

Outlook for Coastal Stumpage Prices

Presented by

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Concurrent Session B

TRENDS AND CONDITIONS IN FOREST PRODUCTS MARKETS

Moderator: Darius Adams

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<http://www.dnr.wa.gov/htdocs/obe/obehome4.htm>

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The Office of Budget and Economics
 The budget office produces several reports that track projected revenues from state-owned trust lands. Other reports provide data on market and economic conditions.

State Investment Board's Review of DNR's Commercial Lands Program
New! The 2006 Legislature directed the Washington State Investment Board to evaluate DNR's Commercial Lands Program. The SIB retained Pension Consulting Alliance, Inc., one of the SIB's investment consultants, to conduct the attached evaluation. [Click for a PDF copy](#) (PDF 750 K)

March 2007 Economic and Revenue Forecast
New! DNR's forecast revenues are down by \$15.3 million (6 percent) in the current fiscal year (FY 07). However, they are up \$11.7 million (2.3 percent) for the 2007-09 biennium and up \$14.9 million (2.6 percent) for the 2009-2011 biennium. [Click for a PDF copy](#) (PDF 354K)

DNR's 2002 Mill Survey
 During 2002 nearly 180 state timber mills and businesses processed or exported more than 4 billion board feet of wood

Timber Harvest Reports
 Select a report

Mill Surveys
 Select a survey

Revenue Forecasts
 Select a report

Other publications

- 07-09 Operating Budget
- 2007-2017 Capital Plan
- Commercial Lands — Program review by State Investment Board **New!**

Adobe Acrobat

Bob Van Schoorl
 Budget Director
[E-mail](#)

DNR Contacts

For alternate for mats of information on this site call (800) 902-1000 TTY: 7-1-1

start Microsoft Excel - inve... Sent Items - Microsof... Washington State De... Microsoft PowerPoint ... 9:39 AM

How many forecasters are here
today?

To Forecast is to Error . . .

But to be paid for it
is divine!

DNR Economic and Revenue Forecast

- Simulation of expected revenues produced by DNR
- Used as a basis for the department and beneficiaries budget.
- Not an unbiased forecast but subjectively risk weighted to the down side.
- Stumpage prices are an important part of our forecast

“ . . . over the long term, timber prices are residual values determined by national and international markets based on what the final product market will pay for timber, rather than supply competition at the local level.”

The Future of Washington's Forests and Forestry Industries
College of Forest Resources, University of Washington
October 2006

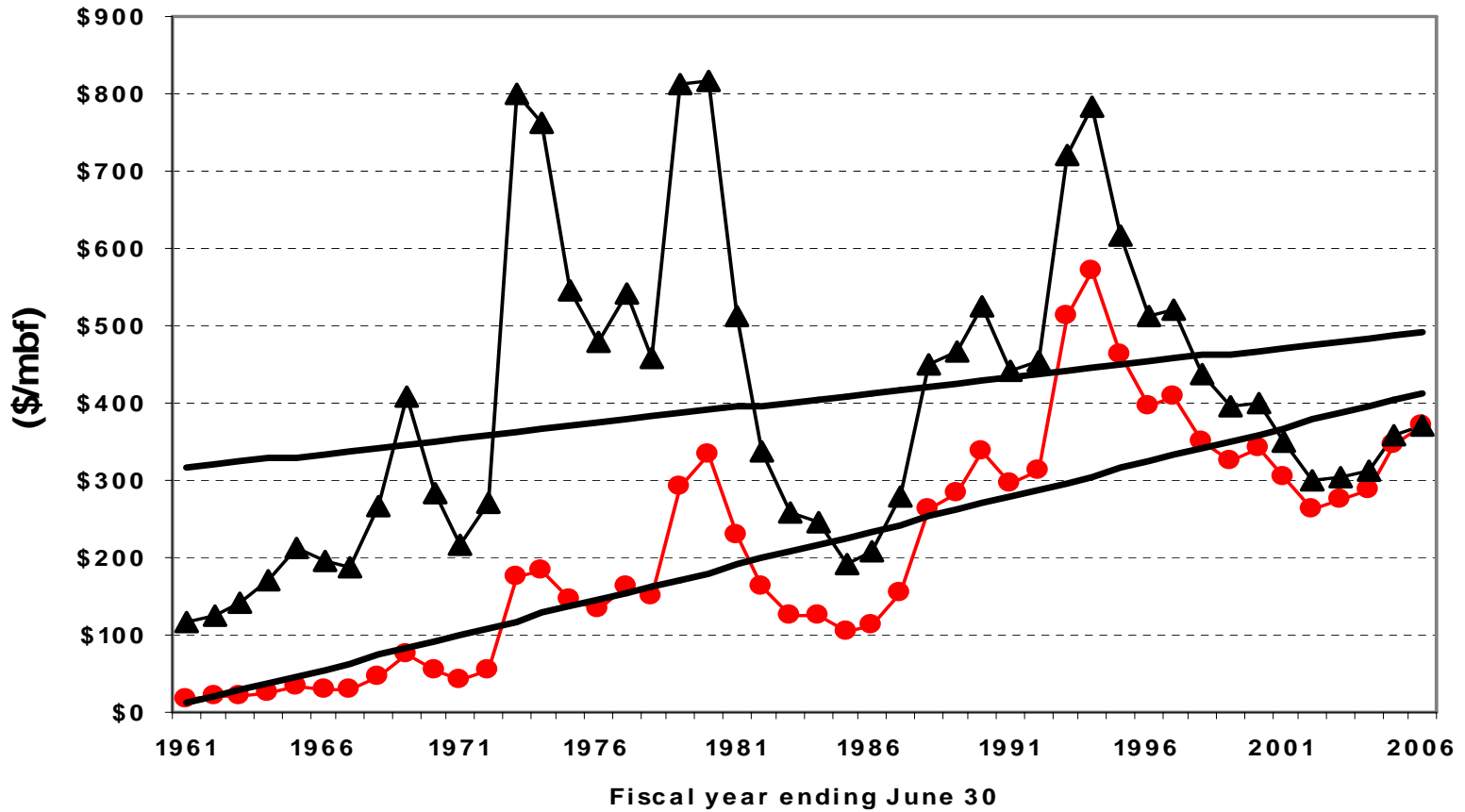
“ . . . Ya but we all live in the short run ”

*“ . . . Or just maybe we have reached
the long run?”*

Tuesday, May 22, 2007

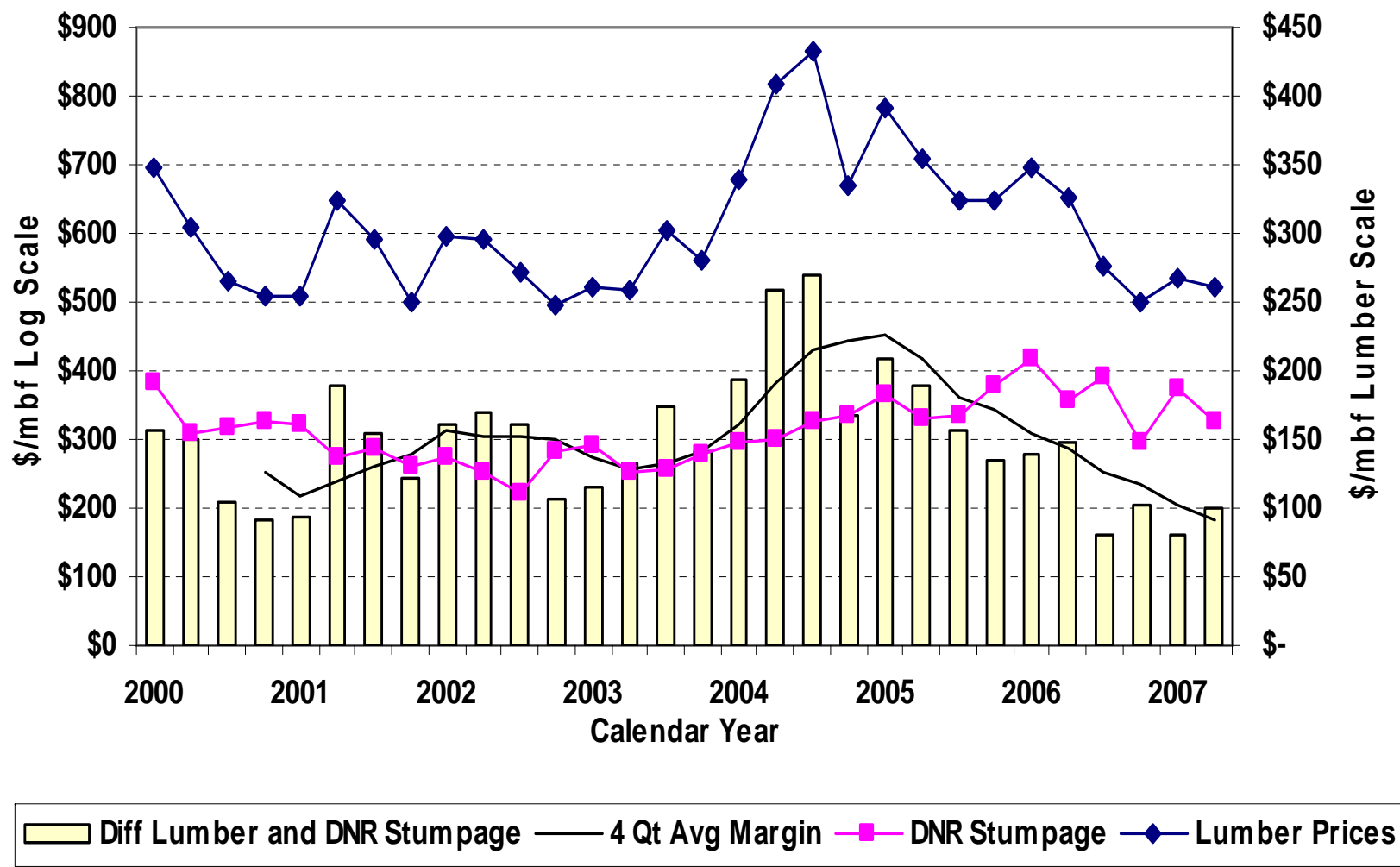
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Figure 3.5: Real Timber prices



—●— Sales Price Nominal —▲— Sales Price Real
— Linear (Sales Price Real) — Linear (Sales Price Nominal)

Figure 2.5: Lumber and DNR Stumpage Prices



DNR Stumpage = f(West Coast Lumber)

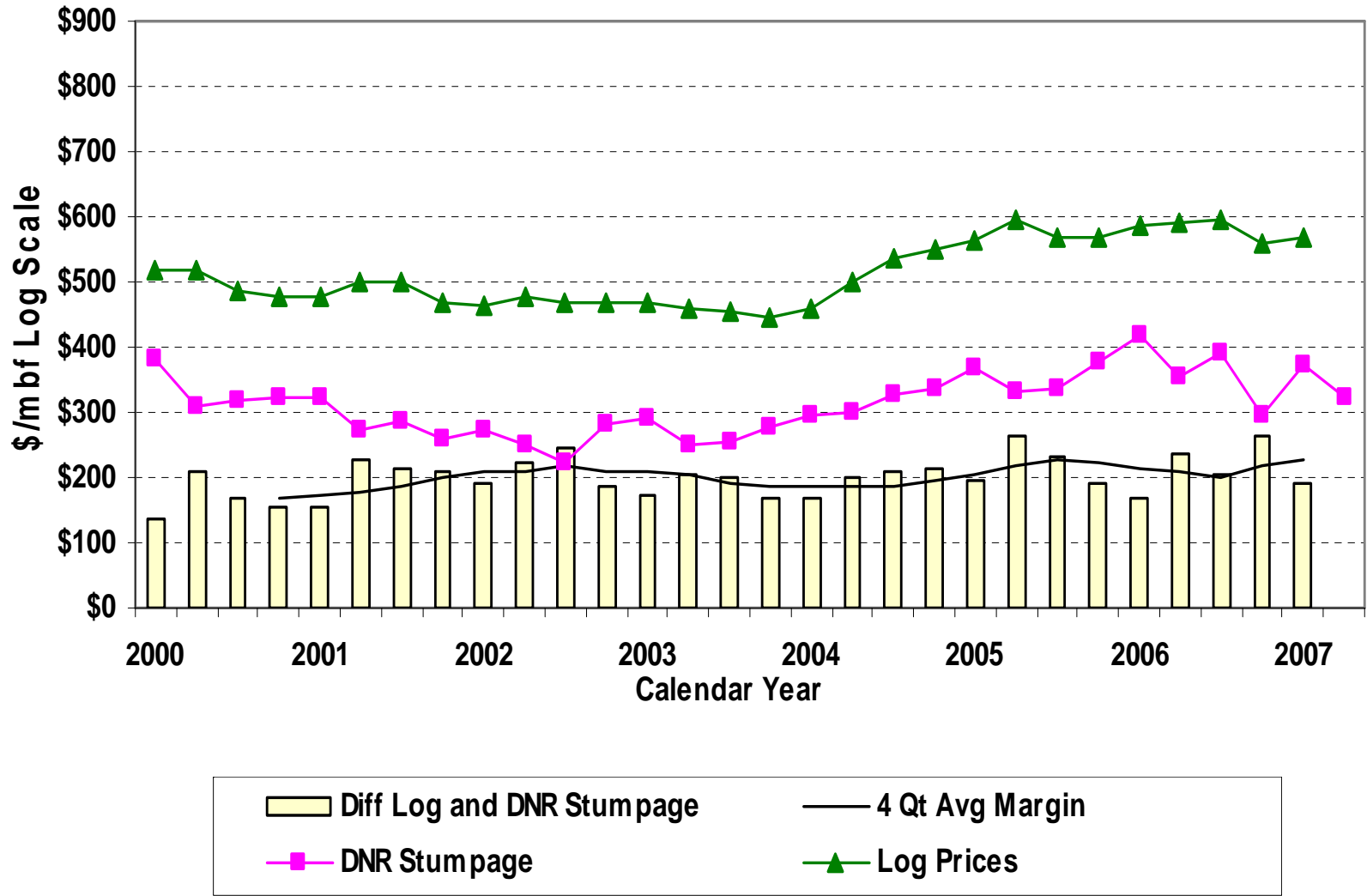
- Adjusted $R^2 = 8.7\%$
- X Coefficient = \$.66 Log scale (ls)

“Margin” 2000:1-2003:4 = \$275 mbf (ls)

“Margin” 2006:3-2007:1 = \$175 mbf (ls)

Diff = -\$100

Figure 2.6: Log and DNR Stumpage Prices



DNR Stumpage = f(PS Domestic #2 sawlog)

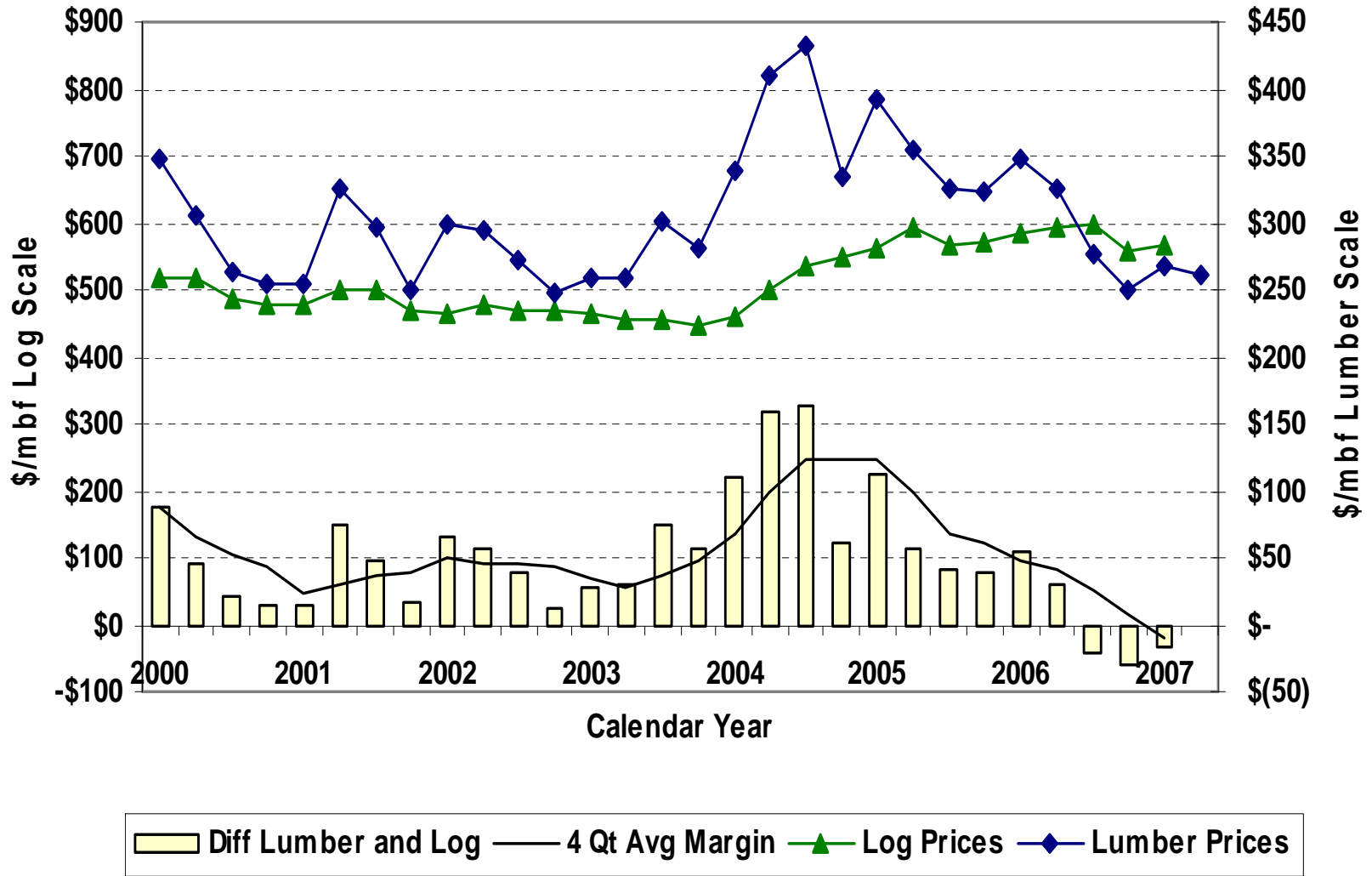
- Adjusted $R^2 = 61.7\%$
- X Coefficient = \$.77 (ls)

Margin 2000:2-2003:4 = \$190 mbf (ls)

Margin 2006:3-2007:1 = \$220 mbf (ls)

Diff = +\$30

Figure 2.7: Lumber and Log Prices



PS Domestic #2 sawlog = f(West Coast Lumber)

- Adjusted $R^2 = 12.8\%$
- X Coefficient = .81 (Log scale)

Margin 2000:2-2003:4 = \$85 mbf (ls)

Margin 2006:3-2007:1 = -\$45 mbf (ls)

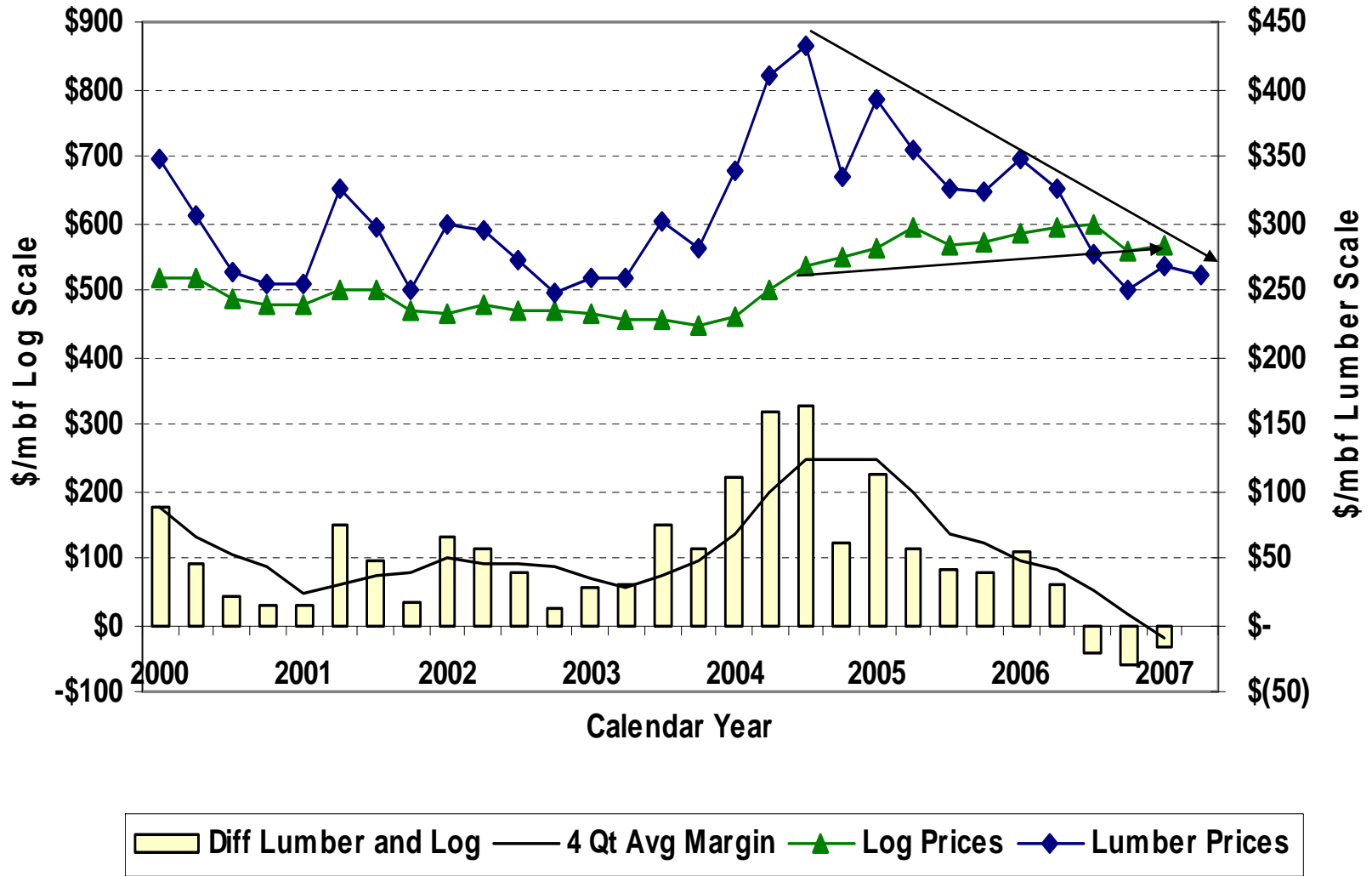
Diff = -\$130 mbf

Change margin stump to log \$30/mbf
+Change margin log to lumber -\$130/mbf
=Change margin stump to lumber = -\$100 mbf

Why the increase in margin from stump to log by \$30/mbf?

- Fuel ?
- Other?

Figure 2.7: Lumber and Log Prices



Good question

How can the margin for converting logs to lumber go from \$85/mbf to a -45/mbf?
A net change of -\$130/mbf

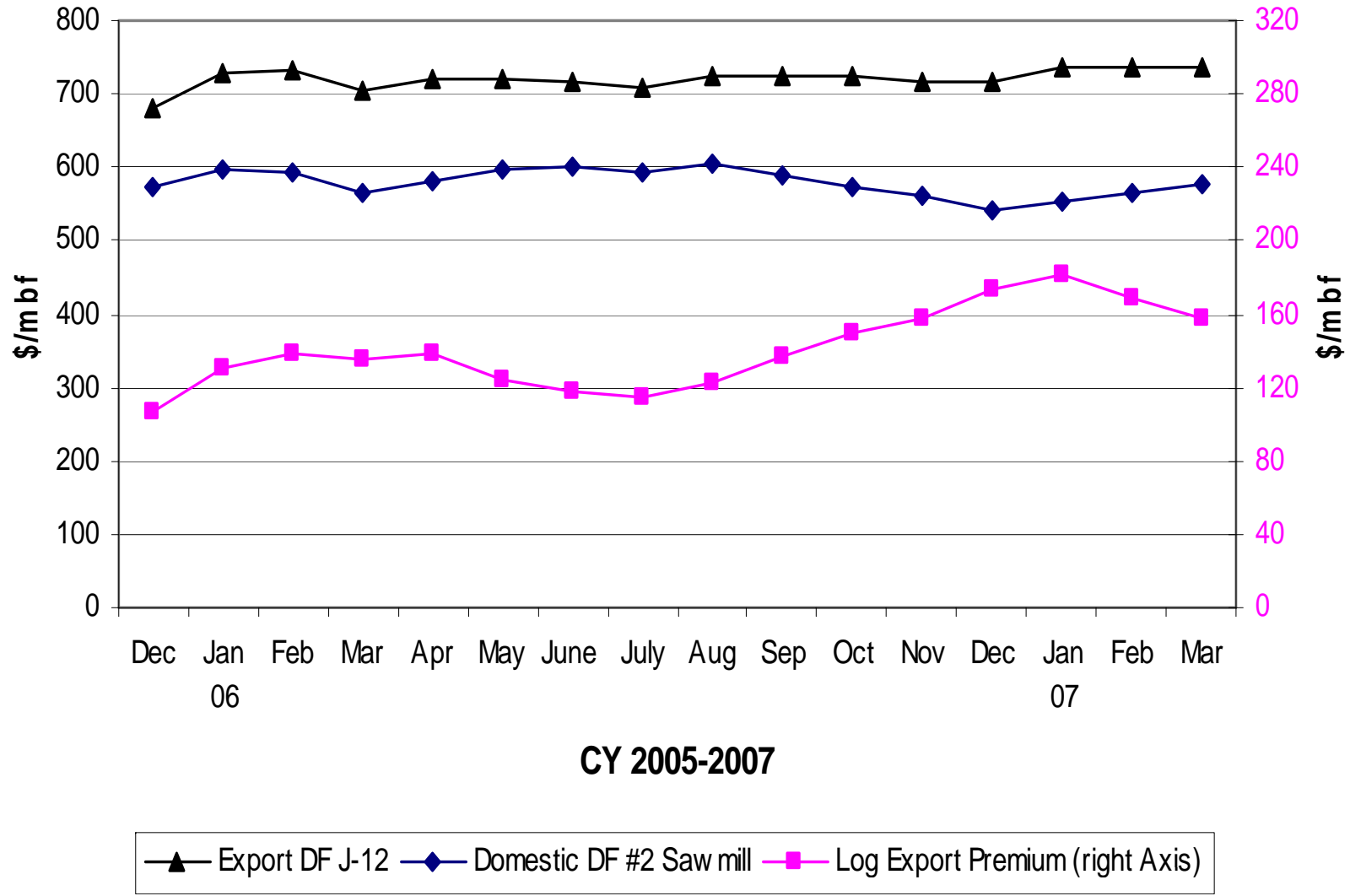
“For the first time since the early 1990’s a period of tighter global timber and log supply, leading to higher log and lumber prices, could be looming”

***Wood Markets
Monthly International Report
February 2007***

Why?

- Growth in ROW greater than U.S. and weak U.S. dollar
 - While U.S. lumber prices have been trending down over the last two and a half year they have increased in Europe and Asia.
 - North America has become a net exporter of lumber
- Canadian timber harvest
 - B.C. harvest will soon fall because of Pine Beetle
 - reduced allowable cut in eastern Canada.
 - Softwood lumber agreement reduce returns
 - Strong Canadian Dollar
- Log export restrictions
 - Russia is phasing in a log export tax of 80% by January 2009
 - BC also moving to control log exports

Figure 2.8: Puget Sound Log Export Premium



Local

- Increasing lumber capacity
 - Highly efficient mills (when running)
 - High capacity mills (need a lot of wood)
- TEMOs now control 70 % of timber supply in Western Washington
 - Part of their strategy is to sell into strong markets
 - Able to let the timber grow during weak markets (log shortage?)
- High prices for woodchips (mills being squeezed on both sides)

Figure 2.8: #2 Log Prices and Premium

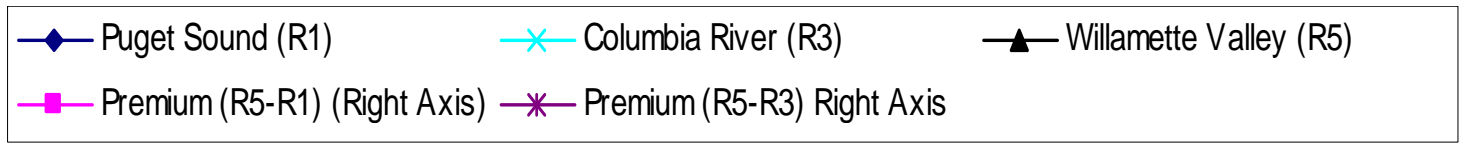
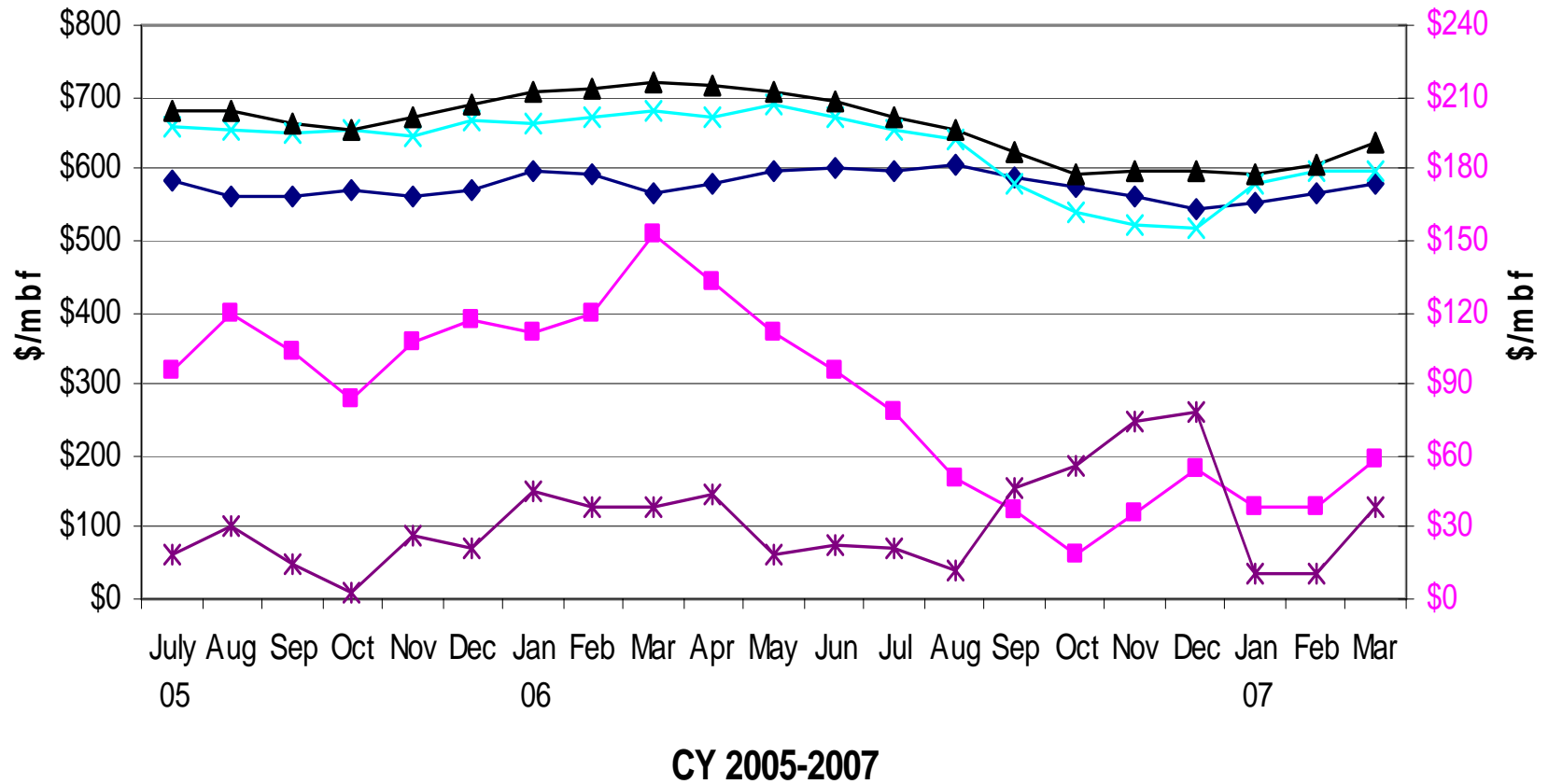


Figure 3.5: Forecast Sales Prices

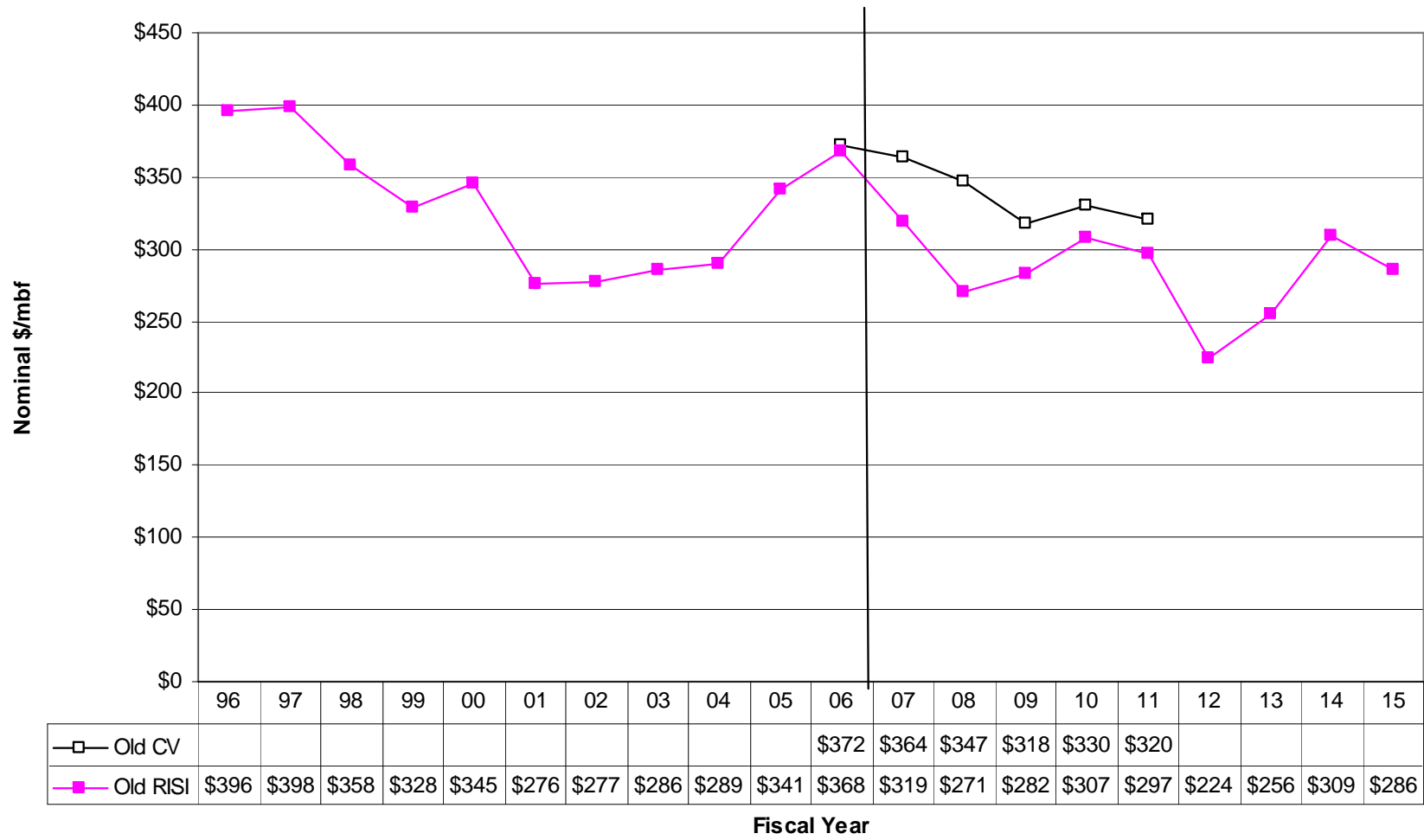


Figure 3.5: Forecast Sales Prices

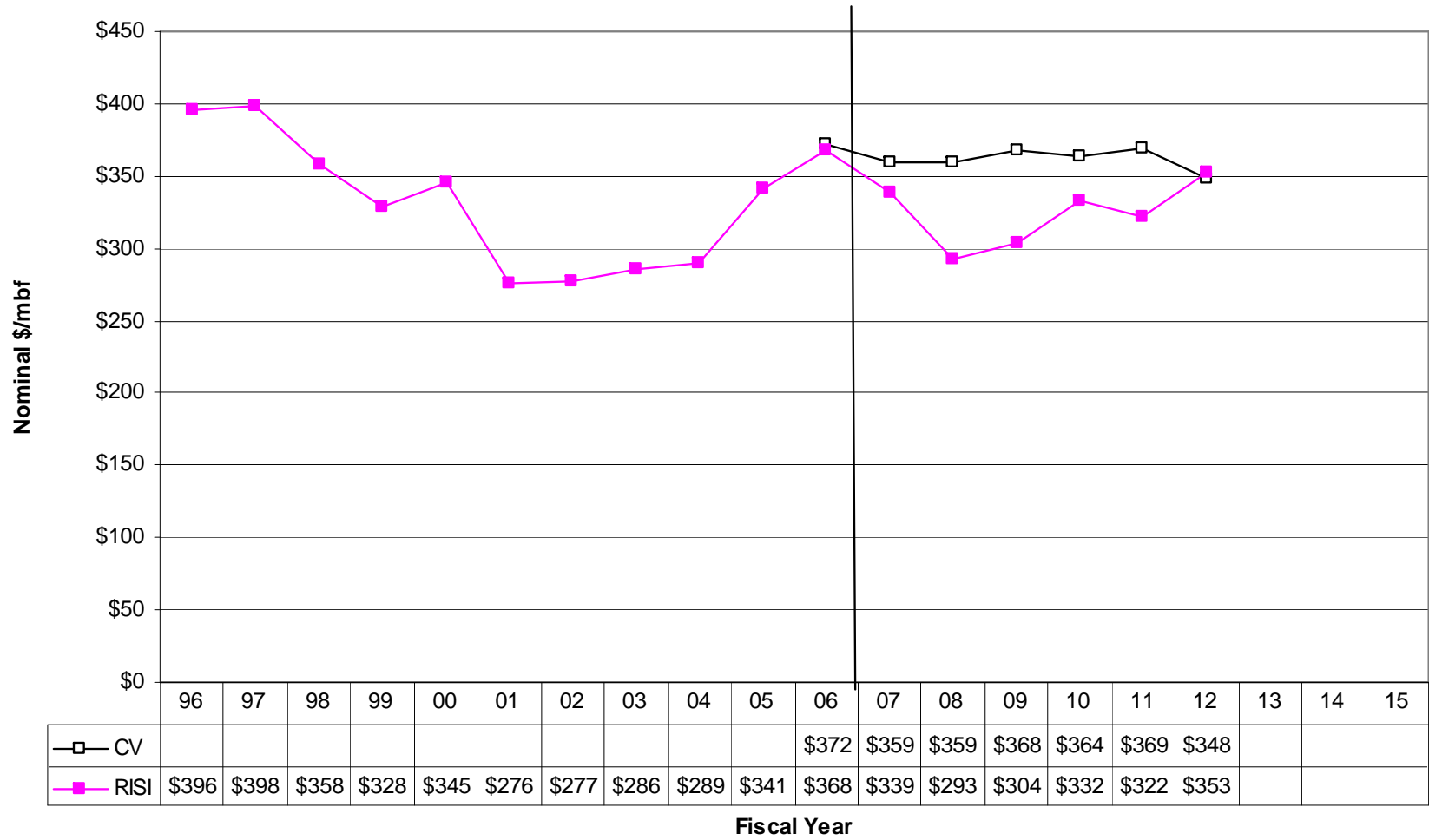


Figure 3.5: Forecast Sales Prices



In conclusion:

Are Coastal Stumpage Prices going up or
down?

Yes, but not necessarily right away
And not necessarily in that order!