



## STUMPAGE SPEAK

<http://www.lsuagcenter.com/en/blogs/stumpagespeak/>

<http://www.freddiemac.com/finance/ehforecast.html>

<http://water.weather.gov/precip/>

<http://graphics.wsj.com/us-housing-market/>

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### Louisiana Timber Market Report<sup>1</sup>

1st Quarter (Jan-Mar.) 2015

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<b>Louisiana Stumpage Prices (\$/ton)</b>	<b>1<sup>st</sup> Quarter 2015</b>	<b>Change from Prior Quarter</b>
<b>Timber Class</b>	<b>Price per ton</b>	<b>% Change</b>
<b>Pine sawtimber</b>	<b>\$29.50</b>	<b>2%</b>
<b>Pine chip-n-saw</b>	<b>\$17.50</b>	<b>-2%</b>
<b>Pine pulpwood</b>	<b>\$10.00</b>	<b>-15%</b>
<b>Hardwood sawtimber – Mixed grade</b>	<b>\$33.50</b>	<b>-3%</b>
<b>Hardwood pulpwood</b>	<b>\$12.00</b>	<b>-18%</b>

<sup>1</sup> 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.

\*\*\*\*Price Conversions: Pine Sawtimber/ MBF= Tons \* 8; Hardwood Sawtimber/ MBF = Tons \* 9.5;  
CNS and Pine Pulpwood Cords = Tons \* 2.7; Hardwood Pulpwood = Tons \* 2.85\*\*\*\*\*

## **Introduction**

Mixed news for Louisiana forestry this quarter. Strong headwinds such as a relatively strong dollar (which means more competition for domestic companies in the form of imports) and downturns in the economic fortunes of China and Western Europe combined with the downturn in the previously booming Texas market have tempered the optimism generated in the last two quarters but still not all news was bad.

In spite of fears of slack consumption for end products, harvesting for all five timber products in Louisiana were up in the 1<sup>st</sup> Quarter of 2015 from the prior year. (See “2014: Louisiana Timber Year in Review” Document). Pine Sawtimber was up 41% from the 1<sup>st</sup> Quarter of last year and 49% from two years ago. Chip-N-Saw was also up (1yr-53%, 2yr-69%) along with Pine Pulpwood (1yr-4%, 2yr-39%). For Hardwood Products, the harvest was even more profound; specifically Hardwood Sawtimber (1yr-212%, 2yr-258%) while Hardwood Pulpwood (1yr-38%, 2yr-33%) also was up significantly. It wasn't all in the first two quarters either, March was strong for all five products.

Lumber prices have dropped with composite prices at levels not seen since July of 2013, and worse futures prices haven't been this low since the beginning of 2012. The trend likely indicates lower prices on composites in the coming weeks as well. I'll explore the correlation between lumber prices and pine sawtimber stumpage prices in the next section.

Lastly, housing appears to be faring well, despite Texas' recent woes. This was part of the reason I had predicted (at best) only a 1 M starts (adjusted) as Texas was carrying a large portion of the U.S. housing market last year. According to the U.S. Census Bureau, 166,100 permits were issued in Texas in 2014, most since 2007, with 59.5% of those for single-family structures. Total permits in Texas accounted for almost 16% of the national total, 1.04 M permits.

Nonetheless, so far housing is hanging around 1M starts, despite retractions in the oil and gas economy. As well, single family homes were up from February (4.4%) and overall starts were bounced back despite February and March backed off the streak of 1M-plus starts we had seen since October of last year.

## **Lumber and Stumpage Prices**

What does the recent retreat in lumber prices, along with prospects for further declines mean for stumpage prices? To help answer these questions, I ran some regression analysis (fancy word for statistics) of prices for Composite Lumber (quarterly) and its effect on Louisiana Pine Sawtimber Stumpage for 1996-2014 (quarterly). Not surprising, the impact was positive and significant (Coefficient of 0.2). A 1.0 percent change in lumber price in the previous quarter translated into a 0.20 percent change in stumpage price. All this means is that with respect to stumpage prices, downward trends in lumber are just one of many variables that are important. So no need to panic.....yet.

Historically, the Random Lengths Framing Lumber Composite Price rises about as often as it declines in the second quarter. Snow, ice, and rain bogged down markets in much of the eastern portion of North America throughout the first quarter. Most anticipate construction season to hit full stride when drier, warmer weather arrives. The extreme weather could alter buyers' traditional timing for spring inventory replenishment.

Traders will monitor how the anticipated pent-up demand matches up with production that was not readily absorbed by the market in the first quarter. Second-quarter price trends will be influenced by how quickly that lumber moves through the system.

Basically the supply curve for stumpage becomes more inelastic when we have wet weather in an area, this is the driver for a lot of Louisiana's timber product price premiums in the past year—relative to the rest of the southeast. Even in the face of no demand change, a steeper supply curve would cause prices to push higher. Those sellers that have access during those times have greater market power to bargain with procurement foresters in the area. This doesn't influence lumber as much at this time as we have a glut of foreign imports and our usual foreign buyers are soft in terms of demand.

### **Stumpage Prices**

All products (except: Pine sawtimber) were down this quarter which corresponds with the large increases in harvesting numbers mentioned earlier. Pine sawtimber and chip-n-saw stumpage at over \$29.50 dollars per ton and \$19.50 per ton, respectively, 2% and - 2% from the quarter before, the inverse of what happened south-wide (see table 2).

Pine pulpwood was down 15% from the prior quarter, retreating below that of the southeast number. This happens occasionally, usually pulpwood in-state tracks higher than the S.E. average, but when it does correct it dips below. By next quarter, I'd expect pulpwood markets to strengthen a bit, relative to the southeast and to prices in-state over the last several quarters.

Hardwood sawtimber was down in-state and southwide (~3%) equally. In 2014, hardwood lumber supply exceeded demand for the first time since 2010. This fact combined with a decline in exports leads me to believe that prices for hardwood are due to take a step back this year, given normal weather conditions. In-state hardwood pulpwood was down 18%, while southwide price decreases were more modest, down 5%. Again with the harvesting numbers up so much, the price conditions are understandable. More volume—pushing the supply curve flatter, means that even with unchanged demand, price would drop for the wood that is available.

What is puzzling is that with cooling export markets, where is the wood going? Turns out it may not be going anywhere. With respect to hardwood, harvesting is up despite the fact that exports account for ~20% of all the US hardwood consumption and U.S. hardwood lumber exports totaled 116 million board feet in January—the latest month with available trade data—which was virtually unchanged from the prior month but down 14% from January 2014. Year-on-year shipments to Asia and Europe were down 22% and 6%, respectively.

Louisiana is better poised to ship wood to Asia relative to most other southeastern states, but those markets are weak. Offset somewhat by increases of 4% to Latin America and 6% to the Middle East and Africa. **Likely, though it's simply wood buyers (not end users) getting the wood while they can and sitting on it in anticipation for the coming months.** The weather conditions I mentioned in the prior section are a key to that theory along with the usual surge in housing in the months after spring.

Table 1. Lumber Prices and Futures of Composite

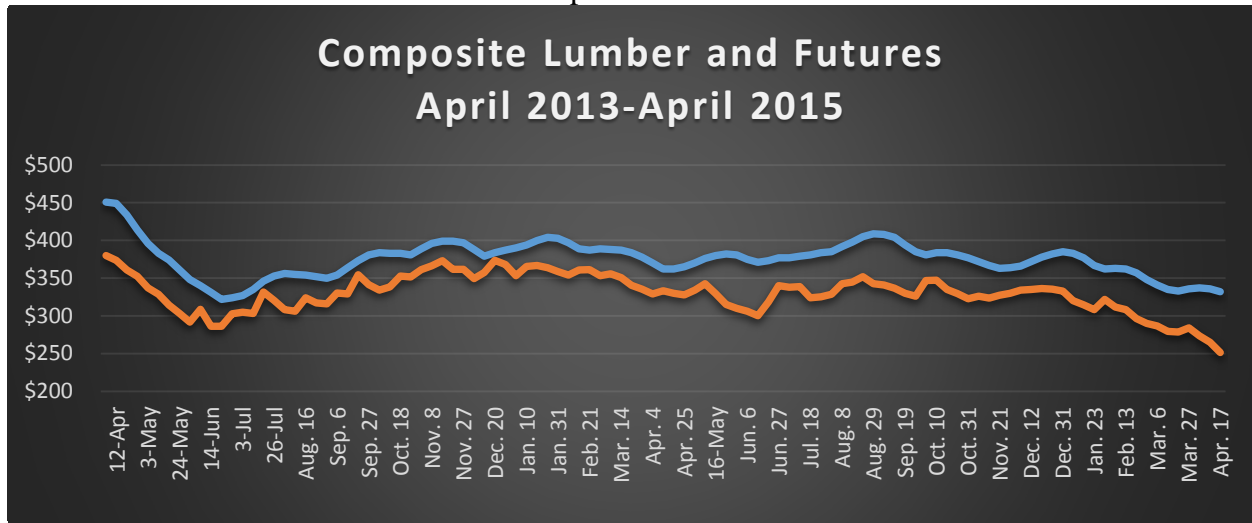


Table 2. Stumpage Prices for Louisiana and the Southeast

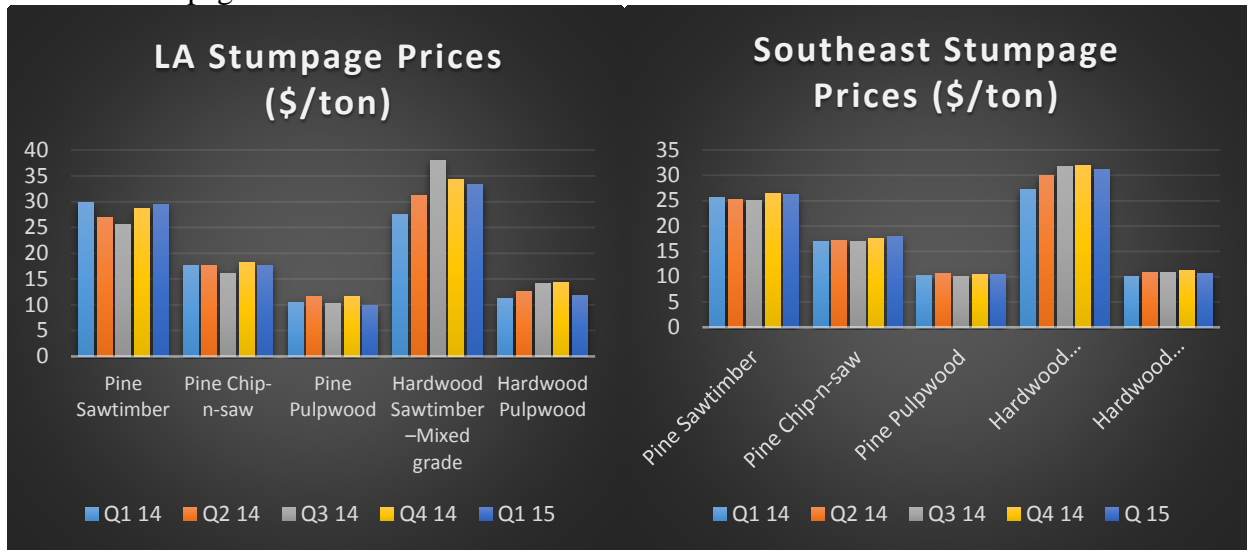


Table 3. General Economic Indicators

