

Western Timberlands

In our last issue, we looked at changes in the markets for softwood exports to the Pacific Rim. Here we look more closely at timber values and timberland returns in the region.

WESTERN LOG PRICES

Douglas-fir log prices were hurt by the collapse of several Asian economies late in 1997, as is clearly shown in Figure 1. The log prices shown here are an average of prices reported by Log Lines, the Oregon Department of Forestry and Pacific Rim Wood Market report and are a weighted average of a half-dozen domestic and export grades. Prices for both Douglas-fir and whitewoods began trending upward during the middle of 1998, but began to fall again in late 2000.

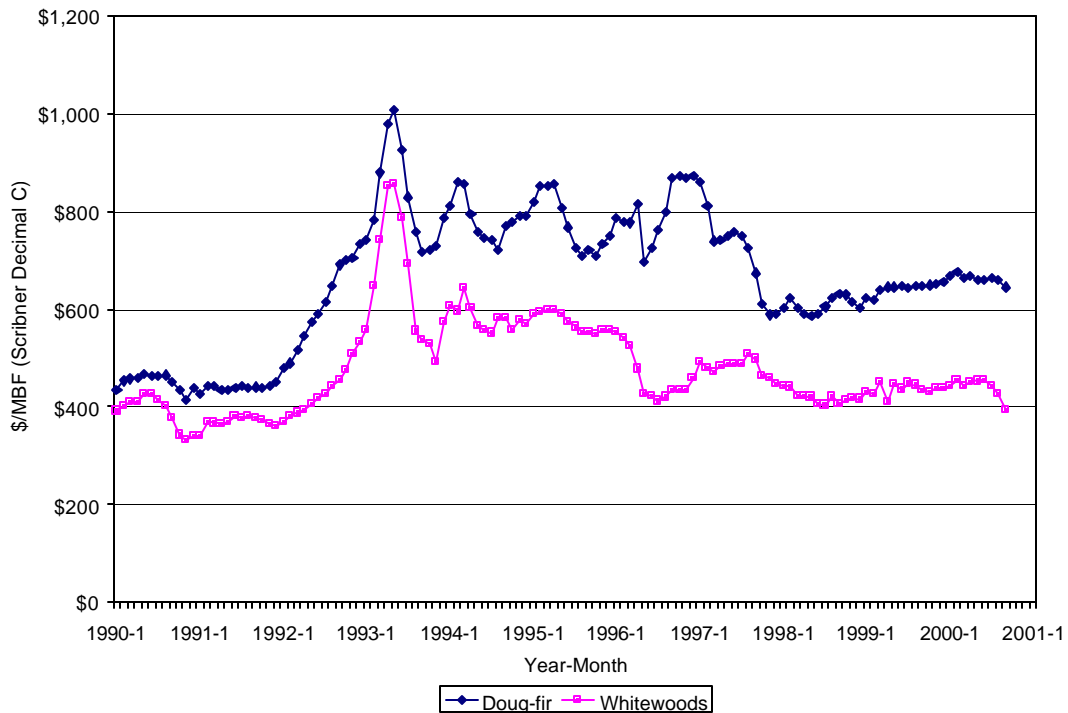


Figure 1. PNW Log Prices

The fall-off in prices in 2000 is being driven by falling lumber prices, represented in Figure 2 by the Random Lengths Framing Lumber Composite¹ price. Lumber prices are falling because housing starts are falling, from a seasonally adjusted annual rate of about 1.8 million units each month in December

¹ Framing Lumber Composite price from Random Lengths. Used by permission.

1999, January and February 2000 to 1.6 million units each month in March, April and May to 1.5 million units in June and July. The lumber industry kept production high well into the housing start slowdown and began curtailing production in the second quarter of this year. Note that the fall in western log prices lagged the drop in lumber prices by nearly a quarter.

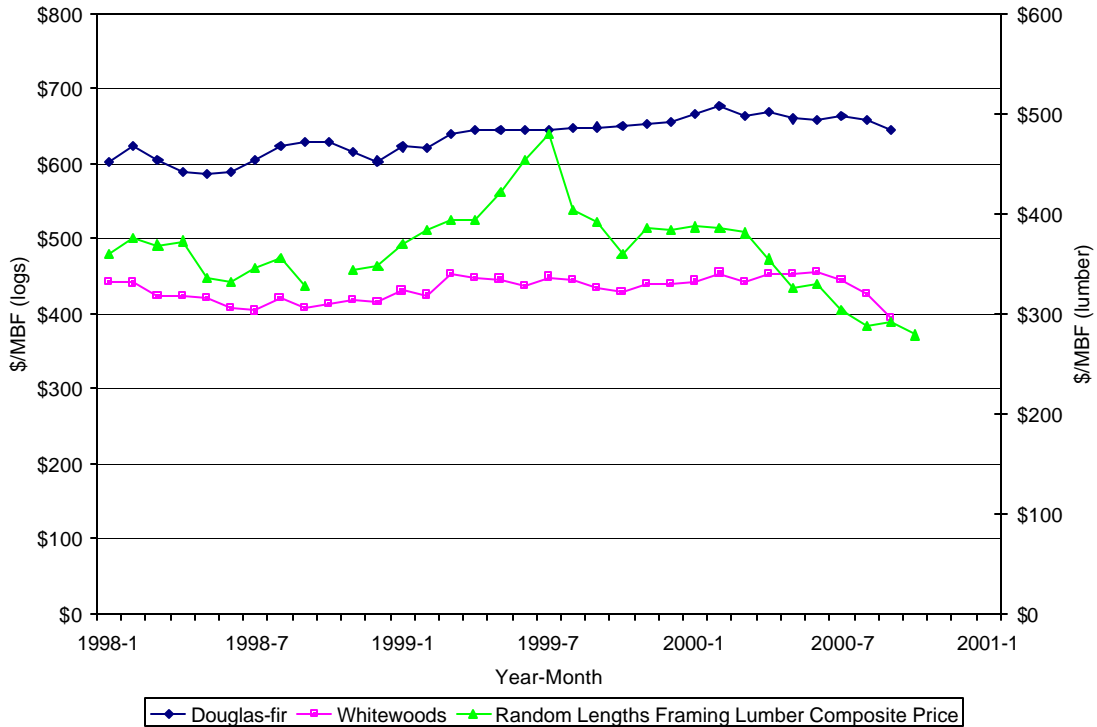


Figure 2. PNW Log Prices and Average Softwood Lumber Prices

A closer look at log prices shows (to no great surprise) a much tighter relationship between domestic lumber prices and domestic log grades. Figure 3 separates domestic and export Douglas-fir log grades and shows that the weighted average of export log prices have been able to continue their upward trend in spite of the drop in price for domestic log grades.

Whitewood prices are shown in Figure 4. Here, the export prices have also been slipping in the past quarter. (The average domestic whitewoods prices have generally been higher than the average export whitewoods prices because prices for #2 sawmill logs are usually higher than several of the export grades.)

There is little reason for optimism about lumber demand (and therefore log prices). The debate among economists is whether the U.S. economy will make a soft landing or slam into a recession. In either case, housing starts are not expected to increase significantly for two or three years. Unless western lumber producers can increase their level of exports in the face of increasing global competition, there is little reason to expect an increase in demand for logs.

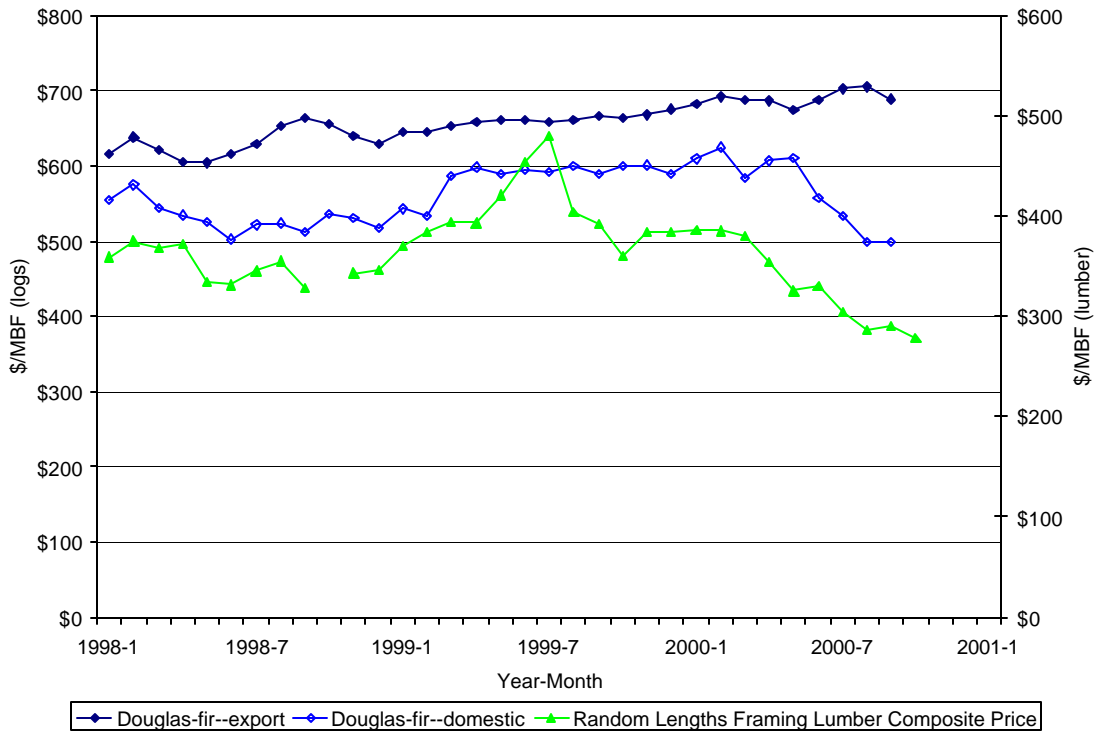


Figure 3. Douglas-fir Log Grades and Average Softwood Lumber Prices

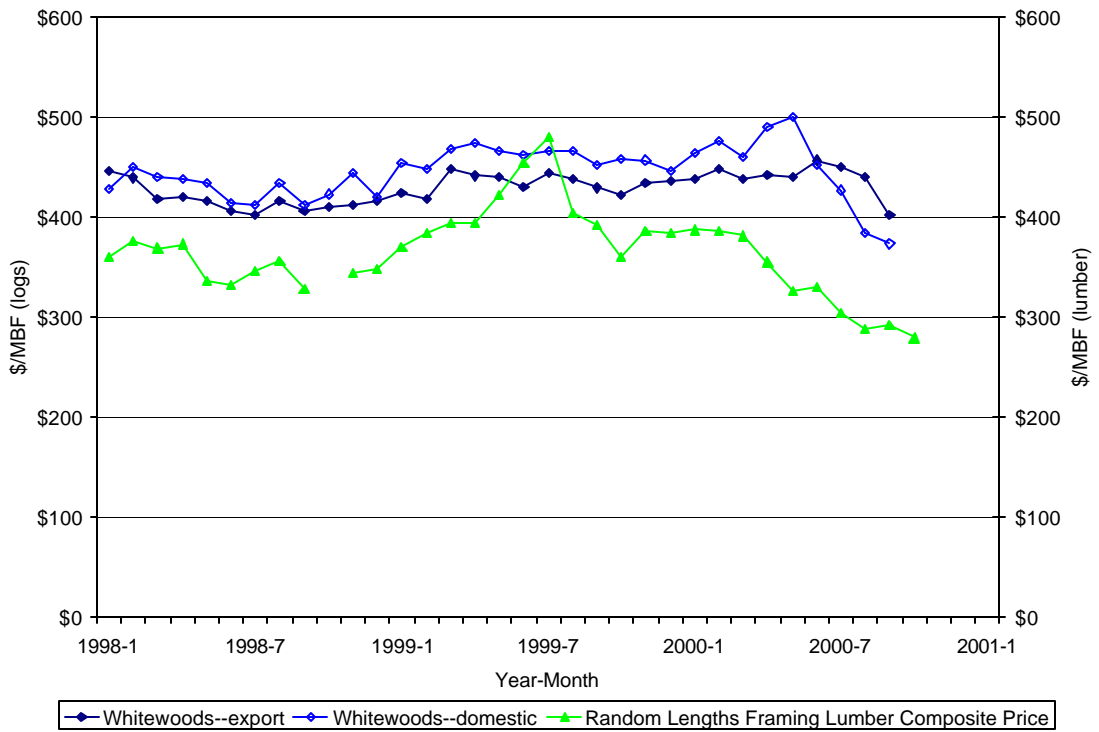


Figure 4. Whitewoods Log Grades and Average Softwood Lumber Prices

RECENT WESTERN TIMBERLAND PERFORMANCE

Figure 5 shows log prices through the third quarter and western timberland returns through the third quarter. 18 months ago, we speculated about when timberland values would fall in response to falling log values. The NCREIF Timber Appreciation Index indicates a drop in timberland values in late 1998 and a rebound in late 1999. It appears that the upward trend (at least until recently) in log prices has managed to maintain positive expectations for timberland values in the region.

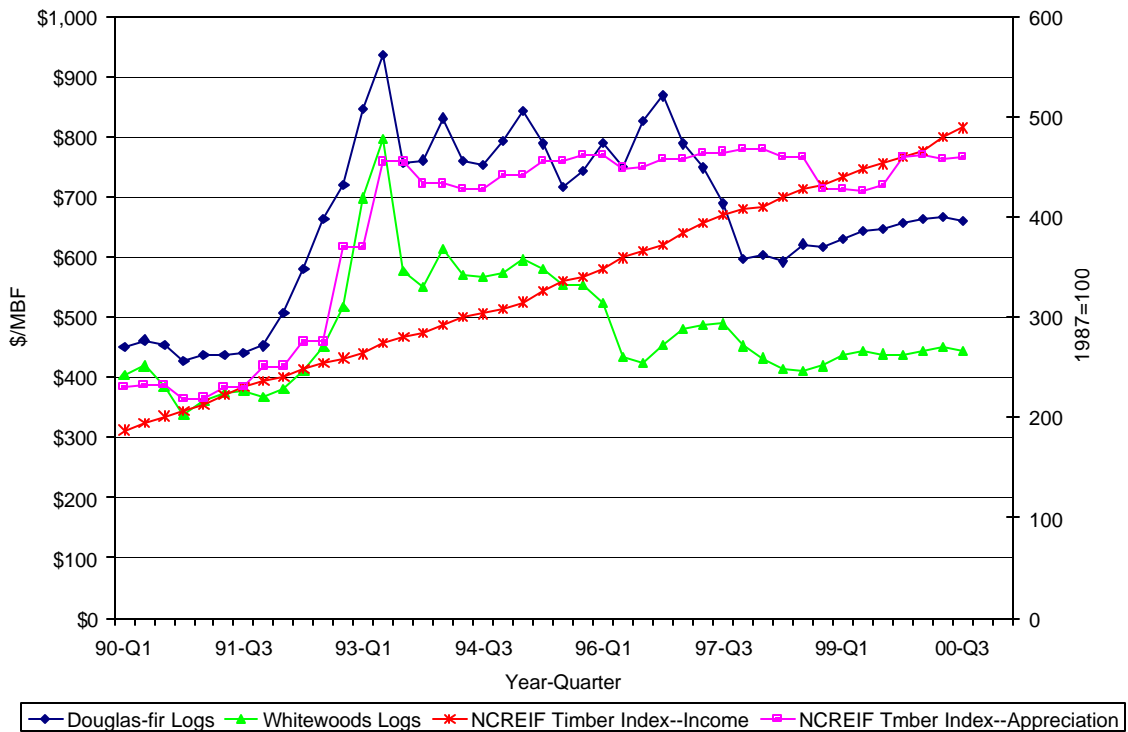


Figure 5. Western Timberland Performance

Eighteen months ago we also wondered when the gap between Douglas-fir and whitewoods would narrow to pre-spotted owl levels. There seems to be no movement in that direction. Douglas-fir log prices are still well above 1990 levels, while whitewood prices are only slightly above 1990 levels.

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