



Industry News

- **Governor Mills announces \$20 million in federal funding to help lumber industry**
(November 12th)

Governor Mills announced \$20 million in federal funding as part of her Maine Jobs and Recovery Plan for the Forest Products Industry. The money will be offered in multiple phases: Phase one offers immediate economic recovery grants. Phase two will be a competitive grant program to support other innovative forward-looking projects.

— *WABI*

- **Is wood the new concrete?**
(November 22nd)

New technology in what's called "mass timber" production offers a carbon-cutting alternative to concrete and steel in the building sector. In addition to the aesthetic benefits of wood as a building material, advocates say that using timber can substantially reduce the building sector's greenhouse gas emissions. Its use can also reduce waste, pollution, costs and time compared with the materials more commonly used now.

— *Green Biz*

Industry Overview

Forestland Operations

This time of year, participants in the forest products community in the northeast regularly ask themselves a question upon which all things seem to hinge: *When is it finally going to freeze?* Consistent cold weather is critical to allow the ground to harden and timber operations to ramp up to speed. During the fourth quarter, this cold weather seemed elusive throughout most regions of Northeast, meaning that those who were not prepared for this contingency found themselves scrambling. Even up to the last day of the year, the frost had yet to settle into the ground in many areas.



Sawlogs piled up and prepared for delivery to the mill in October 2021.

Thankfully, good planning and good people have put our forest operations ahead of the game coming into the fourth quarter. Our team spent the quarter putting energy and attention to finding dry ground to keep our logging force busy wrapping up the year. Although some jobs were slow to get going, we are now well positioned for winter operations.

Now that the year has turned over however, the weather seems to have changed for the better. The northeast is solidly past the freezing/thawing cycle that can wreak havoc on roads, and the winter is upon us.

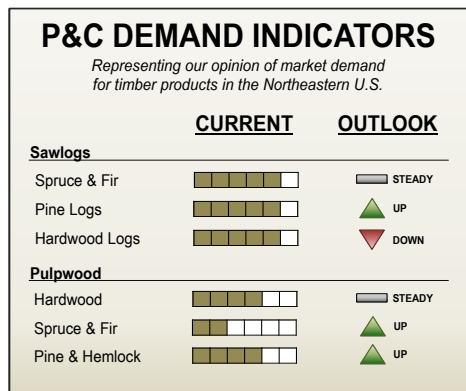
If you're feeling it at the pump these days, so are we. Operating & transportation costs continue to rise for nearly every participant in the forestry & logging business. Diesel fuel recently hit another 3-year high (\$3.66/gal), after rising 40% over the last year. Most of the predictions we've seen indicate that supply chain woes and output constraints in the Middle East will continue to affect the availability of crude. Needless to say, we are budgeting for higher fuel costs for the coming year.

NUMBER 2 DIESEL FUEL PRICES - NEW ENGLAND 3 YEAR HISTORICAL MONTHLY AVERAGES



Forest Products Markets

For the first time in a long while, the regional markets overall seem anxious about getting the volume of wood they need for sustained production. That statement is admittedly anecdotal, and hard (if not impossible) to quantify, but with timber prices rising in nearly every major category, the sentiment is a little hard to miss. Demand for forest products has been strengthening for a while, and mills are having a tougher time keeping their inventories comfortably full.



Although demand for end products is sustained & strong, there are some headwinds to growth. Supply chain problems, labor shortages, and increases in materials costs are at the forefront of everyone's minds. Another anecdote: our bulk price for steel culverts used in forest road construction went up 67% over the past six months. Cost increases like these are hard to reverse, and will have a noticeable effect on the cost of getting timber to our markets.

Pulpwood Products

It's been almost two years since the devastating digester explosion at the Pixelle Specialty Solutions pulp mill, which dumped an excessive amount of softwood pulpwood inventory onto a market with limited consumption. It took a long time to work through that volume, but at this point, the oversupply headache that event caused appears to have fully waned. For the first time in several years, inventories of softwood pulpwood have some room.

When demand for softwood pulpwood began to recover following that explosion, softwood pulpwood consumers limited their purchasing to very local regions to keep transportation costs down. Since then, demand has risen and today we are seeing broader interest in pulp mills reaching out over greater distances to get the volume they need. Consumption of pine & hemlock pulpwood is strong and prices have been slightly up over the quarter. Spruce & fir pulpwood in "roundwood" form competes with fiber already chipped at sawmills, so opportunities for landowners in that species are more thin.

Demand for hardwood pulpwood has also strengthened throughout the quarter as both pulp mills and engineered wood products mills have been consuming at a robust pace. Once again, the bottleneck is the supply chain. Between trucking constraints, chip mill problems, and woodyard infrastructure, the supporting infrastructure that keeps mills well fed has had trouble keeping up



- **Maine Voices: Wood also a solution to Maine's high heating costs, fossil fuel dependence** (November 28th)

Heating with wood remains the cheapest and most reliable option available for many Mainers and is no longer limited to traditional hand-fed woodstoves but includes modern and highly efficient wood and pellet boilers. The big difference is that wood is local, is not grid dependent and is not tied to expensive and, in many cases, foreign-sourced fossil fuels.

— *Portland Press Herald*

- **Timber or steel? Study helps builders reduce carbon footprint of truss structures** (November 29th)

Researchers at MIT have done a detailed analysis and created a set of computational tools to enable architects and engineers to design truss structures in a way that can minimize their embodied carbon while maintaining all needed properties for a given building application.

— *MIT News*

with consumption. Inventories at pulp mills are generally lower than usual, but are slowly building in anticipation of springtime.

Firewood producers are also competing more frequently with traditional hardwood pulp mills. Although the volumes required by any given facility are a drop in the bucket, there are enough firewood producers scattered throughout the northeast and the combined volume probably equates to a mid-sized pulp mill. They tend to be more picky than pulp mills, and can sometimes come with some payment risk, but suppliers who are willing to manage the process and stay on top of things can get a competitive price for their pulpwood.

Sawn Products

Softwood Sawstock

The lumber roller-coaster continues to both amaze and frighten. Although the composite lumber price (as measured by the Random Lengths Framing Lumber Composite Index) is up by about 20% over this time last year, 2021 was marked by wild price swings. At times the index lost as much as 75% of its value over the course of 90 days, only to bounce back. Predictions, forecasts, planning - all right out the window.

In prior editions of this newsletter, I've discussed the causes of this volatility, but most people believe that the fundamentals are there for sustained and strong demand for the foreseeable future. Everyone looks forward to the day when the framing lumber prices settle down. Despite the

volatility, pricing has still been way above pre-pandemic norms, and that has boosted the confidence of those buying & selling wood to sawmills. Mills are still making good money and we've seen some reinvestment into capital improvements at several regional facilities.

Consequently, demand for spruce & fir sawlogs has been substantial as mills work to get the feedstock they need to continue selling into a highly profitable environment. Prices for the sawlogs going into these mills have risen to near peak levels in quick response. Where this goes next depends more on the lumber market than anything else. 15 years ago, when landowners shook hands with sawmills to agree on a price and volume commitment, it felt like the deal was set in stone. These days, it's become too volatile to make these kinds of guarantees.

High lumber prices have muted the ages-old Canadian Softwood Lumber dispute, but the issue is far from settled. Import tariffs on Canadian lumber sold into the U.S. market are still in effect and have just recently been doubled by the Biden administration. The complaint by U.S. lumber producers is that this product is heavily subsidized by Canadian policies, primarily the low cost of logs sold from government-owned land. These tariffs have increased the price of lumber for U.S. consumers, but given the president's stance on the matter, they likely won't be going away anytime soon.

Similar strong demand exists regionally for pine logs. Pine lumber prices are leveling off, but log prices have risen over the quarter to record pricing. Inventories are low but



■ **US Doubles Tariffs on Canadian Softwood Lumber and Contractors Expect Higher Prices (November 30th)**

The Biden administration's US Commerce Dept. on Nov. 24 followed through with expected anti-dumping and countervailing duties on Canadian softwood lumber producers, placing tariffs of 17.99% on their imports, more than twice the rate of 8.99% during the Trump administration. While the homebuilder customers will likely be the hardest hit, contractors building commercial and other building types also expect to see higher prices due to the higher tariff rates.

— ENR - Engineering News-Record

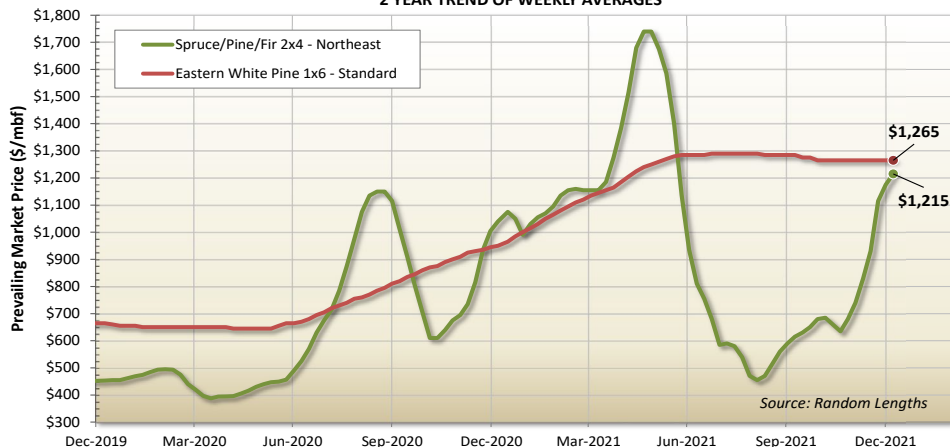
■ **Belfast-based company secures \$85 million in financing to launch manufacturing operation at Madison mill (December 30th)**

Belfast-based GO Lab announced that it has secured the \$85 million in financing needed to begin construction of a manufacturing operation at the former Madison Paper Industries mill. Cianbro construction will move forward with installing three manufacturing lines that will be used to make three types of wood-fiber insulation that GO Lab refers to as TimberHP. GO Lab will employ 120 people at the Madison mill, with more jobs expected to be created by the end of 2022.

—centralmaine.com

PRICE TRENDS IN SOFTWOOD LUMBER

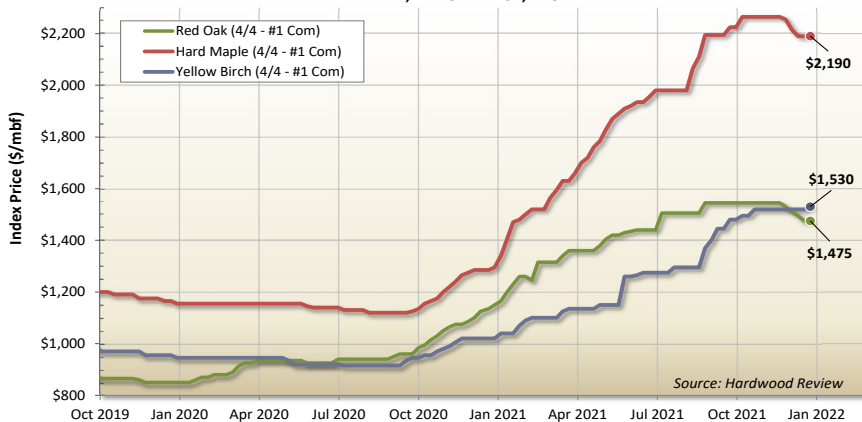
2 YEAR TREND OF WEEKLY AVERAGES





RECENT PRICES IN HARDWOOD LUMBER - NORTHEAST

HARD MAPLE, YELLOW BIRCH, R. OAK



improving as mills ramp up for winter production. We expect demand for logs to continue through 2022 and stumpage prices to stay elevated.

Hardwood Logs

The hardwood sawstock market echoes that of softwood, but at a smaller scale. Hard maple lumber prices have been in the stratosphere all year long, but have recently begun to level off after a long gain. Reports we've heard from our regional hardwood lumber mills are that momentum is slowing down slightly, but regional prices are holding for

the time being. Hard maple log prices have stayed high, while soft maple -- sometimes a lower priced alternative -- are flat.

Demand for yellow birch and ash logs strengthened during the quarter as well. Although the regional market for those products is not as significant as that of hard maple, mills often buy hardwood logs as a package deal and the margins for landowners on these products is significant.

Demand for white birch logs is about as high as we've seen, with mills reaching out further and further to

secure the volume. This product, generally used for manufacturing popsicle sticks, toothpicks, and wooden spoons, is now also used to make the long handle for COVID-19 testing swabs. White birch does not make up a significant component of the regional forest, so mills are seeking alternative ways to source it in order to fulfill the exploding demand.

Summary

Tensions in the supply chain and the swiftly spreading pandemic-related effects have caused ripples in the forest products markets, but for the most part it has been a rising tide. Demand for nearly every product coming out of the forest is high, and regional prices for timber are well above where we predicted them just a few months ago. We could make some predictions now, but we've learned enough in these past 18 months to know that planning in this environment is exceedingly difficult. Costs are rising, but thankfully, the fundamental economic engine that supports the forest products sector has yet to show signs of slowing.

Benjamin D. Carlisle
PRESIDENT

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