

TimberMart-South

Quarterly Market Bulletin ~ 1st Quarter 2020

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Prices & Market Conditions

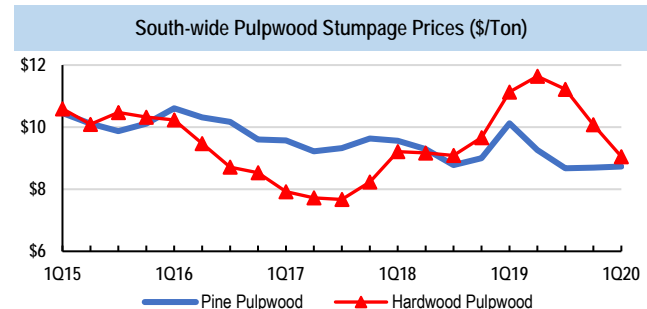
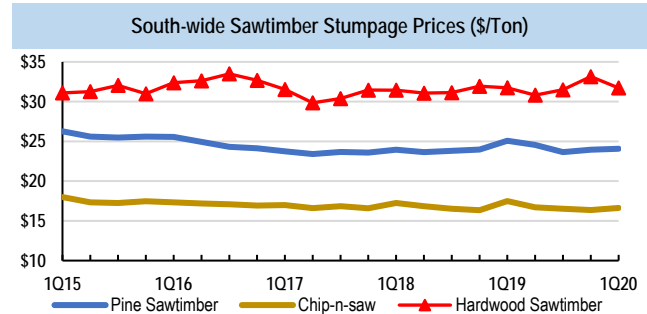
South-wide Stumpage Markets

A wet 1st Quarter restricted wood supply, causing South-wide average stumpage prices to increase for the three major pine products this quarter. However, stumpage prices for both major hardwood products declined in the 1st Quarter.

The upward movement in pine stumpage prices was in line with the seasonal, wintertime trends that have seen stumpage prices increase quarter-over-quarter (Q/Q) in the 1st Quarter in eight of the last 11 years for both pine sawtimber and pine pulpwood, and in nine of the last 11 years for pine chip-n-saw. However, markets were affected late in the quarter by the COVID-19 outbreak, dampening these seasonal upswings.

Just the opposite trend has prevailed for the major hardwood products, as hardwood sawtimber price has decreased Q/Q in the 1st Quarter each of the last four years – and in nine of the last 13 years. Similarly, hardwood pulpwood price has declined in the 1st Quarter seven of the last 12 years.

Δ	Δ	South-wide Stumpage, 1 st Quarter 2020	
4Q19	1Q19		
▲	▼	Pine Sawtimber:	\$24.07/ton
		Up \$0.12 Q/Q but down (\$1.01) Y/Y	
▲	▼	Pine Chip-n-saw:	\$16.63/ton
		Up \$0.26 Q/Q but down (\$0.86) Y/Y	
▲	▼	Pine Pulpwood:	\$8.73/ton
		Up \$0.04 Q/Q but down (\$1.39) Y/Y	
▼	▼	Hardwood Sawtimber:	\$31.72/ton
		Down (\$1.42) Q/Q and down (\$0.02) Y/Y	
▼	▼	Hardwood Pulpwood:	\$9.05/ton
		Down (\$1.03) Q/Q and down (\$2.08) Y/Y	





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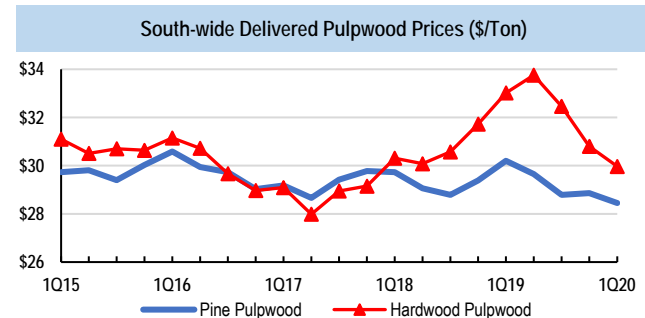
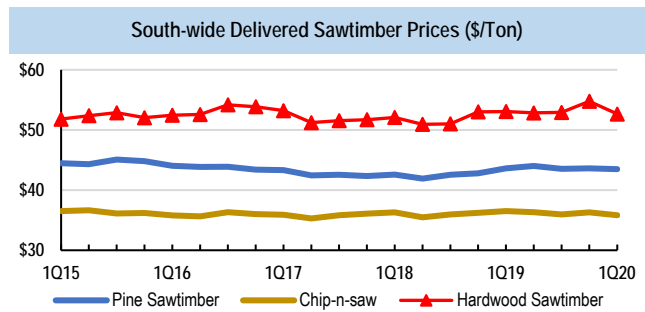
South-wide Delivered Prices

The COVID-19 outbreak in March affected production and overall wood demand across the South, causing delivered prices to decrease for all five major products – despite a wet, supply-constrained 1st Quarter. All five major products were also down year-over-year (Y/Y).

Although down marginally this quarter, the South-wide average pine sawtimber delivered price has remained nearly unchanged since 1st Quarter 2019, holding within a roughly \$0.50 per ton range and averaging \$43.65 per ton the last five quarters. The South-wide average price for delivered pine chip-n-saw also continues to trend essentially flat and has generally remained between \$35.50 and \$36.50 per ton (\$36.03 per ton average) since the 1st Quarter of 2014. Delivered pine pulpwood prices have been a bit more volatile and have trended slightly downwards the last six years.

The South-wide delivered hardwood sawtimber price, which increased roughly \$2 per ton in 4th Quarter 2019 only to decrease a similar amount this quarter, has also trended overall flat since 2014. However, the South-wide average price for delivered hardwood pulpwood has been on a downward descent, declining each of the last three quarters and falling nearly \$4 per ton (-9%) from its record high set in 2nd Quarter 2019.

Δ 4Q19	Δ 1Q19	South-wide Delivered, 1 st Quarter 2020	
▼	▼	Pine Sawtimber: Down (\$0.12) Q/Q and down (\$0.14) Y/Y	\$43.48/ton
▼	▼	Pine Chip-n-saw: Down (\$0.49) Q/Q and down (\$0.69) Y/Y	\$35.82/ton
▼	▼	Pine Pulpwood: Down (\$0.41) Q/Q and down (\$1.75) Y/Y	\$28.45/ton
▼	▼	Hardwood Sawtimber: Down (\$2.10) Q/Q and down (\$0.41) Y/Y	\$52.65/ton
▼	▼	Hardwood Pulpwood: Down (\$0.84) Q/Q and down (\$3.05) Y/Y	\$29.97/ton



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News of Note

There were numerous stories of note this quarter, some of which have been highlighted below. In addition, some forest industry companies announced measures in March in response to the COVID-19 outbreak. Full details and additional information regarding these stories and others are available in the 1st Quarter 2020 *Market News Quarterly*.

COVID-19 Announcements:

- ❖ Georgia-Pacific and International Paper announced plans to sustain production of tissue and related products used for medical supplies and public sanitation.
- ❖ Interfor announced on March 18th curtailment of capital projects at their sawmills in 2020 and 2021 as well as plans to reduce lumber production by 35 mmbf per week for two weeks (until roughly April 2nd) and reevaluate thereafter.
- ❖ Louisiana-Pacific announced on March 30th plans to cut OSB production by at least 100 mmsf in April through a combination of curtailments and reduced schedules.
- ❖ Norbord announced on March 25th curtailment of all their North American OSB plants, initially by 25%, with plans to reevaluate as market conditions develop.
- ❖ Rayonier Advanced Materials announced reduced newsprint and lumber production, mostly in Canada.
- ❖ West Fraser announced on March 19th curtailment of 15 mmbf per week at its sawmills in the South and 12 mmbf at mills in western Canada until at least April 6th.
- ❖ Weyerhaeuser announced it will curtail lumber production by 20%, OSB production by 15%, and engineered wood product production by 15-25% in April in response to the COVID-19 pandemic.

Softwood Sawmills:

- ❖ Burt Lumber completed upgrades at its Washington GA sawmill, doubling production capacity.
- ❖ Georgia-Pacific announced its new Dougherty County sawmill near Albany GA is almost fully operational, with startup possible in the 2nd Quarter.
- ❖ Klausner shut down its Klausner Lumber One sawmill in Live Oak FL.
- ❖ Resolute Forest Products completed its acquisition of three sawmills in the South from Conifex Timber for \$176 million plus working capital.
- ❖ Southern Packaging announced the installation of a new sawmill at its pallet mill in Port Allen LA.
- ❖ West Fraser nears completion of the final stage of modernization at its Opelika AL sawmill; plans remain for the company to build a new sawmill on the existing sawmill site in Dudley GA.

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News of Note (cont.)

Pulp & Paper:

- ❖ Georgia-Pacific (GP) announced plans to invest \$37 million into operations at its Crossett AR tissue mill; GP also announced plans to invest \$145 million to expand production at its Darlington SC facility.
- ❖ Graphic Packaging acquired 15.1 million partnership units of Graphic Packaging International Partners from International Paper for \$250 million. Graphic Packaging also announced plans to purchase the consumer packaging business from Greif, Inc. for approximately \$85 million.
- ❖ International Paper experienced a fire at its kraft linerboard mill in Rome GA as well as a boiler explosion at its kraft linerboard mill in Bogalusa LA.
- ❖ Packaging Corporation of America (PCA) announced plans to temporarily idle both paper machines and the sheet-converting operation at its Jackson AL uncoated freesheet mill for the months of May and June.
- ❖ Sun Paper officially abandoned its linerboard mill project in Arkadelphia AR.
- ❖ Verso concluded the sale of two pulp mills to Pixelle Specialty Solutions.
- ❖ WestRock shut down a linerboard machine at its North Charleston SC mill.

OSB, Engineered Wood, & Panels:

- ❖ Arauco to close its particleboard line at its Moncure NC facility in April.
- ❖ Boise Cascade permanently closed its I-joist production facility in Roxboro NC.

Biofuel & Bioenergy:

- ❖ Highland Pellets announced plans to upgrade its wood fiber drying systems at its Pine Bluff AR wood pellet plant.

Timberland:

- ❖ Molpus Woodlands Group acquired nearly 67,000 acres in Mississippi on behalf of two clients.
- ❖ Rayonier and Pope Resources announced a merger agreement. The deal includes Pope's 125,000 acres of Washington timberland and Pope's Olympic Resource Management subsidiary which operates 141,000 acres of timberland in the Pacific Northwest.



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Market Indicators

Market conditions were initially strong for wood products producers in the 1st Quarter but affected by the onset of COVID-19 towards the end of March. For pulp producers, demand for linerboard, paperboard, and boxes was up, as was demand for tissue products. The following are based on the latest available data at press time.

Lumber Indicators: Softwood lumber prices improved in the 1st Quarter while hardwood lumber prices held steady and decreased only marginally. The March Random Lengths Southern Pine Composite¹ at \$356 per thousand board feet (mbf) was up \$21 Q/Q (+6%) but down \$51 Y/Y (-13%).

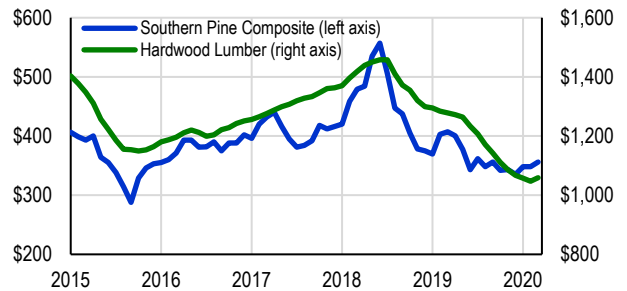
The March Hardwood Review US Kiln Dried Hardwood Lumber Index at \$1,059 per mbf was down \$8 Q/Q (<1%) and \$219 Y/Y (-17%).

Panel Indicators: Southern Plywood prices remained nearly unchanged in the 1st Quarter while Southern OSB prices experienced its fourth largest Q/Q gain in the last 15 years.

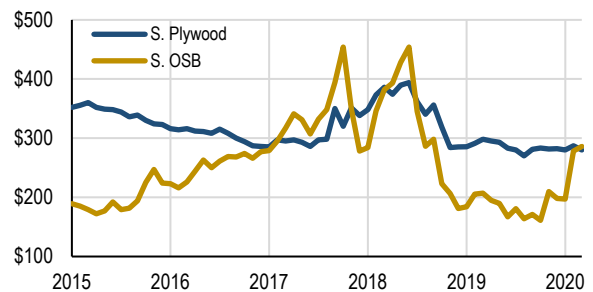
The March Random Lengths Southern Pine Plywood price for 3/8-inch exterior sheathing at \$280 per thousand square feet (msf) was down \$2 Q/Q (<1%) and \$18 Y/Y (-6%).

The March Random Lengths Southern OSB price at \$286 per msf was up \$88 Q/Q (+44%) and \$79 Y/Y (+38%).

Random Lengths Southern Pine Composite & Hardwood Review US Kiln Dried Hardwood Lumber Index Monthly Average Price (\$/mbf)



Random Lengths Southern Pine Plywood & Southern OSB Monthly Average Price (\$/msf)



¹ The Southern Pine Composite averages 35 southern framing lumber prices.

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Market Indicators (cont.)

Pulp & Paper Indicators: The American Forest and Paper Association (AF&PA) reported US paper and paperboard production at a combined 12.5 million tons YTD-February, the latest available, which was up 0.2 million tons (+2%) compared to the same period in 2019.

The March Northern Bleached Softwood Kraft (NBSK) pulp index price at \$826 per ton was up \$6 Q/Q (<1%) but down \$289 Y/Y (-26%).

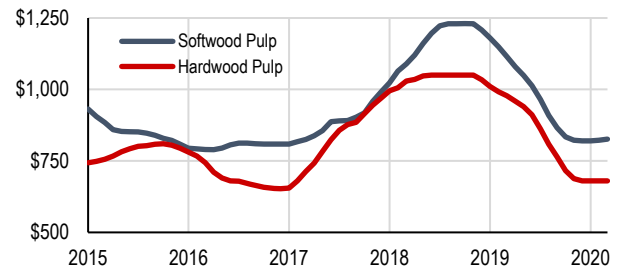
The March Bleached Hardwood Kraft Pulp (BHKP) price at \$680 per ton was unchanged Q/Q but down \$298 Y/Y (-30%).

US Building Construction: US residential building construction, a principal driver of the wood products industry, started strong in early 2020. According to the US Census, US housing starts YTD-February, the latest available, totaled 226,200 units, which was up 35% compared to the same period in 2019. However, experts anticipate a substantial decline in housing starts reported in March due to the coronavirus.

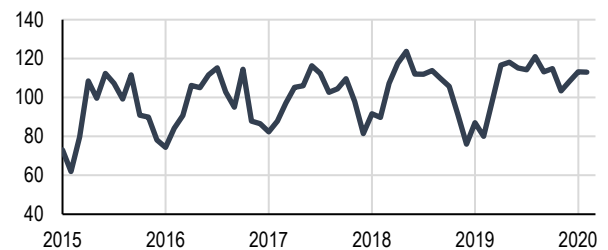
The US Census reported remodeling and improvement expenditures at \$27.7 billion YTD-February, the latest available, which was up \$5.1 billion (+23%) from the same period in 2019.

Southern Timberland Index: In the 1st Quarter, the base case Southern Timberland Index (STI) averaged \$2,273 per acre, which was down 2% both Q/Q and Y/Y but unchanged from five years ago.

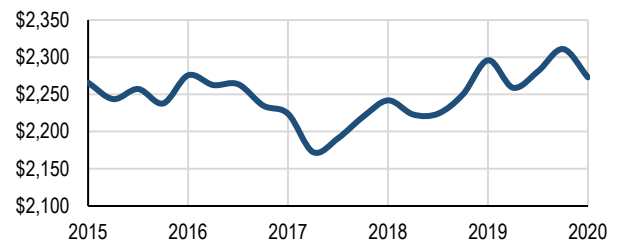
Pulp Index Price
Monthly Average Price (\$/ton)



US Census Bureau – US Housing Starts
(Monthly Total – 000 Units)



Southern Timberland Index
Base Case (\$/acre)



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Market Indicators (cont.)

Fuel & Energy Indicators: Crude oil, diesel, and natural gas prices were all down in the 1st Quarter. The March 2020 monthly average Gulf Coast #2 Diesel price at \$2.50 per gallon was down \$0.27 Q/Q and \$0.37 Y/Y.

The March West Texas Intermediate (WTI) crude spot price at \$30 per barrel was down \$30 Q/Q and \$28 Y/Y.

The March Henry Hub Natural Gas spot price at \$1.82 per million BTU was down \$0.40 Q/Q and \$1.13 Y/Y.

Log & Lumber Exports: The USDA Foreign Agricultural Service (FAS) reported total exports for the four major forest products at over 1.1 million cubic meters (m³) YTD-February, the latest available, which was down 5% from the same period in 2019. Exports to China, the dominant US trade partner, were down 21% for this period.

Compared to a year ago, southern yellow pine (SYP) log exports were down 32% but SYP lumber exports were up 8%. Hardwood log exports were up 5% but hardwood lumber exports were down 4% compared to the same period a year ago.

Financial Indicators: Financial markets took a major hit in the 1st Quarter in response to global uncertainty regarding COVID-19, with the Dow Jones Industrial Average (DJIA) falling 37% from a record high of 29,551 on February 12th to a low of 18,592 on March 23rd. The DJIA made modest gains the last week of the quarter, closing out March at 21,917 and ultimately down 23% Q/Q.

The S&P 500 ended March at 2,585.

The NASDAQ ended March at 7,700.

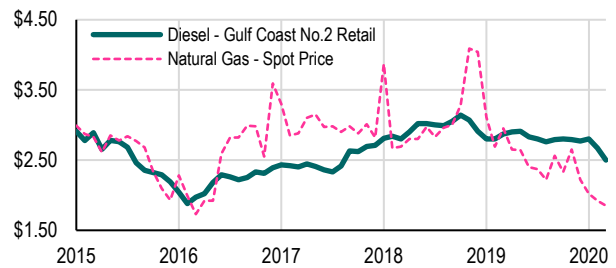
Weather, Etc.

General Weather: Wet weather dominated the central portions of the South this quarter, with some counties in Alabama, Georgia, and Mississippi receiving record levels of rainfall. Violent storm systems including high wind and tornadoes destroyed property and killed more than 30 people in Alabama, Louisiana, Tennessee, and Texas. The Jackson area of Mississippi also experienced heavy flooding of the Pearl River.

Drought: Rainfall eliminated most of the remaining drought in the South this quarter. However, dry conditions increased along the Gulf Coast and in Northern Florida.

Fire: During the quarter, 6,629 fires burned 134,157 acres nation-wide. Both were well below the 10-year average but above last year's low levels. Roughly 74,000 acres (55%) burned in the South.

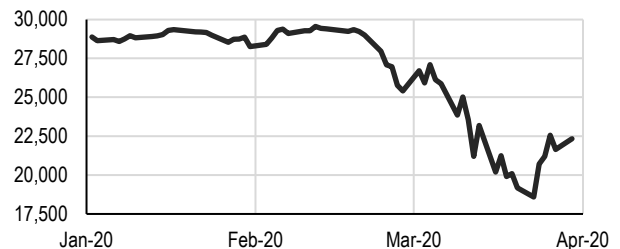
Gulf Coast No. 2 Diesel Retail Price (\$/gallon) & Henry Hub Natural Gas Spot Price Monthly Average (\$/mmBTU)



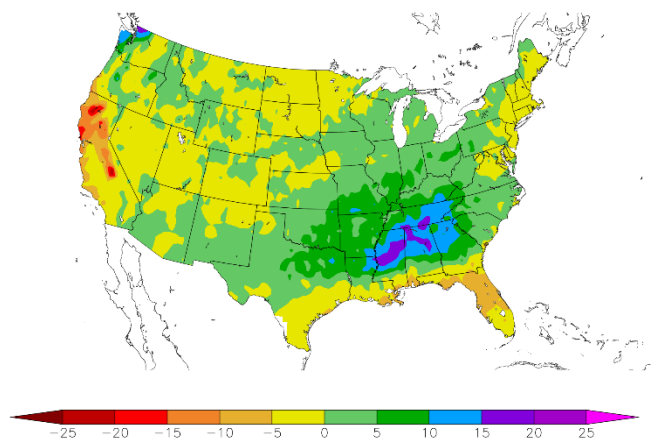
US Log & Lumber Exports (YTD-Feb 2020)
Volume in Thousand Cubic Meters

Product	World YTD 2020	World YTD 2019	China YTD 2020
SYP Softwood logs	136	201	98
SYP Softwood lumber	147	137	28
US Hardwood logs	337	320	113
US Hardwood lumber	525	547	185
Total	1,146	1,205	424

Dow Jones Industrial Average
1st Quarter 2020



Departure from Normal Precipitation (in)
1/1/2020 – 3/31/2020





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