

Vermont Department of Forests, Parks and Recreation

Regional Market Assessment

April 24th, 2020

Since the onset of the COVID-19 pandemic, and “stay at home” orders went into place, the Department of Forests, Parks and Recreation has heard from many different sectors of the forest economy with concerns about the status of markets for forest and wood products in the coming three to six months and how they might plan accordingly.

The information provided here is a summary of input provided by forest product industry contacts and public sources in mid-April 2020 and represent conditions at that time. It is intended to provide general information on the current state of forest products markets in Vermont and surrounding states. Factors impacting this information are changing on a frequent basis. Businesses and individuals making management decisions should consult a variety of sources for the most current information and make informed decisions.

General:

- Many economists including some forest economists are predicting that we are likely looking at a global recession that could last well into 2021. It is likely that businesses will want to be conservative with spending. One purchaser noted that the industry has seen tough times before and that businesses will need to “tighten their belts and keep going.”
- Mills that are operating, are generally fully staffed, but some have seen a few employees with COVID-19 risk factors opting to stay at home and not risk infection.
- Mill owners/managers of specialty or local-use mills noted that demand for all things garden related was very strong. Anecdotal evidence from several sectors suggests that homeowners will be growing more of their own food this year and staying closer to home.
- There is some speculation that government stimulus will spur more wood manufacturing in North America and increase domestic demand.
- There is universal concern about the viability of the logging and trucking capacity in the region. Now, more than ever, business owners in the forest economy supply chain should be evaluating and understanding their cost of doing business and comparing that to available markets and revenue opportunities so they are contracting for work that will help sustain, and not unnecessarily harm, their enterprise.
- Wholesale prices for Ultra-Low Sulfur Diesel fuel have fallen by 35% and lower pricing is expected to last through the summer. Over the past two years, Vermont retail prices for on-road ULSD have averaged \$1.20 per gallon above the New York Harbor wholesale spot price. This premium reflects distributor and retailer costs. The premium has grown over the past six weeks to around \$1.55 as the spot price has fallen much more quickly than the retail price. Past experience (such as the 2014-2015 price drop) suggests that the retail price premium will stabilize around \$1.20 per gallon after retail prices adjust to the rapid change in wholesale prices.

Hardwood:

- Hardwood sawlog prices have suffered since tariffs on exports to China went into effect. China had become the major market for ash, red oak and cherry and as demand dropped for US lumber in China, so did prices. Mills shifted to other species, resulting in an oversupply.
- Most sawmills are running and producing raw materials for critical industries (paper & agricultural bedding) while practicing social distancing.

- Mills are focusing on sawing “white wood” before warm weather to prevent staining.
- Excess inventory is a concern. With mud season in full swing deliveries are currently minimal and log buyers are being conservative.
- Secondary manufacturers (furniture, cabinetry, etc.) are currently shut down in parts of the northeast (this varies by state depending on details of stay at home orders) this could lead to excess lumber inventory if shutdown are prolonged. Lumber demand coming out of the stay at home orders will be a critical factor in a mill’s desire to rebuild inventory.
- Most secondary wood using industries in Quebec are closed as well. Grades of lumber going into flooring are not moving well.
- Demand for railroad ties and crane mats is still good, but if sawmills shift production to these markets, overproduction is possible.
- Pallet lumber demand has slowed, with many manufacturers of non-essential items which are normally shipped on pallets shutdown.
- Demand for pallet logs, one clear face (1CF) and less, most of which are ultimately processed by flooring mills in Quebec, is weak due to a lack of flooring markets.
- Export demand may be improving. Several contacts noted this was a potential bright spot. Exports showed signs of improvement in early 2020. Trade agreements made prior to the pandemic are just being implemented and China is just now coming out of industry shutdowns for the Chinese New Year and COVID-19 quarantines. When it is available, the export data for March and April will be helpful in understanding the trends. One forest economist, while recognizing that the trade war has had substantial impact on the industry, also noted that the Chinese economy could be in worse shape than has been reported.

Softwood:

- Housing starts in February, which have been increasing steadily since 2011, took a sharp drop in March. Spruce/fir markets depend on construction, and with construction not classified as essential in a number of states many contractors across the region are shutdown. As a result, demand is reduced, and lumber markets are soft. Near-term demand will likely depend on when contractors are allowed to return to work, with longer term recovery tied to the health of the overall housing market.
- White pine is also affected by shutdowns in construction activity. Purchases by export markets in Canada and overseas are also down.
- Log inventory is variable. Some mills have ample winter cut wood while others experienced a shorter than anticipated winter logging season resulting in less than desired inventory.
- Mills are sawing winter cut wood and likely to be conservative in purchasing until prospects for the future are clearer.
- Mills doing retail sales are seeing good demand from homeowners doing small projects, particularly garden related projects such as raised garden beds, but not seeing larger contractor sales.

Pulp and Paper Mills:

- The market for printing and coated paper has seen a significant decrease that would be expected with the number of businesses, paper based transactions and needs for magazine and advertising printing that have been halted as a result of the pandemic. Some purchases of pulpwood from concentration yard in Vermont have been suspended and prices have dropped to account for corresponding changes in orders and prices for paper that some mills produce.
- Tissue paper, paper for food packaging (take-out and fast food meals) and paper for home delivery packaging has seen steady demand during the pandemic

- The destructive digester explosion on April 15th at the Pixelle Specialty Solutions (formerly Verso) paper mill in Jay, Maine, is having a negative impact on all species of pulpwood, as available pulpwood and sawmill chip supply is much greater than demand. This mill is a major pulpwood and sawmill chip consumer with a wide procurement reach, tied to many suppliers and mills, and any downtime there will have a considerable ripple effect across the region. This incident is greatly magnifying the supply and demand issues caused by the pandemic.
- The closure of a paper mill in Nova Scotia in early 2020 had a cascading effect of creating larger supply availability of softwood pulp for paper mills east of Vermont through the winter leading up to the pandemic and incident in Jay.
- Investments to diversify the type of products they produce offer some paper mills confidence that there will be rebounding demand for those products in the future. One mill reported changing equipment to produce more marketable grades in higher demand, which will change the demand for the type of pulpwood they procure.

Biomass Electric:

- Biomass electric plants plan to purchase wood chips and build inventory. Prices for wood chips are stable for now, while electricity prices are down due to an oversupply of natural gas with other sectors of the economy shutdown.

Firewood:

- Firewood producers report very strong sales in many parts of the state
- Homeowners staying at home are utilizing more firewood than planned for heat in cooler weather at the end of winter
- Homeowners are securing wood for the 2020-2021 heating season out of concern for what the availability might be in the coming months
- There is concern among some producers about the consumer's ability to pay for products
- Firewood orders for specialty markets – restaurants, campgrounds, and outdoor ambience wood are on hold during the stay at home order
- Extremely low fossil fuel prices could impact firewood demand

Maple:

- Sugarmakers are anticipating a very good to excellent crop this year. As of April 20th, high elevation and "cold" bushes are still in production.
- The weak Canadian dollar will make Canadian syrup less expensive on the world market, thus forcing U.S. prices downward to compete.
- Demand varies by market with grocery and club store markets experiencing excellent demand while food service and restaurant accounts are closed and not buying.
- One person commented that "every day is a weekend" during the stay at home orders and people are apparently making breakfast during the week and using more syrup as a result.