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Changing Markets for N. American hardwoods

During his presentation at HMA's National Conference and Expo in Charleston, industry analyst and *Hardwood Market Report* Editor, **Judd Johnson**, provided plenty of information regarding the factors influencing current U.S. hardwood market trends, and food-for-thought on the circumstances that could alter those trends. Here are the highlights.

As the Hardwood Industry knows so well

All major market sectors are influenced by the economy and residential construction. The economic woes of 2009, and the **slow** economic and housing recovery of the past seven years, have forced the hardwood industry to re-create itself.

The hardwood consumption market mix ratio for 2016 was - **56.1 percent Industrial** - pallet lumber and container, Board Road/Crane Mat Timbers, Railway Ties, **43.9 percent Grade Lumber** - practically the opposite of the ratio mix in 2005 of 40 percent Industrial and 60 percent Grade.

Industrial Group Market trends

- **Board Road/Crane Mat Timbers** sector has declined in each of the past three years. Current demand ranges between flat and non-existent.
- **Railway Ties** sector was up in 2016, and the railroad business is sound, but due to over purchasing, the reality for hardwood producers is that tie purchases are down, and they are down at a time when demand has decreased for other industrial products.
- **Pallet and Container** industry accounts for nearly 40% of the total marketplace for US hardwood lumber. But due to lost market share to lower priced softwood ties, 2012-14, hardwood pallet sector struggles to regain its share of the market.

Domestic Grade Lumber Group Trends

As a whole, trends are positive, but still sluggish.

- **Furniture** - 2016 consumption by the furniture industry was down, despite growth in the two primary drivers for the furniture sector- the economy and housing.
- The **Moulding/Millwork** sector posted an increase in consumption in 2016, but market growth in this sector has been at a slower pace than the housing market.
- **Cabinets**- volumes up, but not by much.
- **Flooring** - volumes consumed in 2016 were up 9.2% over 2015 figures.

According to Johnson, "If there is an all-encompassing answer to why consumption is not much higher in domestic grade lumber markets, it is this: hardwoods lost market share to other materials and imported parts and goods."

Our markets have and will continue to change

In 2016, US exports of hardwood lumber increased 11.2 percent over 2015 figures, setting a new record high. Where did the lumber go? Mexico, Vietnam, the European Union, Canada, and **China!** China accounted for 51 percent of all US hardwood lumber exports.

Included in that, China purchased 71.3 percent of all Red Oak exports, 75.4 percent of Ash, 37.4 percent of Poplar, and 30.4 percent of White Oak.

China continues to be a rapidly expanding market for hardwood products. Of course, at some point the trajectory of growth in China will level off, but not yet. In addition, **India** could bring a whole new dimension to demand for furniture and interior fittings manufactured from US hardwoods, with its billion-plus people and economy growing at over 7 percent.

Challenges and Possibilities

The U.S. Forest Service tells us that the South's forests produce 12 percent of the world's industrial roundwood, and that in 2011, the primary wood processing plants in the South accounted for 74 percent of the nation's pulpwood production. If you think this means nothing to you, think again because this is fiber competing against you and your suppliers – softwoods as well as hardwoods.

Markets for pulpwood, chips, industrial lumber products, and wood fuel are important to your business. Why? A significant and growing amount of electricity generated in the U.S. is fueled by biomass. And much of that biomass is in the form of densified biomass fuel ... Also known as wood pellets.

According to the U.S. Energy Information Administration (EIA):

- About 85 percent of raw materials for biomass pellets comes from wood waste streams such as logging residues, sawmill residues, and wood product manufacturing residue.
- Roundwood harvested for industrial use accounts for about 15 percent of raw materials.
- EIA's survey collected data from 120 planned and operational densified biomass manufacturing facilities in the U.S.
- These facilities have the capacity to produce 11.4 million tons of densified biomass, annually.

More wood fuel pellet facts to consider:

Utility-grade pellets, used by electric utilities, account for more than 75 percent of the total wood pellet marketplace. Premium pellets used for residential and commercial heating account for the remainder of the market. During the first half of 2016, 82 percent of pellet sales were utility pellets into exports. Increased demand is a real possibility.

Judd's Bottom Line: The challenges and opportunities posed by 'supply and demand' make for interesting business. The good news is that the two primary drivers to the hardwood industry –the economy and housing - are trending in the right direction. Balancing production with growing demand for grade lumber, without exceeding decreasing demand for industrial products, will be key.