

Timber Market Update

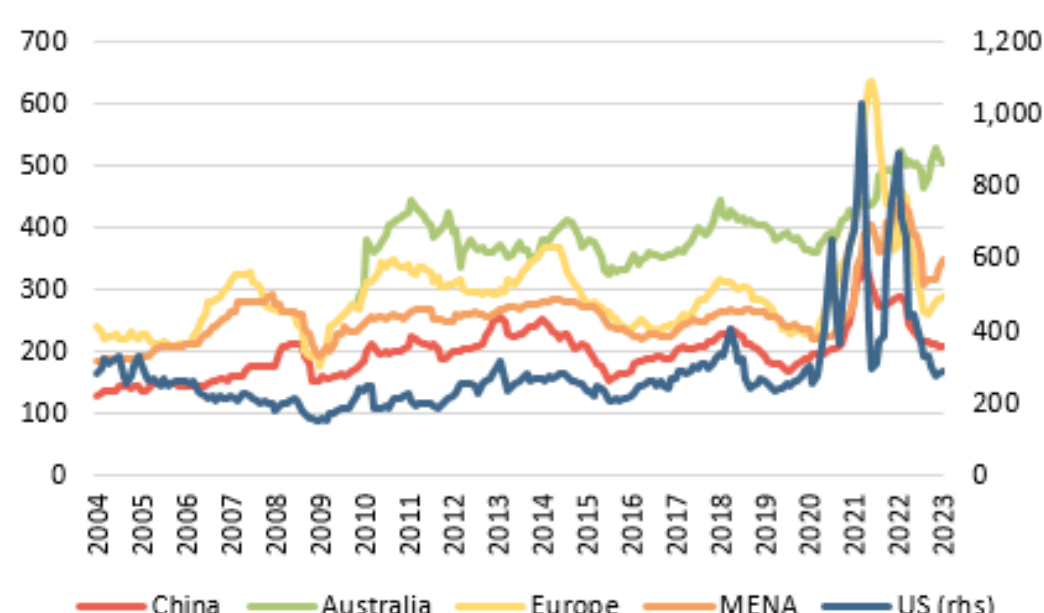
Executive summary - 1Q 2023

Timberland transactions and returns

New opportunities for timberland investments were limited during the first quarter. Investors held onto their higher-grade properties, while additional value drivers, such as carbon, may become important. Other suggestions to the slow activity could be that investor appetite could face headwinds if higher interest rates slow economic activity and increases the risk-free rate.

The NCREIF TPI return was 1.75% over the quarter, and 11.3% over the year. This was mainly driven by the year-end third-party valuations.

Lumber prices (USD/m³)



Macro drivers

Construction activity did not change much over the quarter, despite high mortgage rates, as labor markets continue to be strong. In Australia and China, approvals and starts were down by 5%.

Compared to a year ago, US housing starts were down by 19%, which reduced lumber prices by 12%. Curtailments in the PNW and Canada did support higher prices in April and May, which are expected to support global markets as well. Lumber prices in Europe improved as mills adjusted output to the weaker demand.

Price developments and market drivers in the US

US South pine sawlog prices declined by 3% over the quarter, as mill demand was challenged by lower lumber prices. Pulplog prices also declined due to weaker paper demand.

Log prices in the PNW declined slightly due to the same reasons above, but weather kept log supply tight. Log prices are expected to remain steady with improvements in lumber prices. The recent forest fires in Canada are also expected to support the US lumber producers short-term.

Price developments and market drivers outside the US

Australian domestic lumber prices remained at historical highs, but they are expected to moderate as construction slows in the coming quarters. Log exports from New Zealand to China were up 13% over the year, after COVID restrictions were lifted. New Zealand export and domestic markets have however deteriorated in the second quarter, due to the slowdown in construction in China and New Zealand.

Wood exports to China remained low after the Chinese New Year. Only lumber and pulp imports increased. China also lifted their log import ban on Australian softwood logs, which will likely increase log exports and prices in Australia.

Brazil log prices continued to increase, although the pace of the increase has slowed, as both saw- and plywood mills have halted some production due to lower export demand.

Sawlog and pulplog prices in Sweden kept steady on tight supply and high prices on wood for energy. Log prices are expected to remain high, despite the potential for an increased log supply in 2023.

Carbon prices weakened in New Zealand, falling about 33% during the quarter due to uncertainty and oversupply. The EU ETS price increased, as the EU parliament approved an extensive ETS reform.