

WOOD MARKETS



HIGHLIGHTS

MONTHLY INTERNATIONAL REPORT

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Featuring Lumber, Panels and Wood Products Analysis

North America's Dilemma Wood Product Commodities in Trouble

Commodity wood products demand and prices in the U.S. continue to sink, much to the discomfort of mills, distributors and retailers alike. The reasons for this unprecedented market slide are all too well known at this point, but the question marks that remain about when the bottom will be reached and exactly how further losses will be absorbed by supply chain players are still of significant concern. It is expected that there will be more casualties, as the financial burden will be too difficult to permit all companies to survive this massive market correction.

WOOD MARKETS has some year-end perspectives that use a variety of indicators to reinforce how deeply the industry and market are mired. Some comparisons may not be completely fair, as market cycles have created some very temporary scenarios, but they are pointed out for perspective:

PRICE LEVELS

Lumber and panel prices are so distressed that it is hard to comprehend how low they have gone to this point:

- Many U.S. South and Canadian dimension lumber and stud prices are approaching the lows reached in 1991 (e.g., W-SPF 2x4 Std&Btr reached a low of US\$160/Mbf in 1991, or the current price for #2&Btr).
- Some U.S. West dimension lumber and stud prices have inched below the lows

seen in 1986. Green Douglas fir 2x4 R/L (now at US\$148/Mbf) is now below its low point of US\$160/Mbf (achieved in 1985) and is moving closer to its next lowest point of US\$140/Mbf (achieved in 1982).

- Some U.S. South plywood prices are now close to the lows witnessed in 2002, after being very resilient during the market slowdown of the last two years.
- OSB prices are above their Q1/2008 lows but still below cash costs — mainly as a result of more timely mill closures.
- Particleboard prices have been relatively stable, but higher resin and wood costs, as well as CARB compliance costs, have pushed mills into loss positions.
- MDF prices are the exception to the rule: prices have been surprising resilient and are currently at all-time highs (although costs continue to climb)!

OPERATING RATES

Mill operating rates — or production levels relative to normal capacity — reveal a lot about the state of the North American market:

- Canadian lumber operating rates averaged 63% for the first nine months of 2008, but in December are expected to be closer to 50% (normal is over 90%).
- U.S. lumber operating rates were at 70% for the first nine months

...cont'd on page 2

WHAT'S INSIDE

Analysis

3 Global MDF

12 Monthly Prices: World Lumber & Panel Prices

10 Price Forecasts: One-Year Price Outlooks

Features

4 China Importers Dodge Bullet — For Now

Global Statistics

6 Australia, New Zealand, USA, Canada

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 2–3

North America's Dilemma *cont'd*

There are many issues to be considered at this point in the North American market slump. Many producers have few options and seem prepared to protect their market share at a huge financial cost, while wide

price spreads indicate aggressive pricing. Also, the rest of the world uses mainly rough sawn lumber in construction, while North American mills mainly produce S4S lumber; this limits export opportunities. ■

Global MDF

Rising Costs and Slowing Demand

Along with economic uncertainty and slowing consumption, rising costs for transportation, energy, resin, labour and raw materials are also affecting MDF producers.

China remains the world's largest MDF-producing country (18.6 million m³),

followed by Europe with 18.4 million m³ due to expansion in Russia, Turkey and Romania. In third place is "other Asia" (led by Korea, Malaysia and Thailand). Meanwhile, one Canadian MDF mill was shut down and two U.S. mills indefinitely/permanently closed in 2008. ■

(The complete *WOOD MARKETS* report provides charts and graphs to further detail the above articles.)

Pages 4–5

China Importers Dodge Bullet — For Now

Russian Economic Crisis Delays 80% Log Export Tax

China, Japan, Northern Europe and South Korea have been feeling the negative impact of the 25% log export tax since April 1, 2008. The rising tax schedule is one of the key factors for increasing log export prices (up to 50%–100%) in these areas. At the same time, Russian log exports have declined by 20%–25% from Q1/07 to Q1/08.

To partially fill the void, China's sawn lumber imports are expected to increase

to 3.4 million m³ in 2008, with the main beneficiaries being Canada and Russia.

Although Russia has delayed the implementation of the 80% tax, the damage is done. As a result, 2009 will find the main customers implementing wood raw material strategies to strive for independence from Russia. This will bring new opportunities to a number of other softwood log and lumber exporting countries. ■

(The complete *WOOD MARKETS* Markets report also provides statistics for Australia and New Zealand supply/demand and U.S./Canadian supply/demand, along with world lumber and panel prices.)

WOOD MARKETS CHINA BULLETIN

The thirteenth 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 http://www.woodmarkets.com/p_chinabulletin.html.

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

IWMG has just released the 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/anticipated trends in the clear pine lumber & moulding sector, plus our analysis of the resulting downstream market implications. For info, please contact Peter Butzelaar (peterb@woodmarkets.com).

RUSSIA LOG EXPORT TAX

NOW AVAILABLE

- How will the current 25% export tax continue to impact markets?
- What will be the impact of the proposed 80% tax?
- What will be the ripple effect on imports and exports when it hits all markets?

Brochure with order form available at http://www.woodmarkets.com/p_russialogeptax.html.

Global Lumber/Sawnwood Cost Benchmarking 2008 & Q1/2009

Now scheduled for April 2009; full brochure to be made available in January.

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