



MARKET SNAPSHOT FOREST PRODUCTS

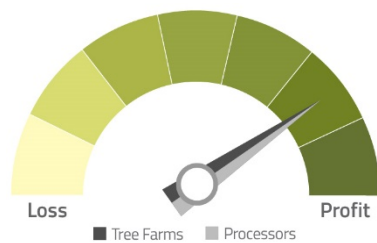
Sept. 30, 2021

Executive Summary

Drivers for the forest products industry include a sharp correction in finished product pricing, stable log prices and relatively robust housing starts.

- Prices on the finished product side have plummeted, with lumber dropping over 70% from June to August.
- Builder sentiment remains elevated and housing demand is strong.
- Although log prices declined slightly with finished product prices, strengthening is expected for the rest of the year.

12-Month Profitability Outlook



Northwest FCS' 12-month outlook expects solid profits for forest products manufacturers, although down from recent records. Timberland owners are also expected to be profitable. There has been an avalanche in pricing from the processing perspective; however, several key factors point to continued demand for finished wood products. Despite a small reduction in log pricing following the drop in finished products price, timberland owners are optimistic pricing will strengthen throughout the rest of 2021.

Supply

Logs

Fire salvage is nearly complete in most of the West, clearing out the glut of burnt wood present in the market for the last twelve months. This conclusion has shifted mill's focus towards green logs in recent months where demand is high for large diameter logs since inventories are still full of small diameter salvage logs. Mill log inventories went from adequate to plentiful as fears of fire season shutdowns had mills building inventory. However, fire season turned out to have limited impact and reduced demand due to finished product's price drop has bulked up mill inventories.

Lumber

Plywood, lumber and OSB production steadily increased over the course of the pandemic to levels not seen since the run up that occurred in 2018. Supply for finished products reached new levels of tightness in June and pricing became unbearable for consumers. Mills went from running at near full capacity, with labor shortages being the only limiting factor, to curtailing production in only a couple of months.

Demand

Logs

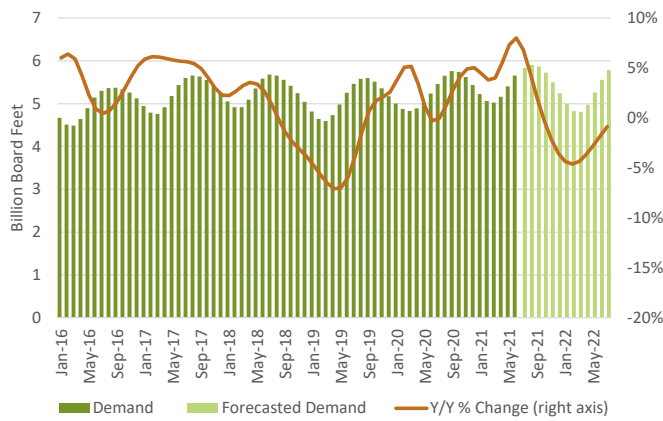
Demand for green logs has become an increasingly higher priority for mills, especially in larger diameters and specialty grades. This transition away from burnt wood in recent months has been met with softening demand in

the lumber and panel markets. Market participants are optimistic demand will increase through the fall and winter as high-priced finished products inventories are cleared out and new orders are placed.

Lumber

Demand for lumber is forecast to rebound from the relatively average current levels. Increases are probable because of anticipation for a continued strong housing market due to low interest rates, record low inventory of homes for sale and consistently high builder confidence. Housing starts are the largest catalyst for lumber demand. Starts remain strong at a seasonally adjusted annualized rate of 1.57 million through August. Although housing starts, sales and permits have started to drop and might continue in the coming months, this is likely due to seasonality.

North American Lumber Demand



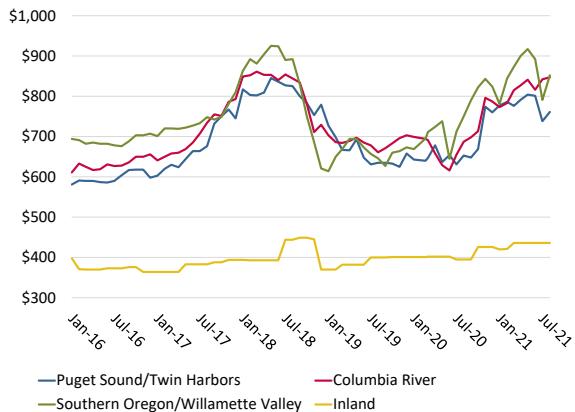
Source: Forest Economic Advisors.

Pricing

Logs

Log prices have been variable in recent months. July saw an increase in pricing with the anticipation of another dangerous fire season. Prices reduced slightly in August and into September as finished products pricing plummeted. Fortunately for timberland owners, the dip in log pricing is magnitudes smaller than those seen on the lumber and panel side and are anticipated to be short-lived.

Doug Fir Log Prices

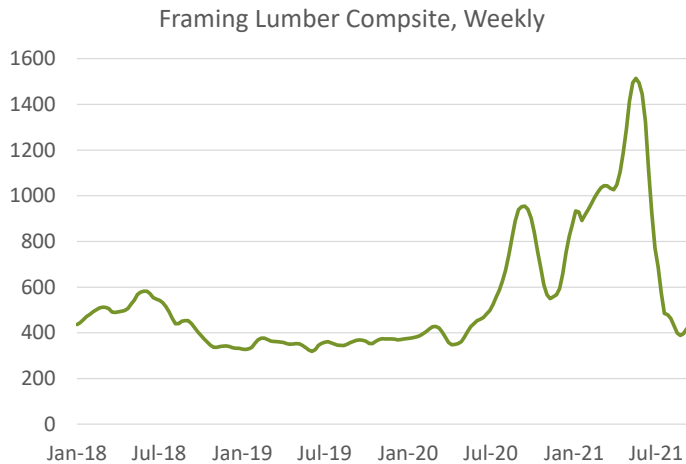


Source: RISI Log Lines.

Lumber

Lumber pricing dropped drastically, over 70%, from June to August; OSB and plywood saw 50% and 40% drops respectively for the same time period. Prices are projected to bottom out in September as North America wraps up summer holidays and suppliers push out the last of their now overpriced inventory. October pricing will likely remain low but begin to strengthen modestly through year-end.

Framing Lumber Composite, Weekly



Source: RISI.

Profitability

Logs

Although pricing has softened slightly in the last few months, pricing remains profitable. Landowners will see moderate profitability throughout the rest of the year, as log prices are anticipated to increase slightly from September levels with mills needing logs to fill new orders.

Lumber

Even with the drop from record pricing throughout the third quarter and stagnant sales projected for the rest of 2021, annual profits have already been record breaking. Going forward into 2022, finished product prices are anticipated to stabilize at a slightly higher level than those seen prior to the pandemic. This will result in continued profitability for manufacturers, albeit drastically lower than that seen in 2020 and 2021.

Additional Information

Northwest FCS Business Management Center

www.northwestfcs.com/Resources/Industry-Insights

Forest Economic Advisors (FEA)

www.getfea.com

Random Lengths

www.randomlengths.com

Fastmarkets RISI Log Lines

www.risiinfo.com

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