Softwood Lumber (& Panel) Markets: North America & Global Trends

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Presentation Outline

1. North America Outlook
   - A. Housing Starts Analysis
   - B. Lumber Consumption & Outlook
   - C. Panels Consumption & Outlook
2. Global Perspectives & Implications on Timber
   - A. B.C.: Mountain Pine Beetle
   - B. Russia: Log Export Tax Schedule
   - C. China: Log Import Trends
   - D. Global: Summary Outlook
3. Summary

Introduction to: International WOOD MARKETS Group

- We are <u>wood products industry consultants</u> and we assist companies around the world to develop operational, marketing & business strategies.
- We are known as <u>global market & industry experts/analysts</u> on timber, lumber, panels & many millwork products sold in the U.S. market & key export markets
- We produce <u>Multi-Client Reports:</u> Europe & Russia; Clearwood Pine; Global Lumber Benchmarking; The China Book; WOOD Markets 2000, 2002 & 2006; & the WOOD Markets Monthly Report

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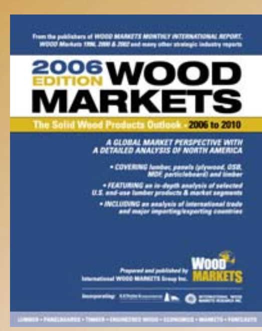
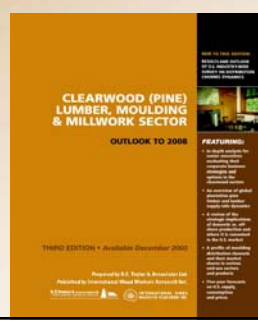
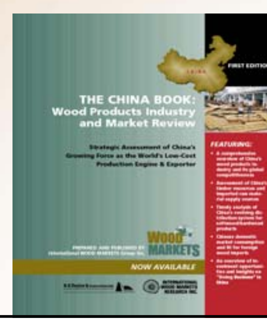
3

WOOD Markets' Multi-Client Reports







4

WOOD Markets Report


WOOD MARKETS

MONTHLY INTERNATIONAL REPORT

FEBRUARY 2006

Featuring Lumber, Panels and Wood Products Analysis

Global Competitiveness

Low-Cost Labor Regions Winning

WHAT'S INSIDE

Analysis

Features

Global Statistics

GLOBAL PRICE TRENDS

MARKETS • PRODUCTS • ANALYSIS • RESEARCH • FORECASTS

For a monthly U.S. & international market perspective, including:

- Production, import, export & consumption trends.
- 50 Monthly domestic & export market prices.
- 2- year commodity lumber & panel price forecasts = updated monthly.

Also includes coverage of offshore markets and exporting countries

5

Current Market Environment

Prices are just coming off horrific low prices:

♦ "The Random Lengths framing lumber composite has just hit its lowest point since December 1991."

♦ "Douglas fir prices hit lowest level since 1980s."

♦ "The price of 7/16" OSB = lowest level since 1991."

♦ "Ongoing weak demand stemming from sharply lower housing starts has led to poor product prices and widespread curtailments throughout the wood products industry."

♦ "Housing market is now nearing the bottom of one of the worst cycles since the Great Depression."

♦ Mill curtailments are rampant but not enough!

♦ It will get better (& great eventually), but slowly

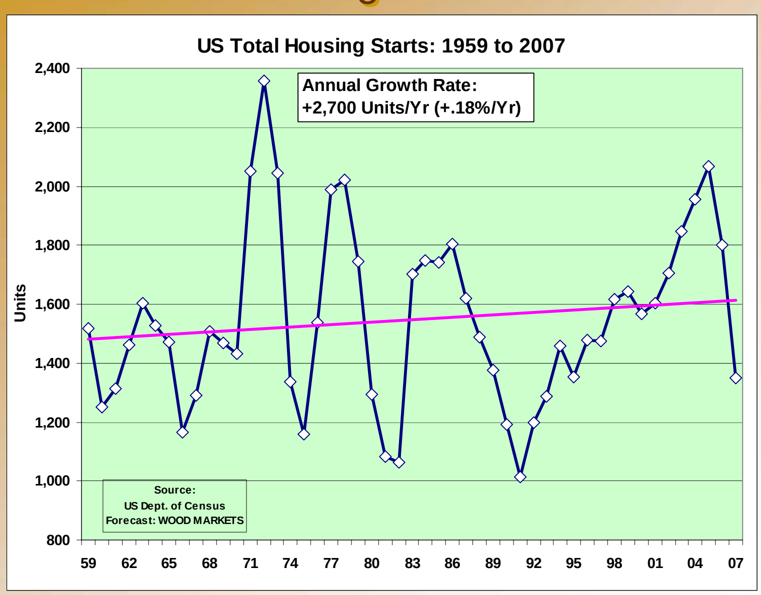
6

U.S. Housing Starts & Lumber Prices

- In terms of the U.S. market for structural lumber, new residential housing starts = key demand driver.
- The importance of total housing starts is critical to lumber production and, of course, prices – this is probably the most important indicator to the fortunes of the North American lumber industry.
- Also important is consumer confidence, unemployment rates, GDP, interest rates, etc.
- Other demand drivers include repair & remodeling activity as well as non-residential and industrial.

7

U.S. Total Housing Start Trend = FLAT



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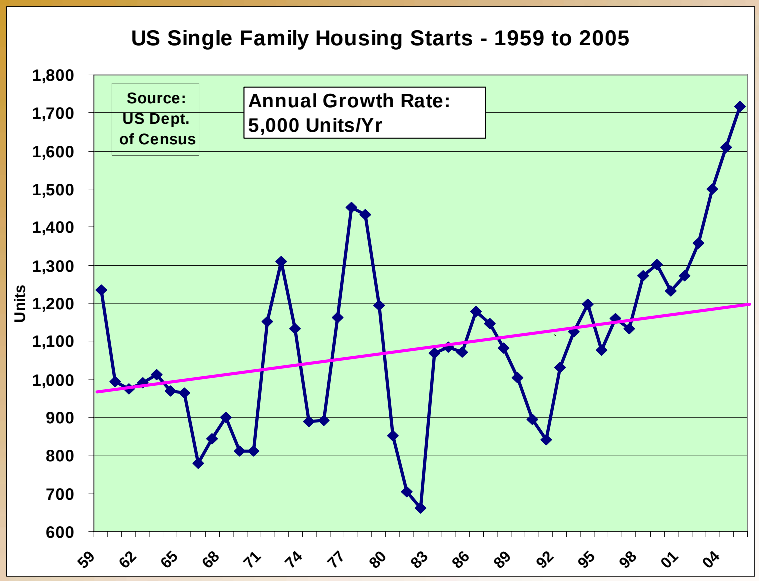
From 1959 to 2007: +2,700 units/yr (0.20%) but houses are bigger!

Back at the Housing Peak in 2005…



9 Couldn't we all figure out where US housing starts were going?

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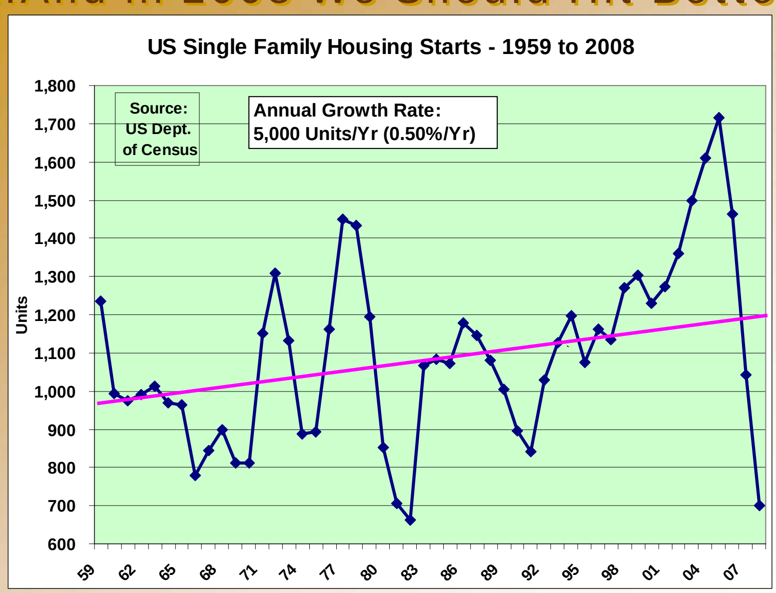
…And in 2008 We Should Hit Bottom…



10 Going back to 1959, a massive housing crash is predictable!

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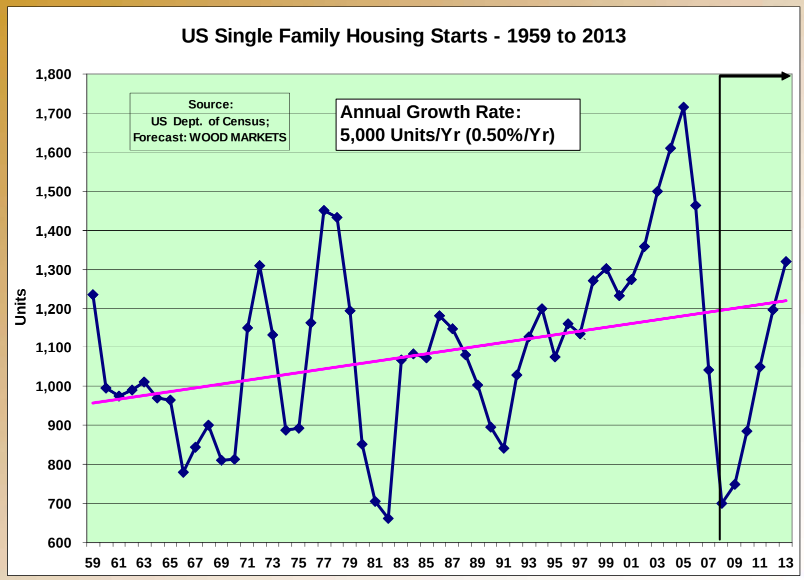
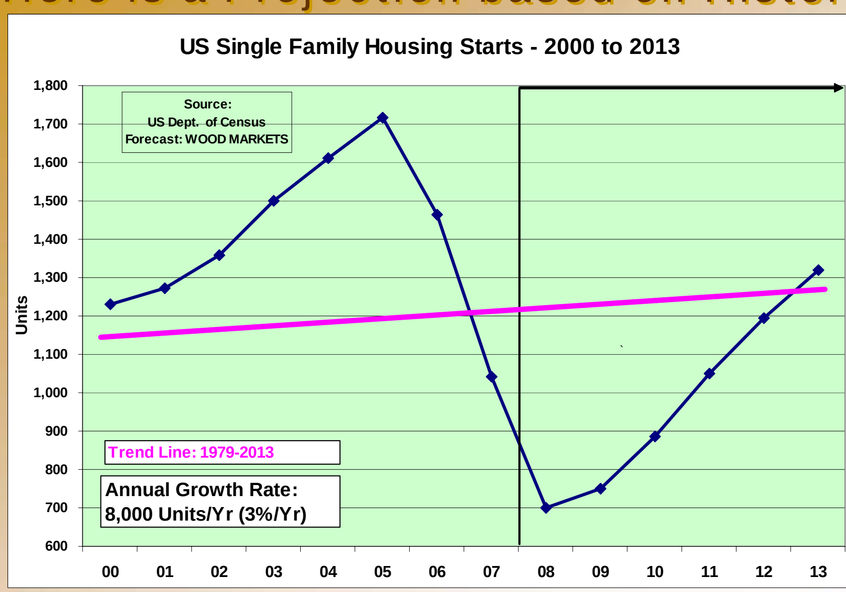
U.S. SF Housing Starts Trend = UP!



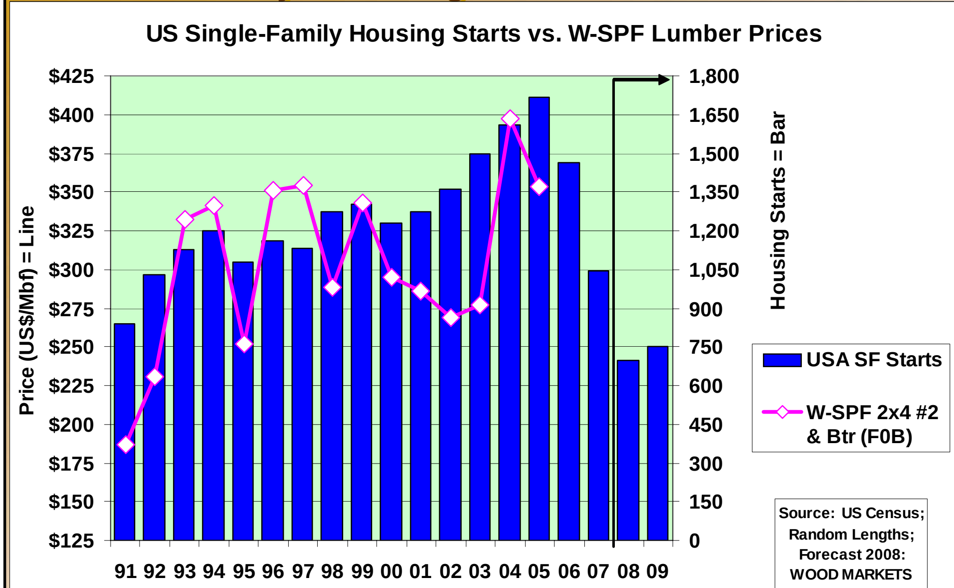
11 But massive peaks and crashes about every 10 years!

Here is a Projection based on History



12 So, if history repeats itself (and it already has), then here it is!

A Relatively Strong Correlation Exists…



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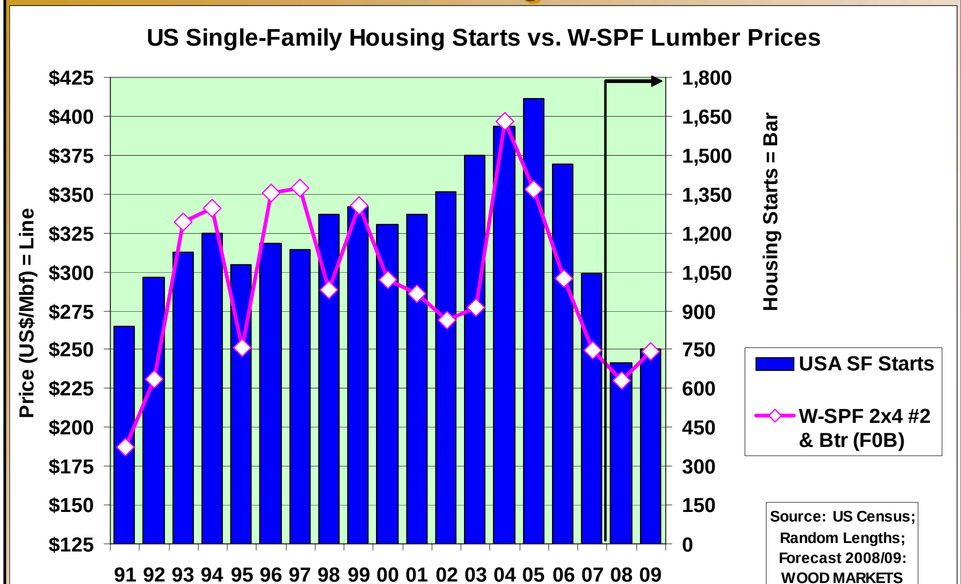
Generally, construction lumber prices follow SF housing trends

…Between SF Housing & Lumber Prices



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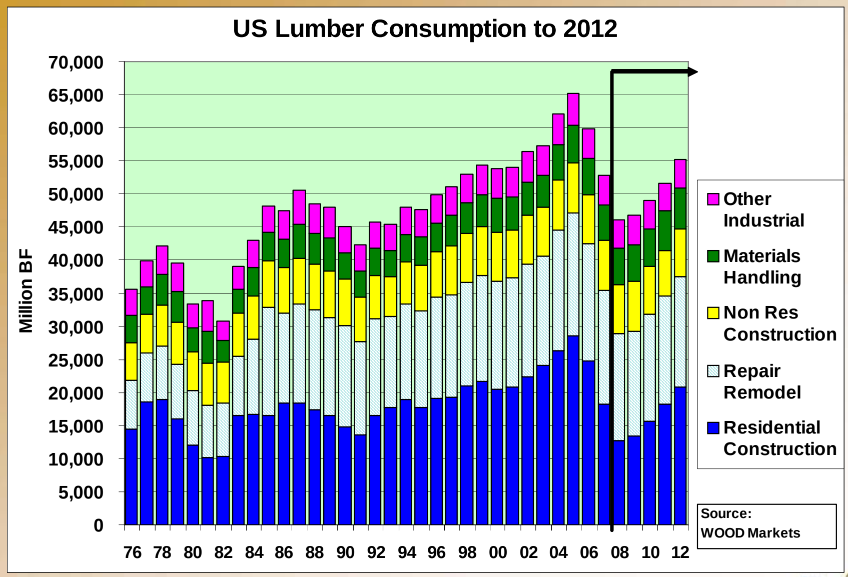
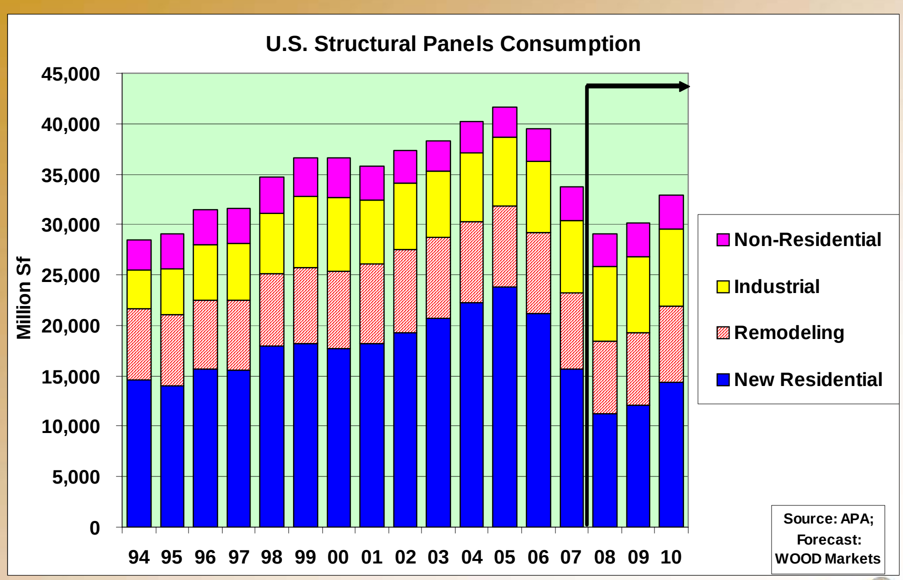
So, housing starts & lumber prices are easily predictable!

US Consumption – Impacted by Housing



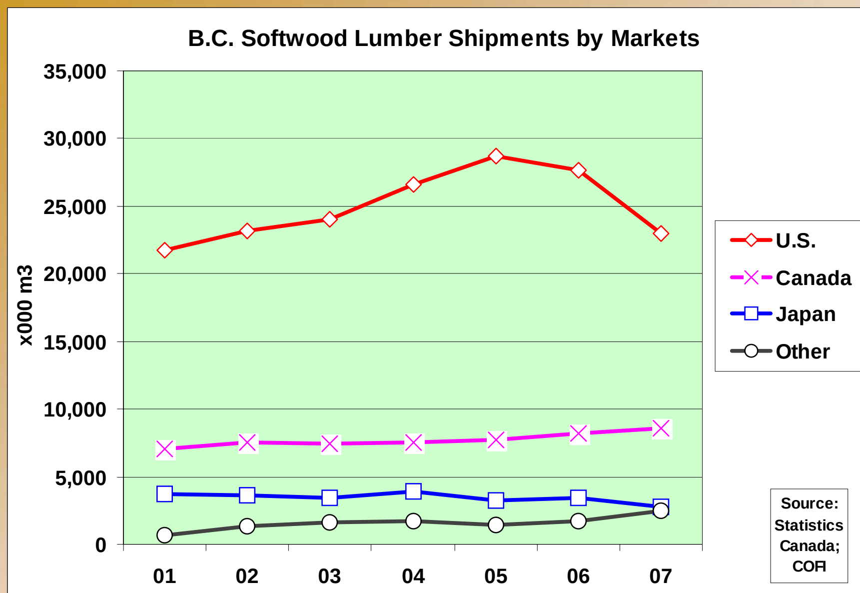
15 Collapse in US Housing Market Creates Havoc for Sawmills (-30%)

US Consumption – Impacted by Housing



16 An even greater impact was felt by OSB & Plywood Mills (-33%)

BC's Lumber Mills Need the US Market



17 Of BC Exports: normally, the U.S. = 83-85% & Japan = 11-13%

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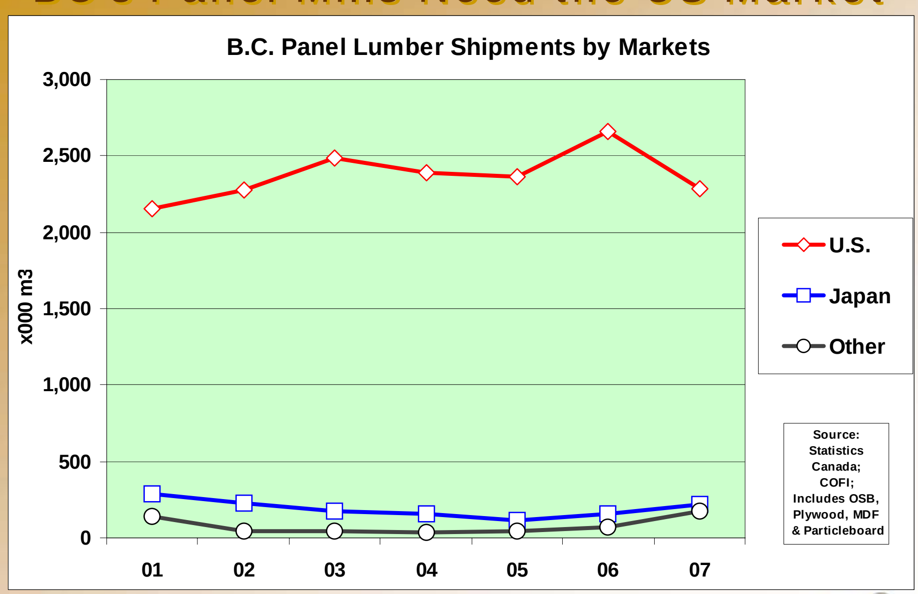
BC's Panel Mills Need the US Market



18 Of BC Exports: normally, the U.S. = 90-92% & Japan = 4-6%

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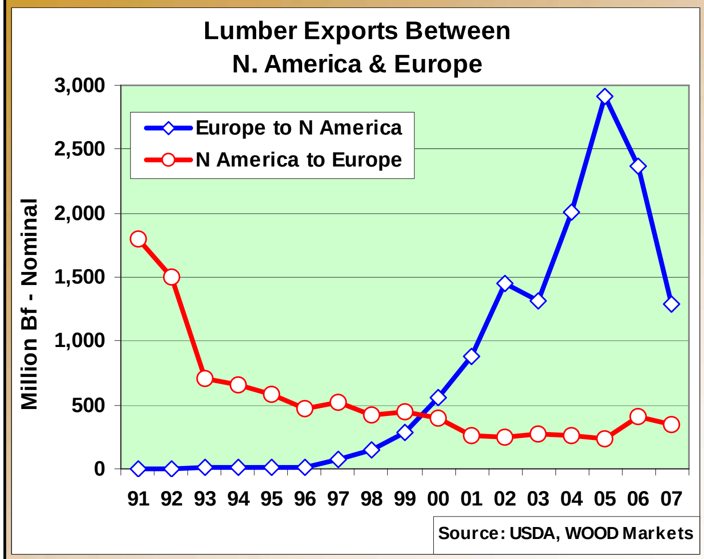
And Other Producers Also Need the US: Led by Germany, Sweden, Austria & Chile



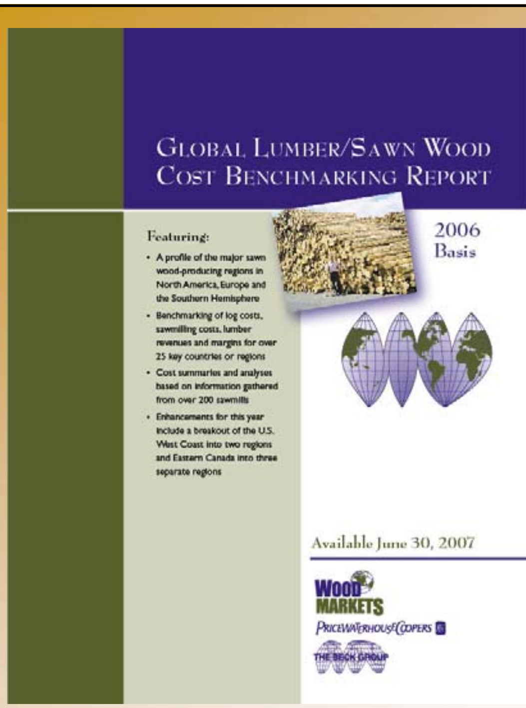
1993 = Ban on Green Canadian Lumber in Europe

1995 = Start of the SLA & US Quotas for Canada!

2002 =CVD/AD

2006 = Duties

19



Global Sawnwood/ Lumber Benchmarking Report:

By Major Country

2006 & 2007/Q2

20

Who is Making Money Selling to the North American Market?

- No one right now for all the reasons you know…
- Based on our current sawmilling cost benchmarking information & analysis:
  - Losing the least (on average, but is changing!):
    - BC Interior, Alberta, US South.
  - Losing the most (on average):
    - Eastern Canada, European exporters
  - Losing, but caught in the middle (high log prices)
    - US West
- There are almost no commodity sawmills making money at today's brutally low prices…this has to change!

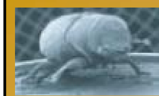
21

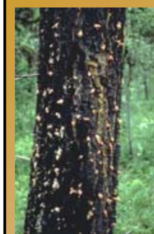
2. GLOBAL TIMBER - Trends: 2A. B.C. & Eastern Canada Declines

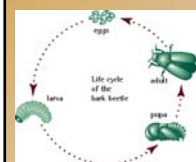
- Canada: Facing declines in timber harvest:
  - Ontario: ~5%
  - Quebec: a 23% reduction from '05-'07
  - BC Interior (& Alberta) – declines of 30-45% from its MPB peak by 2020.
- USA: Facing a change in timber quality as more second growth and plantations are harvested.
- North American softwood timber supply could be getting tight (i.e., higher prices) in the next 4-6 years and this could create a new supply/demand imbalance when the next housing cycle starts!!

22

BC Mountain Pine Beetle



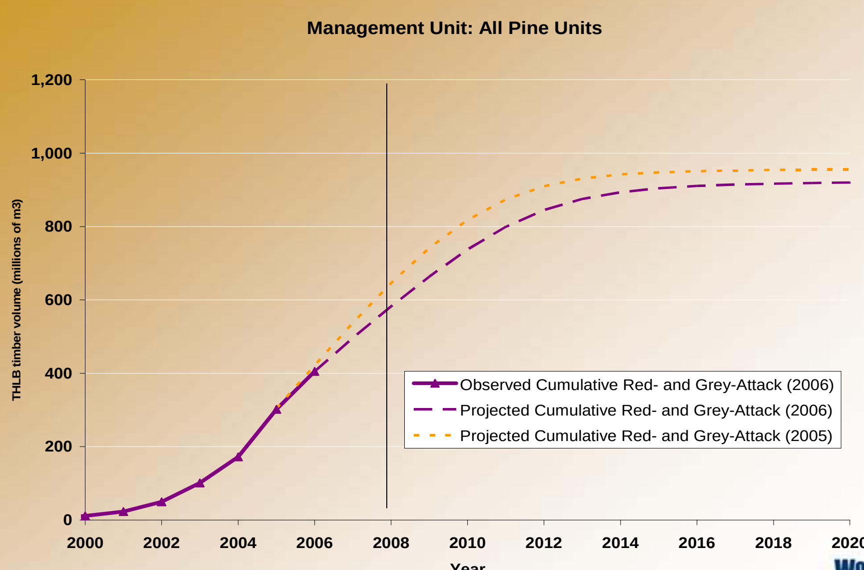




- The mountain pine beetle damage:
  - ~ 600 million m3 dead in 2006 = 12x B.C. Interior's annual harvest;
  - <u>50% of B.C.'s pine</u> will be killed by the end of 2007;
- Likely will peak by killing 900 million m3 in 2013 = 80+% of B.C.'s total pine and lowering the Interior harvest by one-third.
- Is now in ALBERTA and is moving east…
- The MPB = no impact on structural lumber properties, but visually looks different (blue stain and checking).

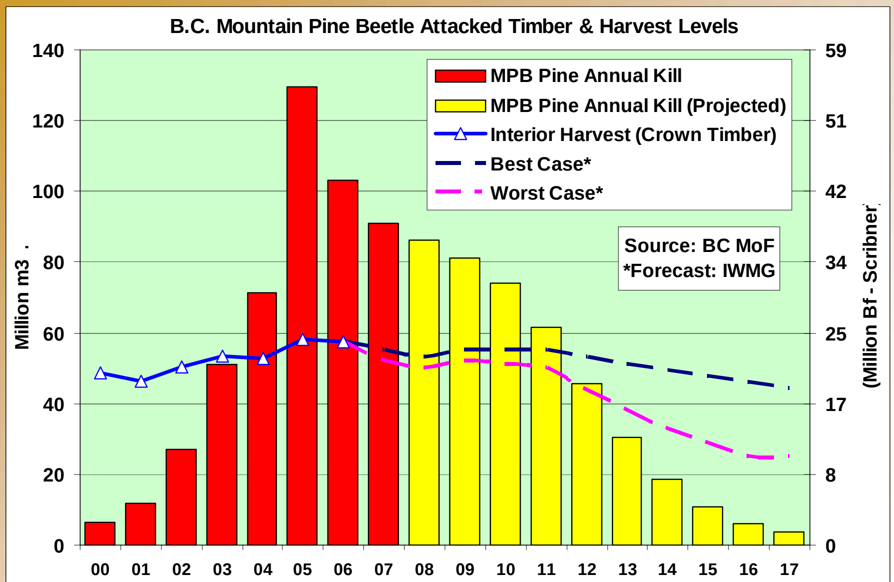
23

BC Mountain Pine Beetle Infestation



24

BC Timber Harvest Outlook



Steady harvest probable through 2011-13, then a decline;

25

BC MPB Lumber Outlook

- The "shelf life" of dead pine is a 'critical constraint' – it normally ranges from 3-5 years but it some cases it is less & can be up to 10+ years.
- BC Interior lumber production:
  - In 2000 = 10 billion bf
  - In 2005 & 2006 = 15 billion bf (peak)
  - In 2007 = 14.2 billion bf
  - From 2008-2012, lumber output is expected to remain in the 13.5 to 15 billion bf range
  - After 2012 = trending lower & bottoming out somewhere in the 8-10 billion bf range by 2020.
  - But will depend on many market variables!

26

2B. RUSSIA: Timber Export Tax

- New Log Export Tax Schedule announced.
- For softwood logs, the proposed tax rises fast:
  - from 6.5% to 20% (euro 10/m3) on July 1, 2007.
  - to 25% (euro 15/m3) on April 1, 2008.
  - to 80% (euro 50/m3) on January 1, 2009 (~US$300/Mbf – Scribner scale) = proposed!
- For birch pulpwood, the tax is delayed until 2011 when it jumps from 0% to 80%.
- <u>Many uncertainties</u> on whether it will go ahead as scheduled or what role investments will play…
- Russia is 40% of world's softwood log export supply & 30% of hardwood log exports, so this export tax is dramatic on its customers!

27

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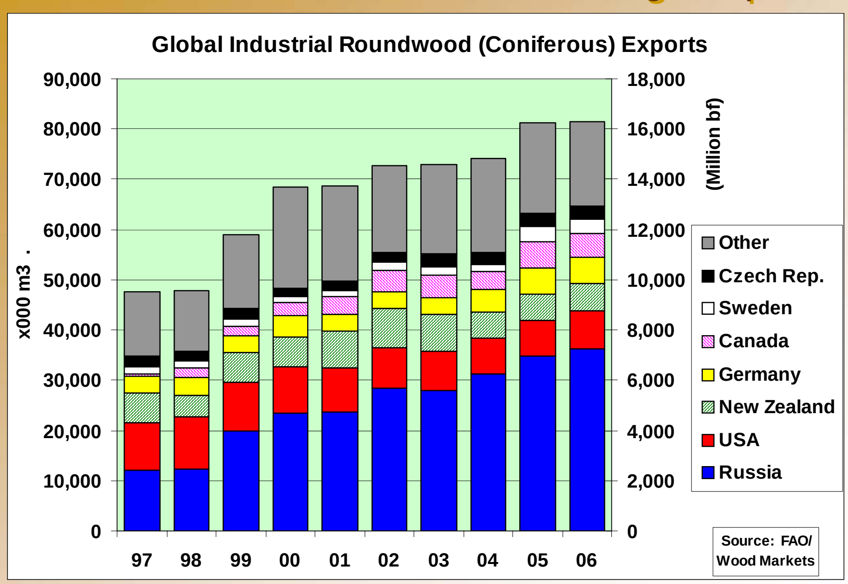
Russia = ~50% of Global Log Exports



Following the USSR collapse, S/W log exports have soared

28

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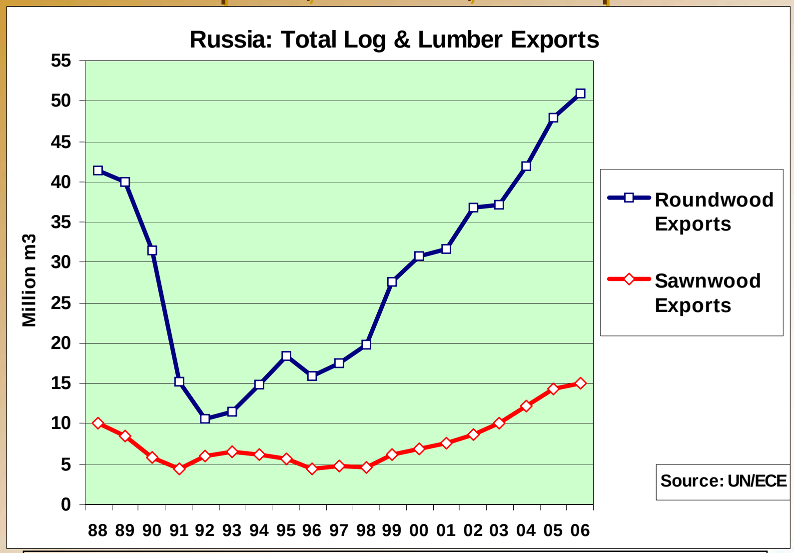
Russia Exports Surging, especially to Japan, China, Europe



Following the USSR collapse, exports have soared

29

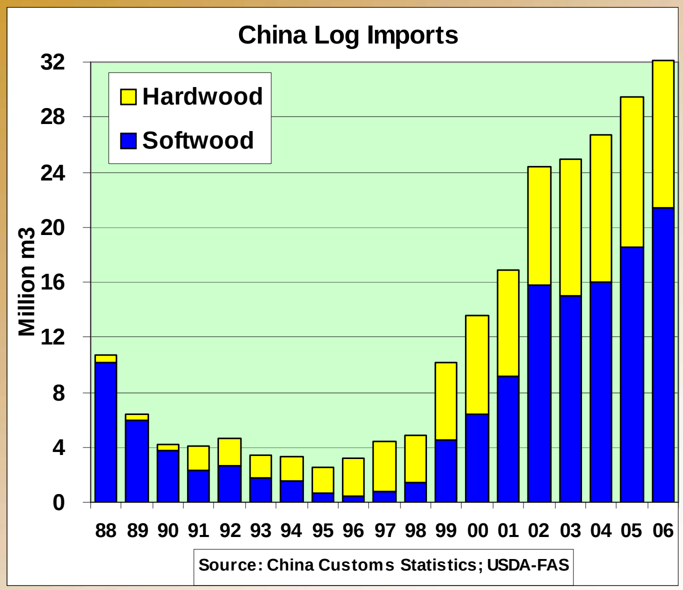
Russia's Impact on Log Importers

The proposed Russian Log Export Taxes, if imposed as scheduled, will dramatically impact the customers of its' 50+ million m3 of 'legal' log exports ('illegal' log exports could be another 10-20 million m3) in 2006:

- Finland (and Sweden) – Finland imported 16 million m3 of Russian logs: 7 million in pulp logs and 9 million m3 in saw and peeler logs.
- Japan – 5 million m3 of Russian saw and peeler log imports – 3 million m3 in larch for plywood.
- China – 22 million m3 of Russian logs = Critical!
- Russia – has started investing in log processing!
- We will be hosting a Siberia mill tour in '09

30

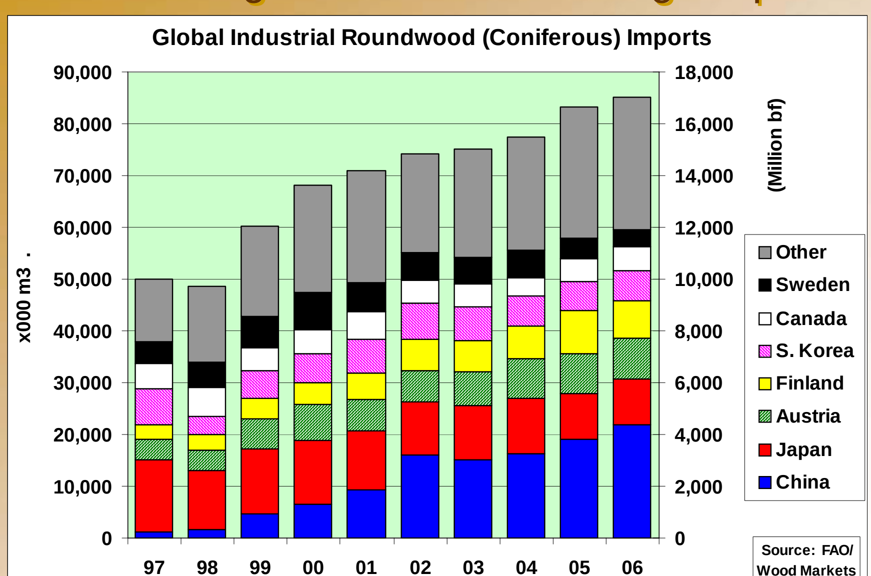
China's Surging Log Imports



68% of China's log imports are from Russia

31

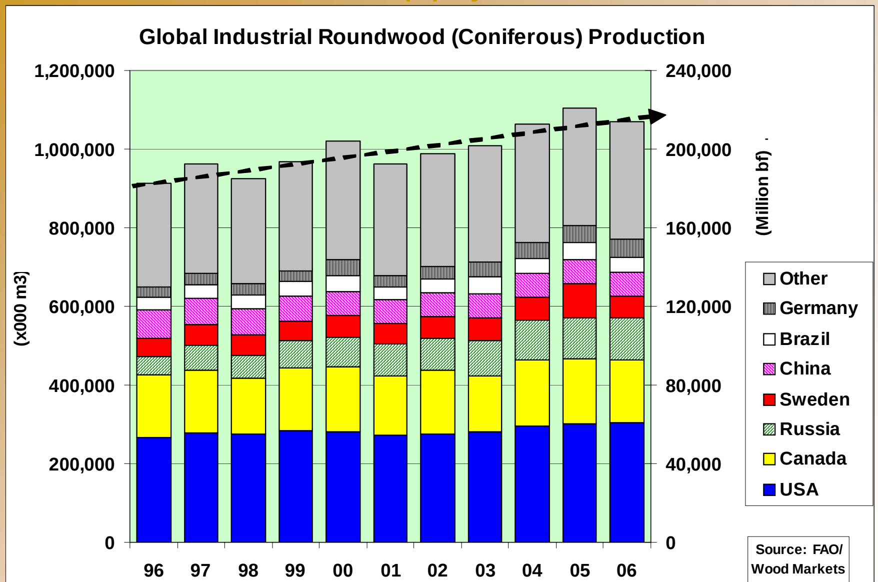
China = Largest Softwood Log Importer



70+% of China's softwood log imports = from Russia

32

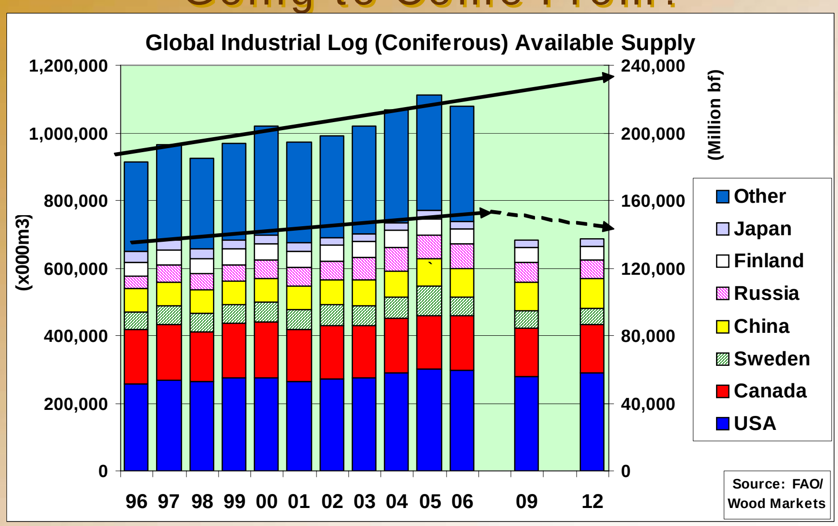
Global Timber Supply Growth = 2%/Yr.



Led by: US, Canada, Europe, Russia + China & Brazil

33

Where are the World's Softwood Logs Going to Come From?



If current trends continue, then new suppliers, higher prices or more finished products required to offset gap!

34

BC's Fit in Changing World?

BC Coast:

- **Excellent opportunities for log exports to Asia (Japan, Korea, China) as Russian log exports plunge.**
- **Lumber (and other wood products) opportunities could follow, but capital investment required!**

BC Interior:

- **The U.S. market is still the most important market.**
- **As a low-cost producing region, the Interior will be competitive in the U.S. & some export markets.**
- **Pine-beetle timber could find fits as logs, wood products and bio-fuel in export markets.**

35

3. 'GLOBAL' SUMMARY

Key Demand Issues:

- **US housing starts! (and it will get better!)**

Key Supply Issues :

- **Russian log export tax = impact on European, Japan, China supply – increase log floor price??**
- **Decreasing NA timber supplies in Ontario, Quebec & ongoing constraints in the U.S. Inland**
- **B.C. MPB-related timber will soon decrease timber supplies and limit extra sawmill shifts.**
- **Still have excess lumber (and panel) capacity!**
- **Softwood duties/agreement: Canada & US?**
- **Currencies for importers and exporters!**
- **Low cost producer wins (loses less)…**

36

Thank You!

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