

# Economic Issues & Outlook for Inland Farm & Family Forests



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Family Foresters @ Coeur d'Alene 1/21/2005

# What Affects Timber Markets?

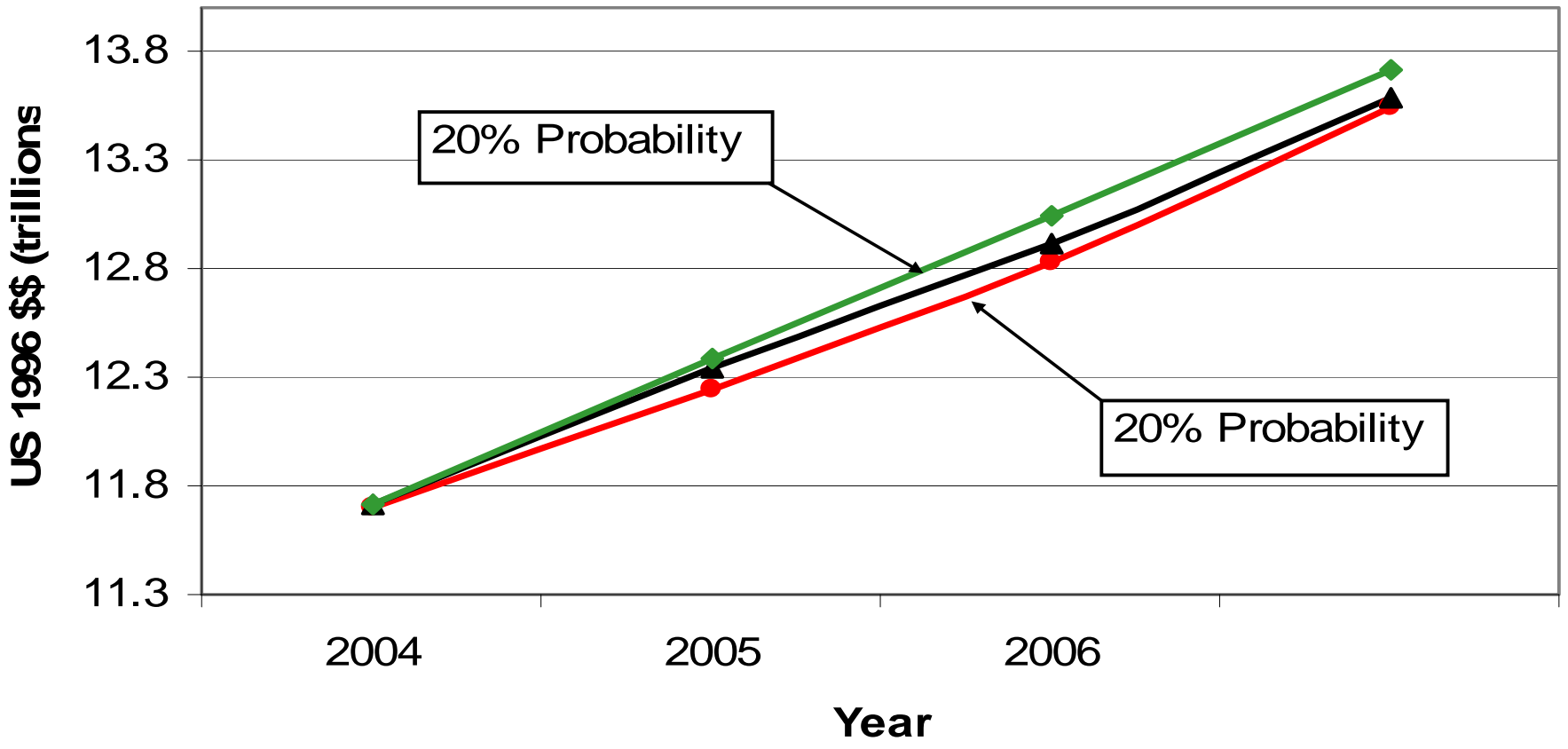
- |                          | Effect |
|--------------------------|--------|
| • Housing demand         |        |
| – economic strength      | +      |
| – interest rates         | -      |
| – complementary products | -      |
| • Competitive pressures  |        |
| – Mill log purchases     | +      |
| – Regional Sales Shares  | -      |
| – USFS sales             | -      |
| – Canadian imports       | -      |
| • Production returns     |        |
| – Taxes                  | -      |
| – Energy costs           | -      |

# Blissful Agreement... Strong Economic Recovery Continues

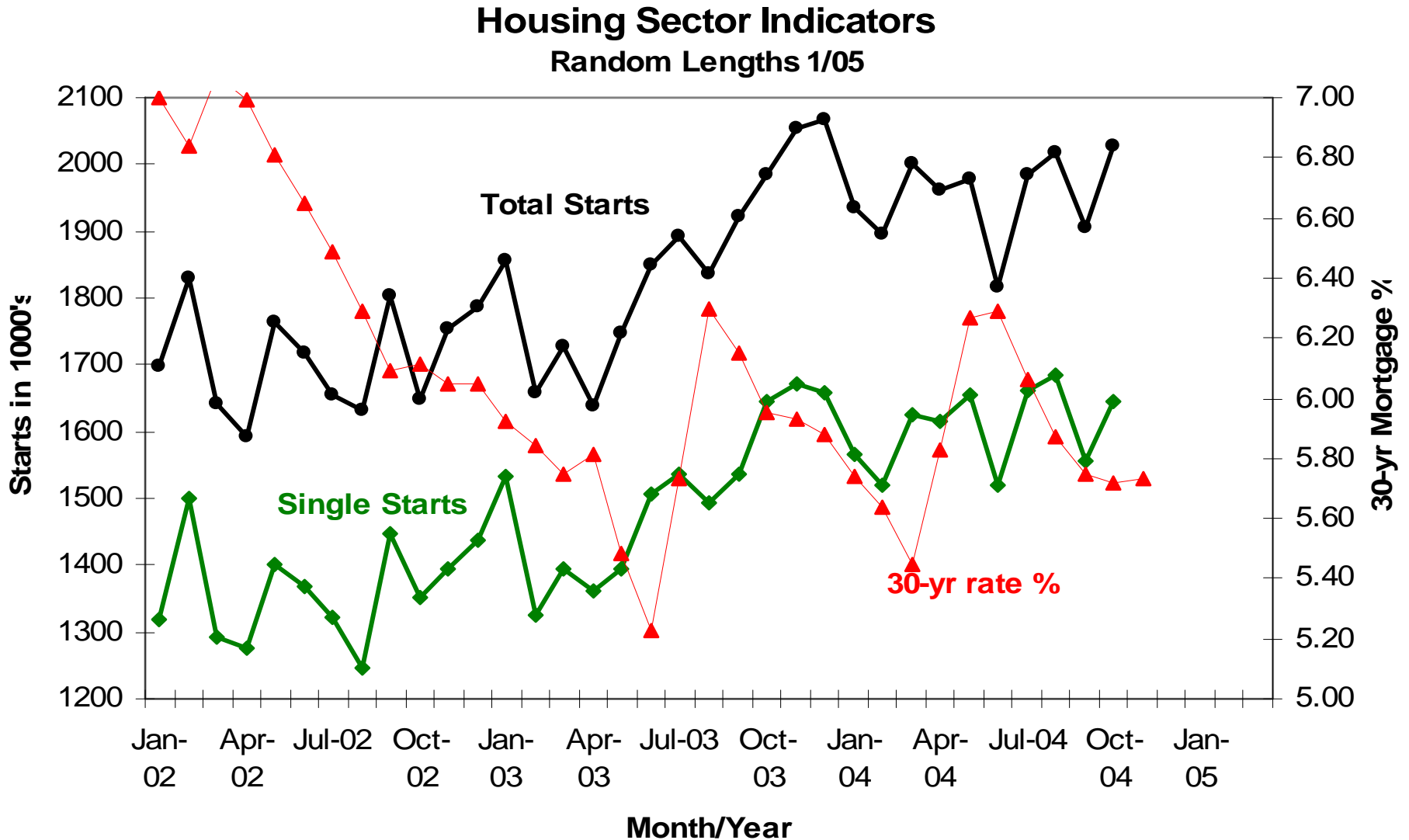
## US GDP Forecasts are Tight

Source: Global Insight 10/05

- Pessimist
- ▲ Base Line
- ◆ Optimist



# Housing History...Wow!



# Can It Long Endure???

*“Don't be taken in by all of the 'scare talk' from the academics and others...there will be no housing bubble collapse.”*

Doug Smyth

*“The housing price boom...has no basis in economic fundamentals or precedent...I don't think interest rates have to go any higher to make the bubble burst.”*

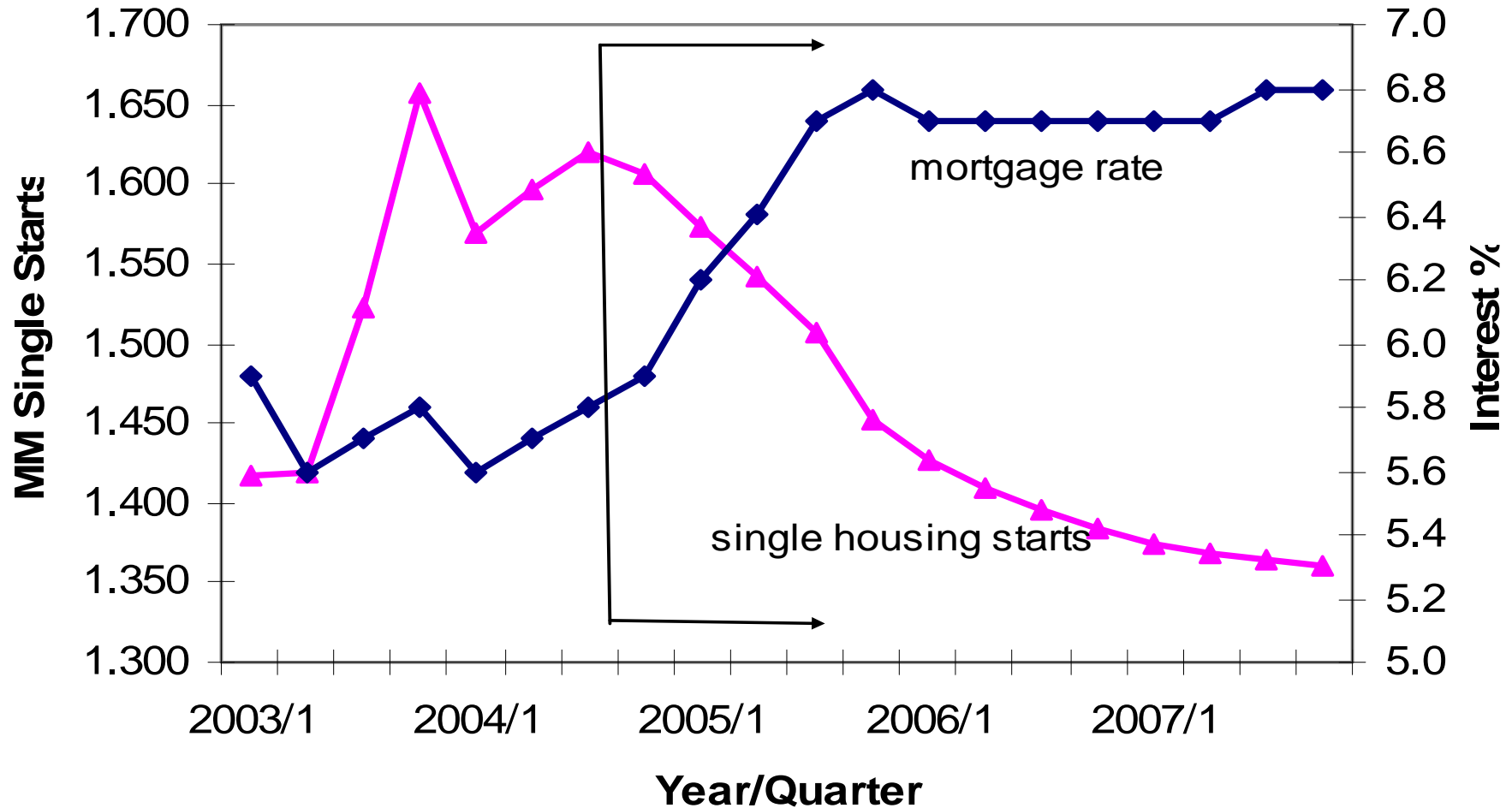
Robert Shiller

# Fed Policy Reversals

## —What do the Big Boys Believe?

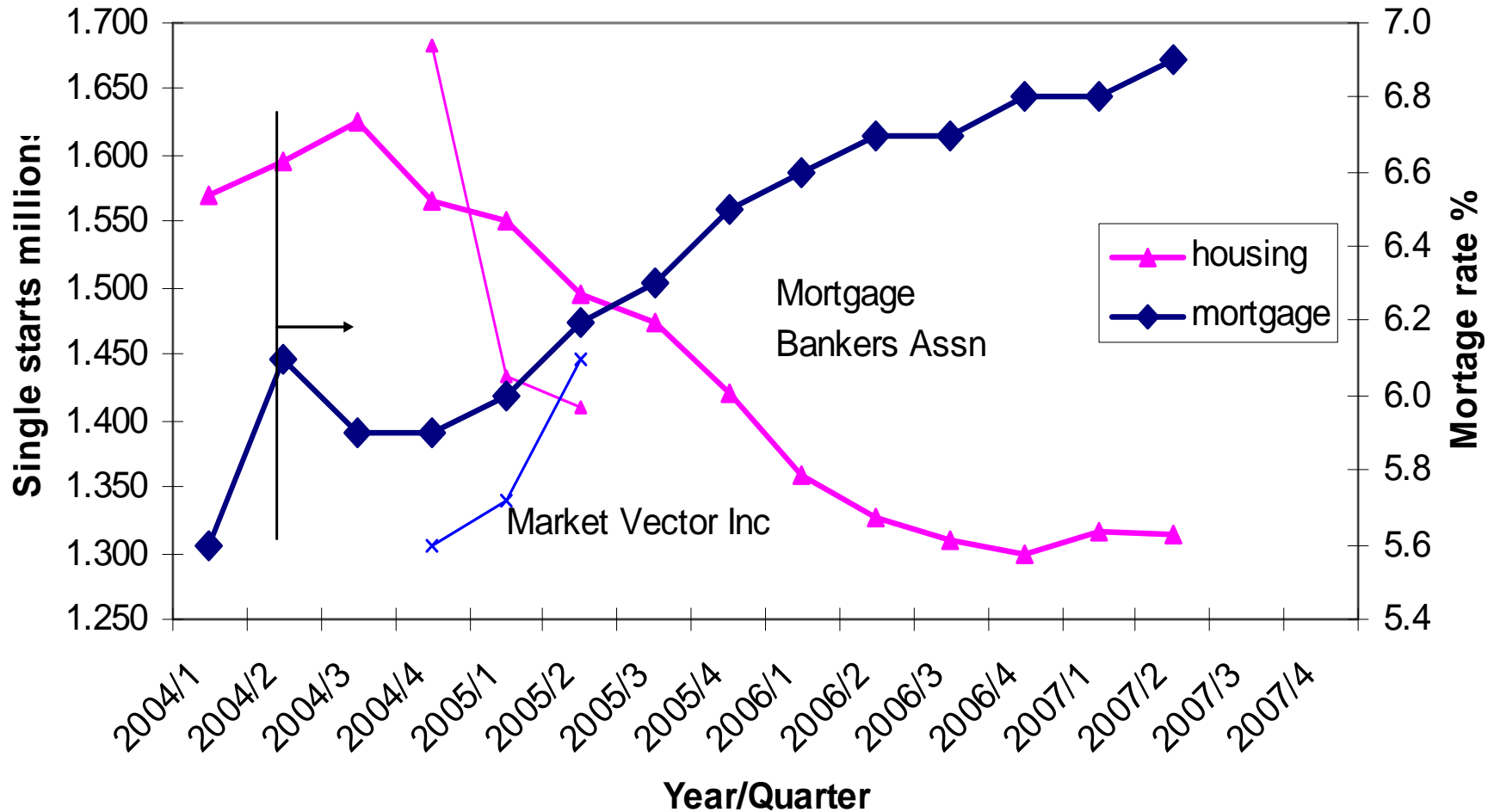
### Single Housing & Mortgage Rates

Global Insights Forecasts 10/05



# Other Pessimists

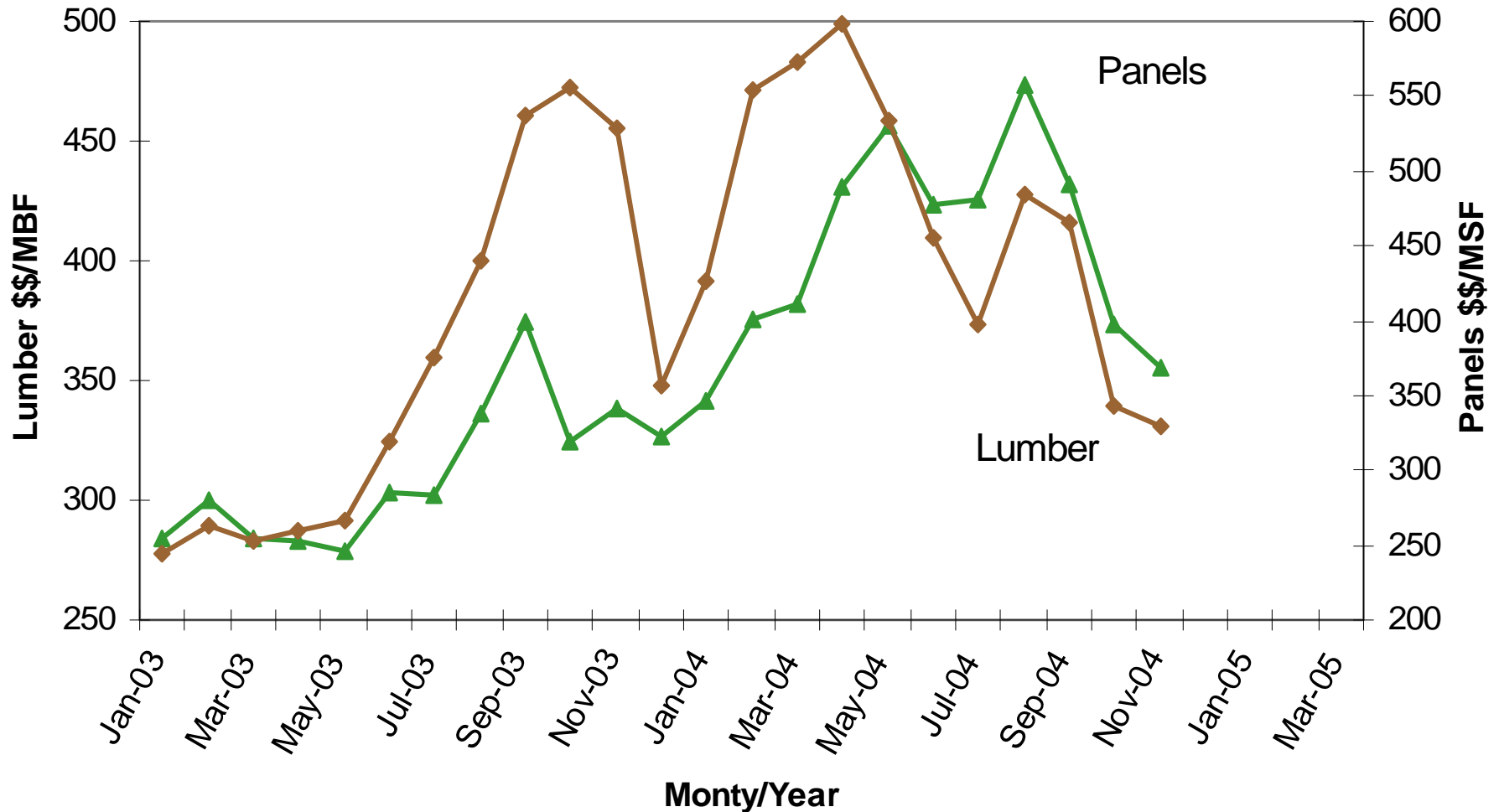
## Alternative Housing Forecasts



# Oops! Products Prices Falling

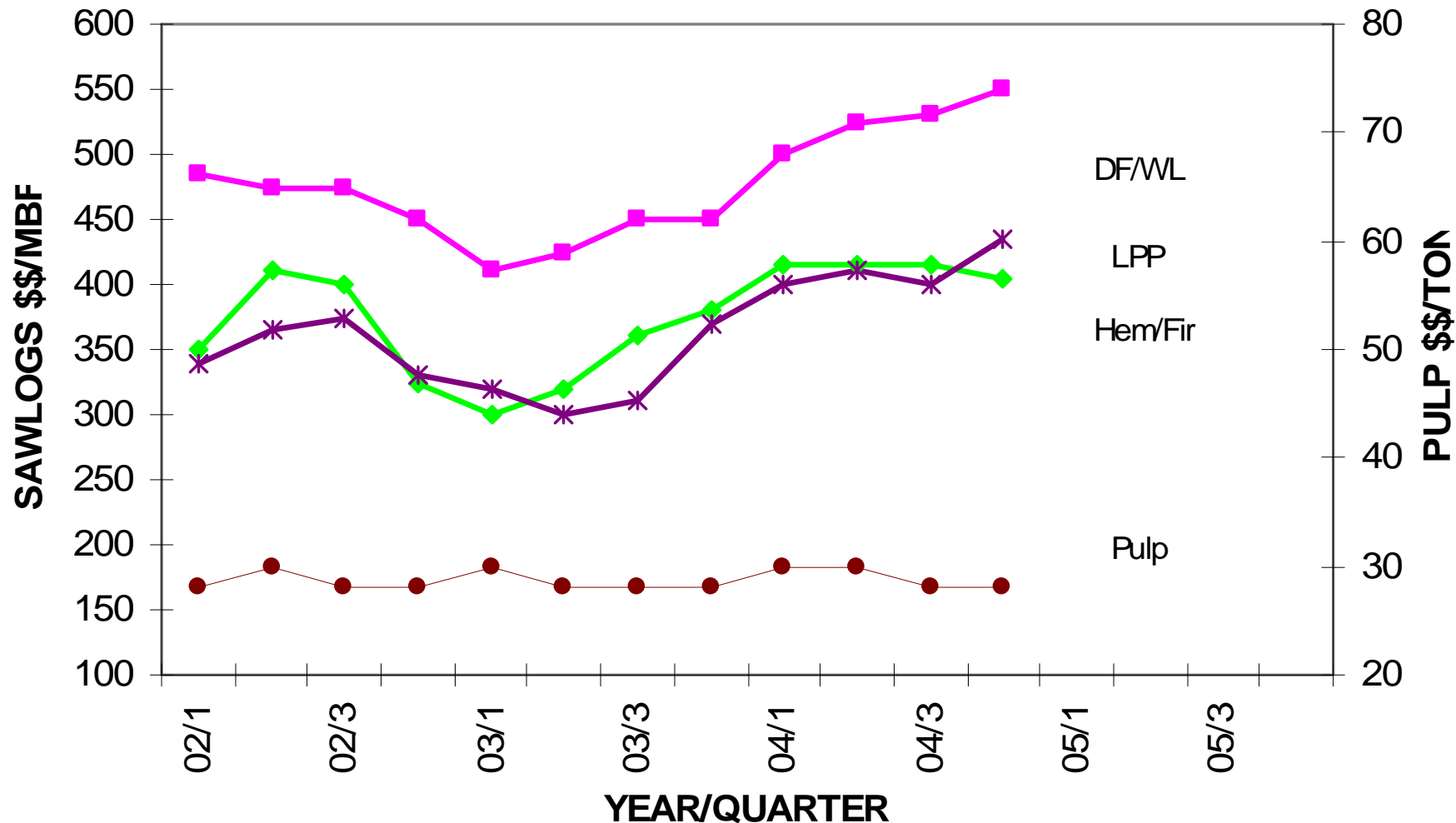
## Lumber & Panel Price Indices

Source: Random Lengths 1/05



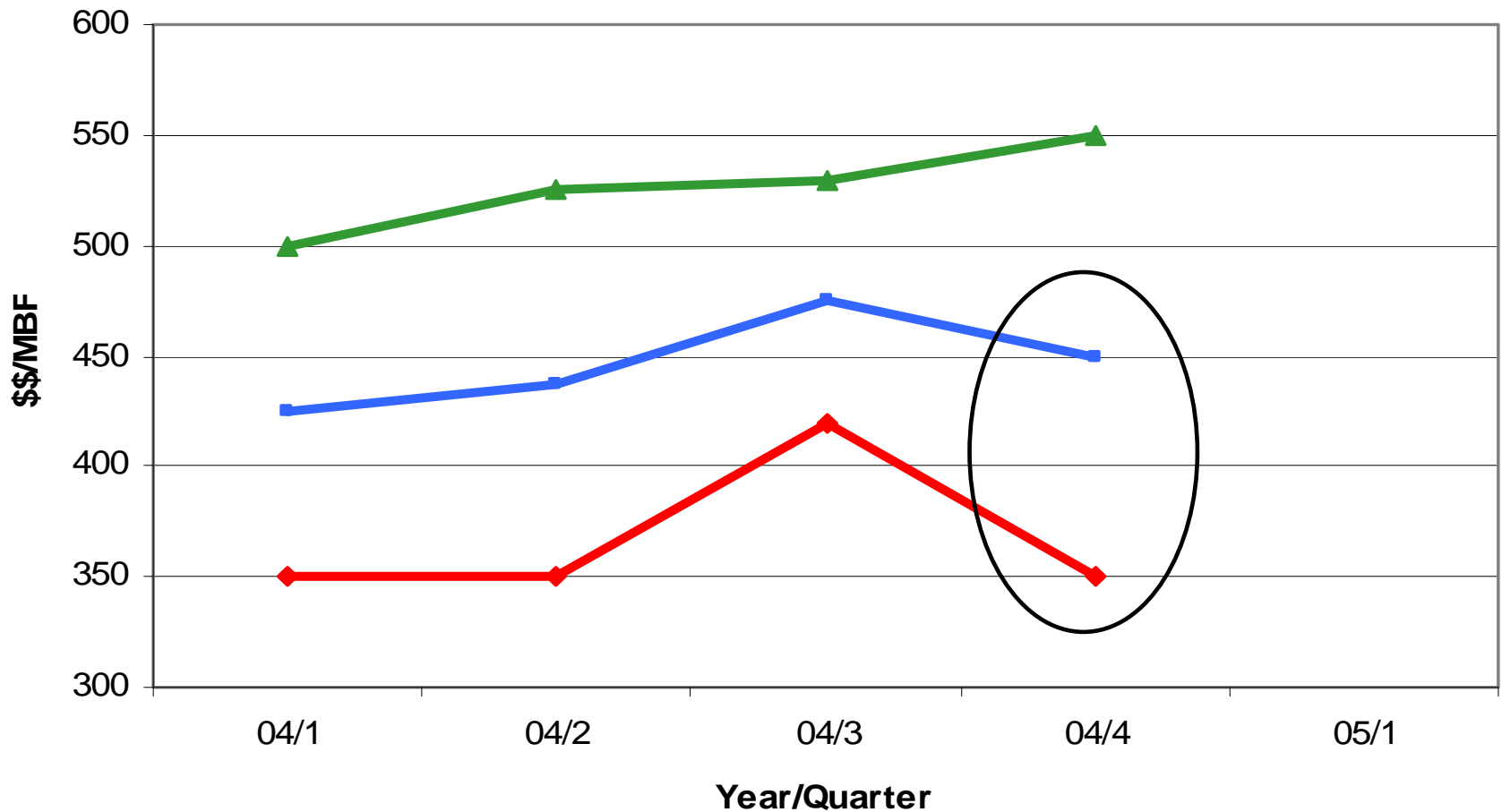
# Inland Log Prices Lagging

**N. Idaho High Reported Log Prices**  
Source: NW Management 1/05



# High Grades Higher Low Grades Lower?

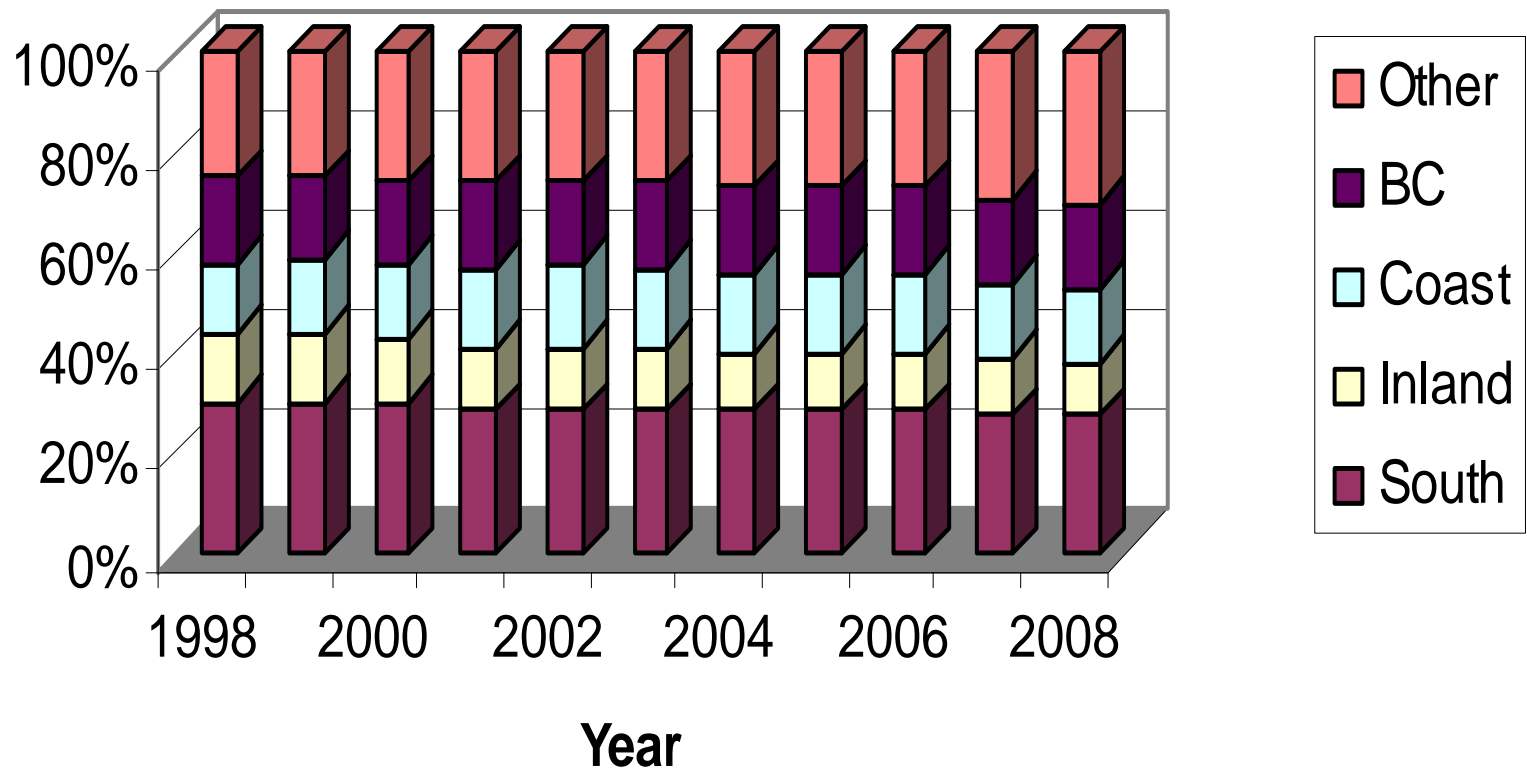
**Delivered Log Price Ranges  
N. Idaho Df/larch (NWM 1/05)**



# Regional Share Dropping

## Producer Region Lumber Share

RISI Forecast 12/03



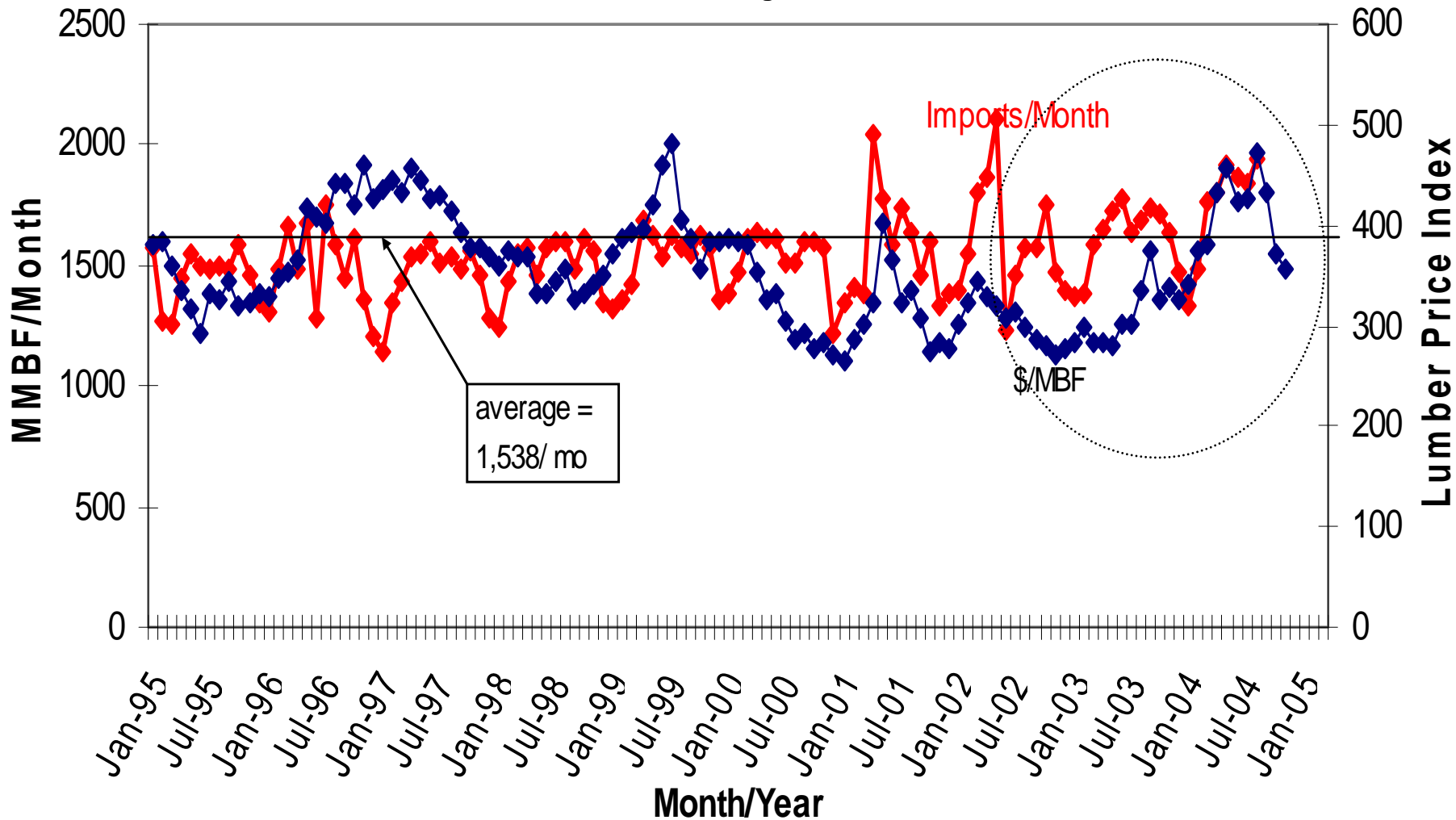
# Will Forest Service Timber Ever Function?

- Huge FS capacity affect markets—Supply up 1%, price down 3%
- Bush regulations increase supply?
  - Desperate treatment need backlog
  - Business decision model approach
  - EMS planning revisions 2x faster?
  - Focus on landscape decisions
  - Lower cost marginal change analysis?
  - Project decisions separated
  - Lower cost public collaboration/awareness?  
<http://www.fs.fed.us/emc/nfma/index2.html>
- My bet is still no loco in the motion

# Long-run Canadian Imports Entrenched

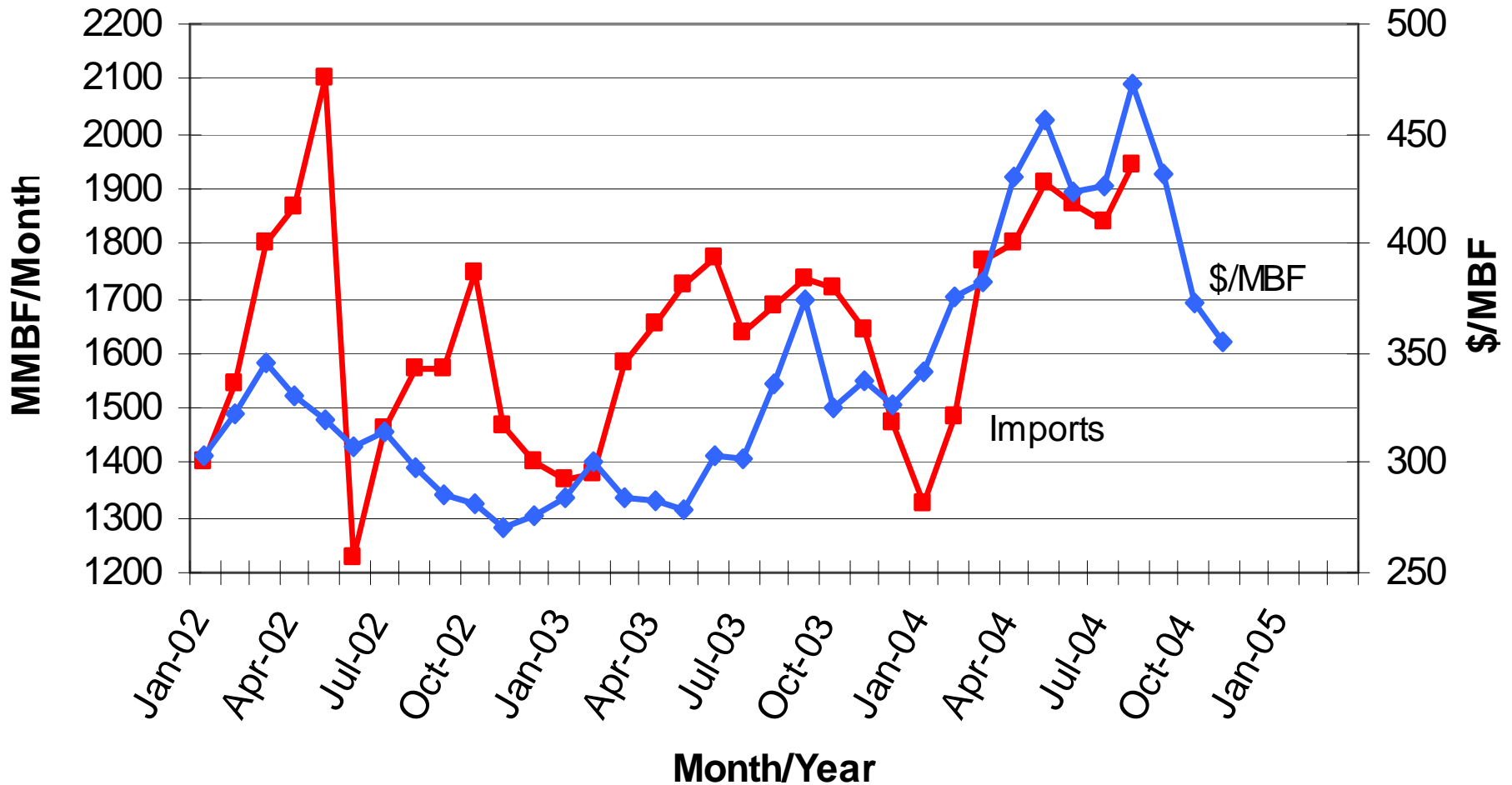
## Long-run Canadian Lumber Import Stability

Random Lengths 1/05



# Until Recent Policy Uncertainty!

## Recent Canadian Lumber Import Variability Random Lengths 1/05



# Federal Tax Relief for Family Forests??

- Lump sum sales qualify for capital gains
- We can revoke 631a designations
- We can now amortize planting costs
- Oops! We lost the investment tax credit

Plant Cost \$/Acre	discount rate	income tax rate	NPV loss \$/acre
200	4%	20.0%	11.96
		28.0%	8.74
		32.5%	6.93
200	6%	20.0%	9.45
		28.0%	5.22
		32.5%	2.85
400	4%	20.0%	23.91
		28.0%	17.48
		32.5%	13.86
400	6%	20.0%	18.89
		28.0%	10.45
		32.5%	5.70

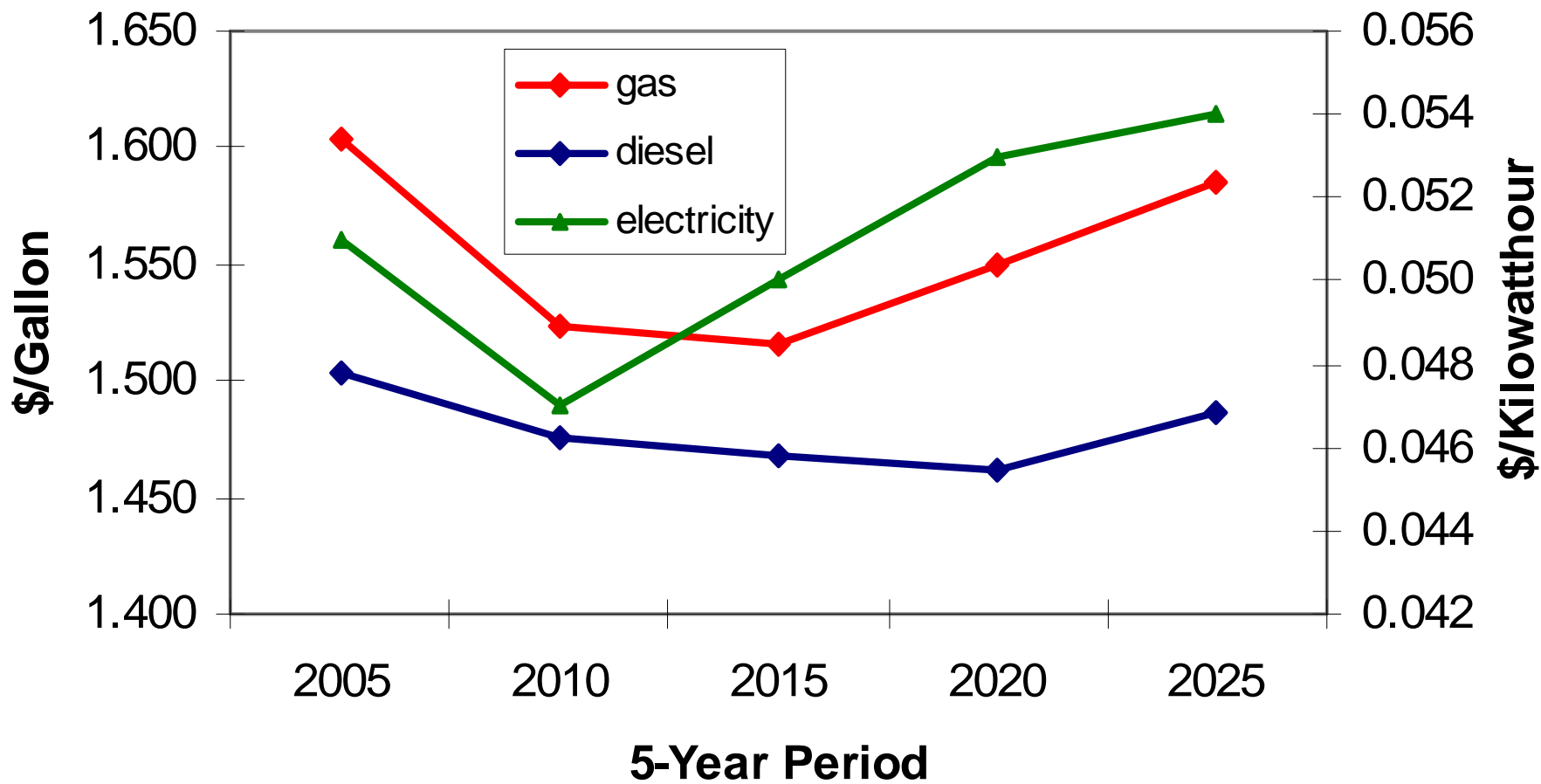
# Super Secret Idaho Tax Diddling

- Really forest industry focused
  - Stuck in forest productivity
  - Value formula factor revisions
  - Remove formula inconsistencies
  - Forest values held low & stabilized
- No change in our yield taxes
  - 5 acre qualification remains
  - Yield rate unchanged
  - Bare land values stabilized
- Next system election still 2012
- We'll know real details 1/27

# Long-run Energy No Problem

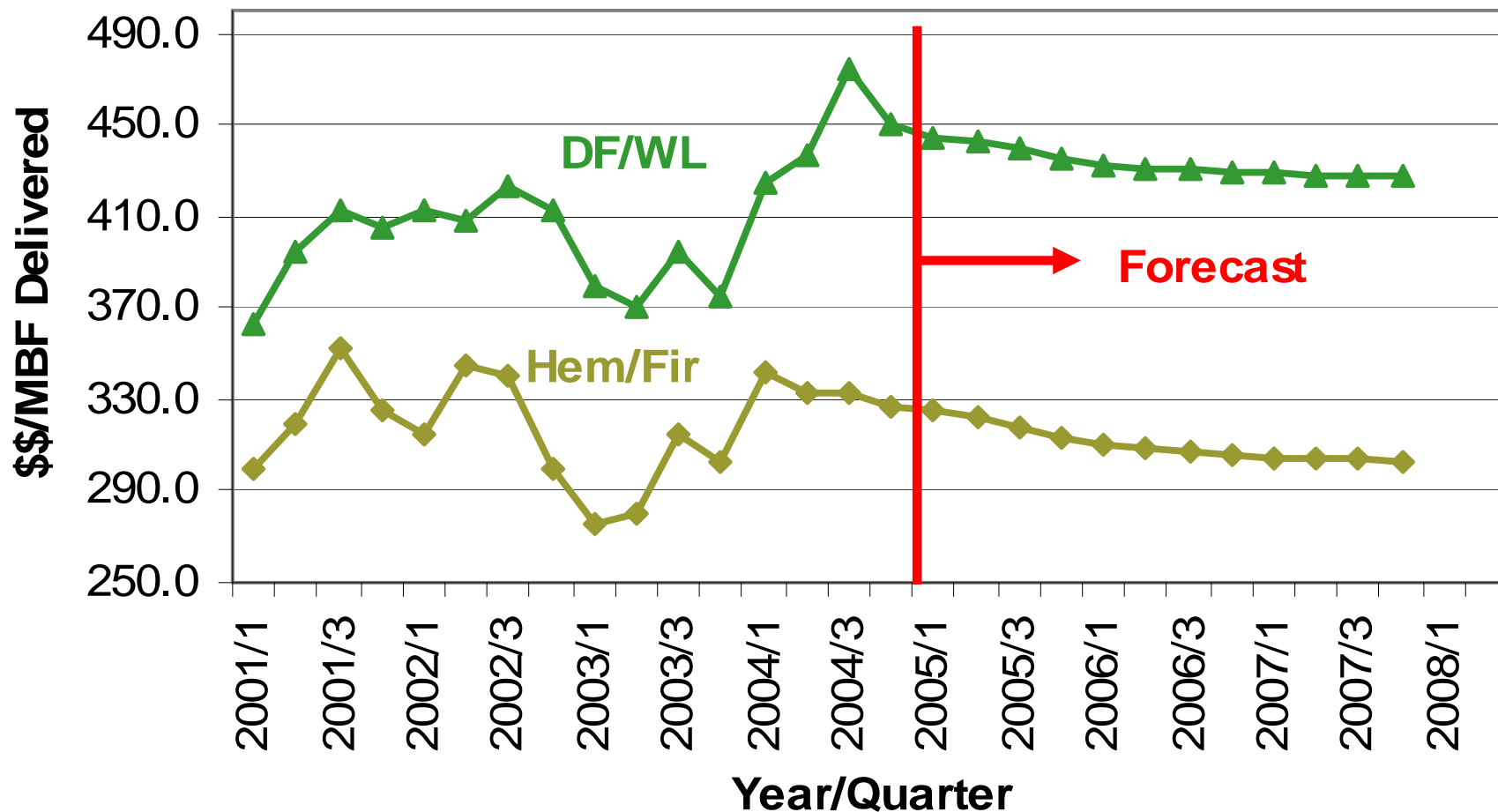
## Forest Sector Energy Cost Forecast

US Energy Information Agency 1/05



# Is This What You Came For?

**Mean N. Idaho Log Price Projections**  
Based on 1/05 Global Insight single housing forecast



# Trust Me Obi-Wan— You're Their Only Hope!

- Family forest owners getting less interested in finance...
  - Ownerships getting lots smaller
  - Environmental rationales stronger
    - Habitat emphasis
    - Natural aesthetics importance
  - Income source dependence down
  - Forestry as an expensive hobby
- Show them nature/revenue win-win!

# Family Forest Advice Script...

- Emphasize non-financial goals...but...
  - non-timber objectives come from timber practices...including harvests
  - So do healthy sustainable forests
- Find regimes to minimize \$\$ trade-offs
  - & profits happen!
- Optimize stand composition
  - Retain resilient species
  - Think small...minimize spatial impacts
  - Plant & manage western red cedar
  - Think big...integrate multiple treatments
- If cutting is in order, either .....
  - harvest soon
  - Or hold for another market cycle

# Who's da Gurus?

- Random Lengths Wood Products Markets  
[www.randomlengths.com](http://www.randomlengths.com)
- RPA website  
[www.fs.fed.us/pnw/sev/rpa/](http://www.fs.fed.us/pnw/sev/rpa/)
- NW Management Log Markets  
<http://consulting-foresters.com>
- Inland Forest Management Log Markets  
[www.inlandforest.com](http://www.inlandforest.com)
- Steve Shook's Forest Products Website  
[www.forestdirectory.com](http://www.forestdirectory.com)
- ID Economic Outlook  
[www.state.id.us/dfm/econinfo.htm](http://www.state.id.us/dfm/econinfo.htm)
- Forest Econ Inc. analytical services & treecents  
[www.treecents.com](http://www.treecents.com)