

# TimberMart-South

## Quarterly Market Bulletin



2<sup>nd</sup> Quarter 2019

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# Executive Summary

## South-wide Stumpage Markets

Market conditions were challenging and South-wide average stumpage prices declined for all three major pine products in the 2<sup>nd</sup> Quarter. Hardwood sawtimber stumpage was also down compared to 1<sup>st</sup> Quarter 2019; however, hardwood pulpwood stumpage was up. In contrast to the 1<sup>st</sup> Quarter when persistent wet weather constrained supply, more normal weather conditions prevailed this quarter, easing accessibility to supply, which helped push prices downward.

This downward price movement was in line with the seasonal trend that has seen pine sawtimber prices decrease quarter-over-quarter (Q/Q) in the 2<sup>nd</sup> Quarter in 15 of the last 17 years. Similarly, pine chip-n-saw prices have decreased Q/Q in the 2<sup>nd</sup> Quarter in 14 of the last 16 years, and in 19 of the last 20 years for pine pulpwood.

For additional details regarding south-wide stumpage markets, as well as delivered timber markets, see *Prices & Market Conditions* on page 4.

$\Delta$ From 1Q19	$\Delta$ From 2Q18	South-wide Stumpage Market, 2 <sup>nd</sup> Quarter 2019	
		<b>Pine Sawtimber:</b> \$24.56/ton Down <b>(\$0.52)</b> from 1Q19 but up \$0.91 from 2Q18	
		<b>Pine Chip-n-saw:</b> \$16.71/ton Down <b>(\$0.78)</b> from 1Q19 and down <b>(\$0.13)</b> from 2Q18	
		<b>Pine Pulpwood:</b> \$9.26/ton Down <b>(\$0.86)</b> from 1Q19 and down <b>(\$0.03)</b> from 2Q18	
		<b>Hardwood Sawtimber:</b> \$30.82/ton Down <b>(\$0.92)</b> from 1Q19 and down <b>(\$0.25)</b> from 2Q18	
		<b>Hardwood Pulpwood:</b> \$11.64/ton Up \$0.51 from 1Q19 and up \$2.47 from 2Q18	

## Lumber, Panel, and Pulp & Paper Markets

Lumber and panel prices continued to fall in the 2<sup>nd</sup> Quarter. Southern yellow pine (SYP) lumber, plywood, and OSB prices all set record highs in June of 2018, but these highs have been followed by a downward slide. Since that time, prices have fallen 38% for SYP lumber, 28% for Southern plywood, and 63% for Southern OSB.

Pulp and recycled container (OCC) prices were also down this quarter. Since November of 2018, prices are down 18% for pine pulp, 13% for hardwood pulp, and 63% for OCC.

- ❖ Lumber: Pine prices down 16% Q/Q and 38% year-over-year (Y/Y); Hardwood prices down 4% Q/Q and 15% Y/Y.
- ❖ Panels: Plywood prices down 5% Q/Q and 28% Y/Y; OSB prices down 19% Q/Q and 63% Y/Y.
- ❖ Pulp: Softwood pulp prices down 9% Q/Q and 15% Y/Y; hardwood pulp prices down 7% Q/Q and 13% Y/Y.
- ❖ Old Corrugated Containers (OCC) prices down 48% Q/Q and 58% Y/Y.
- ❖ Crude oil prices down 8% Q/Q and 21% Y/Y; diesel prices down 1% Q/Q and 6% Y/Y; natural gas prices down 18% Q/Q and 19% Y/Y.

$\Delta$ From 1Q19	$\Delta$ From 2Q18	Lumber, Panel, and Pulp & Paper Markets, 2 <sup>nd</sup> Quarter 2019	
		<b>Southern Pine Lumber:</b> \$343/mbf Down <b>(\$64)</b> from 1Q19 and down <b>(\$214)</b> from 2Q18	
		<b>US Hwd Lumber Index:</b> \$1,233/mbf Down <b>(\$45)</b> from 1Q19 and down <b>(\$225)</b> from 2Q18	
		<b>Southern Pine Plywood:</b> \$283/msf Down <b>(\$15)</b> from 1Q19 and down <b>(\$111)</b> from 2Q18	
		<b>Southern OSB:</b> \$167/msf Down <b>(\$40)</b> from 1Q19 and down <b>(\$287)</b> from 2Q18	
		<b>Old Corrugated Container:</b> \$33/ton Down <b>(\$30)</b> from 1Q19 and down <b>(\$45)</b> from 2Q18	
		<b>Crude Oil (WTI Spot Price):</b> \$53/barrel Down <b>(\$5)</b> from 1Q19 and down <b>(\$15)</b> from 2Q18	
		<b>Diesel (Gulf Coast #2):</b> \$2.83/gallon Down <b>(\$0.04)</b> from 1Q19 and down <b>(\$0.19)</b> from 2Q18	

For additional details regarding these indicators and others, see *Market Indicators* on page 6.

## Other Major Stories

- ❖ Georgia-Pacific shuts communication papers and pulp operations at its Crossett AR pulp mill; temporarily curtails production at its Monticello MS pulp mill.
- ❖ Enviva and Georgia Renewable Power are ramping up production at their biomass facilities.

For additional details and information regarding these stories and others, see *News of Note* on page 5.

# Prices & Market Conditions

## South-wide Stumpage Prices

South-wide average stumpage prices were down for four of the five major products in the 2<sup>nd</sup> Quarter. Only hardwood pulpwood stumpage was up this quarter.

While this 2<sup>nd</sup> Quarter price decline has become expected for the major pine products, it doesn't help ease the fact that, with the exception of 4<sup>th</sup> Quarter 2014 and 1<sup>st</sup> Quarter 2015, South-wide pine sawtimber prices have remained below \$26 per ton for nearly nine years (since 4<sup>th</sup> Quarter 2010). Similarly, South-wide pine chip-n-saw prices have remained below \$18 per ton for nearly nine years, and below \$20 per ton for more than 12 years (since 2<sup>nd</sup> Quarter 2007).

**Sawtimber Stumpage Prices:** South-wide pine sawtimber (\$24.56 per ton) and pine chip-n-saw (\$16.71 per ton) were both down Q/Q; pine chip-n-saw was also down Y/Y; hardwood sawtimber (\$30.82 per ton) was down from last quarter and from a year ago. This quarter, pine sawtimber averaged highest in North Carolina (\$28.45 per ton), while pine chip-n-saw averaged highest in Florida (for the 28<sup>th</sup> consecutive quarter) at \$21.43 per ton. Hardwood sawtimber averaged highest in Alabama at \$41.68 per ton.

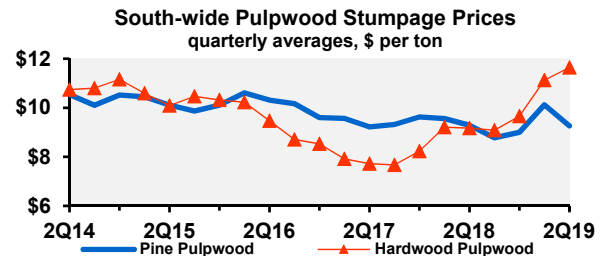
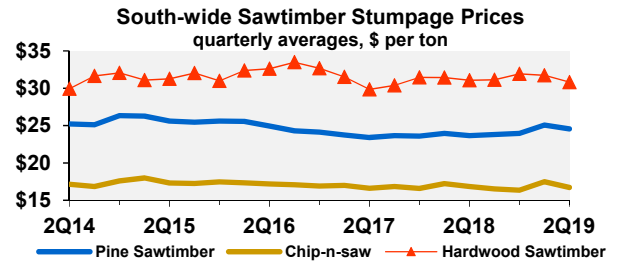
**Pulpwood Stumpage Prices:** South-wide pine pulpwood at \$9.26 per ton was down both Q/Q and Y/Y. However, South-wide hardwood pulpwood at \$11.64 per ton was up both Q/Q and Y/Y. In the 2<sup>nd</sup> Quarter, pine pulpwood averaged highest in Florida at \$13.22 per ton; hardwood pulpwood prices averaged highest in Alabama at \$18.96 per ton.

## South-wide Delivered Prices

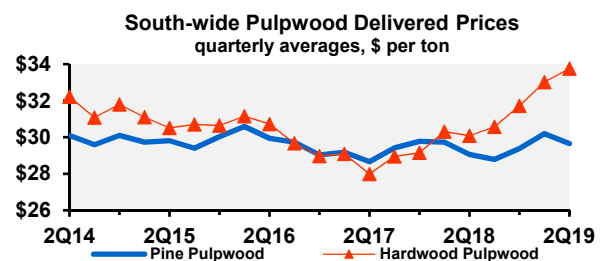
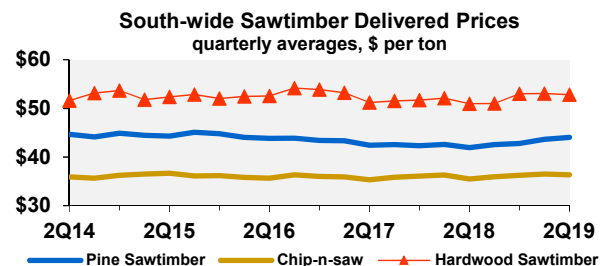
South-wide delivered prices were up Q/Q for both pine sawtimber and hardwood pulpwood. Delivered prices for all five major products, however, were up Y/Y.

**Sawtimber Delivered Prices:** South-wide delivered pine sawtimber at \$44.02 per ton was up Q/Q and Y/Y. However, South-wide delivered pine chip-n-saw (\$36.32 per ton) and hardwood sawtimber (\$52.83 per ton) were both down Q/Q and Y/Y. In the 2<sup>nd</sup> Quarter, delivered pine sawtimber averaged highest in Florida at \$48.76 per ton, while delivered pine chip-n-saw averaged highest in Virginia at \$40.97 per ton. Delivered hardwood sawtimber averaged highest in Alabama at \$63.12 per ton.

**Pulpwood Delivered Prices:** South-wide delivered pine pulpwood (\$29.65 per ton) was down Q/Q but up Y/Y. However, South-wide delivered hardwood pulpwood (\$33.76 per ton) was up both Q/Q and Y/Y. In the 2<sup>nd</sup> Quarter, delivered pine pulpwood averaged highest in Virginia at \$34.85 per ton. Delivered hardwood pulpwood averaged highest in Alabama at \$40.53 per ton.



Product	2Q19	Δ From 1Q19	Δ From 2Q18	Δ From 2Q14
Pine Sawtimber	\$24.56	(\$0.52)	\$0.91	(\$0.67)
Pine Chip-n-saw	\$16.71	(\$0.78)	(\$0.13)	(\$0.43)
Pine Pulpwood	\$9.26	(\$0.86)	(\$0.03)	(\$1.28)
Hdwd Sawtimber	\$30.82	(\$0.92)	(\$0.25)	\$0.89
Hdwd Pulpwood	\$11.64	\$0.51	\$2.47	\$0.90



Product	2Q19	Δ From 1Q19	Δ From 2Q18	Δ From 2Q14
Pine Sawtimber	\$44.02	\$0.40	\$2.10	(\$0.64)
Pine Chip-n-saw	\$36.32	(\$0.19)	\$0.84	\$0.40
Pine Pulpwood	\$29.65	(\$0.55)	\$0.59	(\$0.45)
Hdwd Sawtimber	\$52.83	(\$0.23)	\$1.88	\$1.24
Hdwd Pulpwood	\$33.76	\$0.74	\$3.68	\$1.54

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# News of Note

There were multiple stories of note this quarter. Additional details and information regarding these stories and others are available in the 2<sup>nd</sup> Quarter 2019 *Market News Quarterly*.

## *Softwood Sawmills:*

- ❖ **Abbeville Fiber**, a subsidiary of Great Southern Wood Preserving, began construction on a southern yellow pine sawmill in Abbeville, Alabama (TMS AL2). The sawmill will occupy the former West Point Stevens textile plant and has a proposed annual capacity is 50 mmbf. Startup is expected by the end of the summer.
- ❖ **Canfor** announced completion of the major upgrade at their sawmill in Moultrie, Georgia (TMS GA2), that effectively doubled lumber capacity to 150 mmbf per year. The company also announced completion of the first phase of its acquisition of the 210 mmbf annual capacity **Elliott Sawmilling Co.** southern yellow pine sawmill in Estill, South Carolina (TMS SC2). The current transaction transfers 49% ownership, with the remaining 51% to transfer next year.
- ❖ **Conifex Timber** announced that they would implement single-shift operations at the El Dorado, Arkansas (TMS AR1), sawmill on June 4<sup>th</sup> due to poor market conditions. The company estimated that the curtailment would reduce planned production by roughly 5 mmbf in the 2<sup>nd</sup> Quarter.
- ❖ **Georgia-Pacific (GP)** updated progress on two sawmills under construction in Georgia (TMS GA2). The Warrenton sawmill is on target to start up in fall of 2019. Also, GP has already begun hiring personnel for its sawmill under construction in Albany, Georgia. The company expects start up by year-end.
- ❖ **Rex Lumber** announced plans in June to reduce production by 20% at all three of its southern pine sawmills until market conditions improve. Two mills are in Florida: Bristol and Graceville (TMS FL2). One is in Mississippi at Brookhaven (TMS MS2).

## *Pulp & Paper:*

- ❖ **Georgia-Pacific (GP)** announced in June that it would shut down the equipment and processes supporting bleached board production at its mill in Crossett, Arkansas (TMS AR1) in October of 2019. The closure also affects the extrusion plant, woodyard, pulp mill, and a significant portion of the energy complex at the Crossett mill. The announcement included a July shutdown of one of the mill's older tissue machines, but GP will continue to operate its consumer tissue and towel business at the mill.

The company separately announced the temporary curtailment of kraft linerboard production at its mill in Monticello, Mississippi (TMS MS2). Additionally, GP announced plans to invest \$120 million at their Naheola pulp and paper mill in Pennington, Alabama, (TMS AL2) to build a new tissue machine and roll storage.

- ❖ **International Paper (IP)** announced an upgrade project at their pulp and paper mill in Rome, Georgia (TMS GA1), which includes fuel switching plans and the conversion of two coal-fired boilers to natural gas. The company also announced a \$22.3 million joint project to upgrade a natural gas pipeline from West Rome out to the mill. The new line will enable further economic development in the area as well as provide the mill with cleaner energy.
- ❖ **Shandong Paper** continued to seek air permits this quarter for its Sun Bio Material Company to build a kraft linerboard mill in Arkadelphia, Arkansas (TMS AR1). Public hearings were held in May. Permit applications suggest the pulp mill will have about 1.8 million tons per year of capacity, making the facility the largest pulp mill in North America.
- ❖ **Clearwater Paper** announced in May the startup of their newly completed tissue mill in Shelby, North Carolina (TMS NC1). The company expects the facility to ramp up to full production in about 12 months.

## *Biofuel & Bioenergy:*

- ❖ **Enviva** announced the startup of its new pellet manufacturing plant in Hamlet, North Carolina (TMS NC2). The company expects the plant to reach its full capacity of 600,000 tons per year in 2021.
- ❖ **Georgia Renewable Power** announced the startup of its two biomass power plants located in Carnesville and Colbert, Georgia (both TMS GA1). Both facilities have a production capacity of 58 megawatts of power per year.

# Market Indicators

Market conditions for wood products and pulp producers were challenging in the 2<sup>nd</sup> Quarter. The following are based on the latest available data a press time.

- ❖ Southern pine lumber prices were down 16% Q/Q while hardwood lumber prices were down 4% Q/Q. Both were also down from a year ago.
- ❖ Softwood and hardwood pulp prices were both down this quarter, -9% and -7% Q/Q, respectively.
- ❖ US building construction took some setbacks through the first five months of 2019. Year-to date through May, the latest available, housing starts were down 5% and improvement expenditures down 16% compared to the same period in 2018.
- ❖ Crude oil prices were down \$5 per barrel Q/Q (-8%) but diesel prices were down only \$0.04 per gallon (-1% Q/Q). Natural gas prices were down 18% Q/Q.
- ❖ US log and lumber exports were down early in the year. Exports totaled approximately 2.6 million m<sup>3</sup> YTD-April, the latest available, which was down 26% compared to the same period in 2018.
- ❖ Financial markets held strong in the 2<sup>nd</sup> Quarter, with the Dow Jones Industrial Average (DJIA) up 3% Q/Q and up 14% since the start of 2019.
- ❖ The US dollar strengthened a bit in the 2<sup>nd</sup> Quarter, allowing for increased imports but limiting exports.

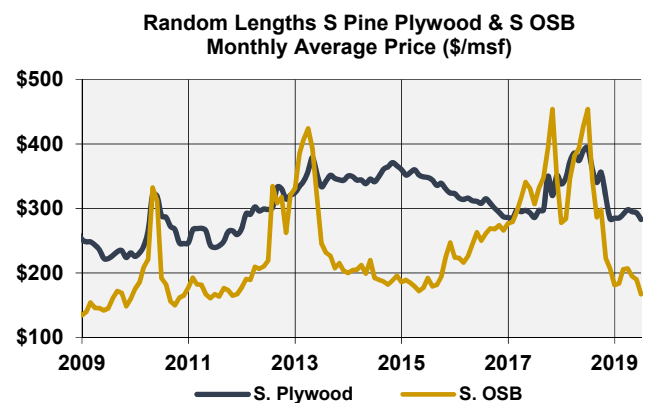
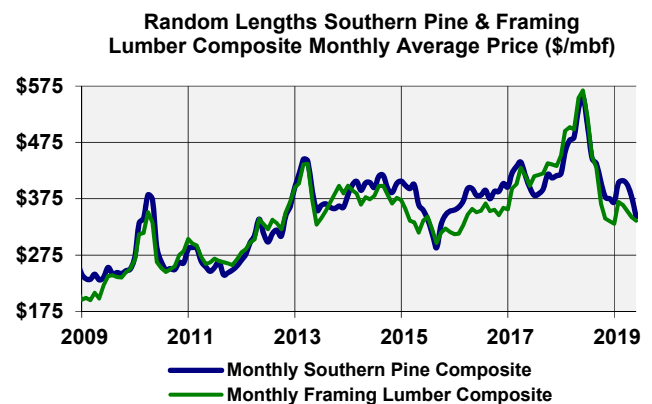
**Lumber Indicators:** Softwood lumber prices resumed its downward slide in the 2<sup>nd</sup> Quarter, now having dropped nearly 40% since reaching record highs in June of 2018. The June monthly average Random Lengths Southern Pine Composite<sup>1</sup> at \$343 per thousand board feet (mbf) was down \$64 Q/Q (-16%) and down \$214 (-38%) from a year ago.

The June Hardwood Review US Kiln Dried Hardwood Lumber Index at \$1,233 per mbf was down \$45 Q/Q (-4%) and down \$225 (-15%) from a year ago.

**Panel Indicators:** As with softwood lumber, Southern Plywood and Southern OSB prices also resumed a downward slide that had commenced after setting respective all-time highs in the second half of 2018. Since June of 2018, plywood prices have fallen nearly 30% while OSB prices have fallen more than 60%.

The June monthly average Random Lengths Southern Pine Plywood price for 3/8-inch exterior sheathing at \$283 per thousand square feet (msf) was down \$15 Q/Q (-5%) and down \$111 Y/Y (-28%).

The June Random Lengths Southern Oriented Strand Board (OSB) price at \$167 per msf was down \$40 Q/Q (-19%) and down \$287 Y/Y (-63%).



<sup>1</sup> The Southern Pine Composite averages 35 southern framing lumber prices and the Framing Lumber Composite is a weighted average of 15 key framing lumber prices.

**Pulp & Paper Indicators:** Paper and paperboard production was down a combined 4% YTD-May compared to the same period a year ago. Both softwood and hardwood pulp as well as recycled container (OCC) prices were also down in the 2<sup>nd</sup> Quarter.

The American Forest and Paper Association (AF&PA) reported US paper and paperboard production at 30.9 million tons YTD-May, the latest available, which was down 1.3 million tons (-4%) compared to the same period in 2018.

The June Northern Bleached Softwood Kraft (NBSK) pulp price index at \$1,013 per ton was down \$102 Q/Q (-9%) and down \$183 Y/Y (-15%).

The June Bleached Hardwood Kraft Pulp (BHKP) index at \$911 per ton was down \$67 Q/Q (-7%) and down \$139 Y/Y (-13%).

**US Building Construction:** US residential building construction, a principal driver of the wood products industry, took setbacks in early 2019. According to the US Census, US housing starts YTD-May, the latest available, totaled 502,000 units, which was down 27,900 units (-5%) from the same period in 2018. Note that these setbacks were due in part to wet conditions which limited construction activity early in the year.

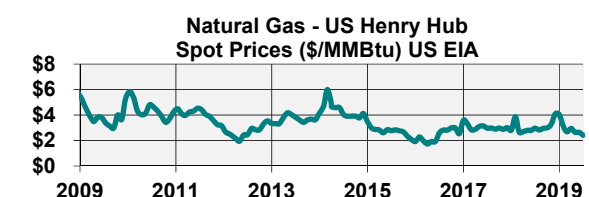
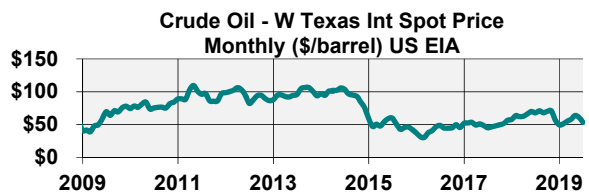
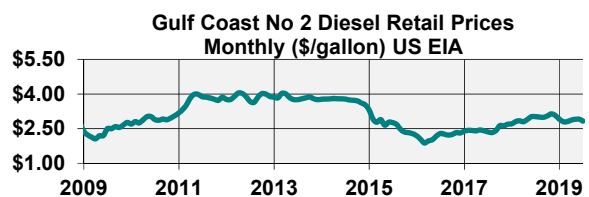
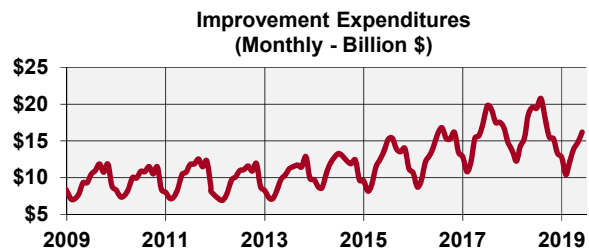
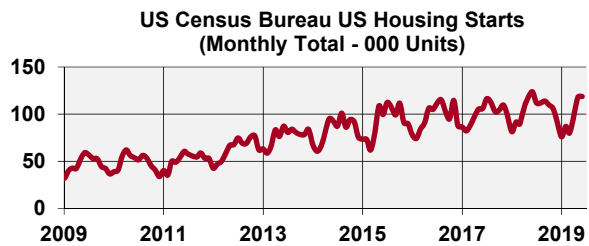
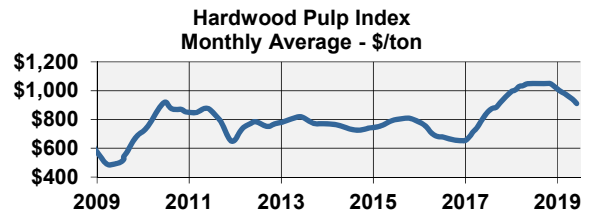
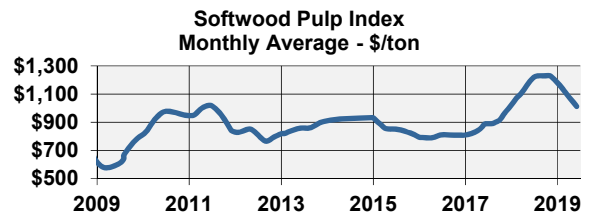
Total starts in the South typically follow a similar trend; however, at 279,000 units YTD-May, housing starts in the South were up 10,000 units (+4%) from the same period a year ago.

Residential remodeling activity was also down the first five months of 2019. The US Census reported remodeling and improvement expenditures at \$67.6 billion YTD-May, the latest available, which was down \$12.6 billion (-16%) from the same period in 2018.

**Fuel & Energy Indicators:** Transportation fuel, crude oil, and natural gas prices were all down this quarter. The June 2018 monthly average Gulf Coast No. 2 Diesel price was \$2.83 per gallon, down \$0.04 Q/Q and down \$0.19 Y/Y.

Crude oil prices were down in the 2<sup>nd</sup> Quarter. The June West Texas Intermediate crude spot price (WTI) at \$53 per barrel was down \$5 Q/Q and down \$15 Y/Y.

The June Henry Hub Natural Gas spot price at \$2.42 per million BTU (mm Btu) was down \$0.53 Q/Q (-18%) and down \$0.55 (-19%) from a year ago.



**Log & Lumber Exports:** The USDA Foreign Agricultural Service (FAS) reported total exports for the four major forest products at approximately 2.6 million cubic meters (m<sup>3</sup>) YTD-April, the latest available, which was down 26% from the same period in 2018. Exports to China, the dominant US trade partner, were down 38% for this period.

Compared to a year ago, southern yellow pine (SYP) log exports were down 23% while SYP lumber exports were down 48%. Hardwood log and lumber exports were also down compared to the same period a year ago, down 24% for hardwood logs and 21% for hardwood lumber.

**Financial Indicators:** Financial markets remained strong in the 2<sup>nd</sup> Quarter. The Dow Jones Industrial Average (DJIA) closed out June at 26,600, which was up 3% Q/Q and 10% Y/Y. The quarterly low was 24,815 on May 31<sup>st</sup> and quarterly high was 26,753 on June 20<sup>th</sup>.

The S&P 500 ended June at 2,942.

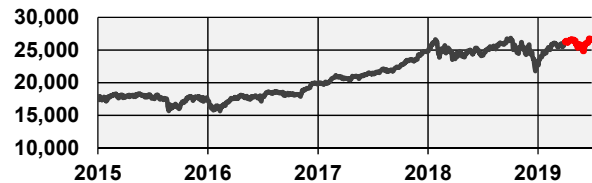
The NASDAQ Composite ended June at 8,006.

**Southern Timberland Index (STI):** The STI was 278 (1<sup>st</sup> Quarter 1980=100) in the 2<sup>nd</sup> Quarter. This implies a value of \$2,259 per acre, which is down 2% Q/Q but up more than 1% Y/Y and more than 2% compared to five years ago.

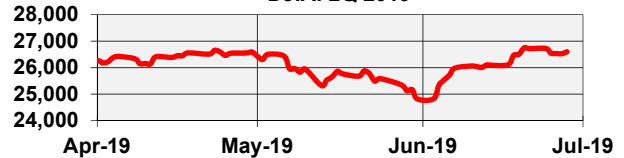
US Log and Lumber Exports (YTD-April 2019)  
Volume in Thousand Cubic Meters

Product	World YTD 2019	World YTD 2018	China YTD 2019
SYP Softwood logs	498.0	650.5	422.3
SYP Softwood lumber	268.8	513.2	63.9
US Hardwood logs	692.4	913.4	298.8
US Hardwood lumber	1,179.4	1,488.2	514.6
<b>Total</b>	<b>2,638.6</b>	<b>3,565.3</b>	<b>1,299.5</b>

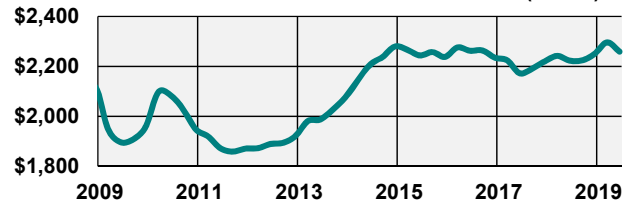
Dow Jones Industrial Average



DJIA: 2Q 2019



Southern Timberland Index - Base Case (\$/acre)



## Weather, Etc.

**General Weather:** Both temperatures and rainfall varied widely this quarter, with above normal heat in May balancing a cooler June in most of the South. Precipitation in April and June averaged above normal, but May was relatively dry.

Deadly tornadoes continued to hit from Texas east to Alabama in April. Salvage logging was underway in some Texas state parks in June.

Wildland fire activity year-to-date remains low, with less than a million acres burned nationwide and about 137,300 acres burned in the South. Both number of fires and acres burned are well below 10-year averages.

Percent of Normal Precipitation (%)  
4/1/2019 – 6/30/2019

