



The Hardwood Report

2015 in Review

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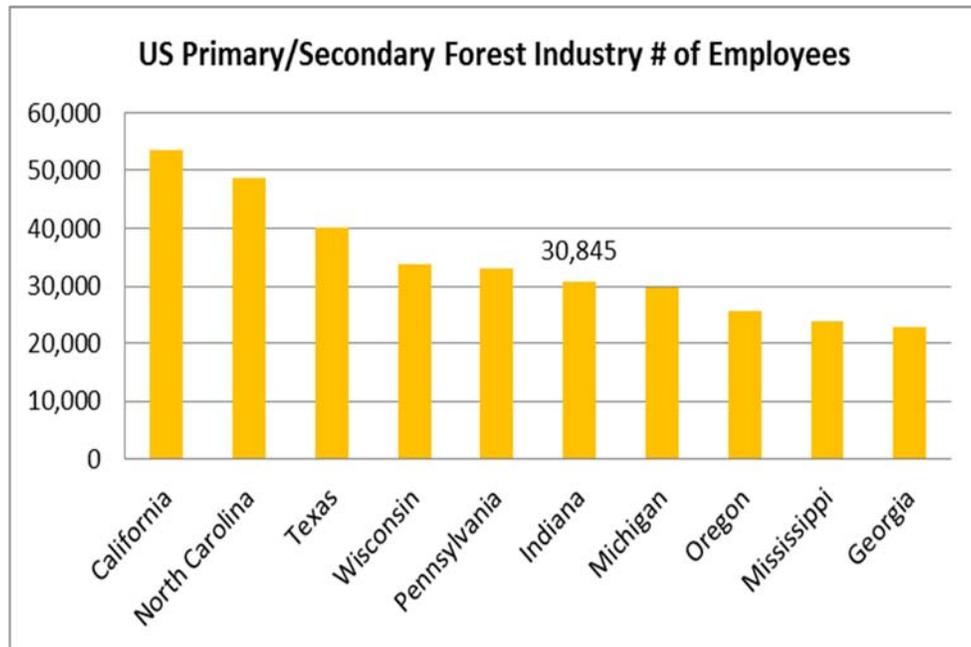
Introduction

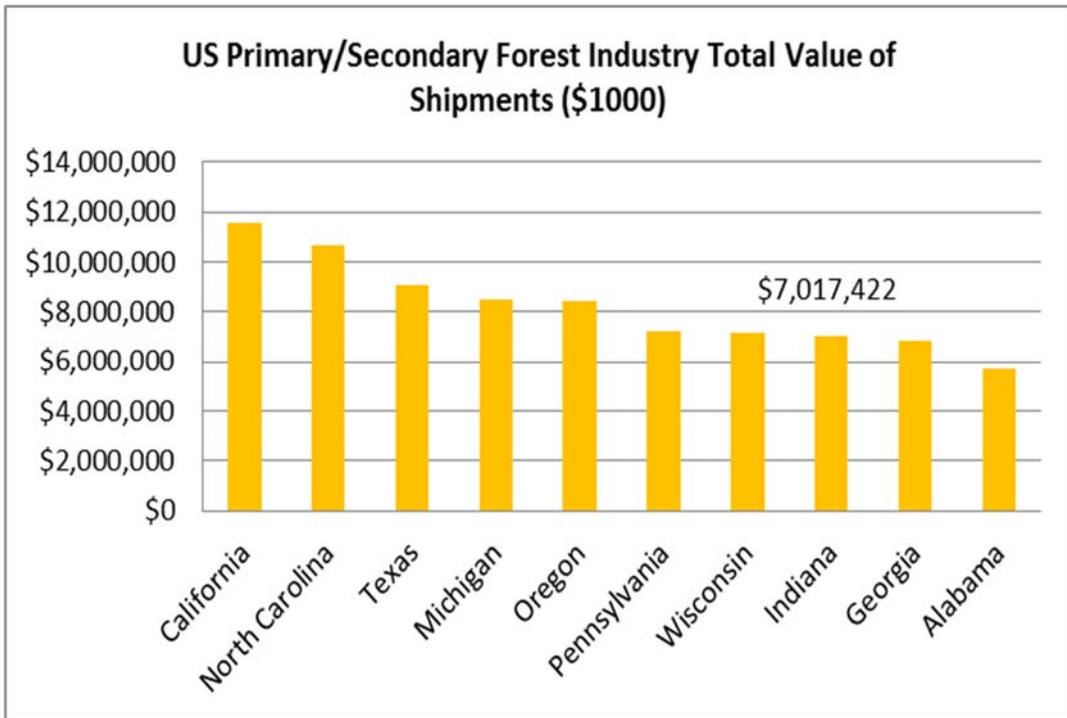
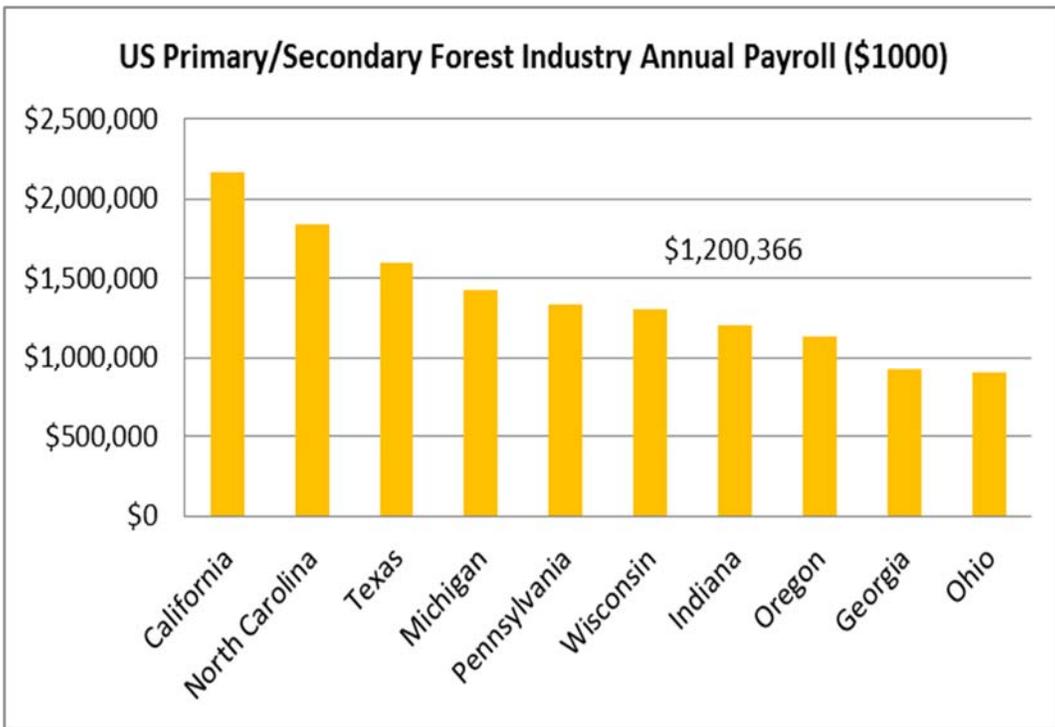
The Indiana forest-products industry is the sixth-largest manufacturing industry in the state, employing more than 32,000 people. Forest-based manufacturing provides \$3.2 billion in value-added and more than \$7 billion in value of shipments to Indiana's economy each year. Indiana ranks first nationwide in the production of wood office furniture, wood kitchen cabinets, hardwood veneer, and several other wood products. The majority of the businesses involved are small and family-owned. Wood products companies average fewer than 50 employees and play an important role in rural communities.

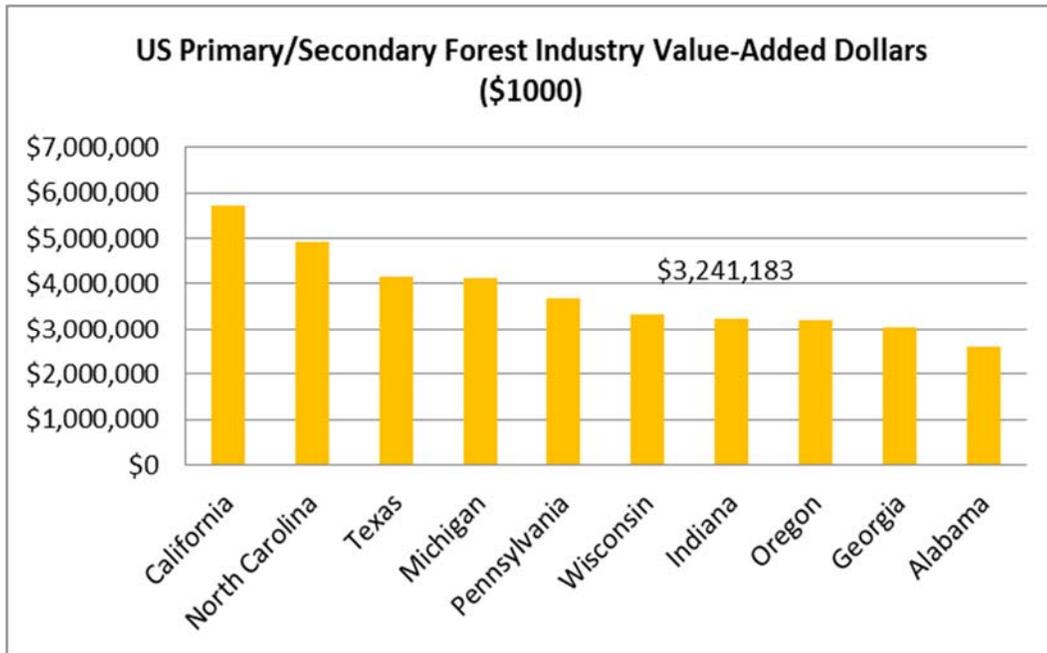
The wood-using industry relies on one of Indiana's most valuable renewable natural resources. Proper management of Indiana's timber helps guarantee primary wood-using firms a supply of quality wood fiber. These sawmills and veneer plants, in turn, provide top-quality materials for the secondary industries to produce paneling, fine furniture, cabinets and similar finished products.

This report highlights several economic impacts for the year-end 2015 and highlights the exports from the primary manufacturers with comments of current conditions, both domestically and internationally. We hope you find this paper both informative and helpful.

The Department of Natural Resources (DNR) is committed to sound forest management practices on all state forests and to being SFI and FSC certified.







Domestic Market Comments

Reports from the hardwood industry on domestic markets have been described as fair to better than expected, depending on the source. Domestic orders remain steady, with most mills running at or close to capacity to keep inventories level due to longer dry times during winter.

Concentration yards have reported slower export sales. Flooring plants sales have improved some but unfinished strip-flooring prices are cut-rate, making it difficult to make a profit.

Distribution-yard business remains steady, with cabinet manufacturers and home builders now in full production.

Most mills have adequate log decks for this time of year, despite the warmer weather and wet conditions. The competition for walnut and white oak still remains as the demand for veneer, lumber and staves continues, both domestically and internationally. Higher timber and log pricing continues to cause tighter margins for many mills.

In the Appalachian Region, ash prices are beginning to fall due soft demand, mostly for exports. Soft maple, cherry, hard maple and white oak remain steady. Red oak prices remain the same but some believe green pricing will fall in the coming months.

Overall, most mills seemed to be positive with the year-end sales.

Low-grade lumber and cant prices have dropped due to abundant supply, with crane mats unchanged. Railroad-tie demand is still good but there have been some declines in price where inventories are high.

Green Hardwood Lumber Prices (Dec-2015)

Dollars per one thousand board feet (MBF), 4/4 (1-inch-thick) Appalachian Market Area

	FAS	#1C	#2A	#3A
Ash	1060	670	390	
Cherry	1140	790	500	
Hickory	825	600	435	
Hard Maple	1265	775	500	405
Soft Maple	1170	740	395	
Red Oak	950	580	475	430
White Oak	1445	730	465	430
Poplar	815	480	355	
Walnut	2275	1120	595	

Source: *Hardwood Review* P.O. Box 471307, Charlotte, N.C. 28247-1307

International Exports

With nearly 95 percent of the world's consumers and two-thirds of the purchasing power located outside of the United States, Indiana's growth in hardwood export is spread over more than 50 countries. This expansion into the global marketplace provides Indiana hardwood manufacturers with more opportunities to increase their markets. Hardwood companies that adapted and developed a business strategy that included the international market were better able to endure the great recession.

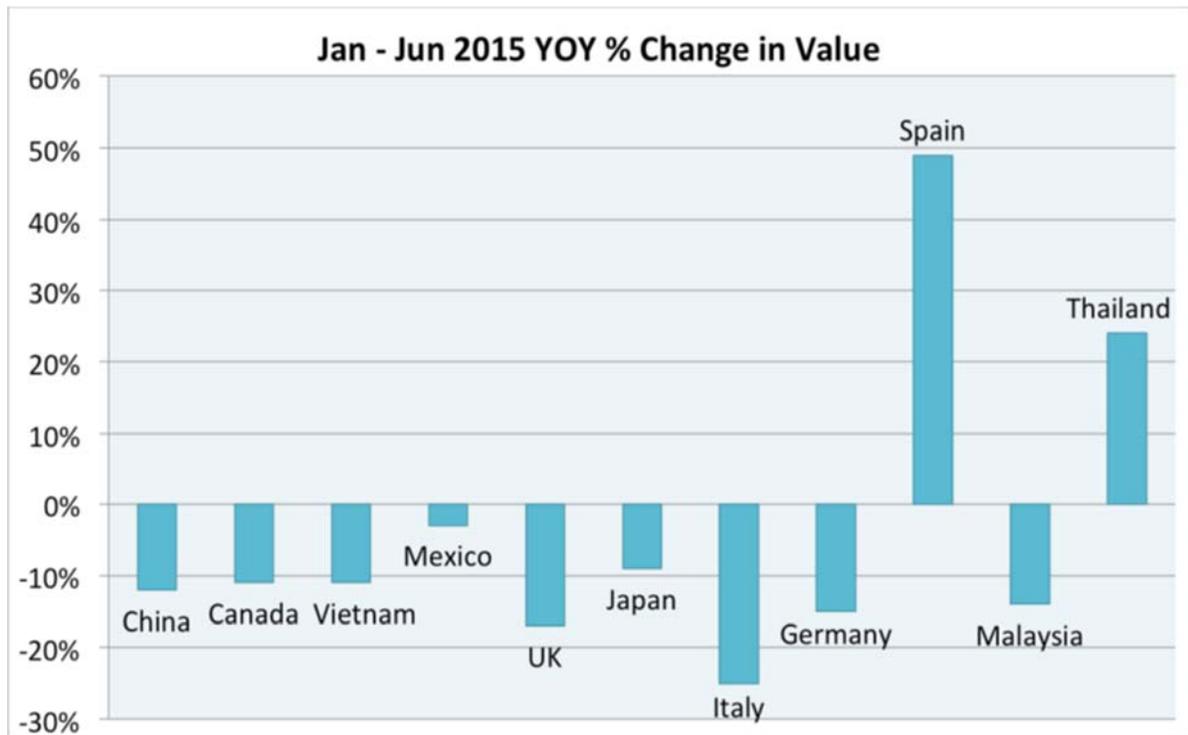
The global business in hardwoods continues to grow as world economies continue to need new sources for product. First, the middle class continues to show major growth in many countries like China. Members of this middle class now have additional disposable income and are in the marketplace, a factor that is driving the housing market. It has long been established that new housing construction leads to increased hardwood use in kitchen cabinets, flooring, molding and furniture. Second, much of the furniture manufacturing, along with molding, flooring and other interior products, has shifted from the developed countries to countries with low labor costs. This has increased the need for hardwood imports. Finally, many countries do not have the sustainable

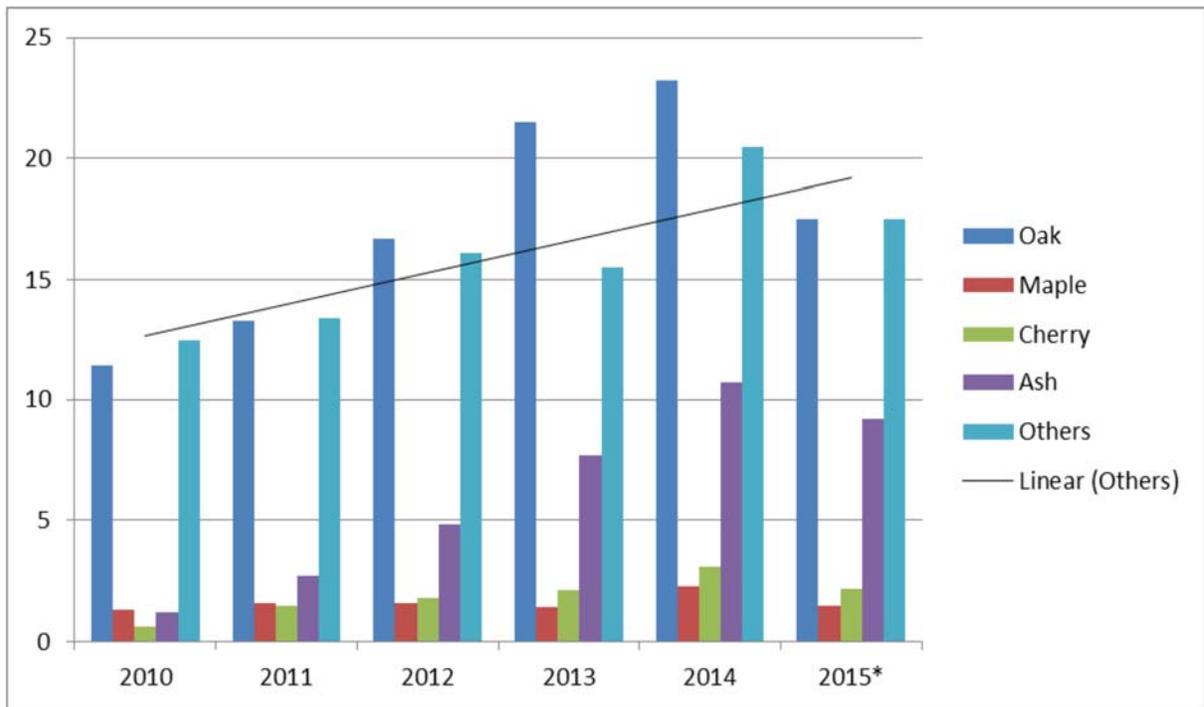
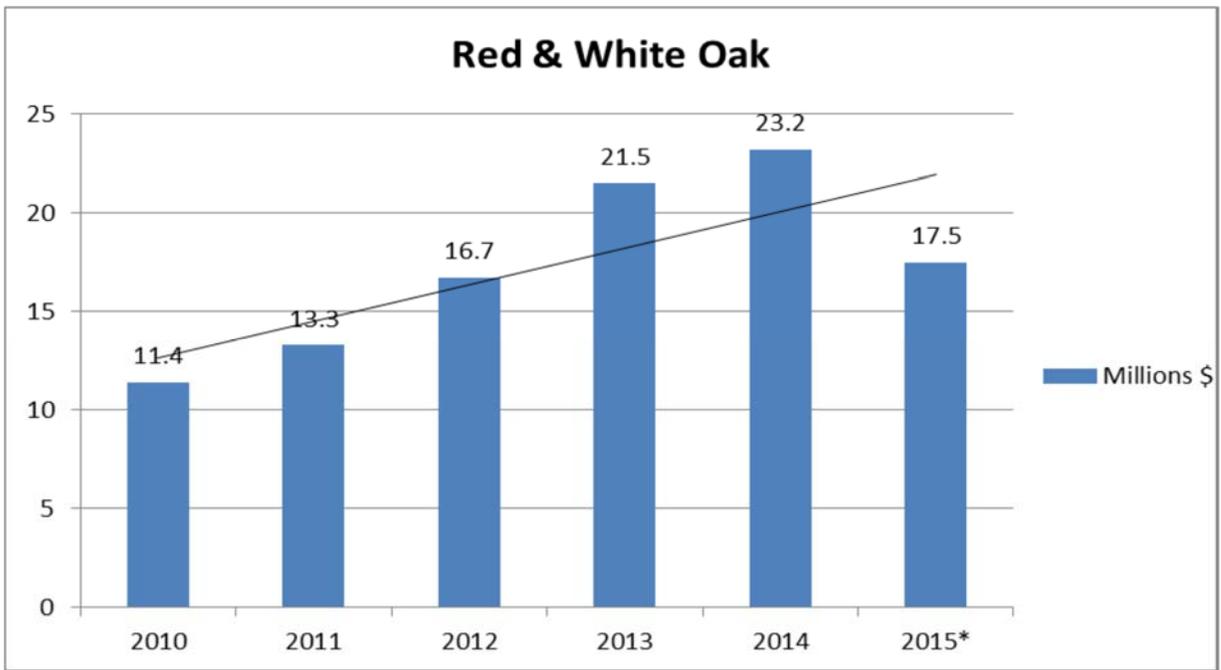
resource we have in Indiana and, for that matter, in the United States. This not only limits their ability to purchase timber products at home but their availability to export timber products. Additionally, many countries now require wood products to come from a sustainable resource and the documentation to verify that they do.

What does the future hold? Global demand for hardwood products will likely continue to increase, and Indiana manufacturers will likely benefit. However, as in the domestic market, trends change as do the customers. If Indiana’s hardwood manufacturers are to remain competitive in the world economy, they will need to focus on the fundamentals and offer organizational leadership that is multidimensional, relationship-centric and bottom-line focused. Their organizations also must be quick to learn and adapt in this changing global economy and add value to products and/or services to increase their market share. Additionally, direct contact with the ultimate consumer and just-in-time shipments will also ensure a stable customer base in this competitive global market.

Lumber

The largest export market, China, is importing significantly less US hardwood lumber so far this year in 2015 (-12%) and Vietnam a market that has shown considerable growth recently, is down 11% in lumber this year. This graph shows the top individual markets in 2014 and the current gain or loss in value by percentage so for this year. Spain and Thailand have grown considerably 49% and 24% respectively. Overall exports of US hardwood lumber are down 9% this year in comparison to 2014 totals, but it is important to note that the US is still on pace to export just over \$2 billion of lumber for our second highest export total ever.





Data: January - November 2015

Source: All export numbers are from USDA-FAS & U.S. Census Bureau.

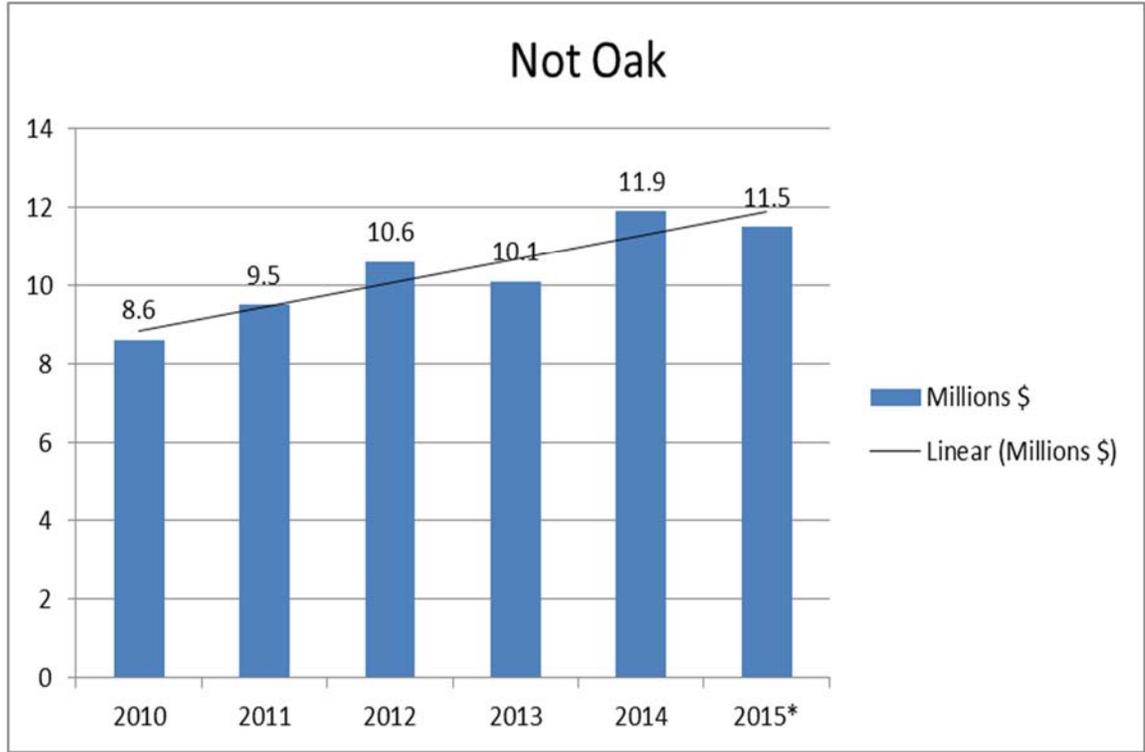
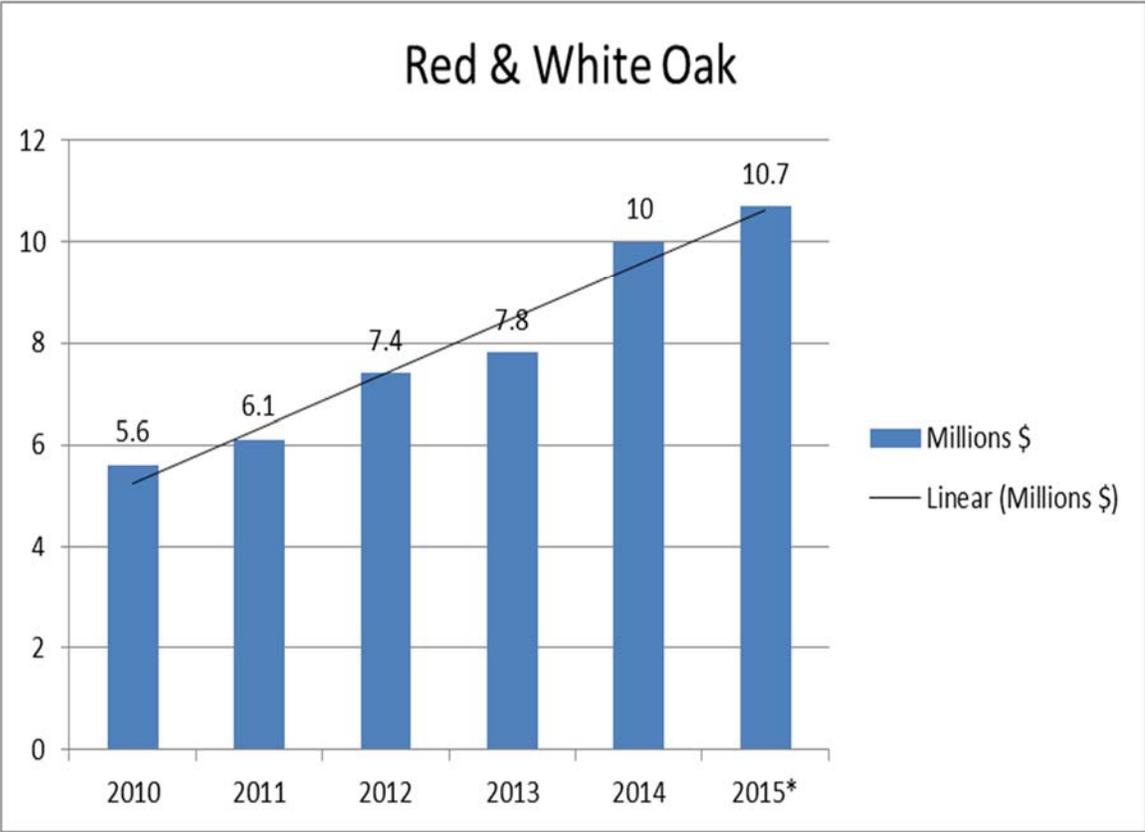
Export Logs & Veneer

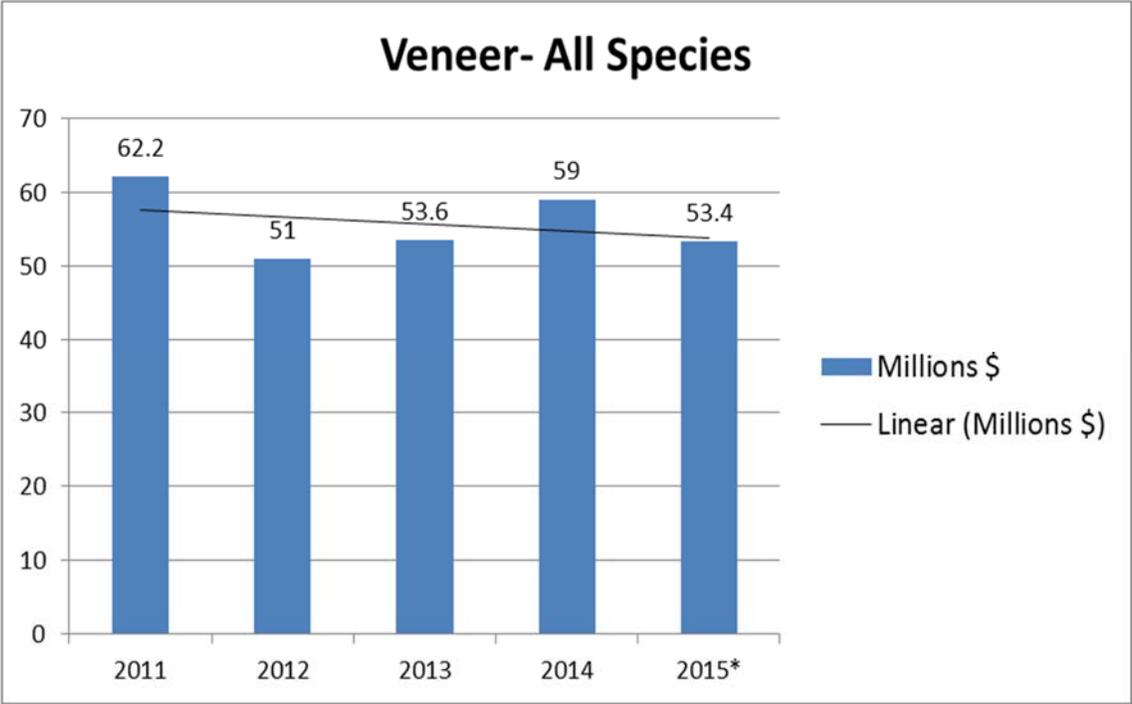
China, Canada and Vietnam remained the three largest importers of hardwood logs from the United States in 2014, according to USDA-FAS hardwood export statistics. More than 850 million board feet of logs from the U.S. were exported worldwide. China, Canada and Vietnam made up 84% of the total. China surpassed Canada for the first time in 2014 as the largest importer, both in log value and in quantity. Red oak, black walnut and white oak veneer, and saw logs remain the core for China. Hard maple, red oak, birch and tulip poplar, red oak and white oak are the core for Canada and Vietnam. In the second quarter of this year, log prices leveled off and even dropped from historic highs in some species. The normal seasonal slowdowns in the veneer market, along with the continued strength of the U.S. dollar are the primary reasons for this change. Additionally, Russia and other Asian importers could increase their market share if they overcome operational and logistic problems.

Veneer demand remains slow. Most mills are running at 60% - 70% capacity. Conversely, veneer-quality logs remain in steady demand even though there have been several price reductions. Depending on the species, these decreases are greater in some woods, like red oak, than others, like walnut. Additionally, weather conditions, like the economic environment, can play havoc with log pricing and volumes available.

The demand domestically, and especially internationally, for black walnut and white oak continues to remain stable, so much so that it has driven some of the local veneer mills and sawmills to drop from the market or reduce production. This demand for veneer, veneer logs, 2SC (sides clear) and 3SC saw logs continue to elevate pricing for logs on a weekly basis. The result of these increases will likely eventually force some buyers to purchase lower-cost species like ash, hickory, cherry and maple. Additionally, slower economic conditions and housing starts in China and Europe, the two largest buyers in volume of black walnut, should cause prices to begin to level off in 2016. These economic conditions will also affect white oak veneer, but to a much smaller degree.

One of the biggest drivers for white oak currently is the stave market. Wine and whiskey manufacturers are currently having difficulty building inventories, thus requiring additional stave demand. When you add the demand for quarter-sawn and export lumber to the mix, the pressure for logs increases exponentially. Look for white oak logs to remain constant for 2015 and possibly longer.





2015 Export Totals - Millions \$

