Summary Update

Timber and Product Prices — Southeastern pine stumpage markets decreased during the quarter. Notably, the South-wide average price for pine sawtimber was basically flat (down 0.2%), maintaining virtually all of its considerable gain posted in the previous quarter. Domestic markets in the Pacific Northwest continued on a downward trend with mild weather contributing to high mill inventories. In the Northeast, all benchmark hardwood species experienced price decreases.

Over the quarter, pulp & paper prices continued to decline reaching two-year lows. Framing lumber and structural panel prices decreased 12% and 5% respectively for the quarter. Hampered by particularly harsh winter conditions in the eastern half of the U.S., annualized new housing starts for February fell to 897,000, dropping 17% from the January estimate of 1,081,000 and 3.3% from the February 2014 rate of 928,000. Average 30-year fixed rate mortgages ended the quarter at 3.7%, down from 4.4% year-over-year.

Timberland Markets — The first quarter of 2015 deal flow was relatively slow, however, markets are becoming more active as the summer months approach. A few transactions from last year carried over into the first quarter for closing, including two sales in Georgia and Louisiana by Resource Management Service (RMS). Campbell Global also closed on a 7,700-acre package in Oregon from Plum Creek for a reported $29 million late in the fourth quarter. The big news this past quarter was Campbell’s 294,000-acre offering in Louisiana. The package, which contains approximately 40% leased acres, is by far the largest offering of 2015 to date.

On the international front, markets remain active in Latin America as well as Australia and New Zealand. Investors continue to await announcements on several international transactions.
Timber Prices

Southeastern — All products within the Southeastern pine stumpage markets decreased during the quarter. According to Forest2Market®, south-wide average prices for pine sawtimber fell 0.2%, and ended the quarter 8.2% above year-ago levels. Chip-n-saw prices decreased by 3.6%, and remained 1.4% below year-ago levels. Within the pine markets, pine pulpwood prices saw the largest quarterly loss, decreasing by 9.3%, and finishing 1.1% ahead of last year’s prices.

Hardwood products also experienced substantial decreases throughout the quarter, as average hardwood pulpwood prices dropped 9.6%, while holding steady at 4.0% above year-ago levels. Average prices for hardwood sawtimber decreased 16.9%, finishing 1.5% below last year’s average.

Southeastern Timber Prices

Northern Hardwoods — Demand softened for all of the major hardwood species during the fourth quarter of 2014 and first quarter of 2015. According to the Pennsylvania Woodlands Timber Market Report, black cherry prices fell 12.2% during the fourth quarter (the most recent publicly reported pricing), remaining 4.8% below year-ago levels. Prices for northern red oak dropped 18.3% last quarter, finishing 1.6% below year-ago prices. Hard maple stumpage prices decreased 9.7% during the quarter, and finished up 10.7% year-over-year. Soft maple prices decreased 10.4% last quarter, and lagged last year’s prices by 3.8%. White ash prices fell 15.7% last quarter, finishing up 6.8% year-over-year.

Sawlog markets in Wisconsin remained consistent through the quarter. Good logging weather helped mills build more than enough log inventory to get through the spring wet season. Hard maple sawlog prices decreased slightly during the quarter as wood production started to exceed mill demands. Veneer log sales were solid as they traditionally are during the winter season and bolt markets continued to be very good.
**Northeastern Hardwood Timber Prices**

![Graph showing timber prices for various species in the Northeastern region.](image)

*Source: Pennsylvania Woodlands Timber Market Report - Northwest Region*

**Pacific Northwest** — According to Log Lines®, Pacific Northwest (PNW) average delivered prices for Douglas-fir #2 logs fell by 2.5% during the quarter, finishing 10.9% below year-ago levels. Whitewoods (i.e., true firs and hemlock) average delivered log prices decreased 1.9%, and finished 10.6% below year-ago levels.

Domestic and export markets continue on a downward trend with mild weather contributing to more supply than demand, and log yards experiencing very high inventories. Export prices continue to soften as the Chinese economy continues to slow. Also, complications with Pacific Northwest ports have created logistical issues that negatively impact export markets.

**Pacific Northwest Log Prices**

![Graph showing changes in Pacific Northwest log prices for various species over time.](image)

*Source: Log Lines®*
Product Prices

**Lumber and Panels** — Consistent with declining housing starts, both lumber and panel markets plunged substantially during the quarter. The Random Lengths® Framing Lumber Composite Price fell by 12.0%, and finished 11.1% below year-ago levels. The Structural Panel Composite Price decreased by 5.1%, but still remains 3.3% above year-ago levels.

**Pulp and Paper** — Pulp and paper price indices continued their two quarter decline. The benchmark NBSK (northern bleached softwood kraft) pulp price index fell 3.9% over the quarter, holding at 3.9% below year-ago levels. U.S. Newsprint (30 lb.) declined 4.2%, falling 2.4% below year-ago levels. Uncoated freesheet (20 lb.) also declined over the quarter falling 1.2%, and declining 0.5% below last year’s prices. Linerboard experienced no change in price for the quarter; however boxboard prices finished down 1.3% for the quarter but experienced no year-over-year change.

Source: Random Lengths®

Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week
Timberland Markets

Transactions — In the South, RMS closed two separate transactions this past quarter. The first, a 17,600-acre package in Georgia, sold to Southern Pine Plantations for a reported $30.3 million. Rayonier acquired the other property, a 12,200-acre package in Louisiana for an undisclosed amount.

In the Pacific Northwest, Plum Creek officially closed its sale of 117,200 acres in Montana to The Nature Conservancy for $85 million. Also, Plum Creek completed its sale of 7,700 acres in coastal Oregon to Campbell Global for a reported $29 million late in the fourth quarter.

Transactions in Progress — Investors are closely monitoring the Campbell Global Louisiana package, being offered through an investment bank. The property, which is approximately 40% timber leases, totals nearly 300,000 acres. The deal is the first major offering of 2015, and could set the tone for the year to come. In West Virginia, The Forestland Group is offering a nearly 90,000-acre Appalachian hardwood property with bids due early in the second quarter. BTG Pactual is also taking April bids on a small package in Oregon, the first Pacific Northwest offering of the year.

Despite a quiet start to 2015, deal flow is expected to pick up in the coming months and remain strong throughout the year with some analysts predicting multiple large-scale offerings.
Economic News

**Housing** — The latest available annualized housing start numbers, for February, showed a large drop, down 17% from January, to 897,000. Most economists believe the drop was largely attributable to exceptionally bad winter weather in the Northeast and Midwest.

**Mortgage Rates** — Average 30-year fixed-rate mortgage rates ended the quarter at 3.7%, down from 4.4% the year prior.

**Jobs** — Employers added 126,000 jobs in March, the smallest gain since December of 2013. Gains were also revised down for January and February by a total of 69,000 jobs. The numbers suggest the labor markets, even six years after the end of the recession, are still weak.

**Consumer Confidence** — U.S. consumer confidence rebounded strongly in March amid optimism over the labor market while house prices increased in January. The Conference Board reported that its index of consumer attitudes rose to 101.3 in March from 98.8 in February, well above economists' expectations of 96.

**Inflation** — The Federal Reserve’s preferred measure of inflation in February fell short of the central bank’s 2% target for the 34th straight month in February with the price index for personal consumption expenditures up only 0.3% from a year earlier. The last reading above 1% came in November of 2014. The oil price crash, a strong dollar and weak overseas economies have all kept inflation at bay.

**Trade Deficit** — The U.S. trade deficit plunged in February to $35.4 billion in February, down from $42.7 billion in January. Both imports and exports sank, driven by a since-settled trade dispute and a global economic slowdown that has cut into oil prices and caused the dollar to rise in value.

**Interest Rates** — Janet Yellen, the head of the Federal Reserve, has been preparing the markets for a hike in the Fed funds rate to 0.25% likely to occur sometime in the third or fourth quarter. As of the end of the quarter, the yield on the 10 year Treasury Bond fell to 1.9%, a nearly two-month low, and compared to 2.2% as of the end of 2014.

**Oil Prices** — The price of oil continued its slide over the quarter, with Brent crude falling and rising repeatedly before ending the quarter down almost 4%.

**U.S. Dollar** — The dollar has strengthened against most currencies globally over the quarter. In the first quarter, the ICE dollar index showed the U.S. currency rose 9%, largely reflecting the dollar’s appreciation against the Euro.
The FIA Timber Economics “Quarterly Dashboard”

Southeastern Timber Prices

Northeastern Hardwood Timber Prices

Pacific Northwest Timber Prices

Pulp and Paper

Source: Forest2Market®

Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

Source: Log Lines®

Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week
The FIA Timber Economics “Quarterly Dashboard”

**Housing Starts**


**30 yr. Mortgage**

Source: The Federal Reserve

**Lumber**

Source: U.S. Department of Labor, Bureau of Labor Statistics

**Inflation (CPI)**

Source: [http://www.bls.gov/cpi/home.htm](http://www.bls.gov/cpi/home.htm)