



## Inside This Issue

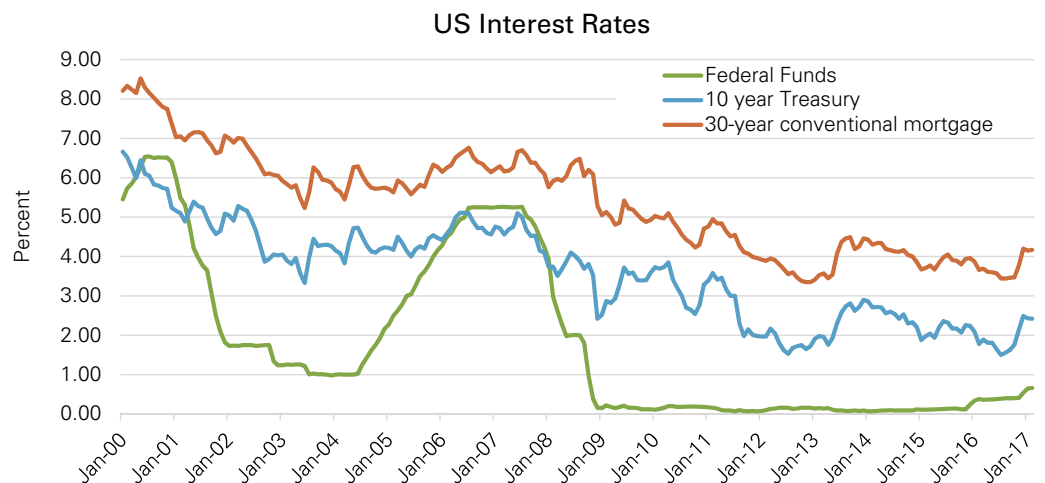
Imports .....	2
Trade in Wood Products .....	2
Trade Issues .....	3
Prices .....	5
Global Wood Prices .....	7
Supply .....	8
Demand .....	9
Housing .....	10
Announcements .....	13
Timberlands Transactions ..	13
Bioenergy .....	14
Resources .....	15
References .....	15

## Highlights

- BC log exports to Asia soar in 2016, second only to 2013 volumes
- China's softwood lumber imports hit a new record in 2016
- Sawmill margins in the Willamette Valley region increase as log prices slightly decline and lumber prices strengthen
- Despite a small decline in 2016, housing affordability remains favorable in historical terms

## The Economy in Graphs

U.S. mortgage rates are climbing from historical lows, approaching levels last seen almost three years ago



Source: FRB

## Imports

### US softwood plywood imports rode the wave, hit decade high<sup>1</sup>

US softwood plywood imports from offshore suppliers jumped 54 percent in 2016, riding the same wave of robust returns that fueled sharp hikes in shipments of softwood lumber and other wood products.

Strong demand in the US and inviting currency exchange rates afforded by the strong dollar were the key attractions for overseas producers. Imports from offshore reached 982,279 cubic meters (m<sup>3</sup>), the highest annual total since 2006. Almost 95 percent of total offshore imports to the US came from South America. Shipments from Brazil surged to 539,043 m<sup>3</sup>, about double the 2015 volume.

The sharp gains in shipments to the US helped propel total Brazilian exports to 1.73 million m<sup>3</sup> last year, up 19 percent from the 2015 total. Mexico, Northern Europe, and South Africa were among the other significant growth markets for Brazil.

Chilean exports to the US climbed 27 percent to 341,086 m<sup>3</sup>. Chile has historically been a key supplier of sanded panels, with a large percentage of shipments sold through large home center chains. Shipments from Uruguay rose 64 percent.

Imports from China fell 32 percent to 44,689 m<sup>3</sup>, the first annual decline in five years. The volume was the lowest since 2011. Italy was the most common European softwood plywood supplier.

## Trade in Wood Products

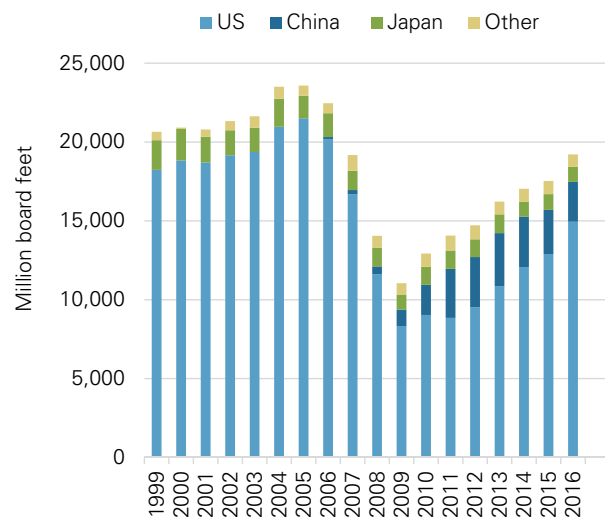
### Global

### Global trade of softwood lumber up 66 percent in seven years, but lumber prices have fallen substantially over the same period<sup>2</sup>

Global softwood lumber trade increased 12 percent year-over-year to reach a new record high of 121 million m<sup>3</sup> in 2016, per estimates by Wood Resources International. Since the global financial recession there has been a steady climb in international lumber trade, with shipments increasing by 66 percent over the past seven years. While it is no surprise that China is a major driver for the dramatic rise in lumber shipments worldwide the past seven years, it is interesting to note that the US has increased softwood lumber imports more than China.

Lumber exports from BC reached their highest levels since 2006 in 2016. Lumber shipments from the province to the US were up 25 percent year-over-year, while export volumes to Asia have fallen about eight percent. Shipments to China were up in 2016Q4 after having reached a six-year low in 2016Q3. Export volumes to the US in December 2016 accounted for 63 percent of BC exports, up from 55 percent two years ago.

Canadian softwood lumber exports by major destination country



Source: Yardstick

China imported record high volumes of softwood lumber in 2016. Despite relatively pessimistic forecasts for wood demand early in 2016, China's need for imported wood picked up during the summer and fall with import volumes in 2016Q4 increasing by 20 percent compared with 2015Q4. Import values for lumber to China rose during most of 2016 with average prices in December 2016 being about six percent higher than in December 2015.

Japanese softwood lumber imports in 2016 were the highest in three years as total wood demand in the country increased by 3.6 percent from 2015. There has been a slow but steady shift in the sourcing of lumber away from North America to Europe and Eastern Russia the past few years. From 2015 to 2016, the North American market share fell from 39 percent to 35 percent, while the market share of lumber from Russia and the Nordic countries increased from 39 percent to 42 percent year-over-year. Both domestic and import prices (in US dollar terms) have fallen in Japan during 2016H2, mostly due to a weaker Yen.

The weak Ruble continued to be a boon for Russian lumber exporters during 2016, with shipments jumping over ten percent from 2015. During the past three years, export volumes have increased 26 percent with China being the destination for more than half of the shipments from Russia. China and Japan were the shining lights for Russian lumber exporters in 2016 as they were the only two markets of the top ten markets that imported more lumber in 2016 than in 2015.

## Japan

### Japan's log export struggled in 2016<sup>3</sup>

According to the trade statistics of the Ministry of Finance, a total of 644,257 cubic meters (m<sup>3</sup>) of logs was exported in 2016, 6.1 percent less than 2015. The total value was 7,735 billion yen, a 15.1 percent decline from 2015. In 2016, log exporters struggled with a strong yen and a slow Chinese economy. 83,700 m<sup>3</sup> of lumber was exported in 2016, 47 percent more than 2015, with much of the increase going to China.

## Russia

### Russian plywood exports surge in 2015-2016<sup>4</sup>

The plywood industry in Russia consists of 65 factories with projected capacity of 4 million m<sup>3</sup>, currently operating at 85-90 percent load (3.6 million m<sup>3</sup> at the end of 2015). Nearly all this volume is birch plywood, except for the mill of Ilim Timber in the Irkutsk region and the currently idled Yenisei FK mill, which has been recently purchased by an investor for re-launch.

The domestic Russian market buys approximately 1.5 million m<sup>3</sup>, of which, 1.2 million m<sup>3</sup> is white (non-laminated) plywood. The reduction in domestic demand and weak Ruble resulted in remarkable increase in exports in 2015-2016. The most important export markets include the US, Egypt, Germany, and Turkey.

## Brazil

### Brazilian pulp exports increase 47 percent in January<sup>5</sup>

The latest data released by the Brazilian Tree Industry Association (Ibá) show that the country exported 1.4 million tonnes of pulp in January 2017, or 47.5 percent more than in January 2016. Pulp production rose 4.8 percent to 1.6 million tonnes in the period, while imports declined 43.6 percent to 22,000 tonnes and apparent consumption was 59.1 percent lower at 273,000 tonnes.

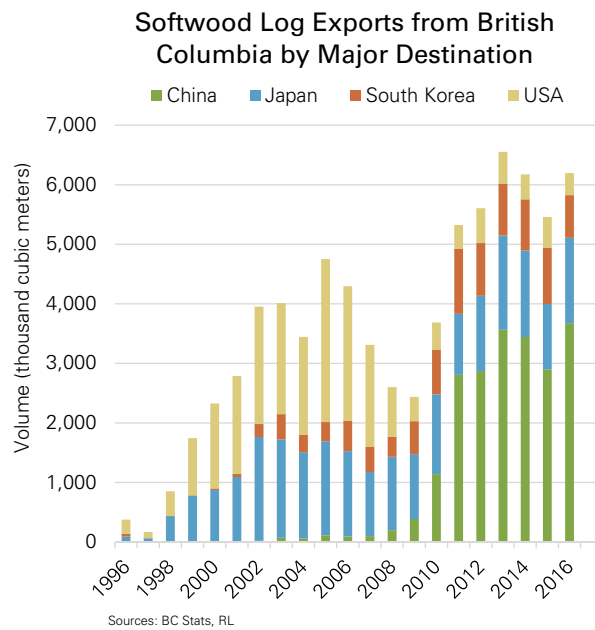
## Trade Issues

### Log Export Restrictions

#### BC raw log exports to Asia soar<sup>6</sup>

While BC forestry companies face a long-term decline in the annual allowable cut in the Interior, thanks to the mountain pine beetle infestation, BC companies on the coast have been exporting raw logs, mostly to China, in record volumes in recent years. According to a recent Canadian Centre for Policy Alternatives (CCPA) report, one in three trees cut on the BC coast was exported in 2016–6.6

million m<sup>3</sup>—which is slightly short of the 6.9-million m<sup>3</sup> record in 2013. Log exports between 2013 and 2016 generated \$3 billion.



While log exports are not new, their volume and value have increased in recent years, thanks to demand from China, and raw log exports now promise to become an election issue. The CCPA is recommending a ban on log exports from old-growth forests and higher export taxes on second-growth log exports.

Green Party Leader Andrew Weaver said he doesn't support a ban on log exports. He would rather see incentives given to the pulp and paper industry, which could use some of the low-value logs currently being exported.

Much of the timber that is exported in raw log form is hemlock, which is a lower-value wood. "I don't think banning is the way to go," Weaver said. "But differential taxes between logs that export, versus logs that stay, is one way. Appurtenances is another way."

Under appurtenance rules, which the Liberal government scrapped, trees cut in a given region had to be used in that region to feed local mills. Once those rules were scrapped, logs could be sold to anyone anywhere. Buyers in China are

willing to pay higher prices for hemlock logs than are local mills, which can block export sales, if they want the logs. If coastal sawmill owners aren't blocking export sales, it's because they can't compete, said the NDP party leader John Horgan. Forestry companies can get much better prices for their logs in China. "The large tenure holders are basically preventing them from getting access to these logs by driving up the prices and selling them offshore," Horgan said.

While in the past, most log exports came from private land owned by TimberWest and Island Timberlands from their vast private holdings on Vancouver Island, more export logs are coming off of publicly owned forests. "It is public lands that [are] supplying the bulk, and that is increasing," said Ben Parfitt, who authored the CCPA report.

BC Forestry Minister Steve Thomson insists that only seven percent of the trees cut on coastal Crown land are exported. Asked if an NDP government would bring back appurtenance rules, Horgan hesitated, saying that any regulatory changes need to be considered within the context of ongoing softwood lumber negotiations with the US. Increased restrictions on log exports could be viewed as protectionism by American lumber producers and give them even more ammunition in their fight against a Canadian system that they already consider to be unfairly subsidized through Canada's Crown tenure system.

An estimated 25 sawmills have closed since 2006, mostly in the Interior. The mountain pine beetle wiped out half of the Interior's timber supply, and it will take half a century for replanted trees to mature. "If you believe—and the writing clearly is on the wall—that there are going to be significant declines in available log supply in the Interior of the province, then the future of the forest industry—at least the immediate future—is going to be much more dependent on coastal forest industry activity," Parfitt said.

An average sawmill produces 300,000 m<sup>3</sup> of lumber annually, so the amount of logs exported in 2016 would have been enough to supply at least a dozen sawmills for a year. "If we continue

down the road that we're on, we run a very real risk of fewer and fewer sawmills, and more and more log exports, which mean more forgone job opportunities," Parfitt said.

But forest-sector organizations like the Coast Forest Products Association (CFPA) and Truck Loggers Association (TLA) argue the reverse is true. Log exports help to subsidize logging operations, they say, which benefits local mills. "Log exports are a very important part of the economics of the coast, ensuring that we can harvest the entire profile of the allowable cut, and that means getting into some of the harder, more economically challenged areas into the lower-quality stands," said CFPA president Rick Jeffery. "Log exports help you do that, and they help you do that in a manner that puts logs in front of domestic mills."

If new mills aren't being built on the coast, it's not because there is a shortage of coastal timber, says TLA executive director David Elstone. "There is a surplus; you have the ability to access that surplus," he said. "It's not log exports that are restricting that investment."

## Prices

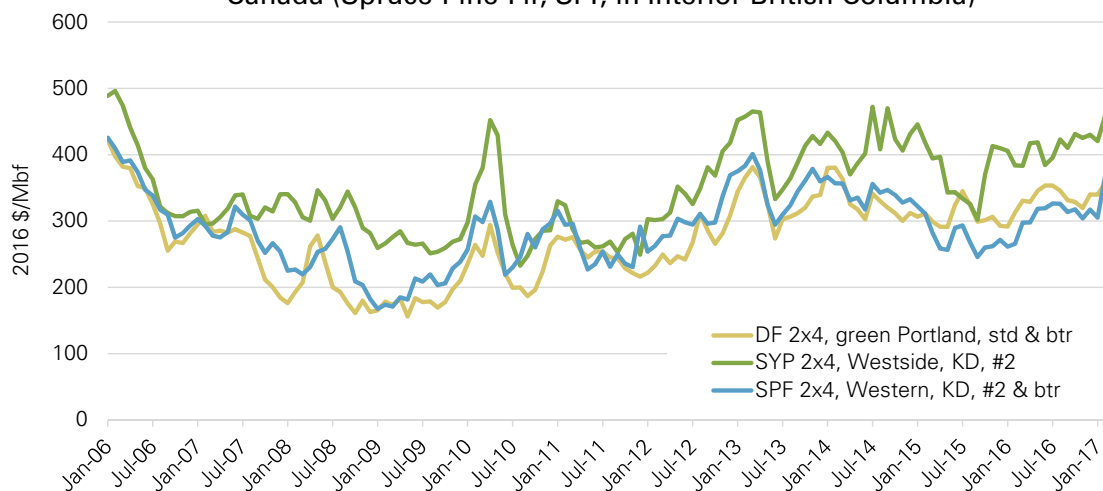
### US Lumber

#### Soaring US lumber markets<sup>7</sup>

The US lumber markets are already seeing some major price volatility, where Western-SPF lumber prices soared by a whopping 25 percent (US\$78/Mbf) in the three-week period between January 27 and February 17, 2017 and up US\$83/Mbf over the previous five-week period. This three-week price increase in US lumber prices is one of the largest short-term gains over the past 20 years. This is mirroring a similar scenario back in early 2001 when countervailing duties (CVD) on Canadian lumber shipments into the US moved into their 90-day retroactive period in mid-May 2001 and the anti-dumping duties (ADD) followed later. The initial combined duties of 32.3 percent were both in effect in November, 2001.

The largest US lumber price spike ever, based on price changes in consecutive weeks, was in 2001—before the implementation of the last US duties—when lumber prices spiked higher by US\$165/Mbf over a 7-week period. This was followed by two major price collapses over the next six months: one over five weeks for a drop of US\$111/Mbf; and a second over 9 weeks for US\$122/Mbf.

**Key softwood lumber real price indicators for the US West Coast (Douglas-fir, DF), the US South (Southern Yellow Pine, SYP), and Canada (Spruce-Pine-Fir, SPF, in Interior British Columbia)**

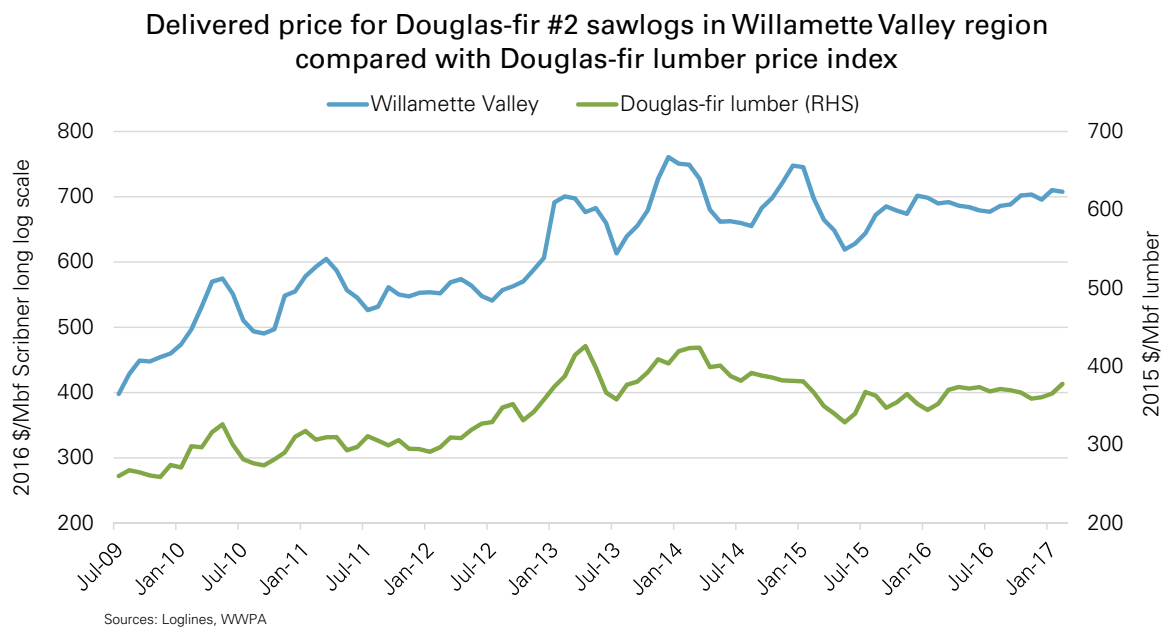


Source: Random Lengths, BLS

# Logs

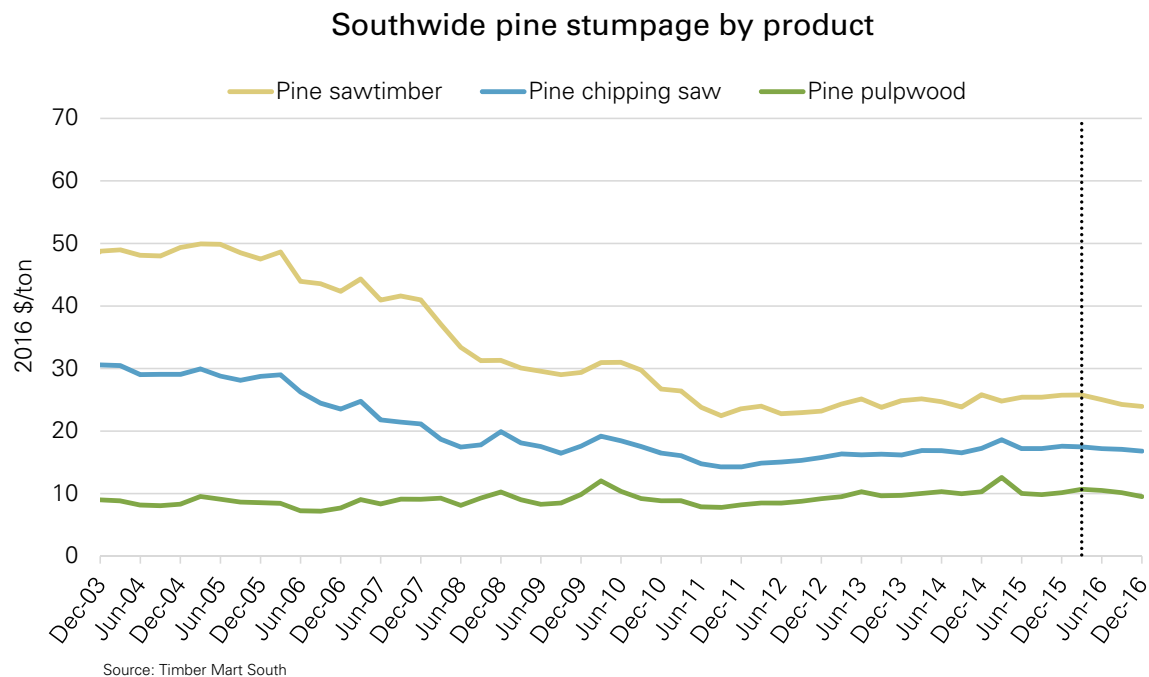
## Pacific Northwest Coastal Log Values

Sawmill margins in the Willamette Valley region increase as log prices slightly decline and lumber prices strengthen



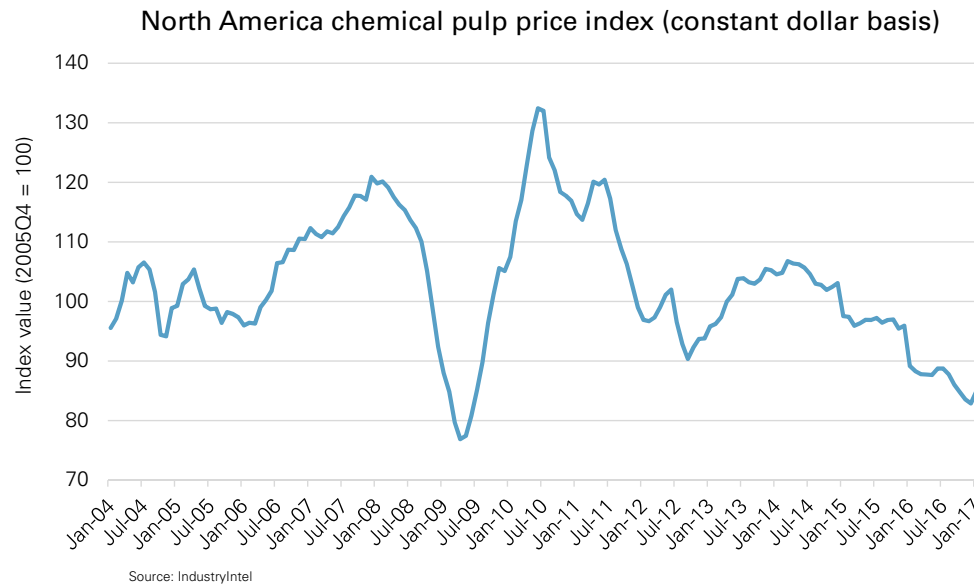
## US South Log Values

Real pine stumpage prices have slightly declined in 2016 across the US South



## Pulp and Paper

North American pulp prices are slowly recovering from seven-year low



## Global Wood Prices

### New Zealand

#### New record for NZ roundwood log prices<sup>8</sup>

Strong domestic building activity in New Zealand combined with buoyant horticulture and viticulture industries has pushed up the price of roundwood log prices to a new record. The average price for roundwood logs rose to NZ\$90/tonne in February, up NZ\$5 from January's average price and at the highest level since AgriHQ began collecting the data in early 2002.

New Zealand local councils approved consents for 29,970 new dwellings last year, up 10 percent from the previous year, as record net migration and low interest rates spur demand for additional housing. A booming horticulture industry is also spurring investment activity in that sector, helping stoke demand for roundwood.

"The roundwood sector is currently in a period where interest is at unprecedented levels," according to AgriHQ. Demand for poles has been especially strong, for the likes of foundations and retaining walls. Multiple strands of the horticulture and viticulture industries have also maintained their presence in the roundwood markets as well. The sheer volume of activity has meant some mills have battled to fill orders in recent months."

Export prices for New Zealand logs lifted for every grade covered by AgriHQ's survey of exporters, forest owners and saw millers. The average wharf gate price for New Zealand unpruned A-grade logs advanced to NZ\$128/tonne, the highest level since AgriHQ records began in late 2008, while prices for various K-grades haven't been this high since the early-mid 1990s. The NZ\$166/tonne recorded for export pruned logs was firmer than any of the previous six months, although lower than the first half of 2016.

Shipping rates to New Zealand's key log export destinations slipped. The rate to China, New Zealand's largest export market, declined one percent, while South Korea and India both dropped three percent.

The latest data showed New Zealand log exports increased nine percent to 15,913,512 m<sup>3</sup> last year compared with the year earlier. China took 69 percent of the country's logs while South Korea took 17 percent.

## Costs

### Ocean Freight

#### Outlook for freight rates<sup>9</sup>

Exporters are anticipating increases in shipping rates to China of between US\$3-\$6 per JAS m<sup>3</sup> over the next couple of months. Short term issues causing shipping rates to increase are:

- Port congestion in China leading to lower vessel availability.
- Increased demand for vessels from a good grain harvest in Australia.
- Increased freight demand due to China importing more coal and iron ore. The Chinese government is reducing the number of coal and iron ore mines in China and restricting production to combat pollution as well as inferior quality issues. This means they are importing more of this material. Freight-mile demand has also been boosted as some of this commodity comes from South America.
- Global steel production continues its recovery in 2017.
- In January Indonesia removed its ban on the export of metal ore and mineral concentrates. Analysts estimate that one company Antam alone has a stockpile of 20 million tons of nickel ore, which is now available for export.

Dry bulk shipping stocks surged in the aftermath of the Trump election win and the Baltic Dry Index (BDI) crossed the 1,000 point threshold in November 2016 for the first time in 15 months.

Industry analysts suggest increasing trade and reducing ocean freight capacity will support a recovery in charter rates on most major dry bulk shipping routes in 2017.

Some analysts advise caution in being overly bullish with increased predictions of BDI as the industry has an ongoing and substantial vessel oversupply. (Supply grew at 2.4 percent while demand only grew at one percent in 2015). Supply is slowing however as 2016 supply growth was 2.2 percent and 2017 supply growth is expected to be 1-1.5 percent, as financing tightens and new orders are restrained. The order book for new vessels is sitting at a decade low of 11 percent of the world's fleet, which has reduced from about 20 percent a year ago. The final growth figure will depend upon scrapping decisions. The environmental regulations on Ballast Water Treatment System (BWTS) will take effect in September 2017, and could result in higher scrapping of old tonnages. Some ship owners may prefer to scrap their old tonnage, with low earnings potential, than incur the additional cost of a BWTS. The bunker fuel regulations that are scheduled to come into effect in 2020 will likely have a bigger impact on scrapping rates for older vessels.

## Supply

### US Lumber Production

#### US lumber production finishes 2016 3.4 percent higher than 2015<sup>10</sup>

US lumber production totaled 32.72 Billion Board Feet (bbf) in 2016, according to the Western Wood Products Association. That figure is 3.4 percent above the 2015 total of 31.64 bbf. Production in the West last year totaled 13.88 bbf, up 2.6 percent from 2015. Production in the South totaled 17.34 bbf, an increase of 3.4 percent.

For December, US production was 2.46 bbf, down 7.3 percent from November and 2.4 percent lower than December 2015. December production in the South fell 8.1 percent from November to 1.29 bbf while production in the West dipped 6.3 percent to 1.06 bbf.



## Western Lumber Production

### Western lumber production in January down 1.1 percent from year ago<sup>11</sup>

Western lumber production totaled 1.085 bbf in January, according to the Western Wood Products Association. That figure is 1.1 percent below the January 2016 total of 1.098 bbf but up 2.9 percent from December 2016. Production in the Coast region in January totaled 671 Million Board Feet (MMbf), up 2.8 percent from January 2016 and 4.2 percent from December. Production in the Inland region totaled 389 MMbf, a decrease of 4.5 percent year-over-year but up 1.2 percent from December.

## Logs

### Brazil

#### Brazilian government to release foreign ownership of forest, agricultural lands<sup>12</sup>

After over six years of debates and negotiations, the Brazilian federal government has given the first solid sign that it will allow foreign companies to own forest and agricultural lands again in the country. The announcement was made by the country's finance minister Henrique Meirelles on February 15 during an interview with the TV channel GloboNews, when he stated that the sale of lands to foreigners should be relaxed within the following 30 days in order to boost agricultural investments in the country after years of economic crisis.

The discussion surrounding foreigner land possession in Brazil began in August 2010, when the federal government forbade overseas companies to acquire properties with areas larger than 250-5,000 hectares, depending on the location. A new large pulp mill, for example, demands at least 120,000 hectares of planted forests.

Since then, foreign companies suspended forest, pulp and paper investments in the country due to legal uncertainty. For most of them, "it was too risky to spend energy on designing expansion projects or even attempting to close partnerships with Brazilian producers." The country's agriculture minister Blairo Maggi has now detailed that the legal release will be valid only for perennial cultures, including planted forests to be used in wood pulp production.

With the green light to buy lands in Brazil, foreign companies such as Chilean CMPC can move on with their plans to add new pulp capacity in the country. CMPC reportedly is waiting for changes in the Brazilian legislation to move ahead with its plans of building a new greenfield BEK line in the southern region of the country, where it already runs Celulose Riograndense mill. The new pulp facility is estimated at Real 10 billion (\$3.2 billion) and would involve the construction of a large BEK plant in the region of Pelotas, close to the Uruguayan border.

With a change on land possession by foreigners, the country could also begin receiving new players from Asia and Europe. Stora Enso and UPM, for example, a few years ago decided to invest in Uruguay for pulp production, where the legislation doesn't impose barriers to foreigners.

## Demand

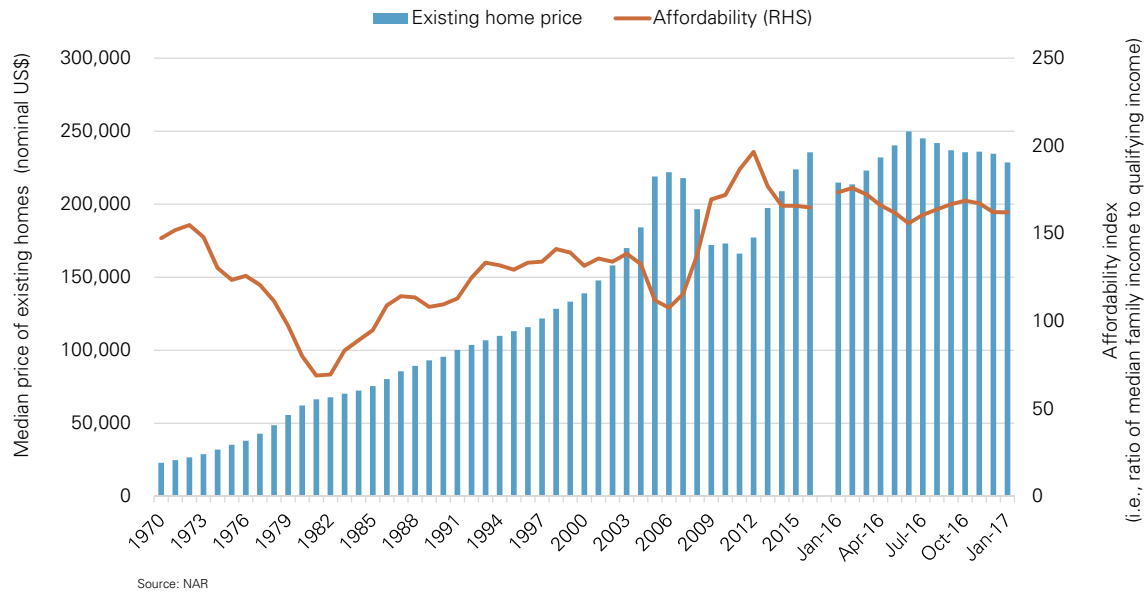
### US construction spending fell in January<sup>13</sup>

US construction spending unexpectedly fell in January as the biggest drop in public outlays since 2002 offset gains in investment in private projects, pointing to moderate economic growth in 2017Q1. The Commerce Department said that construction spending declined one percent to \$1.18 trillion. Construction spending in December was revised to show a 0.1 percent increase rather than the previously reported 0.2 percent decline.

# Housing US

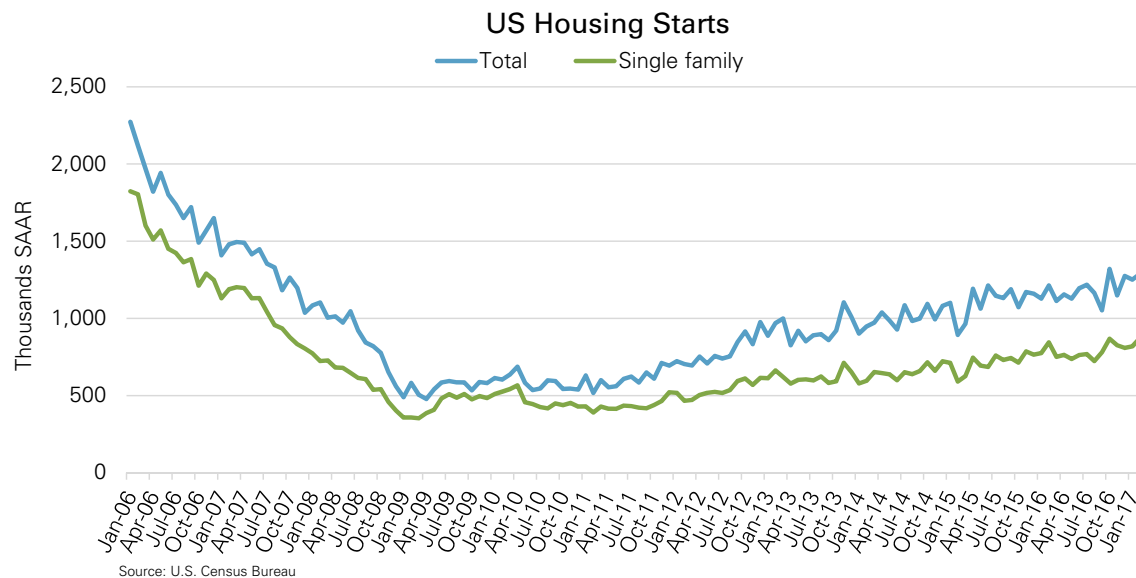
Despite a small decline in 2016, housing affordability remains favorable in historical terms

Comparison of median price for existing homes with home affordability index



## US housing starts reach four-month high<sup>14</sup>

Beginning construction of US houses climbed to a four-month high in February, led by the strongest pace of single-family homebuilding in nearly a decade. Residential starts advanced three percent to a 1.29 million annualized rate, according to the US Commerce Department. Construction of one-family dwellings rose 6.5 percent to an 872,000 pace, the fastest since October 2007.



## Nearly 50 percent of US millennials live in the suburbs, while 33 percent live in urban neighborhoods<sup>15</sup>

According to the 2016 Zillow Group Report on Consumer Housing Trends, millennials made up 42 percent of home buyers last year, more than any other generation, with most of them buying for the first time. Millennials, those ages 18-34, associate homeownership with the American Dream and believe that buying a home is a good financial investment, even more so than Generation X and baby boomers. But until recently, they were delaying homeownership, and it was difficult to know where they would actually purchase homes when they started buying. The median age of a first-time home buyer is 33 years old, compared to 29 a generation ago.

Here are some key findings on millennial home-buying trends:

- Almost 50 percent of millennial homeowners live in the suburbs, while 33 percent live in an urban neighborhood and just 20 percent live in a rural area.
- Of the millennial buyers who moved in the past year, 64 percent stayed in the same city and just seven percent moved to a different state.
- When millennials become homeowners, they skip the traditional starter home by choosing larger properties with higher prices: They pay a median price of \$217,000 for a home that is about 1,800 square feet, similar in size to what older generations buy.
- Millennial home buyers share many preferences with their grandparents' generation, both choosing homes with shared community amenities and considering townhouses at higher rates than other generations.

## Here's the inventory crisis smothering Millennial homebuying<sup>16</sup>

In an interview with HousingWire, Daren Blomquist, senior vice president at ATTOM Data Solutions, identified three key factors keeping housing inventory in a drought, barring entrance for

aspiring young homeowners. The current inventory shortage isn't new though. The same challenges plagued housing in 2016 are predicted to stick around through 2017.

Beyond the standard explanations for why Millennials put off buying a home, such as student debt, tighter lending standards and simply not wanting to sacrifice everything to buy a home, young home shoppers have to choose from a shallow pool of home options and compete with millions of other young buyers trying to do the same.

The three factors Millennials face regarding limited inventory are:

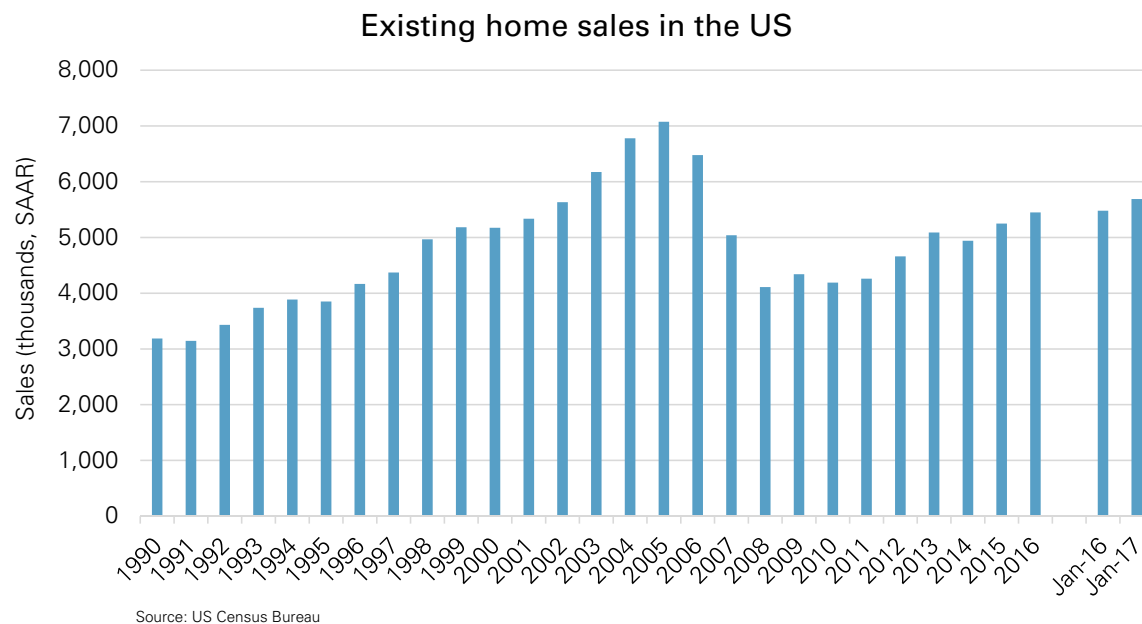
1. Average homeownership tenure: Since the early 2000s, there's been a significant shift in the average homeownership tenure, nearly doubling in time length. In 2007, the average tenure came in at 4.08 years, compared to 7.88 years a decade later in 2016. As a result, Millennials can't buy as much since fewer homes are being listed on the market for sale.
2. Everyone refinanced: Blomquist went on to explain that thanks to historically low interest rates, everyone who could has already refinanced into a low rate and they want to keep that rate. Although this is great for everyone who secured a low rate, it's also stopping homeowners from leaving their starter home and upgrading into a new home. And rates are only projected to rise.
3. Investors are going after starter homes: Investors are picking off a lot of the ideal homes for first-time homebuyers. Blomquist said ATTOM Data Solutions looked at more than 23,000 properties owned by Blackstone Group's single-family rental operator, Invitation Homes, which is about 48 percent of their total portfolio, and found a lot of their inventory is what Millennials would be interested in: 3-bed, 2-bath homes with average square footage of 1,871 and value of below \$250,000. And even worse for first-time homebuyers, investors are reaping the benefit of home prices rising. Invitations Homes has gained an estimated 114 percent in home value on this portfolio since purchase.

Young aspiring homeowners aren't the only group dealing with this. Lynn Fisher, the MBA's vice president of research and economics, recently said there will be about a 13 million to 16 million increase in additional households in the US over the next decade.

## January US existing home sales set strongest pace in 10 years<sup>17</sup>

Existing-home sales stepped out to a fast start in 2017, surpassing a recent cyclical high and increasing in January to the fastest pace in almost a decade, according to the National Association of Realtors. All major regions except for the Midwest saw sales gains last month.

Total existing-home sales expanded 3.3 percent to a seasonally adjusted annual rate (SAAR) of 5.69 million in January from an upwardly revised 5.51 million in December 2016. January's sales pace is 3.8 percent higher than a year ago (5.48 million) and is the strongest sales rate since February 2007 (5.79 million).



Lawrence Yun, NAR chief economist, said January's sales gain signals resilience among consumers even in a rising interest rate environment. "Much of the country saw robust sales activity last month as strong hiring and improved consumer confidence at the end of last year appear to have sparked considerable interest in buying a home," he said. "Market challenges remain, but the housing market is off to a prosperous start as homebuyers staved off inventory levels that are far from adequate and deteriorating affordability conditions."

The median existing-home price for all housing types in January was \$228,900, up 7.1 percent from January 2016 (\$213,700). January's price increase was the fastest since last January (8.1 percent) and marks the 59th consecutive month of year-over-year gains.

Total housing inventory at the end of January rose 2.4 percent to 1.69 million existing homes available for sale, but is still 7.1 percent lower than a year ago (1.82 million) and has fallen year-over-year for 20 straight months. Unsold inventory is at a 3.6-month supply at the current sales pace (unchanged from December 2016).

## China

### China property sales surge despite government efforts to cool market<sup>18</sup>

China's property sales surged in the first two months of the year despite government measures to cool the market, though growth in real estate investment showed signs of easing, according to official data. Property sales by area rose 25.1 percent year-over-year in January and February. That was above the 22.5 percent annual gain in 2016, which was the strongest annual growth in seven years thanks to a property boom in top-tier cities. It was also a marked surge from December, when property sales by area rose 11.8 percent from a year earlier, according to Reuters' calculations.

After sharp home price rises last year, China's policymakers have started to worry about overheating in the property market and the risk of a sudden and sharp correction that would knock the economy. Many local governments in cities which have seen the sharpest price rises have rolled out a series of restrictions in the past few months on buying and ownership. Central bank data showed household loans, mostly mortgages, accounted for 25.7 percent of new loans in February, down from 37 percent in January and 50 percent in 2016, adding to signs of cooling in the housing sector.

China is looking to keep the property market stable this year after prices of new homes soared 12.4 percent last year, the most since 2011. Analysts believe authorities will continue to tighten restrictions introduced last year to cool the hottest property markets. But property speculators are betting the government will relent and ease curbs if economic growth begins to falter, as many analysts expect.

New construction starts, a telling figure of property developers' confidence in the market, were up 10.4 percent in January-February from a year ago, compared with the 8.1 percent annual gain in 2016, the NBS data showed. But the pace of new starts did moderate slightly from a jump 12.5 percent in December, Reuters calculations showed.

## Announcements

### Sumitomo Forestry to sell Alpine MDF Industries in Wangaratta, Australia<sup>19</sup>

Sumitomo Forestry has announced that its wholly owned subsidiary Sumitomo Forestry Australia Pty plans to sell entire 100 percent stake in its Australia-based unit, Alpine MDF Industries Pty Ltd. to a Thailand-based firm Metro Particle Co. Ltd. The purchase price is at Au\$37 million and the company says the transaction is effective in late March. Alpine MDF Industries is a manufacturer and supplier of MDF with the plant located in the North East of Victoria in Wangaratta. The plant produces in excess of 150,000 m<sup>3</sup> of MDF per year.

### Nippon Paper Industries to sell Port Angeles, WA, paper mill to Bio-Pappel<sup>20</sup>

Nippon Paper Industries Co., Ltd. announced the sale of the Port Angeles, WA paper mill and cogeneration assets, which are owned and operated by Nippon Paper Industries US Co., Ltd. to McKinley Paper Company. McKinley is the US subsidiary of Bio-Pappel, a leading producer of paper and paper products in Mexico. Terms of the deal were not disclosed.

## Timberlands Transactions

### Rayonier to acquire 95,100 acres of high-quality industrial timberlands in FL, GA, and SC<sup>21</sup>

Rayonier Inc. announced that the company has entered into three transactions with separate sellers to acquire approximately 95,100 acres of high-quality industrial timberlands located in Florida, Georgia and South Carolina for an aggregate purchase price of approximately \$217 million, or \$2,280 per acre. The properties are comprised of highly productive timberlands located in some of the strongest timber markets in the US South, primarily along the I-95 coastal corridor near Savannah, GA. Rayonier expects to finance the purchases with cash on hand and the proceeds of a follow-on offering of Rayonier common shares.

## Bioenergy

### Almost 50 percent of the feedstock for US South wood pellet plants were residues in 2017Q1<sup>22</sup>

Over the past ten years, there has been a clear shift in fiber-sourcing for pellet manufacturers in the US South from logs to residues. In 2008, when the first large pellet plant was built, practically all fiber consumed by this plant was low-quality small diameter logs from adjacent forests. This fiber source is a high-cost fiber furnish since it needs to be chipped, hammered and dried before it can be processed to pellets, which adds substantial cost to the manufacturing of pellets.

Increasingly, pellet plants throughout the southern states have turned to sawmill byproducts and forest residues that in the past have been left at the harvesting sites according to the North American Wood Fiber Review (NAWFR). Two clear trends are evident in the last five years:

- In British Columbia, pellet companies have moved from entirely relying on inexpensive sawdust from the local sawmills for its fiber furnish to increasingly supplementing its dominant fiber source with forest residues in the form of tree tops and branches left after harvest operations.
- In the US South, there has been an increase in the usage of residuals at the expense of roundwood.

In 2017Q1, pellet plants in BC consumed just over 82 percent sawmill residues, while forest residues accounted for about 17 percent. With the expected reduction in lumber production in the province in the coming years, pellet plants will increasingly have to rely on forest residues and low-cost logs for their furnish since the available supply of sawmill byproducts will diminish.

In the US South, the fiber sourcing trend is the opposite of British Columbia with expected

increases in the usage of sawmill residues as the lumber production is likely to expand in the future. From 2013Q1 to 2017Q1, the usage of industry and forest residues increased from 33 percent to 47 percent of the total fiber furnish for the pellet industry. This upward trend is expected to continue, especially with regard to the usage of sawdust and microchips.

### Japan prepares for biomass power plant surge and increases imports of wood chips<sup>23</sup>

Japanese trading houses and electricity retailers are increasing their imports of wood chips and palm shells, with demand expected to surge amid a rush of construction of biomass power plants, according to a report from the Nikkei Asian Review. The government is revising its fixed-price power purchase scheme so that the price for biomass-generated power falls to 21 yen (19 cents) from 24 yen per kilowatt-hour, effective October, according to the news channel.

There is a rush to get plants approved before the new rate kicks in. When those facilities come online around 2020, demand for biomass fuel is expected to soar. Sumitomo Corp. currently imports about 200,000 tonnes of wood chips and other wood-based fuel a year from Canada and Vietnam. It is planning to increase the figure to 1 million tonnes by 2019. Sumitomo has imported high-quality wood chips for papermakers for years, and hopes to use those connections to secure lower-quality chips abroad to sell to power plants at home.

## Resources

### Website features data on Oregon's forest-based economy<sup>24</sup>

A new website from the Oregon Forest Resources Institute offers the latest data about Oregon's forests and forest-based economy, on a mobile-friendly platform. OregonForestFacts.org serves as a detailed reference guide to Oregon's forest sector. It features data from the newly updated OFRI publication Oregon Forest Facts 2017-18 Edition, including maps, graphs and statistics about forestland ownership, timber harvest, forest-based employment and wood products production.

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