

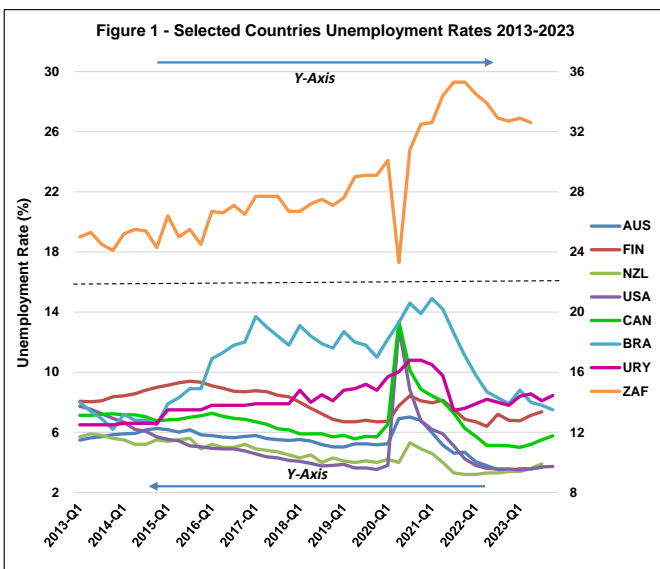
Forest Sector Outlook

Global Consulting Alliance

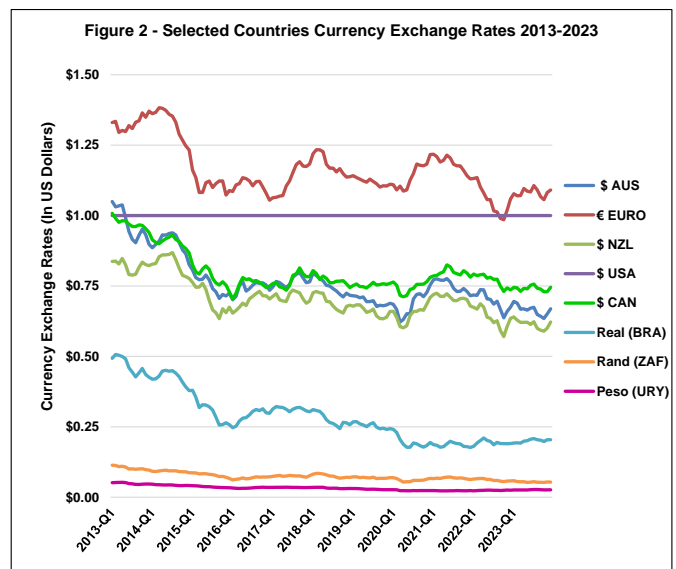
Quarterly Edition 2023-Q4

ECONOMIC DASHBOARD

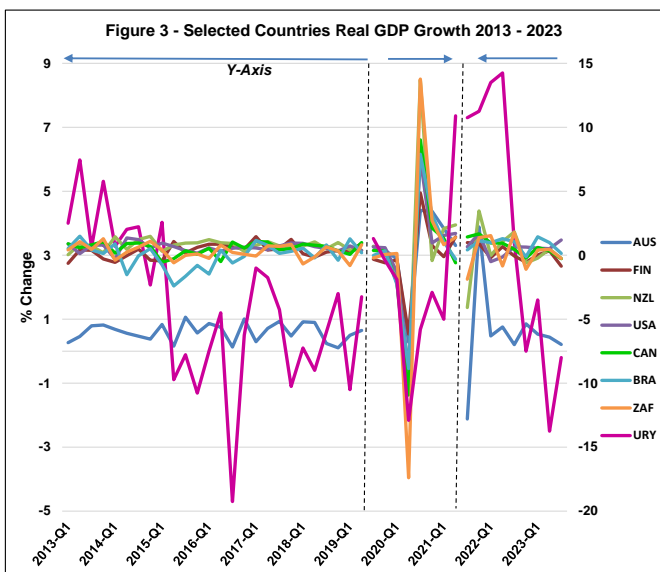
Figures 1 to 4 illustrate four key macroeconomic indicators as observed over the past decade, on a quarterly basis. These can be useful particularly for monitoring the post-pandemic conditions and the market implications of the ongoing wars in Ukraine and Gaza. Figure 4 rates are nominal.



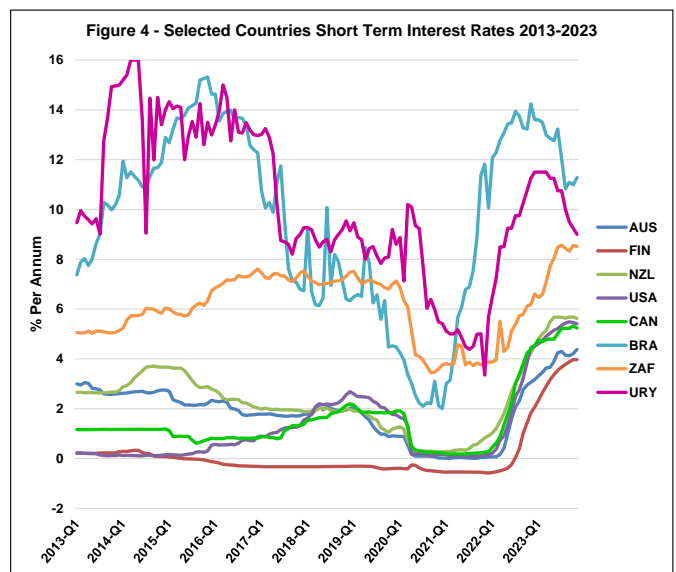
Sources: OEDC, Brazilian Institute of Geography and Statistics, macro.trends.net (World Bank), Statistics South Africa



Source: Federal Reserve, Uruguay Statistics National Institute



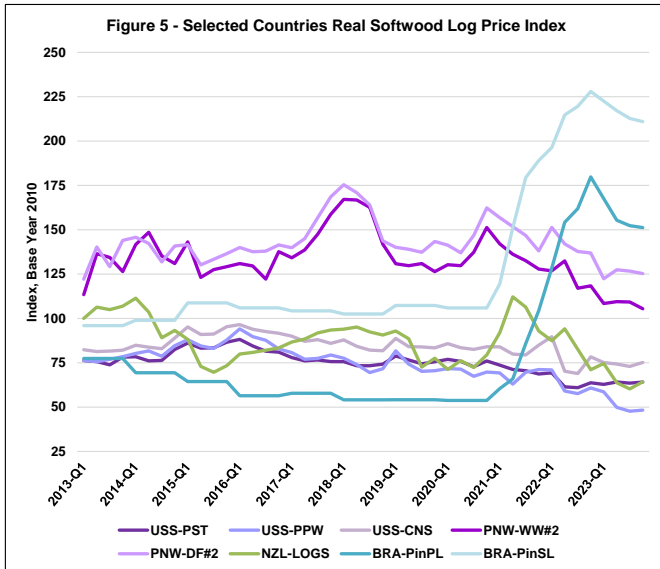
Source: OEDC, Chamber of Commerce and Services of Uruguay



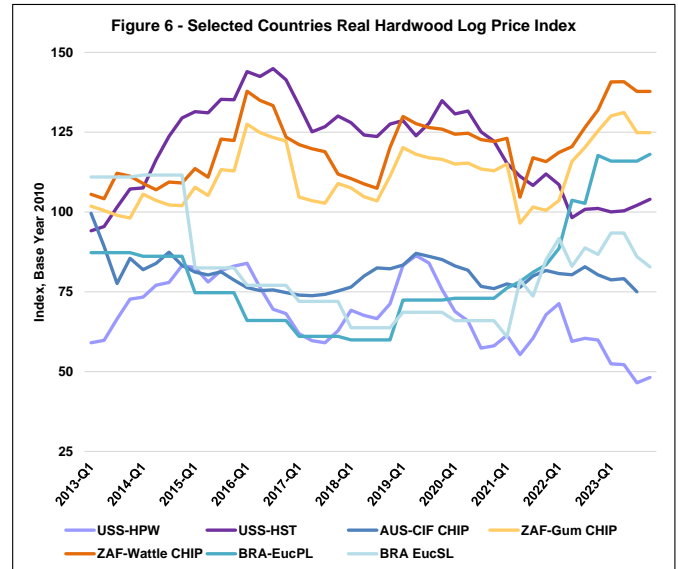
Source: OEDC, FRED - St. Louis Fed, Banco Central Del Uruguay, CEIC Data

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Figures 5 and 6 show indexed real pricing for select softwoods and hardwoods – with Q1 2010 the base quarter-year.



Source: Timber-Mart South, RISI Log Lines, AgriHQ; USS = US South, PNW = US Pacific Northwest



Source: Timber-Mart South, RISI Log Lines, NCT; USS = US South

Legend:

USS-PST = US South Pine Sawtimber, USS PPW = US South Pine Pulpwood, USS-CNS = US South Chip n' Saw, PNW-WW#2 = US Pacific Northwest Whitewood #2 Saw Avg. Columbia River, PNW-DF#2 = US Pacific Northwest #2 Saw Avg. Columbia River, NZL-LOGS = New Zealand Softwood Logs Composite, BRA-PinPL = Brazil Pine Pulplogs, BRA-PinSL = Brazil Pine Sawlogs.

USS-HPW = US South Hardwood Pulpwood, USS-HST = US South Hardwood Sawtimber, AUS-CIF CHIP = Australia Hardwood CIF Chip, ZAF Gum CHIP = South Africa Gum CHIP, ZAF Wattle CHIP = South Africa Wattle Chip, BRA-EucPL = Brazil Eucalyptus Pulplogs, BRA-EucSL = Brazil Eucalyptus Sawlogs.

ECONOMIC HIGHLIGHTS

Global

- The World Bank in its latest Global Economic Prospects January 2024 report indicates that the global economy is set to rack up a sorry record for the slowest half-decade of GDP growth in 30 years. It further notes that people in one out of every four developing economies are poorer than they were before the pandemic.
- On the upside, the World Bank indicates that despite a barrage of shocks during the past four years the global economy proved to be surprisingly resilient with most major economies emerging mostly unscathed after the fastest rise in interest rates in 40 years.
- It predicts that both advanced and developing economies are set to grow more slowly in 2024 and 2025 than they did in the decade before COVID-19. Global growth is expected to slow for a third year in a row to 2.4% before ticking up to 2.5% in 2025. This is far below the 3.1% average of the 2010s. This slow growth reflects the lagged and ongoing effects of tight monetary policies to rein in decades-high inflation, restrictive credit conditions and anemic global trade and investment.
- The World Bank observes that despite a decline in headline and core inflation, inflation remains above target in most advanced economies. It expects global inflation to remain above its 2015-19 average beyond 2024.

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- The World Bank warns that mounting geopolitical tensions in the Middle East coming on top of the Russian Federation's invasion of Ukraine could create fresh near-term hazards for the world economy.
- The World Bank forecasts real GDP growth in the United States to be 1.6% in 2024 and 1.7% in 2025. Euro area growth is forecast to be 0.7% and 1.6% for 2024 and 2025 respectively. Growth in Japan over the next two years is expected to be below 1%. China's growth is expected to decline from 5.2% in 2023 to 4.5% in 2024.
- Brazil – The Brazilian economy in 2023 outperformed the early January market forecast, particularly in terms of GDP growth. According to the Central Bank's Focus bulletin (January 5, 2024), the inflation rate for 2023 is estimated to be around 4.6% (a decrease), with a GDP growth rate of 2.9% (an increase), a basic interest rate of 11.75%, and an exchange rate of 4.9 BRL/USD. At the beginning of January, the projections were 5.5%, 0.8%, 12.3%, and 5.3, respectively. For 2024, market agents start the year forecasting a year-end with a 3.9% inflation rate, 1.6% growth in GDP, 5.0 BRL/USD exchange rate, and 9.0% basic rate (Selic).

REGIONAL MARKET UPDATES

Asia Pacific

Australia

- Consensus Economics' January 2024 edition estimates growth expectations for the Australian economy to slow from ~1.8%/a in CY2023 to ~1.4%/a in CY 2024.
- The IMF sees CY 2024 growth at ~1.2%/a, citing problems in the economy of Australia's largest trade partner, China.
- Australia's unemployment rate is expected to remain low but with an uptick from ~3.7% in CY 2023 to ~4.3% in CY 2024. This represents a very modest change given the Reserve Bank of Australia's (RBA) sharp increases in its target cash rate in CY 2023 to rein in inflation.
- Australia's inflation rate is forecasted to decline from ~5.7%/a in CY 2023 to ~3.5%/a in CY 2024, still above the RBA average target rate band of 2-3%/a. There is a risk of inflationary pressure increasing by mid-2024 as new personal tax legislation comes into effect (the stage 3 tax cuts). The new tax legislation will effectively reduce the personal tax rates for higher income earners.
- Reuters reported in early January 2024 that Australian house prices increased ~8.1% in 2023 following a ~5% dip in 2022. Australian houses remain severely unaffordable. The Australian Financial Review reports that Australia's housing shortfall is expected to be at least 175 000 homes by 2027. Home building is expected to decline in 2024 due to higher costs of construction materials, land, and finance. Consensus Economics expects housing approvals to remain at ~168 000, down from 229 000 in 2021, i.e. a 27% drop.
- In September 2023, the Australian Parliament passed the AUD 10 billion Housing Australia Future Fund (HAFF), which is expected to see ~30 000 new social and affordable homes being built over the next five years. This, along with the AUD 2 billion Social Housing Accelerator, the AUD 3 billion New Homes Bonus for States and Territories, and other targeted programs to increase housing supply, should stimulate increased house building activity.
- The RBA raised the cash rate by 25 bps in November to 4.35%. The general market sentiment is that the RBA may well maintain this rate through to Q3 2024 when rates may start to ease.
- The spot price for Australian Carbon Credit Units (ACCUs) declined from a record high of ~AUD 57/ACCU in early 2022 to ~AUD 24-26/ACCU in July 2023. The price drop followed a surge of new ACCUs approved and released by the Clean Energy Regulator (CER). Subsequently, prices have started to trend upwards reaching ~AUD34/ACCU in late December 2023, as entities that fall under the reformed Safeguard Mechanism have increased their ACCU holdings as the Safeguard Mechanism compliance deadline approaches (1 April 2024).
- Trade Tree Online and Brian McClay & Associates (TTO BMA) in its December 2023 review of the pulp market in CY 2023 flags historically weak prices reached around mid-year with large-scale hardwood pulp additions. Adjusted for inflation, TTO BMA flags historically weak real NBSK prices in its price series as mills get larger and

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more efficient. Concurrently, inflation raised input prices, especially for softwood pulp producers. This resulted in market-related downtime throughout the year especially for softwood, including some mill closures. Arauco (Chile) and UPM (Uruguay) commenced hardwood pulp production from two new low-cost world-scale facilities in CY 2023 in addition to other small expansions. Another world-scale pulp mill constructed by Suzano is anticipated to come on-line by mid-2024. TTO BMA expects to see hardwood pulp capacity additions totaling 10% of global market pulp supply by 2027. TTO BMA expects the trend of hardwood pulp displacing softwood pulp to continue.

- TTO BMA flag fiber scarcity globally as an issue and expects this trend to continue.
- Chinese hardwood woodchip import volumes for CY 2023, annualized as of November are ~26% below CY 2022 imports. Consequently, Vietnamese hardwood woodchip export volumes to China will be ~2.2 million BDMt less this year, and Australian exports ~1.1 million BDMt less. Developments in the Chinese pulp sector, China's domestic hardwood demand/supply and softwood logs, lumber and price outlook are being examined as part of a special multiclient research report authored by Margules Groome and Russ Taylor Global. For more information please visit [Margules Groome](#) or [Russ Taylor Global](#) websites.
- Australia's projected softwood woodchip export volume for CY 2023 is ~0.7 million BDMt (annualized as of October 2023) which represents a ~37% drop compared to a bumper CY 2022 and is also less compared to CY 2021 exports (~0.9 million BDMt).
- The Chinese trade ban on Australian softwood logs was lifted in May 2023 as the Chinese-Australian Governments' relationship improved. There is not much evidence of any significant log trade resumption likely due to diminished demand given China's current economic situation and limited supply availability of Australian log.

New Zealand

- After a nearly six week uncertainty period post the 14 October 2023 election, the National Party finally forged a three way coalition agreement with the right wing Act and nationalist New Zealand First Parties to form a government. This is New Zealand's first formal three-way coalition government since the adoption of the Mixed Member Proportional (MMP) electoral system in 1996. This new government rapidly moved to stamp its mark on politics, cancelling and reversing many policies enacted by the previous Labour government. This represents a major lurch to the right in New Zealand politics with some early decisions gaining international attention such as the repeal of anti smoking legislation. It remains to be seen what impact this government will have on the forest industry in terms of legislation and direction of policy.
- The new government has also restored the objectives of the Reserve Bank of New Zealand (RBNZ) to purely financial stability removing the change implemented by Labour which included the objective of maintaining full employment. This returns the RBNZ's focus back to its original then world leading position when implemented by Ruth Richardson in the 1990s.
- The parlous state of the government's books post the COVID pandemic and largess of the previous government will mean the new National-led coalition will have to make even deeper cuts than previously expected to the government sector to be able to afford their promised tax cuts.
- Consensus Economics estimates that New Zealand's 2023 GDP was only 0.9% with only minor growth to 1.2% expected for 2024 before an uplift to 2.4% for 2025. This represents a significant short-term reduction from prior forecasts. Consensus Economics also expects inflation to trend down from an estimated 5.7% in December 2023 to 3.4% in 2024 and 2.1% in 2025. The trade balance however is expected to improve from an abysmal negative NZD 11.2 billion in 2023 to NZD 8.6 billion in 2024 while unemployment increases from 3.8% in 2023 to 4.7% in 2024.
- The RBNZ has again held the official cash rate (OCR) constant at 5.5% for the fifth time at its 29 November review indicating that inflation remains too high and no rate cuts can be expected until mid 2025.
- Despite continuing unresolved uncertainty around Emissions Trading Scheme (ETS) regulations, New Zealand emission unit (NZU) prices increased from around the NZD 67-68/NZU level reported in the Q2 GCA Forest

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Sector Outlook to around NZD 71.90 in late December 2023. The outcome of the judicial review into the Ministry of Primary Industries cost recovery settings will take significant time to reach an outcome. Further, the track to be taken by the new government in terms of the ETS is yet to become clear as other priorities take precedence.

- The bad economic and construction industry news coming out of China continues although one or two brighter spots are emerging. Woodburn Global estimated in Q4 2023 that the overall construction industry in China will grow by >4%/a between 2024 and 2027. The main bright spots remain infrastructure and transport which is estimated by China-British Business Council (CBBC) to end 2023 with 17% growth driven by government's five-year plan stimulus spend. The CBBC also estimates that the industrial construction sector will grow by 7% in the same period and the energy and utilities construction sector by 5%. Institutional, office and residential construction is expected to remain weak.
- The China softwood log market remains weak but has shown several price increases with AgriHQ reporting the latest in December 2023 of +6%. December 2023 CFR Radiata pine A-grade log prices are around USD 126/JAS m³ representing the sixth increase from the low of USD 104/JAS m³ in June 2023 (AgriHQ). These price increases have led to a lift in harvesting activity in New Zealand. The loss of harvesting crews over 2023 will however be an impediment to further expansion in production. According to AgriHQ, New Zealand's total export volumes reached 2.3 million m³ in November (~2.1 million m³ to China), the second highest on record but did reach the highest on record to China alone. The holding back by other traditional suppliers has seen New Zealand's market share of softwood log exports to China average over 52% in 2023 and reach 72% in November 2023 based on S&P Global Trade Atlas numbers.
- The New Zealand domestic market is showing some positive signs and increasing optimism with some increase in building consents. In value terms consents remain below both 2022 (-5%) and 2021 (-14%) but have shown significant increases in both October and November 2023. An improvement in industry sentiment is welcome given the difficult conditions that have been in play in 2023, largely driven by high interest rates.

China/Asia

- The country's unprecedented housing slump has cost the economy a key growth engine in the past three years and heightened financial risk following a record wave of defaults by developers. China's property downturn continues: China's floor space of real estate started has dropped from 2.24 billion m² in 2020 to between 930 million m² and 950 million m² in 2023. It is expected that the housing starts could bottom out as early as 2024 with enough government policy initiatives and support.
- There is conflicting data in China on the direction of manufacturing purchasing managers index (PMI). The Caixin PMI rose to 50.8 in December from 50.7 in November, the strongest reading since August and above the estimate of a survey of economists. However, the official NBS PMI in December was 49.0 as compared to November's 49.4 – the lowest in six months.
- The government's economic strategy appears to be shifting China's domestic financing toward manufacturing—at the cost of the property market. This shift is generating serious fears of overcapacity and will likely accelerate the fractionalization of the global trading system as countries move to protect their own industry. The previous business model had the factory in China buying Japanese, Korean, Taiwanese components, putting them together and shipping it out. Now it's essentially the factory has moved overseas and is supplied with the higher-value components from China.
- Most economist groups have lowered their economic growth forecasts for 2024 to between 4% and 5% relative to 5.2% for 2023.

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- China's softwood log imports for the twelve months in 2023 were lower by 9.9% at 28.0 million m³ compared to the same period one year ago. The top six suppliers (from Timber-Online) were:
 - New Zealand 17.9 million m³ +1.7%
 - Germany 3.3 million m³ -41%
 - Japan 1.4 million m³ +26%
 - USA 1.17 million m³ +2.7%
 - Poland 1.01 million m³ +106%
 - Canada 929 000 m³ +2.2%Europe as a whole exported 6.0 million m³ – a big decline from 9.1 million m³ in 2022. Both Germany and Poland export bark beetle-killed spruce logs.
- Softwood lumber imports into China were higher by 3.8% (to 18.0 million m³) for the twelve months of 2023 as compared to the same period in 2022. The top six supplying countries compared to the same period in 2022 (from Timber-Online) were:
 - Russian Fed 11.9 million m³ +0.01%
 - Canada 1.27 million m³ -2.2%
 - Belarus 900 000 m³ +44%
 - Finland 874 000 m³ -1.0%
 - Sweden 809 000 m³ +23%
 - Germany 719 000 m³ +27%
 - Europe as a whole was 3.1 million m³, an increase of 13.7%.

Europe

- According to reports from different industry players and news outlets, the European forestry and wood industry faces a mixed outlook for 2024, with varying trends across regions and sectors. The European Timber Trade Federation (ETTF) General Assembly highlighted country-specific trends: Germany's construction sector slowdown, Belgium's 17% turnover fall in the wood industry, Denmark's optimistic outlook with a decrease in inflation, Italy's cautious optimism buoyed by EU energy efficiency policies, Spain's challenging economic and political situation, and the Netherlands' slow economic growth.
- European wood panel production, while down from COVID lockdown highs, remains above pre-COVID levels, partly buoyed by green policy measures.
- There is still some optimism that the forest and wood products sector will be returning to growth during 2024. At the end of 2023 parts of the sector have experienced a recovery in wood products prices. Scandinavian sawmills report a more positive outlook, with stable to increasing log prices.
- In Sweden, the raw material costs for sawmills have witnessed a rise due to timber shortages, contributing to an anticipated unprofitable Q4. This challenging situation is expected to persist into Q1 2024. Despite these difficulties, most sawmills maintain stable balance sheets, having paid off loans during the peak years. The current circumstances may lead to mergers, closures of inefficient units, and a reassessment of investment plans related to capacity increases. The weak Swedish krona has provided some relief, acting as an airbag, and preventing sawmills from facing challenges as severe as those in many other countries.
- In Finland, the timber trade displayed signs of a modest recovery towards the end of the year. The momentum in wood demand is on the rise. Many forecasts are projecting a significant increase in wood usage for the upcoming year. This winter harvesting sites were already accessible in December last year due to the early winter. Demand for wood from these sites has been good, which is exceptional and indicates that traditional wood purchases in the autumn were not successful and inventories have notably declined rapidly. Due to severe frosts, energy wood inventories have also dropped rapidly.
- In Germany, wood prices have shown a slight recovery, but the construction industry's downturn is still pressuring hardwood prices. The European Commission's Autumn 2023 economic forecast indicates a gradual recovery with declining inflation, suggesting a mixed but cautiously optimistic outlook for 2024.

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- The European Renewable Energy Directive (RED III) was signed into law by the Presidents of both the European Parliament and Council on 18 October 2023. The updated directive was published in the EU Official Journal on 31 October 2023 and came into effect on 20 November 2023. National implementation of the directive must occur no later than 18 months after notification. RED III is anticipated to be enforced in EU member states by spring 2025. Despite environmental concerns, the policy continues to support the use of forest biomass for energy production. Woody biomass remains classified as a renewable energy source. However, it bans biomass subsidies supporting the use of stumps and roots, which when left in the ground, protect soil-sequestered carbon.
- The implementation of the European Union Deforestation Regulation (EUDR) is garnering diverse reactions across different industries, with a focus on its applicability from 30 December 2024 for large operators and traders. The EUDR aims to combat deforestation and forest degradation by regulating commodities like cattle, cocoa, coffee, oil palm, rubber, soya, and wood. It mandates that these commodities and related products must be deforestation-free, comply with the production country's legislation, and be accompanied by a due diligence statement. The regulation poses significant compliance challenges, including the requirement for full traceability to the production plot and substantial enforcement powers for non-compliance. This will particularly impact operators and traders, demanding rigorous due diligence and potentially incurring high costs. To assist, the European Commission has published FAQs and plans to offer training and materials in 2024. The Pilot Testing of the Deforestation Information System, involving 100 stakeholders, is underway to ensure the system's usability. This system aims to streamline the submission and processing of due diligence statements, crucial for a smooth transition when the regulation becomes applicable.
- The Irish Farmers' Association (IFA) has raised concerns about the potential outbreak of spruce bark beetles in Irish forests, emphasizing the need for effective biosecurity measures to prevent such an infestation. They highlight the economic impact an outbreak could have on farmers, including reduced commercial value of trees, increased management costs, and replanting expenses. IFA is calling for a temporary suspension of timber importation from Scotland until a comprehensive review of biosecurity measures for the spruce bark beetle is conducted.

Russia

- Over the first eleven months of 2023, timber harvesting in Russia fell by 4.2% to 111.4 million m³. However, wood harvesting in Russia remained consistent in November with the previous year, as 6.2 million m³ of softwood logs and 3.3 million m³ of hardwood logs were harvested.
- For the first eleven months of 2023, 23.74 million m³ of softwood lumber was produced, which corresponds to a 1.3% decrease compared to the same period of the previous year.
- After a recent decrease, Russia's softwood lumber production increased again in the third quarter of 2023. Output totaled 6.75 million m³ and thus grew by 4.7% compared to the same period of 2022.
- Production in the fourth quarter of 2023 is expected to show a substantial increase over Q4 in 2022 indicating that Russian lumber output is now increasing. Russia has slowly rebuilt supply chains and is expanding its existing markets, led by China.

North America

- US housing trends:
 - US housing starts were 1.560 million units (Seasonally Adjusted Annual Rate, SAAR) in November, an increase of 14.8% from 1.359 million units in October (revised) and an increase of 9.3% compared to 1.427 million units in November 2022. Total US starts for the full year of 2023 were 1.413 million units, 9.0% lower than in 2022.

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- Building permits for privately-owned housing units decreased to 1.460 million units (SAAR) in November, down 2.5% from the revised October rate but 4.1% higher year-over-year. Total US building permits for 2023 were 1.462 million units, a 12.3% decline from 2022.
- Housing completions were up 5.0% month-over-month in November to 1.447 million units but 6.2% lower year-over-year. Total completions in 2023 were 1.452 million units, a 4.5% increase over 2022.
- The National Association of Home Builders Housing Market Index increased in December, from 34 to 37. One year ago, it was 31 and in the trailing twelve months it averaged 44.
- After US housing starts moved steadily higher during the pandemic, mortgage rates rose above 7%, making housing less affordable to many buyers. Rising mortgage rates began to put pressure on home prices and sales. Median home prices had been on the rise, but finally began to decline and were down -3.0% year-over-year by May, according to data from the National Association of Realtors. However, median prices began to increase once more and were up 4.0% year-over-year by November at USD 387 600. Market evidence points toward slow but growing existing home sales, with transaction volume increasing throughout 2023, but still down 7.3% year-over-year as of November 2023. Days-on-market were up from 24 to 25 in November 2023 year-over-year. Low sales volumes would adversely impact lumber and panel markets in 2023 and 2024.
- US softwood lumber production for the first ten months of 2023 was lower by 2.0% (to 31.6 billion BF; 50.3 million m³, net) as compared to the first ten months in 2022. US West lumber production was lower by 3.3% while southern yellow pine (SYP) production was down by 1.2%, and the rest of the US was lower by 1.4%.
- US softwood lumber imports were lower by 7.4% for the first eleven months of 2023, mainly due to soft prices. Imports from Canada were down by 7.9% (a drop of 1.4 billion BF) and imports from Europe were slightly lower by 0.9% (-23 million BF).
- Canada's lumber output was lower by 21.2% (16.9 billion BF; 26.9 million m³, net) in the first ten months of 2023 vs. the same period in 2022. BC production was down by a whopping 26.5% (to 5.8 billion BF – a 2.1 billion BF decline from the same period in 2022).
- North American lumber output in the first nine months of 2023 totaled 43.5 billion BF, a decline of 4.7% or -2.15 billion BF. Ontario was the only region to record an increase in production so far in 2023.
- North American lumber prices in 2023 were quite low, causing higher cost mills to curtail at times. The average prices for the benchmark W-SPF 2x4 #2&Better, random lengths (FOB BC mill) was USD 392/thousand board feet (MBF) and was USD 400/MBF in the fourth quarter. SYP prices averaged USD 426/MBF for the year and only USD 397/MBF in fourth quarter. Normally, SYP trades at a USD 50-60 premium to W-SPF. W-SPF and SYP prices have been moving higher since November 2023 and W-SPF were already close to the peak prices in 2023 (early February and mid to late July) at USD 445, but were stalling in mid-January 2024.
- Canadian softwood lumber exports through November were 12.35 billion BF, down 7.7% compared to last year, with most of the reduction attributed to declining output in BC.
 - Canadian lumber exports to the US were 7.9% lower as compared to the same eleven months in 2022.
 - Exports to Japan were 21% lower and were 12.6% higher to China.
- BC's crown land timber harvest has plunged from 65 million m³ in mid-2016 to 32.5 million m³ at the end of 2023 – a 50% decline. The outlook for the crown timber harvest in 2024 is for a level below 30 million m³. Aside from reduced timber supplies from beetle infestations and forest fires, BC government forest policy continues to favor communities (including First Nations) and reductions of commercial timber via old-growth deferrals, landscape planning, and other initiatives that play to the government's base of urban voters. Forest stewardship and incentives for the industry are sadly lacking. The next government forest policy initiative coming, and it is expected to be disruptive to industry, is *the Biodiversity and Ecosystem Health Framework*. However, one positive change is that stumpage rates on government timber are much lower now than a year ago. While the government's stumpage formula is flawed (it will never work in volatile markets), the disruptive six-month lag in stumpage rates to market prices has been reduced to three to four months.
- BC softwood lumber exports through November 2023 were 16% lower than during the same period in 2022.
 - BC lumber exports to the USA were 19% lower than a year earlier, partly due to weak prices that were below break-even levels for much of the year.

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- BC lumber exports to Japan were 20% lower than a year earlier.
- BC lumber exports to China increased by 12% as Chinese low grade lumber prices were at least similar to the weak US lumber prices at various times in 2023.
- BC log exports were 5% lower for the first eleven months of 2023 as compared to the same period in 2022.
 - Exports to China were 1% higher but were 23% lower to Japan.
- BC pulp exports were 11% lower for the first eleven months of 2023 as compared to the same period in 2022.
 - Exports to China were unchanged but were 29% lower to Japan and 14% lower to the USA.
- European imports to the US were slightly lower by 0.9% through the first eleven months of 2023 as compared to the previous year (Timber-Online) and totaled 4.23 million m³ (2.65 billion BF). Year-to-date shipments from the five top exporting countries were mixed: Germany (+10%), Sweden (+16%), Austria (-22%), Romania (-55%), and Czech Republic (-6%).
- Pulpwood prices vary by region and season. In the Lake States region, Q4 hardwood roundwood prices increased USD 3 per green ton, but remained down 8% year-over-year. Softwood roundwood prices remained stable in the Lake States leaving them down 14% year-over-year. In the South Central region, hardwood roundwood and softwood roundwood prices were flat, while year-over-year, hardwood was down 5% and softwood was down 3%. South Atlantic region prices decreased USD 1 for hardwood and softwood roundwood from last quarter and were down 9% and 10% respectively year-over-year. Northeast region prices for hardwood roundwood increased USD 1 and softwood roundwood increased USD 2 from last quarter but were down 15% for hardwood roundwood and up 2% for softwood roundwood year-over-year. Lastly, Pacific Northwest softwood roundwood prices were stable from last quarter and were down 48% year-over-year.
- Pacific Northwest Douglas-fir average log prices declined in Q4 2023 through November. Prices were continuing to decline most in the Willamette Valley, and holding the best in the Columbia River region. Average annual nominal DF 2-Saw prices across regions were down 11.4% through November YTD. Average annual nominal Whitewood 2-Saw prices were down 20.6% in the Puget Sound region, the Columbia River region was down 15.1% and the Willamette Valley region was down 5.5% through November YTD.
- US Q4 2023 large timberland transactions were active, with several packages closing and more in progress or on offer.
 - Several transactions were reported, including:
 - Rayonier sold 55 000 acres in coastal Oregon to Manulife (Project Douglas) for USD 4 400 per acre.
 - Manulife sold 34 600 acres in two parts in southwest Washington for conservation (Sacajawea), details unavailable. 9 100 acres were sold to the state of Washington for USD 6 050 per acre.
 - Manulife sold 11 000 acres in Oregon (Lincoln package) to Hampton for USD 5 100 per acre.
 - Rayonier sold 16 200 acres in Alabama and Georgia to IKEA for USD 2 150 per acre.
 - Weyerhaeuser sold 69 600 acres in South Carolina to FIA for USD 2 443 per acre.
 - FIA sold 60 700 acres in North Carolina, South Carolina, and Mississippi to Weyerhaeuser for USD 2 685 per acre.
 - RMS sold 11 600 acres in Alabama and Arkansas to Domain for USD 2 457 per acre.
 - A private owner sold 24 000 acres in Alabama to Green Diamond for USD 2 500 per acre.
 - Jamestown sold 24 000 acres in South Carolina and Georgia. 13 500 acres in South Carolina were purchased by RMS, and the remainder by other buyers; details were not available.
 - Other transactions were pending or awaiting results such as:
 - The Chinook/Landvest offering of 20 900 acres in eastern and south-central Oregon (Wild Vista)
 - The Campbell Global offering of 57 156 acres (Olympic Tree Farm) in Clallam County, Washington,
 - The Molpus offering of 15 300 acres in Louisiana (Tristar)
 - The Weyerhaeuser/AFM offering of 9 900 acres in southern Mississippi (Woodville).
 - The Manulife offering of 5 400 acres in South Carolina (Project Upstate), pending sale to BTG.
 - The private/Compass South offering of 9 600 acres in Alabama (Greenmont package), pending sale to TIR.

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- US hardwood lumber prices started falling sharply during the summer of 2022 and continued to slide until recently, finding a floor and strengthening modestly due to supply constraints but with no increase in demand. Domestic and global demand remain constrained by excess inventories and high interest rates. The annualized estimate of grade hardwood lumber utilization is down 14.8% from 2022 with an annualized total consumption of 2.78 billion board feet, the lowest since 2010. The total annualized export volume to all destinations is 1.13 BBF in 2023 as compared to 1.41 BBF in 2022¹. Total export volume to China is down to 424 MMBF in 2023 as compared to 462 MMBF in 2022, as is volume to Canada and Europe.

South America

Brazil

Brazilian Forest Industry – 2023 External Market Performance

In the latest GCA forest sector outlook (Q3-2023), we wrote: "The forest-based industry was experiencing its annus horribilis and that the degree of market uncertainty regarding 2024 was significantly high."

With the year over, we can confirm that 2023 was more challenging than the last ten years. Regarding the short-term scenario, a recent Delphi panel with leading market players points to a recovery in demand from Q2-2024 and prices from Q3-2024.

In 2023, the Brazilian forest-based industry had a significantly negative performance in the foreign market compared to 2022, as per the below statistics:

- The most valuable exporter, the pulp industry, saw its year-over-year performance fall by 5.7% in quantity and 12.3% in USD revenue, implying a drop in the average price of around 7.1%.
- The second most important group is the Pine solid-wood industry, composed of the lumber-plywood-moulding trio. Together, they saw their exports fall by 8.2% in quantity and 29.1% in revenue, which resulted in a 23% lower average price than in 2022.
- The charcoal industry, with the green pig-iron industry as a proxy, also performed poorly. Although exports grew 3.7% in quantity, revenues plummeted 27.2%.
- Concerning wood logs, exports plummeted. Those of Eucalyptus fell by 37% in quantity and revenue, and those of Pine by 73% in quantity and 62% in revenue.
- Finally, although exports do not represent more than 30% of its production, the composite panel segment also had a negative performance, with a drop of 33% and 47% in volume and revenue, respectively.

Brazilian Forest Industry – 2023 Internal Market Performance

Regarding the domestic market, the average selling price (PPI - producer price index) showed a negative performance compared to the previous year. The average product price of the pulp and paper industry decreased by 6%, metallurgy by 11.8%, and timber by 11.2%. The furniture industry was the only exception, but with a minimal increase of only 1% compared to the previous year. The corrugated cardboard industry was another player that performed positively but also marginally, with its sales growing by 1% year-over-year.

Brazilian Forest Industry – Wood Supply Challenge

From 2020, we have highlighted in our market reports the significant challenges forest-based industries have faced to ensure wood supply, which will likely persist in the midterm.

The threat of wood shortage is not easy to address due to the roots of the problem: growth in demand decoupled from growth in supply, the decline in average productivity, and the shrinkage of the spot wood market. Reversing this situation requires considerable time, capital, and well-coordinated strategic actions by the forest sector and governmental agents. However, we have not seen such an approach in at least 30 years. The search for solutions has been primarily limited to the business sector.

¹ USITC data annualized through October.

Forest Sector Outlook

In addition to constraining industrial growth, the wood shortage affects the weakest chain links. Industrial segments that manufacture high-value-added products have intensively planted forests and purchased timberland assets to eliminate the risk of shortages. The side effect of these approaches has been the vertiginous reduction of the spot market in recent years, putting the industrial segments that do not have forests at risk. Eventually, industrial and forestry concentration will likely harm the entire production chain.

Another risk of wood shortages stems from agribusiness's growing demand for biomass, which needs certified wood to ensure its products and processes are environmentally sustainable and thus avoid export barriers. As biomass and pulplogs are synonymous, agribusiness wood demand is already challenging most Brazilian forest clusters.

Another point of attention is the so-called adverse climatic events, which are increasingly frequent and intense. Here, we no longer discuss risk but uncertainty, implying that most contingency measures will be helpless, at least in the coming years.

The common question for all players involved (industry, consumers, and government agents) is how to solve the supply challenge. What to do is common sense: increase the planted area and forest productivity. Dissent is how to do it effectively. We will address these questions in the following GCA newsletters.

Eucalypts Exports (2023 over 2022)

Exports of Eucalyptus manufactured products fell significantly compared to the same period in 2022.

- Pulp: -6% QTY and -12% USD
- Chips²: -22% QTY and -13% USD
- Logs: -37% QTY and -37% USD
- Charcoal via green pig iron: +4% QTY and -27% USD.

Pine Exports (2023 over 2022)

As for Pinus exports, the performance was significantly lower compared to the same period of the previous year, mainly in terms of revenues:

- Lumber: -10% QTY and -28% USD
- Moulding: +2% QTY and -31% USD
- Plywood: -7% QTY and -29% USD
- Logs: -73% QTY and -62% USD.

Pine-Eucalyptus Composite Panel Exports (January set)

- Quantity: -33% QTY
- Revenues: -47% USD.

Uruguay

- According to the Uruguayan Central Bank, the growth of the Uruguayan economy during 2023 was 1.0%. Inflation during 2023 was 4.46%/a.
- Uruguayan exports of goods decreased 13% in 2023, with a total of USD 11 518, breaking two years of positive numbers. The decrease was mainly due to lower sales of soybeans and beef. With the effect of the drought now over, a significant recovery in foreign sales is expected during 2024.
- Beef was the main exported product in 2023 with a value of USD 2 081 million, representing almost 19% of the total exported. Pulp ranked second (during 2022 it was third) in the product ranking, totaling exports of USD 2 019 million in 2023, representing almost 15% of the total exported. Soybean exports (USD 414 million in 2023 were USD 1 922 million in 2022) were highly impacted by drought and price.

² Eucalyptus + Acacia.

Forest Sector Outlook

- China was once again Uruguay's main trading partner in 2023, representing 22% of exports of goods, with USD 2 510 million exported (-33% compared with 2022). In 2023, Brazil replaced the European Union and occupied second place in the ranking, representing 19% of the total (with exports of USD 2.19 billion).
- UPM's second pulp mill project in the central region of Uruguay started pulp production during March 2023.
- UPM1, UPM2 and the Montes del Plata (MdP) pulp mills are consuming eucalyptus log from all forest regions of Uruguay. As of Q4 2023, MdP "imported" 5.37 million m³, UPM1 4.70 million m³ of logs and UPM2 4.98 million m³.
- As of Q4 2023, eucalyptus woodchip exports were close to 1.1 m³ (24 vessels, five more than 2022). These woodchip vessels exported during 2023 showed an increase in FOB price close to USD 7/BDMt compared with 2022, with an average FOB value during 2023 of USD 163/BDMt. During 2023, Uruguay exported 19 Eucalyptus woodchip vessels to Portugal, one to Sweden and four to China.
- Total pine log export volume during 2023 was close to 1.13 million JAS m³, representing 38 vessels, (15% to China and 85% to India). This volume shows an annual decrease of close to 25% compared with 2022 (44 vessels were exported during 2022). Average FOB price for 2023 was around USD 80/JAS m³.
- Uruguay's eucalypt sawlog exports continued during 2022, with a total volume of 197 000 m³ and average FOB prices of around USD 165/m³ (big variations in FOB prices were detected based on logs quality). 2023 volume was 35% higher than 2022 and FOB price was 15% higher. Approximately 40% of the exported volume during 2023 was performed during the last three months (October-December).
- Only one plywood company in Uruguay is still operational. For 2023, exported volume increased approximately 1% and average price decreased 20%. As of 2022, average FOB price was around USD 415/m³ and the average price for 2023 was USD 326/m³.
- Carbon credits from Uruguay's forest projects showed an increase in demand and prices during the last two months of 2023. Prices reached values around 10 USD/vcu and even higher values for CCBvcu's (CCBvcu= Climate, Community & Biodiversity Verified Carbon Unit).

Africa

- The UN World Economic Situation and Prospects (WESP) for 2024 estimates that Africa's economic growth is expected to increase slightly with average GDP increasing to 3.5% in 2024. One of the main challenges is high levels of debt. In 2023, 18 African countries recorded debt to GDP ratios of more than 70%.
- In November 2023, South Africa's National Treasury revised South Africa's growth outlook for 2023 downwards from 0.9% to 0.8% and that for 2024 from 1.5% to 1%. A major factor contributing to South Africa's poor economic growth is the prevalence of electricity interruptions (load shedding). In 2023, South Africa experienced more than 300 days of loadshedding where business and citizens were exposed to regulated power outages.
- The USA has provisionally agreed to extend the African Growth and Opportunities Act (AGOA) agreement by another 10 years. This will allow more than 30 countries to maintain duty free exports to the USA. Uganda, the Central African Republic, Gabon, and Niger have all been expelled from AGOA due to human rights concerns while Mauritania has been reinstated as a beneficiary after a 16-year absence.
- The Zimbabwean forestry industry that is centered around the town of Mutare on the eastern border with Mozambique, could in future benefit from the recent commissioning of the newly rehabilitated Beira-Machipanda railway line that links the Forbes Border Post to the port of Beira in Mozambique.
- Sierra Leone signed a memorandum of understanding with the China Road and Bridge Corporation at the beginning of December 2023 to build an eight-kilometer bridge between the capital Freetown and the town of Lungi, where the country's international airport is located. This project could stimulate economic development for the country where Miro Forestry & Timber Products is finalizing the completion of its new 60 000 m³ output capacity plywood mill.

Forest Sector Outlook

- In Kenya, forestry stakeholders supported a proposal to resume the harvesting of mature trees in government plantations as a way of supporting the sawmilling industry. The Kenyan government plans to harvest 5 000 ha of its mature forest plantation during the 2023–2024 financial year.
- COP 28 came on the heels of the Africa Climate Summit that was held in September 2023 in Nairobi, Kenya. African countries headed to COP 28 with the expectation of securing more climate related finance to assist with the management of climate change impacts. A number of initiatives (many under the auspice of the African Development Bank) related to green banks, government partnerships, alternative funding mechanisms were announced. Ghana introduced its “Resilient Ghana” initiative at COP 28 that would also focus on reversing land degradation and support forest restoration. Partners involved in this initiative include the governments of Canada, Singapore, the United Arab Emirates and United States of America. One can only hope that some of the USD 2.4 billion pledged towards environmental projects will find its way to forestry development projects in Africa.
- Total woodchip exports through the ports of Richards Bay and Durban in South Africa, for January to November 2023, were 1.53 million Mt which is ~620 000 Mt less than for the same period in 2022 when 2.15 million Mt of woodchips were exported. Pulp exports have increased from ~817 000 ADt to ~876 000 ADt when comparing the period January to November 2023 to the same period in 2022.

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