

Timber Trends

By: Bruce P. Glass, PhD, Sr. Forest Economist

Highlights

- New Zealand has become the world’s largest exporter of softwood logs
- US lumber production continues to expand as economic recovery proceeds
- Log production in the US is forecast to increase by 5% per year over the next decade, while production from the major Southern Hemisphere and European producers is forecast to increase by 4% and 1.5% per year, respectively, over the same period
- Australian housing starts are likely to peak in 2014

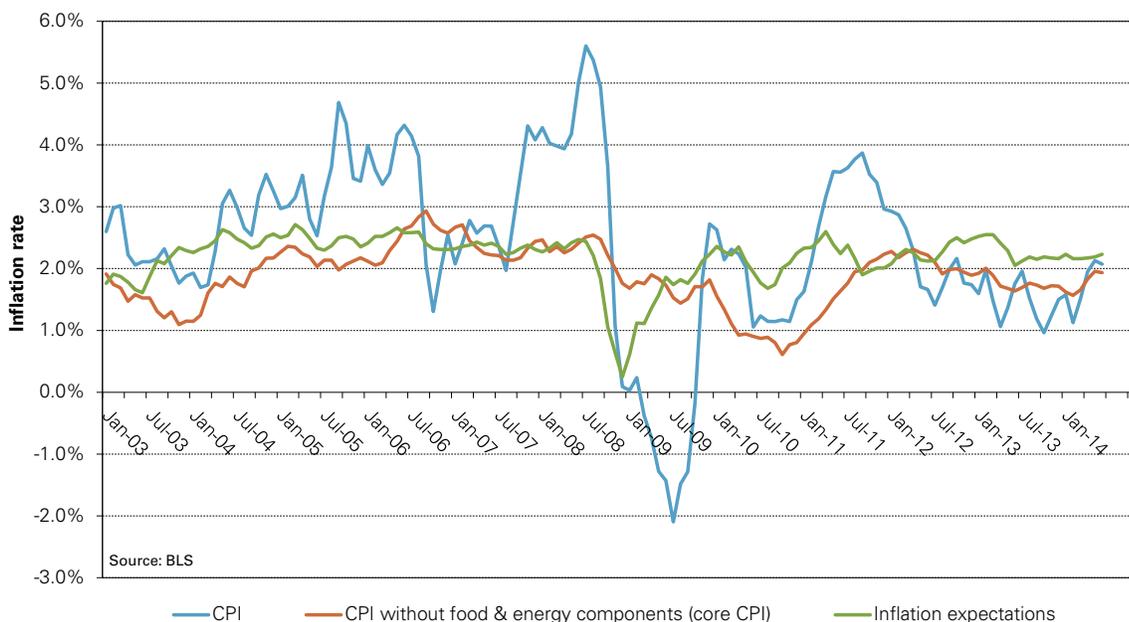
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The Economy in Graphs

There Is Little Sign That US Inflation Is Accelerating; Inflation Expectations Are Remarkably Steady

Inflation at the consumer price level (with and without food and energy components) compared with inflation expectations implied by differential between 10-year treasury and 10-year TIPS



Economics

US

US Consumer Sentiment Posts June Gain¹

The Thomson Reuters/University of Michigan final measure of consumer sentiment for June climbed to a reading of 82.5, from 81.9 in May. Analysts cited higher stock prices and an improving job market for consumers' more positive views on the economy.

China

China's Consumer Inflation Cooled In June²

China's consumer inflation cooled slightly more than expected in June, pointing to lingering weakness in the economy which could prompt Beijing to launch further stimulus measures to shore up growth. The consumer price index (CPI) rose 2.3 percent in June from a year earlier, down from 2.5 percent in May.

International Trade

Exports

US Softwood Lumber Exports Double In Five Years³

Export sales of softwood lumber produced in the US nearly doubled in the last five years, reaching \$1.1 billion and the highest level in 16 years, according to the Southern Forest Products Association (SFPA). Meanwhile, exports of pressure-treated lumber, a key value-added item promoted by the association, reached an all-time sales record of \$79 million in 2013. Exports have jumped sharply to regions targeted by the SFPA's international market development efforts, and they are continuing to rise this year.

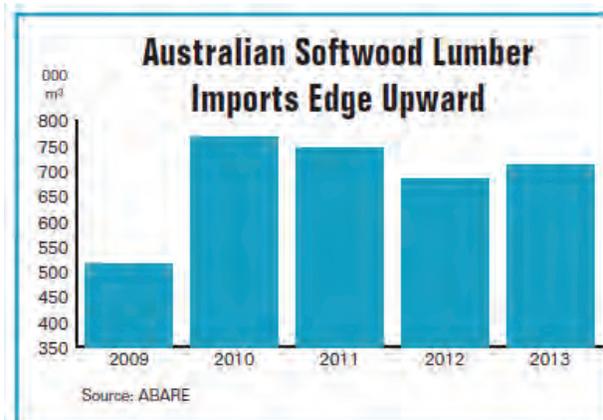
Exports To China Surged In May⁴

Canadian softwood lumber exports to China surged for the second consecutive month in May, rising to 348 million board feet (MMbf). That's up 23 percent from the April volume and 62 percent higher than May 2013. Some of the shipments in April and May are likely late arrivals of loads that were originally scheduled to ship in March, but were delayed because of a work stoppage at the port in Vancouver, BC. Nonetheless, the increase pushed year-to-date export totals slightly above the record pace of 2013 through May. US exports to China slipped to 22 MMbf, down from 35 MMbf in April and from 26 MMbf a year ago. Year-to-date shipments from the U.S. reached 173 MMbf, up 51 percent from the year-ago pace.

Imports

Australian Imports Bounced Back In 2013 After Slipping In 2012⁵

Australian softwood lumber imports gained 4 percent last year, recovering some of the lost ground from an 8 percent decline in 2012. The increase, however, was relatively mild compared with the double-digit percentage increase posted in 2010. Data from the Australian Bureau of Agriculture and Resource Economics (ABARE) show imports reached 709,300 m³ last year, up from 682,200 m³ in 2012. Volumes soared to 740,700 m³ in 2010.



Radiata pine imports from New Zealand were roughly on par with year-ago levels, reaching 267,800 m³. A strong second half offset a sluggish start through the first and second quarters. Shipments from New Zealand accounted for 38 percent of Australia's total imports last year, compared with 39 percent in 2012.

Imports from Chile jumped 21 percent compared with a year ago, rising to 76,000 m³. Shipments from Canada, meanwhile, slipped to 60,800 m³.

European exports to Australia regained their stride after faltering in 2012. The Czech Republic and Germany were the dominant suppliers. Shipments from the Czech Republic increased 18 percent to 85,200 m³ after falling 20 percent in 2012. The 2013 total lagged the recent peak volume of 95,400 m³ in 2010 by 11 percent. Imports from Germany increased modestly last year. Australian sawn softwood production inched up 5 percent compared with the previous year, reaching 4.63 million m³.

Trade In Wood Products

New Zealand

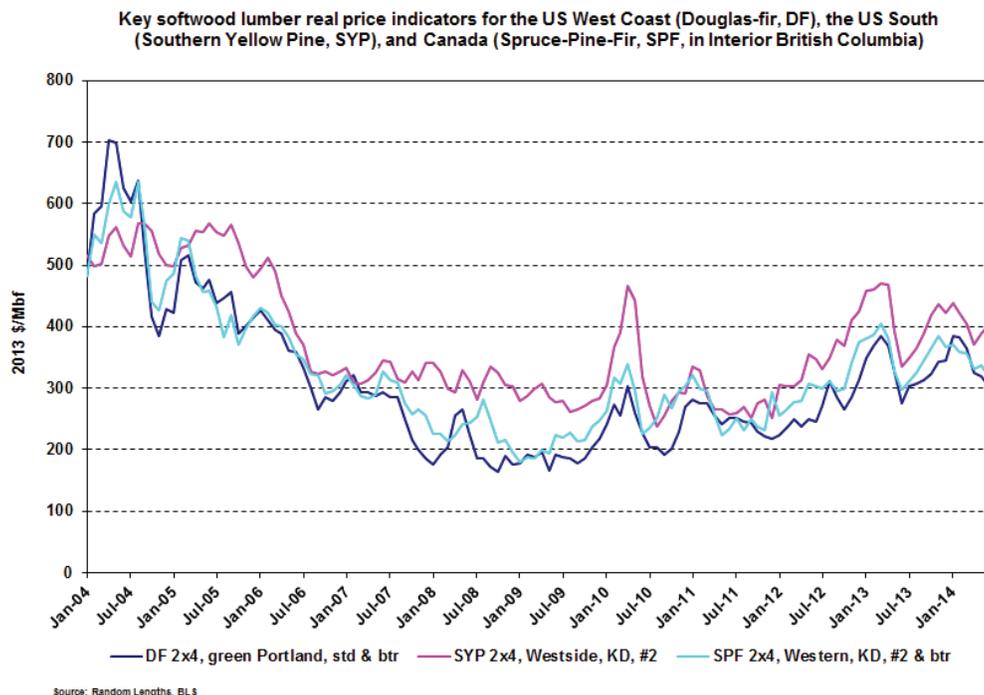
New Zealand Tops Among Log Exporters⁶

New Zealand is now the world's largest supplier of softwood logs, with exports increasing fourfold to almost \$2 billion in five years, according to the Wood Resource Quarterly. More than 20 percent of the world's softwood log trade originates in New Zealand. In 2013, the country exported 57 percent of what it harvested. A majority of the log volume was destined for China, but South Korea, India, and Japan were also sourcing logs from New Zealand last year.

Prices

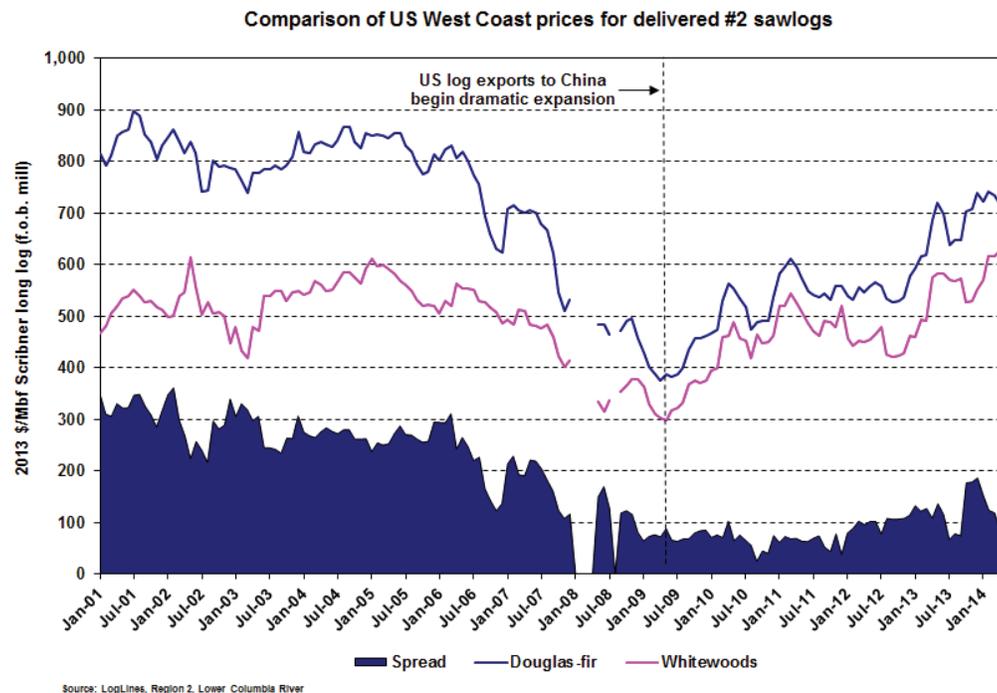
North American Lumber

Price Volatility Continues In North American Lumber Markets



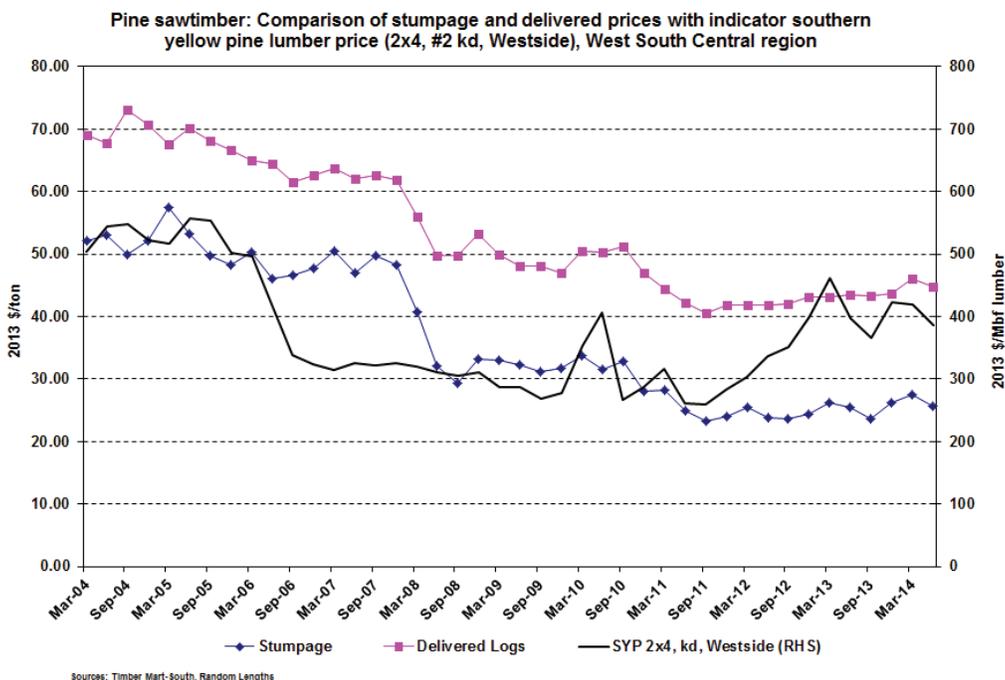
Pacific Northwest Coastal Log Values

The Spread Between Douglas-Fir And Whitewood Log Prices Appears To Be Slowly Widening



US South Logs

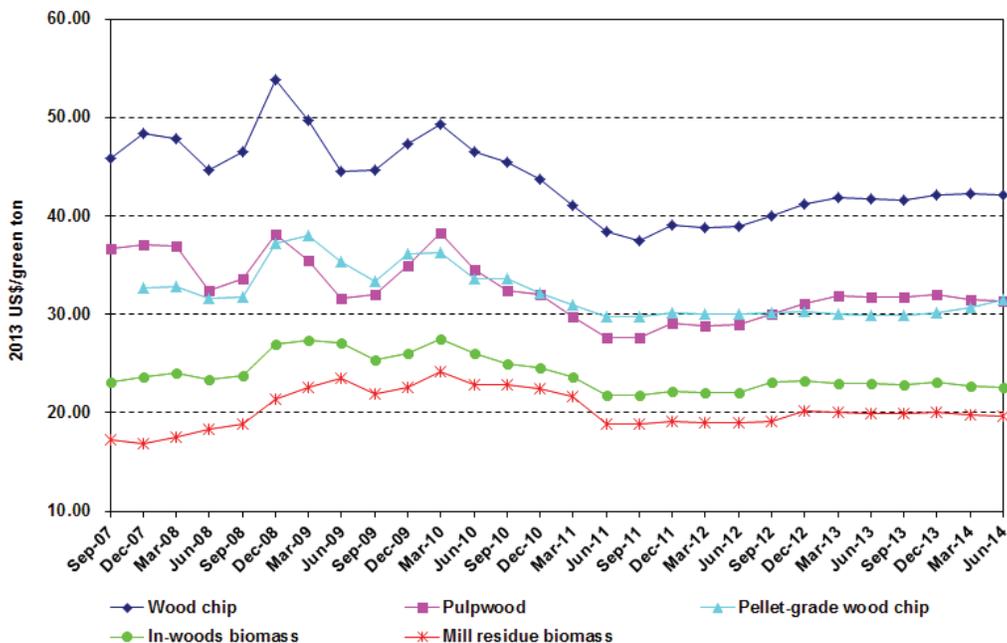
Southern Pine Sawlog Prices Show A Hint Of Responsiveness To Changes In Lumber Prices



Pulpwood and Chips

Delivered Softwood And Pellet-Grade Wood Chip Prices Follow Similar Trajectories Across Much Of The US South (Unlike In The Pacific Northwest)

Delivered softwood fiber prices in the US South Central region



Sources: IVIR, VBMIR

Supply

Global Lumber Production

Global Softwood Lumber Production Outlook⁷

Global softwood lumber production bottomed out in 2009 at 264 million m³, climbed in 2010 to 288 million m³, and in 2012 expanded to 306 million m³. In comparing 2010 with the base-case forecast for 2020, the production of global softwood lumber is expected to rise by 24 percent (2.4 percent per year), with a volume increase of some 70 million m³. Note that the annual increase over ten years of 2.4 percent per year is higher than that of global softwood timber harvests (2.0 percent per year).

Based on the timber harvest forecast, the US will have the largest lumber production increase by far: it is forecast to jump by 55 percent (5.5 percent per year), producing an incremental 24 million m³ (15 bbf nominal) between 2010 and 2020. The next largest ten-year volume increases are expected from two major regions, with both regions expected to produce an incremental 14 million m³ over the ten-year period: the top 10 European countries (18 percent); and China (40 percent).

China's increase in lumber production can be achieved only through importing logs, as its domestic softwood timber harvest is forecast to have no incremental potential. Russia is expected to gain just 7.5 million m³ of output (30 percent) and export fewer logs; in addition, both Russian- and Chinese-owned sawmills are projected to increase capacity in Russia.

All other countries or regions, including Canada, will see limited increases in output; Canada is expected to see its production peak by mid-decade and then decline, for an increase of only 5 million m³ between 2010 and 2020.

Despite huge timber harvest increases, the four Southern Hemisphere countries (excluding South Africa, as it is just outside the top 20) are forecast to increase their output by 5 million m³ (20 percent). Only one country in the Top 20, Japan, is projected to see lower lumber production by 2020. Its sawmill industry has been in steady decline, and the bulk of its production is from imported logs.

US Lumber Production

US Lumber Production Advanced Through April⁸

US lumber production through April totaled 10.193 bbf, up 1.4 percent compared with January-April 2013, according to the Western Wood Products Association. Through the first four months this year, production in the West was up 3.1 percent, but the South was off 0.2 percent. Nationwide, production in April totaled 2.636 bbf, up 1.5 percent from March and 2.4 percent ahead of the April 2013 figure.

Western Lumber Production

Western Lumber Output Up 2.7 Percent Through May⁹

Western lumber production through May totaled 5.923 bbf, up 2.7 percent from the first five months of 2013, according to the Western Wood Products Association. Through May, production in the Coast region was up 1.6 percent, the Inland region was up 5.7 percent, and the California Redwood region was down 8.0 percent. For the month of May, production in the West totaled 1.190 bbf, down 3.6 percent from April but up 1.3 percent from the May 2013 total.

Canadian Lumber

Canadian Lumber Output Stable In April¹⁰

Canadian lumber production through April nearly matched that of last year at 8.4 bbf. A decrease of 70 MMbf in British Columbia, down 2 percent, to 4.3 bbf, accounted for almost all of the national difference. Production in the BC Southern Interior fell 4 percent from the year earlier pace, to 1.9 bbf. Output nationally for April reached 2.2 bbf, up 1 percent from March but down 3 percent from the same month a year earlier. The month-to-month change was most dramatic in the BC Northern Interior, up 4 percent to 507 MMbf, and the region was alone in surpassing the April 2013 production level.

West Logs

Oregon 2013 Timber Harvest Rises Above Four Billion Board Feet For The First Time Since 2006¹¹

In 2013, Oregon's timber harvest rose to 4.2 bbf, marking four consecutive years of increase from the recession low of 2.72 bbf in 2009, according to the Oregon Department of Forestry. "This was the first harvest above 4 bbf in seven years," said ODF principal economist Brandon Kaetzel, "and represents a 12 percent increase over the 2012 harvest of 3.75 bbf."

The largest increase in harvest came from non-industrial private forestlands where harvests increased 61 percent to 511 MMbf from the 2012 total of 318 MMbf. "This is most likely due to small forestland owners taking advantage of higher prices as a result of a still strong export market in 2013," Kaetzel said.

India Logs

India's Total Forest Cover In 2013 Increased From 2011 Assessment¹²

According to the India State of Forest Report (ISFR) 2013, the total forest and tree cover of the country stands at 78.92 million hectares, which is 24.01 percent of the geographical area of the country, an increase of 5,871 km² compared with the assessment of 2011, as per the latest assessment. According to the report, the majority of the increase in the forest cover has been in the open forest category, mainly outside forest areas. The maximum increase in forest cover has been observed in West Bengal (3,810 km²) followed by Odisha (1,444 km²) and Kerala (622 km²).

The total growing stock of India's forest and trees outside forests is estimated at 5,658.046 million m³, which comprises 4,173.362 million m³ inside the forests and 1,484.68 million m³ outside the forests. Total carbon stock in the country's forest is estimated to be 6,941 million tonnes, which shows an increase of 278 million tonnes compared with the assessment year 2004, as reported in ISFR 2011.

The India State of Forest Report 2013 is available at http://www.fsi.org.in/sfr_2013.htm

Global Logs

Global Softwood Timber Harvest Outlook¹³

The industrial timber harvest bottomed out in 2009 at 796 million m³, climbed in 2010 to 869 million m³, and in 2012 grew to 912 million m³. In comparing 2010 with the base case forecast for 2020, the production of global softwood timber is expected to grow by 20 percent (2.0 percent per year), with a volume increase of about 175 million m³.

The country and/or region that will have by far the largest timber harvest gain over this ten-year

period will be the US: it is forecast to increase by a whopping 50 percent (5 percent per year) by producing an incremental 100 million m³. This reflects the rebound from the country's housing market collapse (which bottomed out in 2009), as well as the recovery from the global financial crisis.

Collectively, the next largest ten-year volume increases are expected from two regions, and both regions should produce an incremental 35-40 million m³ of softwood logs:

- The Top 5 Southern Hemisphere producers (40 percent; featuring, in descending order of production, Brazil, New Zealand, Chile, Australia and South Africa); and
- The Top 10 European countries (15 percent; featuring, in descending order, Sweden, Finland, Germany, Poland, France, the Czech Republic, Austria, Turkey, Norway and the United Kingdom).

All other countries or regions pale by comparison, as the next highest production volume would come from Japan: an expected increase of 5 million m³ (35 percent) over ten years through the processing of maturing domestic forests. The bulk of the global timber harvest increase will originate from seventeen countries looking out to 2020 and they will account for essentially all of the anticipated timber harvest increase (175 million m³) over the ten-year period, representing an increase of 32 percent versus the global average of 20 percent.

By comparison, three countries in the top 20 are expected to have flat to lower timber harvests over the ten-year period: Canada, China and possibly Russia. Canada and Russia are the second- and third-largest global timber producers, respectively, and the lack of output from these countries will represent a huge drain on the world's ability to

produce enough softwood logs for processing into lumber, plywood and other products. These three countries comprised more than 25 percent of the global timber harvest in 2012, and no change is expected in their collective timber harvests between 2010 and 2020.

Russia is more of a wild card: it is uncertain whether Russian harvests will be any different than what was achieved in 2013, as there are many issues and politics impacting (both positively and negatively) the economics of Russian timber harvesting. For Canada, the three largest timber- and lumber-producing provinces have had their respective annual allowable cuts (AAC) or harvests reduced. Both Quebec and Ontario will see significant drops in their sustainable timber harvest levels of 40 percent each by 2020 from their early 1990 highs. For the BC Interior, the AAC peaked in about 2010 as a direct result of the mountain pine beetle infestation, but the economic sawlog harvest will drop by about mid-decade, with further mill closures expected.

Demand

Housing

Global Construction Of New Housing Units Projected To Reach 62 Million In 2018¹⁴

Worldwide construction of new housing units is projected to reach 62.0 million in 2018 on 3.2 percent yearly advances from 2013. Although global population growth is expected to decelerate over the forecast period, declines in average household size will support 1.6 percent annual growth in the number of households, which will in turn boost demand for new housing. Changes in population distribution, primarily due to rural-to-urban migration, will also bolster demand for new housing units in urban areas.

Through 2018 construction of multifamily housing units is projected to outpace that of single-family housing units. Rural-to-urban migration will be particularly strong in the Asia/Pacific region, which will drive regional demand for housing in urban areas. Worldwide, construction of new multifamily units will increase 3.5 percent annually through 2018 to 26.2 million units, with 70 percent of growth taking place in the Asia/Pacific region. Nevertheless, in that region and worldwide, single-family dwellings will continue to make up the majority of new housing units.

The average size of a new housing unit fell to 89 m² in 2008 and remained at that size in 2013 due to the sharp declines in new unit completions in North America and Western Europe, where units tend to be larger. The average new dwelling size is forecast to expand to 93 m² in 2018. Two factors will support this growth: rising personal incomes, particularly in developing countries, and recovering residential construction in developed regions to close to historical levels. In general, new units will be larger than existing units, reflective of rising standards of living across the globe.

Developed countries that suffered dramatic declines in residential construction around the time of the 2009 global economic recession are forecast to exhibit the fastest gains in construction of new housing units through 2018, though growth will typically be from a depressed 2013 base. North America can expect annual advances of 7.9 percent while Western Europe can expect a 6.1 percent per annum increase in construction of new housing units.

The largest absolute gains in construction of new housing units are expected to be in the Asia/Pacific and Africa/Mideast regions. The Asia/Pacific region, led by China, is projected to be home to over three-fifths of the new dwellings constructed in the

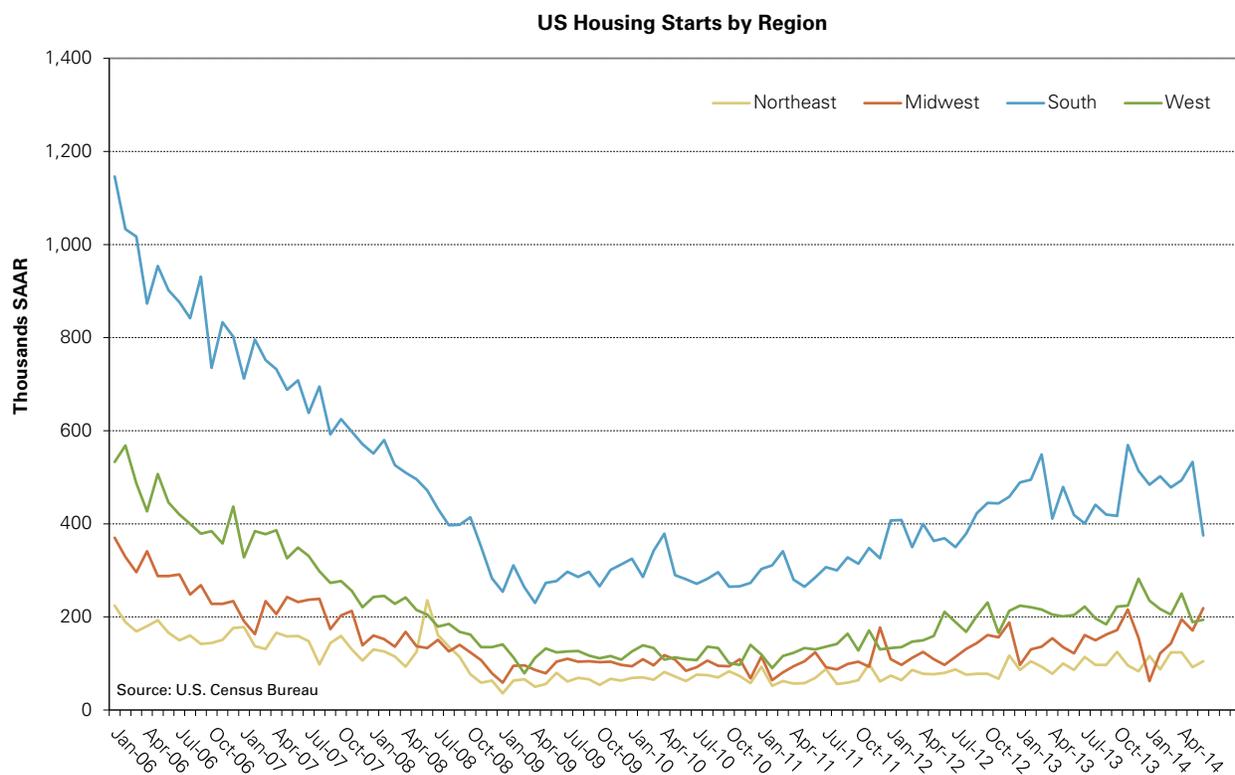
world in 2018. Between 2013 and 2018, new unit construction will increase by 4.8 million units to 38.5 million on 2.7 percent annual growth. New dwelling construction in the Africa/Mideast region is expected to reach 13.0 million in 2018 on 3.7 percent annual growth, with absolute gains of over 2.1 million units, supported by above average population growth and household formation.

US

June Housing Starts Fall¹⁵

US housing starts were at a seasonally adjusted annual rate (SAAR) of 893,000 units in June, 9.3 percent below the revised May rate but 7.5 percent higher than the June 2013 estimate, according to the Census Bureau. Single-family starts in June were at a SAAR of 575,000 units, 9.0 percent below the revised May figure. Privately owned housing units authorized by permits were at a SAAR of 963,000 units, 4.2 percent below the May rate but 2.7 percent above the June 2013 estimate.

Housing Starts In The US South Dropped Dramatically In June



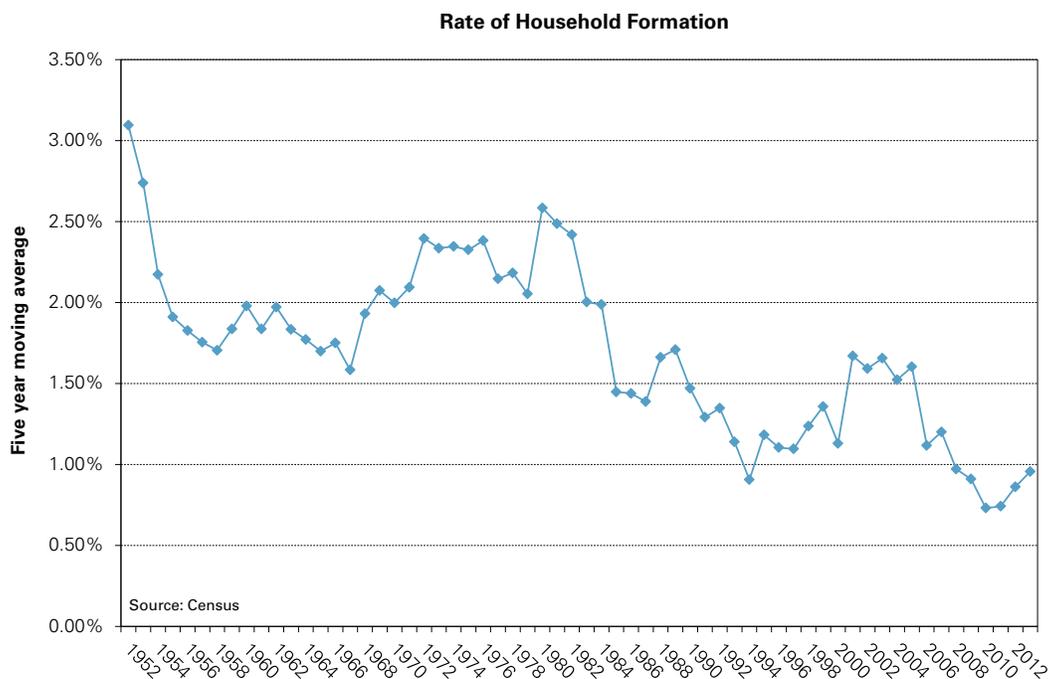
Number Of US Households Headed By Someone Aged 70+ To Rise 42 Percent From 2015 to 2025¹⁶

The graying of the American homeowner is upon us. The number of households headed by someone age 70 or older will surge by 42 percent from 2015 to 2025, according to a report on the state of housing released by the Joint Center for Housing Studies of Harvard University (JCHS). The Harvard researchers note that a majority of those households will be aging in place, not downsizing or moving to retirement communities.

Young people typically drive household formation, but the Harvard study notes that millennials haven't shown up in big numbers because of the economic headwinds they face. Real median incomes fell 8 percent from 2007 to 2012 among 35- to 44-year-olds, JCHS notes, and the share of 25- to 34-year-old households carrying student loan debt soared from 26 percent to 39 percent. Meanwhile, home prices have been jumping, and qualifying for mortgage loans remains difficult.

Millennials eventually will account for a bigger share of households as more marry and start having families, according to the study. But for now, boomers are the story.

Household Formations Are Displaying A Welcome Increase



International Buyers Invest In US Housing Market¹⁷

Favorable exchange rates, affordable home prices, and rising affluence abroad continue to drive international buyers to the US to purchase properties and make real estate investments, according to the National Association of Realtors (NAR). NAR's "2014 Profile of International Home Buying Activity" estimated international sales at \$92.2 billion for the period April 2013 through March 2014. Sales for the same period a year earlier totaled \$68.2 billion. "We live in an international marketplace; so while all real estate is local, that does not mean that all property buyers are," said NAR President Steve Brown of Dayton, Ohio. Four states accounted for 55 percent of the total reported purchases: Florida, California,

Arizona, and Texas. Florida was the destination of choice, claiming a 23 percent share of all foreign purchases.

US Median Home List Price In May Up 8 Percent Year-Over-Year¹⁸

Nationally, home prices continue to climb, indicating a more comprehensive, generalized real estate recovery than a year ago, according to the May 2014 National Housing Trend Report. May's housing report shows all but eight of 146 markets reporting year-over-year price increases. This May's housing market stands in significant contrast to last year in which price increases were less generalized and more concentrated in specific metropolitan areas. This broad increase in price suggests a more evenly distributed recovery and a healthier national housing market.

The median listing price of homes in May 2014 rose 8 percent over last year to \$214,900. Median age of inventory is 78 days, the same as it was during the localized inventory shortages experienced last year. May home inventories are down 5.8 percent compared with a year ago. An important metric, median age of housing inventory, is identical for this May and last May, as consumer demand continues to move homes in 2014 as quickly as last year.

US Housing Recovery Should Regain Its Footing, But Faces Challenges¹⁹

The US housing recovery should regain its footing, but also faces a number of challenges, concludes The State of the Nation's Housing report released by the JCHS. Tight credit, still elevated unemployment, and mounting student loan debt among young Americans are moderating growth and keeping Millennials and other first-time homebuyers out of the market.

"The housing recovery is following the path of the broader economy," says Chris Herbert,

research director at the JCHS. "As long as the economy remains on the path of slow, but steady improvement, housing should follow suit."

Although the housing industry saw notable increases in construction, home prices, and sales in 2013, household growth has yet to fully recover from the effects of the recession. Young Americans, saddled with higher-than-ever student loan debt and falling incomes, continue to live with their parents. Indeed, some 2.1 million more adults in their 20s lived with their parents last year, and student loan balances increased by \$114 billion.

Still, given the sheer volume of young adults coming of age, the number of households in their 30s should increase by 2.7 million over the coming decade, which should boost demand for new housing. "Ultimately, the large millennial generation will make their presence felt in the owner-occupied market," says Daniel McCue, research manager of the JCHS, "just as they already have in the rental market, where demand is strong, rents are rising, construction is robust, and property values increased by double digits for the fourth consecutive year in 2013."

Housing Will Support Growth Again²⁰

For the US economy to grow at a decent clip in the coming quarters two things are required from the housing market. The recovery in construction needs to be confirmed, and house prices must hold up. In a longer piece, we have outlined a bullish stance on the outlook for US residential construction. Our point was that housing starts lag household formation trends, and hence building activity should pick up significantly. In other words, supply is likely to respond to a relatively strong demand picture.

The overhang of unsold housing has long been eaten up, and the construction recovery actually began in early 2012. However building activity has

been on hold since mid 2013, due to the effect of volatile mortgage rates and bad weather. But after a few bad quarters we'd expect the sector to be a positive contributor to GDP and employment in the second half of this year.

The upside for house price appreciation is slightly less compelling. The rebound in house prices over the last two years, along with a normalization of mortgage rates, has brought affordability back to neutral levels, from extreme highs. While this means the fast and easy price gains are probably over, we expect home prices to now inch higher in line with household income growth. The caveat to this cautious outlook is that with new building lagging behind demand, house prices could overshoot.

The 17 percent rebound in house prices since late 2011 together with a strong US equity rally, has helped bring household leverage down to 1990s levels, which is appropriate. So long as house and equity prices hold up decently well this year, US growth will benefit from healthy household balance sheets.

Housing market data for 2014Q2 is already starting to show an improvement. Single-unit building permits rose 3.7 percent MoM in May, the first significant gain YTD and the strongest performance since 2012. Existing home sales rose 4.9 percent MoM in May, again the strongest gain since 2012. Median existing home prices rose 5.9 percent MoM, and have nearly regained all recent losses. And most impressively, new home sales surged 18.6 percent in May, the most in 22 years. It would seem the housing market is fast returning as a growth driver.

New Home Sales Surge, Hit Highest Level Since 2008²¹

US sales of new, single-family homes were at a SAAR of 504,000 units in May, 18.6 percent above the revised April rate and 16.9 percent higher than the May 2013 estimate, according to the Census Bureau. The May increase was the biggest MoM gain since January 1992; purchases were at their highest level since May 2008. The median sales price of new houses sold in May was \$282,000. An estimated 189,000 new homes were for sale at the end of May, representing a supply of 4.5 months at the current sales rate.

US Home Prices Post 1.1 Percent Gain In April From March²²

The S&P/Case-Shiller 20-city Home Price Index rose 1.1 percent in April from March, and 10.8 percent YoY. Nineteen of the 20 cities saw lower annual gains in April than in March.

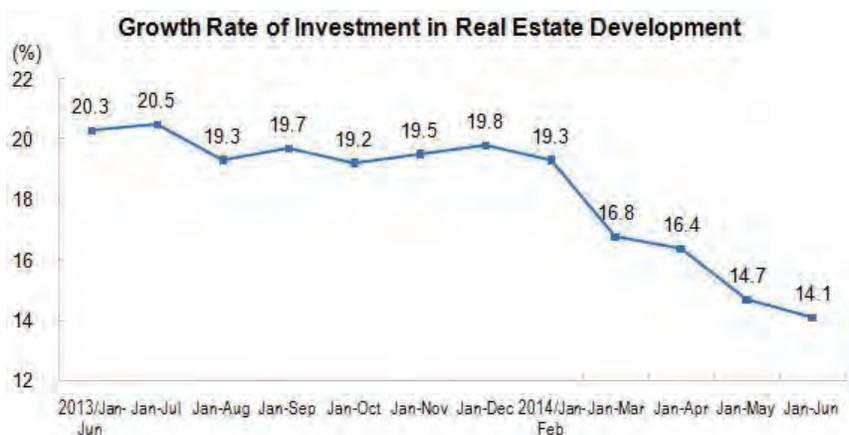
Existing-Home Sales Post Gain In May²³

Existing-home sales rose strongly in May and inventory gains continued to help moderate price growth, according to the National Association of Realtors. All four regions of the country experienced sales gains compared with a month earlier. Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums, and co-ops, rose 4.9 percent to a SAAR of 4.89 million in May. Sales remain 5.0 percent below the level of May 2013. The 4.9 percent MoM gain in May was the highest monthly rise since August 2011. The median existing-home price for all housing types in May was \$213,400, which is 5.1 percent higher than the May 2013 median. There were 2.28 million existing homes available for sale at the end of May, representing a 5.6-month supply at the current sales pace, down slightly from 5.7 months in April.

China

Chinese Investment In Real Estate Development In First Six Months Of 2014 Up 14.1 Percent Year-Over-Year²⁴

Total investment in real estate development in the first six months of 2014 was 4,201.9 billion Yuan, a nominal increase of 14.1 percent YoY (actual increase was 13.1 percent after deducting price factors), 0.6 percentage points lower over the first five months. Investment in residential buildings was 2,868.9 billion Yuan, up by 13.7 percent, 0.9 percentage points lower, and accounted for 68.3 percent of real estate development investment.



In the first six months of 2014, the floor space under construction by the real estate development enterprises accounted for 6,114.06 million m², up by 11.3 percent YoY, decreased 0.7 percentage points over the first five months. The floor space of residential building construction area was 4,371.95 million m², up by 8.3 percent. The floor space started this year was 801.26 million m², down by 16.4 percent, and the pace of decline narrowed 2.2 percentage points. Specifically, the floor space of residential buildings started in the year amounted to 566.74 million m², down by 19.8 percent. The floor space of buildings completed stood at 382.15 million m², went up by 8.1 percent, an increase of 1.3 percentage points. The floor space completed of residential buildings stood at 291.68 million m², up by 6.3 percent.

China Demand Strengthens US Hardwood Sector²⁵

Hardwood exports from the United States to China will surge this year on the back of renewed domestic demand and dwindling timber shipments from Brazil, Myanmar, Ghana and Gabon, according to industry sources. Mike Snow, executive director of the American Hardwood Export Council, said hardwood exports from the US will see a steady uptick this year despite the lackluster performance of the real estate industry in China. "China has entered the second phase of urbanization, which will trigger fresh demand for hardwood and timber products, especially in second-and third-tier cities," Snow said.

Exports of US hardwood products to China reached \$1.13 billion in 2013, up 33 percent on a yearly basis. Red oak, tulipwood and ash that can be made for furniture, floor boards and eco-friendly building materials are the most popular US timber products exported to China. Snow said that China's ongoing urbanization process and fast-growing residential building numbers have created a new generation of

increasingly affluent consumers who are keen to fit their homes and offices with quality interior furnishings made from US hardwood.

The US is the world's largest producer and exporter of hardwood lumber, accounting for more than 22 percent of global shipments. "China, as the world's largest importer of hardwood, is not only importing a large amount of US hardwood to process into furniture in the international market, but is also using it to produce items such as new building materials and cross-laminated timber that can help cut carbon emissions and improve the domestic environment," said John Chan, AHEC's regional director for Southeast Asia and China, headquartered in Washington DC,

Deng Huafeng, a professor at Beijing Forestry University, said another pushing point that has stimulated China's hardwood imports is the government's protection of the country's limited wood resources. China began to protect its forests in 1998 after it faced timber shortages of about 60 million m³ per year. The country has been heavily dependent on imported timber from the US, Canada, Russia and timber-producing countries in Southeast Asia and Africa for almost two decades. Heilongjiang province, China's major timber production base in its northeast region, also announced in April that all commercial deforestation activities must be stopped to protect its forestry resources. "The bans implemented by timber-exporting countries in Africa and Southeast Asia will push China to seek more imports from the US," said Deng.

Australia

Upcycle In Australian Detached Housing Starts Likely To Peak In 2014²⁶

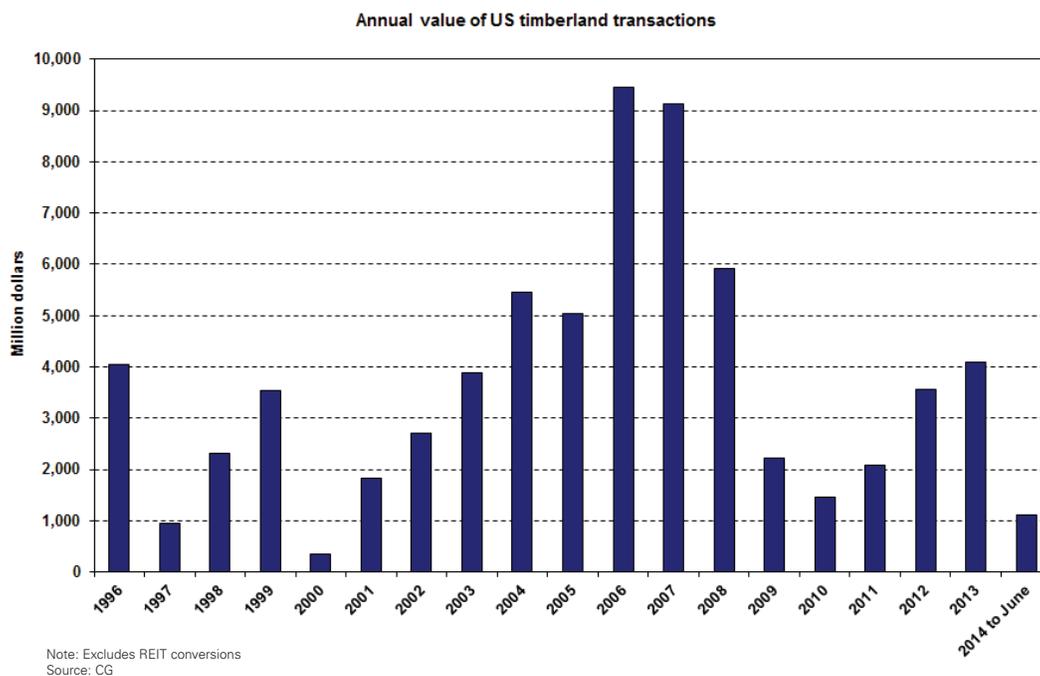
The latest HIA-RP Data Residential Land Report highlights land price pressures and an approaching peak in detached house starts. "There is a close relationship between residential land sales and detached house starts. The indication is that the upcycle in detached housing will peak during 2014," said HIA Chief Economist, Harley Dale.

There was a decline of 4.7 percent in residential land sales between the March 2013 and March 2014 quarters. Over the six months to March 2014, residential land sales were still up by 5.9 percent when compared with the six month period to March 2013. In the March 2014 quarter the weighted median price of residential lots increased by 2.0 percent to \$205,248, marking only the second time the value has exceeded the \$200,000 threshold. Capital city lot prices increased by 3.3 percent in the quarter to be up by 7.5 percent compared with the March 2013 quarter. Lot prices in Regional Australia eased by 0.7 percent in the March quarter this year to be up by 2.4 percent in annual terms.

According to RP Data's research director, Tim Lawless, the early peak in land sales is likely to dampen expectations that investment in new housing construction will help to support Australia's economic transition away from resources-related infrastructure projects. "The ongoing rise in land prices at a time when sales are falling is a worry, particularly in Sydney where the number of sales over the March quarter was about level with the previous year but the median price of land has moved 5.6 percent higher over the year," Mr Lawless said.

Timberlands Transactions

The Value Of Transactions Completed Through 2014H1 Is Relatively Small, But Deal Flow Is Accelerating



Cambium Global Sells Land In Two Georgia Counties For Total Of US\$17.7M²⁷

Cambium Global Timberland Ltd. sold timberland in two Georgia counties in 2014Q2 for a total of US\$17.7 million. The first was an unspecified acreage in Clinch County for a gross cash consideration of \$8.6 million, according to an April 24 announcement on Cambium's website. That transaction was set to complete by the end of May. Cambium then sold 8,065 acres in Stewart County for \$9.1 million, as announced in a statement on its website dated May 14. That transaction was scheduled to complete on June 26.

Catchmark To Acquire 55,600 Pine Acres In US South For \$106 Million²⁸

CatchMark Timber Trust, Inc. announced agreements to acquire a total of 55,671 acres of prime timberlands in two separate transactions totaling \$106 million. The properties are located primarily in Middle and South Georgia (approximately 95 percent of the acreage) as well as North Florida.

Openings, Closings, Curtailments

Oregon Plywood, Veneer Mill Destroyed In Fire²⁹

Springfield Plywood and Veneer, Springfield, OR, was destroyed in a fire on July 17. No injuries were reported in the blaze, which idled 250 workers. Swanson Group CEO Steve Swanson, who owns the mill, said it was too early to know whether the company will rebuild at the site.

Certification/Environmental

Australia Repeals Controversial Carbon Tax³⁰

Australia's government have repealed a much-maligned carbon tax on the nation's worst greenhouse gas polluters, ending years of contention over a measure that became political poison for the lawmakers who imposed it. The Senate voted 39 to 32 to axe the AU\$24.15 (US\$22.60) tax per tonne of carbon dioxide that was introduced by the center-left Labor government in July 2012.

Prime Minister Tony Abbott's conservative coalition government rose to power last year on the promise of getting rid of the tax, assuring voters that removing it would reduce household electricity bills. He plans to replace the measure with a taxpayer-financed AU\$2.55 billion fund to pay industry incentives to use cleaner energy.

Background Reading

Direction And Size Of China's Outward Investments In Forestry³¹

Early this year Forest Trends published a report "*Chinese Overseas Investment in Forestry and Industries with High Impact on Forests: Official Guidelines and Credit Policies for Chinese Enterprises Operating and Investing Abroad*". For the full report visit http://www.foresttrends.org/documents/files/doc_4203.pdf

In 2013 Chinese enterprises invested US\$90 billion in 5,090 foreign companies in 156 countries, a YoY increase of 17 percent. According to records kept by China's Ministry of Commerce, investments in forestry and other land-use sectors have been made in the following regions and countries:

- **Africa:** Fourteen countries in Africa have received FDI in agriculture and forestry, in particular Gabon, Zambia, Equatorial Guinea, Liberia, Republic of Congo and Cameroon.
- **Asia:** Outward FDI in logging and processing has been mainly directed to Laos, Myanmar, Thailand, and Korea. Efforts have been made to establish plantations in areas previously under opium poppy cultivation in Laos, Thailand, and Myanmar.
- **Latin America and Caribbean:** While less significant than Africa or Asia, Chinese investments have been expanding in Brazil, Argentina, Venezuela, Peru and Guyana.
- **Russia:** Chinese investment has focused on logging, timber processing, pulp and paper and other products and is concentrated in the border areas in Siberia and the Russian Far East. Chinese outward FDI has been encouraged by the Russian and Chinese governments through supportive programs that began in 1997.

Resources

ABARES Publishes Australian Sawmill Survey³²

A detailed snapshot of the Australian wood processing industry is now available following the release of the National Wood Processing Survey 2012-13 report by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES). ABARES estimates that Australia had 200 hardwood and 81 softwood sawmills (comprising 61 sawmills based on the softwood plantation resource and 20 cypress pine sawmills) in 2012-13. "Since 2006-07 there has been a significant fall in the number of sawmills in Australia, with hardwood sawmills falling by 60 percent and softwood sawmills by 25 percent," said ABARES Executive Director, Karen Schneider. "The volume of hardwood and softwood logs harvested had decreased by 38 percent and 16 percent respectively over the same period. Over the past decade, the domestic softwood sawmill industry has become significantly more capital intensive and larger in scale, which has limited the reductions in total log processing despite the decline in mill numbers."

A copy of ABARES National Wood Processing Survey 2012-13 can be found on their website.

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