

MEGATRENDS AFFECTING THE FOREST PRODUCTS INDUSTRY: PART 3

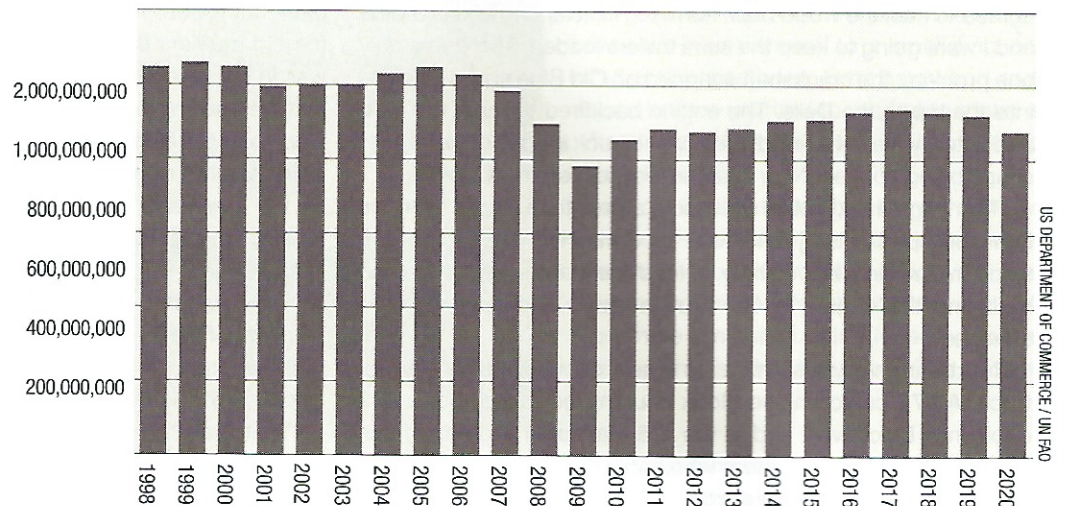
BY CHARLIE LEVESQUE

This is the third and final in a series of articles for The Northern Logger on industry trends based on a presentation made by the author at the 2021 Loggers Expo in Bangor.

In the second article in this series last month, we reviewed the worldwide trends for the forest products industry. Some highlights include:

- We are losing substantial acreage of forests in South America and Africa, while trends are holding steady and even growing a little in other parts of the world. North American forest acreage continues at a slight decline.
- Worldwide consumption of roundwood for forest products and energy continues to increase each year and has done so since the 1960s.
- China and the US by far are the biggest consumers of all forest products in the world.
- OSB and particleboard production is up (especially in Asia and Eastern Europe).
- World mass timber (CLT et al.) production has increased and will continue to increase.
- Wood pellet production is up (a lot from the US South for export and elsewhere for both export and domestic use). Europe and North America are over 90% of world production and consumption of wood pellets.
- World forest products production and consumption have rebounded well after the recession and now pandemic.
- For imports of forest products, China is the number one importer of roundwood, sawnwood, veneer, pulp and paper while the UK is number one in wood pellet imports and

FIGURE 1: US Forest Products Production (1998-2020) M³



Germany number one in paper and paperboard imports.

- For exports of forest products, the US is the top exporter in the world for pellets and recovered paper and in the top four in industrial roundwood, sawnwood, veneer, pulp for paper and paper and paperboard. Russia leads in roundwood exports while Canada leads in sawnwood (much of it to the US), Vietnam in veneer, China in wood panels, Brazil in pulp for paper and Germany in paper and paperboard.

In the first article of this series back in January, we covered the worldwide megatrends that affect the forest products industry (and everything else for that matter). Those included:

- The US is the wealthiest country in the world – still the biggest market for forest products.
- The fastest growing economies are in Asia and the Pacific Rim, where there is growing demand for forest products.
- Worldwide our population is aging, more so in the US and other developed countries than in developing countries. This paints a less than favorable picture for labor in the US
- Worldwide populations are urbanizing, putting more and more people in places that are removed from where the forest products industry is generally located.
- There has been an unprecedented rise in technology in the world with seven connected computers for every person on the planet. Is the forest products industry taking advantage of this tech?
- World population growth is increasing rapidly. There are 7.8 billion people in the world today, and there will be 8.3 billion by 2030 or so. This increasing population will need increasing amounts of housing, energy, food and water – an opportunity for the forest products industry.

With those high points as backdrop, in this article we will look at US trends in the forest products industry.

US Forest Products Production Trends

All forest products production in the US recovered nicely from the recession in 2008-2010 but was hit a bit again because of the COVID-19 pandemic. **Figure 1**

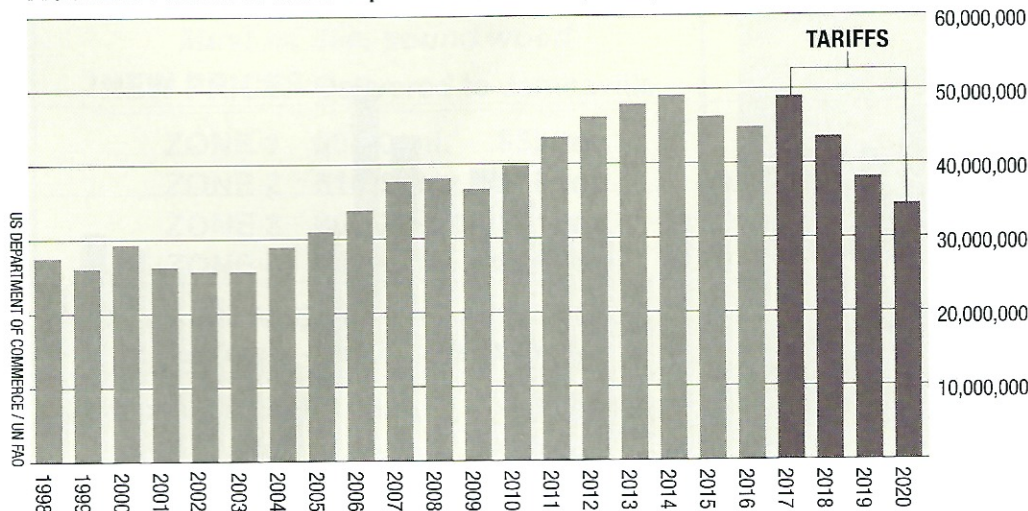
It is significant and important to note that some of the recent pandemic-related drop in national forest products production occurred because of tariffs imposed by the Trump administration, which yielded counter-tariffs – especially hurtful from China, which is a huge market for US forest products – and subsequently reduced forest products exports from the US. **Figure 2**

Domestic solid wood production is very heavily tied to the US housing markets and its economic metric, housing starts. These data also show a nice recovery from the recession but at a more reasonable pace, since the 2008-2010 recession resulted from unsound and unsafe bank lending for mortgages that greatly impacted the US economy. The pandemic clearly has affected housing starts, but 2022 looks to be back to more normal gains. **Figure 3**

US softwood lumber products, which are the heart of the forest products economy in many ways, have shown a steady increase since the recession and significant price spikes due to the pandemic-related demand increases.

Overall, pulp and paper production had been slowly declining coming out of the recession. The pandemic threw pulp and paper into disarray as demand plummeted for a lot of the paper product areas US mills have focused on. The good news is the writing has been on the wall for pulp and paper for some time, and mills have been trying to diversify (especially in the Northeast) from the mainstay writing and glossy coated stock papers that have been the core of this sector's business.

FIGURE 2: Forest Products Exports from the US (\$1000)



US Forest Products Challenges and Opportunities are Large

All of these data points show a pretty positive picture for the forest products industry in the last decade or so (except for pulp and paper). All is not rosy in forest products town, and there are many challenges as well as significant opportunities. Consider these factors:

Aging logging sector: The logging sector labor continues to age.

Lack of trucking and truck drivers: The trucking sector is also aging and scarce.

Serious Asian and Canadian investment in US forest products manufacturing: This new investment and other US investment (including the Northeast for both) are good signs. Over a billion dollars of capital investment has occurred in the Northeast alone in the sector in the last five years or so. Where there is this kind of investment from both US and foreign sources, it means those with money believe this is a sector with a future. This is good for all parts of the forest products supply chain.

Trade – tariffs, trade agreements, etc., affecting export markets: Hopefully we are done with the tariff gunfighting of recent years. It was not pretty for the forest products sector in the US that has seen exports as a key part of its current and future growth.

New markets that are real: cross-laminated timber (small), pellets (large for export), modern wood heat (small), liquid fuels (potentially large), wood insulation (large), and biochar are some promising new forest products markets on the horizon in the US and the Northeast, even in low-grade markets.

Emerging markets: more from pulp and paper sites; liquid fuels (green diesel) – Repurposing or at least changing output product

mixes from the existing pulp and paper facilities is the way to save this critical low-grade market sector. New green diesel manufacturing from wood chips will be the real winner if this proven technology can scale up economically. That would mean green diesel for all ground-based transportation as a bridge to electrification of ground transportation and even as a long-term green fuel source for aviation.

Recovery from pandemic recession could be good for the industry. Recovery from any recession, including the one caused by COVID-19, can yield substantial growth for all goods and services.

Production of all forest products in the US: While overall US forest products production is generally flat to slowly increasing – it is very substantial. Remember, US and Chinese markets for forest products dominate the world demand.

Currency exchange rates: The ever changing currency wars will continue to sometimes help the US forest products markets and sometimes hurt it. The trick is to take advantage of it when it benefits forest products exports and imports.

Role of US forests in carbon debates: It is still clear that the forests of the US will play a large part in the nation's approach to climate change mitigation, but in what form? And will use of forest products be considered a net benefit or net negative in combating climate change?

It's a lot to chew on. Now do some thinking, and find ways to improve your business situation given your knowledge of these megatrends!

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FIGURE 3: US Housing Starts (1959-2021)

