

Featuring Lumber, Panels
and Wood Products Analysis

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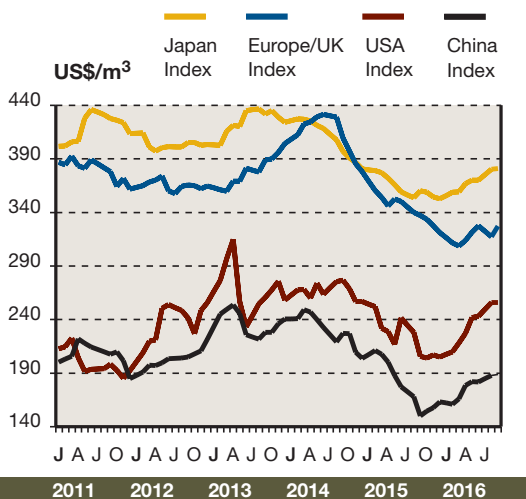
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GLOBAL PRICE TRENDS



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

N.A. LUMBER COSTS — ASSESSING COMPETITIVENESS

Potential Duties are a Game Changer

WOOD MARKETS has compiled timber and softwood sawmilling cost results from Q1/15–Q3/16 for North America and ten other major exporting countries. This benchmarking data and analysis of top-quartile (lowest-cost) sawmills has been combined with published lumber prices to selected market destinations to show how different regions compete on a delivered basis in the United States. A similar analysis has been conducted for China and Australia, two other major import markets for softwood lumber.

For the structural lumber cost analysis, delivered log and sawmill costs were compared to the FOB mill lumber sales average plus freight to Houston, TX (used for the purposes of this analysis) for 2x4 #2 Structural & Better. The analysis covers six regions in Canada, six regions in the U.S., selected European countries and Russia.

For Q2/2016, there were two regions that had the lowest total costs: the U.S. South (by far) and Western Canada. The other supplying regions in North America and Europe had much higher costs and, interestingly, were all in the same delivered-cost range. As our reports have previously stated, since 2008 the U.S. South has had some of the lowest delivered log costs in the world, as well as the highest earnings (EBITDA).

Export duties on Canadian lumber exports to the U.S. expired in mid-October 2015, so no duties were in effect in Q2/16 during the one-year standstill period (that ends in mid-October). If no new agreement on softwood lumber is reached, it is expected that the U.S. Department of Commerce will conduct its investigation into anti-dumping and countervailing duties, with the likelihood of duties being in place by the start of Q2/17.

The level of export tax or duties on Canadian lumber exports to the U.S. is not yet known, so two possible tax scenarios were considered: 12.5% and 25%. At a 12.5% Canadian export duty, the cost curve to Houston flattens out, but Eastern Canada moves into one of the highest-cost positions and the B.C. Interior becomes marginalized. For delivery points further east in the U.S. South, e.g., Atlanta, the extra freight costs would further disadvantage the B.C. Interior's cost position. At a 25% duty, Canada's delivered costs rise, making it the highest-cost producer relative to Houston.

While some of the tax will be absorbed by the market, this will take time to occur. And, during the slow winter months, eroding prices would likely push more of the duties back onto Canadian mills. How an offshore export strategy could work for Canadian mills to reduce sales volumes to the U.S. (and to achieve the next best sawmilling margin) is another analysis conducted in our new report, *Biannual Global Timber/Sawmill/Lumber Regional Cost & Revenue Profiles* (with current-quarter cost profiles of 20 countries/regions). The first issue of this twice-yearly report is now available. ■

By Russ Taylor, President

SPECIAL REPORT

NEW ZEALAND

Crossroads Ahead for the Forest Industry

The total area of New Zealand's plantation forest land peaked at around 1.83 million hectares in 2003 before contracting to ~1.72 million hectares in 2015.

Exports now equal more than half of the logs harvested from New Zealand's plantation forests. From 30% of the plantation harvest in 2008, exports represented 54% as of 2015. China alone imported 11.5 million m³ of New Zealand's plantation timber in 2015, down slightly from a peak of 12.4 million m³ in 2014. Despite the Chinese market taking a breather last year, China maintained its 72% share of New Zealand's log exports.

If harvest volumes are to climb to 35 million m³ by 2023 (as projected by New Zealand's Ministry of Primary Industries), solutions must be found quickly to address the decline in forest planting and the net loss of plantation forest area. ■

(Additional details, with graphs offer further insight into New Zealand industry.)

MARKET REPORT

U.S. MOULDING MARKET DYNAMICS

Market Stability Returning

For the U.S. moulding market, 2015 was volatile due to the Brazilian real's devaluation and some realignment of distribution channel participants.

The projection for 2016 is for moulding consumption to expand by another 6%–8% based on our latest 2016 housing starts forecast, with repair and remodelling spending keeping pace.

Although still a relatively small import player, Chinese imports continue to grow rapidly, jumping from 150 million lineal feet in 2014 to 250 million in 2015 (a year-over-year increase of 67%).

One relative constant over the last nine years has been paint-grade mouldings (both finger-joint and MDF). These have accounted for over 85% of the market, while stain-grade solid lineal and plastic mouldings have battled over what is left. ■

(The full article goes into greater detail, with several graphs.)

NEW!

Global Timber/Sawmill/Lumber Regional Cost & Revenue Profiles

Quarterly Log and Sawmill Costs, with Lumber/By-Product Revenues/Prices, Starting from Q1/2015 for 20 Countries/Regions

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

WHAT'S NEXT

WOOD MARKETS • 2017 Edition

Detailed Analysis and Forecast for the North American Wood Products Industry & Market

- Outlook 2017–2021
- Available December 2016

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CHINA BULLETIN (monthly)

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

MARK YOUR CALENDARS FOR 2017:

Annual Global Softwood Log & Lumber Conference

- May 11, 2017
- Hyatt Regency Vancouver

Please contact us for pricing details for the full *WOOD MARKETS Monthly International Report*.

Publisher & Editor
Associate Editors

Russell E. Taylor
Peter Butzelaar
Tony Marra

Managing Editor/Layout
Research
Subscriptions

Jane Keyes
Chari Gimenez
Barb MacDonald

Mailing Address

Suite 603–55 E. Cordova Street
Vancouver, BC, Canada V6A 0A5

Phone: 604-801-5996 (country code 1)

Fax: 604-801-5997

Email: info@woodmarkets.com

Website: www.woodmarkets.com

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