

# WOOD MARKETS UPDATE

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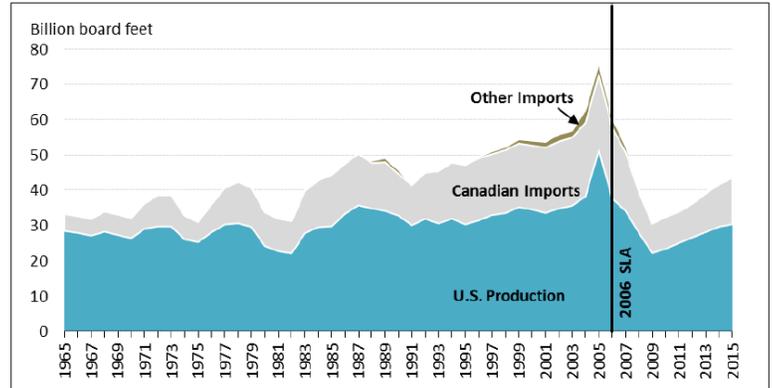
## Highlights

- U.S. mass timber market poised for growth; learning from Europe, p2
- Job growth slows; wages post 2.9% 12-month gain, p3
- Housing starts finish up 2.4%, p3
- U.S. slaps Canadian newsprint with preliminary 6.5% duties, p4
- Flambeau River shuts PM3, p4
- Verso expands strategic considerations to include sale, p5
- Douglas fir delivered log prices hit record highs in PNW, p6
- NA P&P price hikes announced, p7
- FPI, Resolute invest C\$21 million in Thunder Bay bio project, p8
- LePage opposes bio bailout #2, p8

## Inside this issue

GENERAL INTEREST	p2
ECONOMY & HOUSING	p3
FINANCE & MGMT	p4
PRODUCTION & PRICES	p6
BIO-MARKETS	p8

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Source: Congressional Research Service Report, R42789.

## Canada won't back down, vows to resist softwood lumber duties

January 16, 2018 (bloomberg.com remix), Canada has initiated an appeal of U.S. softwood lumber duties with the World Trade Organization (WTO). The U.S. Department of Commerce imposed “amended” final duties earlier this month.

On January 3, the U.S. Department of Commerce announced the “amended” final determination of antidumping and countervailing duties on imports of Canadian softwood lumber. The combined final determination rates as announced by the U.S. Department of Commerce are: Canfor 20.5%; Resolute 17.9%; Tolko 22.1%; West Fraser 23.6%; Irving 9.9%; All Others 20.8%.

Moody's Canada expects benchmark lumber prices, which have increased about 25 percent over the past year, to remain high due to strong demand fueled by U.S. housing starts and post-hurricane rebuilding efforts combined with reduced harvest levels in British Columbia.

## GENERAL INTEREST

### U.S. mass timber market poised for growth; learning from Europe and Canada

January 4, 2018 (archpaper.com)—If the steady stream of newly announced mass wood projects is any indication, mass timber building technologies are poised to take the American construction and design industries by storm over the next few years. As products like cross-laminated timber (CLT), nail-laminated timber (NLT), glue-laminated timber (glulam), and dowel-laminated timber (DLT) begin to make their way into widespread use, designers, engineers, and builders alike are searching for the best—and sometimes, most extreme—applications for mass timber technologies. But rather than reinvent the wheel, American designers can look to experienced mass timber designers in Europe and Canada for key lessons as they begin to test the limits of these materials in the United States.

One key lesson European timber projects teach is that when it comes to structural systems, weight matters. On average, mass timber assemblies weigh between one-third and one-fifth as much as concrete structures, despite equivalent structural capacities. As a result, mass timber buildings are much lighter than concrete ones, a positive for building in tricky urban situations, for example—where underground rail yards, subway tunnels, and municipal utilities place limits on how heavy and tall buildings can be.

Lighter mass timber buildings also perform better in seismic zones. Since the lighter buildings carry less inertia, the potential for catastrophic swaying goes down. The strategy was applied this year with the Brock Commons tower, an 18-story, 400-bed, college dormitory designed by Vancouver-based Acton Ostry Architects for the University of British Columbia Point Grey campus. The tower is made up of a hybrid structural system that includes CLT floor slabs, glulam columns, steel connectors, and dual concrete cores. The concrete cores anchor the light mass wood structure in place, helping to counteract seismic and wind-generated forces. The 173-foot-tall structure is currently considered the tallest mass timber building in the world, and the construction is particularly multifaceted, utilizing a specifically fabricated set of interdependent building materials and finishes to meet structural and fire-safety regulations.



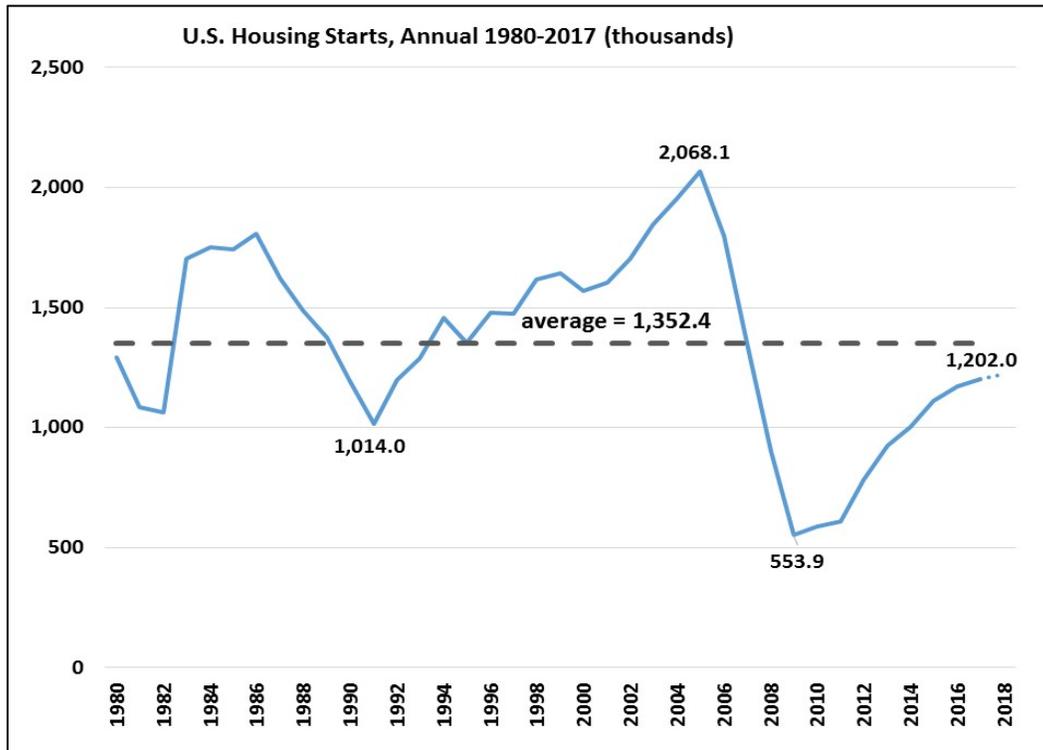
## ECONOMY & HOUSING

### Job growth slows; wages post 2.9% 12-month gain

February 2, 2018 (bls.gov, wsj.com remix)—Total nonfarm payroll employment increased by 200,000 in January (+148,000 in December), and the unemployment rate was unchanged at 4.1 percent, the U.S. Bureau of Labor Statistics reported today. Job creation eased but workers are seeing long-awaited wage gains, signs that seven years into a slow-growing expansion the labor market is improving enough to reap some benefit for American households. In January, average hourly earnings for all employees on private nonfarm payrolls rose by 9 cents to \$26.74, following an 11-cent gain in December. Over the year, average hourly earnings have risen by 75 cents, or 2.9 percent. Average hourly earnings of private-sector production and nonsupervisory employees increased by 3 cents to \$22.34 in January.

### Housing starts finish 2017 up 2.4% yoy

January 18, 2018 (Census/HUD News Release)—An estimated 1,202,100 housing units were started in 2017. This is 2.4 percent above the 2016 figure of 1,173,800. Privately-owned housing starts in December were at a seasonally adjusted annual rate of 1,192,000. This is 8.2 percent below the revised November estimate of 1,299,000 and is 6.0 percent below the December 2016 rate of 1,268,000. Single-family housing starts in December were at a rate of 836,000; this is 11.8 percent (±6.5 percent) below the revised November figure of 948,000. The December rate for units in buildings with five units or more was 352,000.



Data source: Census.

Chart: MNDNR.

## FINANCE & MANAGEMENT

### Potlatch posts Q4 \$11.6 million and \$86.5 million full year net income

Jan. 29, 2018 (GLOBE NEWSWIRE)—Potlatch Corporation (Nasdaq: PCH) today reported net income of \$11.6 million, or \$0.28 per diluted share, on revenues of \$175.2 million for the quarter ended December 31, 2017. Excluding after-tax special items, consisting primarily of a charge related to tax legislation and Deltic merger-related costs, adjusted net income was \$25.7 million, or \$0.62 per diluted share for the fourth quarter of 2017. Net income was \$14.4 million, or \$0.35 per diluted share, on revenues of \$155.7 million in the quarter ended December 31, 2016.

Net income for the full year of 2017 was \$86.5 million, or \$2.10 per diluted share, on revenues of \$678.6 million. Excluding after-tax special items, consisting primarily of a charge related to tax legislation, Deltic merger-related costs and environmental charges for Avery Landing, adjusted net income was \$103.6 million, or \$2.51 per diluted share. Net income was \$10.9 million, or \$0.27 per diluted share for 2016.

### U.S. slaps Canadian newsprint producers with initial duties

January 9, 2018 (financialpost.com)—Newsprint is the latest Canadian product to be hit with preliminary countervailing duties from the United States. The U.S. Department of Commerce slapped an overall tariff of 6.53 per cent on about 25 Canadian plants, mostly in Quebec and Ontario, following an investigation that began in August 2017. Canada is the largest exporter of newsprint in the world, with a market dominated by Resolute Forest Products, Kruger and Catalyst Paper Corp. of British Columbia. Resolute faces a preliminary duty of 4.42 percent while the Catalyst Paper duty is 6.09 percent. The duty against Kruger is 9.93 percent and the preliminary penalty against White Birch is 0.65 percent. The U.S. Department of Commerce will make another decision on anti-dumping duties in March and the U.S. International Trade Commission will be asked to rule on the two measures in August. The U.S. Department of Commerce says Canada exported about \$1.6 billion worth of newsprint to the U.S. in 2016. U.S. newsprint demand decreased 75 percent since 2000 and is falling by about 10 percent a year.

### Flambeau River Papers shuts PM3 on declining copy paper demand and high wood prices

January 5, 2018 (pricecountyreview.com)—Flambeau River Papers today announced the shutdown of its largest paper machine and the subsequent termination of 82 employees at its paper mill in **Park Falls, Wisconsin**. According to a company statement, the copy-printing paper grades produced by paper machine #3 (PM3) are no longer a viable business. According to a mill spokesperson, the market for those paper products “crashed” this year, and the price of pulpwood — the raw material from which paper is made — increased dramatically. Expected job cuts include 67 union employees and 15 management positions. Some employees were notified today of termination, while other positions will be eliminated during the coming weeks, according to the spokesperson. The mill will continue to operate two smaller paper machines that produce high-grade specialty papers. The closure of the largest machine will reduce the mill’s pulp consumption by 100,000 tons annually.

### **Verso expands strategic considerations to include sale or merger**

January 16, 2018 (verso.com)—Verso Corporation (NYSE: VRS) announced today that the Strategic Alternatives Committee formed by its Board of Directors in September 2017, has, at the direction of the Board, expanded its evaluation of potential transaction alternatives to include other alternatives, including but not limited to, a potential sale or merger of the entire company. As previously announced, the Committee, with the assistance of Houlihan Lokey Capital, Inc., the company's financial advisor, has been charged with identifying and evaluating a range of potential strategic transaction alternatives to maximize value to Verso stockholders, and with recommending to the Board whether any potential transaction is in the best interests of the company and its stockholders.

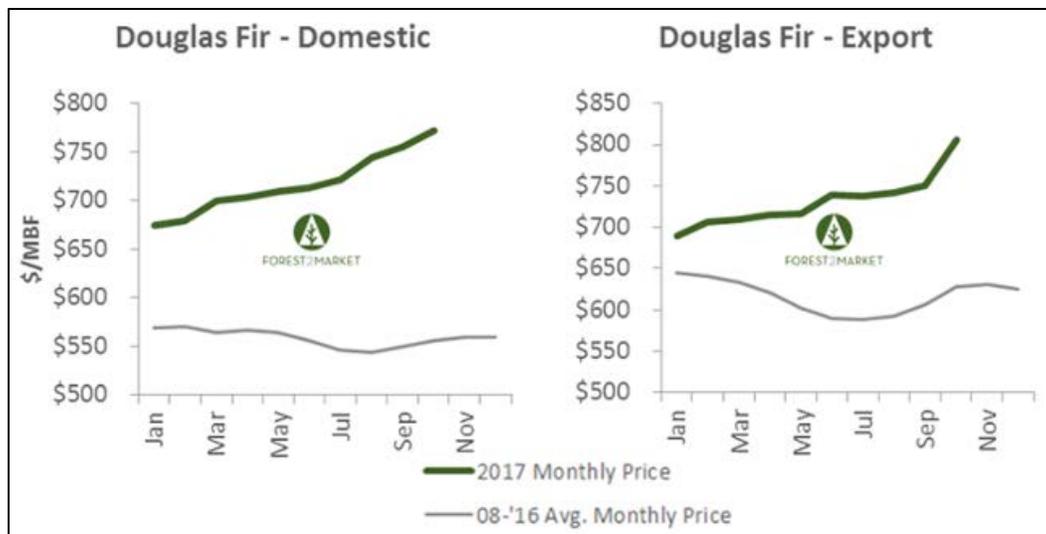
### **Sun Paper's Arkansas investment gets bigger: now \$1.8 billion, 350 paper mill jobs**

January 30, 2018 (arkansasbusiness.com)—Arkansas' biggest economic development project just got bigger. Shandong Sun Paper Industry said Tuesday that it will pile an additional \$500 million and 100 jobs into its planned Sun Bio Products plant in Clark County. The move will bring total investment to \$1.8 billion and raise expected employment to 350 people. The increased investment comes as executives change strategy for the plant, originally planned to produce dissolving pulp used to make rayon. According to a statement, Sun Paper Chairman Li Hongxin decided the plant will produce linerboard, which is one of two types of paper that make up corrugated board. The change means "an increased use of raw materials," the company said, though it did not say by how much.

## PRODUCTION & PRICES

### Douglas fir log prices reach record highs in PNW

December 5, 2018 (blog.forest2market.com)—Prices for Douglas fir logs in the Pacific Northwest (PNW) have spiked to their highest levels since F2M started reporting. Delivered log prices crested in October at the \$770/MBF mark, and they have consistently remained above the \$700 level since early 2Q2017. Lumber prices remain high amid stable housing demand and remodeling activity, the ongoing [Canadian lumber dispute](#), and a recent move by the Chinese government, which instituted a 5 percent reduction in domestic harvests. In addition, National Forest timber sale volumes continue to be artificially constrained in the PNW. The FY2017 timber sale program only offered 2.918 BBF, which was roughly 50 percent of the allowable harvest plan—a 3 BBF deficit. This situation will likely continue well into 2018, and at least as long as lumber prices hold at current levels.



Source: Forest2Market.com.

### Freight Rates Soar for Small-Business Truckers

January 29, 2018 (trucks.com)—As shippers and brokers deal with a shortage of trucks to carry freight, small-business truckers are poised to make more than they have in years. It's a big turnaround from recent years, when there wasn't enough freight demand to fill up all the nation's trucks and drivers struggled to get attractive rates. The surge in rates at least partially due to the federal electronic logging device [ELD] mandate, which took effect Dec. 18 and has caused productivity issues and the capacity crunch. The regulation requires truckers to install digital devices known as ELDs, which link to a semi-truck's engine to capture its movement and record driving time. The rule was enacted to ensure compliance with a federal hours-of-service rule. The rule limits driving to no more than 11 hours a day within a 14-hour workday. Drivers must then be off duty for 10 consecutive hours. ELDs do not allow for any flexibility in a trucker's day, which can include extended wait times at shippers and receivers, traffic delays and long searches for available truck parking before their 11 hours of driving are up.

### North American pulp & paper producers announce price hikes

Dec. 18, 2017 (asiapapermarkets.com remix)—Midland Paper, Packaging, & Supplies today reported that a number of North American paper producers have announced price increases that will go into effect between Jan. 15 – February 1.

**Verso Corp.** Effective with all new and existing orders with confirmed delivery dates of January 15, 2018 or later, Verso Corporation is increasing the transaction price of all Coated Economy Freesheet Sheets and Sheeter Roll grades by \$2.00/cwt USD/\$2.56/cwt CAD. This includes, but is not limited to: Anthem Plus® sheets/sheeter rolls, Blazer Digital® sheets/sheeter rolls. The increase applies to all basis weights, bulks, finishes and related private label grades.

**Sappi North America.** Price increases on new and unconfirmed orders that book with confirmed delivery dates on or after Monday, January 15, 2018 on the following products: \$2.00 per CWT US\$/\$2.56 per CWT CAD\$ increase on: Flo Folio Sheets, Digital Sheets and Sheeter Rolls — all basis weights, all finishes, EuroArt Folio Sheets and Digital Sheets — all basis weights, all finishes Standard differentials and upcharges apply.

**Resolute Forest Products.** Please be advised that effective with shipments on or after February 1, 2018, Resolute's White Paper grades will increase by US\$35/short ton. Products impacted by this price increase include, but are not limited to, the following: Ecopaque Offset, Ecopaque Laser; Equal (Offset & Book); Alternative (Opaque, Offset & Offset+); ResoluteSelect 75; ResoluteSelect 70, 65; ResoluteBook 75, 70, 65, 60 & ResoluteBook 70 Cream; Alternative Book, Alternative Book Cream; ResoluteSert Plus. The increase will be applicable to all basis weights and finishes, and all up charges apply.

**Nekoosa Coated Products.** Effective with all shipments on or after January 29, 2018, Nekoosa Coated Products will increase prices on the following carbonless paper and supplies: All carbonless sheets and rolls — 6% & all carbonless supplies — 6%.

**Major Pulp Producers.** West Fraser announced that it will be increasing NA NBSK list prices in February by \$30/tonne (+2.5%) to \$1,240/tonne. Resolute announced the same NBSK hike, bringing prices to \$1,240/tonne but also increased prices on its SBSK, fluff pulp and two grades of BHK. The announcements match earlier increases made by Canfor Pulp and Fibria. On the hardwood side, RISI reported that Eldorado is looking to increase February BEK prices by \$30/tonne in Europe (+3.0%) and North America (+2.5%), and \$20/tonne in China (+2.4%).

## BIO-MARKETS

### **FPInnovations, Resolute invest C\$21 million in Thunder Bay bio project**

January 23, 2018 (pulpandpapercanada.com)—A pilot project to produce and commercialize biochemicals derived from wood at Resolute Forest Products' pulp and paper mill in Thunder Bay, Ont., has received a new round of funding. The C\$21-million project will establish a biorefinery for TMP-Bio – a patented technology developed by FPInnovations to produce biochemicals, including cellulosic sugars and high-quality H-lignin, from wood. Part of an initiative to renew and transform the forest products industry, the project builds on investments made in 2012 by Resolute, the Ontario Centre for Research and Innovation in the Bio-Economy (CRIBE), and Natural Resources Canada. The investment covers cost of capital and R&D and has the support of the Northern Ontario Heritage Fund Corporation (NOHFC), CRIBE, FedNor, the City of Thunder Bay CEDC and Natural Resources Canada. Resolute is contributing C\$3.5 million, while the federal government is contributing C\$5.8 million to the project — C\$3 million through FedNor and C\$2.8 million through Natural Resources Canada. The Ontario government announced funding for the project in 2016.

### **Maine Governor LePage opposes second round biomass industry bailout**

January 10, 2018 (pressherald.com)—Gov. Paul LePage told lawmakers he opposes a pair of bills that would have taxpayers fund a \$45 million subsidy to help Maine's foundering biomass industry. In a rare appearance before the Legislature's budget-writing Appropriations Committee, LePage said the Legislature should focus instead on ways of creating industries that bring greater value from the state's more than 18 million acres of forest lands. The bills to support investments and a low-interest revolving loan fund [come less than two years after the Legislature passed a \\$13.4 million taxpayer-funded bailout](#) of the industry that LePage reluctantly supported at the time. The Biomass Power Association estimates the six stand-alone biomass plants in Maine, when they are operating, spend about \$115 million a year and support 148 direct jobs and 900 indirect jobs in Maine.