

# WOOD MARKETS



HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis

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## N. America Lumber Blowout Some Regions Look Better Off Than Others

**I**n 2007, U.S. total softwood lumber shipments dropped by 11.6% (from 38.6 to 34.1 billion bf) versus 2006, while total Canadian softwood lumber shipments dropped by 10.2% (from 33.5 to 30.1 billion bf). However, the Canadian share of the U.S. softwood lumber market dropped from 33.3% to 32.3% in 2007.

**At first glance, it appears that Canadian lumber producers were impacted less in 2007 than U.S. lumber producers, despite:**

- Full SLA export duties and quotas in place;
- A much stronger Canadian dollar; and
- Rising freight rates to the U.S. market.

However, a closer look at Canadian and U.S. lumber shipments by region provides a slightly different take on where the impact of severely reduced lumber demand really took place (see pages 8–9).

In Canada, the largest lumber curtailments in 2007 were suffered by B.C. coastal mills (-31%) and the eastern Canadian mills (-13.7%). Due to the ongoing salvage program, the B.C. Interior consumed large volumes of mountain pine beetle-attacked logs, and, as a result, shipment volume decreased by only 6.9%. The Prairie provinces (Alberta, Saskatchewan and Manitoba) represent only 10% of Canada's annual lumber shipments and actually grew their shipments in 2007 by 3.4%.

In the U.S., the three major lumber producing regions — the West (-12.6%), the

South (-10.5%) and the Midwest/Northeast (-11.7%) — all reduced shipments by about the same percent. The U.S. South, which accounts for about 50% of U.S. production, reduced lumber shipments the least.

U.S. lumber consumption declined from 64 billion bf in 2005 to 51.5 billion bf in 2007. In 2008, U.S. lumber consumption is forecast to drop to between 43 and 44 billion bf. U.S. housing starts are expected to be near the one-million-unit level. The last time that U.S. housing starts (and lumber prices) dropped to this level was in 1991, when the U.S. market consumed about 42.5 billion bf of lumber. The projected reduction in lumber consumption in the U.S. market, from 64 billion bf to about 44 billion in three years, is staggering. **The forecast decline in lumber consumption of over 20 billion bf is equal to more than the total shipments of the top 20 U.S. softwood lumber producers in 2007, or equal to total shipments by the top 20 Canadian lumber producers (see page 2)!**

With U.S. housing starts expected to slide by another 25% in 2008, it appears the supply side of the equation will continue to exceed the demand side for most of 2008. **At issue is which country or region of Canada or the U.S. will need to curtail output and shipments more to meet decreasing demand, and when curtailments will finally balance with demand to create a floor for lumber prices.** ■

*By Gerry Van Leeuwen, Vice President*

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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:****Page 2-3****Canada & U.S. Top Lumber Producers****Surviving the Downturn — The New Paradigm**

Our twelfth annual survey of Canadian softwood sawmills, and our sixth U.S. survey, have found that Canada's 2007 total lumber output of 30.1 billion bf was down by 3.4 billion bf (-10.2%) from 2006, and well off the 2004 record-high of 35.2 billion bf. U.S. lumber production of 34.1 billion bf was off by 4.5 billion bf (-11.6%) from 2006, and was significantly below the 2005 record of 40.6 billion bf.

The top 20 Canadian companies manufactured 70% of the country's total

lumber output in 2007, down from 74% in 2006. In the U.S., the top 20 companies produced 55% of total lumber production, in comparison to 54% in 2006. Another comparison shows that the top 20 U.S. companies decreased their production by 10.2%, while the top 20 Canadian companies' output declined by 14.8%.

With lumber prices at record-low levels, the focus in 2007 appears to have been cash preservation, reduction of controllable costs, and the shutting down or selling off of inefficient mills. ■

*(The full WOOD Markets article provides further details, including the Top 20 Canadian and Top 20 U.S. softwood lumber producers.)*

**Page 4-5****Japan Stumbles Again****What a Difference a Year Can Make!**

In March 2007, we profiled the improving Japanese economy (18 consecutive quarters of positive economic growth) and highlighted the growing opportunity in Japan for North American softwood lumber producers. Demand was strong, with housing starts up 4% in 2006. However, just one year later, fortunes have reversed, and now the Japanese economy appears headed back into recession. The country's timber market is in turmoil.

In June 2007, a revised Japanese Building Standards Law triggered a huge decrease in housing starts. Demand subsequently crashed, resulting in growing lumber inventories and downward pressures on domestic timber prices through to the beginning of 2008. This one event is estimated to have cost Japan almost one-third of its economic growth during 2007 — a whopping 0.6% reduction in GDP. ■

*(The complete WOOD Markets report provides further analysis of lumber import trends, Russian log export taxes, and the growing usage of Japan's domestic forest resource.)*

**WOOD MARKETS CHINA BULLETIN**

The third 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 [www.woodmarkets.com/china\\_products.html](http://www.woodmarkets.com/china_products.html).

**GLOBAL WOOD BOOK Trends & Statistics**

Released in April 2007, this report features:

- Country profiles of softwood (and hardwood) wood products industries.
- Softwood/hardwood trends (prod'n/imports/exports/consumption) in timber harvests, lumber, plywood, OSB, MDF and particleboard.
- 550 pages, over 300 full data tables and 400 summary graphs.

For details go to [www.woodmarkets.com](http://www.woodmarkets.com).

**CLEARWOOD REPORT Pine Lumber, Moulding & Millwork Sector Outlook to 2012 4th Edition**

Scheduled for release in April, IWGM will be publishing its 4th edition of its multi-client report on the supply/demand dynamics of:

- Global pine timber and appearance lumber;
- Mouldings: solidwood, finger-joint, MDF, & plastic (including five-year price forecasts); and
- Other millwork, including windows, doors, clear boards and other segments.

New to this edition is a cost benchmarking of finger-joint and MDF moulding producers from major producing regions, as well as updated analysis on the distribution channel for mouldings within the U.S.

This report provides our strategic insight of the current and anticipated trends in the clear pine lumber & moulding sector plus our analysis of the resulting downstream market implications. For information, please contact Peter Butzelaar ([peterb@woodmarkets.com](mailto:peterb@woodmarkets.com)).

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