

WOOD MARKETS



HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis

Global Timber/Sawmill Benchmarking U.S. & Canada Show Key Variances

The bi-annual benchmarking report that addresses timber and sawmill costs for 2008 and Q1/2009 is now available. This in-depth analysis highlights delivered log and sawmilling cost elements in 29 regions of the world (on six continents).

As a preview, some interesting results have emerged from the time series of reported costs and revenue, including *regional variances*. For example, in comparing the EBITDA margins at “average” mills between Canada (US\$-27/m³, net basis, in 2008 and \$-36/m³ in Q1/2009) and the U.S. (US\$-3/m³ in 2008 and \$-12/m³ in Q1/2009), it was initially thought that Canadian mills would show better earnings than U.S. mills for the first quarter, as the Canadian dollar had weakened by 20% (from nearly US\$1.00 to US\$0.80) starting in December 2008. However, this was not the case, as the earnings spread remained unchanged versus American mills.

There is no single reason for this, but some telltale signs emerge based on the survey results and a simple variance analysis.

On one hand, **distressed lumber prices** in Q1/2009 impacted Canadian sawmills more than U.S. mills, and this offset some of Canada’s gains from a lower currency.

From another perspective, **stumpage prices on timber** in the U.S. (on a U.S.-dollar basis) declined the most in comparison to other regions (including Canada) between 2006 (when stumpage rates were very high in the

U.S.) and Q1/2009 (when rates bottomed out). It should also be noted that stumpage prices in the U.S. West showed the greatest reductions in the survey between 2006 and Q1/2009 (dropping by US\$30-35/m³) due to an apparent loss of “market power” by timberland owners and log sellers.

Between 2006 (or 2008) and Q1/2009, it is apparent (at least from this survey’s results) that U.S. mills were able to benefit from lower stumpage and timber costs at the expense of U.S. timberland owners. Given that many of the U.S.–Canada softwood lumber negotiations took place during favourable lumber markets that occurred between 1991 and mid-2006, it seems the timing of the most recent (Q4/2006) Softwood Lumber Agreement may have better fit the American position against Canadian timber pricing. It is more likely that during good markets, American sawmills tend to lose market power against timberland owners and pay higher timber prices. **Perhaps the other side of the equation was not formally considered: that, during periods of weak market conditions, there could be a more positive financial outcome to U.S. sawmills due to distressed log prices.** By comparison, Canadian log prices declined an average of only US\$9/m³ over the same period. And Canadians have seen their EBITDA losses widen against American mills since 2006 and are still paying the maximum export duty. Food for thought! ■

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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, or visit www.woodmarkets.com.

www.woodmarkets.com**WHAT'S NEW:**

Pages 2–3

OSB/Plywood: Outlook 2009–10

OSB Glut & Weak Housing = OSB Misery

Expect the OSB sector to remain mired in weak demand and overcapacity unless drastic structural changes occur. Analysis indicates that OSB prices and earnings will be weakest over the next two to three years, but bottoming at the end of 2009.

We expect total U.S. housing starts to be below 500,000 units in 2009 and below 625,000 in 2010. With 75% of OSB production is used in residential construction, the industry will see a very slow recovery.

Due to a severe oversupply of OSB, operating rates in the U.S. fell 50% in 2009, while Canadian rates fell more than 40%. In the past three years, there have been 25 permanent or temporary OSB closures (almost 50% of capacity).

Although OSB is near bottom in production/price, the demand cycle is a long way off before balancing supply and demand, as there are more than two dozen OSB mills waiting to come back online. ■

(The full *WOOD MARKETS* article provides charts and graphs to further detail the 2009–10 North American OSB and plywood outlook).

Pages 4–5

Middle East Market Update

Demand Down But Prices Strengthening

By November 2008, the global recession and rapidly falling oil prices began to impact the Middle East economy, resulting in some of the largest construction projects being put on hold.

North American softwood lumber exports to the Middle East fell by over 12% in 2008 from 2007, and 2009 results are expected to show a drop of 20%–30%.

A major constraint facing North American softwood lumber producers is their inability to supply the product speci-

fications that represent the majority of Middle East demand. North American mills need to find a way to meet that market's main requirements — and this is not KD S4S dimension lumber, which represents a small part of the market. There is definitely an opportunity for North Americans in the Middle East, but it will require outside-the-box thinking, which up until this point has been a constraint for most dimension-type mills in terms of accessing export markets. ■

(The complete *WOOD MARKETS* report also provides Japan supply/demand and imports, housing starts, U.S. and Canada wood product supply/demand, and world lumber and panel pricing.)

WOOD MARKETS CHINA BULLETIN

The eighteenth 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. To join, visit http://www.woodmarkets.com/p_chinabulletin.html.

GLOBAL LUMBER/SAWWOOD BENCHMARKING REPORT 2008 & Q1/2009 Basis

- The 400-page report is now available!
- Benchmarking timber and sawmill costs, and lumber and residual prices, plus margins (top-quartile and average mills), in 29 major countries/regions;
- One new option now available: Global Overview Report — a 100-page summary version of the full report at a discounted price.
- 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

- Now available!
- This 475-page report 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 (sawwood), plywood, OSB, MDF and particle-board.
- Economic and housing trends.
- Full statistical section with more than 300 data tables and summary graphs.
- Full brochure, with pricing details and order form on the back page, is available at http://www.woodmarkets.com/p_globalwoodbook.html.

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