

WOOD MARKETS



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HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis



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“The China Factor”

Pacific West Coast Sawmills in Growing Competition For Logs With China

As both log exports and log prices to China continue their rising trend, there is now growing concern that Pacific west coast sawmills may face a new challenge as they begin to compete more and more with Chinese mills for logs. The unintended consequence of the Russian log export tax schedule, in combination with China’s surging demand for wood, has finally landed at the door of west coast sawmills. Private timberland owners, as well as TIMOs, are beginning to see higher returns for the lower-quality end of their timber harvest profiles in selling to China versus North America — and this is not to mention the huge volume increases that have been taking place in sales to China.

As reported in WOOD MARKETS’ February issue of *The China Bulletin*, U.S. log exports to China reached almost 2.8 million m³ in 2010 versus 760,000 m³ in 2009. However, USDA statistics tell an even grander story, with U.S. softwood log exports alone reaching a whopping 3.1 million m³ — a huge increase from just 860,000 m³ in 2009. Either way, the log export increase from the U.S. to China is huge, and may even turn out to be a ground-breaking new development (depending on how wood product prices move in each market).

As forecast in WOOD MARKETS’ *China Book — Outlook to 2015*, released in mid-2010, it

was highly evident that log exports to China from the U.S. and Canada would increase due to the competitiveness of those Chinese mills utilizing imported logs. This development will be expanded upon further in our upcoming *Global Timber/Sawmill/Lumber Cost Benchmarking Report — 2010 & Q1/2011*, in which some extra coverage is planned to show how the competitiveness and margins of Chinese sawmills using imported logs compare to that of Pacific west coast sawmills. This topic was also assessed as part of two industry tours conducted by WOOD MARKETS in September to both Russia (Siberia) and China. As Chinese raw material prices move higher, so do prices for its many specialty domestic wood products, enabling Chinese log buyers to afford to pay higher prices for a steadily increasing volume of logs.

And finally, WOOD MARKETS’ Consulting Group is currently conducting more detailed cost assessments and analysis around how the competitiveness of China’s industry and market is expected to continue impacting and changing global markets! WOOD MARKETS continues to believe that China is not a short-term phenomenon, but rather a much more permanent situation. And this is not well understood by those who have not spent a lot of time in China! ■

By Russ Taylor, President

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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.

www.woodmarkets.com**WHAT'S NEW:****Pages 2–3****MDF/Particleboard: Outlook 2011–12****Sluggish Demand and Ample Capacity Limit Any Upside**

Total North America consumption has dropped by 40% since 2005 — down to 5.7 billion sf in both 2009 and 2010.

Particleboard and MDF shipments hit almost a 20-year low in 2009 and 2010 at 5.1 billion sf. North American panel output

is forecast to edge up to 5.6 billion sf by 2012.

The panel sector will continue to face obstacles pending an improved supply/demand balance at the end of the five-year period. ■

(The MDF/Particleboard outlook is from *WOOD MARKETS 2011–2015: The Five-Year Outlook*.)

Pages 4–5**Russia Rebounds from Recession****Wood Products Production Jumps in 2010**

Russian exports comprise more than 30% of total manufactured products, making the forest sector highly dependent on foreign demand. With production of various wood products down by 10%–40% in 2010 from 2008, this is an issue for the sector.

Russian timber harvests increased by 7.7% and wood products output grew by 11.9% during first half of 2010.

China is the only Russian log export market that has maintained a relatively large log-import business with Russia.

With all of Russia's softwood lumber export markets having sustained or improved demand in 2010, softwood lumber production/exports look good for 2011.

After hitting a production bottom in 2009, plywood production staged a major rally in 2010, jumping by 23% on strong

demand; it is expected to surpass peak volumes in 2011.

Particleboard exports have risen steadily in the last 10 years and are anticipated to achieve 800,000 m³ in 2011 as new plants in Western Russia come online.

Expanding domestic/export markets have supported investment in a number of new Russian MDF plants over the past three years. Production should reach a new high of 1.6 million m³ in 2011.

Russia has 41% of the world's softwood timber resource. As economic development in the industrialized world returns to more normal levels, global demand and consumption of wood will likely reach new heights. The only remaining question is "How fast can Russia ramp up its wood product production and log exports?" ■

(The complete *WOOD MARKETS* article provides further details, graphs, and analysis.)

MARK YOUR CALENDARS:**WOOD MARKETS' Global Wood Products Industry/Market Conference**

- Westin Bayshore Hotel, Vancouver, B.C., Tuesday, May 10, 2011. Save this date!
- Assessing the Inter-Connectiveness of Global Supply Chain Dynamics and Emerging Market Opportunities and Constraints.
- In conjunction with the PwC Annual Forest Industry Conference and the Global Forest Products Leadership Summit, May 8–11, 2011.
- www.woodmarkets.com/conf_conferences.html.

NOW AVAILABLE:**WOOD MARKETS 2011 • Outlook to 2015**

- Covering Lumber, OSB, plywood, MDF & particleboard.
- Featuring a five-year outlook for supply, demand and prices, including operating rates.
- Includes economic analysis of U.S. housing-market recovery and the key demand drivers.
- Go to www.woodmarkets.com/p_wmbook.com for details and order options.

U.S. Moulding Market Outlook 2011–15

- Executive summary analysis report.
- U.S. shop & better lumber supply and price outlooks.
- U.S. moulding market and price outlooks.
- Click here: www.woodmarkets.com/p_mouldingmarket.com for detailed options.

AVAILABLE JUNE 2011:
Global Timber/Sawmill/Lumber Cost Benchmarking
2010 Annual Basis & Q1/2011

- Cost details of global timber, sawmill and lumber industry in various regions.
- Log and sawmill manufacturing costs summaries.
- Rankings of lowest-/highest-cost producing regions.
- www.woodmarkets.com/p_globalreport.html.

FIRST ANNOUNCEMENT:
China SOFTWOOD Import/Export International Conference: 2011
Focus on Logs & Lumber

- September 15 (conference), Tianjin, China.
- September 16 (one-day tour).

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

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