
Recession and the Forest Products Sector: Learning to Live With Reduced Expectations

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Evaluating the Prospects for Recovery

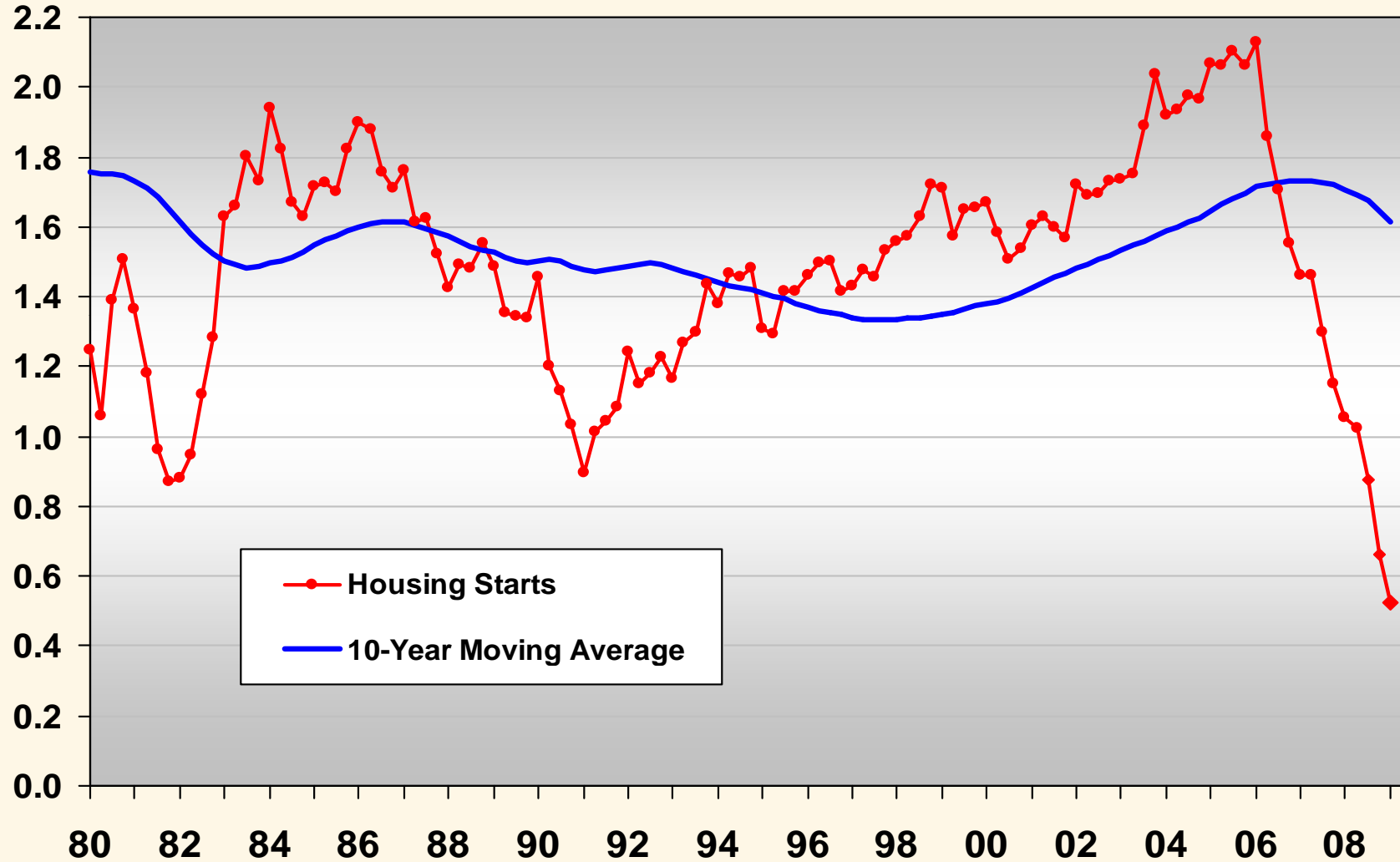
- Product Markets
 - Solid Wood
 - Pulp and Paper

- Market Fundamentals
 - Economic Environment
 - Housing

- Implications for Timber

A Historic Housing Collapse

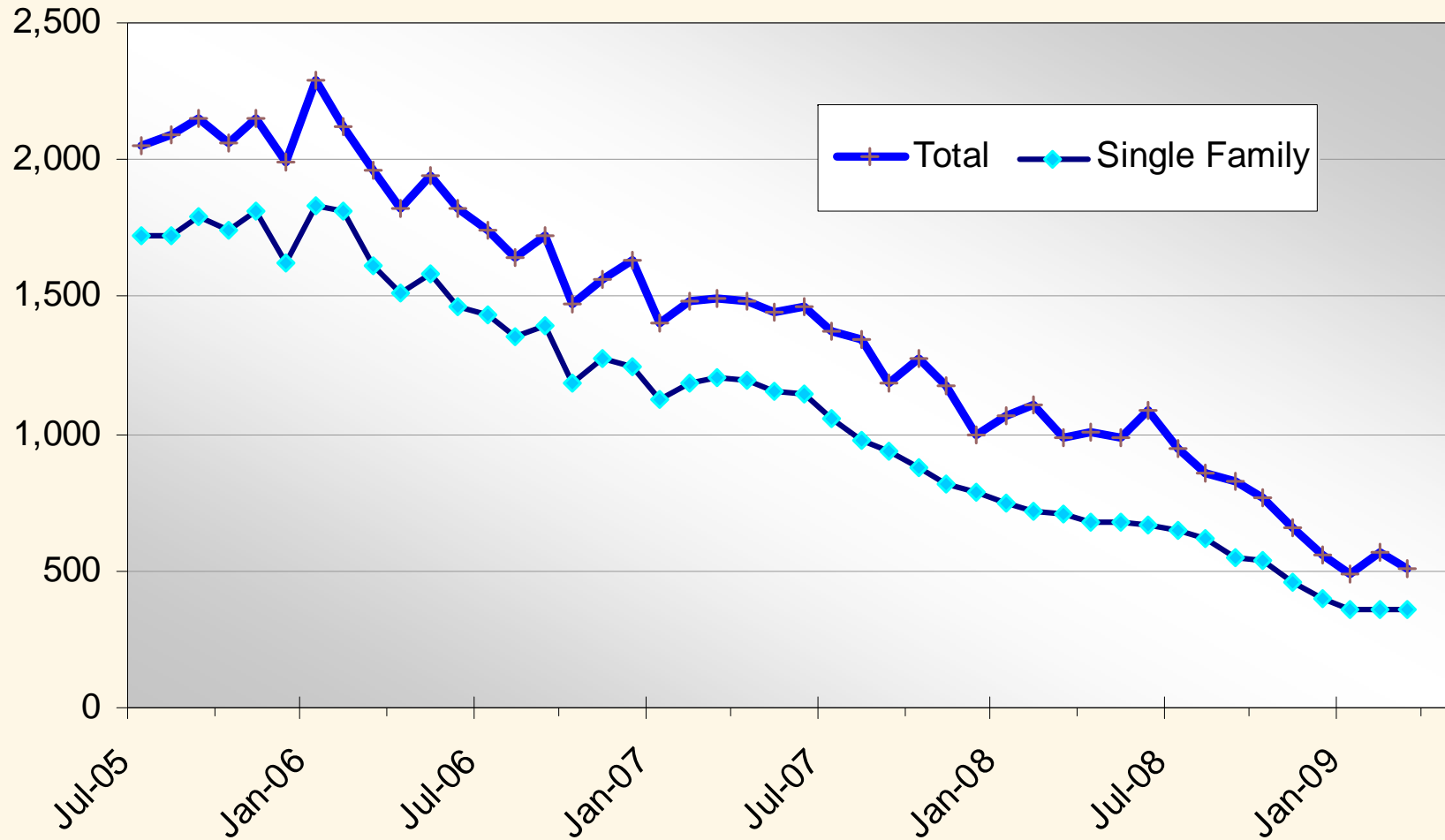
Million Units, SAAR



Housing May Have Already Reached A Bottom

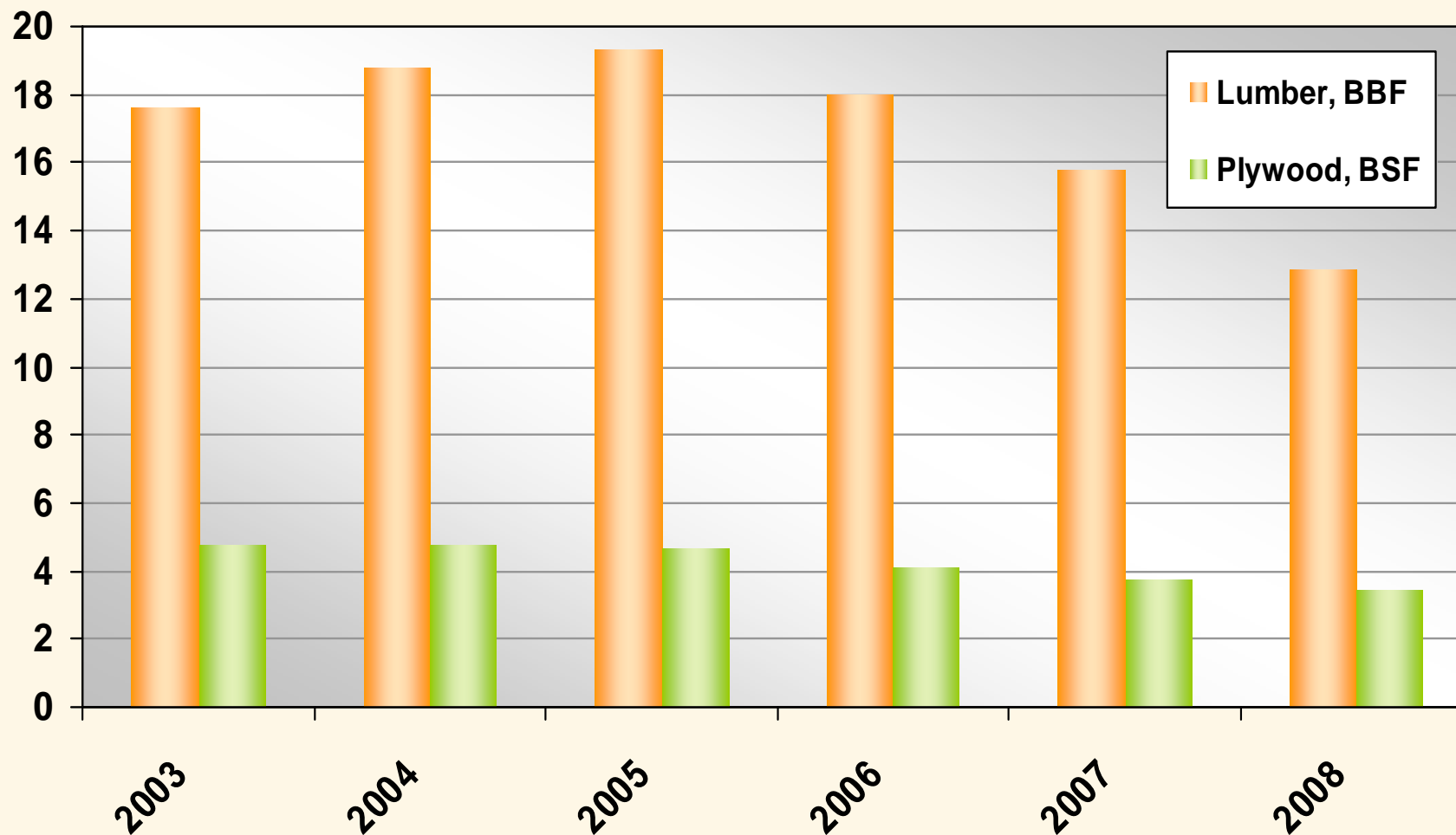
Thousand
Units

U.S. Housing Starts



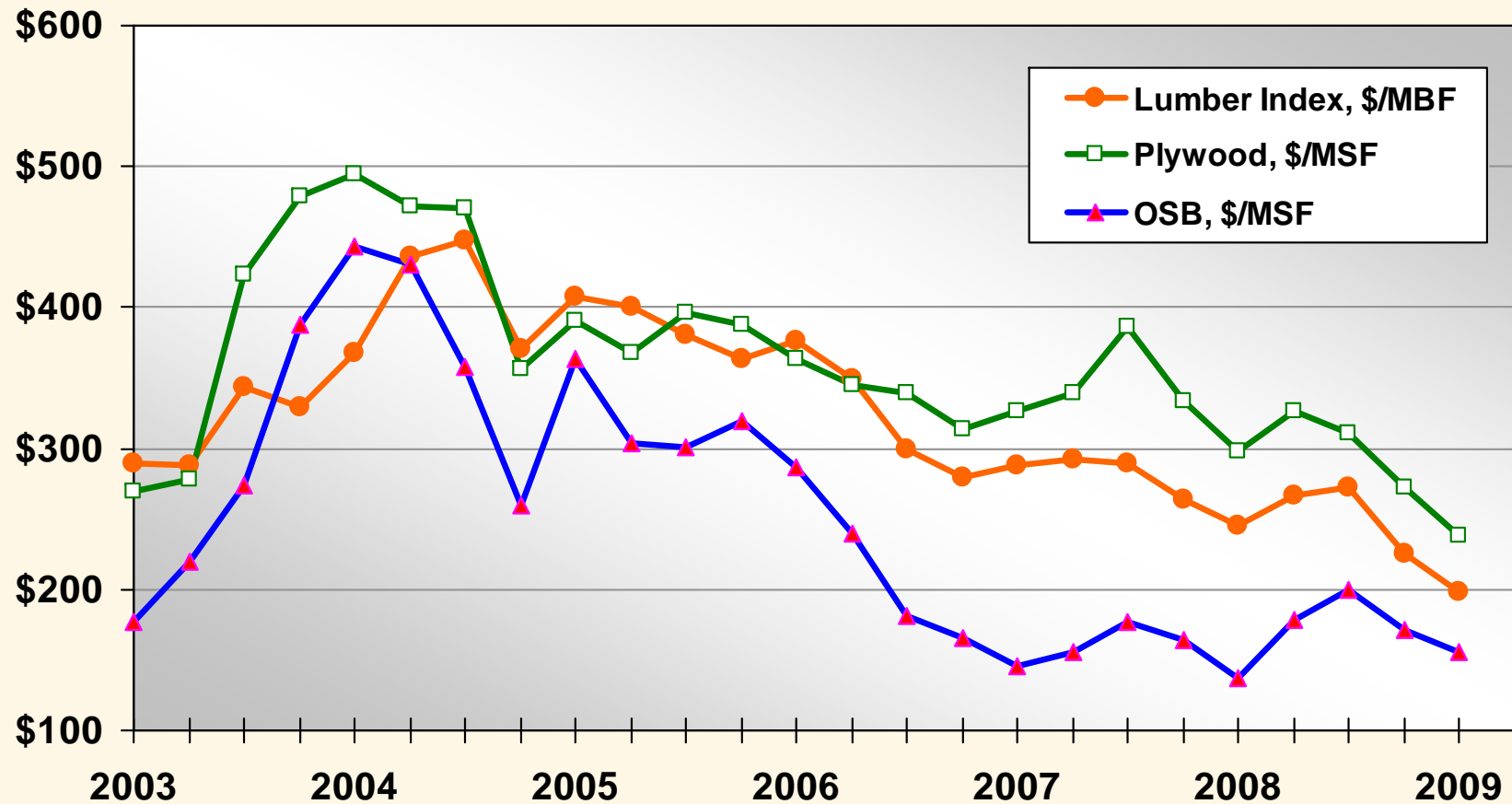
U.S. West - Softwood Lumber and Plywood Production

Billion Units



Source - RISI

Wood Product Prices on a Six Year Slide

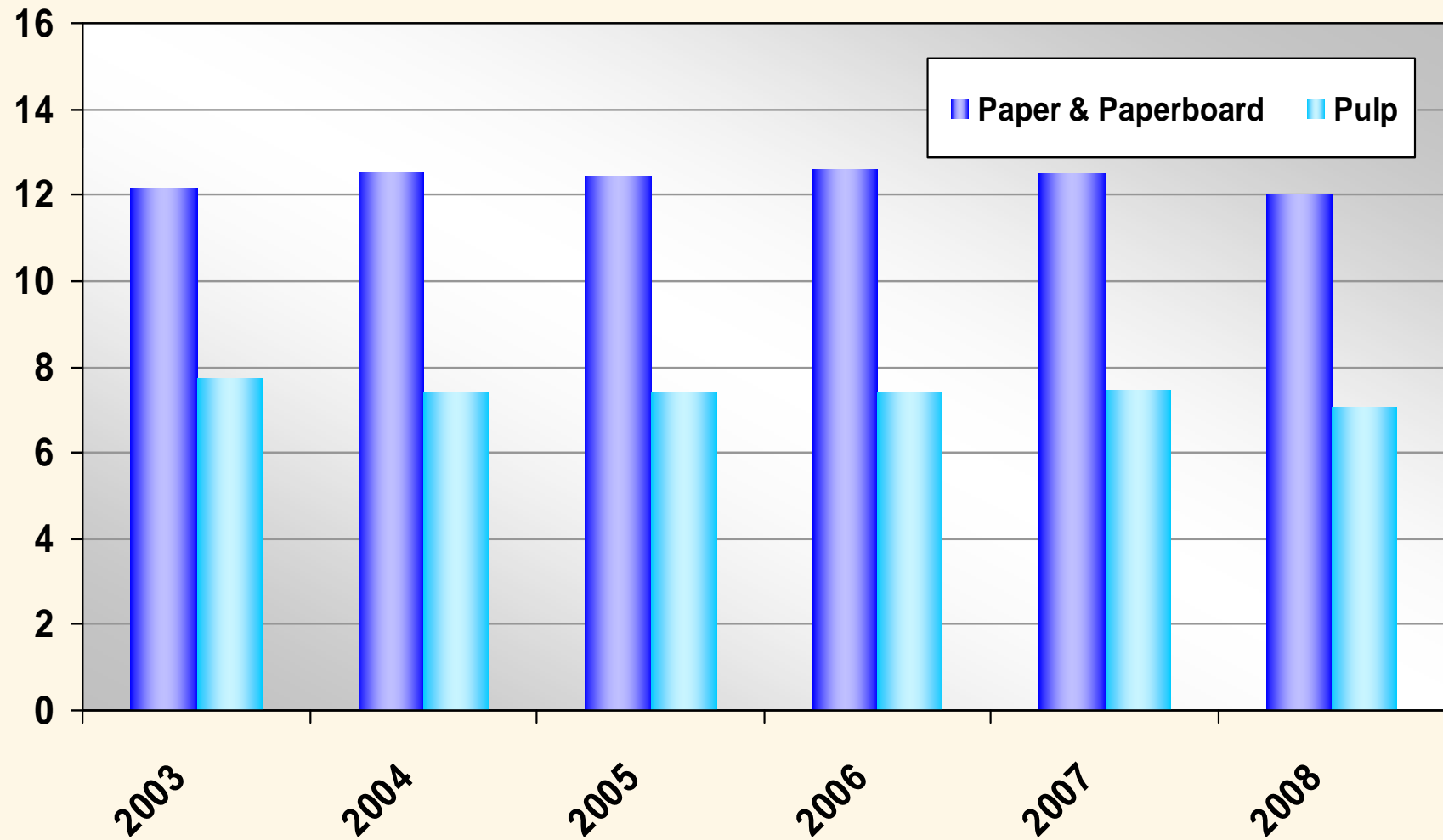


Lumber Index – Random Lengths Composite

Plywood – West, 1/2-Inch basis

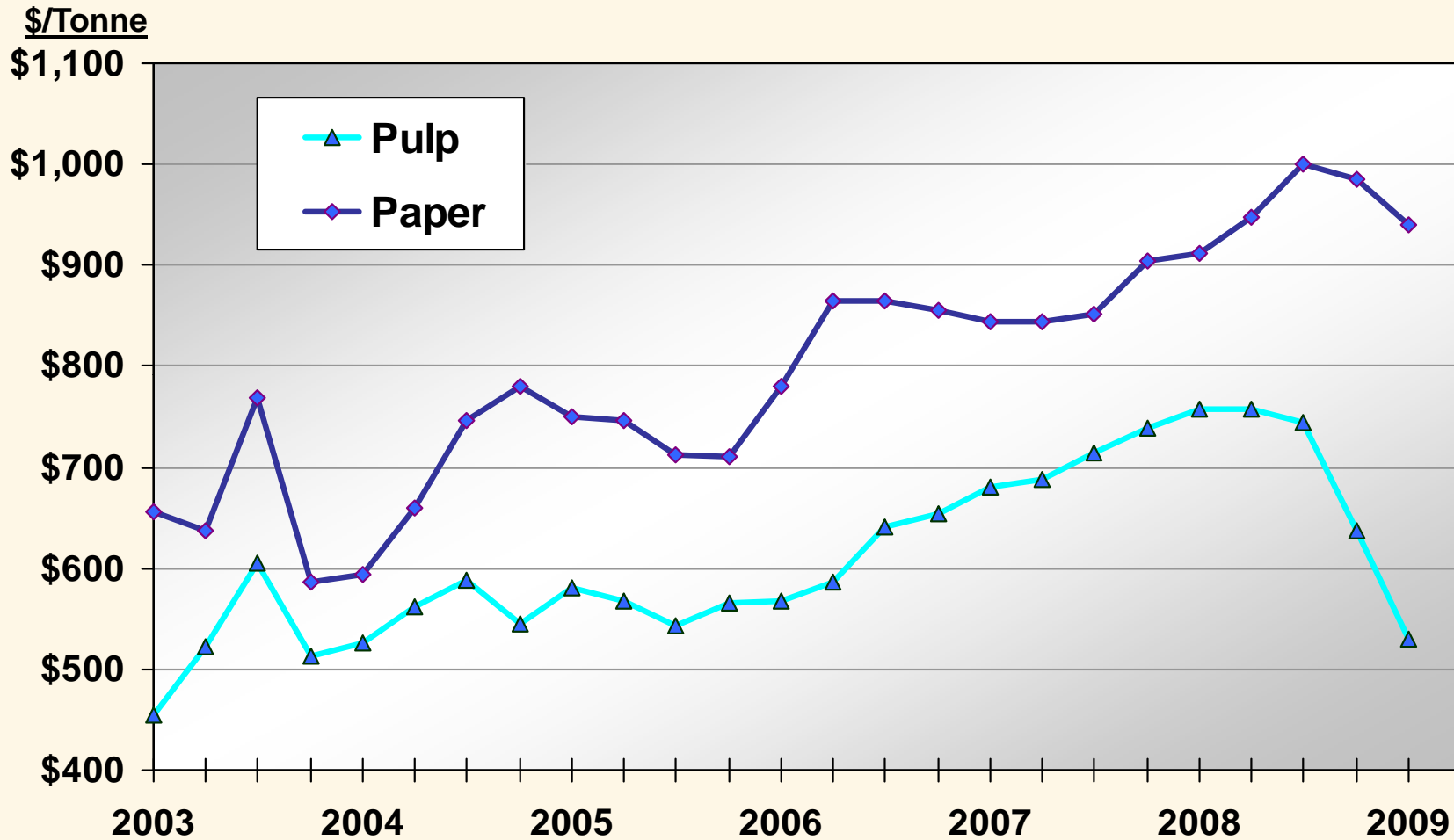
OSB – North Central, 7/16 basis

U.S. West – Paper & Paperboard and Pulp Production



Source - RISI

Pulp and Paper Prices Began Their Retreat in Late '08

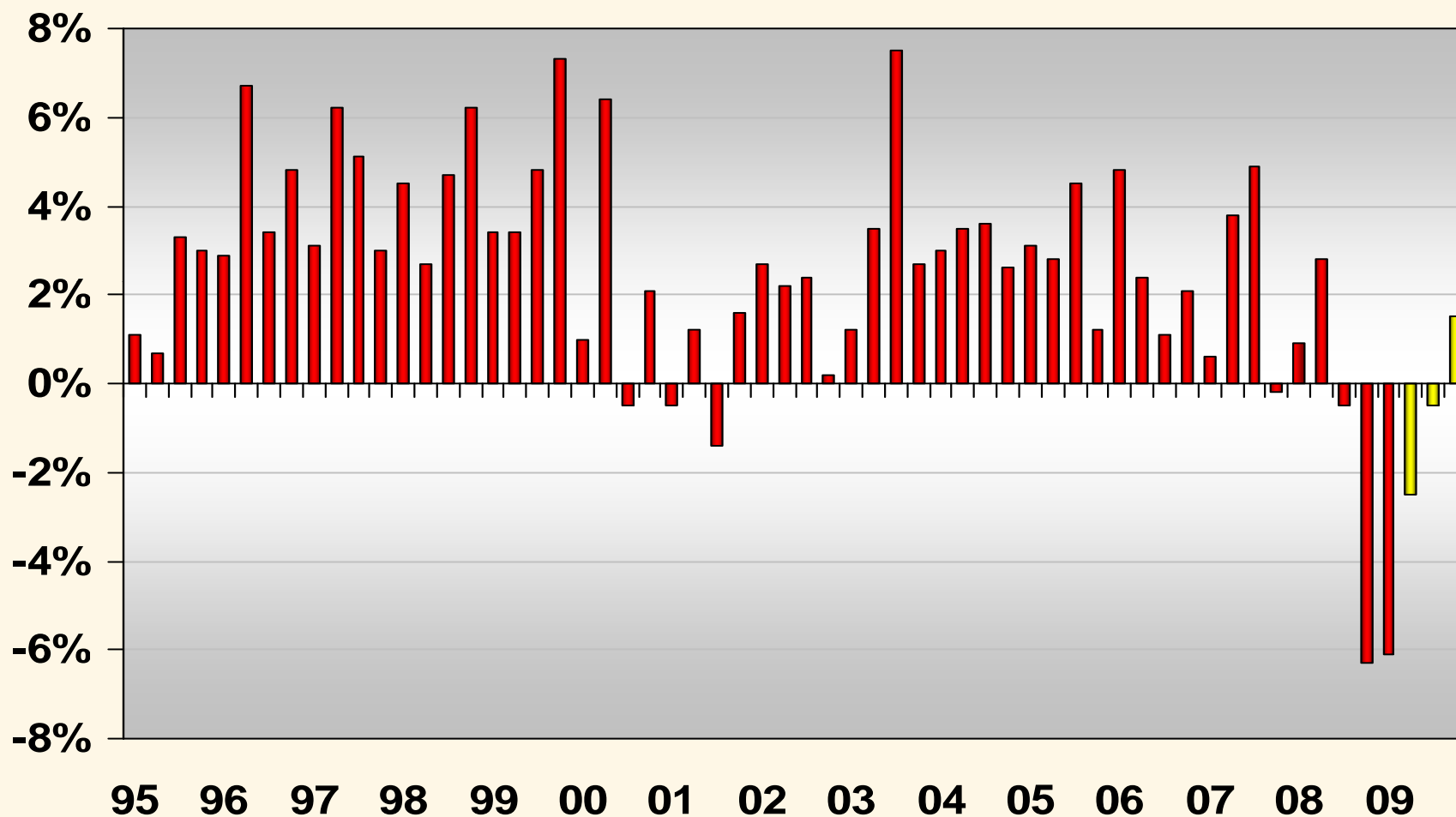


Pulp – Southern Bleached Softwood Kraft

Paper – Uncoated Freesheet

U.S. Economy: A Very Hard-Landing

Real GDP Growth, Annualized Percent Change



Recent Positive (Less Negative) Economic Indicators Suggest a Possible Recovery in Late '09



- Rally in Stock Market
- Housing Stabilizes
- Pick-up in Consumer Spending
- Reduced Inventories
- Increases in Durable/Capital Goods Orders

Obstacles To A Robust Recovery

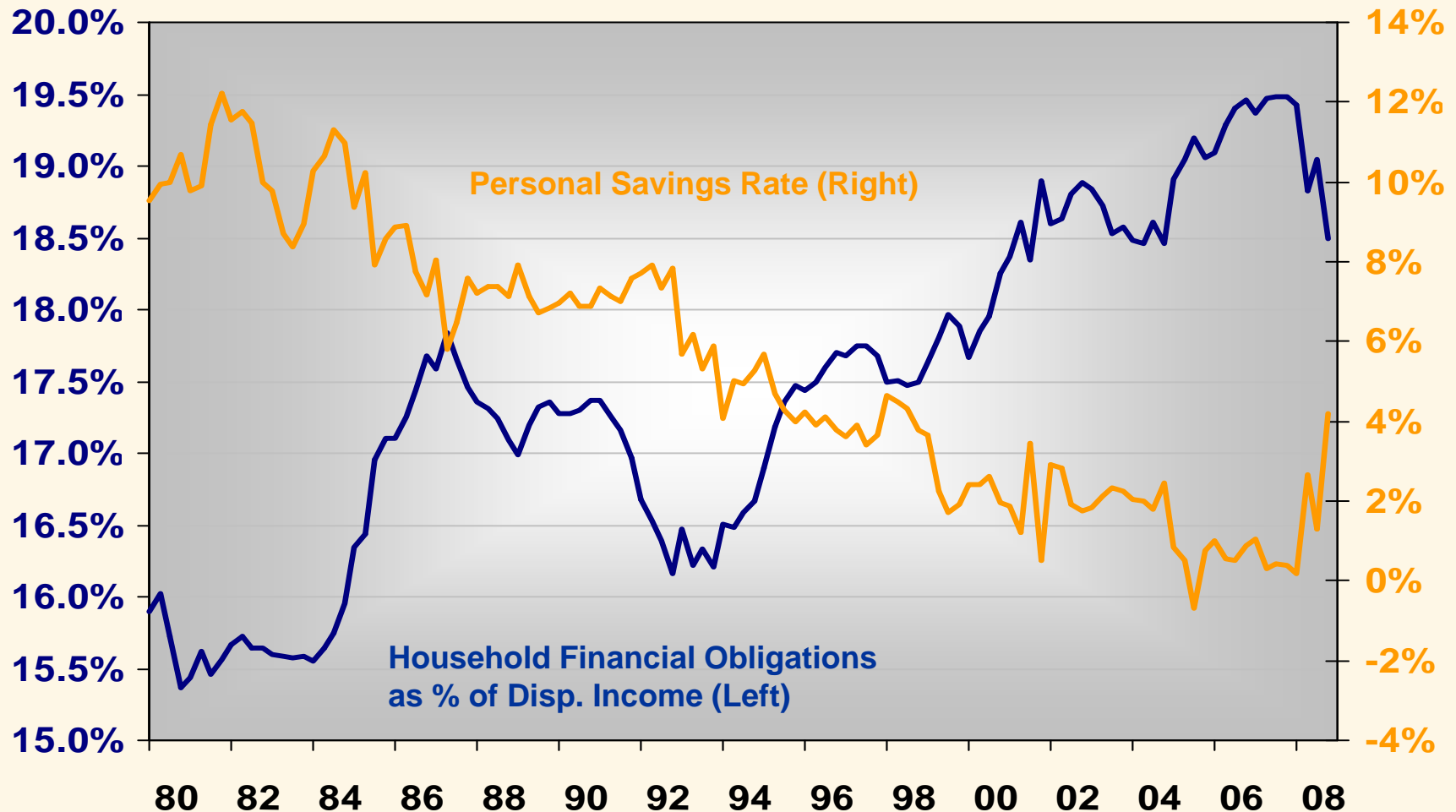
- Economy

- A Constrained Consumer
- Global Scope of Current Recession
- Credit Markets Still Unsettled

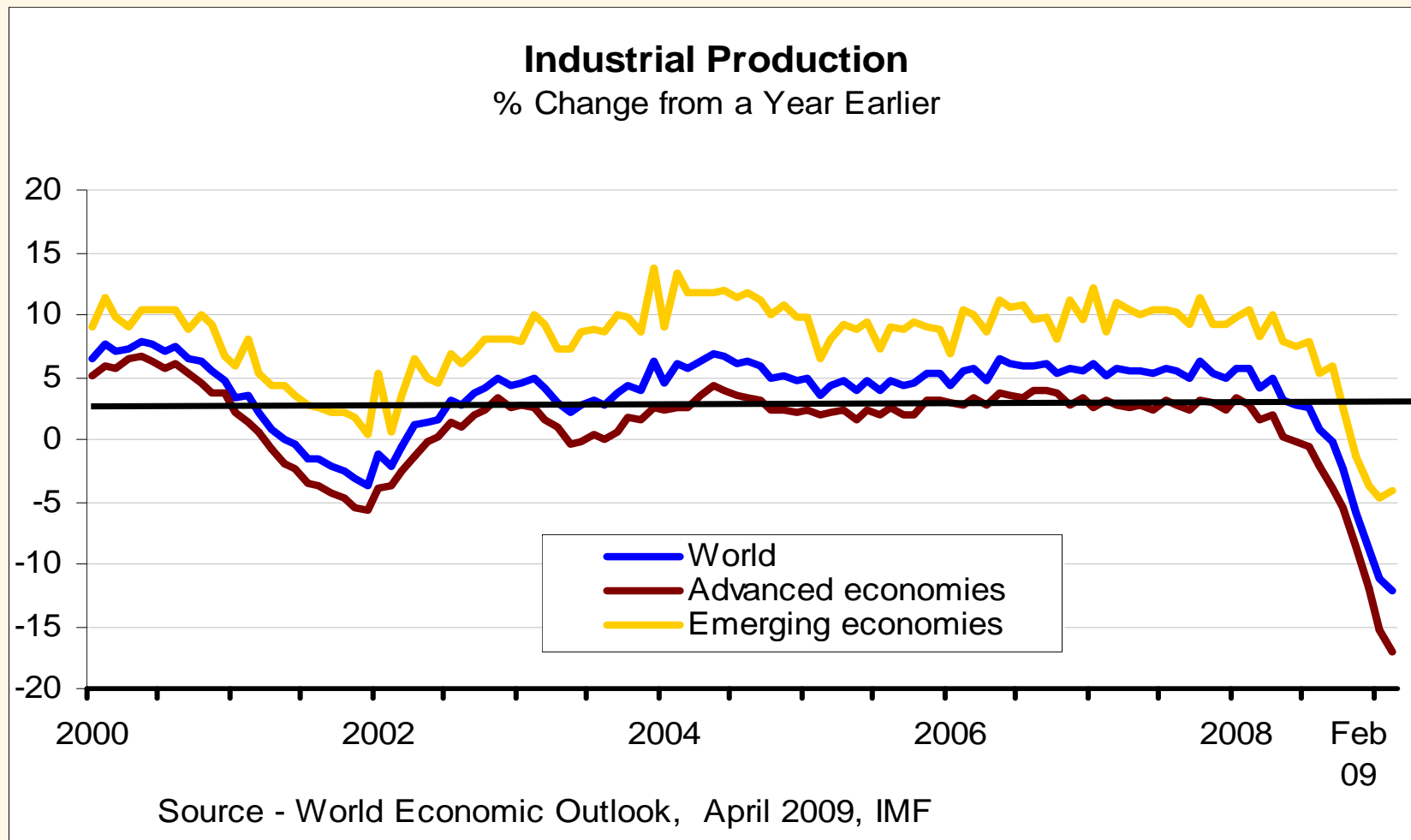
- Forest Products Industry

- No Quick Fix for Housing
- Substantial Excess Capacity in Solid Wood
- Eroding Markets for Graphic Papers

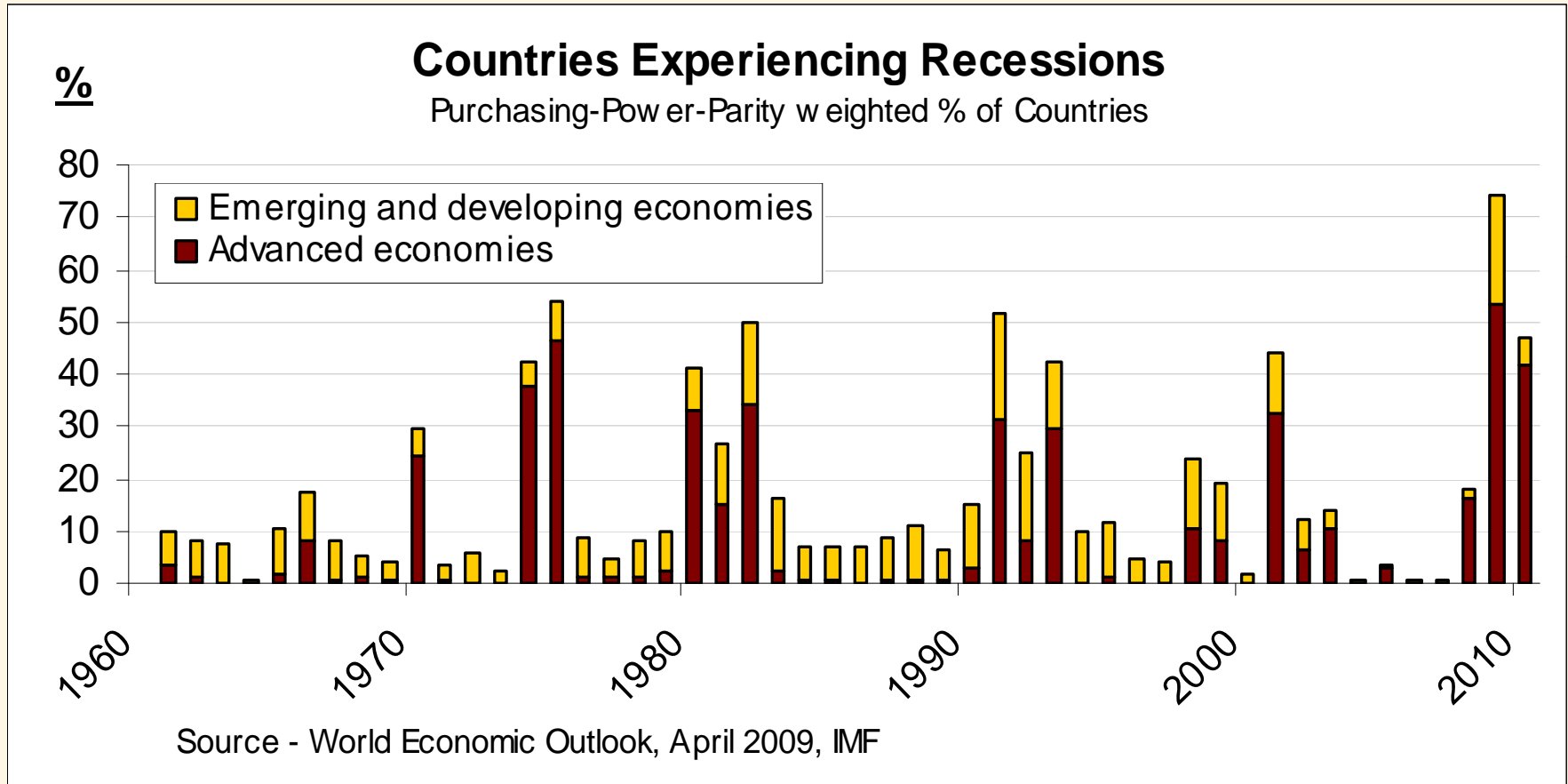
Recession Motivates U.S. Households to Repair Their Balance Sheets



“Most Severe and Synchronized Global Recession in the Past 50 Years”



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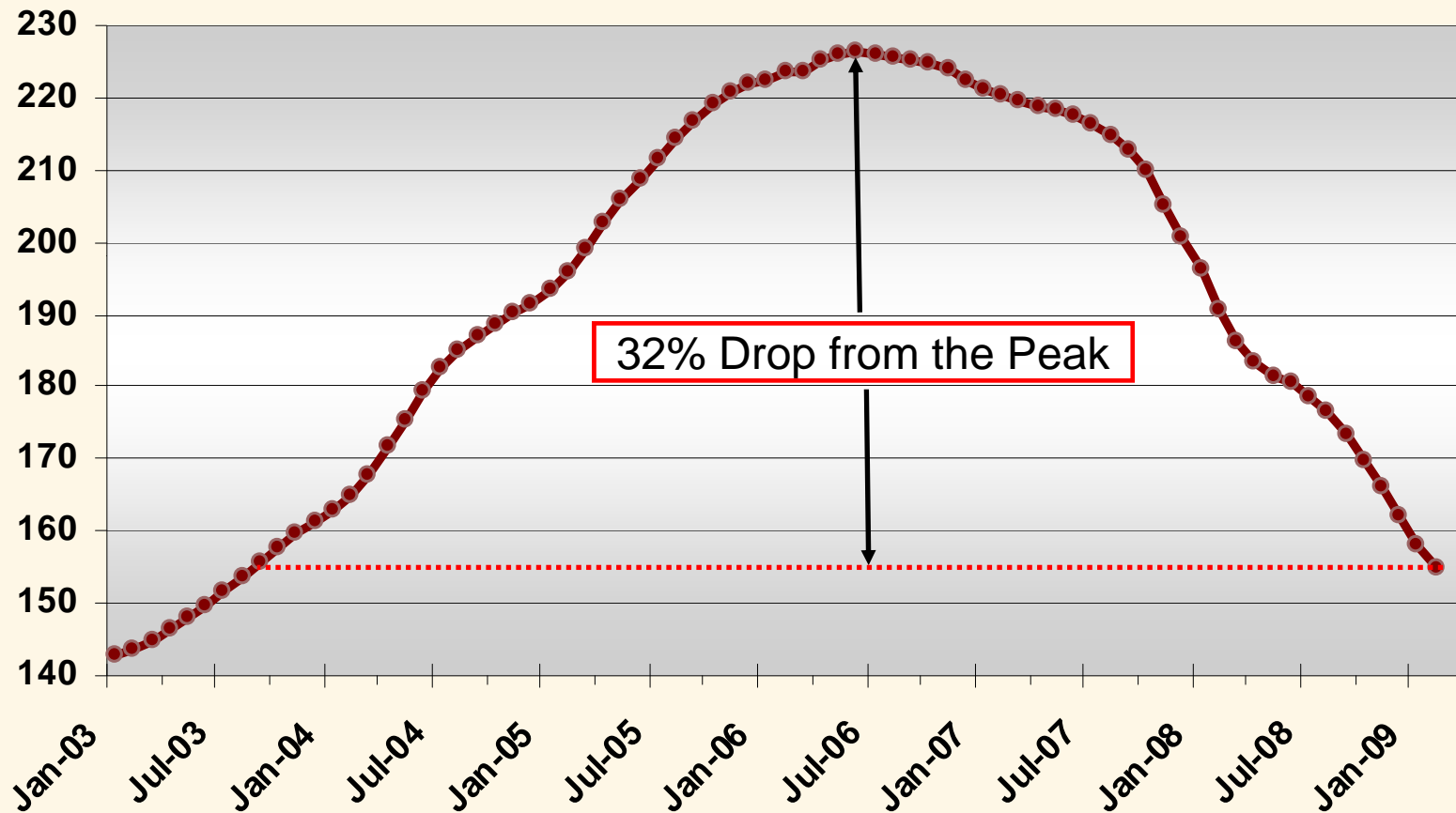
Housing Activity Should Improve in 2nd Half '09

- Groundwork for an Improved Housing Market is Developing
 - ❑ Increased Affordability
 - ❑ Government Programs and Pressure
 - ❑ Reduced Inventories of Unsold New Homes
 - ❑ Pent-up Demand

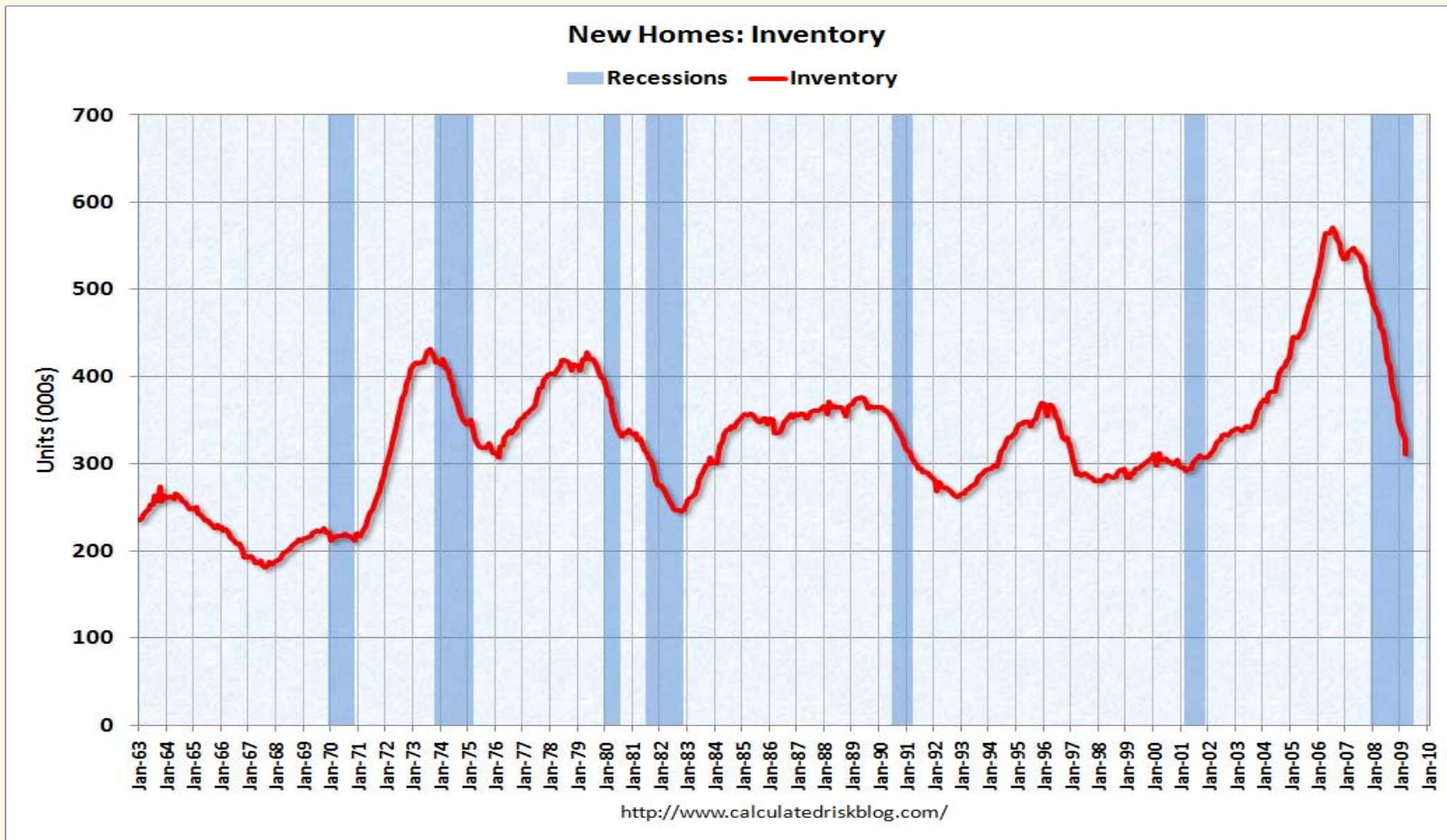
- But, Problems Persist
 - ❑ Foreclosures Still at Record Levels, Boosting Inventory of Existing Homes for Sale and Vacancy Rates
 - ❑ Elevated Unemployment
 - ❑ Buyers on the Sidelines Waiting for Price Bottom

Declining Home Prices Boost Affordability

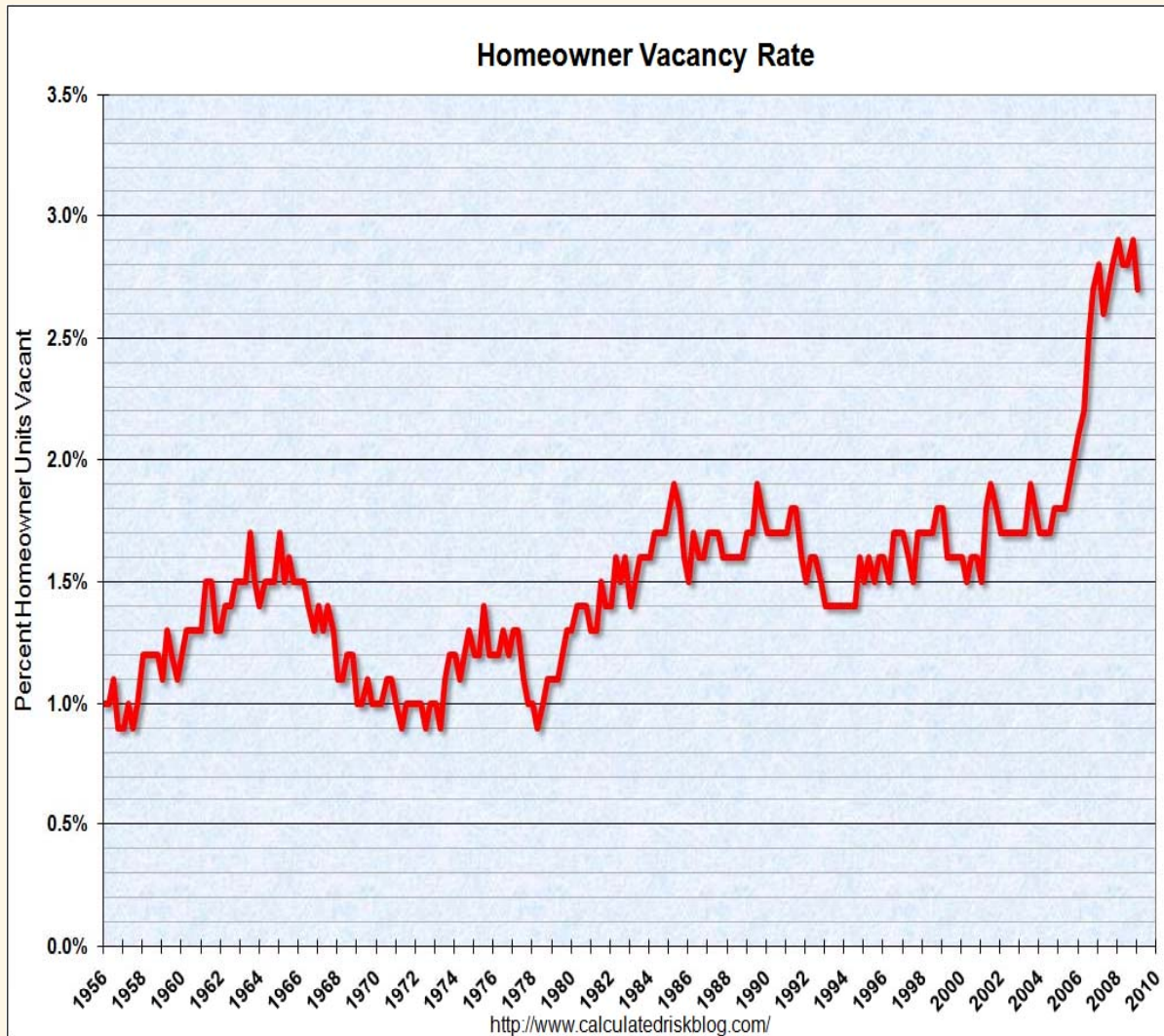
CaseShiller Home Price Index:Composite-10



Overhanging Inventory of Unsold New Homes Is Nearly Back To A Normal Level



But, Still a Significant Surplus Supply of Homes



- Vacancy Rate Currently About 1% Above Normal
- 75 million Homeowner Occupied Homes in U.S.
- Implies 750 Thousand Excess Vacant Homes

A Major Reconfiguration in the Forest Products Sector Is Occurring

- Lumber and Panels
 - Over-Capacity Points to an Extended Period of Tight Margins
 - Further Mill Closures Required to Balance Markets
 - Depleted Cash Reserves and Restricted Access to Capital Will Limit New Investment

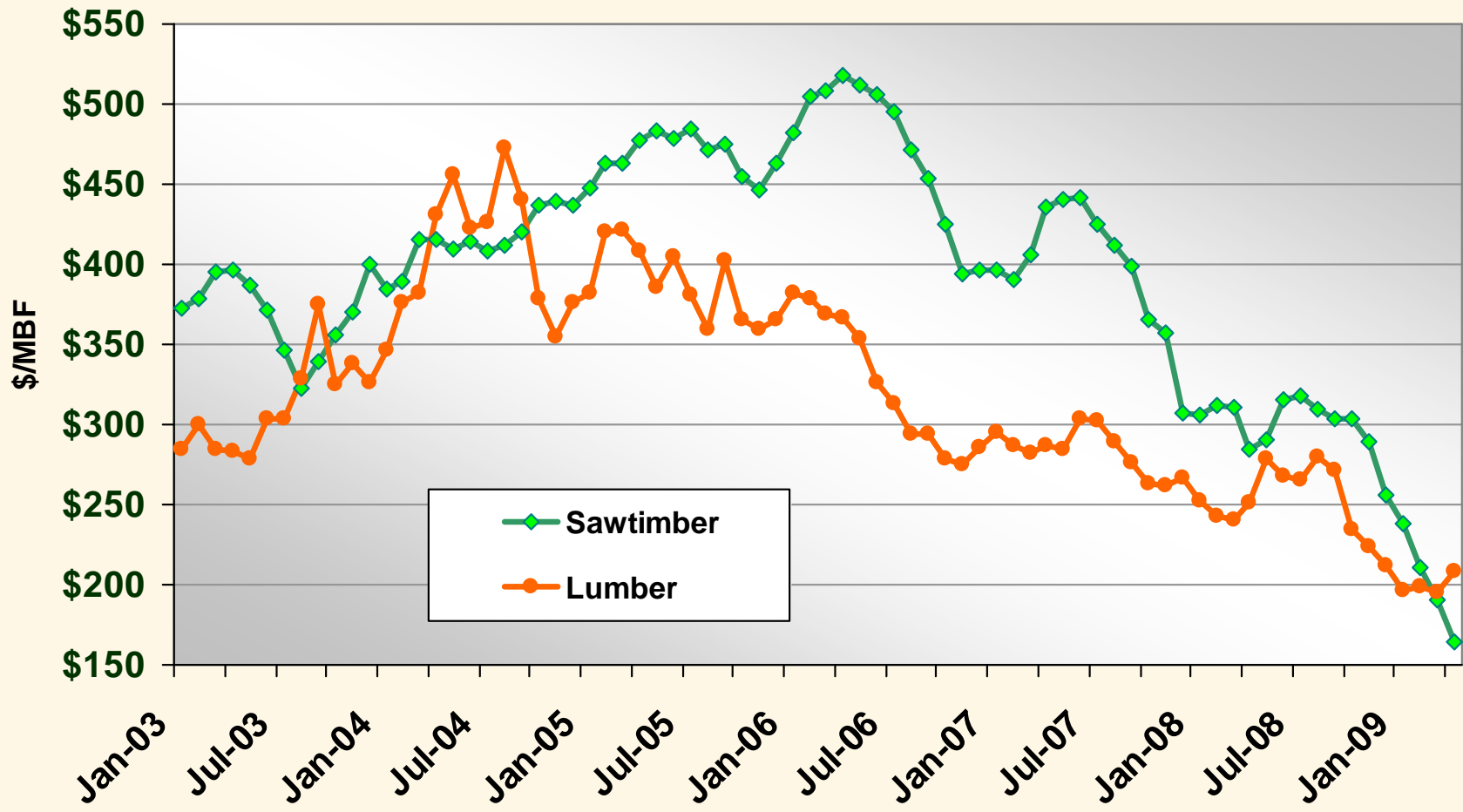
- Pulp and Paper:
 - Slower Demand Growth in Developing Economies
 - Accelerating Shift from Graphic Papers to Electronic Media
 - Highly Competitive Global Markets

- Emerging Markets for Timber
 - Wood-Biomass Energy (Pellets, Electrical Generation, Bio-fuels)
 - Carbon Sequestration

Implications for North American Timber Markets

- North American Sawtimber Demand Will Be Slow to Recover
- Persistent Tight Margins for Wood Products and Pulp and Paper Will Moderate a Rebound in Timber Values
- Rapid Development of Wood-Biomass Energy Will Open Up New Markets for Small and Lower Quality Wood
- Size, Depth and Profitability of Energy and Carbon Markets Highly Dependent on Direction of Public Policy
 - ❑ Climate Change
 - ❑ Energy Security
 - ❑ Forest Health
 - ❑ Air/Water Quality

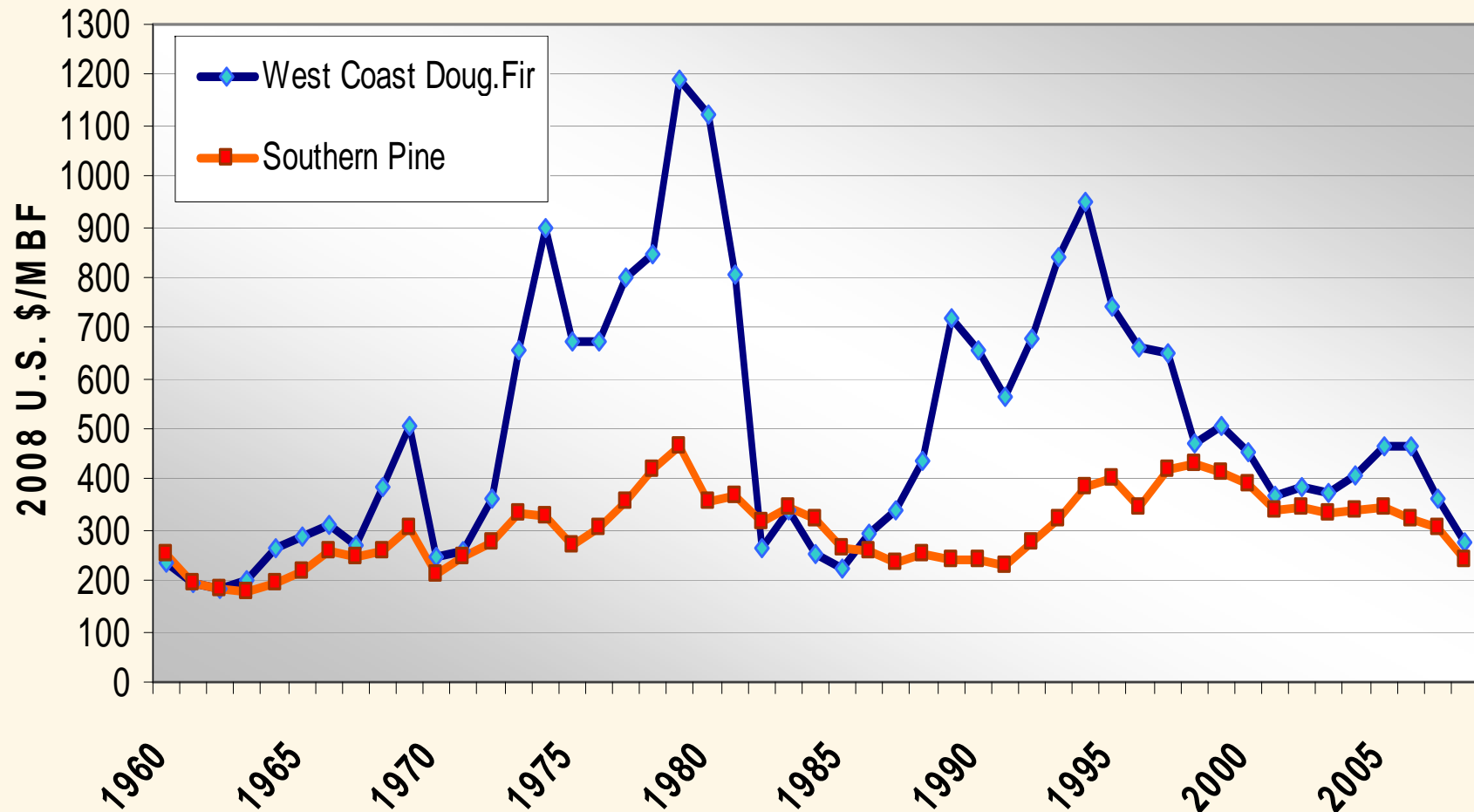
Sawtimber Stumpage Tracks Lumber



Sawtimber – West Coast Douglas Fir
Lumber – RL Composite Index

North American Timber Prices Heading To A 50 Year Low

Inflation Adjusted Stumpage Prices, 1960-2008



Take Away Points:

- Glimmers of Improved Markets, but Challenging Conditions Are Likely to Extend Well into 2010

- Fundamental Changes Are Reshaping the Forest Sector
 - Players
 - Products
 - Policies and Regulations

- Survival Will Require Darwinian Responses
 - Adaptation
 - Innovation