



Industry News

- **Owner of Great Northern Paper settles \$1.5M tax lien on Millinocket site**
(July 3rd)

Our Katahdin, an economic development organization in Millinocket says it's settled with the IRS over a \$1.5 million tax lien on the former Great Northern Paper Mill site. The organization has agreed to pay the federal government \$450,000 to remove an inherited debt on the 1,400-acre property.

— Mainepublic.org

- **Major upgrade of 75 miles of rail will serve Maine's resurgent paper industry**
(July 10th)

A nearly \$36 million railway upgrade is planned to improve performance of a critical line in Maine and serve the state's resurgent pulp and paper industry. The Federal Railway Administration will cover about half of the \$35.5 million being spent to replace aging rails, renovate road crossings, improve safety and fix bridges.

— Pressherald.com

- **Wildfires and public lands aren't America's only forestry problem**
(July 22nd)

Nearly two-thirds of the nation's private forest is owned by families and individuals. Parcelization will gradually reduce the small family forests to even smaller holdings, causing huge management problems and affecting the nation's timber supply.

— Thehill.com

Industry Overview

Forestland Operations

The wet weather that dominated the northeastern U.S. in the second quarter continued throughout most of the third. It was unseasonably rainy with precious few dry spells to air out the soil, and throughout July and August we experienced extended soaking rains. With roads and the forest floor both saturated week on top of week, productivity in the woods was naturally suppressed. While some areas of the northeast were less hard-hit, weather is the one thing that affects everyone - and this limitation from mother nature kept wood flow restrained.



Hardwood logs piled up in preparation to be slashed to length and moved to a sawmill.

Unfortunately by the time the damp weather gave way in late August, most timber operations were behind the eight-ball. An early sustained wet spell is difficult to come back from, so timber producers who were not ahead of plan coming off winter are doing what they can to catch up. In our case, we had frontloaded most harvest activity this year for a variety of reasons. Given where we are now, that turned out to be a sound, and quite fortunate, decision. Despite all we do, weather is always the wildcard.

Mills and landowners alike continue to compete for available contractor capacity in the region. During the market slump of 2015/16, many in the logging business understandably threw up their hands, sold their equipment, and in many cases changed careers. However, because of the recent recovery in demand for forest products, particularly pulpwood, the biggest current threat to the supply chain is lack of available crews to harvest and deliver the timber. As we have reported before, the constraint is primarily labor - not enough qualified professionals. For many, despite still attractive borrowing rates, capital also serves as a barrier to entry (or even barrier to upgrade). The sudden growth in demand for timber, which has happened faster

NUMBER 2 DIESEL FUEL PRICES - NEW ENGLAND

3 YEAR HISTORICAL MONTHLY AVERAGES



than anyone had predicted, has outpaced the associated growth in logging capacity, which has been slower to rebuild. As mill production continues to come back to the region, this gap is widening, and the cost to keep the mills well fed is rising.

Some will say this is a long overdue return to the proverbial drivers seat for loggers & truckers in the region. Others have advanced calls to unionize the workforce to rework the balance of power in favor of loggers and fully leverage the supply-demand gap. On top of it all, many contractors are cautious of the recovery and skeptical that it will lead to sustained demand, keeping a portion of the workforce on the sidelines. So far, mills have demonstrated a willingness to pay for capacity, either through making it more attractive to deliver to their facility, or by paying a little more for their wood. This has an upper limit, however - with one hand,

mills are trying to find a way to control wood costs, and with the other they are facing the reality of shrinking wood piles. Landowners should be prepared for the burden of increased costs to fall onto them as well.

Forest Products Markets

For many of the staple forest products of the northeast, markets continue to carry relatively low inventories of raw materials. The cause is not intentional - once again the wet weather is to blame and restricted many markets' ability to assemble much of a cushion. In general, this unplanned shortfall is a cause for unease among wood procurement teams. Normally, summer is time to pad the stocks for the winter, which is bookended by two significant mud seasons.

Additionally, one cannot discount the effect that returning demand for a variety of products is having on the region's staple products. Production is now spread out among a wider variety of species and products, thanks to newly available markets. A truck can only haul one product at a time to the market, and the region only has a finite number of trucks. To a wood consumer, this appears like less of your own product is being harvested, when in fact, production overall has not changed since the recovery. So while all champion new markets, the single-stream nature of



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3rd Quarter 2019

- **Rising softwood lumber production for U.S. sawmills, while Canadian output drops sharply** (July 18th)

Softwood lumber production by U.S. sawmills in the first four months of 2019 was 11.718 billion board ft. (bbf), an increase of 0.9% from 11.616 bbf a year earlier, while Canadian sawmills produced 8.588 bbf of softwood lumber in the first four months, down 8.8% from 9.421 bbf a year earlier.

— Globalwoodmarketsinfo.com

- **Verso plans to invest \$120 million in its mills, including one in Jay** (August 8th)

Verso Corp. said it will invest a total of \$120 million in three of its pulp and paper mills, including its Androscoggin Mill in Jay. The company told investors that it will make the investments over the next two years using cash from operations. The other two Verso mills getting investments are Stevens Point, Wisconsin and Duluth, Minnesota.

— Bangordailynews.com

- **Nearly 4 years after closing, Old Town pulp mill reopens under new ownership** (August 14th)

Almost four years ago, the Old Town pulp mill was shut down and nearly 200 workers were affected. But last fall, ND Paper, a subsidiary of the Chinese company Nine Dragons Paper (Holdings) Limited, purchased the mill and now it has come back to life. The company announced it would restart operations moving from hardwood to softwood kraft pulp.

— Mainepublic.com

- **Wood fiber insulation company closes on former Madison paper mill for \$1.9 million** (August 20th)

The former Madison Paper Industries mill is one step closer to being back in action, this time as the continent's first producer of wood fiber insulation. GO Lab Inc., a Belfast-based building products manufacturer bought the facility for \$1.9 million. Once hiring is complete, the Madison location — which will employ 120 people.

— Centralmaine.com

P&C DEMAND INDICATORS

Representing our opinion of market demand for timber products in the Northeastern U.S.

CURRENT

OUTLOOK

Sawlogs

Spruce & Fir	<div><div></div><div></div><div></div><div></div><div></div></div>	STEADY
Pine Logs	<div><div></div><div></div><div></div><div></div><div></div></div>	STEADY
Hardwood Logs	<div><div></div><div></div><div></div><div></div><div></div></div>	DOWN

Pulpwood

Hardwood	<div><div></div><div></div><div></div><div></div><div></div></div>	STEADY
Spruce & Fir	<div><div></div><div></div><div></div><div></div><div></div></div>	STEADY
Pine & Hemlock	<div><div></div><div></div><div></div><div></div><div></div></div>	STEADY

our industry is showing itself to be a little more inelastic. This has left the higher-volume mills feeling undersupplied.

Pulpwood Products

The fall season is the time of year when pulp mills seek to have a good amount of material in the coffers to get them through the inevitable rains. This year, pulp mills have had limited success in that effort, despite a lot of hard work and relatively aggressive prices. Most pulp mills are suffering with low inventories and pulp buyers are nervous.

For the regional hardwood pulpwood consumers, current raw material inventories can likely be measured in weeks, not months. It is an uncomfortable position to be in, particularly because of the “always-on” nature of pulp production. Pulp mills operate on a 24-hour schedule, and while they can control the throttle the wood flow to some extent, it's not as easy for them to scale production up or down. If they get to a point when they have to scale down or curtail production, maintaining the people and equipment in operable condition becomes expensive, quickly. Curtailing production because of low wood supply is a no-win situation at mills.

As mentioned in prior newsletters, the major upheaval in the industry has been the increased demand for softwood pulpwood, with spruce and fir leading the charge. While the change is encouraging and enables more flexible forest management, it can cause heartburn for markets in a competitive need for fiber. Both spruce and fir are nearly interchangeable in the pulping process, and are highly desired because it processes easily and makes a high quality finished product. However, when demand suddenly spikes for spruce/fir, the price of the raw material rises and becomes difficult to find, forcing consumers to cheaper alternatives. The cheaper alternatives are hemlock and pine, both of which are more difficult to process.

In the end, there is a definite preference for spruce/fir at all pulping facilities, but the costs to acquire the material is likely to rise. As new regional pulping capacity becomes active, we expect spruce and fir to lead the way, but demand for lower-quality pulping species will grow further down the road as spruce/fir becomes more expensive or less available.

Increased efficiency will help combat rising costs, and mills are putting a lot of effort into the infrastructure to get the product delivered and processed at the mill. Mills are employing satellite yards to minimize trucking distances for haulers, and to capture more volume in total, with fewer trucks in the network. This can be a double-edged sword, because the product eventually needs to get to the millyard, and additional handling comes at a price. The trick will be finding the right balance.

Prices for pulpwood are up across the board, and we have seen gradual increases in fiber demand. The pricing differential between spruce/fir and hemlock/pine at our regional softwood pulpwood mills is widening. Additionally we have seen hardwood pulp mills taking a second look at specifications when running low on wood, testing whether or not they can stomach some of the species they have turned their noses up in the past.

Sawn Products

Softwood Sawstock

While the roller-coaster ride in lumber prices seems to have settled down, they have done so at a relative low point. Prevailing prices are not at a level where anyone is comfortable. Production curtailments due to slack demand, mill closures in the western US and Canada, and shift reductions are all painful processes for sawmills to undergo. Some in the region have worked hard to recruit staff and increase production during the 2018 pricing boom, only to find themselves overstaffed a year later and having to make hard choices.



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3rd Quarter 2019

■ **Lawmakers sustain biomass subsidy veto in 'devastating' blow to N.H. timber industry** (August 18th)

New Hampshire state lawmakers upheld the governor's veto of a plan to subsidize New Hampshire's small biomass power plants. It would have required utilities to add a small fee to customers' bills. That fee would have subsidized six of the state's wood-fired power plants for the next three years. House legislators fell five votes short of the two-thirds majority needed to override the veto.

— NHPR.org

■ **UMaine-led forest project will get up to \$6M** (August 28th)

A project to track changes in the state's vast forest ecosystem has been awarded up to \$6 million in federal funding, although half of that amount is contingent on project milestones and the availability of funds. In the four-year, multidisciplinary initiative, researchers from UMaine, the University of New Hampshire and the University of Vermont will build a digital network that monitors and analyzes forest growth and conditions.

— Newscentermaine.com

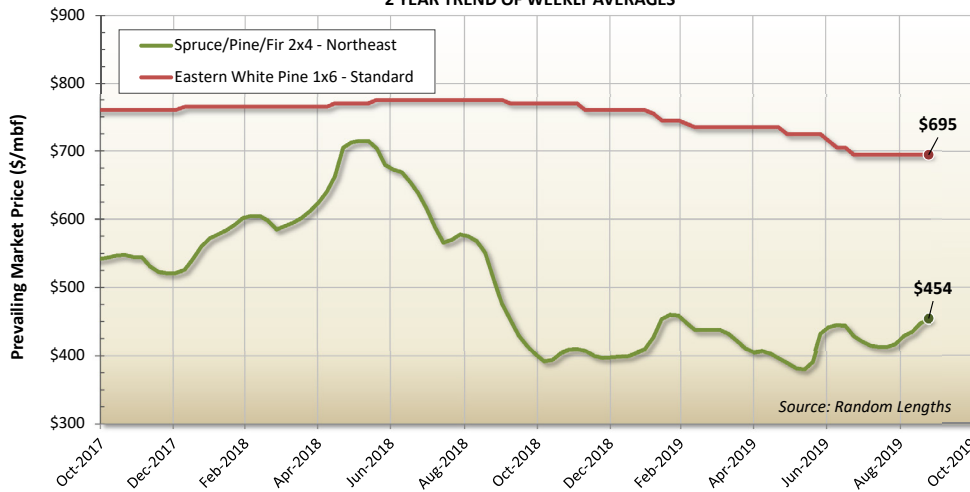
■ **Maine loggers poised to unionize** (September 3rd)

For generations, loggers in northern Maine have worked as contractors at the behest of mills and large landowners. But, as of Sept. 19, under an exemption to federal anti-trust laws, loggers and tree haulers will be allowed to unionize. The International Association of Machinists and Aerospace Workers will lead this effort.

— Pressherald

PRICE TRENDS IN SOFTWOOD LUMBER

2 YEAR TREND OF WEEKLY AVERAGES



All that said, a hopeful person would look at this and say we are at the bottom. Indeed the painful reduction in lumber supplies will help in the long run, and stimulative monetary actions by the Federal Reserve may encourage the housing sector back to life.

Dimension lumber mills are operating now with tightly guarded confidence, and log pricing has been flat through the quarter with buyers nervous about committing themselves out more than 3 months at a time. Regional demand for spruce and fir logs over the quarter was slightly higher than normal, in spite of the trend in lumber prices. Inventories are lower, but our sense is that mills are content to carry lower than usual inventory given the uncertainty. Sawmills are facing the same raw material supply challenges as everyone else, with the weather slowing down deliveries and with the dilution of products being delivered.

Pine sawmills, now through the summer heat which can ruin high quality logs, are coming into a period of increased activity. While these sawmills always try to maintain enough interest in pine to keep the wood coming in during summer, there is a great fear of spoilage, so inventories are normally kept to safe levels. This summer was no exception, however local inventories are much lower than planned. Pine lumber markets have slumped

slightly, but regionally this has not put a major dent in prevailing prices for sawlogs.

The cedar sawlog market is bifurcated into two halves, each of which has its own independent market dynamics. Cedar logs used for sawn lumber products to fill local market niches (fencing, posts, decking, etc.) are in great demand and the market has been seeking material all summer long. On the other hand, shingle grade material has been suffering with lethargic demand for nearly 18 months. Shingles are expensive to install, and with a lethargic national housing market, they tend to be the first to fall off the construction wish list. As a result, the cedar shingle market is backed up all the way from the homeowner to the stump.

Hardwood Logs

The international trade dispute, particularly that between the US and China, has been a wet blanket on top of the hardwood lumber market. Tariffs and other government actions related to trade have suppressed what once was a fervent export market for hardwood. Although the drop in demand hasn't been as bad in the northeast as a lot of other regions, hardwood log markets have been dragged down overall. The market for oak, the dominant hardwood species from mid-atlantic states to the lake states, has been particularly hard hit due to both its size and reliance on overseas consumers. Prices on even the



■ **New rule shifts development in Maine's prized North Woods** (September 21st)

A state rule change could open as much as 1 million acres of the North Woods and Maine's other unincorporated territories to new development. The rule would allow new commercial, industrial, and residential buildings to be erected up to 7 miles from the boundaries of existing towns and could allow new development along some 80 miles of state or federally designated scenic byways and many of the 1,100 lakes throughout the region.

— Bostonglobe.com

■ **Hard Times: New England hardwood industry struggles amid Trump's trade war** (September 24th)

Since Chinese counter-tariffs took effect last September, industry leaders estimate a decrease of more than 40% in exports to China, and a \$615 million drop in the total value of lumber exports. In May, the Trump administration granted U.S. farmers a \$16 billion relief package intended to help make up for losses related to the trade war. But the hardwood industry has received no such support.

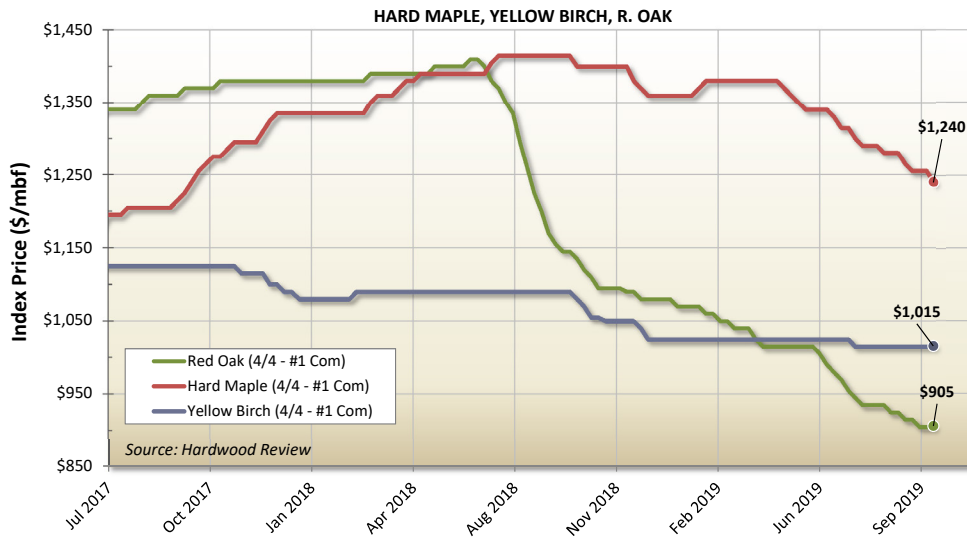
— WBUR.com

■ **As Climate Week kicks off, UN report recommendation on forest products sparks debate** (September 24th)

A report recently released argues that forest products, including biomass, paper, and even lumber for use in building materials are likely to release their carbon faster than if allowed to continue maturing into old growth. Forestry groups dispute the idea that allowing forests to mature will represent a greater reduction in carbon, and they argue that it is forestry that promotes forest growth in the real world.

— Insidesources.com

RECENT PRICES IN HARDWOOD LUMBER - NORTHEAST



more trade-resistant species, including those grown & sawn in the northeast, are now also trending downward. Soft maple lumber has proven to be a little bit more resilient, but the more important hard maple lumber market is being caught up in the downward swing.

Additionally, hardwood sawmills have been telling us that they have been having a harder time moving their finished goods in recent quarters. The higher grades have proven a little more hardy, but are still facing price pressure. Log inventories at hardwood mills built over the quarter, in particular later on after the wet weather abated. Mill yards now have slightly above-average log inventories coming into winter. However because of the slow hardwood

lumber markets, regional hardwood lumber inventories have blossomed despite adjustments to sawmill production.

Of course, with the colder weather on the way, the third quarter is when we start to concern ourselves harvesting with the less perishable products. Higher-end hardwood logs become even more desirable because they don't spoil easily this time of year, which gives landowners and sawmills a little more breathing room considering the restrictions we both face in the supply chain. For the time being, high-quality logs used in veneering are still in demand and the market appears to be holding its ground. To sum it up, one sawmill owner told us, "Things aren't great right now, but we've seen it a lot worse."

Benjamin D. Carlisle
PRESIDENT



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3rd Quarter 2019

- **Company plans \$31M factory at Lincoln paper mill site, will employ 100 people**
(September 25th)

LignaTerra Global LLC, a North Carolina company that makes a composite wood product called cross-laminated timber, plans to invest \$31 million into opening a new factory at the former Lincoln Paper and Tissue facility and will employ about 100 people. It will probably take LignaTerra at least a year to build and open its Lincoln facility and train the people who would run it.

— Bangordailynews.com

- **Timber company abandons controversial plan to develop resorts in Moosehead Lake region**
(September 27th)

Weyerhaeuser filed a petition with LUPC, the state body that oversees development in Maine's Unorganized Territory, seeking to undo a zoning plan first passed in 2009 that would have allowed development of two resorts, second home lots, a golf course and other tourist attractions in the Moosehead Lake region. Weyerhaeuser is asking the state to undo the 2009 zoning changes to its land so the company can switch to pursuing sustainable timber harvesting there.

— Bangordailynews.com

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