

VOLATILE **TIMBER** MARKETS

AND IMPLICATIONS FOR FUTURE FOREST MANAGEMENT

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Improved site preparation techniques, increased amount of planting, and improved cultural treatments have all led to an oversupply of pine in some areas of Alabama. This increase in supply has dampened prices and made it difficult for landowners to move their wood.

Markets for standing timber have historically been volatile and difficult to predict. This has been especially true over the past three years. Most timber markets skyrocketed because of the COVID-19 pandemic. Forest product mills feared the worst at the outbreak and either slowed or shut down all production. At the same time, toilet paper supplies were depleted, and many Americans took on home improvement projects as they became bored with the

lockdowns. This simultaneous decrease in supply and increase in demand created a short-term bubble for most forest products which helped landowners see a brief spike up in prices for standing timber. Unfortunately, all bubbles must burst, and the prices have now returned to their pre-pandemic levels.

Predicting the future value of timber is difficult since it is such a long-term investment. New or unforeseen influences on either supply or demand can



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cause significant changes in return on investment. Even the experts can miss projections. Using the information available during the mid-1980s, some forest economy experts predicted a shortage of pine by the early 2000s. Obviously, there were some unforeseen influences on the supply end.

While future influences on the supply or demand are difficult to predict, most foresters believe the following forces have the potential to impact future prices.

POTENTIAL NEGATIVE INFLUENCES

Pine overgrowth. Some portions of the state are growing far more pine than is being harvested. The increase in tree planting from 1985-2000, the application of site preparation techniques, improved genetics, and intermediate treatments such as the use of fertilizer and thinning all pushed current pine volumes well above their projected levels. Experts believe this oversupply of wood will produce lower prices and tighter quotas for landowners well into the future.

Pending recession. Depending on who you listen to, we are either headed toward a recession or are already in one. Regardless of the official definition

of a recession, hardwood lumber buyers are pessimistic as reflected in the lower prices. Also, it often takes years after the official end of a recession for standing timber prices to rebound.

Substitute products. Substitutes for many forest products are already being developed. Metal barrels for whiskey, steel beams for construction, composite wood for trim, and painted cabinets all lead to a reduction in demand for forest products and loss of markets for landowners.

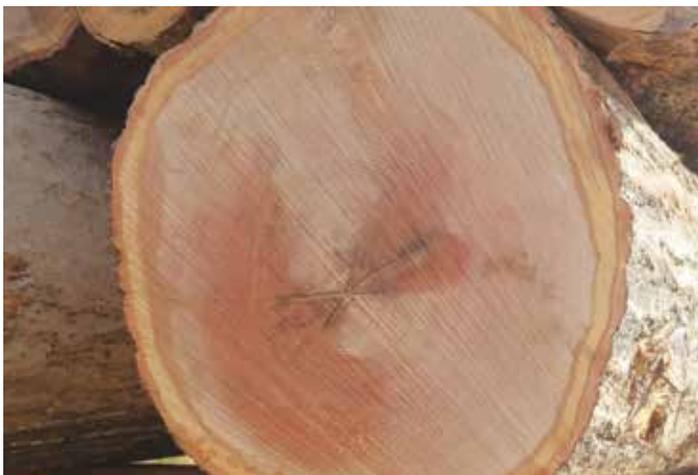
Asian market losses. China imports a large portion of the red oak harvested in the South and is paying far less than in recent years. Whether it is to control the market or because of their weakening economy, the effect to landowners is the same. Lower prices for red oak will probably continue for the next several years.

Increased efficiencies of forest industries. Both loggers and mills are constantly striving to become more efficient to improve their bottom line. As a result, the supply of both harvested wood and finished forest products can increase resulting in lower prices for landowners' timber. This increase in efficiency can also reduce competition as the demand for wood is more easily met. This reduction in competition between buyers of wood results in lower prices for landowners.

POTENTIAL POSITIVE INFLUENCES

Increase in mill capacity. Several areas in Alabama have seen an increase in new mill announcements and expansion of existing mills over the past five years. The South is an attractive area for most forest industries due to the favorable business climate and the abundant supply of wood. This increase in mill capacity should help improve the demand for wood which will help landowners move timber when needed and at a better price.

Reduced availability of wood. Just because there is a huge surplus of timber in some areas does not mean that it is all available. Many new forest landowners have purchased their land for recreational



Once prized for its distinctive color variation, red oak prices have declined significantly over the past six months. China has lowered its imports and most cabinets are now constructed with cheaper wood that is painted.

and even therapeutic purposes. They like to hunt, fish, ride ATVs, and enjoy the aesthetics of their forests. While they are interested in thinning pines and selectively harvesting hardwoods, they often are not interested in the traditional “final” harvest. Researchers have yet to calculate the impact on the wood available for harvesting caused by these changing objectives.

Reduced reforestation. Some areas of the state have experienced a significant decrease in the acres reforested in pine over the past 20 years. Landowners in those areas where pine markets have been depressed for a prolonged period are the ones less likely to reforest. If existing mills remain in operation, this may result in better markets for pine in the future.

Emerging markets. Foresters are excited about the potential of new and emerging markets for forest products. Engineered wood for the construction of tall buildings and nanotechnology which improves existing forest products both look promising. Landowners in some areas of the state will see new mills which manufacture pellets for home heating. Further, the market for carbon trading seems to be improving and may be a viable option for some landowners.

Even though it is difficult to predict future markets and their impact on management strategies,

most foresters believe the following tweaks will help landowners experience success when it comes to land management.

Shorter rotations for pine plantations. The traditional pine plantation management utilized by many foresters used to include commercial thins at ages 15 and 25 with a clear-cut at age 35. As pine sawmills move toward equipment that increases their efficiency, most of them prefer smaller logs. This reduction in the maximum size log accepted by these mills will necessitate a shorter rotation to harvest trees before they become too big. Many foresters across the state are projecting one thin at age 15 and a final harvest between 24-28 years to maximize return on investment.

Manage for white oaks and tie-logs in hardwoods. White oaks are versatile and are used for lumber, staves (barrels), and veneer. Markets for this product are anticipated to remain strong well into the future. Tie-logs are intermediate quality and size hardwoods that are suitable for making crossties for the railroad industry. Railroad companies have tried everything from concrete to tropical wood for their crossties but seemingly always come back to wood grown in the Midsouth.

Mutual fund approach. To help offset volatile commodity markets, many successful landowners have employed a mutual fund approach to land man-



Foresters recommend managing for white oak and tie-logs in hardwood stands. Landowners should work with a consulting forester to improve their existing stands and to regenerate new ones.



Diversifying land use is a good method of lowering the risk of loss from producing a single product. This landowner in Lawrence county has pasture, row crop, young pines, old pines, and hardwood.

agement. Diversifying their land use into pasture, row crop, pine plantation, and hardwood helps lower the risk of loss when compared to producing a single product. However, smaller landowners may have limited options for diversification as production loggers often require a minimum of 30 acres to harvest.

Successful landowners across Alabama have certain practices in common. They have implemented the practices and adopted the mindsets below.

Remain fluid. A missionary once said that they had to remain fluid in their profession as flexible was way too rigid. The same is true for forest management. The volatile markets, regulations affecting management, and the ever-changing conditions of the forest can make it difficult for landowners to reach their objectives. Successful landowners are adaptable and tend to see changes as opportunities rather than challenges.

Manage your land. Many landowners have fallen into the trap of postponing timber harvests in anticipation of higher prices. These landowners fail to consider the opportunity costs of postponement such as a net loss in growth, the risk of damage from pests or natural events, and the time value of money. In addition, postponing harvests could delay improvements in wildlife habitat or game harvesting opportunities. While some landowners have benefited by postponing harvests on a seasonal basis, they rarely benefit by postponing a needed harvest more than a year.

Use a forestry consultant. The Association of Consulting Foresters of America (ACF) defines a consulting forester as “an independent professional who manages forests and markets forest products for private woodland owners.” Consulting foresters serve as agents for landowners and have certain legal obligations to their clients. In Alabama, consultants must also be registered foresters. Landowners should use consultants that have experience in their area and with their specific needs, that practice consulting full-time, and who receive good reviews from other landowners. Consultants can use their education and experience to help landowners navigate the volatile timber markets and their implications on future management.

Timber markets are expected to remain volatile as there are forces which have the potential to either increase or lower prices in the future. While managing forestland in anticipation of future markets may be difficult, most foresters believe managing pine plantations for shorter rotations, managing for white oak and tie-logs in hardwood stands, and diversifying land use will result in positive outcomes for landowners in the future. By imitating successful landowners that respond to change in a positive manner, harvest timber when it suits their land management needs rather than waiting on better timber markets, and which use forestry consultants to help reach their goals, landowners are more likely to enjoy the ownership of their natural resources. ●