

AN INTERVIEW WITH ERIC KINGSLEY:

INDUSTRY TRENDS





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Eric Kingsley is a forest consultant and a frequent contributor to The Northern Logger. We spoke with him in December of 2020 about what he saw in the forest products industry in 2020 and what to look toward in the new year. This interview has been edited and condensed for clarity and length.

Northern Logger: We'll start simple. How is it going in the industry right now, from your point of view?

Eric Kingsley: It depends on the sector. Hardwood has been okay, not great. I think it has better days ahead. Over the past decade or maybe two decades, a lot of hardwood log and lumber was exported to China, and that was a continually growing market. Hardwood lumber was an absolute victim of the trade war. Tariffs were placed on lumber, and in addition to tariffs, previously existing rules that had had lax enforcement were suddenly ramped up on the Chinese side. That whole situation occurred a couple years ago, but the true tariff piece was significantly reduced this spring, and the trade war effect was over this spring.

Unfortunately, that happened to coincide with a global pandemic, so at the moment that things could have started getting better, they didn't. All that said, the domestic market has been okay. Housing starts have been good and growing. There was a little dip at the very beginning of the pandemic, but housing starts in hardwood tend to be a leading indicator for a bunch of markets, like furniture and flooring. Housing starts in softwood are incredibly well correlated, but in hardwood not as much because the things that finish a home tend to be hardwood. There's reason for optimism, or to think those markets are going to get better for cabinets or flooring or furniture. At the same time, we're seeing more and more shipping, so that's a reason to think that domestic pallet markets will grow as well.

NL: What do you expect to see happen to housing in 2021?

EK: I expect it to be stable to increasing because you're still seeing movement to suburban and semi-rural areas. I'm not convinced we're seeing people actually move to rural areas, but we are seeing a move away from dense urban areas. Nationally, we are seeing people not have to live in expensive cities in order to have jobs in those expensive cities, so I would expect that to continue because of pandemic-accelerated societal trends. With that said, you're not really going to get people moving from San Francisco to rural areas, but you're going to get people moving from San Francisco to suburban Bozeman.

NL: What have you observed on the softwood side of the market?

EK: Certainly, on the structural lumber side, softwood had a great year. Anyone making two-by-fours, two-by-sixes, two-by-eights. 2020 was a very, very strong year in large part because a number of mills in the US and in Canada stopped production at the beginning of COVID, thinking that the markets were not going to reappear for a while, and some of those mills took the opportunity to do capital projects they had been putting off. When the market did rebound, and it happened just weeks later, the lumber just wasn't there. So, anyone with the ability to make structural lumber has had a fantastic year, and that was just coming out of lockdown. Shortly after that, the entire Pacific Northwest caught on fire, which disrupted supply chains and mill operations throughout the Pacific Northwest. While absolutely tragic, that provided a short-term market benefit to folks in

this region. The white pine folks have been doing well too, because everyone is stuck at home wondering what to do and finding DIY projects to do. I spoke to someone who just analyzes lumber, and they were telling me that the over-the-shoulder market – basically any quantity that can fit in a pickup truck or less – has increased by 14-fold this year out of the box stores.

NL: So, onto a topic that can be depressing. What are you seeing with biomass?

EK: Biomass had a rough year. A lot of facilities closed. Some were torn down. I don't see any reason that that will change for the large-scale, stand-alone plants. There are some that have found a way to operate. They have scale or they had prior purchase agreements, and that's great, but we're certainly not going to see any increase in that market, and we are likely to see some level of decrease. That said, there's a company that owns a couple plants in Maine that has been on a buying spree and has acquired at least four plants in New Hampshire, Vermont, and Massachusetts, and maybe more. There are rumors that they are acquiring a few other small plants. I don't know what they figured out or how they plan to operate, but someone is out there buying up 35-year-old biomass plants.

NL: Can we talk about emerging markets in the industry? We obviously hear a lot about Cross Laminated Timber (CLT).

EK: You are the fourth person to say CLT to me this morning, and it's not yet noon. I think we are in a chicken-and-egg problem

with CLT, which will get solved. Someone is going to build a CLT plant. But right now what we're seeing is people in this region aren't building a lot of CLT projects. There are some, but not many. CLT manufacturing facilities and the shipping of huge panels is incredibly expensive, which makes it financially unattractive, which means people don't do it, which means we don't have CLT projects. Because we don't have CLT projects, there is no market for a manufacturer in the region. I would suspect we're going to see someone build a small CLT facility that could be scaled as the market grows, and I think we'll see that in Maine soon. There are a number of companies that have announced they're going to do something, but someone's going to do it, and it'll be in Maine just because that's where the structural lumber is.

NL: What about other new markets? I read about biofuels and wood batteries and clothing made of wood, but are these pie in the sky ideas?

EK: We're going to have a small biofuel facility in Maine selling into the home heating space, which is a great regional market making what they claim is chemically indistinguishable from home heating oil, so you don't have to do anything weird and I could put it in my house tomorrow and it will work just fine. That said, they haven't done this at scale yet, so we'll see, but that's a promising market. I'd expect we're going to see some biochar, but those tend to be smaller markets in tens of thousands of tons, not hundreds and not certainly not millions, but I think we'll see some biochar manufacturing for





a number of markets, some agricultural and some higher value.

NL: We've experienced some fundamental changes in how the economy has restructured around COVID. How can loggers and sawmillers identify these changes and take advantage of the new direction of things?

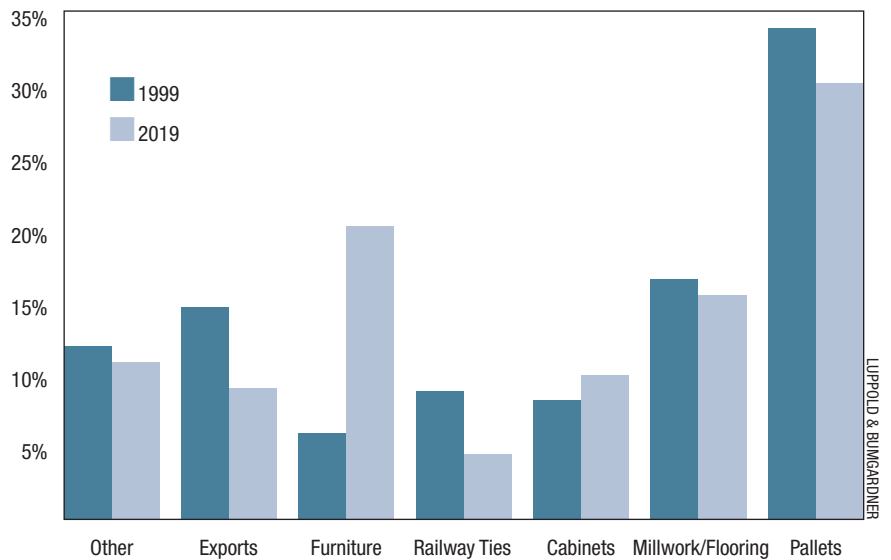
EK: Most of what we've seen hasn't truly been new, but it has been a gross accelerant to trends that already existed. Writing paper has had a declining base for decades, and everyone expected that to continue, but it just dropped off the floor. I don't think we're going to see people going back to paper use at schools and offices. I'm not even convinced we're going to see people going back to offices in the numbers that they were before, so I think we can expect that trend to continue. At the same time, packaging is going way up.

I think we're going to see a reversal of a trend in housing. There was certainly a trend toward urban living and a re-city-ing of America. That seems to have reversed, and I expect that reversing to be somewhat permanent or at least generational. I'm not smart enough to know all the products that are going to benefit in the pandemic and culture change, but if I was a manufacturer, I'd be thinking really hard about how to capitalize on that because we're seeing acceleration in trends that have been ongoing, and this is a great opportunity for manufacturers to take advantage of those. **NL**

US HARDWOOD LUMBER PRODUCTION: 2015-2019

	2015	2016	2017	2018	2019
Consumption (bbf)	8.22	8.22	8.00	8.11	8.13
Imports	0.48	0.41	0.35	0.40	0.32
Exports	1.49	1.66	1.89	1.73	1.38
Apparent Production	9.23	9.47	9.54	9.44	9.18

WHERE THE HARDWOOD LUMBER VOLUME WENT: 1999 vs 2019



HOUSING STARTS (in thousands)

