Timber Market Update

Executive summary – 3Q 2020

International Woodland Company A/S

Valuations and returns

US timberland returns continued to be affected by capital depreciation that offset income return in the third quarter. In the PNW, log markets were in a recovery phase due to strong lumber prices, but damages from September wildfires contributed to overall negative capital returns. More fire damage assessments are expected in the coming quarters, which could weigh on timberland returns for this region. Oregon was affected by unprecedented wildfires in five different locations, affecting almost 800,000 acres of timberland. About 370,000 acres belong to small and large private timberland owners.

Transactions

The US market had a quiet quarter due to COVID-19, but some transactions did manage to be completed. There are several large deals in the making in the fourth quarter, which should keep the total transaction value in the US for 2020 close to USD 2 billion.

Market drivers

US housing starts recovered to almost pre-COVID levels; 1.44 million/year in the third quarter, seasonally adjusted. The rebound in housing starts is driven by single-unit housing starts, which in August crossed the one million mark for the first time since 2007.

In Australia, housing starts stabilized at around 172,000 per year (1.2% higher than 2Q20). Australian housing starts have been affected less by COVID-19, partly due to the stimuli package provided by the government. The lumber demand was the same, but domestic lumber production increased by 10% at the expense of imports that declined 32% compared to last year. The export market continued to be weak due to low global pulp prices. Chip exports are 32% lower compared to last year. Chinese authorities suspended log imports from Australia due to detection of live bark beetles which added to the current trade tension between the two countries. In New Zealand, log production increased sharply in the third quarter, and log exports are expected to improve going forward, due to the decreasing supply from Australia and potentially Europe. Building consents were up 3.5% in the third quarter compared to a year ago. New Zealand is not building enough to meet demand and house prices have increased by 20% over the last year.

China wood imports rebounded in the third quarter, reaching an all-time high of almost 64 million m^3 in 3Q20. Log imports grew by 20%, as China initiated several infrastructure investments to boost the economy. Lumber, pulp, and woodchip imports grew by around 8% compared to last year. Lower log and lumber inventories suggest that the strong demand from China will continue.

In Europe, the log market is improving after a weak third quarter. Lumber production has been high, which has resulted in a shortage of logs. Salvage operations are potentially at a peak in Germany, which could move logs from export market to the domestic industry.

Lumber and log price developments

As a result of strong demand and supply constraints, lumber prices in the US hit a record of almost 1,000 USD/MBF in September. Prices have since stabilized at lower levels but are still high compared to a year ago. The stronger lumber demand and prices have primarily benefited US South producers and European suppliers that have a small market share in the US.

In the US South, the average sawlog prices declined to 22.5 USD/ton, which was partly seasonal. Still, prices were at a lowest since 1992, attributed primarily to the inventory overhang in the region. In the PNW, Douglas-fir log prices increased by 11.5% due to the strong regional lumber prices. A significant amount of salvaged wood is expected to come to market from fire-affected areas, which will likely impact the log prices in the coming months. In the US Northeast, the hardwood log market generally improved due to supply constraints and stronger domestic and export demand.

As a result of the fires, merchantable log availability is expected to decline by about 8% for western Oregon, which will further intensify the log supply situation for this region in the long-term.

The reduction in global print paper by 10 million tonnes in 2020 has created an excess supply, keeping pulp prices low.