

# WOOD MARKETS



HIGHLIGHTS

## MONTHLY INTERNATIONAL REPORT

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Featuring Lumber, Panels and Wood Products Analysis

## Housing is the Key Driver Market Recovery Tied to Housing Starts

**T**he U.S. wood products slump continues to be defined by plunging housing starts; housing starts alone represent the largest end-use consumption sector for lumber (normally representing more than a third of both lumber and OSB demand (and much higher at more normal levels of housing starts).

In comparing U.S. lumber and OSB prices to housing starts, it becomes evident that housing is well correlated to lumber and OSB prices in most years, especially since 2003.

Using average annual W-SPF 2x4 random-length (FOB mill) prices, lumber prices have trended higher from 1991 to 2005 as single-family housing starts increased steadily (with some minor corrections in 1995, 2000 and Q4/01–Q1/02). Subsequent to the housing peak in 2005, a 70+% drop in single-family starts through 2009 is now expected (from 1.71 million units to an estimated 480,000). This compares to a 55% drop in annual average W-SPF prices from the peak in 2004 of US\$397/Mbf to the bottom in 2009 predicted at US\$174/Mbf. With 40%–45% of all lumber normally consumed in new residential housing and another 30% in repair and remodeling, it is abundantly clear that the U.S. housing market has a direct impact on commodity dimension and stud prices.

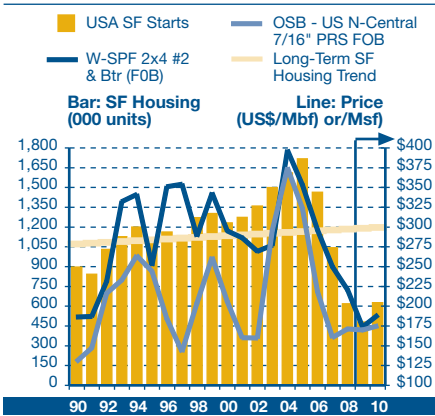
The correlation between housing starts and OSB prices is also quite strong, except during periods when excessive amounts of new capac-

ity have been constructed. After the 1991 recession, surges of new OSB capacity entered the market that upset the supply/demand balance and negatively impacted prices. The periods were 1995–1997 and 1999–2000. As a result, prices declined during these periods despite relatively strong market dynamics.

Conversely, the huge price spike in 2004 took place when no new capacity was installed in 2003–2004, and this followed significant plywood mill closures; prices soared to record-highs as a result of this unusual timing. For the period 2005–2010, there is a strong correlation between housing starts and OSB prices.

Until housing starts rebound after 2010, it is likely the lumber and panel industry will continue to be in a holding and/or survival pattern. ■

**Figure 1**  
U.S. SINGLE-FAMILY HOUSING STARTS  
VS. LUMBER & OSB PRICES



Source: U.S. Census, Random Lengths, Forecast 2009–10

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## 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](mailto:info@woodmarkets.com), or visit [www.woodmarkets.com](http://www.woodmarkets.com).

[www.woodmarkets.com](http://www.woodmarkets.com)**WHAT'S NEW:****Pages 2-3****MSR Lumber Output Shrinking****Feeling the Drag From Declining Housing Starts**

The most recent data published by the MSR Lumber Producers Council show output down over one billion bf since 2005; SPF remains the dominant species, with much of the production coming from pine.

The most widely produced dimension was 2x4, followed by 2x6. By strength of value, 1650Fb 1.5E is the most commonly produced grade. Together, 1650Fb 1.5E, 2100Fb 1.8E, 2400Fb 2.0E and "M" grades account for 96% of all MSR lumber produced.

The long-term outlook for MSR lumber remains positive based on the eventual

recovery of housing markets in North America.

**GLOBAL PARTICLEBOARD CAPACITY**

In 2008, global capacity was slightly ahead of 2007. If planned projects scheduled out to 2010 go ahead, capacity will be increased by 7% over 2008 levels (primarily in Europe and South America).

Going forward, North American particleboard producers must comply with CARB by July 2010; some fear this will force weaker plants to close. ■

(The full *WOOD MARKETS* article provides charts and graphs, plus identifies the top ten North American producers and world capacity regions.)

**Pages 4-5****North American Lumber Shipments Hit Hard****But B.C. Coast Region Hit the Hardest**

Total North American softwood lumber shipments have decreased by 30% since 2005; however, B.C. Coast shipments have plummeted by a whopping 63.5% since 1994 and 48.5% since 2005. The remaining regions of Canada have actually managed a slight increase in their total shipments since 1994. In the U.S., the California redwood region has seen the greatest reduction in softwood lumber shipments: down 46.5% since 2005.

The huge reduction in softwood lumber shipments from the B.C. coastal area has led to major industry changes, including declines in annual harvest and permanent closure of 65% of sawmill/plywood manufacturing capacity in the past 15 years.

In future, use of the remaining B.C. old-growth timber will become more value-driven, and second-growth forests will provide uniform logs for the U.S. dimension market. ■

(The complete *WOOD MARKETS* report also provides statistics for Sweden and Finland supply/demand, U.S. and Canadian supply/demand, and world lumber and panel prices.)

**WOOD MARKETS CHINA BULLETIN**

The fourteenth 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](http://www.woodmarkets.com/p_chinabulletin.html).

**GLOBAL LUMBER/SAWNWOOD BENCHMARKING REPORT 2008 & 2009 Q1 Basis**

- Available May 2009 with special pricing until February 28.
- Benchmarking costs and revenues of top-quartile and average sawmills in 25 major countries/regions.
- Includes full 2008 costs/revenues, plus Q1/2009.
- Includes delivered log costs and stumpage costs, lumber and chip revenues, recovery of logs to lumber, and sawmill costs.
- Includes sawmill proformas at actual as well as "normal" operating rates.
- Full brochure, with pricing details on the back page available at [http://www.woodmarkets.com/p\\_globalreport.html](http://www.woodmarkets.com/p_globalreport.html).

**GLOBAL WOOD BOOK****Trends & Statistics • 2nd Edition**

- Available April 2009 with special pricing until March 31.
- Profiles the 35 largest producing, importing, exporting and consuming countries that drive the global market.
- Coverage of softwood and hardwood production and consumption trends in timber harvest, lumber (sawnwood), plywood, OSB, MDF and particleboard.
- Economic and housing trends.
- Full statistical section with more than 300 data tables and summary graphs.
- Full brochure, with pricing details on the back page available at [http://www.woodmarkets.com/p\\_globalwoodbook.html](http://www.woodmarkets.com/p_globalwoodbook.html).

**Publisher & Editor**

Russell E. Taylor

**Associate Editors**Peter Butzelaar  
Gerry Van Leeuwen**Managing Editor/Layout**

Jane Keyes

**Research**

Chari Gimenez

**Subscriptions**

Barb MacDonald

**Mailing Address**Suite 501-543 Granville Street  
Vancouver, B.C., Canada V6C 1X8**Phone:** 604-801-5996 (country code 1)**Fax:** 604-801-5997**e-mail:** [info@woodmarkets.com](mailto:info@woodmarkets.com)**website:** [www.woodmarkets.com](http://www.woodmarkets.com)

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