



Forest Management Co.
PROFESSIONAL FORESTERS

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News for Family Forests

September 2017



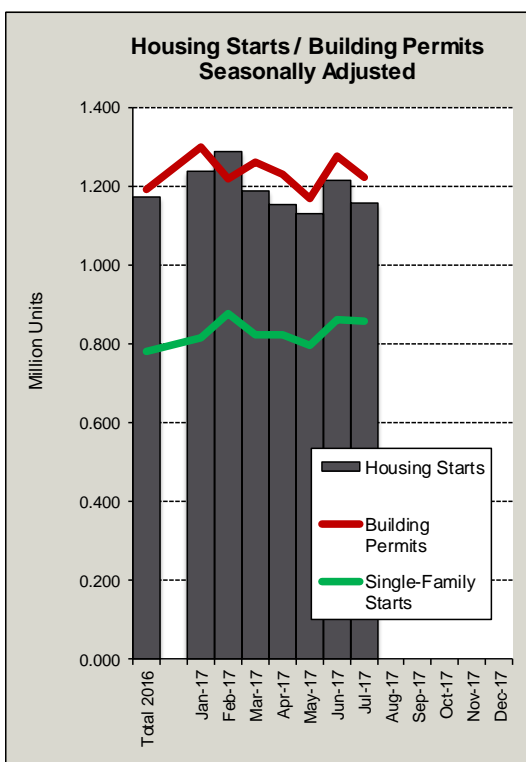
The wildfires across the Northwest should begin to recede as the rainy season fast approaches. The moisture is certainly welcome in most regards, but does create challenges for forest operations currently active on dirt roads.

There is nothing that indicates there will be a decline in the high log prices any time soon. It is an excellent time to sell your timber. The additional cost of preparing roads for the rainy season is much easier to absorb when markets are up. If you would like to plan a fall/winter harvest, let's get together and discuss your options.

In addition to timber harvests, Woodland offers a variety of services – including timber cruising, reforestation, management plans, pre-commercial thinning, competition control in plantations, forestland valuations, and road maintenance. Give me a call any time (503) 654-2221.

- Brent

MARKET WATCH: HOUSING, LUMBER AND LOGS



HOUSING STARTS

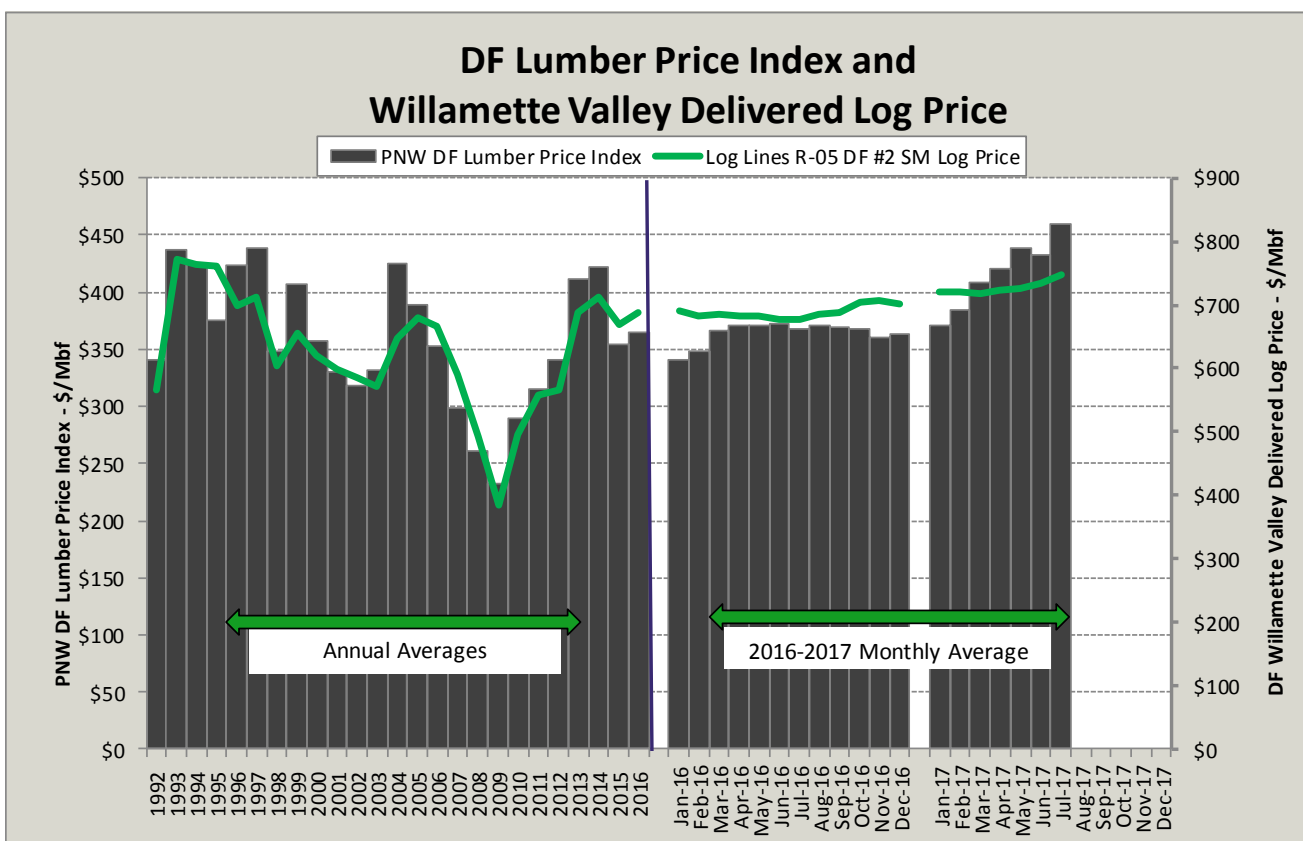
The housing market is an important indicator of the log and lumber market. When the housing market is booming, demand goes up and so do log and lumber prices.

U.S. housing starts in July decreased to 1.155 million units (SAAR), down 4.8% from the revised June estimate, and 5.6% below July 2016. Single-family starts fell to 0.856 million units (SAAR), down 0.5% from June, but 10.9% higher than June 2016.

July 2017 Housing Starts (million units, seasonally adjusted):					
	July 2017	June 2017	Change from Previous Month	July 2016	Change from Previous Year
All Starts	1.155	1.213	-4.8%	1.223	-5.6%
Single-Family Starts	0.856	0.860	-0.5%	0.772	10.9%
Building Permits	1.223	1.275	-4.1%	1.175	4.1%
Single-Family Building Permits	0.811	0.811	0.0%	0.718	13.0%

Source: U.S. Census Bureau

LUMBER & LOGS



Lumber and log prices increased in July. Lumber prices increased 6.1% and log prices had an increase of 2%. Both are still substantially above the figures from one year ago. (Note that lumber and log prices are on different scales)

- July DF #2S log prices, as reported by Log Lines, increased \$15 to \$748/Mbf, which is 10.7% better than July 2016.
- At \$459.31/Mbf, the DF lumber index price increased in July by 6.1% over the prior month and was an impressive 25% higher than one year ago. The lumber price increase is attributed more to the ruling on the countervailing duty against Canadian lumber than to housing demand.

July 2017 Douglas-fir Prices:							
	July 2017	June 2017	Change from Previous Month	July 2016	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 748.00	\$ 733.00	2.0%	\$ 676.00	10.7%	\$ 664.95	12.5%
Lumber	\$ 459.31	\$ 432.78	6.1%	\$ 367.54	25.0%	\$ 378.92	21.2%

Sources: Log Lines Willamette Valley DF #2S monthly average price & WWPA Pacific NW Coast Douglas-Fir monthly lumber

MARKET NEWS

HOMEBUILDER OPTIMISM GROWS IN AUGUST

Sentiment among American homebuilders unexpectedly reached a three-month high in August. Builders report greater prospects for demand, based on increased buyer traffic, despite elevated material costs and shortages of labor and buildable lots. (*Bloomberg*, 8/15/17)

U.S./CANADA LUMBER DISPUTE: BREAKING NEWS!

On August 28th, U.S. Commerce Secretary Wilbur Ross announced a 2 1/2-month delay in determining final anti-dumping and anti-subsidy duties on Canadian softwood lumber. The Commerce Department had previously been scheduled to announce final lumber duties on Sept. 6, which would have ended the current negotiating process with Canada's government. Ross set a new deadline of no later than Nov. 14 to allow more time to negotiate a trade agreement. (*Reuters*, 8/28/17)

NO DEAL YET FOR CANADIAN SOFTWOOD LUMBER

In early August, Canadian Foreign Minister Chrystia Freeland told reporters that she and U.S. Commerce Secretary Wilbur Ross have been "actively, energetically and substantively engaged" in negotiations for a new softwood lumber agreement. Her government had hoped to settle on a new softwood trade agreement before negotiations began for the North American Free Trade Agreement (NAFTA), but that has not happened. In mid-August, it was announced that the lumber negotiations will continue on a separate, parallel track from the NAFTA negotiations.

U.S. lumber producers are seeking a "clean quota" deal that would limit Canadian imports of softwood lumber to a level at or below a yet-to-be-negotiated share of the U.S. market—a principle that U.S. and Canadian negotiators agreed to last year. It has been reported that the two sides have agreed to a split that would give roughly 70% of the market to U.S. producers and 30% to Canadian producers. Still in contention is a proposal that would allow Canadian market share to increase if the U.S. is in a hot market and cannot produce 70% of the market demand.

Both U.S. lumber producers and Canadian officials say they are not close to completing that quota deal. Once a quota system is settled, the provinces will need to decide how that national quota will be shared among provinces and individual companies.

In the meantime, B.C. lumber producers are benefiting from a strong U.S. dollar, tight supplies, and high prices for lumber. It seems that B.C. companies might be feeling the more immediate impacts of mill closures due to wildfires than softwood lumber duties. Lumber prices are so strong and margins so high that the imposed duties are able to be passed on to customers. This situation may quickly change if the Canadian currency continues its current upward trend. (*Dow Jones*, 8/7/17) (*Bloomberg*, 8/8/17) (*Reuters*, 8/15/17) (*B.C. Vancouver*, 8/15/17)

WESTERN LUMBER FACTS

Western U.S. sawmills produced 7 Bbf of softwood lumber in the first six months of 2017, an increase of 1.1% from year earlier.

- Coastal mills accounted for 4.3 Bbf of the six-month total, up 1.8% from last year.
- Inland mills produced 2.45 Bbf, up 1.4% from the first half of 2016.
- California redwood production fell by 11.6% to 260 Mmbf.

The average production as a percent of practical capacity for the six months to June was 80%, down from 81% in the first half of 2016. (*WWPA*, 8/8/17)

EUROPEAN SOFTWOOD LUMBER FILLING THE GAP

The U.S. is importing more softwood lumber from overseas since Canadian suppliers have been assessed tariffs. European countries like Germany and Sweden were among the biggest suppliers to the U.S. For the first half of the year, offshore softwood-lumber imports into the U.S. rose 3%, while shipments from Canada declined 1%, said Bloomberg Intelligence analyst Joshua Zaret.

Monthly softwood lumber shipments from Russia totaled 4,214 cubic meters in May, the most since January 2008, and Russian softwood imports are 42% higher YTD than in the same period last year.

Jerry Howard, chief executive officer of the National Association of Home Builders, claims the dispute has increased material costs for house builders in the U.S. by 20%. Lumber futures traded in Chicago have gained 11 percent this year—among the best performance of all the commodities tracked by Bloomberg. (*Bloomberg*, 8/20/17)

B.C. IS BURNING

British Columbia has been experiencing its second worst year in recorded history for forest fires, with 4,910 square kilometers (1.2 million acres) burned in well over 100 fires. There were over 125 fires simultaneously burning in the province in early August.

Smoke from the B.C. fires descended on much of Washington and Oregon during an early August heatwave, which saw temperatures in the Willamette Valley that exceeded 100 degrees, and air quality that ranged from moderately to severely unhealthy.

The B.C. Wildfire Service reports that some fires were out or under control at the end of August, but many were still burning. So far, we have not seen reports about the potential impact of these fires on Canadian lumber production. (*The Province*, 8/4/17 & *Register-Guard*, 8/3/17)

WHITewater FIRE THREATENS FRERES TIMBERLAND

Oregon's Whitewater Fire has been burning in the Mount Jefferson Wilderness for months. Over 11,000 acres have burned both inside and outside of the federally designated Wilderness area since its discovery July 23rd. To date, approximately \$12 million has been spent on fire suppression at this location. It is believed to have been caused by a lightning strike in June.

Freres Timber, Inc. owns 1,400 acres within a mile of the fire. Strong east winds could have caused devastating damage to Freres, but the U.S. Forest Service granted permission to remove "hazardous fuels" in the form of a firebreak. Freres personnel quickly jumped into action, cutting a 75- to 100-foot firebreak along roads and property lines.

Rob Freres has since contacted local politicians to lobby for a change in federal fire policy that would allow all means necessary to be used to fight fires in wilderness areas and minimize the size and expense of future wildfires. Freres claims the Whitewater fire could have been addressed before it required the ongoing multimillion-dollar response.

(*Statesman Journal*, 8/20/17 & *InciWeb*, 8/25/17)

ANOTHER JUDICIAL REVERSAL FOR LINN COUNTY LAWSUIT

In a final letter opinion dated July 17, Judge Murphy reversed himself and rejected Oregon State's sovereign immunity defense. This means that the Linn County lawsuit can proceed. This was the second time Murphy reversed himself on the immunity question.

Douglas County Commissioner Tim Freeman said the judge's decision on sovereign immunity is good news for citizens. States and counties have many contracts with each other. Frequently, those contracts talk about resolving contract disputes in the courts. Freeman believes this is one reason the judge ruled against the state's sovereign immunity argument. A pre-trial conference is scheduled for Sept. 14th.

The lawsuit involves state forest trust land, more than 700,000 acres that were acquired by counties through tax foreclosures in the 1930s and 1940s and then turned over to the state for management. A 1939 law says those lands must be managed for "the greatest permanent value to the state," but the plaintiffs have filed for breach of contract. (*News-Review*, 8/2/17)

MONUMENTAL RECOMMENDATIONS

U.S. Department of the Interior Ryan Zinke forwarded his long-awaited review of more than 20 national monuments to President Trump on August 24th. There were originally 27 national monuments up for review, but six were taken out of consideration for changes. The report does not recommend removing any areas as national monuments, but Zinke told the Associated Press that the boundaries of some of the monuments could be changed. At this writing, the report has not been made public, but sources say Zinke recommended a reduction in the size of Utah's Bears Ears and Grand Staircase-Escalante national monuments, as well as Oregon's Cascade-Siskiyou National Monument. The report also is expected to contain recommendations for changing the management rules for several sites, such as allowing fishing in marine monuments where it is currently prohibited. A White House official confirmed that Trump had received the report but would not say when it would be released or when the president would act on Zinke's recommendations. (*Washington Post*, 8/24/17)

YOUNG LOGGERS WANT TECH

With construction booming, loggers are facing a labor shortage and the current workforce is aging. The median age of workers in many parts of the industry is well into middle age, and for some jobs, like truck drivers, it may be over 60. Experts hope that newer, high tech machinery might help the logging industry solve its millennial problem: young people are not attracted to a life in the forest.

But the new harvesting methods offer a more attractive work environment. John Garland, professor emeritus at Oregon State University, has spent a lifetime researching the industry and trying to improve its safety record. Garland says, "It is pretty clear that it is hard to recruit people to do hard work. That changes somewhat when we have people working with machines." He hopes that the machines might also attract women to an industry that is more male-dominated than most. (*Guardian Web*, 8/23/17)

WANTED: TRUCKERS

Random Lengths reports complaints and delays across North America due to trucking shortages. A 2015 report from the American Trucking Associations estimated that the US was short almost 50,000 drivers and that at current trends, the figure could hit 175,000 by 2024. Among the many reasons:

- Recruiting drivers is tough. Wages and benefits are low, the lifestyle is unattractive to many, and women are not attracted to the industry.
- Regulations aimed at safety exacerbate the problem. Limits on driver and truck hours mean that more trucks are needed.

Autonomous, self-driving trucks may offer part of the solution. (*Random Lengths*, 6/16/17)

PNW TIMBERLAND RETURNS ARE ABOVE AVERAGE

The National Council of Real Estate Investment Fiduciaries (NCREIF) timberland index for 2Q2017 showed returns of 0.70%, down from 0.98% for 2Q2016. Income returns were essentially flat, appreciation returns were down. For the trailing year, annual total returns were 3.35% compared to 3.39% for the year ending 2Q2016.

The stats for the 91 Northwest NCREIF properties were better. 2Q returns were 1.47%. Appreciation was 3.73% year over year. (*NCREIF*, 7/27/17)

PELLET PRICES PLUNGE

Pellet price indices for both the U.S. and Canada have trended downward the past few years and reached record lows in both countries in the second quarter of 2017. Slightly declining roundwood prices, plummeting sawdust costs, and a change in the feedstock mix towards lower cost residuals in both the Gulf States and the Atlantic States were the major reasons behind the decline. (*Wood Resources International*, 8/4/17)

PAPER FROM STRAW

Columbia Pulp has just broken ground in Washington State on a \$184 million facility that will convert straw into pulp. Columbia will convert straw from nearby wheat and alfalfa farms to pulp suitable for the manufacture of household items like paper towels and toilet paper. This facility is expected to be completed in fall 2018 and will be the first of its kind in North America. (*Oregonian*, 8/2/17)