

plant-a-tree fund - Forestry and Timber Info Sheet

Trends in Timberland and Wood Industry Investing

Welcome to this 10th edition of “plant-a-tree fund – Forestry and Timber Info Sheet”! More than presenting a global snapshot of the forestry and timber industry at the moment of publication, this short brief aims to present useful information on trends in timberland. These topics may cover diverse areas, such as geographies, species, markets, and price trends.

In 2021 alone lumber futures whipsawed from a historic high of \$1,515 per thousand board feet in late May to a low of \$389 in August.¹ By October, prices were trending upward again and now sit squarely in the \$600-700 range.² Supply-chain and logistic issues coupled with strong do-it-yourself demand during COVID-19 drove the initial spike. Scarcity in one sector rippled into others as consumers substituted among lumber categories and sources. Russia, for example, implemented a ban on log exports, prompting China and the US to seek alternative supplies, such as in Poland where the wood industry demanded a wood export ban to address skyrocketing building costs.

Complicating matters, the decision to curtail production occurred as hundreds of wildfires raged and railcar gridlock paralyzed shipments across British Columbia. In all, some 9,000 square kilometers of timberland burned in the province.¹⁰ Canfor Corporation announced it would curtail 115 million board feet of production capacity as a result of the fires.

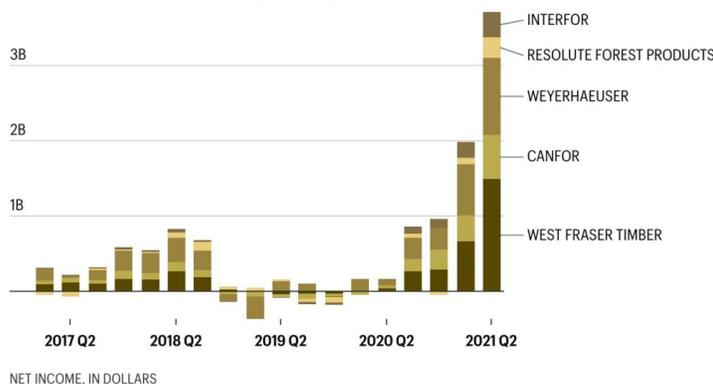
Even though Autumn is typically a time of seasonal weakness, lumber prices have continued to rebound. It’s worth noting that through lumber’s volatility, stumpage prices in the US South remained depressed: in Louisiana last March they were at their lowest since 2011. One might be tempted to think that abundant standing timber will ensure lower long-term equilibrium prices. However, energy and labor are also important components. Oil prices have risen sharply and general inflation is at a 30-year high. The labor market is in a prolonged period of readjustment.

Longer term, housing scarcity and rising rents are a major political issue in the US. President Biden’s economic agenda includes policies to stimulate new house construction.¹¹ Underbuilding since the Great Recession of 2008 has severely constrained supply. Weyerhaeuser predicts U.S. housing market will remain strong for 5-10 years, particularly as a wave of Millennials seek to purchase their first house.¹² Market analysts predict lumber will experience a sustained 5% annual rate increase.¹³

European policymakers are also concerned about shortages of sustainable wood supplies needed for the built environment to meet the EU’s 2050 Net Zero climate goal. Indeed, wood in home construction has been on the rise in the EU and wood scarcity would jeopardize meeting these goals. It seems all but certain that price discovery will continue to roil wood markets, both up and down. While a new equilibrium level is difficult to predict, the bias seems more likely to the upside.

Sources: 1.) Nicholson M., Lumber wipes out 2021 gain with demand ebbing after boom, *Bloomberg News*, 12 Jul 2021. 2.) Lambert, L. For the seventh consecutive week, lumber prices are up, *Fortune*, 21 October 2021. 3.) Russia’s log export ban could cause raw material scarcity in Europe, *Global Wood Markets Info*, 11 Oct 2021. 4.) Poland’s timber industry in crisis; calls for wood export ban, *Global Wood Markets Info*, 30 Sept 2021. 5.) Adam, N.J. Despite Lumber Boom, Few New Sawmills Coming, *WSJ*, 18 May 2021. 6.) Jang, B. B.C. Interior sawmills scale back lumber output as consumers delay home renovations, *Globe & Mail*, 14 Sept 2021. 7.) Nicholson, M. Lumber prices soar, but logs are still dirt cheap, *Bloomberg*, 20 Apr 2021. 8.) Nicholson, M. Canadian lumber producers to expand U.S. mills amid home boom, *Bloomberg*, 6 May 2021. 9.) Lambert, L. Bad news for lumber buyers: British Columbia wildfires are curtailing sawmill capacity, *Bloomberg*, 12 July 2021. 10.) Hampton, M. Impact of timber loss could be long-lasting, says Aspen Planers Group VP. *Merritt Herald*, 12 Oct 2021. 11.) Smialek, J. Rising Rents Are Fueling Inflation, Posing Trouble for the Fed, *NYT*, 15 Oct 2021. 12.) Stankiewicz, K. Lumber firm Weyerhaeuser is betting on a strong housing market for years, CEO says, *CNBC*, 5 Nov 2021. 13.) Lee, I. Lumber is not going back to pre-pandemic levels and will continue to rise next year, according to an investing chief, *Business Insider*, 3 Nov 2021. 14.)

Quarterly Profits, Leading North American Lumber Companies



Source: L. Lambert, S&P Global via *Fortune*

In spite of -- or perhaps because of -- high price volatility, a wave of investment in new capacity never materialized even as leading lumber companies enjoyed record profits. Instead, firms opted to buy up existing mills, boost efficiency, increase dividends and implement share buybacks.^{5,6} Executives treated high prices as temporary, fearful of overpaying for assets. While lumber company share prices performed exceedingly well (West Fraser Timber Co.’s price tripled over the 12 months ending in April), the overall supply response to sky-high prices was tepid.^{7,8} Similarly, lumber distributors have been reluctant to rebuild inventories in the face of elevated prices, fearing becoming saddled with pricey wood. Hence, stocks continue to be below pre-pandemic levels.

As consumers emerged from pandemic lockdowns and spending shifted toward services, wood demand did fall. High prices also kept retail buyers and homebuilders on the sidelines. Mills responded by preemptively reducing production. In the US South, where most of North America’s lumber is produced, labor and equipment availability also plagued mill ramp-ups.⁹

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