

TimberMart-South

Quarterly Market Bulletin ~ 3rd Quarter 2020

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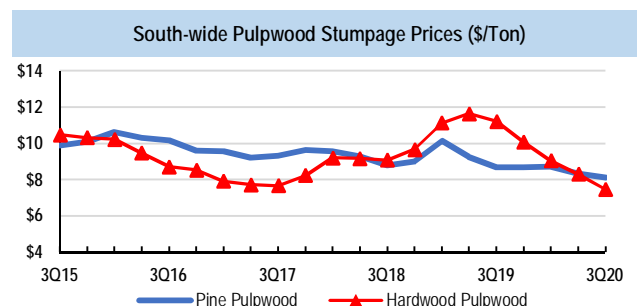
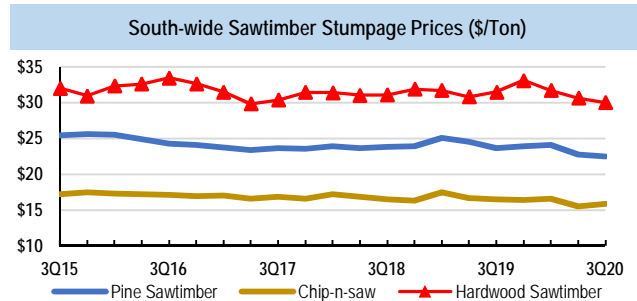
Prices & Market Conditions

Overall, timber prices decreased in the 3rd Quarter in spite of extraordinary and unexpected market conditions that drove Southern pine lumber prices to record highs in September – up more than 160% since April and up 60% above previous record highs that occurred in mid-2018. Wood products and paper products industries both experienced growth this quarter. However, reduced wood demand earlier in the year (due to the onset of the COVID-19 pandemic) along with summertime logging conditions resulted in an abundance of wood supply in the South this quarter.

South-wide Stumpage Markets

South-wide average stumpage prices declined for four of the five major products in the 3rd Quarter. However, the overall decline in prices was not unexpected, as the common, seasonal trend is for stumpage prices to fall in the 3rd Quarter. Still, worth noting is that the South-wide average pine sawtimber stumpage price fell to \$22.50 per ton in the 3rd Quarter – below its post-Great Recession low of \$22.59 per ton in the 3rd Quarter of 2011 and to its lowest level since 1992.

| Δ | Δ | South-wide Stumpage, 3 rd Quarter 2020 | |
|------|------|---|--------------------|
| 2020 | 3Q19 | | |
| ▼ | ▼ | Pine Sawtimber: | \$22.50/ton |
| | | Down (\$0.24) Q/Q and down (\$1.14) Y/Y | |
| ▲ | ▼ | Pine Chip-n-saw: | \$15.82/ton |
| | | Up \$0.30 Q/Q but down (\$0.70) Y/Y | |
| ▼ | ▼ | Pine Pulpwood: | \$8.11/ton |
| | | Down (\$0.24) Q/Q and down (\$0.56) Y/Y | |
| ▼ | ▼ | Hardwood Sawtimber: | \$30.03/ton |
| | | Down (\$0.62) Q/Q and down (\$1.46) Y/Y | |
| ▼ | ▼ | Hardwood Pulpwood: | \$7.46/ton |
| | | Down (\$0.85) Q/Q and down (\$3.76) Y/Y | |





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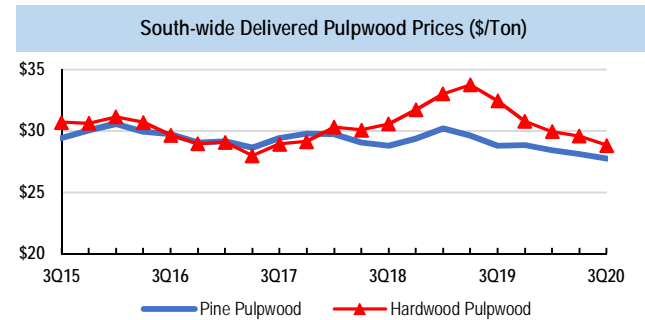
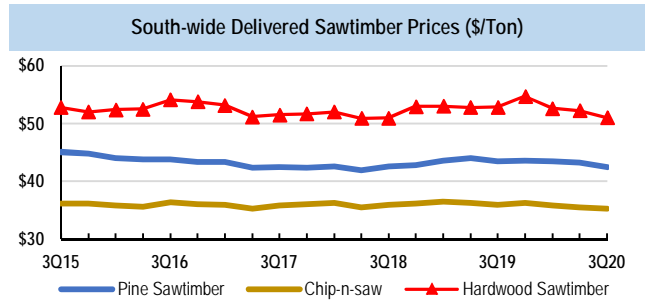
South-wide Delivered Prices

Despite improved market conditions and increased manufacturing activity, wood supply continued to exceed demand in the 3rd Quarter, causing delivered prices to decrease for all five major products this quarter.

The story remains much the same for pine sawtimber and pine chip-n-saw, as delivered prices for both of these products have remained essentially unchanged for the last eight years. Specifically, South-wide delivered pine sawtimber and pine chip-n-saw prices have remained within roughly \pm \$1.50 and \pm \$0.75 of their respective \$43.49 and \$35.81 per ton averages since 2013. Similarly, since surpassing \$50 per ton in the 2nd Quarter of 2014, the South-wide average delivered hardwood sawtimber price has remained within roughly \pm \$1.50 of its \$52.49 per ton average over this period.

Delivered pine and hardwood pulpwood prices have also trended overall flat since 2013. However, both have been on a downward trajectory the last 5-6 quarters. Specifically, the South-wide delivered price of pine pulpwood has fallen nearly \$2.50 per ton (-8%) since 1st Quarter 2019, compared to a more than \$4.00 per ton (-13%) decrease in delivered hardwood pulpwood price over this same period.

| Δ 2020 | Δ 3Q19 | South-wide Delivered, 3 rd Quarter 2020 | |
|------------------|------------------|--|--------------------|
| ▼ | ▼ | Pine Sawtimber: | \$42.49/ton |
| | | Down (\$0.75) Q/Q and down (\$1.04) Y/Y | |
| ▼ | ▼ | Pine Chip-n-saw: | \$35.25/ton |
| | | Down (\$0.24) Q/Q and down (\$0.70) Y/Y | |
| ▼ | ▼ | Pine Pulpwood: | \$27.74/ton |
| | | Down (\$0.36) Q/Q and down (\$1.05) Y/Y | |
| ▼ | ▼ | Hardwood Sawtimber: | \$51.03/ton |
| | | Down (\$1.25) Q/Q and down (\$1.88) Y/Y | |
| ▼ | ▼ | Hardwood Pulpwood: | \$28.85/ton |
| | | Down (\$0.74) Q/Q and down (\$3.61) Y/Y | |



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News of Note

There were multiple stories of note this quarter, some of which have been highlighted below. Full details and additional information regarding these stories and others are available in the 3rd Quarter 2020 *Market News Quarterly*.

Softwood Sawmills:

- ❖ The Austrian-based Binderholz Group acquired all assets of Klausner Number One sawmill in Live Oak FL at auction in August for \$61 million, while Klausner Number Two in Enfield NC remains in bankruptcy.
- ❖ Florida Parishes Forest Products announced plans to build a new \$90 million sawmill in Greensburg LA.
- ❖ Koppers plans to invest \$23 million to update and expand its existing facility in North Little Rock AR.
- ❖ Timberland Investment Resources, a timberland investment management organization (TIMO), announced it is leading efforts to build a new \$160 million sawmill in Corinth MS. The mill, which will operate under the name "Mission Forest Products," will have an annual production capacity 250 mmbf of lumber, with startup planned in 2022.
- ❖ Vicksburg Forest Products announced plans to invest \$40 million at its Vicksburg MS sawmill to increase annual lumber capacity from 75 to 180 mmbf.

Pulp & Paper:

- ❖ Domtar announced the closure of its communications papers machine at its Ashdown AR mill in preparation for the mill's conversion to 100% softwood and fluff pulp. Once the conversion is completed, the Ashdown pulp mill will have an annual production capacity of 775,000 tons of fluff and softwood pulp.
- ❖ Georgia-Pacific shut down two of the three specialty pulp lines at its Foley Cellulose Mill in Perry FL due to reduced product demand during the COVID-19 pandemic.
- ❖ Graphic Packaging permanently shutdown Paper Machine #1 at its West Monroe LA mill.
- ❖ Hood Container announced plans to expand and upgrade its kraft linerboard mill in St. Francisville LA.
- ❖ International Paper announced \$175 million of planned investments in its Eastover SC pulp and paper mill over the next 10 years.

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News of Note (cont.)

OSB, Engineered Wood, & Panels:

- ❖ EGGER announced on September 24th it had commenced particleboard production at its new \$700 million manufacturing plant located in Lexington NC.
- ❖ Norbord resumed production on Line 1 of its two-line OSB mill in Cordele GA in August on a limited operating schedule.

Biofuel & Bioenergy:

- ❖ Effingham Pellets, a newly formed subsidiary of Charles Ingram Lumber Company, announced plans to establish a wood pellet operation at its facility located in Florence County SC.
- ❖ Enviva Partners, LP completed its acquisition of Georgia Biomass located in Waycross GA on August 3rd.
- ❖ Pinnacle Renewable Energy announced that construction of its new 360,000-metric-ton per year wood pellet plant in Demopolis AL remains underway, with startup scheduled for 2nd Quarter 2021.

Other News:

Several tropical storms impacted the South this quarter, including:

- ❖ Tropical Storm Isaias made landfall along the South Carolina coast on August 3rd and continued traveling northeast through the eastern portions of both North Carolina and Virginia. The storm brought heavy rainfall and resulted in some flooding.
- ❖ Hurricane Laura, a Category 4 hurricane, made landfall in Cameron LA on August 27th. Numerous mills along the storm's path temporarily shut down due to safety precautions and storm-related power outages. Initial reports estimate \$1.1 billion in damages to the Louisiana timber industry, with nearly 800,000 acres of Louisiana timberland devastated by the hurricane.
- ❖ Hurricane Sally, a Category 2 hurricane, made landfall on the Alabama-Florida state line on September 16th, causing flooding and power outages that affected a number of mills in Alabama and the Florida Panhandle.



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Market Indicators

Market conditions improved for most wood products and pulp producers in the 3rd Quarter, as the overall US economy continues its recovery after the disruption caused by the COVID-19 pandemic.

Lumber Indicators: Softwood lumber prices soared in the 3rd Quarter, setting record highs in August and again in September. The September Random Lengths Southern Pine Composite¹ at \$883 per thousand board feet (mbf) was up \$378 Q/Q (+75%) and \$527 Y/Y (+148%).

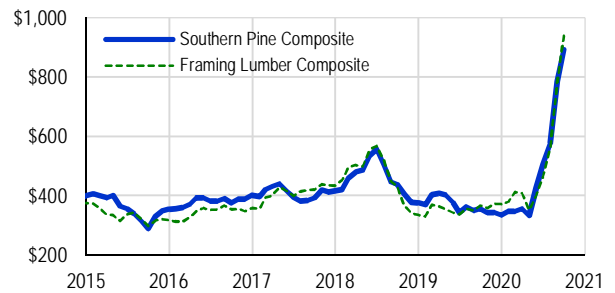
The September Hardwood Review US Kiln Dried Hardwood Lumber Index at \$1,068 per mbf was down \$10 Q/Q (-1%) and \$74 Y/Y (-6%).

Panel Indicators: Southern Plywood and Southern OSB prices both set record highs in August and then again in September, as plywood prices have doubled and OSB prices more than tripled since April.

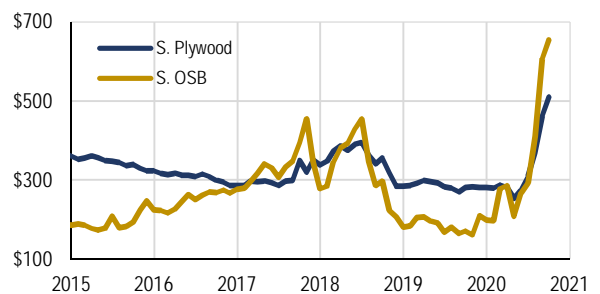
The September Random Lengths Southern Pine Plywood price for 3/8-inch exterior sheathing at \$507 per thousand square feet (msf) was up \$199 Q/Q (+65%) and \$226 Y/Y (+80%).

The September Random Lengths Southern OSB price at \$666 per msf was up \$373 Q/Q (+127%) and \$495 Y/Y (+289%).

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 48.6 million tons YTD-August, the latest available, which was down 1.0 million tons (-2%) compared to the same period in 2019.

The September Northern Bleached Softwood Kraft (NBSK) pulp index price at \$840 per ton was down \$18 Q/Q (-2%) and \$26 Y/Y (-3%).

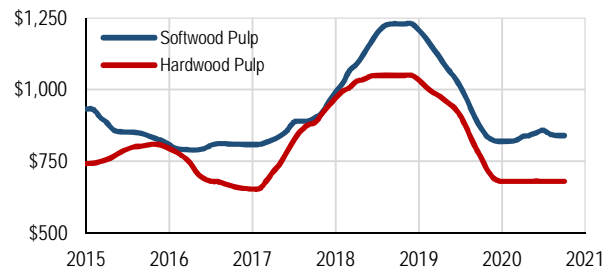
The September Bleached Hardwood Kraft Pulp (BHKP) price at \$680 per ton was unchanged Q/Q but down \$84 Y/Y (-11%).

US Building Construction: US residential building construction, a principal driver of the wood products industry, rebounded in a strong way in July and August, with housing starts well-above last year's levels. According to the US Census, US housing starts YTD-August, the latest available, totaled 894,000 units, which was up 44,000 units (+5%) compared to the same period in 2019.

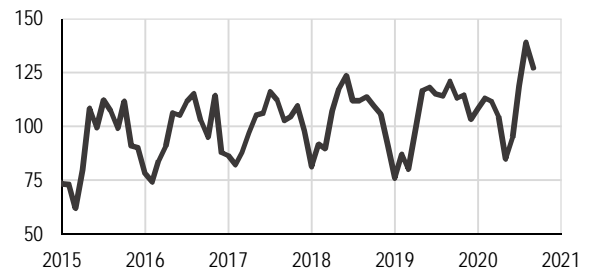
The US Census reported remodeling and improvement expenditures at \$139.4 billion YTD-August, the latest available, which was up \$18.7 billion (+16%) from the same period in 2019.

Southern Timberland Index: In the 3rd Quarter, the base case Southern Timberland Index (STI) averaged \$2,188 per acre, which was down 1% Q/Q and 4% Y/Y.

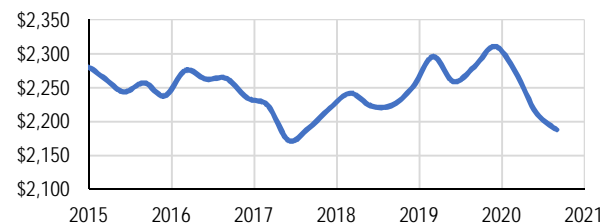
Pulp Index Price
Monthly Average Price (\$/ton)



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 prices and natural gas prices were both up in the 3rd Quarter; diesel prices were nearly unchanged. The September 2020 monthly average Gulf Coast #2 Diesel price at \$2.17 per gallon was down \$0.01 Q/Q and \$0.62 Y/Y.

The September West Texas Intermediate (WTI) crude spot price at \$40 per barrel was up \$1 Q/Q but down \$17 Y/Y.

The September Henry Hub Natural Gas spot price at \$1.98 per million BTU was up \$0.35 Q/Q but down \$0.58 Y/Y.

Log & Lumber Exports: The USDA Foreign Agricultural Service (FAS) reported total exports for the four major forest products at over 3.9 million cubic meters (m³) YTD-July, the latest available, which was down 15% from the same period in 2019. Exports to China, the dominant US trade partner, were down 12% for this period.

Compared to a year ago, southern yellow pine (SYP) log exports and SYP lumber exports were down 25% and 13%, respectively. Hardwood log exports and hardwood lumber exports were both down 12% from the same period a year ago.

Financial Indicators: Financial markets slipped a bit in September but overall made steady gains in the 3rd Quarter, with the Dow Jones Industrial Average (DJIA) increasing 5% Q/Q and closing out September at 27,782. The quarterly low was 25,735 on July 1st and quarterly high was 29,101 on September 2nd.

The S&P 500 ended September at 3,363 (+8% Q/Q).

The NASDAQ ended September at 11,168 (+11% Q/Q).

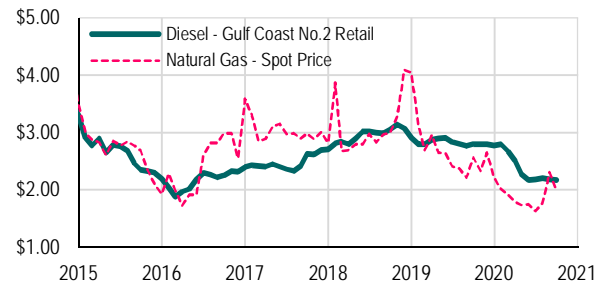
Weather, Etc.

General Weather: Tropical storm activity ramped up in the South this quarter after a relatively dry and quiet July. In August, Tropical Storm Isaias ran up the Atlantic Coast, bringing rain and wind from Florida through the Carolinas and Virginia. Then, Hurricane Laura blasted the Gulf Coast, leaving a trail of severely damaged timber in western Louisiana and spawning stormy weather across most of the South. Hurricane Sally drenched the Gulf Coast from Florida to Texas in September.

Drought: Relatively dry periods alternated with stormy weather this quarter. Very few areas of drought emerged and most dry areas that had remained at the beginning of the quarter were relieved by passing tropical storm conditions.

Fire: Year-to-date through September, 44,275 fires burned 7.76 million acres nationwide. Roughly 390,000 acres (5% of the total) burned in the South.

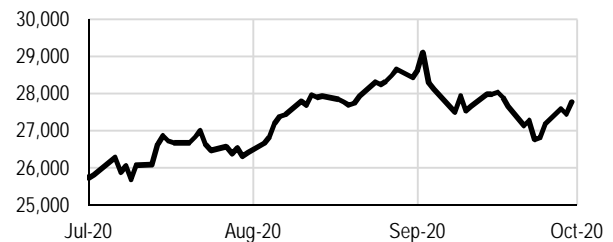
Gulf Coast No. 2 Diesel Retail Price (\$/gallon) & Henry Hub Natural Gas Spot Price Monthly Average (\$/mmbTU)



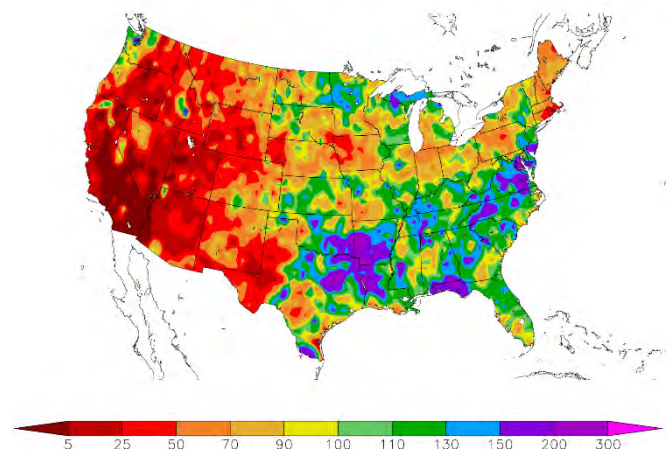
US Log & Lumber Exports (YTD-July 2020)
Volume in Thousand Cubic Meters

| Product | World YTD 2020 | World YTD 2019 | China YTD 2020 |
|---------------------|----------------|----------------|----------------|
| SYP Softwood logs | 708 | 941 | 601 |
| SYP Softwood lumber | 420 | 483 | 80 |
| US Hardwood logs | 1,014 | 1,149 | 490 |
| US Hardwood lumber | 1,759 | 2,008 | 776 |
| Total | 3,901 | 4,582 | 1,947 |

Dow Jones Industrial Average
3rd Quarter 2020



Percent of Normal Precipitation (%)
7/1/2020 - 9/30/2020





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