

News for Family Forests

November 2018



Forest Management Co.
PROFESSIONAL FORESTERS

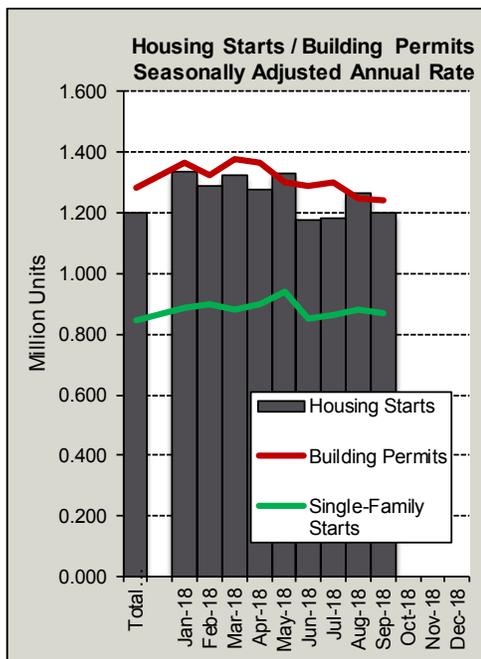
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I hope everyone had a wonderful Thanksgiving. It's time to burn slash, secure seedlings for planting in the next few months, and plan your 2019 harvest. It'll be interesting to see what the log market does this winter. I anticipate prices to come up in the first quarter of 2019, but not to 2018 levels. Keep in mind that even though prices have declined in the last few months, prices are still relatively high.



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

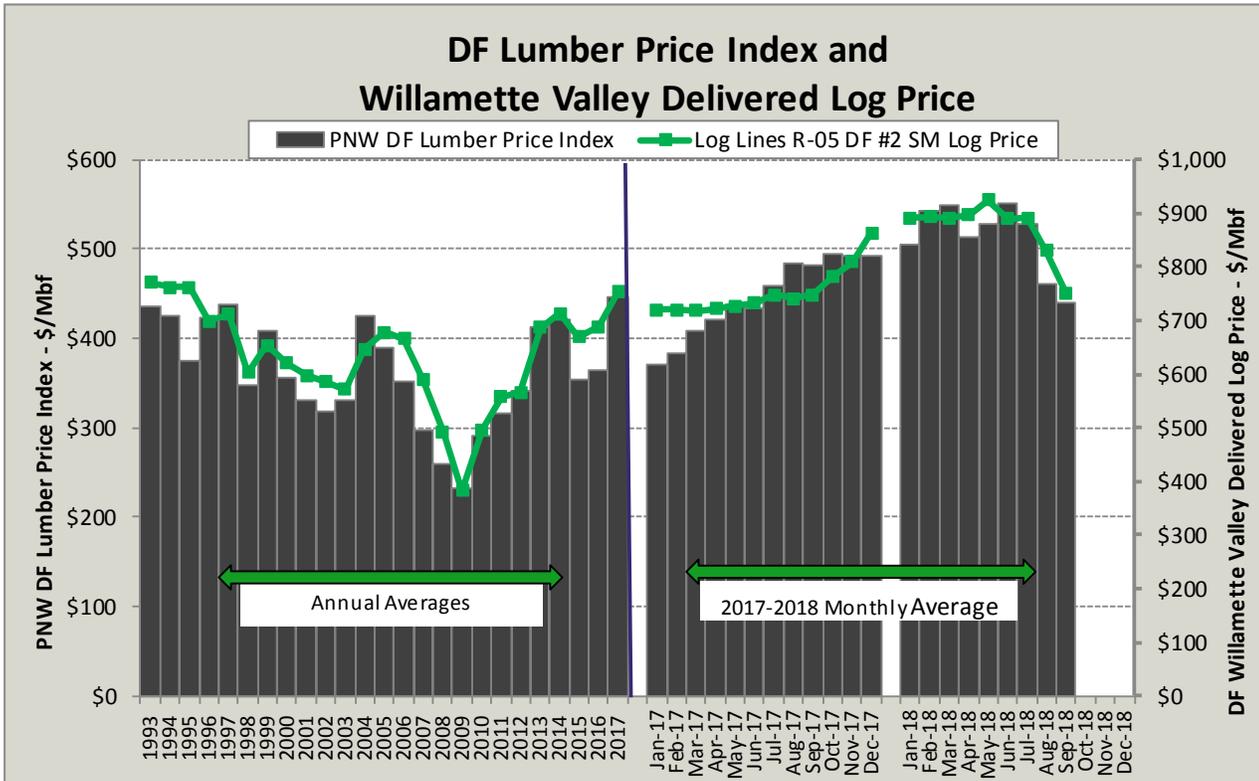
Single-family housing starts decreased 0.9% in September, while multi-family starts slightly increased. Total starts were 3.7% above September 2017. Building permits were down 0.6% in September. Analysts don't have much to say that is helpful. (WSJ, 10/17/18)

	Sept 2018	August 2018	Monthly Difference	Sept 2017	Annual Difference
All Starts	1.201	1.268	-5.3%	1.158	3.7%
Single-Family Starts	0.871	0.879	-0.9%	0.831	4.8%
Building Permits	1.241	1.249	-0.6%	1.254	-1.0%
Single-Family Building Permits	0.851	0.827	2.9%	0.831	2.4%

Source: U.S. Census Bureau

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

LUMBER & LOGS



DF log and lumber prices plunged in September, as shown above. On the backside of the spike, we can see that the market is over-supplied. Good prices earlier in the year were enough to bring lots of logs out of the woods and pushed through the mills. Now log yards are full and most mills are on quotas. Lumber inventories are exactly where they were last year at this time. (Note that lumber and log prices are on different scales in the chart.)

- September DF #2S log prices, as reported by Log Lines, decreased \$80 to \$750/Mbf, which is 9.6% below the prior month, on par with September 2017, and still 6.8% above the 5-year average.
- At \$440/Mbf, the DF lumber index price for September dropped 4.7% from August 2018. It was also 8.7% below September 2017 but still 10.9% above the 5-year average.

September 2018 Douglas-fir Prices:							
	Sept 2018	August 2018	Change from Previous Month	Sept 2017	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 750	\$ 830	-9.6%	\$ 749	0.1%	\$ 702	6.8%
Lumber	\$ 440	\$ 461	-4.7%	\$ 482	-8.7%	\$ 397	10.9%

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



MARKET NEWS

WWPA LUMBER TRACK REPORT

Data from the Western Wood Products Association (WWPA) shows that overall U.S. lumber production and consumption decreased slightly in July, compared to the last few months. For the first seven months of 2018, however, the statistics are all favorable in the U.S.:

- West Coast mills produced 7.1% more lumber YTD than in the same period in 2017.
- Southern sawmills increased just 3.1% over the same period.
- B.C. mills produced 3.4% less lumber in 2018 YTD than in 2017 YTD.

U.S. mill utilization is holding steady at 87% and it is 2% above the first seven months of 2017. Coastal mills reported 89% utilization January through July 2018. This is 2 percentage points lower than the first seven months of 2017. (WWPA, 10/16/18)

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	July 2018	June 2018	Change from Previous Month	July 2017	Change from Previous Year
U.S. Lumber Production	2.91	2.99	-2.8%	2.76	5.4%
U.S. Lumber Consumption	4.15	4.23	-1.9%	3.82	8.6%
Western U.S. Lumber Production	1.17	1.23	-4.9%	1.11	6.0%
Southern U.S. Production	1.60	1.62	-1.2%	1.52	5.0%
Canadian Production	2.19	2.30	-4.8%	2.16	1.3%

Mill Capacity	Jan - Jul 2018	Jan - Jun 2018	Change from Previous Month	Jan-Jul 2017	Change from Previous Year
U.S. Production as a % of Capacity	87%	87%	0.0%	85%	2.0%
Coast Production as a % of Capacity	89%	90%	-1.0%	91%	-2.0%

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

HOUSING STRUGGLES IN THE AFTERMATH OF THE CALIFORNIA WILDFIRES

Last year's Northern California wildfires destroyed more than 10,000 homes. It would seem a housing boom would follow, except that there is a severe shortage of labor to build those houses. Young workers are not choosing construction as a career. The workforce is aging and shrinking. Construction workers under the age of 25 have decreased by 45% between 2005 and 2016.

The Silicon Valley Leadership Group conducted a study and found that in the Bay Area, six times more jobs than homes were made available between 2010 and 2015. Californians are experiencing the third longest wait in the nation to fill construction job postings, which often remain unfilled for at least six weeks. (Washington Log Market Report, 08/15/18)

OREGON'S NATIONAL TREE

Oregon's Willamette National Forest is the birthplace of the 2018 U.S. National Christmas tree that will decorate the west lawn of the White House in Washington DC. It will be the first Capitol Christmas Tree ever selected from the Willamette National Forest (near Sweet Home) and only the second tree selected from Oregon. The tree was harvested November 2 and will travel by truck, making several key stops, as it makes its way to Washington D.C. An Oregon 4th grader (and essay contest winner) will assist with the lighting. (KVAL, 10/2/18 & *Oregonian*, 10/15/18)



GLOBAL LUMBER MARKETS

Some analysts suggest that 2018 may be a record-breaking year for international lumber trade, with six of the ten largest lumber-exporting countries reporting an increase in lumber shipments this year. The countries reporting the highest year-over-year increase are Russia, Germany, Ukraine and Austria. The largest Y-O-Y decline was reported by Canada, with shipments in 2018 on pace to be the lowest in five years. (Wood Resources International, 10/3/18)

LABOR ISSUES

Lumber producers from coast to coast are struggling to fill lengthy lists of job openings, according to *Random Lengths*. With increasing demand and high employment, mills are finding it difficult to find willing workers. Several factors are at play:

- Most sawmills jobs are in rural areas while young people are flocking to large and medium sized cities.
- Tech companies like Amazon and Google offer higher wages, stronger benefits and flexible schedules.
- Candidates are unable to pass a drug test. And long-time employees are being dismissed under the zero-tolerance policies.

According to *Random Lengths*, at least one company is being more selective about drug testing for fear of losing employees and not being able to replace them. (RL, 8/3/18)

OFFSHORE LUMBER IMPORTS ARE UP

Lumber imports from overseas climbed to 658 MMbf in the first half of 2018, up 53% from the first six months of 2017. (For context, note that large mills in Oregon produce about 200-250 MMbf). The largest increases were from European nations and Germany ranked top in that group. Imports of plantation pine in South America gained just 5%.

Meanwhile, Canadian exports to offshore destinations were down 11%, while U.S. shipments overseas gained 26%. (*Random Lengths*, 8/10/18)

2018 OREGON FIRE SEASON RECAP

Oregon reached an all-time high for fighting wildfires in 2018, at \$514.6 million. The previous record was set in 2017, at \$447 million. The State's share of that came in just under \$50 million, and did not trigger a payment from the insurance policy with Lloyds of London.

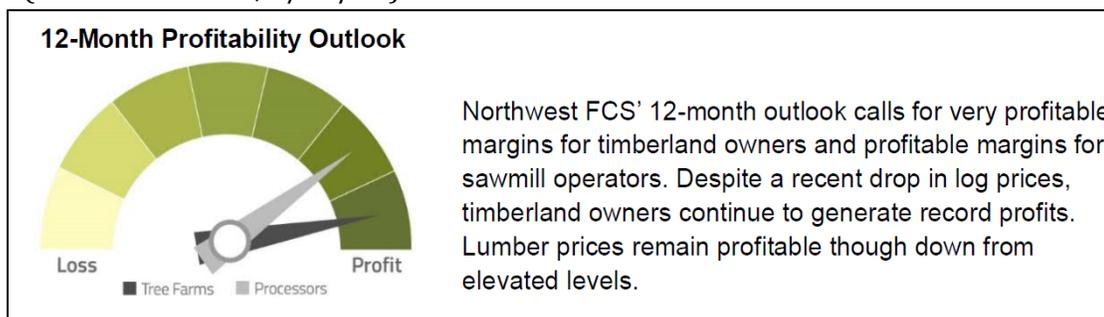
In total, there were 1,880 Oregon wildfires in 2018 that burned 846,411 acres or 1,322 square miles — an area larger than Rhode Island. Most of the fires were human caused (1,217) and the remainder were caused by lightning (664 fires). (Salem Statesman Journal, 10/10/18)

SOFTWOOD CONSUMPTION FORECAST

A newly released study by *ForestEdge* and *Wood Resources International* forecasts that U.S. softwood lumber demand will grow at an annual rate of 2.3% through 2030, where it will reach an all-time high. The study analyzed five end-use categories for softwood consumption in the U.S. in determining the forecast: residential housing, repair and remodeling, non-residential construction, material handling, and other. Indicators point to the category of Non-Residential Construction to grow at the fastest rate and they expect it will increase its share of the total softwood lumber usage from 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. (WRI, 10/9/18)

SUMMARY FROM NW FARM CREDIT

(NW Farm Credit, 9/30/18)



NAFTA NO MORE

On the last day of September, the U.S. succeeded in replacing NAFTA (North American Free Trade Agreement) with a new trade agreement between the U.S., Canada, and Mexico. It has been named the United States-Mexico-Canada Agreement, or USMCA. The immediate after effects of the agreement saw an increase in the value of the Canadian dollar and measurable jumps in stock markets of the U.S. and Mexico.

The USMCA will give U.S. farmers greater access to the Canadian dairy market and it will require at least 40% of imported cars to be built in countries where auto workers earn at least \$16 an hour to qualify for NAFTA's duty-free benefits. It also reinstates a NAFTA dispute-resolution process that the U.S. wanted to eliminate. [Note: We have not seen any news that suggests that the agreement changes the Countervailing Duties on lumber imported from Canada to the U.S.] (AP & Bloomberg, 10/1/18)

CANADIAN LUMBER PRODUCTION SHIFTS TO THE EAST

For many years, British Columbia led all provinces in Canadian lumber production. In 2011, for example, B.C. accounted for 54.7% of the country's total wood production. It now looks as if the Eastern Provinces are producing over 55% of the lumber production in Canada. Random Lengths notes two factors:

- Production in B.C. has fallen as those mills struggle to find enough wood. The beetle-killed timber is running out, harvest levels are falling, and fires have reduced operating hours.
- Meanwhile, mills in the Eastern Provinces are ramping up investments and production. Their timber supply has not been impacted by fires or beetles.

In theory, less wood from B.C. should help the U.S. West Coast mills, as much of the B.C. lumber was previously shipped to west coast destinations. (Random Lengths, 6/18)

CHRISTIANSSEN BECOMES CHIEF FOR REAL

Vicki Christiansen, a former wildland firefighter and manager, has been appointed as the Chief of the USFS after more than 6 months of serving as the interim chief. This appointment is one that Senator Ron Wyden has called "Good news for Oregon." (Portland Business Journal, 10/11/18)

OREGON BANS HERBICIDE

In October, Oregon became the first state in the U.S. to temporarily ban aminocyclopyrachlor, once a common weed killer used by the Oregon Department of Transportation and other public entities. The Oregon Department of Agriculture is investigating possible incidental tree damage as weeds were sprayed at the base of the trees along roadways. The USFS has linked the death of 1,500 Ponderosa Pines along Highway 22 to ODOT's use of the herbicide on roadsides. ODOT said it has already stopped using this herbicide, but it's still approved for roadside weed control by federal regulators at the Environmental Protection Agency. (OPB, 10/1/18)

GOOD NEIGHBORS SEEING RESULTS

Earlier this year, Oregon lawmakers approved \$500K for ODF to assist with the planning and implementation of projects under the "good neighbor" authority. The Good Neighbor policy was created in 2014 and it allows state governments to assist with the management of federal land.

As ODF has increased its capacity to manage such projects, the Willamette National Forest (WNF) has been increasing its timber harvest. Tracy Beck, WNF supervisor, hopes to eventually reach about 120 MMbf per year, noting that the WNF grows about 1 Bbf in Oregon each year. [Note: the WNF used to cut 850 MMbf per year before the listing of the Spotted Owl.]

Regionally, harvest from USFS lands in Oregon and Washington reached 650 MMbf in 2018, the highest volume in two decades. Growth in the Region is well in excess of 6 Bbf. (*Capitol Press*, 10/23/18)

DODGING TARIFFS

As the Chinese economy is signaling a slowdown and export businesses are declining, reports are circulating of tariff-dodging.

The Wall Street Journal reported:

Seven months after the U.S. imposed stiff tariffs on plywood from China, a wood importer in Oregon got a call from a supplier asking if he would like to get some Chinese plywood tariff-free.

How would that work, asked importer David Visse. The products carry an identification code that is checked by U.S. Customs agents.

“Don’t worry about it,” Mr. Visse says the supplier told him. The plywood would be stripped of its Chinese markings, and “we’ll ship it under some other code.”

Every product imported into or exported from the U.S. carries one of over 18,000 10-digit numeric codes, called HTS codes (Harmonized Tariff Schedule). There are 88 HTS codes just for plywood. Soon after the Countervailing Duty (CVD) was imposed on hardwood plywood, it is believed that hardwood panels were re-labeled as softwood panels, which have a much lower duty. U.S. imports of Chinese hardwood plywood fell 20% in 2017. Imports coded as softwood plywood soared 549%.

In addition, there have been wide-spread reports of goods coming from China to the U.S. via more preferred countries (with new bills of lading that erase China as the country of origin).

American customs officials open less than 5% of imported goods for inspection and it is estimated that the U.S. loses at least \$550 million in customs revenue each year to tariff evasion. (Markit Economics, 10/1/18, Wall Street Journal, 10/8/18)

DID OREGON VINEYARDS SUFFER FROM SMOKE TAINT?

A large purchaser of Oregon grapes for the California wine industry has rejected \$4 million worth of contracted grapes, claiming smoke taint from the 2018 fire season.

The purchaser, Copper Cane, had signed long-term contracts to purchase primarily pinot noir grapes in the past three years. Hundreds of acres were planted by various growers in response to the contracts. Citing widespread wildfires in Northern California and Southern Oregon, Copper Cane conducted tests in September, then emailed rejection letters to large and small growers in the region.

Vineyard owners smell a smoke screen as they are faced with huge financial losses. They have contracted independent testing and gathered attorneys to discuss litigation. While smoke can affect the flavor of grapes, they believe most Willamette Valley grapes were not affected by the wildfire smoke of 2018. Because there is a lot of fruit on the market right now and prices are below the previously agreed upon contracts, some believe the smoke-taint cancellations are a power play to purchase grapes at lower prices. (*Mail Tribune*, 10/1/18)

MARTENS MAY RECEIVE ESA PROTECTION

After receiving criticism and legal challenges for denying ESA protection to the Pacific marten in September, the U.S. Fish and Wildlife Service (USFWS) is now proposing to list the coastal distinct population segment of the Pacific marten as a threatened species under the Endangered Species Act. However, conservation groups are now challenging the “flexibility” granted in the proposed listing for forest operations. The USFWS, while calling for the species to receive protection, also recognized that certain forest management activities benefit marten population and are necessary for public safety. Accordingly, the Service is using the flexibilities inherent in the ESA to propose a special rule that would exempt certain forest management activities from the act’s take prohibitions. Activities proposed for exemption include maintenance of existing fuel breaks, firefighting activities, and habitat management. A 60-day comment period will end December 9th, after which, the USFWS will consider this proposal further. (*The World*, 10/9/18)

WASHINGTON STATE FIRE PREVENTION

In October, the Washington State DNR confirmed a two-year \$55 million spending plan to reduce destructive wildfires by thinning forests and enlarging their firefighting force. In 2018, the state has had about 1,700 wildfires, the second-most in state history. Unlike in Oregon where a large majority of the fire activity is in the East, about 39% of the fires have been in Western Washington.

Washington is also gaining momentum in the number and size of prescribed burns on state and federal forests. U.S. Forest Service officials are eager to expand these cool-season burns on federal lands, where they have been carried out in combination with thinning accomplished with chain saws and mechanical brush cutters. Forest Service officials say it could help Northwest firefighters gain better control of summer blazes, and do so from safer spaces. (*Capital Press*, 10/11/18, *Seattle Times*, 10/14/18)

CALIFORNIA FIRE SEASON CONTINUES INTO FALL

More than 600K acres burned in California in the first nine months of 2018. That’s 2.5 times more than during the first nine months of 2017. October is traditionally one of the worst fire months of the year, but this year it looks like November is where the winds and flames are wreaking havoc. In a state where fire season never seems to end, enough acreage had been scorched through September to have blackened the entire state of Delaware. (*Bloomberg*, 10/6/18)

Doing their part to prevent more wildfires, and having learned from last year’s utility-caused fire, California’s PGE preemptively shut down utilities to customers during an early October period of low humidity and gusty winds. It’s the first time the company has shut off power to prevent fires, and it occurred just days after authorities determined that last year’s Cascade Fire, which burned nearly 10,000 acres and killed four people, was started by sagging power lines coming into contact during heavy winds. Investigators claim at least one of the lines was owned by PG&E. (*NPR*, 10/15/18)

THREATS TO CANADIAN TIMBER

The two biggest threats to Canadian timber (and the timber market) are fire and pests.

In 2017, almost 3.4 million hectares (8.4 million acres) of forest burned—up from the 1.4 million in 2016, according to the latest analysis from Natural Resources Canada. The national statistics are not available for 2018 yet, but it has been reported that in British Columbia, 2017 set a record for wildfires, and then that record was exceeded in 2018. Even with this increase, fire only ranked second in its devastating effect to Canadian timber.

Fires affected less than 1% of Canada's 347 million hectares of forest, while pests impacted about 4.5% of all forested areas. Both of these threats have the potential to get worse as global warming continues. Both are a challenge to growth of the forest products market. Canadian forest products account for 7.2% of all of the country's exports, about \$24.6 billion in economic activity, and employs about 200,000 people nationally. (*Financial Post*, 9/26/18)

OLYMPIC LOGGING?



If logging skills ever become an Olympic sport, the next generation of Oregonians will be ready. Tillamook High School hosted seven other schools in their second annual Logging Games in October. The games are part the Natural Resources Program, in which students gain hands-on skills in forests and streams. Events included the ax throw, pole climb, log roll, choker set, and cross cut. “The event generates a sense of belonging that’s really important to kids,” says Rowley, a Tillamook High School senior and president of the school’s Future Natural Resource Leaders chapter.

(*GrowOregonStrong.org*, 10/1/18)

HURRICANE MICHAEL AFTERMATH

In the aftermath of October's Hurricane Michael, early assessments point to widespread agricultural devastation in Alabama, Georgia and Northern Florida. Florida's Commissioner of Agriculture reported at least three million acres of timberland in the Florida Pan Handle were impacted by the storm. The estimated loss in Florida timber value is near \$1.3 billion. Alabama reported an estimated loss of \$20 million of timber value in just Houston County, where over 43K acres were damaged—a mixture of pine and hardwood. (*Tallahassee Democrat*, 10/21/18 & *Alabama.com*, 10/22/18)

TURNING TREE ROT INTO FERTILIZER

In Colorado, the Forest Service has estimated that four to five million acres are currently affected by bark beetles in the Rocky Mountains. While talk of the bark beetle might make a forester cringe, there is now an EPA-approved biochar company turning these dead trees into something useful—organic bio-fertilizer. Biochar Now is “recycling beetle kill trees that would otherwise be rotting in the forest, creating a dangerous wildfire hazard or worse – end up in a landfill.” By processing the shredded timber in patented oxygen-free kilns that get three times hotter than fire, they create charred wood chips in various sizes that can be used to fertilize lawns and reduce water usage. Developers claim the product is carbon negative and they are currently processing about 1,000 acres of dead trees per year. (*Denver7*, 10/12/18)