

WOOD MARKETS UPDATE

December 28, 2017

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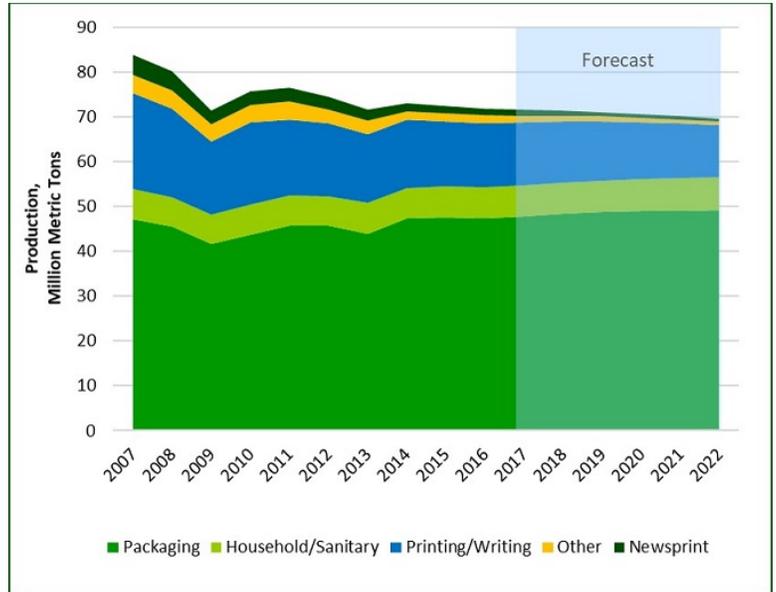
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Source: forisk.com/blog.

Forisk forecast's 3% decline in P&P production

November 21, 2017 (forisk.com)—Forisk's updated forecast of U.S. paper and paperboard projects a 3% decline in total output over the next five years. Newsprint and printing and writing decline while packaging and household-sanitary products increase. Capital investments mirror the production forecasts; pulp & paper firms invested at least \$5 billion in the past five years, with 40% in household/sanitary facilities and 53% in packaging, based on public announcements.

Forecasted changes in paper and paperboard varies regionally with exposure to end markets; the U.S. South benefits from packaging growth while the U.S. North declines with printing-writing. Despite a declining forecast for the North, declines could be less severe as some mills could potentially convert from producing printing-writing papers to growth sectors such as packaging or household products.

GENERAL INTEREST

Minneapolis-based Hill Family Trust appoints new manager for Oregon timberlands

December 18, 2017 (democratherald.com)—Representatives of the 100-year-old Hill Family Trust based in Minneapolis, Minnesota, didn't have to look far when it came time to select a new president of Cascade Timber Consulting, which manages the family's 145,000 acres of timberland in east Linn County, Oregon. In fact, their new leader will only have to move his office a few yards down the hallway of their Sweet Home office building. Linn County native Milt Moran, 64, has worked for Cascade Timber Consulting and its predecessors for 45 years. Beginning March 1, Moran will succeed David Furtwangler, 64, who has worked for the Hill family since 1985 and has been president of CTC for the last 13 years. The Hill family's involvement in Linn County began in 1910, when business magnate Louis W. Hill of St. Paul, Minnesota, and a partner, purchased thousands of acres of timberland that had been set aside by an Act of Congress in 1866 to construct a wagon road from the Oregon coast to Idaho. The men formed the Oregon and Western Colonization Company to manage the property and in 1917, Hill acquired sole ownership, forming the 1917 Trust for his wife and children.

MNDNR draft sustainable timber harvest analysis public comment period open

December 1, 2017 (Minn. DNR News Release)—Following months of work, the draft sustainable timber harvest analysis [report] is now ready for public comment. The analysis will be used to help determine the statewide timber harvest level on DNR-administered forest land.

The DNR's current sustainable harvest target is 800,000 cords annually. For this analysis, Gov. Mark Dayton directed the DNR to specifically determine whether harvesting 1,000,000 cords per year from DNR forest lands is sustainable [a 25 percent increase] and if that is not sustainable to identify an alternate sustainable harvest number.

To complete the project, the agency contracted with the forest management consulting firm Mason, Bruce & Girard to perform an independent, third-party analysis of the DNR's timber harvest level. In addition, the DNR engaged a diverse advisory group representing timber, conservation, environmental, and public landowner interests to work with staff from the divisions of Forestry, Fish and Wildlife, and Ecological and Water Resources to provide input throughout the process.

The draft report and more information about the analysis are posted on the DNR's [project webpage](#). The public comment period will close on January 8, 2018. The final report and decision on the harvest level will be delivered to Dayton and the Legislature by March 1.

ECONOMY & HOUSING

U.S. Q3 GDP grew 3.2%

December 21, 2017 (cnbc.com)—The U.S. economy grew at its fastest pace in more than two years in the third quarter, powered by robust business spending, and is poised for what could be a modest lift next year from sweeping tax cuts passed by Congress this week. **Gross domestic product expanded at a 3.2 percent annual rate last quarter**, the Commerce Department said in its “third estimate” on Thursday. This was the quickest pace since the first quarter of 2015 and was a pickup from the second quarter's 3.1 percent rate. It also marked the first time since 2014 that the economy experienced growth of 3 percent or more for two straight quarters. But the growth pace for the July-September period likely overstates the health of the economy. An alternate measure of growth, gross domestic income, rose at a 2.0 percent rate in the third quarter. GDI was previously reported to have increased at a 2.5 percent rate.

Economy added 228,000 jobs in November

December 8, 2017 (bls.gov)—Total nonfarm payroll employment increased by 228,000 in November, and the unemployment rate was unchanged at 4.1 percent, the U.S. Bureau of Labor Statistics reported today (Figure 1). The number of long-term unemployed (those jobless for 27 weeks or more) was essentially unchanged at 1.6 million in November and accounted for 23.8 percent of the unemployed. Over the year, the number of long-term unemployed was down by 275,000. The labor force participation rate remained at 62.7 percent in November and has shown no clear trend over the past 12 months.

Manufacturing added 31,000 jobs in November. Within the industry, employment rose in machinery (+8,000), fabricated metal products (+7,000), computer and electronic products (+4,000), and plastics and rubber products (+4,000). Since a recent low in November 2016, manufacturing employment has increased by 189,000.

In November, **average hourly earnings for all employees** on private nonfarm payrolls rose by 5 cents to \$26.55. Over the year, average hourly earnings have risen by 64 cents, or 2.5 percent. Average hourly earnings of private-sector **production and nonsupervisory employees** rose by 5 cents to \$22.24 in November.

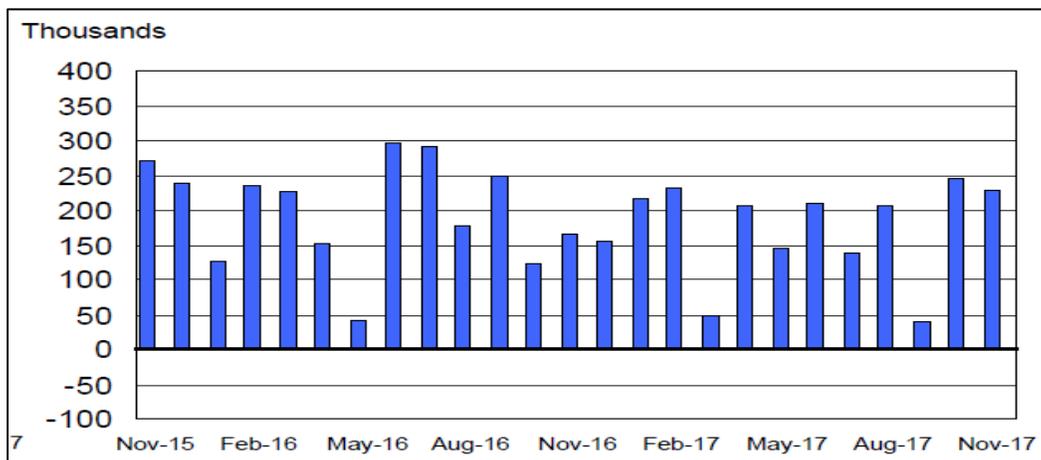


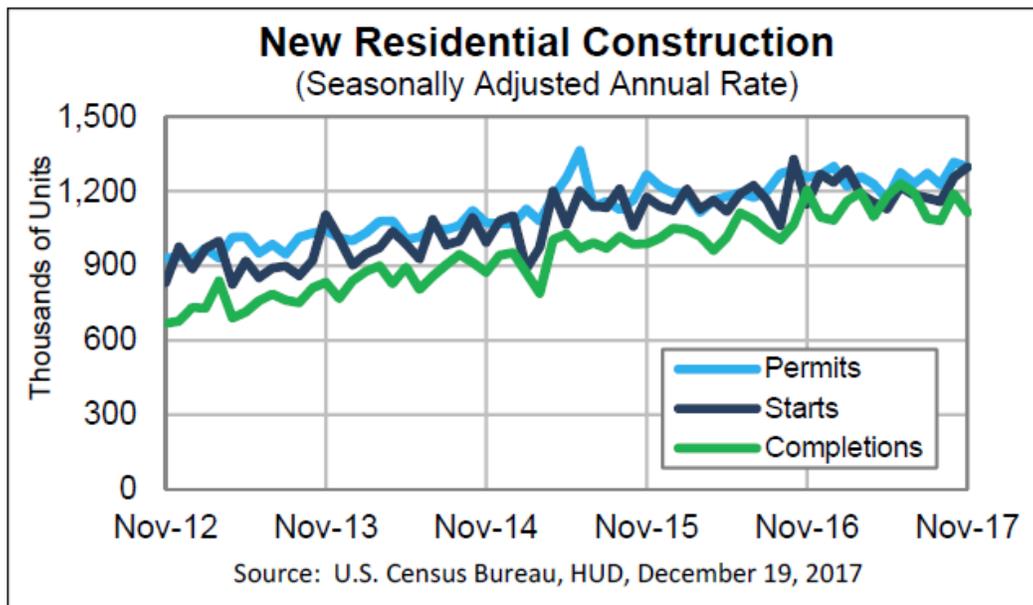
Figure 1: Non-farm payroll employment month-over-month change, seasonally adjusted.

Fed raises key interest rate, policy outlook unchanged

December 13, 2017 (msn.com)—The Federal Reserve raised its benchmark overnight lending rate by a quarter of a percentage point Wednesday, as anticipated, but left its rate outlook for the coming years unchanged even as policymakers projected a short-term acceleration in U.S. economic growth. The move, coming at the final policy meeting of 2017 and on the heels of a flurry of relatively bullish economic data, represented a victory for a central bank that has vowed to continue a gradual tightening of monetary policy. Having raised its benchmark overnight lending rate three times this year, the Fed projected three more hikes in each of 2018 and 2019 before a long-run level of 2.8 percent is reached. That is unchanged from the last round of forecasts in September. Gross domestic product [GDP] is expected to grow 2.5 percent in 2018, up from the 2.1 percent forecast in September, while the unemployment rate is seen falling to 3.9 percent next year, compared to 4.1 percent in the last set of projections. But inflation is projected to remain shy of the Fed's 2 percent goal for another year, with weakness on that front remaining enough of a concern that policymakers saw no reason to accelerate the expected pace of rate increases.

November single-family housing starts highest in a decade

December 19, 2017 (Census/HUD, bloomberg.com remix)—Privately-owned [U.S.] housing starts in November were at a seasonally adjusted annual rate of 1,297,000. This is 3.3 percent above the revised October estimate of 1,256,000 and is 12.9 percent above the November 2016 rate of 1,149,000. Single-family housing starts in November were at a rate of 930,000; this is 5.3 percent above the revised October figure of 883,000. Year-to-date through November, housing starts totaled 1,121,500, up 3.1 percent year-over-year. The latest results make it more likely that residential construction spending -- which subtracted from economic growth in the second and third quarters -- will add to the pace of U.S. expansion in the fourth quarter.



FINANCE & MANAGEMENT

U.S. locks in duties on Canadian softwood lumber for now

December 7, 2017 (thehill.com)—The U.S. International Trade Commission (ITC) made a final determination, in a 4-0 vote, that Canada subsidizes and dumps lumber exports into the United States, a move that is likely to increase already tense negotiations to update the North American Free Trade Agreement (NAFTA). The tariff will average 20.83 percent on Canadian lumber imports, which are used mostly for home building in the United States. The Canadian government has denied taking actions to prop up the industry to the detriment of the U.S. industry. Last week, Canada filed a case at the World Trade Organization in response to the Commerce decision to levy the tariffs.

ACLT files lawsuit to block shut of Minnesota biomass power plant

November 17, 2017 (AP)—The Associated Contract Loggers and Truckers [ACLT] of Minnesota have sued to block closure of a biomass power plant in Benson. The plant burns wood chips and turkey litter. The lawsuit, filed Thursday in Cass County, says a shutdown would hurt the environment and cost jobs. The Legislature authorized Xcel Energy to cancel its power purchase agreements with biomass plants in Benson, Virginia and Hibbing. Xcel is now asking the Public Utilities Commission for final approval, saying it would save consumers money. The lawsuit asks the court to order a study of the environmental impacts of closing the Benson plant, which it calls an important market for waste wood. Xcel declined comment on the lawsuit but said Friday it wants to replace expensive energy from those plants with something more affordable.

Sappi invests \$5.9 million in Cloquet paper mill

November 13, 2017 (sappi.com) –Sappi North America, a leading producer and supplier of diversified paper and packaging products, today announced a \$5.94 million capital investment in its Cloquet, Minn. mill to replace the headbox on Paper Machine 12 (PM12). This investment enabled Sappi to maintain its capacity by adding a state-of-the-art, dilution profiled headbox that produces excellent basis weight profiles. The Cloquet Mill was recently awarded for its investment in the state of Minnesota from the Minnesota Office of Foreign Direct Investment. The award highlighted the company's contributions to the economic vitality of local communities, and its commitment to keeping Minnesota a world-leading business destination. At the Cloquet Mill, NM, Sappi is completing a study concerning the expansion of the existing permit limits that could increase the mills DWP capacity by 30K mtpy by mid-2019.

Potlatch-Deltic merger announced

October 23, 2017 (GLOBE NEWSWIRE)—Potlatch Corporation (NASDAQ:PCH) (“Potlatch”) and Deltic Timber Corporation (NYSE:DEL) (“Deltic”) today announced that they have entered into a definitive agreement to combine in an all-stock transaction and create a leading domestic timberland owner and top-tier lumber manufacturer. The combined company will be named PotlatchDeltic Corporation and its shares will trade on the Nasdaq Stock Market under the ticker PCH. Following the close of the transaction, Potlatch stockholders will own approximately 65% of the combined company, and Deltic stockholders will own approximately 35% on a fully diluted basis.

PRODUCTION & PRICES

November printing-writing paper shipments down 6% yoy

December 21, 2017 (afandpa.org)—According to the November 2017 Printing-Writing Monthly report from the American Forest & Paper Association, total [U.S.] printing-writing paper shipments decreased six percent in November compared to November 2016. Shipments of uncoated free sheet shipments remained flat while the remaining three major printing-writing grades declined year-over-year [yoy]. Total printing-writing paper inventory levels increased less than one-half of one percent from October 2017.

Uncoated free sheet (UFS) paper shipments were flat in November following yoy monthly increases in two of the previous three months. Imports of UFS were down 12 percent year-to-date. Exports of UFS papers increased 30 percent year-over-year in October, following the 26 percent yoy increase in September, the sixth double-digit percent yoy increase in a row.

Coated free sheet (CFS) paper shipments in November declined by a double-digit percentage for the second consecutive month. U.S. imports of CFS papers decreased nine percent yoy in October, the fourth consecutive yoy decline. Exports of CFS papers increased six percent yoy in October – the fourth consecutive yoy monthly increase thus far in 2017.

Coated mechanical (CM) paper shipments declined yoy in November for the sixth consecutive month. Imports of CM were essentially flat or just under one-half of one percent compared to October 2016. Exports of CM increased 14 percent in October to 33,000 tons and for the year sit three percent lower than year-to-date 2016.

Uncoated mechanical (UM) paper exports decreased 4% yoy in September, but reached second-highest level in the past 24 months. Overall shipments of UM have declined yoy for seventeen consecutive months. Imports of UM decreased 13% yoy in September.

Lumber prices and profits expected to fall

December 21, 2017 (conferenceboard.ca)—Canada’s lumber industry has been able to survive the impacts of preliminary duties, largely thanks to soaring lumber prices. While industry production will remain virtually flat this year, industry revenues are on pace to grow by 8 per cent, according to The Conference Board of Canada’s *Canadian Industrial Outlook: Wood Products Manufacturing – Autumn 2017*. “Lumber prices are at their highest levels in over a decade due to a perfect storm of factors, including supply constraints in B.C. from the wildfires this summer, and increased demand from rebuilding efforts in hurricane-affected regions and a steady U.S. housing market,” said Michael Burt, director, industrial trends, The Conference Board of Canada. “The surging lumber prices are providing a welcome relief from the costs of the lumber duties imposed by the U.S., but this is not likely to last.”

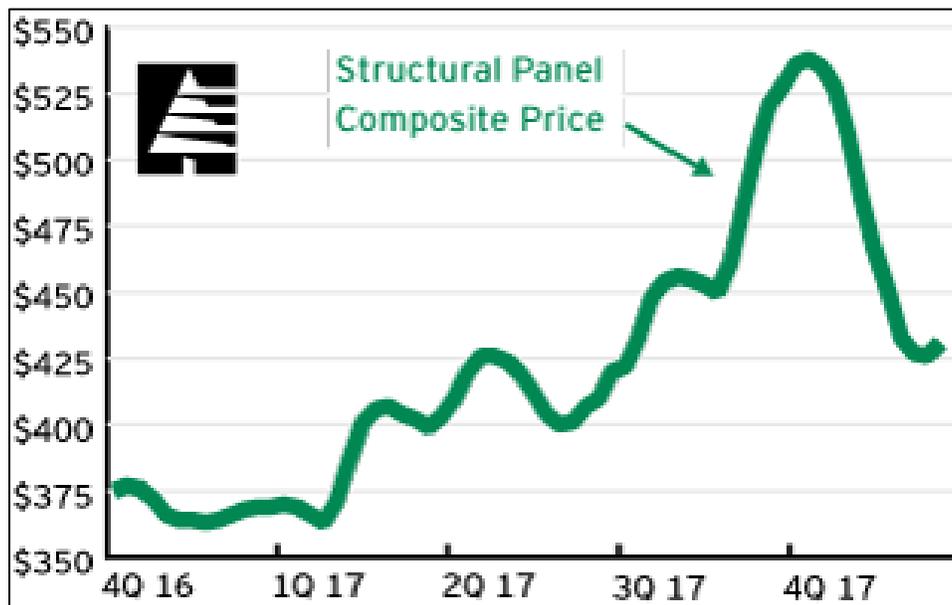
Were it not for the exceptionally strong Canadian housing market, Canada’s lumber industry would likely have been on pace to contract this year, states the report. In all, the industry is forecast to see production inch up by 0.4 per cent in 2017, compared to average annual gains of 5.3 per cent between 2010 and 2016. The industry’s financial performance is expected to deteriorate over the next five years as the tailwinds that drove lumber prices to new heights begin to dissipate, the report explains. High lumber prices are already prompting a pickup in U.S. domestic production. In addition, other countries are exporting more lumber to the U.S. to fill the gap left by Canadian imports, which are being priced out of the market by duties.

Random Lengths Panel Market Report

December 22, 2016 (randomlengths.com/Woodwire)—Structural panel markets maintained strength heading into the year-end holidays. **The OSB market headed into the holiday with modest momentum, as prices in most regions were firm to slightly higher.** Order files often stretched into the weeks of January 8 or 15. Demand for Southern Pine plywood was better than most traders anticipated. Mills extended order files into the second week of January amid steady sales.

(f.o.b. mill prices)	This Week Dec 22	Last Week Dec 15	Year Ago 2016
Random Lengths Structural Panel Composite Price*	\$431	\$426	\$369
Southern (west-east) 15/32-inch 3-ply rated sheathing plywood	435-480	420-470	345-380
Southern (west-east) 15/32-inch 4-ply rated sheathing plywood	440-485	425-475	345-385
Western 1/2-inch 4-ply rated sheathing plywood	450	442	373
North Central 7/16-inch Oriented Strand Board	300	300	282

*Weighted average of 11 key items



BIO-MARKETS

Meridian launches plans for Minnesota biomass processing facility

December 6, 2017 (waste360.com)—Solid waste services company Meridian Waste Solutions Inc. continued a flurry of recent activity with the announcement that its wholly-owned subsidiary, Attis Innovations (formerly Meridian Innovations), has initiated commercialization plans for its first biomass processing facility in Minnesota. Attis will immediately begin feedstock evaluation and assess potential locations for commercial scale operations. In the past month Attis completed several acquisitions. It now holds an exclusive license to American Science Technology Corporation's (AST) patents and AST's biomass processing facility in Wausau, Wisc. Using the acquired intellectual property rights and personnel, Attis Innovations plans to take the next step and looks to build its first 60,000-ton per year commercial production facility in Minnesota. The company cited as an example that when used as a high-performance resin extender in thermoplastics, lignin brings a value of \$600 to \$2,000 per ton, depending on the performance requirements. Attis says it has begun evaluating potential feedstocks for conversion into pulp, cellulosic sugars and AST's melt-flowing lignin. Of particular interest it has identified hardwood and softwoods found in northern Minnesota as well as the agricultural crop residues from corn, soybean and wheat growers found in the southern part of Minnesota. Collectively, the company estimates that Minnesota generates about 27 million tons of forest and agricultural residues each year in addition to having a living tree inventory of about 465 million tons.