

## Southern Group of State Foresters – Issue Paper

### **Subject:**

#### **Changing Markets**

### **Situation:**

While the Southern United States is the fastest growing region in the Nation, it is also more rural and has a lower median income when compared to the nation as a whole. The South has abundant timber resources and has continually accumulated inventory for the past fifty years. The South has historically had successful markets for its timber resources and in 1999 provided five and a half percent of the total jobs in the South and thirty-nine percent of all wood products jobs in the United States. Over the past ten years, capacity for lumber production has remained strong while capacity for paper production has declined. Changes in domestic consumption and international trade have shifted timber demand. Closure of older pulp and paper mills has influenced the spatial arrangement of timber markets and in some cases has adversely impacted local economies. Also, large scale divestiture of forest industry land is expected to be an important factor in shaping supply and demand relationships in the future. By contrast, the production of engineered wood products is continuing to grow and long term forecasts for the timber economy predict an expansion of domestic timber demand. Opportunities for the development of markets for non-timber goods and services, i.e. ecosystem services, may also be emerging and provide additional opportunities for investment.

Strengthening existing and developing new markets for forest products and services will be essential incentives for the 5 million private forest landowners in the South to keep their forested acreage in healthy forest cover.

### **Background**

At the request of the Southern Group of State Foresters, a study was conducted under the leadership of Southern Research Station<sup>1</sup> to analyze recent timber market trends in the South. Timber supply, demand, prices, imports and exports were evaluated to better understand relationships to future market behavior and timber productivity in the South.

The study found that softwood pulpwood markets (and prices) declined significantly since the late 1990's due to loss of exports, decreased domestic demand, and loss of pulpmill capacity (16%) in the South. Markets for sawtimber (hardwood and softwood)

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<sup>1</sup> Wear, D.N. et al, The US South's Timber Sector in 2005: A prospective analysis of recent change, Southern Research Station, USDA Forest Service, 2005.

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remained relatively steady over the same period. As a result of these dynamics, total timber production declined by 9% between 1998 and 2002.

Though understanding demand is critical to understanding markets, it is also necessary to understand whether there is likely to be an adequate supply of timber to meet forecasted demand. Supply of domestically produced timber products expanded since the late 1990's, but future supply will be affected by several forces of change. For example, forest loss due to urbanization and urbanization pressures will be high in the South, especially along the coasts, in the Piedmont and near metropolitan areas of numerous states. Net loss is predicted to be as many as 31 million acres over the next 30 years. There has been a decline since 1990 in afforested agricultural lands. Between 1995 and 2005, more than 50% of industrial forest land had been divested to TIMOs and others. While much of this land remains in timber production, its long term timber production potential is unclear.

Depending on emerging markets for bio-energy and possible new governmental incentives for tree planting, additional plantation establishment is possible. This includes hardwood plantations, which have heretofore been extremely rare in the South. On the other hand, relatively strong sawtimber prices, stagnated pulpwood prices, and changing landowner objectives could favor longer rotations and larger product sizes.

The viability of markets for other ecosystem services (water, view-scapes, carbon sequestration etc.) is yet to be determined. Among them, markets for carbon would likely be of regional scale, while others may be more limited in scope.

### **Relevance to the South:**

Considering the aspects of timber supply and demand addressed in the referenced study, there are several compelling forces of change likely to be of consequence to timber markets in the South. Though there has been a decline in domestic production and per capita consumption of certain timber products as well as a significant reduction in international demand for timber products produced in the United States (including the South), long term demand for lumber and solid wood products is expected to remain strong. Paper production capacity in the South is not expected to recover to the previously high levels in the early 1990's. And forest ownership and owner objectives are changing rapidly in the region. Considering these and other important forces of change, it is clear that markets for forest products and services of all types are changing; some declining, some growing and some yet to be developed. If the region is to remain one of diverse, healthy and productive forests, it will be necessary to sustain existing markets and actively pursue new ones.