



# What's Ahead for the U.S. Solidwood Industry

## A Farm Credit Lenders' Perspective

### Inside this Issue...

*Preview*.....2

*Current market conditions*.....2

*The U.S. housing recovery – still sluggish*.....4

*Renters forever, homeowners never? .....*6

*Home repair and remodeling – booming*.....7

*Trade balance of solidwood products*.....8

*What's ahead?* .....10

*Creditworthiness trends*.....11

*Potential lending opportunities* .....12

*Concluding thoughts*.....12

### Key Points:

- The consensus among the Farm Credit bankers is that the nation's sawmill operations are doing generally well, albeit with systemic differences across the three major regions – the South, the Pacific-Northwest, and the Northeast.
- U.S. consumption of softwood lumber is expected to grow 6½ percent in 2016, following the previous year's growth of 8.0 percent. "It's this demand-pull," observed one interviewee, "that's driving cash flow into the mills" – and bolstering their bottom lines.
- When asked about the major challenges facing the industry, the lenders were unanimous that the number one challenge is the perplexingly sluggish recovery of the home construction industry.
- Supply constraints are now the main impediment to new homebuilding, as opposed to insufficient demand. Over the past two years, house prices have taken off, outpacing inflation, and so have apartment rents – the classic hallmarks of a supply-constrained market.
- Although the overall housing rebound has been disappointingly sluggish, new multifamily apartment construction has been booming. The trouble is, each new multifamily apartment utilizes less than half as much lumber and wood products as a new single-family home.
- Home repair and remodeling (R&R) were described by one lender as "... the silver lining of the whole housing conundrum – and they're booming." Today, the R&R segment of residential construction utilizes more lumber and wood products than new homebuilding.
- Lumber imports from Canada are flooding into the U.S. market, due to the run-up in the value of the U.S. dollar, China's economic slowdown where China is Canada's second-biggest export market, and the expiration of the Canada-U.S. Softwood Lumber Agreement.
- The lenders are cautiously upbeat about the industry's medium-term prospects. "Absent a macro-event like a recession," predicted one of them, "the industry is poised to improve and avoid the boom-and-bust swings [of housing construction] in past years."