

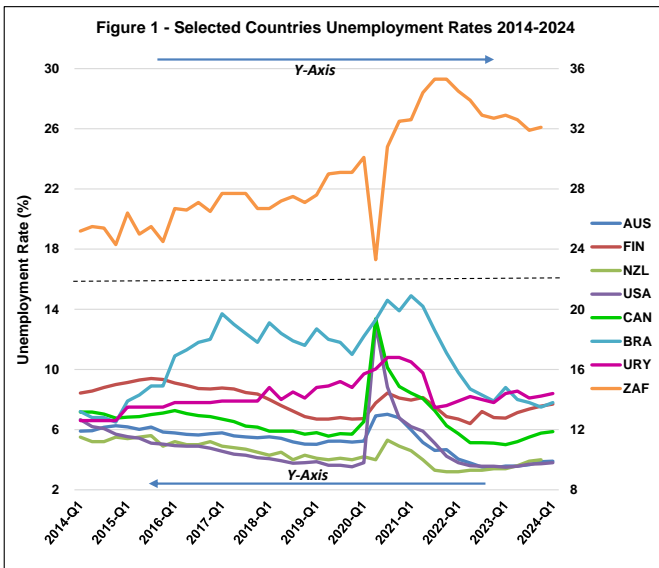
# Forest Sector Outlook

## Global Consulting Alliance

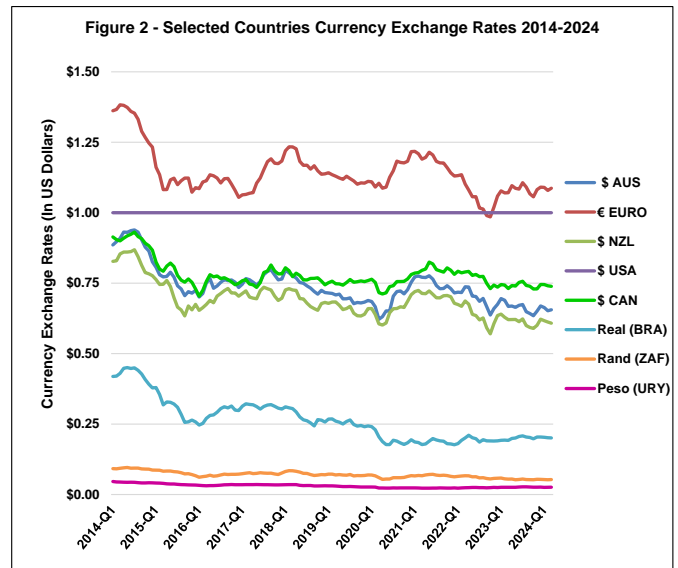
Quarterly Edition 2024-Q2

### ECONOMIC DASHBOARD

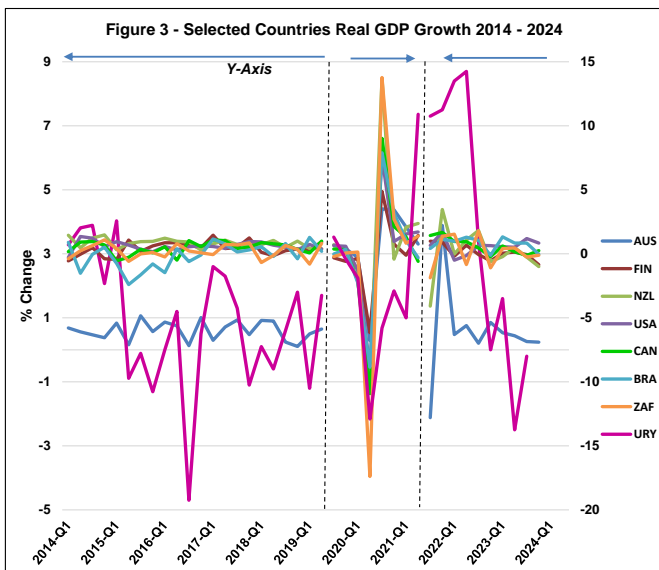
Figures 1 to 4 illustrate four key macroeconomic indicators as observed over the past decade, on a quarterly basis. These can be useful particularly for monitoring the post-pandemic conditions and the market implications of the ongoing wars in Ukraine and Gaza. Figure 4 rates are nominal.



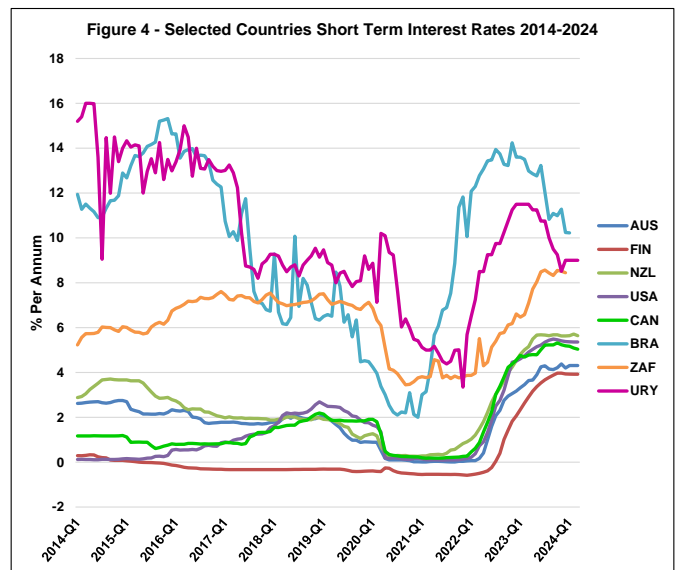
Sources: OEDC, Brazilian Institute of Geography and Statistics, [macro.trends.net](http://macro.trends.net) (World Bank), Statistics South Africa



Source: Federal Reserve, Uruguay Statistics National Institute



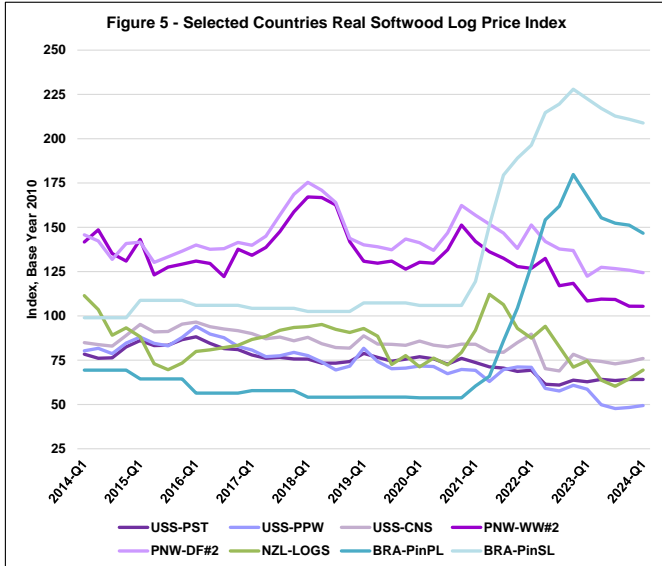
Source: OEDC, Chamber of Commerce and Services of Uruguay



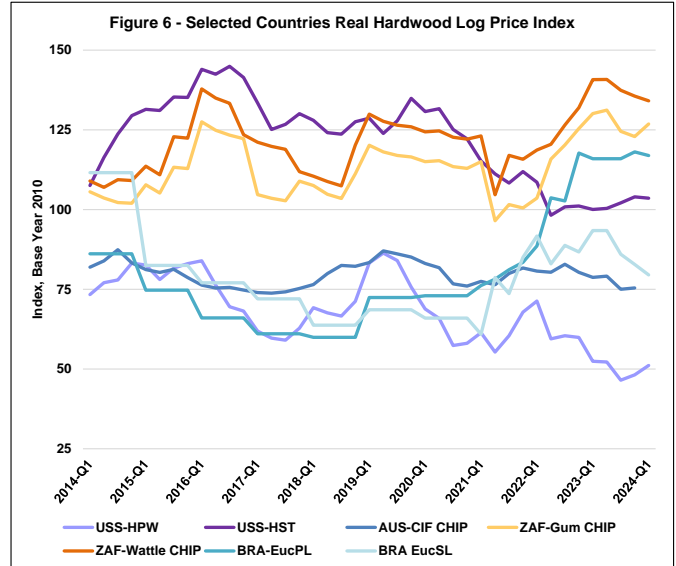
Source: OEDC, FRED - St. Louis Fed, Banco Central Del Uruguay, CEIC Data

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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 sharp swing to the right in the EU and French elections combined with the uncertainty caused by the attempted assassination on the Republican candidate for November’s USA elections has caused increased political uncertainty and division in both Europe and the USA.
- Counter to this trend, the July 4<sup>th</sup> election in the UK swung the opposite way ushering in a center left government after 14 years of conservative rule.
- The IMF release on 16<sup>th</sup> July 2024 indicated that global growth remained steady while disinflation was slowing and policy uncertainty rising.
- Global growth is expected to be 3.2% in CY2024 and marginally improve to 3.3% in 2025.
- Although the IMF sees the emerging Asian economies as the primary driver of global growth, recent trends in China are more worrying than the Q2 growth target missed and an increasing need for further stimulus.
- Also, the situation with the USA and Euro area has reversed with greater weakness seen in the USA and improved prospects in the Euro area.

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- Global inflation expectations for CY2024 remain similar to that reported in April although disinflation trends in several advanced economies have slowed with upside risk.
- Global trade issues are increasingly fueled by concerns in some Western countries over China's growing global influence. In a reversal of the USA's climate friendly policies, punitive tariffs have been introduced on green products from China such as solar panels, electric vehicles and steel. The EU is also introducing high tariffs on China in a similar protectionist move. These moves by the USA and Europe increase the risk of a trade war.
- The IMF sees oil prices remaining elevated due to OPEC cuts in production and a carry over from the Israel-Hamas conflict. Overall however, energy commodity prices are forecast to fall 4.6% over CY2024.
- Downside risks over the balance of CY2024 include the uncertainty created by the USA presidential election in November and increasing trade tensions between the West and the non-aligned block. As in April, new price spikes from geopolitical tensions, slowing improvements in core inflation and a disruptive turn to fiscal adjustment that can slow economic activity may occur.
- Potential upsides include the increasing likelihood of early rate cuts in the USA (potentially as early as September) and Europe which could lead to an increase in economic activity and business confidence.
- Brazil – According to the Central Bank's Focus bulletin (July 9), the financial market forecasts economic growth of 2.1% (GDP), inflation of 4.0% (IPCA), exchange rate of 5.2 BRL/USD (FX), basic interest rate of 10.5% (nominal Selic) and trade balance of USD 82.9 billion by the end of 2024. Compared to the forecasts at the beginning of the year, the GDP (1.6%) and trade balance (USD 70.5 billion) estimates improved. On the other hand, the FX (5.0 BRL/USD), Selic (9.0%), and inflation (3.9%) worsened.

## REGIONAL MARKET UPDATES

### Asia Pacific

#### Australia

- Consensus Economics' June 2024 edition estimates growth expectations for the Australian economy to slow from ~1.8%/a in CY2023 to ~1.3%/a in CY2024, but to pick-up again in CY2025 (~2.3%/a). GDP only increased 0.1% in the March quarter 2024 which suggests annual growth of ~1.3%/a in CY2024 to be on the optimistic side.
- Australia's labor market remains tight. The unemployment rate is expected to remain low but with an uptick from ~3.7% in CY2023 to ~4.2% in CY2024. This represents a modest change given the slowing of economic growth driven by the Reserve Bank of Australia's (RBA) sharp increases in its target cash rate in 2023 to rein in inflation.
- Australia's inflation rate is slowly returning to the RBA's target band of 2-3%/a. The monthly CPI indicator rose in March, April and May 2024, which has caused some concern that the June quarter CPI measure will show an increase, forcing the RBA to have to raise the target cash rate again to ensure inflation resumes its downward trend.
- Consensus Economics expects housing approvals to be ~163 000 units/a in CY2024, down on its earlier forecasts for this year and down from the peak of 230 500 in CY2021, i.e. a ~29% drop. Another increase in the RBA target cash rate will likely see further downward revisions.
- Australia's sawlog prices on a nominal basis are expected to remain 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 forest transaction market in Australia remains subdued, with only a single mid-scale plantation asset on the market year to date.
- The generic Australian Carbon Credit Units (ACCUs) price remained steady during the first quarter of CY2024, trading between AUD 32/ACCU and AUD 34.50/ACCU. However, multiple unit valuations exist depending on the perceived value of individual project credentials, method type and associated co-benefits. Plantation

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forestry ACCUs were priced at ~AUD 45/ACCU in May 2024 floating between AUD 40-50/ACCU on low trading volumes.

- Trade Tree Online and Brian McClay & Associates (TTO BMA), in their June 2024 review of the pulp market, indicated freight rates have been moving sharply higher due to continued disruptions in the Red Sea and competition for exports across a wide range of industries, especially in Southeast Asia. For example, exports of tissue from China to the USA stopped due to excessive container freight rates.
- TTO BMA further indicates that pulp inventories in China have been depleting in recent months as buying activity has been extremely muted. It further observes that downstream paper margins remain pressured due to a lack of export options and weak domestic demand.
- TTO BMA reports that its NBSK indices dropped for the first time in ten months in June, raising the question whether this represents a change in the market as many Chinese buyers remain on the sidelines while production capacity is increasing.
- 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 potentially reach a historic high of ~17 million BDMt/a in CY2024, exceeding the ~14.4 million BDMt/a in CY2023, and 16.0 million BDMt/a in CY2022. At the same time, Australian woodchip export volumes are expected to decline from ~4 million BDMt/a in CY2023 to ~3.7 million BDMt/a in CY2024. With Vietnam now supplying ~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.

### New Zealand

- In a surprise move, the National Party led coalition Government has decided to repeal the contentious *Log Traders and Forestry Advisers Regulations 2022* implemented under the previous government. This will save the industry costs, reduce administrative complexity and allow more freedom from Government control. It leaves the Institute of Forestry's registration scheme, which requires much higher standards, as the only registration mechanism remaining for forestry professionals.
- As of the 15 July, some 6 247 job cuts had been announced by government ministries as part of the cost cutting measures affecting all parts of New Zealand's public service. Departments have been required to make cost savings of 6.5-7.5%. The Ministry of Education has seen the largest reductions at 11% of the cuts (724) followed by the Ministry of Social Development at 10% of the cuts (701). The Crown Research Institute, Scion (previously The Forest Research Institute), has seen cutbacks with 30 roles to go, with Callaghan Innovation (R&D) also losing 30 positions. This is disappointing at a time when the forest industry is looking for solutions to many issues.
- The Minister of Finance, the Hon Nicola Willis, delivered the coalition government's first budget on 30 May. This trod a very careful path following through with the promised tax cuts while seeking to balance the many demands on government expenditure. Health and Education and Policing received some relief while many other areas had constrained funding. As a concession to the New Zealand First coalition partner, a regional development plan with NZD 1 billion in funding was set up. A similar plan had existed in an earlier term of the previous government with the same coalition partner but with NZD 3 billion in funding resulting in little to show in the way of results.
- The Budget Economic and Fiscal update released by Treasury on the 30 May forecasts -0.2% GDP for the year ending 30 June 2024 while growth is expected to pick up in the second half of calendar year 2024 reaching 1.7% in 2025 and 3.2% in mid-2026. Unemployment is expected to peak at 5.3% by late 2025 while inflation is predicted to be near the Reserve Bank's (RBNZ) 1% to 3% target range by mid-2025 and within it by mid-2026. The government's books are not expected to be in surplus again until 2027/28, necessitating further borrowing.



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- The RBNZ continues to hold the official cash rate (OCR) constant at 5.5% with the latest announcement on 10 July 2024. Predictions by economic forecasters vary wildly in terms of when a cut is expected, the earliest being September 2024 and the latest August 2025. The ASB Bank's chief economist is predicting 75 bps of cuts by year end.
- The coalition government's lack of priority on climate change along with the existing regulatory uncertainties has seen NZU prices under New Zealand's Emissions Trading Scheme (ETS) remain in the doldrums at around NZD 52/NZU. The Government auction for NZUs on 19 June offered 3.525 million units, the same as in March and the future auctions for 2024 but resulted in failure with no units sold. The government continues to ignore the recommendations of the Climate Change Commission to drastically cut the number of NZUs (carbon units) they are selling to force up the carbon price to encourage emissions reductions.
- The sawmilling sector remains depressed with structural lumber production being curtailed as the number of housing starts has fallen 25% over the previous year. Production for the year ending 31 March 24 was only 3.718 million m<sup>3</sup> of lumber down 19% from 2023 and 20% from the 2017 peak. Surprisingly there has been only a minor reduction in domestic log prices with S30/S40 logs trading at NZD 125-135/tonne delivered and P1 pruned logs at NZD 200-220/tonne in the North Island and some NZD 25-30/tonne lower in the South Island.
- Pulp fiber availability has been abundant following the Cyclone Gabrielle cleanup in the Central North Island but with this complete is likely to return to a relatively tight situation in the near future.
- The China softwood log market remains deeply depressed with prices near historic lows and little sign of demand being restored. Wharf stocks in China have reduced a little to 3.4-3.6 million m<sup>3</sup> but with limited demand buyers are not keen to purchase logs. China port offtake is around 65 000-70 000 m<sup>3</sup>/day. CIF prices may see a small increase in the near-term, but how much benefit growers will receive will depend on shipping costs which have until recently been increasing along with the NZD exchange rate to the USD. Current CFR log prices in China are in the USD 115/JAS-USD 122/JAS range for Radiata pine A-grade. Grade premiums are again shrinking with lower quality KS, KI and KIS logs exhibiting smaller discounts to A-grade than historically.
- Forest production remained high with the March Quarter harvest levels some 17% up on the same quarter in 2023. Log export volumes for the quarter are up by 30%, reflecting diversion from the depressed domestic market.
- The difficult trading conditions during most of 2023 and Q1 2024 have resulted in forest industry export receipts dropping to NZD 5.9 billion, 15% below their 2019 peak of NZD 6.9 billion.
- As referred to in the last Forest Sector Outlook, of the two significant forest transactions mentioned (totaling some 40 000 ha of stocked area) one has just announced the successful sale as at 10 July (cutting rights for Ngāi Tahu's West Coast forests). The other sale although thought to be completed, is yet to be publicly announced. The West Coast sale is for an 85% share of the venture and is subject to Overseas Investment Office approval. A further large sale process for Rayonier's 77% share of the 120 000 ha Matariki estate has also been announced. The results of these two transactions are awaited with interest given recent market trends and historically high interest rates.

### China/Asia

- The downturn in China's residential real estate sector slowed in June, following the government's efforts to put a floor under the housing market in some of its biggest cities. Three of the nation's biggest cities — Shanghai, Shenzhen and Guangzhou — slashed downpayments and allowed cheaper mortgages in late May, after the central government unveiled a broad real estate rescue package. The capital Beijing became the fourth of the so-called tier-1 cities to follow suit in late June.
- The value of new-home sales through May from the 100 biggest real estate companies dropped 17% from a year earlier to 439 billion yuan (USD 60 billion), compared with a 34% decline in May, according to preliminary data from China Real Estate Information Corp. Most notably, sales jumped 36% in June from May.

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- China's softwood log imports for the first five months of 2024 were lower by 3.8% at 11.4 million m<sup>3</sup> compared to the same period one year ago. The top six suppliers compared to the same period in 2023 were (from Timber-Online):
  - New Zealand 7.9 million m<sup>3</sup> +18% (70% of total imports)
  - Japan 567 000 m<sup>3</sup> +19%
  - Germany 547 000 m<sup>3</sup> -69%
  - USA 516 000 m<sup>3</sup> -12%
  - Canada 486 000 m<sup>3</sup> +17%
  - Poland 381 000 m<sup>3</sup> -38%

Of note, Australia came in as the seventh largest supplier at 258 000 m<sup>3</sup> compared to zero volume last year.
- China log inventory continues to reduce slowly, and daily port off-take remains around 70 000 m<sup>3</sup> per day.
- Softwood lumber imports into China were slightly higher by 0.25% (to 2.66 million m<sup>3</sup>) for the first five months of 2024 as compared to the same period in 2023. The top six supplying countries compared to the same period in 2023 were (from Timber-Online):
  - Russian Fed 4.77 million m<sup>3</sup> -.04% (64% of total imports)
  - Canada 584 000 m<sup>3</sup> +1%
  - Belarus 524 000 m<sup>3</sup> +47%
  - Finland 331 000 m<sup>3</sup> -23%
  - Germany 273 000 m<sup>3</sup> -36%
  - Sweden 272 000 m<sup>3</sup> -43%
- China has rejected the EUDR rules. Under Chinese law, geographic information is restricted to entities with special authorization from the administrative department for surveying and mapping under the State Council. Given the current geopolitical climate, it seems unfathomable that China will provide the EUDR authorities with this data.
- Japan's softwood lumber imports increased in the first five months of 2024 to 1.55 million m<sup>3</sup>, an increase of 24% from the same period in 2023. The top four suppliers were Canada, Sweden, Finland and the Russian Federation and these countries represented 74% of total imports through May (from Timber-Online).
- Wood Central recently reported that Japan's declining Yen is resulting in increasing domestic log harvesting and that the country is investing in high-value timber production. Japan's revised Public Buildings Wood Use Promotion Act supports the use of timber in both public and private buildings. Wood Central now reports a boom in mid-rise timber building construction in Tokyo and the World Expo site in Osaka. Japan has approximately 25 million hectares of forest, which covers about two-thirds of its total land area.

## Europe

- The European Commission approved the Nature Restoration law after Austria made a U-turn to rally enough votes. To meet the established targets, EU countries are required to restore at least 30% of habitats covered by the new law – from forests, grasslands, and wetlands to rivers, lakes, and coral beds – from poor to good condition by 2030. This percentage is set to increase to 60% by 2040 and 90% by 2050. Member countries have limited time to plan for and achieve the 2030 targets.
- Forestland markets have been at a standstill for some time but picking up, especially in the Nordics and Baltics. Large forest transactions have taken place in Finland and there are more properties than usual on the market in the Baltic 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](#).

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- The European Organisation of the Sawmill Industry (EOS) reported that in 2023, the volume of sawn hardwood produced by affiliated countries marked a decline and a record low of 5.1 million m<sup>3</sup> (provisional figure). From the report, Romania's volume fell by 17.2% (1.2 million m<sup>3</sup>), Germany's by 12.4% (877 000 m<sup>3</sup>), and Latvia's by 31.7% (615 000 m<sup>3</sup>), mostly due to absent roundwood deliveries from Russia. While Latvia anticipates further reduction to 605 000 m<sup>3</sup> and Romania expects stagnation, German sawmills foresee a recovery to 940 000 m<sup>3</sup> in 2024.
- The EOS also reported that sawn softwood production fell by 6% in 2023 to a total of 80.98 million m<sup>3</sup>. A slower reduction in production is expected for 2024, with a forecast of 79.5 million m<sup>3</sup>, a decrease of ~2% compared to last year.
- The latest market report by EUROCONSTRUCT forecasts a decline in construction output in Europe in 2024 of 2.1%, followed by growth in 2025 and 2026, as well as a stabilization of wood-panel price.
- Based on the increasing prices for wood products in the spring, the expectations for longer-term improvement of the markets emerged. The US looked to be the market that would drive prices. Now there is a concern again about what will come during the summer. With hindsight, we can state that the price rise in spring was driven by low customer inventories, production constraints caused by timber shortage rather than better underlying demand. Now the customers have built up their stocks while demand has not improved. This while many sawmills have been sawing at full capacity at ever higher timber prices.
- Among the Nordic countries, Finland's GDP exposure to the construction sector is the strongest, therefore the weak demand has hit the value chain hard. Construction companies are struggling to sell finished apartments and housing starts are weak – all resulting in less demand for sawn wood.
- Despite sawn wood demand having declined, both pulpwood and sawlog prices have reached all time high levels in Finland after rebounding from a year-end low point. Sawmills therefore face increasing raw material costs and weaker product demand.
- In Sweden, the timber prices have continued to increase throughout the country. Further smaller price increases are anticipated especially for spruce and for pulpwood, especially in the northern parts of Sweden. The pulpmills will run at full capacity after new record prices for pulp. Energy wood prices have also been at their peak, a sector competing for raw material with the pulp mills. Here we see indications of a more balanced market where recent extreme local prices are not repeated.
- An important factor impacting negatively on the industry in Finland was the strikes taking place in Q2 2024 as a response to the government's new policies related to labor laws. Many firms temporarily furloughed employees and took downtime on mills. Following the strike, Metsä Group stated that the absence of road and rail transport limited the supply of roundwood, and port walkouts hindered exports of finished products. On top of that, sawn wood sales in the first quarter dropped by 27.7% year-on-year to 222 000 m<sup>3</sup>, a 38% decrease from the previous quarter. Moreover, with the Merikarvia pine sawmill (annual capacity of 220 000 m<sup>3</sup>) ceasing production in April, Metsä's annual sawn wood capacity for 2024 is now expected to have been reduced by roughly 10% to 1.86 million m<sup>3</sup>.
- The challenging market conditions have also forced the industry to reconsider expansion plans and to curtail capacity. Metsä Board decided to not build the folding box board machine planned for their Kaskinen mill. Increased CAPEX was the key motivator for the decision after a preliminary feasibility study was completed. UPM has announced they will close 330 000 t/a of graphical paper capacity in Hürth and Dörpen in Germany.
- The German federal states submitted their second damaged wood forecast for the year, predicting higher volumes of both softwood and hardwood compared to the initial forecast. The Federal Ministry of Food and Agriculture (BMEL) is now expecting around 28.56 million m<sup>3</sup> of damaged wood nationwide for 2024, an 18% decrease from 2023 but 6% higher than the initial forecast. Damaged softwood is projected at 25.54 million m<sup>3</sup> (-18.5% from 2023) and damaged hardwood at 3.02 million m<sup>3</sup> (-5.9% from 2023).
- In Croatia, state forest business enterprise Hrvatske šume reported 3.96 million m<sup>3</sup> of calamity wood from the July 2023 storms, revising earlier estimates. This includes 1.94 million m<sup>3</sup> of common oak, 159 600 m<sup>3</sup> of sessile oak, 638 000 m<sup>3</sup> of beech, 32 000 m<sup>3</sup> of spruce/fir, and 1.19 million m<sup>3</sup> of other species. Estimates for private forests are still unavailable, but approximately 5 million m<sup>3</sup> of windblown wood is assumed nationwide.

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- After completing its investigation into the evasion of anti-dumping duties on birch plywood imports, the European Commission is now launching another investigation into imports of multi-layered parquet from China. This follows a complaint made by the European Parquet Federation (FEP) in April 2024, which compiled evidence of dumping and damage on the European market. In June, the Dutch Government’s Fiscal Information and Investigation Service (Fiscale Inlichtingen- en Opsporingsdienst – FIOD) also arrested two importers of birch plywood from Russia.
- As reported previously, 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](#).
- 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.
- In recent developments, some countries asked for delays and/or clarification around the rules enforced by the EUDR. In an open letter, the US trade representative, Katherine Tai; US commerce secretary, Gina Raimondo; and US agriculture secretary, Thomas Vilsack, highlighted “critical challenges” posed by the law. Arguing that a ban on cocoa, timber, and paper products linked to deforestation would harm producers, as many cannot prove their product does not come from deforested land. The European Commission confirmed receipt of the US letter and will respond in due course. The letter is available at the following [link](#).
- Mark Ross, CEO of New Zealand’s Wood Processors and Manufacturers’ Association, stated that while the industry supports the EUDR regulations, more clarity is needed. However, he is still confident that New Zealand is well-positioned to meet these requirements, thanks to existing systems that track product origins, and by improving current certification programs such as Forest Stewardship Council (FSC). Export NZ released a report detailing the impact of EU compliance tools on the agreement, noting that New Zealand’s incoming legal harvest assurance scheme for timber, set to begin in 2026, may help with EU regulation compliance. The report is available at the following [link](#).
- Indonesia announced it will present detailed data on forest coverage using the National Forest Monitoring System (Simontana). As such it aims to correct the European Union Forest Observatory (EUFO) map, published in December 2023 (final map version due in December 2024) to achieve a low-risk assessment, ensuring its commodities are not classified as originating from deforested or degraded areas.

## Russia

- From the third quarter of 2023 to the first quarter of 2024, domestic demand remained active in the Russian Federation wood house construction market. Housing starts in 2023 totaled 110.4 million m<sup>2</sup> (+7.5% year-on-year). In the first three months of 2024, housing starts were 29.3 million m<sup>2</sup>, of which the share of single dwelling house construction was 70% or 20.5 million m<sup>2</sup> (+22% year-on-year). The wooden single housing market share has been steadily increasing as it was 43% in 2018, 48% in 2020 and 57% in 2023. This increase is the result of many factors including improved mortgage loans for residential construction, many incentives by the state (including infrastructure development) and people’s taste for private homes with a garden as a result of COVID.



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- In the second half of 2023, the volume of timber harvesting in the Russian Federation remained similar to the previous period. In the first quarter of 2024, timber harvesting volumes also remained at the 2023 first quarter level, or 62.3 million m<sup>3</sup>.
- Production of sawn softwood in the Russian Federation in 2023 decreased slightly from 2022, or from 36.8 million m<sup>3</sup> to 36.2 million m<sup>3</sup> (-1.6% year-on-year). In the first quarter of 2024, production of sawn softwood increased to 9.4 million m<sup>3</sup> (+9.3% year-on-year) from 8.6 million m<sup>3</sup> in the first quarter of 2023. Of note, 44 % of the total volume of sawn softwood produced in the Russian Federation was sold into the domestic market. Consumption of sawn wood in the Russian Federation is growing by an average of 15-20% per year. Domestic consumption in 2023 was estimated at 17.2 million m<sup>3</sup>, and consumption in the first quarter of 2024, according to estimates, was close to 4.5 million m<sup>3</sup> (+11% year-on-year).
- According to Rosstat data: The volume of production of timber products in January-April 2024 compared to the same period last year were all higher except for wood pellets (courtesy of WhatWood):
  - Softwood logs: 31.6 million m<sup>3</sup> (+0.4%)
  - Hardwood logs: 17.1 million m<sup>3</sup> (+6.2%)
  - Softwood & hardwood sawn timber: 9.7 million m<sup>3</sup> (+1.1%)
  - Wood pellets: 405 000 tons (-7.5%)
  - Plywood: 1.171 million m<sup>3</sup> (+14.5%)
  - Fiberboard (including MDF/HDF/flooring): 247 million conventional m<sup>2</sup> (+27.0%)
  - Particleboard (including OSB): 3.9 million conventional m<sup>3</sup> (+12.2%)
  - Wood pulp: 2.9 million tons (+1.3%)
  - Paper and paper board: 3.6 million tons (+10.1%)

## North America

- US housing trends slowed considerably in May 2024. US revised housing starts in May were 1.314 million units (Seasonally Adjusted Annual Rate, SAAR), a decrease of 2.8% from 1.352 million units in April (revised). In May, single-family starts were 1.002 million, a decline of 3.3% month-over-month, and represented 76% of total starts (vs. 64% in May 2023). Multi-family starts were lower by 1.3% to 0.312 million units.
- In June 2024, US housing starts were mixed. Total housing starts increased from May to 1.353 million units (SAAR). Single-family starts were lower than May and were at 0.980 million, down 2.2% month-over-month, but multi-family units were higher by 19.6 %.
- Mortgage rates remain around the 7% mark making housing less affordable to many buyers. Median home prices have been on an upward trend and market evidence points toward slow existing home sales, with transaction volume improving only slightly. Low sales volumes will adversely impact lumber and panel markets for the rest of 2024.
- US softwood lumber production in the first three months of 2024 was lower by 3.4% (to 9.0 billion BF; 14.5 million m<sup>3</sup>, net) as compared to the same period in 2023. US West lumber production was lower by -0.9%, southern yellow pine (SYP) production was down by 4.9%, and the rest of the US was lower by -3.1%. Very low lumber prices in the US South caused some production curtailments, resulting in decreased output.
- US softwood lumber imports were higher by 0.25% in the first five months of 2024 to 9.0 billion BF. Imports from Canada increased by 4.0% to 7.5 billion BF and imports from Europe were lower by 23% to 1.05 billion BF (1.7 million m<sup>3</sup>). The leading European importers were Germany, Sweden and Austria and they represented 87% of European shipments to the US.
- Canada's lumber output was higher by 2.2% to 5.3 billion BF (8.5 million m<sup>3</sup>, net) in the first three months of 2024 vs. 2023. BC production was lower by 6.6% to 1.68 billion BF.
- Canadian softwood lumber exports through the first five months of 2024 were 5.8 billion BF, an increase of 3.3% compared to the previous year (COFI Connect).
  - Canadian lumber exports to the US were 5.18 billion BF, or 4.0% higher as compared to the same five months in 2024.

## Forest Sector Outlook

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- Exports to Japan were 36% higher and were 24% lower to China.
- North American lumber prices in the first half of 2024 have generally trended lower as market demand slowed and production exceeded demand. From the beginning of the first quarter through to its end, W-SPF 2x4 prices gained 4% while W-SYP 2x4 declined 15%. From the beginning of the second quarter through to its end, W-SPF 2x4 prices dropped by 25% while W-SYP 2x4 declined by another 9%. Through the first two weeks of July, prices have continued to move lower where almost all “average” or typical sawmills in North America are at or below breakeven costs. Negative margins of perhaps 20% to 30% face European lumber exporters to the US given their higher log costs.
- US pulpwood prices vary by region and season. In the Lake States region, Q2 hardwood roundwood prices remained flat quarter-over-quarter and year-over-year. Softwood roundwood prices rose USD 2 in the Lake States and were up 2% year-over-year. In the South Central region, hardwood roundwood rose USD 1 per green ton and softwood roundwood prices remained flat, while year-over-year, hardwood was down 8% and softwood was down 3%. South Atlantic region prices increased USD 2 from last quarter for hardwood and were up 6% year-over-year while softwood roundwood prices were up USD 1 and still down 3% year-over-year. Northeast region prices for hardwood were down USD 1 and softwood roundwood were flat compared to last quarter and were up 4% for both hardwood roundwood and softwood roundwood year-over-year. Lastly, Pacific Northwest softwood roundwood prices were stable from last quarter and were down 15% year-over-year.
- Pacific Northwest Douglas-fir (DF) average log prices declined in Q2 2024 through May. Prices were continuing to decline most in the Willamette Valley, and holding the best in the Puget Sound where nominal 2 Saw prices declined about 0.8% as of May YTD. Average annual nominal DF 2-Saw prices across regions were down 4.3% through May YTD. Average annual nominal Whitewood 2-Saw prices were up slightly at 1.1% May YTD across regions, down 1.0% in the Puget Sound region, up 0.6% in the Columbia River region and up 3.5% in the Willamette Valley region.
- US Q2 2024 large timberland transactions were quiet, with few packages closing or pending. Pending transactions are still in progress from Q1 and new offerings are mixed quality.
  - Some transaction details were reported, including:
    - A private seller sold 10 700 acres in Louisiana to a private buyer for USD 1 020 per acre.
    - PotlatchDeltic sold 34 000 acres in Arkansas and Alabama to FIA for USD 1 705 per acre.
    - Manulife sold 108 000 acres in eastern Louisiana and eastern Texas (Carthage package) to MEAG for \*USD 2 309 per acre. \*updated.
  - 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) was expected to close in Q2.
- US hardwood lumber demand slowed in Q2, especially in June as summer slowdowns began early with high mortgage rates and inflation stifling domestic demand for hardwood lumber. Some sawmills instituted shutdowns while secondary wood markets were able to continue production full-time. Exports to Thailand, Indonesia and Vietnam, while still modest, have increased dramatically. Poplar and alder shipments to Vietnam and China have soared. Log export volumes were the highest in 24 months. Demand from Vietnam and China led the trend, with white oak exports reaching a 35-year high and walnut hitting a third consecutive record.

## South America

### Brazil

#### Brazilian Forest Industry – Context and Trends

There is nothing new on the front regarding the context and trends for H2-2024. In summary, the predictions made at the end of 2023 are underway. Demand has been recovering, and earnings margins are still below targets due to the lingering effects of the pandemic, such as depressed prices, higher production costs, and challenging port logistics. As for the trends, international economic-political instability continues to cast shadows over the future. More specifically:

- **Pulp and Paper Industry:** It is the exception to the challenging context and scenario in the short term, favored by the significant increase in international prices. These prices should remain stable in the second half of the year but with a slight downward trend. Suzano has started the commissioning phase of its new industrial mill in Mato Grosso do Sul (2.6 million t/yr Cerrado Project) and continues to implement its strategy to expand its production chain with the purchase of 15% of Austria's Lenzing (dissolving pulp and Tencel) for EUR 230 million. Arauco has started the preparation phase of its industrial site in the same state (2.5 million t/yr Sucuriú Project by 2028).
- **Solid Pine Products:** Despite the demand recovery and the sawlog price drop, ranging from 3% to 14% depending on the assortment, stakeholders' expectations for H2-2024 changed from "profit margin recovery" to "challenging context".
- **Charcoal:** The average price decreased 14% half-year-on-year, in real terms, likely due to the drop in green pig iron prices in the foreign market in the same period (-16%).

#### Eucalypts Industry

A half-year analysis against 2023 shows the following performance of exports:

- Cellulose: +4% QTY and +18% USD
- Chips<sup>1</sup>: -7% QTY and -17% USD
- Charcoal via green pig iron: +2% QTY and -14% USD
- Wood logs: -37% QTY and -38% USD

In the same period, pulplog prices for pulp production remained constant but with an upward bias. In the case of fuelwood, there was a drop of ~15% due to the decrease in the price of charcoal/pig iron.

#### Pine Industry

A half-year analysis against 2023 shows the following performance of exports:

- Lumber: -6% QTY and -11% USD
- Moulding: +15% QTY and -4% USD
- Plywood: +11% QTY and +14% USD
- Wood logs: -87% QTY and -71% USD

Despite the plywood industry's revenue growth, it did not offset the decline in margins year-over-year.

#### Pine-Eucalyptus Composite Panel

Half-year-on-year export growth saw significant increases in both quantity (+71% QTY) and revenue (+55% USD). The decrease in the domestic market demand led to efforts to export at lower prices compared to the previous semester (-9.5% USD).

<sup>1</sup> Eucalyptus + Acacia

## Forest Sector Outlook

### Producer Price Index (PPI)

In the domestic market, according to the IBGE, the average prices of the primary processing industries linked to wood had the following changes semester by semester:

- Pulp and paper: -9.6%.
- Metallurgical industry: -7.2%
- Wood: -7.1%
- Furniture: -2.0%

The US Bureau of Labor Statistics reported that the pulp and paper industry price indices dropped by 7.9%, lumber by 4.6%, and plywood by 7.1% semester-over-semester. The USA is a top destination for Brazilian forest-based exports.

### 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 Uruguayan President. As of Q2 2024, it is still operating at less than half of its capacity. Pulp is transported from UPM2 to the port of Montevideo by truck and by train.
- As of Q2 2024, both UPM1 and the Montes del Plata (MdP) pulp mills operated at full capacity. UPM2's new pulp mill is nearing full production capacity. During Q2 2024, MdP "imported" 2.69 million m<sup>3</sup>, UPM 2.08 million m<sup>3</sup> of logs and UPM2 3.11 million m<sup>3</sup>. It is estimated that by the end of 2024, the three pulp mills together will consume a volume of approximately 16 million m<sup>3</sup>.
- As of Q2 2024, eucalyptus woodchip exports were close to 350 000 m<sup>3</sup>, nearly half of the volume exported during the same period of 2023 (630 000 m<sup>3</sup>). These exports 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 both Portugal and China are buying less volume.
- Pine log exports continued at a slower pace during Q2 2024, with a total exported volume of 0.446 million JAS m<sup>3</sup>, representing 15 vessels (100% to India). Average FOB price for Q1 2024 is around USD 78/JAS m<sup>3</sup>.
- Uruguay's Q2 2024 eucalypt sawlog exports continued at a good pace but with lower volume than in the same period of 2023. The average FOB price for Q2 2024 is around USD 150/m<sup>3</sup> for logs 30+ SED, showing values 8% higher than in the same period of 2023. Top quality eucalyptus pruned logs with diameters SED 40+ reached values in excess of USD 200 per cubic meter FOB.
- Only one plywood company in Uruguay is still operational. As of Q2 2024, exported volume has already reached 145 000 m<sup>3</sup>, 16% higher than the volume exported during Q2 2023. Average prices for Q2 2024 are around USD 343/m<sup>3</sup>, 2.5% 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 ranging between USD 8/CCBvcu and USD 14/CCBvcu (CCBvcu= Climate, Community & Biodiversity Verified Carbon Unit).
- In the presence of President Luis Lacalle Pou, the Olimar Forest Products peeling plant was inaugurated in March 2024. This project, developed by AF, represents a milestone in the forestry chain, promoting local economic development by generating more than 45 direct jobs and close to 100 indirect jobs. The construction of this factory required two and a half years of work and an investment of USD 7 million. With a production capacity of 40 000 m<sup>3</sup> of sheets per year, exports are expected to reach USD 14 million per year.

### Paraguay – Paracel Pulp Mill Information

- Paracel consists of three companies: the Zapag Group, Heinzl Holding GmbH and Girindus Investments. In addition to the priority shareholders, Paracel has a network of shareholders in Paraguay.



## Forest Sector Outlook

- The plant will produce 1.8 million tons of BHKP (Bleached Hardwood Kraft Pulp).
- Unofficial sources estimate that the mill will begin operation in 2028-2029.
- Paracel owns more than 193 000 hectares of land distributed in 23 ranches in the Departments of Concepción and Amambay. Of this total, some 43 000 hectares have already been planted with different species of eucalyptus (mainly *Eucalyptus urograndis*).
- Paracel submitted an ARR Carbon project to the VCS, but it is “On Hold”. It is likely that the project will have difficulties in demonstrating the “additionality” of the project.
- In 2023, Paracel built three barges and has nine more under construction.

## Africa

- According to the African Development Bank’s African Economic Outlook 2024 report, released in May 2024, Africa will retain its status as the second fastest growing economic region in the world. More than 40 countries are set to maintain higher growth rates than in 2023.
- Twenty-one African countries will hold presidential and national elections in 2024. South Africa’s national and provincial elections took place in May 2024, resulting in major changes in the political landscape. The African National Congress (ANC) lost its majority vote for the first time since 1994 and a Government of National Unity, comprising the ANC and other political parties was formed. Markets responded in general positively to these changes. It is hoped that the individual outcomes of the record number of elections in 2024 will boost economic development and investor confidence in Africa.
- After a turbulent economic period for Ghana the International Monetary Fund (IMF) has upgraded Ghana’s economic growth forecast for 2024 from 2.8% to 3.1% as an acknowledgement of improved economic stability. The Ghanaian Cedi has depreciated from GHS 11.43: USD1 to GHS 15.24: USD 1 between 30 June 2023 and 1 July 2024.
- The World Bank’s Commodity Markets Outlook, released in April 2024, projects that African log prices will increase by 3% in 2024 and 1.3% in 2025. This is a slow but steady continuation of an upward trend since 2022 after log prices fell between 2021 and 2022.
- The 26th World Congress of IUFRO recently concluded in Stockholm. The event was attended by more than 4 000 participants from more than 100 countries. The 27th IUFRO World Congress will be hosted for the first time ever in 2029 on African soil. The event will take place in Nairobi, Kenya and will be hosted by the Kenya Forestry Research Institute (KEFRI).
- The Climate Investment Funds (CIF), a multilateral climate fund created to finance pilot projects in developing countries, has approved USD 31 million in funding to Rwanda to support land, forest and wetland management activities in the Kaduha-Gitwe corridor.
- Eni, the Italian energy company, in collaboration with Biocarbon Partners (BCP) launched the Greater Limpopo project in Mozambique after receiving a REDD+ license from the Mozambique authorities. This project aims to protect 4 million ha of forest in the Manica, Sofala, Inhambane and Gaza provinces of Mozambique.
- Sappi Southern Africa has concluded a 175 GWh per annum renewable energy Power Purchase Agreement with Enpower Trading. The power will be sourced from SolarAfrica Energy’s Sun Central PV project (one of the largest solar farms in South Africa) and will contribute towards reducing Sappi’s Scope 1 and 2 emissions.
- PG Bison commissioned its new medium density fiberboard line at its Mkhondo plant in South Africa in June 2024. This line will increase its MDF capacity by 780 m<sup>3</sup> per day.
- FMO, the Dutch entrepreneurial development bank, announced in April that they will invest ZAR 350 million (~USD 19 million) in South Africa’s York Timbers. The money will be used to refinance existing debt, extend the rotation age of plantations and expand York’s agricultural division.
- Total woodchip exports through the ports of Richards Bay and Durban in South Africa, for January to May 2024, were ~647 000 Mt, compared to ~771 000 Mt for the same period in 2023. Pulp exports have increased slightly from ~419 000 ADt to ~453 000 ADt when comparing the period January to May 2024 to the same period in 2023.

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