

MichiTree Newsletter

5th Edition

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We are very proud to announce that in 2008 MichiTree celebrates its 25th anniversary. For over twenty five years, we have been providing landowners with quality forestry consulting services. We are truly grateful for the many long-term relationships that have been built, and look forward to carrying on the proud tradition the Bullock's started back in 1983. Our commitment to meeting our client's objectives and building long-term relationships with forest landowners continues. We will continue to strive for excellence in our services, and commitment to providing our clients with the latest information and upcoming topics of interest from the forestry community. This assures that you, the landowner makes informed decisions when it comes to on the ground forest management. I can only hope the next 25 years will bring as much success and satisfaction as the first.

This year we present articles on the forest products industry, as well as market trends and ideas for the woodland owner. We will again try to get this newsletter as well as past ones posted on our website; www.michitree.com. We are very grateful for your past business and look forward to assisting you with future forestry projects.

Sincerely,

Scott R. Erickson, ACF
Registered Forester #671



Valmet "in woods" Processor

A Rapidly Changing Forest Products Industry

The Forest Products Industry (FPI) has undergone serious change in recent years. With rising (skyrocketing) energy costs and difficult economic conditions, efficiency has become critical to many companies' survival. Specialization in products, increased production and reductions in labor/equipment costs have become increasingly important to both wood producers and manufacturers. With the current "green movement", there are signs of emerging new markets for wood products; energy chips, wood pellets and wood based ethanol to name a few. Although these don't provide short term relief to logging contractors who have seen surging diesel costs, paper mill closures and housing markets collapse, they should be looked at as the future bright spots in a struggling industry.

Many successful logging companies have invested in high tech machinery that offers high levels of production with relatively low labor costs. The photo on the bottom left is an example of this; Valmet's "in woods processor." Trees are harvested to log length at the stump, leaving only branches and the upper portion of top, and later forwarded to the landing area. One advantage of this type of machinery is less damage to residual trees as compared to tree length skidding. In addition, they are much safer than hand cutting, limbing and bucking, as all of these steps are handled in the comfort of the highly protected cab of this machine. Although most of these types of machines work in pulpwood/pine forest types, they are beginning to come out with larger processors capable of handling large diameter hardwoods as well. Are the days of the two man logging crews equipped only with chainsaws and cable skidders numbered?

Forest and wood product certification has also become very popular and likely will continue to grow in coming years. The two primary (third party) certifying organizations are FSC (Forest Stewardship Council), and SFI (Sustainable Forestry Initiative). Current pressures are being placed on the paper industry to be in compliance with standards set by the above organizations. However, I believe there will be an increasing demand for additional certified wood products, such as quality hardwoods and structural lumber. This creates a very difficult problem, in terms of certification compliance auditing, as most of these materials are harvested on small private parcels of non-industrial timberland.

Continued from page 1

Although historically these private forests have been well managed and most would meet the standards for certification, due to their relative small size along with private property rights, third party verification becomes difficult. The most likely certification scheme for these forests will be through the American Tree Farm System (ATFS). Tree farm member forests are already considered certified, sustainably managed forests and should meet the criteria for certified wood products. This may prove to be the best avenue for private forest owners to capitalize on certified forest products.

So what does the future hold for the FPI in Michigan? My vision is a highly efficient FPI that will continue to evolve with emerging new markets and technology. Sawmills will continue to improve with log utilization and production of specialty items. Custom orders with tighter specs will become the norm. Pellet, Co-gen, and possibly wood based ethanol plants will quickly develop, and create a stronger market for low quality chipwood/waste material. Although problems associated with the current housing markets will be difficult for most, in the end the industry as a whole will be healthier. I believe when demand picks back up, it will be difficult for production to ramp back up to meet it.

The forestry community needs to take advantage of the current "green movement", and use it to educate the public of our proud heritage. Most small and large towns across West Michigan were built during the logging era. Port cities were ideal places for sawmills to operate. Trees were harvested, logs were stamped and floated down rivers. After being sorted at the mouth, they were sent to the appropriate mill. These timber products were what built America. In fact, today's FPI is completely dependent on the second growth forests that regenerated after the initial clearing (& later burning) of the land. People need to understand the renewability of this vast resource, and its environmental benefits, as compared to alternative products. Current annual levels of harvest are well below annual growth rates (around 50%). The greatest threat to long-term forest sustainability is not over-harvesting, but rather parcelization and development in areas of productive timberland. When society has a better understanding of the many advantages to using both traditional (boards and paper), and future (energy) forest products, hopefully demand will follow. We are a nation well equipped to handle a surge in wood products demand and should capitalize on this opportunity.

Timber Market Trends:

2007 & 2008

2007 will go down as a very challenging year for most in the forest products industry. The decline in the housing sector has had a severe impact on both raw material and finished product manufacturers across the country. Most sawmills are running at reduced capacity and overall production has slowed to a crawl. Steep increases in diesel and other energy costs has only added fuel to the fire.

What will the rest of 2008 and beyond bring? I wish I knew! Some reports suggest that due to the lack of production, shortages in some lumber items will occur, leading to a slow but steady recovery. I think it's safe to say when housing markets pick back up, timber markets should follow. Following is a quick generalized market grading system for most timber types associated with this region of Michigan:

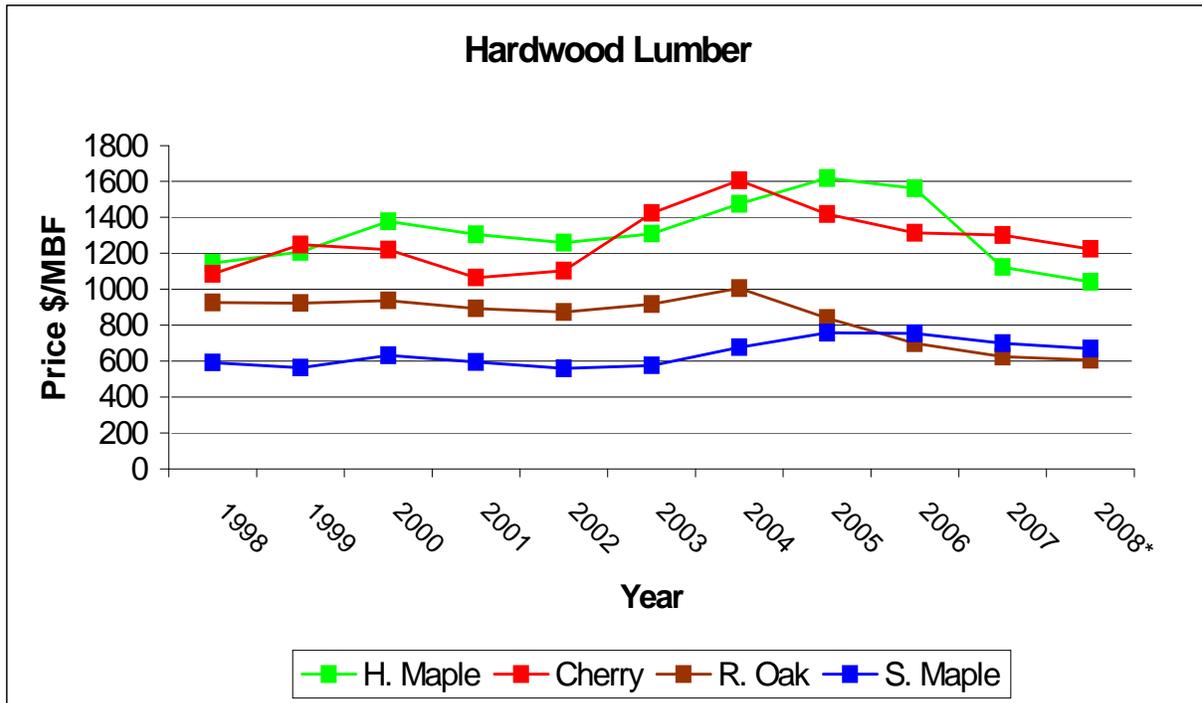
- Hardwood Veneer Logs —————Strong
- Hardwood #1 & #2 Grade Sawtimber—Weak
- Hardwood Low Grade Sawtimber —Stable
- Red Pine Sawtimber —————Stable
- Pulpwood —————Stable

The one bright spot seems to be in hardwood veneer. My guess is lower sawmill production (veneer mills primary source for logs) has led to shortages in available veneer logs.

On the following page, *Figure 1* depicts a graph of hardwood lumber prices over the past 11 years for major hardwood species associated with this region of Michigan. Most common other hardwood species not reported (beech, ash & basswood), are of relatively low value, and generally trend stable in prices. These numbers were derived from the publication, "Weekly Hardwood Review", and are based on surveys from sawmills across the country and broken down by region. Prices are based on number 1 common grade, green, 1" thick lumber sold from sawmills across the region. Again these are average prices, as each sawmill has their own specialized markets and prices likely vary from mill to mill. Prices are in dollars per thousand board feet (MBF).

Figure 2 shows recent bid results from timber sales sold in 2007-2008. It is important to note that these "stumpage prices" vary significantly based on a variety of factors. Some variables that determine the price buyers pay for standing timber include percentage of veneer and other grades, length of contract, competition, species mix, total volume, access for trucking/processing, etc.

Figure 1- Lumber Prices



* 2008 prices reported up to June 1st

Figure 2- Recent Bid Results

Sale Type (Major Timber Type)	Total Volume (Thousand Board Feet-MBF/ or Cords)	Number of Bids	Low Bid	High Bid	\$/MBF or Cord
Hard Maple (high % veneer)	44 MBF	9	\$12,920	\$50,401	\$1,145/MBF
Hard Maple & Red Oak	54 MBF	13	\$14,271	\$38,642	\$716/MBF
Hard Maple & Mixed Hardwoods (low % veneer)	57 MBF	9	\$13,338	\$29,850	\$524/MBF
Red Oak	57 MBF	9	\$7,144	\$25,201	\$442/MBF
Red Pine(86%) & White Pine(14%)	608 CORDS	4	\$23,632	\$32,221	\$53/CORD

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What's inside:

- Article on Forest Products Industry
- Timber Market Trends
- Ideas for the woodland owner

Ideas for the woodland owner- Wildlife Habitat Improvement

Improving wildlife habitat is a subject that could fill pages and possibly books with information and advise. For the purpose of this article, we will narrow it down to just a few of the most popular projects that could be accomplished by most property owners. Most wildlife species (game and non-game) depend on only two primary needs for survival: these are food and cover. Although there are certainly limitations on what types of vegetation your soils are capable of growing, most properties offer many possibilities. Habitat improvements can be made through both plantings, and natural regeneration.

Plantings can be designed to provide both food and cover. This could range from conifer plantations that will act as future bedding areas to mast producing trees such as apple, oaks etc. Conifer plantings should be designed to take full advantage of the natural features of the land such as; corridors between feeding and bedding areas, or ridges between wetlands and thickets. I prefer to use spruce seedlings that are spaced quite wide at 15-20 feet apart. They hold their lower branches longer and eventually (10-15 years after planting) make excellent bedding areas. Spruce is a good all around tree because it grows

on most typical forest soils, tolerates partial shade, and is relatively drought & browse resistant.

If you have semi-open or open areas on your land, apple and oak trees make an excellent long term food source for a variety of wildlife. Apple trees should be grown in mostly open areas with high sun exposure and grouped together with at least two types for cross-pollinating species. Be sure to space them at least 12'x12'. It is also a good idea to mulch and fence trees to allow more moisture into the root systems, and prevent browsing from deer. Local conservation districts are a great source for further information.