

Inland Wood Markets 2012 Economics & Issues for the Metrically Inclined

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Forest Econ Inc.

Moscow, ID

Timber Measurements Society

Coeur d'Alene, Idaho 4/11/2012



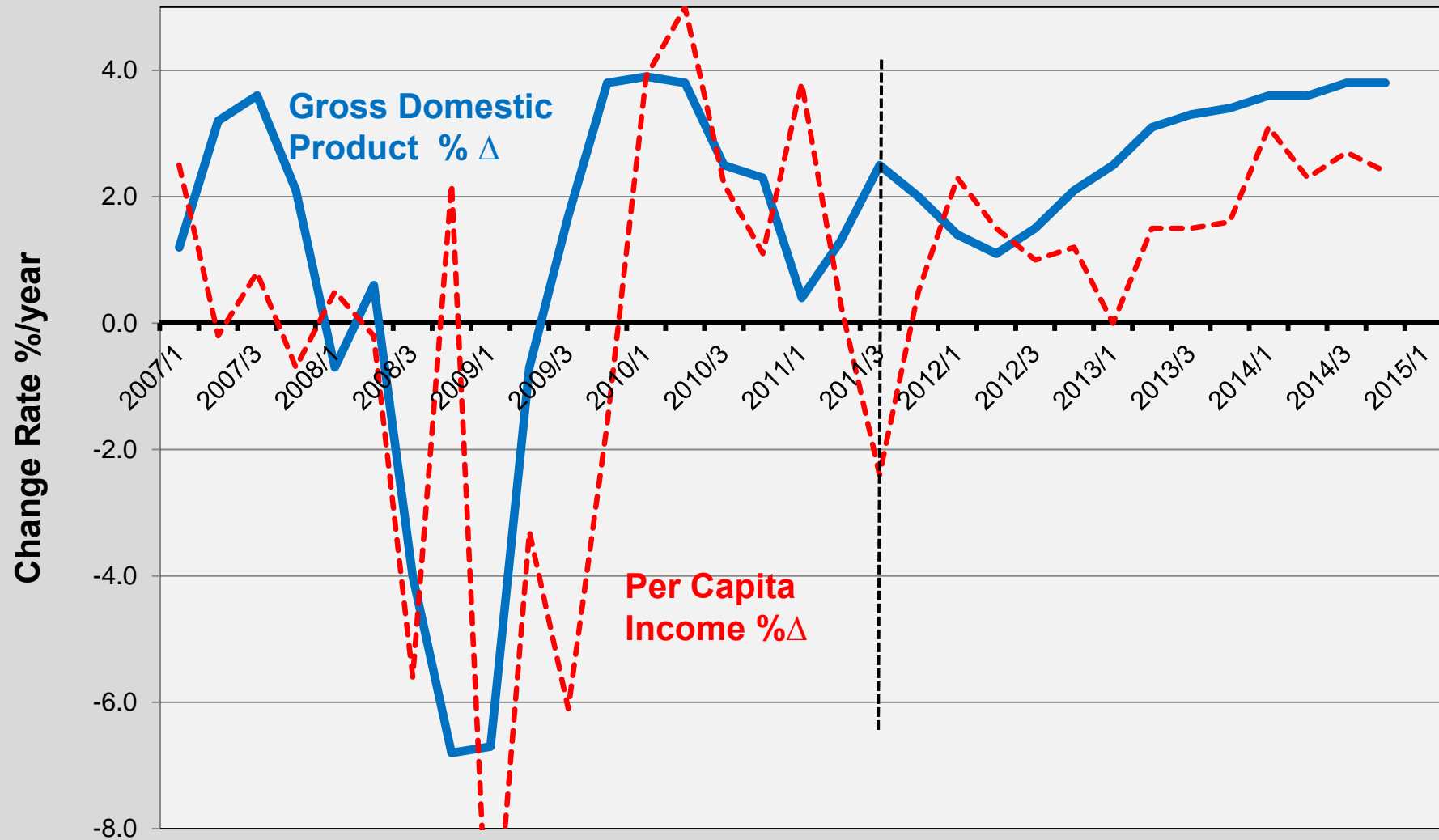
2011 A Painful Reminder

- Anemic recovery as over-stimulus deflates
- Housing disappointments
 - Excess single-family housing
 - Record low single-family starts
 - Renters boost multi-family starts
- Wood Prices
 - Lumber index up 30% anyway
 - But log prices inch up only 10%
 - Biomass potential floundered
 - Expected 2012 Q4 recovery pushed back
 - Regional mills concentrate buying power

The Recession is Behind Us—Honest! It Just Doesn't Feel Like it Yet!

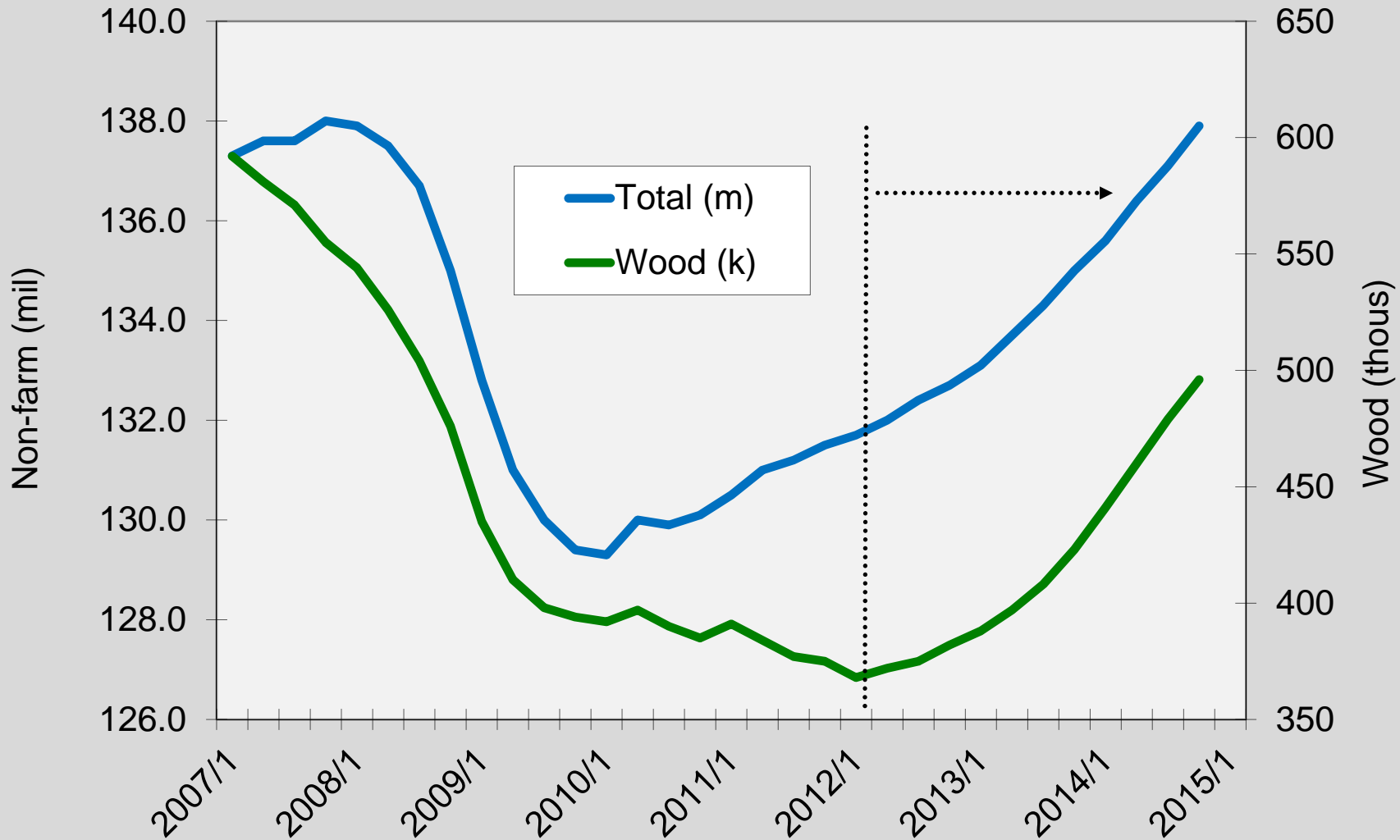
Economic Indicators % Δ

Global Insights 1/2012, base year = 2005



National Jobs Recovering On Schedule-- Wood Sector Has Restructured

Employment: US Non-farm & Wood Products
Global Insights 1/2012

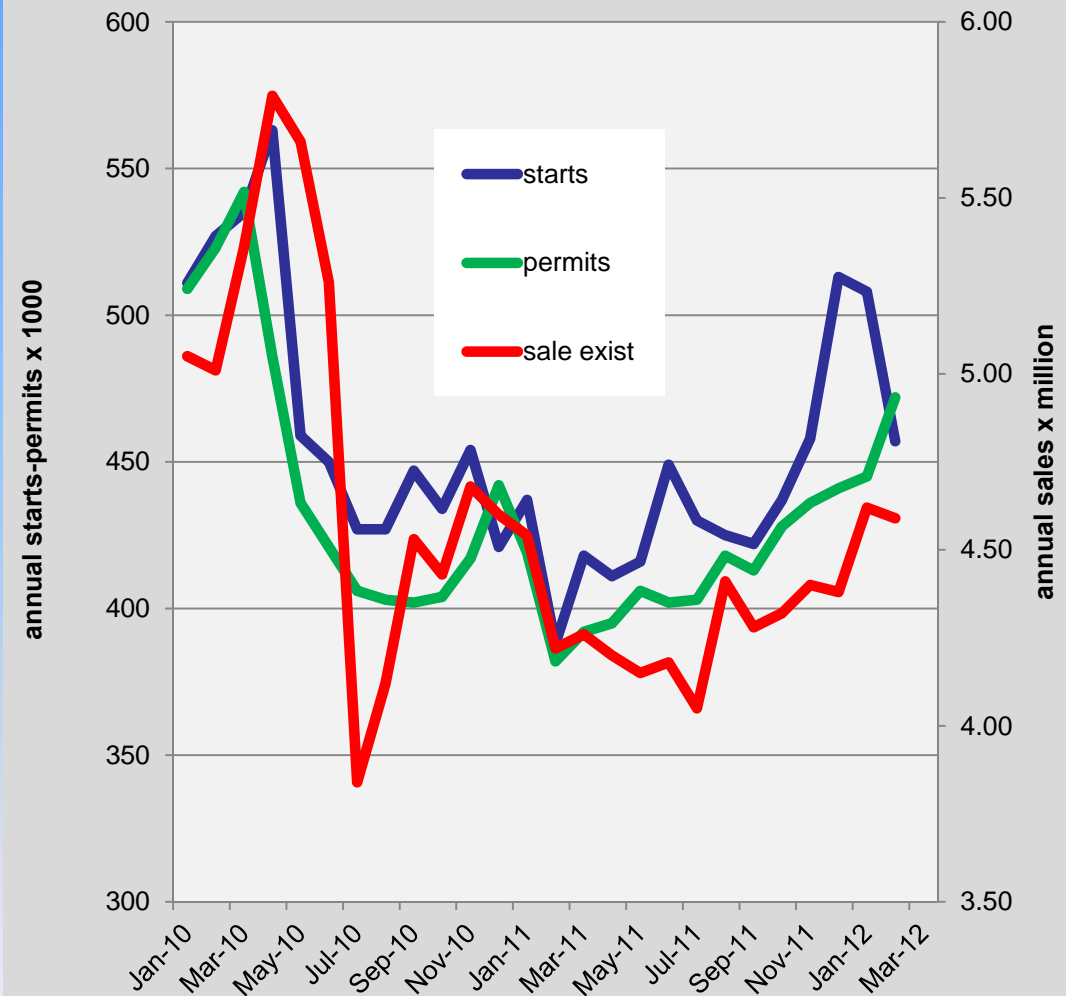


Housing Market Remains Tepid

- False hopes 2010
- Still Excess Housing
- But starts are up
- Sales are up
- Foreclosures:
 - 1.9×10^6 homes lost in 2011
 - 2012 likely higher
 - Nevada, Arizona & California lead
 - Idaho now in top 10 foreclosures

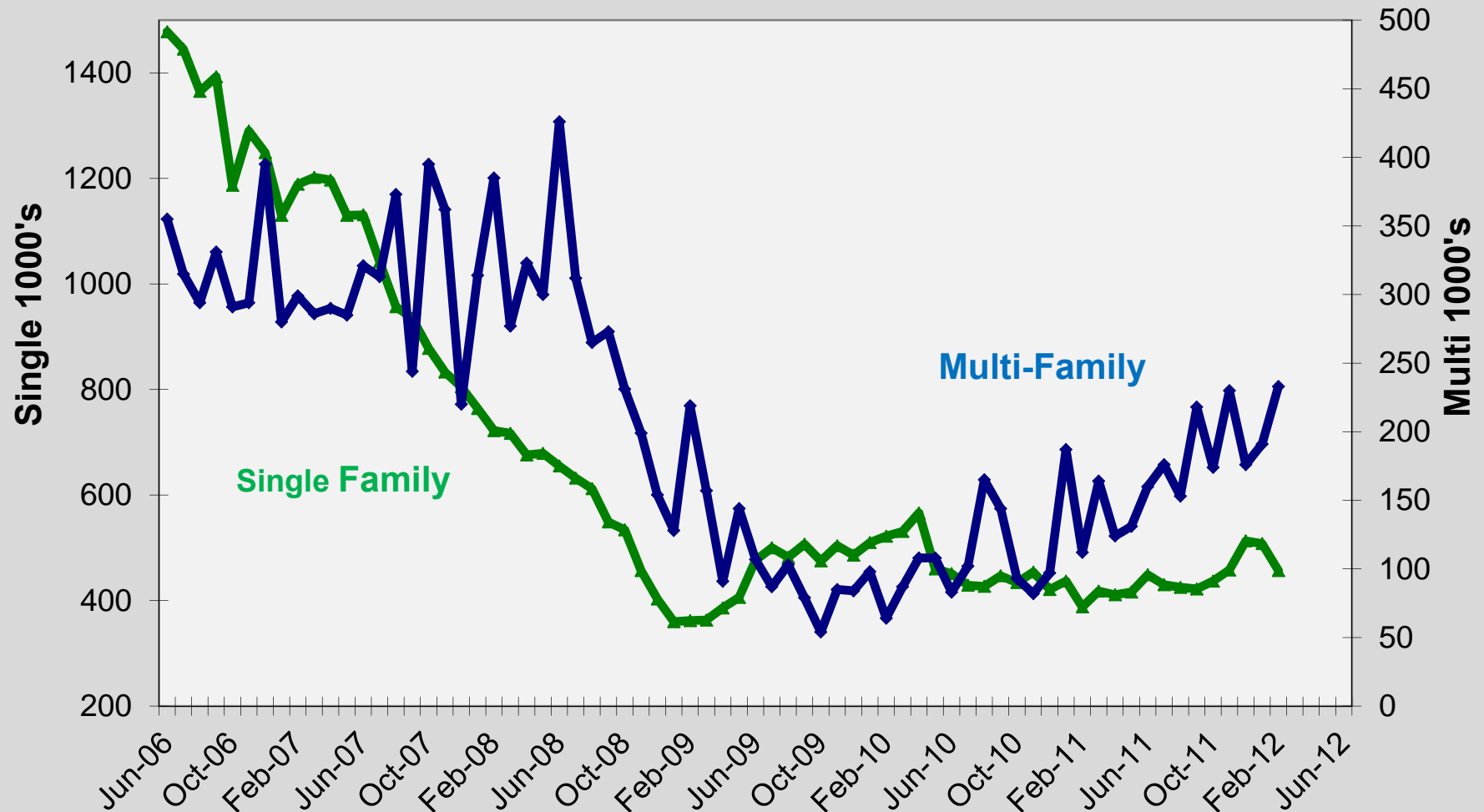
Single Family Housing Stats

NAR 3/2012, Census 3/20/2012



Housing Recovery in the Wrong Place

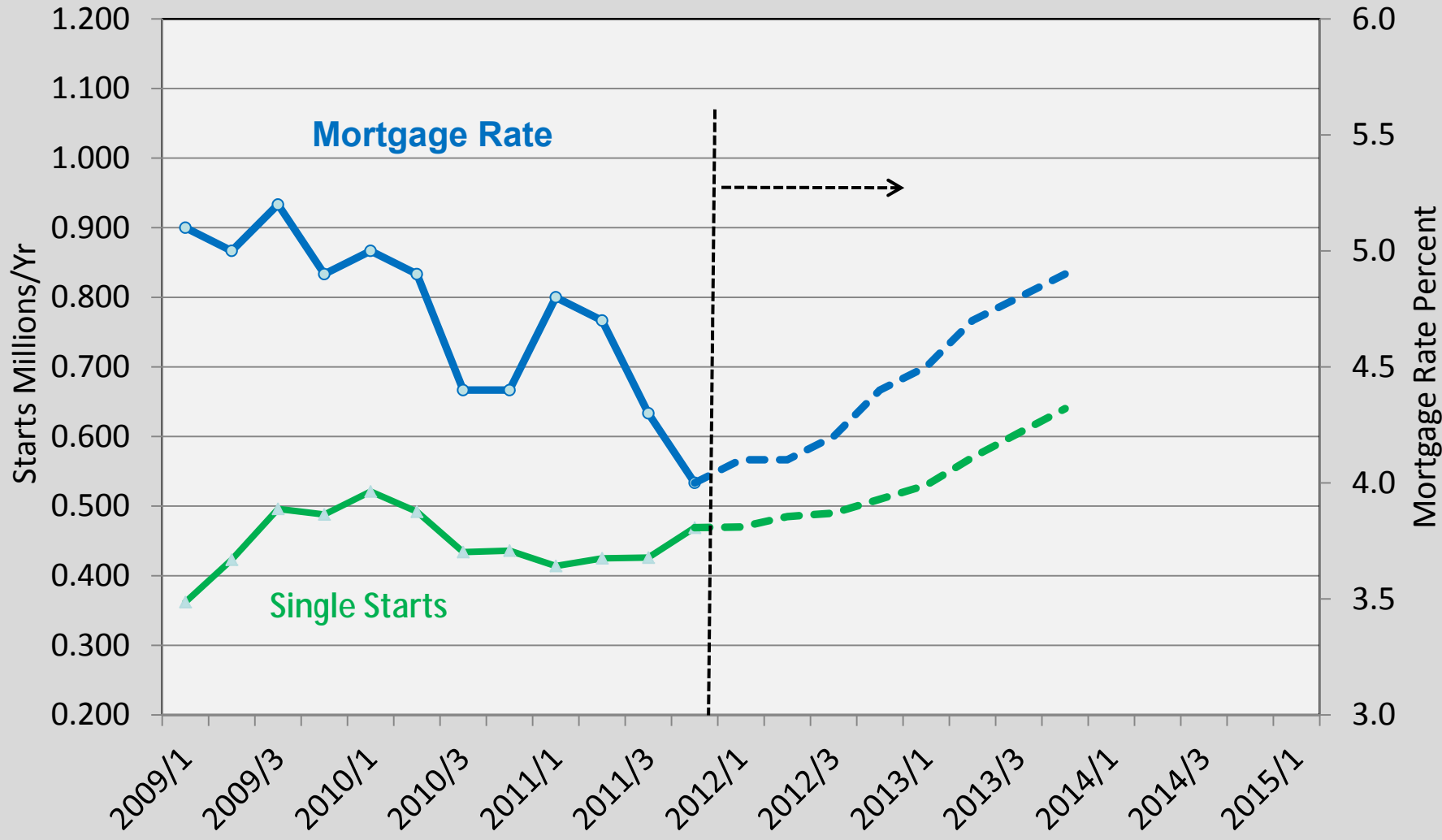
Housing Start Type History
US Census 3/20/2012



Future Housing Recovery Looking Slow

Single Family House Starts & Mortgage Rates

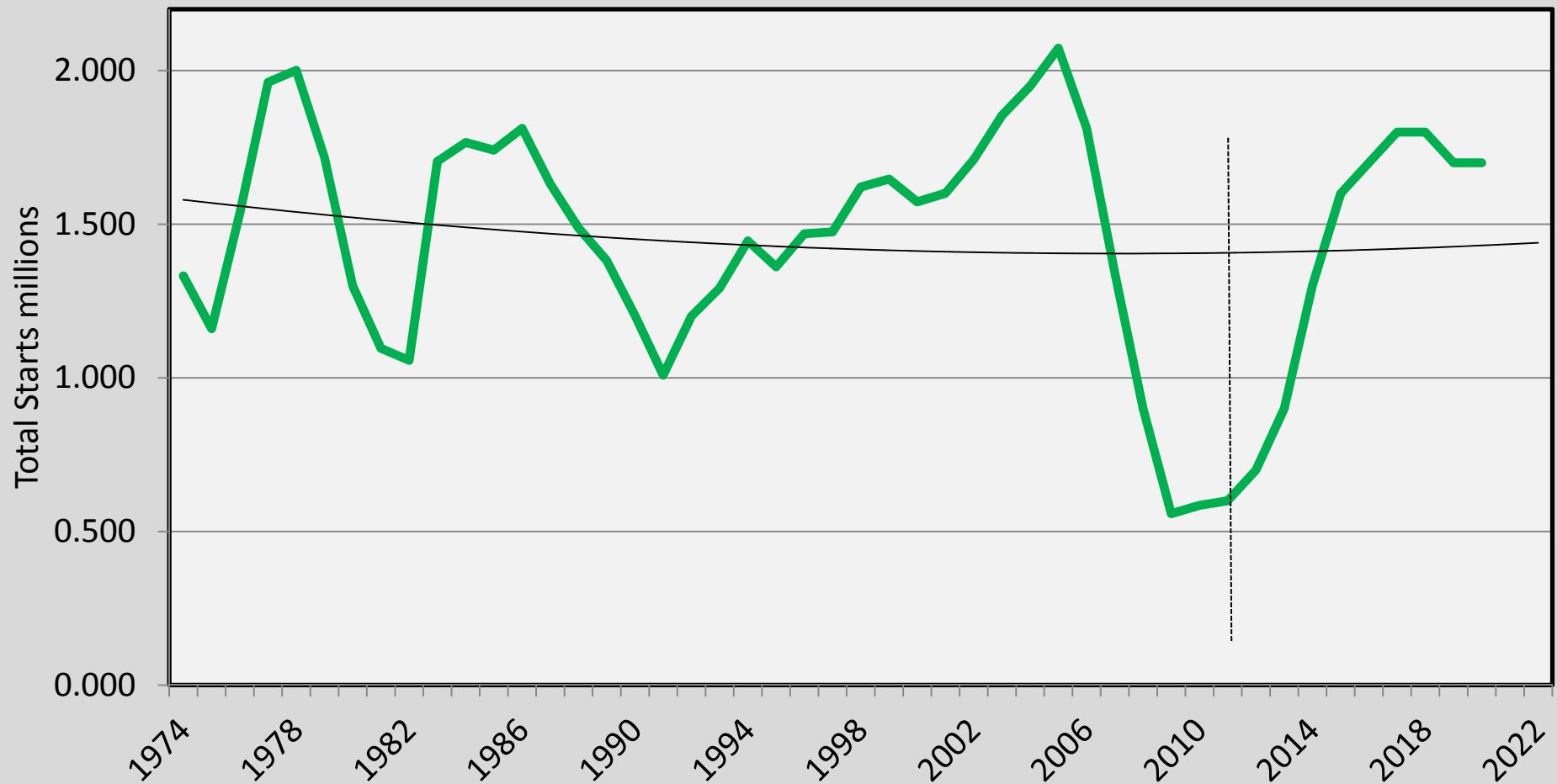
Mortgage Bank Assn 3/18/12



Demographic Fundamentals in Place

Longer-run Total Housing Starts

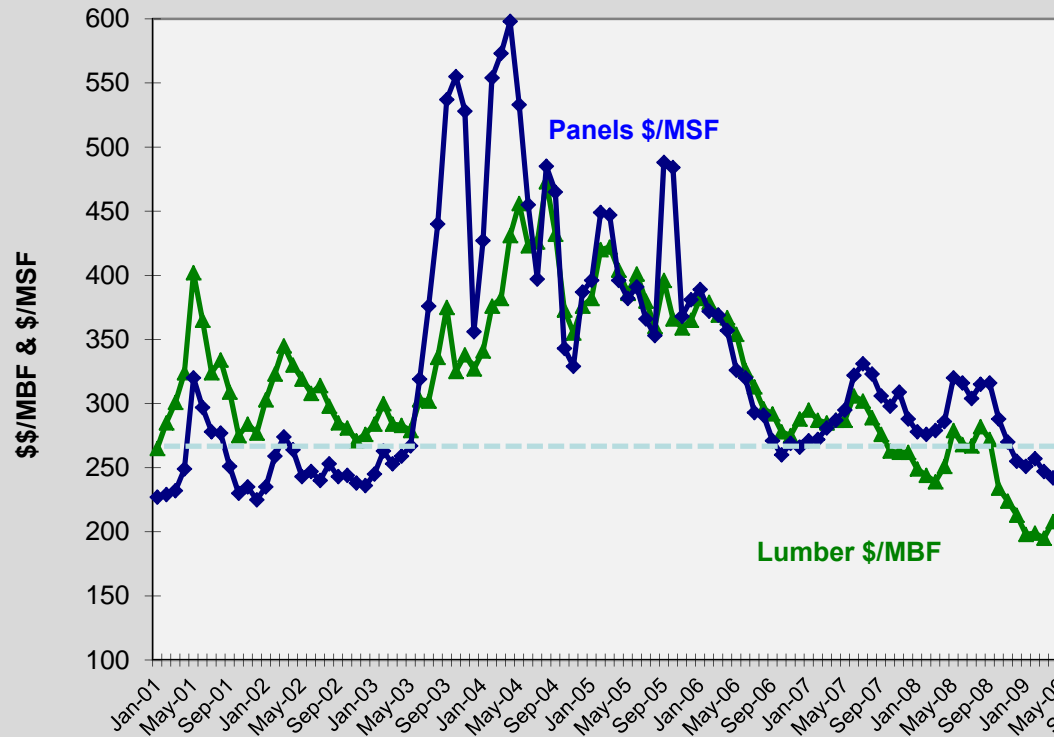
Global insights 12/2011



But Multi-family becomes increasing proportion

Long & Short of Wood Price Trends

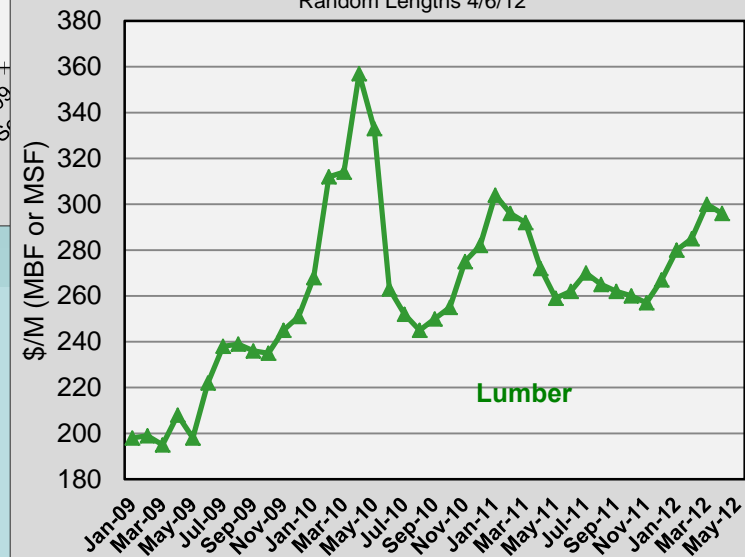
Long Cycle Wood Prices
Random Lengths 1/2012



2010 price spike was misplaced expectations, but

Lumber Index prices are up 53% from the bottom & almost to pre-boom levels

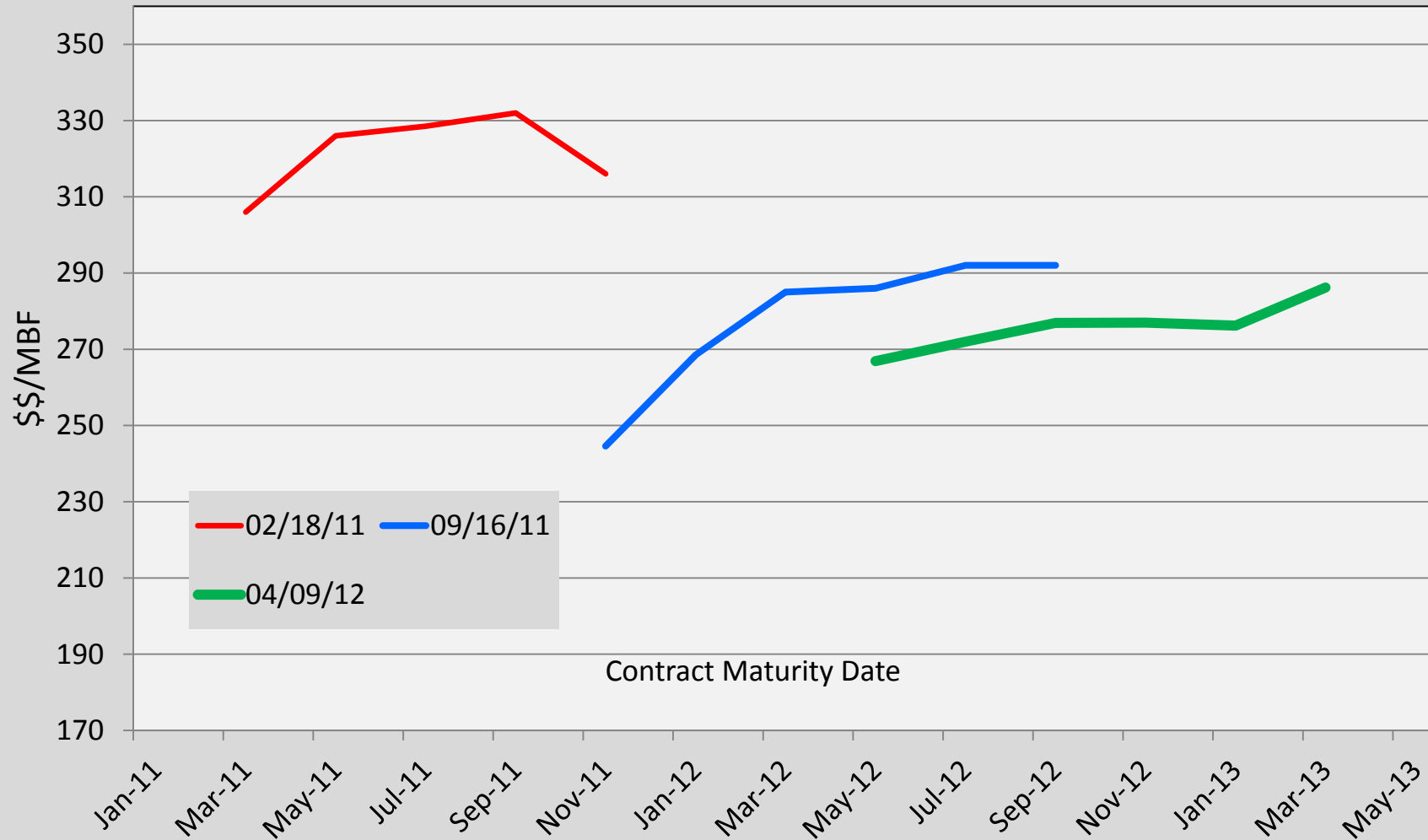
Recent Lumber Index Prices
Random Lengths 4/6/12



Lumber Futures Soft in Short Run

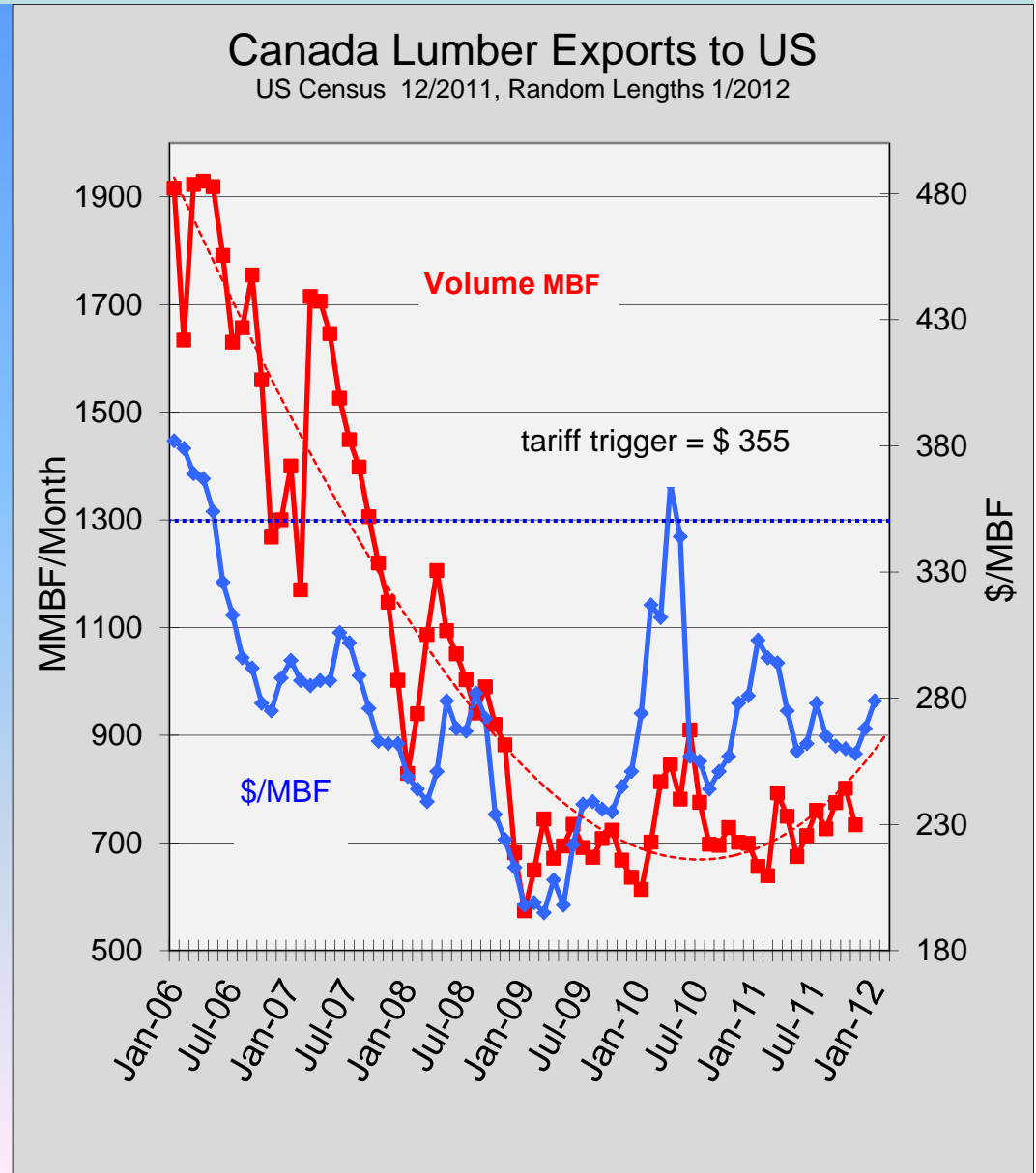
Lumber Futures Forward Prices

Chicago Merc Feb 2011 to Mar 2013



International Markets a Mixed Bag

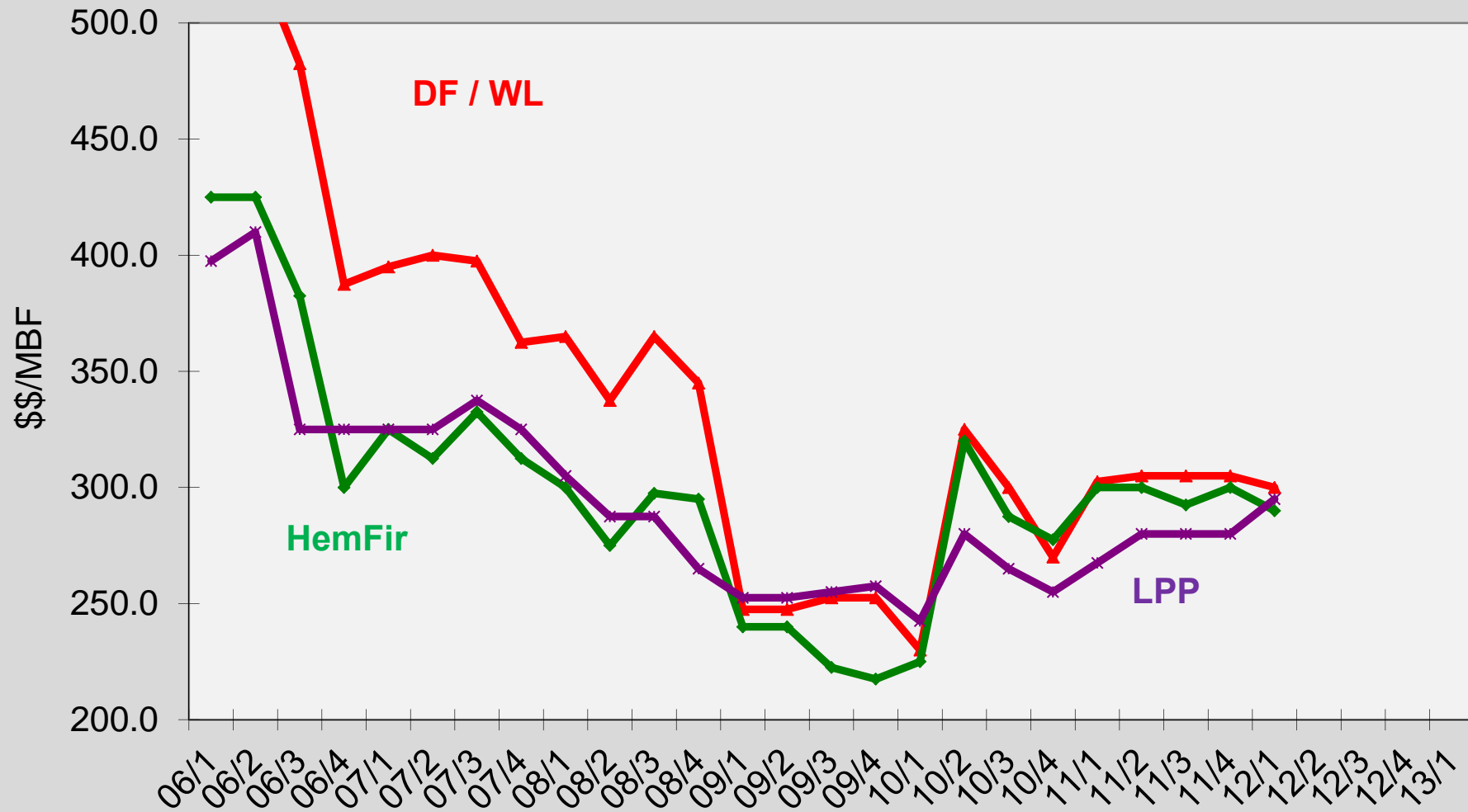
- Canada
 - Loonies at par all 2011
 - Still lots of dead pine
 - Little response to US lumber prices
- China lumber 2011
 - Canada \$1.2 billion
 - US \$900 million
- Chinese chips
 - 96% hardwood
- Europe
 - Importing biomass



But Log Prices Have Stalled

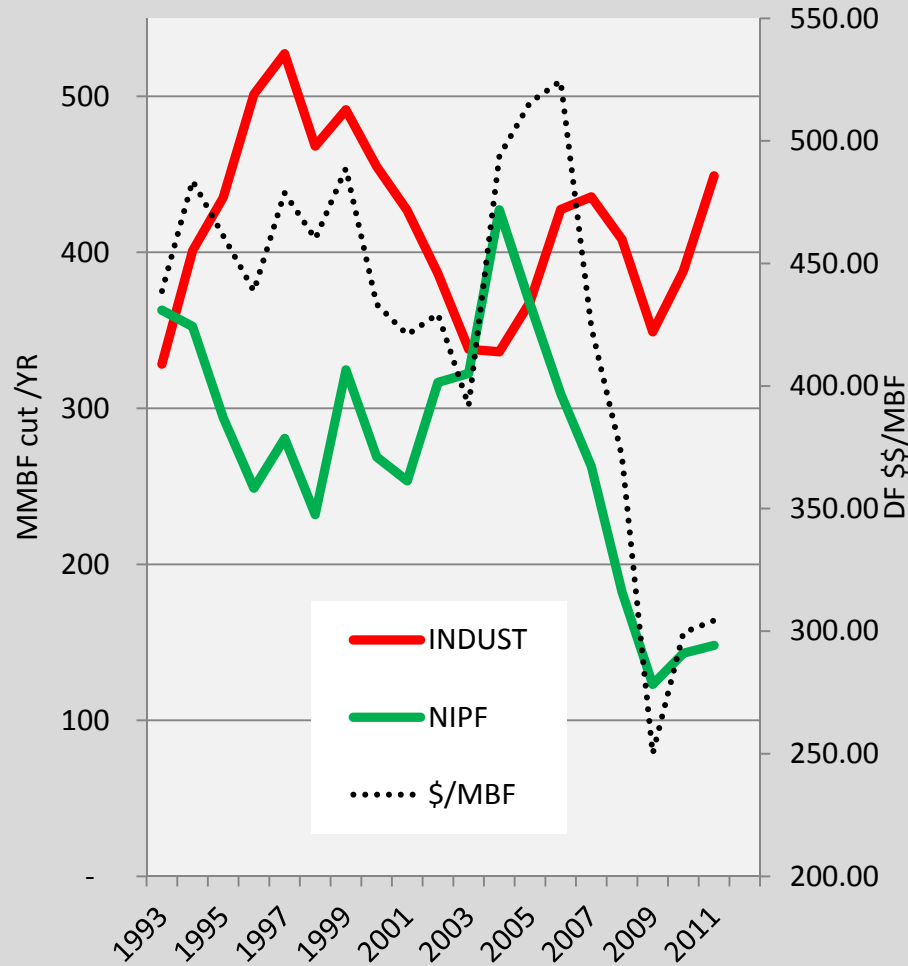
Idaho Palouse Post Boom Median Sawlog Prices

NW Management region 2 3/2012

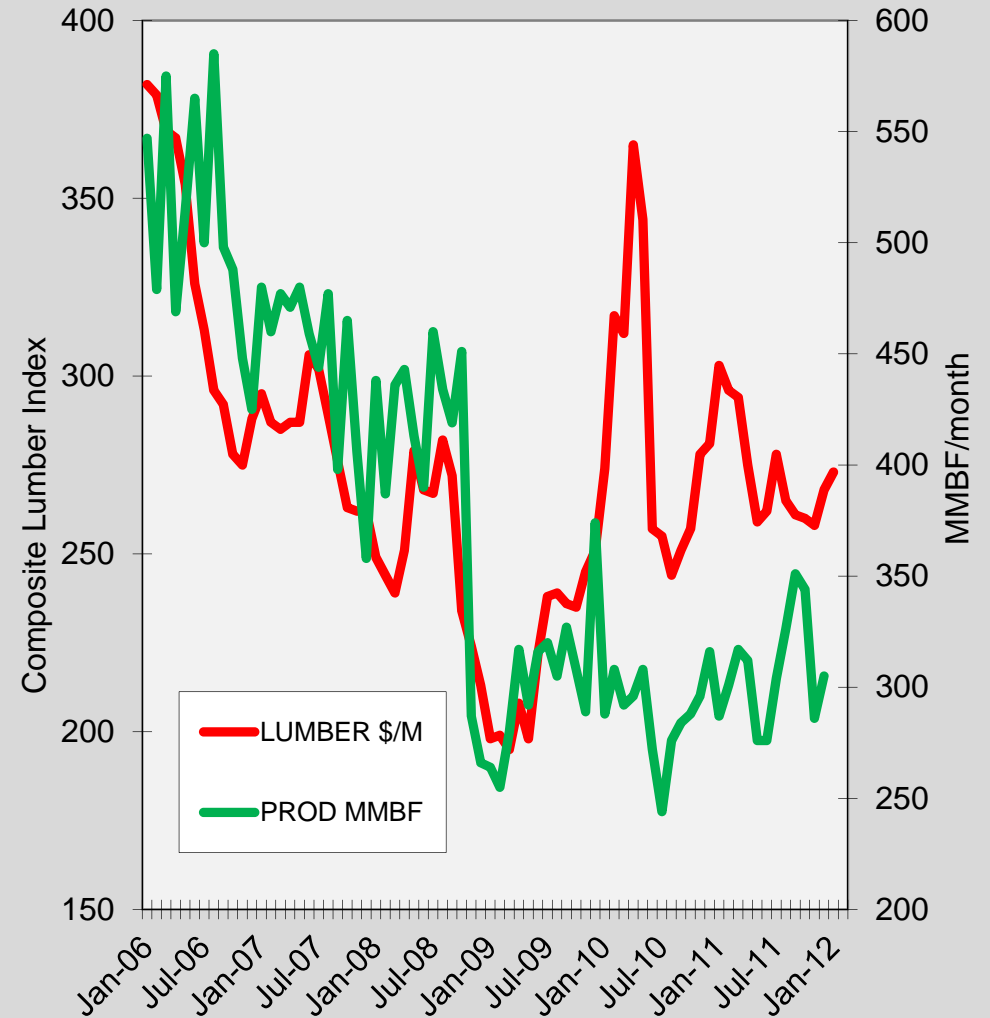


Mills & NIPF Have Disengaged

N. Idaho Pvt Timber Harvest
MMBF IDL 3/2012: \$/MBF NW Mgmt 1/2012



Inland Lumber Price vs Production
Random Lengths 1/2012

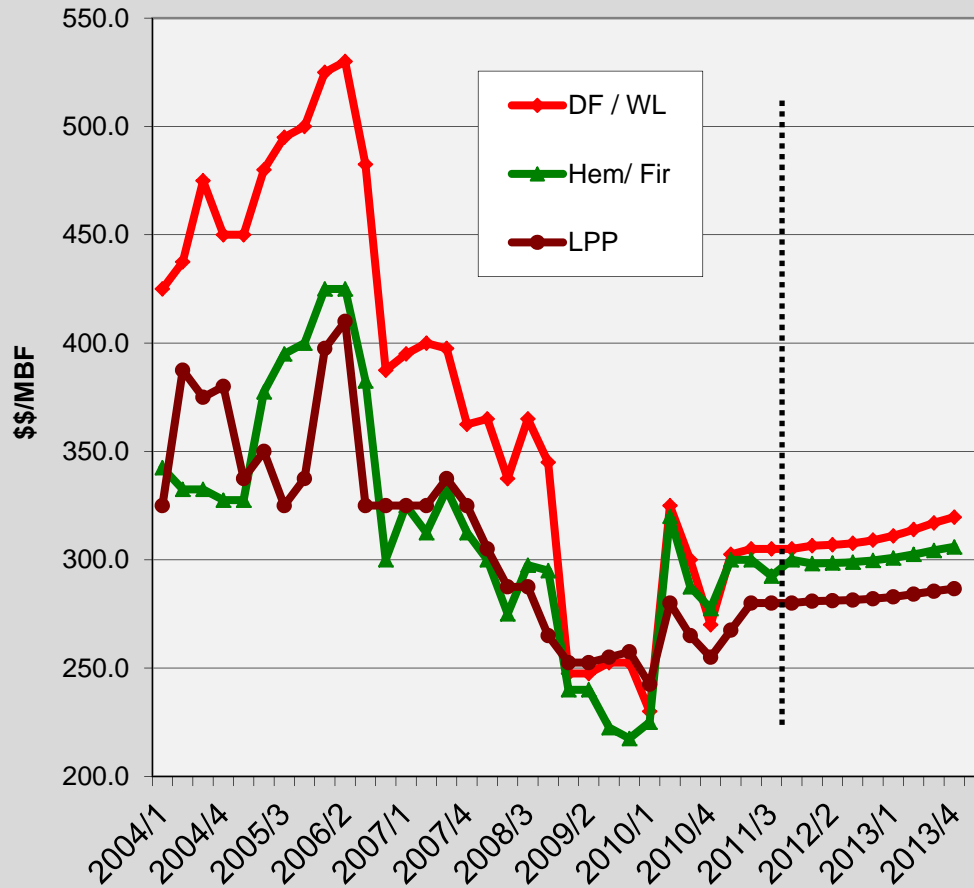


Sawlogs: Low Competition & Expectations

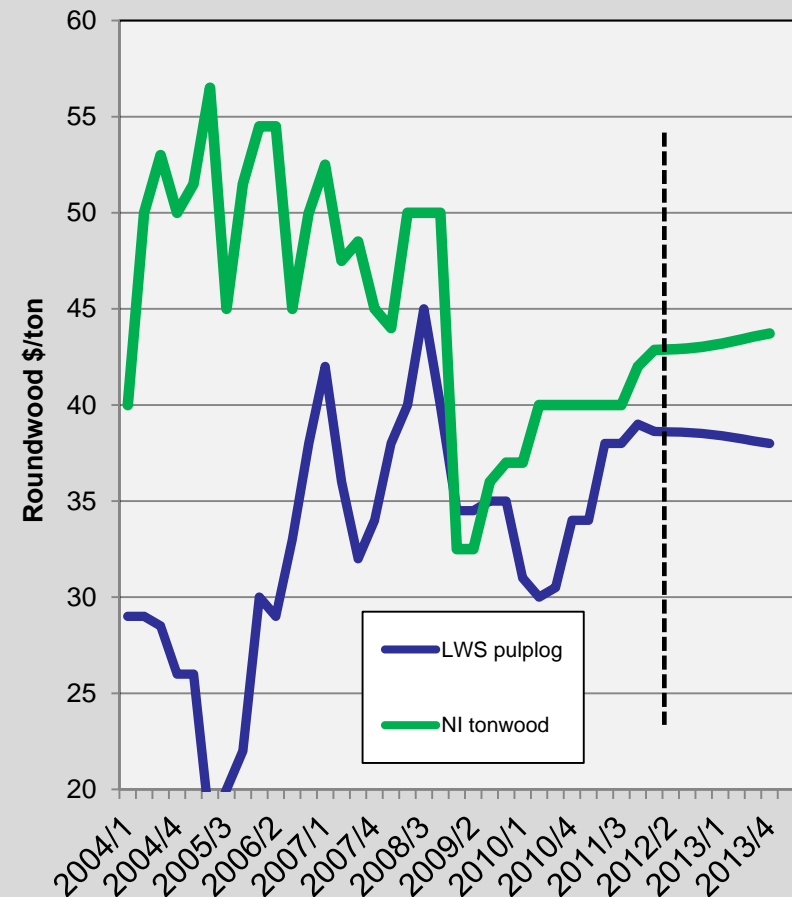
Bulkwood: Headed Back to Normal

Biomass?: Don't Bother—Yet

Inland Log Value Group Price History & Projection
Forest Econ Inc 1/20/2012



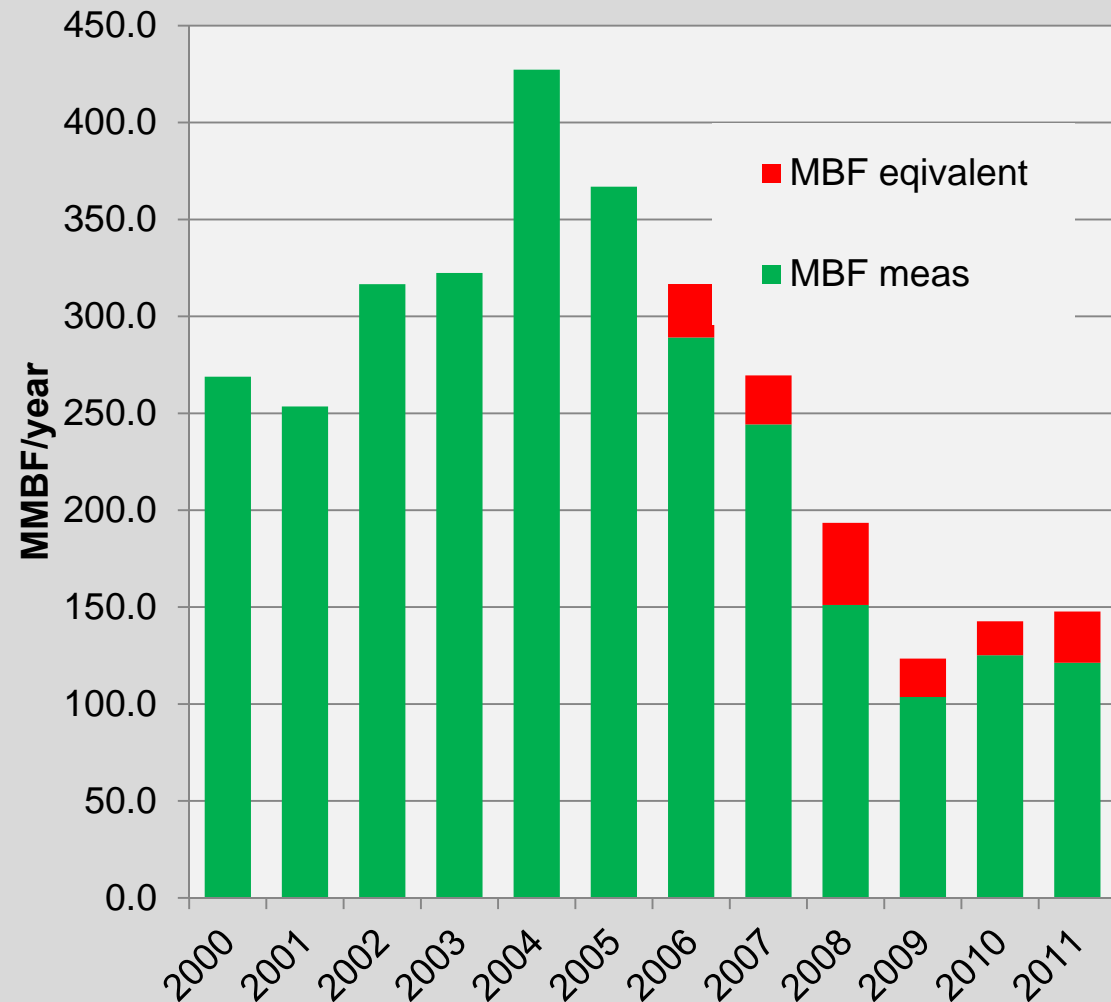
N. Idaho Bulkwood Prices
NW Mgmt 1/2012, FEI 1/20/2012



- Long log shift
 - 40' flexibility
 - MBF problem
- Cubic shift
 - Accuracy gain
- Tonnage shift
 - Lower cost
- EPA Focus
 - Is pollution not logs
 - Jobs in runoff monitoring

Outlook for Measurement

N. Idaho NIPF Harvest by Measurement Type
IDL annual harvest reports



“forest roads & stormwater runoff systems are ‘point’ sources of pollution.”

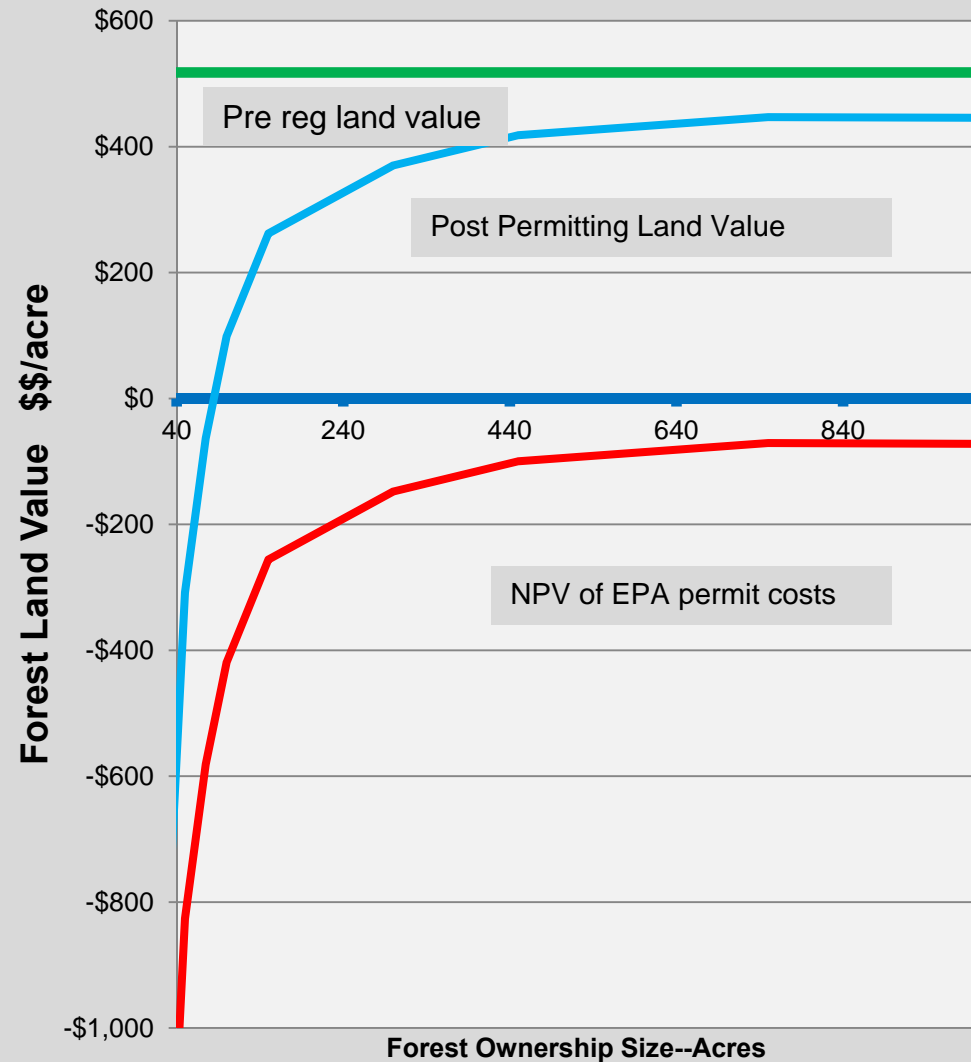
Ninth Circuit Court of Appeals, May 2011

- Point sources can only be discharged with a Clean Water Act permit (applies to AK, OR, WA, ID MT, AZ, & NV)
- Forest owners need Clean Water Act permits for new & existing road activities
- EPA, states, & private citizens can sue individual landowners
- Permit guidelines have yet to be determined



- PNW ~ 1.4×10^6 crossings
 - Permit & monitor
- Functionally redundant
 - Under most FPA's
- Unknown fees & permit requirements
 - Permit per forest owner
 - Upfront & annual fees
 - SWPP outfall inventory
 - Quarterly monitoring
- Expected Effects
 - Vary by FPA type
 - Nominal industrial costs
 - Inefficiencies of NIPF scale
 - Theoretical confiscation
 - Land use change incentives
- www.nafoalliance.org

Point Source Runoff Permitting

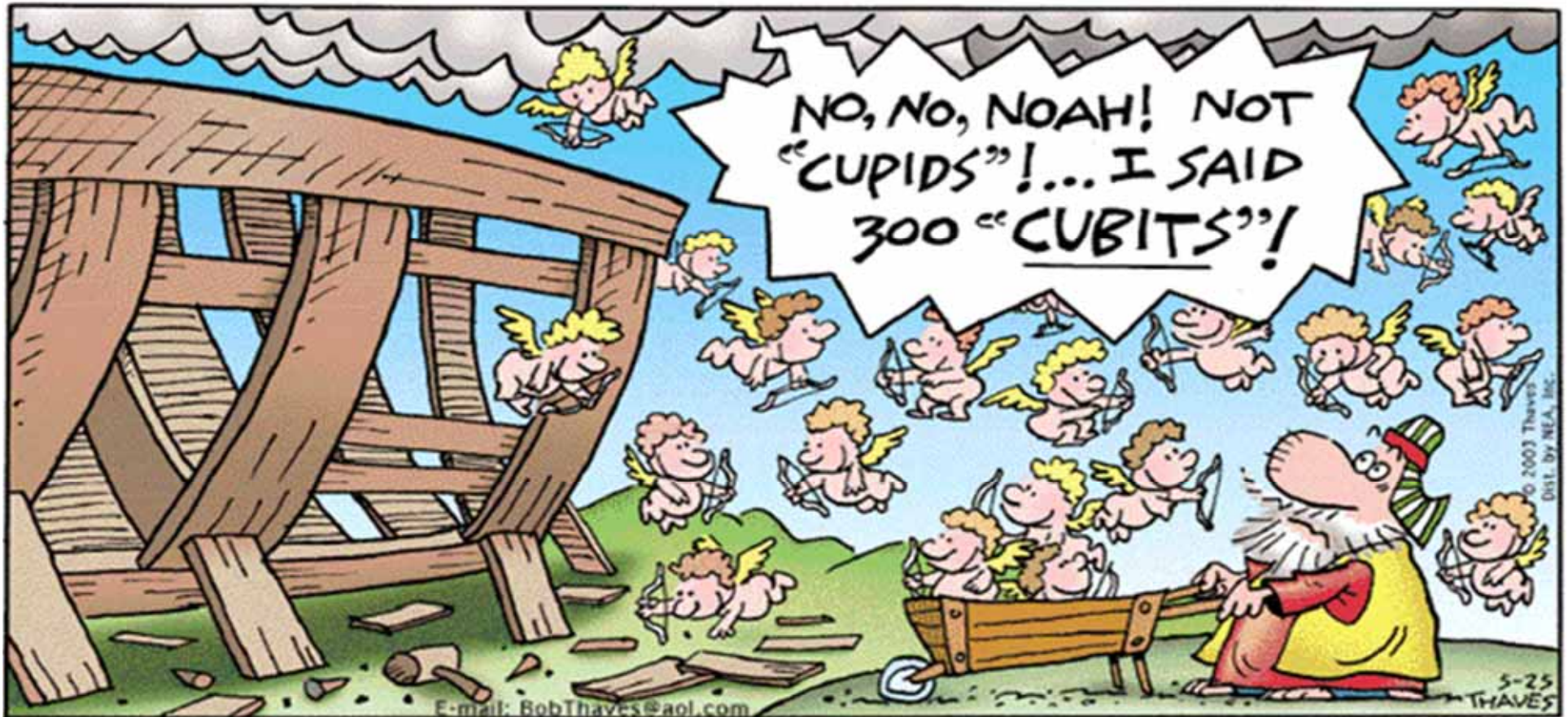


- Negative policy influences:
 - Federal Reserve stimulation ending
 - Mortgage rates will start to rise
 - Ineffective foreclosure rescue mechanisms
 - Bush tax extension unlikely...so for 2013
 - Low 15% capital gains rate expires
 - Estate tax 5×10^6 exclusion, 35% top rate
 - Mortgage interest deduction targeted
 - Home sale income exclusion targeted
 - Exemption of foreclosure losses expires
 - Higher FICA income levels
 - Fewer deductions for high earners
 - New transportation taxes
 - Much lower section 179 deduction limit
 - Idaho land exchanges derailed
- Positive changes?
 - It IS an election year!

Other Government & Political Changes



You Aren't the Only Ones With Measurement Problems



Any questions?