

WOOD MARKETS



HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis



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U.S. Price Outlook: '10-'11 Soft Pricing Expected Until Housing Improves

The recent price bubble from January to April for structural lumber and panels surprised all market players and created some long-awaited margins for producers. Today, however, channel intermediaries are swallowing huge losses due to the rapid plunge in commodity prices.

As has been covered in previous issues of *WOOD MARKETS Monthly*, numerous dislocations and low inventories in the supply chain created temporary supply shortages that caused prices to soar. Now the market is back to reality and facing some fundamental issues, including the following:

- Existing home sales are still weak;
- Home foreclosures are still at record levels;
- Housing prices are still dropping; and
- Unemployment is still too high.

It is becoming clear that without a rebound in housing starts and improved housing market fundamentals, lumber and panel demand is going to grow too slowly to support today's production base, keeping prices subdued.

This scenario was a cornerstone to the *WOOD MARKETS 2010* forecast report that was released in November 2009 (with forecasts made in October 2009). In the price forecasts on pages 10 and 11 of this issue, it has become very evident that when the H1/2010 price bubble is taken out of the equation, the June '10 price outlook going forward looks very similar to the one prepared in October 2009 — in spite of an improved housing outlook. A summary of the two forecasts is provided in table 1, in which we continue to maintain a very conservative stance (as compared to most other analysts).

The lumber price outlook is tied to a smaller price bubble in 2011 than in 2010, while OSB should see some firmer prices due to the market dominance of the top five firms. As a result, the current *WOOD MARKETS* lumber outlook closely mirrors our October forecast for the rest of 2010 and all of 2011, while OSB prices are now marginally higher. We hope we are too conservative with this outlook, but as outlined in detail in the *WOOD MARKETS 2010* report, an improved U.S.

economy and financial situation is unlikely until 2012, at which time mills can potentially operate at a pace nearing one million housing starts. ■

By Russ Taylor,
President

WHAT'S INSIDE

Analysis

2 U.S. Lumber's Market Share Stabilizing

12 Monthly Prices: World Lumber & Panel Prices

10 Price Forecasts: One-Year Price Outlooks

Features

4 The China Book: Outlook — Part 1

Global Statistics

6 Plywood/Veneer, Particle-board/MDF, USA, Canada

GLOBAL PRICE TRENDS

Table 1
WOOD MARKETS' PRICE & HOUSING FORECASTS: 2010-2011

Product	Forecast	H1/2010	H2/2010	H1/2011	H2/2011
W-SPF 2x4 R/L Lumber (US\$/Mbf)	Oct '09 Jun '10	\$217 \$266*	\$211 \$205	\$236 \$239	\$220 \$224
R/L Framing Lbr Composite	Oct '09 Jun '10	\$256 \$300*	\$248 \$247	\$276 \$278	\$260 \$261
7/16" NC OSB (US\$/Msf)	Oct '09 Jun '10	\$173 \$253*	\$178 \$205	\$190 \$214	\$200 \$212
U.S. (SAR) Housing Starts (x000)	Oct '09 Jun '10	550 612*	600 670	650 790	780 950

*Note: June 2010 Forecast for H1/2010 is estimated based on year-to-date

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WHAT'S NEW:

Pages 2–3

U.S. Lumber's Market Share Stabilizing

But Still Struggling in the U.S. Residential Floor Construction Segment

The decline in U.S. residential building material usage from the high in 2005 to 2008 equates to a 65% drop. In competition with engineered wood, concrete, steel and structural insulated panels, the market share of lumber has gradually eroded. Even with a 25% drop in prices from 2005 to 2008, lumber's share rose by only 1%.

Floors are where the greatest drop in lumber consumption has occurred. To combat this, SFPA and APA are promoting the benefits of raised-wood floors at

ground level in the South, where the concrete slabs are mainly used. This initiative is making headway, and lumber usage expanded by 5% from 2005 to 2008.

Building material usage overall is down substantially. It is expected to grow again this year, but lumber may not fare as well as other materials. In addition, the discontinuation of the Wood Promotion Network means the lumber industry has no other champion to promote and defend it against alternative building materials. ■

(The full *WOOD MARKETS* article provides further details, graphs, and analysis of U.S. lumber's market share by major end use.)

Pages 4–5

The China Book: Outlook — Part 1

Higher Imports Required to Offset Tight Log Supplies & Surging Demand

Our latest report, *China Book • Outlook to 2015*, will be available at the end of June. Highlights of the challenges/shortages facing China's timber supply are provided in the June *WOOD MARKETS Monthly*.

The driver behind the growing industrial timber harvest in China is the development of new plantation resources, but very little of this plantation fibre can substitute for higher-quality, imported logs and lumber. The industrial timber (quota) harvest reached a record 73.6 million m³ in 2008, but dropped significantly in 2009.

Russia remains the largest log supplier to China, but increased costs and impending higher export taxes have led to more buying from New Zealand, Australia, etc., to plug the gaps. China has a growing need to find other log suppliers, but the options are few. Log imports fell by a whopping 24% in 2009 from a high in 2007.

Lumber imports are likely to double over the next five years to meet China's growing appetite for wood fibre. Part 2 of this report will address production and more. ■

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

China Book • Outlook to 2015 Available in June

Wood Products Industry and Market Review

- Outlook on wood products industry, exports & imports.
- Log, lumber and panel price trends/softwood forecast.
- Full brochure available at http://www.woodmarkets.com/p_chinabook.html.

Russia and Northern China Tours

- Siberia Timber/Wood Products Tour: Sept. 12–18, 2010.
- Northern China and China Log & Lumber Port Tour: Sept. 18–25, 2010.
- Participation is limited to the first 16 people. Contact Gerry Van Leeuwen (gvl@woodmarkets.com) or by phone 1-604-801-5996.
- Details: www.woodmarkets.com/conf_tours.html.

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 Global Forest Leadership Summit 2011, May 8–11, 2011.
- www.woodmarkets.com/conf_conferences.html.

B.C. Interior: Mountain Pine Beetle Attack

Impact and Outlook on B.C. Timber Availability and Wood Products Production

- A proprietary modeling of B.C. timber fibre availability and production and the impact on supply/demand.
- An annual projection of supply of wood residuals (for pulp, MDF, particleboard, bioenergy and wood pellets).
- Order form and pricing details can be viewed at http://www.woodmarkets.com/p_specialreports.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.

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