

Timber Market Update

Executive summary - 1Q 2022

Timberland transactions and returns

Timberland transactions and returns were very strong in the first quarter, lifted by rising log prices and log price expectations. Most of the transactions in the US South traded above 2,000 USD/acre, including Manulife's disposition of 238,000 acres in Texas and Louisiana, sold to Molpus and BTG for an average price of 2,150 USD/acre. Larger international deals include Suzano's acquisition of 206,000 hectares (509,000 acres) in Brazil for USD 667 million.

US Timberland return was 11.82% on an annual basis, due mainly to capital appreciation. Highest return was observed in the US Northeast at 27.73%, likely driven by HBU potentials. Returns in PNW and the US South was 17.02% and 8.86%, respectively.

Market drivers

US housing starts continued to be strong at 1.72 million per year. There is some anxiety in the market that inflation and mortgage rates ultimately will slow demand, but for now the backlog of orders as well as home inventory suggest that construction will maintain momentum.

Australian housing approvals moderated with the termination of government stimulus and higher interest rates. As in the US, there is still a backlog of construction projects that are waiting to be completed and that should keep lumber demand above domestic capacity for the remainder of the year and support dependence on imports.

Wood product price developments

Lumber prices peaked again in the first quarter, but have since come down, ascribed to a slow-down in do-it-yourself projects. A normalization in lumber prices will all else equal support lumber and log demand. Sawlog prices in the US South increased by 5.6% over the quarter and 13% over the year. Prices in PNW increased by 17% in the first quarter as this market is more driven by lumber prices compared to the US South and as supply from fire salvage has ended. With the moderation in lumber prices, log prices in PNW could however come down again. Pulplog price in US South increased by 4.4% in the first quarter. Some pulp mills are struggling with logistical constraints and that could reduce demand.

Hardwood chip exports out of Australia increased by 17% over the year on stronger Chinese demand. Woodchip prices have been affected by rising shipping costs and Vietnamese competition.

Log exports in New Zealand contracted as a result of COVID lockdowns in China. Further export and price reductions could be expected before the economy in China reopens. The domestic market in New Zealand is on the other hand strong, and less affected by the export market.

Wood imports in China were almost down by 10% in the first quarter compared to a year ago due to the current lockdowns. The wood industry is severely affected, but construction kept a reasonable off-take of imported logs. In Brazil, log prices are up on strong demand from pulp and pig-iron mills and fuelwood for grain drying.

Carbon prices rebounded, partly attributed to the EU market stability reserve, blocking the fall of EUA prices.