

# Timber Market Update

## Executive summary - 2Q 2021

### Valuations and returns

The NCREIF property-level timberland return (TPI) increased to 3.1% in 2Q21, mainly attributed to higher income returns in the PNW and capital appreciation in the Northeast. Total returns in the US South was 2.4% for the year.

### Transactions

During the quarter, US timberland transactions totaled around USD 615 million and 140,000 ha. For the rest of the world, 67,000 ha were transacted for approximately USD 660 million. Over the last four quarters, timberland transactions reached almost USD 3 billion, which is 33% higher than last year's total.

### Market drivers

Lumber prices corrected sharply over the summer. Vaccine rollouts allowed the lumber industry to scale up production, while demand from DIY-projects weakened as people could return to office. Falling lumber prices and fires have already curtailed production in BC, which will likely support US lumber prices going forward. US housing starts stalled during the quarter to 1.58 million per year, partly due to constrained skilled labor supply and lack of construction materials. Home prices, up 16% over the year, is also holding back on demand.

In Australia, housing approvals increased 10.6% in the second quarter and 28% over the year, driven by single-unit approvals. As in the US, a constrained timber supply has delayed residential construction projects across several states. Consumption is up 9.2% over the year, supported by a production increase of 4% and a 23% increase in imports. Log exports are down 27% compared to last year due to Chinese log ban. Export of woodchips is in a slow recovery with prices improving.

In New Zealand, log harvesting in the second quarter was the largest ever recorded, driven by a rush to capitalize on strong log export prices in China (due to higher lumber prices in the US). Log operations are expected to slow due to the country entering a level 4 lockdown and falling log export prices.

In Brazil pulp production was up mainly to replenish domestic inventory. Paper prices returned from highs to normal levels in China, with pulp prices following this downward trend after the second quarter. Prices are still high enough to keep Chinese pulp producers in the market.

As a result of lower lumber prices in the US, Chinese lumber importers are re-entering the market, with increased imports from Canada. Wood imports were also up due to strong woodchip demand that is expected to continue.

Carbon credit prices continued to record levels in the different markets. NZ ETS spot prices is close to 50 NZD/tCO<sub>2</sub>, after the Climate Change Commission recommended to set the cap at NZD 70/tCO<sub>2</sub> by 2022. The Californian Cap-and-Trade system ended its August 2021 auction price at USD 23.3/tCO<sub>2</sub>, which also is a new record.

### Lumber and log price developments

Both FEA forecasts and lumber futures indicate a rebound in lumber prices later this year and into 2022. The moderation in US lumber prices this summer is expected to affect prices in Europe and Australia as well, though the full effect is first expected in the fourth quarter. New Zealand log export prices decreased by up to 30% following the decline in US lumber prices that affected prices in China too. Higher log shipping costs have also been negative for log prices in New Zealand. US South pine sawlog prices increased by 3% over the quarter to the highest level in five years. Additional lumber capacity investments are expected to drive log prices further up in this region. In the US Northeast, hardwood sawlog prices improved quite drastically from strong demand, up 33% over the quarter for oak and maple combined, while cherry prices increased by 72%.