



Industry News

■ **Wood pellets: an opportunity to lower heating costs and support Maine's forest products industry** (July 12th)

Heating oil now costs \$39.08 per million BTU. In contrast, wood pellets provide that same amount of heat for just \$18.91. Wood energy is a growing part of the overall forest economy, creating good jobs and new opportunities for our forest workforce. Pellets provide a market for low-grade, low-value wood that landowners routinely remove to promote healthy forests

— *The Piscataquis Observer*

■ **Summer program trains 10 more loggers for Maine's \$600M industry** (July 22nd)

Another 10 aspiring members of Maine's \$600 million logging industry are training this summer in a joint program of the Professional Logging Contractors of Maine and Northern Maine Community College. Students enrolled in the 12-week hands-on program, launched in 2017, harvest timber using state-of-the-art machines like those used in the industry.

— *Maine Biz*

■ **Controversial northern Maine mining proposal still percolating as company courts town officials** (August 9th)

Representatives from Canadian mining company, Wolfden Resources, have been meeting with boards of selectmen in a handful of towns near a potential mine site in northern Penobscot County, which has raised concerns among some local residents. Environmental groups are gearing up for another potential fight against a metallic mining project that they fear could pollute lakes, streams and groundwater despite the state adopting some of the nation's most stringent environmental regulations for mining.

— *MainePublic*

Industry Overview

Forestland Operations

"Where did all the people go?" This question has been thematic of the conversations happening today at industry trade conferences, meetings, and even in the local wood yard. There is no satisfactory answer. Labor issues – particularly finding skilled professionals – plague the forest



Trucks waiting to be unloaded at a mill are a testament to the dusty road conditions experienced throughout the summer.

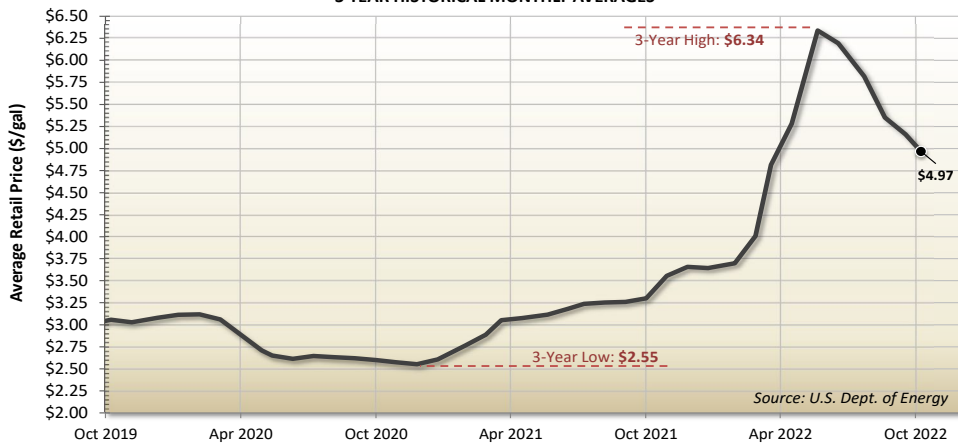
as much as anywhere else, and have hit the logging and trucking sector hard enough to have a noticeable impact on the number of trucks on the road and contractors available to work in the woods. It's got mill owners concerned about keeping up the wood flow, particularly coming into a busy winter season.

Even before the sea change brought about by the global pandemic, this problem has been nipping at our heels for a long time. We've seen the average age of the regional logging force steadily rise, and the job is a demanding one with significant barriers to entry. However, its position as the proverbial "tip of the spear" to the timber supply chain makes it one we cannot afford to ignore. Because of their dependence on petroleum products and capital equipment, loggers & truckers are particularly exposed to recent inflationary pressures. Diesel fuel prices have abated somewhat during the quarter but are still historically high. Service rates for logging contractors are rising in response, and competition to attract and retain loggers is fierce.

Most mills are keenly aware of the problem, and have been willing to pay premiums in an effort to stabilize their wood supply. As a land manager, we continue to pass on those premiums to help loggers not only survive in the face of rising costs, but also stay committed. We work hard to keep the contractors in front of high-quality stands of timber, and we have a good amount

NUMBER 2 DIESEL FUEL PRICES - NEW ENGLAND

3 YEAR HISTORICAL MONTHLY AVERAGES



of it to keep them busy. Busy is good - but at the end of the day, the industry needs loggers to be financially healthy. As my predecessor Don White used to say: Money isn't everything - but it sure helps.

Thankfully, the weather through the quarter supported very good logging conditions. When the rain occasionally came, it tended to be all at once - which is both good and bad. Good because crews don't have to shut down for long, but bad because sudden rain tends to do the most damage to dry road systems. All in all, the quarter was productive and we were able to maintain the delivered volumes as planned, due in large part to the amenable conditions.

Now that we are into the fourth quarter, the dry weather is already showing signs of turning, and the pressure is on. There is only a short window to wrap up summer operations before the trees stop taking up water and the soils become too saturated to operate upon. Our operations foresters are well aware of the needs and expectations of

the loggers, truckers, and the markets and are working hard to implement plans where harvest operations can continue through the fall. It requires holding on to the reins pretty tightly.

Forest Products Markets

While the headwinds have started to become more apparent, the regional forest products market demand has remained significant. Mills appear to be making good money for their products and there is a huge regional competition for raw materials. In spite of the good logging conditions over the summer, inventories are surprisingly low. In an effort to seek a stable supply over this coming winter, mills are seeking committed volume from suppliers more so than they ever have. This makes sense given the scars from the completely unpredictable business environment over the last three years.

Consumption of raw materials remains high and mills are running at a robust pace. It is likely some would opt to produce more if they could - but mills are no more immune to the labor problem than are logging contractors. Adding a shift to a mill's production schedule is a tall order right now.

Pulpwood Products

Hardwood pulpwood demand is as high as we have ever seen it, and the price of the material reflects the extreme demand. Pulp mills are seeking wood across the entire region in order to get enough material to meet production schedules. Raw materials



New Limerick mill expected to achieve full operating capacity within a year (September 2nd)

Louisiana-Pacific Corp. in Houlton recently began manufacturing the company's flagship siding and trim product, SmartSide, following the mill conversion's completion earlier this year. LP's expansion will add approximately 220 million square feet of operating capacity to manufacture the product, enough to support the construction of about 100,000 homes annually.

— *Maine Biz*

Hancock Lumber makes its first sawmill deal in two decades, buying NH producer (September 8th)

Hancock Lumber plans to acquire the Madison Lumber Mill in Madison, N.H., effective Sept. 30. The mill will continue to operate under the Madison Lumber Mill name and will also retain the mill's employees.

— *Maine Biz*

Madawaska's Twin Rivers Paper plant secures \$100M in financing (September 8th)

An injection of \$100 million in capital to Twin Rivers Paper Co. in Madawaska will be used to refinance debt and provide working capital. Twin Rivers is an integrated paper company that produces paper for packaging, labels, "kraft," publishing, and technical specialties. It also produces dimensional lumber. Twin Rivers employs over 1,400 people in two countries and seven communities.

— *Maine Biz*

Cross-laminated timber demonstration project aims to expand forest market (September 19th)

Dirigo Center Developers in Westbrook, one of four Maine businesses to be awarded nearly \$2.5M from the U.S. Forest Service's Wood Innovations Grant program, is preparing to build a cross-laminated timber tower and retail demonstration that will expand markets for Maine's new forest products. The funding aims to build on the work of the Forest Opportunity Roadmap Maine (FOR/Maine) initiative, which has worked to expand economic opportunities for the forest products industry.

— *Maine Biz*

P&C DEMAND INDICATORS

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

	CURRENT	OUTLOOK
Sawlogs		
Spruce & Fir	██████████	▼ DOWN
Pine Logs	██████████	▬ STEADY
Hardwood Logs	██████████	▼ DOWN
Pulpwood		
Hardwood	██████████	▬ STEADY
Spruce & Fir	██████████	▬ STEADY
Pine & Hemlock	██████████	▬ STEADY

inventories are lower than we would expect; once again supply chain and labor issues rearing their ugly head. Typically in late summer mills are working to build inventory in anticipation of the change in weather, but with the challenges this year they have not been able to do that reliably. As a result, pulp mills have been aggressive in setting up new strategic locations where suppliers can concentrate their deliveries - this gives them an option to control local wood flow in a highly competitive environment.

As foresters, this elevated pulpwood demand provides tools for us to use in the forest. Being able to commercially sell pulpwood from nearly every stand of wood means that we can afford to improve the quality of the standing forest. It is a “weeding of the garden” where both the economic goal and silvicultural goal are aligned. When the prices for the material are high, even at far reaches from the pulp mill, we can manage the forest for long-term high quality future growth as well as provide current cash flow. It’s not a condition that is always available, but when it is, it is a welcome one.

As the competition for raw materials has intensified, the need to stay supplied is still ever present. Pulp mills that can be flexible in their feedstock between different species of fiber are regularly responding to changes in the available wood supply. Some mills have opened their doors to species that they wouldn’t normally take in. Being able to consume both hardwood and softwood pulpwood has proven to be a powerful tool

in managing both their inventories and the total input cost of their fiber.

Sawn Products Softwood Sawstock

The policies of a hawkish Federal Reserve attempting to rein in the economy have thrown water on the fire in the housing market and dampened new construction. As a result, lumber prices have fallen from the stratospheric levels seen in late 2021/early 2022. However, it does not appear that there has yet been any curtailment in regional production out of sawmills. They are still operating at max capacity and still want as much volume as available in order to bolster very low raw material inventories. We have seen log prices drop in a few locations, but at this point it is not widespread. Keeping the price elevated is the competition for the supply of wood and the contractor capacity issues that are present everywhere. Until we see either decreased production at sawmills, or increased contractor capacity, it will be difficult for the mills to reduce their log pricing.

One blessing in the lumber price drop has been a side-effect - relative stability. The wild swings that marked the immediate post-COVID world were excessive, and unsettling for many. Wood sellers and buyers alike were regularly tossed around and nobody knew what to expect when it came time to negotiate. Prices now appear to be settling into what I would call more normal levels and lumber is acting like a commodity again.



■ **Jay paper mill to close in early 2023**
(September 20th)

After the devastating boiler explosion in 2020, the Androscoggin paper mill, which employs about 230 people and is the town’s biggest private employer, will permanently close in the first quarter of 2023. Gov. Janet Mills issued a statement saying the state offered its support to try to keep the mill open, but company CEO Tim Hess cited economic forces that made operations unsustainable.

— Sun Journal

■ **Lumber producers are cutting back, a signal that higher interest rates are taking root**
(September 20th)

A growing number of Canada’s largest lumber producers, including Canfor Corp. and West Fraser Timber Co. Ltd., recently announced plans to scale back production in British Columbia, citing softening demand among other factors. Some analysts believe softening lumber demand may signal that rising interest rates in the U.S., Canada and elsewhere are beginning to have the desired effect of cooling demand and thus tamping back inflation.

— Financial Post

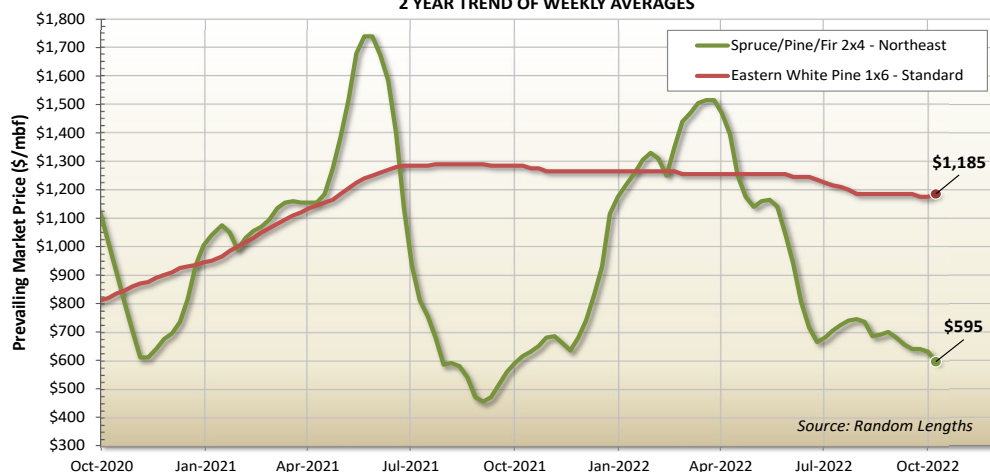
■ **Maine’s North Woods are a carbon storage machine**
(September 23rd)

The forests of Maine already remove at least 60% of the state’s annual carbon emissions through photosynthesis. But the figure gets up to 75% when the storage of carbon in forest products such as building and shipping materials and furniture are added to the mix. Research from the New England Forestry Foundation suggests there is the potential to sequester and store even more with improved forest management, conservation, and expanded markets for wood.

— Maine Public Radio

PRICE TRENDS IN SOFTWOOD LUMBER

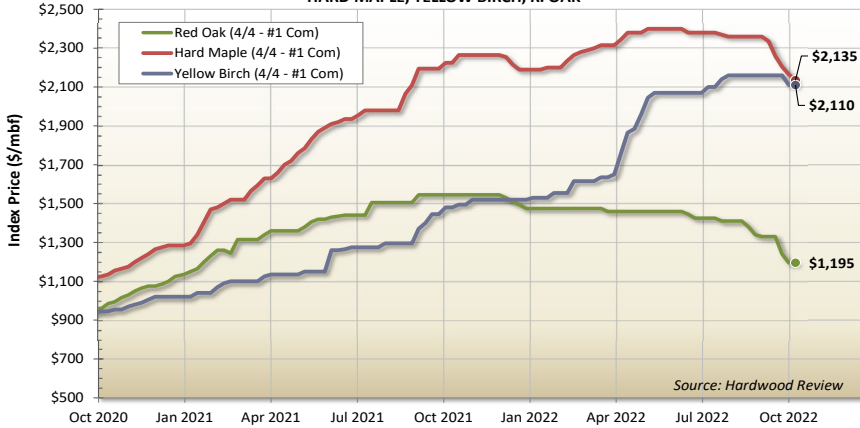
2 YEAR TREND OF WEEKLY AVERAGES





RECENT PRICES IN HARDWOOD LUMBER - NORTHEAST

HARD MAPLE, YELLOW BIRCH, R. OAK



There are still many surprises in store for sure, but this kind of breather is good for everyone.

Pine lumber continues to be in high demand with log prices still holding at record levels. We expect this to generally soften as the economy cools and generally follow the trajectory of spruce & fir albeit with much less turmoil.

Hardwood Logs

Log pricing of hardwood grade logs has come down in response to slowing lumber demand, but it is still higher than in recent years. Sawmills are reporting that orders for their products have been moderating for some

time, and it looks like log demand is following suit despite generally thin inventories. In the coming months, the extreme market demand for hardwood pulpwood could also serve to push additional log supply into the markets in spite of a price drop. Again, the looming specter of an economic slowdown is on everyone's minds as they plan for the upcoming winter.

Bucking the trend in the regional hardwood grade log price declines are birches, which have been more resistant to the downward pressure seen in other species. So far, regional pricing for these logs is holding firm after a series of substantial increases over last year. Additionally, lower

quality pallet logs, which are used to bulk ship goods around the world, have also not slackened in demand. Pallet producers are offering good prices for logs and signal continued demand, however this sector of the forest products market may face challenges as economic growth eases.

Summary

Intentional monetary policies being rolled out from governments around the world are doing their job of taking the energy out of the economy, and this is just now showing its first signs of affecting the regional forest products industry. This should surprise nobody, but when combined with the workforce challenges at the stump, it makes for a dynamic mix of ups and downs. As we look toward winter, our busiest season, the main question will be whether suppliers can keep up with demand.

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PRESIDENT

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