

News for Family Forests

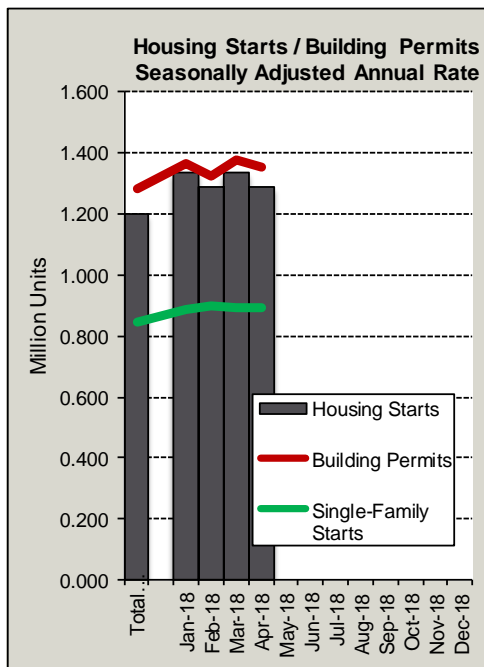
June 2018



How 'bout them Beavers! Log markets continue to cruise, and there's no decline on the horizon. If you've been waiting to cut your timber until markets are up—now's the time. It could be several months until a logger is available, but with a steady market in the foreseeable future, it's a great time to get the ball rolling. The entire Northwest is now in fire season. We'll see what that does to log markets. In most areas it's time to wind down, or at least be extra cautious, with operations in the woods such as PCT, slashing/release, or road brushing. Where chainsaws or machinery are used, the chance of fire is an issue, and unlike logging, full blown fire suppression resources are not typically on site.

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



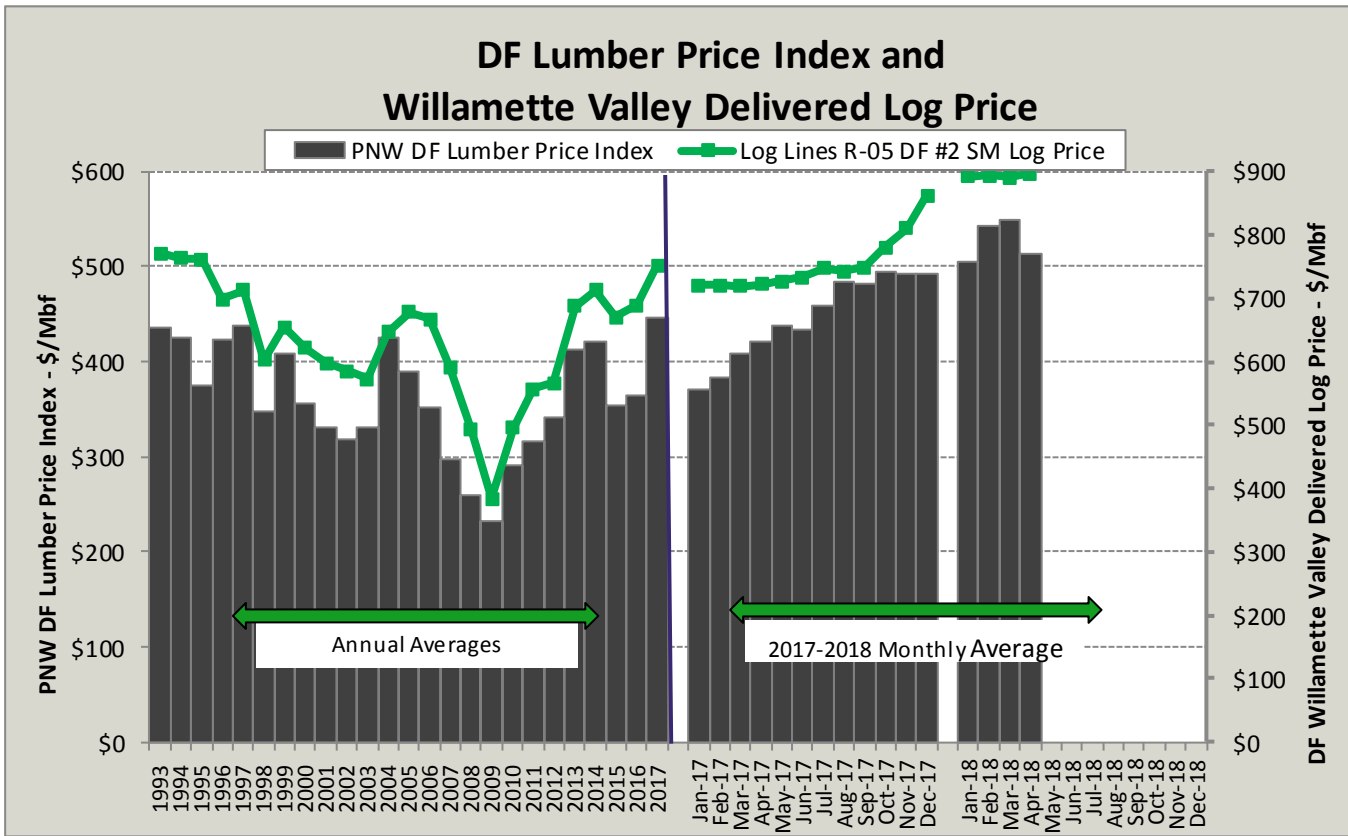
HOUSING STARTS

U.S. housing starts decreased 3.7% overall in April. Single-family starts increased 0.1% while multi-family starts decreased 12.6%. Building permits also decreased 1.8%. Pundits tell two stories – there is not enough labor to keep up with demand, and/or rising material costs are increasing prices and suppressing demand. (WSJ, 5/16/18)

	April 2018	March 2018	Monthly Difference	April 2017	Annual Difference
All Starts	1.287	1.336	-3.7%	1.165	10.5%
Single-Family Starts	0.894	0.893	0.1%	0.834	7.2%
Building Permits	1.352	1.377	-1.8%	1.255	7.7%
Single-Family Building Permits	0.859	0.851	0.9%	0.796	7.9%

Source: U.S. Census Bureau

LUMBER & LOGS



DF Lumber prices turned down in April for the first time in many months. Log prices ticked up very slightly. Time will tell if this marks the turning of a price spike, or just a temporary pause. There are indicators supporting both prognoses. (Note that lumber and log prices are on different scales in the chart.)

- April DF #2S log prices, as reported by Log Lines, increased \$6 to \$897/Mbf, which is 0.7% higher than the prior month, 24.2% higher than April 2017, and 27.7% above the 5-year average.
- At \$514/Mbf, the DF lumber index price for April dropped 6.5% below March 2018. It was still 22.2% higher than April 2017 and 29.6% above the 5-year average.

April 2018 Douglas-fir Prices:							
	April 2018	March 2018	Change from Previous	April 2017	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 897	\$ 891	0.7%	\$ 722	24.2%	\$ 702	27.7%
Lumber	\$ 514	\$ 550	-6.5%	\$ 421	22.2%	\$ 397	29.6%

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



MARKET NEWS

LUMBER TRACK REPORT

Data from the *WWPA* shows that while U.S. lumber consumption outpaced production in February, it seems to be softening when compared to the prior month and year. February data show a decrease in both consumption and production of lumber. Production fell more in the West than in the South, but it had the largest decrease in Canada. This may partially be a reflection of the shorter month.

Lumber Production	Feb 2018	Jan 2018	Change from Previous Month	Jan 2017	Change from Previous Year
U.S. Lumber Production	2.71	2.91	-6.9%	2.68	1.2%
U.S. Lumber Consumption	3.58	3.89	-8.1%	3.92	-8.6%
Western U.S. Lumber Production	1.16	1.27	-8.8%	1.08	6.8%
Southern U.S. Production	1.43	1.51	-5.3%	1.47	-3.0%
Canadian Production	2.20	2.43	-9.4%	2.25	-2.4%

Mill Capacity	Jan 2018	2017 Average	Change from Previous Yr Avg	Jan 2017	Change from Previous Year
U.S. Production as a % of Capacity	85%	87%	-2%	82%	3.0%
Coast Production as a % of Capacity	86%	82%	5%	78%	10.3%

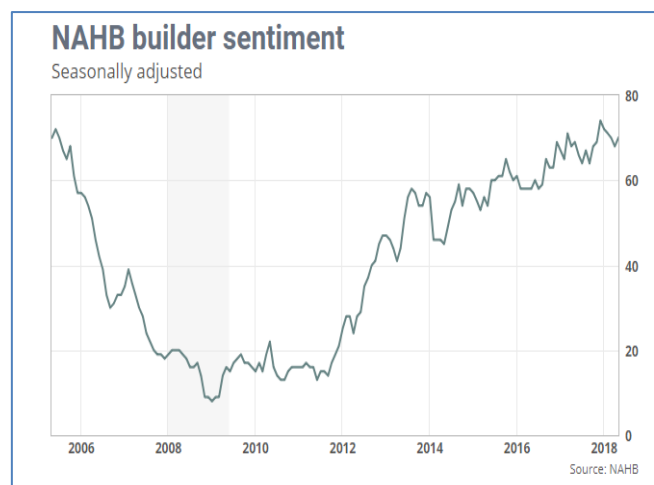
All volumes in Bbf; Source: WWPA Lumber Track and Western Lumber Facts

NEW HOMES ARE GETTING LARGER

In order to accommodate the need for economical entry-level homes, the size of new homes being constructed has been falling over the last two years. However, this trend may be reversing in 2018. Data from the 1Q2018 census indicates the average square foot of a newly-built single-family home in 1Q2018 was 2,641 square feet. This size represents a 2.7% increase over 4Q2017 and the first increase since 2016. (NAHB Press Release, 5/21/18)

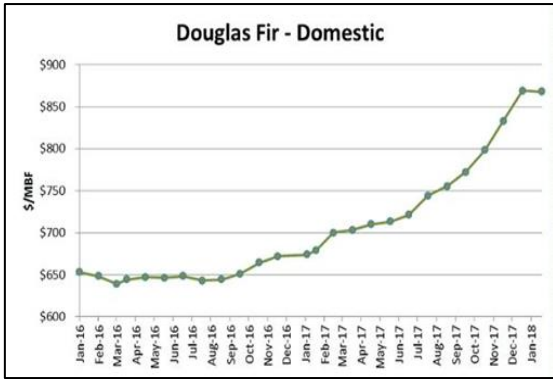
HOME-BUILDER CONFIDENCE STILL STRONG

As shown in the chart below, home-builder confidence continued to be very strong in May, a rise of two points over April and nearing 70%. According to the National Home Builders Association, builders are confident due to low unemployment, a shortage of housing inventory and fairly low mortgage rates. However, rising lumber and labor prices remain a concern. (Market Watch, 5/15/18)





LOG PRICES: SPECTACULAR INCREASES



It seems everyone is excited to report about high sawlog prices in the current market. *Wood Resources International* (WRI) reports that the Global Sawlog Price Index (GSPI) has seen four consecutive quarter-over-quarter increases, with the GSPI being up 9.8% in one year.

WRI also called the sawlog prices in the Western U.S. over the last two years “spectacular.”

Forest2Market reported Douglas-fir log prices have consistently remained above the \$800 level since December 2017—exceeding their predictions of a several months ago. DF log prices are at much higher sustained levels than they have been at any time in more than a decade.

Export prices have also been strong, though volumes have been weak since 2017. Japan continues to be the major importer of DF logs out of the PNW. However, South Korea has been on pace to purchase more volume over the last year. British Columbia recently announced its intent to examine and possibly restrict log exports from the province, which may also increase export demand from the PNW. (WRI, 4/27/18 & Forest2Market, 4/30/18)



BIG TIMBERS GET BIGGER PREMIUM

Demand for big timbers (6” x 6” and larger) has been outstripping supplies from West Coast mills, according to *Random Lengths*, and prices are on a tear. For example, #1&Btr 6x6 sold for \$975/Mbf in July 2017 and now sits at \$1385/Mbf. Most producers have a 60-day order file and have put customers on allocation to spread out limited supplies. No signs of slowing in this sector. (Random Lengths, 3/30/18)



LUMBER CHECK-OFF PROGRAM

Lumber manufacturers are now casting votes as to whether to reauthorize the Lumber Check-Off Program. This is a self-imposed assessment of \$0.35/Mbf of lumber that is used to expanding lumber markets and strengthening the industry. An independent evaluation of the program by Prime Consulting show that demand has increased by more than 3.6 Bbf due to investments made by the program since 2012—a reported return of \$19.74 for every \$1 spent. In 2017, the program assessments topped \$14 million.

The final rule establishing the check-off program went into effect in 2011 following an approval of 67% of the voters. The referendum was set to expire in 2016 but was delayed when Resolute Forest Products filed a lawsuit challenging the program. (Random Lengths, 4/6/18)

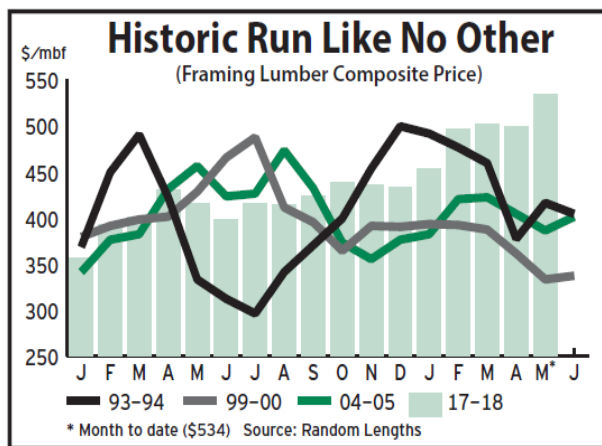


LUMBER DEMAND AND PRICING: NO END IN SIGHT FOR THE CURRENT RUN

Demand: A new study forecasts that softwood lumber consumption in the U.S. will reach all-time highs by 2030. U.S. softwood lumber demand is expected to continue its upward trajectory, reaching an all-time high by mid 2020s, according to a recent Study by ForestEdge and Wood Resources International. The study indicates lumber consumption for “Non-Residential Construction” is forecasted to grow the fastest and increase its share of softwood lumber consumption from 11% in 2016 to 14% by 2030. However, the biggest end-use market will continue to be residential housing, including repair and remodeling, at a total share of about 70% of the total U.S. lumber consumption by 2030.

Pricing: As a consequence of the expected demand of softwood lumber, there are likely to be upward pressure on sawlog prices in addition to increased investments in production capacity in the U.S., changes in Canadian lumber trade flows, and a rise in overseas supply.

Random Lengths reported in May that the current run in lumber prices is one for the record books. They generated the following chart to illustrate why the last 18 months is truly historic.



The chart shows previous record runs (trend lines) against the backdrop of the current run (columns) over an 18-month period. What characterized the previous three runs were nearly mirrored up- and down-market trends over relatively short periods. The 1993-94 run was driven by logging cutbacks on the federal forests in the Northwest to protect the northern spotted owl. Another was the housing boom of 2004-05 that eventually ended in calamity when the bottom fell out of the housing market in 2008. Those runs generated two spikes over their respective 18-month periods.

The current run has stair-stepped upward over the past year and a half with only a few pullbacks—a moderate one in May and June of last year and a mild slip in April this year (chart).

Of course, there are some analysts who believe these record-breaking prices may be coming to an end—perhaps abruptly. Some analysts point to the World Trade Organization’s pending examination of the U.S. lumber duties on Canadian softwood lumber and claim this leaves the industry vulnerable. They warn that prices for softwood lumber have gotten above their fundamental value.

Finally, long-time readers will remember that: (1) Wood Resources International was the purveyor of the “Perfect Storm” idea that predicted a lumber price spike every year since the recession; and (2) Dave Cox used to say that it was easy to predict what future lumber prices would be, but hard to say exactly when they would occur... (Wood Resources International, 4/26/18) (AJOT, 4/30/18) (The Globe & Mail, 5/6/18) (Barron’s, 5/10/18) (Random Lengths, 5/11/18)

PULP PRICES 1Q2018

Wood Resources International reports that first quarter pulp prices increased substantially in the Western U.S. and Western Canada, increasing 12% and 15% respectively. Tight fiber supply, low fiber inventories, wildfires in the fall, reduced harvest levels and transportation challenges were all factors that contributed to the upward price pressure on both wood chip and pulp logs during the winter season.

However, pulp prices fell substantially in Eastern Canada over the same period and reached their lowest level in over 30 years. The only region where wood prices remained practically unchanged was in the U.S. South, where the pulp industry continues to have some of the lowest fiber costs on the continent. (WRI, 5/29/18)

OREGON TEEN FINED \$36.6 MILLION IN WILDFIRE RESTITUTION

An Oregon judge has ordered a teen who admitted to starting a fire that swept through the Columbia River Gorge last year to pay over \$36 million but acknowledges the teen can't pay the sum in full. The judge was obligated under state law to order the teen to pay the full amount of restitution, though it will be virtually impossible for him to earn that kind of money in his lifetime. The restitution is solely against the teen, not his parents.

The teen admitted in February to throwing fireworks in Eagle Creek Canyon in September 2017 and was sentenced in February to five years of probation and 1,920 hours of community service with the U.S. Forest Service. He also was ordered to write apology letters to 152 people trapped on the Eagle Creek Trail because of the spreading flames, the city of Cascade Locks, the Forest Service, Oregon State Parks and Recreation, the Oregon Department of Transportation, the Confederated Tribes of Warm Springs, the Columbia River Inter-Tribal Fish Commission and many others. (Oregonian, 5/22/18)

OREGON WILDFIRE RISK EXPLORER

The Oregon Department of Forestry (ODF) introduced a new online tool in May that will help community planners and the public learn about wildfire risk across the state. It is called Oregon Wildfire Risk Explorer (OWRE). OWRE will allow Oregon residents and industries to track current wildfire risk to their exact location anywhere in the state. It also allows the user to view, query, and download data, generate maps and reports specific to their area, and access information to interpret the data for planning. It can be found on the Oregon Explorer website (OregonExplorer.info/wildfire).

The tool uses a variety of data to calculate how high the risk is for any given location, based on historical wildfire data, local vegetation and weather. It offers insight and resources to residents and a data-based risk assessment for planners and forest managers as they prepare for wildfires predicted to grow more intense.

Rick Stratton, a fire analyst with the U.S. Forest Service, said "The risk assessment has three major goals: map and assess wildfire risk on all lands in Oregon and Washington, use an interagency approach to foster relationships, and produce a product that would be immediately used by the wildland fire managers, other federal and state programs, private industry and the public." (Oregonian, 5/24/18)

SRS CONTINUES IN 2018

In March, Congress passed a 2018 spending bill that included reauthorization of funding for the Secure Rural Schools (SRS) program. It allowed for payments to continue for 2018 and a retroactive payment for 2017. The law does not provide for retroactive payments for FY16.

Eighteen counties in western Oregon are eligible to receive a portion of Oregon's \$14 million allotment for 2018. The BLM manages the SRS program in concert with the U.S. Forest Service. These payments will support public schools and other county services.

U.S. Secretary of the Interior Ryan Secretary Zinke said, "States like Oregon with large federal land holdings, play a big part in feeding and powering the nation and also in providing recreation and economic opportunities thanks to our Federal forests. Earlier this year the Trump Administration was able to secure millions of dollars in back funding for O&C counties and I'm happy to follow it up with another important payment." (Press Release, 5/7/18)

CHINESE IMPORT RECORD VOLUMES

Statistics from China's State Forestry Administration show the China's fore product industry output value reached 7 trillion RMB (U.S. \$1.1 trillion) in 2017, which is 8% more than in 2016. Forest products trade with the U.S. accounted for \$150 billion, up 10% from the prior year. The table below shows significant growth in both lumber and logs.

Currently, log inventories at the ports are at the highest point in several years. Sources report, however, that prices remain firm. (China Bulletin, Feb and Mar 2108)

	Volume (x1,000 m ³)			Value (\$ U.S. Millions)		
	2017	2016	% change	2017	2016	% change
Softwood Log	38,149	33,665	13%	\$ 5,093	\$ 4,053	26%
Hardwood Log	17,291	15,068	15%	\$ 4,833	\$ 4,023	20%
Total Log	55,440	48,733	14%	\$ 9,926	\$ 8,076	23%
Softwood Lumber	25,046	21,075	19%	\$ 4,876	\$ 3,791	29%
Hardwood Lumber	12,303	10,564	16%	\$ 5,188	\$ 4,344	19%
Total Lumber	37,349	31,639	18%	\$ 10,064	\$ 8,135	24%

Source: China Bulletin

DROUGHT, BARK BEETLES & NATURAL BALANCE

The Oregon Department of Forestry (ODF) is advising forest owners to plan ahead to help healthy trees survive this year's expected drought. This can include removing some trees or competing weeds to allow the remaining trees to get enough food and water during dry spells. They also suggest the avoidance of fertilization and the planting of less drought-tolerant trees such as Douglas-fir in areas historically dominated by more drought-tolerant trees such as oak and pine.

ODF Entomologist, Christine Buhl contributed that bark beetles are part of a healthy ecosystem. The beetles pick off the sick or less vigorous trees that are competing with healthier trees. But, when dry conditions stress trees, they're more susceptible to attack and bark beetle populations can increase to unsustainable levels. When the natural balance is off and the beetles can overcome the defenses of healthier trees it presents a problem. (Press Release, 5/2/18)



BIO-ENGINEERING TREES

Lignin gives timber its strength and density— desirable characteristics for structural uses but not so desirable for making biofuels, paper, or pulp. For those applications, the lignin is separated from the wood with high heat and harsh chemicals. Scientists at North Carolina State University have devoted the last 10 years studying the biological triggers that determine the characteristics of trees as they grow. They have identified 21 pathway genes that control the amount of lignin a tree produces. Now they are working to turn those genes on or off in an effort to produce trees with more or less lignin to meet specific needs.

Jack Wang, assistant professor in NC State's College of Natural Resources proposes this research could lead to more research, such as how to produce "trees that can be paired with thermophilic bacteria for optimal conversion to biofuels and biochemicals," Wang says. "We are also looking at this integrative analysis to generate trees specifically tailored for production of nanocellulose fibers to replace petroleum-based materials such as plastic." (PlantSave.com, 5/29/18)



OREGON CONSIDERS HABITAT CONSERVATION PLAN

The Oregon Department of Fish and Wildlife (ODFW) and the Oregon Department of Forestry (ODF) have received a \$750,000 federal grant to explore feasibility of a Habitat Conservation Plan for state-owned forests west of the Cascades. A steering committee will be formed to determine whether a habitat conservation plan will meaningfully improve habitat used by threatened and endangered species while allowing for sustainable forest management. (ODF, 5/8/18)



TRUCKERS NEEDED

Joyce Brenny, who is the chief executive of Brenny Transportation in Minnesota, gave her truck drivers a 15% raise this year, but she still can't find enough workers for a job that now pays \$80,000 a year. "I've never seen it like this, ever," said Brenny, who has been in the trucking industry for 30 years. "It doesn't matter what the load even pays. There are just not drivers."

Brenny is not alone. The U.S. is experiencing a widespread shortage of truck drivers. The U.S. has had a truck driver shortage for years, but experts say it's now reaching a crisis. As just about every sector of the economy is expanding and online sales continue to soar, the need to move goods keeps increasing. On top of that, the federal government imposed a new rule in December that requires drivers to be on the road for no more than 11 hours at a time and track their time by an electronic device so they can't cheat.

"It's as bad as it's ever been" to find drivers, said Bob Costello, chief economist at the American Trucking Associations. "Companies are doing everything they can to make drivers happy: increasing pay and getting them home more often, but that means they aren't driving as many miles."

With increasing driver pay and fuels costs, it now costs more than \$1.85 a mile to ship a "dry good" that doesn't require refrigeration or special handling. That's nearly a 40% increase from the price a year ago. (Washington Post, 5/21/18)