WOOD MARKETS
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Featuring Lumber, Panels and Wood Products Analysis

# Lumber Prices to Spike?

## Previous Housing Cycles Suggest US$400+/Mbf!

If history can be used as a guideline to simulate the next housing "up-cycle," then the prospects for huge price increases look very exciting. Since every housing market slump has been accompanied by a price spike in response to supply that is unable to keep up with demand, we are forecasting a similar lumber price spike to occur around 2011 (or earlier), at which time annual prices will soar and weekly prices will become highly volatile.

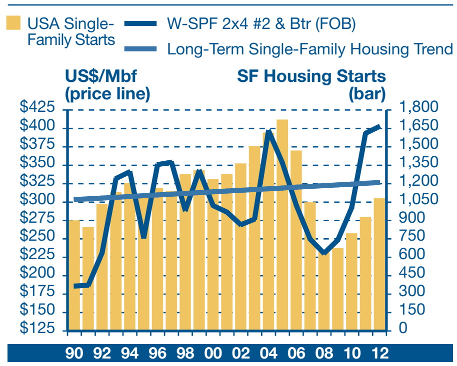
Since 1990, previous lumber spikes (using W-SPF) have occurred (table 1), where the three periods' annual price increases have ranged from US$99–$120/Mbf. However, the only price spike that came after a major housing market correction was 1992–93, when annual prices in the second recovery year jumped by US$101/Mbf. The housing cycle slumps of 1987–91 and 2005–08 are somewhat similar in that both corrections were long, but the current

**Table 1**
**W-SPF LUMBER PRICE & HOUSING SPIKES**

| Period | Annual Change: Price US$/Mbf | Annual Change: SF Housing x000 Units |
|---|---|---|
| 1992–1993 | $101 | 96 |
| 1995–1996 | $99 | 85 |
| 2003–2004 | $120 | 112 |
| 2010–2011* | $101 | 150 |
| **Up-cycle** | **Total Change** | |
| 1991–1994 | $155 | 358 |
| 2009–2012* | $155 | 405 |
| **Down-cycle** | **Total Change** | |
| 1987–1991 | $(13) | (306) |
| 2005–2008 | $(123) | (1,076) |

Source: *Random Lengths*; Forecast: WOOD MARKETS

**Figure 1**
**U.S. SINGLE-FAMILY HOUSING STARTS vs. W-SPF LUMBER PRICES**




Source: U.S. Census, *Random Lengths*
Forecast: WOOD MARKETS (2008–12)

one will have 3.5 times the SF housing start declines (-1,076,000 versus -306,000). The up-cycle in 1991–94 involved a gain of 358,000 SF housing units, while we are predicting a gain of about 400,000 units in 2009–12.

**Since there are similarities between these two housing cycles, if the 1991–94 total change in prices of US$155/Mbf is applied to the expected U.S. housing recovery period from 2009–12, then annual prices near US$400/Mbf (figure 1) can be predicted (and this may be conservative)!**

We believe the structural lumber and panel business is in the midst of a significant structural change — rather than just another housing cycle — and the current housing downturn will create a template for potentially unprecedented lumber-price increases once we get closer to 2011. ■

# WHAT'S INSIDE



## GLOBAL PRICE TRENDS

**International WOOD MARKETS Group Inc.** (IWMRI & R.E. Taylor & Associates Ltd.) 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:

# Pages 2-5
## The B.C. Industry Story
### Adapting to (and Struggling in) Changing Times

The B.C. industry has always been a trend-setter, led initially by the old-growth Coast region and then the Interior SPF region. Today, both industries are facing challenges. Since B.C. represents about 23% of global softwood lumber exports, changes in the B.C. industry can have ripple effects around the world.

Forests cover about two-thirds of B.C.'s land mass; and the majority of these forest resources are softwood. More than half the softwood products produced in Canada come from B.C., and forest products are the province's largest export commodity.

B.C. has over 200 sawmills, including some of the world's largest. With the exception of one plywood mill and two veneer mills in coastal B.C., B.C. plywood (ten mills) and OSB production (four mills) originates from the Interior. B.C. also has one MDF mill and two particleboard mills.

B.C.'s total timber harvest was curtailed in 2007 due to a strike, deteriorating U.S. market conditions and tight log supply. Lumber production saw its first downward adjustment since 1998.

The U.S. accounts for 81.7% of all B.C. commodity wood product exports and Japan represents another 9.8%. When the U.S. market is set aside, the importance of Japan becomes clear: it represents over half of non-U.S. total offshore commodity wood products exports, comprising softwood lumber, OSB, plywood and MDF.

Currently, the most profitable coastal operations tend to manufacture western red cedar, Douglas fir and other species unique to the region. The key to the area's competitiveness in these markets lies in cost reduction in terms of delivered log costs and processing.

Three potential scenarios were considered to 2020, where the outcomes will be tied to global supply and demand tends, capital investments and government policy.

B.C. Interior industry's ongoing massive salvage of "mountain pine beetle-killed" timber, and its processing into SPF lumber, will persist very strongly for at least the next five years. Incremental mountain pine-killed timber could be used for bio-energy or in log exports — in either case, the economics could improve timber harvesting and sawmilling options. However, many variables (local to global) could impact output over the next ten years. ■

*(The full* WOOD Markets *article provides further details on the B.C. Industry Story, along with plywood/veneer and particleboard/MDF stats.)*

### WOOD MARKETS CHINA BULLETIN

The seventh issue of our newest publication, *WOOD MARKETS China Bulletin*, is ready for viewing at **http://newsletter.woodmarkets.com.cn**.

The Bulletin includes Chinese industry trends, topics of interest, statistics and prices relevant to the wood industry. For an interim period, this publication will be a free service to subscribers. To join, visit **www.woodmarkets.com/china_products.html**.

### GLOBAL WOOD BOOK
#### Trends & Statistics

Released in April 2007, this report features:

- Country profiles of softwood (and hardwood) wood products industries.
- Softwood/hardwood trends (prod'n/imports/exports/consumption) in timber harvests, lumber, plywood, OSB, MDF and particleboard.
- 550 pages, over 300 full data tables and 400 summary graphs.

For details go to **www.woodmarkets.com**.

### CLEARWOOD REPORT
#### Pine Lumber, Moulding & Millwork Sector Outlook to 2012
#### 4th Edition

Scheduled for release in June 2008, IWMG will be publishing its 4th edition of its multi-client report on the supply/demand dynamics of:

- Global pine timber and appearance lumber;
- Mouldings: solidwood, finger-joint, MDF, & plastic (including five-year price forecasts); and
- Other millwork, including windows, doors, clear boards and other segments.

New to this edition is a cost benchmarking of finger-joint and MDF moulding producers from major producing regions, as well as updated analysis on the distribution channel for mouldings within the U.S.

This report provides our strategic insight of the current and anticipated trends in the clear pine lumber & moulding sector plus our analysis of the resulting downstream market implications. For information, please contact Peter Butzelaar **(peterb@woodmarkets.com).**

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