



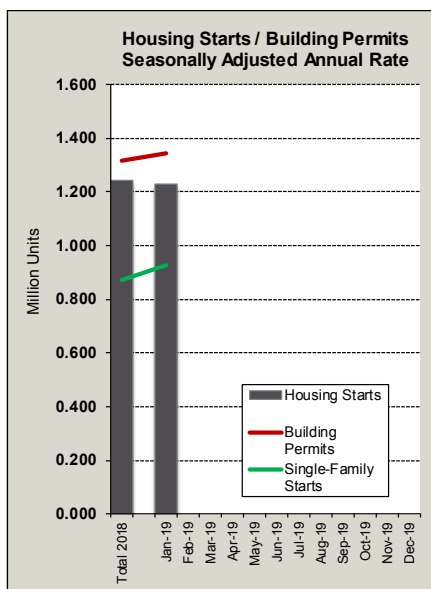
As you can see from the picture on the right, sometimes you do what you got to do. Planting in the snow is not ideal but, given the weather situation this winter, it is sometimes necessary. Hopefully the snow melts accordingly in the next few months. The main thing on my mind right now is the legislation being considered by Oregon lawmakers, which will eviscerate the forest products industry, particularly HB 2656 (See article below). Be sure you inform yourself, and understand how these new laws could affect your family forest.

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

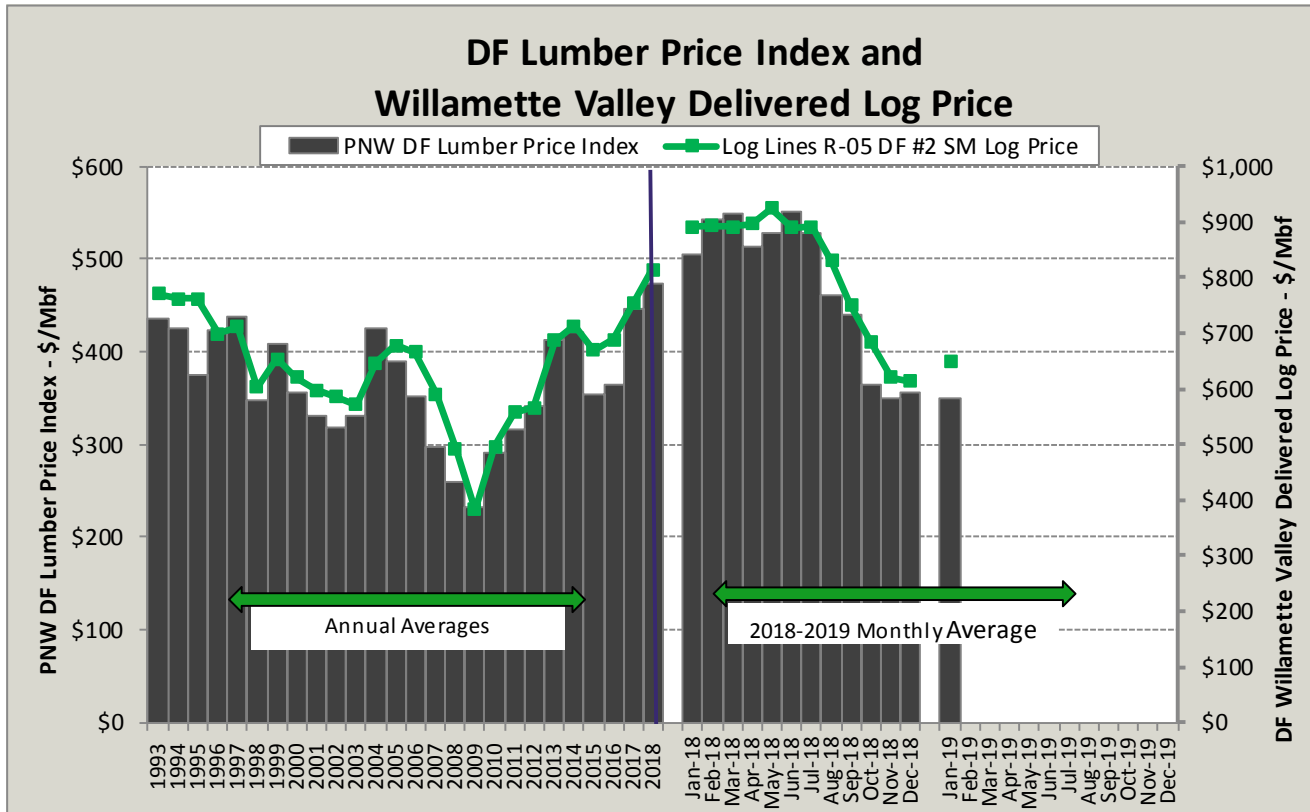


U.S. housing starts increased 18.6% overall in January. Single-family starts increased 25.1%, while building permits were stable with a mild 1.4% increase. Market analysts view this as new momentum caused by an easing in mortgage rates. (Wall Street Journal, 3/8/19).

January 2019 Housing Starts (million units, seasonally adjusted):					
	Jan 2019	Dec 2018	Monthly Difference	Jan 2018	Annual Difference
All Starts	1.230	1.037	18.6%	1.334	-7.8%
Single-Family Starts	0.926	0.740	25.1%	0.886	4.5%
Building Permits	1.345	1.326	1.4%	1.366	-1.5%
Single-Family Building Permits	0.812	0.829	-2.1%	0.870	-6.7%

Source: U.S. Census Bureau

# LUMBER & LOGS



DF lumber prices fell slightly in January, while log prices improved, as shown above. Maybe we have seen the bottom of the cycle. [Note that lumber and log prices are on different scales in the chart.]

- January DF #2S log prices, as reported by Log Lines, came up \$36 to \$650/Mbf, which is 5.9% above the prior month, 27.1% below January 2018, and 10.7% below the 5-year average.
- At \$349/Mbf, the DF lumber index price for January slid 1.8% from December 2018, 31% below January 2018, and 14.6% below the 5-year average.

January 2019 Douglas-fir Prices:							
	Jan 2019	Dec 2018	Change from Previous Month	Jan 2018	Change from Previous Year	5 Yr Annual Average	Current month compared to 5 Yr Annual Average
Logs	\$ 650	\$ 614	5.9%	\$ 892	-27.1%	\$ 728	-10.7%
Lumber	\$ 349	\$ 356	-1.8%	\$ 506	-31.0%	\$ 409	-14.6%

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



## MARKET NEWS

### **WWPA Lumber Track Report**

Softwood Lumber production for 2018 increased in volume and mill capacity, when compared to 2017. December production was down a bit when compared to November 2018 and December 2017. See the chart to the right for details. (Western Lumber Facts, 2/8/19) [Note: We generally believe mills begin to have pricing power when utilization exceeds 80%.]

### **Proposed Watershed Legislation**

Forest activities on private land will be severely limited if Oregon's House Bill 2656 should be enacted. HB 2656 (Oregon Safe Waters Act) would ban clear-cuts, pesticide and fertilizer applications, and new logging roads on private forestland in watershed areas. Violations would be a Class A misdemeanor, carrying a fine of up to \$6,250, 364 days imprisonment, or both.

The inspiration for this legislation stemmed from last year's Detroit Lake algae bloom, which shut down drinking water supplies in areas around the Oregon State Capital for more than a month.

Supporters of HB 2656 say forest activities degrade water supplies with sediments, chemical and thermal pollution and other contaminants, also increasing the risk of wildfires, flooding, and landslides. Opponents, including large and small timberland owners, say the restrictions are unnecessary and uneconomical and they worry the regulations would eliminate commercial logging across millions of acres. Opponents also point to a finding by Oregon's Department of Environmental Quality that water quality conditions are most commonly rated "excellent" and "good" in Oregon's forests compared to other land types.

Public testimony is being gathered through March 21. There will be more to report on this next month. (Statesman Journal, 3/12/19 & Capitol Press, 3/18/19)

### **Oregon Considers Timber Property Tax Change**

A bill was introduced in January in the Oregon Legislature (HB 2152) that would sunset all special forest tax assessments utilized by Oregon timberland owners to be able to afford to manage their forests under Oregon's land use laws. The bill is currently in the House Committee on Revenue and it is uncertain whether and how it will proceed. However, it is broad-ranging and could be damaging to timberland owners.

Oregon's Land Use Laws recognize the public value of keeping forests as forests. The current tax structure for forest owners is designed to allow them to keep forests as forests by taxing forestland at a favorable

Western U.S. Softwood Lumber Production 2018 Annual Total (Bbf)		Western U.S. Softwood Lumber Production Monthly Total (Bbf)	
2018 Production	14.46	Dec 2018	1.025
2017 Production	13.86	Nov 2018	1.106
Change from Previous Year	4.3%	Change from Previous Month	-7.3%
		Dec 2017	1.042
		Change from Previous Year	-2%
2018 Production as a % of Capacity	82%	Production as a % of Capacity Dec 2018	77%
2017 Production as a % of Capacity	79%	Production as a % of Capacity Nov 2018	79%
Change from Previous Year	3%	Change from Previous Month	-2%

Western Lumber Facts

rate, based on land value for forestry. The forest owner is taxed at time of harvest, under the timber harvest tax, when revenue to pay the tax is available. If passed, HB 2152 would tax a forest owner when there is no forest income to pay the tax. To reduce tax burdens, a landowner may need to harvest timber early to reduce the value of the property for a lower tax, convert the forest to a use with less tax burden, or convert the forest to a different use that has a value equitable to the tax burden. None of these options facilitate land use goals to keep forests as forests.

The Oregon Small Woodland Association (OSWA) is encouraging all family forestland owners to contact their legislators to let them know how it will impact their ability to own timberland and continue to manage it for timber and other natural resource benefits. If you would like to do so, please contact Roger Lord at MB&G for more information including key legislative contacts. Meanwhile, we will continue to monitor the bill's progress. (OSWA & MB&G, 2/19/19)

### **Oregon Carbon Legislation Likely**

Legislation to reduce Oregon's carbon emissions, frequently referred to as the cap and invest bill, will likely pass in the 2019 session. It has become a top-priority for Democratic leaders, who now have a supermajority in both legislative chambers, a governor who looks on the bill as a legacy issue, and strong backing from advocates for the environment, social justice and low-income households.

If passed, the current version of the legislation would set an economy-wide limit on emissions of greenhouse gases that declines each year. Utilities, industrial companies and transportation fuel providers that emit more than 25,000 metric tons of carbon dioxide equivalents would be required to annually acquire emissions allowances to cover their emissions. This could be done either in a state auction or on a secondary market. As the cap ratchets down, those allowances would get more expensive, forcing companies to reduce their emissions.

Forestry and agriculture are currently targeted to receive exemptions from the cap and invest program. While this could be revised in the final draft, it is reported that the exemptions are expected to remain due to the strong lobbies for those industries.

The current version of the bill allows for emitters to purchase offsets from "improved forest management," which means lengthening rotations. The impacts are uncertain as the legislation does not define the rules for calculating offsets. Lumber manufacturers are concerned that the offsets will reduce timber supply, causing an increase in log prices. Some of the large land owners are lobbying in favor of the offsets, arguing that timberland owners should be able to benefit from carbon capture. The paper industry is working hard to stay on the list of exempted companies.

If passed, the regulations would become effective in 2021. Many industry leaders are against this legislation, particularly those who are at risk of having businesses from outside Oregon take-over their market share if their costs increase and need to be passed-on to their customers. The most direct impacts for Oregonians are expected to be in gasoline and natural gas prices.

Public comment over the proposed legislation is ongoing, but early reports indicate that about 70% of Oregonians support this type of legislation. (Oregonian, 2/2/19) (The Nature Conservancy, 2/5/19) (Salem Reporter, 2/14/19)

### **Slowing Sudden Oak Death**

A study to analyze and assess the economic impact of Sudden Oak Death (SOD) was released to the Sudden Oak Death Task Force February 21st. The assessment report estimates that \$30 million in funding for treatments to slow the spread of SOD over the next 20 years could offset the loss of 1,200 jobs by 2028 and \$580 million in wages from 2028 to 2038.

The analysis also concluded that current efforts are keeping the infestation's spread on average to between 0.5 and 4.5 miles per year. With continued treatment, SOD's spread north of the Rogue River could be delayed until about 2028. Without any treatment, the disease would most likely arrive north of the Rogue in four years and enter Coos County by 2028. (KTVZ, 2/21/19)

### **Seniors Contribute to Housing Shortage**

The housing market continues to be challenging for Millennials to buy into. The latest reason reported for this situation is senior citizens who are aging in place at a rate higher than their predecessors.

"We estimate that approximately 1.6 million more senior households are staying in place than would have been the case if they had behaved like previous generations of homeowners," said Sam Khater, Chief Economist at Freddie Mac. "For scale, 1.6 million units is roughly the same as the number of new single-family and multifamily housing units built each year, and it represents more than half of the current shortfall of 2.5 million housing units that we estimated in our December Insight." (Freddie Mac, 2/6/19)

### **NW Forest Plan: 25 Years Later**

We are entering the 25th year of the 100-year federally-mandated plan to protect older forests in the Pacific Northwest. Researchers acknowledge that forest losses to wildfire are up and declines in bird populations have not yet been reversed.

Researchers studied population trends for 24 widespread bird species for which the Pacific Northwest holds important populations—some associated with older forests, some with diverse early-seral ecosystems, and some with both.

While there is evidence that old-growth forests have been strengthened as a result of the plan, results show bird species living in this system still aren't doing too well. They found species associated with older forests—such as the varied thrush, golden-crowned kinglet, Pacific-slope flycatcher and Townsend's warbler—are continuing to struggle on both federal and private industrial land. On private industrial land, the challenge to the birds is assumed to be due to ongoing timber harvesting; while on federal land it's assumed to be due, at least in part, to the recent uptick in fires in the Northwest, due to drought.

Researchers found that early seral forest land had increased, and yet the bird populations that prefer these habitats have also continued to decline, though not as much as those that prefer the old-growth forests.

OSU research associate Ben Phalan summarized the research this way: "It was anticipated in the plan that species declines might take decades to arrest," he said. "It was surprising, though, to learn that species associated with older forests continued to decline much faster than those in early seral. We argue that, because forest regeneration is an inherently slow process, and because fires are going to become more frequent in most forest types, forest plans should continue to emphasize conservation of old-growth habitats." (Press Release, 2/4/19)

### **Lumber Price Rebound**

Madison's Lumber Weekly reported that Canadian and U.S. softwood framing lumber experienced a pricing rebound in the first week of February. The increases came as large-volume purchases were made to replenish low inventories of end-users. Madison's mid-month report seems to indicate that production rates are high, and prices have leveled off, but are still above January 2018. Due to market volatility, most producers are not quoting prices more than three weeks out. (Wood Business, 2/5/18 & Madison Report, 2/19/19)

### **Oregon Wildfire Response Council**

Governor Kate Brown has established the Oregon Wildfire Response Council by executive order. The council will have at least 13 members—all appointed by the governor. Members will include leaders from rural and urban communities and wildfire experts in the areas of health and safety, economic impacts, environmental and cultural impacts, and risks to infrastructure. The council's main goal will be to evaluate Oregon's current system of response to large fires and determine whether the current model is the best possible way to defend Oregon from the threat of wildfires. The council will issue a report in September 2019 to make recommendations for improvement. (Associated Press, 2/1/19)

### **Proposed ACP Herbicide Ban**

ACP (amicocyclorachlor) is a controversial herbicide that may be banned from use in Oregon before mid-2019. Widely used by government agencies to control vegetation along roadsides, this chemical is suspected of killing thousands of trees. The ban being considered, would prohibit using ACP in wildlife management areas, swamps, canals, sage grouse habitat and many other natural environments and make permanent temporary restrictions already put in place on use in rights-of-way for roads, highways, railroad tracks, bike paths and more. If approved, Oregon would be the first state on the West Coast to restrict the use of ACP statewide. (Associated Press, 2/2/19)

## **Freres Receives Patents and Honors**

Freres Lumber Company announced that it has been granted patents for its mass plywood panel (MPP) from the U.S., Canada, Australia and New Zealand. The Freres MPP is the only mass timber panel constructed entirely from Structural Composite Lumber (SCL). Freres' MPP received APA Certification, indicating MPP demonstrates the necessary life safety fire protection performance for single- and multi-family, and multi-story structures up to 18 stories high. (PR-Newswire, 2/5/19)

Freres Lumber Co. has also been named to Fast Company's annual list of the World's Most Innovative Companies for 2019, ranking as the fifth on the Most Innovative Company List in the Urban Development/Real Estate category. The list honors the businesses making the most profound impact on both industry and culture, showcasing a variety of ways to thrive in today's volatile world. "We are honored to receive this prestigious award and to be recognized for the innovation and application of our invention of Mass Plywood Panel (MPP)," said Rob Freres, president of Freres Lumber. (Capital Press, 2/21/19)

## **USFS Fire Readiness**

Several U.S. Senators from western states sent a letter to the U.S. Forest Service (USFS), requesting the impacts of the recent government shutdown on wildfire readiness.

Despite being unfunded during the partial government shutdown, the U.S. Forest Service (USFS) reported that they were able to keep hiring new workers throughout that time—theoretically meaning that they aren't behind schedule on preparing for summer fires. The agency reported to have used leftover funds from their prior-year budget to cover the expense. (KDRV, 2/1/19 & Press Release, 2/14/19)

## **Oregon Solidarity**

It's not just a slogan. It's a wine. After a California winery cancelled contracts with 15 Oregon vineyards, claiming wildfire smoke taint, two Willamette Valley wineries responded by purchasing some of the rejected grapes to make wines. The profits of which, will benefit vineyard owners throughout the Rogue Valley.

The wines, labeled Oregon Solidarity, became available in February. Early reviews are favorable, with no mention of smoke flavor. Oregon Gov. Kate Brown applauded this unprecedented act of coordination by stating: "The Oregon Solidarity wines exemplify the Oregonian spirit, bringing forth our best values by helping others during their time of need." (Oregonian, 2/13/19)