



## Accounting for Inflation in Timber Forecasts

Brooks Mendell

[bmendell@forisk.com](mailto:bmendell@forisk.com)

770.725.8447

# Inflation is misunderstood.

<b>Item</b>	<b>Average Actual (Nominal) Price (\$)</b>		<b>Prices Inflated at CPI</b>
	<b>1913</b>	<b>2013</b>	<b>1913-2013</b>
Bread	\$0.06	\$1.42	\$1.42

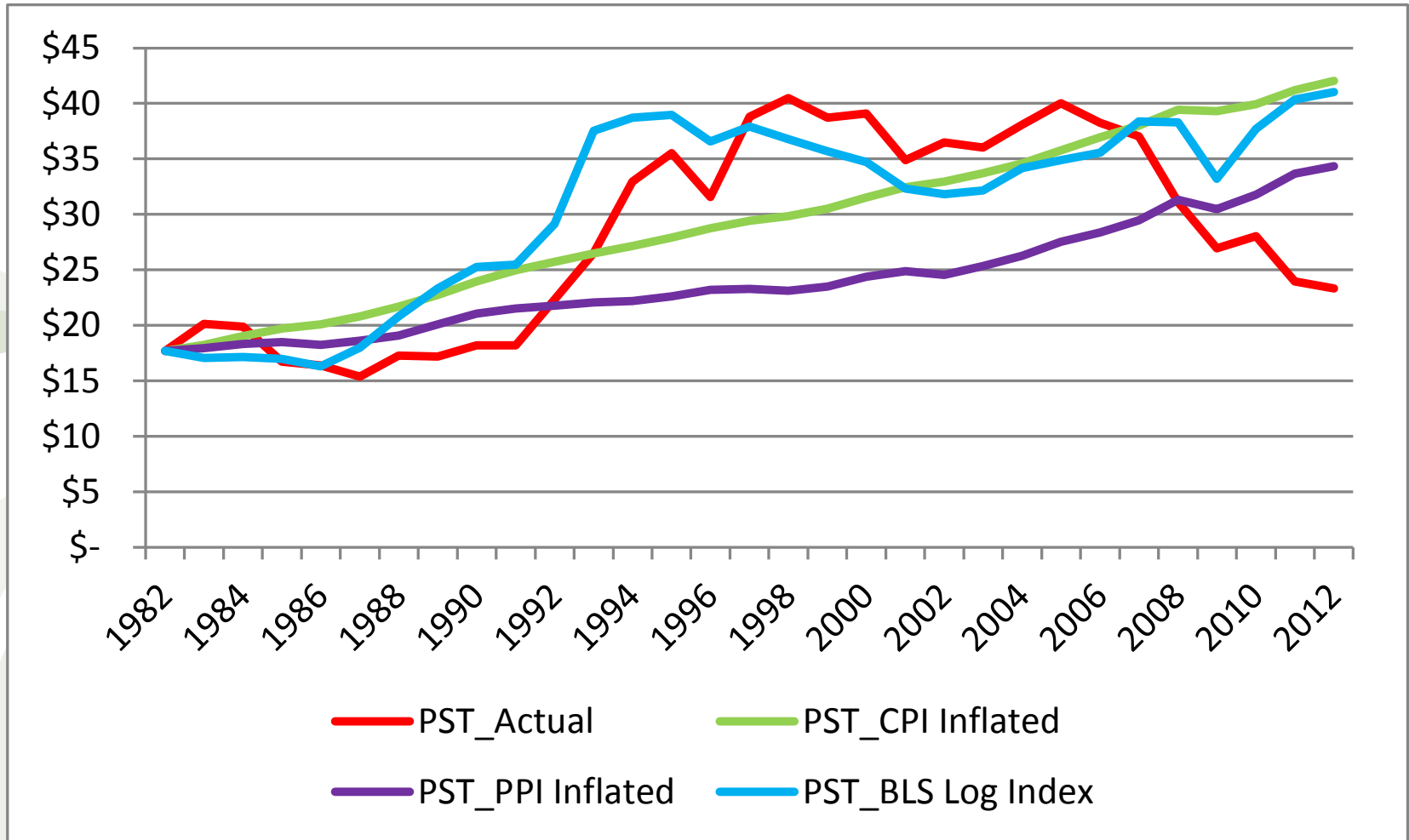
Example from: Jonathan Church and Ken Stewart, "Average Food Prices: a snapshot of how much has changed over a century," Beyond the Numbers: Prices & Spending, vol. 2, no. 6 (U.S. Bureau of Labor Statistics, February 2013)

# We build timber forecasts based on knowable, quantifiable relationships.

- That said, should we forecast in nominal or real terms?
- Which indices could be most appropriate if and when deflating timber prices for valuation models?
- How can we better understand longer-term real price trends?

# PST Nominal and Inflated Prices

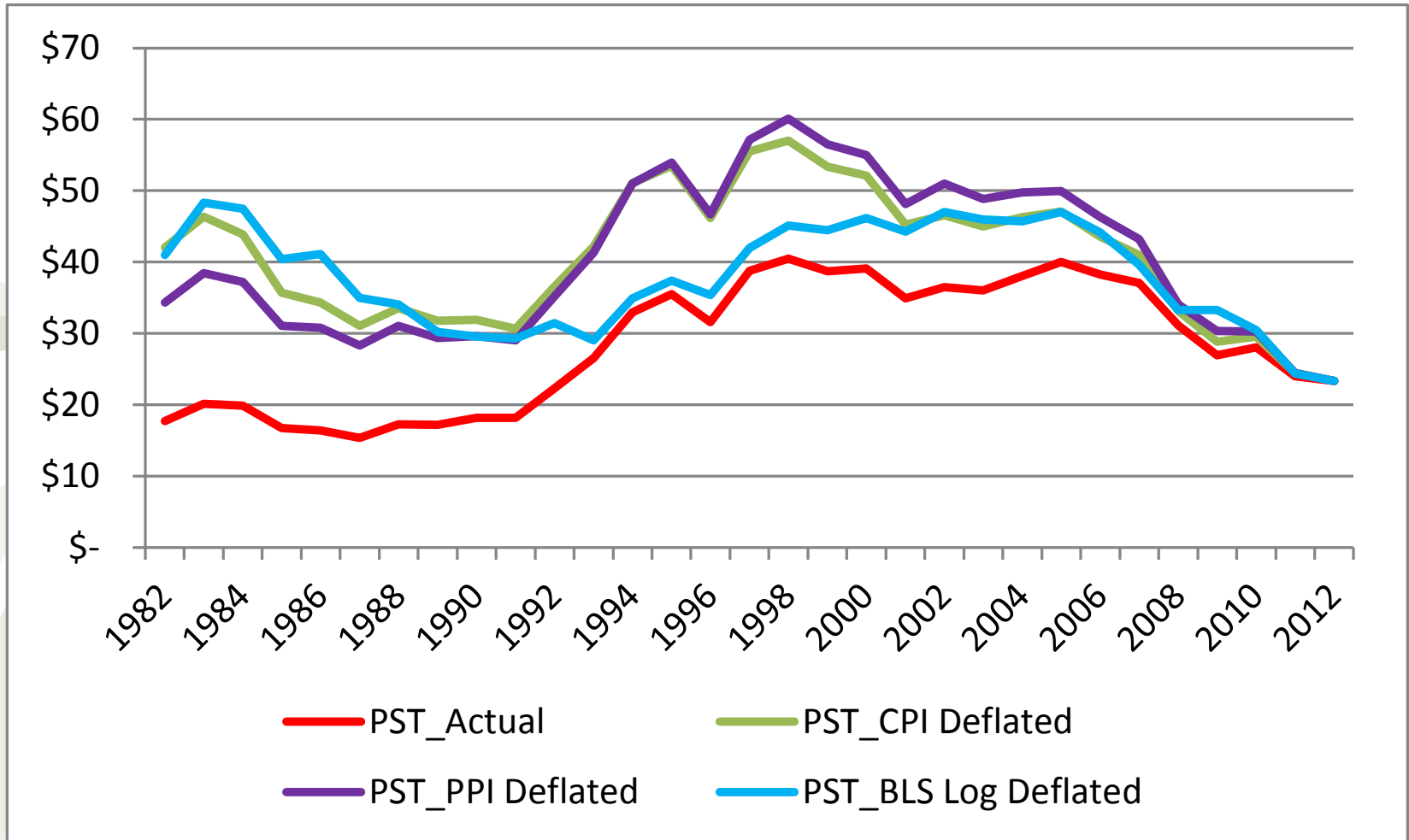
## US South – Base Year 1982



Data sources: BLS; Timber Mart-South

# PST Deflated (Real) Prices

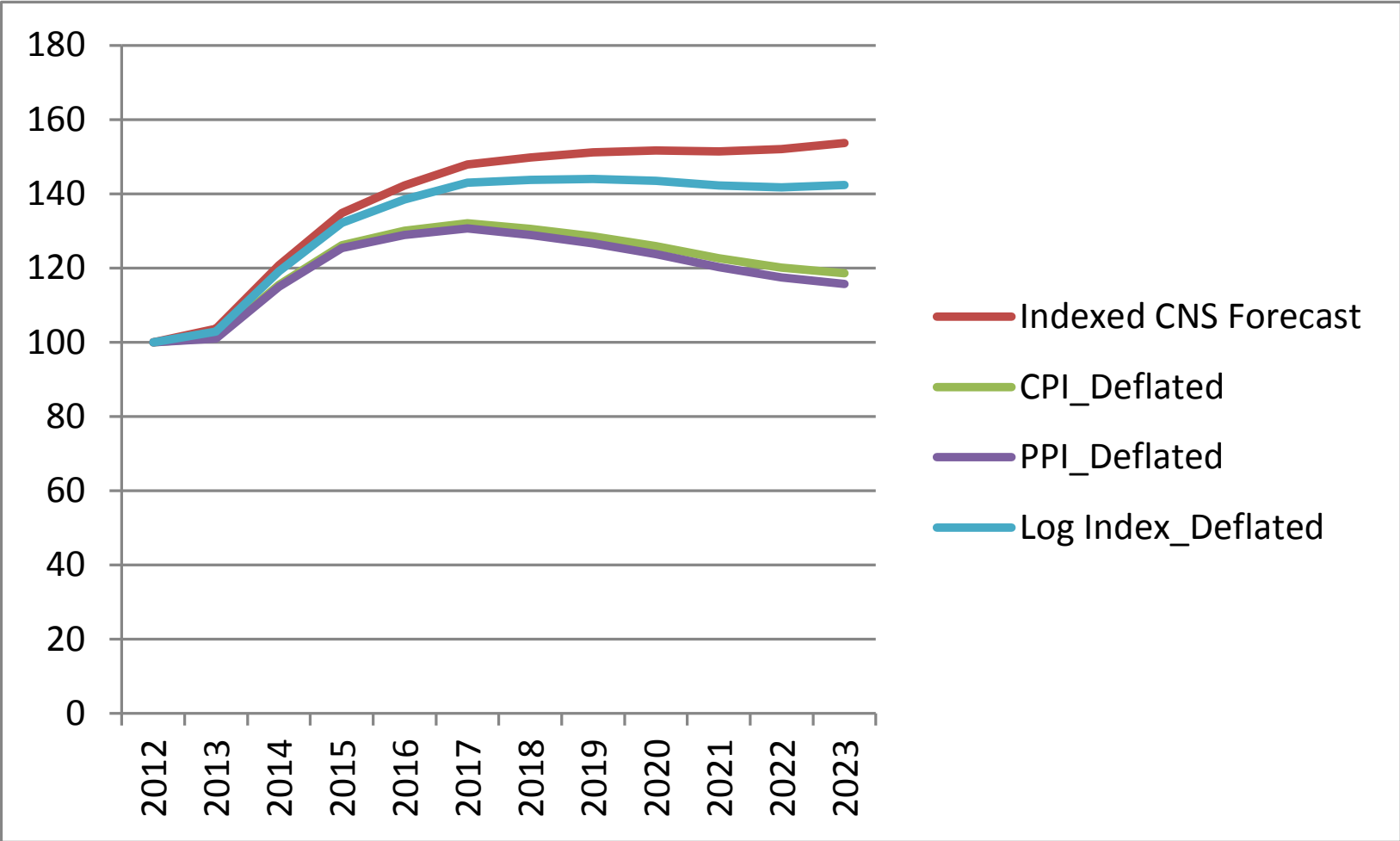
## US South – Base Year 2012



Data sources: BLS; Timber Mart-South

# Indexed Pine Chip-n-Saw Forecast

## Mississippi – 2012=100



Source: 2013 Mid-Year Forisk Forecast

# Recommendations

- Forecast timber prices in nominal terms.
  - Then adjust to real terms if necessary.
- Use PPI or sector specific deflators.
  - But check for outliers and logical consistency in the BLS deflators.
- Digest the effects of technology.
  - Forest productivity and mill efficiencies support real price trends.

# About Forisk Consulting

- Forisk provides management consulting and educational services to senior management and investors in the forest industry and timberland investing sectors.
- Founded in 2004.
- Key products:
  - *Forisk Forecast*
  - *Wood Bioenergy US*
  - *US Timberland Owner List*
- Books:
  - *Wood for Bioenergy* (Forest History Society)
  - *Forest Finance Simplified* (Forisk Press)