2 February 2018

**SENT TO LSU AGCENTER/LOUISIANA FOREST PRODUCTS DEVELOPMENT CENTER - FOREST SECTOR / FORESTY PRODUCTS INTEREST GROUP**

**10 Predictions for Global Wood Consuming Industries in 2018**

Posted by Pete Stewart on January 16, 2018

1. **Pulp market will continue to race forward.**

With China's moratorium on Mixed Paper imports (as a feedstock), many pulp mills in China are converting to virgin pulp at a time when market demand is increasing. Two million tons of pulp production will come on line in late 2018, and the trend won't abate until then. Pulp prices will remain at record levels, incenting capacity expansions and likely acquisitions/disposition of working pulp assets.

**US South sawtimber markets will remain flat.**

Damage from Hurricanes Harvey and Irma in the US South added new demand for sawtimber to (slowly) strengthening housing starts numbers and a tight housing market, which drive pine sawtimber harvests. Even with 1 billion board feet (BBF) of new production coming on line, sawtimber growth will still exceed demand in every market. Expect volume to pick up, but not price.

3. **Canadian and European capital will continue to flow into US forest products assets and timberland at rates we haven't seen in years.**

Canadian companies are primarily interested in solid-wood markets as lumber production declines by 1.5 BBF in British Columbia (BC). Expect more interest in greenfield operations as existing assets look overpriced. European companies are more interested in timberland and pulp assets, and the US still has the largest area of investable timberland in the world. European investor discount rates are low and capital patient—perfect for

timberland investment. The world is short of virgin softwood fiber; the US has no shortage, so US pulp assets are garnering attention.

4. **Bioenergy segment will remain stagnant.**

As the Trump Administration continues to halt and/or slow roll renewable energy programs, including loan guarantees and RFS-related incentives, development of the US bioenergy segment (including wood pellets and biofuels) will be minimal. Investment in this segment could recede as a result. The bright spot is the biochemical market, which is creating new products developed from wood that are truly astounding. However, these products will take years to commercialize and change the market in any significant way.

5. **The US dollar (USD) will weaken.**

The USD will weaken and provide further buoyancy to the export pulp/paper and solid wood markets. Efforts to “de-dollarize” global trade continue and could weigh on the USD’s longer-term value, but any near-term changes will be incremental. The USD will depreciate on trend in 2018, with the Canadian dollar ranging between C$1.306 and C$1.223, and between €0.902 and €0.809 for the EUR.

6. **Brazilian forest sector will fully rebound.**

As consumer spending and GDP improve—along with a “more stable” government—Brazil’s forest industry will recover. Inherent competitive advantages are leading a number of international companies to actively investigate new investment opportunities in the Brazilian pulp market. Expect new pulp expansion announcements in the first half of the year.

7. **BC will lose about 1.5 BBF of lumber production.**

Most of this production gap will be filled by US producers, and a lion’s share in the US south.  We expect imports from Scandinavia and central Europe to take a back seat because of the EU’s own economic recovery, coupled with the high cost of production and weaker US dollar. This dynamic will incent new greenfield sawmills and capacity expansions in the US South.

8. **Millennials are coming around to homeownership.**

With the expansion of the stock market, which has added $7 trillion in value, low unemployment finally adding to wage growth and expanding GDP, long-term purchases (such as homes) are beginning to carry less risk. Expect buyers (and even low risk millennials) to react. But don't expect an immediate surge in housing starts. Remodeling will still be the shining star of demand and will expand at a torrid pace, but housing starts for 2018 will total 1.26 million units.

9. **CLT will find some footing in the South.**

With new projects already springing up in the Pacific Northwest, expect a couple of new announcements for greenfield builds in the US South. CLT is still the warm blanket of demand where hope springs eternal. Expect announcements this year, builds in 2019 or 2020 and then the market developing between 2021-2025.

10. **US GDP will scare 4% at least one quarter in 2018.**

It remains to be seen how business and consumer behavior will adjust in the wake of the US tax code changes. We really won't know until 2Q2018. However, the signs that the business community is reacting favorably to just about everything the Trump Administration is doing is very clear. Despite the Administration's low approval rating, consumer, business and investment spending continues to rise—as does consumer confidence. Assuming that more than half of consumers don't approve of the Administration itself (based on many popular polls), their spending behavior, however, indicates that they have confidence in the Administration's handling of the economy. We believe that, on balance, GDP will range between 2.1 and 3.5+%, averaging 2.4% in 2018.

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