Forest Sector Outlook

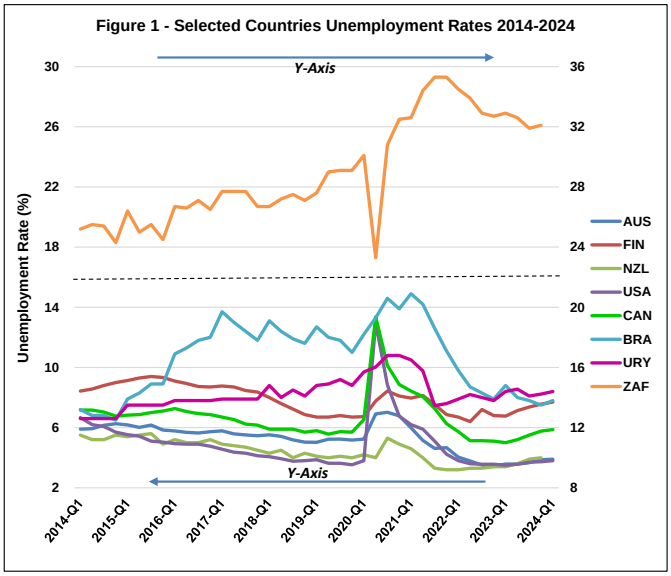
Global Consulting Alliance

Quarterly Edition 2024-Q1

ECONOMIC DASHBOARD

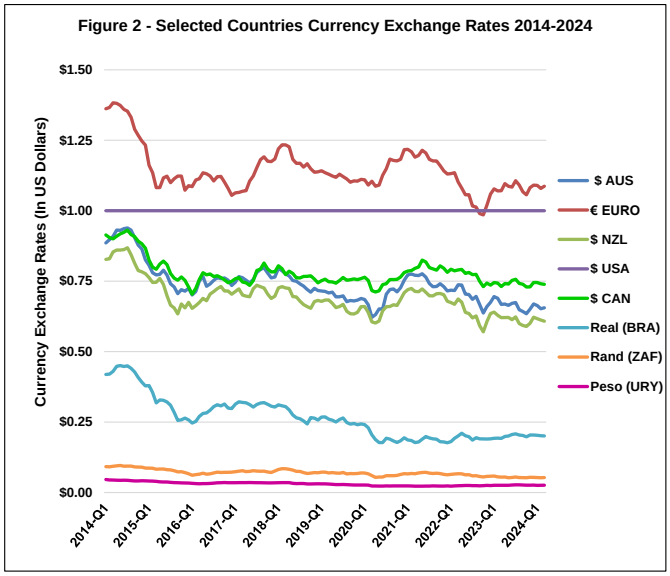
Figures 1 to 4 illustrate four key macroeconomic indicators as observed over the past decade, on a quarterly basis. These can be useful particularly for monitoring the post-pandemic conditions and the market implications of the ongoing wars in Ukraine and Gaza. Figure 4 rates are nominal.

Figure 1 - Selected Countries Unemployment Rates 2014-2024



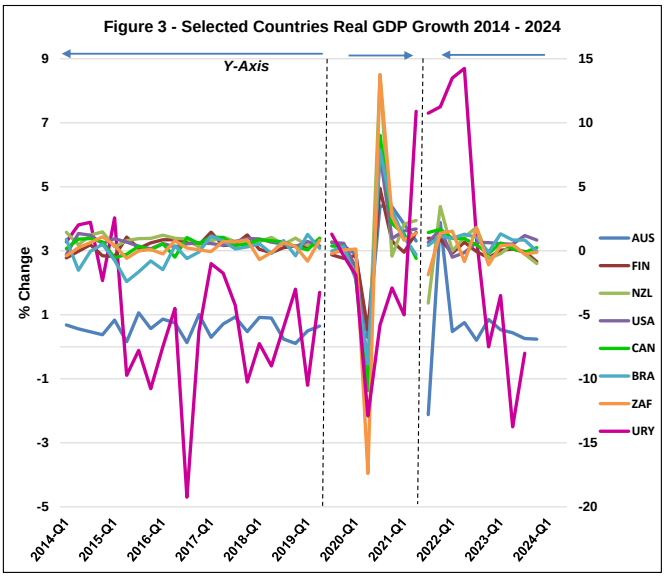
Sources: OEDC, Brazilian Institute of Geography and Statistics, macrotrends.net (World Bank), Statistics South Africa

Figure 2 - Selected Countries Currency Exchange Rates 2014-2024



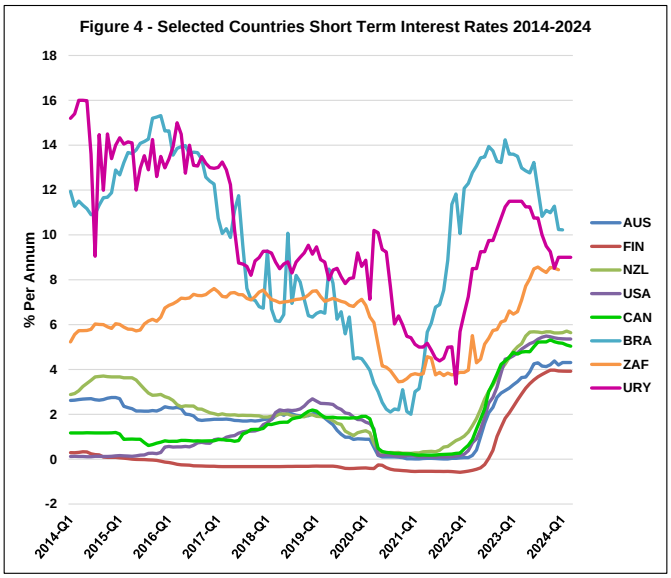
Source: Federal Reserve, Uruguay Statistitics National Institute

Figure 3 - Selected Countries Real GDP Growth 2014 - 2024



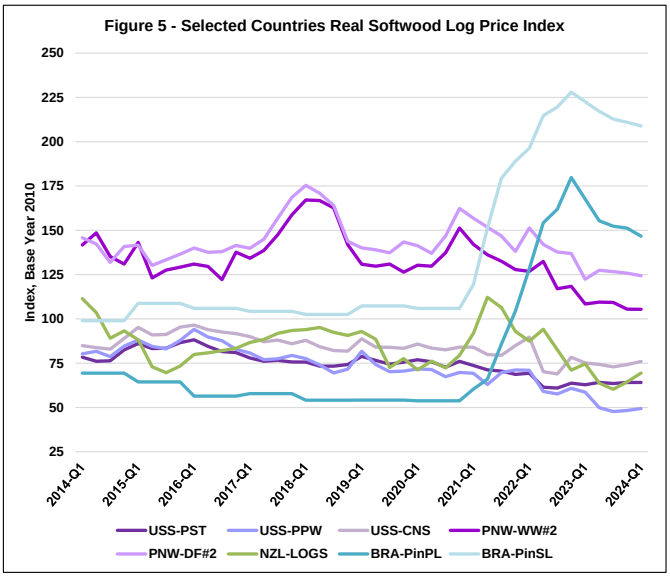
Source: OEDC, Chamber of Commerce and Services of Uruguay

Figure 4 - Selected Countries Short Term Interest Rates 2014-2024

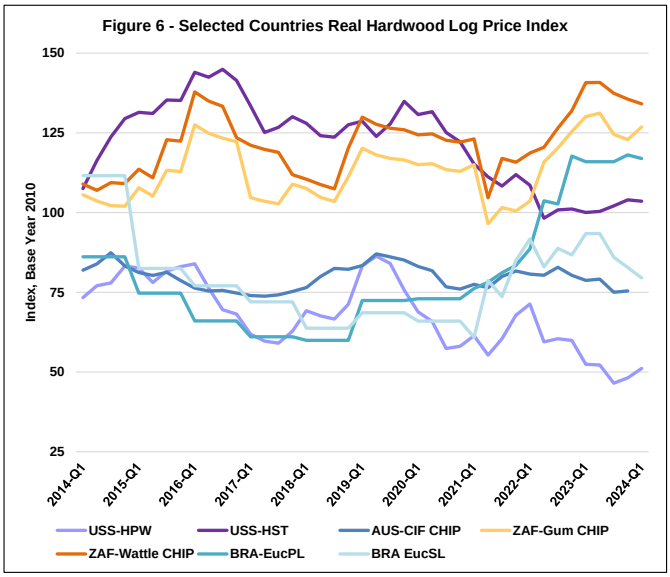


Source: OEDC, FRED - St. Louis Fed, Banco Central Del Uruguay, CEIC Data

Figures 5 and 6 show indexed real pricing for select softwoods and hardwoods – with Q1 2010 the base quarter-year.



Source: Timber-Mart South, RISI Log Lines, AgriHQ; USS = US South, PNW = US Pacific Northwest



Source: Timber-Mart South, RISI Log Lines, NCT; USS = US South

Legend:

USS-PST = US South Pine Sawtimber, USS PPW = US South Pine Pulpwood, USS-CNS = US South Chip n' Saw, PNW-WW#2 = US Pacific Northwest Whitewood #2 Saw Avg. Columbia River, PNW-DF#2 = US Pacific Northwest #2 Saw Avg. Columbia River, NZL-LOGS = New Zealand Softwood Logs Composite, BRA-PinPL = Brazil Pine Pulplogs, BRA-PinSL = Brazil Pine Sawlogs.

USS-HPW = US South Hardwood Pulpwood, USS-HST = US South Hardwood Sawtimber, AUS-CIF CHIP = Australia Hardwood CIF Chip, ZAF Gum CHIP = South Africa Gum CHIP, ZAF Wattle CHIP = South Africa Wattle Chip, BRA-EucPL = Brazil Eucalyptus Pulplogs, BRA-EucSL = Brazil Eucalyptus Sawlogs.

ECONOMIC HIGHLIGHTS

Global

- The IMF noted in April 2024 that the global economy continues to display remarkable resilience with growth holding steady and inflation declining but with many challenges still ahead.
- Global growth was 3.2% in CY2023 and is expected to remain at this level in CY2024 and CY2025.
- The IMF sees stronger economic activity than expected in China, the USA and other large emerging markets but weaker activity in the Euro area.
- Global median inflation is expected to decline from 4% at the end of CY2023 to 2.8% by the end of this year and 2.4% at the end of CY2025.
- The IMF also sees the fading of energy price shocks, and a strong rebound in labor supply supported by strong immigration in many advanced economies. The IMF expects less economic scarring from the past 4 years (pandemic, inflation) compared to earlier expectations for advanced economies but more economic scarring for lower income countries.

- Downside risks include new price spikes from geopolitical tensions, persistent core inflation and a disruptive turn to fiscal adjustment that can slow economic activity. Specifically, the IMF notes that worryingly, progress towards achieving inflation targets for some countries has stalled since the start of the year. Oil prices are increasing due to geopolitical tensions and services inflation remains stubbornly high in many countries. Further trade restrictions can also push up goods inflation.
- Brazil – Market expectations for the 2024 Brazilian economy have improved from the early January forecasts. According to the Central Bank's Focus Bulletin (April 5), 2024 will end with GDP growth of around 1.9%, inflation of 3.8%, FX of 5.0 BRL/USD, basic interest rate of 9% (5.0% actual) and trade balance of USD 80 billion/year.

REGIONAL MARKET UPDATES

Asia Pacific

Australia

- Consensus Economics' April 2024 edition estimates growth expectations for the Australian economy to slow from ~1.8%/a in CY2023 to ~1.4%/a in CY2024.
- Australia's unemployment rate is expected to remain low but with an uptick from ~3.7% in CY2023 to ~4.3% in CY2024. This represents a modest change given the Reserve Bank of Australia's (RBA) sharp increases in its target cash rate in CY2023 to rein in inflation.
- Australia's inflation rate is forecasted to decline from a high of 7.8% in December 2022, to ~3.0%/a in late 2024, still above the RBA average target rate band of 2-3%/a. There is a small risk of inflationary pressure increasing after mid-2024 as new personal tax legislation comes into effect (the stage 3 tax cuts).
- Consensus Economics expects housing approvals to be ~169 000 units, down from 229 000 in 2021, i.e. a 26% drop. Some indicate that the decline could be even worse to ~150 000 units. The Housing Industry Association (HIA) and Australian Bureau of Statistics (ABS) have indicated that house commencements in FY 2023/24 (FY2024) is expected to be ~96 000 residences, down from ~110 000 in FY2023, but with the expectation to increase to ~106 000 in FY2026.
- Australia's sawlog prices on a nominal basis are expected to remain almost flat for the remainder of CY2024, while the current real prices decline is expected to continue, given weak demand and high sawn timber inventory levels.
- The generic Australian Carbon Credit Units (ACCUs) price remained steady during the first quarter of CY2024, trading between AUD 33/ACCU and AUD 36/ACCU but in early April, the price fell to AUD 32/ACCU. However, multiple unit valuations exist depending on the perceived value of individual project credentials, method type and associated co-benefits. Multiple sources indicate that ACCUs generated through indigenous savanna fire management and environmental planting are approaching or exceeding AUD 50/ACCU. It is assumed, mainly anecdotally, that plantation forestry ACCUs are valued somewhere in between.
- Trade Tree Online and Brian McClay & Associates (TTO BMA), in its March 2024 review of the pulp market indicated that Chinese BHK pulp imports in CY2023 were 25.7% higher than CY2022 and that market pulp import volumes to China have now converged to trend following an extremely low demand cycle that started in 2021. BHK prices were trading at ~USD 650/ADt in February 2024, up from a low of ~USD 460/ADt in mid-2023.
- Brazil remains the largest supplier of market BHK pulp to China (54% market share) followed by Indonesia (~24% market share).
- Hardwood woodchip trade volumes are expected to reach a new record high of ~29.5 million BDMt in CY2024. Demand is driven by increases from China and, to a lesser extent, the Lao PDR, now the fourth largest importer in the Asia Pacific region.

- Vietnamese hardwood woodchip exports are on track to exceed CY2023's ~14.4 million BDMt and perhaps CY2022's 16.0 million BDMt in CY2024. At the same time, Australian woodchip export volumes are expected to decline from ~4 million BDMt in CY2023 to ~3.7 million BDMt in CY2024. With Vietnam now supplying almost 60% of the hardwood woodchip trade in the Asia Pacific, both Chinese and Japanese buyers have significant exposure to any developments in the Vietnamese market.
- Developments in the Chinese pulp sector, China's domestic hardwood demand/supply and softwood logs, lumber and price outlook are examined as part of a special multiclient research report authored by Margules Groome and Russ Taylor Global. For more information, please visit Margules Groome or Russ Taylor Global websites.

New Zealand

- Government expenditure cuts are affecting all parts of New Zealand's public service with no departments immune. Even vital border quarantine services are affected. Government debt remains relatively high, at 44% of GDP, being inflated by the largess of the previous government and the COVID pandemic. This is not being helped by the incipient recession and lower government tax take. Despite the difficult environment, the new government is striving to introduce its promised tax cuts. The government's long-term plans are to achieve a debt to GDP ratio in the 20% to 40% range.
- Consensus Economics' April forecast reduced its estimate of New Zealand's 2024 GDP growth from 1.2% to 1.0% with a similar reduction in estimated 2025 growth to 2.3%. The trade balance forecast for 2024 has improved from the late 2023 estimate of -NZD 8.6 billion to -NZD 6.6 million improving further to NZD 6.0 million in 2025. Consensus Economics' unemployment estimates were prior to recently announced headcount reductions in the public service and market expectations are more around 5% for 2024 compared to Consensus Economics' 4.6% forecast.
- For the sixth time since 24 May 2023, the RBNZ has held the official cash rate (OCR) constant at 5.5% with the latest announcement on 10 April 2024. Due to imported inflationary pressures, guidance remains that no rate cuts can be expected until mid-2025. The March quarter release of the consumer price index came in at an annualised 4.0% representing a 0.7% reduction from December 2023.
- The new coalition government ignored the recommendations of the Climate Change Commission to drastically cut the number of NZUs (carbon units) being sold to force up the carbon price and instead put up 3.525 million NZUs for auction on 20 March 2024. Some 2.97 million NZUs were sold at NZD 64/NZU (the floor price below which the government is not allowed to sell units). This shocked the market and resulted in the spot price on the secondary market plummeting to NZD 51/NZU. Subsequently, there has been some recovery in price with NZUs trading at NZD 55 as at 18 April 2024. However, a large overhang exists over the market as the government indicated it plans to sell NZD 2.3 billion of NZUs at auctions over the next four years. The government intends to use this money to help fund its election promise of tax cuts.
- The judicial review process commenced by a collective of industry bodies against the Ministry for Primary Industries (MPI) on 23 October 2023 has resulted in some initial progress. On 24 February 2024 the minister announced an independent review of the forestry component of the Emissions Trading Scheme (ETS). This will evaluate the scheme's costs, and the NZD 30 per hectare that forestry participants were to pay. While this progresses, the introduction of the cost recovery charges intended to be levied on forestry participants in the ETS will be postponed.
- The China softwood log market showed some price improvement up until March before a sharp correction occurred as log stocks increased. Although China's log stocks at around 4 million m3 are not historically high, the low port offtake of only 40-45 k/day caused the issue. Although the drop in CFR prices initially appeared modest, achieving actual confirmed sales became difficult causing chaos at some New Zealand ports with inventory but no confirmed customers. Although CFR prices were still theoretically around USD 129/JAS in March, rumors of some actual sales at as little as USD 100/JAS were thought to be occurring. Latest indications

are that China's government is restricting residential construction rather than stimulating it as they did in the past leading to big reductions in demand for logs.

- The New Zealand domestic market has remained stable over the last quarter with S30 logs selling in the NZD 125-130/tonne range. There has been some recent improvement in pruned prices, particularly in the North Island as supplies tighten post Cyclone Gabrielle damage cleanup with P1 logs trading at NZD 190 230/tonne.
- The national harvest for CY2023 was 32.513 million m3 representing a 5% reduction from CY2022. Domestic use declined more than 19% with exports increasing to 21.208 million m3 or 65% of the harvest. The YoY decline in sawn timber production was historically high at 19%.
- Two significant forest transactions totaling some 40 000 ha of stocked area remain in the final phases of negotiation. The results of these are awaited with interest given recent market trends and historically high interest rates.

China/Asia

- China's ongoing housing slump continues to keep buyers away as large property developers have huge financial problems. China's floor space of real estate started has dropped from 2.24 billion m^2 in 2020 to 954 million m^2 in 2023. In the first two months of 2024, housing starts are 30% lower than during the same period in 2023. It is expected that the housing starts could bottom out as early as 2024 if there is enough government policy initiatives and support. However, it is more likely that the recovery will start in 2025.
- China's softwood log imports for the first two months of 2024 were lower by 12.9% at 3.8 million m^3 compared to the same period one year ago. The top six suppliers (from Timber-Online) were:
  - New Zealand 2.6 million m^3 +11.7%
  - Germany 267 000 m^3 -69%
  - USA 199 000 m^3 -3.7%
  - Canada 190 000 m^3 +28%
  - Japan 161 000 m^3 +21%
  - Poland 104 000 m^3 -50%
- China's inventory of logs at the end of March 2024 had risen to over 4 million m^3 despite weak demand.
- Softwood lumber imports into China were slightly higher by 0.25% (to 2.66 million m^3) for the first two months of 2024 as compared to the same period in 2023. The top six supplying countries compared to the same period in 2023 (from Timber-Online) were:
  - Russian Fed 1.69 million m^3 +7.8%
  - Canada 208 000 m^3 +40%
  - Belarus 146 000 m^3 +11%
  - Finland 143 000 m^3 -21%
  - Sweden 128 000 m^3 -40%
  - Germany 119 000 m^3 -27%
- Japan's softwood lumber imports decreased dramatically in 2023 to 3.19 million m^3, a decrease of 32.6% from 2023. In the first two months of 2024, imports had increased by 11.9% as compared to the same period in 2023. The top four importers were Canada, Sweden, Finland and the Russian Federation.

Europe

- December 2023 turned out to be a low point for Finnish timber prices – albeit they were still at high levels. Coniferous logs and pulpwood have appreciated steadily in Q1 2024, while there never really was a downturn in birch prices.
- There is optimism that forestland market activity will be restored as interest rates decline. Two large transactions took place in Q1 2024, 33 000 hectares of forestland were sold to MEAG and 8 500 ha to Inga Investments Group. Foreign ownership interest is expected to continue for Finnish forestland.

- Metsä Group announced it will launch a pre-study to produce a textile fiber made from softwood pulp. The intended facility would produce 100 kt/a of fiber under the “Kuura” brand.
- Many Finnish trade unions went on a political strike in Q1 2024, which caused pulp- and sawmills to suspend operations temporarily. PTT forecasts that the Finnish nominal export value of the forest industry will reach 11 billion euros in 2024, but is expected to decline in real terms. PTT also forecasts that the sawlog market is likely not to improve, as interest rates are yet to decline, which could boost housing starts. Finnish sawmilling capacity will increase slightly, albeit approximately 0,5 Mm3 of sawn wood capacity is shut down in 2024.
- Japan has kept importing Russian sawn wood despite trade sanctions to the anger of Northern sawmills.
- Despite very high wood price levels in Sweden in late 2023, prices have continued to increase during the first quarter of this year. The wood price increases are driven by an exceptional shortage of raw material for the industry because of low supply. Within the industry there is a clear concern that the higher price levels will become the “new normal” to which one must adapt.
- It has mainly been the lack of sawmill timber that has driven up prices recently. The sawmills’ timber cost in relation to the timber product price is now the highest in at least 25 years.
- The pulpwood market has been somewhat more stable, although hard pressed by higher energy wood demand, regionally. Over the past three years, average pulpwood prices in Sweden have increased by 80% and sawlog prices by 52%. However, pulpwood prices have not increased very much since late autumn 2023, while timber prices have continued with sharp increases, especially in Svealand and Södra Norrland.
- The wood market conditions may soon change in Northern Sweden and Finland due to the start-up of the pulp mill in Kemi, the start-up of SCA’s expansion in Obbola, Junnikkala’s sawmill and Stora Enso’s cartonboard machine project in Ouly, combined with Sveaskog’s reduced harvesting levels in that supply region.
- TEAMING UP 4 FORESTS released a comprehensive study on Europe’s wood supply amid disruptions, emphasizing the significant impact of climate change, political uncertainties, and a fragmented forest landscape on wood availability. The study is available at the following link.
- In Central Europe the Austrian sawmill industry reported an oversupply of softwood logs due to recent storm damage, particularly in Styria, affecting timber prices and transportation. The German Federal Statistical Office stated that logging activities decreased by 10.3% in 2023 compared to the previous year, with damaged wood logging also declining. Insect damage remains a primary concern for Central European forestry, with spruce and related species seeing continued declines in felling due to past bark beetle infestations. The use of wood for energy purposes has increased, reflecting a broader trend towards biomass and renewable energy sources in the European wood market.
- Moreover, it was recognized by the Polish Chamber of Commerce of the Wood Industry that its timber industry is experiencing a significant downturn. Key obstacles include escalating operational costs due to higher electricity prices, monopolistic actions by State Forests, seasonal restrictions on tree felling, problems with timber certification, and low timber prices.
- Market forecasts by EUROCONSTRUCT indicate varied prospects for the residential building sector across Europe. It forecasts a decline in 2024 of 2.1% in construction output, but growth of 1.5% and 1.6% in 2025 and 2026 respectively.
- Industry players recently reported an increase in timber usage for new building projects, with a growing trend towards construction using predominantly timber. Glulam is seeing steady growth and Central European manufacturers report satisfactory capacity utilization, with current lead times for standard products averaging 1-1.5 weeks.
- However, EUWID reported that manufacturers face higher costs for inputs, with significant price increases for Scandinavian KD lamellas and central European sawmills pushing for higher prices due to rising roundwood costs. Price negotiations have seen some earlier increases being rolled back due to softer demand, with further adjustments possible in the second quarter.
- It was reported that particleboard and MDF/HDF prices in Central Europe have now stabilized after significant declines through 2023, with occasional price increases for industrial buyers, with standard raw particleboard

prices now generally around EUR 140/m³. Moreover, particleboard buyers are experiencing longer lead times, now often over six weeks, due to adjusted production and demand dynamics.

- The increases in wood-panels demand, particularly particleboard, are linked to strong sales in the home furniture sector, notably from Ikea. Capacity utilization at particleboard plants remains robust, however it is expected that manufacturers are phasing out lower price tiers and focusing on enhancing margins as average prices begin to rise.
- The European Commission announced that it finished its investigation into the evasion of anti-dumping duties on birch plywood imports, the investigation identified issues with shipments from Turkey and Kazakhstan. In March, a freighter loaded with Russian birch plywood was detained in Rostock for breaching EU sanctions.
- Despite some improvement in Central European sales markets, the duty-free quota for softwood plywood imports into the EU-27 is still being utilized slowly, with only 46% of the reduced total volume called up by 12 March, amounting to 205 373 m³. Comparatively slow rates of quota usage were observed last year, with a similar volume called up by early March, highlighting a trend of delayed utilization compared to previous years.
- New formaldehyde regulations will be implemented in the EU from 6 August 2026, following the adoption of Implementing Regulation (EU) 2023/1464 by the European Commission. This regulation introduces a unified limit for formaldehyde emissions across Europe, measured via chamber testing. Following, the CETPC TG REACH working group has issued a position paper addressing the technical specifics of the newly required chamber test for formaldehyde emissions. This initiative aims to standardize testing procedures across various industries and products. The paper is available at the following link.
- Despite the recent announcement that Enviva, the largest global industrial wood pellet producer, has filed for bankruptcy, in countries such as Austria, pellet production still seems to be on the rise. The RZ group announced finalization of its expanded pellet production at RZ Pellets Vöcklamarkt, now capable of producing 150 000 tonnes of pellets annually. Stallinger started three new pellet production lines at Frankenmarkt, reaching an output of 80 000 tonnes in early 2024, and plans for full capacity utilization depending on market demand and the completion of a new wet-grinding plant. Tilly Holzindustrie launched operations at its new pellet plant in Althofen, designed to produce 90 000 tonnes of A1 pellets annually using local wood byproducts.
- Calls have been made by various European woodworking organizations, including the European Confederation of Woodworking Industries (CEI-Bois) and the European Timber Trade Federation (ETTF) that the EUDR implementation has too many obstacles, both legally and politically. However, the European Forest Owners Federation (CEPF) considers a delay in the implementation of the EUDR unrealistic since it would necessitate a new legislative process involving the EU Parliament, Commission, and Council. CEPF emphasized that compliance with EUDR is mandatory for continued access to the EU market, and stressed the need for a traceability system to verify products are not linked to deforestation. Moreover, environmental NGOs, such as Rainforest and GermanWatch, have rallied in support of the EUDR, urging EU Member States to reject industry lobbying and implement the regulation swiftly to maintain global environmental credibility.

Russia

- According to Rosstat, Russia's sawn softwood production in 2023 was 36.3 million m^3 – a decline of 2.6% as compared to 2022. Russia's production increased in the third and fourth quarters of 2023 as compared to the previous year.
- Pulp production in Russia was 8.55 million tons in 2023, a drop of 2.4% from 2022.
- Vladimir Putin plans to boost annual shipping capacity on Russia's two longest railroads, the Trans-Siberian and Baikal-Amur Mainline, to 210 million tons by 2030. The rail lines handled about 150.5 million tons of goods in 2023, according to the Kommersant newspaper. The 8,700 miles of railway tracks, also known as the Eastern Polygon, constitute a vital artery for Russia's foreign trade, linking its western regions with the Pacific Ocean and China. Yet the routes have long been beset by logistical issues and currently operate below their nominal capacity, despite booming trade with Asia. The railroads in 2023 handled about 13% fewer goods than their stated capacity, Kommersant reported Feb. 28, citing documents from the Transportation Ministry.

- Total trade between Russia and China reached a record USD 240 billion in 2023. China has become the supplier of everything from clothes to machinery and cars to Russia after an exodus of western manufacturers in the wake of the Ukraine invasion. At the same time, Russia has boosted exports of commodities such as coal, aluminum and lumber to China as Europe shuns Russian metals and mining companies even when they are not sanctioned.
- From February 2024, Russian sawmill and pulp and paper players started to complain about the capability of the Russian Railway to move finished goods on the agreed time to China. Shipment of goods via the port of St.Petersburg also becomes challenging due to the rapidly rising costs in the past winter months. Logistical problems again arise for Russian players.

North America

- US housing trends slowed considerably in March 2024:
  - US housing starts were 1.321 million units (Seasonally Adjusted Annual Rate, SAAR) in March 2024, a decrease of 14.7% from 1.541 million units in February (revised) and a decrease of 4.3% compared to 1.380 million units in March 2023. In March, single-family starts of 1.022 million were down 12.4% month-over-month (MoM) but up 21.2% year-over-year (YoY), and represented 77.4% of total starts (vs. 61.1% in March 2023).
  - Building permits for privately-owned housing units decreased to 1.514 million units (SAAR) in March, down 4.3% from the revised February rate but 1.5% higher YoY. Single-family permits of 973 000 were up 17.4% YoY but down 5.7% MoM and accounted for 66.7% of total permits.
  - Housing completions decreased 13.5% MoM in March to 1.469 million units and were 3.9% lower YoY. Single-family completions of 947 000 (SAAR) were down 8.5% YoY and down 10.5% MoM.
  - The National Association of Home Builders Housing Market Index was flat in April 2024 at 51 as compared to March (a score of over 50 indicates that more builders view conditions as good than poor). One year ago, it was 45.
  - The NAHB/Westlake Royal Remodeling Market Index (RMI) for the first quarter of 2024 posted a reading of 66, down one point compared to the previous quarter.
- After US housing starts moved steadily higher during the pandemic, mortgage rates rose above 7%, making housing less affordable to many buyers. Rising mortgage rates began to put pressure on home prices and sales. Median home prices have been on an upward trend, and were up 5.7% year-over-year as of February 2024 at USD 384 500. Market evidence points toward slow existing home sales, with transaction volume improving, but still down 3.3% year-over-year in February 2024. Days-on-market were up from 34 to 38 in February 2024 year-over-year. Low sales volumes will adversely impact lumber and panel markets in 2024.
- US softwood lumber production for 2023 was lower by 1.2% (to 37.4 billion BF; 59.6 million m^3, net) as compared to 2022. US West lumber production was lower by 3.0%, southern yellow pine (SYP) production was down by 0.2%, and the rest of the US was lower by 0.6%. Sawmill curtailments and three permanent mill closures occurred in the US South and the identical situation has happened in the US West in the first 15 weeks of 2024.
- US softwood lumber imports were lower by 5.9% in 2023, partly due to soft prices. Imports from Canada were down by 6.6% (a drop of 850 million BF) and imports from Europe were lower by 3.1% (-100 million BF).
- Canada's lumber output was lower by 6.0% (20.1 billion BF; 32.0 million m^3, net) in 2023 vs. 2022. BC production was down by a whopping 12.6% (to 6.9 billion BF – a 1.0 billion BF decline from 2022). BC has permanently closed three sawmills so far in 2024 with a number of mills operating on only one shift due to a scarce log supply.
- Canadian softwood lumber exports through the first two months of 2024 were 2.18 billion BF, an increase of 8.1% compared to the previous year.
- Canadian lumber exports to the US were 8.7% higher as compared to the same two months in 2023.
- Exports to Japan were 22% higher and were 17% lower to China.

- North American lumber output in 2023 totaled 57.5 billion BF, a decline of 2.7% or 1.57 billion BF.
- European imports to the US were much lower through the first two months of 2024 as compared to the previous year (Timber-Online). European imports were 35% lower and totaled 712 000 m^3 (447 million BF). Year-to-date shipments from the six top exporting countries were all negative: Germany (-34%), Sweden (-22%), Austria (-1%), Romania (-74%), Finland (-28%) and Czech Republic (-41%).
- North American lumber prices in the first 15 weeks of 2024 are showing an extremely wide range that is quite unprecedented. The 15-week average price in 2024 for the benchmark W-SPF 2x4 #2&Better, random lengths (FOB BC mill) was USD 446/thousand board feet (MBF). SYP(West) 2x4 prices averaged only USD 380/MBF and in mid-April were at multi-year low of only USD 309/MBF. Normally, SYP trades at a USD 50-60 premium to W-SPF on a FOB mill basis, but in mid-April it was trading at a massive USD 130/MBF discount. On the high end, US Inland Fir-Larch 2x4 KD R/L has averaged a whopping USD 536/MBF, which is a huge premium to both W-SPF and SYP.
- Pulpwood prices vary by region and season. In the Lake States region, Q1 hardwood roundwood prices remained flat, but were down 2% year-over-year. Softwood roundwood prices rose USD 2 in the Lake States, but were still down 6% year-over-year. In the South Central region, hardwood roundwood fell USD 3 per green ton and softwood roundwood prices slipped USD 1, while year-over-year, hardwood was down 14% and softwood was down 6%. South Atlantic region prices increased USD 1 for hardwood while softwood roundwood remained the same as last quarter and were down 3% and 8% respectively year-over-year. Northeast region prices for hardwood were up USD 1 and softwood roundwood were down USD 1 compared to last quarter and were down 10% for hardwood roundwood and down 4% for softwood roundwood year-over-year. Lastly, Pacific Northwest softwood roundwood prices were stable from last quarter and were down 41% year-over-year.
- Pacific Northwest Douglas-fir average log prices declined in Q1 2024 through February. Prices were continuing to decline most in the Willamette Valley, and holding the best in the Columbia River region where some 2-Saw prices began to rise in February. Average annual nominal DF 2-Saw prices across regions were down 4.8% through February YTD. Average annual nominal Whitewood 2-Saw prices were down 3.8% across regions but up 7% in the Puget Sound region, flat in the Columbia River region and down 1.3% in the Willamette Valley region through February YTD.
- US Q1 2024 and early Q2 large timberland transactions were seasonally quiet, with few packages closing and little in progress or on offer.
  - Some transaction details were reported, including:
    - Manulife sold 108 000 acres in eastern Louisiana and eastern Texas (Carthage package) to MEAG for USD 1 995 per acre.
    - Weyerhaeuser sold 9 900 acres of pine in Mississippi (Woodville package) to a private buyer for about USD 3 200 per acre.
    - FIA sold 4 900 acres in upstate South Carolina (Wade package) to a private buyer for USD 4 140 per acre.
    - A private owner sold 16 000 acres in Arkansas to PotlatchDeltic for USD 1 935 per acre.
    - TIR sold 20 500 acres in western Virginia and West Virginia (Bishop package) and a private owner sold 92 000 acres in upstate New York to Eastwood Forests. Details were not available.

  - Other transactions were pending or awaiting results such as:
    - The Rayonier offering of 115 200 acres on the Olympic Peninsula of Washington (Project Teal).
    - The Nuveen offering of 22 260 acres (Project Discovery) in southwest Washington.
    - The Manulife offering of 72 100 acres in Central Alabama (Sweet Home), in three parts. Two are pending and one is a no-sale.
    - The Molpus/AFM offering of 18 200 acres in Alabama, Mississippi and North Carolina (Tristate package) set to close in Q2.
- US hardwood lumber demand in Q1 remained mostly flat as prices strengthened only in response to shortages of select species and increases in log prices. Orders replaced thinner inventories, but did not reflect increased

demand by end use markets. Exports to China increased by 40% in January but remained down by 22% year-over-year. Forecasts indicate that kiln-dried lumber is expected to rise more modestly over the next few months due to some seasonal increase in demand from housing starts and exports.

South America

Brazil

Brazilian Forest Industry – Context and Trends

At the end of 2023, the common point among the main forest-based industrial segments was uncertainty regarding the international economic scenario and, consequently, their end markets. The expectations, however, were the same: the end of the "annus horribilis", with the recovery of demand throughout the first half of the year and prices in the second. At the end of Q1 2024, we have the following context and trends:

- Pulp and Paper Industry: The significant increase in BHKP pulp prices from Q4 2023 onwards will continue to positively impact the Industry's performance until at least Q4-2024, when production from Suzano's new pulp mill in MS will go to market. The following events explain the pro-industry context: increased demand for pulp in Europe and the USA, reduced production and inventories in Europe, and lower competitiveness of Chinese paper exports due to the disruption caused by the Red Sea crisis. As for the paper industry, corrugated board production grew 2.2% YoY. On the other hand, the Producer Price Index (PPI) of the pulp and paper industry for the domestic market fell 10.4% quarter-on-quarter (QoQ).
- Solid Pine Products: The plywood and moulding demand have been recovering in foreign markets. However, prices have not yet reacted as expected, resulting in lower financial performance for the companies. Regarding the lumber segment, demand and prices are still 20% to 30% below the industry's minimum goals. The Timber Industry's Producer Price Index (PPI) fell by 7.2% QoQ and the furniture industry by 2.1%. The common point of all segments is that prices will only react from Q3-2024 onwards.
- Charcoal: The average price fell by 14% QoQ, in real terms, probably in response to the fall in the prices of green pig iron in the foreign market in the same period (-17%). On the other hand, the PPI of the metallurgical industry in the domestic market fell 7.8% QoQ. Short-term expectations are not promising due to the real estate crisis in China.

The forest-based industry is close to overcoming current market challenges. However, it must intensify its actions to face two growing challenges: firstly, the risk of wood shortages due to adverse climate events, which are causing severe disturbances in the plant-environment-management relationship; secondly, the risk of barriers to exports arising from the increasing bottleneck in industry-to-market logistics and the new European Union regulation on deforestation-free products (EUDR).

Eucalypts Industry – Exports

Compared to Q1 2023, pulp exports remained practically constant (-1% QTY and -2% USD), Chips exports had a positive performance (+13% QTY and +2% USD), Charcoal via green pig iron grew in quantity but fell in revenue (+20% QTY and -1% USD) and Logs plummeted (-35% QTY and -34% USD).

Compared to the last 12 months, the YoY performance was also negative:

- Pulp: -8% QTY and -16% USD
- Chips: -19% QTY and -17% USD
- Charcoal via green pig iron: +7% QTY and -27% USD
- Logs: -37% QTY and -38% USD

The average price of wood used for pulp production remained stable in Q1 2024 when compared to H2 2023. However, due to the limited availability of wood and the high demand, there is a risk of price hikes and wood shortages in the near future. To mitigate this risk, companies are increasing self-supply by planting new forests, acquiring timberland assets, and entering into long-term wood supply contracts.

As for wood used for charcoal production, the average price has fallen due to decreased pig iron prices.

Pine Industry – Exports

Exports of pine products performed poorly in Q1-2024 when compared quarter-on-quarter.

- Lumber: -1% QTY and -8% USD
- Moulding: +28% QTY and +1% USD
- Plywood: +2% QTY and +2% USD
- Logs: -77% QTY and -47% USD

The export performance of all industrial segments also decreased YoY (last twelve months).

- Lumber: -9% QTY and -26% USD
- Moulding: +11% QTY and -25% USD
- Plywood: -3% QTY and -19% USD
- Logs: -70% QTY and -48% USD

Although stable compared to H2-2023, pulplog and sawlog prices have faced downward pressure, primarily due to the pulp industry's forest base expansion via acquisitions and the poor performance of exports and building construction in Brazil. However, the risk of a wood shortage is balancing out the risk of decreasing wood prices.

Pine-Eucalyptus Composite Panel Exports

Growth compared to Q1-2023 was significant in quantity (+95% QTY) and revenue (+62% USD). However, a less seasonal YoY comparison shows negative performance (-11% QTY and -31% USD).

Uruguay

- The train line connecting Paso de los Toros with the port of Montevideo was formally inaugurated in early April 2024 in the presence of the Uruguaian President.
- Both UPM1 and the Montes del Plata (MdP) pulp mills operated at full capacity during 2023 and are doing so during Q1 2024. UPM2's new pulp mill is nearing full production capacity. During Q1 2024, MdP "imported" 1.42 million m^3, UPM 0 950 million m^3 of logs and UPM2 1 54 million m^3. It is estimated that by 2024, the three pulp mills together will consume a volume of approximately 16 million cubic meters.
- During Q1 2024, eucalyptus woodchip exports were close to 100 000 m^3, 380% less than for the same period of 2022 (400 000 m^3). The first three woodchip vessels exported during Q1 2024, showed a decrease in FOB price close to USD 3/BDMt compared with 2023, reaching FOB values between USD 157/BDMt and USD 161/BDMt. During 2024, Uruguay's *Eucalyptus globulus* woodchips exports will decrease compared to 2023, mainly because Portugal is buying less volume.
- Pine log exports started at a lower pace during Q1 2024, with a total exported volume of 0.237 million JAS m^3, representing 7 vessels (100% to India). Average FOB price for Q1 2024 is around USD 77/JAS m^3.
- Uruguay's Q1 2024 eucalypt sawlog exports started at a higher pace than in the same period of 2023. The average FOB price for Q1 2024 is around USD 152/m^3 for logs 30+ SED, showing values 8% higher than in the same period of 2023. Top quality eucalyptus pruned logs with diameters SED 40+ reach values in excess of USD 200 per cubic meter FOB.
- Only one plywood company in Uruguay is still operational. As of Q1 2024, exported volume already reached 72 000 m^3, 6% higher than the volume exported during Q1 2023. Average prices for Q1 2024 are around USD 354/m^3, 10% higher than during 2023.
- Carbon credits from Uruguay's forest projects had high demand during December 2023 and Q1 2024. For young credits (young vintages), prices reached values close to USD 14/CCBvcu (CCBvcu= Climate, Community & Biodiversity Verified Carbon Unit).
- Three new forest industries have or are to be installed in the Center east region of Uruguay, two in the city of Treinta y Tres (Department of Treinta y Tres) and one in the city of Melo (Department of Cerro Largo). Of the two in Treinta y Tres, one is a small peeling mill (Olimar Mill) that started in March 2024 and will consume

around 40 000 m^3 of logs per year, and the second one is a plywood mill that will consume around 120 000 m^3/year of logs (starting in 2027). The one in Melo, is going to be built by Lumin. This is a larger plywood plant that will consume around 400 000 m^3 of logs per year. The start of production is planned for mid-2026.

Africa

- The African Development Bank's Macroeconomic Performance and Outlook report, published in January 2024 projects economic growth for the continent of 3.8% in 2024 and 4.2% in 2025. Due to deeper regional integration and strategic public spending, East Africa's economy is projected to increase the most of all regions with projected growth of 5.1% in 2024 and 5.7% in 2025. It is estimated that Africa will account for 11 out of the 20 fastest-growing economies in the world in 2024.
- At a recent International Day of Forests webinar presented by the African Development Bank, Africa's timber trade deficit was highlighted. Between 1992 and 2020, Africa accrued a timber trade deficit of USD 65 billion. This is a result of the imbalance between earnings from mostly unprocessed log exports and imports of processed wood products.
- Rwanda is the latest country to consider strict regulations on the harvesting of trees, in this case, restrictions on the harvesting of "immature trees" with a diameter at breast height of less than 20 cm. There is a growing trend amongst African countries to support timber processing versus the export of unprocessed logs.
- In line with this processing trend, is the growing interest amongst Southern and East African countries in mass timber production. The recently held 2024 Wood Conference in Cape Town highlighted the role of mass timber in construction and its role not only as a carbon store but also as a way of adding value and creating economic incentives.
- The first turbine of the new Julius Nyerere Hydropower Plant in Tanzania was switched on in February 2024. The power station is expected to have an installed capacity of 2 115 megawatts and will contribute substantially to electricity production in this country. Associated with increased electricity production is an increase in electrification which could increase the demand for transmission poles.
- Miro Forestry and Timber Products has received a USD 24 million equity investment from the US International Development Finance Corporation (DFC). The investment is aimed at enhancing Miro's forestry operations in Ghana and Sierra Leone.
- In December 2023, Criterion Africa Partners completed an investment in Mozambique Fibra Lda (MozFibra), a subsidiary of Mozambique Tree Framing Pty Ltd. This investment is targeted at the development and improvement of MozFibra's wood export operations through the port of Beira.
- After the devastating fire that affected NCT's Richards Bay woodchip operations in October 2023, operations are slowly recovering. It is expected to take much time before operations are back to normal, but NCT has started to accumulate woodchips for future shipments with the use of mobile chippers.
- Total woodchip exports through the ports of Richards Bay and Durban in South Africa, for January and February 2024, were ~264 000 Mt, compared to ~291 000 Mt for the same period in 2023. Pulp exports have decreased from ~197 000 ADt to ~139 000 ADt when comparing the period January to February 2024 to the same period in 2023.

GLOBAL CONSULTING ALLIANCE LOCATIONS

BM2C

Address: Av. Cândido de Abreu, 70 - Centro Cívico, Curitiba - PR, 80530-000, Brazil

Tel: +55 41 98893 7338| +55 41 3319 5967

bm2c@bm2consulting.com | www.bm2consulting.com

Häggblom & Partners Ltd

Address: Oy Aleksanterinkatu 21 A, 5. floor, 00100, Helsinki

Tel: +358 40 555 9567 | Rainer Häggblom, Chairman | rainer.haggblom@haggblompartners.com

Tel: +358 40 758 8881 | Werner von Troil, COO | werner.von.troil@haggblompartners.com

www.haggblompartners.com

Helsinki | London | New York | São Paulo | Singapore

Margules Groome Consulting Pty Ltd

Address: Level 4, 90 William St, Scottish House, Melbourne VIC, 3000, Australia

Tel: +61 3 8199 7937

info@margulesgroome.com | www.margulesgroome.com

Australia | New Zealand | Netherlands | South Africa | China

Mason, Bruce & Girard, INC | Natural Resource Consultants

Address: 707 SW Washington Street, Suite 1300, Portland, Oregon, USA

Tel: + 1 503 224 3445

info@masonbruce.com | www.masonbruce.com

PIKE & CO Consultora Forestal

Address: Costa Rica 1566, 11500 Montevideo, Uruguay

Tel: + 598 2605 6234 |+598 2605 6235

info@pike.com.uy | www.pike.com.uy

Russ Taylor Global | Wood Business & Market Consulting

Address: Vancouver BC Canada

Tel: +1 604 897 5666

russtaylor@russtaylorglobal.com | www.russtaylorglobal.com