

MARKET SNAPSHOT
Forest Products

Dec. 31, 2022

Executive summary

AgWest Farm Credit's 12-month outlook sees forest products manufacturers and timberland owners as profitable. Drivers include steady log markets, tight transportation capacity, indefinite mill production curtailments in British Columbia and falling log demand from China.

12-Month Profitability Outlook



Industry drivers

Log markets steady

Winter weather came early this season and mountain snowpack is above average. This may slow log flow; however, mill inventories are generally strong. The Weyerhaeuser union workers strike ended in October and tightened markets in Washington and Oregon. The Oregon Board of Forestry approved more than 100 changes to the Forest Practices Act, impacting timber harvest activities on more than 10 million acres of private and non-federal forests in the state, removing approximately 270 million board feet of volume.

Trucking and rail capacity remain tight

Spare trucking and rail capacity remain tight, but conditions appear to be improving as consumers demand fewer goods (see **Crop Inputs Snapshot** for more insight). Mills continue to face challenges in procuring transportation to retailers and are selecting rail whenever possible; however, conditions are showing improvements.

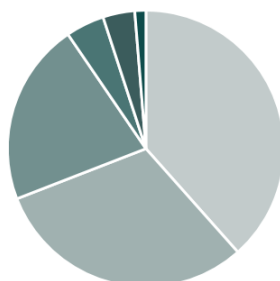
High-cost lumber mills curtail operations

The cost to produce lumber has risen since 2019. With current prices significantly down from March 2022 highs (see Pricing section below), mills located within high-cost wood baskets have fallen below break-even levels, particularly in British Columbia, and several have decided to curtail operations. There have been a handful of curtailment announcements in other North American operating regions as well. These trends will reduce lumber supply and help to set a floor for prices.

Residential improvements to support lumber demand

Rising interest rates and challenging economic conditions are affecting home affordability and consequently, single family home construction is falling. Conversely, lumber sales out of big box retailers have been strong. Residential improvements are the largest demand driver and may help offset falling demand from home construction if economic challenges persist.

Lumber Consumption by Category, 2022



- Residential Improvements
- Single Family Construction
- Industrial Production
- Nonresidential Construction
- Multi-Family Construction
- Mobile Homes

Residential improvement is the largest demand driver for softwood lumber.

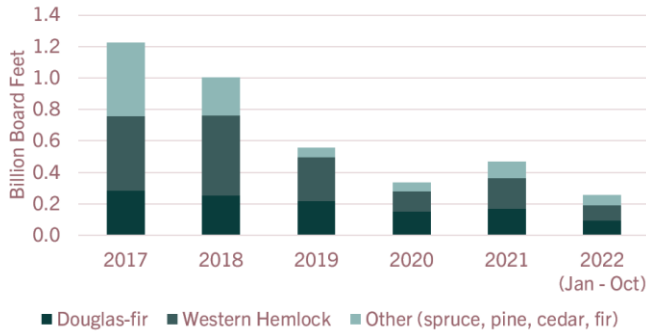
Source: Forest Economic Advisors.

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Log exports to China down

Pacific Northwest log exports to China consist primarily of Western Hemlock and lower grade Douglas-fir, followed by spruce, pine, cedar and true firs (see chart below). Between 2017 and 2021, exports declined 62% from approximately 1.2 billion board feet to 500 million board feet largely due to escalated trade tensions, severe COVID-19 lockdowns and more recently, a deteriorating housing market. The Chinese government has loosened COVID-19 restrictions; however, the housing market remains vulnerable and political instability is rising as large-scale protests have recently occurred in large cities. This all suggests log exports may not recover to pre-pandemic levels. Domestic markets have largely picked up the slack created by reduced demand from China.

Log Exports, Pacific Northwest Ports to China



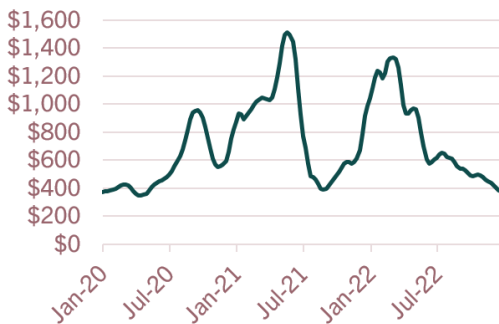
Western Hemlock and other softwood log exports have fallen dramatically since 2017.

Source: Census Bureau.

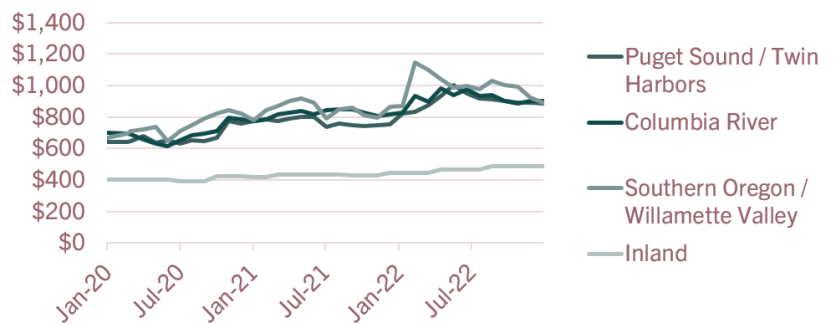
Prices soften

Lumber prices continue to fall on weakening economic data, reduced lumber demand and declining housing starts. Log prices are also softening, but much more moderately.

Framing Lumber Composite Index, \$/MBF



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



Source: RISI Random Lengths and Log Lines.

Profitability

Both log and lumber prices support profitability generally, though lumber prices at the \$400/MBF are pushing some producers to reduce production. Rising interest rates and challenging economic conditions may persist well into 2023 and reduce home construction levels; however, demand from residential improvements and the multi-family sector are expected to hold up better than single family new construction. While log markets should remain steady in 2023, persistently low demand from China may limit upward price potential. The wildcard for Pacific Northwest log markets is how lumber production levels will change in response to market prices, especially considering recent mill curtailments, and whether they will continue to support current log demand.

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Additional information

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www.getfea.com

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