



Industry News

■ **Planning advances for redevelopment of former paper mill in Jay** (April 11th)

The new owner of the 1,000-acre property has said it will sell Godfrey Forest Products about 84 acres to build a 300,000-square-foot manufacturing facility. If the project moves forward, the plant would make a construction plywood called oriented strand board. The sale would take place when permits for the factory are in place, which is expected to take about a year. The plant is expected to employ over 150 people.

— *Maine Biz*

■ **Lumbra Hardwoods awarded NELA Outstanding Sawmill Operator** (May 2nd)

Lumbra Hardwoods' sawmill in Milo, Maine produces approximately 7.5 million feet of native Maine hardwoods a year. Lumbra has a strong focus on safety and efficiency, and they have a reputation as a quality employer and community leader.

— *Northern Logger Magazine*

■ **With recent storms and heavy rain, loggers say working conditions have never been more difficult** (May 9th)

Loggers said their operating conditions have never been more difficult, with recent storms, heavy rain and mild conditions over the last 18 months. A recent survey found that 50 Maine harvesters and haulers lost at least \$2.6 million in income from the Dec. 18 storm.

— *Maine Public News*

Industry Overview

Forestland Operations

After the poor operating conditions of a mild winter, all eyes were turned to Mother Nature to see what she would bring with the change of season. Despite the warm winter in the Northeast, thankfully the snowpack never really accumulated - so when the melt came it was uncharacteristically subdued. The woods dried quickly through spring and the mud season was appreciably short. Overall the second quarter was prevalingly dry, punctuated by the occasional rain.



A group of P&C foresters inspect a bridge for integrity during an internal audit.

Milder spring conditions created favorable operating conditions in the woods and on the road systems within the Northeast. Most of the timber that was left stranded after the winter harvest was quickly cleaned up and transported to the mill. Wood that remains stranded for extended time periods is often a concern, because as it sits it can not only drop in quality but can also dry out. This season, because the roads opened up quickly, it was essentially a non-issue. This is a refreshing contrast to the past several years of rainy, muddy springtime conditions.

As the woods dried out and our road systems could be accessed, recovery from the storm damage late last fall and early winter could begin in earnest. We spent an outsized amount of attention and effort fixing up roads and bridges in preparation for summer. We repaired several washouts, replaced culverts, and assembled plans to beef up several water crossings to be more resilient to excessive water.

NUMBER 2 DIESEL FUEL PRICES - NEW ENGLAND

3 YEAR HISTORICAL MONTHLY AVERAGES



Our regional logging contractor force was back at it early, but this by no means has taken the financial stress away from loggers. Although the price of diesel fuel continues its decline (see chart below), operating costs remain elevated and finding skilled workers to operate equipment is as difficult as it has been throughout the COVID period. One large regional logging contractor recently downsized their operation substantially, blaming a slim workforce and the inability to keep operators. Prentiss & Carlisle has upped both our service rates and wages in the past few years as we try to keep competitive.

Forest Products Markets

Despite great weather, markets have been generally tough through most of the second quarter, with a few bright spots. Mills have been willing to take most of the timber that we have produced, but some have been more reluctant than others. Most of the headaches we have now seem to be the result of the "COVID Hangover", where the industry as a whole produced a significant glut of product,

as well as high interest rates and slowing economic growth.

Moreover the good conditions have made timber widely available to mills, so there has been price pressure on most of the staples produced in the Northeastern forest. So, despite the fact that mills continue to consume, prices for timber have generally eroded.

Pulpwood Markets

During the late winter, when hardwood pulp mills were having a tough time getting supply, most were making concessions to try to make it attractive for suppliers to deliver wood to their facilities. As the drier weather began to unglue the supply chain, pulp mills started to get flooded with supplies and quickly changed their tune as inventories swelled. In response, many regional pulp mills implemented delivery caps and started to tamp down wood pricing to moderate the amount of incoming fiber. This wasn't entirely unexpected given the amount of wood waiting to be delivered, but a sudden oversupply condition feels a little bit like whiplash. Several scheduled maintenance shutdowns at pulp mills during the first quarter also served to bolster raw material inventories throughout the region, and delivery limits will likely remain in place for the time being.

The market for softwood pulpwood is notably smaller, but is experiencing similar challenges. Demand for spruce & fir pulpwood is largely being fulfilled by sawmill residuals, leaving limited opportunities for timber suppliers. Demand for hemlock & pine pulpwood is



- **The EUDR could profoundly impact the pulp and paper industry. Let me count the ways...** (June 12th)

The European Deforestation Regulation is projected to reshape trade and supply chains for industries that can be erroneously associated with deforestation, such as pulp and paper. Companies will face increased operational expenses, regulatory scrutiny and the threat of fines for non-compliance, which could reach a minimum of 4% of the annual turnover, confiscation of goods and even a temporary ban from participating in EU procurement or tenders.

— RISI Fastmarkets

- **James K. Irving, Canadian Forestry Billionaire, Dies at 96** (June 21st)

James K. Irving, the Canadian billionaire who expanded his family's forest products business and founded a record tree-planting program, has died. He was the son of Irving patriarch K.C. Irving, an industrialist who turned a single gas station and sawmill into a family-controlled business conglomerate.

— Bloomberg

- **Bingham plywood mill moves closer to opening with promise of 110 jobs for economically challenged region** (June 28th)

When it opens, Maine Plywood USA is expected to employ about 110 people. It would be the only plywood manufacturer in New England. It could expand domestic manufacturing of a product that today is largely imported from Asia. For a town of less than 1,000 people in one of Maine's most economically challenged counties, the project is expected to have a major impact.

— Morning Sentinel

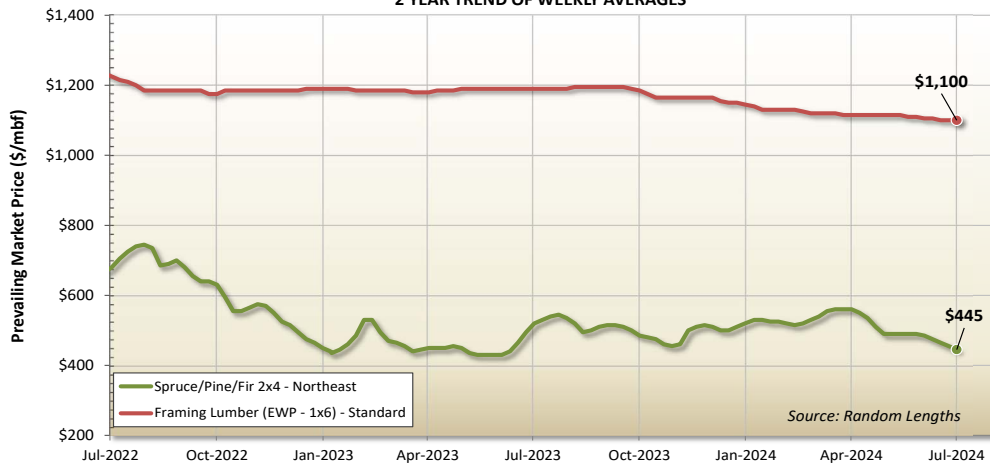
P&C DEMAND INDICATORS

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

	CURRENT	OUTLOOK
Sawlogs		
Spruce & Fir	██████	STEADY
Pine Logs	██████	STEADY
Hardwood Logs	██████	UP
Pulpwood		
Hardwood	██████	UP
Spruce & Fir	██████	STEADY
Pine & Hemlock	██████	UP

PRICE TRENDS IN SOFTWOOD LUMBER

2 YEAR TREND OF WEEKLY AVERAGES



light, as supplies to the only consuming pulp mill in the region – ND Paper – is currently saturated. ND Paper has also faced production challenges as they ramp up a converted paper machine to produce bleached container packaging.

Sawn Products Softwood Sawstock

Demand for spruce & fir logs has been light through the quarter, with sawmills facing a difficult lumber market and high operating costs. Although lumber pricing remains slightly above pre-pandemic levels, margins are thin to non-existent due to high costs. Most sawmills have moderated production down to a single shift, and while they continue to purchase wood, they are doing so in part to help keep the supply chain intact. As a result, raw material inventories at spruce & fir sawmills are thin, while lumber inventories are excessive.

Long term trends remain favorable for lumber, but the market is currently oversupplied. With inflation and labor costs taking a bite out of margins for builders, and high interest rates curbing borrowing, new home construction has been quieter than expected. It will take some time to work through the supply of lumber on the market if financing costs do not begin to ease.

The pine lumber market is also facing challenges, as demand for the end product is very light. Much like their spruce & fir counterparts, pine mills have cut back on

production to attempt to match market demand. Log prices have declined only slightly, but saw mills have kept deliveries very light. As log suppliers, we have been working to actively avoid harvesting pine due to the lack of demand for both logs and pine pulpwood.

Demand for hemlock sawlogs remains strong, boosted by a lack of production of hemlock in the woods. A substantial portion of a given hemlock tree is of pulpwood quality, and with limited opportunity to sell the pulpwood, landowners generally try to avoid harvesting it at all. This leaves hemlock sawmills undersupplied. However, in some cases, where the quality is high, and when the price of the logs gets high enough, landowners may be willing to cut out the logs and leave the pulpwood unsold.

Hardwood Sawstock

Not much changed during the quarter in the hardwood market. Hardwood lumber prices are somewhat stable, but production has been lower and it is still a difficult demand environment for mills. Regional hardwood log inventories are low, but production is not at full capacity, and sawmills have been keeping a sharp eye on the demand from lumber buyers. Hardwood grade log prices have seen some limited gains.

Demand for industrial timber mat logs has been holding strong and is a significant part of our hardwood log production at this point. In many cases, it is more valuable for a landowner to sell a log to an industrial pallet or mat producer than it is to sell that



■ **Forest-based economy, jobs will be focus of Maine higher ed partnership (June 28th)**

Maine's forest economy and workforce are the focus of a \$7 million grant from the National Science Foundation. The money will go toward a four-year collaborative project to foster resilient forest communities in the state.

The project is called Maine-Forest, or Forest-based Opportunities for Resilient Economy, Sustainability and Technology.

— *Maine Biz*

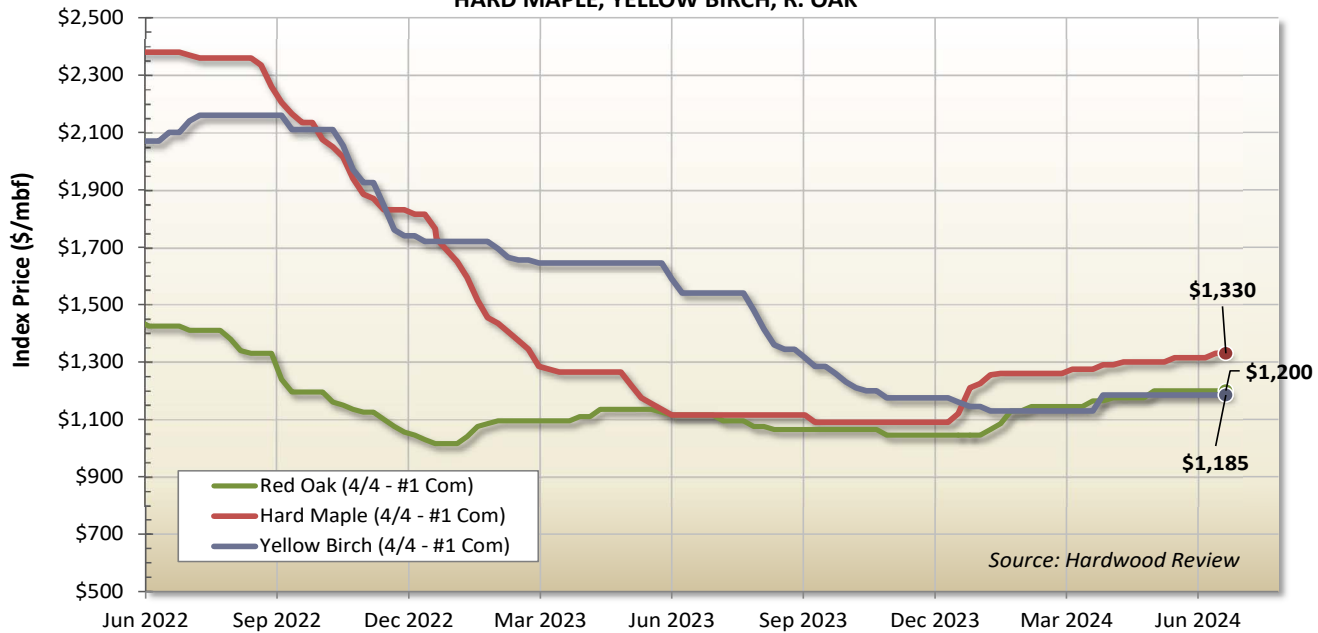
■ **Sawmills continue to cut production, but lumber prices are not rising (July 1st)**

Low lumber prices are forcing sawmills to cut production on both sides of the Atlantic. In Europe, sawmill companies also face rising sawlog prices, significantly eroding their margins. Many are hoping that lumber prices in the U.S. market will rise, however, despite the construction season, U.S. lumber prices remain stagnant.

— *Lesprom*

RECENT PRICES IN HARDWOOD LUMBER - NORTHEAST

HARD MAPLE, YELLOW BIRCH, R. OAK



same log to a lumber manufacturer. This is contrary to the traditionally accepted value hierarchy, but is a reflection of what the current market is demanding.

Summary

Despite the excellent operating conditions, forest products markets are currently facing some stress. While much of the elevated demand in prior quarters was simply due to poor weather conditions and mills' inability to acquire enough supply,

that situation has become flipped with the arrival of dry weather. Regionally, you could not have asked for better weather during our transitional mud season. However, high interest rates, elevated input costs, and limited labor all have kept the market in check. To date, we've been able to sell all the products the forest is producing, but it's been a delicate balance involving a lot of creative thinking. 🌲

Benjamin D. Carlisle
PRESIDENT

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