

Timber Market Update

Executive summary - 4Q 2021

Implications of the Ukraine conflict on wood trades

The sanctions on Russian exports will impact global wood supply materially. Europe will be the region most affected as Russia and Belarus supply about 7 and 10% of EU's lumber and pellet consumption, respectively. The supply squeeze in Europe would also affect Europe's lumber exports to the US and Australia, and likely also reduce exports to these countries. Russia will likely divert lumber to China, replacing lumber from Canada and Europe. Displaced volumes will however not close the supply gap in Europe or add significant amount of lumber to other markets such as the US. If Russian lumber import prices in China diverge from market trends, NZ prices could be affected. The downside risk to the above is an economic slowdown, triggered by central bank interest rates to curb inflation.

Timberland transactions and returns

US timberland deals transacted for a total of USD 4 billion in 2021, which is the highest value since the global financial crisis (excluding the merger between Weyerhaeuser and Plum Creek). NCREIF's US property-level timberland return was 9.17% in 2021. Larger returns were observed for the US PNW and US Northeast, due mainly to capital appreciation.

Market drivers

US housing starts increased to 1.67 million in the fourth quarter. FEA expects housing starts to increase further, but the risk to this forecast is how Federal Reserve will respond to inflation and how this will affect the US economy. Australia's housing approvals were up by 23% over the year. The HomeBuilder grant scheme continued to drive the increase by subsidizing first-time buyers. Residential starts in China were down by 11% from last year. Despite challenges in the Chinese real estate market, demand for logs has remained healthy, and the slowdown in construction is expected to be gradual. Wood exports to China overall declined in 2021, mainly attributed to construction and curtailments in the Chinese manufacturing industry. Carbon credits reached new highs end of 2021, but significant price corrections followed the Ukraine conflict for several of the ETS due to some non-compliance players leaving the market, fear of reduced demand for credits going forward, and new regulations that may also have affected prices in some of the markets.

Wood product price developments

Supply side issues continued to drive US lumber prices up, almost back to the historical highs in 2021. Prices are expected to retract as industry expands in the US South, but to levels above pre-COVID prices. In the US South, pine sawlog prices increased 10% compared to last year. In PNW, prices have gained momentum with higher lumber prices. Australian annual softwood lumber consumption increased by 2.1% (as of January 2022), mainly supported by lumber imports from Europe, while domestic production seems to be at a maximum. Domestic lumber prices are expected to remain high with supply being tight in Europe. Australian hardwood chip exports increased by 15.5% in 2022 to a total of 4.6 million BDMT. Prices increased by 12%, but further price increases are difficult to implement unless the pulp market continues to be tight. In New Zealand, log export prices decreased further in the fourth quarter, due to uncertainty around the wider Chinese property development situation and the Chinese New Year reducing demand. Log export volume and prices are expected to recover, with prices showing a rebound start of 2022. In Chile, woodchip exports decreased by almost 1 million BDMT (20.6%) in 2021. Log procurement from the MAPA project explains the reduction in woodchip exports with prices expected to increase. In Europe, the immediate outlook for log prices is positive due to the sanctions imposed on Russia, which are almost de-facto in place after FSC and PEFC removed their labels from Russian wood products and Russia banned wood exports to "unfriendly countries". An economic slowdown in Europe could offset some of the wood supply shock. In China, pulp prices have been quite volatile due to supply-side disruptions. Although the Chinese government is slowly reopening the economy, zero-tolerance policy on COVID continues to affect paper demand. Pulp prices however recovered start 2022 as global supply problems continued to accumulate.