

News for Family Forests

October 2018



Forest Management Co.
PROFESSIONAL FORESTERS

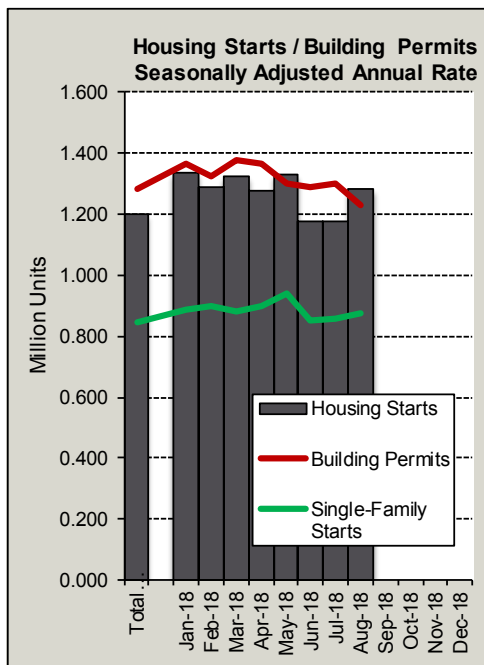
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Well, it's fall, and that can only mean one thing – the World Series. For the first time since 1916, the Dodgers play Boston. Enjoy the Fall Classic. As log prices have dropped off significantly in the last few months, it's a good time to get your ducks in a row for a harvest next spring, when I would anticipate prices to bounce back. As the rainy season (hopefully) approaches it's time for slash burning, and just around the corner is planting season. Hopefully you have seedlings lined up, as inventories are tight at most nurseries



If you want to plan a timber harvest or other forest operation, please give me a call at (503) 654-2221 or send me an email 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

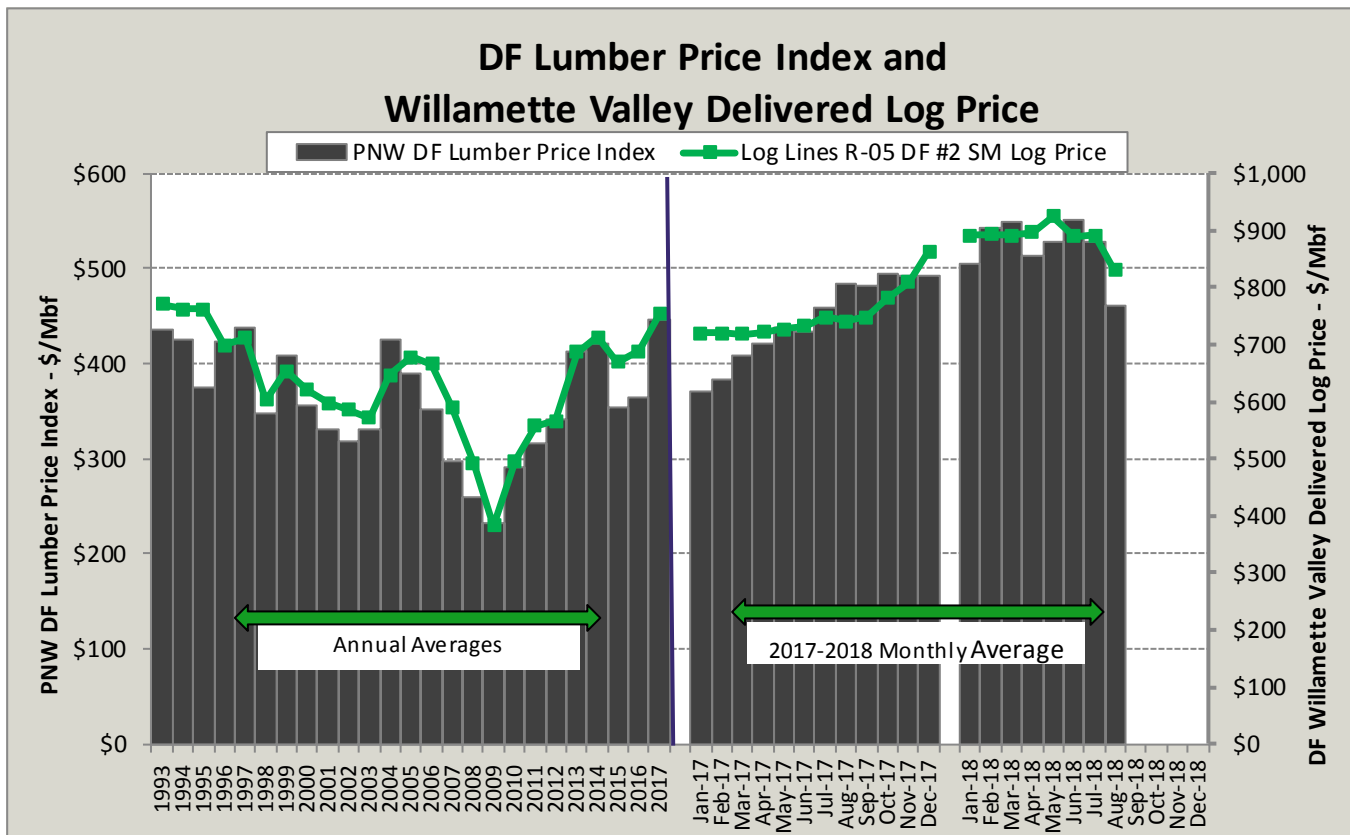
U.S. housing starts rebounded in August with an overall increase of 9.2%. While single-family starts decreased 1.9%, multi-family starts increased 27.3%. Total starts were 9.4% above August 2017. Building permits were down 5.7%¹ in August. Analysts seem hesitant to celebrate August, given the previous months. (WSJ, 9/19/18)

	August 2018	July 2018	Monthly Difference	August 2017	Annual Difference
All Starts	1.282	1.174	9.2%	1.172	9.4%
Single-Family Starts	0.876	0.860	1.9%	0.878	-0.2%
Building Permits	1.229	1.303	-5.7%	1.300	-5.5%
Single-Family Building Permits	0.820	0.873	-6.1%	0.803	2.1%

Source: U.S. Census Bureau

¹ All housing statistics reported in seasonally adjusted annual rates (SAAR).

LUMBER & LOGS



DF log and lumber prices dropped off significantly in August, as shown above. Lumber fell back to June 2017 levels, and logs are back to November 2017. Still, prices are pretty good. (Note that lumber and log prices are on different scales in the chart.)

- August DF #2S log prices, as reported by Log Lines, decreased \$62 to \$830/Mbf, which is 7% below the prior month, yet 11.9% higher than August 2017, and still 18% above the 5-year average.
- At \$461/Mbf, the DF lumber index price for August dropped 12.7% from July 2018. It was also 4.6% below August 2017 but still 16.3% above the 5-year average.

July 2018 Douglas-fir Prices:							
	July 2018	June 2018	Change from Previous Month	July 2017	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 892	\$ 890	0.2%	\$ 748	19.3%	\$ 702	27.0%
Lumber	\$ 528	\$ 552	-4.2%	\$ 459	15.1%	\$ 397	33.3%

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



MARKET NEWS

WWPA LUMBER TRACK REPORT

Data from the *Western Wood Products Association* shows that overall U.S. lumber production and consumption decreased in June, compared to May 2018. However, both production and consumption were higher than in June 2017.

Overall U.S. mill utilization for the first six months of 2018 increased slightly over the first five months of 2017. Coastal mills reported a steady utilization of 90%, matching the report from the last two months, but 2 percentage points lower than the first six months of 2017. (WWPA, 9/7/18)

Note: We generally believe mills begin to have pricing power when utilization exceeds 80%. At 90%, the mills are in a good position to push the price.

Lumber Production	June 2018	May 2018	Change from Previous Month	June 2017	Change from Previous Year
U.S. Lumber Production	2.98	3.19	-6.7%	2.96	0.5%
U.S. Lumber Consumption	4.22	4.46	-5.5%	3.99	5.6%
Western U.S. Lumber Production	1.23	1.29	-4.0%	1.24	-0.5%
Southern U.S. Production	1.60	1.76	-8.7%	1.58	1.3%
Canadian Production	2.30	2.48	-7.2%	2.38	-3.2%

Mill Capacity	Jan - Jun 2018	Jan - May 2018	Change from Previous Month	Jan-Jun 2017	Change from Previous Year
U.S. Production as a % of Capacity	87%	86%	1.0%	84%	3.0%
Coast Production as a % of Capacity	90%	90%	0.0%	92%	-2.0%

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

VOLATILE WEATHER CAUSING AN INCREASE IN LUMBER PRICES

After a decrease in the peak high-price of framing lumber this summer (\$582/Mbf), a decrease to \$440 in early August was short-lived, as it was followed by a slight increase to \$453 in early September and it is expected to rise steadily going forward. Weather in North America is putting a unique strain on lumber supply and demand and causing prices to climb. According to a senior lumber buyer, hurricanes affecting the Southern U.S. are predicted to cause a rise in Southern yellow pine prices of about 10% and that is estimated to last about two months after Hurricane Florence. Such hefty storms affect mills, workers, homes, and the availability of lumber.

On the western side of North America, the British Columbia Wildlife Service has reported wildfires covering 3.3 million acres in British Columbia and Western Canada since April 1st this year. Russ Taylor, managing director of Forest Economic Advisors-Canada, wrote in the August issue of his Wood Markets report, "The key fundamentals still point to a very tight lumber supply in North America, with our analysis indicating that total North American demand (to the end of 2019 at least) can be met only through rising volumes of offshore imports, i.e., requiring high prices. This is despite the 4 billion to 5 billion board-feet of new capacity additions planned for the U.S. South in the next two to three years." (Prosales, 9/11/18)

EXISTING HOME SALES HAVE PEAKED

Sales of existing U.S. homes recovered faster than sales of new homes after the last housing crisis, accounting for 90% of all residential real estate transactions. But now home sellers are cutting prices. "The peak in existing home sales can largely be explained by the decline in affordability," Michelle Meyer said, an economist at Bank of America Merrill Lynch. Meyer considers the current housing market in a neutral state, creating neither a headwind nor a tailwind on the economy. Meyer also indicated that new home sales are "hanging in there." "There is still room for single family construction to expand, but it is likely to remain slow given challenges finding labor and dislocations in the market," Meyer said. (Business Insider, 9/24/18)

OSU CLT INVESTIGATION

As previously reported, OSU's new Peavy Hall is being constructed primarily with Oregon manufactured glulam posts and beams and with CLT (cross-laminated timber) panels for floors and walls. However, construction was halted in March after some of the layers from a CLT ceiling panel crashed to the floor. The fallen pieces weighed about ½ ton. Fortunately, no one was injured in the incident and the structure was not damaged, but an investigation has ensued and construction was halted for over four months.

The investigators agree that the cause of the CLT failure was caused by a process change at the D.R. Johnson mill, as it changed its procedure to accommodate cold temperatures in an area that was not environmentally controlled. D.R. Johnson preheated the wood materials and applied structural adhesive between layers, which were then pressed into CLT billets and fabricated into panels. However, the preheated wood caused the adhesive to dry before properly bonding the layers. DR Johnson has since adopted new quality control measures and has modified several processes.

There is justified worry that this situation will impact the acceptance of CLT in the building industry. (ENR Northwest, 9/5/18)

SCIENTISTS DISAGREE WHEN IT COMES TO FOREST MANAGEMENT

As Congress considers new forest management provisions in the Farm Bill, a group of conservation scientists have expressed concern over what they are calling pro-logging text that is being considered within the Bill. In direct opposition to scientists that call for reducing the fuel load within the forests to prevent and lessen the severity of the fires, some scientists advise that wildfire is beneficial to wildlife habitat and even preferable to the protection of the spotted owl, when compared to clearcuts. Some also insist that smoke from low-intensity controlled burns is more damaging to humans than smoke from more intense wildfires. A letter sent to Congress proposes that efforts to control wildfires should focus on reducing fire hazards near communities, homes and roads and that the rest of the forest should be left to nature. They claim, "Attempting to suppress fires that are not a risk to communities is impractical, costly, risky to firefighters and ecologically damaging." (Mail Tribune, 9/21/18)

CANADIAN SOFTWOOD TARIFFS A BOON FOR SOME

In 2012, the Montrose Sawmill in Colorado was in receivership and on the brink of collapse. At the time the cost of logging timber had become prohibitively expensive, and the log yard was unable to make a profit. Today, log prices are not lower, but the mill is hopping with logs stacked high and workers pulling 10-hour shifts. The Montrose mill expects to turn out over 90 Mbf of lumber this year, a new record. Saw mill owner Jim Neiman is even planning to invest \$20 million in upgrades. When asked about the turn-around, Neiman credits the Canadian Softwood lumber tariffs that have leveled the playing field. “When another country can supply wood cheaper into this country than we can, something’s wrong,” he said. (Market Place, 9/20/18)

EXPORTING SOFTWOOD PRODUCTS TO CHINA: AN UPDATE

Chinese tariffs on imported U.S. softwood lumber and logs began August 23rd. Tariffs imposed on log and lumber products supplied from the US will include:

- 5% tariff on Douglas-fir logs
- 20% tariff on spruce logs, hemlock logs and hardwood logs
- 20% tariff on softwood lumber
- 20-25% tariff on hardwood lumber
- 5% tariff for market pulp

While U.S. shipments of softwood lumber to China are relatively a small percentage of the overall U.S. market, any decrease in export volume will especially affect the U.S. South, where producers have made considerable headway in gaining broader acceptance for their products in the Chinese market.

These tariffs are already affecting the market. ITTO reports that, although U.S. producers have been lowering log prices to maintain market share in China, Chinese buyers complain of a 30% increase in the price of logs, as a result of the tariffs and a depreciation in the value of the Chinese currency (RMB). China Bulletin reports that shipments of U.S. hemlock and DF logs have already decreased. (ITTO, 8/31/18) (China Bulletin, Sept. 2018) (FEA, 9/5/18) (RISI, 8/29/18)

NEW ESA POLICY PROPOSED

In mid-September, the U.S. Fish and Wildlife Service (FWS) announced proposed policy reforms to the 1973 Endangered Species Act (ESA). If approved, FWS expects the reforms to reduce conflict between species and people while enhancing species recovery. These are some of the proposed changes:

- Reinstatement of prior requirement that areas currently occupied by a species will be reviewed and considered for restrictions before, and separate from, unoccupied areas. The previous administration had changed the rules to impose equally stringent restrictions on unoccupied privately-owned habitat as on occupied habitat.
- Reverse a decades-old policy under which threatened species were automatically given the same protections against being harmed or threatened by development as endangered species. It is

proposed that restrictions on actions which result in taking a threatened species or altering its habitat would be reviewed on a case-by-case basis.

- Withdraw the “compensatory mitigation policy” requiring any natural resource extraction on federal land to provide a “net benefit” to endangered species by mandating that the industry pay the government a fee to mitigate potential habitat damage. FWS says it determined it lacks authority to require “net conservation gains” under ESA. The FWS also noted a potential for abuse in the current policy as well as the lack of protection or minimization of potential harm to the endangered species.

Ranchers and oil and gas operators are encouraged by the proposed changes to the ESA. There are also many who have expressed support for the addition of incentives for private land-owners who add protections for species that are threatened or endangered. “Congress must alter the punitive nature of protecting species contained in the present act, under which if an endangered species is attracted to a person’s property, he or she virtually loses all control over it,” said Smith. “The ESA should reward, not punish, people for managing their property in ways that attract and foster endangered species recovery. An incentive-based system for species protection would better promote species’ flourishing and people’s constitutionally protected property rights,” said R. J. Smith, a distinguished fellow at the Competitive Enterprise Institute and senior fellow with the National Center for Public Policy Research. (The Heartland Institute, 9/18/18)

FEDERAL FUNDING FOR SUDDEN OAK DEATH

SOD quarantine area



Funding is now available through the USDA Natural Resources Conservation Service for private landowners to help with the removal of trees infected with Sudden Oak Death (SOD). In Oregon, SOD was first discovered in Curry County in 2001. The Oregon Department of Agriculture quarantined a 9-square-mile area, which has since grown to 525 square miles, roughly one-third of the county. SOD is a fungus-like pathogen that is lethal to oak trees. It can also spread to nearby conifers, though it is rarely lethal to conifers. There is no cure for the disease. Infected tanoaks are cut down, piled and burned, along with all tanoaks in a 300-foot radius.

Curry County is the only location of sudden oak death in Oregon forests, however SOD has also been found in more than 135 nursery plants, including camellia, pieris, rhododendron, and viburnum. If SOD is found, a nursery must follow a strict USDA protocol that includes a **QUARANTINE**, destruction of infected plants, tracing the source of host plants and three years of inspection and sampling to assure SOD is no longer present. (Capital Press, 9/18/18)

HAMPTON ENCOURAGES BEE POPULATION IN CLEARCUT AREAS

Hampton Lumber manages over 155,000 acres of timberland in Oregon and Washington state. They have linked up with the Oregon Bee Project etymologists in a pilot study program and hope to encourage increasing bee populations in clearcut areas. Hampton has so far committed 4 sites of land totaling 18 acres to this project. After a clearcut, wildflowers were planted along with the seedlings. The Oregon Bee Project trained a stewardship coordinator to monitor the pilot study areas and identify species of bees and which plants take the strongest foothold. Hampton plans to add another 20 acres to this project in the future and continue to monitor and gather data. Within 5-10 years after planting, the trees will shade out the wildflowers, but if this project continues to additional sites, there should always be a habitat for them. (Daily Astorian, 9/6/18)

THE LESS REPORTED IMPACTS OF WILDFIRE

The Umpqua North Complex and Horse Prairie fires ripped through Douglas County in 2017, burning nearly 60,000 acres total, forcing residents to evacuate and roads to close. This year, the South Umpqua Complex — later re-named the Miles Fire — started after a lightning storm in July. While it is easy to see the charred remains of these fires on the hillsides, some impacts are less obvious. The smoke from these fires caused health hazards and a loss of tourism revenue and prevented some outdoor activity for residents. The cost of battling the blazes has also been a heavy burden, but for private timberland owners whose land burned, the cost is even higher.

Two of the timber companies directly feeling the impacts of the past two years' fires are Seneca Jones Timber Company and Roseburg Forest Products.

Todd Payne, chief executive officer of Seneca Jones Timber Company, said his company had 1,000 acres impacted by the Horse Prairie Fire last and another 240 impacted in the Taylor Creek Fire this year. Some of the burned timber was salvaged and is selling at reduced prices, other timber was a total loss.

Mark Wall, Land and Timber Manager with Roseburg Forest Products, said the company lost 7,000 acres in the Horse Prairie Fire last year and another 60 acres in the Miles Fire this year. Wall said RFP finished salvage logging last year's burned timber in July and plans to replant over the next two seasons. The economic impact is not only in the value of the lost trees, but also in the cost of reforestation and the value of time in allowing the new plantings to grow to maturity. (News Review, 9/17/18)

WHERE THERE'S FIRE...

"This summer it felt like the whole West was on fire," said David Lignell, professor of chemical engineering and senior author of a recent study of wildfire smoke at Brigham Young University. Through the study, research engineers have developed an advanced model that can help predict pollution caused by wildfire smoke. Wildfire smoke is a combination of evolved gases and soot. It is the soot particles that can be the most harmful to human lung function. Soot also impacts thermal radiation and flame temperature, which can be important factors in the spread of fire. The research is aimed at helping the Forest Service and other wildfire management groups better know the impact of prescribed burns on the surrounding urban environments. (Press Release, 8/24/18)

GMO PLANT CONTAINMENT

Some fear that genetically modified trees and other plants will reproduce and take-over the natural species that they are rooted from. Not so, says Steve Strauss, distinguished professor of forest biotechnology at Oregon State University. Strauss reports that the largest field-based study of genetically modified (GM) forest trees ever conducted has demonstrated that genetic engineering can prevent new seedlings from establishing. Strauss and colleagues in the OSU department of forest ecosystems and society assessed a variety of approaches for making both genders of trees sterile, focusing on 13 genes involved in the making of flowers or controlling the onset of reproduction. The study observed a nine-acre grove of GM poplar trees over seven years and found no expansion of its border. Individually and in combination, the genes had their protein function or RNA expression modified with the goal of obtaining sterile flowers or a lack of flowering. (OSU, 8/6/18)

OREGON MEGAFIRE STILL BURNING

For the second year in a row, southern Oregon has given birth to a megafire. The Klondike fire is currently estimated to have burned over 156,000 acres. It originated in the Kalmiopsis Wilderness in the Rogue River/Siskiyou National Forest, the same place that spawned last year's Chetco Bar Fire (190,000 acres). The Kalmiopsis, one of the wildest places in the United States, is a difficult place to fight fires, given its steep terrain, lack of accessibility and occasional high winds known as the Chetco Effect. As of 9/26/18 it was only 72% contained. (Statesman Journal, 8/30/18 & Inciweb, 9/26/18)

ROSEBURG EPDs

In a marketing move, Roseburg Forest Products has released its first Environmental Product Declarations (EDPs). EDPs provide consumers with product-specific environmental information that has been independently validated. EPDs help purchasers better understand a product's sustainable qualities and make more informed choices. The EPDs cover the cradle-to-gate impacts (raw material acquisition and manufacturing) for softwood plywood, particleboard, softwood lumber, I-Joist, laminated veneer lumber, hardwood plywood and thermally fused laminate panels produced at all Roseburg manufacturing operations. (Woodworking Network, 9/14/18)

U.S. INTERIOR ADDS LITIGATION TRANSPARENCY

The U.S. Department of the Interior paid more than \$4.4 billion in monetary awards under the terms of 460 litigation settlement agreements and consent decrees between Jan. 1, 2012, and Jan. 19, 2017. That works out to an average of more than \$800 million a year. Frequently the settlements include attorney fees for those challenging the Interior. Even more astonishing is that key aspects of the litigation settlements have been kept secret from public scrutiny. Some have termed this situation a "sue-and-settle machine." In an effort to improve and allow transparency to the process, the Interior will establish a publicly accessible webpage that details ongoing litigation, among other things. (The Fence Post, 9/17/18)

PACIFIC FISHER GETS ANOTHER PROTECTION CONSIDERATION

In September, A federal judge ordered the U.S. government to reconsider its denial of Endangered Species Act protection for the weasel-like Pacific fisher. Judge Alsup found the U.S. Fish and Wildlife Service (FWS) “unreasonably disregarded evidence of rising exposure to deadly rat poison and shrinking population sizes by merely characterizing it as inconclusive.” The court rescinded an April 2016 decision to deny the fisher protected status in an attempt to appease the timber industry. Alsup ordered the FWS to issue a new finding by March 22, 2019. (Courthouse News, 9/21/18)

THE DIMINISHING HUMBOLDT MARTEN

According to court documents filed by conservation groups, the Pacific marten is in dire need of protection. The group claims there are fewer than 200 martens remaining in the state. The Oregon Fish and Wildlife Commission voted to deny state Endangered Species Act protection to the small mammals.

The U.S. Fish and Wildlife Service is under court order to publish a decision on federal protection for the Humboldt marten by the end of September. (Press Release, 9/17/18)

CALIFORNIA WILDFIRE UPDATE

California’s Carr fire, one of the most destructive in California history, became fully contained 8/30/18. In total, it is estimated to have burned over 229,000 acres in California’s Shasta/Trinity area. Properties burned included 30,149 acres of Shasta-Trinity National Forest System lands, 38,565 acres of the Whiskeytown National Recreation Area, 63,127 acres Bureau of Land Management land, and 3,266 Bureau of Reclamation land.

In the same area, the Delta Fire has been burning since the first week in September and is 98% contained as of 9/26/18. This fire began as a fast-moving fire that charred 15,000 acres in one 24-hour period before its pace slowed and it closed a 45-mile section of Interstate 5 for several days. At this writing, it has consumed over 60,000 acres and is expected to be fully contained in a matter of days.

Spurred by the fires, the California Legislature recently passed SB 901 which authorizes the State to spend \$1 billion on efforts to make forests more fire resilient. The legislation also addresses liability of the power companies and their responsibilities going forward. Small landowners gained relief from California’s extensive environmental harvest permitting process. (LA Times, 9/6/18 & 8/28/18), (Washington Times, 8/30/18), (Sacramento Bee, 9/7/18), (Inciweb, 9/26/18)

CONIFERS SUFFER OREGON DROUGHT

Dave Shaw, a forest health specialist with Oregon State University Extension Service, reports that conifers in the Southern and Eastern areas of Oregon are suffering and dying from drought. Lower elevation trees are receiving inadequate amounts of rain. Shaw said, “This year alone we had the driest May in history and a record number of days over 90 degrees...That’s going to stress trees.” While drought-stressed trees often die from correlating problems, like disease or pests, he not finding evidence that this is the case in the dying conifers, but rather, they are dying from drought. (OSU Press Release, 8/31/18)