WOOD MARKETS

HIGHLIGHTS

MONTHLY INTERNATIONAL REPORT

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Featuring Lumber, Panels and Wood Products Analysis

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Global Lumber Outlook 2012

U.S. and European Headwinds Cloud the Recovery

The global softwood lumber market made some gains in 2011, achieving a 4% increase in global consumption following a 6% increase in 2010 after hitting the bottom in 2009. However, the foundation of a recovery appears to be slipping as the European debt crisis emerges, and as the U.S. housing market slump continues without any real direction. Against this background are rebuilding activities in Japan following the devastating earthquake and tsunami, and very strong growth in China (although high inventories are casting a short-term pall over business there).

The hope for a return to stronger global lumber consumption is being constrained by stalled activity in the major consuming markets of the U.S. and Europe, with weak prospects for growth and an underlying worry about an economic recession in Europe (and still possible in the U.S.). These are not the fundamentals required for a healthy lumber market. Now, it is uncertain when a return to more favourable markets can be expected, and it appears that may not occur until later in 2013 or even 2014.

GLOBAL ECONOMY

Following the recession of 2009, the global economy expanded in 2010 and into the first quarter of 2011, and then slowed abruptly in the second quarter. Most economic forecasters have now downgraded their outlooks for the remainder of 2011 and into 2012. Likewise, our forecast for 2012 remains cautious, much as it was for 2011.

...continued

WOOD MARKETS 2012: Outlook 2012–2016 on Lumber & Panels

WOOD MARKETS 2012 — The Five-Year Outlook for North American Wood Products: 2012–2016 is almost ready! This is the follow-up to previous WOOD MARKETS' five-year outlook reports for North America, and complements ongoing analysis provided in this newsletter.

The 2012 edition addresses the issues impacting the U.S. economy and housing market, plus provides our standard five-year forecasts on supply, demand and prices for softwood lumber, plywood, OSB, MDF and particleboard. Based on an in-depth assessment of the risks and obstacles to an economic/housing recovery, the outlook for each commodity wood product matches the expected market demand with the supply base to offer an outlook on pricing direction.

The report features an assessment of mill operating rates by product line given that price trends will be particularly sensitive — not just to demand trends, but also to the supply response as companies restart curtailed (and even closed) capacity.

With the five-year forecasts now completed, there is some good news ahead, but the timing/results for some products will not necessarily be as soon as some might think! Amid the current weak global market conditions, an independent perspective can be valuable in getting your business ready for 2012 and beyond. Please contact us for more information.

WHAT'S INSIDE

Analysis

Global Statistics

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**.

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Pages 2–5

Global Lumber Outlook 2012

U.S. and European Headwinds Cloud the Recovery *(cont'd)*

Global softwood lumber/sawnwood demand bottomed out in 2009 at 250 million m^3, and is projected to achieve 275 million m^3 in 2011. In 2012, the global outlook is for a more modest increase of 3.1%.

Germany remained the largest market for sawn softwood in Europe, with a 21% share. France ranked second, followed by the United Kingdom, Sweden, Italy and Austria.

Chronic overcapacity plagues the European sawmill sector, with sawlog prices in Central Europe now exceeding €100/m^3 and structural lumber prices projected to hover around €175/m^3; these levels represent some of the highest lumber prices in the world.

Russia entry into the WTO leads the way for a lower log export tax and is not good for the country's domestic sawmills. Russia's sawn softwood production was forecast at 30.6 million m^3 for 2012, a level that may now be threatened.

For the North American market, China's voracious appetite for logs and lumber — along with currency and freight rates — has become a new wild card. This appetite has the potential to influence the supply/demand balance in North America and other global markets in 2012 and beyond.

During the first nine months of this year, Chinese imports of softwood lumber were up by over 50% from the same period in 2010. However, an overbuilt housing market, coupled with a credit freeze, have caused a huge buildup in inventories of logs and lumber throughout China; this inventory is now backed up on the docks in origin ports.

While it will likely take at least three to four months to achieve a balanced inventory position in China, the outlook is still very positive, with consumption levels expected to be 15% higher in 2012.

All major supplying regions (North America, Europe, Chile, New Zealand and Russia) have increased their softwood lumber exports to Japan in 2011. Some of this consumption was to meet the need for temporary housing shelters in the three prefectures most affected by the Japanese earthquake/tsunami. ■

(Extracted from WOOD MARKETS 2012 — The Five-Year Outlook 2012–2016 *to be released in early December)*

(The full *WOOD MARKETS* article includes a North American forecast for 2012 and 2013, and provides further details and analysis, including graphs and tables.)

WHAT'S NEW:

COMING IN NOVEMBER:
WOOD MARKETS 2012 Outlook to 2016

- 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.
- Visit www.woodmarkets.com/p_wmbook.html.

NOW AVAILABLE:
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.htm.

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.

MARK YOUR CALENDAR:
2nd Global Wood Products Industry & Market Conference
May 9, 2012

- Hyatt Regency Hotel, Vancouver, BC.
- Visit www.woodmarkets.com/conf_conferences.html.

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