

# Timber Market Update

## Executive summary - 3Q 2021

### Timberland transactions and returns

Both institutional investors and the wood industry showed renewed interest in US timberland. Transactions were high for the quarter, at USD 1.8 billion, whereas international deals amounted to about USD 200 million. Hancock, on behalf of AP3, bought 301,000 acres in Texas for USD 498 million from Catchmark. Sierra Pacific Industries purchased Seneca Jones Timber Company in Oregon, consolidating their position in the PNW with an extra 175,000 acres of timberland and four sawmills. Earlier, Roseburg Forest Products also purchased 18,000 acres for USD 100 million in Oregon from CatchMark. NCREIF's US property-level timberland return increased to 5.01% on an annual basis in the third quarter. Larger returns were observed for the PNW and Northeast, due to both capital appreciation and income.

### Regional price developments and market drivers in the United States

Very tight supply chain conditions imply that few incidences can have a large effect on global markets and prices. US lumber prices retracted sharply from May to September as demand from do-it-yourself projects weakened. That changed with the catastrophic floods in British Columbia, Canada, and Washington in November, which is expected to reduce lumber supply into the US. The lumber futures market reacted promptly with prices back to over 1,000 USD/mbf at the start of December (from 625 USD/mbf mid-November). Lumber mills in the PNW are now willing to pay a significant log price premium to secure supply in the coming winter months to benefit from higher lumber prices. In the US South, wet ground from several storms reduced log supply overall. Combined with strong demand, sawlog prices increased to the highest level in 10 years, but still low compared to pre-GFC levels. Several new sawmill announcements in US South adding 11% to existing capacity over the next two years, reducing inventory overhang and raising log prices in the region. Ultimately, US housing starts will have to remain strong to keep lumber demand up. In the third quarter, starts remained steady at 1.56 million per year and fundamentals such as house prices and inventory for sale suggest a continued high demand for new homes. Both RISI and FEA predict housing starts above 1.5 million to 2025.

### Regional price developments and market drivers outside the United States

Higher energy and commodity prices reduced industry output in China. Power rationing affected paper and pulp production, reducing demand for pulp and woodchip imports in the third quarter. Woodchip imports were still up by 16% in 2021, due to new pulp capacity coming online in China. The biggest concern for China is construction activity. Residential starts were down by 5% over the quarter due to restrictions imposed earlier this year on lending and amount owed by big real estate developers. The government recently loosened credit conditions to prevent a broader market crunch following Evergrand but their objective is still to curb speculative property investments by controlling a larger share of the market. So far, log prices in China moderated from about 195 USD/m<sup>3</sup> in June to 155 USD/m<sup>3</sup> in November, driven by lower lumber prices in the US and construction activity in China. Log prices in China are still high compared to pre-COVID levels, and what is now eating into the margins in New Zealand are the high shipping costs that reportedly have come down with reduced log export volumes. There are several factors that support a New Zealand log export and price recovery after the Chinese New Year, i.e. US lumber prices, Russian log export ban, and lower shipping rates. In Australia, stimuli measures in the construction sector have supported high demand for lumber, which is expected to continue into 2022. Domestic lumber prices is expected to be sustained by high shipping costs and lumber import prices from Europe. Higher lumber prices should ultimately show up in Australian log prices through price adjustments in supply agreements with the local industry. Log prices in Brazil were up 8 to 10% on the back of strong domestic industry demand. Several new pulp, MDF, and lumber mills have come online or are expected so in 2022. Pulp exports did contract due to paper production curtailments in China. Pulp prices also contracted in the third quarter but have rebounded a bit due to curtailments in Canada and COVID related border issues with Russia that prolong transportation. Finally, lumber prices in Europe have been relatively steady, except in Germany that is more exposed to the US market. UK has been an important end-market, which is currently showing signs of weaker demand. The lumber industry has so far reduced output to meet expected weaker demand, but the US export market could become a price setter, keeping lumber prices higher than currently expected.