

Timber Market Update

Executive summary

2Q 2020

Copenhagen, September 2020

Timberland transactions and returns

The US timberland market was quiet in the second quarter of the year due to COVID-19. The largest transaction was Lyme Timber's acquisition in Pennsylvania, a 92,000-acre hardwood timberland plantation bought from National Fuel for USD 116 million. More recently, Weyerhaeuser entered into an agreement with Hancock Natural Resource Group to swap 149,000 acres of timberland in southern Oregon for 85,000 acres in mid-coastal Oregon. The transaction, to be closed in the fourth quarter, did not disclose a price, but Weyerhaeuser reported an additional cost of USD 40 million related to the deal.

Globally, there were several sales pending in Oceania, but were all postponed due to COVID-19.

Timberland returns held steady in the second quarter with quarterly income offset by capital depreciation. In the US Pacific Northwest (PNW) and Northeast, timberland values decreased due to lower lumber prices at time of valuation. In the US South, quarterly income returns more than offset the marginal decline in timberland values due to limited movements in log prices.

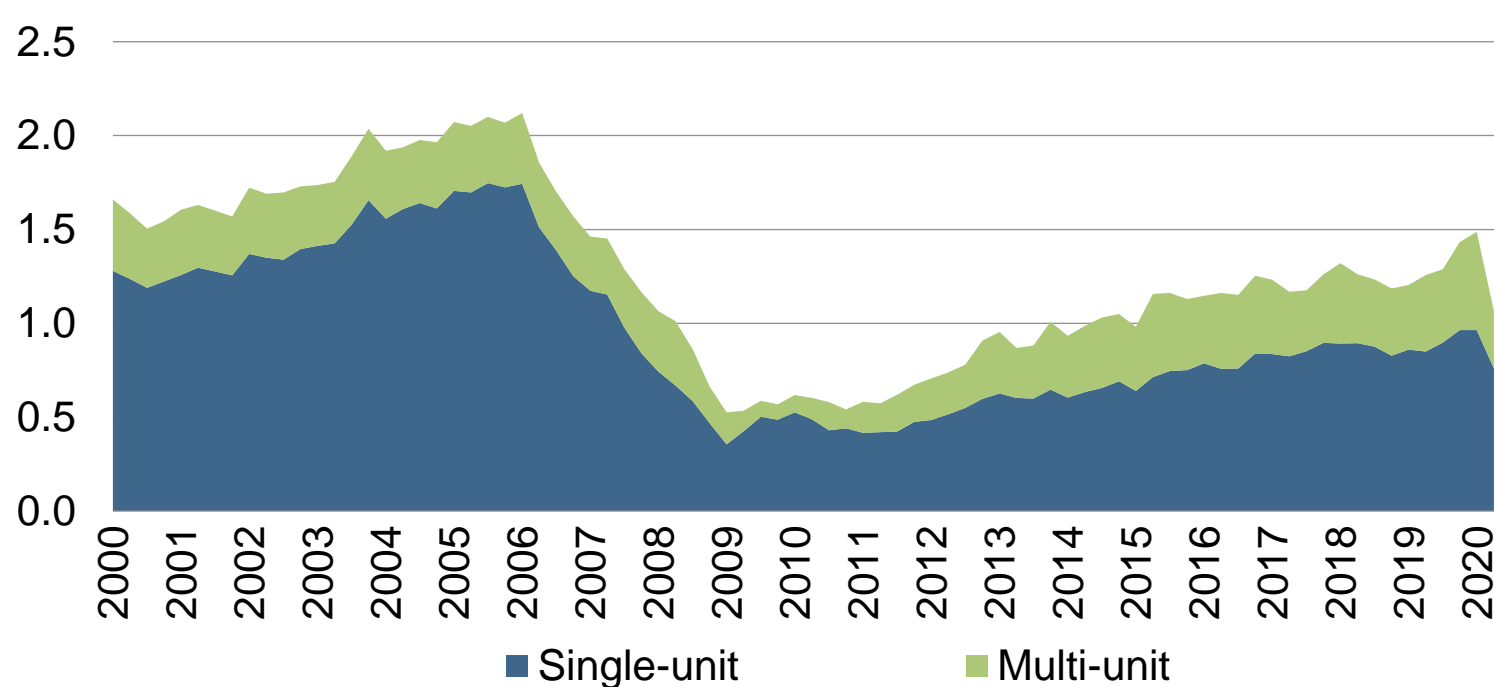
Regional price developments and market drivers in the United States

The US housing starts have hit a low in April, before starting to recover to pre-COVID levels of about 1.5 million per year in July. This rebound was driven by a trend of moving to more suburban areas, reinforced by social distancing due to COVID-19.

By August 2020, the US lumber prices reached record highs, driven by stronger-than-expected housing starts and high demand from home improvements, as the industry supply cuts overestimated the COVID-19-related drop in demand. When the industry ramps up production, lumber prices are expected to come down. Log prices recovered along with lumber prices in the PNW, whereas the sufficient supply continued to suppress log prices in the US South.

The hardwood log prices in the US Northeast generally weakened, as reduced domestic demand and the trade dispute between China and USA continued to influence the log market. The log prices for oak species and soft maple held up.

Figure 1: US housing starts (million per year). 2Q20 is based on the average housing starts observed during the quarter.



Regional price developments and market drivers outside the United States

In Australia, the government initiated a "HomeMaker" program of AUD 688 million, which for now seems to have postponed the potential negative impact of COVID-19 on construction.

Over the year, Australian hardwood chip exports declined by 23.7%. Chinese paper producers have begun substituting locally produced pulp with imported pulp, as historically low pulp prices are reducing their woodchips demand. Pulp prices are expected to increase as the global economy reopens.

In New Zealand, the 5-week lockdown reduced log exports by 13.4% for the year. Log export prices remained weak due to reduced Chinese demand and European competition on the Chinese log market. New Zealand passed a bill which aims to support the development of the local forest industry.

The European lumber producers generally operated at full capacity due to demand being stronger than expected. Sawlog prices, however, weakened due to cautious log procurement by the industry.

The pulplog prices in Europe were affected by globally weak pulp prices. SCA and UPM decided to permanently close paper production at two facilities in Sweden and Finland, which will add to the regional pulplog supply.

China was affected by severe flooding, which is expected to delay the short-term economic recovery. The Chinese wood imports declined by 12% from last year, which was mainly due to a slow reopening of the economy after COVID-19. Germany is now the second largest softwood log exporter to China, and the European influence on the Chinese log market is expected to remain significant in the next years to come.