



Global & North America Log & Lumber Dynamics – Fit for Quebec

QFIC Annual Meeting

May 13, 2015

Quebec City, PQ

By: Russell Taylor, President

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. & global markets.
- We have had an office in China since 2005.
- We produce 8 Multi-Client Reports: **Global Timber & Lumber Benchmarking; Clearwood Pine Lumber/ Mouldings; Russia 5-Yr. Outlook; China 5-Yr. Outlook; WOOD Markets – North America 5-Yr. Outlook; WOOD Markets Monthly Report, China Bulletin**



Presentation Outline

1. **Global Timber Supply Dynamics**
2. **China Lumber (Log) Market in Q2/2015**
3. **North America/Global Cost Benchmarking**
 - **Log price trends**
 - **Sawmill margins**
4. **Key Demand & Supply Trends: Impacting USA**
 - **US Lumber Market in Q2/2015**
 - **US Softwood Coalition Position...**
 - **US Housing Market = forecasts**
 - **Canada Lumber Supply**
 - **US Market Outlook**
5. **Summary**

What Has Happened in 2015?

- **China market has slowed and inventories have built up (+ long Chinese New Year).**
- **Bad winter weather in Eastern US & Canada.**
- **Mild winter in the West, more logs available.**
- **US housing starts have slowed.**
- **Major currency exchange rate drops vs. USD.**
- **Slowdown in some export key markets: Egypt, Japan...**
- **Too much North American supply vs. demand = Plunging US lumber prices.**
- **Long-term outlook still good, but need demand!**

1. S/D Dynamics & Status of a Softwood Lumber “Super-Cycle”

Supply Side Dynamics:

- There is an overall tightening of softwood timber and, at the same time, lumber capacity and production in selected/key global regions.
- Status: forecast still “ON” (since 2007...)

Demand Side Dynamics:

- Lumber/log demand in US, China, Europe slower than projected with slower growth now possible (perplexing many economists!)
- Status: “more doubtful” - still “possible”.

“Potential
IMBALANCE”
is “possible”

- Outlook is “demand constrained” over next few years: US & China demand recoveries are key.

Global Perspective: Trends & Drivers

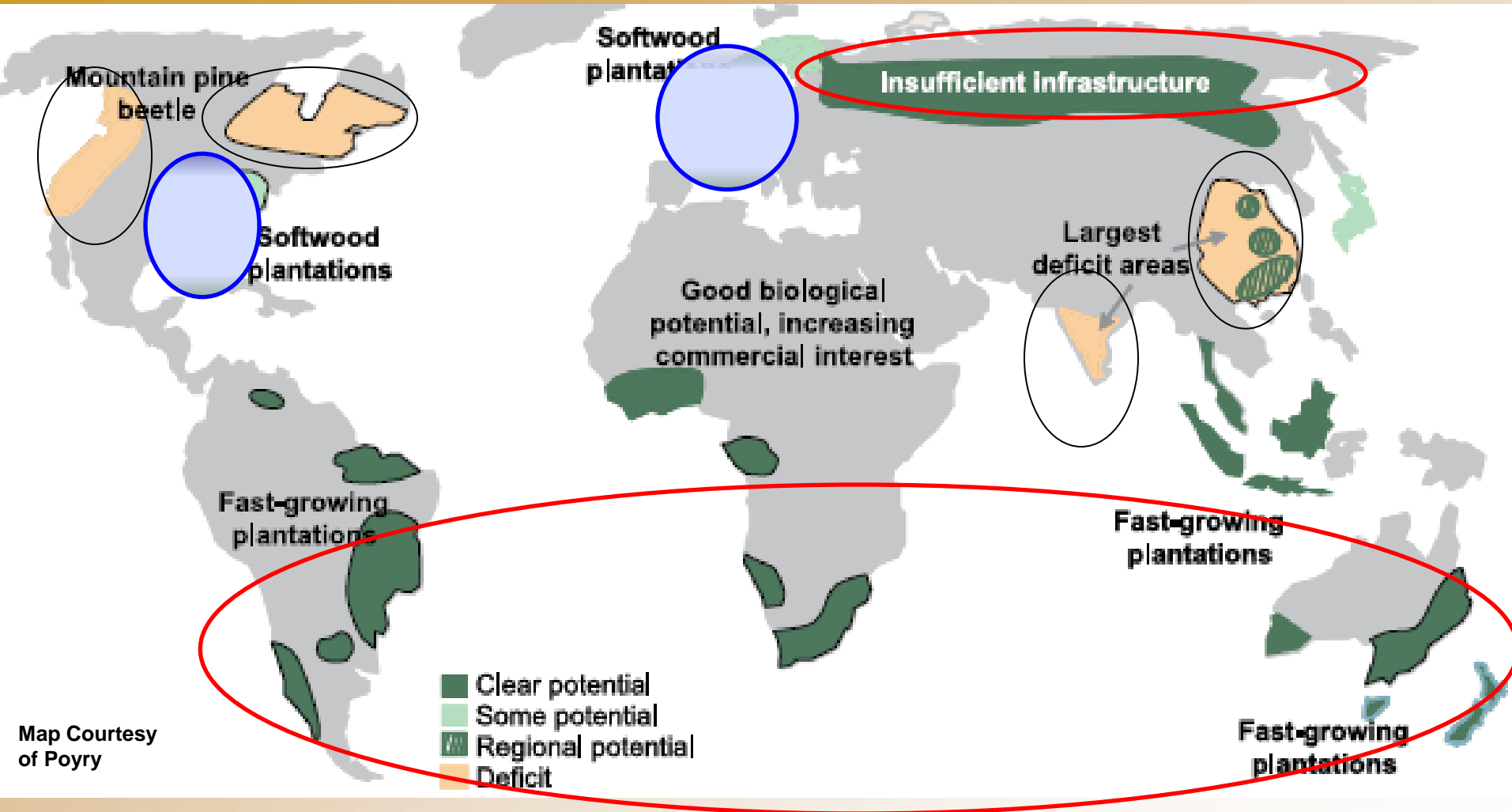
Current cycle shows some major log supply gaps:

- China: needs huge import increases.
- Russia: is not “in play”, or not yet!
- Canada: timber shortages coming.
- USA: lots of timber, but gaps in the supply chain, especially in sawmills!

Where will the logs come from to make lumber?

- Can we run out of wood in the short term? Maybe?... But Never!...

Global Timber Supply Dynamics



Other softwood plantations: US South and Western Europe;
Remaining Timber – tropical timber near the equator

Key Trends: Global Log Supply

- Softwood Timber Regions with a tightening of traditional timber sources:
 - China, India, BC Interior, Quebec
 - Softwood Timber Regions with Supply Constraints:
 - Russia, US West, Europe, BC Coast, (Ukraine)
 - Plantation Pine appears to be one of the few supply options for incremental sawlogs
 - New Zealand, Brazil, Chile, Australia, US South
- = Global supply is becoming tight, so higher prices are expected for incremental plantation pine logs and lumber.

RUSSIA: Timber Supply Issues = Big Impact on China

- Russia has increasing costs, export taxes, crumbling logistics, poor labour, high rail costs, etc. - has marginalized Russia's logging industry.
- The 25% log export tax (2008) raised log export costs; current tax is 15% for "quota" holders.
- Log export volumes to China: bottomed in 2013.
- Sawmills bankrupt; many for sale...
- Priority Investment Projects – many!
- **RUSSIA: Forest Industry Competitiveness & Export Outlook**



Russia Exports Now Stabilizing after Log Export Tax / Global Financial Crisis



Russian log exports crash! Now Impact of new tariffs/quotas?

Russia Log & Lumber Exports

Russia: Huge timber resources, weak ruble, is this time for log processing investments?

- Timber resources are huge, but accessibility, logistics, costs are issues
- A number of new, large Russian-based sawmill projects + failures.
- Many more Chinese mill investments.

Not for increases in log harvesting or log exports = better for lumber

- The ruble advantage for log exports is disappearing from lower prices.
- Freight costs to markets = ~US \$
- Advantages for lumber may remain as more operating costs in rubles.

2. China Wood Products: Demand View

**China: Large producer;
Huge consumer & importer**

- Huge & growing fibre deficit to 2020+.
- Will need to pay global market prices as (if) the supply of imported logs and lumber tighten.

China has, and will continue to, change global log & lumber markets as economy expands

- The issue is: where will China get its wood (mainly logs and sawnwood) as (when) the global log supply tightens,
- And at what price can or will it pay...?

China Lumber (Log) Market in Q2/2015: What is going on?

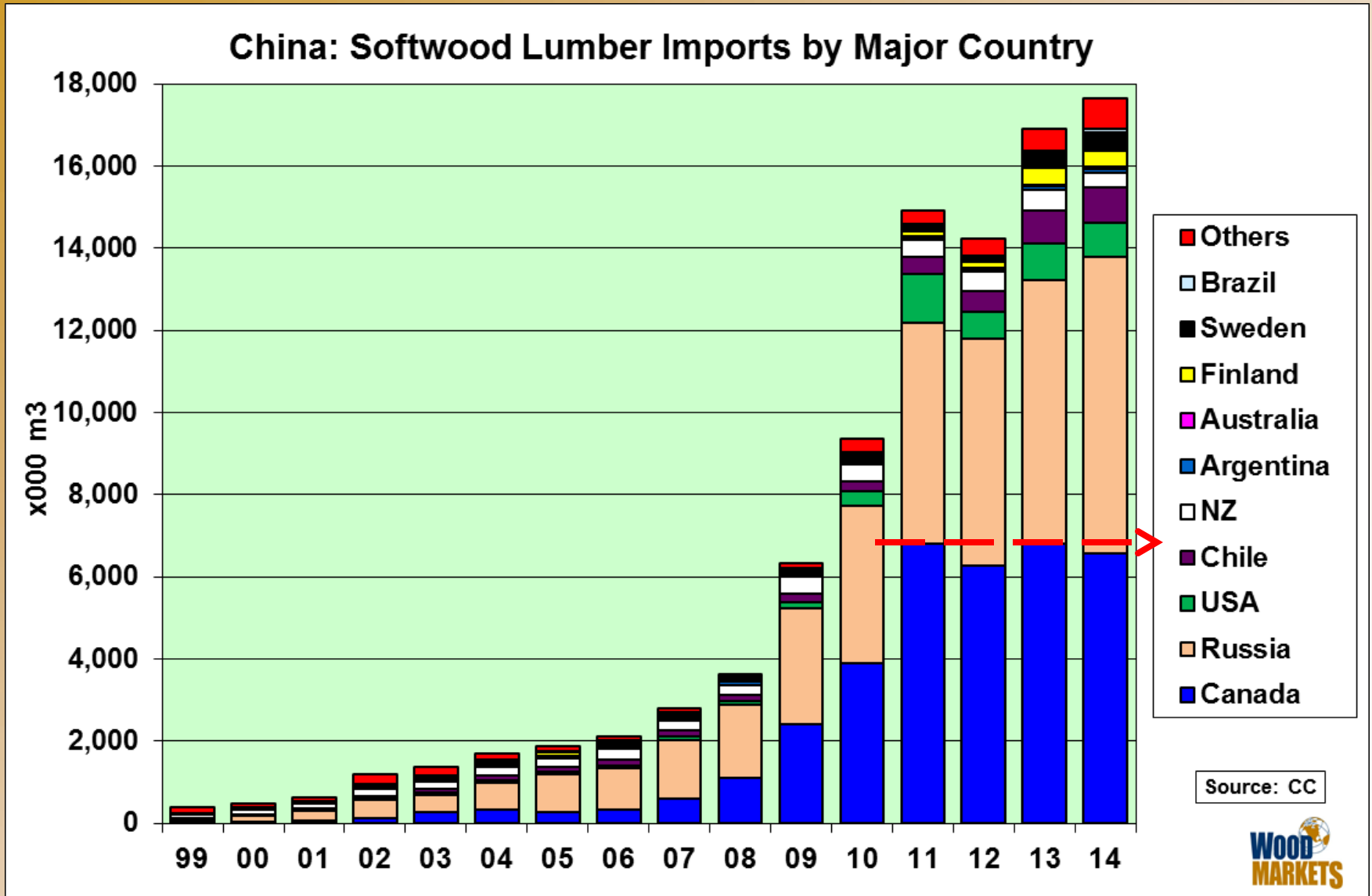
Many factors contributing to low prices in China:

- Currency devaluations: all US\$ prices off 10-15%**
- Log inventories very high;**
- Lumber inventories better, but still on high side...**
- Russians: were offering cheap logs & lumber...**
- New Zealand: started to adjust log prices lower...**
- Europeans: were following Russian prices down**
- Construction market slowing;**
- Demand flat – but still significant volumes!**
- Supply exceeding demand, so low prices.**

Log Supply for Chinese Sawmills

- **Russia:**
 - Still constrained by logging capacity
 - Still have to deal with EU quota on log exports
 - More lumber & cant mills to by-pass log tax.
- **NZ:**
 - Lots of incremental supply, depending on price
- **USA:**
 - US West: lots of logs, but prices may be too low
 - US South: potential source in short term?
- **BC Coast, Brazil, Uruguay, Europe** – suppliers
- For sawmilling sector, still lots of logs.

China: Softwood Lumber Imports



Canada (BC) exports = flat: Russia/Europe/Radiata Pine = up

China: Softwood Lumber Imports

- Canadian lumber & SPF exports to China in 2014 were lower vs. 2013 (-4%) but same levels as 2011
- Exports from other countries were way up!
- Changes in key suppliers (2011 to 2014) that are competing with SPF (especially #2) in China

Russia	+ 1,851,000 m3	+35%
Sweden	+316,000 m3	+251%
Finland	<u>+ 261,000 m3</u>	<u>+202%</u>
Subtotal	+ 2,428,000 m3	+43.2%

Other competing European suppliers not shown in the table include Germany (295,000 m3) and the Baltic States.

3. Global Timber/Sawmill Cost Benchmarking Reports: Excerpt

Global Benchmarking: Countries Surveyed

USA:

1. USA – South – West
2. USA – South – Central
3. USA – South – East
4. USA – West – Oregon
5. USA – West – Washington
6. USA – West – Inland

Canada:

7. Canada – BC Coast
8. Canada – BC Interior
9. Canada – Prairies
10. Canada – East – Ontario
11. Canada – East – Quebec
12. Canada – East – Atlantic

Europe:

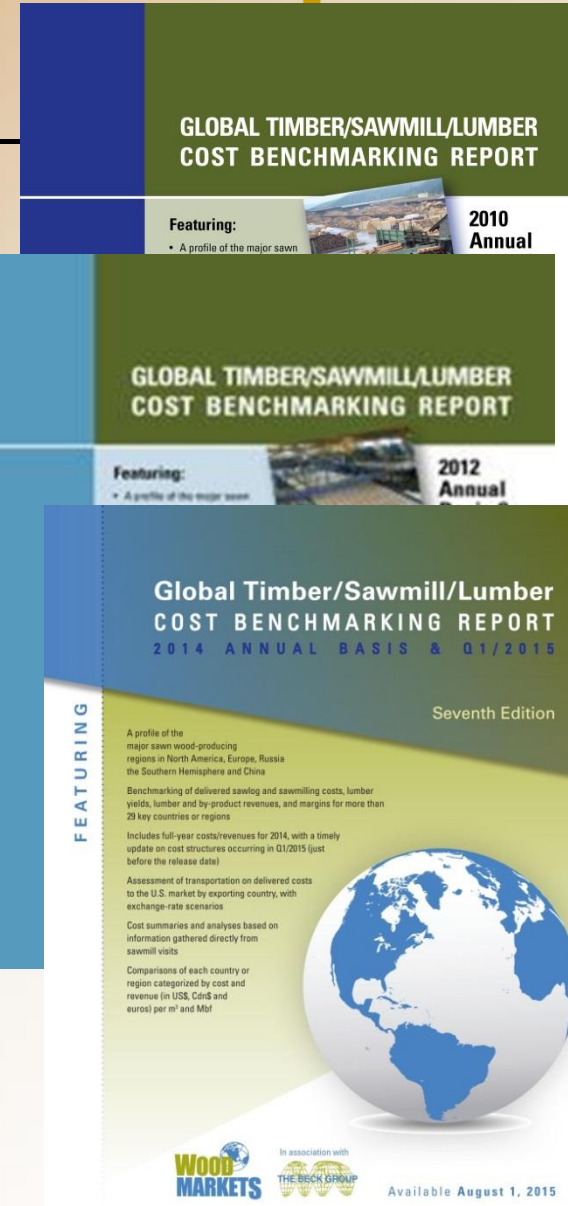
13. South Sweden
14. Finland

Europe (cont)

15. Estonia
16. Latvia
17. Lithuania
18. Czech Republic
19. Austria
20. Germany
21. Russia: West
22. Russia: Siberia
23. Russia: Far East

So. Hemisphere:

24. Australia
25. New Zealand
26. Chile
27. Brazil
28. South Africa
29. China



Overview Comments

- It is important to recognize the limitations of the cost data.
- Cost data is collected in different ways, from detailed financial data to estimates from mill visits.
- Study designed to focus on “financial comparisons”, not necessarily operational ones and therefore, does not have a lot of hard data in areas such as downtime levels, maintenance, etc.
- WOOD MARKETS provides global lumber and log revenues and forecasts to major export markets = provides more accurate returns in forecasting log revenues/stumpage for timberland valuations and lumber margins for sawmill owners.

Global Log/Sawmill Costs & Margins

- With its data-base of sawlog & sawmills costs as well as prices for sawlogs, lumber & by-products starting in 2002, WOOD MARKETS' *Global Benchmarking Report* shows subscribers where stumpage returns and/or sawmill margins are excessive or or under-priced over market cycles.
- **29 different countries & regions** are compared to determine “who is making the money” on sawlogs – the timberland owner or the sawmill operator.
- Stumpage & sawmill margin trends over time = strategic information for timberland valuations!
- Our **7th bi-annual edition** will be ready in August;
- *Benchmarking Report excerpts* follow:

Sawmill Margins: Who's Making Money?

Out of the 29 countries/regions surveyed (US\$/m³):

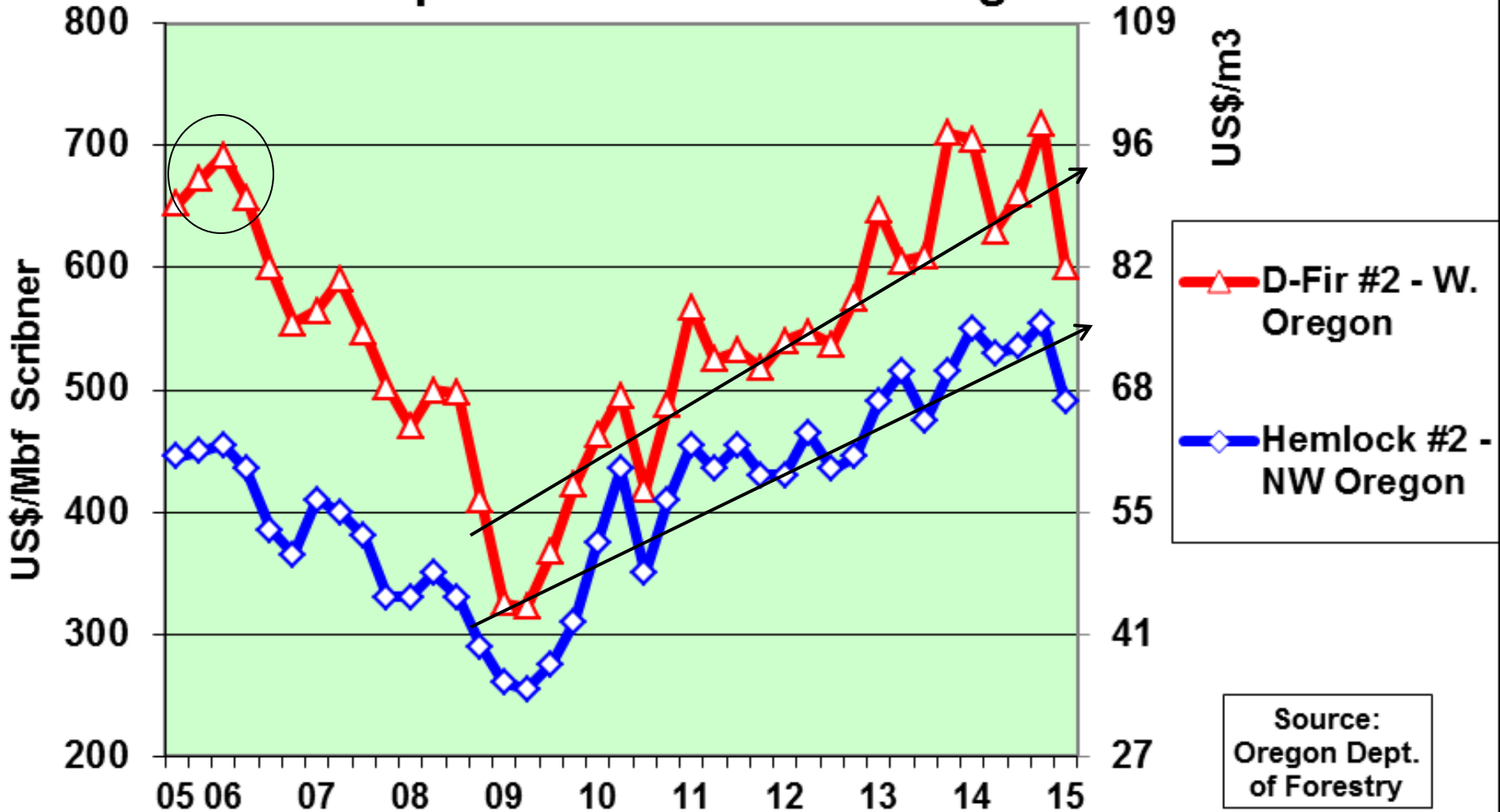
- Lowest “average” cost sawmills (2010 to 2014):
 - Europe (Baltic States, Czech Rep., Germany, Austria), US West Coast, US South.
- Highest “average” sawmill margins (2010 to 2014):
 - US South; (US Inland).
- Canadian results:
 - Don't have best sawmill costs or margins;
 - Struggling with wood quality/costs (BC, Quebec)
 - Quebec results: clearly under-performing.

Full report details available in August 2015.

North America Log Price & Harvest Trends

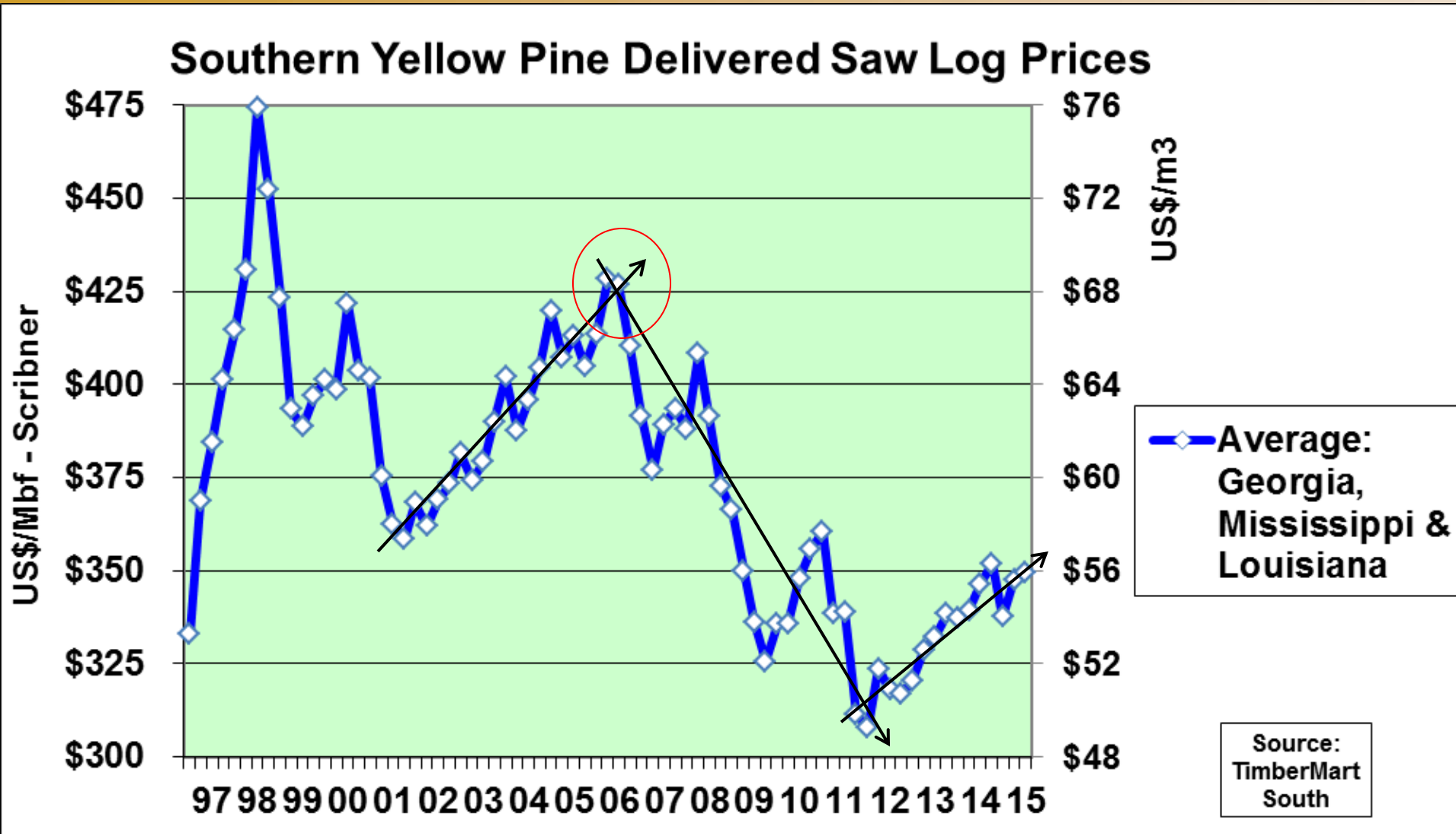
US West Coast Log Prices

Western Species Delivered Sawlog Costs



Log prices surpass 2005 peak = China + US = steady demand

US South Log Prices



Log prices well below 2005 peak = over-supply vs. demand

BC MOUNTAIN PINE BEETLE: Evolving Impacts & Opportunities

Follow-up report to *BC Interior: Mountain Pine Beetle Attack*



Photos courtesy of Forest Innovation
Investment Ltd and BC Ministry of Forests

☆☆
SECOND EDITION!
Provides new perspectives
on the BC industry and how it
could survive and prosper despite
the reality of a reduced
timber harvest!

Featuring

- ▲ An overview of the key impacts on the BC industry
- ▲ A proprietary modeling of BC Interior and BC coastal fibre availability and wood products production "after the beetle"
- ▲ An assessment of new forest sector opportunities, including bio-energy and pellets through 2031
- ▲ North America lumber supply/demand outlook to 2031 and the BC industry's fit in global markets "after the beetle"
- ▲ An assessment of sawmilling economics from processing MPB-killed trees

Available April 2012

**WOOD
MARKETS**

PUBLISHED BY
International WOOD MARKETS Group Inc.
Vancouver, BC



BC Interior: Mountain Pine Beetle Attack Report

Forecast: to 2031

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

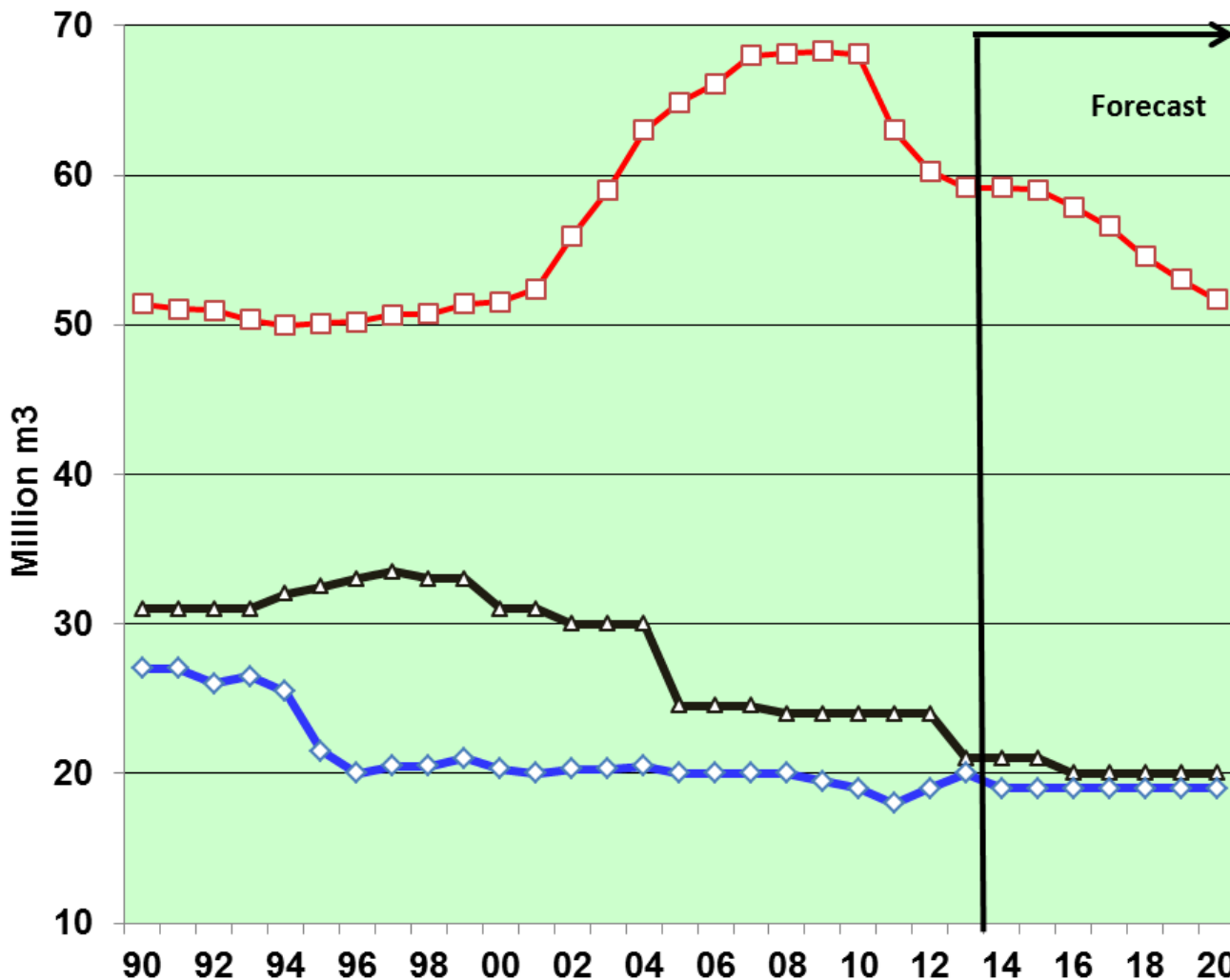
- **Jim Girvan**
- **Murray Hall**
- **Russ Taylor**
- **Gerry Van Leeuwen**

Released: in
May '12



BC/Quebec/Ontario: Lower AACs

Fibre Supply: BC Interior, Ontario & Quebec



- BC Interior AAC
- ▲ Quebec AAC
- ◆ Ontario AAC

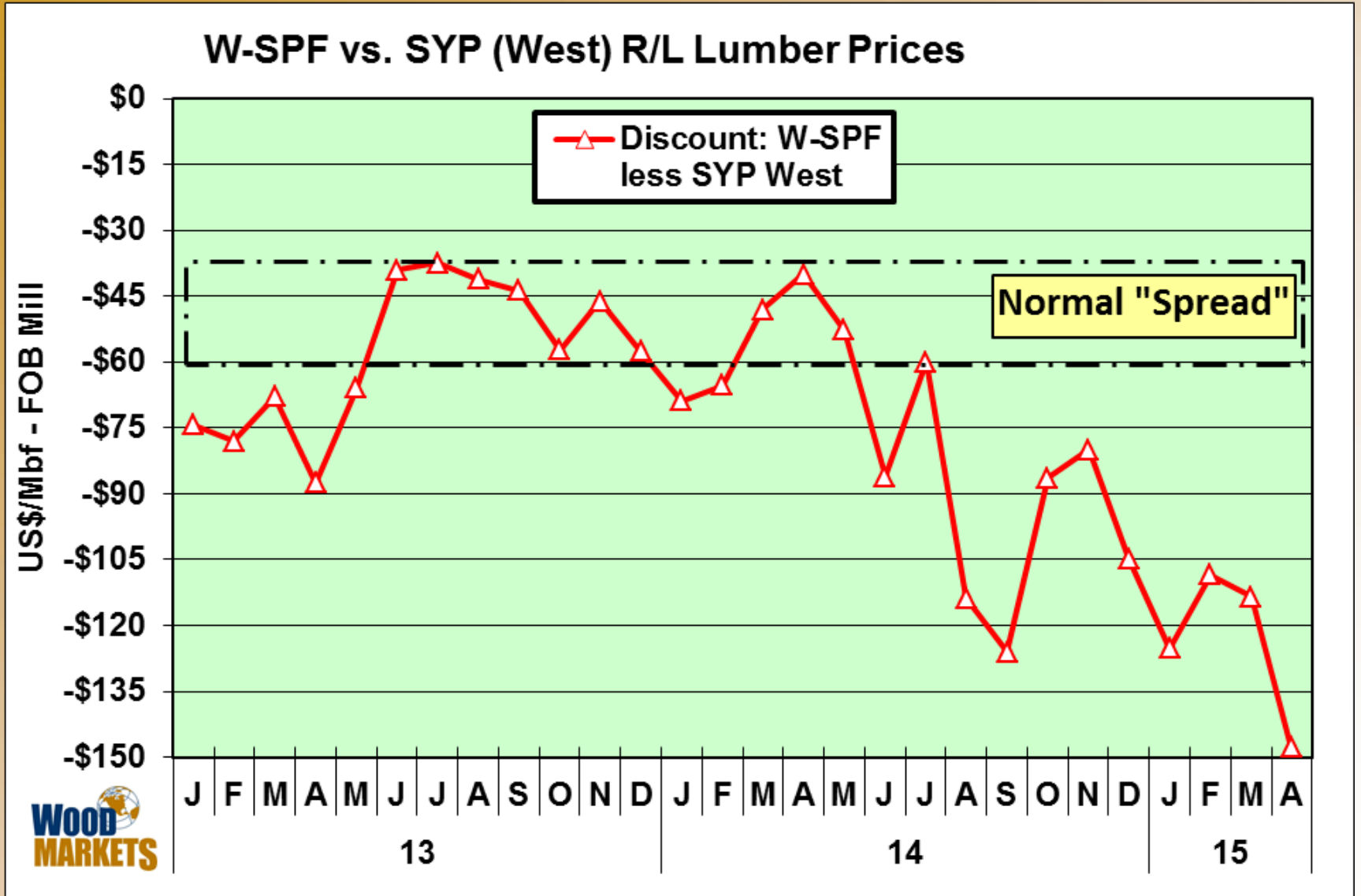
Note: AAC = Annual Allowable Cut

Source: WOOD Markets



**AACs from 2004 to 2014: Quebec = -35%; Ontario = -15%;
from 2010 to 2020: BC Interior = -25%**

2x4 W-SPF price gap widening vs. SYP



2x4 Price Spread Basis: Too much SPF AND too little SYP

4. Key Demand & Supply Trends: Impacting USA

4A. US Lumber Market in Q2/2015: What is going on?

Drawing much of the blame for weak pricing was:

- Harsh weather in the eastern half of the continent,
- Low level of U.S. housing starts,
- A slowdown in exports to China (inventories high)
- Labor troubles clogged up US West Coast ports,
- A strong U.S. dollar that encouraged imports from Canada and overseas while discouraging exports.
- First European lumber vessels in a few years.
- So, usual situation of **too much supply chasing too little demand**, where China & USA demand were particularly weak, creating low prices.

4B. US Coalition Position on SLA

US position: Canadian (provincial) stumpage prices not responsive to lumber price changes in BC, Alberta, Ontario & PQ

Not considered: Stumpage prices stay low in Canada when sawmills lose money/break-even!

US position: Canada's market share of the U.S. lumber market needs to be constrained.

Not considered: Canada's harvest is declining.

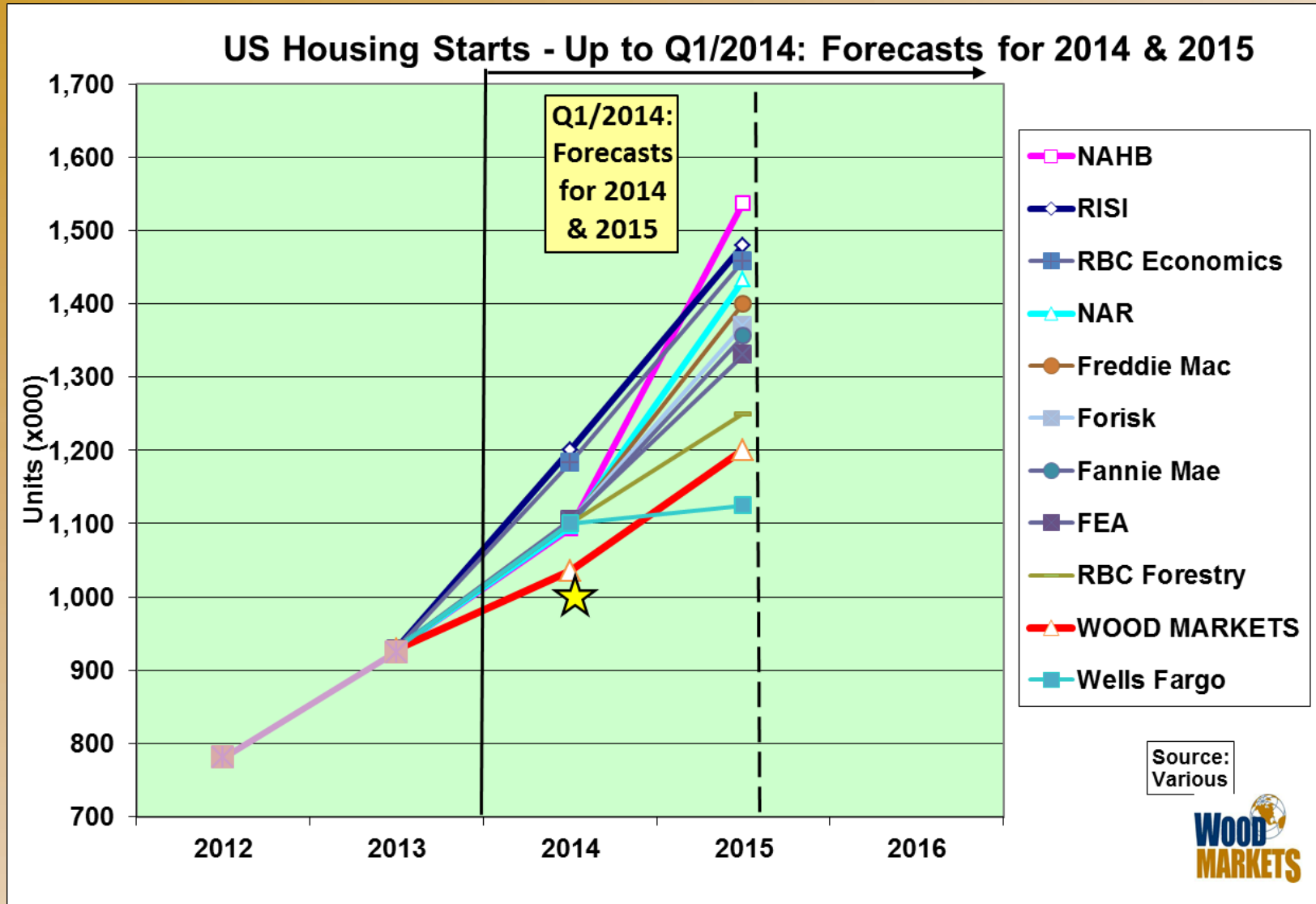
US position: Canadian mills can make "too much" money operating with Crown timber.

Not considered: the US South has had the highest sawmill margins in the world since 2010; Quebec consistently low margins vs. world...

4C. US Housing Market Outlook

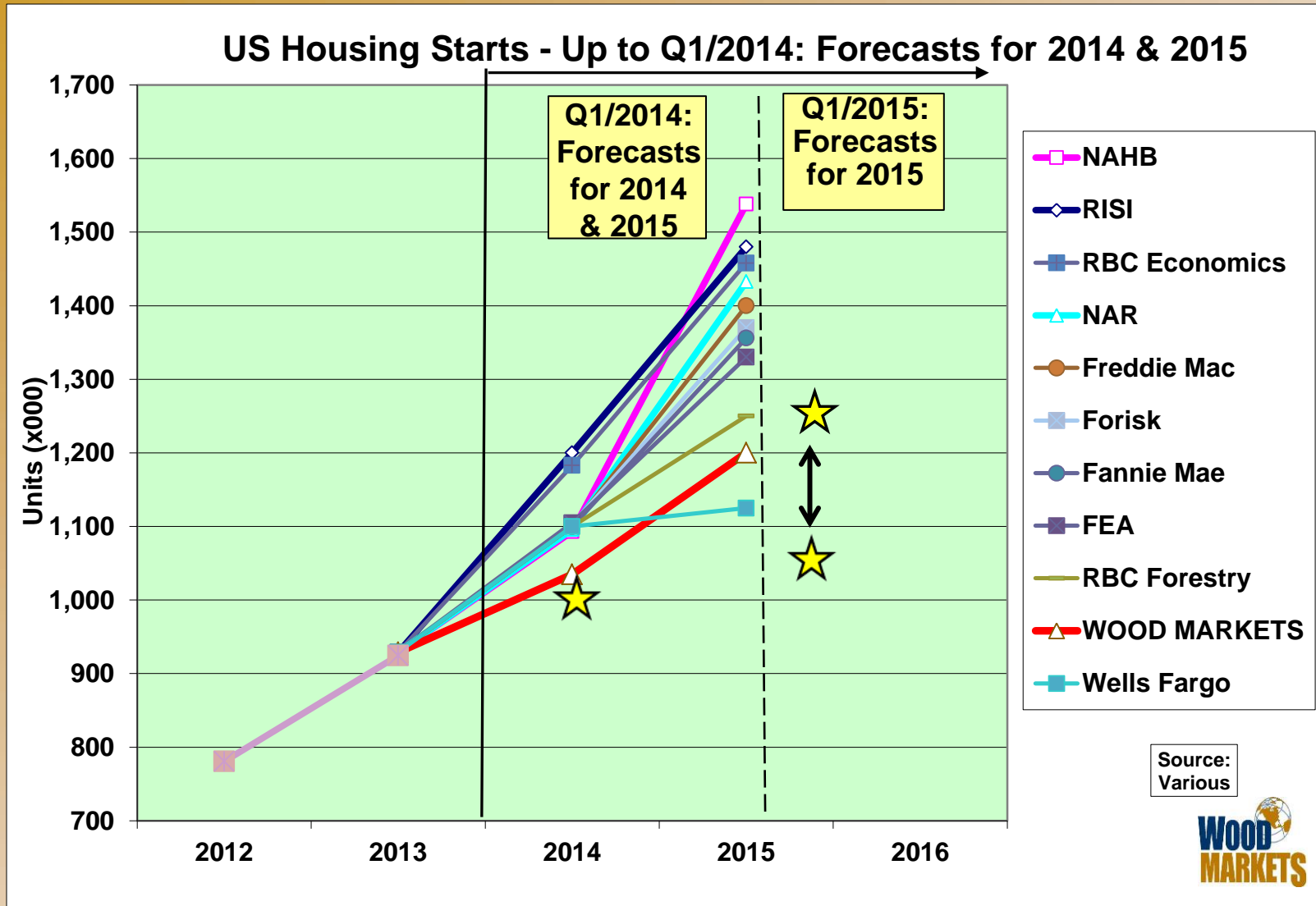
- U.S. housing: from 2 million units in 2004 to 550,000 in 2009; 2013 = 930,000 units; 2014 = 1.03 million units. **NORMAL = ~1.5+ million units.**
- Unsold houses, prices & foreclosures improving.
- Still some headwinds to deal with (but getting better): economy; government debt issues; housing inventories; mortgage defaults; etc.
- Economic growth & jobs needs a healthy housing market (and vice-versa) to support growth.
- **Housing starts have been impossible to forecast!**

US Housing Starts Forecasts: Bullish!



We think so! Our outlook is for a slow recovery where getting back to 1.5 million housing starts = is going to take more time!

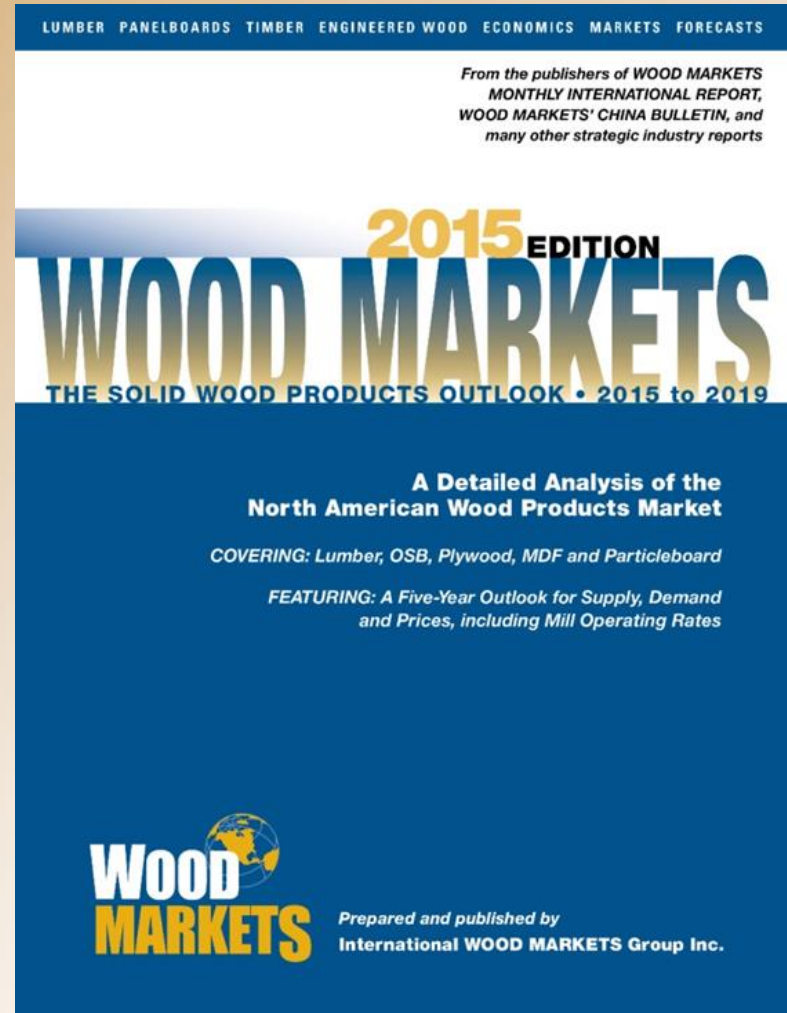
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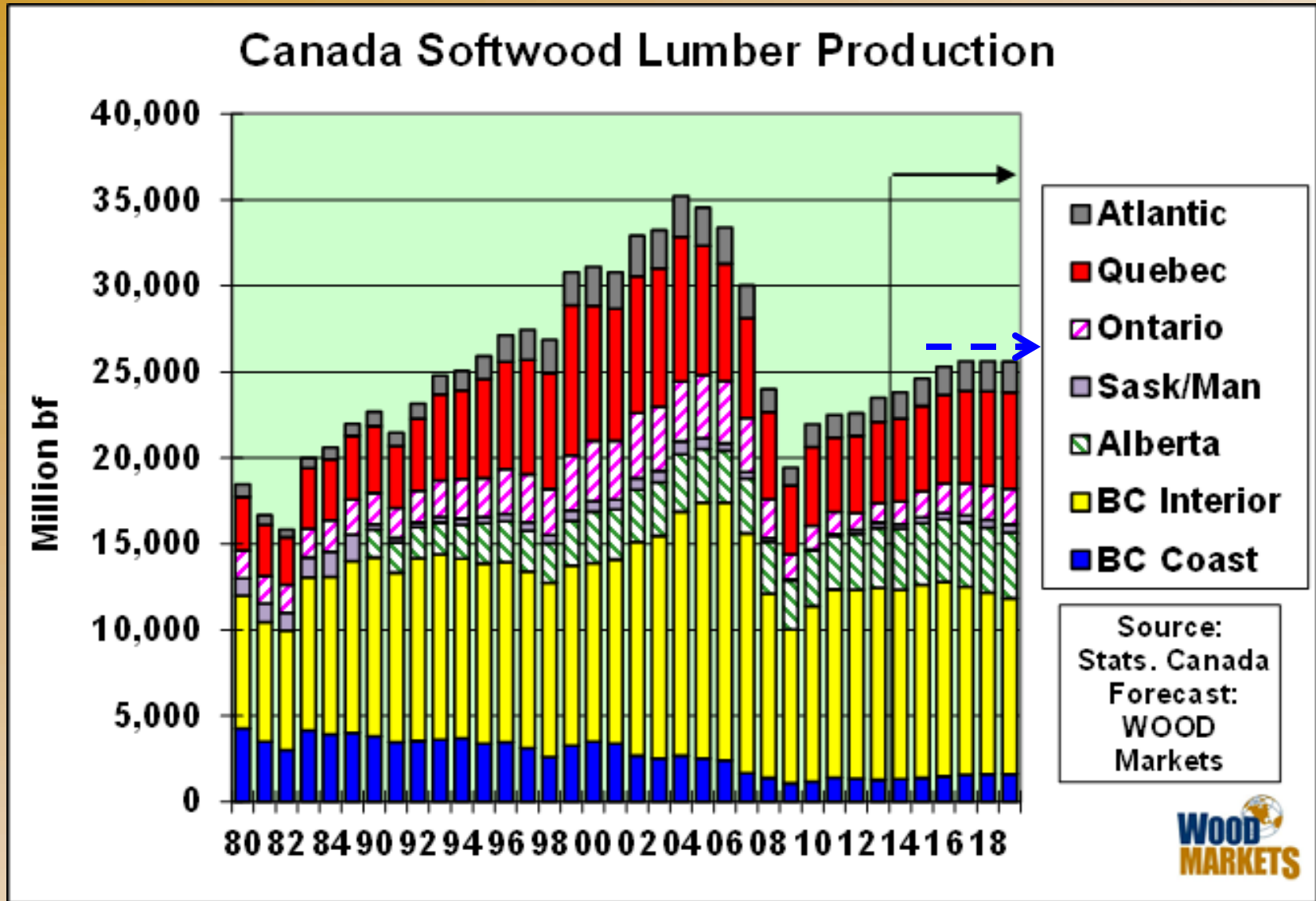
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4C. Highlights of WOOD MARKETS 2015 Report: Outlook to 2019

Highlights of Canadian lumber trends & US outlook

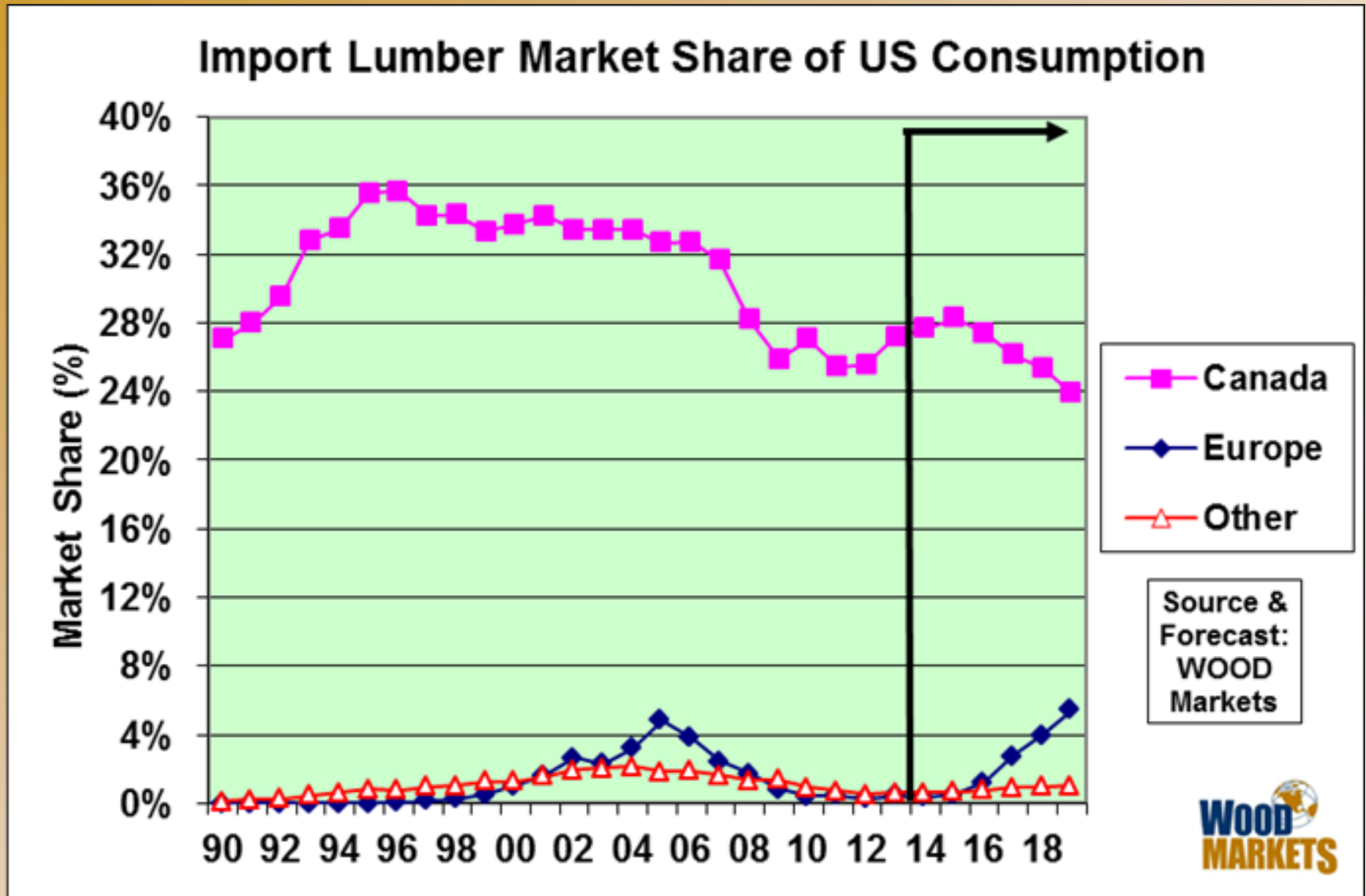


Canada: Flat Lumber Prod'n



Production decreases in West offset by increases in the East

Market Shares: Canada Down; Europe Up



Potential Scenario 2017+ = Lumber Gap

Looking out to 2017+ : Key Assumptions:

- If U.S. housing starts grow to 1.3-1.4 million units by 2017.
- If US economy and demand levels are stable to strong.
- Then the U.S. will face increasing pressure on finding enough lumber supply to meet demand.

If U.S. demand does increase, a potential “domestic gap” of between 4 and 6 billion board feet (6 to 9 million m³) of lumber could evolve by 2019.

- This will require higher prices for incremental North American logs & lumber; more imports from Europe/ So. Hemisphere, EWP, substitutes, etc.; **Lower exports!**
- Key assumption: need steady to strong demand = wild card...

Who Can Fill the U.S. Lumber Gap?

- Only global structural supplier with scale: Europe:
 - Key issue: European sawmills are constrained by tight log supplies and very high log costs (US\$110+/m³, or ~2x US South; ~2x Canada)
 - Have very flexible, large scale export mills;
 - To US East Coast, European need high prices:
 - * Germans need US\$475-500/Mbf
 - * Scandinavians need US\$425-450/Mbf
 - Southern Hemisphere plantation pine lumber & moulding exports will increase, but the U.S. market has become less important since the housing market collapse.

4. Global Perspective: Trends & Outlook

- **Russian situation** : will a major log/lumber supply response will occur from its devalued ruble?
- **China**: Market is slow now; what about 2015/H2
- **Global/Canada/BC softwood timber harvests & Canada/US lumber capacity & production**
 - **BOTH**: still should have an overall tight supply!
- **U.S. (and China) wood products demand**: both markets are moving slowly and have become very unpredictable – especially housing starts!
- **Lumber prices**: Potential to go much higher, as nowhere to go but up (we all hope)!

WOOD MARKETS: Vienna Events

June 16-21 2015:

5 Vienna-Area EVENTS

Featuring:

- **Schweighofer Prize**
- **Intern'l Wood Products 1-Day Conference**
- **Wood Products EXPO**
- **Two Industry Tours:**
 - **Vienna area (largest capacity sawmill in world, CLT, etc.)**
 - **Romania (Schweighofer ops.)**

FIRST ANNOUNCEMENT FOR PROPOSED EVENT!

VIENNA INTERNATIONAL Wood Products Conference & Expo

FIVE COMPLEMENTARY GLOBAL WOOD INDUSTRY EVENTS

June 16-21, 2015 • VIENNA, AUSTRIA

2015 SCHWEIGHOFER PRIZE
Awards Ceremony & Reception

JUNE 16

WOOD PRODUCTS EXPO
Equipment & Manufacturers' Showcase

JUNE 17

WOOD MARKETS'
International Wood Products Conference

JUNE 17

AUSTRIA TOUR:
Modern Sawmills, Glu-lam, CLT, Pellets, etc.

JUNE 18-19

ROMANIA (SCHWEIGHOFER) TOUR:
Sawmill, Lam-Post Plant, EGP, Pellets, etc.

JUNE 20-21



An opportunity to attend a special awards ceremony, participate in a unique global conference and expo, and tour the Austrian and/or Romanian wood products industry



Thank You!

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