



# Quarterly Update

## Forest Investment Associates

SECOND QUARTER 2018

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## Summary Update

**Timber and Product Prices** – Solid wood demand across the South continues to see minor improvements. Pacific Northwest markets remain vibrant as domestic and export demand surges. Northern hardwood markets continue to experience strong export demand from China and other Asian and European countries. Panel and lumber prices increased over the quarter, reaching levels in early June not seen since 2004.

May housing starts increased to a seasonally adjusted annual rate of 1.350 million units, the highest level since July 2007. This rate was 5.0% above the revised April rate of 1.286 million units and 20.3% above the May 2017 rate of 1.122 million units. The average interest rate for 30-year fixed rate mortgages retracted slightly, falling from 4.59% in May to 4.57% in June.

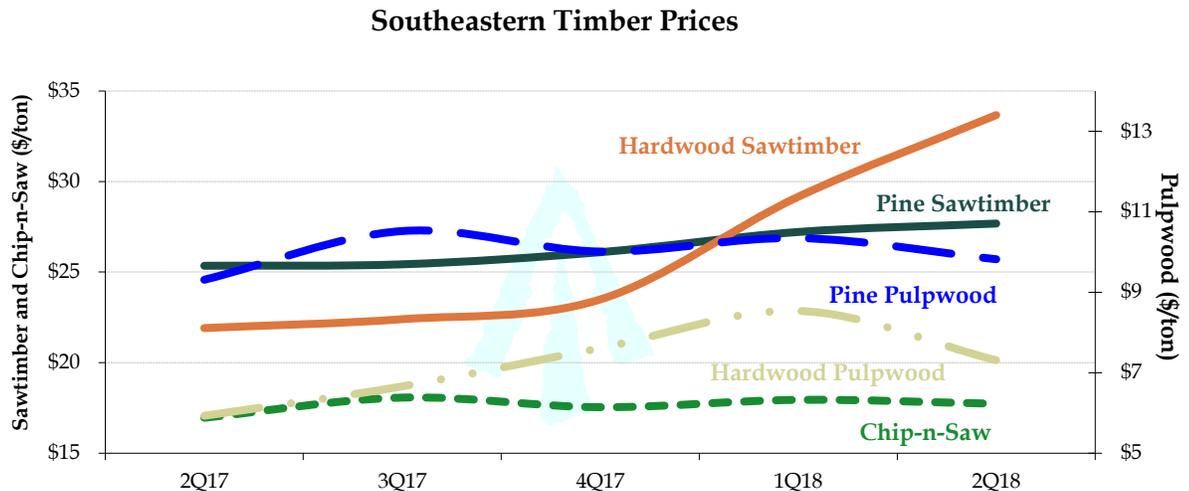
**Timberland Markets** – The biggest news of the second quarter was CatchMark’s announcement that it had purchased Campbell Global’s 1.1 million-acre Caddo offering in east Texas. CatchMark (CTT) created a new entity, Triple T Timberlands, to come up with the \$1.39 billion necessary to close the transaction. CTT is the lead investor in Triple T, contributing \$225 million of its own capital for the deal.

In other news, Forest Investment Associates sold approximately 100,000 acres in Alabama, Florida and Georgia to Hancock (HTRG) for an undisclosed price. Timberland Investment Resources closed on a 33,200-acre package in Texas, Virginia, North Carolina, and Florida from Domain for a reported \$59.5 million.

In Pennsylvania, The Conservation Fund purchased 32,600 acres from Harvard for \$60 million, while HTRG sold 15,000 acres to Lyme for \$40 million.

# Timber Prices

**Southeastern** – Mixed results were seen during the second quarter as prices for solid wood increased while pulpwood prices declined across the south. Forest2Market® reported a 1.7% increase in Southern pine sawtimber prices over the second quarter of 2018. This is the fourth consecutive quarterly increase for pine sawtimber. Prices reached 9.2% above last year’s level. Pulpwood prices dropped across the south, pine falling 5.1% and hardwood dropping 14.4%. The South-wide average price for hardwood sawtimber increased substantially, rising 15.5% over the second quarter.

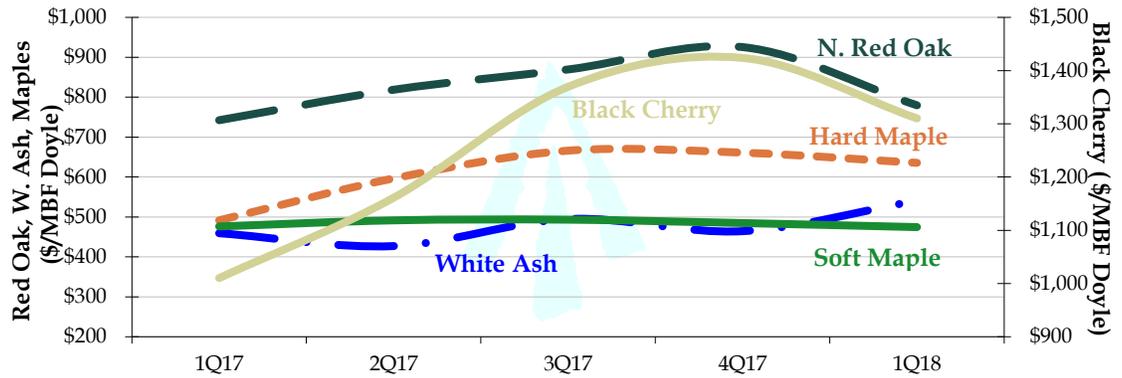


Source: Forest2Market®

**Northern Hardwoods** – Solid lumber and log exports continue to produce very strong demand within the Northern hardwood markets. Although Chinese demand accounts for the majority of the exports, demand from other Asian and European countries continues to improve. According to the Pennsylvania Woodlands Timber Market Report, black cherry prices retracted 8.0% during the first quarter (the most recent publicly reported pricing), ending 29.7% above year-ago levels. Northern red oak prices declined 15.8% last quarter, concluding 5.0% above year-ago prices. Hard maple prices decreased 3.8% over the quarter, ending up 29.3% year-over-year. Soft maple prices contracted 2.1%, ending the year 0.4% above last year’s level.

Strong lumber and veneer markets continued in Wisconsin over the second quarter. Increased hard maple demand resumed after the traditional “mud season” shutdown of logging operations. While white ash demand continues to be very strong and yellow birch demand has picked up somewhat, basswood demand continues to struggle. Because of increased new home construction, the demand for bolts used to manufacture solid wood flooring has increased. Pulpwood demand has decreased as mills have been able to quickly build inventory after the mud season.

### Northeastern Hardwood Timber Prices

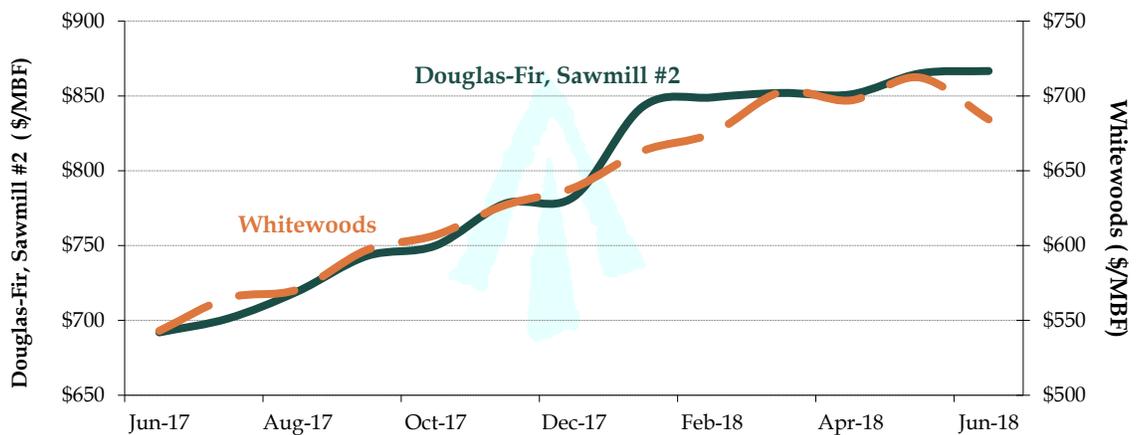


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

**Pacific Northwest** – Strong export demand combined with limited inventories have kept Pacific Northwest (PNW) markets at very strong levels. According to Log Lines®, Pacific Northwest average delivered prices for Douglas-fir #2 logs increased for the tenth consecutive quarter, rising 1.7% over the second quarter, completing the quarter 25.2% above year-ago levels. Whitewoods (i.e., true firs and hemlock) average delivered log prices retracted slightly, falling 2.6%, but still ended the quarter 26.0% above year-ago levels.

Japanese demand remains very high but is struggling to compete with domestic prices. Chinese prices have been flat over the quarter. Despite consumption in China reaching record levels, exchange rates combined with domestic market pressure is making it hard for Chinese buyers to compete. Currently most of the Chinese supply is coming from New Zealand.

### Pacific Northwest Log Prices

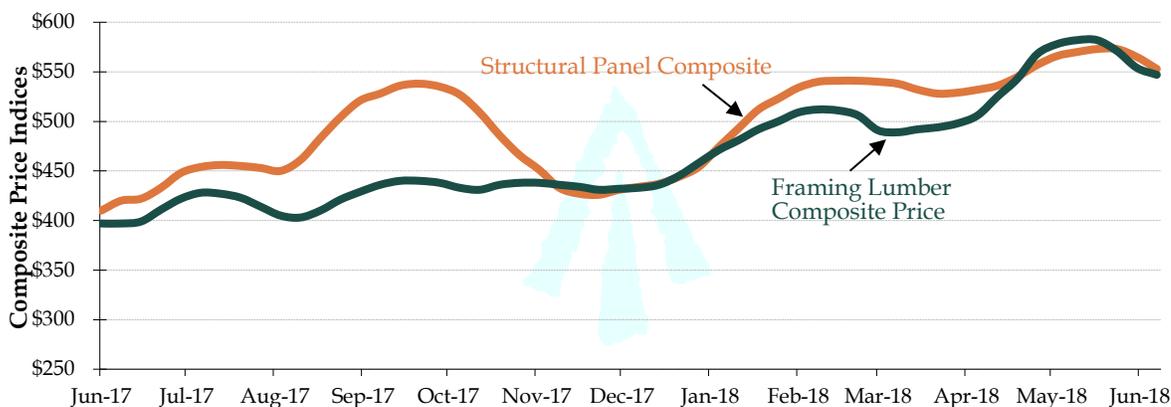


Source: Log Lines®

# Product Prices

**Lumber and Panels** – Panel and lumber prices experienced gains over the second quarter, reaching levels in early June not seen since 2004. The Random Lengths® Framing Lumber Composite Price improved 11.9% over the quarter, with prices reaching 37.8% above last year’s level. The Structural Panel Composite Price had modest gains, rising 2.8% over the quarter, ending 31.7% ahead of year-ago levels.

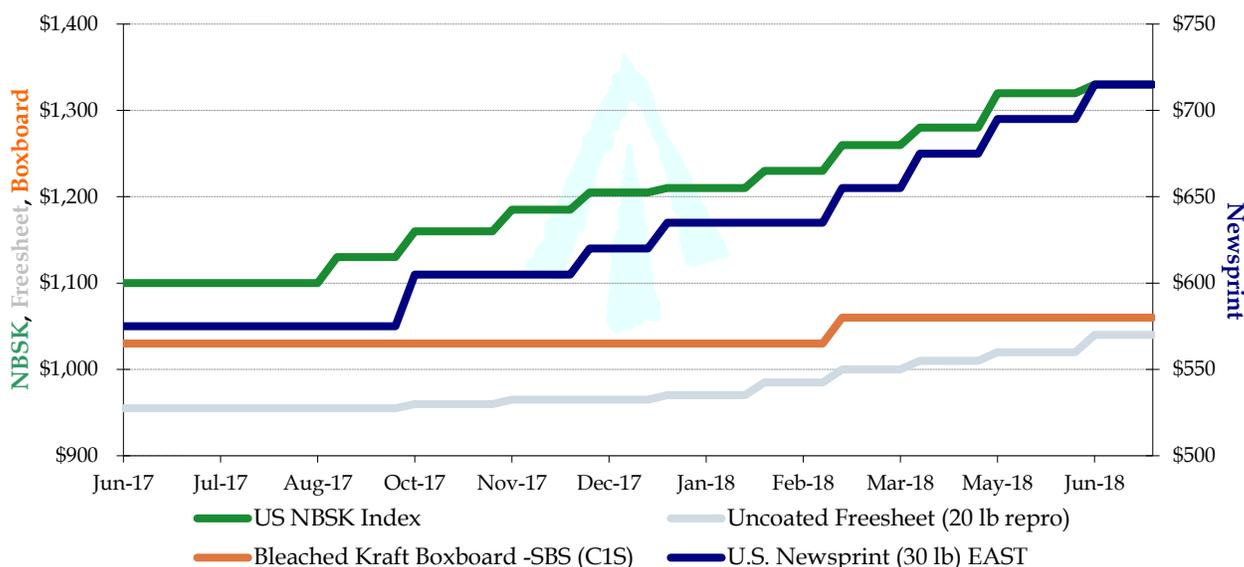
**Lumber and Panel Prices**



Source: Random Lengths®

**Pulp and Paper** – All benchmark pulp and paper indices experienced positive gains over the second quarter. Notably, the benchmark NBSK (northern bleached softwood kraft) pulp price index improved for the sixth consecutive quarter, rising 5.6%, ending the quarter 20.9% above year-ago levels. U.S. Newsprint (30 lb.) increased for the third straight quarter, increasing 9.2%. Uncoated freesheet (20 lb.) increased 4.0% while boxboard prices remained flat over the quarter.

**Pulp and Paper Prices (\$/short ton)**



Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week

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# Timberland Markets

**Transactions** – In the South, CatchMark (CTT) announced the creation of a new entity, Triple T Timberlands, to fund the \$1.39 billion purchase of Campbell Global’s 1.1 million-acre Caddo property in east Texas. CTT contributed \$225 million of its own capital to a consortium including BTG Pactual Timberland Investment Group, Highland Capital Management, Medley Management Inc., and British Columbia Investment Management Corporation. CTT also has access to \$650 million of debt funding from CoBank for the transaction. The property has a wood supply agreement with Georgia-Pacific that will require most of the sawtimber production over the next five to ten years.

Elsewhere in the South, Hancock (HTRG) purchased approximately 100,000 acres in Alabama and Georgia from Forest Investment Associates for an undisclosed price. Timberland Investment Resources purchased a 33,200-acre package spread across Texas, Virginia, North Carolina, and Florida from Domain for a reported \$59.5 million. Finally, WestRock announced the sale of its 11,172-acre Cabin Bluff property in coastal Georgia to The Nature Conservancy for an undisclosed price.

In the Northeast, The Conservation Fund closed on its purchase of 32,600 acres in Pennsylvania from Harvard for \$60 million. Also in Pennsylvania, HTRG sold a 15,000-acre package to Lyme for approximately \$40 million.

**Transactions in Progress** – The largest active offering in the market is a 181,000-acre package in Louisiana and Texas from HTRG. Investment bank Perella Weinberg reportedly took first round bids on the offering in late June, with final bids expected in the third quarter. Molpus Woodlands Group is marketing a 90,000-acre package in Alabama along with 20,000 acres in Arkansas. The Forestland Group is taking third quarter offers on a 50,000-acre subset of its Southern hardwood property in Mississippi formerly owned by Anderson-Tully.

Despite limited deal flow in the first half of 2018, multiple offerings are on the market with more expected in the third quarter. Total transaction value should eclipse 2017 numbers, buoyed by the \$1.39 billion Triple T transaction in Texas.

## International Update

While global demand for forest products remained strong during the quarter, there were several issues that affected the industry. The continued strengthening of the U.S. dollar is the most notable factor over the last quarter. Businesses with U.S. dollar-based revenue domiciled outside the U.S. such as Brazilian and Chilean exporters, enjoyed this dynamic since their revenue is converted from USD into their local currency at attractive local rates. Weaker currencies have the potential to affect trade flows, creating more competitively priced goods to the U.S. and other markets from key exporting countries. U.S. housing’s slow but steady improvement alongside Asian market factors are underpinning demand. Continued rhetoric around trade policy and tariffs adds an additional unknown to markets.

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**Chile** – During April (latest reading), Chile’s monthly index of economic activity registered seasonally adjusted annual growth of 4.9%, the highest figure since 2012. This expansion confirms the positive trend in economic activity in Chile driven by global demand for copper and a positive outlook towards Chile’s recently elected, pro-business government led by Sebastian Pinera.

Expanded economic activity is also reflected in Chile’s forest sector where, according to INFOR (Chile’s official forestry institute), exports during the period of January to May registered an increase of 23% versus the same period last year. A major source of this growth continues to be exports of both eucalyptus and pine market pulp which grew 47% and 44% respectively. Exports of softwood panels and hardwood chips also continued strong growth.

Arauco, the country’s largest forest products company (controlled by Empresas Copec S.A.), announced a significant investment in its largest nursery in preparation for reforestation activities following the historic 2017 fire season and to potentially serve its increased needs for seedlings if it moves forward with an expansion of their Arauco cellulose plant.

**Brazil** – To protest significant fuel cost increases, self-employed truck drivers blocked main roads around the country in a 10-day strike during May. Petrobras, the state-owned oil company, initiated a market-driven price policy in 2016. Due to several reasons, that policy resulted in price hikes of more than 30% from March to May of 2018. The truckers’ strike appreciably impacted economic activity for the quarter. The overall economic impact is still being measured, but clearly will result in moderation of the ongoing recovery in GDP for 2018. The latest polls in the presidential election still indicate no clear frontrunner with a high percentage of the vote undecided (between 28% and 43%). Copom kept the SELIC rate unchanged in the May meeting with Q2 inflation remaining at the low end of the Brazilian Central Banks’ target.

Despite the truckers’ strike, the Brazilian forest sector continued to post an overall strong 2018 with help from the weaker BRL. Exports from January to May registered 35.4% year-over-year growth, reaching \$4.4 billion with pulp (+46.4%), wood panels (+8.8%) and paper (+4.3%) leading the charge. Domestically, the truckers strike did affect markets in May. For example, the Brazilian wood panel market had enjoyed a 5.5% gain January to April but saw a -26.0% contraction in May. On June 21, Duratex the largest industrialized wood panel manufacturer in the Southern Hemisphere, announced a joint venture with the Austrian group, Lenzing, to build and operate a soluble pulp plant in Minas Gerais by 2022 with over R\$ 1.0 billion in investments.

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## Economic News

**Housing** – U.S. homebuilding surged to near an 11-year high in May amid an acceleration in both single-family and multi-family home construction, but a second straight monthly drop in permits suggested housing market activity would remain moderate. Housing starts increased 5% to a seasonally adjusted annual rate of 1.350 million units, the highest level since July 2007.

**Mortgage Rates** – 30-year fixed mortgage rates stood at around 4.5% as of the end of the quarter, with 15-year fixed mortgages closer to 3.8%.

**Jobs** – The U.S. added 213,000 jobs in June, better than the 195,000 expected by economists. The unemployment rate rose to 4%, due to the rise in the labor force participation rate. According to the government report, 601,000 people re-entered the work force.

**Consumer Confidence** – The consumer confidence index fell in June to a reading of 126.4 from an upwardly revised 128.8 in May. Economists blamed the dip in confidence on escalating tensions between the United States and its trade partners.

**Inflation** – After coming up short for more than half a decade, inflation in the U.S. is back on track. Indicators show inflation rose 2% in May, meeting the central bank's target and marking the highest rate seen since April 2012.

**Trade Deficit** – The U.S. trade deficit dropped in May to the lowest level in 19 months as U.S. exports rose to a record level. But the trade gap between the United States and China increased sharply, underscoring the economic tensions between the world's two biggest economies.

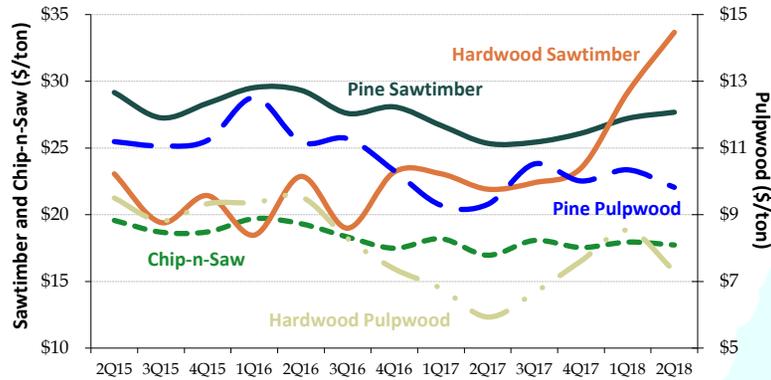
**Interest Rates** – Rates on 10-year Treasury bonds stood close to 2.85% at the end of the quarter, while 30-year Treasury were merely 10 basis points or so higher, at just under 3%.

**Oil Prices** – Oil prices have surged to their highest levels in nearly three years this week, with prices close to \$75 per barrel. U.S. gasoline prices are at a four-year-high this year as a result of the higher price of crude.

**U.S. Dollar** – The U.S. dollar posted a 5% gain over the second quarter and was 2.75% higher for the first half of this year after falling more than 10% in 2017. The dollar found support from a widening interest rate gap with the euro and other currencies as a more hawkish Fed is picking up the pace of rate hikes while the European Central Bank and Bank of Japan leave short-term rates in negative territory.

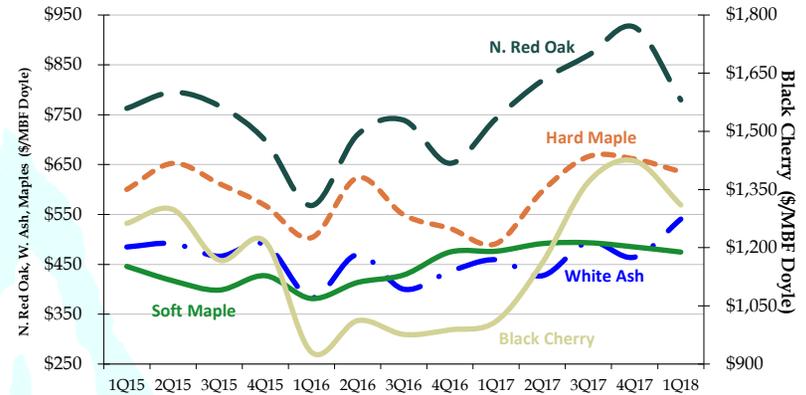
# The FIA Timber Economics “Quarterly Dashboard”

### Southeastern Timber Prices



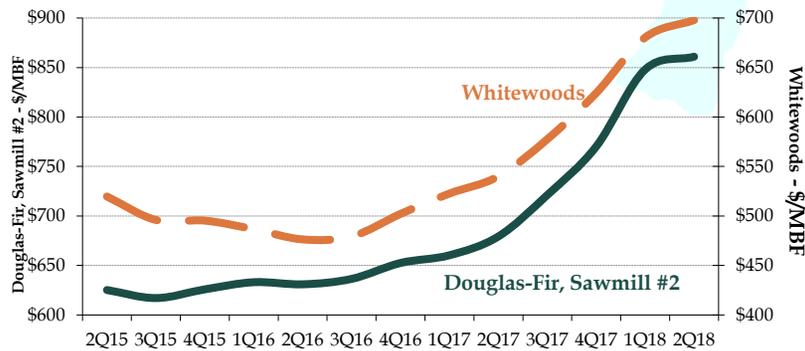
Source: Forest2Market®

### Northeastern Hardwood Timber Prices



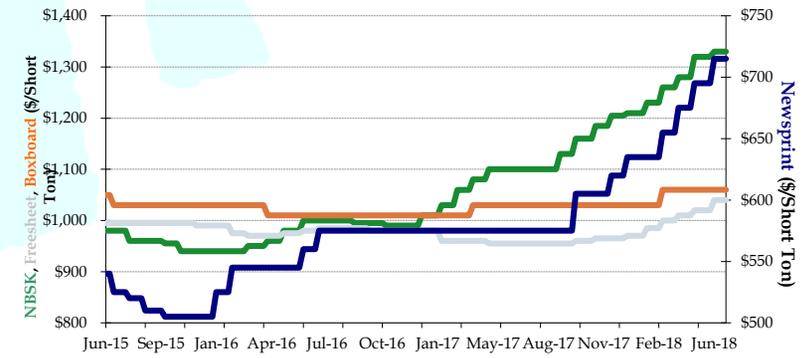
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

### Pacific Northwest Timber Prices



Source: Log Lines®

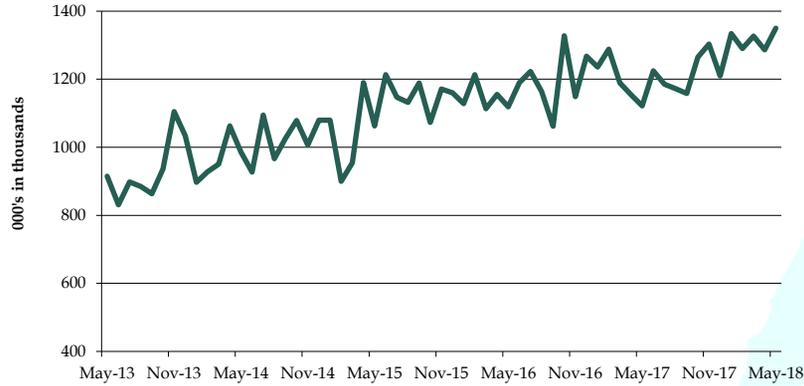
### Pulp and Paper



Source: FOEX Indexes, Ltd., RISI Pulp & Paper Week

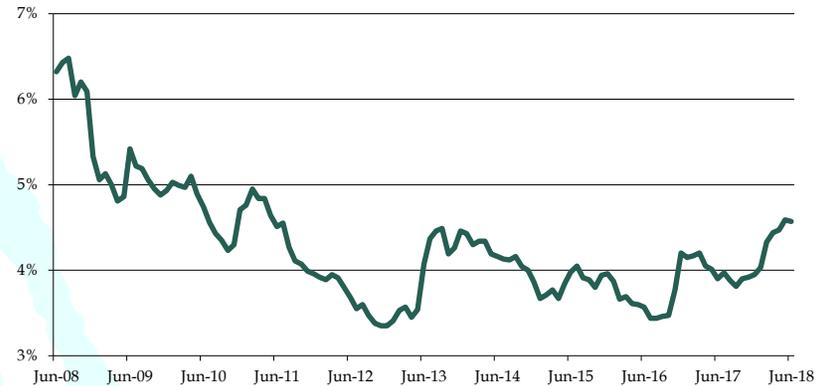
# The FIA Timber Economics “Quarterly Dashboard”

**Housing Starts**



Source: NAHB.org - <http://www.nahb.org/>

**30 yr. Mortgage**



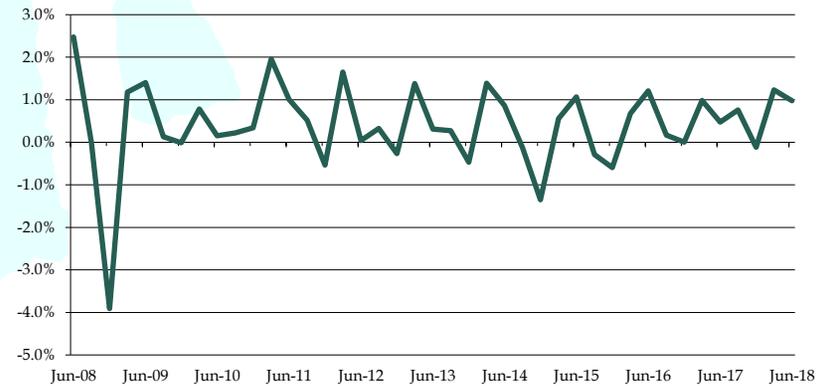
Source: The Federal Reserve

**Lumber**



Source: U.S. Department of Labor, Bureau of Labor Statistics

**Inflation (CPI)**



Source: <http://www.bls.gov/cpi/home.htm>