

News for Family Forests

January 2018



Forest Management Co.
PROFESSIONAL FORESTERS

www.woodlandmgmt.com

January signals planting season. If you have harvest units that need to be planted this winter/spring, don't delay in ordering seedlings. Nursery inventories are dwindling. Check the ODF and WADNR websites for nursery information.

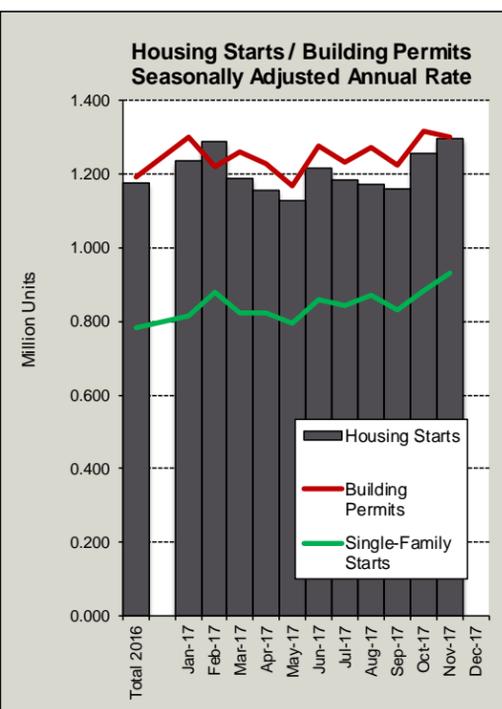
As I've said for about a year, there is nothing that indicates a decline in the high log prices any time soon. It's still an excellent time to sell your timber. The additional cost of preparing roads for the rainy season is much easier to absorb when markets are up. If you don't have "winter ground", now would be a great time to plan a harvest and book a logger for later in the year.



If you need help with any aspect of your reforestation, or want to plan a timber harvest, give me a call at (503) 654-2221 or email me at bkeller@woodlandmgmt.com. In addition to reforestation and timber harvests, Woodland offers a variety of services – including timber cruising, management plans, pre-commercial thinning, competition control in plantations, forestland valuations, and road maintenance.

- Brent

MARKET WATCH: HOUSING, LUMBER AND LOGS



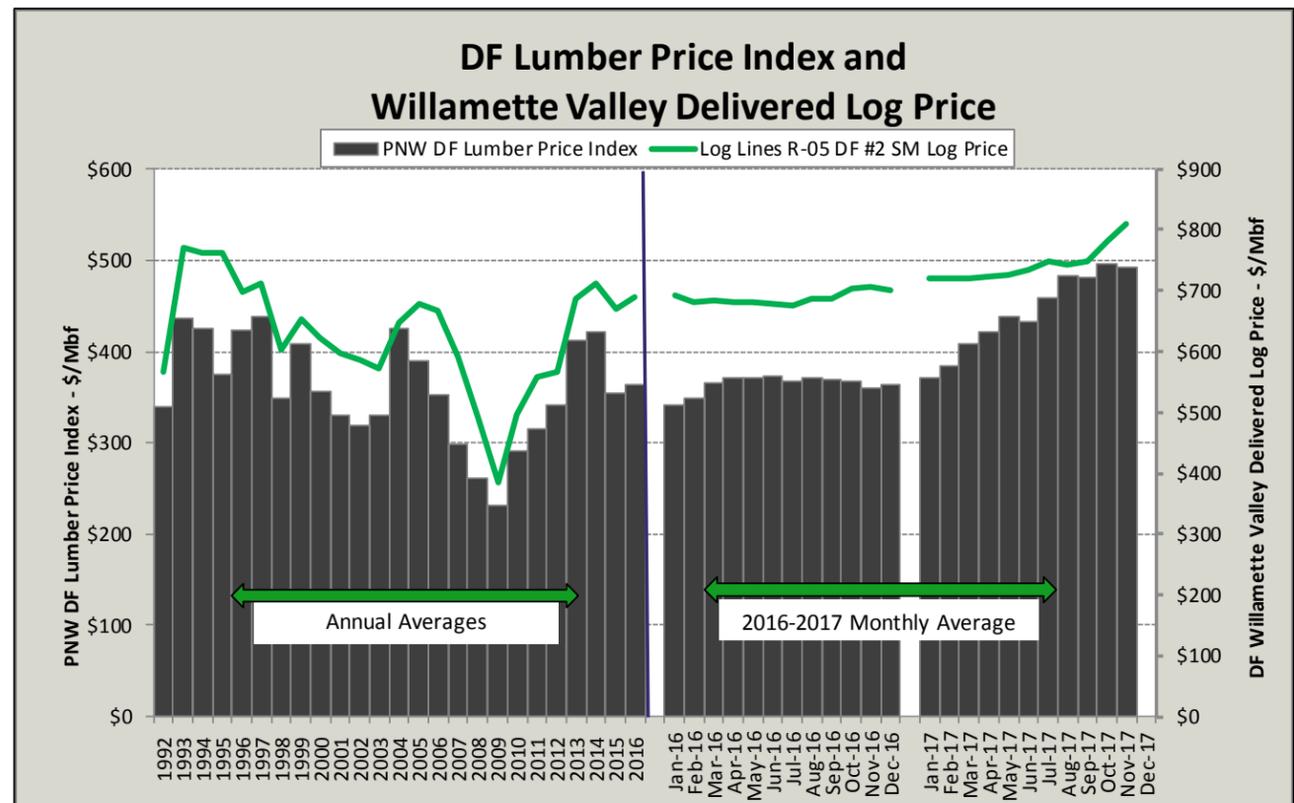
HOUSING STARTS

U.S. housing starts in November increased 3.3% to nearly 1.3 million units (SAAR) and 12.9% above one year ago. This is the record high for the year, and again, it was an especially good month for single-family starts, which increased to 0.930 million units (SAAR), up 5.3% over the prior month and 13% higher than November 2016. November permits dropped 1.4%, to 1.3 million units (SAAR). Some of the increase is due to hurricane delays during the prior two months (Wall Street Journal, 12/19/17).

November 2017 Housing Starts (million units, seasonally adjusted):					
	November 2017	October 2017	Change from Previous Month	November 2016	Change from Previous Year
All Starts	1.297	1.256	3.3%	1.149	12.9%
Single-Family Starts	0.930	0.883	5.3%	0.823	13.0%
Building Permits	1.298	1.316	-1.4%	1.255	3.4%
Single-Family Building Permits	0.862	0.850	1.4%	0.786	9.7%

Source: U.S. Census Bureau

LUMBER & LOGS



Lumber and log prices were mixed in November 2017. Lumber prices decreased 0.4% and log prices increased 3.7%. Both log and lumber price reporting services are calling these record-setting prices. (Note that lumber and log prices are on different scales in figure above.)

- November DF #2S log prices, as reported by Log Lines, increased \$29 to \$810/Mbf, which is 3.7% better than last month, 14.6% higher than November 2016, and 21.8% above the 5-year average. Breaking the \$800/Mbf mark is a big deal!
- At \$493/Mbf, the DF lumber index price for November 2017 was 0.4% below last month. However, that price is 6.7% higher than November 2016 and 31.3% above the 5-year average.

November 2017 Douglas-fir Prices:

	November 2017	October 2017	Change from Previous Month	November 2016	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 810.00	\$ 781.00	3.7%	\$ 707.00	14.6%	\$ 664.95	21.8%
Lumber	\$ 492.89	\$ 495.11	-0.4%	\$ 360.66	36.7%	\$ 375.47	31.3%

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

MARKET NEWS

USITC AFFIRMS CANADIAN DUTIES ON SOFTWOOD LUMBER

On Dec. 7, the U.S. International Trade Commission (USITC) concluded that U.S. mills had been “materially injured” by unfairly subsidized softwood lumber by the Canadian government. After setting preliminary tariffs earlier this year, the U.S. will now collect combined antidumping and countervailing duties of about 15% to 25% on softwood lumber imported from Canadian mills. The duties are expected to be levied on over \$5 billion worth of imported lumber. Canada has already challenged the U.S. duties before the World Trade Organization and a North American Free Trade Agreement panel. (Reuters, 12/7/17 & Daily Inter Lake, 12/13/17)

LUMBER DUTY IMPACTS HOUSING MARKET

The Commerce Department’s imposed duties on Canadian softwood lumber shipped to the U.S. averages 20.83%. The National Association of Homebuilders (NAHB) expects the impacts of these duties on the U.S. economy will include increased production by U.S. sawmills, reduced imports from Canada, and higher prices paid for lumber by U.S. consumers, and a reduced volume of new home construction. NAHB’s model predicts:

- a reduction of 1.3 billion board feet in Canadian imports
- an increase of 885 million board feet in output of U.S. producers for the domestic market, and a 6.9% increase in the price paid by U.S. customers for softwood lumber
- \$1,360 increase in the price of an average single-family home
- \$478 increase in the market value of an average multifamily home
- \$1.1 billion reduction in investment in single-family structures
- \$147 million reduction in investment in multifamily structures (NAHB Press Release, 12/7/17)

Note: NAHB’s model does not include the employment and income benefits to the U.S. timber industry.

FRERES’ CHARRED MILL REOPENS

Known as Plant 4, the Freres Mill in Lyons that burned down last summer is back in business. A veneer drying and merchandising facility, tasks handled there enable the firm to take green veneer and split it off from 3 to 12 different grades and offer a more versatile product. After the fire, Freres offered employees of that plant positions in other locations, such as the company’s plywood mill. Many took the company up on the new, temporary jobs. Some did not, but have returned now that the rebuilt facility is up and running. At full capacity, the plant can employ up to 40 workers, and Freres said it’s at about 23 right now, and they are looking to hire more. (Stayton Mail, 11/27/17)

WILL THE FOREST SERVICE DOUBLE ITS TIMBER CUT IN 2018?

A Senate spending measure for the Interior Department and related agencies includes report language suggesting 4 BBf as the annual timber harvest goal, which would be a doubling of the current trend for timber harvest. Forest Service Chief Tony Tooke told E&E News that he sees boosting the timber cut as just one piece of a broader strategy toward more active management of national forests, along with prescribed burns and other measures. (HFHC, 12/1/17)

[Note that 4 BBf is just a fraction of the annual growth on the National Forests. Prior to the listing of the Spotted Owl, the USFS typically sold 6.0 Bbf annually just from the National Forests in Oregon and Washington. Nationally, the annual sales target ranged from 10 Bbf to 12.5 Bbf, depending who was in the White House.]

WEYERHAEUSER SELLS FOSTER VENEER PLANT

Foster Plywood was founded in 1958 and at one time was housed in a building that was one-quarter mile long. Although it originally peeled logs, dried the veneer and made plywood panels, it now produces and dries veneer that is shipped to other plywood plants. In November, Weyerhaeuser sold the Sweet Home mill to the Murphy Company, now called “Murphy Veneer Foster.” (Albany Democrat-Herald, 11/21/17)

CANADIAN LUMBER SUPPLIER PURCHASES MILL IN WASHINGTON STATE

Western Forest Products Inc. (a B.C. based company) has entered into an agreement with Hampton Lumber Mills to acquire Hampton’s lumber processing and distribution center in Arlington, Washington. The purchase price is estimated at \$9 million and is anticipated to close in January 2018. “This acquisition is a natural fit for Western as it allows us to increase the production of targeted, finished products while also providing a centralized warehousing and distribution center to more effectively service our selected U.S. customers,” said Don Demens, President and CEO of Western. “This asset in Washington State also strengthens our global competitiveness by positioning Western to mitigate the damaging effects of duties on our products destined for the U.S. market.” (Press Release, 12/6/17)

UTAH MONUMENT DOWNSIZED; IS OREGON NEXT?

Where Utah once had two large national monuments, the state now has five smaller ones under an order signed by President Donald Trump in early December. The order dramatically reduced the recently created 1.35-million-acre Bears Ears to 202K acres and divided it into two new renamed monuments (Shash Jaa National Monument & Indian Creek National Monument). At the same time, Utah’s Grand Staircase-Escalante was reduced in size from 1.9 million acres to just over 1 million acres and it was also divided. Three new monuments comprise what is left of this monument (Grand Staircase National Monument, Escalante Canyons National Monument, Kaiparowits National Monument)

In an interview, Interior Secretary Ryan Zinke said the original proclamations creating Bears Ears and Grand Staircase drew boundary lines “arbitrarily” in ways that disrupt access and “locked people out.” It was decided that the areas removed did not warrant protection under the Antiquities Act because they are not unique to the monument, not under immediate threat, don’t qualify as “objects of historic or scientific interest,” or are protected under existing federal law.

Zinke has also recommended a reduction of the Cascade-Siskiyou National Monument in Oregon. It is currently comprised of 113K acres. The area suggested for removal includes 40K acres of the former Oregon and California Railroad Land (called the “O&C Lands”). The president has not yet announced what, if any, action he will take on this recommendation. (Salt Lake Tribune, 12/5/17 & Daily Yonder, 12/20/17)

TIGHT LOG SUPPLY PRESSURES PULP MARKET

Wood Resources International reports that with lower harvest levels in the Northwest due to wildfire-risk constraints, some sawmills expanded their procurement into small-diameter chip-n-saw grades and higher quality pulp logs that would typically be purchased by pulp mills. Processing small diameter logs has been profitable for many sawmills, thanks to the high prices for softwood lumber during 2017. With small diameter log inventories reaching their lowest level of availability since the 2014, many wood fiber managers are concerned about building adequate inventory levels for the winter season, when residual chip supply from the lumber industry typically declines. (Wood Resources International, 11/30/17)

2018 WOOD PRODUCTS MARKET: RISI CAUTIOUSLY OPTIMISTIC

According to a RISI analyst, optimism is not unwarranted for the 2018 wood products market. Housing is expected to finally sustain a 1.3-million-unit pace next year. However, there is also uncertainty over the extent to which tariffs will reduce Canadian lumber supply, coupled with the just passed U.S. tax reform and a rise in OSB restarts. All of these concerns may lead to months of cautious inventory buying and a leveling of the market. The length of time it takes to fully rebuild log inventory after the summer and fall wildfires adds another layer of complexity. It is equally possible that another round of price gains is just around the corner. Despite concerns over wood markets for 2018, the most notable reasons for optimism emanate from demand fundamentals. (RISI Viewpoint, 12/7/17)

CHINA DECREASES DOMESTIC LOGGING: MORE IMPORTS EXPECTED

China has curtailed domestic logging by 5% in 2017 and by 30% since 2013. This indicates that China will need to import more logs, as shortages are expected to last for up to five years. It is uncertain if the PNW log exports to China will increase however, due to the strength of the U.S. dollar and strong U.S. domestic log demand. (Chuck Holland, 11/22/17)

SOUTHERN YELLOW PINE SHIPS TO WEST COAST

Demand for Southern Yellow Pine (SYP) machine stress-rated (MSR) lumber is surging. SYP MSR has traded at a massive discount to SPF and other western species, according to Random Lengths, prompting buyers to switch to SYP. MSR from Canada and U.S. West mills has been tight, and some loads of SYP MSR have been shipped to the West Coast as a result. Strong prices for MSR are a bright spot for Southern mills who have seen most lumber prices remain flat in spite of increasing demand. (Random Lengths, 10/27/17)

NEW ODF FOREST REPORTING SYSTEM

The Oregon Department of Forestry (ODF) has implemented a new Forest Activity Electronic Reporting and Notification System, or FERNS. The new system allows citizens and other interested entities to subscribe to information about Forest activity in targeted geographical areas. When a timber operation is being planned, the landowner will log onto the FERNS website to tell the state when, where, and what the project will be, and if there are any sensitive resources that need to be protected in the project area. This not only provides an opportunity for ODF to review the plan for compliance with the Oregon Forest Practices Act, it also notifies those who have subscribed to be informed about activity in that particular area. In addition to concerned citizens, subscribers can be log buyers, equipment manufacturers, government agencies, utility companies, and others with interest in the forest. Early adopters report high marks for the new system. (News-Review, 11/24/17)

SOME FORESTS WILL NOT RECOVER AFTER FIRE

The findings from a new study on the resilience of Rocky Mountain forests, led by Colorado State University, indicate some forests are not regenerating after fire events like they did before. Researchers analyzed data from nearly 1,500 sites in five Rocky Mountain states to try and understand if and how changing climate over the last several decades affected post-fire tree regeneration, a key indicator of forest resilience. They found that with a warming climate, forests are less resilient after wildfires. Data shows that in zones that burned after the year 2000, no seedlings were growing back at about 33% of the sites, compared to 15% of sites that burned before the year 2000.

Camille Stevens-Rumann, lead author of the study, said the findings suggest that, going forward, replacement trees may need to be planted at higher elevations than before. And at lower elevations, "We need to just start accepting that they're not going to become forests again, unfortunately," (CBC, 12/12/17 & Colorado State University Press Release, 12/21/17)

AERIAL HERBICIDE BAN MIGHT NOT BE ON LANE COUNTY BALLOT IN MAY

After submitting petitions with over 11,000 signatures, supporters of a Lane County Aerial herbicide spray ban feel cheated that the issue has not been slated for the May 2018 ballot. The ballot issue calls for a ban on aerial herbicide spraying and it would also allow residents the right to enforce the rights and prohibitions of the measure. According to Rob Dickinson, a steering committee member with Community Rights Lane County, the county would not put the measure on the ballot because it didn't meet what is known as a "separate vote requirement," which requires a citizen-sponsored initiative that would amend the Lane County charter to cover only a single issue for voters to decide, instead of multiple issues.

Supporters of the ban blasted county legal staff and the commissioners, criticizing what they called a deliberate effort to keep the aerial spray ban off the ballot. Several speakers felt commissioners were placing the interests of timber companies—which long have opposed restrictions on aerial spraying—above the will of Lane County residents. Attorneys working with supporters are appealing the county's decision not to place the measure on the May ballot. (Register-Guard, 12/20/17)

CALIFORNIA'S EXPENSIVE FIRE SEASON

With the Thomas Fire still only currently 65% contained in the last weeks of December, California is adding up the cost of fighting six major fires in 2017. Costs of fighting all six major fires have risen to about \$40 million, officials said. More than 9,500 firefighters from Arizona, Colorado, Idaho, Nevada, Oregon, Utah and Washington state have been working to put out the flames—with 7,000 of those on the Thomas Fire alone. And then there are the other costs: in addition to the 1,000-plus structures destroyed, hundreds of homes have been torched, almost 100,000 people have been evacuated, 85,000 have been left without power and damages total about \$10 billion. (United Press International, 12/12/17 & Los Angeles Times, 12/22/17)

Some insurance companies are assisting in the effort and trying to protect their own bottom-lines. Some insurers have sent private firefighters to protect homes of the wealthy. The private firefighters carry water in their trucks but aim to reach homes before the fire does. State fire officials won't allow private fire crews into areas under an evacuation order and want to make sure the units don't slow down public firefighters. They focus on clearing combustible items away from a property and can spray houses with fire retardants. (Wall Street Journal, 12/12/17)

BIOMASS STRUGGLES IN THE U.S.

In the Northeast U.S., biomass electricity plants are staring at some tough economics. For many standalone wood-fired electricity plants, the cost of fuel (wood chips) and operations exceed what they get paid for the electricity they generate. With natural gas (and thus wholesale electricity) prices expected to remain low—and state-level support for biomass fading—biomass plants are working hard to figure out how to continue operating.

Companies are now seeking ways to expand markets for biomass and low-grade wood. The success of these efforts won't be known for months or perhaps years, but clearly companies are thinking and trying. (Forest2Market, 11/27/17)

2017 WAS A SLOW YEAR FOR TIMBERLAND TRANSACTIONS

In RISI's Timberland Market Report, they called the end of 2017 a quiet and "disappointing" end to the year. With only a few sales still being finalized and only \$1.8 billion in transactions for the year, 2017 is on pace to "close at a multi-year low in transactions." The 2017 activity is expected to close at less than half of 2016 (excluding the Plum Creek/Weyerhaeuser deal) and lower than any year since 2012. While big price cuts are not expected in 2018, a potential price correction next year would lead to increased deal flow. (RBC Capital Markets, 12/19/17)

STARKER FORESTS LOSES A PARTNER

Barte Starker of Starker Forests died December 12th at age 67, from complications of Parkinson's disease. Barte and his brother Bond have been equal partners in the business since the death of their father in 1975. Together, the brothers grew the family business into one of the most respected private timberland ownerships in the state. Headquartered in Philomath, Starker Forests currently has 22 employees and about 86K acres of standing timber in Benton, Linn, Lincoln, Lane and Polk counties. In addition to his support of many community organizations, Barte served on the boards of the Oregon Forest Resources Institute, Oregon Natural Resources Education Fund, Keep Oregon Green, World Forestry Center and Western Forestry and Conservation Association. Barte will be missed by all who knew or worked with him. (Corvallis Gazette-Times, 12/13/17)

DECKING LOOKING GOOD

According to the Freedonia Group, U.S. demand for decking is forecast to increase 1.8% per year through 2020—\$7.1 billion of growth. Analysts see four drivers of a growing market: (1) safety, (2) upgrades to appearance, (3) lower maintenance, and (4) an expanded home footprint for entertaining. (Building Product Digest, 11/3/17).

HANCOCK SELLING PINCHOT TIMBERLANDS IN WASHINGTON STATE

Pinchot Timberlands (33,086 acres) was put up for sale in October, and was offered in two blocks (North and South) through a single-stage, sealed-bid process, with bids due Dec 6th. LandVest, Inc. describes the timberlands as "high growth, investment grade timberlands which provide an opportunity for short-rotation timber management and both near and long-term value generation." According to LandVest, the properties are now under agreement, but no other specifics about the transaction have been reported. (Industry Intelligence, 12/6/17)