

Forestry Report

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Winter 2022 // NO. 151

New Year Starts On A Good Note With Upward-Sweeping Timber Price Graphs



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

There is just nothing prettier to a tree farmer than an upward-sweeping price graph, and this issue of the *Forestry Report* is full of them (see next two pages). If we sold the newsletter on newsstands, this would certainly be our best-selling issue ever.

We haven't seen upward-sweeping timber price graphs like this in a long, long time. As I said last quarter, we are still early in the recovery, and this could stop as it did in 2012, but the graphs sure look great now. Even the market indicator graphs on page 8 are mostly

upward sweeping—except of course mortgage rates—and those are prettiest when they are going down anyway.

On top of that great news, we are able to report that the proposed cut of the estate tax exclusion from \$11.7 million to \$5 million did not make it into the House-passed soft infrastructure bill known as Build Back Better. Also not included was the proposed increase in capital gains taxes from 20 percent to 39 percent. You can thank rural Democrats, the Forest Landowners Association, and National Alliance of Forest Owners for that. Some less onerous tax increases did make it in, but they may be partially offset by the proposed increase in the deductible amount for state and local taxes (page 6).

The bill also includes lots of spending on forestry, mostly to support carbon sequestration and forest restoration.

We are going to start showing an adjusted housing starts number in the next newsletter. The idea is to remove the confusing effect of blending single-family and multi-family starts into one number. Multi-family housing only uses about 40 percent as much lumber as single-family housing. We think the change will help all of us make better sense of the housing start numbers and when we can expect them to create demand pressure for stumpage prices (page 5).

Auburn University has published its biennial survey of forestry practice costs. This is the first year the data was collected online and they got a lot more contributors, so the data makes more sense than it has in a while. It's worth looking at, but remember those costs are averages (page 4).

As I said at the beginning, there is nothing prettier than an upward-sweeping price curve on a graph. I'm hoping that with the next issue I will be able to tell you we had to change the y-axis because prices have exceeded the range of numbers we have been using for a long time. Stay tuned for the exciting spring issue!

Southern Timber Prices

2021 FOURTH QUARTER PINE & HARDWOOD STUMPAGE PRICE RANGE* (TONS)

	PINE PULPWOOD	PINE SMALL SAWTIMBER	PINE LARGE SAWTIMBER	HARDWOOD PULPWOOD	HARDWOOD SAWTIMBER
SOUTHEAST					
LAFAYETTE, AL	\$8–18	\$15–24	\$24–35	\$8–24	\$30–50
GAINESVILLE, FL	\$16–35	\$27–41	\$34–45	\$1–15	\$13–32
MARIANNA, FL	\$14–18	\$30–36	\$43–55	\$12–15	\$28–35
ALBANY, GA	\$14–18	\$26–34	\$38–55	\$8–14	\$26–42
MACON, GA	\$8–15	\$18–22	\$25–30	\$8–13	\$20–45
STATESBORO, GA	\$15–27	\$22–28	\$28–44	\$8–15	\$22–45
FOUNTAIN INN, SC	\$8–16	\$16–19	\$23–28	\$8–14	\$20–38
CENTRAL REGION					
CLINTON, TN	\$5–15	NA	NA	\$3–10	\$30–80
PARIS, TN	\$8–12	\$8–12	NA	\$5–8	\$50–70
WEST GULF					
EL DORADO, AR	\$3–5	\$11–13	\$25–32	\$4–6	\$30–70
CORINTH, MS	\$6–10	\$14–16	\$18–23	\$18–20	\$45–70
HUNTSVILLE, TX	\$5–8	\$8–17	\$19–26	\$4–5	\$28–31
TEXARKANA, TX	\$8–10	\$12–14	\$25–30	\$6–10	\$30–50
MID ATLANTIC					
CHARLOTTESVILLE, VA	\$8–12	\$15–19	\$17–17	\$4–9	\$15–40

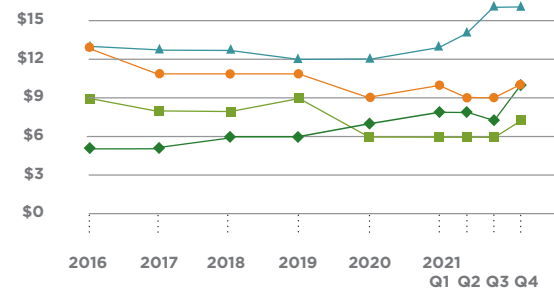
*All prices based on sales handled by or reported to F&W offices. If no sales occurred, prior quarter's sales and other data are used to compile price range. Price ranges are due to different locations, timber quality, logging conditions, type of harvest, and local market conditions.

Southern Timber Prices

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

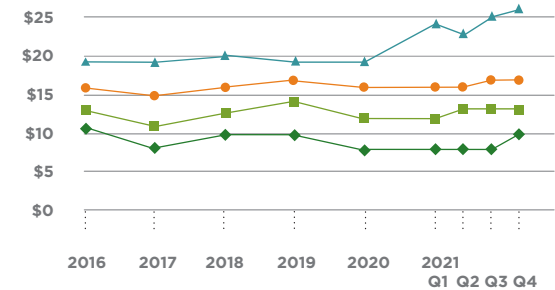
PINE PULPWOOD AVERAGE (TONS)

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



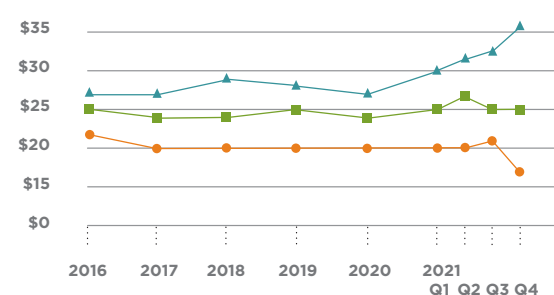
PINE SMALL SAWTIMBER AVERAGE (TONS)

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



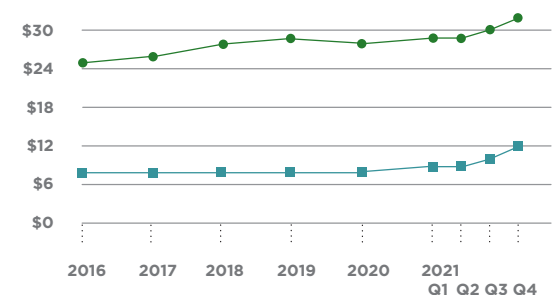
PINE LARGE SAWTIMBER AVERAGE (TONS)

▲ SOUTHEAST / ■ WEST GULF / ● MID ATLANTIC



SOUTHEAST HARDWOOD PRICES (TONS)

■ HARDWOOD PULPWOOD / ● HARDWOOD SAWTIMBER



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Forestry Report

Publication subscription rate: \$60/year. For further information on material in this report or to discuss your forestry needs, contact the nearest F&W office or the Albany headquarters at:

PO Box 3610, Albany, GA 31706-3610
(229) 883-0505 / fax (229) 883-0515
www.fwforestry.com

Marshall Thomas, President

Jeff Jordan, Chief Operating Officer

Jody Strickland, Chief Business Officer

Sonya Farmer, Chief Financial Officer

Stephen Logan, Chief Information Officer

The F&W Forestry Report is produced by:
Bates Associates / PO Box 191386
Atlanta, GA 31119-1386 / (770) 451-0370
batespr@bellsouth.net

INTERNATIONAL OFFICES

**Fountains
Forestry UK, Ltd**
Scotland
England
Wales

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AFFILIATED COMPANIES

Stuntzner
Dallas, OR

**FWS Forestry Services
California, LLC**
Redding, CA

REGIONAL OFFICES

LaFayette, AL
T.R. Clark
(334) 864-9542

El Dorado, AR
Eric Sumner
(870) 864-8092

Redding, CA
John Vona
(206) 384-7440

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(352) 377-2924

Marianna, FL
Doug Hall
(229) 449-1537

Albany, GA
Chad Hancock
Doug Hall
(229) 883-0505

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Nathan Fountain
(229) 343-8033

Statesboro, GA
Wade McDonald
(912) 489-1655

Corinth, MS
Jason Potts
(662) 665-6163

Glens Falls, NY
Wayne Tripp
(518) 480-3456

Herkimer, NY
Wayne Tripp
(315) 868-6503

Tupper Lake, NY
Tom Gilman
(518) 359-3089

Strattanville, PA
Wayne Tripp
(315) 868-6503

Fountain Inn, SC
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Clinton, TN
Rick Sluss
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Neil Moss
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Huntsville, TX
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(936) 435-9223

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(518) 359-3089

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Glen Worrell
(434) 296-1464

Pearisburg, VA
Rick Sluss
(865) 640-5430

INVENTORY, MAPPING & PLANNING

Scott Howell / (229) 883-0505 x136
James Walters (540) 921-1254

FINANCIAL REPORTING

Sonya Farmer / (229) 883-0505 x138

ENVIRONMENTAL CERTIFICATION

Andy Carlo / (802) 223-8644 x26

FOREST OPERATIONS

Brent Williamson / (229) 407-0227



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PRINCIPAL BROKER

Jody Strickland
(478) 954-8058

MANAGING BROKER, NORTHERN U.S.

Michael Tragner
(802) 223-8644

MANAGING BROKER, SOUTHERN U.S.

Rob Routhier
(229) 883-0505 x123

Northern Timber Prices

2021 FOURTH QUARTER STUMPAGE PRICE RANGE*

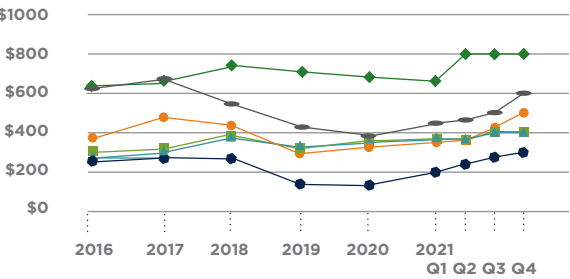
	RED OAK (MBF)	BLACK CHERRY (MBF)	HARD MAPLE (MBF)	SOFTWOOD SAWTIMBER (MBF)	HARDWOOD PULPWOOD (TONS)	SOFTWOOD PULPWOOD (TONS)
RUMFORD, ME ^I	\$300-450	NA	\$350-450	\$100-200	\$1-2	\$4-6
MONTPELIER, VT ^I	\$350-450	NA	\$350-500	\$100-160	\$1-3	\$4-6
GLENS FALLS, NY ^I	\$400-500	\$300-550	\$475-625	\$70-225	\$2-6	\$3-5
HERKIMER, NY ^I	\$450-725	\$400-625	\$525-750	\$70-175	\$2-3	\$3-6
TUPPER LAKE, NY ^I	NA	\$275-375	\$325-450	\$90-150	\$2-4	\$4-6
CLARION, PA ^D	\$700-850	\$800-1,200	\$650-850	NA	\$0-1	\$2-3
BLUEFIELD, WV ^D	\$200-500	\$200-300	\$300-500	NA	\$3-12	\$3-10

*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. (D) = Doyle (I) = International (S) = Scribner

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

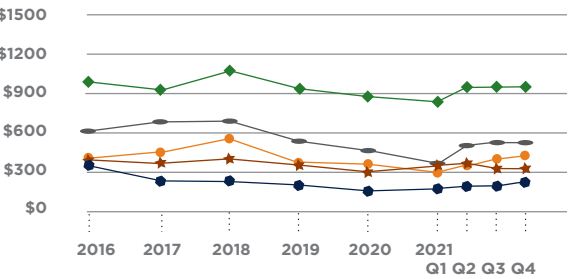
RED OAK AVERAGE (MBF)

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



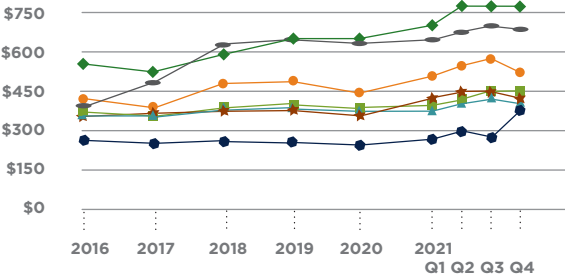
BLACK CHERRY AVERAGE (MBF)

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



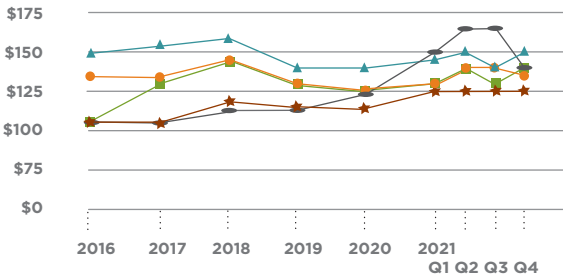
HARD MAPLE AVERAGE (MBF)

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



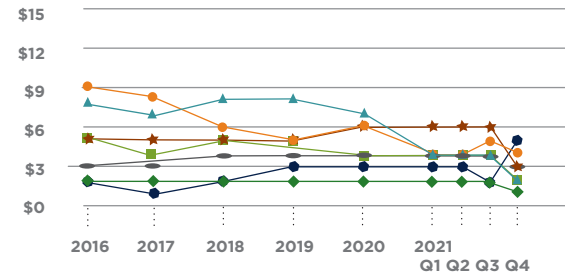
SOFTWOOD SAWTIMBER AVERAGE (MBF)

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



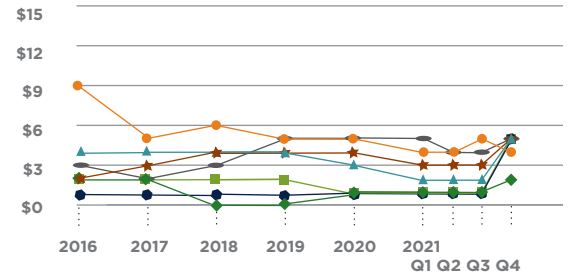
HARDWOOD PULPWOOD AVERAGE (TONS)

▲ 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



Costs And Trends In Southern Forestry Management Practices

A new survey of timberland owners and managers in the Southern Pine Belt provides a detailed breakdown of the costs for conducting major forestry practices in working forests.

The 2020 survey encompasses three regions across 14 states and looks at ten forestry practices: tree planting, prescribed burning, mechanical site prep, chemical application, fertilization, fire protection, timber cruising, timber marking, precommercial thinning, and custodial management.

The first survey on the cost of forestry practices was completed in 1952 and it has been conducted biennially since 1982. Adam Maggard, an Alabama Cooperative Extension System Specialist and Assistant Professor at Auburn University's School of Forestry and Wildlife Sciences, prepared an extensive report on the recent survey, which was published in November/December 2021 issue of *Forest Landowner*.

Except for timber cruising, Dr. Maggard says all costs in 2020 decreased compared to the 2018 survey. He attributes some of the change in costs to the larger sample size than in previous years. For the first time, the 2020 questionnaire was conducted online, which likely contributed to the record number of usable surveys completed (264), surpassing the previous high by an increase of 80 percent.

Dr. Maggard said the costs of forestry practices in the South have been variable over the last decade, a time when the forest industry has been deeply impacted by suppressed housing markets and low timber prices. He said low stumpage values have likely influenced the management decisions of landowners and managers and may have played a role in the variability of the cost of forestry practices.

The principal respondents to the 2020 survey were family landowners (63 percent), consulting foresters (16 percent), and private forestry firms (15 percent). Almost half of the individuals responding manage forests in the

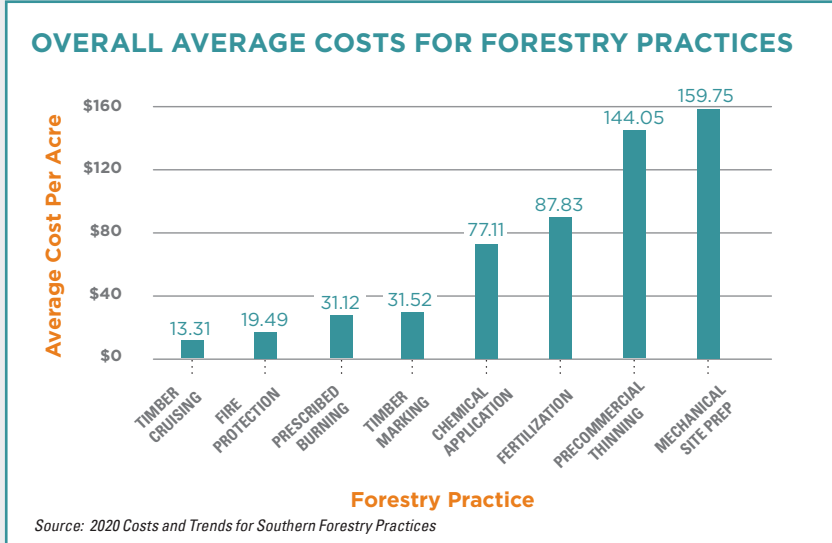
Northern Coastal Plain, while 33 percent are in the Piedmont region, and 19 percent in the Southern Coastal Plain.

Following are highlights of some of the forestry practices covered by the survey. The overall cost estimates are based on all survey responses and many factors impact the costs of implementing forestry practices, such as location, terrain, the amount of acreage treated, contractor availability, labor shortages, fuel prices, and more.

prescribed burning in 2020, primarily for site prep and understory control. The overall average cost for prescribed burning was \$31.12/acre and the overall average cost of burning for site prep was 17 percent more than for understory control.

Mechanical Site Prep:

Approximately one-third of the respondents reported some type of mechanical site preparation, such as shear-rake-pile-bed, subsoiling, and



Planting: 64 percent of the survey respondents reported planting pine seedlings on 172,599 acres in 2020, with 72 percent of those acres planted with bareroot loblolly pine. More than half said seedlings were only planted by hand, with 13 percent only utilizing machine planting, and 34 percent reported using both methods. The overall average cost for hand-planted stands was \$76.59/acre while the overall cost for machine planting was \$94/acre. The average does not include the cost of the seedlings, which can vary depending on species and genetics. Respondents reported hand planting an average of 582 seedlings per acre, up 5 percent from the 2018 survey average. On machine-planted sites, respondents planted an average of 570 seedlings per acre, which was down 7 percent from 2018.

Prescribed Burning: Almost half of the respondents reported using

drum chopping. Respondents used mechanical site preparation on 86,235 acres at an overall average cost of \$159.75/acre.

Chemical Application: More than half of the respondents reported using chemical treatments in 2020, mostly for site prep but also for mid-rotation release and herbaceous weed control. The overall average for all treatments and methods of application was \$77.11/acre.

Fertilization: Only 16 percent of respondents reported using fertilizer treatments in 2020, at an overall average cost of \$87.83/acre.

Fire Protection: About a quarter of respondents reported using fire protection, including firebreaks, fire plows, and tractors. The overall average cost was \$19.49/acre.

The complete report on the survey can be found at <https://tinyurl.com/2pfj7p6n>.

Introducing the Lumber Use-Adjusted Housing Starts Graph

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

One of the rules of thumb in this business has been that housing starts needed to reach 1.3 million units per year in order to create demand pressure on stumpage prices. If you look at historical price and housing starts data, you will see that sawtimber stumpage prices are high, without exception, when starts are greater than 1.3 million. See graph 1.

The period that I call the “Golden Years” of stumpage prices coincides with years in which housing starts were greater than 1.3 million units—roughly 1995 through 2007.

Of course, this is a rule of thumb, and many factors affect domestic demand and supply beyond housing starts, but nonetheless housing starts have been a good predictor of stumpage prices in the past.

But we reached the 1.3 million housing starts benchmark in 2019 and passed it in 2020, and nothing happened to stumpage prices, even with a pandemic-induced boom in lumber prices. We attributed it to the continued oversupply of sawtimber-size trees in the South, but there was also some discussion about the fact that housing start numbers combine single-family and multi-family starts. And multi-family houses use a lot less lumber (about 40 percent) than single-family houses.

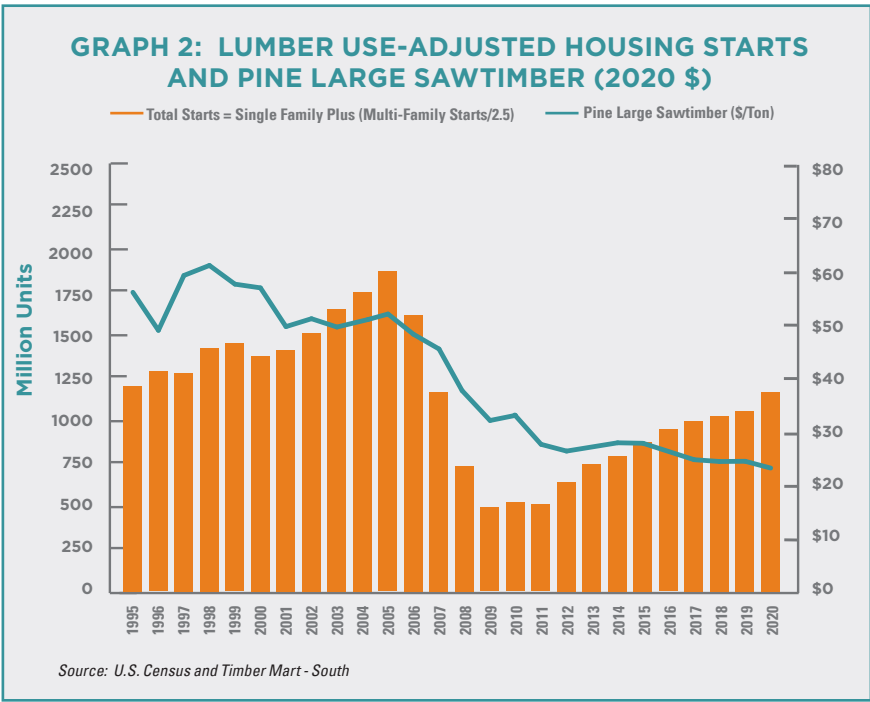
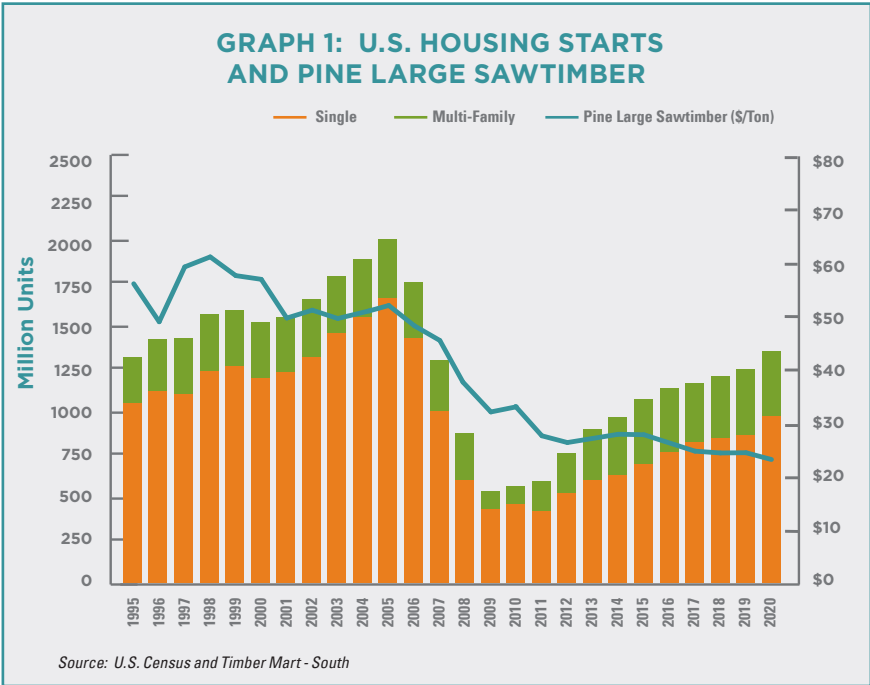
We decided to create a “Lumber Use-Adjusted Housing Starts” graph. We simply multiplied the multi-family starts by 40 percent to create a chart where one housing start equals the same amount of lumber usage. That allows us to compare lumber consumption at different mixes of single- and multi-family starts. See graph 2.

As you can see, the “Golden Years” of 1995 to 2007 had adjusted housing starts of about 1.2 million and up. In 2020 we finally got back up to the lowest number of starts during the previous boom. If adjusted housing starts continue to increase and significantly exceed 1.2 million, it will

be interesting to see if prices respond as they did in earlier years. So far, it looks like they will. In 2021, lumber-adjusted housing starts through November (the latest data available) are on track to hit roughly 1.3 million and it appears south-wide average pine sawtimber prices are going to be up 10 percent from the 2020 annual average.

The mix of single-family and multi-family starts changes constantly,

rendering the combined number less useful. In the future we will substitute our lumber use-adjusted housing starts numbers and graphs for the traditional housing start numbers shown on page 8. And we will talk about an adjusted 1.2 million starts as the number where demand pressure on stumpage prices begins. We think that will be more useful for our analysis and for our readers’ information. 🌲



Negotiations Continue On Democrats' Climate/Social Spending Legislation, Proposed Tax Change Provisions

As 2021 came to a close, and as this newsletter went to press, Democrats continue to negotiate the final version of their Build Back Better (BBB) legislation, the core component of President Biden's economic agenda that covers healthcare, education, family leave, climate change, and taxes.

Democrats have worked for months to craft a compromise agreement that could secure the votes needed for it to pass the House. The massive \$2 trillion spending bill—down from \$3.5 trillion in August—finally passed the House on Nov. 19 by the narrow majority of 220-213, with no Republican member voting in support of the measure.

From there, the bill moved to the evenly divided Senate, where negotiations began anew to change and/or pare back some of the bill's provisions to address concerns of moderate Democrats. Senate leadership had hoped to pass the legislation before Congress broke for Christmas, but until every Senate Democrat is on board with the proposal, work continues at the negotiating table in the new year.

The Build Back Better package is a massive combination of spending and revenue raisers. The largest single pot of money in the package, around \$555 billion, is earmarked for climate initiatives. The *F&W Forestry Report* fall edition reported on a number of forestry and tax provisions that were approved for the package and following is a look at what actually made it into the measure that passed the House.

REVENUE RAISERS

To pay for the new government programs outlined in the BBB proposal, the bill includes a number of tax changes directly aimed at businesses, investors, and high-income households. However, Democrats found themselves in a tough political bind as they tried

to devise ways to pay for the new programs while balancing objections from moderate members of their party. Many of the tax provisions originally proposed for the bill that were extremely harmful to forest landowners did not survive in the final House version of the bill. Here's a quick look at a few of the tax provisions of interest to forest landowners that were (or were not) included in the bill. The fate of some of these provisions may be revisited as negotiations continue in the Senate.

Inheritance/Estate Taxes: The House-passed version of the BBB does not include Mr. Biden's proposal to eliminate the step-up basis at the death of a taxpayer and an imposition of a capital gains tax on the appreciated assets. Rural Democrats criticized the proposal to go after capital gains at death because such a measure could significantly hurt family forests and farms.

Capital Gains: The Biden plan to almost double the capital gains tax rate paid by investors from 20 percent to roughly 39 percent did not survive in the final bill that passed the House.

Individual Taxes/High Income Surcharge: Under the House-passed BBB, basic tax rates stay unchanged, but the government would impose a new 5 percent surtax on Americans with income above \$10 million and an additional 3 percent surtax on incomes above \$25 million. These surtaxes are on top of the current 37 percent income tax rate that the wealthiest Americans already pay and would apply to adjusted gross income, which means wages, capital gains, dividend income, and pension payouts. For family businesses with taxable estates or trusts, those thresholds for the new surtax are \$200,000 and \$500,000, respectively.

Net Investment Income Tax (NIIT): For businesses organized as S-corporations, partnerships, or other

pass-through structures, the House-passed version of BBB applies a 3.8 percent net investment tax to income derived in the ordinary course of a trade or business for taxpayers with incomes exceeding \$400,000 for an individual and \$500,000 for a couple. For business shares held in trust, the expanded tax applies to income greater than \$13,000.

State and Local Taxes (SALT):

The amount of local and state taxes that Americans can deduct from their federal taxes is a hotly contested proposal. The 2017 tax cuts under President Donald Trump capped the amount at \$10,000, which some lawmakers said hurt their constituents who live in high-cost cities and states such as California, New York, and New Jersey. The bill approved by the House raises the cap to \$80,000 through 2030, at which point it expires and the cap resets to \$10,000. This is expected to be one of the tax provisions revisited in the Senate.

Corporate Minimum Tax: The House bill imposes a new 15 percent minimum tax on corporations that make more than \$1 billion in book income, which is money that is reported to investors.

FORESTRY IN BBB

The BBB would invest more than \$90 billion in agriculture, forestry, and rural communities over the next 10 years, including a historic \$27 billion in forestry programs alone, both in the public and private sectors. The funding has been allocated to programs with a goal to improve forest health, restore forests, fight wildfires, and boost carbon sequestration in trees.

Included in the bill are a number of competitive grant programs for private landowners to incentivize them to improve their land and implement climate mitigation or forest resilience practices. It also provides grants to help eligible landowners access

(continued on page 7)

U.S. Hikes Softwood Lumber Tariffs Amidst Expanding Production

The U.S. Department of Commerce is moving ahead with plans to double the average tariff on Canadian softwood lumber imports, from the current average of 8.99 percent to 17.9 percent. The action follows a second administrative review of softwood lumber imports from Canada.

While the announcement drew criticism from our neighbors to the North, it was welcome news to American lumber producers, who say that the enforcement of trade laws will only encourage further investments in U.S. sawmills.

"By increasing these tariffs, more softwood lumber will be produced in the United States supporting the U.S. lumber market, private forest landowners and local communities," said Scott Jones, CEO of the Forest Landowners Association. "These tariffs essentially level the playing field for U.S. timber growers against unfairly traded, subsidized Canadian lumber—pushing lumber suppliers to support the U.S. economy."

According to the U.S. Lumber Coalition, which originally petitioned the Commerce Department to impose

the tariffs, U.S. sawmill investment and capacity expansion has been robust since the filing of the trade case in 2016.

"Trade law enforcement maximizes long-term domestic production and lumber availability and has already resulted in dramatic growth of U.S. made lumber to meet strong demand to build more American homes," said Jason Brochu, chairman of the Coalition.

The U.S. industry appears on track to produce an additional 17.5 billion board feet of lumber through 2021, averaging 3.5 billion a year, according to the Coalition. Coalition leaders reason these increases have more than offset any decline in unfairly traded Canadian imports and are enough lumber to build about 1.2 million single-family American homes.

In the past year alone, seven new greenfield sawmills plus multiple mill expansion projects have been announced in the U.S. South, according to Rocky Goodnow of Forest Economic Advisors. "This is in addition to the 17 greenfield mills that have started operations since 2016 and expansions at existing mills that have boosted

lumber capacity in the region by 5 billion board feet, or 26 percent over the past five years," he said.

The U.S.-Canadian softwood lumber dispute is one of the most enduring trade disputes between the two nations. U.S. lumber producers contend that the Canadian government, which owns the majority of forests in that country, provides trees to producers for amounts far below the market value of the timber and that Canadian lumber is being sold in the U.S. for less than fair market value—putting U.S. producers at a disadvantage.

Mr. Brochu said the U.S. industry remains open to a new U.S.-Canada softwood lumber trade agreement. The last Softwood Lumber Agreement between the two nations expired in October 2015. Meanwhile, as negotiations for a new agreement in the subsequent years have failed to gain traction, Canadian lumber producers have strategically and methodically expanded their presence and operations in the U.S., particularly in the South where there is an ample supply of timber. 🌲

Climate/Social Spending Legislation *(continued from page 6)*

emerging private markets related to climate mitigation and would pay private forest landowners for implementing forestry practices that would provide measurable increases in carbon sequestration and storage beyond customary practices on comparable land.

The bill also provides a huge bump in funding to the Forest Service's Forest Inventory and Analysis (FIA) program, which collects, analyzes, and reports information on the status of America's forests, to accelerate and expand existing research efforts to improve forest carbon monitoring technologies that better predict

changes in forest carbon due to climate change. And it includes \$775 million for the Wood Innovation Grant program, with a priority for projects that create a financial model for addressing forest restoration needs on public or private forest land.

MORE CONSERVATION SPENDING

The legislation that passed the House includes more than \$28 billion in additional conservation funding support for climate smart agriculture and forestry on private lands. More than \$22 billion of this funding is being directed to four existing farm bill conservation programs to provide technical and financial assistance

to farmers and forest landowners to implement activities on their lands that result in the improvement of soil carbon, reduction of nitrogen losses, and the reduction or capture of greenhouse gas emissions.

Democrats are using a special legislative process called reconciliation that requires just a simple majority in the Senate, which allows them to advance the bill over Republican opposition. However, in the 50-50 Senate, where Vice President Kamala Harris is the tiebreaking vote, all Democrats must be on board or it's a dealbreaker. 🌲

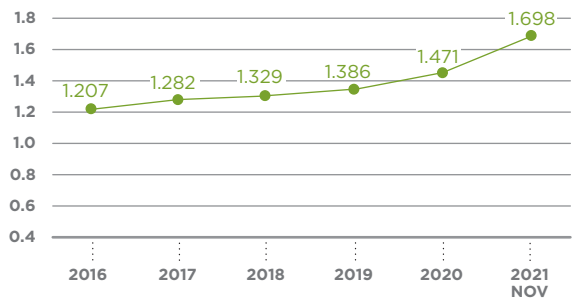


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PRESORTED STD
US POSTAGE
PAID
ATLANTA, GA
PERMIT #2295

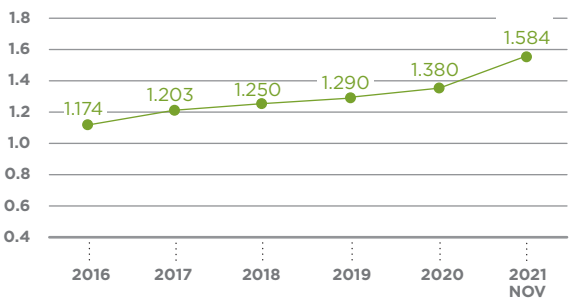
TIMBER MARKET INDICATORS

HOUSING PERMITS



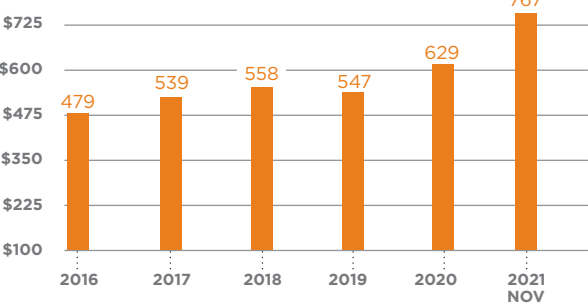
IN MILLIONS OF UNITS (2021 ANNUALIZED)
Source: US Department of Commerce

HOUSING STARTS



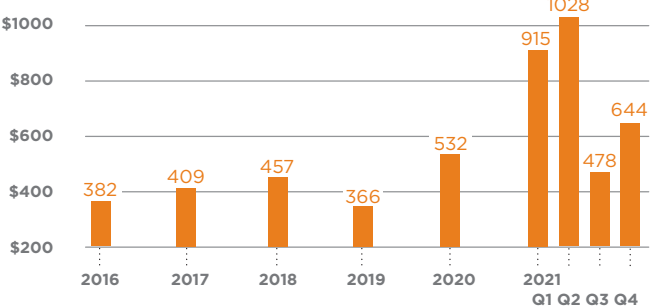
IN MILLIONS OF UNITS (2021 ANNUALIZED)
Source: US Department of Commerce

RESIDENTIAL CONSTRUCTION



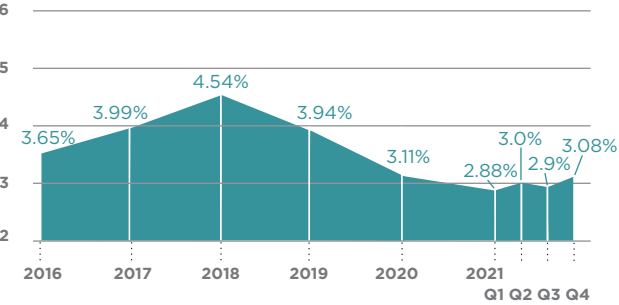
IN BILLIONS OF DOLLARS (2021 ANNUALIZED)
Source: US Department of Commerce

LUMBER PRICES



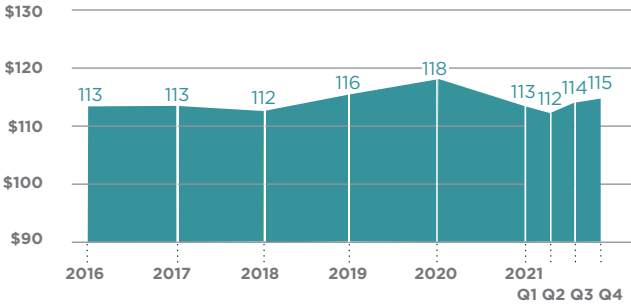
SOUTHERN PINE—\$/MBF
Source: Random Lengths Southern Pine Composite Index

MORTGAGE RATES



30-YEAR FIXED RATE
Source: Freddie Mac

US DOLLAR



US DOLLAR VALUE AGAINST 26 MAJOR TRADING PARTNERS
Source: Federal Reserve