A TIMO PERSPECTIVE OF WEST COAST AND SOUTHERN US SOFTWOOD SAWLOG MARKETS

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Overview of Campbell Global, LLC

- Founded in 1981 and headquartered in Portland, Oregon, USA
- Business focus: Timber and timberland resources
- Employ more than 165 staff members in 13 US states, Australia and New Zealand
- Timber Industry Management Organization (TIMO):
  - Source and structure timberland investments for clients
  - Manage client-owned timberland
  - Market and sell clients’ timberland investments
MANAGED TIMBERLANDS
1.7 million acres (0.7 million hectares) | U.S. $4.8 B*

*Source: Campbell Global (as September 2018). All numbers are approximate values.
Some major themes

- **Sources of future demand**
  - Mass wood construction technology

- **The US South: A rising nexus of North American timber supply**
  - Changes in growing stock
  - Attractive sawmill margins
  - Vigorous processing investment

- Potential impacts of China’s import tariffs

- Timberland transaction activity
USA is a net importer of softwood lumber

Data are in units reported by source. 1 Mbf sawn timber equals 2.36 m$^3$ full sawn volume or 1.57 m$^3$ actual volume. 1 Msf (3/8" basis) equals 0.89 m$^3$. 
US softwood lumber consumption on an expansion path

- Income growth and demographics underpin future consumption
  - Remodeling share increases as housing stock ages
- Consumption to expand fastest in US South

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Changes in regional production and consumption

- Demand in US South moves to balance supply
- Canadian imports increasingly directed to US Central and Northeast regions

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Mass timber construction: A source of potential sawlog demand?

• What is mass timber construction?
  – Using solid wood panels and beams for structural framing, e.g.,
    › Cross laminated timber (‘CLT’)  
    › Glue laminated timber (‘Glulam’)  
  – May be used with steel and/or concrete

• Potentially accretive source of demand
  – Significant market penetration will take time
A developing story: Fully Integrated Offsite Construction

Spans the entire construction supply chain
• Emerging as a potentially cost-effective solution to:
  – Shortage of skilled labor and declining labor productivity

Index of US Change in Labor Productivity
Construction vs. Overall Economy

Source: McKinsey Global Institute, Reinventing Construction Through a Productivity Revolution

PERCENT OF BUILDERS REPORTING LABOR SHORTAGES IN 2017

Source: NAHB
A developing story: Fully Integrated Offsite Construction (cont.)

• Other advantages:
  – Automation = speed, consistency, less labor training
  – Waste reduction
  – Procurement efficiencies
  – Not subject to inclement weather conditions
  – Improved construction safety

• Not there yet though
  – Needs highly uniform lumber feedstock

Source: NAHB
Deferred timber harvest, and ...

Maturing age classes

Data are in units reported by source. 1 Mbf International ¾” rule log volume equals approximately 5.8 m³.

Data are in units reported by source. 1 ha = 2.47 acres.
Cheap logs, high lumber prices: Boon for Southern sawmill margins
Both greenfield and brownfield capacity expansions
The Canadian invasion: Merger and acquisition frenzy
But US South timber supply moving back into balance with demand
Export logs: China’s fiber demand likely not a passing fad

Historical and projected demand for imported timber in China: Estimated supply deficits by major end use category

Source: RISI, 2017
Even with tariffs, US South remains cost-competitive supplier

Note: Full tariff rates are applied to US-sourced logs
Positive log price outlook for US West Coast and US South

- Lumber demand driven by US housing recovery and remodeling
- Log demand and supply are balanced in US West Coast region
- Log demand and price recovery in the US South awaits:
  - Accelerating log demand, in conjunction with
  - Tightening SPF sawn timber supply from Canada
  - Timing could be closer than many think
- Export log demand
  - Tariffs expected to have only a modest impact
Discount rates are compressed
  - Product price expectations
  - Demand for/Availability of investment opportunities

US timberland transactions: A very competitive market place!
Questions are welcome