



MADISON'S TIMBER PREVIEW

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Approaching changes to logging laws and permits in the US, on the state and federal level, are going to impact access to fibre in the near future. Some actions are being decried by forest industry players, while others are raising objections by environmental groups. At a time when harvesting operations and lumber production will be ramping up after an extended downturn, some of these movements may add uncertainty to the precarious recovery.

The Adirondack Park Agency (APA), in New York state Monday postponed a vote on a proposal that would fast-track clear-cutting permits on Adirondack forest tracts of more than 25 acres. Protect the Adirondacks is one of several environmental groups that urged the state agency to reject the proposal, which is favoured by the logging industry. Director Peter Bauer said in a news release that it was clear the APA was trying to rush through a plan to make it easier to clear-cut Adirondack forests without any supporting evidence or a formal public hearing. In California, environmental groups Thursday asked the 9th circuit court to favour spotted owl habitat over timber harvesting

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of approximately 3,000 acres in the Shasta-Trinity National Forest. In North Carolina, the US Forest Service wants to log roughly 450 acres in the Courthouse Creek drainage of Transylvania County, reconstruct 15 miles of old roads, and thin another 330 acres with herbicides and hand tools to nurture the growth of young oaks and hickories. WildSouth, the Western North Carolina Alliance, and other conservation groups are pushing to alter the Courthouse project, claiming it overemphasizes timber production to the detriment of ecological, recreational and cultural interests.

Oregon, in particular, has experienced both severely tightened logging rules and sharp cuts to funding which was in replacement of former timber revenues.

According to a *North American Wood Fiber Review* release in late 2012, the costs for logs were higher in the interior of BC in 2Q 2012 year-over-year, were lower in Western US and Coastal BC, and were practically unchanged in Eastern Canada and the US South. Indeed, prices for pine sawlogs in the Southern US were close to a 15-year low in 2Q 2012, says the *Wood Fiber Review*. Although logs and lumber products each have their own markets, there is a relationship between lumber production and demand and log costs. Especially now, when the industry is coming out of extremes both on the upside, in 2005 and most of 2006, and on the downside since then.

How much of an impact will the turmoil on public land have on the 2013 timber harvest?

The total land area in the US is about 2,200 million acres, with approximately 34 per cent of that forested. Twenty three per cent of that forestland is classified as timberland. Of this 23 per cent, 6 per cent is in public ownership. For all practical purposes that portion is non-commercial. This leaves 16 per cent, or 354 million acres, in private ownership used to supply logs to timber using industries. Seventy two per cent, or 255 million acres, of private timberland in the US is in the hands of small private landowners, located particularly in the South.

The Pacific Northwest only accounts for 5 per cent of the private timberland ownership.

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The number of private-industry logging companies in the US plunged to 9,248 in 1Q 2012, from 12,444 in 2003, according to the latest data from the Census Bureau's establishment survey.

Privately held US logging companies posted healthy sales increases in 2012 amid encouraging signs in the US housing market, but their profit margins are weakening, said Sageworks in a November release. With one-quarter to one-third of contract loggers across North America lost during the extended downturn, there is significant industry concern that the US will not have the loggers needed to ramp up production enough to supply the construction of 1.1 million houses a year. After rebounding in 2010, average net profit margins for the privately held logging companies in Sageworks' database have been falling. Net margin was about 1.6 per cent in 2011 and dropped to 0.28 per cent, or near break-even, in the last 12 months, according to the company's preliminary estimates.

Suz-Anne Kinney, communications manager for *Forest2Market* said to *Forbes* November 14 that timber prices since 2006 have been relatively flat while costs for logging equipment have gotten "exponentially more expensive" and fuel costs have jumped. Many loggers have received price adjustments related to fuel costs, but overhead costs, such as insurance, have also risen. And smaller companies with one or two crews may be finding it hard to achieve economies of scale, given fluctuating demand, she said.

The North American forest products industry is about to go through some growing pains. Veteran lumber producing companies

don't seem to realize that sourcing loggers, and indeed truckers as well -- both of raw logs and of finished lumber -- is going to be very difficult for the next two years. Given that this burgeoning recovery of lumber demand is just in the infant stages, the extremely slow reaction time of sawmills is going to be a real problem as 2Q 2013 looms. By this summer, most players are going to be asking why they didn't act more quickly to find loggers in their areas.

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Source: Sageworks

Key balance sheet trends for privately held logging companies (NAICS 1133) Last 12 Months

	2006	2007	2008	2009	2010	2011	Last 12 Months
Current Ratio	2.63	2.65	2.34	2.63	2.46	2.65	1.84
Quick Ratio	1.97	1.93	1.75	1.44	1.44	1.27	0.92
Interest Coverage	6.45	7.13	6.33	7.62	9.17	9.31	9.18
Debt Service Ratio	1.66	4.19	4.40	4.70	5.20	4.84	4.90

