

Forestry Report

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Summer 2019 // NO. 141

Housing Stays Flat, China Remains The Wild Card For Sawtimber



By Marshall Thomas, President of F&W Forestry Services, Inc.

Housing starts reached the 1.3 million level in early 2017 and have been flat ever since. This level of starts, by itself, isn't enough to put any real pressure on sawtimber-sized softwood tree prices in the U.S. But that isn't news anymore, it is just the reality with which we are and have been living.

This problem is compounded in the South by the current oversupply of sawtimber-sized trees, and this has been evident by the disconnect between lumber prices and pine sawtimber stumpage prices. While lumber prices went up, our stumpage prices stayed constant. That hurt while lumber prices were rising, but it is working in our favor now. The Random Lengths Framing Lumber Index went above \$575 in June of last year, and

then dropped as low as \$319 last quarter. That's a drop of 45 percent. Fortunately, Southern stumpage stayed true to its recent patterns, and has only dropped slightly—the lack of linkage between lumber prices and stumpage prices looked bad last year, but it looks better now. Let's hope it stays true while lumber prices are dropping.

A year ago, the log and lumber export markets to China were healthy and were really growing in the South for pine. Last summer I wrote that the increasing Chinese demand for Southern trees was a wild card because we just didn't know how big it would get and if—or when—it would become big enough to influence Southern markets.

Well, the export markets to China are now a wild card for everyone in the business, West Coast to East Coast, and include both softwood and hardwood. In fact, it is even more of a wild card and risk factor for hardwood growers and manufacturers right now due to their dependence on exports to China (see page 5).

The change has been the trade war between the U.S. and China, and the best news of the summer may be the announcement that trade talks are resuming between the two countries. However, the increased tariffs that went into effect during the second quarter have the potential to turn a bad problem into a real catastrophe, particularly for the hardwood folks in the Northeast (see page 4).

This, of course, emphasizes the fact that we are operating in a global economy and illustrates the impact that trade policy can have on local mills and markets. As frustrated as many are with politics, now is probably not the time to put your head in the sand and stay out of the crazy U.S. political landscape. We should all make sure our elected representatives know what we need.

Federal aid is on the way for timberland owners hurt by hurricanes Florence and Michael (see page 7).

Efforts to revise the Federal Tax Code for timber casualty losses due to natural disasters continue, but this is likely to be a multi-year project (see page 6).

NAFO has published an update to its private working forest economic impact report—useful information for convincing the above-mentioned politicians that we matter (see page 7).

Southern Timber Prices

2019 SECOND QUARTER PINE & HARDWOOD STUMPAGE PRICE RANGE* (TONS)

	PINE PULPWOOD	PINE SMALL SAWTIMBER	PINE LARGE SAWTIMBER	HARDWOOD PULPWOOD	HARDWOOD SAWTIMBER
SOUTHEAST					
LAFAYETTE, AL	\$7–14	\$12–21	\$20–30	\$7–15	\$22–50
GAINESVILLE, FL	\$10–22	\$21–26	\$27–32	\$1–11	\$14–30
MARIANNA, FL	\$9–14	\$18–22	\$25–31	\$6–9	\$16–30
ALBANY, GA	\$9–15	\$16–22	\$24–41	\$7–9	\$15–45
MACON, GA	\$8–11	\$15–22	\$25–30	\$7–10	\$18–40
STATESBORO, GA	\$12–23	\$20–26	\$25–31	\$8–13	\$23–45
FOUNTAIN INN, SC	\$7–11	\$12–17	\$20–27	\$7–9	\$23–44
CENTRAL REGION					
CLINTON, TN	\$4–8	NA	NA	\$3–7	\$35–65
PARIS, TN	\$5–7	\$7–13	\$13–13	\$1–5	\$42–90
WEST GULF					
EL DORADO, AR	\$7–16	\$12–17	\$25–36	\$14–20	\$30–60
CORINTH, MS	\$7–12	\$11–14	\$18–23	\$11–16	\$45–55
HUNTSVILLE, TX	\$4–10	\$12–18	\$19–33	\$4–10	\$25–32
TEXARKANA, TX	\$9–16	\$14–19	\$25–35	\$12–24	\$25–50
MID-ATLANTIC					
CHARLOTTESVILLE, VA	\$9–13	\$15–19	\$18–23	\$4–7	\$18–42

*All prices based on sales handled by or reported to F&W offices. If no sales occurred, prior quarter's sales and other data are used to compile price range. Price ranges are due to different locations, timber quality, logging conditions, type of harvest, and local market conditions.

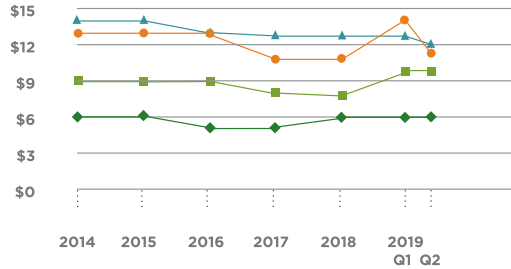
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Southern Timber Prices

TIMBER STUMPAGE PRICE AVERAGES ACROSS F&W'S SOUTHERN REGION

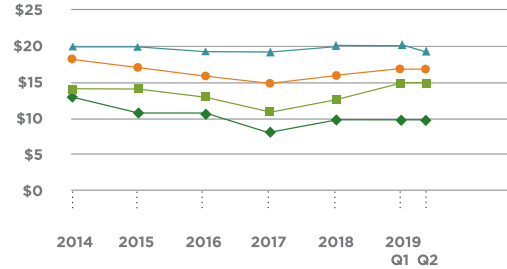
PINE PULPWOOD AVERAGE (TONS)

▲ SOUTHEAST / ◆ CENTRAL REGION / ■ WEST GULF / ● MID ATLANTIC



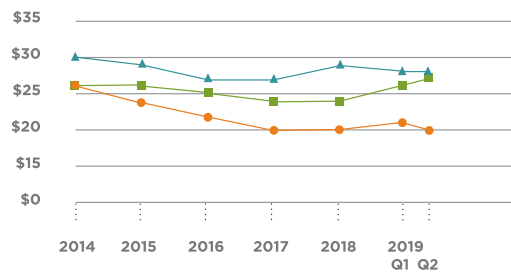
PINE SMALL SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ◆ CENTRAL REGION / ■ WEST GULF / ● MID ATLANTIC



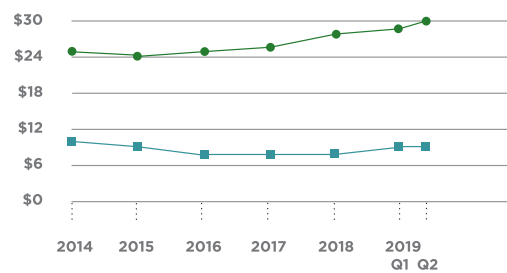
PINE LARGE SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ■ WEST GULF / ● MID ATLANTIC



SOUTHEAST HARDWOOD PRICES (TONS)

■ HARDWOOD PULPWOOD / ● HARDWOOD SAWTIMBER



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Forestry Report

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PO Box 3610, Albany, GA 31706-3610
(229) 883-0505 / fax (229) 883-0515
www.fwforestry.net

Marshall Thomas, President
Rob Routhier, Executive Vice President
Jeff Jordan, Chief Operating Officer

The F&W Forestry Report is produced by:
Bates Associates / PO Box 191386
Atlanta, GA 31119-1386 / (770) 451-0370
bbates@batesassociates.net

REGIONAL OFFICES

LaFayette, AL
T.R. Clark
(334) 864-9542

El Dorado, AR
Brent Williamson
(870) 864-8092

Gainesville, FL
Bryan Croft
(352) 377-2924

Marianna, FL
Jim Doster
(229) 255-5637

Albany, GA
Chad Hancock
Doug Hall
(229) 883-0505

Eatonton, GA
Nathan Fountain
(229) 343-8033

Statesboro, GA
Wade McDonald
(912) 489-1655

Corinth, MS
Jason Potts
(662) 286-9544

Laconia, NH
Jeff Langmaid
(802) 223-8644

Glens Falls, NY
Wayne Tripp
(518) 480-3456

Herkimer, NY
Wayne Tripp
(315) 868-6503

Tupper Lake, NY
Tom Gilman
(518) 359-3089

Strattanville, PA
Joe Glover
(814) 764-6426

Fountain Inn, SC
Nathan McClure
(864) 230-1664

Clinton, TN
Rick Sluss
(865) 457-5166

Dover, TN
Steve Morgan
(931) 624-8881

Huntsville, TX
Chris Bartley
(936) 435-9223

Montpelier, VT
Jeff Langmaid
(802) 223-8644

Charlottesville, VA
Glen Worrell
(434) 296-1464

Pearisburg, VA
Rick Sluss
(865) 640-5430

INTERNATIONAL OFFICES

Fountains Forestry UK, Ltd
Scotland
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Wales

F&W
Uruguay
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Cabinet Coudert
France

AFFILIATED COMPANIES

Stutzner
Dallas, OR

INVENTORY, MAPPING & PLANNING

Jeff Jordan / (229) 883-0505 x136

FINANCIAL REPORTING

Sonya Farmer / (229) 883-0505 x138

OPERATIONS & REAL ESTATE

Jody Strickland / (478) 954-8058

QUALITY ASSURANCE/CERTIFICATION

Stephen Logan / (229) 883-0505 x148

FOREST OPERATIONS

Rob Routhier / (229) 883-0505 x123



Fountains Land
AN F&W COMPANY

MANAGING BROKER

Michael Tragner
(802) 223-8644

PRINCIPAL BROKER

Jody Strickland
(478) 954-8058

Northern Timber Prices

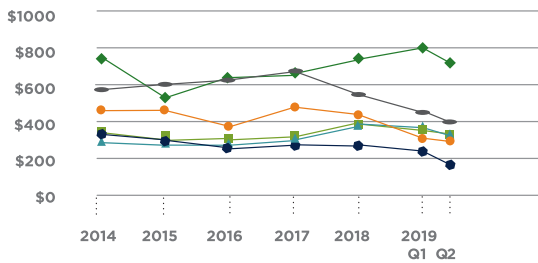
2019 SECOND QUARTER STUMPAGE PRICE RANGE*

	RED OAK (MBF)	BLACK CHERRY (MBF)	HARD MAPLE (MBF)	SOFTWOOD SAWTIMBER (MBF)	HARDWOOD PULPWOOD (TONS)	SOFTWOOD PULPWOOD (TONS)
RUMFORD, ME	\$250-375	NA	\$275-425	\$40-150	\$3-11	\$2-6
MONTPELIER, VT	\$250-375	NA	\$275-425	\$40-150	\$3-9	\$1-3
GLENS FALLS, NY	\$225-450	\$300-600	\$400-700	\$40-150	\$5-5	\$3-6
HERKIMER, NY	\$300-500	\$400-525	\$525-725	\$45-150	\$3-6	\$2-5
TUPPER LAKE, NY	NA	\$300-375	\$325-450	\$90-125	\$4-6	\$3-5
CLARION, PA	\$630-775	\$875-1,315	\$610-675	NA	\$1-3	\$0-0
BLUEFIELD, WV	\$175-225	\$220-275	\$250-285	NA	\$2-4	\$0-2

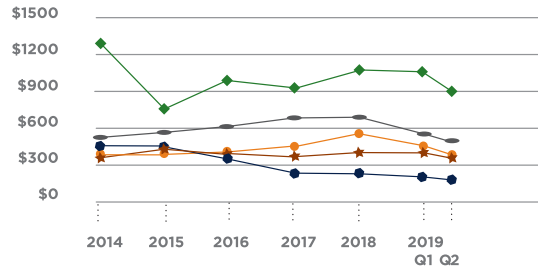
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TIMBER STUMPAGE PRICE AVERAGES ACROSS F&W'S NORTHEAST REGION

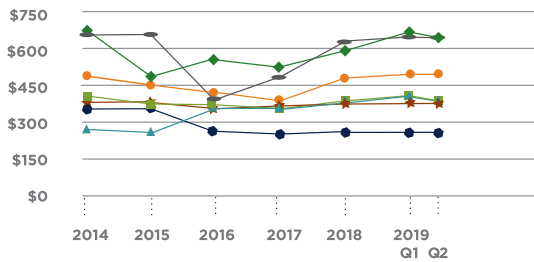
RED OAK AVERAGE (MBF)
 ▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
 ■ MONTPELIER, VT / ● BLUEFIELD, WV



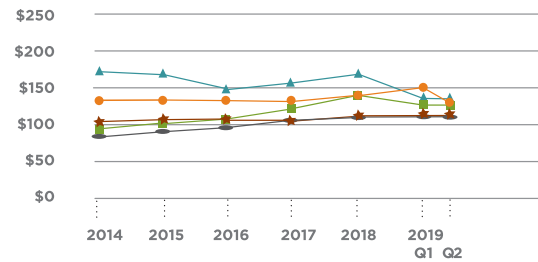
BLACK CHERRY AVERAGE (MBF)
 ● GLENS FALLS, NY / ● HERKIMER, NY / ★ TUPPER LAKE, NY / ◆ CLARION, PA
 ● BLUEFIELD, WV



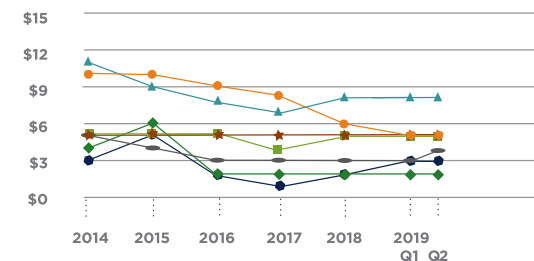
HARD MAPLE AVERAGE (MBF)
 ▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
 ■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



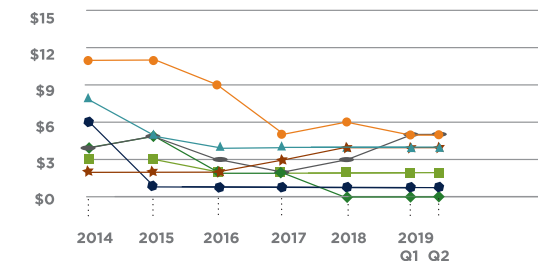
SOFTWOOD SAWTIMBER AVERAGE (MBF)
 ▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY
 ■ MONTPELIER, VT / ★ TUPPER LAKE, NY



HARDWOOD PULPWOOD AVERAGE (TONS)
 ▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
 ■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



SOFTWOOD PULPWOOD AVERAGE (TONS)
 ▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
 ■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



U.S. Raises Tariffs On Chinese Products; China Retaliates

As the spring newsletter went to press in April, we reported that it looked as if a resolution was on the horizon for the ongoing trade/tariff battle between the U.S. and China. The two countries were scheduled for face-to-face discussions in early May, where a final deal was expected. But negotiations broke down in the midst of visits between the delegations.

TALKS BREAK DOWN

Following a visit to China by U.S. officials—and just days before their Chinese counterparts were set to come to Washington, D.C., to continue talks—President Trump accused China of attempting to renegotiate the trade agreement and announced that current tariffs on Chinese goods set at 10 percent would increase to 25 percent on May 10.

Initially, these tariffs, which were imposed last September on \$200 billion worth of Chinese products, had been scheduled to increase to 25 percent on Jan. 1. However, following a meeting in December with Chinese President Xi Jinping, Mr. Trump agreed to a truce and pushed the deadline to March 1. Mr. Trump extended the deadline again due to progress in the negotiations.

But those negotiations abruptly stalled. In the official filing to formalize the change in the U.S. tariff rate, the U.S. Trade Representative's office wrote: "China has chosen to retreat from specific commitments agreed to in earlier rounds." The *Wall Street Journal* reported that the breakdown occurred because China backtracked on listing the laws it intended to change

in the trade agreement, which pertain to intellectual property, subsidies, and forced technology transfers.

As happened previously when the U.S. imposed tariffs on Chinese goods, China's State Council announced retaliatory tariffs effective June 1, increasing levies on \$60 billion of U.S. imports already in place, raising most of them from levels of 5 and 10 percent to 10 percent, 20 percent, and 25 percent.

INCREASED TARIFFS

The situation remains fluid and there is no equivalently translated list of U.S. products and their Chinese tariff amounts, but the Southern Forest Products Association reports that the tariff on Southern pine lumber exports to China increases to 20 percent from the current 10 percent. The Hardwood Federation reports that tariffs on oak species increase to 25 percent, cherry and ash increase to 20 percent, and walnut, hard maple, poplar and alder remain at 5 percent.

The levies imposed by China have been widely felt by the forest products industry. According to a report from the *Washington Post*, over a six-month period ending in March, the value of U.S. wood exports to China dropped by \$700 million, or 42 percent.

"Industries affected included firms that buy logs of hardwoods like walnut, maple and cherry and turn them into boards for furniture and flooring. Before the tariffs, about 1 in 4 of these boards went to China," said Michael Snow, executive director of the American Hardwood Export

Council," the *Post* reported.

MORE TARIFFS?

The Trump administration also announced plans to expand tariffs to include all Chinese imports into the U.S. that are not currently taxed, which would hit another \$300 billion in Chinese goods. If this were to happen, virtually all Chinese exports to the U.S. would be subject to a 25 percent tariff, with the cost expected to fall heavily on consumers. The Office of the U.S. Trade Representative held public hearings on the proposed tariff expansion in late June with plans to potentially impose the new levies in July.

While it is not known how Chinese officials would respond if the U.S. imposes new tariffs, based on their previous actions, it is likely they would again retaliate by raising tariffs on U.S. goods.

TALKS TO RESUME

However, Mr. Trump agreed to hold off on new tariffs after meeting with Mr. Xi during the Group of 20 summit of world leaders on June 29 in Japan. Additionally, the U.S. agreed to ease restrictions on the Chinese firm Huawei Technologies Co. and China agreed to purchase large amounts of American farm products. Following the meeting, Mr. Trump told reporters, "We're right back on track," and that trade talks will resume.

A remaining unresolved point in the negotiations has been whether the U.S. would remove tariffs upon finalization of an agreement or keep them in place as a way to enforce the terms of the deal. 🌲

Timber Market Commentary (continued from page 1)

Prices were muddled again in the second quarter, but here is a quick synopsis.

The average prices for all softwood product classes in the Southern markets were down in the second quarter of the year but were up just slightly from the same quarter a year ago. Several

managers noted that mills are taking temporary down time and are on quotas. Hardwood markets appear to be holding up better, with the average price up from the first quarter and a year ago.

With almost half of all U.S. hardwood exports destined for China, managers in

the Northeast report that the ongoing trade/tariff war with China has had a negative impact on stumpage prices in the Northern timber markets.

This impact shows in the timber price data submitted by the Northeast offices, particularly for red oak and black cherry (see page 3). 🌲

Log/Lumber Exports Drop As Chinese Tariffs Rise

The trade war with China that began last summer has stifled American exports to that country and has had severe financial consequences for many U.S. producers.

The *Washington Post* reports that between October 2018 and March 2019, U.S. exports to China dropped by \$18.4 billion, or 26 percent, compared to a year earlier. The forest products industry saw the value of U.S. wood exports to China drop by \$700 million, or 42 percent, during the six-month period, according to the *Post*.

While almost all forest products have been affected by the trade dispute, the hardwood industry has been particularly hard hit, primarily because this sector is heavily reliant on exports to China.

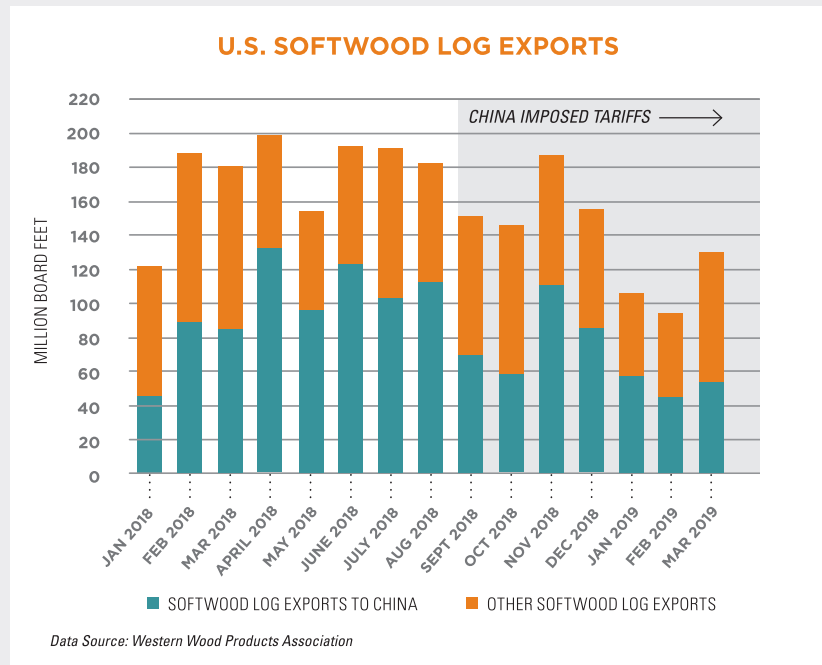
According to the Hardwood Federation, almost half of the \$3.9 billion in hardwood products exported from the U.S. in 2018 went to Greater China (including Hong Kong and Macau).

"The ongoing trade dispute with China and the declared tariffs on U.S. hardwood products are serious threats to the viability of the industry, and the people it employs," said Dana Lee Cole, the Federation's executive director, in a news release.

"Over the last three quarters, hardwood exporters lost \$153 million per quarter, as a result of the 10 percent tariffs imposed by China. When the current tariffs increase to 25 percent, a steep acceleration of losses is expected," the release said.

Frank Stewart, executive director of the West Virginia Forestry Association, shared a similar view of the situation in a published opinion piece.

"Retaliatory tariffs from China have been a buzz saw through Appalachian hardwood businesses and the families that own and operate them," Stewart writes. "The hardwood industry provides an estimated \$60 billion economic impact in the 12-state region but that will change this year



because of trade with China. Exports make up approximately 50 percent of the high value hardwood lumber sold and the top market for species like Red Oak is China.

"The tariffs have taken all profits from U.S. hardwood exports to China. It will drive mills out of business this year, losing jobs and outlets for landowners to sell their timber," Stewart added.

In 2018, the U.S. exported 3.08 million short tons of hardwood logs, down 4.8 percent from the previous year, with the North accounting for 63 percent of this export volume and the South 27 percent, according to Forisk Research Quarterly. For the 12-month period ending February 2019, Forisk reports that hardwood log exports are down 20 percent.

The U.S. exported 1.7 billion board feet of hardwood lumber in 2018, down 14 percent from 2017, with almost half of all U.S. hardwood lumber exports destined for China. Forisk reports that through February, hardwood lumber exports dropped 18.7 percent year-over-year "due to a steep decline in exports to China."

Most of the U.S. softwood lumber and log exports to China come from the Pacific Northwest ports; however, the deepening of the Panama Canal to allow for larger ships has opened Asian markets to the U.S. South, where there is an abundance of sawtimber at low prices. The value of exports to China from Southern ports has been steadily rising, almost doubling between 2016 and 2017 from \$181 million to \$346 million. But exports slowed considerably in 2018, growing only 11 percent to \$383 million, according to data from USA Trade Online.

U.S. softwood lumber exports to China started strong in 2018, but as the trade dispute heated up, and the first round of levies were announced, lumber exports to China began to drop. Overall softwood lumber exports in 2018 were down 1 percent from the prior year, with exports to China down 21 percent, according to Lumber Track, a publication of the Western Wood Products Association. In the first quarter of 2019, overall U.S. softwood lumber exports are down 25 percent compared to the prior year, with

(continued on page 6)

Bills Would Help Private Forest Owners Recover From Natural Disasters

A group of Southern senators have introduced legislation to help forest landowners recover from the loss of their forests after natural disasters.

The Forest Recovery Act (S.1687), sponsored by Senators Cindy Hyde-Smith (R-Miss.), Roger Wicker (R-Miss.), Tom Cotton (R-Ark.), and Marco Rubio (R-Fla.), would amend the U.S. tax code to establish a special rule for losses of uncut timber following natural disasters. Providing a tax deduction for casualty losses would not only help landowners recover, but also encourage investment in reforestation of damaged acres.

The Senate measure mirrors legislation introduced in the House earlier this year, H.R. 1444.

“Not allowing these timber interests, many of whom are family-owned small business operations, to recover their losses doesn’t help anyone—not them, the local economy, or the environment,” Sen. Hyde-Smith said in announcing the bill.

“Hurricane Michael devastated Northwest Florida’s timber industry,” Senator Rubio added. “I am glad to join my colleagues in proposing legislation to ensure that future

timber losses due to natural disasters, like Hurricane Michael, will receive needed tax relief.”

The American Forest Foundation, a leading conservation organization that represents America’s family forest owners, commended legislators for introducing the bill.

“There are more than 20 million families and individuals who own and care for the largest portion of U.S. forests, providing all Americans with important resources such as wildlife habitat, clean air and water, and wood for homes and products we use every day,” said Tom Martin, the organization’s president and CEO. “When disasters like hurricanes and wildfires strike, family forest owners do not have access to affordable insurance like most farmers, yet face similar significant economic losses. We applaud Senator Hyde-Smith for addressing these important issues for family forest owners with the introduction of the Forest Recovery Act.”

The legislation would adjust current tax law, which restricts casualty loss deductions to losses incurred in federally-declared disaster areas. Even when wildfires or floods do not result in a formal

disaster designation, federal crop insurance coverage is unavailable for forest lands, and there are no affordable private insurance products.

Specifically, the Forest Recovery Act would:

- Modify the tax deduction for casualty losses to establish special rules for losses of uncut timber;
- Establish that basis used for determining the amount of the deduction in cases of uncut timber losses from fire, storm, other casualty, or theft may not be less than the excess of the fair market value of the uncut timber determined immediately before the loss was sustained over the salvage value of the timber;
- Apply the special rule only if (1) the timber was held for the purpose of being cut and sold and (2) the uncut timber subject to the loss is reforested within five years of the loss; and
- Exempt casualty losses from uncut timber from the rule restricting the deduction for personal casualty losses to losses attributable to a federally declared disaster. 🌲

Trade Impacts World Markets *(continued from page 5)*

exports to China down a whopping 66 percent.

In 2018, a little more than half of all U.S. softwood log exports were destined for China, with that country importing more than 1,113 million board feet (MMBF), up by 4 percent from 2017. But the trade war is impacting softwood log markets, too. According to Lumber Track data, in the first quarter of 2019, overall U.S. log exports were down 33 percent from the same period last year, including

a 28 percent decline in log exports to China (see bar graph on page 5).

Meanwhile, the Trump administration announced plans for a multi-billion dollar farm-aid program funded by the tariffs collected on Chinese imports. The goal of the program is to assist farmers hit by the trade conflict with China. The Hardwood Federation is calling upon its members to reach out to Congress and the administration to ask that the hardwood industry be included in the

proposed relief package.

In a letter to Agriculture Secretary Perdue, the Hardwood Federation asks that “hardwood producers significantly affected by the retaliatory tariffs imposed on U.S. lumber by China be included in the proposed \$15 billion relief program for commodity producers.”

The USDA news release announcing the aid program listed only edible products, with the exception of cotton, as eligible for financial assistance. 🌲

Federal Aid To Help Struggling Timberland Owners

Federal disaster aid is finally on the way to assist forest landowners, farmers, and other Americans recovering and rebuilding from hurricanes, wildfires, tornados, and other natural disasters.

After months of delays, Congressional lawmakers gave final approval to, and the president signed, a \$19.1 billion emergency supplemental appropriations bill that will provide critical aid for states affected by the natural disasters in 2018 and 2019.

The American Forest Foundation reports that more than 17,000 family forest landowners were impacted, and five million acres of forestland were damaged and destroyed by hurricanes in 2018. More than \$2 billion in timber was lost due to Hurricane Michael alone.

The disaster relief legislation will fund numerous federal programs that provide aid and assistance to communities and landowners directly impacted by the natural disasters.

Among the provisions is \$480

million for the Emergency Forest Restoration Program (EFRP) operated by the USDA Farm Service Agency. The EFRP provides financial assistance to non-industrial private forest landowners impacted by disasters, including insect infestation and drought. To be eligible for EFRP, the land must have had standing tree cover before the disaster occurred and sustain damage to the resource, which considerably affects future use of the land. The EFRP funding will remain available until all funds are spent.

The bill also provides \$3 billion to the USDA to provide financial assistance for expenses related to losses of crops and trees as a consequence of hurricanes Michael and Florence and to provide block grants to eligible states for compensation to producers, forest restoration, and poultry and livestock losses.

Agriculture Secretary Sonny Perdue has promised to move swiftly to get the disaster funds flowing to the states. At a meeting with Florida Governor

Ron DeSantis in June, Secretary Perdue suggested timber assistance could emulate the block grant program created for Florida citrus growers following Hurricane Irma in 2017, which was part of a separate federal disaster package approved in February 2018.

Twelve Florida and Georgia lawmakers have written to Mr. Perdue to urge him to work with state officials to craft an effective forest restoration block grant program.

"In addition to covering a large portion of debris removal, site preparation, and replanting costs, such block grants should also appropriately compensate landowners for the value of trees lost as a direct consequence of Hurricane Michael's fury. By accounting for timber losses in the determination of forest restoration block grant payments, USDA can advance the recovery of our states' working forests and working families so that they may continue contributing to the future vitality and character of their communities," the letter said. 🌲

Report Reinforces Economic Impact Of American Forests

A new report confirms the huge economic impact that private working forests have on state, regional, and national economies.

The analysis, released on Arbor Day by the National Alliance of Forest Owners (NAFO), reports that private working forests support 2.5 million jobs, \$109 billion in payroll, and account for \$288 billion in sales and manufacturing.

"This report verifies what we already know—that working forests are the unique place where environmental stewardship and economic prosperity align," said Dave Tenny, NAFO president and CEO. "There is a widely accepted view that we must choose between economic growth and environmental stewardship, and this

data proves that to be false."

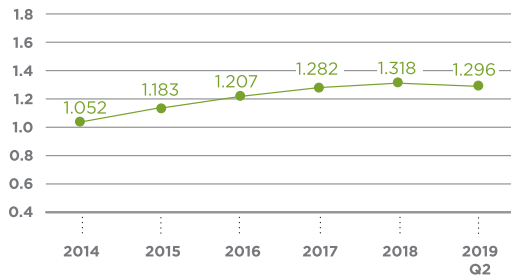
To put the numbers in perspective, NAFO said the 2.5 million working forest jobs represent a greater number of workers than the entire populations of San Antonio, Texas, or Pittsburgh, Penn. With the \$109 billion in working forest supported payroll, someone could buy every Major League Baseball team in the U.S. at their estimated values, twice. The \$288 billion in sales and manufacturing represents a sum greater than the entire GDP of Connecticut.

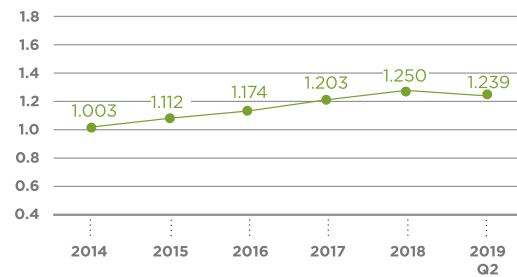
"These outstanding economic numbers are just one side of the coin," Tenny said. "The environmental benefits our working forests provide are also unmatched in their scale."

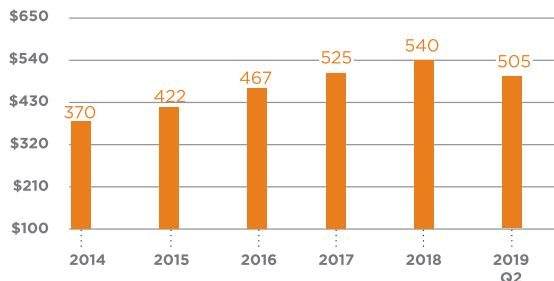
America's working forests, which are

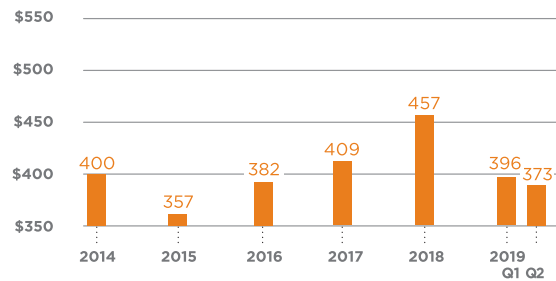
70 percent privately owned, are home to a wide variety of wildlife habitats, provide clean drinking water, and offset U.S. carbon emissions.

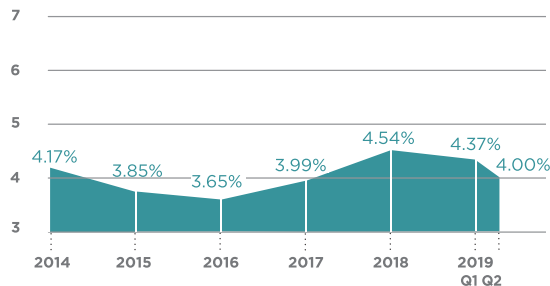
The Economic Impact of Privately-Owned Forests in the 32 Major Forested States is an update to NAFO's inaugural report published in 2009. NAFO contracted with Forest2Market, Inc., a research organization specializing in using market and government data to identify trends, to analyze Forest and Inventory Analysis (FIA) data from the Forest Service and North American Industrial Classification System (NAICS) codes from the Department of Labor to calculate the economic impact of privately-owned working forests across the U.S. 🌲

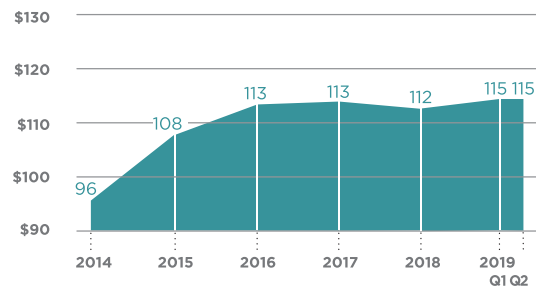
TIMBER MARKET INDICATORS
HOUSING PERMITS

 IN MILLIONS OF UNITS (ANNUALIZED) THROUGH MAY
 Source: US Department of Commerce

HOUSING STARTS

 IN MILLIONS OF UNITS (ANNUALIZED) THROUGH MAY
 Source: US Department of Commerce

RESIDENTIAL CONSTRUCTION

 IN BILLIONS OF DOLLARS (ANNUALIZED) THROUGH MAY
 Source: US Department of Commerce

LUMBER PRICES

 SOUTHERN PINE—\$/MBF
 Source: Random Lengths Southern Pine Composite Index

MORTGAGE RATES

 30-YEAR FIXED RATE
 Source: Freddie Mac

US DOLLAR

 US DOLLAR VALUE AGAINST 26 MAJOR TRADING PARTNERS
 Source: Federal Reserve