

Timber Market Update

Executive summary - 2Q 2022

Timberland transactions and returns

Timberland acquisitions in the US amounted to about USD 755 million, around the quarterly average. The TPI increased by 4.89% over the quarter, 12.9% over the year, driven by capital appreciation from year-end third-party valuations.

Macro drivers

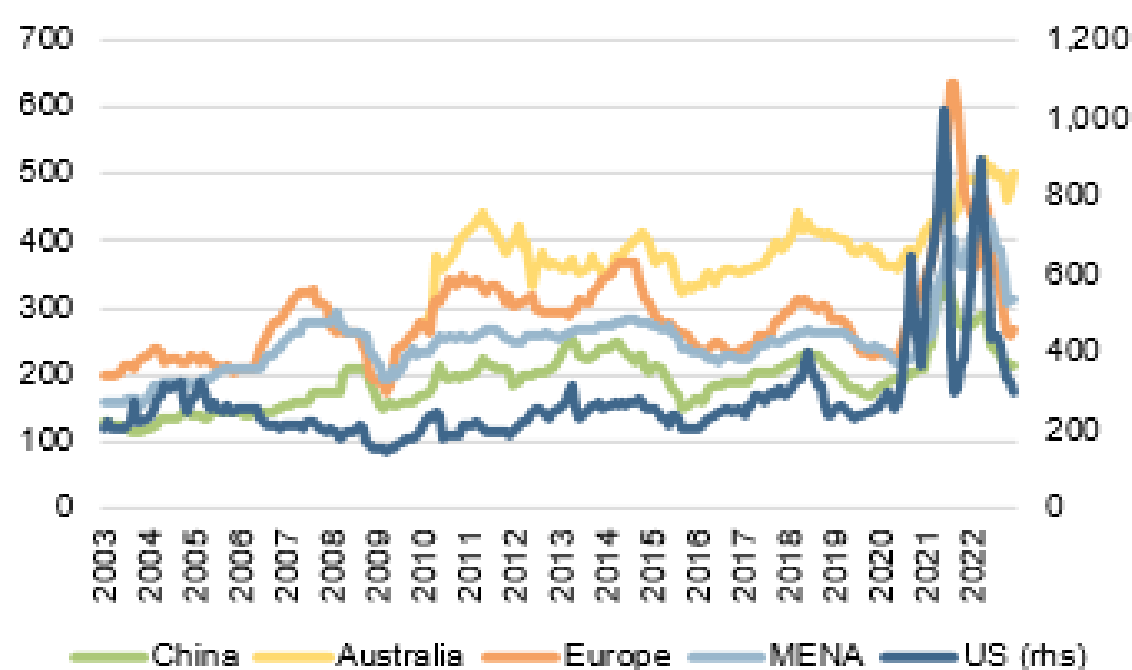
Over the last quarters, housing starts have moderated in all markets due to inflation and higher mortgage rates. US housing starts were down 16.3% from last year, Australian approvals were down 4.9% over the year, while Chinese housing starts declined by 39.8%. New Zealand approvals increased by 1.4% but show signs of coming down. Likewise, lumber prices moderated across all regions and are now at pre-COVID levels, resulting in lumber mills scaling down production to adjust to the weaker demand. Only exception is Australia, where, despite decrease in dwelling approvals, there is still a strong construction pipeline, creating a strong demand for lumber.

Regional price developments and market drivers in the United States

US South pine timber prices improved slightly over the quarter, driven by wintertime conditions leading to supply constraints that outweighed the weaker demand. Several new lumber mills to start operating the next years, adding about 5% to current capacity.

PNW log prices continued the decrease due to lower lumber prices and strike at Weyerhaeuser mills (ended in October).

Figure: Lumber prices (USD/ m³)



Source: FEA (monthly)

Regional price developments and market drivers outside the United States

Domestic lumber prices in Australia have yet to be published, but are expected to come down slightly, though staying at the historic peak. Higher interest rates are slowing domestic demand, affecting dwelling approvals. Woodchip exports to China and Japan improved, as did prices. Trade relations between Australia and China are showing signs of improvement, which could affect log exports positively.

Log exports from New Zealand to China improved over the quarter, while export prices were up over the year due to lower shipping costs. The domestic log market is expected to weaken due to slowdown in construction activity.

Brazil log prices continued to increase. High demand for Eucalyptus for pulp and paper production, while export demand for pine is slowing. Pine sawlog prices were up 2.1% over the quarter, while Eucalyptus pulplog prices were up 13%.

In Sweden, sawlog and pulplog prices continued to increase on tight supply and higher harvesting costs. Lumber prices in the EU continued to decrease and stabilized at pre-COVID levels, meaning that mills are running at thin margins.

Carbon prices stabilized in New Zealand but have since decreased significantly due to uncertainty around oversupply and government action. Prices in the voluntary market are likewise in decline.