UNDERSTANDING WHAT'S PHYSICALLY POSSIBLE: CANADA'S ROLE IN US SOFTWOOD LUMBER MARKETS

The world is a complicated place and building forecast models may seem a futile exercise. However, the process of confirming what we know and separating it from what we doubt provides a method for defining realistic future scenarios. Pure analysis assesses and quantifies facts to detail the playing field. This helps decision-makers avoid investments and projections untethered from what is physically possible on the ground. In the forest products industry, this means clarifying and confirming the physical, spatial realities of forests, mill capacities and market locations, and the logistics linking them together.

In practice, some markets are more important than others for timberland investors and forest industry managers. While timberland owners sell logs to mills that make poles, paper, and panels, the markets and manufacturers that drive the forest cash flows and returns needed to justify reforestation and investment produce lumber. Softwood sawmills consume more grade logs than all other North American grade markets combined, and the value of these logs exceed any other market for stumpage or chips. US markets alone consumed over 44 billion board feet of softwood lumber in 2015. A key question moving forward is, "Where will softwood lumber supplies come from for US home builders?"

Localizing the capacity of softwood sawmills to consume wood translates into robust estimates of regional capacities. Regardless of the macroeconomic assumptions for housing starts, specific mills in specific markets must produce the boards. Are they out there and ready to go? Where? For softwood grade markets in the US South, US North, US Pacific Northwest and Canada, we aggregate mill-by-mill analysis with assessments of announced capacity changes to estimate total available lumber capacity. Sawmills in these geographies account for ~95 per cent of the softwood lumber used in the US. Estimates rely on the "physical facts" associated with actual mill capacities. These capacities also become constraints in local timber price models. Each quarter, our team tests viable pathways for projected softwood lumber production. The thinking prioritizes (1) operable closed capacity that could reopen; (2) markets with well-established infrastructures that can better absorb new demand; and (3) well-supplied markets that remain far below their historic production levels.

Critical analysis focuses on Canada's softwood lumber industry. Canada's ability to manufacture softwood lumber and harvest softwood logs has declined since 2006: the housing market collapse coincided with rippling effects from the mountain pine beetle on Canadian softwood forest supplies. Forisk's research includes mill-by-mill confirmation and analysis. So far, this includes detailed confirmation of 69 per cent of Canada's open sawmill capacity and 91 per cent of Canada's idled and closed softwood sawmill capacity. Results indicate that Canada's maximum softwood lumber production, assuming all open and idled mills operate at 100 per cent, is 30.5 billion board feet, or nearly 20 per cent less than ten years ago.

In sum, Canada no longer has the physical capacity to produce and import softwood lumber to the United States at levels reached from 1999 through 2007 while also meeting domestic Canadian demands. This period of time coincided with major investments by Canadian forest products firms in the US South. The figure below summarizes the implications and projected US softwood lumber consumption by source. In addition to Canada, the US Pacific Northwest faces physical supply constraints of its own. After leading US softwood lumber supplies in the 1990s, the Northwest industry now operates in a box constrained by drastically reduced log supplies from the US Forest Service (public lands). No matter how much the region "wants" to produce, it, along with Canada, cannot match levels reached 20 years ago.

In sum, two sources—the US Pacific Northwest and Canada—must navigate true, physical supply constraints. That leaves one region able to respond to

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