

Timber Market Update

2Q 2019 – Executive summary

Copenhagen, September 2019

Executive summary

Timberland transactions and returns

Transaction volumes in the US timberland market were kept at a low level during the second quarter due to the absence of any large offerings. Some of this quarter’s most significant transactions include IKEA’s purchase of timberland in South Carolina from FIA for a near-record price of USD 3,400 per acre and AMF Pension’s acquisition of 317,000 ha from Bergvik Skog Öst at a value of USD 1.3 billion, the latter also comprising a 15-year supply agreement. Moreover, Swedish SCA grew their portfolio in Latvia with a USD 27.7 million acquisition of 9,600 ha from Sundin Mezs SIA.

Figure 1 Quarterly transaction overview

Region	Price estimation* (million USD)	Hectares (000)
US	317.1	102.7
South	258.7	87.3
West	58.4	15.4
Northeast	-	-
Rest of the world	1387.7	326.6

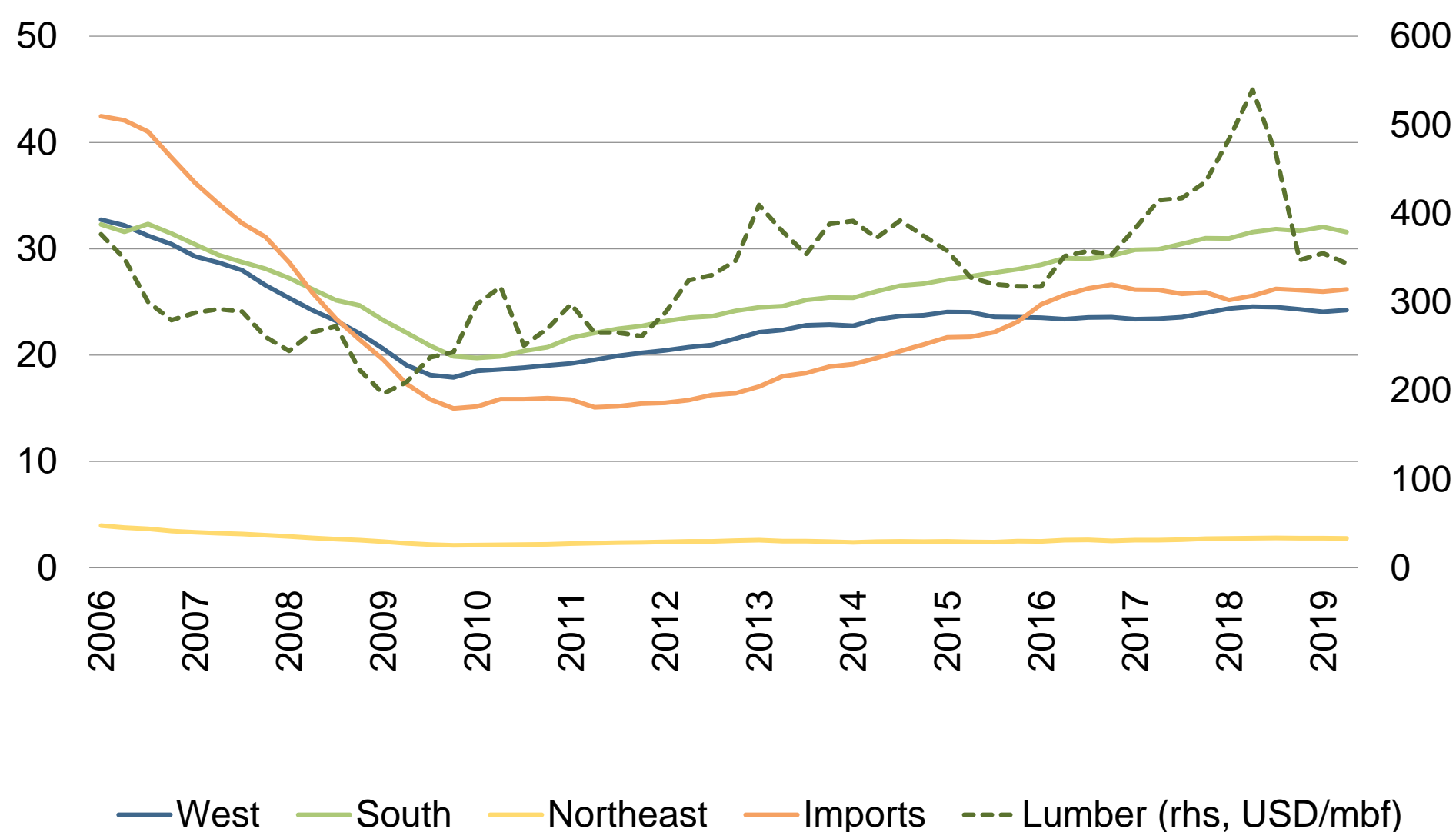
Regional price developments and market drivers

Despite growing confidence among builders, housing starts still struggle as a result of a range of market factors such as rising construction costs, a shortage of workers, and a general lack of affordable lots. Nevertheless, the quarter did end with a 3.7% increase in US housing starts, mainly due to multi-unit housing starts. Following a slight decline in US lumber prices, lumber producers are expected to lower operation rates in an effort to bring supply in balance with demand.

The current trade dispute between the US and China continues to soften domestic lumber prices in the US and weaken the export markets for logs overall. Hardwood log prices in the US Northeast took a significant blow as a result of the double-digit increase in Chinese tariffs (from 10% to 20-25%) on imported US hardwood lumber, causing a 15.9% drop in the composite hardwood log price index. While log prices in the US South remained stable over the quarter, the trade dispute between the two countries has had a clear impact on the US Pacific Northwest, where log prices have edged downwards.

*Price for undisclosed transactions is based on internal estimation.

Figure 2 US softwood lumber production, imports (mio m³) and prices



Source: International Wood Markets Group

Across the Atlantic, in Europe, a salvage operation of beetle-infested wood led to a 4% increase in lumber output, adding to an already existing oversupply in the Asian and US markets. In Australia, the slight decline in housing approvals over the course of the quarter mirrors the long-term average previously predicted. This, along with a weaker log export market to China, should moderate domestic softwood log prices heading into the third quarter of 2019.

Meanwhile, the sharp rebound in wood imports – as seen e.g. in the 27% decline in log export prices from New Zealand to China in July alone - reflects a saturated Chinese market with fully stocked lumber and pulp inventories. Modern Chinese pulp mills, however, still run with a positive cashflow, although at low margins. It is possible that the pulp price correction will eventually affect the price of woodchips, but so far Australian woodchip exporters have managed to keep prices at a stable level by lowering supply.

Finally, the large increase in woodchip exports to China (30%) is likely a result of the establishment of two new pulp lines in Shandong and Huanggang. Together with the third pulp line that is underway in Dafeng, the three lines are expected to add an additional capacity of 1.85 million tonnes. Such a development could see woodchip demand in the Asia-Pacific region go up by as much as 12%.