



# Quarterly Update

## Forest Investment Associates

FIRST QUARTER 2019

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## Summary Update

**Timber and Product Prices** – Southeastern pine sawtimber markets showed moderate signs of improvement as pine sawtimber prices reached four-year highs. Pacific Northwest markets declined from highs seen in 2018, falling to more normalized levels. Northern hardwood markets continue to be stable despite lackluster export and domestic demand. Panel and lumber prices increased over the quarter, gaining some ground lost during the large price decrease experienced over the last half of 2018.

February housing starts dropped to a seasonally adjusted annual rate of 1.162 million units. The February 2019 rate was 8.7% below the revised January rate of 1.273 million units, and 9.9% below the February 2018 rate of 1.290 million units. The average interest rate for 30-year fixed rate mortgages decreased for the fourth consecutive month, ending at 4.27% in March.

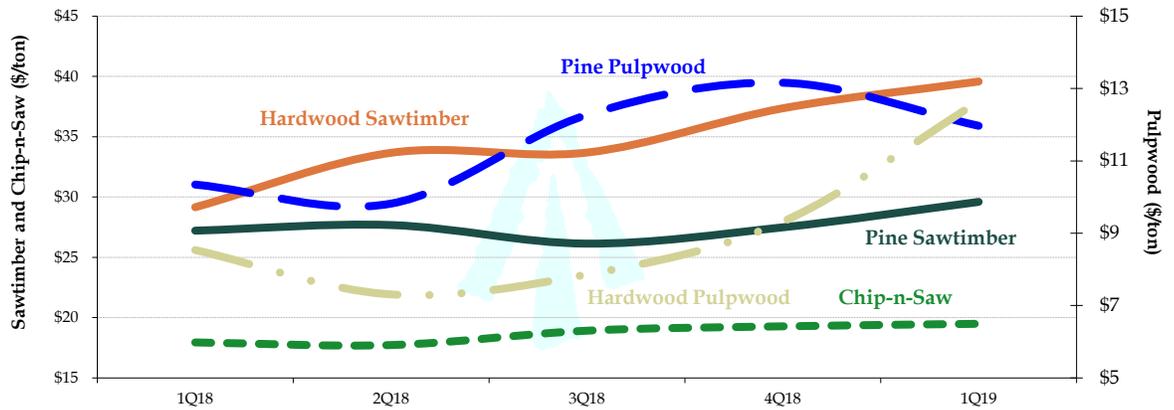
**Timberland Markets** – The headline deal of the first quarter was newly-formed TIMO, Chinook Forest Partners, purchasing 38,000 acres in southern Oregon from Hancock for a reported \$58.4 million. In the South, Green Diamond/Twin Creeks purchased nearly 10,000 acres in eastern Georgia from Resource Management Service for \$18.5 million. In Florida, Forest Investment Associates sold a 17,400-acre package to a private buyer for a reported \$16.7 million. In Brazil, BTG Pactual purchased 36,000 hectares from Harvard Management Company for \$107 million.

Several other deals that lingered throughout much of 2018 transacted or were contracted in the first quarter, primarily to conservation groups. However, there continues to be a lack of “fresh” quality offerings in the market with little expectation for increased deal flow from market participants.

# Timber Prices

**Southeastern** – Sawtimber demand increased across the South over the first quarter of 2019. Prices reached levels last reported during the first quarter of 2015. Forest2Market® reported a 7.7% increase in Southern pine sawtimber prices over the first quarter of 2019. Sawtimber prices ended 8.8% above last year’s level. Pine chip-n-saw prices held flat over the quarter, increasing only 1.1%. Pulpwood prices showed mixed results. Pine pulpwood prices dropped 9.0% while hardwood pulpwood showed a sizable spike in prices, increasing 35.6% over the quarter. Hardwood sawtimber prices increased 5.9%, ending the quarter 35.7% above last year’s pricing levels.

**Southeastern Timber Prices**

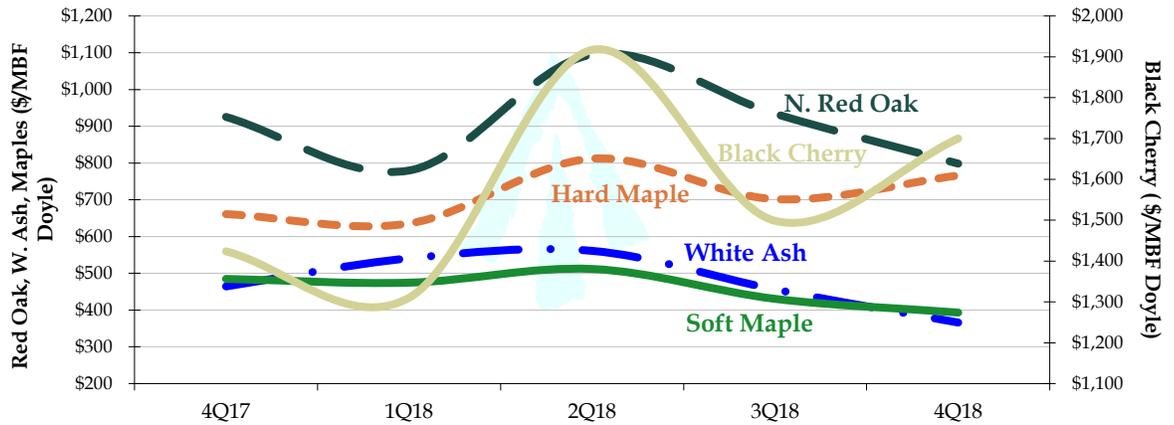


Source: Forest2Market®

**Northern Hardwoods** – Hardwood markets have stabilized following the price declines witnessed during the last half of 2018. However, decreased exports to China and lackluster domestic demand continue to negatively influence hardwood markets. According to the Pennsylvania Woodlands Timber Market Report, black cherry prices increased 13.5% during the fourth quarter (the most recent publicly reported pricing), ending 19.4% above year-ago levels. Northern red oak prices fell 14.5% last quarter; the second consecutive quarterly price decrease. Hard maple prices increased 9.2% over the quarter, ending up 15.9% year-over-year. Soft maple prices dropped 8.7%, concluding the year 18.9% below last year’s level.

In Wisconsin, hardwood markets remain unchanged. A healthy demand for hard maple, basswood, yellow birch and ash exists as sawmills were unable to build adequate log inventories during the winter months due to frigid temperatures and snow. Veneer markets performed well all winter and are in good shape heading into spring.

## Northeastern Hardwood Timber Prices

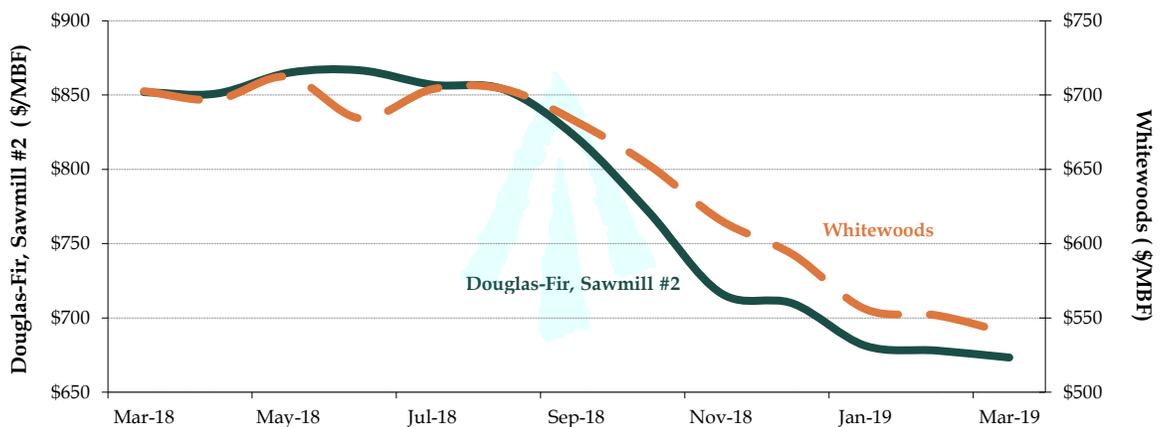


Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

**Pacific Northwest** – Pacific Northwest timber markets showed moderate declines over the first quarter of 2019. Log Lines® reported that Pacific Northwest average delivered prices for Douglas-fir #2 logs declined 5.1% over the first quarter, ending 21.0% below year-ago levels. Whitewoods (i.e., true firs and hemlock) average delivered log prices dropped 8.9%, and prices ended the quarter 23.2% beneath year-ago levels.

Japanese and Chinese demand has been generally flat over the first quarter, however prices are expected to improve. Demand for logs from domestic mills has increased in most regions, but markets appear to be strong in Western Oregon. Competition between sawmills and supply dynamics are expected to further positively influence prices.

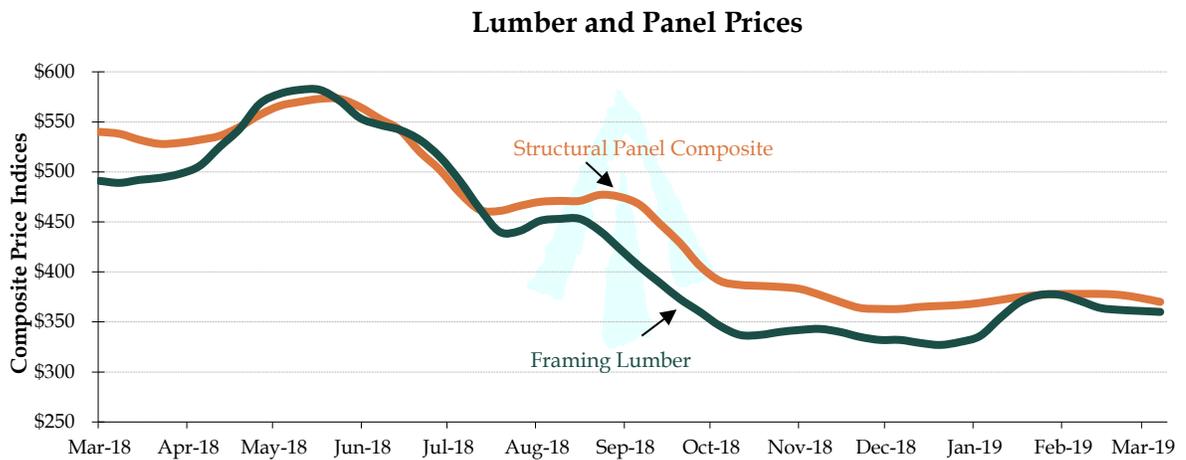
## Pacific Northwest Log Prices



Source: Log Lines®

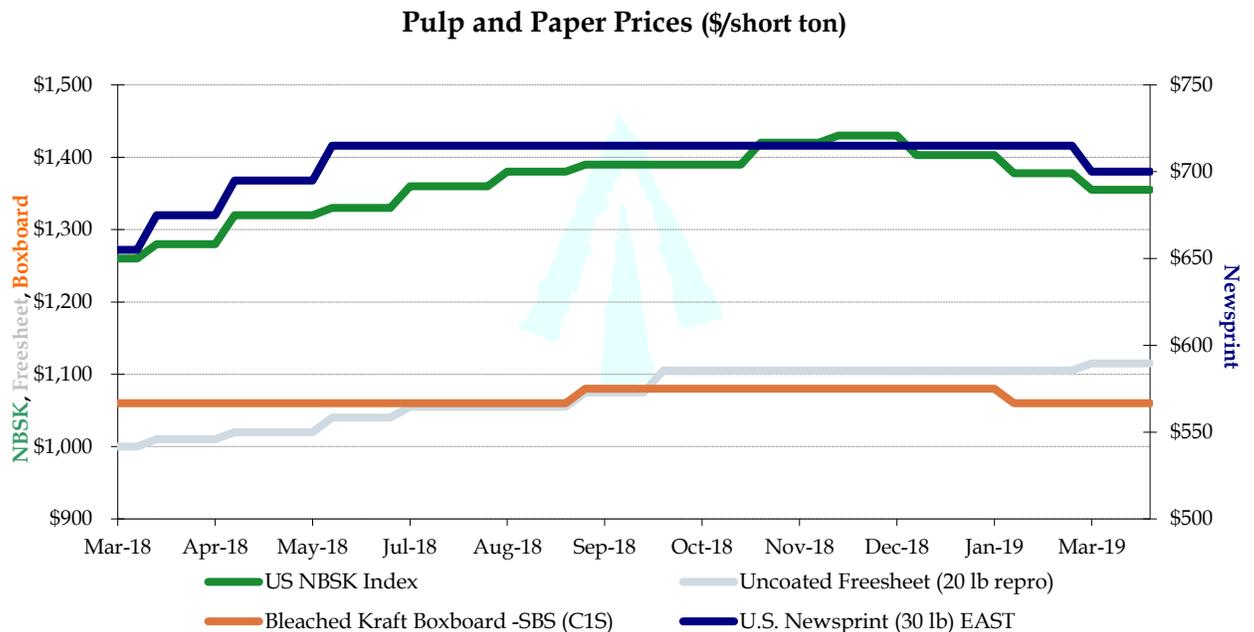
# Product Prices

**Lumber and Panels** – Panel and lumber prices stabilized over the quarter, ending a lengthy period of decreasing prices. The Random Lengths® Framing Lumber Composite Price increased 8.4% over the quarter, ending the quarter 26.4% below last year. The Structural Panel Composite Price increased 1.9% over the quarter, ending the quarter 31.2% below year-ago levels.



Source: Random Lengths®

**Pulp and Paper** – Pulp and paper prices retracted slightly over the first quarter of 2019. The benchmark NBSK (northern bleached softwood kraft) pulp price index decreased 5.2% over the quarter, ending 7.5% above year-ago levels. U.S. Newsprint (30 lb.) prices fell 2.1% over the quarter, ending the quarter 6.9% above last year’s level. Uncoated freesheet (20 lb.) prices remained flat, increasing 0.9%, while boxboard prices fell 1.9%.



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

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# Timberland Markets

**Transactions** – In the South, Resource Management Service (RMS) sold a 9,700-acre package in eastern Georgia to Green Diamond/Twin Creeks for \$18.5 million. Forest Investment Associates (FIA) sold a 17,400-acre package in Florida to a private buyer for a reported price of \$16.7 million. Three other deals that have lingered on the market are reportedly under contract, with Molpus Woodlands Group (MWG) finding a conservation buyer for its 100,000-acre Appalachian package in Kentucky and Tennessee. MWG also has its 31,000-acre Ouachita package in Louisiana and Arkansas under contract with a private buyer. Finally, The Forestland Group reportedly has a buyer for its 52,000-acre hardwood package in Mississippi, but no price was known at time of publishing.

In the Pacific Northwest, newly formed TIMO Chinook Forest Partners made its first purchase in southern Oregon, buying 38,000 acres from Hancock (HTRG) for a reported price of \$58.4 million.

Internationally, BTG Pactual purchased approximately 36,000 hectares of timberland in Brazil from Harvard Management Company for \$107 million. The property consisted of 23,000 plantable hectares of eucalyptus plantations.

**Transactions in Progress** – Deal flow was relatively slow in the first quarter of 2019, with a 40,000-acre package in Alabama from private seller South Alabama Land & Timber Company (SALTCO) taking the spotlight. SALTCO took bids in late March, but a buyer was not known at time of publishing. FIA is taking second quarter bids on 17,000 acres in coastal South Carolina. HTRG is offering 11,200 acres in northern Georgia and Alabama, while BTG has two Virginia packages listed totaling 12,100 acres. With no large offerings expected in the second quarter, deal flow continues to lag typical levels in 2019.

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# International Update

U.S. and Chinese trade officials reportedly have made progress in a trade deal that could give both sides some reason to celebrate. Presently, a total of three rounds of tariffs and counter-tariffs have been launched but those actions have not significantly affected trade flows on a net basis. Business confidence has been the lone victim of this trade war, causing most market participants to stay on the sidelines with respect to their business strategies. News of a resolution is rumored to be coming in the near-term. Despite the trade war rhetoric, China continued its record-breaking import of forest products in 2018.

**Chile** – After closing 2018 with strong 4.0% year-over-year GDP growth, Chile’s 2019 economic activity is off to a sluggish start after lower than expected activity during Q1. Chilean authorities now expect 2019 growth to be 3.3% (previous estimates were 3.5% on average) driven by slower performance in the mining sector. Inflation for 2019 is anticipated to be 2.7% and trending up to 3.0% by 2020.

Driven by tight global markets for pulp, US\$6.8 billion of Chilean forest product exports during 2018 was the highest export level in recent history and 27.2% higher than 2017. Although hardwood and softwood pulp grades led the strong export figures in absolute dollars, other forest products also recorded significant growth in exports such as plywood (+41.7%) and eucalyptus woodchips (+28.6%). Increases for these two latter items were driven by higher volumes more than higher prices.

**Brazil** – Brazil’s 2018 GDP growth was a disappointing 1.1%, demonstrating the challenge the new administration faces to jumpstart activity. Markets continue to respond positively to the signals from the Bolsonaro administration with respect to fiscal reform, focused around reduced federal pension system costs and the economic agenda. The Brazilian stock market (Ibovespa) rose to its highest level in history around mid-March only to close Q1 significantly lower when the executive and legislative branches were not able to publicly agree on the main concepts of pension reform. The Brazilian Real also weakened by quarter-end due to this dynamic. Despite this volatility, there continues to be broad consensus that pension reform will occur.

The Brazilian forest sector posted strong results during 2018, led by exports of pulp and finished wood products. Forest product exports for 2018 registered 25.5% year-over-year growth, reaching \$10.7 billion. Increased year-over-year exports were led by pulp (31.5%), wood panels (7.3%) and paper (8.3%). Domestically, the Brazilian wood panel market enjoyed a 2.9% gain in consumption while overall paper use was flat.

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# Economic News

**Housing** – U.S. new-home starts fell in February by the most in eight months, suggesting buyers and builders remain wary despite higher wages and a drop in mortgage rates. Residential starts slumped 8.7% to a 1.16 million annualized rate, below estimates.

**Mortgage Rates** – Mortgage rates dropped towards the end of the first quarter with a 30-year loan priced around 4.1%, which compares to a rate of 4.4% a year prior.

**Jobs** – The U.S. added 196,000 jobs in March, bouncing back from a weak February where jobs were revised upward to 33,000 from an initially reported 20,000.

**Consumer Confidence** – The Consumer Confidence Index declined to 124.1 in March from 131.4 in February, primarily driven by more pessimistic views about current business and labor market conditions. Consumer confidence hit a post-recession peak in October of 137.9 and has since fallen, suggesting optimism may be waning.

**Inflation** – U.S. consumer prices increased by the most in more than a year in March, with the CPI rising 0.4% boosted by increases in the costs of food, gasoline and rents. That was the biggest advance since January 2018 and followed a 0.2% gain in February. In the 12 months through March, the CPI increased 1.9%.

**Trade Deficit** – As of the end of March, the trade deficit declined 14.6%, the largest decline since March 2018, to \$51.1 billion. The trade deficit remains elevated despite President Donald Trump’s “America First” policies, which have left the United States mired in a bruising trade war with China and provoked retaliatory tariffs from other trading partners.

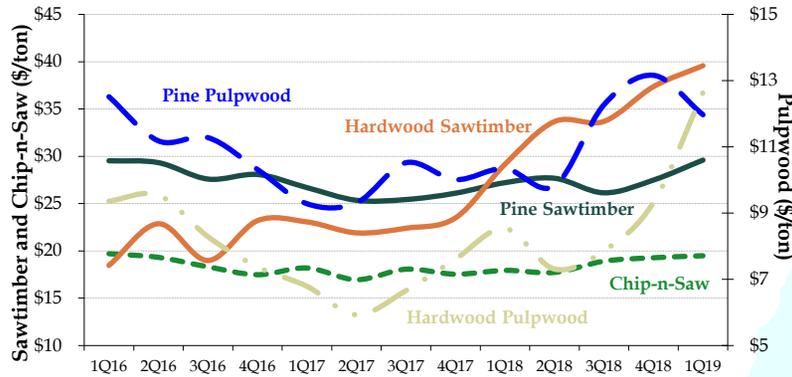
**Interest Rates** – The Federal Reserve has stopped its path towards additional interest rate increases this year, driven by unease over the U.S. and global economies and surprisingly subdued inflation.

**Oil Prices** – Oil prices increased substantially over the first quarter, up nearly 25%, driven by positive signs for the global economy and tighter supplies, for the largest first-quarter gain in nearly a decade.

**U.S. Dollar** – The U.S. dollar has continued to remain strong, with the US Dollar Index ending 2018 at 96.2 and ending the first quarter at 97.3.

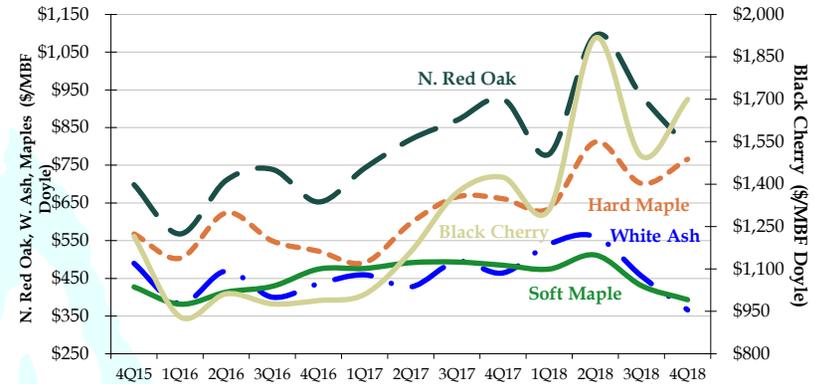
# The FIA Timber Economics “Quarterly Dashboard”

## Southeastern Timber Prices



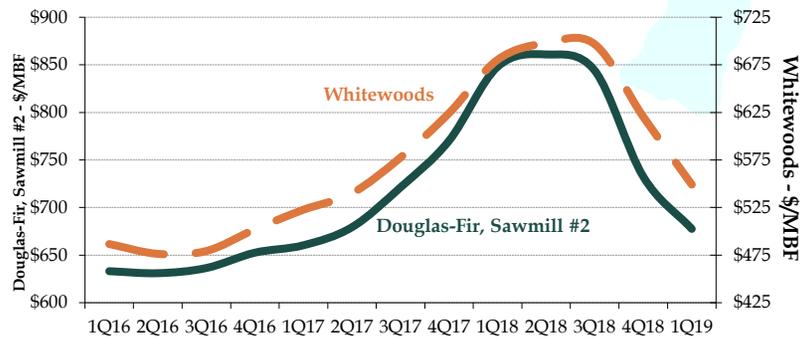
Source: Forest2Market®

## Northeastern Hardwood Timber Prices



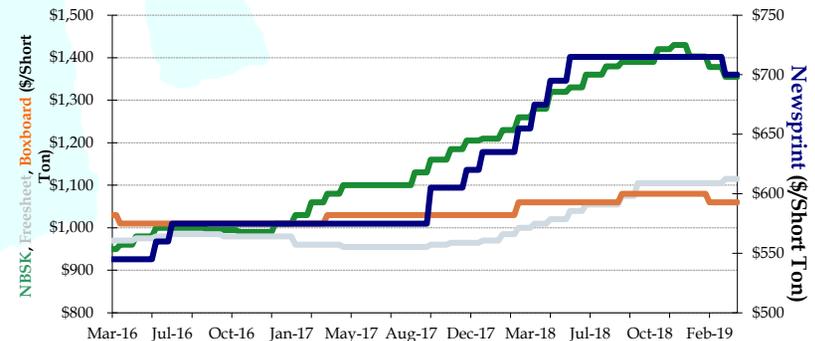
Source: Pennsylvania Woodlands Timber Market Report - Northwest Region

## Pacific Northwest Timber Prices



Source: Log Lines®

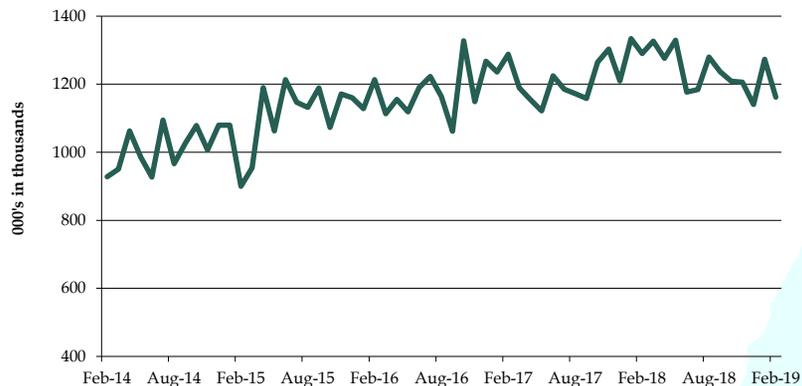
## Pulp and Paper



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

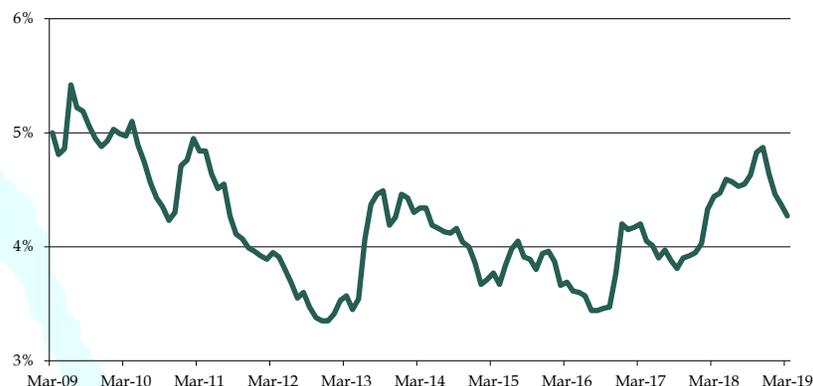
# The FIA Timber Economics “Quarterly Dashboard”

### Housing Starts



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

### 30 yr. Mortgage



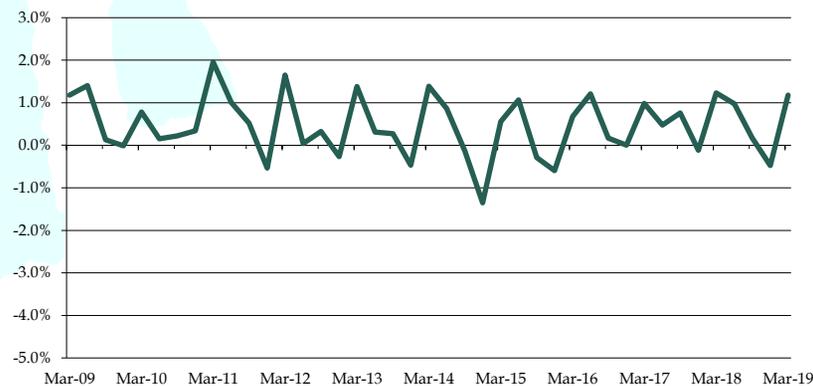
Source: The Federal Reserve

### Lumber



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

### Inflation (CPI)



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