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Decreased Regulations Bring Good News, Timber Markets & Trade War Not So Much



By Marshall Thomas, President of F&W Forestry Services, Inc.

Sometimes it is hard to write this article, and this is one of those times. Timber prices are down again just about everywhere in the third quarter. The situation is so bad in the Northeast that sawmills are going out of business because of the U.S.-China trade dispute. You know it is bad when part of the good news for us in the U.S. is really bad news for the folks in Canada. Sawmills are closing in British Columbia and manufacturing capacity is shifting to the U.S. South.

Timber prices in the South were down almost everywhere and across all product classes (page 2). But it's late summer and dry, so it is typical for prices to be down this time of year. Odds are when it starts raining,

prices will rise again—if the trade war with China is resolved.

In the Northeast, timber prices are really down, almost everywhere (page 3). In fact, red oak and black cherry are down from the previous year by 18 and 19 percent respectively. This is entirely due to the trade war with China. Northeastern hardwood lumber producers rely heavily on the Chinese market, and hardwood exports to China are down 41 percent over the first six months of 2019 compared to the first six months of 2018.

Unfortunately, the trade war that appeared to be close to resolution this spring is now escalating, with tariffs rising and overall U.S. exports to China plummeting. Talks are set to resume in early October, but the Chinese want to talk trade only and the U.S. wants to talk trade and security, so it doesn't look like there is much hope for progress on this front (page 6).

In other news, the Waters of the United States (WOTUS) rule put forth by the Obama administration late in its term has been repealed by EPA and the standards for listing endangered species have changed.

I first read about the repeal of WOTUS in one of the mainstream media outlets and it sounded like we were going back to the days preceding the passage of the 1972 Clean Water Act and that we could expect rivers to start burning again. But in fact we are only going back to the rules that existed in 2015. See page 4 for a factual presentation of the change.

The changes to the Endangered Species Act are, according to the U.S. Fish and Wildlife Service and the National Oceanic and Atmospheric Administration, designed to work better for endangered wildlife and the American people—see page 4 for more details. The most interesting change I saw is that the economic impact of listing a species will now be published, although not considered, in determining whether to list a species.

Surprisingly, agricultural land values held steady or rose slightly this year, according to the USDA. Ag land values for reasons beyond the scope of this brief article have some linkage to timberland values in the southern

Southern Timber Prices

2019 THIRD QUARTER PINE & HARDWOOD STUMPAGE PRICE RANGE* (TONS)

	PINE PULPWOOD	PINE SMALL SAWTIMBER	PINE LARGE SAWTIMBER	HARDWOOD PULPWOOD	HARDWOOD SAWTIMBER
SOUTHEAST					
LAFAYETTE, AL	\$8–15	\$13–21	\$22–33	\$8–16	\$22–50
GAINESVILLE, FL	\$9–20	\$20–25	\$25–29	\$1–11	\$12–30
MARIANNA, FL	\$9–14	\$18–22	\$25–31	\$6–9	\$16–30
ALBANY, GA	\$9–12	\$15–20	\$24–35	\$7–9	\$15–40
MACON, GA	\$7–11	\$15–22	\$24–30	\$7–10	\$18–41
STATESBORO, GA	\$12–22	\$21–25	\$25–31	\$9–13	\$23–39
FOUNTAIN INN, SC	\$7–11	\$14–18	\$19–26	\$7–9	\$20–42
CENTRAL REGION					
CLINTON, TN	\$4–8	NA	NA	\$3–5	\$30–60
PARIS, TN	\$6–8	\$7–13	\$13–13	\$2–5	\$45–62
WEST GULF					
EL DORADO, AR	\$4–7	\$12–15	\$22–31	\$5–15	\$28–50
CORINTH, MS	\$7–12	\$11–14	\$18–23	\$11–16	\$45–55
HUNTSVILLE, TX	\$5–8	\$9–11	\$18–25	\$5–7	\$28–32
TEXARKANA, TX	\$10–16	\$12–16	\$24–31	\$12–19	\$25–50
MID-ATLANTIC					
CHARLOTTESVILLE, VA	\$9–13	\$15–18	\$18–23	\$3–6	\$16–38

*All prices based on sales handled by or reported to F&W offices. If no sales occurred, prior quarter's sales and other data are used to compile price range. Price ranges are due to different locations, timber quality, logging conditions, type of harvest, and local market conditions.

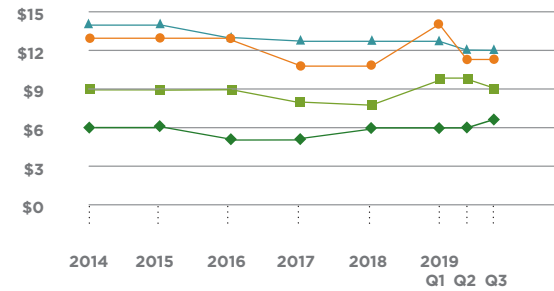
(continued on page 7)

Southern Timber Prices

TIMBER STUMPAGE PRICE AVERAGES ACROSS F&W'S SOUTHERN REGION

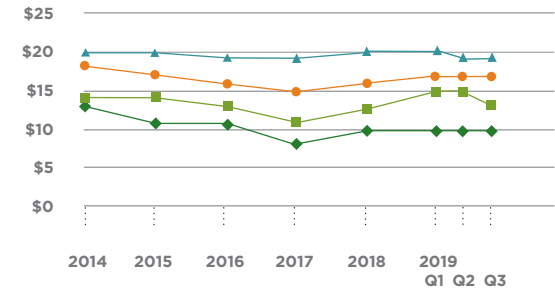
PINE PULPWOOD AVERAGE (TONS)

▲ SOUTHEAST / ◆ CENTRAL REGION / ■ WEST GULF / ● MID ATLANTIC



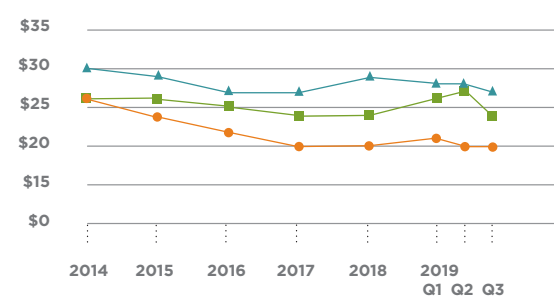
PINE SMALL SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ◆ CENTRAL REGION / ■ WEST GULF / ● MID ATLANTIC



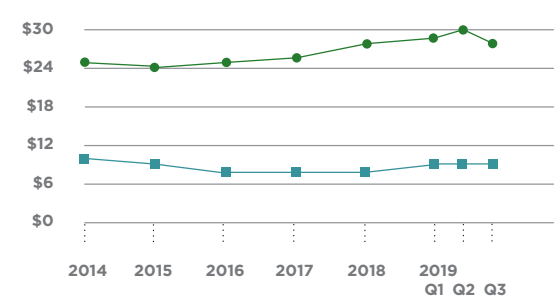
PINE LARGE SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ■ WEST GULF / ● MID ATLANTIC



SOUTHEAST HARDWOOD PRICES (TONS)

■ HARDWOOD PULPWOOD / ● HARDWOOD SAWTIMBER



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Northern Timber Prices

2019 THIRD QUARTER STUMPAGE PRICE RANGE*

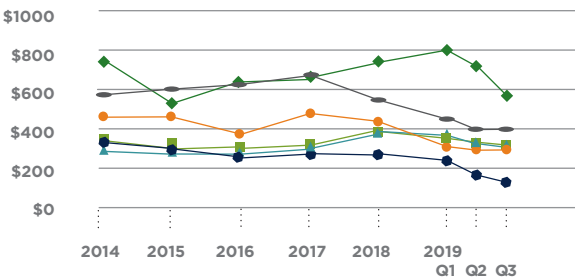
	RED OAK (MBF)	BLACK CHERRY (MBF)	HARD MAPLE (MBF)	SOFTWOOD SAWTIMBER (MBF)	HARDWOOD PULPWOOD (TONS)	SOFTWOOD PULPWOOD (TONS)
RUMFORD, ME	\$225-350	NA	\$250-425	\$40-150	\$3-11	\$2-6
MONTPELIER, VT	\$225-350	NA	\$275-425	\$40-150	\$3-9	\$1-3
GLENS FALLS, NY	\$200-500	\$300-600	\$425-675	\$40-150	\$6-6	\$3-5
HERKIMER, NY	\$250-500	\$350-600	\$500-700	\$45-150	\$3-6	\$2-5
TUPPER LAKE, NY	NA	\$275-350	\$300-425	\$80-120	\$4-6	\$3-5
CLARION, PA	\$275-600	\$600-1,000	\$600-675	NA	\$1-3	\$0-0
BLUEFIELD, WV	\$125-170	\$175-225	\$200-265	NA	\$2-4	\$0-2

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TIMBER STUMPAGE PRICE AVERAGES ACROSS F&W'S NORTHEAST REGION

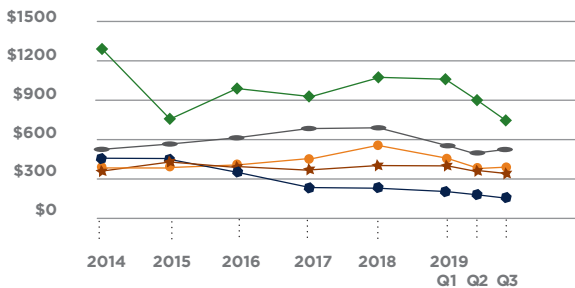
RED OAK AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV



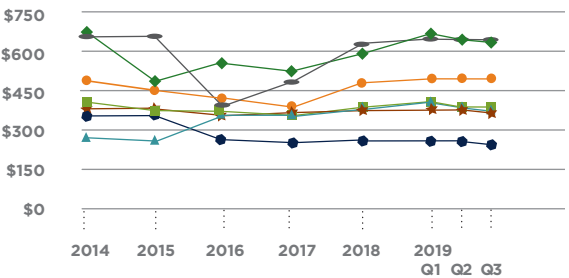
BLACK CHERRY AVERAGE (MBF)

● GLENS FALLS, NY / ● HERKIMER, NY / ★ TUPPER LAKE, NY / ◆ CLARION, PA
● BLUEFIELD, WV



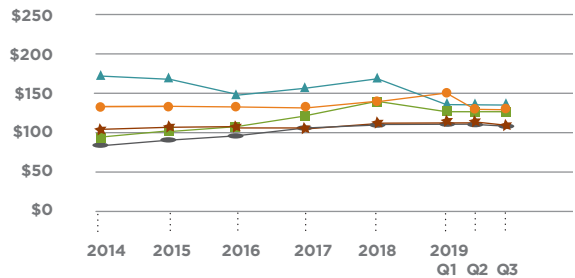
HARD MAPLE AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



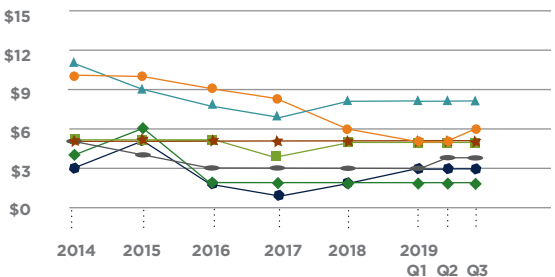
SOFTWOOD SAWTIMBER AVERAGE (MBF)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY
■ MONTPELIER, VT / ★ TUPPER LAKE, NY



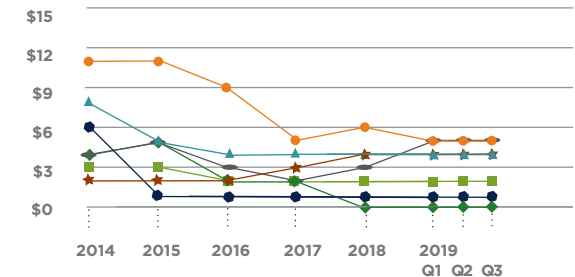
HARDWOOD PULPWOOD AVERAGE (TONS)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



SOFTWOOD PULPWOOD AVERAGE (TONS)

▲ RUMFORD, ME / ● GLENS FALLS, NY / ● HERKIMER, NY / ◆ CLARION, PA
■ MONTPELIER, VT / ● BLUEFIELD, WV / ★ TUPPER LAKE, NY



Trump Administration Moves Forward With Domestic Agenda, Takes Decisive Steps To Curb Regulatory Burdens

President Trump's domestic agenda took several decisive steps forward over the summer as his administration secured major changes to federal policies that will reduce the regulatory burden on private interests. Following is an update on these developments as they relate to forestry.

WOTUS REPEALED

The long-awaited repeal of the controversial Obama-era policy that greatly expanded the reach of the federal government over waterways, including wetlands and ephemeral water features, finally happened in September.

The Waters of the U.S. (WOTUS) rule, which extended federal jurisdiction over which waters are regulated under the Clean Water Act (CWA), has been one of the most contentious issues from the Obama administration. It has fueled numerous lawsuits, resulting in the regulatory patchwork of where the rule applies. Legal challenges to the WOTUS rule remain pending in federal courts across the country.

The Environmental Protection Agency (EPA) and the Department of Army, which worked together to write the original rule, jointly announced the repeal of the 2015 rule, stating that it impermissibly expanded the waters regulated under the CWA. The agencies also said they are "recodifying the longstanding and familiar regulatory text that existed prior to the 2015 rule—ending a regulatory patchwork that required implementing two competing Clean Water Act regulations, which has created regulatory uncertainty across the United States."

"The 2015 rule meant that more businesses and landowners across the U.S. would need to obtain a federal permit to exercise control over their own property, a process that can cost tens of thousands of dollars and take months or even years to complete," EPA Administrator Andrew Wheeler and Assistant Secretary of the Army for Civil Works R.D. James wrote in an opinion article published in the *Des Moines Register*. "This action officially ends an egregious power grab and sets the stage for a new rule that will provide much-needed regulatory certainty for farmers, home builders,

and property owners nationwide."

The scaling back of the WOTUS rule has been a top priority of President Trump. Shortly after taking office, Mr. Trump issued an executive order directing EPA and the Army to review and reconsider the 2015 WOTUS definition.

"Today's action is 'Step 1' of our response to the president's executive order. Step 1 repeals the 2015 rule and recodifies the longstanding and familiar regulatory text that existed previously. It also sets the stage for 'Step 2'—our new proposed 'waters of the United States' definition," Wheeler and James wrote.

Last December, EPA and the Army proposed a new definition for WOTUS—Step 2—that provides that traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters would be federally regulated.

Not included in the new definition are features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; storm water control features; and waste treatment systems.

The new WOTUS definition is expected to be finalized by the end of the year.

ESA STANDARDS EASED

The U.S. Fish and Wildlife Service (FWS) and the National Oceanic and Atmospheric Administration (NOAA), the federal agencies responsible for protecting endangered wildlife, jointly unveiled final Endangered Species Act (ESA) regulations in August. The agencies say the new rules will make the law more transparent, efficient and effective so that it works better for the species of concern and the American

people.

"The best way to uphold the Endangered Species Act is do everything we can to ensure it remains effective in achieving its ultimate goal—recovery of our rarest species. The Act's effectiveness rests on clear, consistent, and efficient implementation," said David Bernhardt, Secretary of the Interior.

The changes won't apply to species now considered threatened or endangered, but they will put new restrictions on how future assessments are made. The most significant changes concern the section of ESA that provides procedures and standards for listing, delisting, and reclassifying species on the federal list of threatened and endangered species. They also provide procedures and standards for the designation of critical habitat for listed species.

Key provisions of the new rules are:

- Ending the "blanket rule" policy that automatically gave threatened species the same protections as endangered species; instead, the FWS will promulgate species-specific regulations for each threatened species on a case-by-case basis in the future;
- Limiting the circumstances under which unoccupied habitat can be designated as critical habitat;
- Recognizing that in some cases the designation of a critical habitat is not prudent;
- Allowing information regarding the economic impact of a listing decision to be shared with the public, although administrators say this information won't be used in decision making;
- Clarifying that the standard for delisting and reclassification of a species will consider the same five statutory factors as the listing of a species in the first place;

(continued on page 5)

Trump Administration Pushes Changes *(continued)*

- Modifying the definition of a threatened species by limiting the scope of threats weighed in the listing decision to those which are probable in the foreseeable future; and
- Implementing an inter-agency consultation process for federal agencies taking actions that may affect listed species and more easily dispose of certain listing petitions.

"Family forest landowners have long been impacted by onerous regulatory burdens and economic disincentives from the ESA. The Forest Landowners Association (FLA) supports and appreciates the latest changes enacted by the Administration," said Michael Crowell, a Louisiana forest landowner and chairman of FLA's government affairs committee.

Conservationists criticized the new rules, saying they will undercut the effectiveness of the ESA and are likely to limit how many species end up listed as threatened and endangered, putting species at risk of extinction.

NEW CARBON EMISSION RULES REJECT BIOMASS

The EPA has finalized the rule to replace the Obama administration's signature environmental policy to address climate change but biomass co-firing was not included as a compliance option.

The Affordable Clean Energy (ACE) rule replaces the 2015 Clean Power Plan (CPP), which aimed to reduce overall U.S. carbon emissions by up to 28 percent (from 2005 levels) by 2030, encouraged shuttering of coal plants, and, for the first time, set strict carbon dioxide limits for each state. The CPP never took effect because the Supreme Court stayed it after opponents and 27 states successfully sued to reverse the rule, saying it exceeded EPA's authority under the Clean Air Act.

The new ACE rule combines the repeal of the Obama rule with new, less stringent guidelines for states to use when developing plans to limit greenhouse gas (GHG) emissions from

existing coal-fired power plants. Two main components of the proposed rule are: (1) defining the Best System of Emissions Reduction (BSER) for GHG emissions from coal-fired plants; and (2) providing states with a list of candidate technologies that can be used to develop their plans. The ACE rule does not place specific emissions caps or targets on power plants.

A top concern for the forest industry under both rules has been the recognition of forest biomass as a viable renewable energy source. The forestry sector was assured this would be the case under the Trump administration, particularly when in April 2018, then-EPA Administrator Scott Pruitt traveled to Georgia to meet with forestry leaders to announce the agency's new policy on the carbon neutrality of forest biomass. At the time, Pruitt said the policy would make clear that future regulatory actions on biomass from managed forests would be treated as carbon neutral when used for energy production at stationary sources.

When initially proposed last fall, the ACE rule allowed for biomass co-firing as a compliance option and reaffirmed the agency's policy to recognize biomass from managed forests as carbon neutral. However, the final rule specifically states that biomass co-firing cannot be used to comply with ACE.

"The EPA is now clarifying that biomass does not qualify as a system of emission reduction that can be incorporated as part of, or in its entirety, as the BSER...the BSER determination must include systems of emission reduction that are achievable at the source," the rule states.

According to the rule, "Recognition of any potential CO₂ emissions reductions associated with biomass firing at a designated facility relies on accounting for activities not applied at and largely not under the control of that source (i.e., activities outside of and largely unassociated with a designated facility), including consideration of terrestrial carbon effects during the biomass fuel

growth. Therefore, biomass fuels do not meet the compliance obligations and are not eligible for compliance under this rule."

Caught by surprise, representatives of the biomass sector registered strong disagreement with EPA's determination.

"The EPA's recently finalized ACE rules ignore the basis for why using biomass for power and heat is the principal pathway for decarbonization in most other developed countries," stated William Strauss, president of FutureMetrics, a consulting firm specializing in the wood pellet industry. "By only counting the CO₂ emissions at the source and ignoring the continuous absorption of CO₂ by sustainably managed forests, the EPA has excluded a proper consideration of the dynamics that keep the net CO₂ added into the atmosphere neutral or even negative."

"In Europe, wood pellets and wood chips are recognized as low carbon fuels because a full life-cycle analysis shows that under well-crafted (and necessary) sustainability criteria, the combustion of those fuels is carbon neutral," Strauss said. "The EPA's ACE determinations are inaccurate in stating that 'accounting for activities not applied at and largely not under the control of the source' is a reason to ignore carbon sequestration under well-managed forest sustainability protocols."

EPA also states that "biomass fuel use opportunities are dependent upon many regional considerations and limitations—namely fuel supply proximity, reliability and cost—that prevent its adoption as BSER on a national level... Therefore, even if biomass firing could be considered a 'system of emission reduction,' the EPA is not able to include the use of biomass fuels as part of the BSER in this action due to the current cost and achievability considerations and limitations discussed [within the rule]."

As usually is the case, expect all three rule changes to spark a new round of court challenges by opponents. 🌲

U.S.-China Trade War Continues To Impact Forest Products Industry

The trade conflict between the U.S. and China has become a full-scale “trade war,” according to 87 percent of the economists responding to a recent survey by the *Wall Street Journal*. Events have indeed taken several twists and turns since the last issue of the *F&W Forestry Report*, the effects of which have pushed China to third place behind Mexico and Canada among America’s trading partners for the first half of 2019 and after leading the list since 2015.

RELATIONS DETERIORATE, TARIFFS ESCALATE

In re-starting talks at the end of June, China agreed to purchase more farm products from the U.S. and President Trump agreed to ease restrictions on Chinese firm Huawei Technologies Co. But China stalled in making the purchases and on Aug. 1, Mr. Trump extended tariffs to include nearly all Chinese imports not yet subject to duties—new tariffs on about \$300 billion of goods such as smartphones, laptops, tools, apparel and toys, effective Sept. 1. However, the Trump administration later delayed tariffs on \$156 billion of these goods until Dec. 15 due to concerns over the upcoming holiday shopping season. The previous tariffs were mostly on items used by businesses but the latest tariffs directly hit consumers.

Additionally, China’s central bank allowed the yuan to weaken in the biggest single-day loss against the dollar in four years, prompting the U.S. Treasury to label China a currency manipulator for the first time since 1994. China also halted all imports of U.S. agricultural products.

China then announced retaliatory tariffs on nearly all U.S. exports not yet hit and increased duties on other items already subject to tariffs, in total about \$75 billion

of U.S. products, effective Sept. 1 and Dec. 15. These tariffs affect U.S. goods such as farm products, crude oil, automobiles, apparel, pharmaceuticals, and textiles. Mr. Trump countered by announcing the U.S. would raise rates by 5 percent, from 25 to 30 percent on duties already in place, effective Oct. 1, and from 10 to 15 percent on the tariffs taking effect Sept. 1 and Dec. 15.

According to a list of U.S. exports impacted by the Chinese tariffs and translated by the American Hardwood Export Council, many hardwood and softwood products that were not previously included under China’s tariffs are now subject to duties of 5 or 10 percent. However, other wood products already subject to duties ranging from 5 to 25 percent now have cumulative rates of between 10 and 35 percent.

Mr. Trump later postponed the 5 percent increase from Oct. 1 to Oct. 15, tweeting he agreed “as a gesture of good will” to do so at the request of Chinese Vice Premier Liu He, due to the People’s Republic of China’s seventieth anniversary celebration on Oct. 1. China’s State Council then agreed to exempt some U.S. products, including soybeans, pork and other agricultural commodities, from the higher tariffs starting Sept. 17 and allow refunds on some tariffs already paid. China also made a major purchase of soybeans, the first in months and the largest in more than a year.

WOOD EXPORTS PLUMMET

In a recent Fox Business article, Dana Cole, the president of the Hardwood Federation, a Washington-based trade group for the industry, said its members worry about the time it will take to rebuild ground lost in the dispute with China, noting that the situation is more complicated for landowners growing a crop that can take 30 years to mature. “A

lot of times, people will say, “Why don’t you find different markets for these types of wood that China’s not buying?”” Cole said. The answer is that there are none large enough to absorb such quantities.”

Hardwood Review, a publisher of hardwood lumber pricing and market information, reported that Chinese purchases of hardwood lumber dropped 41 percent in the first six months of 2019 compared to the same period last year, from 523.9 million board feet (MMBF) to 310.4 MMBF.

“No other major U.S. forest products export market comes close to matching China’s year-to-date value and volume declines. Softwood lumber and log export volumes to China were down substantially, as well, with the export value down a combined \$286 million,” wrote George Barrett, editor of the publication.

In fact, softwood lumber exports to China were down 65.7 percent in the first six months of 2019 compared to the first half of 2018, from 201 MMBF to 69 MMBF. Softwood log exports to China were down 32.2 percent in the same period, from 564 MMBF to 382 MMBF, according to Lumber Track, a publication of the Western Wood Products Association.

MORE TALKS SCHEDULED

U.S. and Chinese officials are scheduled to hold talks in Washington, D.C., in early October. The *Wall Street Journal* reports that China hopes to limit discussions to trade and exclude national security issues in order to make progress on negotiations and a deal in which the U.S. ends all tariffs. The U.S. is looking for an agreement wherein China agrees to structural changes within its economy and the purchase of more agricultural products, the paper reports. 🌲

Agricultural Land Values Steady Despite Farm Economy Slump

Despite challenges facing the U.S. farm economy on multiple fronts in 2019, agricultural land values remained steady, according to the latest survey of the nation's rural real estate by the U.S. Department of Agriculture.

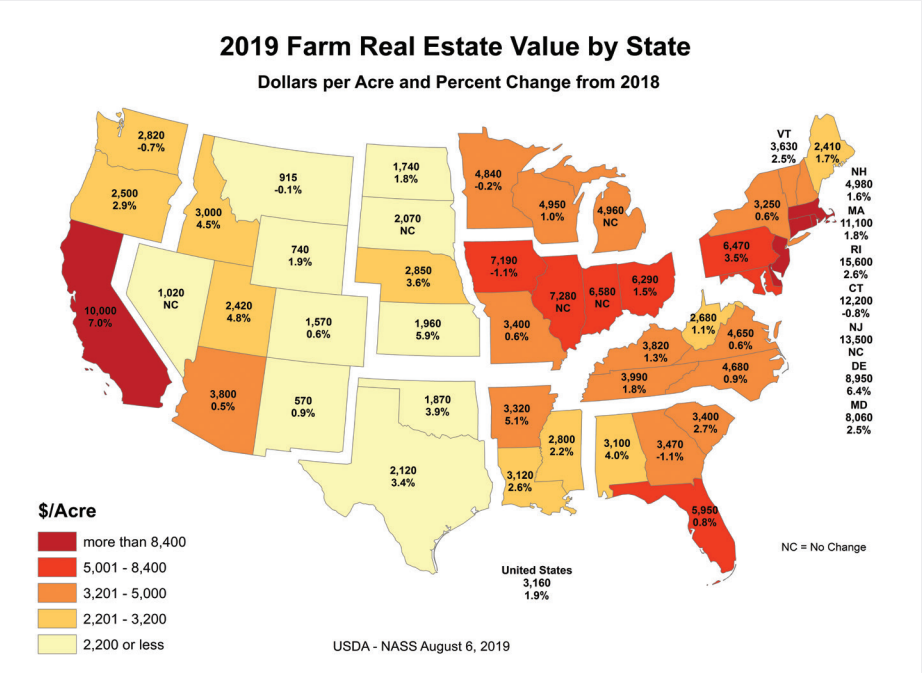
Farm real estate values—a measurement of the value of all land and buildings on farms across the U.S.—climbed by \$60 per acre in 2019 to an average of \$3,160, a 1.9 percent increase from last year.

That land prices are holding steady is positive news for U.S. farmers, who have been dealing with a daunting mix of trade tensions, weather woes, low commodity prices, falling income, and rising debt.

USDA's long-running annual survey of the nation's agricultural land values does not include forestland, but it does break out values for both farm cropland and pastures. These values may bear some relation to the underlying bare land value of forested acreage, especially in Southern regions where much of today's forests are growing on land that was once in crops and pasture.

Nationwide, the 2019 agricultural land value survey reports cropland values increased by \$50 per acre to an average of \$4,100, a 1.2 percent increase over the prior year. Pasture values were an average \$1,400 per acre, an increase of \$30 or 2.3 percent.

The nine Southern states comprising the Southeast, Delta, and Southern Plains regions experienced an overall increase in farm land value of 2.3 percent to an average of \$3,239 per acre.



The states experiencing the greatest increase in value include Arkansas, which rose 5.1 percent to \$3,320/acre; Alabama, which rose 4 percent to \$3,100/acre; Oklahoma, which increased 3.9 percent to \$1,870/acre; and Texas, which grew by 3.4 percent to \$2,120/acre. The only state in the South to register a decrease in farm real estate value in 2019 was Georgia, which was down 1.1 percent to \$3,470/acre.

All states in the Appalachian region experienced an increase in farm land value, although it was below the average growth rate for the nation at 1.2 percent. The overall average farm land value for Appalachian states was \$4,080/acre, with Tennessee having the highest increase in value, 1.8 percent to \$3,990, while Virginia had the smallest increase, 0.6 percent to \$4,650/acre.

Agricultural land values in the Northeast region, which includes states with the highest valued farm land in the nation, increased an average of 2.5 percent to \$5,690 per acre. Of the 11 states reporting data for this region, nine states experienced increased farm real estate values: Delaware (6.4 percent), Pennsylvania (3.5 percent), Rhode Island (2.6 percent), Maryland and Vermont (2.5 percent), Massachusetts (1.8 percent), Maine (1.7 percent), New Hampshire (1.6 percent), and New York (0.6 percent). There was no change in farm land values in New Jersey while values in Connecticut were down 0.8 percent over the prior year.

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Timber Markets & Trade War (continued from page 1)

parts of the U.S., so this is good news (see above).

The big things to watch, then, include the trade war with China and the weather. I can't foresee what will happen with the trade war, and of course it is hard to predict the weather,

but the Climate Prediction Center is forecasting a 75 percent chance that we will stay El Nino-neutral through the fall and a 55 to 60 percent chance that it will continue through the winter. El Nino-neutral means wet and warm in the South, and cold in the North.

Since we need some wet weather in the South, both for farmers and timber markets, this is good news. As bad as things seem, it is nice to end this article on good news.

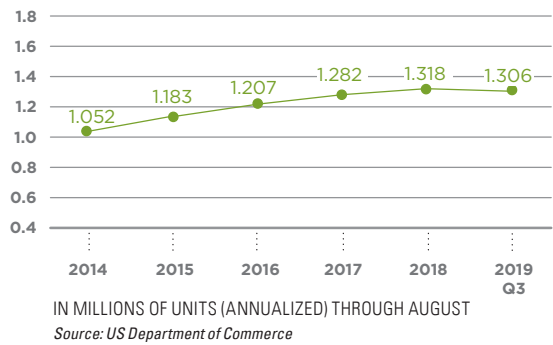


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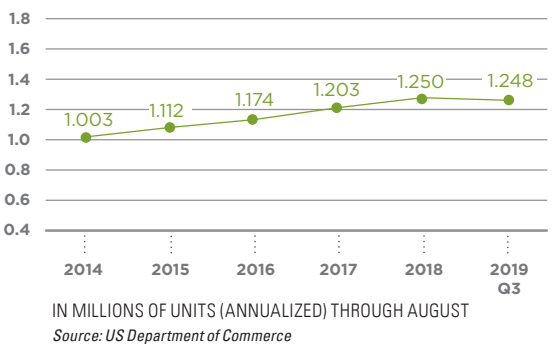
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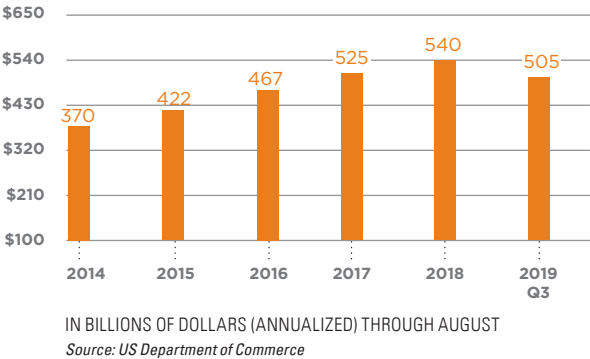
HOUSING PERMITS



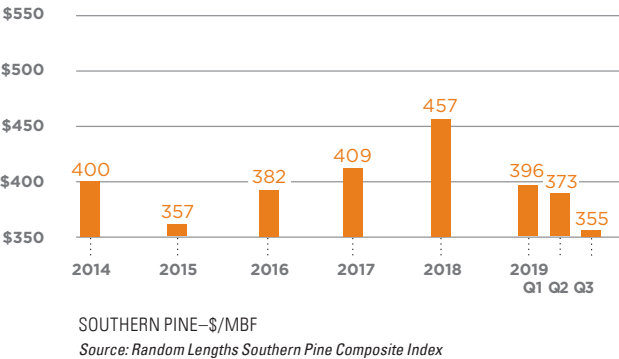
HOUSING STARTS



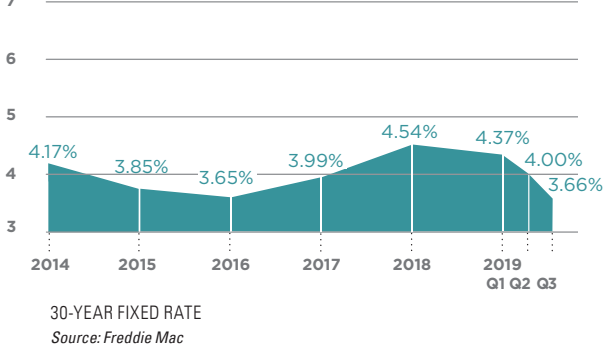
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LUMBER PRICES



MORTGAGE RATES



US DOLLAR

