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## PRESS RELEASE

### **U.S. lumber prices to spike, breaking through the US\$500/Mbf barrier, as a tight U.S. supply/demand balance starts to emerge**

*Five-year outlook report forecasts that North American lumber prices could soar by 2013-2014 as surging demand in China and the U.S. drive markets higher*

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The North American lumber market is poised to take-off due to recovering U.S. housing starts, improving repair and remodelling activity, and surging demand in China. While the timing is probably the only question, increased price volatility is already a reality where prices are expected to touch the US\$500/Mbf level in the next two to three years – this compares to the average annual price of US\$180/Mbf (for Western spruce-pine-fir 2x4 dimension) in 2009 at the bottom of the market cycle.

This forecast, along with detailed industry and market analysis, was released in mid-December in **WOOD MARKETS 2011 – The North America Solid Wood Products Outlook: 2011-2015** by International WOOD MARKETS Group – the company's annual forecast report.

After enduring some of the worst market conditions in 75 years between 2008 and 2009, the lumber industry has already seen improvements in the U.S. housing market from the low point of 554,000 units in 2009 to almost 600,000 units in 2010 (+8%). A return to normal U.S. housing levels of 1.6 million units could take 6-8 years to achieve, but the direction will be “up” all the way with gains expected to accelerate in each year of the forecast.

“Total North American lumber demand bottomed in 2009 at 40.6 billion bf and is forecast to rebound steadily to 61.0 billion bf in 2015 — a 50% increase from 2009,” said Russell Taylor, President of WOOD MARKETS. “However, this is still well below the peak of 76 billion bf in 2005, so there is a lot more upside after 2015 before the market finally stabilizes. It appears that the next five years will be quite a ride for lumber!”

With an improving (but conservative) housing market forecast and US economic outlook, **WOOD MARKETS 2011** forecasts a return to more volatile lumber market conditions that will create more price spikes starting as early as 2012, but this will really show up in 2013 and 2014. “The prospects look very interesting for domestic producers as price levels have already moved higher in late 2010 and this should boil over starting in 2013 when prices are forecast to break out, creating price spikes later in 2013 and especially in 2014 when cyclical highs are forecast,” explained Gerry Van Leeuwen, Vice President. “W-SPF lumber prices should spike to as high as US\$500/Mbf in 2014 - and earlier if housing starts increase faster than forecast - creating huge gains for lumber producers and distributors.”

A key driver to improved lumber prices is not only improving U.S. housing starts, but also the rapidly rising demand in China for both logs and lumber. Although U.S. housing starts will increase by only 8% in 2010, it is important to note that lumber prices (W-SPF 2” x 4” #2 & Better) have increased by 40% in 2010 to average of US\$255/Mbf as compared to the average price achieved in 2009. Much of the gains are attributed to the huge demand in China that has allowed west coast mills to benefit despite slow demand in the U.S. market. WOOD MARKETS' outlook for lumber demand in China is summarized in its report, *The China Book – Outlook to 2015*, where an explosive growth in softwood lumber imports is forecast to meet soaring demand.

Canadian export duties to the U.S. are tied to lumber market prices and can range up to 15% when prices are low. "These duties will linger in 2011 and 2012, but seasonal peaks will allow for reduced duties with no duties in peak months," said Russell Taylor. "In the 2013-15 period, however, it is forecast that price levels should stay well above the lowest tax threshold level (US\$315/Mbf), with prices in many months surpassing the highest threshold (US\$360/Mbf) where no duties are payable." This will lead to some dynamic supply/demand responses as the duties become less of a drag on Canadian mills.

Some of the other highlights include:

- The continued growth of Chinese demand for North American lumber will increasingly remove the singular U.S. market focus that has been the norm for B.C. Interior (and U.S. west coast) sawmills. In 2010, approximately 20%–25% of B.C. Interior SPF lumber production will be exported offshore, along with 50+% from B.C. Coast mills. The same trend is occurring in the U.S. west coast, although the volumes are smaller (so far).
- The mountain pine beetle infestation is expected to start to reduce the economically feasible timber supply and total B.C. Interior lumber production sometime around 2014; this could be earlier if demand and prices do not increase as forecast, or later if prices remain very high. This will reduce the supply of North American lumber at a time when demand is expected to be very strong.
- Reduced Canadian lumber production capacity is tied to timber supply constraints, i.e., cutbacks on public lands in Quebec and Ontario and the mountain pine beetle epidemic in B.C. This will result in a drop in the U.S. market share of Canadian lumber over the forecast period to well below 30% (vs. an historical 32-34%) and especially by 2020 (below 25%).
- U.S. lumber supply will need to expand to meet rising U.S. demand, as Canadian imports will not be able to fill the gap. The U.S. South is expected to see the greatest volume growth in North America while the U.S. West will also expand, but timber supply availability and log prices could limit the upside. A tighter supply/demand balance will allow for the return of European lumber imports – they are expected to increase six-fold by 2015.

*WOOD MARKETS 2011* is a strategic outlook report that is the follow-up to previous WOOD MARKETS five-year outlook reports for North America and complements ongoing analysis provided in our newsletter, *WOOD Markets Monthly International Report*.

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