



# Annual Economic Review and Outlook for the Canadian Forest Sector: 2006-2007

Canadian Forest Service  
Policy, Economics, and Industry Branch  
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The Canadian Forest Service is pleased to present the third Annual Economic Review and Outlook for the Canadian Forest Sector. This report provides an overview of recent developments in Canada's forest products industry and major markets for our forest products. In addition, we provide a qualitative assessment of the outlook for the industry for the remainder of 2006 and into 2007.

This report was prepared using information available as of July 2006. It was prepared by Brice MacGregor, Debasish Datta, Farah Huq and Romain Jacques of the Policy, Economics, and Industry Branch of the Canadian Forest Service under the supervision of Darcie Booth, Director of the Economic Analysis Division. Note that this report only represents the opinions of the authors, and does not represent the opinions of the Government of Canada.

We welcome your feedback and suggestions. If you have any comments, or would like to make suggestions, please contact us by e-mail at: [forestecon@nrcan.gc.ca](mailto:forestecon@nrcan.gc.ca)



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## *Industry restructuring accelerates in 2005...*

Restructuring was the dominant theme in the Canadian forest industry in 2005. While merger and acquisition activity was more muted than it had been in recent years, rationalization picked up steam as many companies halted or curtailed production at their higher cost facilities in order to improve their bottom line. Pulp and paper producers, especially in the eastern half of the country, were responsible for the bulk of these closures and curtailments, though wood product producers were also affected.

Several key drivers were responsible for the accelerated pace of restructuring in the industry in 2005. The most important of these was the rapid appreciation of the Canadian dollar relative to other major currencies. Despite increased prices for some products in major markets, Canada's industry experienced an overall decline in export revenues when these were translated back into Canadian dollars. This has also had the effect of increasing the costs of Canada's industry relative to that of other forest product producing nations, which has hurt Canada's cost-competitiveness. One of the factors behind the strength of the loonie has been rising commodity prices, particularly in the energy and mining industries, which increased the attractiveness of Canada for investment dollars and, hence, demand for our currency.

The rise in energy prices has also had a direct impact on Canada's forest industry, especially for product lines with energy-intensive production methods, such as newsprint and packaging. Increased costs for wood fibre, a major component of costs for most of the industry, have also affected certain regions. Producers in Quebec and Ontario have been strongly affected as restrictions on wood supply in the former and increased costs of delivering fibre to mills in the latter have driven up costs.

Overall, forest product prices were favourable for Canadian producers in 2005. Although wood product prices dropped off from 2004 levels, they remained relatively high by historical standards, propped up by record housing construction in North America. Pulp prices remained high and paper prices increased in 2005 with newsprint prices reaching a ten-year high and pulp prices at their highest level since 2000. However, some of the price increases reflected higher production costs, which triggered reduced supply, and in some cases were not able to fully offset the impact of exchange rates.

Offshore producers continued to make inroads in the North American market in 2005, particularly for wood products. While North American consumption of wood products continued to grow benefiting all producers, offshore countries were able to increase their share of certain markets. Specific examples include softwood lumber from Europe and plywood from Brazil.



## *Restructuring expected to continue in 2006-2007...*

Restructuring in Canada's forest industry is expected to continue in 2006-2007 as companies look to reduce their costs and improve their long-term profitability in response to the changing economic environment. The exchange rate will continue to be a critical factor affecting the industry's finances. In early 2006, hot commodity markets have helped push the Canadian dollar even higher. While commodity prices are expected to ease, they are likely to remain high keeping the loonie strong. In addition, the persistence of the US current account deficit and rising interest rates in other countries will contribute to renewed downward pressure placed on the US dollar, which could further elevate the Canadian dollar in the process. High costs for energy and, in certain regions, wood fibre will also continue to be important factors. In neither case is the current state of affairs expected to change in the short-run due to continued strength in global demand for energy and the structural nature of factors driving fibre costs.

Some major changes are expected in forest product markets driven by broader economic developments. Demand for wood products and, hence, wood prices are expected to decline as the U.S. housing market unwinds following several years of strong growth. Rising interest rates and high housing prices, driven by speculation in some markets, have greatly reduced the affordability of housing in many markets discouraging new construction, which is a major driver of demand for lumber and panel products. Prices have already fallen in early 2006, which will likely continue. Conversely, prices for pulp and paper should fair better. While the growth of the North American economy is expected to slow in 2006-2007, the reduction in supply caused by continued mill closures and curtailments in 2006 and strengthening global demand due to improved economic conditions in Europe and Japan could boost prices.

On balance, Canada's forest industry is expected to face continued financial challenges. In the near-term, the pulp and paper industry will continue to shed jobs as planned closures and curtailments take effect in 2006, though current cost-cutting efforts and improved prices could provide dividends in the future. Wood producers will fare worse than they have over the last couple of years during which they enjoyed near-record prices due to the housing boom. Weaker prices and the strong Canadian dollar will erode operating margins and prompt more restructuring among wood product producers who, up until recently, have been sheltered by high prices.



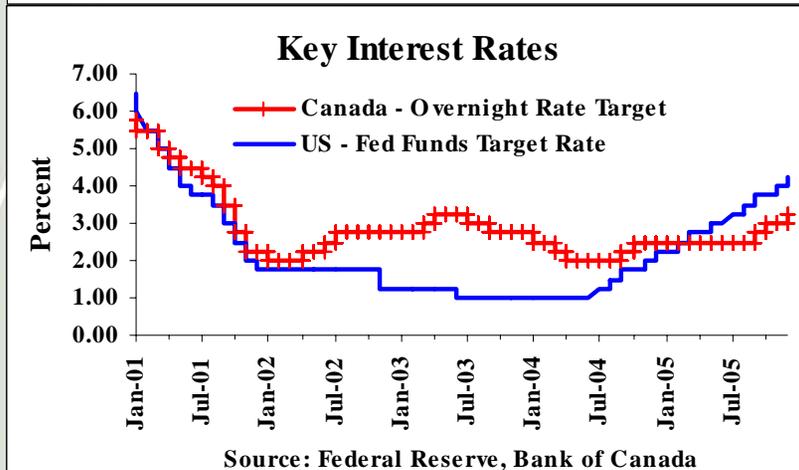
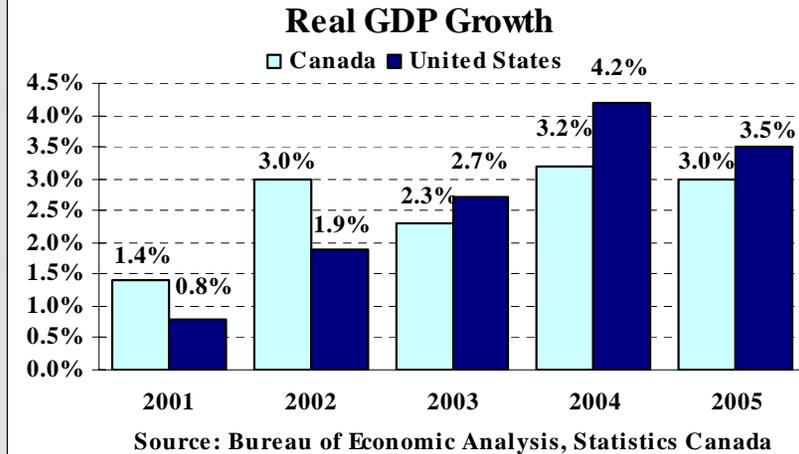
## *North American economy powers on, but higher interest rates could slow growth...*

**Context:** Key interest rates determine the cost of borrowing money (e.g. for home mortgages), thereby impacting on inflation, the exchange rate and the growth rate of the economy.

**Key Developments:** Record setting commodity prices helped push the Canadian economy near its capacity limits in 2005. Real GDP growth was stable at 3% in spite of the strong Canadian dollar, down only 0.2% from last year. The US economy demonstrated signs of a slowdown especially in the fourth quarter of 2005 due to the effects of hurricanes Katrina and Rita. Real GDP growth was 3.5%, down from 4.2% in 2004.

**Important Factors:** While the Federal Reserve raised its target rate throughout the year, the soaring Canadian dollar forced the Bank of Canada to freeze the overnight lending rate at 2.5% for much of 2005. However, inflationary pressures, driven by the red hot economy in the West, eventually led the Bank to begin hiking rates in the fall.

**Outlook:** Both the Bank of Canada and the Federal Reserve have continued to raise their target rates in 2006. They both recently signalled their intention to hold off on further increases; however higher than anticipated levels of inflation are causing interest rate pressure to build, which may force them to take action. Higher interest rates are expected to cool the North American economy down beginning in the second half of 2006 and continuing into 2007. As a result, it is anticipated that both the Fed and the Bank may begin to cut their key rates starting in late 2007.





## *U.S. housing market remained hot, but expected to cool...*

**Context:** Residential investment is a key indicator of demand for the forest industry as the majority of wood products are used in the construction of new homes and repair/remodelling of existing homes.

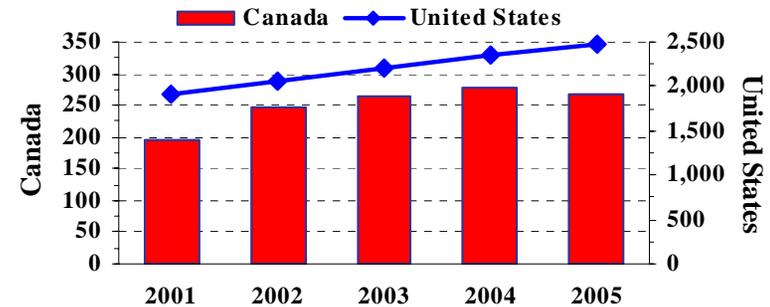
**Key Developments:** The housing market remained strong in 2005, driven by low interest rates, high employment and steady income growth. Canadian housing starts decreased slightly, but were near the 17-year high achieved in 2004. US housing starts attained record levels, increasing for the sixth year in a row. The booming resale market fuelled strong growth in renovation spending, which was up 6.3% in Canada and 4.8% in the US (real terms), from the previous year.

**Important Factors:** Rising house prices contributed to a slow down in housing starts in the second half of 2005. However, new homes in Canada remain affordable, assuaging fears of a bubble. South of the border rapid price increases took a toll on housing affordability. Though appreciation has slowed, affordability continues to erode.

**Outlook:** Though higher mortgage rates in 2006 will dampen the Canadian housing market, housing starts are expected to remain above 200,000 units until 2007. The US housing market is expected to cool gradually rather than decrease sharply, coinciding with an anticipated slow down in economic growth beginning in the second half of 2006. However, the adjustment may be more dramatic in certain segments of the housing market that have been very 'hot' such as the East and West Coasts and the condominium market.

### Historical North American Housing Starts

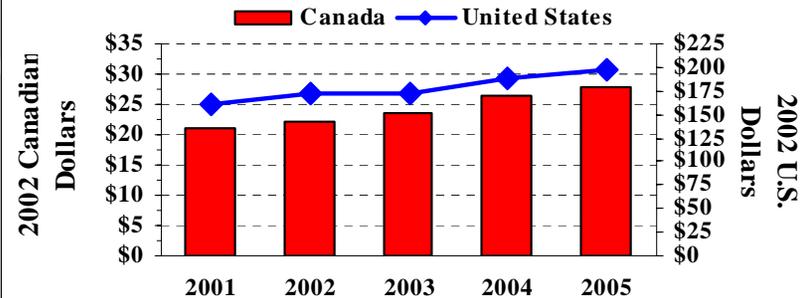
(1,000s Units)



Source: Canadian Mortgage Housing Corporation, U.S. Census Bureau

### Residential Expenditure on Renovations

(\$ Billions)



Source: Canadian Mortgage Housing Corporation, Bank of Canada, U.S. Census Bureau, U.S. Bureau of Labor Statistics



## *Soaring commodity prices push Canadian dollar higher...*

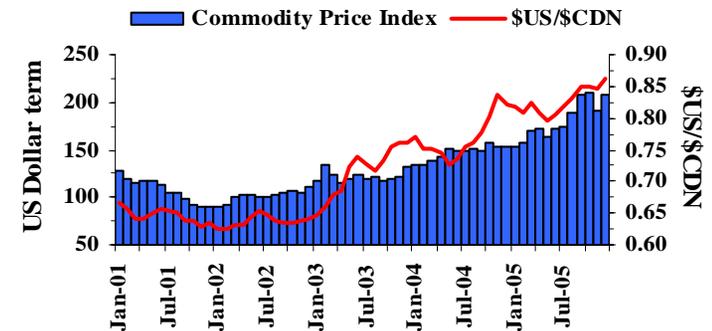
**Context:** The majority of Canada's forest products are destined for export and the US is our biggest customer. Fluctuations in the exchange rate affect the competitiveness of Canada's forest industry because they affect the relative costs of the industry compared to its international competitors.

**Key Developments:** Following two years of decline, the US dollar gained strength against many major currencies in 2005. The Canadian dollar was one of a few currencies that continued to appreciate against the US dollar, reaching 86¢ US by year-end. This was the 3<sup>rd</sup> year of gains after the loonie hit a low of 62¢ US in 2002.

**Important Factors:** The large and increasing US current account deficit fuelled speculation of a depreciation. However, higher interest rates in 2005 allowed the US dollar to regain ground against major currencies such as the Euro and Yen. In contrast, soaring commodity prices, particularly in energy and mining, have attracted capital investment to these sectors causing the currencies of commodity exporting nations, including the Canadian dollar, to increase in value.

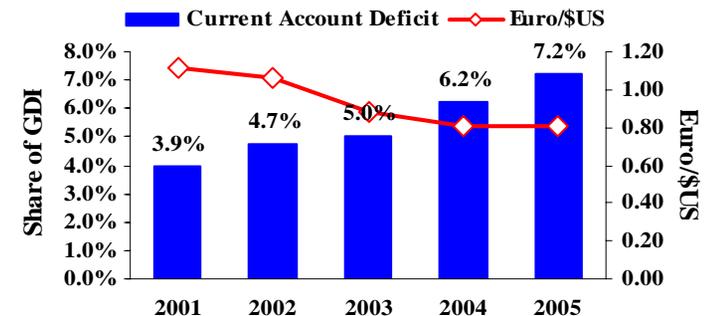
**Outlook:** In early 2006, oil topped US\$ 70 per barrel sending the Canadian dollar above 90 cents US. Commodity prices are expected to moderate, but remain high keeping the Canadian dollar around the 90¢ US mark until early 2007. Production in export-oriented manufacturing industries, such as wood and paper manufacturing, will continue to suffer. Recent improvements in the global economy, including anticipated rate hikes by the other central banks, in combination with the large US current account deficit and potentially stable US interest rates, will place renewed downward pressure on the US dollar.

**Value of the Canadian Dollar and Commodity Price Index**



Source: Bank of Canada, Statistics Canada

**U.S. Current Account Deficit and Value of U.S. Dollar**



Source: Bureau of Economic Analysis; Federal Reserve



## *Strong Canadian dollar and weaker wood prices reduce revenues...*

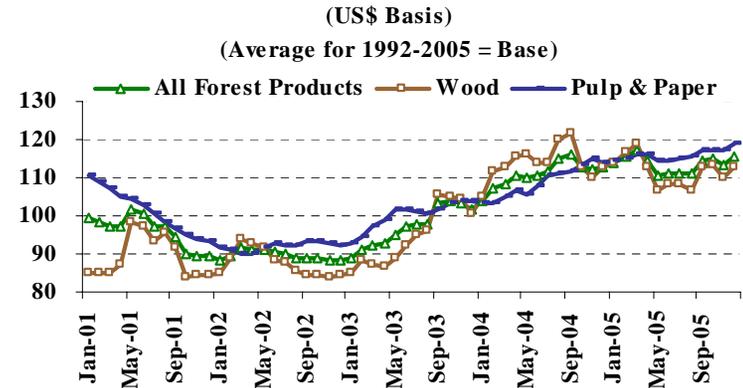
**Context:** Variability in forest product prices is one of the principle sources of volatility in the revenue of the forest industry. While markets price forest products in US dollars, the Canadian industry is also strongly affected by the exchange rate as this affects revenue received when translating prices back into Canadian dollars. The forest product price indices presented here reflect returns received by Canadian producers based on the prices of Canada's major forest products, weighted by the value of their shipments.

**Key Developments:** In 2005, the rise in pulp and paper prices more than offset the decline in wood product prices, resulting in the US dollar based forest industry price index increasing by 2.5% for the year. Although the US dollar based index is at its highest since 1995, the Canadian dollar based index declined by 4.6% in 2005 and is close to its lowest level in the past decade. The Canadian dollar based index was primarily dragged down by an appreciating Canadian currency, which recently reached 30 year highs.

**Important Factors:** Reduced housing affordability and increasing offshore wood products supplies led to declining wood products prices in 2005. However, pulp and paper prices, fuelled by a strong US economy and supply-constraining mill closures, were sufficient to offset these effects, leading to a rise in the US denominated forest price index. In contrast, the appreciating Canadian currency, powered by strong commodity prices, weighed down the Canadian dollar based index.

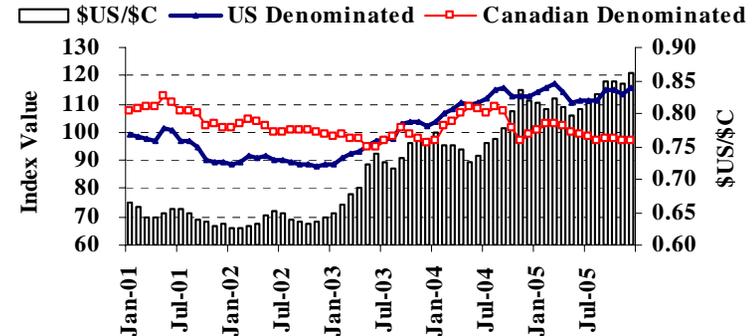
**Outlook:** The Canadian dollar-based forest industry price index is expected to falter in 2006. Although a weakened North American housing market, dampening wood products prices, will offset the upward pull of pulp and paper prices - stemming from numerous capacity closures, the appreciating Canadian currency will override these effects, contributing to a decline in the Canadian dollar based price index.

### Canadian Forest Industry Price Indices



Source: Statistics Canada

### Forest Industry Price Indices in US & Cdn Dollars & the US/Cdn Exchange Rate



Source: Statistics Canada, Bank of Canada

# Input Prices



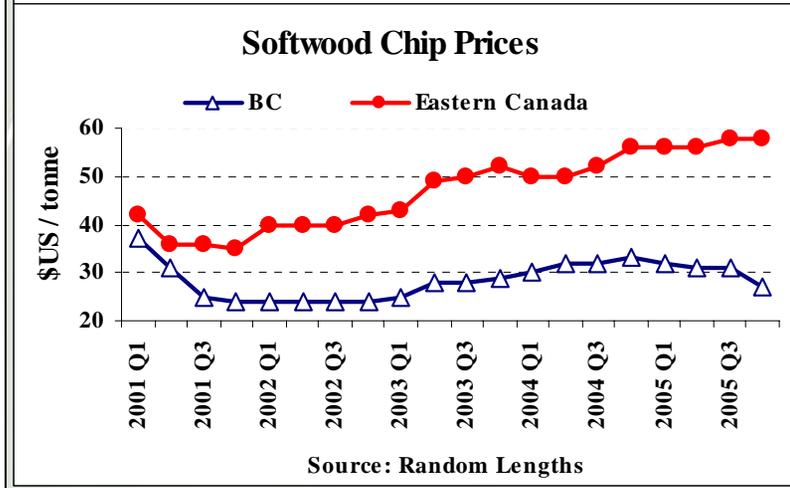
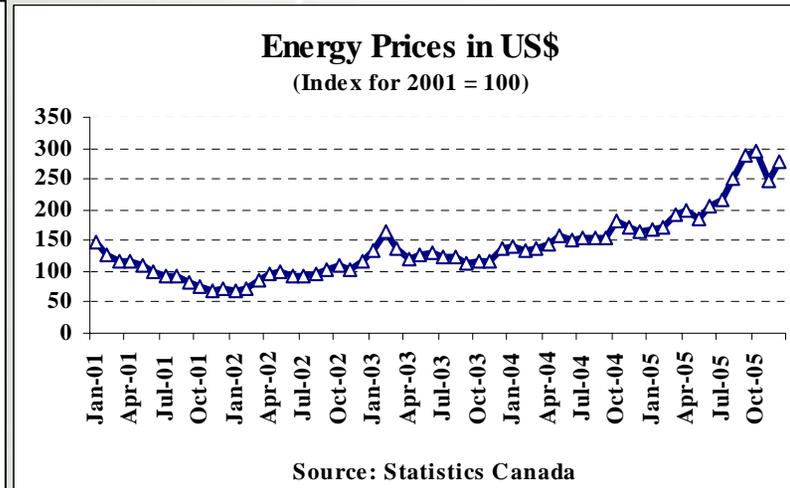
*Rising prices for some input increase costs, especially in East...*

**Context:** Fibre represents a large share of total costs in the forestry industry, particularly for wood products, where fibre can represent more than half of average variable costs of production. Energy costs can also represent a sizeable share of production costs, particularly for paper and paperboard producers. In addition, energy costs also affect the cost of transporting fibre inputs to mills and finished products to markets. This is particularly important for Canadian producers, many of whom operate in remote areas, far from export markets.

**Key Developments:** Energy prices of all types more than doubled over the last three years, which has had a substantial impact on the forest industry and paper producers in particular. In addition, fibre costs in certain regions have increased. This not only increased production costs, but also the cost of delivering outputs and inputs. The price of wood chips, the main source of fibre for pulp and paper producers, has steadily increased in Eastern Canada, making it the highest cost producing region in North America.

**Important Factors:** The increase in energy prices is primarily due to rising demand for energy in several countries, but China in particular. Electricity prices in Ontario have also increased due to a shortfall in generation capacity in that province. A reduction in timber supply in Quebec following the recommendations in the Coulombe Commission as well as increasing haul distances for logs in Ontario have put upward pressure on chip prices in those provinces.

**Outlook:** Energy prices are expected to remain high in the near future. This will continue to create challenges for some producers who may be spurred on to take advantage of the strong dollar to invest in more energy-efficient technology in order to remain competitive. Limited working capital, however, could hinder this strategy. The fibre shortfall in Eastern Canada will continue, though closures in the pulp and paper industry could reduce demand and lower prices moderately.





## *Profits, return on capital fall with wood prices, rising costs and Canadian dollar...*

**Context:** High operating profit (OP) is a sign that the core business activity of the industry is in good health while return on capital employed (ROCE) is a measure of how efficiently the industry is using capital.

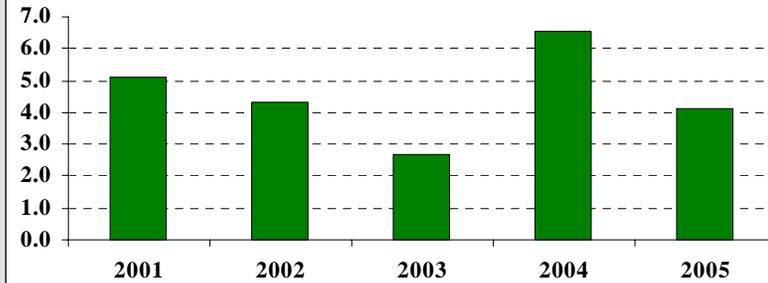
**Key Developments:** In 2005, the forest industry's OP dipped by 37% compared to 2004 while the ROCE dropped to 3.7% from 7.5% in 2004, reaching its lowest level since 1993. OP levels are currently on par with the 1988-2005 average while the ROCE for 2005 is well below its 1988-2005 average (5.6%).

**Important Factors:** The reductions in operating profits and the ROCE were partly due to declining wood product prices and the appreciation of the Canadian dollar, which reduced producer revenues. Higher energy prices and wood fibre costs in certain regions of the country also had a negative impact by increasing costs. The ROCE was dragged down further due to asset writedowns accounting for the closures of several lumber, pulp and paper mills.

**Outlook:** Input cost pressures will continue forcing Canadian companies into closing older and higher costing mills. These closures will have offsetting effects by placing downward pressure on ROCE, but upward pressure on product prices and operating profits of the industry due to the removal of capacity from the market. Additionally, the anticipated rise of the Canadian dollar for 2006 is expected to diminish producer revenues, hurting both operating profits and the ROCE.

### Operating Profit in the Wood and Paper Manufacturing Industry

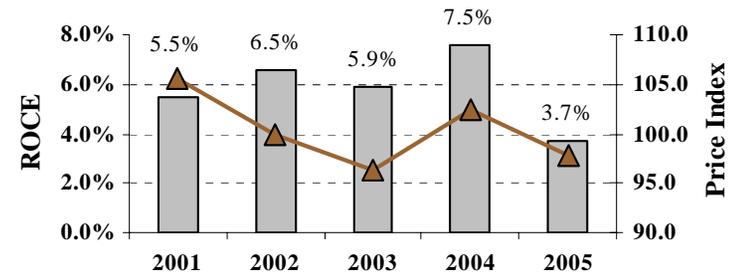
(Billions of C\$)



Source: Statistics Canada; Quarterly Financial Statistics for Enterprises

### Return on Capital Employed and Forest Product Price Index

Return On Capital Employed (Bar) Forest Price Index (Line with Triangle)



Source: Statistics Canada



## *Slip in prices and rising loonie erode value of exports despite strong demand...*

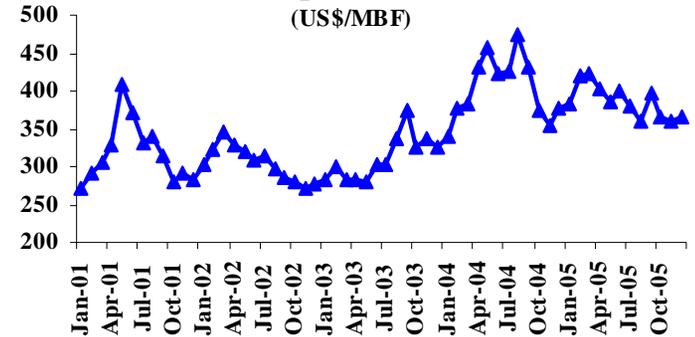
**Context:** Canada is the world's largest exporter and second largest producer of softwood lumber. Softwood lumber accounts for 1/4 of Canada's forest product exports with most going to the U.S., but a portion to Japan as well. Softwood lumber prices in 2004 and 2005 were close to historical highs of the mid 1990s.

**Key Developments:** In 2005, declines in softwood lumber prices (-4.2% year-over-year) and a strong appreciation in the value of the Canadian dollar relative to the US currency (+7.3%) substantially reduced Canadian denominated prices received by producers shipping to the US. In fact, while the volume of Canadian exports to the US increased moderately (+2.8%) during the year, the value of exports decreased markedly (-14.1%) over the same period. Increasing competition from offshore producers such as Sweden and Germany also ate away at Canada's share of US imports, which fell from 93.1% to 87.3% between 2001 and 2005. Furthermore, the Canadian dollar improved against the Japanese yen, inducing large declines in the value of Canada's exports to Japan, by 29% in 2005.

**Important Factors:** A record year in US residential construction and near record levels in Canada were the primary factors behind strong demand for Canadian lumber. Spurred on by a solid economy, high employment and moderate interest rates for most of 2005, the North American housing market attained record levels.

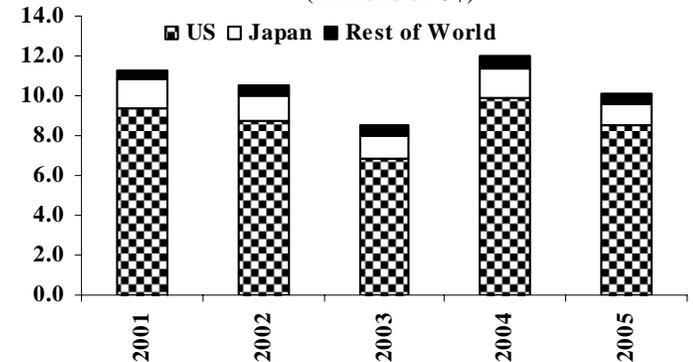
**Outlook:** Beginning in mid-2004, US interest rates began increasing – steadily through 2005 and into the first few months of 2006. However, with inflation under target, US interest rates are expected to plateau. The net effect of these higher interest rates - reduced housing affordability and a cool down of the US economy through the latter half of 2006, will likely dampen US housing demand and with it the demand for Canadian lumber as well.

**Random Lengths Framing Lumber  
 Composite Price**  
 (US\$/MBF)



Source: Random Lengths

**Canadian Softwood Lumber Exports**  
 (Billions of C\$)



Source: Statistics Canada



## *Like lumber, prices drop and dollar rises reducing exports...*

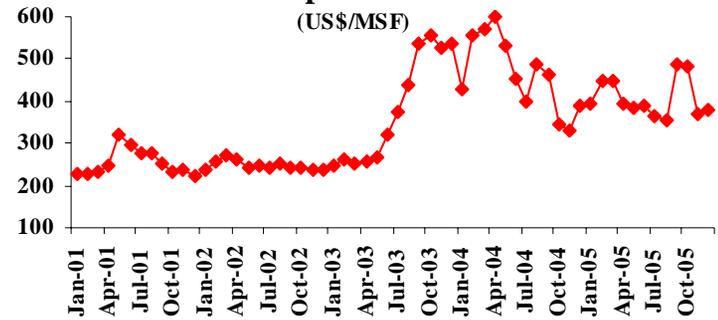
**Context:** About ¾ of Canada's structural wood panel production is exported abroad, with most heading for the US. About 80% of this export consists of oriented strandboard (OSB), with the remainder plywood. New residential construction is the main driver of this market, consuming 54% of North American output, followed by repair and remodelling (21%) and industrial demand (20%). In 2005, structural panel prices remained close to record highs achieved in 2004.

**Key Developments:** In 2005, a rising Canadian dollar relative to the US dollar and declining product prices (-11.6%) were primarily responsible for the decrease in the value of exports shipped to the US (-12.0%). While the volume of Canadian exports to the US grew somewhat (+4.2%), this was not enough to offset the exchange rate and structural panel price changes. Rising offshore imports into the US market also contributed to a declining Canadian share of total US wood panel imports, reaching an all-time low of 59.2% in 2005.

**Important Factors:** The growth in the volume of Canadian exports was primarily driven by strong demand in the U.S. housing market, buoyed by moderate interest rates and a solidly performing US economy.

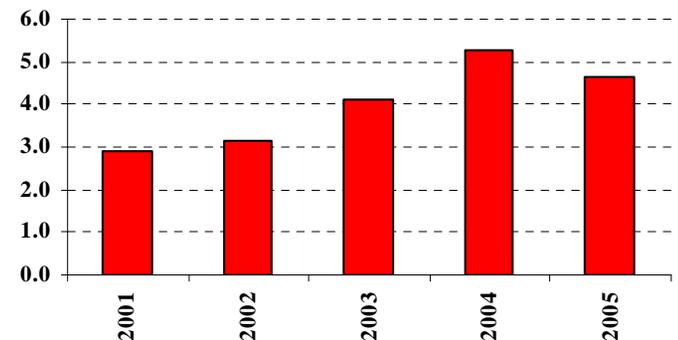
**Outlook:** In the latter half of 2006, new supply, mostly comprising OSB plants, will come on stream. This should dampen prices while higher US interest rates (by mid-2006) and a softening US economy crimp US housing starts, thereby weakening Canadian structural panel demand. Offshore imports, particularly Brazilian plywood, will continue to pressure Canadian producers in the US market although US softwood plywood producers having older mills face greater challenges - stringent emissions control regulations for 2007 will force them to curtail production or invest in costly emissions control technologies.

**Random Lengths Structural Panel Composite Price**  
 (US\$/MSF)



Source: Random Lengths

**Canadian Wood Panel Exports to the US,**  
 (Billions of C\$)



Source: Statistics Canada



## *Offshore exports decline, but poised to rebound with prices...*

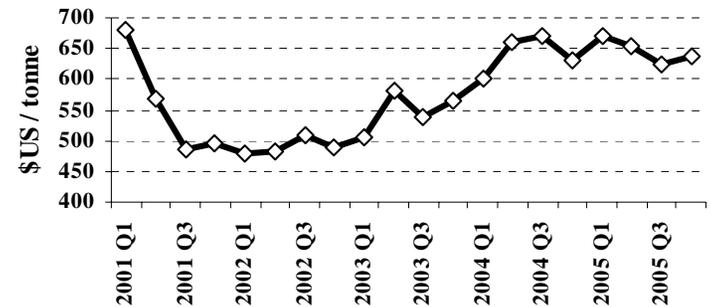
**Context:** Canada is the world's largest exporter and second largest producer of wood pulp, with Northern Bleached Softwood Kraft (NBSK) being Canada's most important market pulp grade in terms of production. Over the past few years, Canada's share of global market pulp has been declining as demand growth shifts away from North American markets.

**Key Developments:** In 2005, the price of NBSK rose slightly, by 1.0% compared to 2004. Although the total volume of Canada's wood pulp exports declined by 7.6%, the drop in the total value of Canada's exports was more pronounced, decreasing by 12.6% over the same period. Additionally, while the value of Canadian exports to the US fell by 4.4%, the declines were even greater for the EU nations (-17.4%), China (-17.3%) and Japan (-20.3%).

**Important Factors:** The rise in NBSK was due to tight supply conditions existing globally, some permanent capacity shutdowns in North America and cost-based price increases introduced (to cover cost increases in energy and transportation). However, the rising Canadian dollar relative to global currencies contributed to declines in the value of Canadian exports for several major markets.

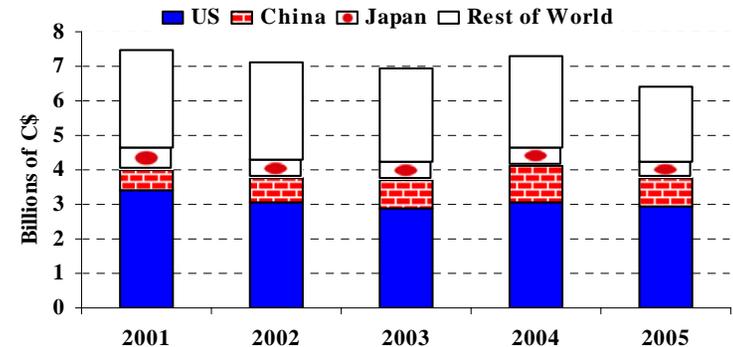
**Outlook:** In 2006, further mill shutdowns, removing some supply from North American pulp markets, and a stronger global economy, especially for the EU nations and Japan, will put upward pressure on prices. However, continued growth in capacity from South America - eucalyptus from Brazil and radiata pine from Chile, as well as, new capacity from Asia, will partially offset this with a dampening effect on prices. Adding uncertainty to markets is whether the Chinese government will begin implementing plans to remove much of its non-wood pulp capacity; currently this makes up 80% of the nation's total pulp capacity.

**Price of Northern Bleached Softwood Kraft (NBSK), Delivered to US**



Source: Pulp & Paper Week

**Canadian Pulp Exports**



Source: World Trade Atlas



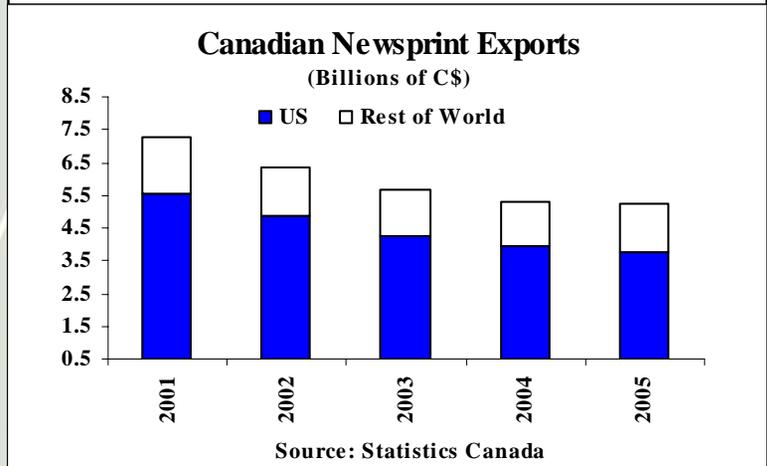
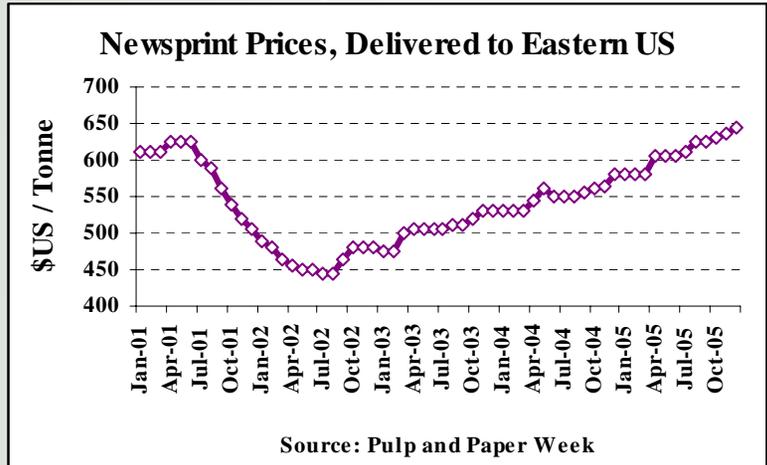
## *Newsprint producers downsize in response to rising costs – causes prices to rise...*

**Context:** Canada is the world's largest producer and exporter of newsprint. However, the size of Canada's newsprint market has been shrinking for some years now due to a structural decline in North American newsprint demand. This has been driven by the maturation of the North American market and due to the growth of online media sources.

**Key Developments:** US dollar based newsprint prices increased for a third consecutive year. An appreciating Canadian dollar during that period, however, practically offset that increase, resulting in flat export revenues for Canadian producers. On the cost side, energy costs have risen significantly over the last few years and producers in the east have faced a steep rise in the price of wood chips since 2003.

**Important Factors:** Prices have risen in the US market because producers, faced with higher input costs and a decline in North American demand, have closed down higher cost capacity while raising end-product prices in order to recuperate production costs. In 2005, about 9% of North American newsprint capacity was removed. This included mills for Norske Canada (Port Alberni, BC), Irving Paper (Saint John, NB) and Abitibi-Consolidated (Kenora, ON and Stephenville, ND).

**Outlook:** Over the next two years, analysts expect a cyclical reduction in North American newsprint demand on top of the structural demand declines that already prevail. This will put downward pressure on newsprint prices although further capacity reductions, amounting to 8% of North American newsprint capacity, will act as an offsetting factor.





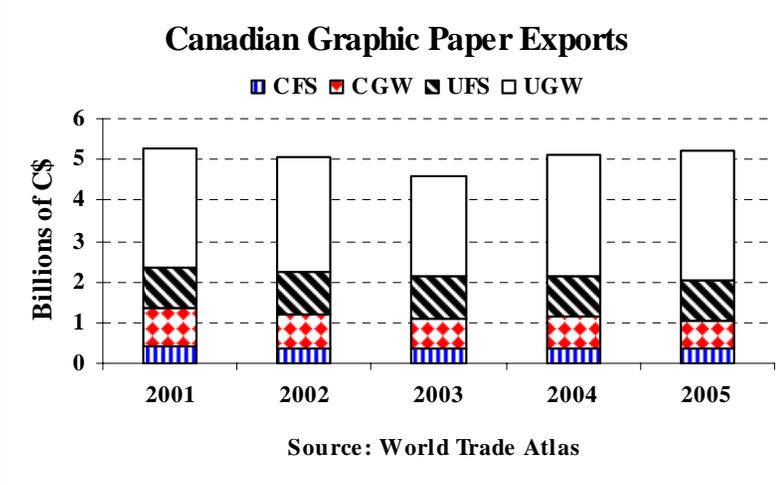
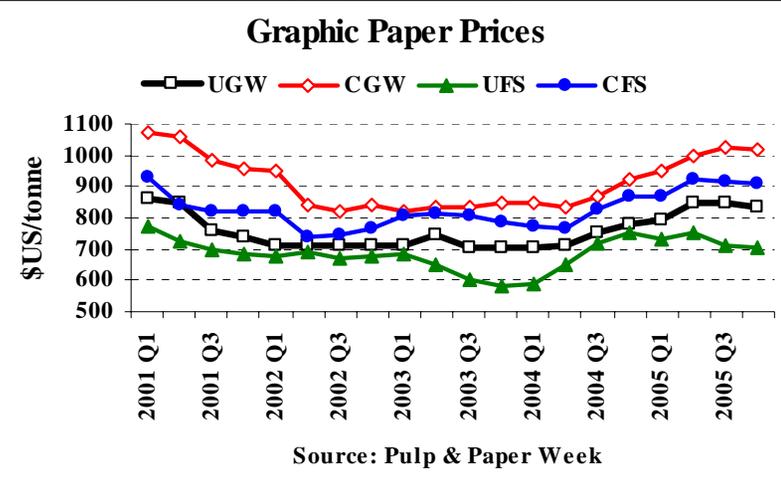
## *Reduced capacity and stronger demand lead to higher prices, exports...*

**Context:** Graphic papers comprise about 42% of total Canadian paper production. It includes uncoated and coated varieties of groundwood (UGW, CGW) and freesheet paper (UFS, CFS). About 53% of total Canadian graphic paper production is made up of UGW, a paper similar to newsprint. As with newsprint, many graphic paper products face a slowdown in demand growth due to competition from online media sources.

**Key Developments:** Prices for all major groups of graphic papers increased significantly in 2005. While the appreciating Canadian dollar was a mitigating factor, the value of total graphic paper exports also increased. However, this was primarily due to a 7.5% increase in the value of UGW exports which more than offset declines in the value of other graphic paper exports.

**Important Factors:** Although total North American consumption for graphic paper products fell by 3% in 2005, graphic paper prices continued to rise as producers, faced with higher energy and wood fibre costs, as well as the strong Canadian dollar, pushed for higher end-product prices. The higher prices were supported by capacity closures, implemented in 2005 by many firms in reaction to the higher cost realities they have faced for the last few years. However, Canadian UGW exports continued to grow, having substituted successfully for certain UFS grades within the US in commercial printing applications.

**Outlook:** In 2006, more mill closures are anticipated. In North America, about 4% of UFS capacity is expected to be removed. Although open now, UPM's Miramichi mill in New Brunswick, accounting for 7.5% of North American CGW capacity, may yet face permanent closure. Given North America will continue to see moderate demand growth, keeping markets tight, further upward pressure on graphic paper prices is expected.





## *Sawmill employment continues to fall while panels plateau...*

**Context:** Since 2001, Canadian employment levels in the wood industries have been fairly stable due to offsetting trends in the sawmill and wood preservation industry (decreasing) and the other wood products manufacturing industry\* (increasing).

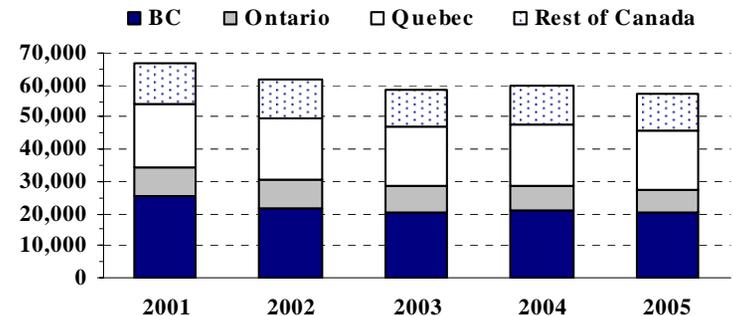
**Key Developments:** Employment levels in sawmills and wood preservation decreased by 4.2% overall in 2005 after showing signs of recovery in 2004. The largest decrease was in BC where average annual employment dropped by 5.6% since 2004. The long-term trend of strong employment growth in the other wood products manufacturing industry finally showed signs of tapering off. National employment levels in that industry were virtually unchanged from 2004. Gains in BC (250) were negated by losses in Ontario (-240).

**Important Factors:** The dampening effect on demand caused by the strong Canadian dollar seemed to overwhelm the effects of the hot North American housing market. As in the pulp and paper industry, the number of mill closures in the wood industries also accelerated in 2005.

**Outlook:** The strong loonie is expected to continue to adversely impact on the profitability of Canadian wood manufacturers in 2006 and 2007. Combined with a cooler North American housing market, national employment levels in the wood industry as a whole are expected to level off or even decline modestly.

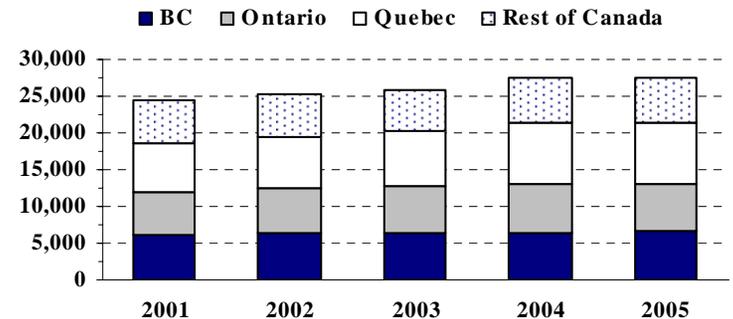
\* Includes: Veneer, plywood and engineered wood product manufacturing.

**Average Annual Employment in Sawmills and Wood Preservation**



Source: Statistics Canada, Survey of Employment, Payroll and Hours

**Average Annual Employment in Other Wood Product Manufacturing\***



Source: Statistics Canada, Survey of Employment, Payroll and Hours



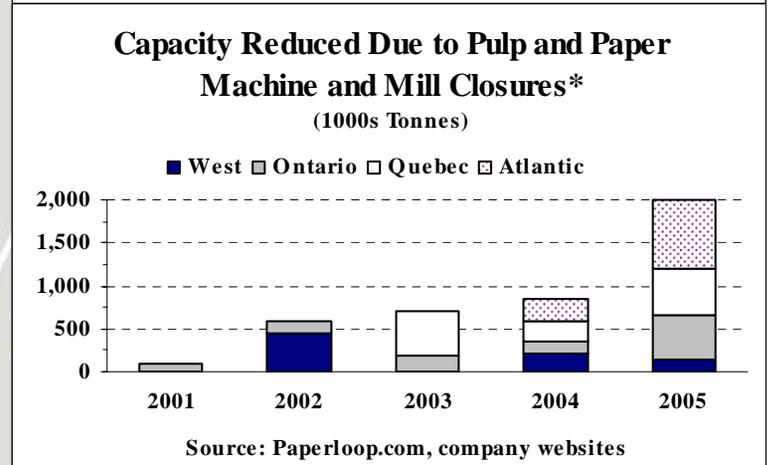
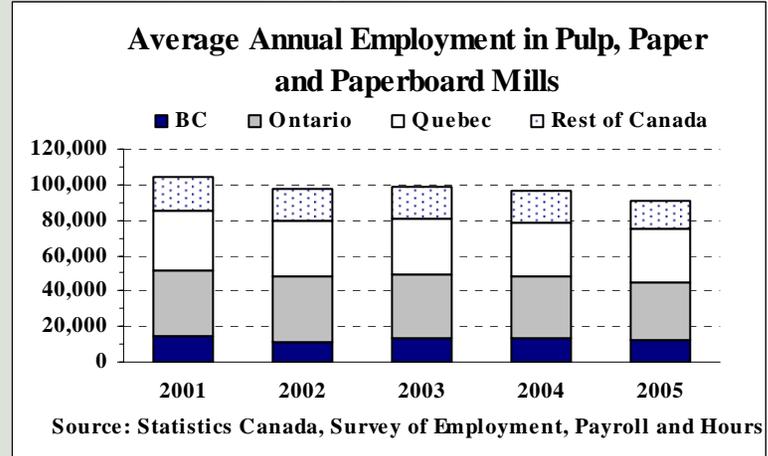
## *Employment falls, led by East with mill shutdowns and curtailments...*

**Context:** Since 2000 the pulp and paper industry has been shedding jobs as the forest industry has experienced a wave of rationalization aimed at restoring the profitability of Canadian operations. Job losses have been greatest in Eastern Canada, where the majority of the pulp and paper industry is located.

**Key Developments:** Nationally, average annual employment in the industry fell by 5.8% (5,560) compared to 2004. The biggest drops were in Ontario (-7.6%), BC (-7.0%) and New Brunswick (-27%). Employment levels in Quebec were virtually unchanged.

**Important Factors:** The sharp acceleration in the number mill closures and curtailments in 2005 contributed to the overall decline in employment in the industry. Since 2001, thirty pulp and paper mills have been closed or curtailed. Nearly half of these occurred in 2005, resulting in the loss of over 5,000 direct jobs that year. Two-thirds of the closures have occurred in Ontario and Quebec; however, in 2005 the Atlantic region led the country in closures and curtailments.

**Outlook:** While some large mills reopened in 2006 (including UPM-Kymmene's paper and groundwood mills in Miramichi, NB; the Port Alice cellulose mill in BC, and the paper mill in Nackawic, NB) a significant number of additional closures and curtailments have been announced and have already taken place in 2006. As a result, the pulp and paper industry is expected to continuing shedding jobs.



\* Excludes reopened mills; includes indefinitely idled mills and machines.