

Timber Market Update

Executive summary - 2Q 2022

Timberland transactions and returns

In the second quarter of 2022, two larger US transactions took place during the summer: closed for USD 158 million and another investment for USD 100 million

US Timberland returns were 12% on an annual basis, 9.58% in the US South and 17% in Pacific Northwest (PNW). The Timberland Property Index (TPI) increased by 1.87% in 2Q and 12.01% over the year, 2/3 attributed to capital appreciation and 1/3 from income.

Macro drivers

Housing starts have over the last quarters moderated, except for New Zealand and Europe, due to lower affordability at current house prices and mortgage rates. In the US, housing starts were down 8.1% in July (to 1.44 million), compared to last year. In China, housing starts declined by 15% in 2Q due to COVID lockdowns and government regulation to curb speculative investments. In Australia, the drop in approvals over the year have yet to affect wood demand, but the construction sector is facing headwinds as in other markets.

Lumber prices are still high, though they have come down since 1Q. The main reasons are continued strong demand in the US, a strong USD, and sanctions on Russian wood imports.

Regional price developments and market drivers in the United States

US South stumpage prices decreased for all major products in 2Q. The price adjustment was mainly seasonal. New wood industry investments continue to be announced, which is expected to support log demand in the region.

Log prices in PNW have been strong, mainly weather related, but high material costs could reduce operations for some mills if lumber prices further deteriorates. For now, one mill in Eugene, Oregon, announced production curtailments.

Regional price developments and market drivers outside the United States

Lumber prices in Australia continued at record levels, as the domestic industry cannot keep pace with demand and prices are therefore influenced by import prices that are still high. Domestic log prices tend to be correlated with lumber prices and should also be high. However, lumber prices are expected to moderate due to a reduced construction activity. Furthermore, Woodchip exports out of Australia was up by 18% over the year due mainly to Chinese demand. Woodchip USD prices have not increased to the same degree as Chinese paper producers are struggling with weak domestic demand and prices.

In New Zealand, domestic log prices were supported by a strong construction sector. Export prices were, however, down due to high freight costs and weak prices in China.

Log prices in Brazil continued to increase due to strong industry demand across all wood sectors (lumber, pulp, pig-iron, and firewood). Several large-scale investments were announced in 2Q, which will further intensify log demand in Brazil.

Positive price developments were also observed in Europe, due to tight wood supply following Russian import bans, high energy prices, and continued high lumber prices.

Finally, carbon prices reached a new peak in the EU due to droughts, higher CO2 emissions, and an expected reduction in allowances supply. Other carbon markets maintained about the same price levels as in 1Q.