

Featuring Lumber, Panels
and Wood Products Analysis

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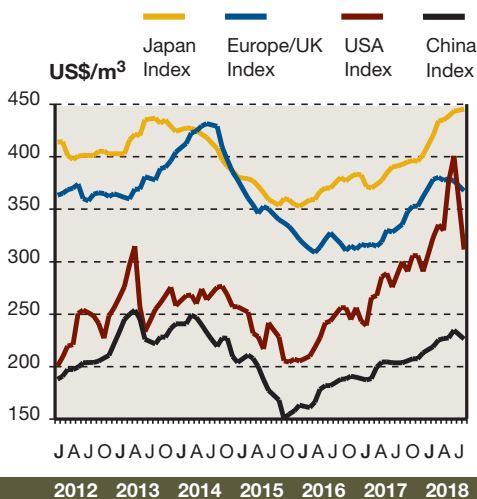
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GLOBAL PRICE TRENDS



Source: WOOD MARKETS

Note: Features structural lumber products from our Global Prices section

U.S./CANADA LUMBER SUPPLY STILL TIGHT

Can Prices Rebound and Go Higher?

The headline reads “Lumber Prices Crash by One-Third”; indeed, W-SPF prices did move from a record high of US\$665/Mbf in early June to US\$442/Mbf during the week of August 10. However, lumber prices look to be heading higher and are still sitting at levels that have hardly ever been reached before (with the exception of earlier this year).

The key fundamentals still point to a very tight lumber supply in North America, with our analysis indicating that total North American demand (to the end of 2019 at least) can be met only through rising volumes of offshore imports, i.e., requiring high prices. This is despite the 4–5 billion bf of new capacity additions planned for the U.S. South in the next two to three years. In this week’s *Lumber Market Status & Trends (LMST)*, published by FEA’s Boston office), Crystal Gauvin contributed the following analysis.

Moreover, combined with the \$150 slide in prices to the level where the runup had its breakout, we are emboldened to go out on a limb and project that a near-term minimum in prices is being reached. Underlying this thesis is the state of dealer inventories that have been allowed to run down since the end of May. These factors could set the stage for a rally, especially if either a strike or growing wildfires in British Columbia lead to supply interruptions.

Supply disruptions from forest fires were one of the catalysts for rising lumber prices last year. Currently in B.C., the provincial government has declared a state of emergency (the second in two years) due to the more than 550 wildfires burning in nearly every corner of the province, overwhelming available firefighting resources. As of August 16, there were 26 evacuation orders issued affecting about 3,100 people, while another 19,000 were under evacuation alert. Most of B.C. and across Western Canada are looking apocalyptic, with many regions blanketed with thick smoke since late July. Could this be a repeat of the fire situation last year? Only time will tell.

Based on the overall tight lumber supply fundamentals we outlined earlier, we agree with the *LMST* analysis that lumber prices are likely bottoming out. Also in this week’s *LMST*, Henry Spelter provided his perspective on North American supply versus demand:

With three of four major regions in North America producing near their [capacity] limits, more capacity is needed to meet increasing consumption.... Anticipated growth in demand is expected to exceed the output increase from the announced [new sawmill] projects, leaving deficits to be made up from higher capacity utilization and/or capacity creep among the established, existing segment of the industry.

As we’ve indicated for some years now, the North American lumber supply chain remains fragile, and any disruptions will only cause more price volatility. Therefore, we foresee prices moving higher in the short-term (until supply and demand become temporarily rebalanced). ■

By Russ Taylor, Managing Director

SPECIAL REPORT

EUROPE, RUSSIA & NORTH AMERICA:
MARKET TRENDSBull Run Could Hit a Speed Bump In 2019
(or Sooner)

Global economic momentum remains strong due to an ongoing, broad-based cyclical upswing, and buoyed by a rebound in investment and trade, still-favourable financial conditions and a supportive policy mix. Higher commodity prices, including record levels in the U.S. and Japan (in some products) are also providing support to exporters. However, geopolitical risk and trade conflicts are now of paramount concern and may get worse before they get better given the Trump Administration's potential initiation of a trade war.

The recovery in North America continued for the eighth consecutive year in 2017, with sawn softwood consumption up 2.9% (and projected at over 5% growth in 2018). Consumption grew by less than this in Europe (+1.5%), but by more (+6.2%) in the CIS region (including Russia).

Softwood lumber production grew by 1.9% in North America, 1.2% in Europe and 10.4% in the CIS (led by the Russian Federation's 10.3% gain).

European sawnwood exports to the Middle East/North Africa (MENA) region decreased by 15%, with overall demand down in most MENA countries. This decline was offset by strong demand in China (figure 5). In fact, China became the largest overseas export market for European sawn softwood in 2017 (overtaking Egypt and Japan), with exports up 64% to 3.4 million m³.

Many greenfield projects and modernization of existing plants continue to be undertaken in the Russian Federation, with the potential for added capacity of 3 million m³ (1.8 billion bf nominal) of sawn softwood.

Russia continues to take advantage of booming Chinese demand, with shipments to China soaring by 23% last year (representing 58% of Russian exports). Russian exporters have been exploring direct railway connections to inland China (Sichuan province and other regions) using container "block trains" under the One Belt/One Road government initiative.

In the U.S., soaring imports from Europe and other countries at very high prices is the new dynamic creating volatility in that market. ■

(The full articles contain in-depth details, complete with graphs to tell the story.)

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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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