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**New report outlines economic trajectory for Arkansas’ timber industry**

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**Fast facts**

* New housing starts growing
* Stumpage prices remain flat
* Wood pellets offer promising market
* See report at <https://www.uamont.edu/academics/CFANR/pdfs/EconOutlook2021.pdf>

(1,856 Words)

MONTICELLO, Ark. — If you are a building supplier, the economic outlook for 2021 is looking better than expected following the COVID-19 pandemic. If you operate a family-owned tree farm and want to harvest stumpage, 2021 is looking financially flat, with an overabundance of trees in Arkansas and the South.

Those are the conclusions of University of Arkansas-Monticello Assistant Professor of Economics, Nana Tian, and Matthew Pelkki, professor and George Clippert Chair of Forestry. Both professors teach forest economics at UAM’s College of Forestry, Agriculture and Natural Resources and conduct research with the Arkansas Agricultural Experiment Station for the University of Arkansas System Division of Agriculture. They are the co-authors of the 2021 Timber Outlook for Arkansas. According to the 2021 Timber Outlook for Arkansas report, 2021 is expected to be an economic mixed bag for various forest sectors.

Before looking ahead, it’s worth looking back at the economic situation facing the United States in 2020. Tian’s and Pelkki’s report points out some challenging base indicators as we start 2021.

**Important economic indicators**

“U.S. gross domestic product, known as the GDP, showed a V-shaped decline and recovery in 2020,” according to the report. “In actual dollars, it currently stands at 2017 levels.”

The authors said that, “we expect, with additional economic stimulus and widespread distribution of effective vaccines that the economy should recover to pre-pandemic levels by the end of 2021, with GDP growth of 5-6 percent in 2021 and 2022. The consumer price index, or CPI, shows a steady but slow rate of inflation at 1.5 percent per year over the last five years. The Federal Reserve cut interest rates in 2020 to stimulate the economy. There is no indication of increased inflation of more than 2-3 percent in 2021, and as such, the Federal Reserve has shown no desire to raise rates.

“Unemployment has not recovered to pre-pandemic levels, but the projected stimulus and vaccinations should continue to open the economy by summer and fall of 2021. Unemployment should continue to fall in 2021, and by the end of year, we expect unemployment levels to reach 4-5 percent. Despite the pandemic, housing starts showed continued strong growth in 2020, fueled by years of pent-up demand and stimulated by lowered interest rates. We expect lumber prices to ease somewhat and supply increase, which should sustain a strong housing market with 1.5-1.6 million new starts in 2021.

**Single-family housing starts will continue to grow**

Despite the pandemic, construction on single-family houses showed strong growth towards the end of 2020 and continues in early 2021. Pelkki says 60 percent of all softwood lumber in the United States is used in new residential construction and renovations. In March and April, the aggregate U.S. housing construction markets were negative due to the economy lockdown and COVID-19.

Based on the U.S. Census Bureau report, privately-owned housing starts at a seasonally adjusted annual rate in April of 1.07 million down 20.8 percent from the March rate of1.36 million. Housing starts rebounded in the summertime and surged in December because of the historically low mortgage rates and pent-up demand. According to the latest statistics, in December, housing starts at a seasonally adjusted annual rate of 1.669 million, which is 5.8 percent above the November rate.

“We know that the lower interest rates certainly spark interests, but you wouldn’t think in a pandemic that people would be wanting to move to new homes or relocate,” said Pelkki.

New housing starts are a reflection of demand and anticipated demand by home builders.

“So much of economics is a social science; is really trying to predict how people will behave and that is really hard to quantify,” Pelkki said. “Things went differently than I would have predicted for the wood product industry and people’s demand for wood.”

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“We expect lumber prices to ease somewhat and supply increase, which should sustain a strong housing market with 1.5-1.6 million new starts in 2021,” said Pelkki.

Softwood lumber prices had historic increases as remodeling and housing demand outpaced production in 2020. These record price levels were driven by better-than-expected lumber demand, as homeowners increased repair and remodeling expenditures and were aggressive in building new homes. Specifically, remodeling and improvement expenditures had a total estimation of $220 billion in 2020, which is 20 percent above — $37 billion — 2019 levels.

**Wood products markets**

“The framing lumber composite prices have increased by nearly 100 percent since 2010 and 2020 ended the year with a 50 percent year-to-date increase in softwood lumber prices,” Tian said, adding that the composite lumber price increased by nearly 100 percent and the major contributing factor is the increasing demand because of the increased house starts and the limited supply due to COVID-19. She said that since the U.S. Commerce Department recently announced to lower countervailing/anti-dumping duties on Canadian lumber from 20.23 percent to 8.99 percent; this should increase the supply and lower the cost of framing lumber available to builders in 2021.

“We expect southern lumber production to recover in 2021 in response to sustained housing demand and strong softwood lumber markets,” Tian said.

**2020 Forest ebb and flow**

Much of the 18-page Timber Outlook for Arkansas report looks back at 2020 manufacturing movement. Some businesses announced expansions, while others announced both closures of existing plants.

* Highland Pellets LLC, a Pine Bluff-based wood pellet producer, declared an expansion and upgrade for its plant together with Orion Energy Partners L.P. This is a long-term contract with a capital investment from Orion Energy is $135 million. Once the upgrade is completed, it will have the capacity of producing 675,000 metric tons of sustainably sourced wood pellets per year.
* Georgia-Pacific closed parts of its plant at Crossett, including the bleached board operations and the extrusion plant, woodyard, pulp mill, and a significant portion of the energy complex. Additionally, the G-P company shut down a particleboard plant in Hope, and the Sparkle paper towel line. In total, those closed operations affected about 655 workers in this region.
* In 2016, a Chinese company proposed a $1.5 billion paper mill project in Clark County. The mill would have created hundreds of direct and indirect jobs. However, this proposal was terminated in 2020 because of the trade war between China and the United States.
* Structurlam Mass Timber Corporation, located at Conway will spend $90 million to purchase, retrofit, and equip a former steel plant. This investment will create 130 new jobs and will source softwood lumber from Arkansas-grown Southern Pine trees.
* The Magnolia cross-laminated timber, Texas CLT, has been certified by Timber Products in 2020. Having this certification, Texas CLT products are now available to the commercial building market. This facility has been producing CLT panels since 2019 but is limited to crane mats, bridge panels, and shoring wall markets without this Timber Products certification.

**Forest product indicators**

Hardwood lumber production in the South and Arkansas fell to exceptionally low levels in 2020 with low demand for lumber due to the pandemic. However, it did show growth in late 2020, reflecting demand from the surprising end-of-year strength in the U.S. housing market. Supply of most species and grades are adequate to current demand; however, yard inventories are low, especially in red and white oak. Oak demand is rising faster than other species and fueled by low inventories. Prices are likely to move upward in 2021.

“Now might be a good time for landowners to invest in long term hardwood stands as oppose to growing more pine which there is a surplus,” said Tian.

**Stumpage prices in Arkansas and the South**

In 2020, stumpage, which is price paid for standing trees, in general, faced weaker markets and continue to reflect the abundance of wood resources in the South and Arkansas.

Pelkki said he doesn’t expect prices to go down much and the rise in price will be very slow because of an oversupply of product.

“We have so many more standing trees than we had 40 years ago,” he said. “We are growing faster than we are cutting. We will not see significant changes in 2021 and even 2022, considering the healthy supply of wood resources in Arkansas and the South.

“In most categories, prices received by landowners have continued to decline over the last five years,” Pelkki said. “Only mixed hardwood markets seem to show some steady increases as high oak prices are initiating some substitution in flooring, millwork, and furniture markets.”

Meanwhile, oak and hardwood stumpage prices in both Arkansas and the South continued to be higher than pine stumpage prices. Given the abundance of timber supply, stumpage prices in 2021 and the near future will keep flat as in previous years, especially for pine pulpwood.

The report indicates paper markets and pulpwood demand by paper mills will remain relatively stable in 2021. With Green Bay Packaging increasing the use of virgin fiber in its Morrilton mill, there will be some increased demand on logging and trucking in the region, but most of this increased supply is expected to come from company-owned woodlands. Demand for packaging and shipping materials will reflect the recovering economy. An increase in the use of paper in shipping, restaurants, groceries, and health care will keep this industry sector stable in 2021.

**Growth outlook for 2021 and 2022**

There will be a continued increase in the wood pellet market, and the global market size is predicted to reach U.S. $23.604 billion in 2025.

“Wood pellets are a renewable energy source, and they are produced from sawdust and ground woody materials,” said Tian. Standardized wood pellets provide a promising production potential, which brings a significant rise in trade across the globe. Wood pellets have numerous applications, which could boost worldwide demand. One common application of wood pellets is being used as solid biofuel in automatic stoves and boilers. Industrial wood pellets could be used as a substitute for coal in power plants and reduce greenhouse gas emissions.

Implementation of the European Union Renewable Energy Directive is a promising indicator of the global wood pellet market. As reported, around 6 million tons of wood pellets were traded between U.S. and E.U. member countries in 2018.

“Woody biomass is a potential raw material to produce green energy in the forms of heat and electricity,” said Pelkki. A significant volume of wood biomass is removed every year through thinning or by natural disasters like hurricanes and tornadoes. “Those woody materials and biomass is a huge source for green energy production,” said Pelkki. There is an increased awareness and acceptance of green energy among the public. The electricity generated from wood biomass was 12 billion kilowatt-hours in 2020, and this number will increase to 14.4 billion in 2021.

There will be a growth in the demanding of engineered timber with increasing investment and improvement of production facilities. One example is the Magnolia Arkansas Cross Laminated Timber facility will be qualified to produce commercial building products with the recently acquired Timber Products Certification.

For the Timber Outlook for Arkansas report complete with graphs, readers can go to the Arkansas Forest Resources Center webpage at <https://www.uamont.edu/academics/CFANR/pdfs/EconOutlook2021.pdf>.

**About the College of Forestry, Agriculture and Natural Resources and the Arkansas Forest Resources Center**

The College of Forestry, Agriculture and Natural Resources, and the Arkansas Forest Resources Center, a University of Arkansas System Center of Excellence, brings together interdisciplinary expertise through a partnership between the University of Arkansas at Monticello and the University of Arkansas System Division of Agriculture. The College and Center are headquartered at the University of Arkansas at Monticello campus, but their programs range statewide with the mission of developing and delivering teaching, research, and extension programs that enhance and ensure the sustainability and productivity of forest-based natural resources and agricultural systems. Academic programs are delivered by the College of Forestry, Agriculture, and Natural Resources through the University of Arkansas at Monticello. Through the University of Arkansas System Division of Agriculture, research is administered by the Arkansas Agricultural Experiment Station, and extension and outreach activities are coordinated by the Arkansas Cooperative Extension Service.

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The University of Arkansas System Division of Agriculture’s mission is to strengthen agriculture, communities, and families by connecting trusted research to the adoption of best practices. Through the Agricultural Experiment Station and the Cooperative Extension Service, the Division of Agriculture conducts research and extension work within the nation’s historic land grant education system.

The Division of Agriculture is one of 20 entities within the University of Arkansas System. It has offices in all 75 counties in Arkansas and faculty on five system campuses.

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