WOOD MARKETS
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Featuring Lumber, Panels and Wood Products Analysis

Global Supply Shocks

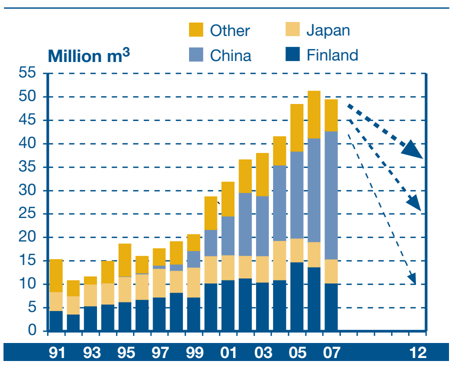
Greatest Change Coming Since the Spotted Owl?

While supply and demand forces are always equalized with prices, there appear to be a number of new supply shocks emerging that are going to have a huge impact on markets and products going forward. They include the following:

- Mill closures in North America, driven by the slump in housing, which will reduce available capacity during the rebound.
- The mountain pine beetle in B.C. and other western regions, which will decrease timber harvests by as early as 2010.
- The emergence of wood usage for energy as biofuels, which is a reality given US$100+/barrel oil prices.

However, the biggest supply shock — and one that is almost upon us — appears not be as well known. **The Russian government's log export tax is currently at 25% (minimum euro 15/m³) and will move to a crippling 80% (minimum euro 50/m³) on January 1, 2009.**

Figure 1
RUSSIAN LOG EXPORTS BY MAJOR COUNTRY



Russia leads the world in softwood and hardwood log exports, with a 40% market share that reached almost 50 million m³ (275 billion bf, Scribner scale) in 2007. The key customers of Russian log exports — China, Finland and Japan — will be the countries most impacted (figure 1). However, there will be a new supply realignment of replacement log and wood products to rebalance supply in these countries. **Higher prices are expected as early as Q4/2008, and new exporters and product flows will be a given!**

To address this unprecedented global supply impact, International Wood Markets Group will be conducting extensive in-the-field research in Q3/2008 to obtain first accounts in Scandinavia, the Baltics, China, Japan and inside Russia, including visits to the Russia–China border. The analysis will be summarized in our new report, ***Russia Log Export Tax — Global Implications*** that will be available at the end of September.

The major question on many people's minds is how large the "ripple effect" will be beyond the main impacted markets of China, Japan and Scandinavia, and — going further than logs — what will be the global price impacts on lumber and plywood, including in North America. **It could be bigger than the impacts felt by the withdrawal of U.S. national forest timber as a result of the spotted owl!** ■

By Russell Taylor, President

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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U.S. Home Channel Retailers

In 2007 the Slide Began: How Long Will It last?

For the first time in over 20 years, 2007 sales of the top 500 channel retailers fell versus previous years. Total sales for the group fell 2.1%. The drop in sales of key wood products reflects the North American wood products industry decline over the past two years, and will likely result in closures, mergers, etc.

Home Depot accounts for 55% of total home centre sales and lost 2.1% in sales in 2007 (sold HD Supply and closed a number of its retail stores).

Pro dealers were the hardest hit of the building channel sector with a drop in sales of 15.8%. The top five pro dealers' total sales were down US$3.4 billion, attributable to 48% of their sales being in lumber and plywood.

U.S. housing is not expected to recover until early to mid-2009, but which building channel companies will be left standing and in what condition? ■

(The full *WOOD MARKETS* article provides further details on the top 20 home centre retailers and the top 20 pro dealers and suppliers.)

Pages 4–5

U.S. Wood Products Imports & Exports

Imports in Decline; Exports on the Rise

Due to soaring transportation costs, the advantage of shorter domestic lead times, the currency risk in dealing with imports and a weak dollar, U.S. producers are finding offshore markets an attractive alternative to domestic sales.

Conversely, most European softwood lumber producers have aggressively curtailed shipments to the U.S. (down 56% since the peak in 2005).

U.S. plywood producers have benefited from market-share gains, with softwood imports down 1.4 billion sf (-56%).

Based on the five months of 2008, Chile has become the largest importer of softwood plywood to U.S. Canada remains the sole supplier of imported OSB, though the amount is about half what it was in 2007.

U.S. softwood lumber exports to China and the Middle East were up by 144%. U.S. exports of softwood plywood increased 61%, more than doubling to Canada and Mexico and up by 620% to Europe. OSB exports to Europe, Russia, Turkey, Chile and the Middle East generated 122 million sf of new business. ■

(The complete *WOOD MARKETS* report provides further analysis of U.S. wood product imports and exports, plus European panels supply/demand, prices and more.)

WHAT'S NEW:

WOOD MARKETS CHINA BULLETIN

The ninth 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**.

CLEARWOOD REPORT

Pine Lumber, Moulding & Millwork Sector Outlook to 2012

4th Edition

Scheduled for release in September 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).**

RUSSIA LOG EXPORT TAX

Global Implications

Release of Summary Analysis: Sept. 30, 2008

Release of Final Report: October 31, 2008

- How will this crippling 80% export tax impact your business or market?
- Assessment of countries impacted most and potential price increases/supply shortages
- Evaluation of outcome
- Business case proformas

Brochure with order form available at **www.woodmarkets.com/p_europerussia.html**.

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