

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

Trends in Timberland and Wood Industry Investing

Welcome to this 12th 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.

The global wood market continued to face headwinds in 2023 with rising interest rates dampening housing and construction. In the US, lumber futures dropped to around \$480 per 1,000 board feet, a sharp decline from the peak during the COVID-19 pandemic.¹ Repair and remodeling activity has been moderate with only a slight increase in new home construction, especially single-family units.² Supply constraints eased somewhat while high-cost regions like British Columbia and the US West Coast struggled with elevated costs, leading to mill closures and curtailments.³ Affordability constraints, high mortgage rates, inflation, and geopolitical tensions continued to affect North American demand for new home construction through Q3. However, underlying housing demand and a shortage of existing home inventories are expected to support the sector in the longer term.^{4,5} The possibility of stabilization of inflation and interest rates in 2024 could further boost demand.

Lumber Futures (Random Lengths)



Source: tradingeconomics.com

In Europe, the wood industry faced an exceptionally challenging business environment due to concurrent global conflicts, low economic activity, and persistent inflation. Destocking issues disrupted deliveries and negatively affected customer behavior.⁶ Lumber demand and pricing in Europe saw a modest improvement in the third quarter, driven by strength in repair and remodeling in the UK. In Germany, a construction crisis led to significant drops in wood prices, which were 23% cheaper in August 2023 year on year.⁷ Building permits for new houses in Europe declined due to high construction and energy costs while mortgage rates doubled in many countries.⁸ Wood prices in the EU are expected to remain subdued until 2025 according to Euroconstruct.

Chinese softwood imports gained some momentum, rising by 20% year-on-year in Q2, with Europe and Russia being key suppliers according to Canfor. Slight pricing improvements occurred in China, although government measures to boost real estate were less effective than hoped. Generally, though, demand in Japan and China is projected to remain muted as traders observed a slower pace in recent months, raising doubts about the durability of the bump in Chinese imports.

Despite the gloom, timber equity analysts see valuations at historical lows and primed for an eventual bounce, although the timing of the inflection is uncertain.⁹ Among publicly traded equities, those offering geographic diversification and product innovation offer advantages. For example, mills in the US South have outperformed those in British Columbia this year. Oriented strand board's (OSB) position as an alternative to plywood has grown, benefiting companies like West Fraser. More stringent European ESG regulation may offer greater assurance to investors seeking the highest quality assets.¹⁰

Mass timber continued to grow in 2023, a niche offering eco-friendliness and cost advantages compared to materials like steel and concrete. It can reduce embodied carbon by 65%, cost 10% less, and be built 15% faster.¹¹ It's lighter, fire-resistant, and environmentally friendly, and its adoption is creating opportunities for supply chains to meet the increasing demand for sustainable building materials. Recent safety testing has alleviated concerns about fire risks, and use is rising in various US and European cities. Legislation, such as the US 2022 Inflation Reduction Act, is providing support for forest restoration and efforts to reduce embodied carbon in the building sector.¹² Thus, mass timber has been touted to offer needed fire suppression of over-stocked national forests, sustainable construction materials, and a boost for rural jobs. It's become a symbol of wood's growing relevance in addressing major socioeconomic challenges.

Sources: 1) Global wood prices continue to fall. *Timber Ind News*. 1 Nov 2023. 2) Canfor Reports Results For 3rd Qtr of 2023. *Bloomberg*. 2 Nov 2023. 3) Jalbert, D. Sawmill capacity closures continue to reshape the US lumber supply landscape. *Fast Markets*. 7 Sept 23. 4) Interfor 3rd Qtr 2023 Results. *Yahoo Finance*. 2 Nov 2023. 5) Lumber research note. *Trading Economics*. 6) UPM Interim Report Q3 2023. 24 Oct 2023. 7) Plummeting wood prices in Germany amidst construction crisis and high energy costs. *Timber Ind News*. 4 Oct 2023. 8) Recovery in European construction sector expected in 2025, says Euroconstruct. *Timber Ind News*. 26 Oct 2023. 9) Leeder, D. Friday's analyst upgrades and downgrades. *Globe & Mail*. 20 Oct 2023. 10) Forestry assets will continue to increase in value even if lumber prices stay low: Portfolio manager. *BNN*. 18 May 2023. 11) Kaufman, L. How to Prevent Forest Fires by Building Cities With More Wood. *Bloomberg*. 25 Oct 2023. 12) Sisson, P. The Stuff of Cities. *Bloomberg*. 29 Aug 2023.

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