

WOOD MARKETS



HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis

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China's Lumber Market

Trying to Get the Import Story Right!

The recent hype about China as a rapidly growing export market for Canadian softwood lumber has become a huge story. While the story has been one of the few items of “good news,” it has been told with few facts, limited analysis and half-truths. For example, here are some of the headlines:

- Some estimates thrown out on China's imports of B.C. lumber keep growing — to three and even four billion bf by 2011 (from 275 million in 2007 and close to one billion bf in 2009), and possibly up to half of B.C.'s total production at some point.
- Another estimate says that B.C. exports may only be 100 million bf by 2011 after the U.S. lumber market/prices rebound.
- Another observer states that China's lumber consumption relative to its domestic log supply is a massive 45 billion bf gap.
- And there are some remarkable statements predicting that changes in China's building codes to allow softwood lumber in certain applications could rally the Canadian dollar and forest products stock prices.

There have been a few “super-salesmen” that have sold a great lumber story by taking advantage of China's massive market potential and need for imported raw materials. While there is a genuine good-news story for log and lumber exporters to China, and certainly growing opportunities, recent reports have

clearly oversold the short-term lumber market dynamics and realities by providing bullish (but unsubstantiated) opinions on the future potential.

We stated back in 2002 that it could take a generation (or about 20 years) for China to embrace wood-frame houses or villa construction. This has now been conceded some seven years later by those who invested in this idea.

We have also stated since 2007 that raw materials and the impact of the Russian log export tax would be China's Achilles heel for supplying its wood processing plants (highlighted in our 2008 *Russian Log Export Tax* report).

The Canadian lumber story in China is still one that mainly involves low-grade lumber. In the global auction market, China is willing to pay the highest price for lower-quality lumber. The prospects for higher grades of structural lumber are real and potentially huge in the longer-term, but this is still a small part of China's imports today, with little actually being used in structural applications.

WOOD MARKETS is going to set the story straight by updating our 2007 landmark report, *The China Book*. With all the myths, half-truths and opinions circulating, our extensive on-the-ground research will provide statistics and data to clarify, and put in context, the size of the opportunity today and in the future. As a result, we expect our 2010 *China Book* to become one of our very best sellers! ■

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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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OSB/Plywood Outlook 2010

Weak Demand & Excess Capacity the Key Drivers

In comparing 2009 with 2008, the consumption of OSB and plywood has been impacted heavily by the housing-market slump, with disastrous results (20% decline). New residential construction normally accounts for over 2/3–3/4 of usage.

Rising housing starts in 2010 will be tied increasingly to the government's housing stimulus program; a decline in housing stocks will be needed before any significant demand rise can occur.

A total of 25 OSB mills have been closed or curtailed since 2006 due to plummeting demand.

Indefinitely curtailed U.S. OSB mills are expected to come back online ahead of Canadian mills as a result of favourable currency exchange rates, close proximity to markets and better margins.

Plywood output is expected to bounce back in 2010, improving by about 6% (and a further 4% in 2011). ■

(The OSB/plywood outlook is from *WOOD MARKETS 2010–2014: The Five-Year Outlook*.)

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MDF/Particleboard Outlook 2010

Flat Demand & Excess Capacity the Key Issues

Total consumption has dropped by 37% in 2009 from its 2005 peak. N.A. particleboard and MDF shipments have dropped to a 20-year low of about 5.3 billion sf.

Due to excess capacity, the U.S. alone has closed more than 20 particleboard plants since 1999. ■

(The MDF/Particleboard outlook is from *WOOD MARKETS 2010–2014: The Five-Year Outlook*.)

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U.S. Moulding Market • Looking for Better Results in 2010

Housing starts/R&R usage should see positive growth in 2010, translating into an increase in total moulding demand and a modest rise in the average price of finger-joint mouldings (but reluctance to risk cash flow on rebuilding stocks will mean

periodic shortages and erratic prices).

Market-share battles will be intense in 2010, with domestic producers benefiting from timely delivery times and offshore producers competing on their advantage in scale/integration back to the forest. ■

(The moulding outlook is extracted from the *U.S. Moulding Market Outlook: 2010–2014*.)

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.

CLEARWOOD (PINE) MOULDINGS

U.S. Market Outlook, 2010–2014

Executive Summary Update Report (new concise format, published annually). Fifth edition available NOW!

Core content includes:

- U.S. economic overview.
- U.S. shop & better lumber supply/demand/prices.
- U.S. moulding market supply/demand/prices.
- Full brochure is available at http://www.woodmarkets.com/p_clearwoodreport.html.

U.S. 1" BOARD MARKET STUDY

- A proprietary survey of 1" North American and offshore board producers supplying the U.S. (respondents represent just over half of 2008 estimated supply).
- Report summarizes market size, origin of supply, species and grade mix, and other channels to market.
- Order form and pricing details can be viewed at http://www.woodmarkets.com/p_russialogexptax.html.

Note: Please contact us for **WOOD MARKETS Monthly International Report** pricing details.

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