

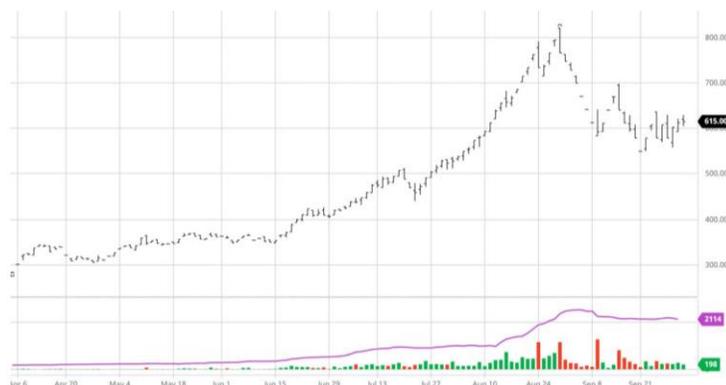
# plant-a-tree fund - Forestry and Timber Info Sheet

## Trends in Timberland and Wood Industry Investing

Welcome to this 9th 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.

2020 has been a perfect storm for the lumber market with futures rallying some 60% above the trailing five-year average.<sup>1</sup> Some lumber producers and distributors have thrived in the face of the parabolic move: Weyerhaeuser Co.’s and Lowe’s share prices more than doubled from March’s market lows.<sup>2</sup> What drove this volatility and what’s in store for 2021?

Lumber, November 2020 Contract, CME



Source: Barchart.com (accessed 2 Oct 2020)

At the start of the pandemic lockdown, lumber yards liquidated stocks as mills were idled across North America with production plummeting 40%. Following a dip, lumber futures rallied on the back of a do-it-yourself boom across North America as grounded workers built decks and home additions. Restaurants and bars expanded outdoor seating capacity. Meanwhile, historically low mortgage rates and a flight to the suburbs fueled a housing boom. The increased cost of lumber drove up the average home price by US\$16,148 from April to August.

The effects of climate change accelerated in the guise of fire, pests and storms, profoundly impacting timber supply. The burning of timber stands in Pacific Northwest impacted a range of age classes whose shortages will be felt over decades.<sup>3</sup> Notwithstanding an immediate influx of salvaged wood, long-term supplies took a severe hit. Fires ceased logging activities, affected railway transport and closed mills, straining the supply chain. Fire damage was not unique to North America: In Siberia, home to some of the world’s most extensive boreal forests and where temperatures have been rising faster than elsewhere, fires have destroyed millions of hectares of timber.<sup>4</sup>

Beetles across northern latitudes continue to proliferate as winters warm and the annual freeze no longer keeps them in check. Mountain pine beetles destroyed 15 years of log supplies

in British Columbia and are spreading in Alberta and the Pacific Northwest.<sup>5</sup> The spruce bark beetle is threatening Canadian, Scandinavian, German and Czech timber. In Sweden, the beetles destroyed some 7 million cubic meters of timber through September alone, equivalent to all of 2019’s losses.<sup>6</sup> Tree death has diminished merchantable timber and compounded the risk of forest fire. In British Columbia, allowable timber production was reduced by 40%. Over half of the province’s pine trees may be dead by the end of the year. Many Canadian producers have shifted production to the US South. This region isn’t without risk, however: Hurricane Laura, hitting in late August, wrought at least US\$1.1 billion in damages to the Louisiana timber industry.<sup>7</sup>

Policy responses have been tentative so far. For example, the EU is eyeing measures to increase forests’ role as carbon sinks. This could impact lumber producers if stringent harvest caps are enacted. It could also lead to new incentives to encourage tree planting and the use of wood over other building materials.<sup>8</sup> Prices have cooled somewhat but lumber producers have gone from “astonishingly profitable” to merely “remarkably profitable.”<sup>9</sup> Lumber resellers are still rebuilding inventories and many housing projects have simply deferred purchases, making supply and demand challenging to forecast.<sup>10</sup>

It remains to be seen what the pandemic’s longer-term impact will be. Prolonged unemployment and the expiration of US stimulus payments could dampen demand. And the possibility of continued supply-side shocks cannot be ruled out. Taken together, it’s difficult to assess the impact for timberland and wood industry investors. We are likely to see continued elevated risk and tight supply. Higher prices themselves or central banks’ decision to raise interest rates may put a lid on demand. Investors would be well advised to seek a diversified mix of value-chain segments, species, and geographies and to increase risk-mitigation measures, such as insurance. While opportunities certainly exist, the industry’s traditional risk/return profile may no longer hold.

**Sources:** 1.) Vasquez, J. “Lumber’s Staggering Rally Has New Homes Selling for \$16,148 More.” *Bloomberg*. 14 Sep 20. 2.) Dezember, R. “Lumber Poised to Fall With Autumn’s Approach.” *Wall St. Journal*. 11 Sep 20. 3.) Thomas, K. “Oregon timber industry hit hard by fires, will have generational impact.” *KATU* 2. 28 Sep 20. 4.) “Siberian temperatures hit June record, wildfires spread.” *Thomson Reuters*. 7 Jul 20. 5.) Skerritt, J. “Millions of Beetles Are Wiping Out Forests All Across the World.” *Bloomberg*. 17 Aug 20. 6.) Starn, J. “Spruce Bark Beetles Are Ruining Swedish Forests at a Record Pace.” *Bloomberg*. 15 Sep 20. 7.) “At \$1.6B, Hurricane Laura did more agriculture damage in Louisiana than Katrina and Rita combined.” *The Advocate*. 15 Sep 20. 8.) “EU Commission climate plan to limit growth in forestry and biomass sector.” *Timber Industry News*. 1 Oct 20. 9.) Healing, D. “Softening lumber prices offer hope for homebuyers, renovation project builders.” *Canadian Press*. 28 Sep 2020. 10.) Saefong, M. “Lumber futures climb to a record and more than double for the year, as pandemic boosts demand.” *Marketwatch*. 10 Sep 20.

Andrew Miller, Independent Forestry Consultant