

Featuring Lumber, Panels
and Wood Products Analysis

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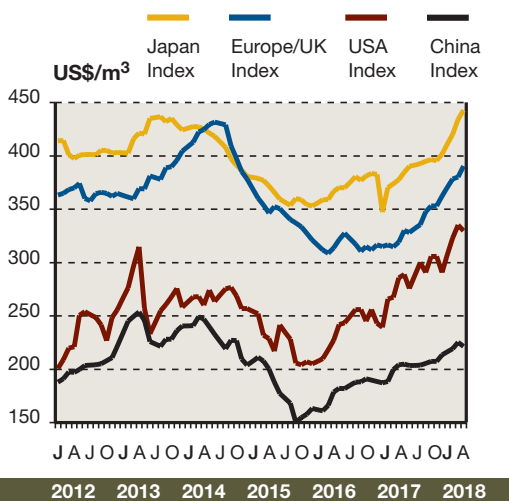
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GLOBAL PRICE TRENDS



Source: WOOD MARKETS
Note: Features structural lumber products from our Global Prices section

RECORD LUMBER PRICES

Stellar Sawmills Earnings the Result

The recent run on lumber prices has put big smiles on the faces of sawmill operators and lumber traders. Mill prices for all lumber species in North America have been trending higher since preliminary U.S. import duties began in February 2017, and especially after permanent duties (averaging 20.2%) started in late December. While the implementation of U.S. import duties on Canadian lumber was expected to push prices up somewhat, the interaction of several factors — the seasonal impact of summer forest fires in 2017, severe winter weather followed by railcar shortages in 2018, and continued strong demand in export markets — has created an almost perfect storm. As a result, record-high lumber prices have been achieved for most species (table 1) before deducting import duties on U.S. shipments. In addition, record prices have been seen in such other markets as Japan: W-SPF J-grade reached US\$660/Mbf (C&F Japan) in April and green hemlock squares have just cracked the US\$1,000 mark. One of the major exceptions, however, has been in studs: U.S. prices have languished in comparison to dimension lumber.

Table 1
RECORD 2X4 #2&BTR DIMENSION LUMBER PRICES

	Record Date	US\$/Mbf	Previous Record	US\$/Mbf
W Red Cedar* (grn)	Jun. 23/2017	\$915	Oct/07	\$815
W-SPF	Apr. 13/2018	546	Dec/93	446
E-SPF (Great Lakes)	Mar. 21/2018	625	Nov/96	529
Douglas-fir (grn)	Feb. 23/2018	607	Jul/99	525
Hem-fir (Spokane)	Feb. 23/2018	595	Sep/96	499
SY Pine (West)	Mar. 16/2018	595	Nov/96	540

Notes: Std&btr; before duties Source: Random Lengths

Are we in the “supercycle” we first predicted some 11 years ago? Maybe/probably. Certainly, the reduction in lumber output in the BC Interior and Eastern Canada has turned out as projected. The wild card has been the level of demand and (particularly) U.S. housing starts: these have recovered much more slowly than almost everyone expected, but are now at a level that reveals the supply gap. This is why European lumber exports to the U.S. grew by 140% in 2017 and are up 125% through the first two months of 2018: Europeans (and Russians), attracted by high U.S. lumber prices, are providing the incremental volumes that Canada and U.S. sawmills cannot supply.

As a result, sawmills are achieving incredible earnings, with some (West Fraser, Canfor, Weyerhaeuser, Resolute) seeing 20+% EBITDA (earnings before interest, tax and depreciation) on Canadian and U.S. sawmill operations in Q4/17. This should translate into windfall earnings in 2018 and 2019, and one issue facing some larger firms will be what to do with the cash generated. Some will likely increase capital expenditures, some will be considering acquisitions, and some will need to resort to buying back their shares. The thing all will need to remember is that their entire supply chain (from loggers through to customers) needs to be properly managed and maintained if strong operating results are to be achieved. ■

By Russ Taylor, Managing Director

SPECIAL REPORTS

BILLION BOARD FOOT CLUB IN 2017
Improved Performance; Small Output Increases

Eleven of the firms that made the Billion Board Foot Club since 2005 did so again in 2017. There was one new member added in 2016 (Idaho Forest Group) and one last year (J.D. Irving). The total output of these 13 firms was 34.2 billion bf nominal (57 million m³ net) in 2017 (+1.3 billion bf/+2.3%). The top three BC firms (West Fraser/Canfor/Interfor) own 45 sawmills in the U.S.

Of note, several firms (Weyerhaeuser, Canfor, Georgia-Pacific, Interfor and Tolko) have announced expansions or new sawmill projects for the next few years, so the big names will continue to grow. Some European companies are bubbling just below the bbf threshold: with its acquisition of Klenk Holz AG, Austria's Binderholz Group will make the list in 2018. ■

U.S. NON-CANADIAN LUMBER EXPORTS
High Prices/Tight Supply Attract Offshore Supply

WOOD MARKETS 2018, our solid wood products outlook for 2018–2022, predicts a continuing U.S. lumber shortage in the coming two years. This slack will likely be made up through a doubling of European imports between 2017 and 2019 as European and non-European countries alike continue to ramp up their exports to the U.S. market. ■

MARKET REPORT

CHINA SUPPLY CHAIN UPDATE
Change/New Dynamics; Advantage to Russia

As part of China's One Belt/One Road initiative, a major expansion of "block trains" (dedicated trains from one origin to one destination) coming into China from Europe, western Russia and Siberia continues to alter the flow of forest products and other goods to and from China.

For more on short-term log and lumber prices and other topics, see our expanded market report in this month's *China Bulletin*. These and other dynamics will be examined in minute detail in our upcoming new report, *China's Import Demand for Softwood Logs and Lumber to 2022*. ■

(The full articles contain in-depth details, complete with graphs and tables.)

MARK YOUR CALENDARS FOR 2018:
Global Softwood Log & Lumber Conference

- 8th Annual Event: May 9–10, 2018
- Hyatt Regency Hotel, Vancouver, Canada
- Sponsorships available
- <https://www.woodmarkets.com/conference/conferences-vancouver/2018-global-softwood-conference/>

2018 China Global Wood Trade Conference

- Chongqing, China
- September 16–17, 2018
- <https://www.woodmarkets.com/conference/conferences-china/2018-china-global-wood-trade-conference/>

NEW REPORT:**China's Import Demand for Softwood Logs and Lumber to 2022**

- Examines the changing supply chain in China, with a focus on Russia's industry/export potential
- Available Q2/2018
- <https://www.woodmarkets.com/publication/china-book/outlook-to-2022/>

PUBLICATIONS AVAILABLE:**Global Timber/Sawmill/Lumber Cost Benchmarking**
2016 Annual Basis & Q2/2017

- Available now
- <https://www.woodmarkets.com/publication/global-costbenchmarking/benchmarking-report-2016/>

WOOD MARKETS • 2018 Edition
Detailed Analysis and Forecast for the North American Wood Products Industry & Market

- Outlook 2018–2022
- Available early December 2017
- <https://www.woodmarkets.com/publication/5-year-outlook/outlook-2022/>

CHINA BULLETIN (monthly)

- www.woodmarkets.com/publication/china-bulletin/

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