



MADISON'S TIMBER PREVIEW

PO Box 2486, Vancouver, BC V6B 3W7 ✦ Tel: 604-984-6838 ✦ Email: madrep@shawcable.com ✦ Web: www.madisonsreport.com

August 10, 2012

New data out Thursday indicate further recovery for the timber industry in the western United States. Timber supplies are up at Northwest mills, *The Oregonian's* Eric Mortenson reported Thursday. This is due to log exports to China, which posted a steep drop as that country's economy slowed.

Meanwhile, sawmills have added 600 jobs between June 2011 and June 2012, according to the Oregon Employment Department. The industry employed 6,400 workers in June, the most recent month data was available. July's numbers arrive Tuesday.

State officials say log exports helped Oregon's timber harvest to increase for the second year in a row. Oregon's annual timber harvest has bounced around in a fairly narrow range since 1994. The high point was 4.45 billion feet in 2004. Harvests, at a low of 2.75 billion board feet in 2009, posted a gain in 2010, and a similar increase was experienced in 2011. The 2011 harvest of 3.65 billion board feet was up 32 per cent from the 2009 low and up 13 per cent from 2010, the Oregon Department of Forestry reported.

The Oregon Department of Forestry's principal forest economist Brandon Kaetzel says the increase is being driven by exports to Asia, especially China. Even with these increases, 2011 federal timber harvests are only 10 per cent of the

According to the Idaho Department of Lands, 330 million board feet of timber, worth about US\$50 million, was harvested during the fiscal year that ended June 30, 2012. The agency said Wednesday the harvest from state lands represented more than a third of the total timber cut in Idaho.

25-year high in 1988, when 4.93 billion board feet was harvested. He says the US housing market is slowly recovering.

Approximately 49 per cent, or 30.2 million acres, of Oregon is forested. Federal forests account for 60 per cent of the total.

Timber harvests on federal land managed by the Forest Service and Bureau of Land Management increased 47 per cent and 24 per cent, respectively, as mill owners sought logs to replace what was being shipped overseas, Kaetzel said. By law, logs cut on federal land cannot be exported.

While log exports are strong, they appear to be tapering off, and lumber exports are increasing, Kaetzel said.

Lane County had the largest timber harvest in Western Oregon during 2011. About 529 million board feet was cut in Lane County, according to the forestry department. In Polk County, about 114 million board feet of timber was harvested in 2011. About 66 million board feet was cut in Marion County during the same period.

Elsewhere, according to the Idaho Department of Lands, 330 million board feet of timber, worth about US\$50 million, was harvested during the fiscal year that ended June 30, 2012. The agency said Wednesday the harvest from state lands represented more than a third of the total timber cut in Idaho. Most of the US\$46 million disbursed to state beneficiaries, like schools and hospitals, in the most recent fiscal year came from timber sales.

According to the US Forest Service, the timber harvest from Idaho national forests dropped from 172 million board feet in 1999 to 121 million board feet in 2008. The Idaho Division of Financial Manage-

ment's 2011 economic forecast reported there are about half as many mills in the inland region as there were 20 years ago. Still, the report projects growth in the industry over the next few years.

“Idaho lumber and wood products employment hit a trough of 5,700 jobs in 2010 which was about 40 per cent below its 2006 peak of 10,000 jobs. It's projected to grow each year of the forecast, but it's not fast enough to top the previous peak,” says the forecast.

In 2Q 2012 results released Wednesday, Boise Cascade Holdings, out of Boise, ID, capitalized on rising lumber prices and increased demand to post net income of US\$15 million on sales of US\$733 million for 2Q 2012. This reflects year-over-year improvements of 782 per cent and 24 per cent respectively. Boise Cascade noted that US housing improved about 29 per cent in the quarter, heightening demand for its engineered wood products and plywood.

The Washington State Department of Natural Resources (DNR) reported in its June 2012 Forecast that Pacific Northwest log prices continue to hold relatively steady, with the price for a “typical” DNR log delivered to the mill averaging US\$475 fbm over the first five months of 2012, down slightly from an average of US\$481 fbm for all of 2011.

With fiscal year 2012 for Washington State nearing its end, projected timber sales volume for the fiscal year is revised downward to 553 mmbf from 656 mmbf, since actual volume sold has not matched the earlier target. Previous Forecasts have tied projected timber sales volumes through fiscal year 2014 to the decadal sustainable harvest level established in 2004. This Forecast removes this constraint because updated timber sales plans strongly indicate that this assumption is no longer realistic. Accordingly, the previous fiscal year 2013 and 2014 timber sales volume target levels of 667 mmbf annually are lowered to 580 and 562 mmbf based on updated timber sales estimates. If actual sales results follow these projections, the shortfall on the 5,500 mmbf decadal target for Westside timber sales would be about 275 mmbf. Timber sales volume for FY 2015, which is in the next sustainable harvest decade, is reduced by 10 mmbf to 587 mmbf, reflecting a lower level projection of Eastside sales, says the Washington State DNR.

Last week Federal Way, WA's, Weyerhaeuser released 2Q 2012 net earnings, which rose more than eight-fold to US\$84 million, on net sales of US\$1.8 billion. This compares with net earnings of US\$10 million on net sales from continuing operations of US\$1.6 billion for the same period last year. In the spring, Weyerhaeuser began hiring more than 100 trades and production workers at its engineered lumber products plants in Natchitoches and Zwolle, LA, and Emerson, AS.

Earnings for the second quarter of 2012 include after-tax gains of US\$37 million from special items. Excluding these items, the company reported net earnings of US\$47 million. This compares with net earnings before special items of US\$32 million, in the second quarter of 2011.

That quarter a net loss of US\$13 million from discontinued operations, on net sales of US\$163 million. Discontinued operations include Weyerhaeuser's hardwoods and Westwood Shipping Lines businesses, which were sold in the third quarter of 2011.

Keta Kosman
Publisher
Madison's Lumber Reporter
Madison's Timber Preview
Madison's Investment Rx
www.madisonsreport.com
604 984-6838