

Featuring Lumber, Panels
and Wood Products Analysis

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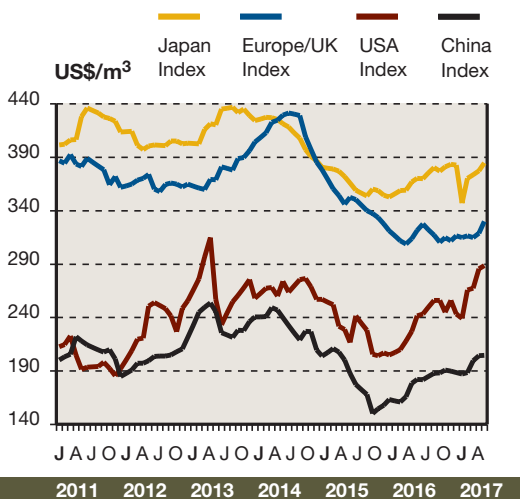
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GLOBAL PRICE TRENDS



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

7TH ANNUAL GLOBAL SOFTWOOD LOG & LUMBER CONFERENCE

Part 1: North American Trade Uncertainty a Key Concern

All eyes are on North America right now as the U.S. implements preliminary countervailing and anti-dumping duties on Canadian softwood lumber (beginning April 28 and ~July 1, respectively). How will the tariffs impact global lumber trade flows? This issue was on the minds of many conference attendees.

WOOD MARKETS' president, Russ Taylor, introduced the sessions, providing an overview of current trends in global softwood markets. At the root of the "Softwood Lumber V" trade conflict is the American assertion that, with 90% of Canada's timber harvests originating from government-owned land, by definition the logs are subsidized. Unlike in the U.S., where most sawmills bid to purchase logs from private forest lands, many Canadian sawmilling companies have been granted long-term timber harvesting rights (tenure) and are charged a set fee for harvesting (stumpage). Since the timber pricing or market valuations vary between provinces and are based on differing criteria, the U.S. industry questions their transparency, and, correspondingly, whether or not Canadian sawmill companies are paying a fair market price for their logs.

The inclusion of U.S. export duties (in the 20%–30% range) will raise costs and cut into the margins of Canadian producers. Whether or not the duties force Canadian producers out of the market, and for how long, will depend on overall demand, lumber prices and exchange rates. However, even with Canada's mills running at full capacity, Canadian softwood exports to the U.S. are forecasted to shrink by at least 10% by 2019. Subsequently, they are expected to rebound as U.S. demand rises, necessitating increased Canadian lumber imports. This will put pressure on prices, and higher pricing levels will be required to attract imports from other regions, e.g., Europe and/or South America. A further detailed analysis of the potential impacts of export duties is outlined in the article on pages 4–5.

Demand Conditions

Hamir Patel, Equity Analyst for CIBC, outlined the current state of North American lumber demand. In 2017 so far, both the U.S. and Canadian economies have surged forward. In the U.S., conditions supporting housing starts are strong, e.g., rising consumer confidence, high builder optimism, historically low interest rates, tight inventory levels of both new and existing for-sale housing, and an affordability index that allows median-income families to afford median-priced homes.

...continued

SPECIAL REPORT *cont'd*7TH ANNUAL GLOBAL SOFTWOOD LOG & LUMBER CONFERENCEPart 1: North American Trade Uncertainty a Key Concern *Cont'd*

The eventual return of U.S. housing starts to their 50-year average of 1.44 million units per year is expected to occur around 2020.

Consistently high lumber prices may attract European imports and enable U.S. West sawmills to bid more for logs that would otherwise go to China. Overall, the coming months/years may be challenging given changing tariff rates (expected to be similar to 2001–2006) and increasingly volatile pricing. ■

MARKET REPORT

IMPACT OF U.S. DUTIES

Delivered-Lumber Cost Curve/Competitiveness Set to Change

The current softwood lumber trade dispute is a continuation of previous U.S. concerns going back to 1980. Most estimates expect the combined/final duties in January 2018 to be 25%–30%; can it be only a coincidence that the Canadian dollar has devalued by about 25% since January 2013?

The net result, as we are forecasting (*Global Timber/Sawmill/Lumber Cost Benchmarking Report*), will be higher U.S. lumber prices that will keep Canadian mills in play while enabling European exporters to expand the volumes they ship to the U.S. market. This will be especially noticeable in 2018, when the full brunt of the final export duties will fall on the shoulders of Canadian mills. The duties will allow U.S. West mills to finally achieve higher sawmilling margins than Canadian mills; this is despite the region having the highest delivered log costs in North America (almost double those of the U.S. South, whose delivered log costs are only slightly higher than those of Canada's SPF region).

It will be a bumpy road going forward, and price volatility will be increasingly evident. ■

(Additional details are available in the full articles, complete with graphs to offer further insight into the global lumber market.)

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- October 30–31, 2017
- <https://www.woodmarkets.com/conference/conferences-china/2017-china-supply-chain-conference/>

AVAILABLE JULY 2017:

Global Timber/Sawmill/Lumber Cost Benchmarking 2016 Annual Basis & Q1/2017

- Available July 2017
- <https://www.woodmarkets.com/publication/global-costbenchmarking/benchmarking-report-2016/>

AVAILABLE NOW:

Global Timber/Sawmill/Lumber Regional Cost & Revenue Profiles

Quarterly Log and Sawmill Costs, with Lumber/By-Product Revenues/Prices, Starting from Q1/2017 for 20 Countries/Regions

- <https://www.woodmarkets.com/publication/global-cost-benchmarking/benchmarking-quarterly-update-2016h1/>

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- <https://www.woodmarkets.com/publication/5-year-outlook/outlook-to-2021/>

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