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Featuring Lumber, Panels and Wood Products Analysis

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Conference Predicts Tightening Timber Supplies

Forest Ownership Changes, China's Soaring Demand and Russia's Collapse Are All Factors

A key theme at WOOD MARKETS' **Global Wood Products: Industry & Market Conference** in May made many references to the potential for shortages of timber harvests and lumber production that could occur in line with the expected market cycle rebound. Some conference highlights follow, including the impact of China's surging demand and the limited role that Russia will play in the short-term.

FOREST OWNERSHIP CHANGES

Dennis Neilson of DANA, New Zealand, outlined how timberland changes over the last 10 years are setting up the forest products industry for some potential shocks. For example, in 1981, 13 U.S. forest products companies owned almost 45 million acres of timber that integrated timber with their forest products business. In 2011, only one company (Mead Westvaco) still owned timber — about 800,000 acres. In the last 30 years, most timberland that was owned by integrated forest products companies has been sold to a number of new timberland companies, especially timberland investment management organizations (TIMOs).

Today, there are over 30 "financial" type firms — mainly TIMOS (and just a few forest products companies with small holdings) that own almost US$50 billion in timberland. As part of the timberland sales process, many forest products companies exchanged their timber holdings under a variety of agreements that offered both long-term agreements (some to 50 years) and short- to mid-term contracts. Every year there are more ownership changes, and some industry players that made these agreements many years ago are now starting to feel more of the direct impact of open-market timber prices, especially as these agreements begin to run out.

LOG EXPORTS VS. DOMESTIC SALES

The other new development is how these new timberland owners are chasing log exports to China and other Asian countries and, in many cases, ignoring the needs of domestic mills and their ability to pay on the spot market. Dennis Neilson believes the huge increases in log exports from New Zealand, Australia and the U.S. reflects not only low domestic market demand, but also timberland ownership changes (including the recent conversion of Weyerhaeuser to a T-REIT) over the last two decades. Institutional timberland owners will (understandably) chase the highest dollar, and not be too concerned about any consequences related to reductions in domestic

...continued

WHAT'S INSIDE

GLOBAL PRICE TRENDS

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cont'd… employment and/or processing when log export markets are hot. One solution for potential timber/wood products shortages is plantation pine, which can be used for appearance or industrial "clear" lumber and clear-faced plywood.

The log and lumber trade continues to grow in India, where higher volumes of softwood are being accepted. High prices in China (and potentially soon in India) are drastically impacting sawmills globally.

Russia could see a doubling of its timber harvest in the next 10 years, but poor infrastructure is having a serious impact on eastern Russian sawmills. Also, the current log export tax has reduced log exports by 58%. The potential log export tax decrease to 12.5% should have only a minor impact on China and Japan.

China's total wood demand is likely to jump to 350 million m^3 by 2015, with the wood deficit predicted to grow by 150 million m^3. Many Chinese end users have discovered that imported lower-grade dimension lumber is cheaper than lumber produced from imported logs; the resultant jump in Chinese lumber imports is a lifeline for North American producers.

A resurgence in U.S. new-home construction (likely in 2013–2015) is needed to create a lumber "super-cycle." Once that occurs, it should be quite a ride! ■

(The full *WOOD MARKETS* article provides further details, including graphs showing the many factors creating an impending "super-cycle.")

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Brazil Adjusting to Its Stronger Currency
Looking Inward for Growth

Brazil dominates the commercial plantation forest industry with 4.75 million hectares (ha) of eucalyptus and 1.76 million ha of pine. Eucalyptus plantations have been expanding steadily, but pine has declined from 1.88 million ha in 2006.

The rising cost of pine logs is a serious concern for pine sawmills and plywood mills, impacting their export market.

Due to the upcoming 2014 World Cup and 2016 Olympic games, Brazil is investing in improving its infrastructure, creating a boom in the demand for wood products. Brazil's consumption of pine sawn lumber rose to 8.1 million m^3 in 2010, 93% of output. For softwood plywood, consumption shot up to 1.1 million m^3 or 55% of production. ■

(The full *WOOD MARKETS* article provides further details, including graphs.)

WHAT'S NEW:

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

- September 12–14 (3-day tour), Shanghai to Tianjin.
- September 15 (conference), Tianjin, China.
- September 16 (one-day tour).
- Visit www.woodmarkets.com/conf_conferences.html for details and order form.

AVAILABLE LATE JULY 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.

SIGN UP:
CHINA BULLETIN

- China "Industry News in Brief."
- Special Report.
- Statistics (graphs and tables).
- Prices (graphs and tables).
- Visit www.woodmarkets.com/p_chinabulletin.html for details and order form.

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.html 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_moulding-market.html for detailed options.

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