

News for Family Forests

December 2018



Forest Management Co.
PROFESSIONAL FORESTERS

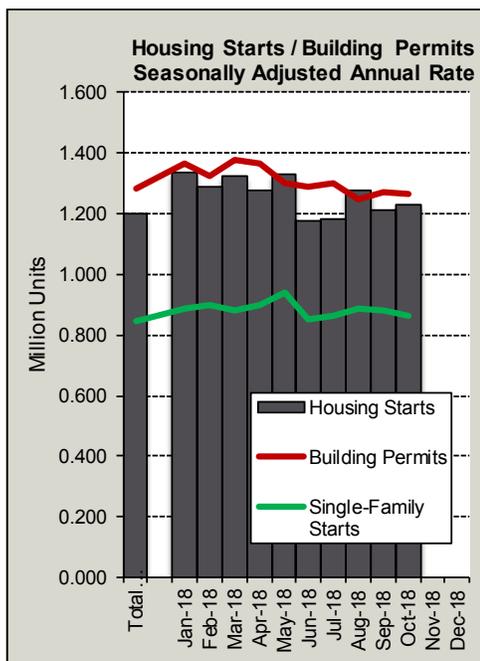
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Merry Christmas from Woodland Forest Management! It's been quite a year, with log prices in the spring and summer as high as we've seen in 20 years, followed by a steep decline in the fall, which resulted in some buyers reducing prices by as much as 35%. That being said, prices are still good, and should come up over the winter as buyers work through their inventories. Next on the agenda is planting. For small projects, seedlings may still be available. If unable to locate seedlings, it's a good opportunity to secure your seedlings for next season, and to dial in your site prep. I hope you find time to relax and enjoy the holidays, and I look forward to working with you next year.

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

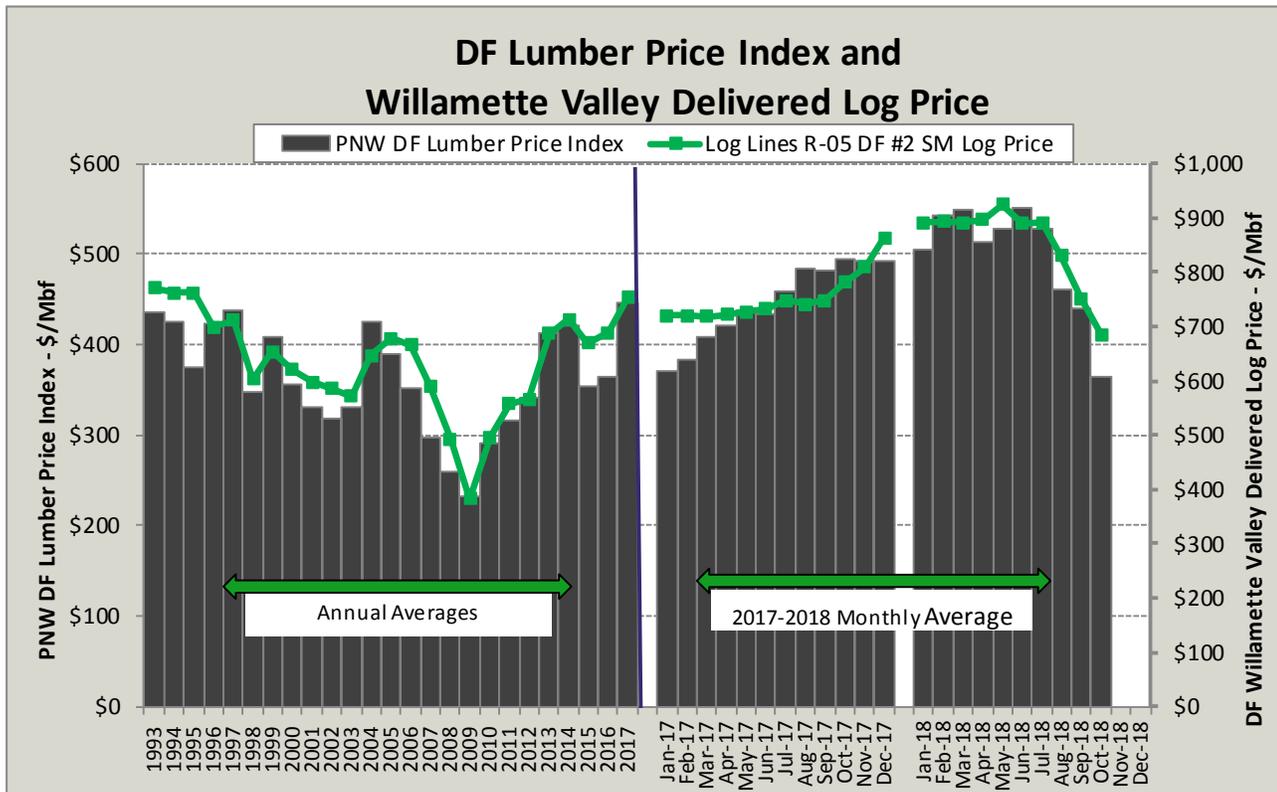
U.S. housing starts increased in October by 1.5%, but were 2.9% below October 2017. Building permits were down 0.6%¹ in October, signaling further weakening. Builders fear that consumer confidence with regard to housing is sliding. (Wall Street Journal, 11/20/18)

October 2018 Housing Starts (million units, seasonally adjusted):					
	Oct 2018	Sept 2018	Monthly Difference	Oct 2017	Annual Difference
All Starts	1.228	1.210	1.5%	1.265	-2.9%
Single-Family Starts	0.865	0.881	-1.8%	0.888	-2.6%
Building Permits	1.263	1.270	-0.6%	1.343	-6.0%
Single-Family Building Permits	0.849	0.854	-0.6%	0.854	-0.6%

Source: U.S. Census Bureau

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

LUMBER & LOGS



DF log and lumber prices plunged again in October, as shown above. At \$365/Mbf, lumber gave back all the gains made since 2017. Log prices fell below \$686/Mbf, and the graph above suggests there might be more to give. (Note that lumber and log prices are on different scales in the chart.)

- October DF #2S log prices, as reported by Log Lines, dropped \$64 to \$686/Mbf, which is 8.5% below the prior month, 12.2% below October 2017, and 2.3% below the 5-year average.
- At \$365/Mbf, the DF lumber index price for October dropped 17% from September 2018. Lumber is 26.3% below October 2017, and 7.9% below the 5-year average.

October 2018 Douglas-fir Prices:							
	Oct 2018	Sept 2018	Change from Previous Month	Oct 2017	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 686	\$ 750	-8.5%	\$ 781	-12.2%	\$ 702	-2.3%
Lumber	\$ 365	\$ 440	-17.0%	\$ 495	-26.3%	\$ 397	-7.9%

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 increased by 9% in August over July. (WWPA reports lag a couple of months). U.S. consumption increased 6.2% in the same period.

- West Coast mills increased production by 9.2% in August.
- Southern sawmills increased production 8.8% in August.
- Canadian mills increased production by 5% in August.

U.S. mill utilization is holding steady at 87%, an increase of two percentage points over 2017. Coastal mills reported 88% utilization over the first eight months of 2018, which is 2 percentage points lower than last year. August's strong production figures clearly had an impact on lumber prices. (WWPA, 11/19/18)

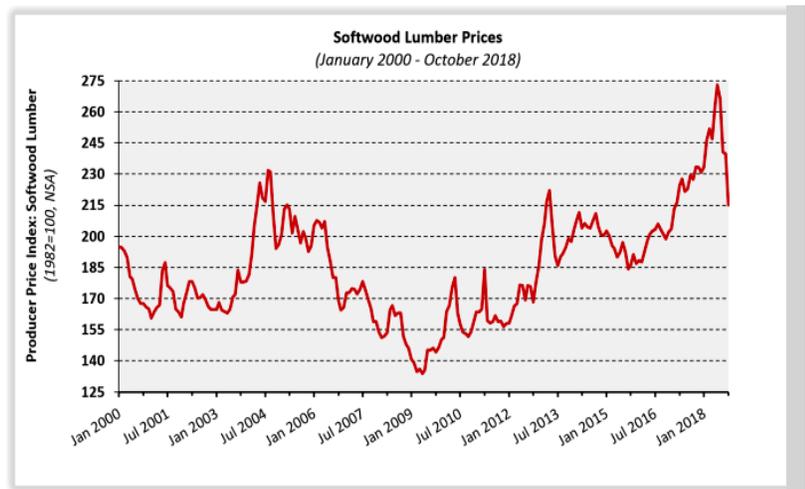
Lumber Production	Aug 2018	Jul 2018	Change from Previous Month	Jul 2017	Change from Previous Year
U.S. Lumber Production	3.17	2.91	9.0%	3.10	2.1%
U.S. Lumber Consumption	4.41	4.15	6.2%	4.10	7.5%
Western U.S. Lumber Production	1.28	1.17	9.2%	1.31	-2.0%
Southern U.S. Production	1.74	1.60	8.8%	1.65	5.4%
Canadian Production	2.30	2.19	5.0%	2.31	-0.5%

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	88%	89%	-1.0%	90%	-2.0%

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

LUMBER PRICES

After setting an all-time high in June 2018, the producer price index (PPI) for softwood lumber has fallen 21.2%. Even so, the PPI currently sits just 4.7% below than the prior-cycle high set in 2004 (after adjusting for inflation). The National Association of Home Builders reports that the recent declines in lumber pricing has not yet reduced the overall price of construction goods. The price of residential construction goods increased 0.4% in October and is showing an increase year-to-date when compared to 2017. (NAHB, 11/9/18)



F2M HOUSING STARTS FORECAST: MORE OF THE SAME

Forest 2 Market (F2M) claims housing start forecasts being published by economists are overly optimistic. Many suggest a rate of 1.6 million housing starts in 2020. F2M's current forecast for 2020 is 21% lower. F2M based their forecast on decreased demand due to millennial buying behaviors and decreased supply of the three L's: labor, land and lumber.

Due to expected challenges in demand and supply, Forest2Market's current 2020 forecast for housing starts is 1.259 million units. In fact, F2M forecasts about the same rate of housing starts for 2018, 2019, and 2020—with a slight decline in 2021. They say the next significant increase in housing starts will not occur until 2023. (F2M, 11/2/18)

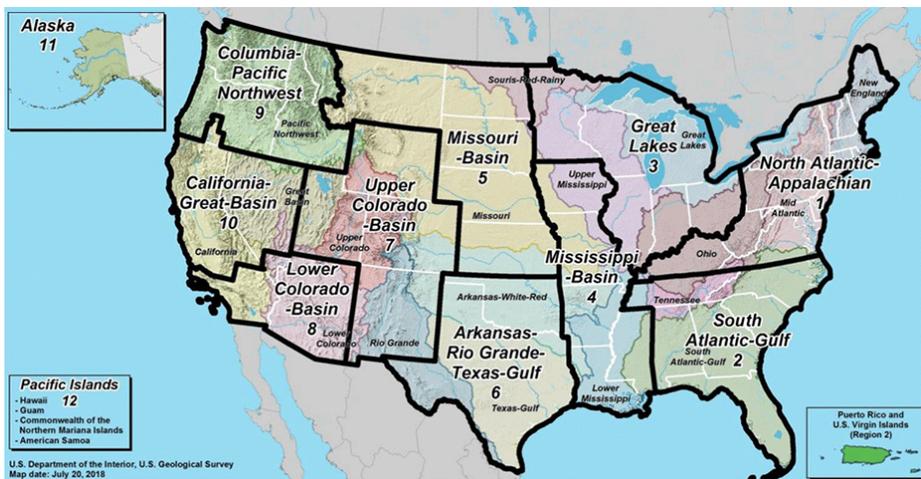
LOGGER DEATHS IN LATE OCTOBER

In two separate incidents on the same day, logs rolled during active timber operations, leaving two dead and two hospitalized. The first incident reported was on a logging road outside of Lyons, OR, where a log rolled down a steep embankment and struck two men who were setting chokers. One man died and the other was hospitalized with unknown conditions. The second incident happened less than an hour later at a logging site near Alsea, OR, where a log rolled into two logging employees. One man died and the other was hospitalized. (KATU, 10/26/18)

INTERIOR REORGANIZATION CONTINUES

The U.S. Department of the Interior is progressing with the reorganization plans announced by Interior Secretary Ryan Zinke last year. The U.S. will be divided into 12 unified and streamlined regions, which will replace 49 regions currently recognized. The map above/below shows the proposed new regions. Each region will have its own Interior Regional Director and recommendations are being received from peers within the department to fill those positions. Zinke has called for the new regions and their staffing to be in place and functional by July 1, 2019. Each region's primary responsibilities will be recreation, collaborative conservation, and permitting.

There is a worry, however, that a Democratic majority in the U.S. House of Representatives may find a way to stall or eliminate the planned reorganization. (E&E News, 11/1/18)



JACKSON COUNTY CONSIDERS HELICOPTER INVESTMENT

In Jackson County, Oregon, the Board of County Commissioners is debating whether to request funding to have two Type 1 helicopters stationed in southwest Oregon during the 2019 fire season. During the recent fire season, southern Oregon was able to utilize two of these helicopters that were in the area after working on fires in Northern California. Dave Larson, Southwest Oregon District forester for the Oregon Department of Forestry believes these two helicopters were useful in stopping the spread of wildfires. While it's difficult to quantify the impact of having these helicopters on standby, "without a doubt, if we didn't have those helicopters available to us, there would be a lot more fires out there that we would know the names of today," said Larson.

This large-capacity helicopter can dump thousands of gallons of water or retardant, allowing for swift action on multiple fires.

During fire season, fire managers have to compete for resources as these helicopters normally shift to tackle wildfires across the nation. The cost of having two Type 1 helicopters stationed in Oregon is \$2 million, but compared to the \$60 million the Oregon Department of Forestry spent on southwest Oregon fires in 2018, and the \$200 million the U.S. Forest Service spent, the upfront cost may contribute to savings overall. Other costs to factor into the equation are the economic and health impacts local communities and residents suffer during and after wildfires. (McClatchy, 11/05/18)

DEATH OF OREGON TIMBER ICON: WILLIAM SWINDELLS, JR.

Oregon timber industry icon and philanthropist William Swindells Jr. died Nov. 7 at age 88. Bill Swindell's great-grandfather, Louis Gerlinger, founded the Willamette Valley Lumber Company in 1906.

In 1967, Willamette Industries was formed to consolidate Willamette Valley Lumber Co. and other Oregon timber firms. Swindells went on to serve as chief executive officer and chairman of the board, leading the company through a period of tremendous growth, including a time among the Fortune 500.

William continued leading the company until 2002. That year, the Swindells used their proceeds to establish the Ann and Bill Swindells Charitable Trust, which has since supported many nonprofits, primarily located in Oregon. (University of Oregon, 11/13/18)

CALIF. LAW UNCONSTITUTIONAL: GOOD NEWS FOR FED

A federal judge has declared unconstitutional a California law that would have restricted the U.S. government's ability to sell or transfer federal land in the state to private entities. Supporters hoped the law would stop the federal government from selling land that could later be used for oil drilling, mining or property development. The judge determined the law violated the doctrine of intergovernmental immunity and the Constitution's Supremacy Clause, which governs conflicts between state and federal laws, and issued a permanent injunction against its enforcement. (Reuters, 11/2/18)

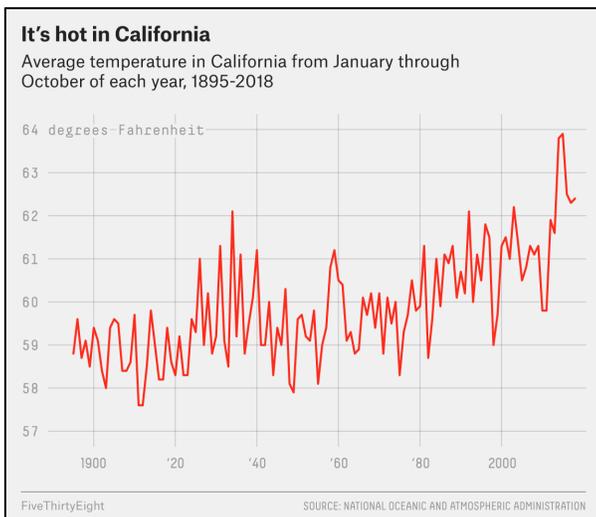
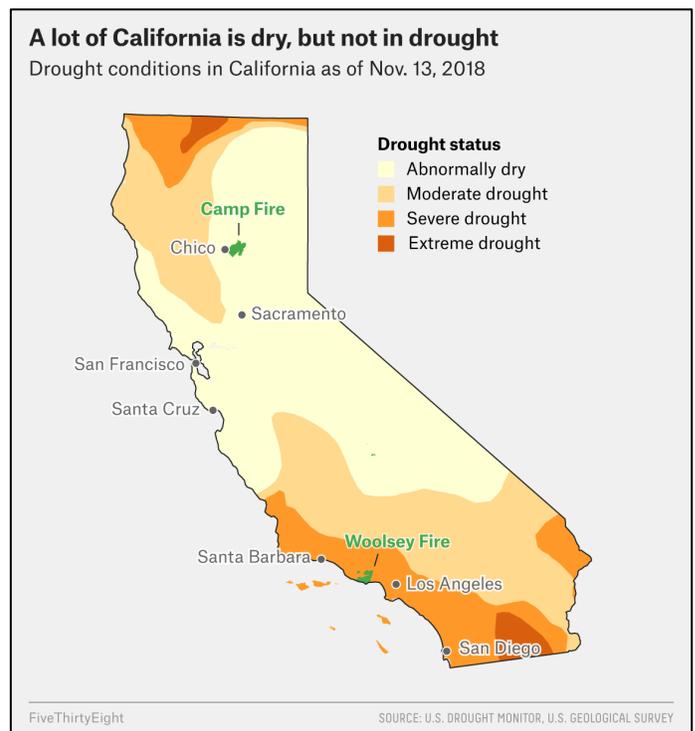
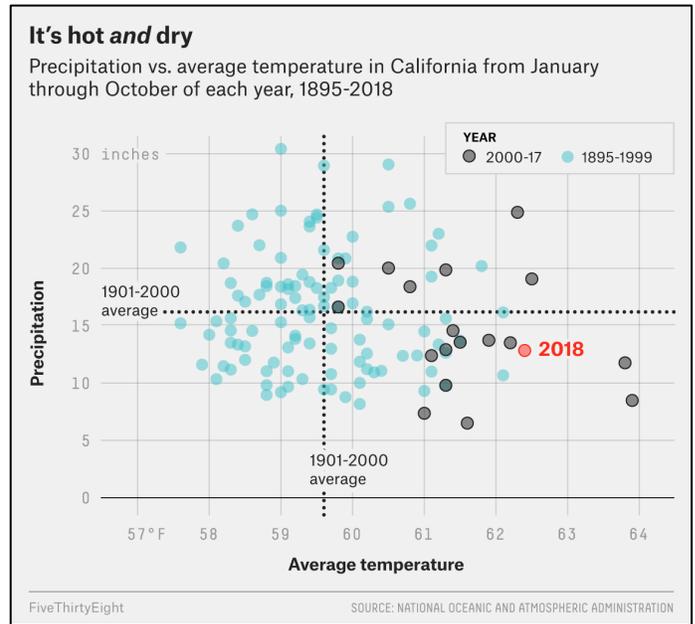
FIRES CONTINUE TO DEVASTATE CALIFORNIA

California fire news was unusually quiet in October, but November more than made up for that. Reports of lost homes, fatalities, and missing persons continue to be updated daily. The Woolsey fire in the South and the Camp Fire in the North have been difficult to contain due to the hot and dry Santa Ana winds, a seasonal phenomenon. Even before these fires became significant in the first weeks of November, California reported having its worst fire season on record.

The Camp Fire burned through at least 142K acres and became the most lethal and destructive in California history. Deaths reported from the fire change every day, but more than a week after the blaze began, the death count was believed to be 63, with hundreds of people still reported missing.

The Woolsey Fire blazed another 98K acres, killing three people. These two fires are getting a lot of press, but there are also other fires in the state.

National and local government leaders are pointing fingers of blame to explain the cause of the disaster, but fire researchers have published charts that show factors contributing to the current favorable conditions for fire. These include drought, higher-



than-average temperatures and population growth near wilderness areas, all of which have exacerbated the blazes and made them more costly. (Washington Times, 11/13/18 & Five Thirty-Eight, 11/16/18)

WHAT TO DO WITH THE ELLIOTT STATE FOREST?

The Oregon Land Board is once again seeking buyers for the 91K acre Elliott State Forest—only public entities need apply. You may recall that the state sold the Elliott to a timber company and a tribe a few years ago, then changed its mind after widespread criticism. A lawsuit is still pending from that situation. Now the state is looking for a public entity to purchase the land, continue public access, and fairly compensate the Oregon Common School Fund; and do all of this with the cooperation of five Native American tribes that have a connection to the Elliott. It is a tall order. OSU is deciding whether to make a bid. (Willamette Week, 11/16/18)

USING CONIFER FORESTS TO HELP POLLINATORS THRIVE

Oregon State University (OSU) is collaborating with scientists, forest managers, conservationists, and policy makers to research the potential of supporting pollinating insects, birds, and mammals in actively managed conifer forests. OSU has confidence that conifer forests found in temperate zones may help the conservation of the pollinators which are so critical to our ecology. "Insect pollinators have an estimated \$100 billion global economic impact each year, enhancing the reproduction of nearly 90 percent of the Earth's flowering plants, including many food crops." (OSU, 10/31/18)

NATURAL SOURCES SUPPORT CLIMATE STABILITY

The Nature Conservancy found that the planet could be made to capture 21% of the nation's current net annual emissions, by adjusting 21 natural management practices to increase carbon storage and avoid greenhouse emissions. This study is the first to include the benefits of coastal wetlands and grasslands in a comprehensive mix along with forests and agriculture.

Forest management practices were recommended to assist with reducing greenhouse gasses (GHG), including tree planting, extending the periods between timber harvests, increasing controlled burns, strategic thinning, and the avoidance of urban sprawl.

Grasslands were also found to be important for their carbon storage abilities. The grasses protect and help to retain the carbon storage of soil.

Tidal wetlands disconnected from the ocean can be a source of methane. By connecting these pools back to the ocean, the methane released will be eliminated. (The Nature Conservancy, 11/14/18)

THE BIOMASS ENERGY SOLUTION

The U.S. is endorsing the use of biomass as a source of energy. The Environmental Protection Agency (EPA) joined the departments of Energy (DOE) and Agriculture (Ag) in a letter to congressional leaders committing to "encourage the use of biomass as an energy solution." The Trump administration has also endorsed the plan. The EPA reasserted its view that burning woody materials to generate electricity should be viewed as carbon neutral, because when the plants eventually regrow, they remove carbon dioxide from the air. This is a policy change from the previous Administration. (Bloomberg, 11/2/18)