

TimberMart-South

Quarterly Market Bulletin



3rd Quarter 2019

In this issue of the Quarterly Market Bulletin:

Executive Summary	3
Prices & Market Conditions.....	4
News of Note	5
Market Indicators	6
Weather, Etc.	8

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Executive Summary

South-wide Stumpage Markets

South-wide average stumpage prices declined for four of the five major products in the 3rd Quarter. Only hardwood sawtimber prices improved this quarter. Hot and dry weather prevailed over most of the South this quarter, easing accessibility to supply, which helped push prices downward.

This downward price movement is in line with seasonal, summertime trends that have seen stumpage prices decrease quarter-over-quarter (Q/Q) in the 3rd Quarter in 12 of the last 15 years for pine sawtimber and 11 of the last 15 years for pine chip-n-saw. The upward movement in hardwood sawtimber price also follows seasonal trends, as hardwood sawtimber prices have increased Q/Q in the 3rd Quarter in 19 of the last 20 years.

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

Δ From 2Q19	Δ From 3Q18	South-wide Stumpage Market, 3 rd Quarter 2019	
		Pine Sawtimber:	\$23.64/ton Down (\$0.92) from 2Q19 and down (\$0.17) from 3Q18
		Pine Chip-n-saw:	\$16.52/ton Down (\$0.19) from 2Q19 and down (\$0.00) from 3Q18
		Pine Pulpwood:	\$8.67/ton Down (\$0.59) from 2Q19 and down (\$0.10) from 3Q18
		Hardwood Sawtimber:	\$31.49/ton Up \$0.67 from 2Q19 and up \$0.36 from 3Q18
		Hardwood Pulpwood:	\$11.22/ton Down (\$0.42) from 2Q19 but up \$2.13 from 3Q18

Lumber, Panel, and Pulp & Paper Markets

Southern yellow pine (SYP) lumber, which had been on a major downward slide since setting record highs in June of 2018, improved modestly in the 3rd Quarter. Panel prices held steady this quarter, with plywood prices down only marginally and OSB prices up slightly.

Pulp prices continued to fall this quarter. Both pine and hardwood pulp prices were at record highs in November 2018. However, since that time, prices have dropped 30% for pine pulp and 27% for hardwood pulp. Recycled container (OCC) prices were unchanged from last quarter.

- ❖ Lumber: Pine prices up 4% Q/Q but down 19% year-over-year (Y/Y); Hardwood prices down 7% Q/Q and 17% Y/Y.
- ❖ Panels: Plywood prices down 1% Q/Q and 21% Y/Y; OSB prices up 2% Q/Q but down 43% Y/Y.
- ❖ Pulp: Softwood pulp prices down 15% Q/Q and 30% Y/Y; hardwood pulp prices down 16% Q/Q and 27% Y/Y.
- ❖ Old Corrugated Containers (OCC) prices unchanged Q/Q but down 63% Y/Y.
- ❖ Crude oil prices up 4% Q/Q but down 19% Y/Y; diesel prices down 1% Q/Q and 9% Y/Y; natural gas prices up 7% Q/Q but down 15% Y/Y.

Δ From 2Q19	Δ From 3Q18	Lumber, Panel, and Pulp & Paper Markets, 3 rd Quarter 2019	
		Southern Pine Lumber:	\$356/mbf Up \$13 from 2Q19 but down (\$81) from 3Q18
		US Hdw Lumber Index:	\$1,142/mbf Down (\$91) from 2Q19 and down (\$230) from 3Q18
		Southern Pine Plywood:	\$281/msf Down (\$2) from 2Q19 and down (\$75) from 3Q18
		Southern OSB:	\$171/msf Up \$4 from 2Q19 but down (\$127) from 3Q18
		Old Corrugated Container:	\$33/ton Unchanged from 2Q19 but down (\$55) from 3Q18
		Crude Oil (WTI Spot Price):	\$57/barrel Up \$2 from 2Q19 but down (\$13) from 3Q18
		Diesel (Gulf Coast #2):	\$2.79/gallon Down (\$0.04) from 2Q19 and down (\$0.26) from 3Q18

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

Other Major Stories

- ❖ Conifex to phase in an indefinite curtailment at its El Dorado AR sawmill; Great Pacific makes offer to take Canfor private.
- ❖ Drax and Enviva announce further pellet capacity expansion projects.

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 3rd Quarter. Only hardwood sawtimber stumpage was up this quarter.

While this 3rd Quarter price decline has become expected for the major pine products, it doesn't help ease the fact that, with the exception of 1st Quarter 2019, South-wide pine sawtimber prices have remained below \$25 per ton for more than three years now (since 2nd Quarter 2016). On the other hand, hardwood sawtimber prices continue to hold strong and have averaged greater than \$30 per ton for the last five years (since 3rd Quarter 2014).

Sawtimber Stumpage Prices: South-wide pine sawtimber (\$23.64 per ton) and pine chip-n-saw (\$16.52 per ton) were both down Q/Q and Y/Y; hardwood sawtimber (\$31.49 per ton) was up from last quarter and from a year ago. This quarter, pine sawtimber averaged highest in Texas (\$27.76 per ton), while pine chip-n-saw averaged highest in Florida (for the 29th consecutive quarter) at \$21.15 per ton. Hardwood sawtimber averaged highest in Mississippi at \$41.98 per ton.

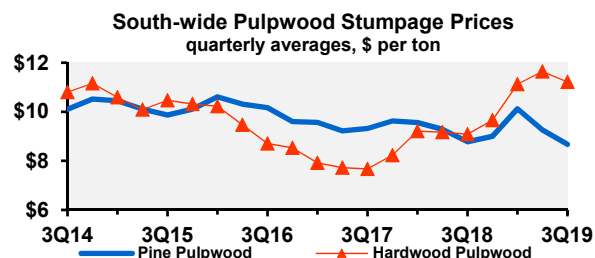
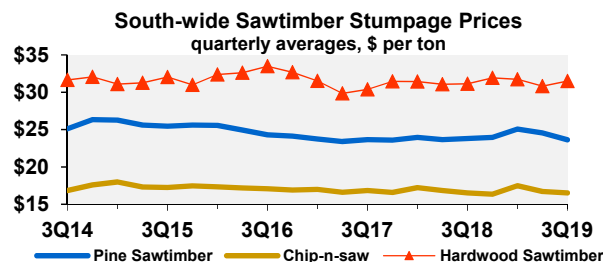
Pulpwood Stumpage Prices: South-wide pine pulpwood at \$8.67 per ton was down both Q/Q and Y/Y. South-wide hardwood pulpwood at \$11.22 per ton was also down Q/Q but up Y/Y. In the 3rd Quarter, pine pulpwood averaged highest in Florida at \$12.91 per ton; hardwood pulpwood prices averaged highest in Alabama at \$19.02 per ton.

South-wide Delivered Prices

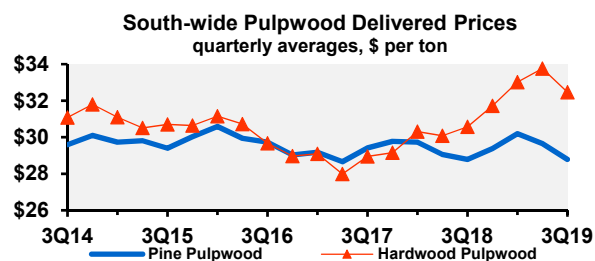
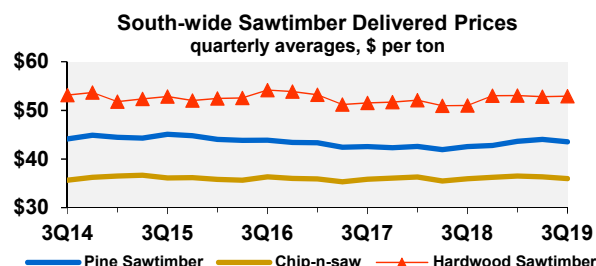
South-wide delivered prices were also down Q/Q for both the major pine products and hardwood pulpwood; delivered hardwood sawtimber was up. However, delivered prices for all five major products were up (or unchanged) Y/Y.

Sawtimber Delivered Prices: South-wide delivered pine sawtimber (\$43.53 per ton) and pine chip-n-saw (\$35.95 per ton) were both down Q/Q; hardwood sawtimber (\$52.91 per ton) was up. Delivered prices for all the sawtimber products were up Y/Y. In the 3rd Quarter, delivered pine sawtimber averaged highest in Texas at \$48.38 per ton, while delivered pine chip-n-saw averaged highest in Virginia at \$41.09 per ton. Delivered hardwood sawtimber averaged highest in Mississippi at \$64.79 per ton.

Pulpwood Delivered Prices: South-wide delivered pine pulpwood (\$28.79 per ton) and hardwood pulpwood (\$32.46 per ton) were both down Q/Q but up Y/Y. In the 3rd Quarter, delivered pine pulpwood averaged highest in Virginia at \$32.62 per ton. Delivered hardwood pulpwood averaged highest in Alabama at \$38.10 per ton.



Product	3Q19	Δ From 2Q19	Δ From 3Q18	Δ From 3Q14
Pine Sawtimber	\$23.64	(\$0.92)	(\$0.17)	(\$1.47)
Pine Chip-n-saw	\$16.52	(\$0.19)	\$0.00	(\$0.33)
Pine Pulpwood	\$8.67	(\$0.59)	(\$0.10)	(\$1.43)
Hdwd Sawtimber	\$31.49	\$0.67	\$0.36	(\$0.17)
Hdwd Pulpwood	\$11.22	(\$0.42)	\$2.13	\$0.42



Product	3Q19	Δ From 2Q19	Δ From 3Q18	Δ From 3Q14
Pine Sawtimber	\$43.53	(\$0.49)	\$0.97	(\$0.60)
Pine Chip-n-saw	\$35.95	(\$0.37)	\$0.00	\$0.32
Pine Pulpwood	\$28.79	(\$0.86)	\$0.00	(\$0.80)
Hdwd Sawtimber	\$52.91	\$0.08	\$1.90	(\$0.22)
Hdwd Pulpwood	\$32.46	(\$1.30)	\$1.89	\$1.38

News of Note

There were multiple stories of note this quarter. Additional details and information regarding these stories and others are available in the 3rd Quarter 2019 *Market News Quarterly*.

Softwood Sawmills:

- ❖ **Abbeville Fiber**, a subsidiary of Great Southern Wood Preserving, began operations in early July at its new softwood sawmill in Abbeville, Alabama (TMS AL2). Annual production at the mill currently totals 50 mmbf. However, the mill plans on hiring additional employees and adding a second shift over the next year, increasing total production to 115 mmbf per year.
- ❖ **Conifex Timber** announced in August that it will phase in an indefinite curtailment at its El Dorado, Arkansas (TMS AR1) sawmill. This curtailment is expected to reduce their US South lumber production by about 21 million board feet through the end of the year. The company cited modest lumber prices at a more fiscally demanding mill for the curtailment.
- ❖ **Great Pacific Capital Corp.**, a member of the Jim Pattison Group based in Vancouver, announced in August an offer to take **Canfor Corp.** private at a price of \$16.00 per common share in cash. Great Pacific owns approximately 51% of Canfor issued and outstanding shares. At the time of the offer, the offer represented a premium of 81.8% to the most recent closing price. Canfor's Board of Directors has formed a special committee of independent directors to review the offer.
- ❖ **PalletOne**, America's largest new pallet manufacturer, purchased **Bay Wood Products, Inc.**, a pallet and crate manufacturing business located in Baldwin County on the Alabama Gulf Coast (TMS AL2). Jimmy Wilson, founder and former owner of Bay Wood Products, will remain as general manager of the Baldwin County business.
- ❖ **Teal-Jones**, a British Columbia-based forest products firm, announced plans to invest more than \$31 million to expand production and dry kiln capacity at its two recently purchased southern pine sawmills by 2021. The mills are located in Kinsale (TMS VA2) and Martinsville, Virginia (TMS VA1).

Pulp & Paper:

- ❖ **Cascades** announced in mid-September the acquisition of **Orchids Paper Products** for a cash consideration of \$207 million. The assets include Orchids' Barnwell, South Carolina (TMS SC2) and Pryor, Oklahoma tissue manufacturing operations.
- ❖ At press time, **Domtar Corporation** announced it will permanently shut down two of its paper machines. The closures will take place at Domtar's Ashdown, Arkansas (TMS AR1) and Port Huron, Michigan paper mills and reduce the company's annual uncoated freesheet paper capacity by more than 200,000 short tons.
- ❖ **Hood Container Corp.** announced in August the acquisition of the corrugated packaging business of South Carolina-based **Progressive Packaging Inc.** The transaction also includes all of Progressive Packaging's design, manufacturing, assembly, and fulfillment operations in both the Greenville-Spartanburg area as well as Early Branch, South Carolina (TMS SC2).

OSB, Engineered Wood, & Panels:

- ❖ **Georgia-Pacific (GP)** announced plans to invest up to \$70 million to upgrade its plywood and lumber operations in Gurdon, Arkansas (TMS AR1). Work is scheduled to be complete in 2020.
Separately, GP also announced plans to close two particleboard facilities this quarter: Hope, Arkansas (TMS AR1) and Monroeville, Alabama (TMS AL2). However, the company had not announced final closures by press time.
- ❖ **Swiss Krono** started up operations in September after completing an expansion project at its Medium Density Fiberboard (MDF) plant in Barnwell, South Carolina (TMS SC2). The construction of a new MDF manufacturing line is part of a more than \$200 million expansion project that also includes the construction of an ancillary wood yard, energy plant, and waste treatment facilities, as well as the installation of a fourth laminate flooring line.

Biofuel & Bioenergy:

- ❖ **Drax Group** announced plans to increase wood pellet capacity at its three existing facilities by 385,000 tons per year to a combined total capacity of roughly 2 million tons per year. Total expected investment is \$62.3 million with expansions to be complete by 2021.
- ❖ **Enviva Partners LP** announced its evaluation of a \$175 million wood pellet plant project within the Epes Industrial Park in Sumter County, Alabama (TMS AL1). The company is also assessing other areas in Alabama and Mississippi as potential sites for two proposed plants.
Enviva also announced that its joint-venture (with John Hancock) intends to increase production from 500,000 to 600,000 metric tons (660,000 tons) at its Greenwood, South Carolina (TMS SC2) facility subject to permit approval. No schedule was announced.

Market Indicators

Market conditions for wood products and pulp producers were challenging in the 3rd Quarter. The following are based on the latest available data at press time.

- ❖ Southern pine lumber prices were up 4% Q/Q while hardwood lumber prices were down 7% Q/Q. Both were down from a year ago.
- ❖ Softwood and hardwood pulp prices were both down this quarter, -15% and -16% Q/Q, respectively.
- ❖ US building construction took some setbacks early in the year but has gained some positive momentum over the last several months. However, both housing starts and improvement expenditures were still down from a year ago. Year-to-date through August, the latest available, housing starts were down 2% and improvement expenditures down 15% compared to the same period in 2018.
- ❖ Crude oil prices were up \$2 per barrel Q/Q (+4%); however, diesel prices were down \$0.04 per gallon (-1% Q/Q). Natural gas prices were up 7% Q/Q.
- ❖ US log and lumber exports were down through the first seven months of the year. Exports totaled approximately 4.6 million m³ YTD-July, the latest available, which was down 26% compared to the same period in 2018.
- ❖ Financial markets were up overall in the 3rd Quarter, with the Dow Jones Industrial Average (DJIA) up 1% Q/Q but more than 15% since the start of 2019.
- ❖ The US dollar strengthened a bit in the 3rd Quarter, allowing for increased imports but limiting exports.

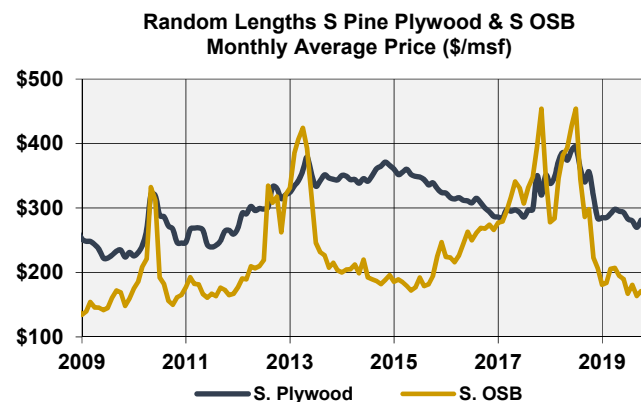
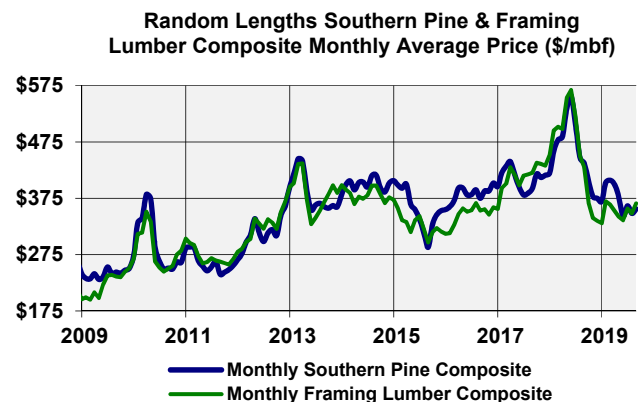
Lumber Indicators: Softwood lumber prices showed signs of improvement in the 3rd Quarter. The September monthly average Random Lengths Southern Pine Composite¹ at \$356 per thousand board feet (mbf) was up \$13 Q/Q (+4%) but down \$81 (-19%) from a year ago.

The September Hardwood Review US Kiln Dried Hardwood Lumber Index at \$1,142 per mbf was down \$91 Q/Q (-7%) and down \$230 (-17%) from a year ago.

Panel Indicators: Southern Plywood and Southern OSB prices had been on a downward slide, with plywood prices falling nearly 30% and OSB prices falling more than 60% from September 2018 through June 2019. However, prices held relatively steady this quarter, with plywood prices down only marginally and OSB prices up slightly.

The September monthly average Random Lengths Southern Pine Plywood price for 3/8-inch exterior sheathing at \$281 per thousand square feet (msf) was down \$2 Q/Q (-1%) and down \$75 Y/Y (-21%).

The September Random Lengths Southern Oriented Strand Board (OSB) price at \$171 per msf was up \$4 Q/Q (+2%) but down \$127 Y/Y (-43%).



¹ 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 5% YTD-August compared to the same period a year ago. Both softwood and hardwood pulp prices were also down in the 3rd Quarter. Recycled container (OCC) prices were unchanged Q/Q but down 63% Y/Y.

The American Forest and Paper Association (AF&PA) reported US paper and paperboard production at 49.8 million tons YTD-August, the latest available, which was down 2.4 million tons (-5%) compared to the same period in 2018.

The September Northern Bleached Softwood Kraft (NBSK) pulp price index at \$866 per ton was down \$147 Q/Q (-15%) and down \$364 Y/Y (-30%).

The September Bleached Hardwood Kraft Pulp (BHKP) index at \$764 per ton was down \$147 Q/Q (-16%) and down \$286 Y/Y (-27%).

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-August, the latest available, totaled 852,000 units, which was down 15,800 units (-2%) from the same period in 2018.

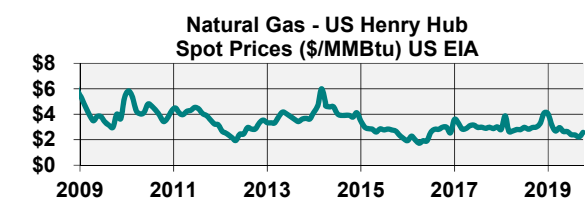
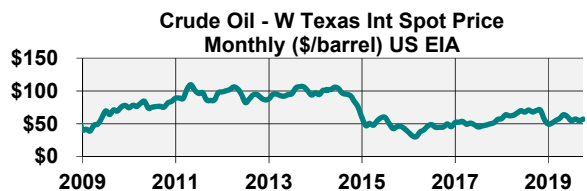
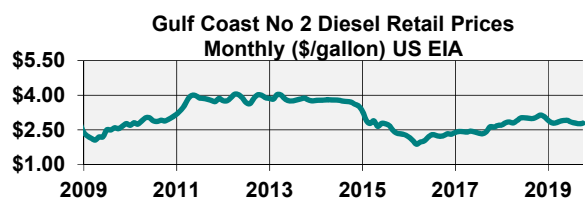
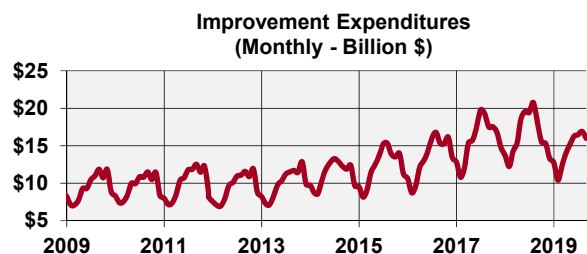
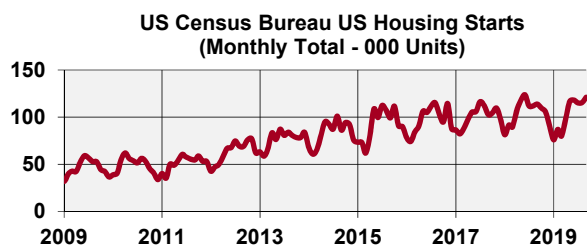
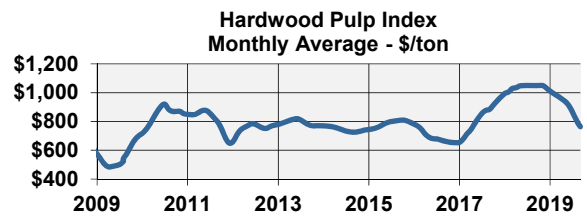
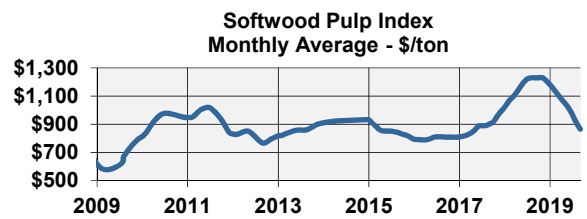
Total starts in the South typically follow a similar trend; however, at 457,000 units YTD-August, housing starts in the South were up 19,000 units (+4%) from the same period a year ago.

Residential remodeling activity was down the first eight months of 2019. The US Census reported remodeling and improvement expenditures at \$117.3 billion YTD-August, the latest available, which was down \$21.2 billion (-15%) from the same period in 2018.

Fuel & Energy Indicators: Transportation fuel prices were down slightly this quarter; crude oil and natural gas prices were up. The September 2019 monthly average Gulf Coast No. 2 Diesel price was \$2.79 per gallon, down \$0.04 Q/Q and down \$0.26 Y/Y.

Crude oil prices were up in the 3rd Quarter. The September West Texas Intermediate crude spot price (WTI) at \$57 per barrel was up \$2 Q/Q but down \$13 Y/Y.

The September Henry Hub Natural Gas spot price at \$2.56 per million BTU (mm Btu) was up \$0.16 Q/Q (+7%) but down \$0.44 (-15%) from a year ago.



Log & Lumber Exports: The USDA Foreign Agricultural Service (FAS) reported total exports for the four major forest products at approximately 4.6 million cubic meters (m³) YTD-July, 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 26% while SYP lumber exports were down 41%. Hardwood log and lumber exports were also down compared to the same period a year ago, down 23% for hardwood logs and 22% for hardwood lumber.

Financial Indicators: Financial markets remained strong in the 3rd Quarter. The Dow Jones Industrial Average (DJIA) closed out September at 26,917, which was up 1% Q/Q and 11% Y/Y. The quarterly low was 25,479 on August 14th and quarterly (and new record) high was 27,359 on July 15th.

The S&P 500 ended September at 2,977.

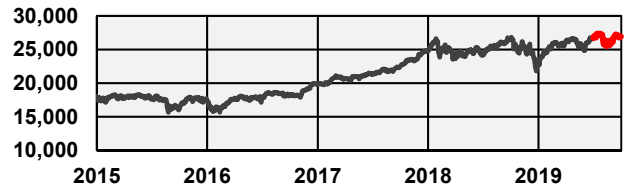
The NASDAQ Composite ended September at 7,999.

Southern Timberland Index (STI): The STI was 281 (1st Quarter 1980=100) in the 3rd Quarter. This implies a value of \$2,281 per acre, which was down marginally (<1%) Q/Q but up 2% both Y/Y and compared to five years ago.

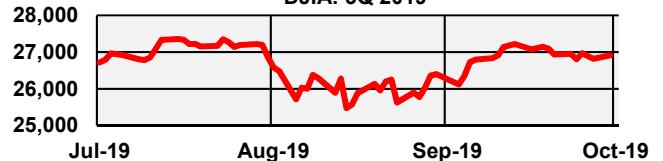
US Log and Lumber Exports (YTD-April 2019)
Volume in Thousand Cubic Meters

Product	World YTD 2019	World YTD 2018	China YTD 2019
SYP Softwood logs	941.6	1,278.3	771.9
SYP Softwood lumber	483.2	812.2	99.7
US Hardwood logs	1,125.1	1,451.8	508.2
US Hardwood lumber	2,007.5	2,575.2	829.9
Total	4,557.4	6,117.5	2,209.6

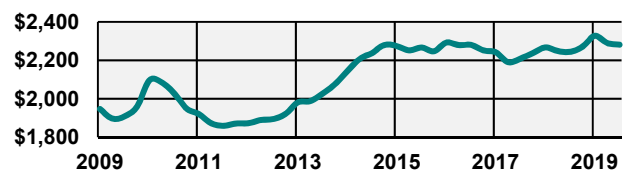
Dow Jones Industrial Average



DJIA: 3Q 2019



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



Weather, Etc.

General Weather: Hot and dry weather prevailed over most of the South this quarter. However, storms impacted some areas. Two named tropical storms made landfall in the west: Barry in Louisiana in July and Imelda in Texas in September. Major Hurricane Dorian ran up the East Coast without making landfall but brought wind and heavy rain to coastal areas from Florida to North Carolina in September.

Wildland fire activity year-to-date through September continued to be the lowest in five years and well below 10-year averages. About 4.4 million acres burned nationwide, with less than 420,000 acres in the South.

States report very little pine beetle activity; however, agencies encourage landowners to monitor their property and contact their county forester if they see signs of infestation.

Percent of Normal Precipitation (%)
7/1/2019 - 9/30/2019

