



The State of B.C.'s
Forest Products
Industry: The
Upside has
Started!

Association of Professional Economists of BC
March 3, 2011
By: Russell Taylor

International WOOD MARKETS Group Inc.

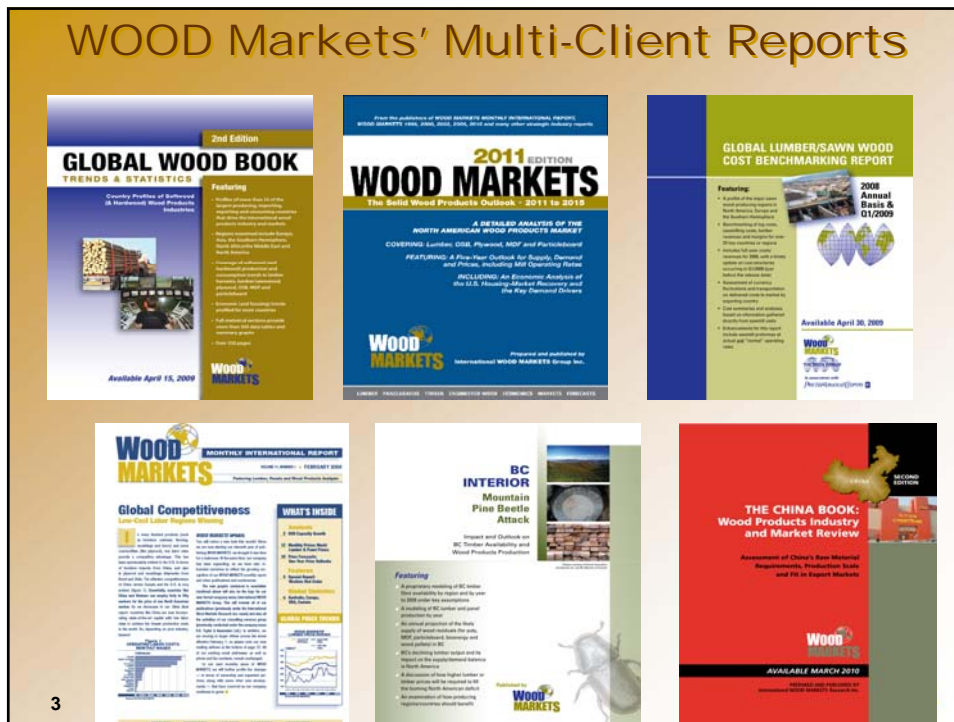
Introduction to:
International WOOD MARKETS Group

- We are wood products industry consultants and we assist companies around the world to develop operational, marketing & business strategies.
- We are known as global market & industry experts/analysts on timber, lumber, panels & many millwork products sold in the U.S. market & key export markets.
- We produce Multi-Client Reports: Europe & Russia; Clearwood Pine; Global Lumber Benchmarking; The China Book; WOOD Markets 2000, 2002, 2006, 2010; & the WOOD Markets Monthly Report

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WOOD Markets' Multi-Client Reports



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Presentation Outline

The Bad News:

- B.C. timber harvest & lumber production trends – how bad did it get through 2009?
- B.C. Coast – declines in the industry
- B.C. Interior – Mountain Pine Beetle Infestation – impact on the future

The Good News:

- China's soaring demand for lumber and logs.
- U.S. lumber market – shortages looming by 2015
- Other sectors on the rebound

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1. The BAD News

- BC Coast industry in decline
- BC Interior and the mountain pine beetle
- And other topics

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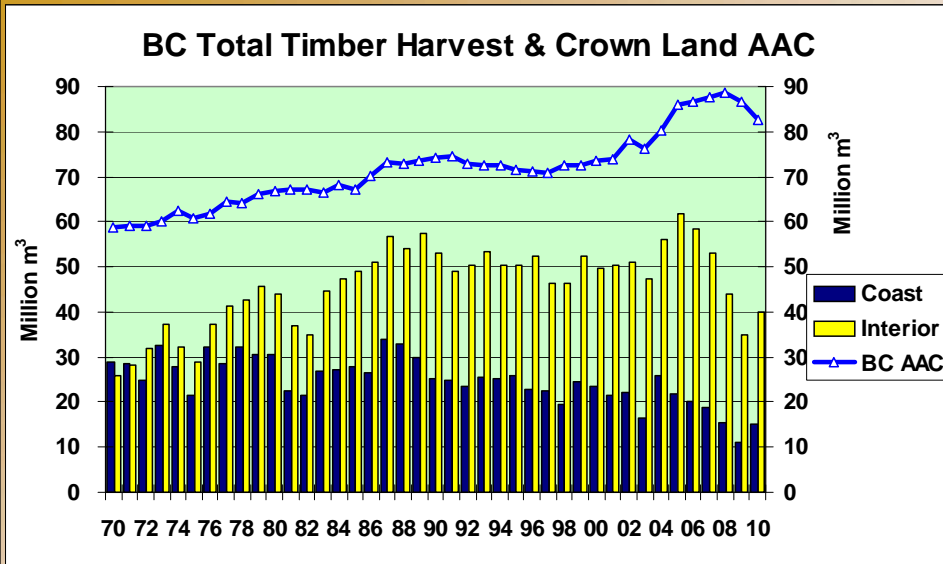


1A. BC Timber Harvest & Lumber Trends

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BC Timber Harvest Trends

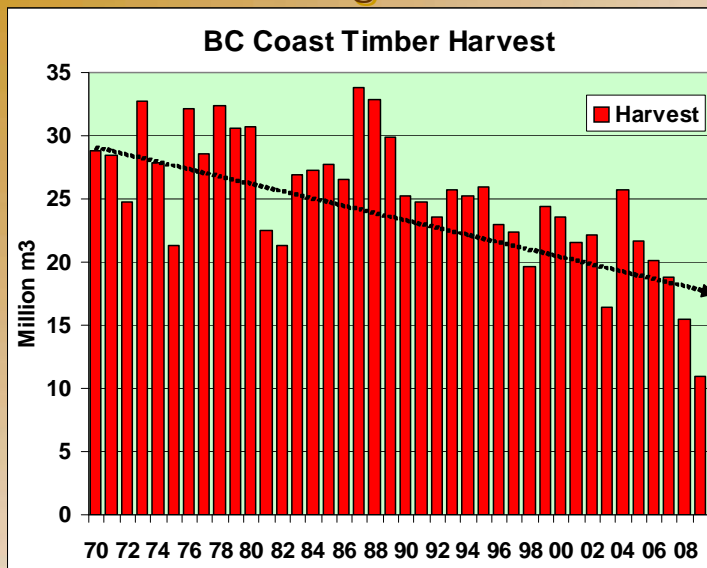


BC timber harvests show slowing trends



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BC Coast: Log Harvest Trends



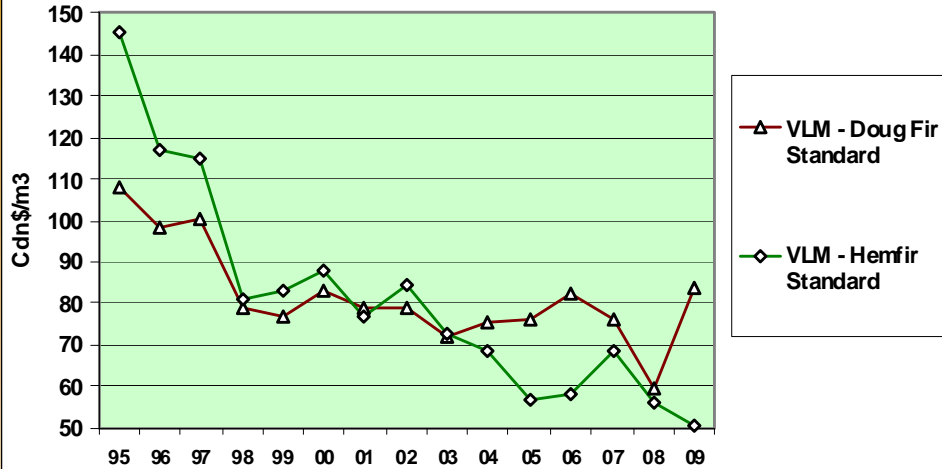
From a peak in 1987 of 34 million m3 to 11 million m3 in 2009



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BC Log Price Trends

Vancouver Log Market: Standard Log Prices



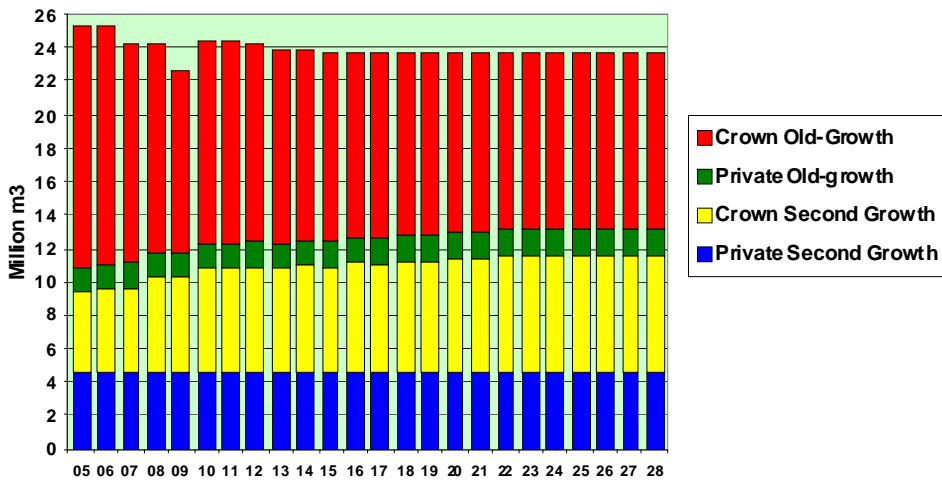
Coast log prices have been in a steady decline since the mid-1990s



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BC Log Export Trends

B.C. Coast AAC - Old-Growth vs. Second Growth

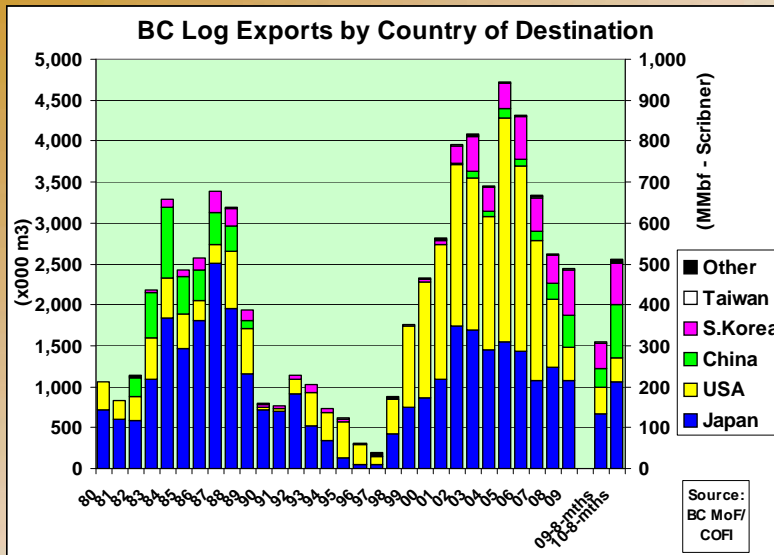


Lots of "Old-Growth" Timber left



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BC Log Export Trends



Exports to Japan, China & Korea increasing, but not USA!



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BC Global Lumber & Panel Markets

Key Global Markets:

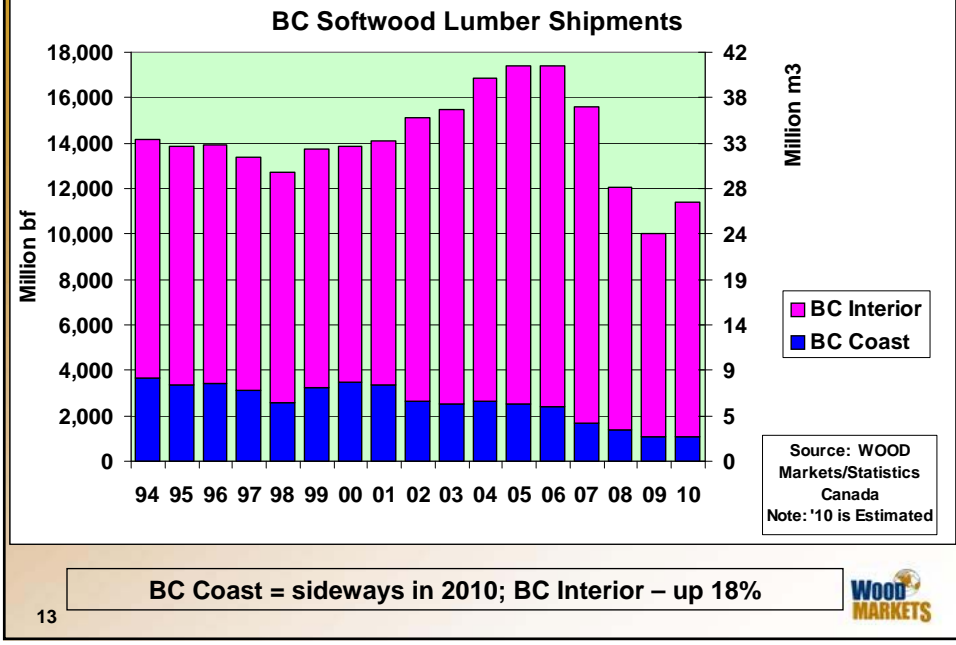
- Europe
- Korea
- Taiwan
- India
- Middle East
- North Africa
- Southern Hemisphere
- **Japan**
- **Canada**
- **USA**
- **China**

**Key Markets for B.C.
= Japan, Canada, USA
and China**



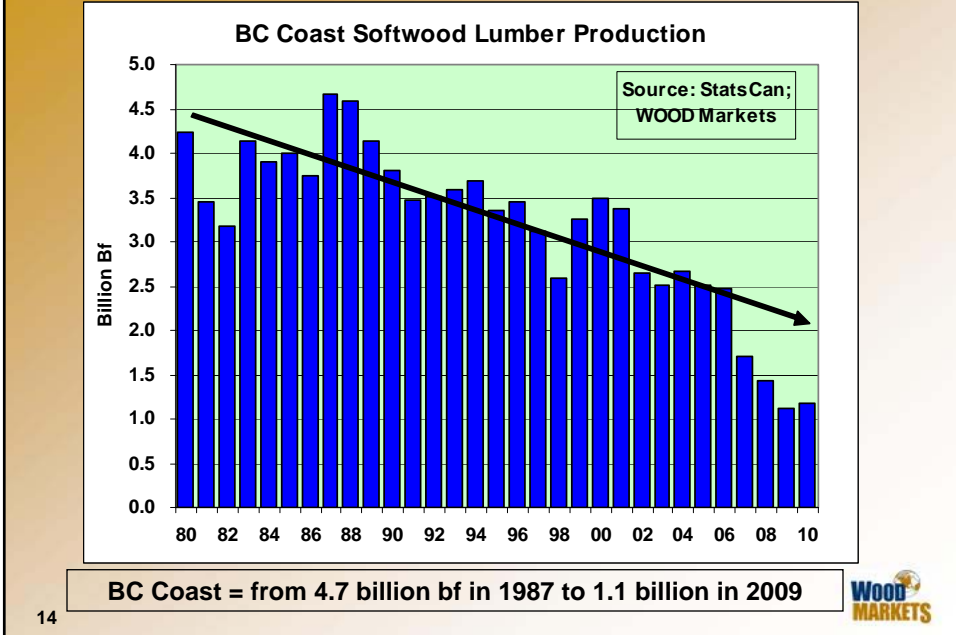
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1B. BC Lumber Production Trends



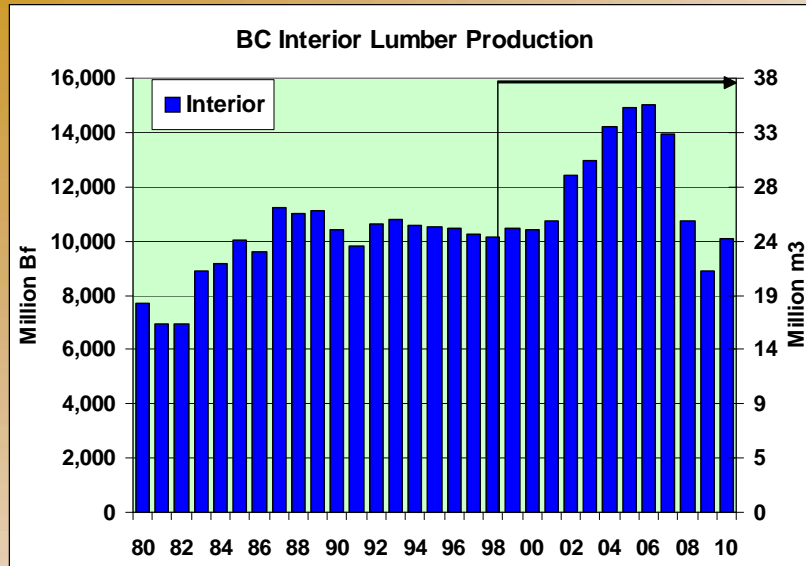
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BC Coast Lumber Production Trends



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BC Interior Lumber Production Trends

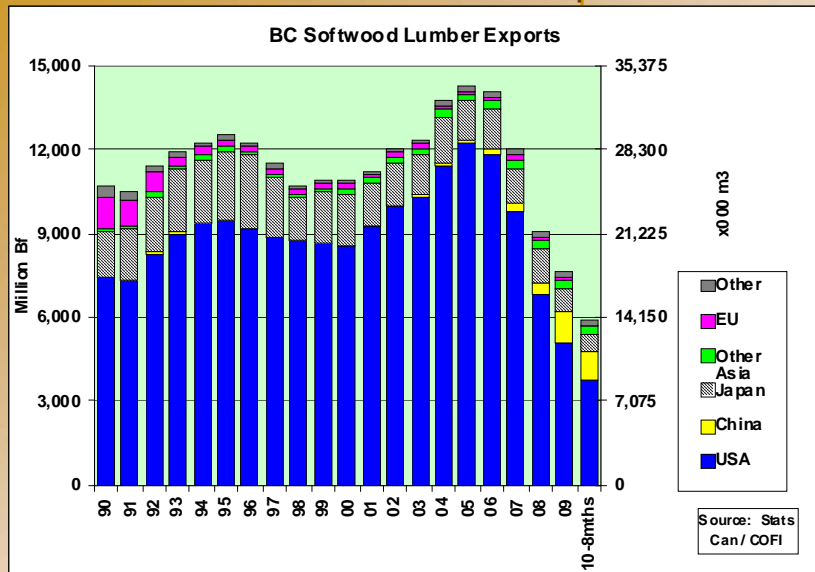


BC Interior = peaking at 15 billion bf in 2005



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BC Softwood Lumber Export Trends

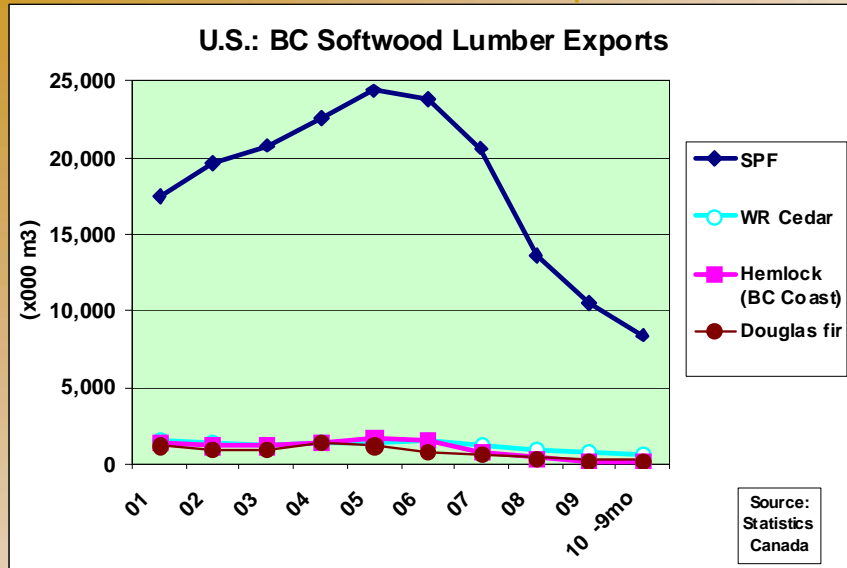


Exports to US peak and then crash; China expands



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BC Softwood Lumber Exports: to USA

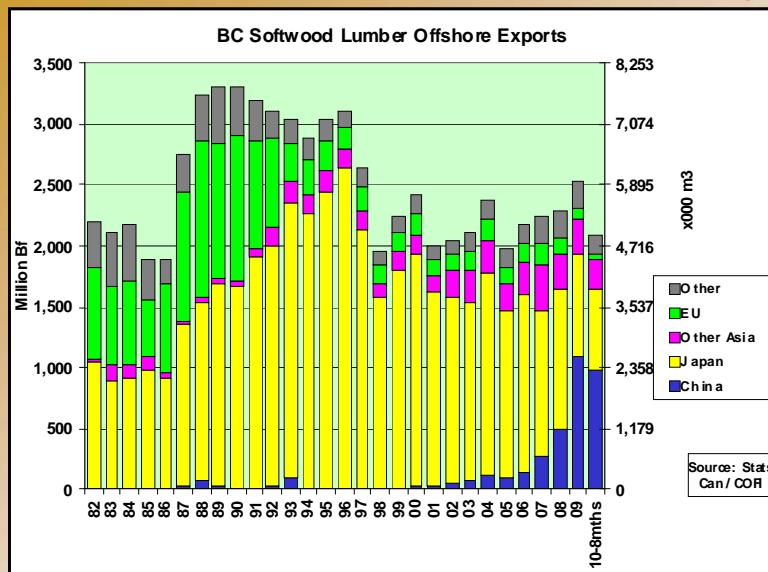


Exports peaked in 2005 at the height of the US housing boom



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BC Softwood Lumber: Offshore Exports

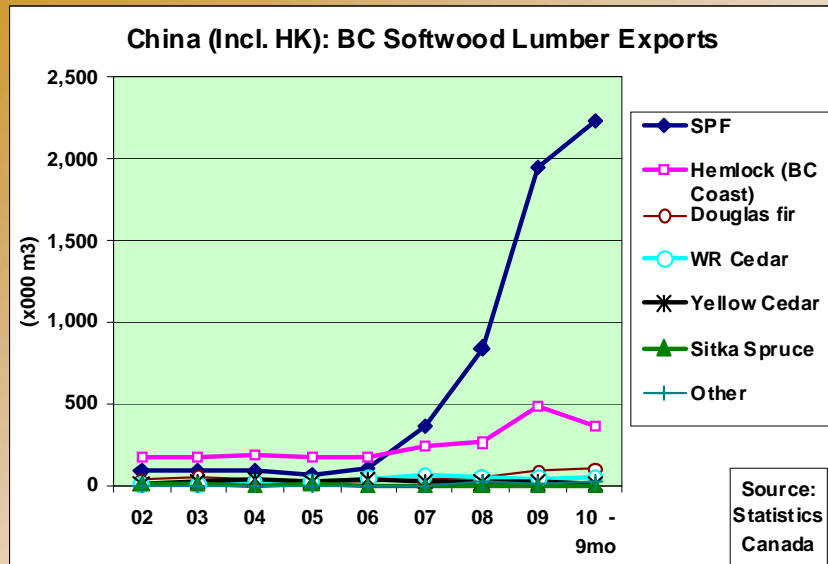


Exports to EU & Japan slump; China is the growth region



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BC Softwood Lumber Exports: to China



Exports to Japan, China & Korea increasing, but not USA!



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BC INTERIOR Mountain Pine Beetle Attack

Impact and Outlook on BC Timber Availability and Wood Products Production



Photos courtesy of Forest Services Assessment Ltd. and BC Ministry of Forests

Featuring

- ▶ A proprietary modeling of BC timber fibre availability by region and by year to 2028 under key assumptions
- ▶ A modeling of BC lumber and panel production by year
- ▶ An annual projection of the likely supply of wood residuals (for pulp, MDF, particleboard, bioenergy and wood pellets) in BC
- ▶ BC's declining lumber output and its impact on the supply/demand balance in North America
- ▶ A discussion of how higher lumber or timber prices will be required to fill the looming North American deficit
- ▶ An examination of how producing regions/countries should benefit

Published by
WOOD MARKETS



1C. BC Interior: Mountain Pine Beetle Attack Report

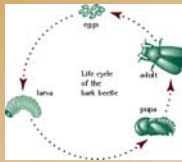
Forecast:
to 2028

The future of BC's harvest and wood products production produced by:

- Jim Girvan
- Murray Hall
- Russ Taylor
- Gerry Van Leeuwen

Released: Late
March 2010





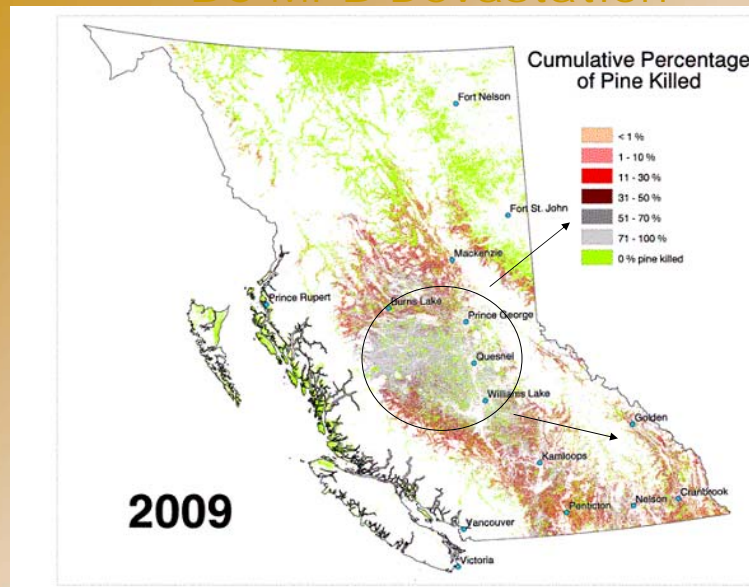
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BC Mountain Pine Beetle

- The mountain pine beetle damage:
 - ~ 675 million m3 dead in 2009 (50% of total BC pine) & 16.3 million hectares; = 14x B.C. Interior's annual harvest.
 - Likely will peak by killing **900 million m3 by 2022 = 70% of B.C.'s total pine & reducing the log harvest & sawnwood output by 20-30% of historical levels.**
- Is now in ALBERTA and is moving east...
- The MPB = some impact on structural lumber properties (MSR now an issue), but looks different - **blue stain & checking = problem for Japan (and some US) sales.**



BC MPB Devastation

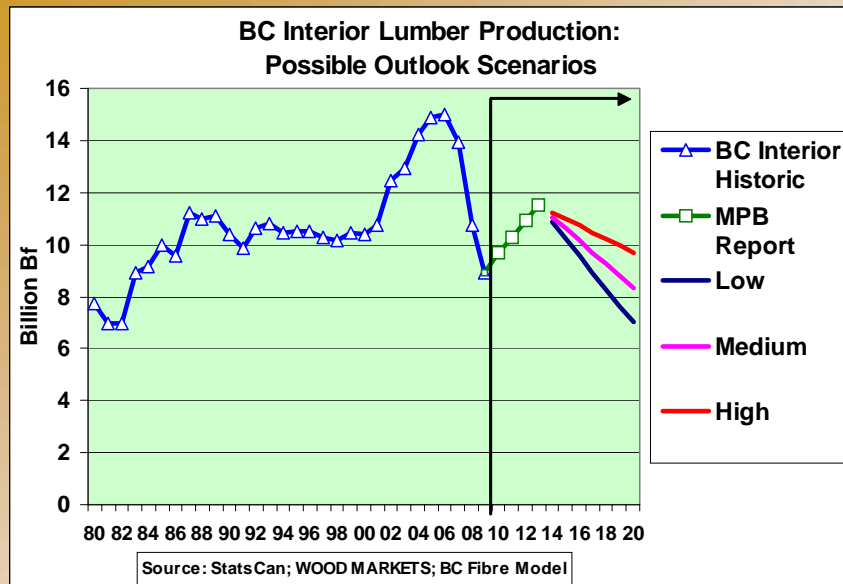


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AAC: from 50 million to 68 million to ~40 million m3



BC Interior: Lumber & MPB



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Declining lumber production forecast after 2014/15



2. The GOOD News

- China – huge demand for low cost logs and lumber
- U.S Market to rebound in conjunction with reduced timber supplies and sawmills
- And other topics

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CHINA: Growing Role in Global Trade

- China's trade in forest products soared to US\$96.3 billion in 2010 - 37% higher than in 2009.
- The value of forest product exports surged 34% from 2009, to US\$48.8 billion in 2010.
- Imports climbed 40% from 2009, to US\$47.5 billion.
- Imports increased in volume and value of logs, wood chips, sawnwood and even furniture.
- Imports of paper, pulp and recycled paper decreased.
- The volume of imports of paper & pulp fell 17% from 2009, to 11.37 million tonnes in 2010, but the value of imports rose 29%, to US\$8.8 billion.

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CHINA: Growing Role in Global Trade

- Wooden furniture is the biggest forest product exported from China:
 - Exports of wooden furniture in 2010 were 300 million pieces valued at US\$16.16 billion, up 21% in volume and 34% in value compared to '09.
- Exports of paper, paperboard and paper products, plywood and fibreboard also increased sharply.
- In contrast, exports of sawnwood eased slightly to 539,000 m³ in volume and US\$340 million in value in 2010, down 4% and 1% from 2009 respectively = mainly in hardwood.

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CHINA: Growing Role in Global Trade

China's rank in wood products global trade:

<u>Production:</u>	<u>Global Rank</u>
• Plywood	#1
• MDF	#1
• Blockboard	#1
• Furniture	#1
• Hardwood lumber	#2
• Particleboard	#3
• Softwood lumber	#3 (after US & Canada)
• Finished Products	Soaring
• Imports	#2 (after the USA)
• Exports	#1

**China needs IMPORTED RAW MATERIALS
to run its processing plants!**

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2A. China: Trends & Issues

Economic Growth & Wood Products Demand:

- Strong economic growth in China = has rebounded quickly and strongly since early 2009 and is expected to continue at ~8-9%.
- China's domestic wood products demand growing at about 9-10% per year and this huge growth trend is forecast to continue to at least 2015 (Source: **WOOD MARKETS' *The China Book***).
- China consumes about 75-80+% of its domestic production, so the GDP growth and wood products growth are tied closely.
- Imports of logs from Russia have been a key ingredient in China's raw materials supply.

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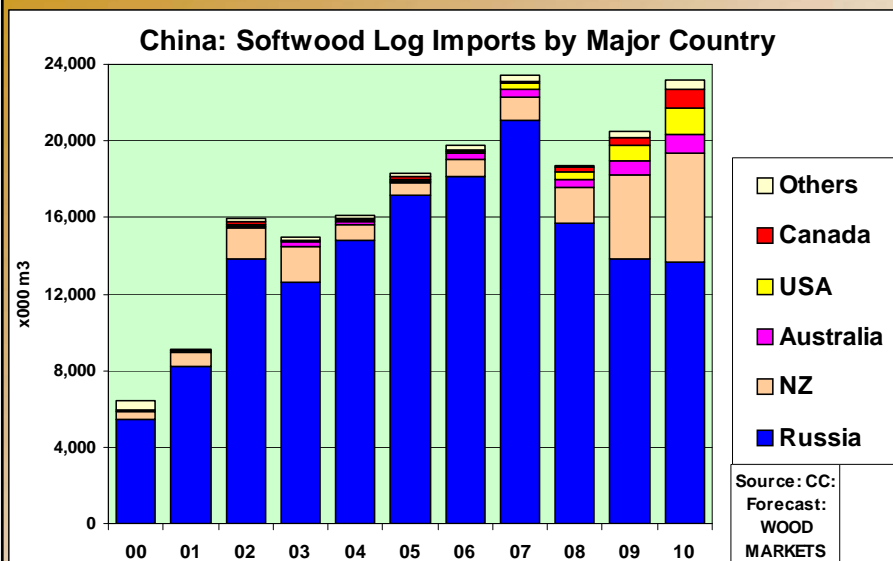
RUSSIA: Timber Export Tax

- For softwood logs, the tax has risen:
 - from 6.5% to 20% (euro 10/m³) in July 2007.
 - to 25% (euro 15/m³) in April 2008.
 - to 80% (euro 50/m³) in Jan. 2012 - **DELAYED**
- For hardwood saw/veneer logs, the export tax is already at euro 100/m³.
- For birch pulpwood, the tax has been delayed.
- **Now the Russian log export tax may reduced by 50% to 67% after Russia joins WTO = more unknowns**
- Russia is 40% of world's softwood log export supply & 30% of hardwood log exports, so this export tax is dramatic for its core customers

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China: Softwood Log Imports

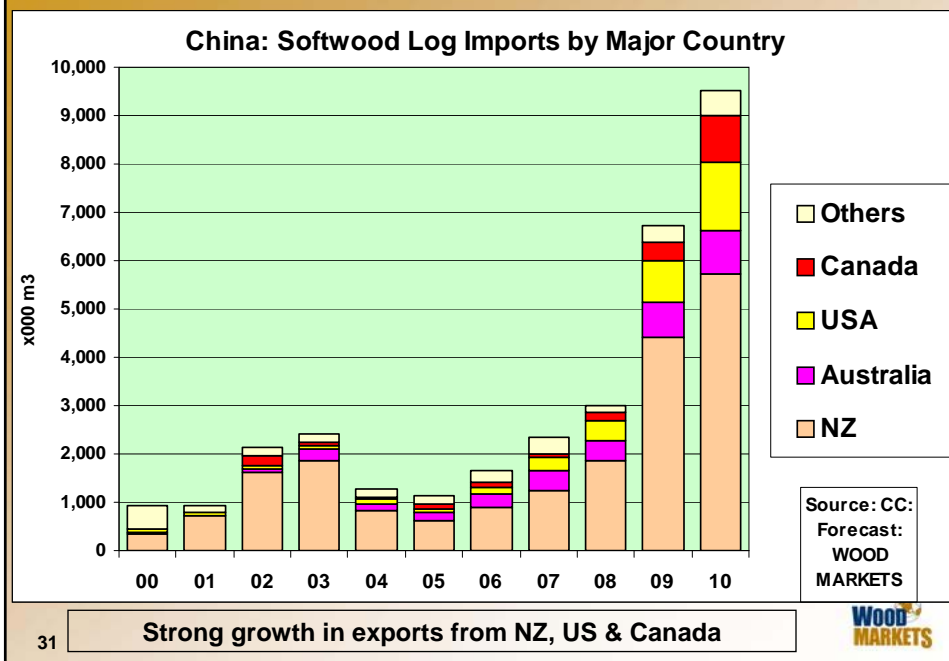


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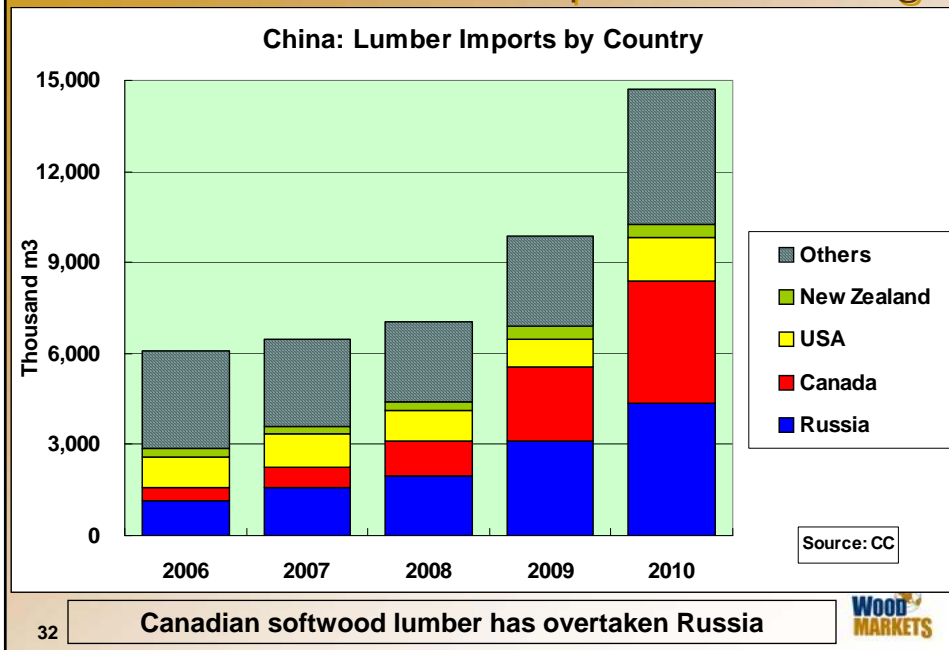
Russia still dominates, but NZ, US & Canada exports rising



Softwood Log Imports - excluding Russia



2B. China's Lumber Imports = Soaring



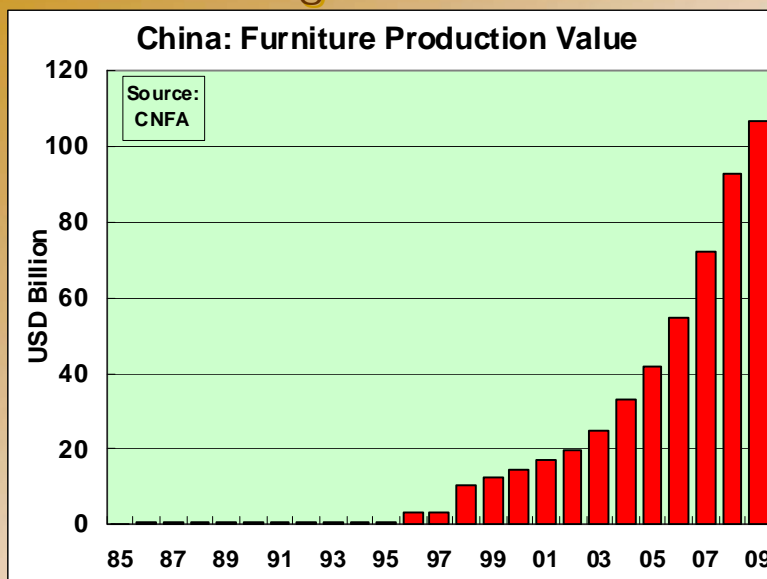
China: Log & Lumber Imports Soaring

- China's soaring economic growth & wood demand
- Russian log export tax – created a log shortage with higher log prices
- China offers volume to low-cost/priced sawmills, so Imports are SPF & hem-bal and Douglas fir Economy, Utility/#3 and some #2&Btr.
- Lumber quality (MPB lumber) not an issue
- SPF low grade lumber is used mainly in construction as formwork, scaffolding, pallets
- More SPF used in small-sized interior finished lumber (ripped from SPF wide dimension).
- #2 Structural grade used in wood frame housing, wood roof trusses, 6-storey walk up apartments

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China's Huge Furniture Growth



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Furniture consumes plywood, MDF, PB, lumber, etc.



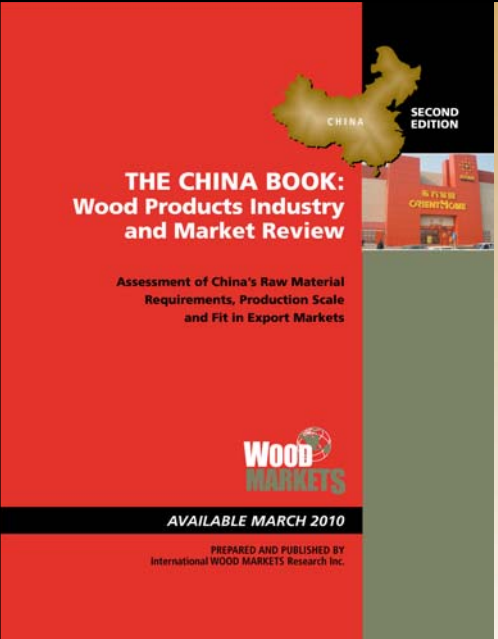
2E. Profile of the Chinese Industry

Sawmills – lowest cost; most efficient recovery of lumber from logs

Plywood Mills – huge scale

Use of Capital and Labour

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**THE CHINA BOOK:
Wood Products Industry
and Market Review**

Assessment of China's Raw Material
Requirements, Production Scale
and Fit in Export Markets

**WOOD
MARKETS**


AVAILABLE MARCH 2010

PREPARED AND PUBLISHED BY
International WOOD MARKETS Research Inc.

WOOD MARKETS' China Bulletin
Monthly Since 2007

Featuring:
Industry Trends &
Analysis, Statistics
+
Import/Domestic Log,
Lumber & Panel
Prices

36 **The 5-year outlook; or monthly log/lumber prices/updates**



From the publishers of WOOD MARKETS MONTHLY INTERNATIONAL REPORT, WOOD MARKETS 1996, 2000, 2002, 2006, 2010 and many other strategic industry reports

2011 EDITION
WOOD MARKETS
 The Solid Wood Products Outlook • 2011 to 2015

A DETAILED ANALYSIS OF THE NORTH AMERICAN WOOD PRODUCTS MARKET

COVERING: Lumber, OSB, Plywood, MDF and Particleboard

FEATURING: A Five-Year Outlook for Supply, Demand and Prices, including Mill Operating Rates

INCLUDING: An Economic Analysis of the U.S. Housing-Market Recovery and the Key Demand Drivers

WOOD MARKETS
 Prepared and published by International WOOD MARKETS Group Inc.

LUMBER PANELBOARDS TIMBER ENGINEERED WOOD ECONOMICS MARKETS FORECASTS

2B. US & Canada Lumber Outlook: 2011-2015

Excerpts from our latest 5-year forecast

Outlook for Lumber & Panel Products


Released: Dec 2010



Forecast: US Major Supply Drivers

- U.S. and Canada softwood lumber & panel production by regions have been balanced with total U.S. and Canada consumption as well as net imports (imports less exports).
 - Timber supply availability (public vs. private)
 - Mountain pine beetle implications;
 - Cost competitiveness (log and mill costs)
 - Transportation & delivered costs to market;
 - Currency exchange rates;
 - Softwood Lumber Agreement;
 - Opportunities in export markets;
 - Economic variables.

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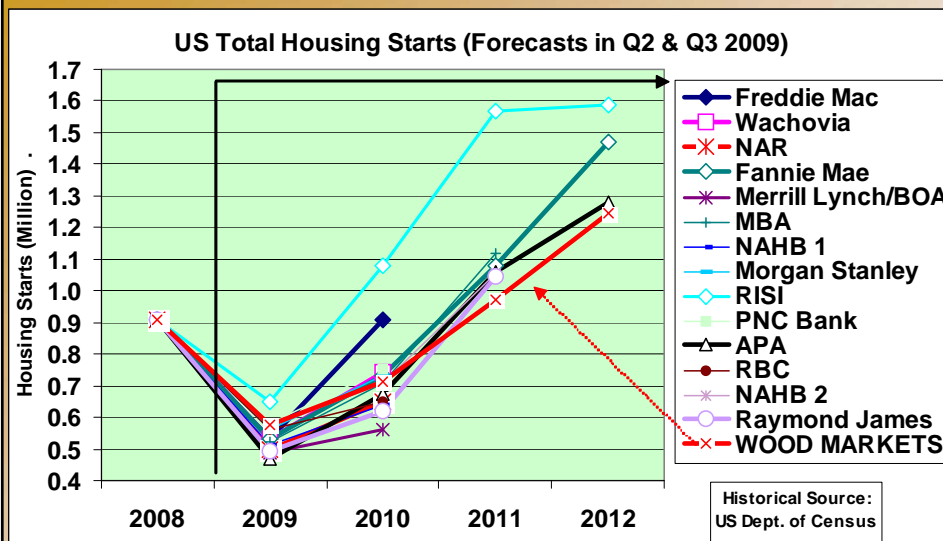


Canada & US Housing - Issues & Outlook: 2011-15

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U.S. Housing Market: Sample Forecasts

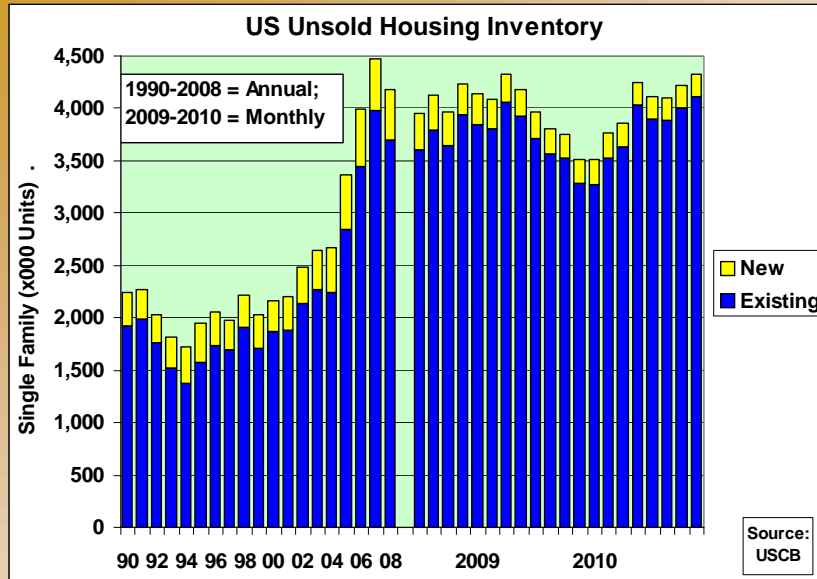


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Forecasts about mid-2009



U.S. Housing Market: Housing Inventory

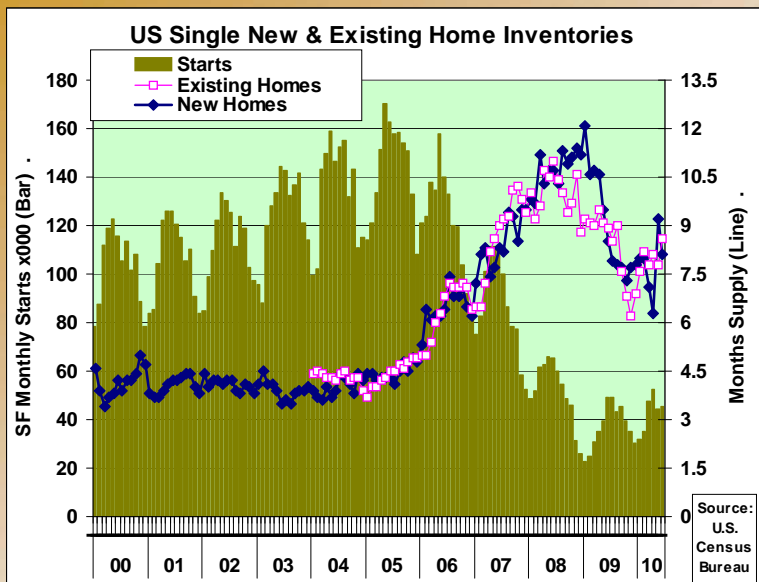


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Both new and Existing Unsold Houses = High Inventories



U.S. Housing Market: SF Starts & Inventory

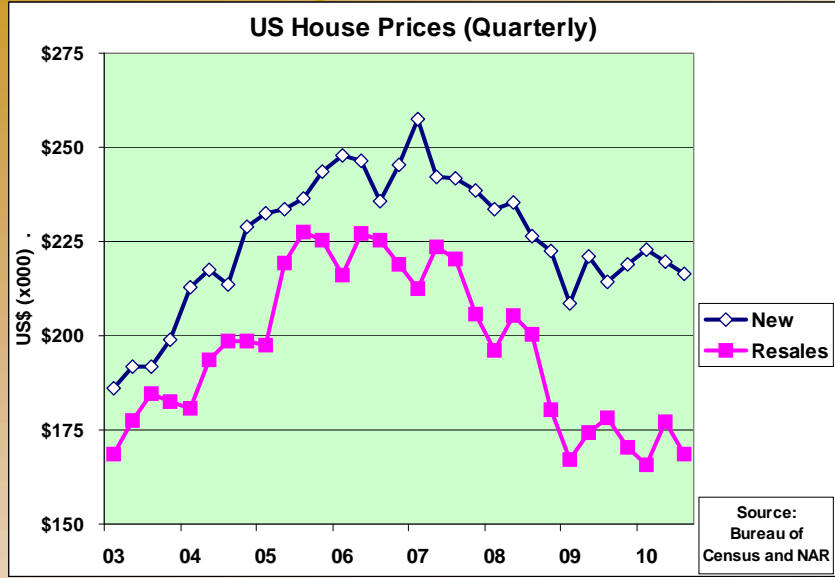


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SF starts down; SF Family Inventories high



U.S. Housing Market: Home Prices

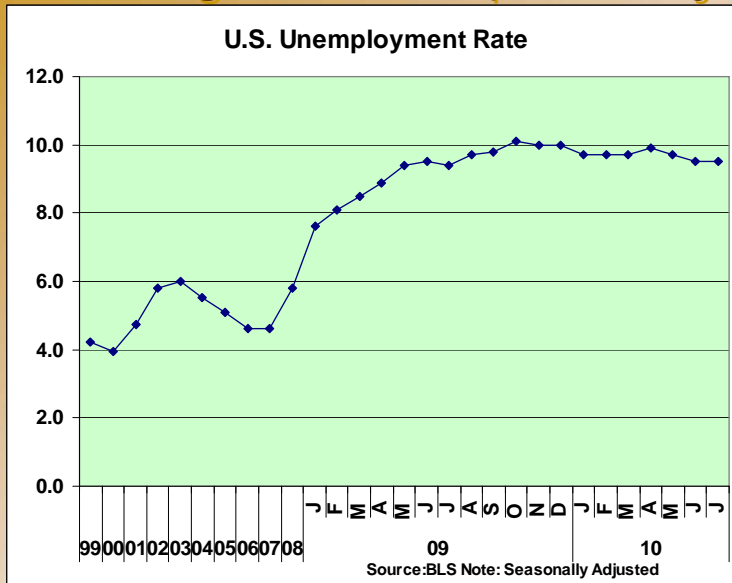


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Both New and Resale Homes have not bottomed yet



U.S. Housing Market: Impacted by Jobs

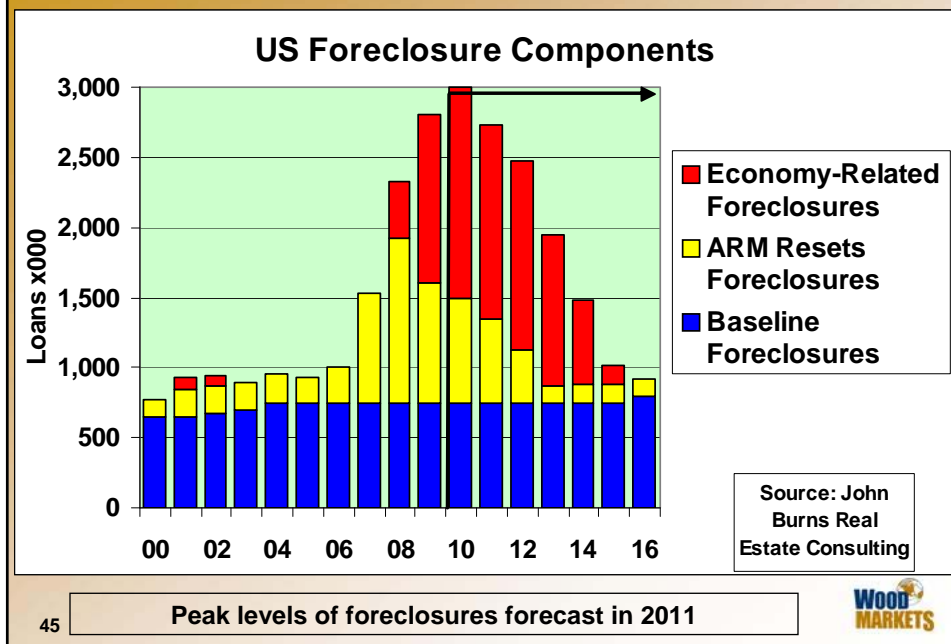


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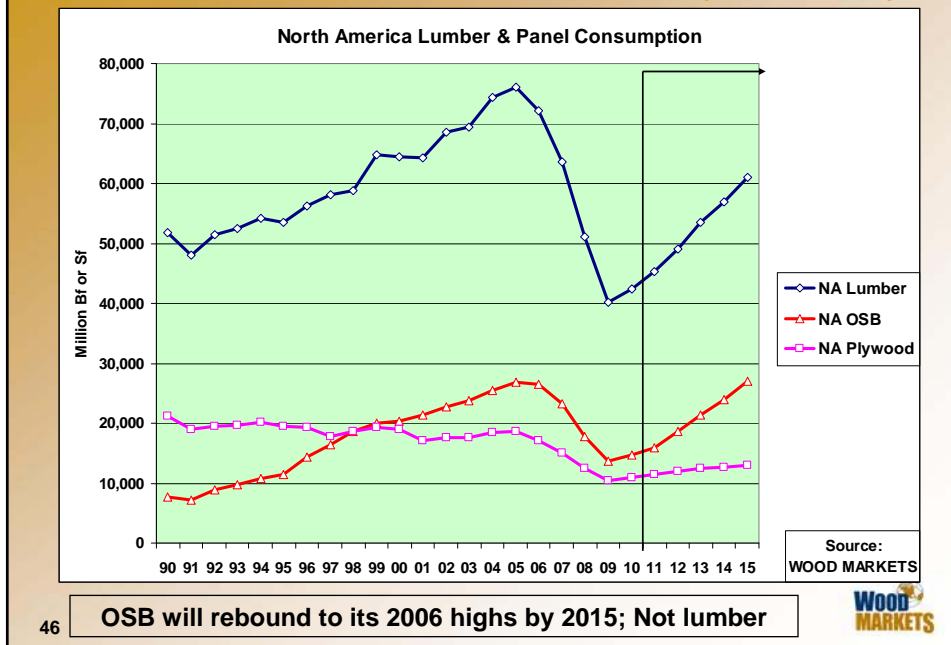
Housing sales & starts are tied to US jobs



U.S. Housing Market: Foreclosures



NA Wood Products Consumption: Up!



5. Summary: Global Perspectives/Trends

Key Demand Issues:

- Global softwood log demand growing at 1-2%/yr
- US & global housing starts! (we are at the bottom!) - a slow/steady rebound is expected...
- European market also to recover slowly...
- Stable (stagnant) demand in Japan.
- Roaring demand in China for fibre.
- Korea, Taiwan, Vietnam = all require imports.
- Middle East/North Africa = all require imports.
- India = next country with major supply shortages
- Lumber “super cycle” is coming..., but will be supply driven!

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Global Perspectives & Trends (con't)

Key Supply Issues:

- Global timber supplies are getting tight:
 - North America: MPB & Quebec timber reductions + TIMOs in the U.S.
 - Russia: Log export tax schedule
 - Europe: private landowner strategies?
 - China's dependency on Russian logs
 - Tropical hardwood log harvests declining
 - Illegal logging being restricted
- Low cost plantations expanding (Southern Hemisphere, China, India).
- As timber gets tighter, higher log prices are expected + higher wood products prices.

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Thank You!

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