

Timber Market Update

Executive summary – 1Q 2025

Timberland transactions and returns

Transaction activity in the US during the first quarter decreased from the prior quarter in terms of value for closed deals; volume of active and prospective offerings was largely unchanged. The deal flow outside the US increased; opportunities in the Nordic/Baltic region remain active.

The NCREIF timberland property index (TPI) total return was 0.80% in the first quarter and 5.60% annualized. Capital appreciation of 3.79% was the primary return driver over the past 12-months.

Macro drivers

US housing starts decreased by 1% in the first quarter to 1.37 million annual seasonally adjusted. Despite 30-y mortgage rates at 6.83% in the first quarter, median house prices remain at historical highs, affecting affordability. A modest upward trend in housing starts is expected in 2025, pending interest rate cuts and impact of the Trump administration's immigration policy.

In China, housing starts decreased 6% over the quarter. Several analysts point to an improvement in real estate prices by 2026, but how that is going to affect investments remains uncertain.

Logs, lumber, and wood panels are currently exempt from US reciprocal tariffs. This was important for Canadian producers, who ship over 50% of their lumber to the US. Tariffs are still under investigation by the US Dept. of Commerce, with conclusions expected later this year.

Overall, the development in lumber prices was dictated by a weak construction market in nearly all regions.

Regional price developments and market drivers in the United States

In the US South, sawlog prices edged up slightly as mills responded to marginally higher lumber prices, despite dry weather adding to supply. Pine pulplog prices declined by 4% as several paper mills underwent maintenance downtime.

In the Pacific Northwest (PNW), Douglas-fir log prices improved in response to higher regional lumber prices, as well as mills electing to build inventory to be able to respond to potential regulatory actions.

Regional price developments and market drivers outside the United States

In Australia, prices are expected to continue a slow decline due to continuously weak domestic construction markets. Log export prices saw a strong increase of 34% over the quarter, up by 34%, while they were up and 36% over the year. Hardwood chip exports were up by 25% over the quarter, while annual exports decreased by 10%.

In New Zealand, the weak construction market in China continued to affect log exports, which were down by 1.1% over the quarter, and down 2.9% over the year. Domestic log prices were flat, while export log prices were up 4% over the quarter and down 2% over the year.

In Sweden, log prices reached new historical highs with conifer sawlogs and pulp log prices going up during the first quarter 11% and 6%, respectively, and by 27% and 25% compared to a year ago.

Chinese wood import volumes increased by 2% in the first quarter, mainly driven by increased pulp imports, as Chinese pulp and paper producers took advantage of lower global pulp prices, reducing woodchip demand for domestic production. Pulp import demand has since weakened because of the US China trade dispute. Woodchip imports declined by 7.4% in the first quarter.

Emission Trading Systems (ETS) are spreading globally but prices were mostly volatile and low due to changing market sentiment. Several players maintain a positive outlook for the voluntary carbon market and the first Article 6 project was approved.

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U.S. Tariff Exemptions and Domestic Pressure:

The U.S. government exempted lumber and wood panels from tariffs following lobbying efforts by groups like the National Association of Home Builders (NAHB), who warned that tariffs would disrupt a critical supply chain and worsen housing affordability. While the exemption is currently in place, future actions under the Trade Expansion Act of 1962 could reintroduce duties. Meanwhile, the U.S. Court of International Trade has challenged the legality of the tariffs.

Canada's Strategic Advantage:

Canada, which supplies about 80% of U.S. softwood lumber imports and nearly a quarter of the U.S. lumber supply, views the exemption as a significant win. Although current duties are around 15%, a new round of tariffs – expected to increase to 34%—is anticipated later in 2025. Canadian lumber has been spared from reciprocal tariffs, likely due to its essential role in the U.S. housing market.

New Zealand's Export Concerns:

For New Zealand, the U.S. is, after China and Australia, the third-largest market for radiata pine products. The main concern is how U.S. tariffs might indirectly affect Chinese demand for high-grade logs used in furniture manufacturing for export to the U.S., which has already seen a slowdown.

Australia's Market Sensitivity:

As a net importer of lumber, paper, and panels, Australia is concerned about the ripple effects of U.S. tariffs. If global suppliers, especially from Europe, lose access to the U.S. market, they may redirect exports to alternative markets like Australia. While this could increase imports, Australian producers have so far maintained market share through various price cycles.

European and Chinese Trade Dynamics:

Europe exports nearly 4 million m³ of lumber to the U.S., about 4% of its total production. With Canadian duties rising, the U.S. may become a more attractive market for European exporters. China, on the other hand, has retaliated with its own tariffs and a ban on U.S. log imports, creating uncertainty in its furniture and paper sectors, which rely heavily on exports to the U.S.

Market Impact and Broader Outlook:

Tariffs have led to price increases in U.S. and European lumber markets, while Chinese pulp prices have declined due to export uncertainty. Timberland owners in the U.S. Pacific Northwest have seen short-term gains. However, long-term market conditions will depend more on the U.S. construction activity, mortgage rates, and overall economic health. Escalating trade disputes could raise inflation and interest rates, dampening consumer confidence and housing demand.

Take-Away:

Tariffs have caused market disruptions, with U.S. lumber prices rising due to sustained duties on Canadian imports, benefiting timberland owners in the Pacific Northwest through short-term log price gains. European lumber prices have also increased, while the U.S.–China trade dispute has led to falling pulp prices and reduced Chinese demand for logs used in furniture production. Despite these shifts, the key drivers of market stability remain construction activity, mortgage rates, and the overall health of the U.S. economy. Continued trade tensions risk fueling inflation, raising interest rates, and weakening consumer confidence, which could ultimately dampen housing demand.