

# Hello! From Bulldog Country!



# Post Hurricane Forest Market Outlook

June 25, 2006



**Society of Wood Science  
and Technology**

**Newport Beach, CA**

Mississippi State  
UNIVERSITY  
**Extension**  
SERVICE

**Extension Professor**  
**MSU Department of Forestry**





# **Where We're Headed Today**

**Review Damage**

**Salvage Progress**

**Check Price Averages**

**Outlook for Industry Segments**

**Long Range Future**

**Some Conclusions**

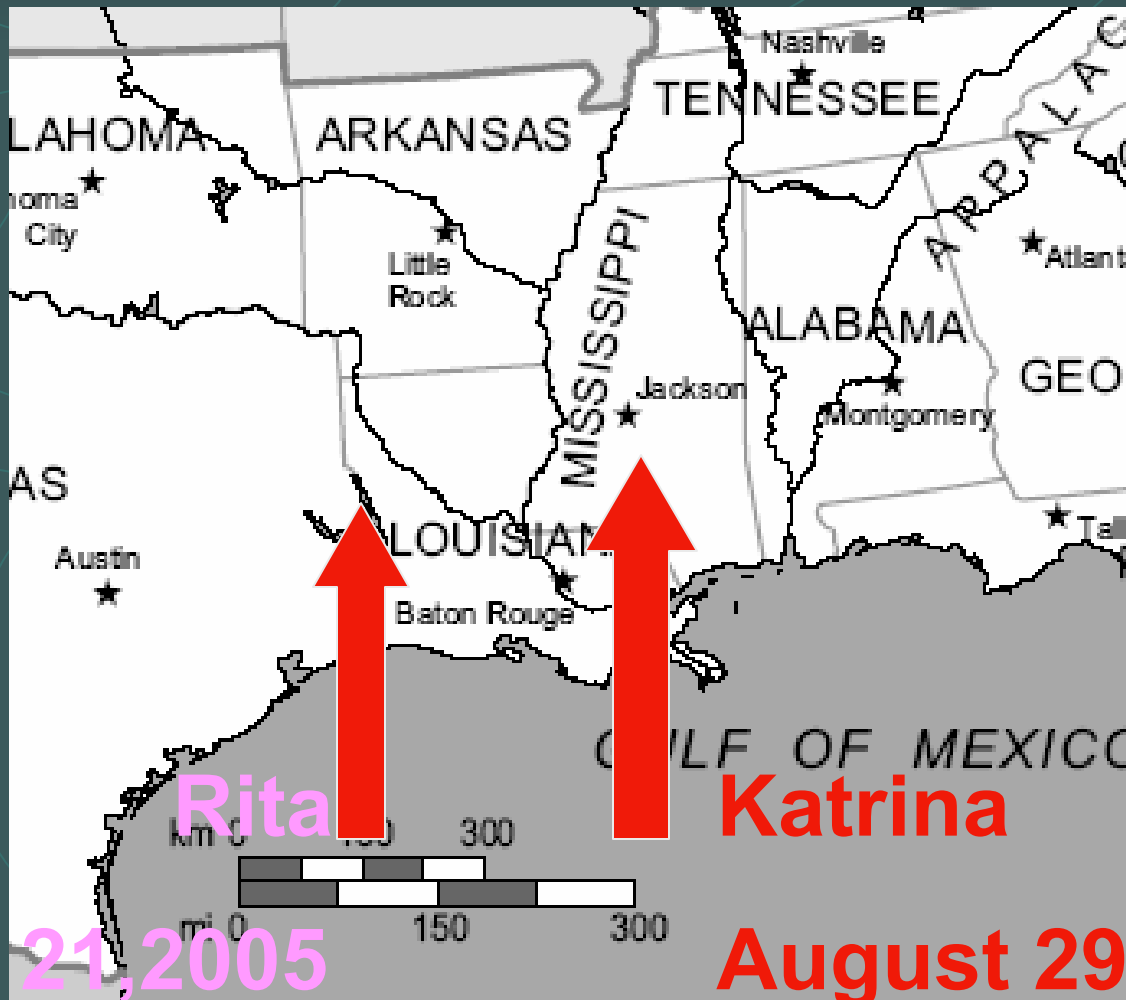
# Perspective



- Outlook not predictions. Let's look at the current landscape together
- Looking at stumpage markets, not delivered, from the private landowner perspective.
- Individual firms and industries have their own perspective that is specific to them.

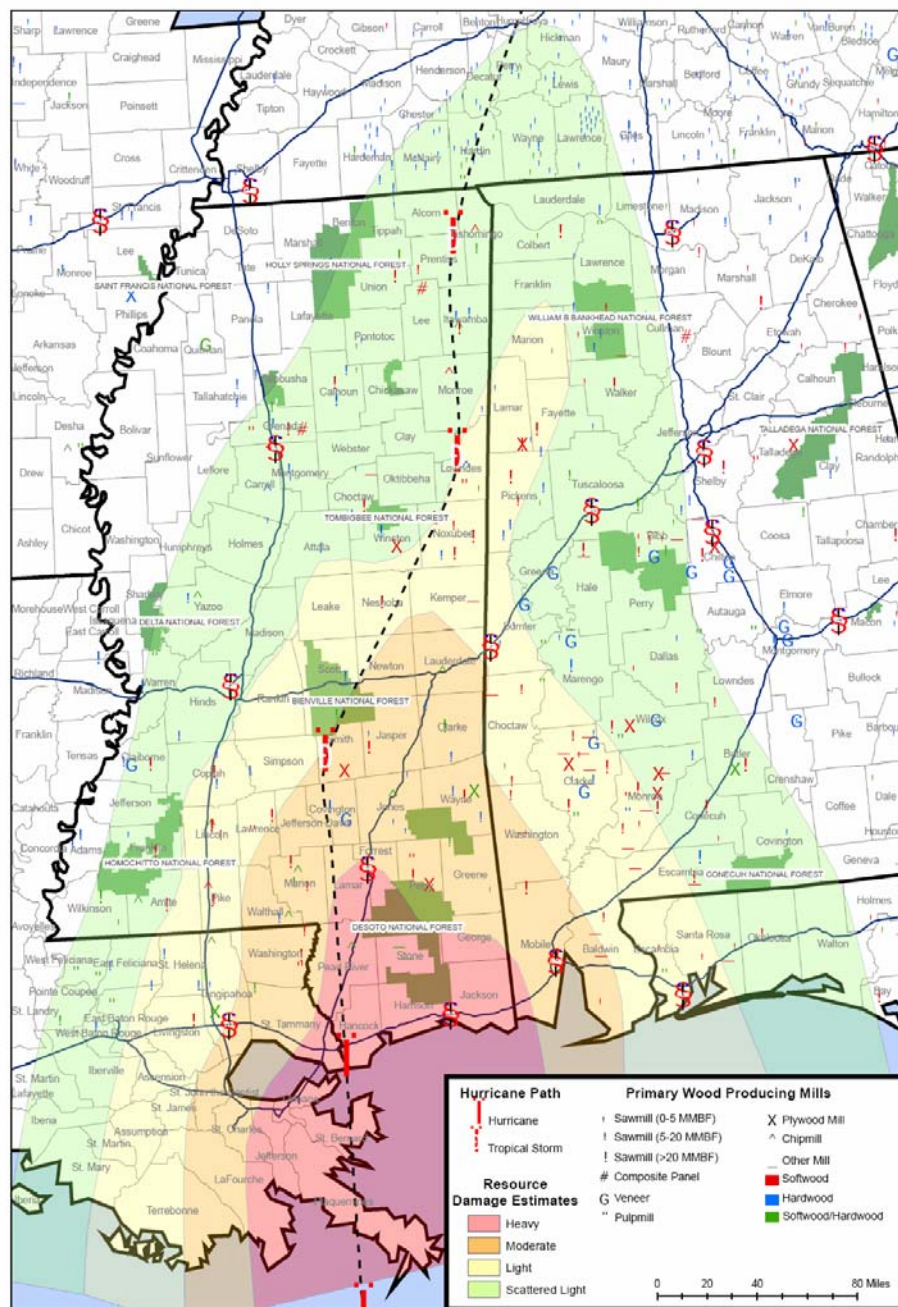
# Damage Review





Sept. 21, 2005

August 29, 2005



Hurricane Damage Zones and Path Model: Dennis Jacobs and Joe McCollum  
 Timber County Output Data and Map Development: Sonja N. Oswald and Tony J. Johnson  
 State, County/Parish, and Road Outlines: Environmental Systems Research Institute, Inc. (ESRI) 2002

USDA Forest Service Southern Research Station Forest Inventory and Analysis, 4700 Old Kingston Pike, Knoxville, TN 37919






Mill locations are approximate. Some mills have been moved to facilitate visibility

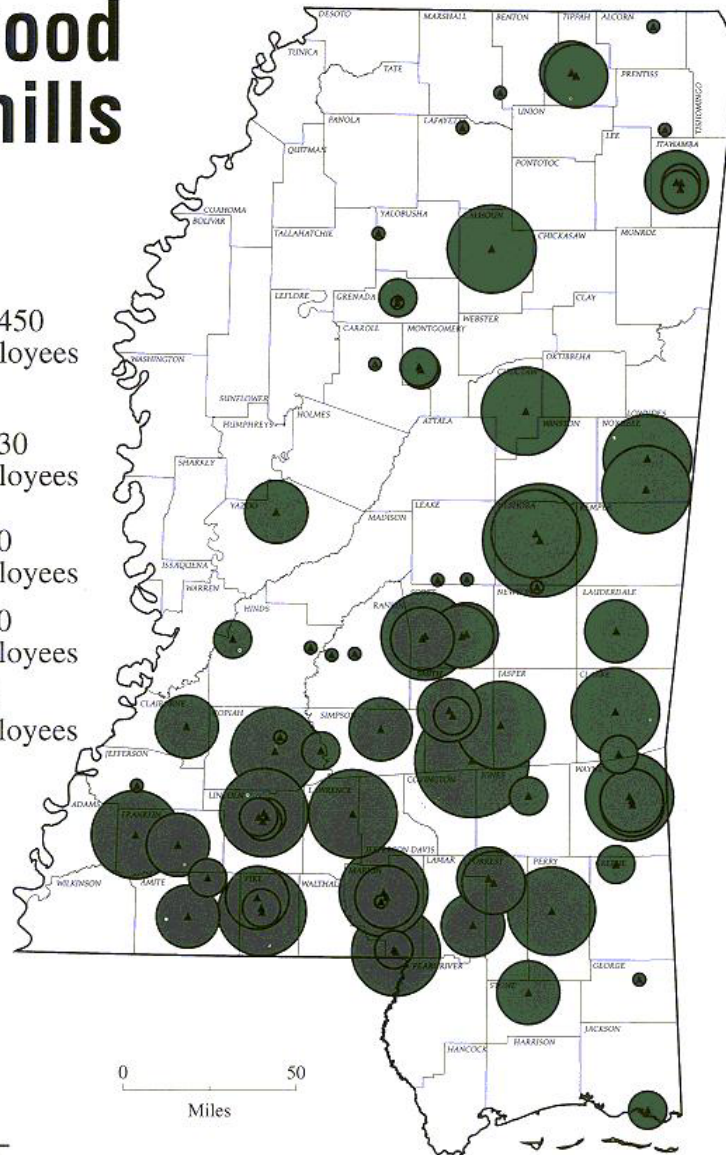




# Location of Softwood Sawmills

## Legend

-  231-450 Employees
-  91-230 Employees
-  41-90 Employees
-  21-40 Employees
-  1-20 Employees



COOPERATIVE  
EXTENSION  
SERVICE

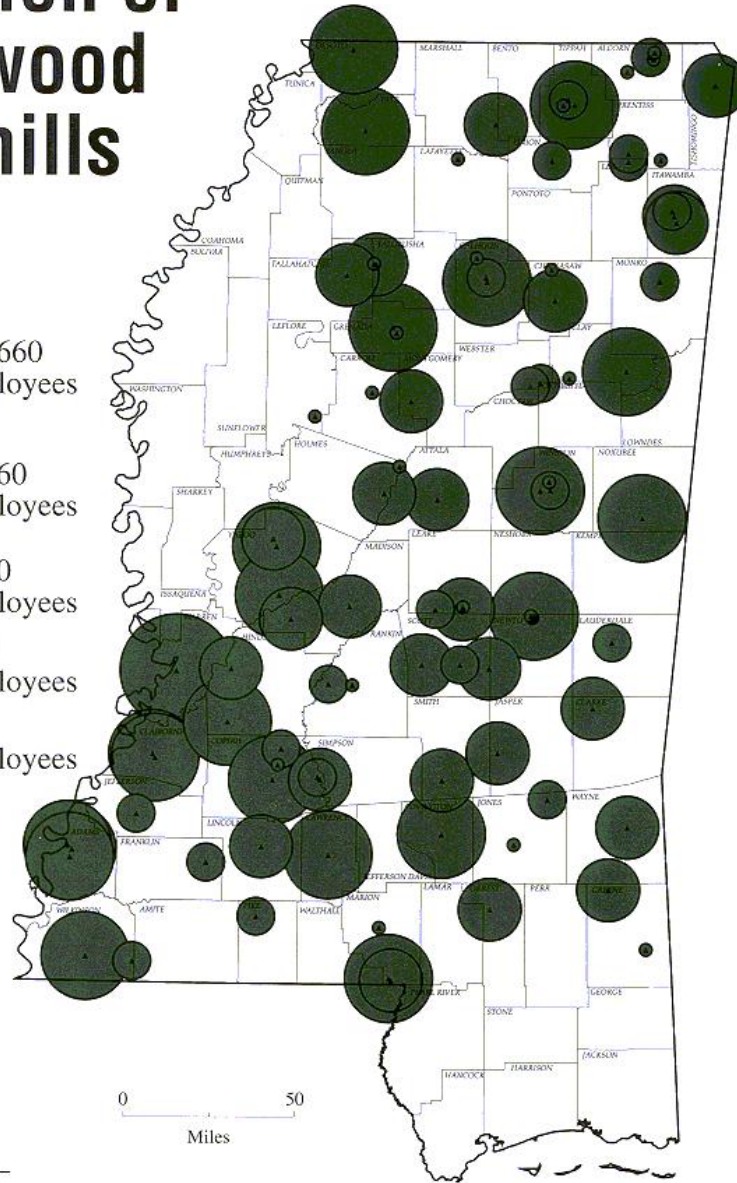
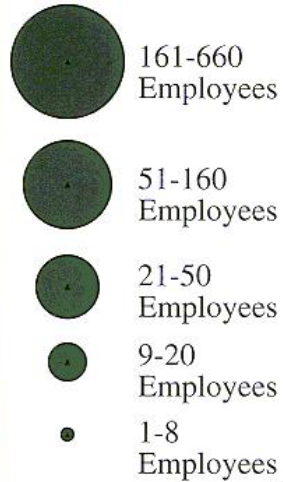


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03/27/97  
FNF-168

# Location of Hardwood Sawmills

## Legend



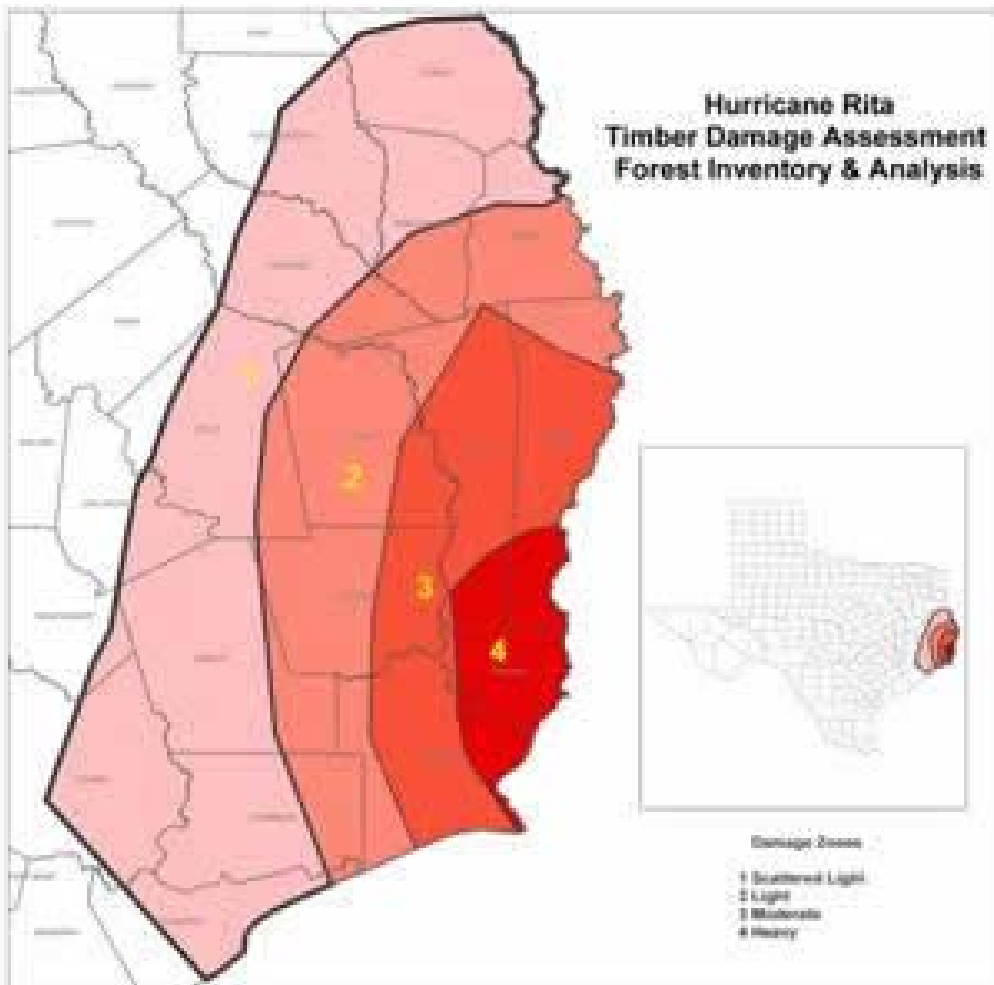
0 50  
Miles



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03/26/97  
FNF-167

# Hurricane Rita Timber Damage Assessment Forest Inventory & Analysis



- Damage Zones
- 1 Scattered Light
  - 2 Light
  - 3 Moderate
  - 4 Heavy

# Hurricane Damage Summary

## Volume (billions bf)

	Katrina	Rita
Alabama	1.1	
Mississippi	10	
Louisiana	3	1.7
Texas		2.1
<b>Total</b>	<b>14.1</b>	<b>3.8</b>

# Hurricane Damage Summary

## "Damaged" Acres

	<b>Katrina</b>	<b>Rita</b>
Alabama	<b>500,000</b>	
Mississippi	<b>1,300,000</b>	
Louisiana	<b>1,000,000</b>	<b>400,000(est)</b>
Texas		<b>435,000</b>
<b>Total</b>	<b>2,800,000</b>	<b>835,000</b>

**Total 3.63 million acres**

**"Connecticut/Delaware"**

# Salvage Progress



# Salvage Progress Review

Reporting a bit “Sketchy”, to date

All states have Recovery/Salvage task forces in place, mostly through associations

Texas best reports. MS and LA less formal.

Logging costs up 30%

There is a shortage of logging capacity.

# Salvage Progress Review

In Texas as of late December:

**43% (667 million tons) of Pine Sawlogs**

**33% (106 thousand tons) of Pine Pwd**

**Salvaged.**

**Few LA specifics.**



# Salvage Progress Review

**In extreme southeast MS:**

**Situation gloomy for NIPFs. Companies better off.**

**Mill yards and extra storage yards are full. Prices are low and loggers are scarce. Downed timber salvage chance ending. Market glutted. Some “green” sales starting. Some estimate 25% salvaged.**

**“Pulp market will remain low for 2 years.”**

# Salvage Progress Review

In central MS:

“Salvage timber turning to pulp and mills full.”

“Pine sawtimber prices starting back up ‘cause mills need green wood to run with bad quality (salvage) trees.”

“The market needs rain. Too dry”.

# Salvage Progress Review

The reality is that much damaged timber will not be salvaged and landowners will have to recover losses by tax credits.

70 to 80 % of the damaged timber will be lost.

Industry mills continued to produce after the storm. PNIFs will bear the brunt of the losses from the storm.

# Regional Prices



# The Katrina / Rita Effect



Hurricane Katrina affected the entire timber market in Mississippi, Louisiana and Texas. The impact continues today. This effect will likely persist at least until late 2006.

# Timber Prices Respond

Mississippi State  
UNIVERSITY  
**Extension**  
SERVICE

College of Forest Resources  
Forest and Wildlife Research Center  
@mississippi state university

Research Note 2005: 5

Forest Management and Economics

September 28, 2005

## **Timber Price Dynamics Following A Natural Catastrophe**

In the aftermath of Hurricane Katrina, many Mississippi forest landowners are concerned about the value of their damaged timber and are asking how the timber market will behave in the coming months and years. An article published in 2000 may provide an answer.

Jeffrey P. Prestemon and Thomas P. Holmes of the U.S. Forest Service developed a theoretical model to describe the short-run and long run effects of large catastrophes on natural resource prices. Because trees take a long time to grow, large reductions in timber stocks can lead to a price shift due to increasing scarcity and enhancement in value of remaining stocks. The authors studied the reaction of timber markets in South Carolina after Hurricane Hugo in 1989 as a case to test their model.

A vertical strip on the left side of the slide shows a topographic map of a forested area, with contour lines and a yellow line indicating a path or boundary.

# Timber Prices Respond

“Southern pine stumpage submarkets are informationally efficient and that prices adjust efficiently to new information within the reporting period (2-3 months).”

Prestmon and Holmes. 2000. Timber Price Dynamics Following a Natural Disaster. J of Ag Economics. Vol 82 pp. 145-160

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# Timber Prices Respond

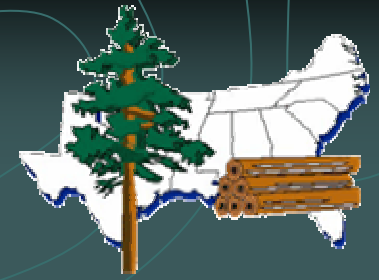
“Catastrophic weather events cause a short term supply pulse associated with a negative price spike and a long-run enhancement to residual forest stock.”

Prestmon and Holmes. 2000. Timber Price Dynamics Following a Natural Disaster. J of Ag Economics. Vol 82 pp. 145-160



# Pine Sawtimber

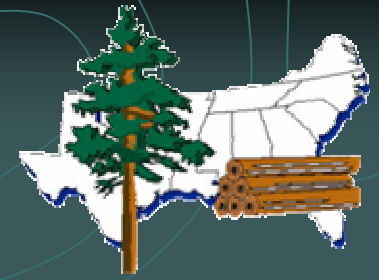
## Standing \$/Ton from TMS



State/ Region	Q1	Q2	Q3	Q4	2005 Ave	Q1 06	F2M M/A06
MS N	48.15	43.16	40.90	42.24	43.61	51.14	
MS S	47.41	45.46	42.06	38.81	43.44	42.38	41.47
LA N	43.34	40.47	39.39	42.87	41.52	46.69	
LA S	38.13	34.46	35.92	34.25	35.69	34.01	
TX N	45.26	42.84	42.84	40.61	42.89	40.48	
TX S	46.92	39.13	39.84	44.21	42.53	44.32	

# Pine Pulpwood

## Standing \$/Ton from TMS



State/ Region	Q1	Q2	Q3	Q4	2005 Ave	Q1 06	F2M M/A06
MS N	10.15	9.56	7.09	6.95	7.75	8.61	
MS S	8.71	7.48	7.75	6.79	6.27	6.86	8.22
LA N	8.48	8.48	8.26	7.90	8.65	7.90	
LA S	7.47	5.27	6.61	5.10	4.98	6.92	
TX N	10.73	12.86	10.87	9.17	10.25	7.72	
TX S	8.52	7.26	6.75	6.99	6.86	6.58	

# Mixed Hardwood Sawtimber Standing \$/mbf,d from TMS



State/ Region	Q1	Q2	Q3	Q4	2005 Ave	Q1 06	F2M M/A06
MS N	196	198	193	196	196	254	
MS S	217	196	221	209	211	205	215
LA N	179	184	234	232	207	184	
LA S	150	225	185	120	170	202	
TX N	150	219	167	170	177	155	
TX S	247	198	174	109	182	118	

# Hardwood Pulpwood

## Standing \$/Ton from TMS



State/ Region	Q1	Q2	Q3	Q4	2005 Ave	Q1 06	F2M M/A06
MS N	7.52	9.56	7.61	6.23	7.75	7.79	
MS S	5.19	7.48	6.67	5.75	6.27	5.91	6.40
LA N	8.36	8.48	10.07	7.69	8.65	8.12	
LA S	5.38	5.27	5.44	3.81	4.98	6.75	
TX N	10.13	12.86	10.82	7.20	10.25	6.74	
TX S	7.63	7.26	7.46	5.07	6.86	5.15	

## **Price Signals in the Market:**

**Stumpage markets as reported by TMS still sorting out. Prices have clearly dropped in effected areas. Are markets recovering yet?**

**Better pattern should be evident in 2nd Quarter 2006 figures after June.**

**Individual players in submarkets differ in their description of the current market.**

# Industry Segment Outlooks



# Pine Sawtimber Markets

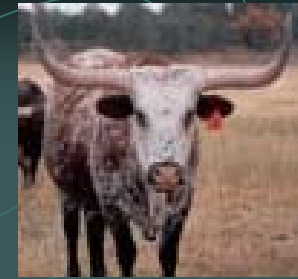


**Most important market for hurricane damaged areas - bullish**

**2005 a new high softwood lumber demand of 63.6 bbf – 3% above 2004 record high of 61.8 bbf.**

**Southern pine lumber production estimated at 18.3 bbf for 2005. That's 1% above 18.0 in 2004.**

# Pine Sawtimber Markets



**Housing forecast to slow – again -but from record levels.**

**The South has the hottest housing markets: Atlanta, Houston, Dallas, Miami**

**“Even as U.S. housing starts cool, demand for housing in the South is expected to remain strong...” RL Yardstick**



A vertical strip on the left side of the slide shows a topographic map of a coastal region, likely Louisiana, with contour lines and a grid. The map is partially obscured by the text.

# Katrina Future Reconstruction

Hurricane Katrina destroyed **7 times** the number of homes in 3 LA parishes (**184,000**) than Hurricane Andrew did in 1992. Andrew was previously the hurricane with the worst damage record.

# Formosan Termite Factor



August 30, 2005



August 27, 2005



# Treated Lumber Market Boost?

Did Katrina flooding spread Formosan termites? “Probably not, but...

**45 to 50% of all SP lumber gets treated.**

New building codes being created now for hurricane reconstruction.

Termites are a major consideration in the codes.

# Paper Industry Outlook

**US paper industry increased production only one year (2004) from 2000 to 2005.**

**2005 saw restructuring, cuts and “going private”.**

**In 2005, nearly 6 million tons of capacity was removed from the NA market. Mostly up north and Canada (but some in LA and TX).**

**Retrenching not over. More in 2006.**

# Industry Segment Outlooks 2006

Pine lumber and panels should be **solid** on housing, hurricane and general construction.

Pulp and paper should be **sluggish to steady** as industry restructures and hurricane pulpwood is plentiful.

Hardwood industry should be **solid** on strong demand for low-grade lumber, RR ties, industrial timbers and cabinets.

# Industry Segment Outlooks 2006

## A Few Notes...

Forest inventory proceeding. Mississippi Institute for Forest Inventory created in 2002.

New industries possible. Loblolly Industries in Meridian (Scrimtec)

MS Laminators Expands (4X) in AL Lam Beams - Trusses too

New mills being considered now. OSB

“Go Zone” advantages.

**What about the Future?**

**“Macro Trends” Still in  
Force**



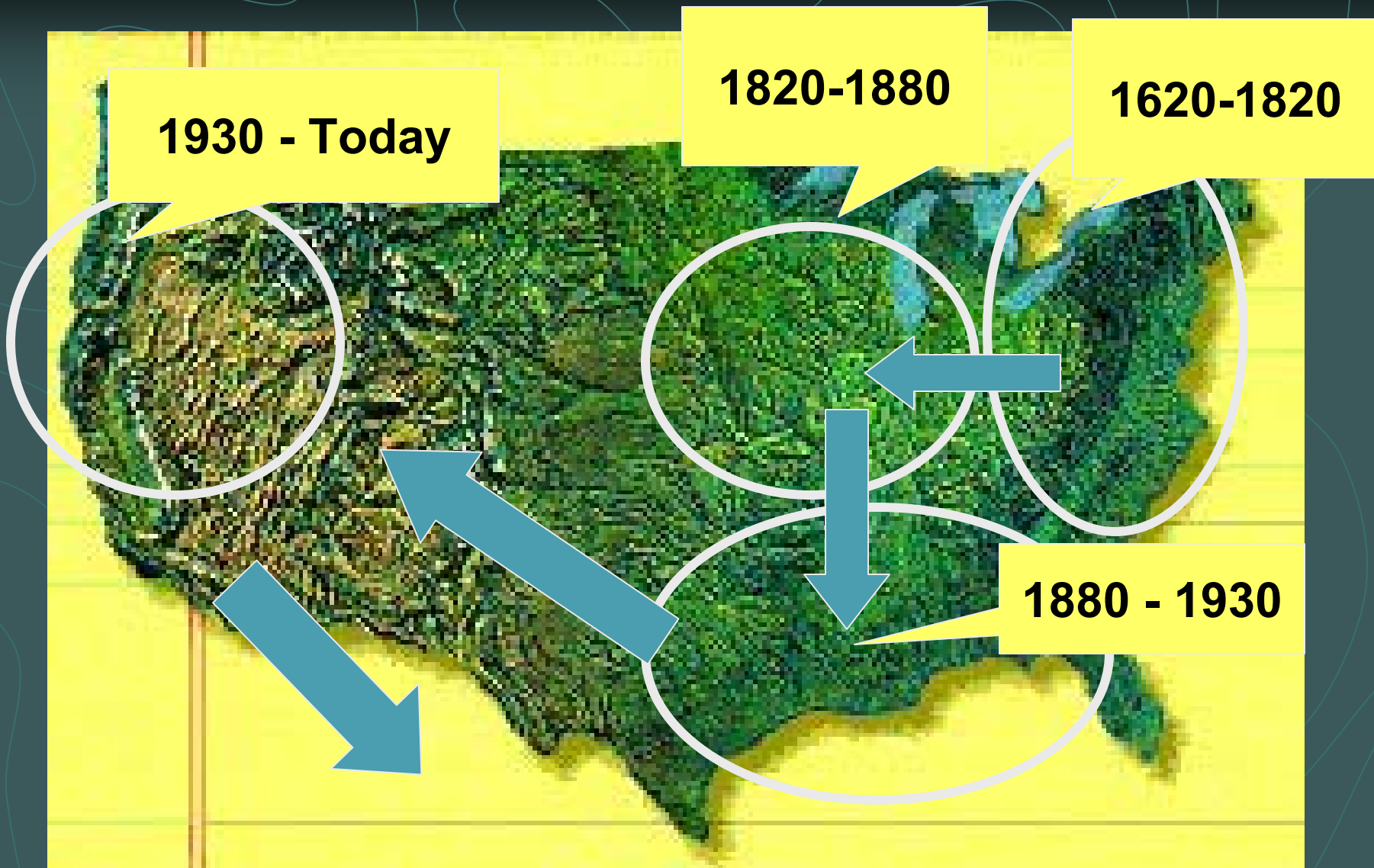
# Trends in Southern Forestry





# History Makes the South Important in Forestry





**Using US Forests has been migratory over 300 years**

# Today, the South is the Leading Timber-Producing Region in the US

“The South has the most intensively managed forests in the world.”

“This one region produces more wood products than any other single nation.”

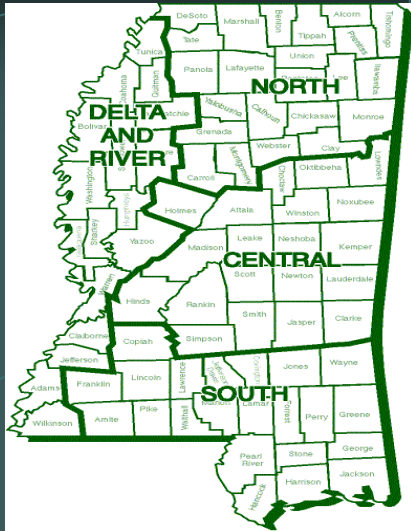
From: Southern Forest Resource Assessment, USFS, Summary Draft, Dec., 2001



A vertical strip on the left side of the slide shows a topographic map of a mountain range, likely the Sierra Nevada, with contour lines and a yellow line indicating a path or boundary. The background of the slide is a dark teal color with faint, light blue contour lines.

## **RPA Reports**

**“Looking Ahead: An Analysis of the Timber Situation in the U.S. 1957 - 2050” by Richard Haynes. National Woodlands, July, 2000**



“...but softwood lumber production will increasingly shift to the South and the Pacific Northwest after 2015. Pulp, paper and paperboard production will increase primarily in the South, and mainly in the South-central part of that region.”

“Looking Ahead: An Analysis of the Timber Situation in the U.S. 1957 - 2050” by Richard Haynes. National Woodlands, July, 2000

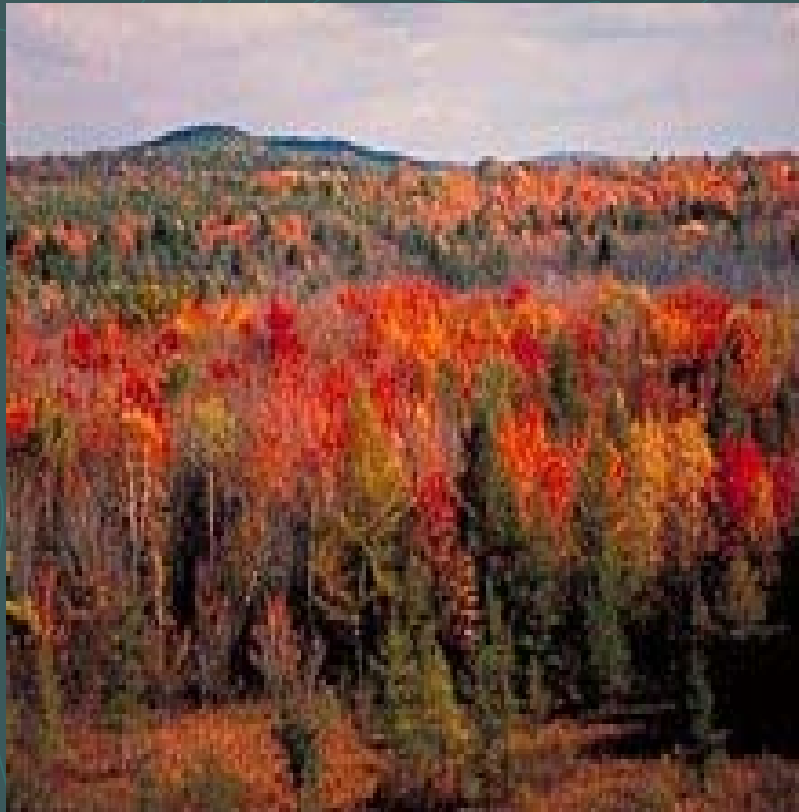




**“Overall, these projections seem to bode well for nonindustrial private woodland owners in the United States. Despite regional shifts in demand and production of various forest products, prices and markets should remain strong and a flood of imported timber does not appear likely to overwhelm domestic production.”**

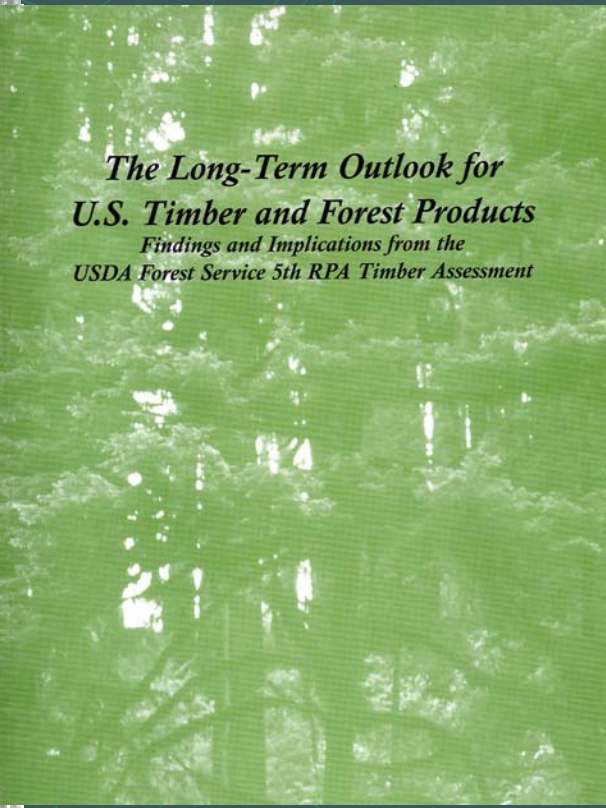
“Looking Ahead: An Analysis of the Timber Situation in the U.S. 1957 - 2050” by Richard Haynes. National Woodlands, July, 2000

# Southern Forest Resource Assessment, 2001



- **Forest Area Stable**
- **Timber Production Will Expand**
- **Pine Plantation Investment Will Increase**
- **Timber Production Shifts West**
- **Increasing Demand For Recreation**

# Long-Term Outlook for US Timber and Forest Products

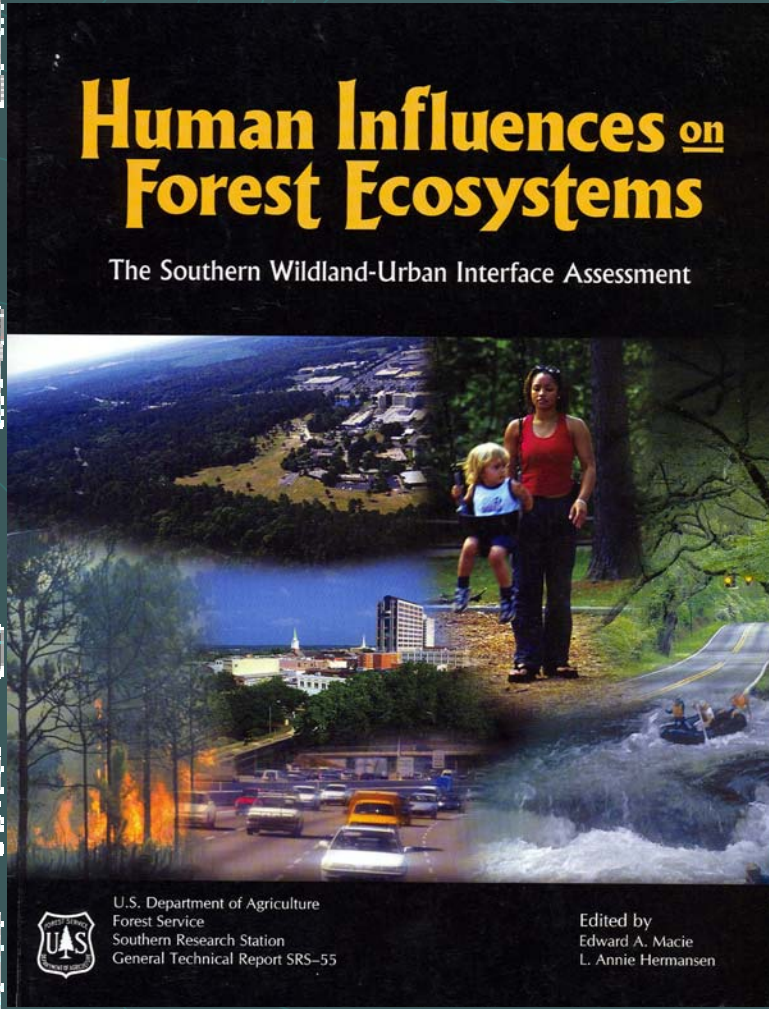


*The Long-Term Outlook for  
U.S. Timber and Forest Products  
Findings and Implications from the  
USDA Forest Service 5th RPA Timber Assessment*

- **Softwood lumber and OSB consumption will grow to record levels by 2050.**
- **Pine stumpage prices will remain stable and hardwood prices will rise.**
- **Environmental pressures will rise in the South.**

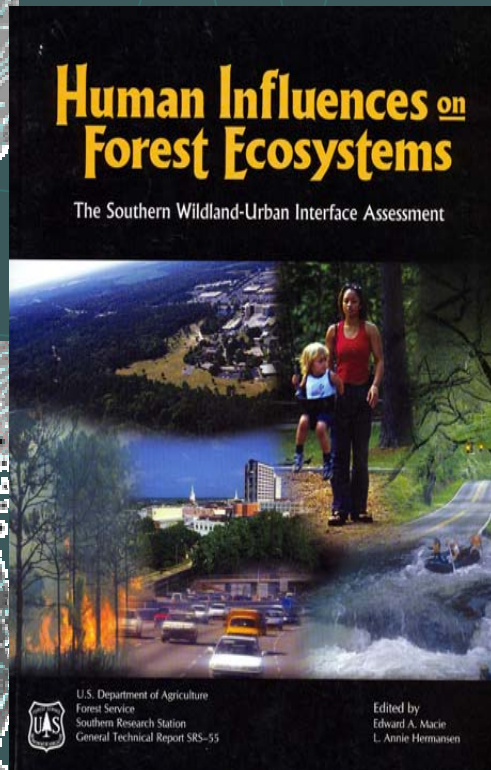


# Human Influences on Forest Ecosystems



The Southern  
Wildland-Urban  
Interface  
Assessment  
*November, 2002*

# Human Influences on Forest Ecosystems



“Between 2000 and 2020 the South’s population is projected to increase another 23.8 million”.

“...outdoor recreation participation expected to grow faster than population for 60% of all activities tracked.”

# Recreational and Environmental Values Are Rising



A vertical strip on the left side of the slide shows a topographic map of a mountain range, with contour lines and a road winding through the terrain. The map is in grayscale and has a slightly grainy texture.

# Recreational and Environmental Values are Rising

- Realtors report that demand for recreational land, primarily for hunting, is strong.
- TimberMart South reports that the average hunting lease in MS/LA in early 2004 was \$3.75/acre with a range of \$2.20 to \$6.50. Some much higher.

# Forest Investments Are Financially Attractive



Financial Organizations such as Pension funds, Banks, Insurance Companies and Endowments are buying timberland.

“TIMOS”

Attractive ROI is driving this change

# The Conclusion to this story is:

**1. Mississippi forestland remains economically important and valuable today for timber and more.**



**The Conclusion to this story is:**

**2. Mississippi has good timber markets and prices today (though recovering).**



**The Conclusion to this story is:**

**3. Markets for the future are predicted to be steady**





# **Headline: Dr. Bob Daniels Retires from MSU!**



**Timberland Investment Specialist**

**Reg. Forester #1012, Realtor**

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**Bob@century21starkville.com**

**Former MSU Professor of Forestry, Fellow, Society of American Foresters**

# Questions



