

Moving Among Bears

A guide to selling your timber while the market is down

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Stumpage prices have retreated significantly from their record highs in the fourth quarter of 1997. Most of the downturn may be traced to simple economics: decreased demand and increased supply.

Some of the factors that have affected the decrease in demand for forest products include the following:

Slowdown in Asian Economies. The slowdown in several of the key Asian economies has led to a reduced demand for Southern yellow pine pulp and paper products. Prior to 1998, a large portion of the pulp and paper products manufactured in the Southeastern U.S. went to Asian markets. Many landowners in the Southeastern U.S. first felt this reduction in demand in the form of lower prices for standing timber in the second quarter of 1998. While the Asian economies have improved, they have also diversified their sources of pulp and paper products to include areas outside of the Southeastern U.S. This diversification of sources may slow the price recovery.

Forest Industry Mergers. In a form of economic Darwinism, the "Big-uns" are on a buying binge and are gobbling up smaller forest industries. While this makes the larger companies more attractive to investors by reducing market fragmentation, the net result to landowners is less competition and lower stumpage prices.

Slowdown in Housing Starts. Housing starts have declined somewhat since 1999. In addition, alternative building products have cut into this traditional niche for forest products. This has helped to force the prices down for finished products such as lumber, plywood and oriented strand board (OSB). Eventually, this results in lower prices paid for stumpage.

In addition to the decrease in demand for most forest products, there has been a simultaneous increase in the amount of wood on the market due to these factors:

Prolonged Drought. The mid South

has endured almost three years of severe drought. This drought has facilitated harvesting of normally wet areas by making them accessible to heavy equipment. In addition, harvesting is normally curtailed during the winter due to an increase of precipitation. This reduction of available wood usually causes an increase in stumpage prices. However, due to the lack of rain during the winters of 1999 and 2000, there was no such price recovery. While any rain is appreciated at this point, only a return to a regular weather pattern will help stumpage prices in the long term.

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Southern Pine Beetle Epidemic. Periodic outbreaks of Southern pine beetle are expected and considered normal. However, the epidemic, which started in the late summer of 1998, has been drastically accentuated by the prolonged drought. This drought has made it difficult for the trees to defend themselves and has allowed beetle populations to reach an all time high. This has further flooded the market with wood as landowners and forest industries attempt to mitigate their losses.

Increase in Thinning. Most Southeastern states experienced a dramatic increase in tree planting during the early to mid 1980s. State and federal cost-share programs were created to increase timber production, reduce erosion, and take excess marginal cropland out of production. Stands planted under these programs, as well as those on industry lands are now old enough to receive the first thinning. The amount of acreage needing a thin will continue to increase for at least the next 15 years as

more stands reach this size.

In addition to the supply and demand aspects of the timber market, a certain amount of the decrease in stumpage prices can be attributed to what we in the industry call a "price correction." Price fixing involves coercion and is illegal. While I seriously doubt that this has occurred, I would also be naive to think that industries have not made a concerted effort to avoid the spiraling stumpage increases experienced in the mid-1990s.

Strategies for Coping with a "Bear Market"

By adopting the following strategies, you will be more likely to sell your timber or timberland and limit your losses while the market is down.

Quickly respond to what buyers need. The key to being successful in any business is to meet your customer's needs on a timely basis. Two methods that we have found to be successful during "bear" markets are to find purchasers that have a micro-niche and those with temporary shortages. For instance, we have been able to move some tracts of timber because we knew of a purchaser that needed low-grade hardwood sawtimber to meet a large contract that he had with a local industry. In addition, we have found that hardwood sawmills in Tennessee are currently experiencing a shortage for certain forest products and are still willing to pay a premium! We also know of at least three large industries that were so concerned about controlling Southern pine beetle on their own property that they failed to supply their chip-n-saw mills with adequate wood. This created a short-term demand in the middle of a downturn and allowed us to move some pine when others found it impossible.

Compromise. If you must move wood during a downturn, then you have to lower your expectations for price and how the timber is to be harvested. One of the easiest methods is to increase the

length of time that you allow for your timber to be harvested. Most business people are inherently optimistic and buyers are often willing to speculate that prices will rebound sometime within the length of your contract. Therefore, they may be willing to pay more for contracts that allow them 18-24 months to harvest your timber than for the typical 12-month contract. If your property does not have access to a public road, you may consider providing an easement for your timber purchaser. This may make your tract more attractive to timber purchasers and help you to move your wood when others are unable. In addition, if you must sell your timber during a "bear" market, you will have to accept lower prices. However, you can maximize the amount that you receive for standing timber by applying the same marketing techniques used by forestry consultants while the market is good.

Cut your losses. To limit damage from Southern pine beetle, you may consider paying for the infested trees to be pushed down and piled. While this is a direct cost and no revenue for the trees pushed down is realized, it may save the remainder of your stand for times when the market improves. In addition, you may want to consider selling your timber on a "pay-as-cut" basis. Under this method of payment the buyer assumes less risk and may pass the savings along to you. However, the burden of risk is shifted from the buyer to you and you should not consider this method until

you have consulted with a qualified resource professional with your best interest in mind.

Examine alternative sources of income. Regardless of the status of stumpage prices, you should consider alternative sources of income from your forestland. Prices paid for hunting and recreational uses of forestland are at an all-time high. These types of leases provide additional revenue during down times and reputable lessees can act as stewards of your resources. While one wouldn't want to sell the family farm off in parcels just because the timber market is down, if you have acquired forestland for investment purposes, now may be the time to sell. Many successful suburbanites are looking for forestland to purchase for the purposes of recreation and relaxation. This increase in demand equates to an increase in value for desirable rural forestland.

Conclusion

The future of the timber market for the Southeastern U.S. is uncertain. Most experts expect that prices will recover somewhat during 2002 with gradual increases possible in the succeeding years. However, the exponential price increases of the mid to late 1990s will probably not be experienced again during our lifetime. Despite these prognostications, forestland is still a good investment and by employing the above listed strategies, you can limit your losses and survive until the stumpage prices recover. ♣

A Vision for the Future

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Environmental Achievement Award for her excellence in forestry, wildlife, and related sciences.

Having accomplished so much, Mrs. Byrd feels that there is still much more to be done. There is another segment of the farm that has not been completed. The historical aspect of the BFLHFFC entails linking history and environmental education together. Presently, she is working on a 3,000 square foot facility that was once used as a dairy and is now

being converted into an environmental lab for hands-on observation. This project will be completed soon will be an asset to the community as well as an enhancement to the TREASURE Forest program.

With spiritual guidance and commitment, Mrs. Byrd envisions The Black Freeman's Living Historical Farm for Children, Inc. as a major educational center not only in Alabama, but eventually the nation. ♣

A Fond Farewell



This is my last issue as editor of *Alabama's TREASURED Forests*. My association with the

Alabama Forestry Commission and this magazine has been a wonderful experience, but it's time to move on.

One of the things I'll miss about my job is the interaction I've had with TREASURE Forest landowners. During my 13 years with the Forestry Commission, I've interviewed and written articles on 29 TREASURE Forest landowners. I've met countless other landowners at meetings and on tours. Without exception, they've treated me with kindness, consideration and made me feel proud of what I do.

Over the years I've receive many compliments on this magazine and it's a great feeling to know that the content is useful and appreciated by the readers, who now number almost 13,000. But there's no way that I can take all the credit. I've had the opportunity to work with numerous people within the Forestry Commission, in other forestry-related agencies and many individuals who are experts in their fields to produce this publication. It was always my objective to make the magazine visually appealing, informative and helpful. I hope that in some small way I succeeded.

I'm proud to have been associated with the Alabama Forestry Commission and *Alabama's TREASURED Forests*.

Thanks, and farewell!

Kim M. Nix

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