

WOOD MARKETS



HIGHLIGHTS

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Featuring Lumber, Panels and Wood Products Analysis



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U.S.'s New SLA Complaint SLA Challenge Highlights Many Industry Differences

The expectation is that the U.S. Coalition for Fair Lumber Imports (CFLI) will bring forward a complaint under the Softwood Lumber Agreement (SLA) on the B.C. stumpage system for mountain pine beetle-killed (MPB) timber. While the legal challenge is one issue on its own, some of the expected changes in the B.C. lumber business going forward indicate that the role of (or need for) the SLA may soon be in question!

Canadian mills have a strategic and competitive advantage, as they are able to obtain long-term licences on Crown timber in Canada. This has always been a key difference to American mills, which mainly acquire timber from private lands. And the MPB epidemic in B.C. makes this an even more complicated development! However, as the MPB runs

its course, B.C. lumber production will soon become marginalized and output should drop steadily after 2014–2015.

Some elements of the Canadian lumber business do suggest that the playing field is more level than as indicated by the CFLI. For example, the current export tax imposed under the SLA has enabled U.S. sawmills to earn higher margins than Canadian ones in 2008 and Q1/2009 (based on the *2009 Global Lumber Cost Benchmarking Report*). The B.C. Interior performed at or just below U.S. mills despite having very large and efficient sawmills, but incorporated access to new markets such as China.

Canada's market share of U.S. consumption has ranged between 32%–34% from the mid-1990s to 2007. Since then, Canada's lumber share has dropped to around 27%. WOOD MARKETS' current forecast calls for Canada's market share to remain close to 27% until about 2015, and then drop to between 20%–25% by the end of the decade (figure 1).

At the end of the current SLA in 2013, there may be fewer real issues behind the need for an SLA, and it may be very close to becoming a non-event. With lower Canadian output and U.S. demand exceeding all supply, higher prices will be a new reality for all to share in — this will be a welcome change to all compared to the squabbling that has gone on when prices are low. ■

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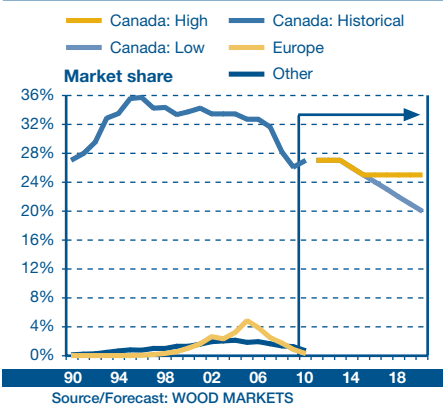
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GLOBAL PRICE TRENDS

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.

**Figure 1
IMPORT LUMBER MARKET SHARE
OF U.S. CONSUMPTION**



By Russ Taylor, President

www.woodmarkets.com

WHAT'S NEW:

Pages 2–3

Top 500 Home Channel Retailers • 2009

Retailers See Third Consecutive Year of Declining Sales

Sales among the top 500 home channel retailers slipped another 4.3% in 2009; this was the third consecutive year of declining revenue. Just 57 of the top 500 home channel retailers showed increased sales from 2008 to 2009. Home Depot, Lowe's and Menards continue as the top three.

Pro-dealers were especially hard hit due to their heavy involvement in the supply of building materials to homebuilders and large remodelers. This segment dropped 27.2% in 2009 following the 18.8% drop in sales in 2008. ProBuild remained on top of the heap, with Bradco

climbing up two positions to second, and Stock Building Supply in third at US\$1.43 billion.

This has been another challenging year of disappointing demand; however, adjustments made to right-size their operations and refocus their core competencies will keep most companies afloat.

Several large acquisitions took place in 2009 and that was just the beginning. The question on the street is not who is for sale, but who is for sale at a reasonable multiple? ■

(The full *WOOD MARKETS* article provides further details, graphs, tables and analysis.)

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'09 Japanese Housing Starts Hit New Lows

Wood Demand and Imports Remain Stagnant

Total volume of logs and lumber imported was down by 23% in 2009. This is the first time in 47 years that the combined imported volume of logs and lumber has fallen below 10 million m³; this staggering drop is due to a 40% reduction in housing starts. A number of domestic issues, such as aging population, changing demographics, anaemic economic growth, higher-quality construction and increased longevity of new houses will keep housing starts below one million.

On the B.C. coast, many custom-cut

log exporters have had to diversify their markets for high-valued, old-growth niche products to North America, Europe and Australia, rather than to Japan.

Growing Japanese domestic log and lumber production will take a greater market share as Japanese government initiatives for more self-sufficiency take effect in the upcoming years. In any given year, exchange rates will remain a key factor in determining Japanese log and lumber import volumes and supplier countries. ■

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

WOOD MARKETS' 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 PwC Annual Forest Industry Conference and the Global Forest Leadership Summit, May 8–11, 2011.
- www.woodmarkets.com/conf_conferences.html.

NOW AVAILABLE:

China Book • Outlook to 2015

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.

NOW AVAILABLE: 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.

Upcoming Publications/Event

- *U.S. Moulding & Millwork Outlook to 2015*...coming in November.
- *WOOD MARKETS 2011 — North American Wood Product Outlook to 2015*...coming in November.
- 2010 China–ASEAN Timber and Wood Products Exhibition, November 19–22, 2010, Nanning city, Guangxi province. For additional information, please contact Ms. Wang Xiaoqin at cawoodexpo@126.com or visit the conference website at www.cawoodexpo.org.

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