



Timber! Assessing forestry woes on the B.C. economy

B.C.'s forestry-dependent communities have experienced a flurry of damaging news this year as the combination of market forces and impacts of longer-term forces affecting timber availability have triggered yet another cascade of mill closures. In a period of less than two months, Western Forest Products announced the permanent closure of its temporarily shuttered Port Alberni mill, while Canfor announced the wind down of its Chetwynd operation, Prince George kraft pulp line and Houston mill as it seeks to (hopefully) rebuild a new facility for the latter. Meanwhile other companies have announced extension of temporary curtailments due to weak market conditions.

Estimated job losses for permanent closures were:

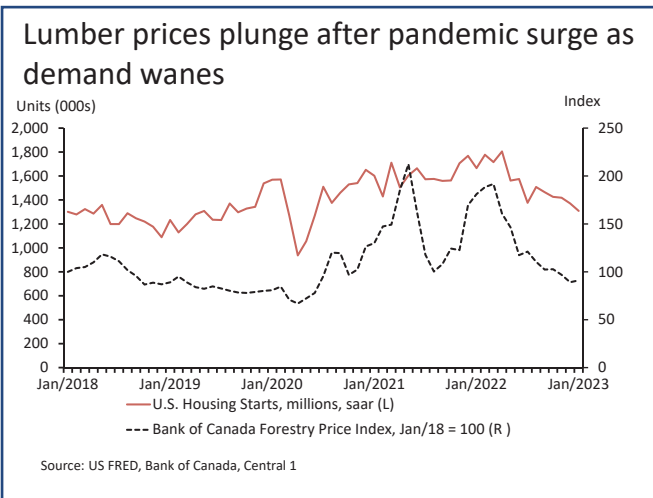
- Port Alberni/WFP – 100 positions
- Chetwynd/Canfor – 150 positions
- Prince George/Canfor – 300 positions
- Houston/Canfor – 300 positions

The announcements cut a swath of wood and paper-related manufacturing jobs in the province and are a substantial hit for local communities in terms of direct job losses and local businesses dependent on higher paying resource employment.

While market-driven, the latest closures highlight the longer-term trend in B.C. of a shrinking forestry sector in both size and relative importance for the economy. Even a more pronounced downturn will have relatively modest impacts on B.C. economic growth and employment.

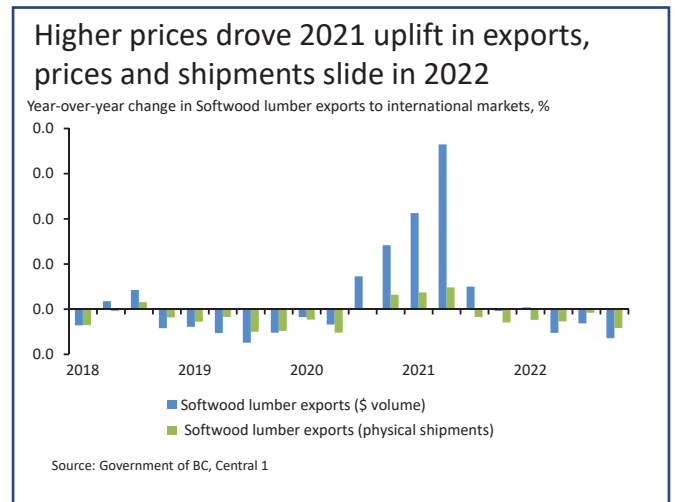
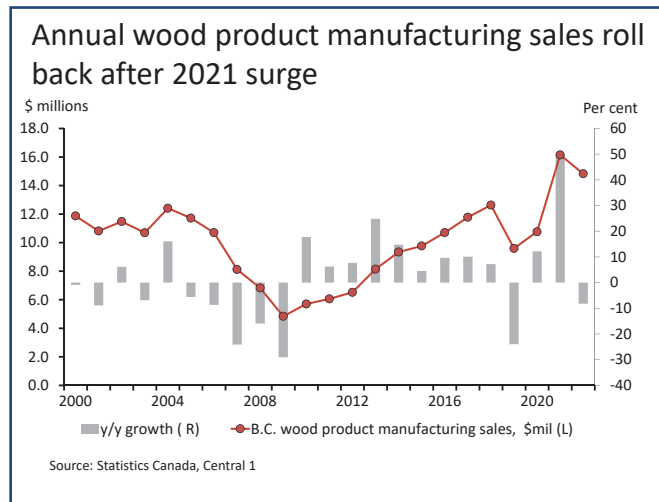
Forestry sees boom to bust conditions during pandemic

That the sector is reeling is no surprise given a rapid shift in market conditions. In 2021 and for most of 2022, the wood product manufacturing sector enjoyed massive profits on the back of a pandemic boom in home construction and renovation activity alongside soaring prices. U.S. housing starts rose to an annualized rate of about 1.6-1.7 million units from 2021-22, marking the highest levels since 2006. Meanwhile, Canadian housing starts remained elevated.

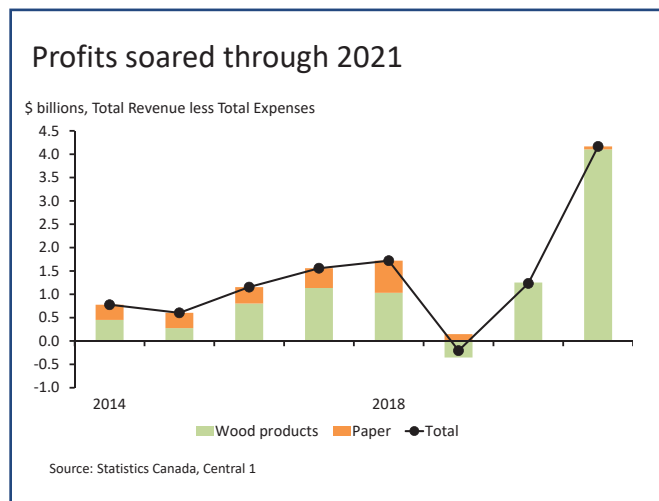


At peak, the price of lumber hit \$1,670 USD per thousand board feet. From the Bank of Canada's commodity price index, forestry product prices peaked in May 2021 at 2.5 times February 2020 levels. B.C. producers enjoyed export prices that nearly tripled at peak from pre-pandemic levels. Prices gyrated in the back half of the year but remained elevated before slumping through 2022 as higher interest rates curbed housing demand. While Canadian housing starts remained resilient, U.S. starts have declined 30 per cent from the pandemic peak.

B.C. production aligned with these gains with wood product manufacturing sales up 50 per cent in 2021 in dollar-terms, before sinking 8 per cent in 2022 on declining momentum later in the year. Export revenue of B.C. international softwood lumber exports fell 18 per cent in 2022 after a 60 per cent increase in 2021. These swings have largely been driven by prices as real exports fell 13 per cent in 2022 after a 3 per cent increase in 2021. Q4 data showed year-over-year plunge in dollar volume sales of 30 per cent, with real shipment down 21 per cent.



Profit (revenues less expenses) in B.C.'s wood manufacturing sector reached \$4.1 billion in 2021, compared to \$1.2 billion in 2020 and a loss of \$300 million in 2019, driven by sawmills and engineered product. A 50 per cent increase in revenue drove these results which held up into the second half of 2022. Profits in the paper sector also increased in 2021 but remained far below pre-pandemic trends. Lower revenue trends have curbed profits since the latter stages of 2022.



Downturns lead to curtailments, but permanent closures a risk

Like previous cycles, pricing downturns have led to curtailments of production at mills as seen in the back half of 2022, but temporary measures have increasingly become permanent in nature. The permanency of mill shutdowns over decades have reflected market impacts such as consolidation of mills, productivity, international trade disputes surrounding softwood lumber and duties on Canadian lumber.

Over the past decade, fibre availability in B.C. has become a much more pressing issue reflecting the mountain pine beetle epidemic of the 1990s and early 2000s which impacted a large swath of the harvestable timber land base and amplified by

substantial wildfires. After a period of salvaging efforts, timber in B.C.'s interior has increasingly been less economic to harvest, leading some companies with mills in the same jurisdictions to swap harvesting rights and shutter mills. Low harvest capacity is expected to continue into mid-century due to long-term impacts of the pine beetle infestation. High prices over the past year have provided some incentive to continue harvesting less-than-ideal timber, but that is no longer economical in the current environment. Government protection of old-growth forests, while likely necessary to maintain biodiversity, further curbs potential fibre availability.

Impact of the forestry downturn on the B.C. economy

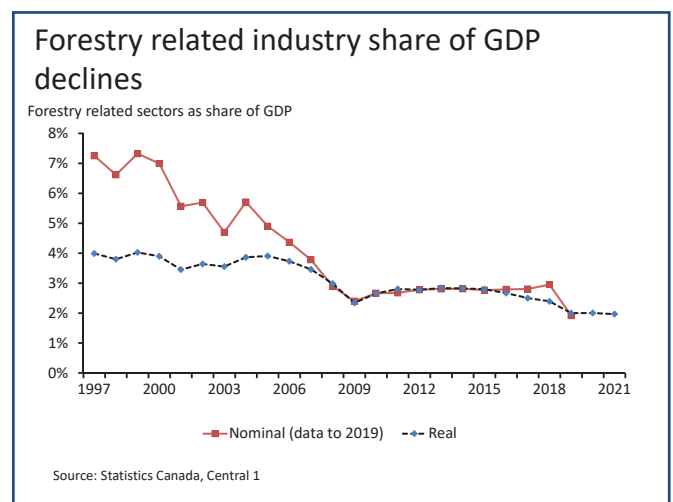
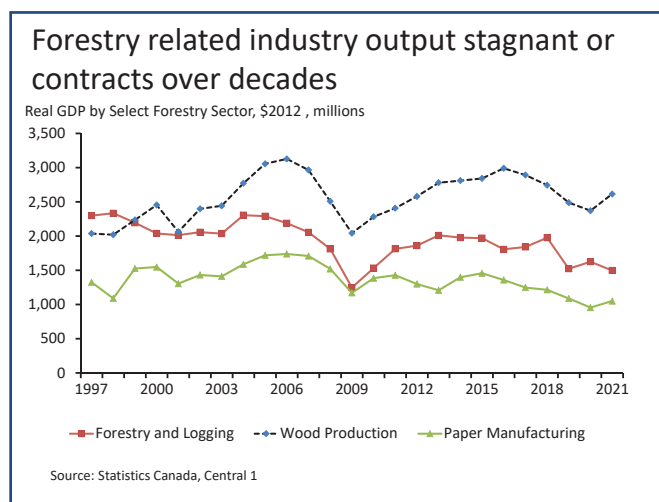
There is good reason to expect the current downturn in forestry sector to persist. Market conditions will likely face ongoing challenges as high interest rates drag on into 2024, holding back U.S. housing starts while Canadian new constructions begin to falter. Temporary curtailments will extend or become permanent. The B.C. government's plans to incentivize value-added production and increase timber supply for producers will provide some offset but are unlikely to arrest a downturn. Sectoral GDP could be expected to decline by 5-10 per cent this year. A rebound in housing demand and lumber prices can be expected in later 2024 but with B.C. forestry companies diversified into the U.S., trade issues and timber supply constraints, we anticipate further contraction in the forestry sector including mill shutdowns and declining production.

Forestry jobs losses will have large repercussions for the local communities effected, which will likely intensify in 2023 given weak markets. At the same time, the impact on the broader provincial economy of even a deeper downturn in forestry, at this stage, is likely mild given the size of forestry sector.

Based on payroll employment counts, there were about 30,400 paid positions in the paper and wood product manufacturing sector in 2022. While a significant number, this represented about 1.2 per cent of total employed positions in the province and about 20 per cent of all manufacturing positions. Adding to this, forestry and logging support employed an additional 17,300 positions. Combined, manufacturing and forestry and logging employed 47,665 positions or 1.9 per cent of total employment.

The importance of forestry as an economic base has declined over the decades despite remaining a key provincial export. As recently as 2018, combined wood and paper manufacturing and forestry, logging and support reached 52,886 positions, a cycle high after plunging following the Great Finance crisis. Data from the early 2000s dwarfed these figures with employment of nearly 90,000 positions. In the early 2000s, related manufacturing was 3.2 per cent of employment, and combined with forestry and logging was closer to 5 per cent.

These jobs figure aligns with output growth. The share of GDP of the direct forestry, logging, and wood and paper manufacturing is roughly 2 per cent, both in nominal and real terms. This trend has broadly declined over the decades. As a share of nominal output this has declined from near 5 per cent prior to the Great Financial Crisis and U.S. housing crash and from more than 7 per cent in the 1990s. As a share of real GDP, this has declined from about 4 per cent in the late 1990s. The sector has not kept up with the rest of the economy in recent decades and has in fact stagnated or shrunk. Real softwood lumber exports are also cyclical. Shipments peaked in 2005-06 before tumbling with the U.S. housing crash, reversing course to 2018 before declining again. The pandemic boom largely drove revenue growth rather than production growth as high prices boosted profits.



Locally, long-term weakness in B.C.'s forestry sector could be devastating for smaller communities reliant on the forestry sector as mill shutdowns impact both the direct high paying manufacturing and forestry jobs, but also indirectly impact the local communities through demand for goods and services. For example, a community like Houston is home to 3,200 persons, while Chetwynd's population is 2,650 persons. Job losses of this magnitude could be devastating as they could represent up to 300 workers and 150 households and be among the largest employers in the towns.

While the job market remains exceptionally tight in the province, there could be repercussions from closures of major employers including broader business closures, home loan delinquencies, bankruptcies, a weaker local tax base, and outmigration to other areas. It is unclear what options affected households would have in the local area. A challenge for government is to support these impacted regions through economic development. Replacing high-paying jobs will be difficult and new investments will not be easily found. Indeed, there are still projects in northern B.C. such as Site C and LNG which could provide some outlet for impacted workers, but this is a short-term solution. No major projects are currently approved to replace these major investments in 2025 onwards.

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