

WOOD MARKETS



HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis

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Fractured Global Supply Chain Supply-Constrained Market Creates Price Spikes

Downsizing, curtailments and closures throughout the North American wood products industry and distribution channels have been evident between 2006 and 2009. There is now clear evidence that the flow of wood products in the global supply chain is under severe strain and fractured. This is a widespread phenomenon that is showing up in many products, channels and markets, including some offshore regions.

The North American supply chain was so fragile in the first quarter of 2010 that early price bubbles in lumber have continued to hold and are now expected to remain in place in Q2. This has carried over into plywood and OSB, and even MDF and particleboard.

North American dislocations:

- A scarcity of logging contractors, who were generally hard-hit by the housing collapse;
- Tightened log supply due to a reduction in loggers/truckers, the TIMO strategies and weather issues;
- Tight credit, including for carrying log and lumber inventories;
- The departure of many skilled mill workers from the industry, in addition to trucking companies in many locations;
- Excess sawmill and panel plant capacities or shifts are not starting up (or won't) for a variety of reasons;
- Shrinking distributors and retailers (bankruptcies, downsizing; etc.); and

- Lack of total industry confidence, which has eroded capital investment.

Global supply-chain issues:

- Chilean earthquake and its direct supply disruptions worldwide;
- Finnish port strike;
- European log supplies, which are tight with unrealistically high prices;
- Russia's 25% log export tax;
- China's growing lack of available supply of low-cost logs — now using low-grade lumber instead; and
- Tight ocean-vessel supply (many ships have been mothballed, driving up freight rates).

The end result is a dislocation of supply from one end of the supply chain (i.e., sourcing logs) to the other (meeting end-user on-time requirements) at a time when demand is only slowly climbing back. While there are some exceptions, it appears that "constrained capacity" for a variety of reasons is a new (or accidental) strategy showing up at many types of mills around the world in almost all wood products. While WOOD MARKETS' supply and demand models have been quite accurate over the last year, our recent price forecasts have missed the impact from the many dislocations in the supply chain. Our new price forecasts now incorporate these supply-chain implications. ■

By Russ Taylor, President

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GLOBAL PRICE TRENDS

International WOOD MARKETS Group Inc. is pleased to provide you with an overview of our monthly 12-page WOOD Markets newsletter. The excerpts displayed in this two-page summary showcase why, since 1996, WOOD MARKETS has been the leading report addressing strategic issues and global topics that impact the solid wood products sector.

WOOD MARKETS (full 12-page report) is available by annual subscription for US\$530 (international US\$565) or Cdn\$565 per year. Call 1-604-801-5996, by e-mail at info@woodmarkets.com, or visit www.woodmarkets.com.

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WHAT'S NEW:

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BC Interior Lumber to Peak in 3–5 Years

Mountain Pine Beetle to Impact North American Markets as Well!

The MPB infestation is one of the largest natural environmental catastrophes ever, and could kill up to one billion m³ standing lodgepole pine timber in the B.C. Interior.

A forecasted 35%+ decline in available sawlog supply means that many Interior sawmills and veneer plants will inevitably close. The variability in MPB wood shelf life will be critical to the economics of harvesting and processing the logs.

There is already reduced Canadian timber supply and lumber output in Quebec

and Ontario, so there will be a noticeable decline in Canada's lumber supply base — permanently. This anticipated supply gap will lead to changes in how the U.S. lumber demand will be met by as early as midway through this decade.

Opportunities may exist for wood pellets and biofuels in the short-term, but supplies will be taxed by existing users. It is forecast that more than 225 million m³ of wood biomass may come available to support new industries temporarily. ■

(The full *WOOD MARKETS* article provides further details, analysis and forecasts of the mountain pine beetle impact; extracted from the *BC Interior — Mountain Pine Beetle Attack* multi-client report.)

Pages 4–5

2009 Billion Board Foot Club

Global Recession Limits Lumber Output

While 11 companies making the list were the same as in 2008 (22 made the list in 2006), their total lumber production volumes were off by a whopping 21%.

Making the list again were four Canada-based companies, four U.S.-based companies, two headquartered in Europe and one in the Southern Hemisphere. The total output of these 11 companies was down by 5.6 billion bf versus 2008.

The top 11 firms captured 15% of the world's output, down 17% from 2008.

Europe's top lumber producers faced financial losses due to high log prices in comparison to lumber/sawnwood pricing.

Nevertheless, the European sawmilling sector features several world-class players with flexible mills processing to multiple markets, along with some of the lowest sawmilling costs in the world.

The top 15 European sawmilling companies captured 29% of European output, the same as in 2008. ■

(The complete *WOOD MARKETS* report provides further detailed tables of the top Billion Board Foot Club and European lumber producers, as well as softwood/hardwood statistics, U.S./Canada softwood statistics and world prices.)

B.C. INTERIOR: MOUNTAIN PINE BEETLE ATTACK Impact and Outlook on B.C. Timber Availability and Wood Products Production

- A proprietary modeling of B.C. timber fibre availability and production and the impact on supply/demand.
- An annual projection of supply of wood residuals (for pulp, MDF, particleboard, bioenergy and wood pellets).
- Order form and pricing details can be viewed at http://www.woodmarkets.com/p_specialreports.html.

GLOBAL LUMBER COST BENCHMARKING • 2008–09

- Benchmarking timber/sawmill costs, and lumber and residual prices, plus margins (top-quartile and average mills), in 29 major countries/regions.
- For further information, contact us to receive a free 50-page sample report. Go to http://www.woodmarkets.com/p_globalreport.html.

GLOBAL WOOD BOOK Trends & Statistics • 2nd Edition

- Coverage of softwood/hardwood production and consumption trends in timber harvest, lumber (sawnwood), plywood, OSB, MDF & particleboard.
- Full brochure is available at http://www.woodmarkets.com/p_globalwoodbook.html.

WOOD MARKETS 2010 • The Solid Wood Products Outlook, 2010–2014

- Five-year outlook for supply, demand and prices.
- Six chapters organized into three parts or one complete report (softwood lumber, OSB/plywood, MDF/PB).
- Condensed format, more focused, with key assumptions, analysis and five-year forecasts.
- Full brochure is available at http://www.woodmarkets.com/p_wm2006.html.

China Book • Outlook to 2015 Available in June

Wood Products Industry and Market Review

- Five-year outlook on wood products industry, exports and imports.
- Log, lumber and panel price trends and softwood forecast.
- Full brochure is available at http://www.woodmarkets.com/p_chinabook.html.

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