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and Wood Products Analysis

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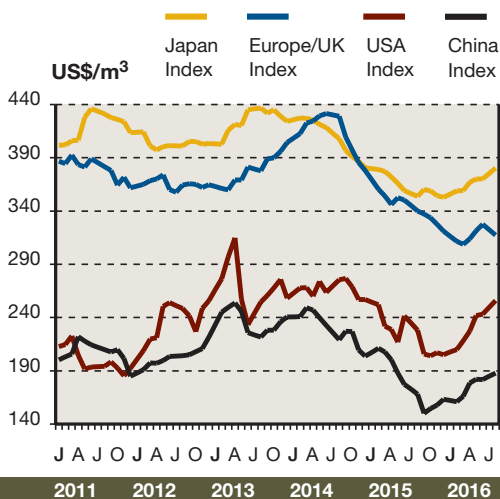
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GLOBAL PRICE TRENDS



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

U.S.–CANADA SOFTWOOD LUMBER FACTS/MYTHS

With the October deadline looming for negotiating a softwood lumber deal between the U.S. and Canada, the rhetoric, twisted truths and misinformation are flying. With public timberlands representing 90% of Canadian sawmills' timber supply and American mills mainly purchasing timber from private/industrial landowners, there is lots to argue about. A few fundamentals, summarized below, comprise the main issues in this debate.

1. The Canadian dollar has weakened from C\$1.06 to the U.S. dollar at the start of 2014 to \$1.30 currently — a function of global economics. The Canadian dollar's huge devaluation is a significant factor impacting Canadian mills' current competitiveness.
2. Private timberland transaction prices across the U.S. have been relatively flat or growing slowly since 2009. By comparison, the transaction prices of Crown forest licences in the B.C. Interior have escalated by three to five times over the same period.
3. Provincial governments have been working for years, both before and during the last nine-year Softwood Lumber Agreement (SLA), to establish more market-based timber prices. Arbitration courts — with the exception of one minor case in which duties of 0.2% and 2.5%, respectively, were levied Ontario and Quebec for a temporary period — have regularly refuted any American claims of Canadian timber subsidies.
4. While Canadian stumpage rates are much lower than American ones, the timber is smaller, the distance to sawmills and markets is much further, and the cost of reforestation on Crown land is charged to companies.
5. Log exports to China and Japan, coupled with relatively tight log supplies along the U.S. West Coast, have caused sawlog prices to remain high, allowing most private timberland owners to put the squeeze on U.S. domestic mills.
6. Sawmills in Western Canada and the U.S. Pacific Northwest, along with many in the U.S. South, are some of the largest/lowest-cost in North America, and they all have relatively similar costs (without considering currency impacts). If Canadian timber and logs were truly subsidized, this should show up in projected regional sawmill earnings. From previous issues of our biennial report, *Global Cost Benchmarking*, and our new report, the *Biannual Global Timber/Sawmill/Lumber Regional Cost & Revenue Profiles* (with current-quarter cost profiles of 20 countries/regions), it is clear that the highest lumber margins in North America (and the world) continue to be made by U.S. South sawmills — a trend evident since 2008. The worst-performing, as revealed in all of our surveys since 2002, are in Eastern Canada. Western Canadian and U.S. West mills have had somewhat similar earnings results over the years, although the devalued Canadian dollar has provided an advantage to all Canadian regions since 2014.

In summary, there are a number of facts that need to be properly considered to obtain a balanced story, versus too many opinions based on myths (and politics)! ■

By Russ Taylor, President

SPECIAL REPORT

EUROPE & RUSSIA: LUMBER MARKET DEVELOPMENTS 2015 & H1/2016

Mixed and Unsettled Recovery Continues

A review of the sawn softwood (lumber) industry in the United Nations Economic Commission for Europe (UNECE) region (56 countries in Europe, Russia, the CIS, the U.S. and Canada) reveals generally mixed and unsettled global economic trends for 2015 and to date in 2016.

Consumption

Sawnwood consumption was steady in Europe, but economic conditions and depreciating currencies in the CIS countries resulted in a decline in sawn softwood consumption of 2.2% in 2015. The U.S. dollar strengthened against most currencies in the first half of 2015, and volatile exchange rates affected countries in different ways. Sawn softwood production grew in North America by 4.2% in 2015 and in the CIS by 0.4%, while output in Europe declined by 0.7%.

Only five of the top ten sawn softwood-consuming countries in Europe increased their consumption in 2015, and collectively the top ten returned a negative result. The highlight was Turkey, which increased its consumption by 7.2% (year-over-year), making it the fourth-largest market in Europe. The central European market also reported healthy growth. Belgium and Finland were the most disappointing sawn softwood markets in Europe in 2015 — both reported double-digit percentage consumption declines.

Summary

The continuation of positive economic drivers and the potential for a tightening of the supply/demand balance suggest an optimistic outlook for growth in sawn softwood markets until the end of 2016. In North America, the key metrics to watch are rising U.S. consumption (housing starts), currency rates, export markets, and the outcome of U.S.–Canada softwood lumber negotiations. For Europeans, the key will be the health of the domestic market. Finally, for Russians, it will be preserving its competitive advantage in export markets and not giving up too much of its currency advantage. ■

(Extracted from the Sawn Softwood chapter of the *UNECE/FAO Forest Products Annual Review 2015–16*. Russ Taylor has coordinated the Sawn Softwood chapter of this report since 2006. The original article goes into substantial detail about consumption, production, prices and trade, with many graphs to tell the full story.)

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Subscription Rates (1 year, 10 issues):

E-mail (pdf): U.S./International/Canada:

US\$565

(+GST/HST in Canada)

Back issues (subscribers only): US\$100