



Key Issues Facing the U.S. Timber Industry

A Farm Credit Lenders' Perspective

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Key Points:

- The eight Farm Credit bankers who were interviewed for this report were asked to identify the major challenges facing the timber industry:
 - ✓ At the top of their list is the anemic cyclical recovery of the U.S. housing construction industry from the crash of 2007-09.
 - ✓ Another concern is the recent weakness in U.S. timber and lumber exports, hard-hit by what one banker described as the "perfect storm" and another described as a "triple whammy."
 - ✓ American timber companies are braced for an anticipated surge in Canadian exports over the next few years, with some destined for China and others for the U.S.
 - ✓ The growing "wall of wood" poses an ongoing risk for the South. Timberland owners there have curtailed their timber harvests to the point where they are often below the forests' annual growth.
 - ✓ The widening disparity between the prices for timberland versus stumpage is worrisome, raising the specter of a timberland price "bubble."
- Counterbalancing these challenges is a steady strengthening in the domestic demand for sawlogs and fiber, spurred by the U.S. economic expansion, ongoing (albeit anemic) housing recovery, increased outlays for home repairs and remodeling, growth in capital investment in the timber industry (especially the South), and the vigorous cyclical rebound in the demand for pulpwood.
- The near-term outlook for timber prices is mixed across regions, but stable. No one is envisioning a major swing in sawlog prices, up or down, over the next 12 to 18 months. However, pulpwood prices in the South have climbed to record-high levels and are expected to remain strong.
- California's severe drought "not only impedes tree growth, it degrades the entire forest." Amidst parched soil conditions, seedling survival rates decline, tree pests multiply, and the risk of forest fire grows.
- Today, the largest timberland owners are the timber REITs and TIMOs. The REITs are getting bigger, and so are many of the TIMOs, though the latter's overall market share appears to be shrinking.