

Industry Trends and News

Timber Industry Declines

A significant drop in demand for lumber products has slowed the forest industry in Minnesota, Michigan and Wisconsin. Up to 20% of all logging companies have gone out of business in Minnesota in the past year, with similar statistics for surrounding timber producing states. Four of Minnesota's largest lumber mills have shut down, waiting to reopen when demand comes back. Several plants producing oriented strand board (OSB) are also shuttered, with the housing slump blamed for all of the problems. According to a recent report from the Interindustry Economic Research Fund (IERF) logging, sawmill, plywood manufacturing and wholesale lumber distribution revenue is expected to be down 20% in 2009, with indications of slow improvements in 2010 and 2011. The bright spot of the timber industry has been the relative stability of paper mills. However, reports indicate that the price those users pay for raw timber has dropped.

During the past decade, logging and timber production has become much more mechanized and sophisticated. Correspondingly, a major increase in the cost of such equipment and machinery resulted. Whereas an old logging crew consisted of 5 to 8 people, now a modern, mechanized operation will use 2 to 3 people in a crew to harvest the same amount, or more, of timber. Much of the machinery for cutting, skidding, loading and hauling is automated, with many pieces costing hundreds of thousands of dollars. This type of equipment operates in a very rough work environment, and life expectancy is typically less than other types of heavy equipment such as earthmoving machinery. Value retention of used equipment will in part depend on how the equipment has been maintained.

Due to fairly large numbers of operators leaving the industry, there is a relatively large amount of used equipment on the market which negatively affects resale values. There are approximately 10,000 firms in North America involved in logging operations which is still considered a relatively large pool of potential buyers. The Canadian market as a whole appears to be stronger

right now than the U.S. market. It is imperative that any attempt to remarket used logging and timber processing equipment includes a national and international approach to maximize recovery.

Prices at auction for various types of logging equipment appears to have dropped significantly. Our reviews of recent auction activity indicates auction results 40% to 50% less for certain pieces than one year previous.

Now is a good time to have an appraisal analysis on logging equipment, as the market has changed dramatically during the recent months.

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