

News for Family Forests

April 2018



Forest Management Co.
PROFESSIONAL FORESTERS

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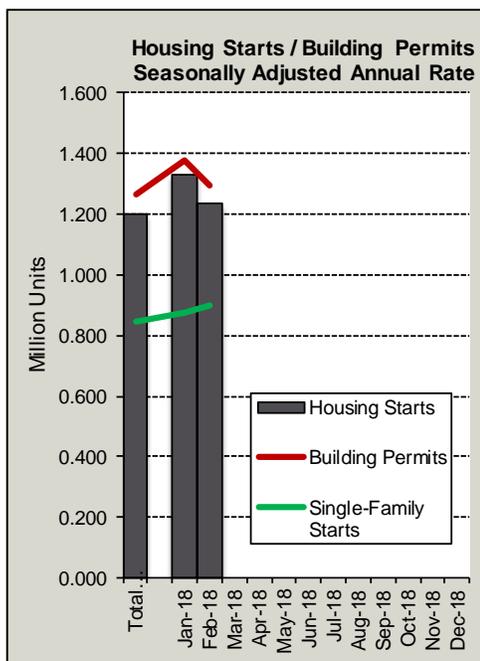


The log market continues to cruise in high gear. Now is the ideal time to plan a harvest, before loggers get booked for the year, or lose the ability to fit your job into their busy schedule. That being said, a timber harvest right now may not fit into the plan for your property. At Woodland we help folks make decisions in the context of their forestland goals. Keep in mind Woodland is a full-service operation and is happy to assist you in all aspects of forest management. We facilitate the full range of harvest options and stand treatments, including Pre-Commercial Thinning, Pre-

Poling, Commercial Thinning, and Clearcuts.

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

MARKET WATCH: HOUSING, LUMBER AND LOGS



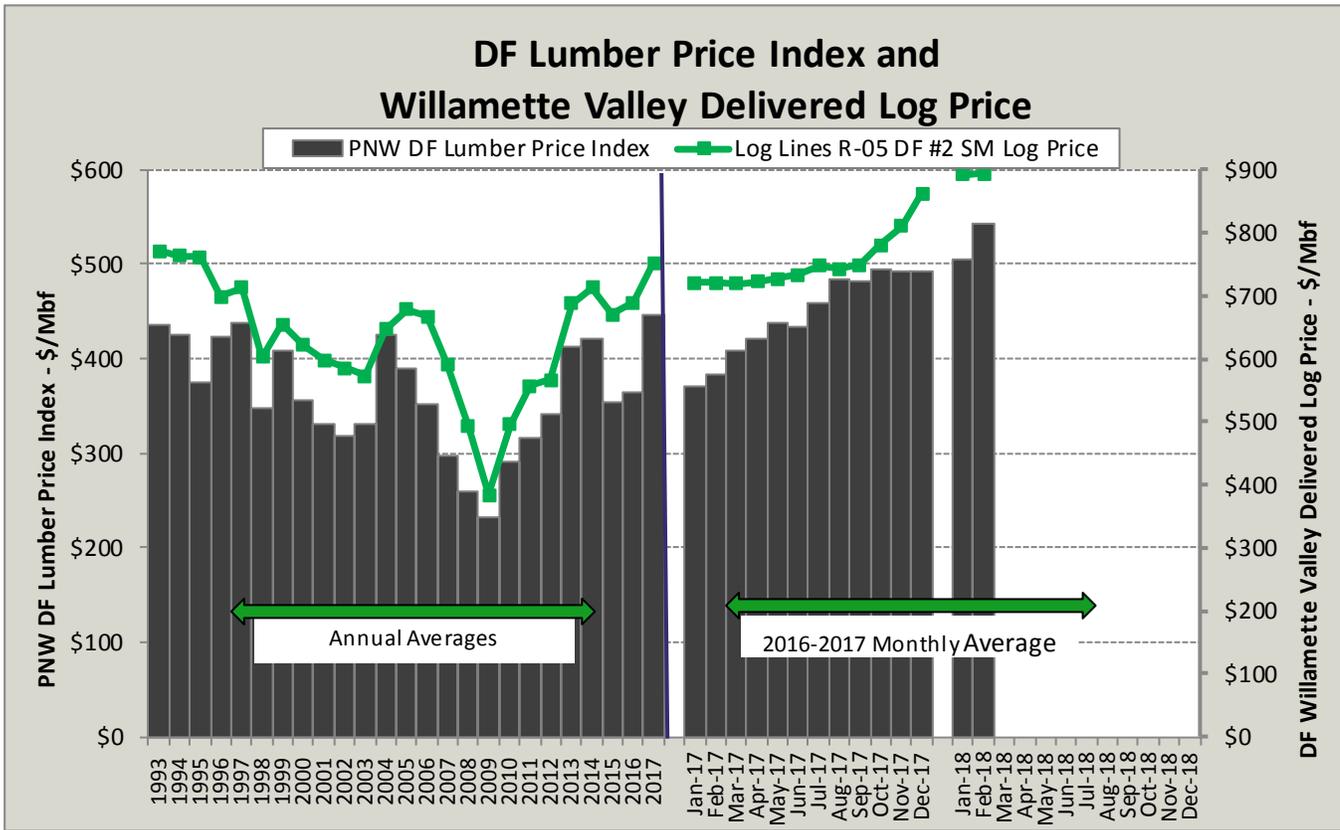
HOUSING STARTS

U.S. housing starts decreased 7% overall in February. Single-family starts increased 2.9%, while multi-family starts declined 26.1%. The Wall Street Journal claims there is a glut of high-end urban apartments causing builders to stall multi-family starts and that the tax bill will slow higher-end home construction. Even so, analysts remain optimistic. (WSJ, 3/16/18).

| | February 2018 | January 2018 | Monthly Difference | February 2017 | Annual Difference |
|--------------------------------|---------------|--------------|--------------------|---------------|-------------------|
| All Starts | 1.236 | 1.329 | -7.0% | 1.288 | -4.0% |
| Single-Family Starts | 0.902 | 0.877 | 2.9% | 0.877 | 2.9% |
| Building Permits | 1.298 | 1.377 | -5.7% | 1.219 | 6.5% |
| Single-Family Building Permits | 0.872 | 0.877 | -0.6% | 0.834 | 4.6% |

Source: U.S. Census Bureau

LUMBER & LOGS



DF Lumber prices strengthened again in February, while logs held steady. As shown below, lumber prices increased 7.2% and log prices increased 0.1%. The graph above suggests log prices could rise a bit more if February’s lumber prices hold. (Note that lumber and log prices are on different scales in the chart.)

- February DF #2S log prices, as reported by Log Lines, increased \$1 to \$893/Mbf, which is 0.1% higher than the prior month, 24% higher than February 2017, and 27.1% above the 5-year average.
- At \$543/Mbf, the DF lumber index price for January was up 7.2% above January 2018. It was also 41.2% higher than February 2017 and 36.9% above the 5-year average.

| February 2018 Douglas-fir Prices: | | | | | | | |
|-----------------------------------|---------------|--------------|----------------------------|---------------|---------------------------|---------------------|---|
| | February 2018 | January 2018 | Change from Previous Month | February 2017 | Change from Previous Year | 5 Yr Annual Average | Current month compared to 5 Yr Annual Average |
| Logs | \$ 893 | \$ 892 | 0.1% | \$ 720 | 24.0% | \$ 702 | 27.1% |
| Lumber | \$ 543 | \$ 506 | 7.2% | \$ 384 | 41.2% | \$ 397 | 36.9% |

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



MARKET NEWS

ADULTING AND HOUSEHOLD FORMATION

According to the U.S. Census Bureau, there were nearly 45 million young adults aged 25 to 34 in the United States in 2016. Commonly referred to as millennials, they are the largest population cohort since the baby boomers. Millennials should be fueling the housing market, but the rate at which this age cohort is forming new households and purchasing homes is lower than their predecessors. We have heard the economic reasons for this delayed household formation before: housing costs, student loans, and labor market outcomes.

New research also points to a slower rate of adulting for millennials in other traditional milestones, such as getting married and having children. It is still thought, however, that millennials and the following generation, Generation Z, could add somewhere between 19 and 21 million additional net new households by 2025. (Freddie Mac Insight, 3/19/18)

SOFTWOOD LUMBER CONSUMPTION POISED FOR TAKE-OFF

According to a new study from ForestEdge and Wood Resources International, U.S. softwood lumber consumption will grow at approximately 2.3% per year and reach a record high by 2030. Non-Residential Construction is forecasted to grow at the fastest rate and should increase its share of the total softwood lumber usage from being just over 11% in 2016 to almost 14% by 2030. Lumber consumed by the residential housing sector, including repair and remodeling, is expected to continue to account for almost 70% of the end-use market. The global softwood lumber market is also very strong. Trade of softwood lumber reached an all-time-high in 2017 as demand for wood was strong in most key markets around the world. Since the global recession in 2008, international trade of lumber has gone up by as much as 50%.

If these projections are correct, expect expanded capacity in U.S. mills and increased lumber imports—particularly from Brazil, Chile, Germany and the Nordic countries. (Wood Resources International, 3/16/18 & 3/20/18)

SAWMILL PRODUCTION CLIMBED IN 2017

In 2017, U.S. sawmills increased softwood lumber production by 4.2%, to 33.89 Bbf. In the same period, Canadian production remained flat. Here are some highlights from the Western Wood Products Association report for 2017:

- Western U.S. sawmills accounted for 14.1Bbf, a 3% increase over the prior year.
- Southern U.S. sawmills contributed 18.2 Bbf, a 5.1% increase over the prior year.
- U.S. mills reached an average of 87% capacity in 2017, a 1% annual increase.
- U.S. softwood lumber consumption only increased 1.1% in the same period.
- Canadian sawmills produced 28.3 Bbf of softwood lumber in 2017, almost even with the prior year.
- Sawmills in B.C. contributed 12.95 B in 2017, a decrease of 4.5% from 2016.
- Eastern Canadian mills produced 15.4 Bbf, a 4.1% increase over 2016.
- Canadian mills reached an average capacity of 88%, a 3% annual decrease.

SAWMILL PRODUCTION CONTINUES TO CLIMB IN EARLY 2018.

January data indicate that U.S. sawmill production jumped 16.5% year-over-year, to 1.26 Bbf. Coastal mills had an increase of 15.4%, while inland mills increased 16.6% in January. California redwood production had an astounding 41.8% January increase year-over-year. (WWPA, 3/6/18 & 3/9/18)

OREGON FOREST LANDOWNERS OVERWHELMINGLY IN COMPLIANCE

Oregon's Department of Forestry recently reported the results of a study on compliance to the Oregon Forest Practices Act. Researchers found that forestland owners had a compliance rate of 97% to 57 key rules related to logging, road building and water protection under the Oregon Forest Practices Act, including a 97% compliance rate to the rules regarding harvest near streams. They also reported a few areas that could use improvement, which included minimizing waste slash in state waters, leaving vegetation around small wetlands (difficult to identify in a dry summer), and using properly sized culverts on roads crossing streams. (Capital Press, 2/26/18)

LUMBER PRICES HIT NEW HIGHS

Random Lengths reported that by early February, 350 of the 1,674 prices it reports (21%) were at new highs. A total of 500 prices had reached new highs since 2017. By late March, many of the prices had backed down at least a few dollars. We notice that log buyers are starting to get nervous. (RL, 2/9/18)

NEW OFRI VIDEOS WORTH REVIEWING

OFRI recently released three new informational videos for landowners. They were produced in partnership with the Oregon State University Extension Service and the Oregon Department of Forestry.

The "[Making Your Forestland Fire-Safe](#)" video stars Kyle Reed of the Douglas Forest Protective Association and OSU Extension's Alicia Jones, both of whom discuss ways to make forestland more resilient to wildfire.

"[How to Make Your Home and Property Fire-Safe](#)" features Keep Oregon Green Association President Kris Babbs and Tom Fields, ODF fire prevention coordinator. This video gives an overview of fire safety precautions for homes and surrounding property.

In the "[Taxes and Business Considerations for Your Forestland](#)" video, OSU Extension's Tamara Cushing chats with OFRI Director of Forestry Mike Cloughesy about the many business and tax issues that come with being an Oregon forest landowner.

B.C. CONSIDERING LOG EXPORT RESTRICTIONS

The B.C. government is considering placing restrictions on log exports. The Minister of Forests Doug Donaldson announced last week that six-million cubic meters of raw logs were exported in 2016. "That's something that nobody finds acceptable. What our emphasis has been is trying to turn our attention to how do you have more of those logs processed in mills in B.C.," Donaldson said. The province is looking to innovate the B.C. timber industry to "get more employment out of every log" that comes out of B.C. coastal forests. One report has recommended a ban on log exports from old-growth forests and higher export taxes on second-growth log

exports. An innovation working group has been formed to study the industry and will soon be prepared to present some plans. (Nanaimo News, 3/25/18)

TOOKE STEPS DOWN: CHRISTIANSEN STEPS UP

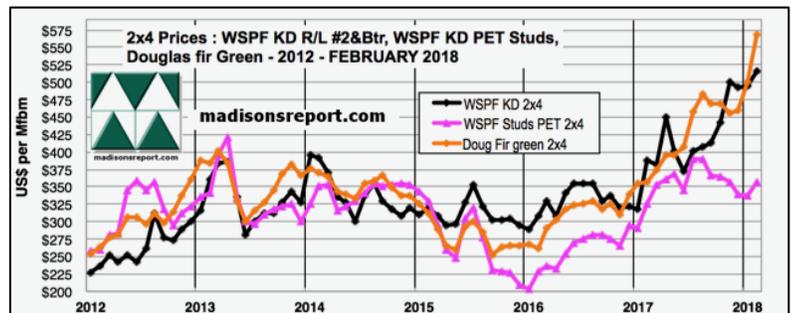
Recently promoted U.S. Forest Service Chief, Tony Tooke has stepped down and retired after an investigation was launched into sexual misconduct allegations against him. Tooke was quickly replaced by interim-chief, Victoria (Vicki) Christiansen. Christiansen has spent her career as a wildland firefighter and joined the Forest Service in 2010. She'd previously worked for 30 years at the state level in Arizona and Washington.

"We've had to face some hard truths about allegations of harassment and retaliation in our agency, even as we stare down some of the biggest land-management challenges in our nation's history," Christiansen wrote in an email to USFS employees. "I know we are up to the task." (Associated Press, 3/9/18)

ARE RECORD-BREAKING LUMBER PRICES COMING TO AN END?

In late February, Madison reported that lumber prices hit an all-time high. They reported that new lumber produced at sawmills continued to be sold before it was even finished being processed. The graph below illustrates five-year price trends for some of the most important structural framing lumber commodities. (Madison Report, 2/21/18)

However, in mid-March, the Random Lengths North American Framing Lumber Composite slid after its record price run ended in the week of March 9. Some buyers withdrew on expectations of a significant price correction, and this resulted in a week of muted trading. Some price cuts deepened and Douglas-fir producers attempted to lure buyers by reducing quotes but found little support. Quotes covered wide ranges on most widths of Std#2&Btr dimension and reported prices at Portland-rate mills fell in the \$12-\$23 range.



The North American Structural Panel Composite held steady in mid-March. OSB prices remained flat in most regions after a week of quiet trading. The price gap between producers and secondaries became more pronounced in some regions and buyers seem to be holding back to wait for discounts that they expect in the coming weeks. (Random Lengths, 3/18/18)

OMNIBUS INCLUDES WILDFIRE FUNDING

The Omnibus spending bill includes the creation of a wildfire disaster fund to help combat severe wildfires, and the borrowing from non-fire budgets to pay for them. Money from the account would only be used after funds from usual firefighting accounts are exhausted. Senator Ron Wyden said in a statement, "This long-overdue, bipartisan solution to the madness of 'fire borrowing' will at last treat these infernos like the natural disasters they are, with the benefit that millions of dollars will now be liberated each year for essential wildfire prevention."

The legislation also includes \$100 million for fire prevention projects and recreation programs and enables utilities to work with the Forest Service to prevent trees from touching power lines and starting wildfires. Even though forest officials are happy to have this monetary support, it will not be available until the fall of 2019. That is two wildfire seasons away. Mike Mohler, deputy director of Cal Fire, declined to comment on the effect of waiting two more seasons for the funding fix, and said any new money was “a massive step forward.”

While this bi-partisan legislation had wide-spread support, it also has its critics. Some conservation groups have expressed concern over potential streamlined approval for local authorities and private landowners to fell trees on public land parcels smaller than 3,000 acres. The relaxed regulation, known as a "categorical exclusion", was welcomed by those on the frontlines of wildfire country. "I'm in favor of the categorical exclusion as it pertains to improving defensible space and lessening the threat from forest fires hitting populated areas," said Bob Roper, the retired Ventura County, California fire chief. (AP, 3/25/18) (Thomson-Reuters, 3/26/18) (McClatchy, 3/27/18)



OSU STARKER LECTURES 2018

Oregon State University is hosting a series of lectures this spring focusing on the future of forestry. The 2018 Starker Lecture Series takes on the theme “What’s Next: The Future of Managing for Healthy Productive Forests.” The series kicked off in March and it continues in April and May. The free public lectures are co-sponsored by the Starker family, OFRI and the OSU College of Forestry.

- April 25 - Carlton Owens, president of the U.S. Endowment for Forestry and Communities, will present “Working with Nature – the Century of Forests and Forest Products.”
- May 23 - Connie Harrington, a research forester with the Pacific Northwest Research Station, will discuss how trees respond to climate change in “How Should We Manage Our Forests in the Face of Uncertainty?”

More information can be found here: <http://starkerlectures.forestry.oregonstate.edu/>



OREGON BOOSTING LAW ENFORCEMENT FOR MARIJUANA TRADE ENFORCEMENT IN HARD-HIT COUNTIES

Oregon lawmakers recently approved a bill that will dedicate \$1.5 million a year to help local authorities crack down on the illegal marijuana trade. Southern Oregon counties that might benefit from the law enforcement money include Josephine, Jackson, Curry, Coos and Douglas.

Rob Bovett, an attorney for the Association of Oregon Counties, said the decline of the timber industry in those counties led to outdoor marijuana cultivation taking root several years ago. Oregon in 2015 legalized the sale of marijuana to adults, but authorities say the illegal pot trade continues to flourish. “Southern Oregon counties are “the banana belt for growing marijuana,” Bovett said. (Register-Guard, 3/7/18)

CANADIAN LUMBER EXPORTS SHARPLY DECLINED IN JANUARY, BUT STILL RELEVANT



Canada's exports of lumber and sawmill products dropped 14% in January, which is being reported as the largest monthly decline since March 2014. "This decrease occurred as the U.S. Department of Commerce resumed collecting import duties on Canadian lumber in late December 2017," according to Statistics Canada.

However, as the chart illustrates, the January 2018 volume still appears to be above the 5-year average. (Bloomberg, 3/7/18)

CAN WOOD PARTICLES STRENGTHEN CONCRETE?

Purdue University researchers report that fusing concrete with microscopic wood nanocrystals could make concrete stronger. The cellulose nanocrystals make the concrete stronger through a chemical reaction that increases the hydration in a way that is more effective than increasing hydration with water. (Woodworking Network, 2/23/18)

ROSEBURG GOING INTERNATIONAL

Oregon-based Roseburg Forest Products is making plans to purchase a medium density fiberboard (MDF) and molding production facility located in northeastern Ontario, Canada. The facility is currently owned by Pembroke MDF, Inc. The sale is expected to close in April 2018.

This acquisition will be Roseburg's first international purchase and will continue the company's expansion throughout North America. Roseburg is currently building an engineered wood products plant in Chester, S.C., and recently acquired 158,000 acres of timberland in Virginia and North Carolina. (Roseburg Press Release, 3/6/18)

WASHINGTON STATE PASSES GOOD NEIGHBOR LEGISLATION

Washington's Good neighbor legislation will create an account in the state treasury to process revenues under the Good Neighbor Authority agreement between the Department of Natural Resources and the U.S. Forest Service. The DNR will use these funds to establish a framework for assessing the health of fire-prone lands and treating them. The stakeholder-driven policy, inspired by the Wenatchee-based Wildfire Project, sets a specific goal of assessing and treating 1 million acres over 16 years, most likely through prescribed fire and mechanical thinning. (KPQ, 3/7/18)

CLT AT PDX? IT SEEMS LIKELY.

No final design decisions have been made in the \$1.3 billion planned 5-year expansion of Portland International Airport (PDX). However, it seems likely that Oregon-made cross laminated timber (CLT) will be instrumental in the design. Both the mayor and the design firm touted CLT's attributes at the 2018 International Mass Timber Conference in Portland. (KOIN 6, 3/22/18)

OREGON'S NEW MANUFACTURING OVERTIME RULE & THE TIMBER INDUSTRY

In January, Oregon imposed a new manufacturing overtime statute. The new statute requires most employers in the manufacturing sector to pay overtime if an employee works more than 10 hours in a single day and more than 40 hours total in the course of a single workweek. The law also sets a firm 55-hour weekly limit for most manufacturing-sector employees. However, some timber industry workplaces are exempt from these requirements. Exemptions apply toward employees working in sawmills, shingle mills, and planing mills. (Lilltler, 8/18/17 & Schwabe, 3/13/18)

SISKIYOU MOUNTAINS SALAMANDER: PROTECTION SOUGHT

In March, Conservation groups filed a federal petition for Endangered Species Act protection for the Siskiyou Mountains salamander. It is a rare terrestrial salamander that lives in two populations: a larger population in old-growth forests in the Klamath-Siskiyou region of southern Oregon and a smaller population in Northern California.

Plaintiffs claim the Western Oregon Plan Revision adopted by the BLM in 2016 will substantially increase logging in western Oregon and undermine the habitat by eliminating the 'survey and manage' program that previously required timber planners to look for salamanders before logging. (Center for Biological Diversity, 3/13/18)

SRS AND PILT REVIVED IN OMNIBUS LEGISLATION

The 2018 Omnibus legislation that became law in March contains the two-year reauthorization of the Secure Rural Schools (SRS) program for 2017 and 2018. It also fully funds the Payments In lieu of Taxes program (PILT) at \$530 million, a historic level for the program. PILT funds will be distributed as compensation for a share of timber revenues the counties would be receiving if U.S. managed timberlands were harvested at higher levels. In Oregon, Lane County will receive an additional \$9.4 million this year. Curry County's increase will be \$2 million. Josephine County will get an additional \$3.5 million, Douglas County will get the biggest check, \$10.5 million. (Register-Guard, 3/24/18)

WASHINGTON MILL REOPENS

Washington's Department of Natural Resource (DNR) and state legislature will invest \$1.5 million to get an abandoned mill, owned by the Port of Willapa Harbor, back up and running. The money will go toward a new log system that makes use of small diameter alder, startup costs, and debt-securing the sawmill. The investment will also create 49 jobs, and generate \$9.5 million in log purchases each year, leading to \$98,000 in revenue. (Woodworking Network, 3/16/18)

WASHINGTON PROMOTES CLT

Mass timber products like cross-laminated timber (CLT) have been on the upswing in Washington in recent years. Last year, Vaagen Brothers Lumber of Colville, WA, and Katterra, a California company, each announced they were building CLT factories in Eastern Washington, and CLT is increasingly being used in buildings around the state. One impediment to the wider use of mass timber products in construction has

been that building codes have not been updated to account for the new building materials. Senate Bill 5450, passed overwhelmingly 45-2 in the Senate and 91-6 in the House, rectifies this, directing the Washington State Building Code Council to adopt rules allowing for the use of mass timber in construction.

“State lawmakers are paving the way for more buildings in Washington to be constructed with mass timber products that have a lower carbon footprint and use less energy and water than other building materials,” according to a spokesman. “Cross-laminated timber, for example, is strong, fire-resistant and because the CLT panels are prefabricated, it’s fast and simple to install.” (WFPA 3/26/16)

CRACKING THE GRAPHENE CODE – WITH LIGNIN

“Measuring one million times less than the width of a human hair, graphene is harder than diamonds and 200 times stronger than steel. Small, strong, and flexible, it is the most conductive material on Earth and has the potential to charge a cell phone in just five seconds or to upload a terabit of data in one. It can be used to filter salt from water, develop bullet-stopping body armor, and create biomicrorobots.” This quote is from a post by on the USDA Forest Service website.

What is this miracle material called graphene? It is one of the most expensive materials on the planet, derived from chemically peeling layers from graphite. However, a team of scientists from the USFS have developed a more cost-effective way to produce graphene from the lignin found in forest by-products. A pilot project has produced a small quantity of graphene and it will be shared with university and industry collaborators for further testing. If it is determined that large quantities of graphene can be manufactured at a lower cost, it could lead to the development of lighter and stronger structural materials for the automotive, aerospace, and building industries, among others. (USDA Forest Service, 3/16/18)

BUYER STRATAGEM IN TIGHT HOUSING MARKET

Home buying will be difficult this spring, particularly for “affordable” houses. Despite what some consider to be a booming economy, fewer homes are being built per household than at almost any time in U.S. history, according to the Federal Reserve Bank of Kansas City. Even still, a recent survey of potential home buyers show that most are optimistic because they are approaching the housing market strategically.

- 60% expect to close in the next six months and 40% have been searching for more than seven months
- 40% plan to offer more than a 20% down payment
- 42% revealed they are checking listing websites every day
- 26% are willing to offer above asking price (WSJ, 3/18/18 & Realtor.com, 3/23/18)