



10 Predictions for Wood Consuming Industries in 2015

By Pete Stewart, President and CEO of Forest2Market

1. The sleeping giant will awake to biomass demand.

For years, the pulp and paper industry's attitude toward bioenergy demand has shifted between head-in-the-sand and wait-and-see. In 2015, this sleeping giant will awaken as pockets of the US South experience significant price appreciation, the result of increased competition.

2. Pine fiber supply will be tight and get tighter.

There will be no easy way out of tight pine fiber markets in 2015. Pine fiber demand from pulp/paper mills, OSB mills, small log sawmills and pellet manufacturers will ratchet higher. It will be at least a decade, when trees planted after years of delayed sawtimber harvests will be ready for a first thinning, before supply restrictions abate.

3. Conflict between new entrants and old will come to a head.

New entrants are likely to face stiffer resistance to plans as forest products companies take a more active role in protecting their supply.

4. The pellet industry will grow because demand is tied to regulation, not economics.

The industrial wood pellet industry will continue to grow despite the availability of much cheaper oil and natural gas because demand is tied not to these economic harbingers but to regulation. The extent of this growth will be determined once UK and EU requirements for sustainable biomass are clarified.

Based on missed deadlines for previous announcements on matters of sustainability, I have no prediction about when that might happen.

5. The strong US dollar will inhibit exports.

Despite the feeling of many economists that the US dollar might be in trouble in 2014, the USD is actually in a strong position as the year closes. This will continue throughout 2015 and most of 2016. The downside, of course, is the crimp the strong USD puts in the competitive position of US manufactured goods around the world.

6. Weakening world economies will mean increased imports of wood and paper products to the US.

Most other economies around the world are experiencing slower growth or contractions, and that means their manufactured goods will be good buys in the US.

7. No rebound in solid wood, on top of increasing imports, will degrade the economics for lumber mills.

The housing market has stalled at 1 to 1.1 million starts (SAAR) annually. And we don't see this getting significantly better in 2015 or 2016. Profitability at lumber mills will come under pressure as a result.

8. China still drives the train, but the train will have fewer cars.

China's economy continues to dominate world markets, but growth has slowed. It will continue to slow in 2015, leading to lower demand for pulp, logs, lumber and recovered fiber from suppliers across the world. With European economies in the doldrums, these suppliers will look to the US markets as a place to off-load these commodities.

9. The Brazilian economy will weaken further in 2015.

Along with a weaker Real and slack domestic markets, Brazilian solid wood producers will look to the US to move product. New hardwood kraft pulp production coming on line will seek a home in the US, putting further pressure of the US hardwood pulp producers.

10. Wood-based biofuels and biochemicals markets will begin to toddle in 2015.

These markets are currently in their infancy, equivalent to the size and shape of the pellet market in 2008. The fundamentals are favorable, however, so they may just find their feet in 2015.

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