

Crisis in the wood products industry and markets: perspectives from North America

R. Taylor

The collapse of the housing market and the economy has hit the North American forestry sector hard, but industry, forest owners and governments have options for helping the sector gain strength from the crisis.

The recent collapse of the housing and wood products markets in the United States of America was the outcome of years of easy credit (subprime mortgages), lack of lending discipline (greed), underqualification of home buyers for loans and overbuilding of homes, all of which led to a credit crunch (Figure 1). The net result was a collapse of finance and the economy in the United States, which eventually transformed into a global collapse.

Consequences for the forest and wood products sector in North America have included industry cutbacks, unemployment, drops in production, trade slowdowns and loss of consumer confidence. This article traces the impacts (summarized in the Box) and identifies some initiatives and opportunities for enabling the sector to survive the crisis and emerge stronger.

Evolution of a crisis



Collapse in the United States housing market and construction sector has led to decreased production, cutbacks and unemployment in the wood products industry (homebuilders, Seattle, Washington, United States)

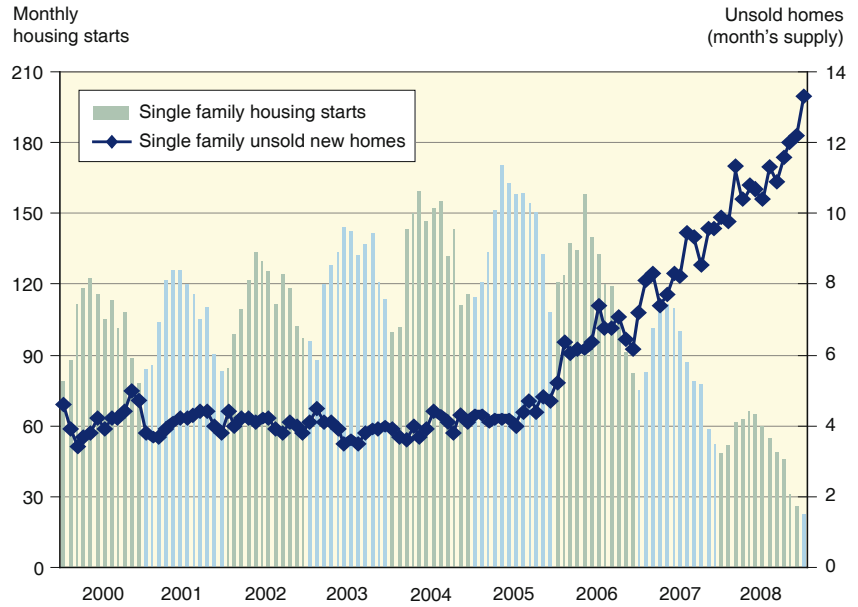


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Collapse of the housing market

**After overbuilding,
housing starts collapsed**

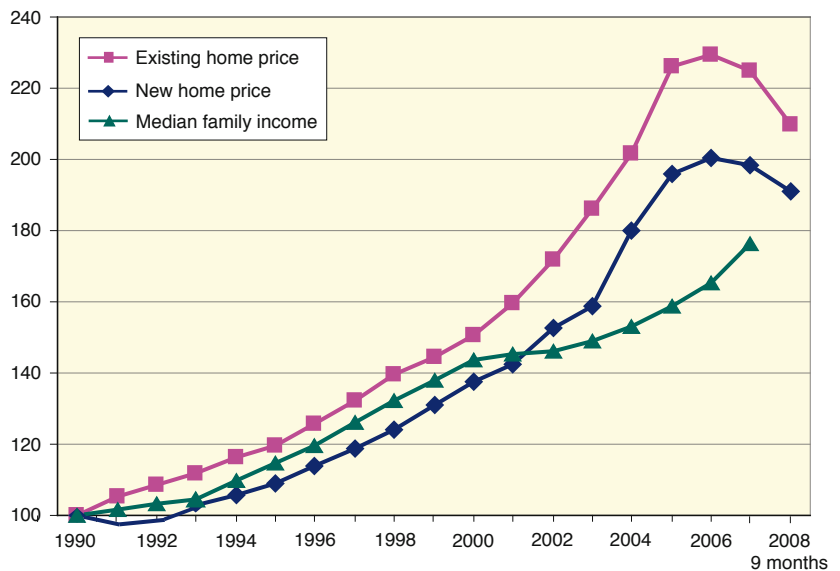


Source: United States Census Bureau, 2009.

Subprime mortgages created too many unqualified buyers.

**Home prices became too
high relative to owners'
ability to pay**

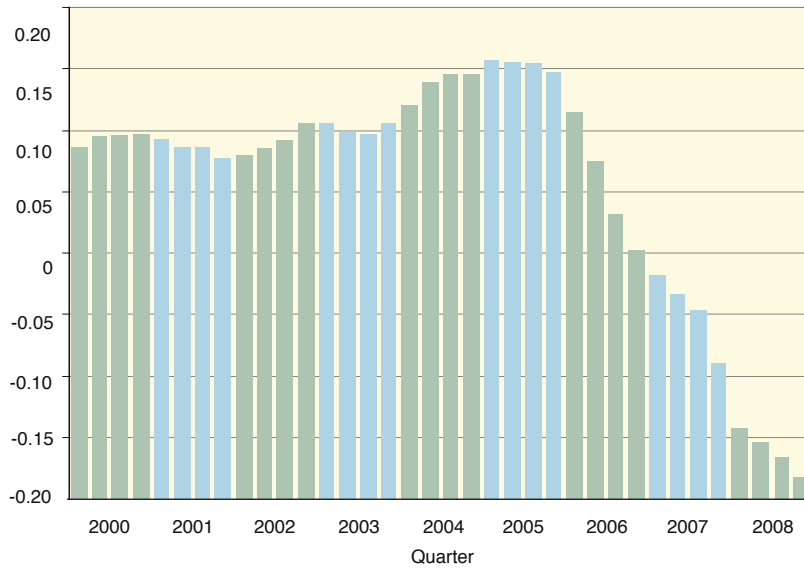
Income and price set to
index of 100 in 1990



Source: National Association of Home Builders, 2009a; National Association of Realtors, 2009.

**Housing prices dropped;
rate of price changes
peaked much earlier than
housing starts**

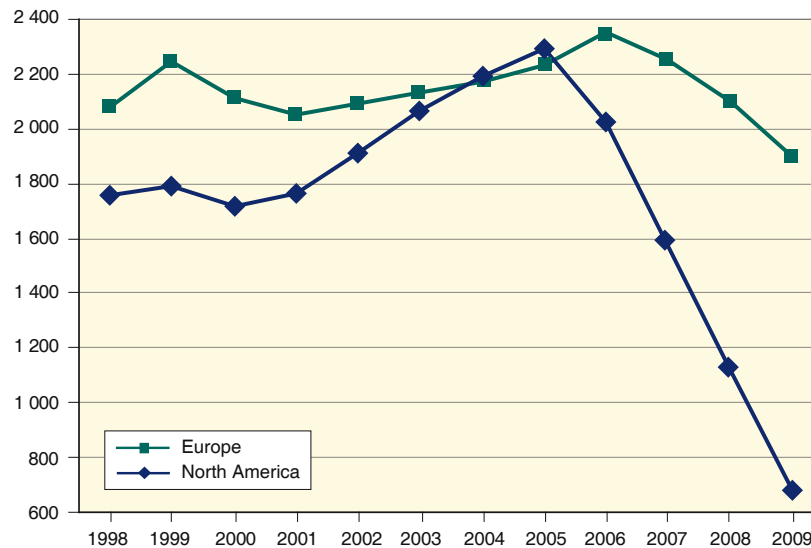
Case Shiller Home Price Index (existing homes)
(% change, year over year)



Source: Standard & Poor's Financial Services, 2009.

**Housing starts in North
America plunge; Europe
also in trouble**

Total housing starts
(1 000 units)



Source: Canada Mortgage and Housing Corporation, 2009; Euroconstruct, 2009; National Association of Home Builders, 2009a.

CRISIS IMPACTS

Housing and the economy

The collapse of the United States housing market has had the following impacts.

- **Deteriorating economy.** Gross domestic product (GDP) dropped 3.8 percent in the fourth quarter of 2008, reaching its lowest level since 1982. Housing directly contributed -0.85 percent to GDP in that quarter.
- **Declining house prices.** Existing homes for sale had a median sale price of US\$170 300, a 14.8 percent decline from January 2008, and the lowest since March 2003.
- **Improving housing affordability index.** For first-time buyers, affordability has improved substantially. As housing prices fall, mortgage rates remain at near all-time lows, and the United States Government's stimulus package features a first-time home buyer tax credit. Nationwide housing affordability surged at year-end 2008 to its highest level in at least five years (National Association of Home Builders, 2009a).

Wood products industry

In the United States, production cutbacks and consumption declines have been significant in nearly every segment of the wood products industry through mid-2009 (Figure 2):

- softwood timber demand is down 50 percent since 2005;
- hardwood timber is down more than 35 percent;
- structural panels are down 37 percent since 2005;
- engineered wood products are down 30 percent.

In Canada, the forest, paper and packaging industries are seeing extremely

poor financial results from the recession (Table). The Conference Board of Canada (2009) predicts that the forest products industry in Canada will lose another US\$675 million to US\$1 billion dollars in 2009.

Canadian exports are down dramatically, as the United States is its major trading partner in forest products.

Labour market: workers hit hard

In the United States, from January 2006 to February 2009, job losses in wood products manufacturing totalled 126 000—or 22 percent of the total industry employment (United States Bureau of Labor Statistics, 2009). The job market for non-farm workers continued to worsen after the United States economy lost 651 000 jobs in February 2009 alone. More than 600 000 workers filed claims for jobless benefits in February 2009, the worst performance since 1982. The unemployment rate jumped to a 25-year high of 8.1 percent and could be headed to 10 percent before a correction occurs (Figure 3).

In the state of Arkansas, employment in the timber industry has fallen to 32 000 in 2008 as compared with 44 000 ten years ago, a decline of 25 percent. In Montana, there were 2 726 production workers employed at sawmills in the fourth quarter of 2008, down 20 percent from 2005, and wages were down 17 percent over the same period.

In Canada, forest industry in the province of British Columbia has had some 20 000 layoffs since its peak in 2004, losing 20 percent of its total employees.

Consumers and builders

The biggest drop in wealth on record has shaken Americans as home and stock values plunge, raising the risk that spend-

ing will again tumble after stabilizing in the first months of 2009.

In March 2009, consumer confidence among United States consumers was near a 28-year low, reflecting mounting job losses and a deepening recession. Builder confidence in the market for newly built single-family homes remained just above its all-time low as economic woes continued to take their toll on potential buyers (National Association of Home Builders, 2009b). The index held steady at a reading of 9 in March, marking the fifth consecutive month of single-digit readings; the low was 8.5 in December 2008.

ISSUES, OPTIONS AND OPPORTUNITIES

It is clear that the United States economy, housing sector and forest industry are in trouble. The situation is bad, and it will probably get worse. However, a number of circumstances and initiatives could create opportunities in the forest and wood products sector.

Short-term options for industry

Options for industry are limited in the short term. The inevitable choice is to reduce timber harvests and let the wood grow. This is a time for cutting output, shutting down excess capacity, cutting costs, conserving cash, reducing lead times and shrinking inventory.

New export markets could be explored, such as the European Union, Brazil, China, India, the Russian Federation and Near Eastern countries. However, as they are also in a downturn, the key to success will be to take advantage of favourable currency exchange rates and shipping rates where possible.

The time is right for diversifying into new products. The recession provides an opportunity to explore options for wood-based biofuels, other "green" products, niche or specialty products and non-housing wood products.

Industries would do well to reposition themselves in the supply chain,

Net earnings of forest, paper and packaging industries

Year	Western Canada		Eastern Canada		Canada	
	(million Can\$)	(million US\$)	(million Can\$)	(million US\$)	(million Can\$)	(million US\$)
2007	-386	-350	-106	-95	-492	-445
2008	-641	-580	-954	-870	-1 595	-1 450

Source: PricewaterhouseCoopers, 2009.



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Options for industry are limited in the short term – the inevitable choice is to reduce timber harvests and let the wood grow (Pinus strobus forest, United States)

shortening their distance from the end of the chain. They would be advised to strengthen their relationships with core customers.

In brief, industries can take advantage of the slowdown to re-engineer their markets, their products, their business and their staffing.

Forest owner options

Forest owners could take the opportunity to invest in long-term productivity and sustainability of forest lands. As asset prices reach bottom, some good values are expected in the acquisition of forest land. Now would be a good time to invest in silviculture and forest rehabilitation.

Companies must correctly position themselves to take advantage of new markets, for example in biofuels, green building and climate change mitigation. Forest certification is a form of long-term market positioning. Forest owners could take advantage of growing opportunities in carbon trading.

Forest owners should be selective in their acquisitions or investments, and time them carefully.

In these uncertain times, it is important to guard against illegal logging in poor business cycles, as there will be more temptation to engage in illicit trade.

Government initiatives

Canada. The Bank of Canada (Canada's central bank) has cut its interest rate to 0.5 percent, the lowest in history. This is down 4 percent since December 2007. The Job Opportunities Program, a US\$24 million initiative funded by the Government of Canada and the Province of British Columbia, will help to support British Columbia's forest workers and their families to reduce the impact of current layoffs.

The Federal Home Renovation Program provides a tax credit of 10 percent on approved projects.

Changes to British Columbia's build-

ing code, which previously limited the construction of residential wood structures to four storeys, will now permit them to rise to six storeys, encouraging more wood consumption.

The 2009–2010 budget of the Province of New Brunswick, published in March 2009, proposes silviculture projects in addition to tax cuts, investment credits and energy rebates (Province of New Brunswick, 2009).

The Canadian Government is funding silviculture and research and development programmes and wood products market development initiatives. And further initiatives are expected.

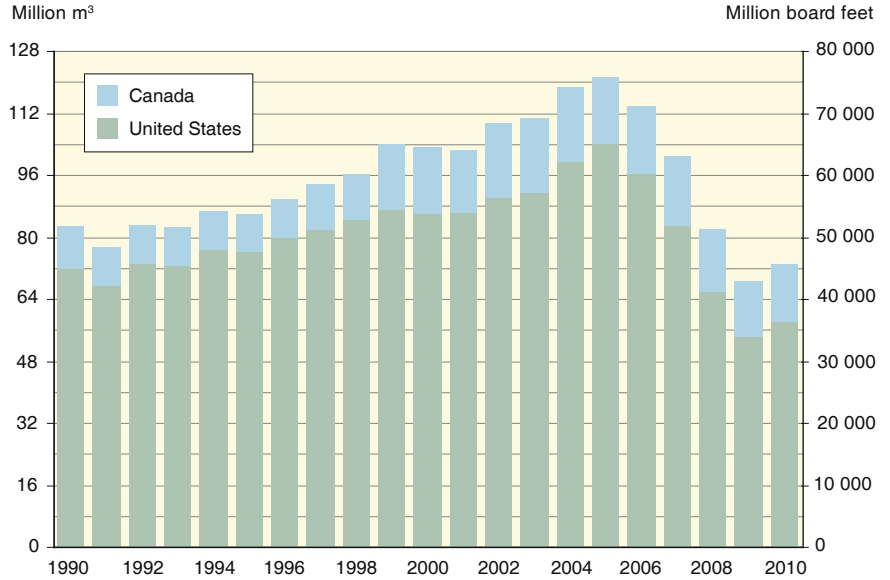
British Columbia's building code has limited the construction of residential wood structures to four storeys but will now permit them to rise to six storeys, encouraging more wood consumption (wood construction, Vancouver, British Columbia, Canada)



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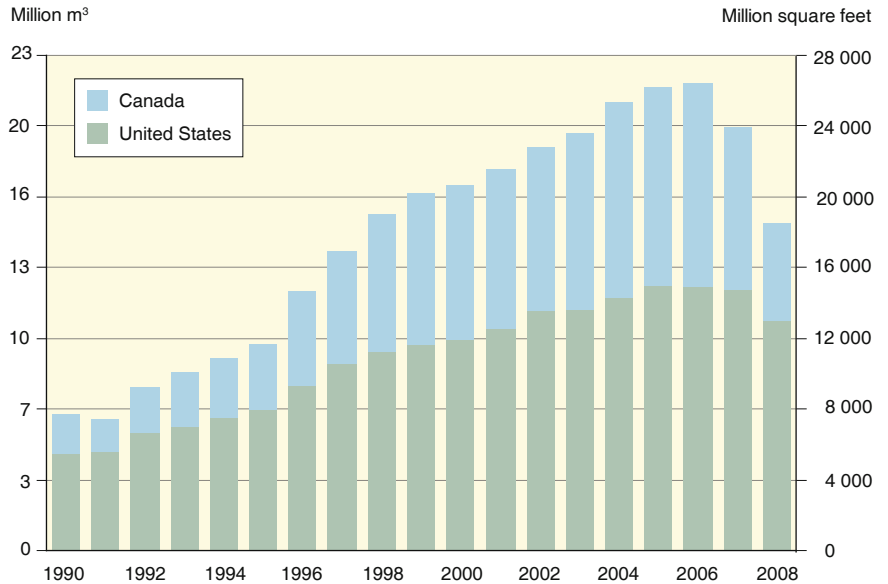
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Impact of drop in housing demand on wood products sector

Sawnwood consumption collapses by 50 percent in the United States; eroding in Canada



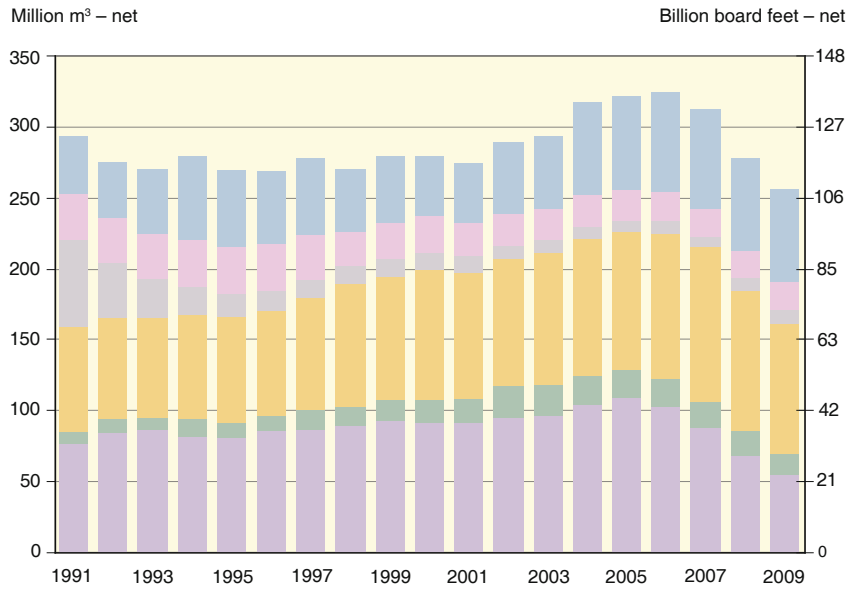
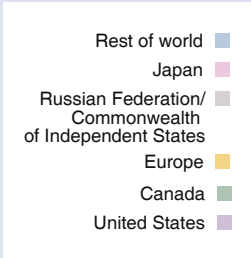
Source: Council of Forest Industries, 2009; Western Wood Products Association, 2009. Forecast for 2009 and 2010, International Wood Markets Group, 2009.

Oriented strand board (OSB) production down, especially in Canada



Source: International Wood Markets Group, 2009.

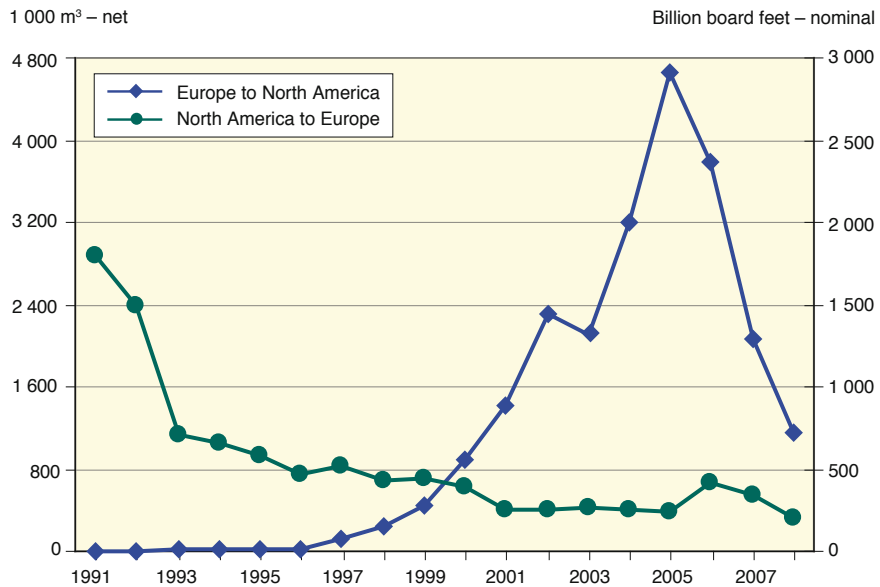
Global sawnwood consumption down and expected to fall further in 2009



Source: International Wood Markets Group, 2009; FAO, 2009.

Early reports indicate a bigger decline for Europe in 2009 than shown.

More slowdowns in sawn softwood exports between North America and Europe

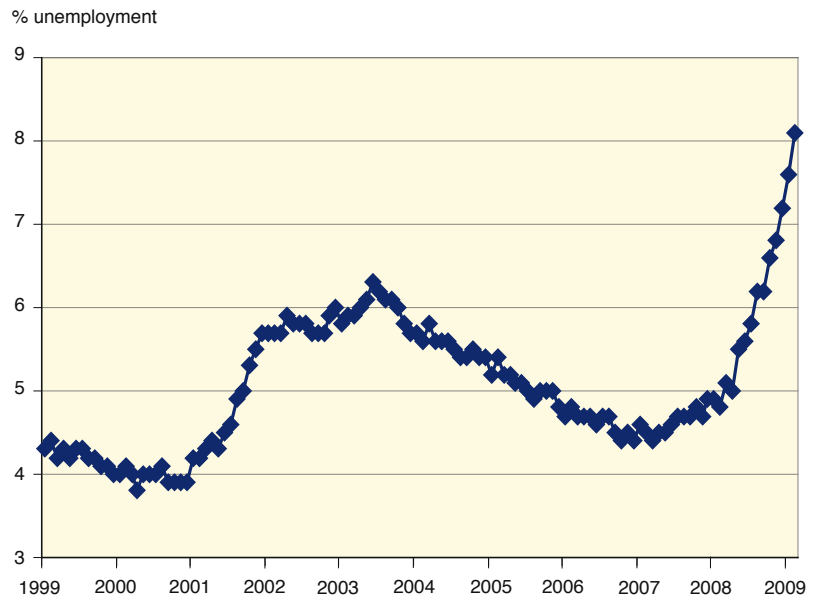


Source: USDA Foreign Agricultural Service, 2009; International Wood Markets Group, 2009.

Weak demand and low prices are problematic for exporters.

3 Impact on the labour market

Soaring unemployment in the United States: heading for 10 percent



Source: United States Bureau of Labor Statistics, 2009.

United States. The President's US\$275 billion Homeowner Affordability and Stability Plan aims to support between 7 million and 9 million existing homeowners who might otherwise be at risk of foreclosure. Slowing the rate of foreclosures is intended to stabilize housing prices, which in turn should benefit all homeowners, encourage qualified buyers to enter the market and give homebuilders enough confidence to buy upward. The plan has three main components:

- supporting homeowners who are current with their payments but cannot refinance;
- supporting "at-risk" homeowners who are current on their payments but are at imminent risk of default;
- boosting credit availability for all mortgages by allocating an additional US\$200 billion.

The Troubled Asset Relief Program is a bail-out programme through which the

government agreed to buy mortgages and other assets from financial institutions. It has encouraged banks to lend among themselves again, but it has done little to unfreeze consumer credit markets or to resolve how to renegotiate the estimated US\$2 trillion of toxic mortgages that need to be discounted or written off.

The United States economic stimulus package includes expanded tax credits for energy-efficient home improvements. The idea is to put more money in consumers' pockets by providing financial incentives for homeowners to "go green". However, this part of the programme is not expected to have a great impact, since it is not yet a priority in the eyes of consumers.

Here, too, more initiatives are expected.

Government initiatives and forests

Forestry is especially well placed to contribute to economic renewal and could create many, many jobs. Unemployed workers

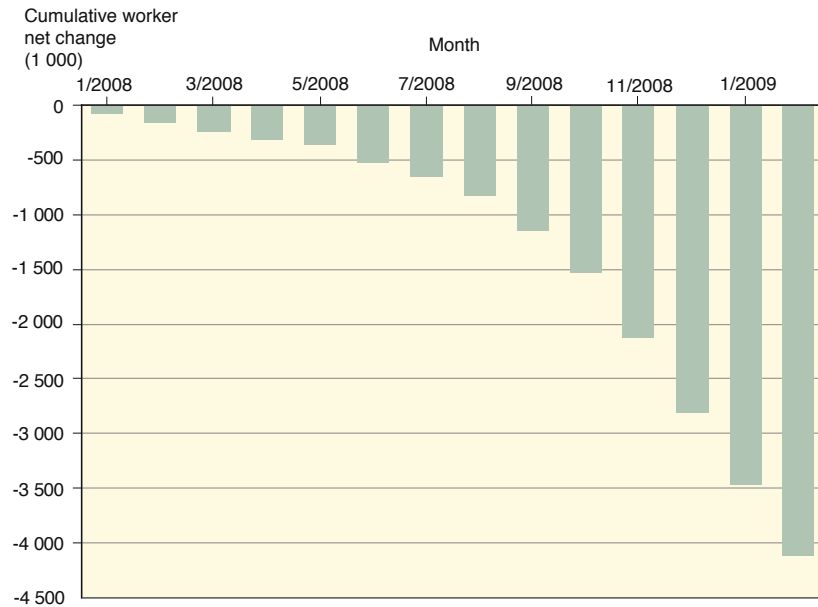
can be put to work to establish plantations or improve forests, increasing their value. Labour is the biggest cost component. Initiatives that involve improvements to forest land can range from silviculture to salvage to reclamation.

The United States industry can position itself to take advantage of the coming economic stimulus, including extension of unemployment benefits and green energy investments, by expanding investment in forests with worker programmes.

Funded programmes could grow the market by increasing wood consumption to displace competing materials.

The obvious short-term benefit is in putting people back to work. The obvious long-term benefits include raising the productivity of forest land, sequestering carbon, maintaining wildlife, clean air, clean water and other environmental benefits, while improving economic well being.

Non-farm payrolls in the United States plunge



Source: United States Bureau of Labor Statistics, 2009.

A fundamental question, however, is what is the real cost of government funded or make-work programmes for forestry. It is necessary to ascertain that the social benefits outweigh the net financial costs.

SUMMARY

The key to a stronger United States economy is strengthening of banking and credit markets, which will not occur until housing prices stabilize. A key question is whether the latest stimulus package (including the Homeowner Affordability and Stability Plan) will help bring about this stability. If it stabilizes prices at an artificial level, then the stability will probably not last. It is likely that the situation for United States housing and wood products will get worse before it gets better in 2010. It is still early in North America for a real plan. But in the meantime, the forest sector has a role:

- in making the most of the unemployed, through work programmes;
- in providing a solution for climate change and reducing greenhouse gas emissions;
- in opportunities for bioenergy. ♦



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