

News for Family Forests

July 2018



Forest Management Co.
PROFESSIONAL FORESTERS

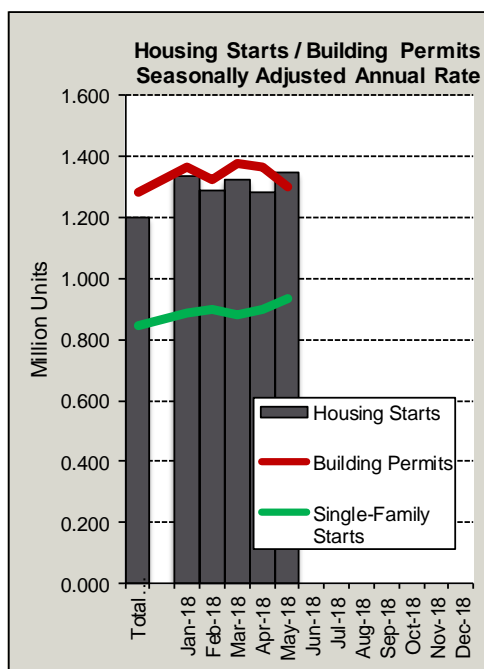
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About the time you think log markets are flattening or maybe even declining, virtually the entire region abruptly hits extreme fire precaution levels, which can cause some buyers to panic and hold or raise prices. It's shaping up to be an exceptionally dry summer, so if you reforested in the last few years you'll want to survey your plantations this fall in order to determine if interplanting is necessary in 2019. Be extra cautious in your forest or plantation this summer. Be sure you have adequate fire suppression resources on hand, and a fire plan.

If you want to plan a timber harvest or other forest operation, 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



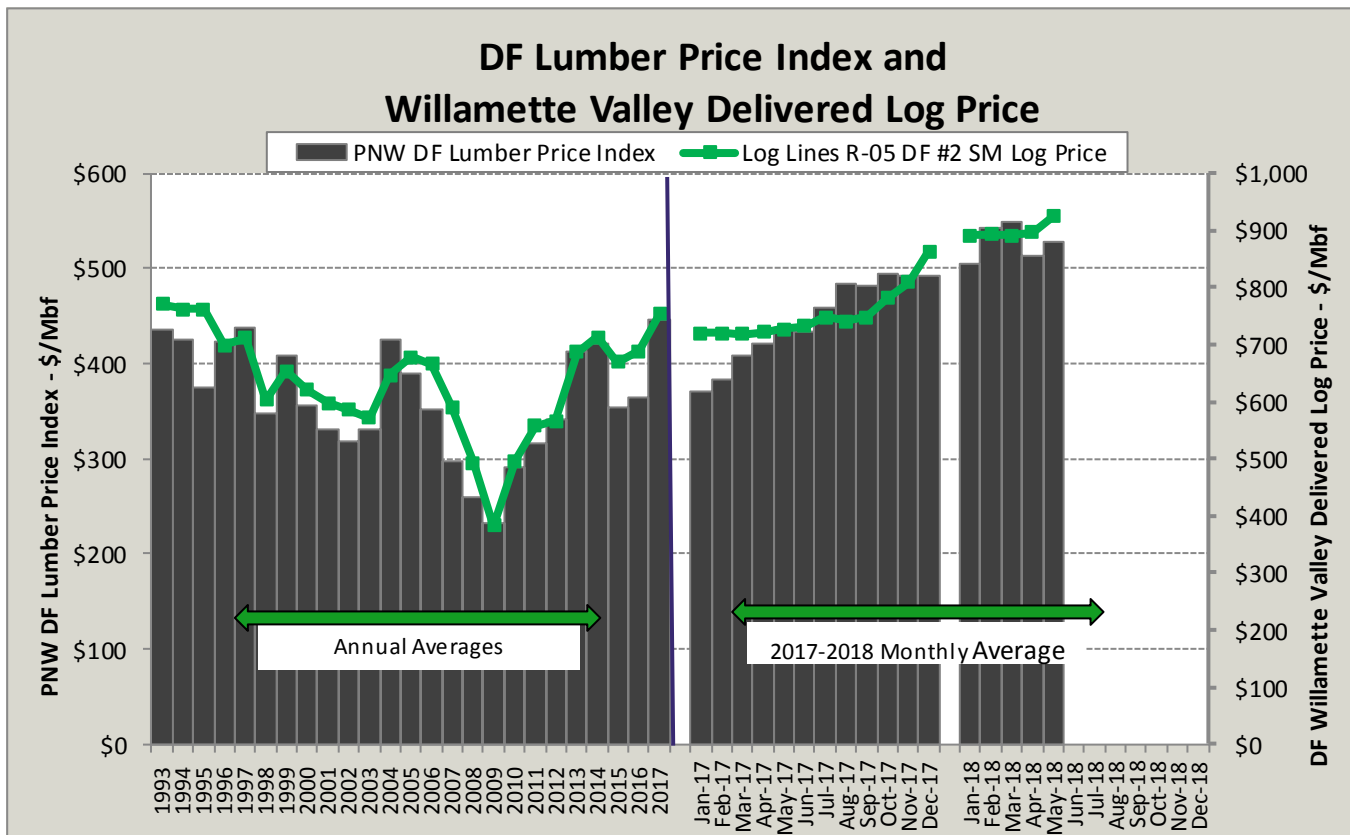
HOUSING STARTS

U.S. housing starts increased 5% overall in May. Single-family starts increased 3.9% and multi-family starts increased 11.3%. Total starts are 20% over May 2017. So far, housing in 2018 is beating expectations. But building permits fell 4.6% in May, and part of the blame is placed on high lumber prices. Some builders are holding back, waiting for prices to soften. (WSJ, 6/19/18)

May 2018 Housing Starts (million units, seasonally adjusted):					
	May 2018	April 2018	Monthly Difference	May 2017	Annual Difference
All Starts	1.350	1.286	5.0%	1.122	20.3%
Single-Family Starts	0.936	0.901	3.9%	0.791	18.3%
Building Permits	1.301	1.364	-4.6%	1.205	8.0%
Single-Family Building Permits	0.844	0.863	-2.2%	0.784	7.7%

Source: U.S. Census Bureau

LUMBER & LOGS



DF Lumber and log prices had price increases in May. May’s upturn is welcome after the downturn in April. Perhaps this market still has some legs. (Note that lumber and log prices are on different scales in the chart.)

- May DF #2S log prices, as reported by Log Lines, increased \$27 to \$924/Mbf, which is 3% higher than the prior month, 27% higher than May 2017, and 31.6% above the 5-year average
- At \$528/Mbf, the DF lumber index price for May increased 2.7% over April 2018. It was also 20.2% higher than May 2017 and 33.1% above the 5-year average.

May 2018 Douglas-fir Prices:							
	May 2018	April 2018	Change from Previous Month	May 2017	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 924	\$ 897	3.0%	\$ 727	27.1%	\$ 702	31.6%
Lumber	\$ 528	\$ 514	2.7%	\$ 439	20.2%	\$ 397	33.1%

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



MARKET NEWS

LUMBER TRACK REPORT

Data from the WWPA shows that lumber production and consumption had an increase in March, compared to February 2018. However, both production and consumption have decreased overall when compared to March 2017—with the exception of the western U.S. where March production increased slightly over March 2017. Overall U.S. mill utilization decreased slightly in March, but the Coastal mills had a 6% increase in utilization as they used more of their capacity. (WWPA, 6/13/18)

Lumber Production	Mar 2018	Feb 2018	Change from Previous Month	Mar 2017	Change from Previous Year
U.S. Lumber Production	2.92	2.73	7%	2.99	-2.4%
U.S. Lumber Consumption	4.01	3.59	11%	4.24	-5.6%

Western U.S. Lumber Production	1.26	1.16	9%	1.25	0.6%
Southern U.S. Production	1.52	1.44	5%	1.59	-4.8%
Canadian Production	2.45	2.20	11%	2.58	-4.9%

Mill Capacity	1Q 2018	2017 Average	Change from Previous Yr Avg	1Q 2017	Change from Previous Year
U.S. Production as a % of Capacity	86%	87%	-1%	84%	2.4%
Coast Production as a % of Capacity	87%	82%	6%	89%	-2.2%

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

FRAMING LUMBER SHORTAGE

The National Association of Home Builders (NAHB) reports that a shortage of framing lumber is more widespread now than it has been at any time since they began tracking the supply in 1994. In a May 2018 survey, over 30% of the builder responses reported a shortage of framing lumber. Trusses were not far behind, with 24% of the builders reporting shortages. Last year at this time, 21% of builders reported shortages of lumber and 15% of all other products. (Builder, 6/25/18)

LUMBER PRODUCTION IN THE WEST: CONTRAST BETWEEN U.S. & CANADA

Sawmills in the western U.S. produced 4.9 Bbf of softwood lumber in the first four months of 2018, a 9% increase over the 4.5 Bbf produced in the same period last year. Coastal mills contributed 3.1 Bbf to the four-month total, up 10.8% over a year earlier. In April alone, sawmills in the U.S. West produced 1.24 Bbf of lumber, a 13.5% increase over production in April 2017.

Canadian statistics are only available through March 2018. They indicate that Canadian mills shipped 5,392.5 thousand cubic meters of lumber in March, up 10.5% from February 2018, but 7.6% lower than in March 2017. (Western Lumber Facts, 6/11/18 & Statistics Canada, 6/11/18)

FIRE DANGER IN THE WEST CALLED “EXTREME”

Extreme fire danger has already prompted officials to close some national forests and parks in Colorado, Arizona and New Mexico as a precaution to human-caused fires.

Noel Livingston, Fire Management Officer on the Wallowa-Whitman National Forest commented on the western fire forecast for the summer of 2018. Livingston declared that the warm May melted off the snowpack two weeks early and things are drying out. Southern and central Oregon will be “above normal” for significant wildfire fire potential in July. And come August—the peak of the hot, dry summer—northeast Oregon will also enter the red zone.

Late summer carries the highest potential for large fires in eastern Oregon and Washington, plus most of Idaho and Montana. Overall, Livingston said, Oregon’s fire outlook for 2018 has not changed much from last year.

According to Predictive Services, only the Willamette Valley and most coastal areas of Oregon will stay in the normal range of danger throughout the summer. (Assoc. Press, 6/12/18 & East Oregonian, 6/18/18)

LUMBER PRICES EFFECT ON HOME PRICES

USA Today reports that as a result of higher lumber prices, the cost of an average new home in the U.S. has increased by nearly \$9,000 since January 2017, reaching \$407,000 at the end of April 2018. This is slowing the number of new homes being built and purchased. USA Today reports that the increase in lumber prices is due to limited supply coming from Canada. They site three main factors that have caused a decrease in softwood lumber imports from Canada: The softwood trade dispute and resulting tariffs, limited rail capacity, and wildfires in B.C. (USA Today, 6/22/18)



A few days after the USA Today article, the Forest Economic Advisors (FEA) released a statement confirming the same three causes for decreased Canadian softwood imports, and they added one more—pine beetle infestation. However, the FEA reports that higher wood products prices will have a negligible effect on the U.S. housing recovery. NEA calculates that the increase in lumber prices have added only \$6,500 to the price of an average new home. They claim this has added about 2% (\$20/month) to the price of an average new home. (FEA, 6/25/18)

LEGAL HELP FOR COHO

The Oregon Department of Forestry is being sued by a coalition of environmental and fishing groups for allegedly threatening coho salmon survival. The federal lawsuit claims they are violating the U.S. Endangered Species Act by not implementing a species management plan to prevent or mitigate habitat damage. Logging activity in Clatsop State Forest and Tillamook State Forest have been accused of increasing the risk of sediment falling into streams critical to salmon habitat. These streams serve as a breeding ground for coho salmon as well as a place for them to grow into maturity. The suit claims the number of returning coho has dropped from 1-2 million in 1900 to less than 76,000 today. (Seattle Times, 6/13/18)

CROSS-LAMINATED TIMBER DEMAND GROWING

Globally, 2016 CLT demand was valued at nearly \$670.2 million. The global demand for CLT is expected to continue to steadily increase and its value is predicted to expand at a rate of 15.1% over the next eight years. CLT is still has the highest popularity in Europe, where over 50% of the global CLT is currently consumed. (Greener Ideal, 6/13/18)

HOUSING: 10 YEARS LATER

The U.S. housing market has gained back all \$9 trillion lost when the market collapsed, but the uneven nature of the crisis and the recovery has left many housing markets trailing behind, while others surge ahead.

More than half of the nation's largest housing markets have regained all of the value lost during the recession, with the typical U.S. home worth \$55,200 more than it was at the bottom of the bust. The typical home lost 23% of its value. Since then national home values have returned to their previous value. West Coast market have seen the strongest gains, while values in the "sand states" have yet to recover. (Zillow, 2/15/18)

USFS TIMBER HARVEST TO INCREASE IN 2018

The USFS 2018 timber harvest will be the biggest in 20 years, according to interim agency Chief Vicki Christiansen. As the Forest Service increases forest thinning in response to wildfire threats, it's seeing a 30% boost in timber production this year. The agency expects to sell 3.4 Bbf of timber in 2018 and 4 Bbf in coming years. [Note: Prior to the listing of the owl, the USFS sold 6.0 Bbf annually in Oregon and Washington alone, about 10-12 Bbf nationally.]

Reactions to this announcement have been mixed. The NAHB is celebrating the increase in supply of timber, and ultimately lumber, for home builders. Steve Brink, Vice President of Public Resources for the California Forestry Association, said the additional harvest shows that the USFS is moving "in the right direction, there's no doubt about it." However, The Forest Service's increased timber harvests don't quite make the cut for Rep. Tom McClintock of California. McClintock stated that the agency's plans for logging don't come close to handling overgrowth in national forests. "The increases in timber harvests are encouraging, but they're still only a fraction of the annual forest growth. They're only a fraction of what we once harvested," said McClintock. (E&E, 6/6/18), (Capitol Hill, 6/6/18), (Calif. Farm Bureau Federation, 6/13/18)

PRICES COOLING FOR STRUCTURAL PANELS AND FRAMING LUMBER?

Random Lengths reported that markets were subdued as buyers hold-off in anticipation of lower prices for structural panels and framing lumber. The North American Structural Panel Composite dropped \$8 (1.4%) in the week ended June 22 to \$565 per Msf, after holding at \$573 in the two previous weeks. Random Lengths reported, "Buyers restricted purchases to the bare minimum as they waited for prices to crack, often prioritizing shipping times over price, and the stand-off between producers and buyers intensified. "

Quiet sales prompted some Douglas-fir producers to open to counters on the narrow widths of Std/#2&Btr dimension, reported Random Lengths. (Random Lengths, 6/9/18 & 6/25/18)

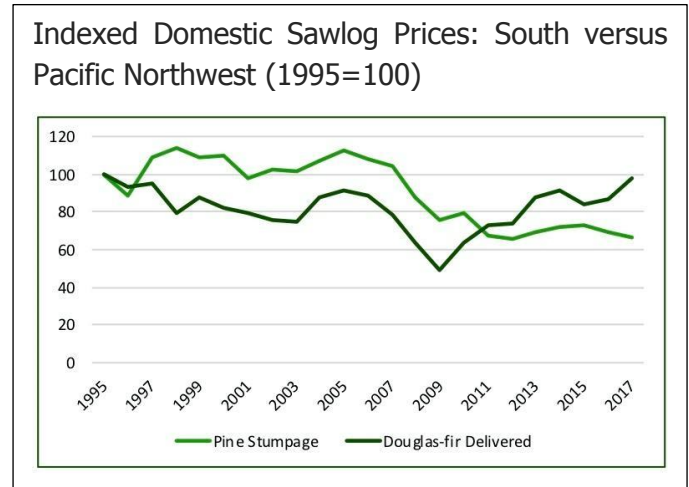
LAWMAKERS PUSH FOR NEW SOFTWOOD LUMBER AGREEMENT WITH CANADA

The Trump administration received a letter from 171 congressional lawmakers, arguing that the softwood lumber tariffs imposed on Canadian imports have significantly pushed up the prices on lumber used in the construction of U.S. residential building. Lawmakers are urging the administration to return to negotiations with Canada on softwood lumber. The U.S. Lumber Coalition, which supports the tariffs, calls the argument that the tariffs are pushing up prices "inaccurate." The coalition claims that, like all commodities, fluctuations will occur due to market forces. (The Hill, 6/14/18)

U.S. SOFTWOOD MARKETS: WEST VS. SOUTH

Forisk Consulting analyzes the U.S. timber market. They have recently released a report comparing the Douglas-fir (DF) market in the Pacific Northwest (PNW) with the Pine market in the South over the last 22 years. The chart below is an index that compares how prices in each of the markets have changed since 1995. The chart indicates that the market for PNW DF was not as strong as southern pine until 2011, when that trend reversed. In 2017, we see that DF returned to where it was in 1995 and southern pine was lower than it was in 1995.

Looking forward, Forisk sees the market in the West as constrained with little opportunity for growth. They call the current PNW high prices, "elevated spikes desperately looking for a release valve." In contrast, they forecast increasing lumber demand and production in the South. Each year, the South gains a little U.S. market share. Forisk labels the PNW as a cash flow story and the South as a growth story. However, Forisk does site two circumstances that could change the PNW forecast. If there are substantial long-term changes in the log export market or log supply, the West could also see growth. (Forisk, 6/12/18)



BETTER THAN CLT?

Freres Lumber opened its new mass plywood panel (MPP) plant in December, located in Lyons, Oregon. MPP is similar to CLT, but it is produced from varying thicknesses of wood veneer. Freres cites certain advantages over CLT:

- By using 1/8 in. layers of veneer in building MPP products, panel strength can be more closely engineered to match required properties. The basic CLT building block is a layout of three roughly 1 3/8-inch pieces of lumber, and any increase in strength requires adding another layer of cross- and long-grain boards, leaving CLT married to a 3-5-7-9 layer system.
- Because MPP can often meet strength requirements with less wood volume, there will also be a cost savings. Freres Lumber claims that in applications requiring larger thicknesses of CLT, MPP will be able to provide the same strength with 20-30% less wood volume. (Press Release, 6/5/18)

CANADA: NOW IT'S THE SPRUCE BEETLE

After decades of mortality from the pine beetle, Interior BC mills are now facing an attack of spruce beetles. The area infested nearly doubled from 283,000 hectares in 2016 to 502,000 hectares in 2017. Authorities say they want to aggressively attack the infestation to keep it from picking up any more momentum, but the life-cycle of the beetle makes early detection difficult. (Random Lengths, 3/2/18)

ODFW REVERSES ITSELF ON MAMU UP-LIST

At its February meeting, the Oregon Fish and Wildlife Commission voted to “up-list” the marbled murrelet (MAMU) from “threatened” to “endangered” under the Oregon Endangered Species Act. This would require state agencies to engage in efforts to recover the MAMU population, and timber industry interests were concerned that the up-list would eventually lead to additional requirements in the Oregon Forest Practices Act.

Up-list opponents put on a full court press and the Commission reversed its decision at its June meeting. This was partly science—current research is not conclusive about population trends, or whether the proposed measures would really make any difference—and partly politics. While many expect the environmental community to make another run at up-listing, the industry and the counties are celebrating a rare victory. (OFIC News; 6/6/18)

FORESTRY EMPLOYMENT IN OREGON

With about half of Oregon’s land mass covered in forest, forestry-related employment is a large factor in the state. According to Oregon Employment Department statistics, 757 firms employed 9,668 people in forestry and forestry-related jobs statewide and added \$539 million in payroll to Oregon’s economy in 2016. Of the 2016 total, 6,327 were employed in the private sector while 3,341 were employed in government. Most of the government employment was federal at 3,148 while the rest were state employed. The reporting of forestry and logging employment is divided into three industries:

- Timber tract operations
- Forest nurseries and gathering of forest products
- Logging

Employment Department projections show that the logging industry is expected to increase by about 200 jobs, or 3%, in Oregon between 2014 and 2024. The expected 2024 level of 6,300 is lower than the prerecession level of about 7,000 in 2007. (OR Employment Dept., 4/3/18)

CALIF STATE SENATE TAKES ON FIRE PREVENTION AND MITIGATION

The California State Senate passed several wildfire bills in June that will work together to prevent wildfires and mitigate fire damage after it has occurred. The Bills still need to pass the CA House, but we thought our readers might be interested in knowing that laws being attempted. (East County News Service, 6/1/18)

THE FIRST OREGON GOOD NEIGHBOR PROJECT READIES

Oregon's Rogue River-Siskiyou National Forest has a backlog of post-logging restoration projects and under 2016's "Good Neighbor Authority" agreement, Oregon is looking to assist with that work. ODF officials will take over restoration work on 3,020 acres of recently logged federal lands in the area and utilize wildland firefighters in their off-season. State-run contractors and crews will focus on protecting the health of large "legacy" trees as well as thin smaller trees and clear brush. ODF officials say this would allow them to give its summer wildfire crews an option to remain employed by ODF between fire seasons, and perhaps keep more of them in the pool for the 2019 campaign. The work will be done in two phases and is expected to be completed in July 2019. (Mail Tribune, 6/11/18)

ANOTHER TEAM WORKS TO CREATE SUPER WOOD

It seems every few months, some team of scientists reports about their new super strong wood invention. This month, we report on a team from Sweden who claim to have made a wood fiber that is stronger than steel or spider silk.

Researchers at KTH Royal Institute of Technology in Stockholm have been working to create a bio-based wood material that surpasses the strength of all known bio-based materials, fabricated or natural, including spider silk. The process of strengthening cellulose nanofibers included controlling the flow of these nanofibers suspended in water in a 1mm wide channel milled in stainless steel. Flows of deionized water and low-pH water were then connected and aligned with the nanofibers in the right direction, which then let the cellulose nanofibers self-organize into a well-packed state where they could be joined together. KTH then densified this material to make it into a "super wood" that has a tensile strength nearly four times greater than steel. (Wired, 5/14/18)

