



Industry News

■ ***It's Home-Buying Season, but No One is Buying Lumber***
(July 1st)

Lumber prices have tumbled into building season, a sign that residential construction and home-improvement markets are buckling under high borrowing costs. Two-by-fours were among the first assets to fall from their pandemic highs when the Federal Reserve began raising interest rates in March 2022.

— *The Wall Street Journal*

■ ***New law targets carbon credits' impact on forests***
(July 24th)

A new bill signed into law by Gov. Chris Sununu last week will address two concerns raised about forest carbon credit programs. The issue of carbon credits came to the forefront in the state when the owner of the Connecticut Lakes Headwaters Working Forest revealed it would reduce its timber harvest on the 146,400-acre tract by more than half in favor of carbon sequestration.

— *The Berlin Sun*

■ ***Fire destroys Katahdin Forest Products building in Aroostook County***
(August 6th)

Fire ripped through the 10-foot mill at Katahdin Forest Products in Oakfield destroying the building. Everyone got out of the mill and there were no injuries. An electric motor that wouldn't start upstairs in the mill likely started the blaze. The company will not lose production days from the blaze because they will open their Ashland Mill on Thursday, which has been closed for over a year.

— *Bangor Daily News*

Industry Overview

Forestland Operations

For the past several editions of this newsletter, I have written extensively on the effect that poor weather conditions can have on our activities. It slows us down, can damage our road systems, and can create safety hazards. One of the many things that can keep a forester up at night is the weather's detrimental effect on our timber harvesting. On that matter, at least, they could rest easy this quarter.



A valley view of the Maine forest on one of the many dry summer days.

For the first time in what seems like a while, the weather in the northeast has been exceptional for forestry operations. The contrast to this time last year, when we had to pause our timber hauling every other week, could not be any clearer. It's been dry and relatively sunny; what rain we have had has been slow and steady, rather than the pouring, soaking rains that can cause flooding issues.

Needless to say, productivity in the woods has been excellent, and logging crews have been busy and fully employed. As a result, the flow of wood into our markets was steady and unimpeded. We expect productivity to be hindered slightly as we head into the fall rains, hunting season, and holidays.

Logging costs remain elevated, but not as a result in the price of fuel. Diesel continues its long slide from a peak nearly 3 years ago. Prolonged instability and violence in the Middle East may change this trend, but, for now, fuel input costs are lower than they have been in a long time.

NUMBER 2 DIESEL FUEL PRICES - NEW ENGLAND

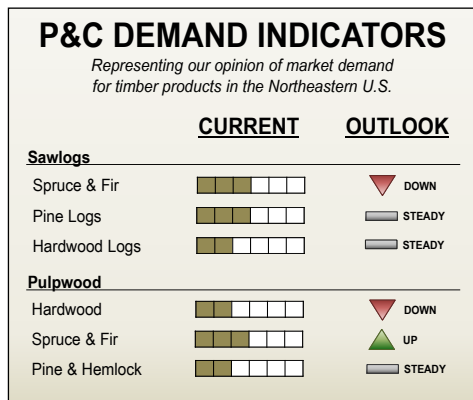
3 YEAR HISTORICAL MONTHLY AVERAGES



Forest Products Markets

Although the weather helped our team stay productive, we have had to make significant adjustments in our activities due to shifts in demand at our timber markets. This resulted in a considerable number of crew relocations, and alterations in our planned harvests as we tried to match our production with the demand of our end users.

Mills are coming into the fourth quarter with overflowing inventories of timber, in part because of the supportive weather. Nearly every major market has been artificially restricting deliveries of wood, either by placing suppliers on quota, or by dropping their prices to make it less attractive. Additionally, demand for end products like pulp & paper products, and lumber, has hit a slump after several years of setting records, and mills have had little choice but to pull back what they pay for raw material. So, while the weather



in the northeast has supported our harvest operations, difficult markets have impeded it.

Pulpwood Markets

Nearly every regional pulp mill has implemented delivery restrictions on hardwood to moderate the flow of wood into their facility. Inventories are full, and mills have found there is more material than they know what to do with. As they struggle to make room, most mills are careful to slowly meter out the deliveries to make sure that the logging supply chain they depend on stays healthy and intact. However, it's a careful balancing act between tying up too much cash in inventory, and keeping wood flowing. On more than one occasion this quarter we have been reminded of how much mills' financial resources have been strained by excess raw material inventory. Some pulp mills have curtailed their wood buying for that very reason. In predictable fashion, the prices that mills are willing to pay for hardwood pulpwood has fallen over the last few quarters.

With lower-value products like pulpwood, transportation makes up a large component of the total cost of the material; the further away, the more expensive it is to get delivered. Therefore, when one mill changes their pricing or implements a delivery restriction, suppliers are forced to go elsewhere -- likely further away -- with their raw material. On top of the logistical problems this creates, the cost of transportation increases, reducing the amount kept by the suppliers. This has caused landowner returns to decrease. While this same effect can be said of all forest products, pulpwood has been where it has been most pronounced.



■ Repurposed Lincoln mill could become world's largest long-duration energy storage system (August 6th)

A one-time paper mill in Lincoln will be redeveloped to become the world's largest long-duration energy storage system. The 85-megawatt battery system would discharge energy for up to 100 hours over four days and would have the most energy capacity of any battery system announced yet. This battery project will help Maine reach its goal of 400 MW of energy storage installed by the end of 2030.

— Press Herald

■ Milo factory may close after being hit with new \$6K solar subsidy charge (August 19th)

A new \$6,000 solar subsidy charge in the monthly Versant Power electricity bill for Milo Chip may force the factory to close, its office manager said. The factory, which employs four people and produces sanitary paper products in Milo, has been breaking even with surging labor, fuel and insurance costs, office manager Isabelle McKenna said.

— Bangor Daily News

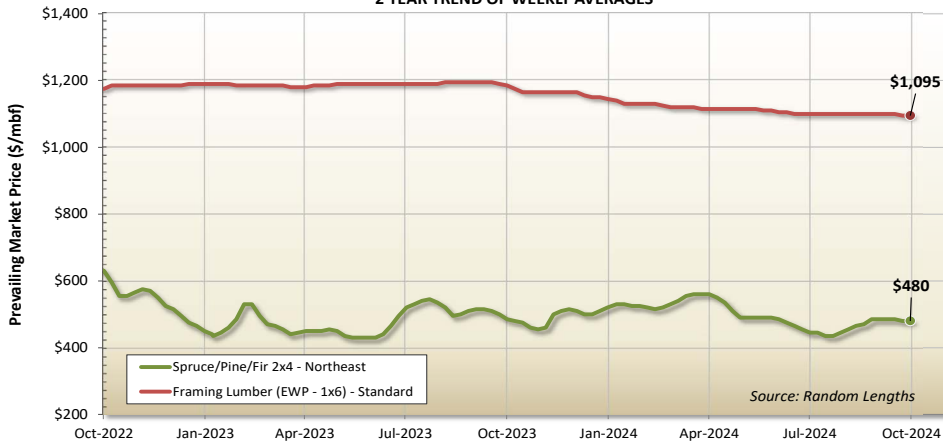
■ New sanctions won't stop Russian plywood from flooding USA ports (September 5th)

Russian plywood imports into the United States jumped in July 2024—with more than 103,600 cubic metres of Russian plywood imported through America's port system for the first seven months of 2024 alone (up from 89,100 cubic metres last year). Timber importers are turning to Russia to make up shortfalls from China after the Department of Commerce introduced import tariffs, causing prices to spike 85%.

— Wood Central

PRICE TRENDS IN SOFTWOOD LUMBER

2 YEAR TREND OF WEEKLY AVERAGES



Over the next several months, several of the mills in the region are expecting prolonged maintenance shutdowns as part of scheduled mill overhauls. The region's largest pulpwood consumer will be putting in a new paper machine, and changing the feeding system to be able to consume more fiber. A new packaging machine was also recently installed in Rumford, but has yet to achieve outputs near its capacity due to related bottlenecks in other parts of the system. Both of these investments are extremely positive news for the forest products industry, and when they are up and running at capacity, it will be a step change in the region's pulpwood consumption levels. That world, however, is 12-18 months away.

One global challenge being faced by local pulpwood markets is the pending implementation of the European Union Deforestation Regulation (EUDR) which will ban the import of timber from suppliers unable to prove their goods were not linked to deforestation. In short, it would require suppliers to implement complex tracking systems and provide precise data on the specific plots of land where each piece of timber originated. US-based pulp mills and suppliers alike have been fearful this may effectively shut off European markets because strict compliance would be unreasonably expensive. This was originally slated to take effect at the end of 2024, but in the face of extreme pushback by global trading partners, the European Commission recently proposed a 12 month delay. It is unclear where this leaves the situation -- except we know it is unresolved.

Sawn Products

Softwood Sawstock

Raw material demand in the spruce & fir dimension lumber market remains soft, with sales slow and sawmills running, for the most part, on a single shift. Back 12-18 months ago, when the lumber markets were at their height, log prices chased lumber prices during the rise. While lumber prices fluctuated wildly, log prices remained more resilient. At this point, however, thin or negative margins caused by rising costs have caused mills to reluctantly feel their way down to lower raw material costs as well.

Log inventories at the regional mills have fallen during the last quarter but are still higher than they would like to be. As prices at sawmills cascade downward, wood buyers watch carefully at what happens to their wood deliveries -- as long as they continue to get what timber they need, they will continue to feel their way down.

Spruce budworm -- a native insect which feeds on the needles of spruce and fir trees -- is starting to rear its ugly head again. Outbreaks of the pest, which have been observed to naturally occur on a regular cycle, have been predicted for some time, and are now causing defoliation on and around the northern Maine border. In the short term, this causes a glut of timber to become available for sawmills as landowners attempt to salvage the material while it is still viable. We are starting to see the early signs of this at the sawmills



■ **Backlash Erupts Over Europe's Anti-Deforestation Law** (September 19th)

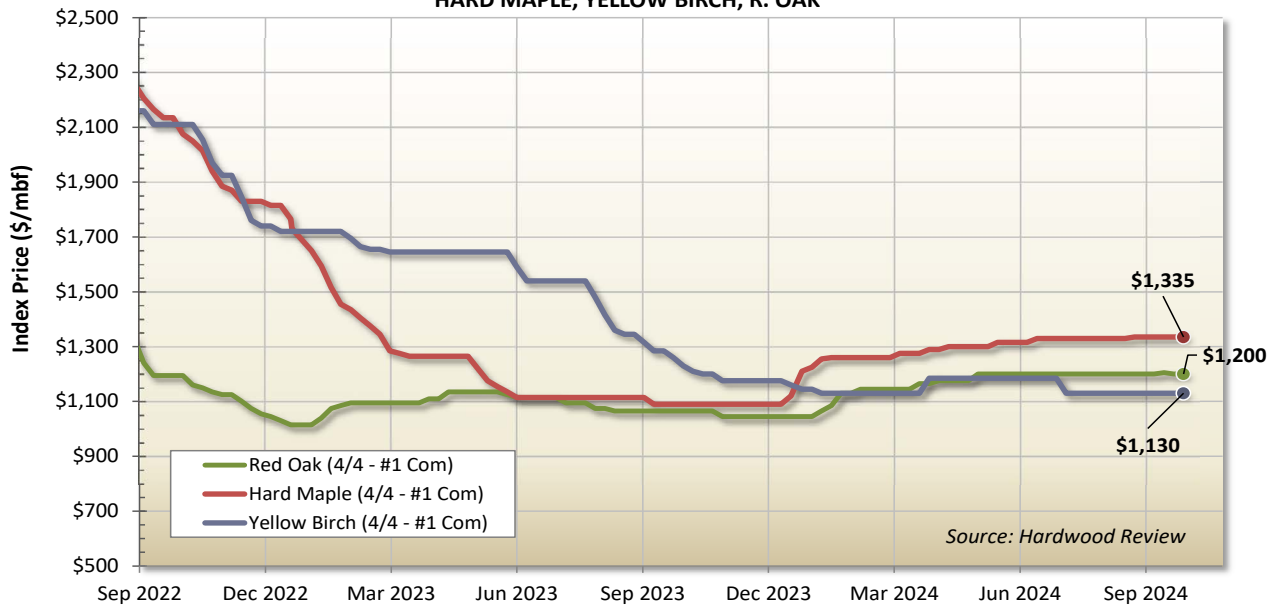
Government officials and business groups around the globe have jacked up their lobbying in recent months to persuade E.U. officials to suspend a landmark environmental law aimed at protecting the planet's endangered forests by tracing supply chains.

— *New York Times*



RECENT PRICES IN HARDWOOD LUMBER - NORTHEAST

HARD MAPLE, YELLOW BIRCH, R. OAK



located in Quebec along the border. Interestingly, we've now come full circle: many of these mills were originally established in part because of the available timber caused by the prior spruce budworm outbreak in the late 1970's and early 1980's. We don't know how far south this defoliation will spread, and there are several factors which would indicate our forest is more resilient & resistant to this pest than it was four decades ago.

The pine log markets are beginning to show some modest signs of improvement. For the time being, demand has held and, starting with colder weather, mills can afford to hold a bit more inventory now that the spoiling season is over. The pine lumber market, however, is still a bit sluggish and sales have declined compared to this time last year.

Hardwood Sawstock

Not much changed during the quarter in the Demand for hardwood logs has been lackluster for the past 12 months, and that trend continues today. Log prices have been stable, as sawmills balance the conflicting needs of keeping a consistent flow of wood and not building too much inventory. Regional sawmills have reduced production, in some cases only running on several days each week. Higher grades of material have a higher chance of being able to be sold, while the lower grades in particular have struggled.

Just like at pine mills, hardwood sawmills have to carefully manage their inventory during the hot summer months to avoid fungus growth on unfinished products. Once lumber is through the kiln and dried, the shelf life is extended and the pressure to keep the wood flowing is slightly relaxed.

The consistent demand for timber mat & pallet logs we have felt for the past 10 years has started to show some very slight slowdown. Prices have come down a hair; we feel this is a small correction to a heated market, and in some ways a response to a slow grade log market. In any case, both of these markets offer suppliers an excellent relief valve for lower grade material that would otherwise be pulpwood.

Summary

This quarter, favorable weather conditions in the northeastern U.S. have allowed uninterrupted timber harvesting, a welcome change from the weather-related challenges of previous years. Despite this, markets for timber products have softened, with mills enforcing delivery quotas and reducing prices due to excess inventory and decreased demand for lumber and pulpwood. While ongoing maintenance and future investments in mills offer hope for long-term improvements, challenges such as transportation costs and global regulatory changes continue to impact profitability, especially in the pulpwood market. 🌲

Benjamin D. Carlisle
PRESIDENT

©2024 by **Prentiss & Carlisle**. Reproduction of this report by any means in whole or in part without express permission of the authors is a violation of federal law.

Please note: This report is intended to be an unbiased and accurate source of information on timber markets and timberland investments. However, timber market conditions and the forest products industry vary greatly within and across regions and depend on a substantial number of factors that this publication does not cover. Therefore, anyone using information published in this report for any specific purpose, sale or contract does so at his or her own risk. Information included in this report and provided by other sources is believed to be reliable and accurate. Prentiss & Carlisle assumes no responsibility for errors or omissions.