



STUMPAGE SPEAK

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Louisiana Timber Market Report¹

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4th Quarter (Oct-Dec.) 2014

LSU AgCenter

| Louisiana Stumpage Prices (\$/ton) | 4th Quarter 2014 |
|---|------------------------------------|
| Timber Class | Price per ton |
| Pine Sawtimber | \$28.50 |
| Pine Chip-n-saw | \$16.00 |
| Pine Pulpwood | \$10.50 |
| Hardwood Sawtimber –Mixed grade | \$38.00 |
| Hardwood Pulpwood | \$14.00 |

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.

Introduction

As expected from dealer inventories in late September lumber prices dropped in October and November but rallied a bit in December. Judging by the futures market, early prices for the New Year will be down and does not give me hope of a strong housing report for January starts. I believe forecasts for housing starts in 2015 is again overly optimistic. Forecasts of five analysts polled by Random Lengths average 1.16 million starts in 2015, up from an average projected finish in 2014 of 994,000 units. They cite supply-side constraints, including credit, buildable lots, timely permit issuance, labor shortages, and transportation difficulties.

Despite weakness in foreign markets, economic recovery continued in the 4th Quarter of 2014 with growth in both US manufacturing and employment. While the continued recovery is positive news, wages didn't grow as fast as many economists were hoping. This despite calls that many employers have jobs available, but cannot find qualified labor. This correlates with the data on first time home buyers. This key demographic accounted for only 29% of existing single-family home sales in 2014, still far below the pre-2008 average of 40%-plus. Combine that with those aged out of the housing market (as buyers anyway) and it's difficult to see large gains in 2015 in housing.

Never one to accept market forces, Fannie Mae and Freddie Mac are launching mortgage programs with down payments as low as 3%, hoping to broaden the pool of home buyers and boost the real estate market. This despite a recent survey asking the growing renter class why they are renting and not buying.

The following are the top reasons that renters offered up for why they have chosen to rent rather than purchase a home, according to the survey:

- **Do not have enough money saved or have too much debt (55.7%)**
- **Do not make enough money (52.7%)**
- My credit is not good enough (41.4%)
- Do not want the upkeep of home ownership (28.6%)
- Do not want to or can't be tied down to certain area (24.1%)
- More affordable to rent than buy (23.6%)
- Do not want to tie my money up in a house (18.7%)

So the number one reason is too much debt, but we want to make it easier for you to go into more debt...err....purchase a home. Big disconnect between policy and reality here.

Lumber and Stumpage prices

Nation-wide softwood lumber prices remained high but slightly below prices from a year ago (table 1; page 4), while southern pine lumber prices surged ahead showing greater-than-usual market strength. Hardwood lumber prices were also near historical highs, but were slightly weaker than earlier in the year. Moderate to strong growth in housing markets was countered by lower levels of expenditures on home improvements. Mortgage activity was slow even though interest rates were low.

Consequently, Pine sawtimber and Chip-n-saw (table 2 & 3; page 4) were both up from the previous quarter, pine sawtimber and chip-n-saw stumpage at over \$26 dollars per ton and \$17.50 per ton, respectively, 1.25% and 0.75% increases to the quarter before. In state the same trends were seen only with stronger results, good for double the percentage increases compared to south-wide averages. Stronger pine stumpage prices were driven mostly by increased prices in the gulf coast states.

Hardwood sawtimber (table 2 & 3; page 4) was down in-state (~3.5%), but up southwide (0.5%). The result southwide driven by hardwood lumber trends on the year and Louisiana being driven by weather patterns, but hardwood pulp prices are flat from the previous quarter. So what's going on here?

The spread on hardwood pulpwood was biased upward this quarter. Not a surprise as a landowner I spoke to said he had heard of some unusually high prices in Northeast Louisiana. Meanwhile, sawtimber low bids dropped off the table from the quarter before (down \$10!), indicating that those sticks of wood that were small diameter were sold as pulpwood. Basically the high on pulpwood and the low on mixed sawtimber were almost identical at around \$21.

Softwood pulp prices were also strong, (table 2 & 3; page 4) with hardwood pulp slightly weaker. Pulp and paper producers reported business expansion; however, wood products experienced seasonal contractions. In-state pine pulpwood was up 13%, while southwide prices were more modest but still increased by 4%. Likewise, hardwood pulpwood was up (around 3%); that gain mirroring the southwide increase.

Conclusions

In the context of the last two years of stumpage prices, lots to feel good about in the short term and going forward. My personal opinion is that a slower housing market is a good thing for now. The fundamentals are not there yet, so if we were seeing big gains in housing I'd suspect bubble activity. Rentals are still too large a percentage of starts at 35% of all starts and rental rates indicate that will not subside anytime soon. However, as wages increase and employment continues to move downward I think we'll see more home ownership. Combine that with pellet activity in state and around the southeast and that should give a boost to pulp prices over the next decade.

In-State prices for pine stumpage are up 3% (for all classes) over the last two years, despite abundant inventory. The increases in hardwoods are even better. Sawtimber and pulp are up 13 ½% and 6%, respectively. Those gains are spread evenly over the last two years across all classes.

For predictions on 2015, please see the special edition "stumpage speak outlook" document that is available right now through our blog site, LFA, and our area foresters mailing lists. I hope you have a productive new year!

