



STUMPAGE SPEAK: Outlook 2015

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Louisiana Timber Market Report¹

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| Louisiana Stumpage Prices (\$/ton) | 2012 | 2013 | 2014 |
|------------------------------------|---------------|---------------|---------------|
| Timber Class | Price per ton | Price per ton | Price per ton |
| Pine Sawtimber | 26.00 | 26.50 | 27.50 |
| Pine Chip-n-saw | 16.00 | 15.50 | 17.50 |
| Pine Pulpwood | 9.00 | 10.00 | 11.00 |
| Hardwood Sawtimber –Mixed grade | 25.00 | 27.00 | 33.00 |
| Hardwood Pulpwood | 9.50 | 10.50 | 13.00 |

¹ The following document is intended for use by owners of forested land in Louisiana. **The source of these prices is proprietary in nature and are therefore rounded per agreements to disseminate to the general public.** The prices I report are also state averages and the LDAF numbers are by specific regions. I recommend using both to aid in decisions about purchases, sales, and determining harvesting schedules. As always communicate with a consultant forester on prices before executing contracted agreements with wood buyers.

Last year was to be the big comeback in forestry, largely on a belief that housing starts would approach 1.5 starts. Like GDP, was below expectations of original forecasts for the calendar year. While unemployment was down, wages stagnated. This indicates many of the systemic problems present since the 2008-2010 are still present and market participants remain uncertain about the future. Nonetheless, stumpage prices continued to trend upward due to a combination of demand and supply conditions. Once again, as the holiday season comes to a close and we begin the New Year I am seeing unwarranted optimism but that doesn't mean we will not continue to see an improvement in the US forestry market. Louisiana forestry is poised to return to pre-recession levels, but the return will be slow.

The general trends are encouraging for timber owners. Sawtimber prices have recovered nicely since 2010, due in large part to export markets and a slow but improving housing market. Heading into 2015, the housing market should continue to recover at a steady, gradual pace. Home builders in many markets across the country have seen their businesses improve over the course of the year, and we expect builders to remain confident in 2015. The housing market has stalled at 1 to 1.1 million starts (SAAR) annually. Profitability at lumber mills will come under pressure as a result. However, Congress will extend a number of housing policies that expired at the end of 2013, although only for 2014. These provisions include extensions of the 45L \$2,000 energy-efficient home credit, the 25C energy-efficient remodeling credit, the deduction mortgage insurance (including PMI and FHA premiums), and the 9% fixed rate for the Low-Income Housing Tax Credit, and the mortgage forgiveness tax exclusion. Builders, remodelers and their clients are well advised to research whether these extended provisions can provide a tax benefit for qualified activities in 2014.

Chinese wood demand (along with most other products as well) will slow in 2015, leading to lower demand for pulp, logs, lumber from U.S. suppliers so look for wood exporting businesses to level off. European markets are also down. Economists predict a very slow recovery in most European countries this year. Projections of 1.1% growth in 2015 on the heels of 0.8% gains last year are common. U.S. exports to Europe jumped 63% through November. Demand in Europe increased last year for the first time since 2010. Most Southern Pine suppliers predict that their sales of higher-grade items to Europe will decline in 2015 compared to 2014 levels, but the losses are slight.

On the subject of gas and diesel prices, the effect on Louisiana forestry is mixed. On one hand, Logging crews are likely to be busier than ever as a major cost (fuel) has been reduced significantly. Along with that, we should see more ability of crews to get tracts cut (and smaller tracts), so landowners that have had trouble attracting bids for harvesting should face an easier time than they have in the past two years.

Also, truck drivers that worked in the forestry industry have been poached by oil and gas industry in Texas and Louisiana since 2010. This trend will abate as shale energy companies look to cut costs until foreign fuel prices return to 2013 levels. The steep price declines may lead to a flattening of revenues. Those energy providers can either make up for the cash requirement by borrowing or they may also resort to layoffs as has been announced by some companies. This will include truck drivers, this result

is positive for logging and those interacting with them. However, it won't put more drivers on the road and many truckers are dealing with reduced hours behind the wheel due to federal regulations.

On the other hand, construction in the southeast will suffer. The economic and housing recovery from North Dakota to Texas has been underpinned by the boom in oil production. Crude oil prices have crashed since June, falling by more than 54 percent to less than \$50 a barrel. That swift drop has started to cripple job growth in oil country, creating a slow wave that in the years ahead may devastate what has been a thriving real estate market, according to new analysis by Trulia. Housing prices in oil rich economies should experience drops in the coming two years.

Budget shortfalls in the state government are expected as well. In Louisiana, the drop in oil prices had a hand in increasing the state's projected 2015-16 budget shortfall to \$1.4 billion and prompting cuts that eliminated 162 vacant positions in state government, reduced contracts across the state and froze expenses for items like travel and supplies at all state agencies. Another round of reductions is expected as soon as January. The portion of the state budget in Louisiana linked to oil and gas revenue is about 13 percent, compared with 45 percent in the 1980s. Louisiana loses \$12 million for every \$1 in decline in the annual average price of a barrel of oil, according to Greg Albrecht, the state's chief economist. However, longer term projections are that oil prices will bounce back by the end of 2015 or early 2016 to \$70-75 per barrel. Still cheap enough to discourage shale oil investments for the time being.

Pine Pulpwood will be the winner this year in terms of percentage increases, in Louisiana and across the southeast. Expect price appreciation despite bioenergy markets playing a larger role in southeast economies. 2014 was unusually wet (early in the year anyway) in state but with the bioenergy competing with traditional pulpwood consumers it's a bit of an unknown. While demand for fiber will increase in 2015, it will be at least a decade until planted trees catch up as delays in sawtimber harvests (caused by slow housing markets) have postponed planting. This will lead to tight markets as supply will lag behind. The result will be higher prices, good for landowners.

Both Drax and German Pellets reported that they are close to completing final phases of production and will start accepting wood sometime in the 1st or 2nd quarter of 2015. Cool Planet Energy Systems refinery at the Port of Alexandria is expected to begin operations in early 2016, with bio-gasoline production of about 10 million gallons. In October, the company received a \$91 million loan guarantee from the USDA in addition to other financing. Biomass Power Louisiana LLC, a subsidiary of Biomass Secure Power Inc., announced plans for a biomass pellet plant at the port of Natchitoches. Groundbreaking for the million-ton-per year first phase of production is due in early 2015 but scheduled startup was not disclosed.

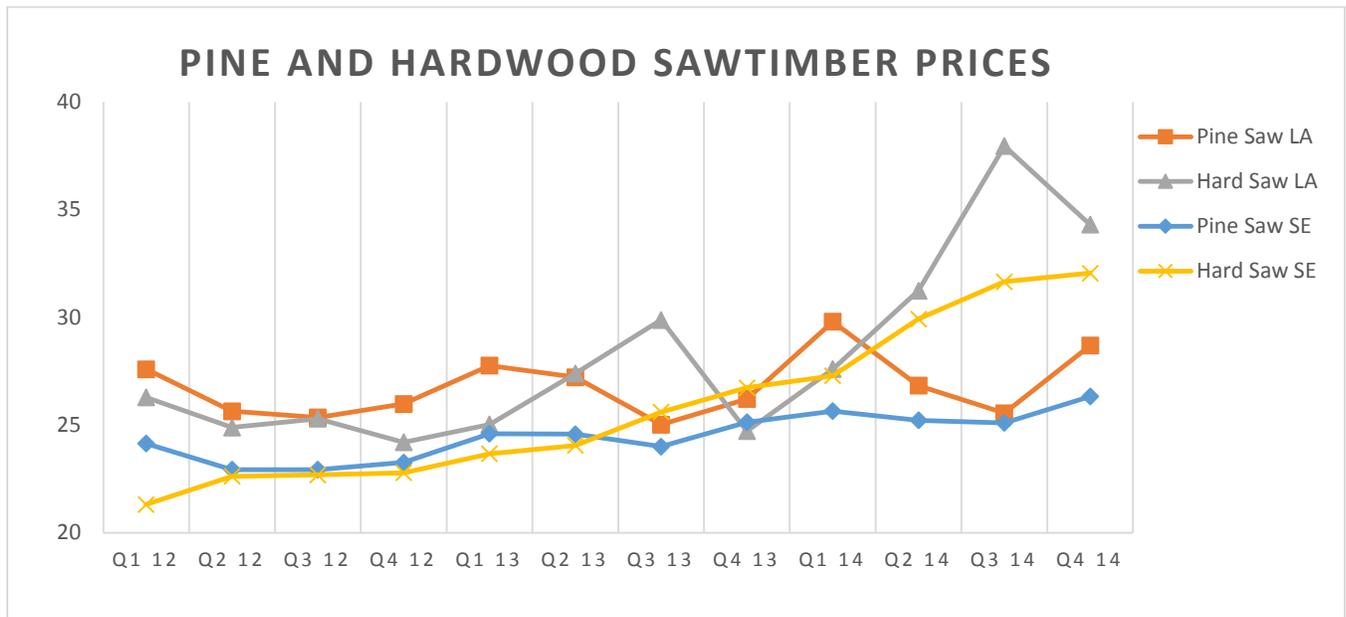
Predictions

Look for pine saw timber prices to trade sideways this year. There will be seasonal fluctuations but I do not expect meaningful gains due in large part to oversupply remaining and a steady but flat housing market in the U.S. (1 to 1.1 million starts). Fluctuations in pine sawtimber and chip-n-saw prices will mimic housing starts, trend upward in the first half of the year, peak in late summer or early fall 2015,

start a downward trend in 2016. Pine Pulpwood prices are forecasted to increase in-state and around the south in the coming year but we also had bad weather early and wet weather late in 2014. I'll hedge and say up fifty cents a ton. Why not more? Warmer and dryer weather in the spring and summer months will postpone original forecasted gains.

Hardwood saw timber and pulpwood demand will take slight dips as export markets cool and imports from South America look for U.S. markets but nothing that would warrant panic among landowners. Solid wood products demand from Europe will also be muted.

Sawtimber prices for the Southeast (SE) and Louisiana (LA) for 2012-2014



Pulpwood prices for the Southeast (SE) and Louisiana (LA) for 2012-2014

