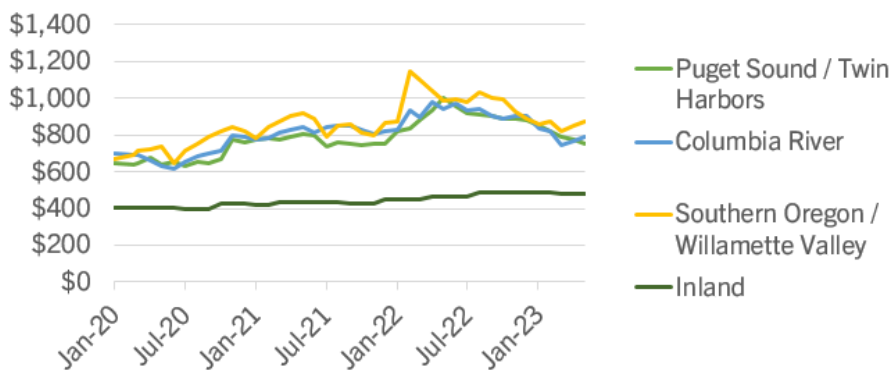
Source: RISI Random Lengths

Low demand and high costs pressure log producers

A cooling housing market is translating into lower log demand and mills have adequate levels of relatively high-priced log inventories. While production costs are off the recent highs, they remain elevated by historical averages and are pressuring timberland operator margins. Log prices improved moderately in the Puget Sound / Twin Harbors and Southern Oregon / Willamette Valley regions this quarter but fell along the Columbia River.

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Douglas-fir #2 Sawmill Log Prices, Monthly, \$/MBF



Source: RISI Log Lines.

Skilled labor is an increasing constraint for mills

Some companies have begun reporting difficulty recruiting skilled labor to work at mills. Investments in automation technology have focused on jobs done primarily by lower-skilled workers. If demand picks up, a lack of skilled labor could become a limiting production factor in the long term.

Wood product mill investments in Oregon

In February, Sierra Pacific announced plans to increase lumber capacity at their Eugene complex by 71% to 650 million board feet, making it among the largest in the U.S. The expansion remains subject to permitting and approvals and estimated completion is 2025-2026. In April, Roseburg Forest Products announced a significant investment in their Southern Oregon operations, including the creation of two new manufacturing plants along with technological improvements and upgrades to existing plants.

Profitability

Forest products manufacturers and timberland owners should be slightly profitable over the next 12 months. Fundamental industry drivers remain strong in the long term, but in the short term a cooling housing market has led to lower demand and depressed prices for both logs and lumber. Large cash reserves should help manufacturers weather a moderate downturn in the housing sector. Elevated production costs are pressuring timberland owner margins.

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Additional information

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Forest Economic Advisors (FEA)

www.getfea.com

Random Lengths

www.randomlengths.com

Fastmarkets RISI Log Lines

www.risiinfo.com

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