

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

Trends in Timberland and Wood Industry Investing

Welcome to this 11th 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.

Lumber futures have whipsawed over the past year, down more than 70% from their March 2022 peak above \$1,600. Decades-high mortgage rates are slamming the housing and do-it-yourself markets while pandemic supply chain entanglement continued to ease.¹ Sales of newly built homes fell 16.6% in April from March, to the lowest level since April 2020.² Lumber hoarding by builders common last year has given way to a slowdown in orders.

While the global trade of softwood logs fell by a fifth y-o-y during H1/2022, demand and supply plummeted in unison.³ The Russian log ban enacted in January was a factor on the supply side. A softening economy and pandemic lockdowns resulted in the decline of softwood log imports to China from 23 million m³ to 14 million m³ over H1. The world’s leading wood exporting regions, with the notable exception of Scandinavia, reported export slumps. Despite weakening economic conditions, the Global Sawlog Price Index (GSPI) actually rose 34% from Q2/2020 to Q2/2022. By mid-year, the GSPI was well above its ten-year average and hit its highest level on record.

Analysts expect lumber prices to remain above levels reached in previous downturns because of low dealer inventories and rising mill costs. In British Columbia (BC), forest fires, beetle infestation and conservation efforts continue to constrain log supply. Costs are expected to remain above \$400, putting a floor on prices. While mortgage rates above 6% have hurt wood product demand, a shortage of single-family homes, to the tune of some 5 million units in the US, will ensure a steady appetite for lumber for years to come.⁴ Several existing trends should continue to underpin demand, such as brisk demand for wooden furniture and rising levels of home repair and remodeling.

Lumber Futures (Random Lengths)



Source: Barcart.com

On the earnings front, West Fraser raised its quarterly dividend by 20% in Q2 in the face of strong cash flow and, in July, announced share purchases totaling 30% of outstanding shares.⁵ Canfor reported a 25% increase in net profit.⁶ Both companies, however, reported declining earnings in Q3 in tandem with falling lumber prices. Analyst sentiment has since soured with expectations of a housing recession extending into mid-2023.⁷

Canfor, West Fraser and Interfor have all curtailed output to address high inventory levels. Indeed, the lead time to curtailment decisions is shorter than ever due to recent consolidation in the industry, mitigating the risk of major gluts.⁸

Finnish forestry giant UPM reported record Q3 results with EBIT growing 84% y-o-y.⁹ Bergs Group of Sweden reported strong new construction, renovation and infrastructure projects and good demand for windows and doors.¹⁰ Europe’s energy crisis has driven pellet shortages as prices ballooned 2.5 times in countries like Germany and Belgium.¹¹

The relevance of forest products as a building material continues to grow. According to a study by Potsdam Institute for Climate Impact Research Building, new homes made of wood instead of concrete and steel could contribute to 10% of carbon emission reductions needed to limit warming to 2°C this century.¹² Such a shift would require up to 149 million hectares of new timber plantations and intensified management of natural forests. In parallel, timberland investors are increasingly considering carbon rights when making allocations. A subsidiary of T. Rowe Price Group, which manages \$56 billion in assets, led a consortium that invested \$1.8 billion for almost 700 thousand hectares of US forestland.¹³ The investment thesis entailed exposure to the burgeoning forest carbon credit market. The properties’ timber will be managed to optimize not only lumber but also carbon value through reduced tree felling.

Sources: 1.) Dezember, R. Lumber Prices Fall Back to Around Their Pre-Covid Levels, *WSJ*. 27 Sept 22. 2.) Dezember, R. Lumber Prices Slump with Rising Interest Rates. *WSJ*. 30 May 22. 3.) Ekström, H. Halt in Russian Exports, Reduced Demand in China Contributed to a 20% Decline in Global Softwood Log Trade. *Forest2Market*. 13 Oct 22. 4.) Mutikani, L. U.S. homebuilding buoyed by multi-family projects; falling permits signal weakness. *Reuters*. 20 Sep 22. 5.) West Fraser Timber to buy back up to \$1 billion of its shares. *Canadian Press*. 7 Jul 22. 6.) Strong lumber prices boost Canfor Q1 profits 25% despite pulp losses. *Canadian Press*. 3 May 22. 7.) Lumber equities will be dead money for several quarters: Lumber analyst. *BNN*. 30 Sep 22. 8.) US lumber prices fall to around pre-pandemic levels. *Global Wood Markets Info*. 28 Sep 22. 9.) Company website, 10.) Company website. 11) Skyrocketing firewood prices, shortages spread across Europe. *Timber Industry News*. 13 Sep 22. 12.) Neslen, A. Timber cities ‘could cut 100bn tons of CO2 emissions by 2100’ *Guardian*. 30 Aug 22. 13.) Dezember, R. Wall Street Firm Makes a \$1.8 Billion Bet on Forest Carbon Offsets. *WSJ*. 2 Nov 22.

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