

softwood

TIMBER MARKET WOES


from COVID-19 pandemic

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Arkansas is the 9th leading producer of timber in the United States, harvesting more than 24 million tons per year of timber worth an estimated 445 million dollars to landowners.

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The state's economy is the most timber dependent economy in the US South and ranks third nationally in timber dependency. Despite the massive timber industry in the state, we have a glut of timber. Every year we have a net growth of more than 37 million tons of wood, meaning that annually we are adding 13 million tons per year to our forests. This has been happening for more than 40 years, and our forests have added more than 400 million tons of commercial timber biomass to our state's forests on roughly the same land area. Timber prices are depressed and in real terms are less than half the prices 15 years ago, making landowners even less likely to manage and harvest timber. This wall of wood combined with climate change-driven risks of devastating forest fires and insect and disease outbreaks could create Western-US type forest health catastrophes in Arkansas.



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This huge supply of excess timber was not unnoticed by consumers and the lumber industry as housing starts at the beginning of 2020 has risen to their highest level since the recession of 2009. The largest single consumer of Arkansas timber is the residential housing market, which consumes 60% of all softwood (pine) lumber. Housing starts in early 2020 were at its highest pace since the recession of 2009-2012 at more than 1.6 million homes in the nation. The steady increase in housing starts fed a growing Arkansas sawmill industry that saw nearly \$500 million of investments between 2014 and 2019. Arkansas was also a leader in developing new construction markets for buildings built of mass timber, as demonstrated by the cross-laminated timber framed Adohi residence hall at the University of Arkansas's Fayetteville campus. This expansion in the use of Arkansas pine saw timber was not a complete solution to our timber glut, but it was an important part of keeping Arkansas's forests healthy.

With the COVID-19 pandemic, housing starts have fallen 22%, which is the fastest one-month fall since March of 1984. The Association of General Contractors (AGC) has reported that 40% of the construction workforce in the United States has been laid off due to project delays and cancellations. No construction means orders for lumber fall, mills saw fewer logs, and less standing timber is bought and harvested.

The question we must ask is, will the economic recovery be rapid or slow for the forest products



Professor Matthew Pelkki

industry? The outlook is not encouraging. Let's look at the general economy, then the construction industry, and then home buying and new home construction in the United States to see what they might tell us about construction and the use of wood over the next two years.

The Congressional Budget Office (CBO) predicts that GDP growth will be negative overall for 2020, and even by the end of 2021, GDP will have recovered to pre-Corona virus levels. This is assuming a V-shaped or rapid general economic recovery with no major reoccurrences of the novel coronavirus. Unemployment will peak this summer at 16% and will still be 10% at the end of 2021. The CBO does state that unemployment should recover to 4-5% by the end of 2021, but with a catch. Job losses and health uncertainties associated with the pandemic are discouraging workers from even looking for work once unemployed. The CBO projects that the US labor market will lose 6 million

workers under a “social-distancing” workplace that has major uncertainties related to immunizations and treatments for COVID-19. Despite the dire economic outlook, the general public nationally is still more concerned about public health than “opening the economy”.

Before the outbreak, the AGC reported that 65% of all construction firms were concerned about their ability to hire skilled labor. And working conditions under COVID-19 required by the Occupational Safety and Health Administration (OSHA) will slow work greatly. OSHA will require social distancing, disinfection of shared tools, and PPE that is desperately needed by the healthcare industry. Increasing our workforce using immigrant workers has added risk since migrant workers are at higher risk in the pandemic. This is caused by the more crowded living conditions and generally lower access to basic healthcare by this segment of the workforce. The Association of General Contractors (AGC) confidence index amongst general contractors building residences fell from 72 to 30 in April. A score of greater than 50 represents market growth. Less confidence, fewer workers, and slower working conditions will reduce the amount of lumber used in 2020 and 2021 even if demand for new homes and buildings returns to normal.

This brings us to the retail housing market. As mentioned before, in March the number of new housing starts dropped 22%, a record for this century for a one-month drop. The US Department of Labor reported that housing completions were down 6%, reflecting the situation mentioned above in the construction industry. The Mortgage Bankers

Association is reporting a 15% drop in home finance applications. Fannie Mae, a leading source of mortgage financing reports homebuyer sentiment is at its lowest since 2016, citing job insecurity as the major reason.

Where does this leave Arkansas’s forests and forest landowners? If the general economic recovery is V-shaped and reopening the economy in May and June is successful, and a relatively “normal” economy persists afterward, stronger markets for pine timber for landowners has been pushed back at least two more years. The derived nature of timber demand is that the pull for timber comes through a long supply chain of builders, wholesalers, sawmills, and loggers, and timber buyers. Converting a standing tree into lumber and then putting that lumber into a building is often a 12 to 36 month-long process. If the general economic recovery is V-shaped, expect the timber market recovery to be U- or even L-shaped (a longer, slower recovery). Impacts on timber markets will be slow to happen initially in any economic crisis and recovery will lag that of the general economy.

Meanwhile, trees continue to grow and add value, which is a bit of a positive aspect. But even that silver lining has its limits. Every year we allow existing crops of timber to grow is another year we are not planting faster-growing, more disease-resistant trees for the future. We are delaying future timber harvests and reducing the long-term value of timberland when we delay harvesting. Finally, as the existing timber grows, so does the specter of nature’s challenges. Severe climate, diseases, fire, and insects are a growing threat to consume our forests. 🌲

