

Global & North America Log & Lumber Dynamics Fit for Quebec

QFIC Annual Meeting

May 13, 2015

Quebec City, PQ

By: Russell Taylor, President

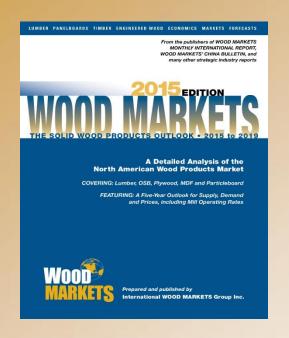
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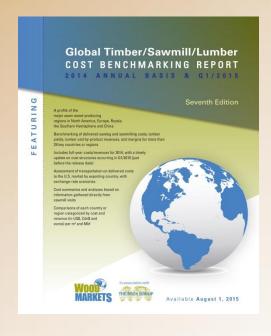
Introduction to: International WOOD MARKETS Group

- 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
 <u>experts/analysts</u> 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

WOOD Markets' Multi-Client Reports









Global Competitiveness

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CHINA BULLETIN

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Since 2007

CLICK our logo above to visit us at www.woodmarkets.com

Overview on China-EU Wood Products

China is the largest wood products exporter in the world and collectively, the EU countries are the second largest partner for China wood products exports. The full article provides a summary/overview on the following wood products trade between China and EU.

- 1) Flooring: China increases share of EU wood flooring imports

 2) Doors: China is the largest single supplier for
- EU wooden door imports 3) 3) Glulam: EU glulam imports from China
- down 14% in 2012 4) Wood Window: EU wooden window imports
- rom China fall to negligible levels 5) Plywood: China contributed 33% of EU
- plywood imports in 2012

Log markets remain relatively stable with prices that soared have now crashed from unsustainable levels – as has happened in the U.S. market. Very low lumber prices have Chinese buyers on the move and that should be good news for exporters over the next few

MONTHLY CHINA PRICE TRENDS

Preduced by International WOOD MARKETS Group Inc. CHINA Wood Products Industry and Market Review FEATURING: A comprehensive connew of Crima's expending wood products industry an obviorir rew material supply Assessment of China's imported raw material suggly and sources Log, kentler and panel price bronds and softwood forecast.

Prepared and published by International WOOD MARKETS Group Inc

MARKETS + PRODUCTS - MALTERS - RESEARCH - PERSONNES

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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 <u>and</u>, 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 <u>slower than projected</u> 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:

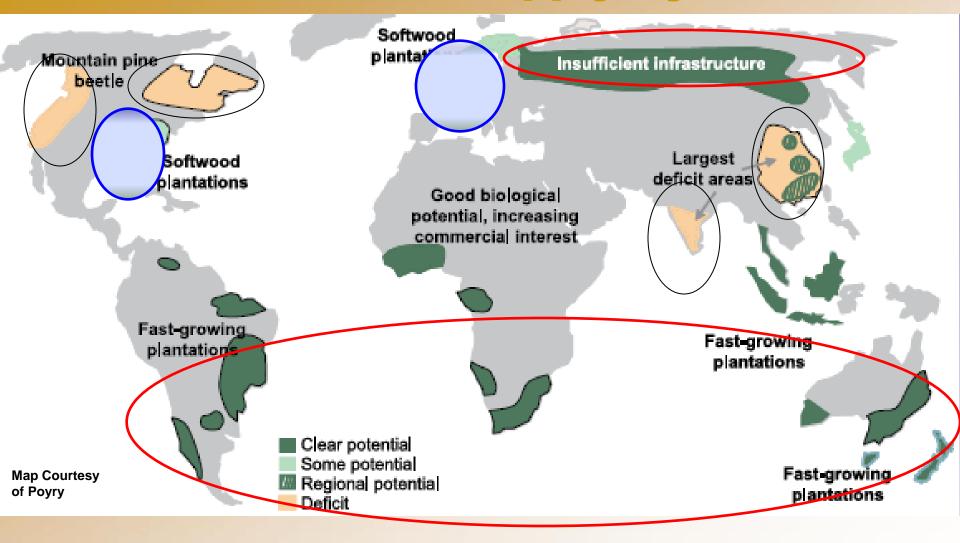
- China: needs huge import increases.
- Russia: is not "in play", or not yet!
- Canada: timber shortages coming.
- USA: lots of timber, but gaps in the supply chain, especially in sawmills!

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





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:

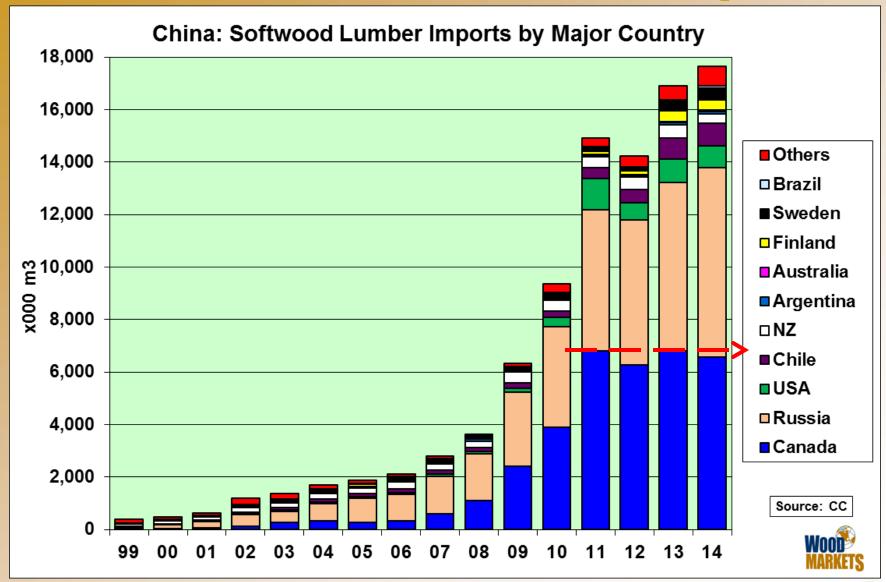
Lots of incremental supply, depending on price

· 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







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	+ 261,000 m3	+202%
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
- 148 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

GLOBAL TIMBER/SAWMILL/LUMBER COST BENCHMARKING REPORT

Featuring:



GLOBAL TIMBER/SAWMILL/LUMBER COST BENCHMARKING REPORT

Featuring:

- Aprella of the major seen



2012 Annual

Annual

Global Timber/Sawmill/Lumber
COST BENCHMARKING REPORT

Seventh Edition

A profile of the major sawn wood-producing regions in North America, Europe, Russia the Southern Hemisphere and China

ATURIN

Benchmarking of delivered sawlog and sawmilling costs, lumber yields, lumber and by-product revenues, and margins for more than 29 key countries or regions.

Includes full-year costs/revenues for 2014, with a tin update on cost structures occurring in Q1/2015 (just before the release date)

Assessment of transportation on delivered cos to the U.S. market by exporting country, with exchange-rate scenarios

Cost summaries and analyses based information gathered directly from sawmill visits

region categorized by cost and revenue (in US\$, Cdn\$ and euros) per m³ and Mbf





Available August 1, 2015

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.

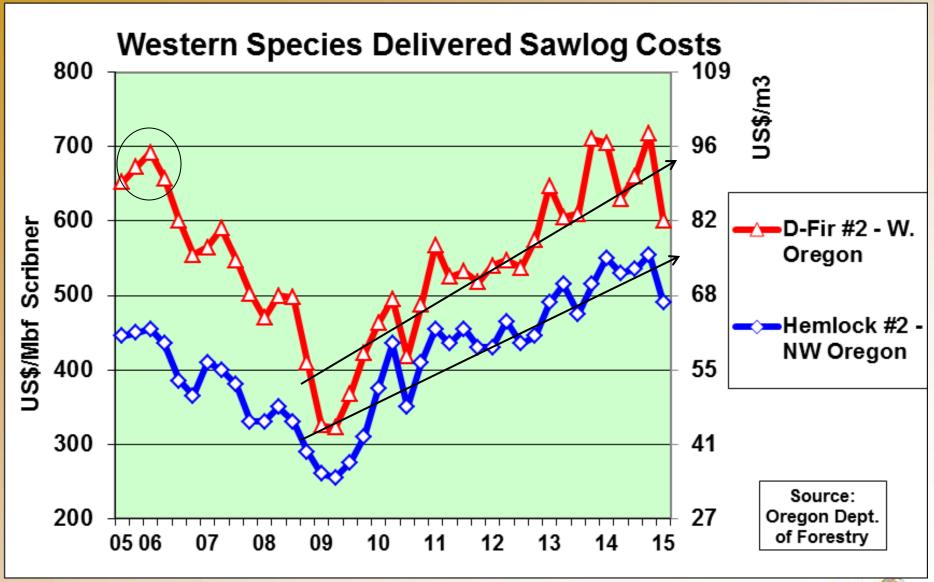
Full report details available in August 2015.



North America Log Price & Harvest Trends

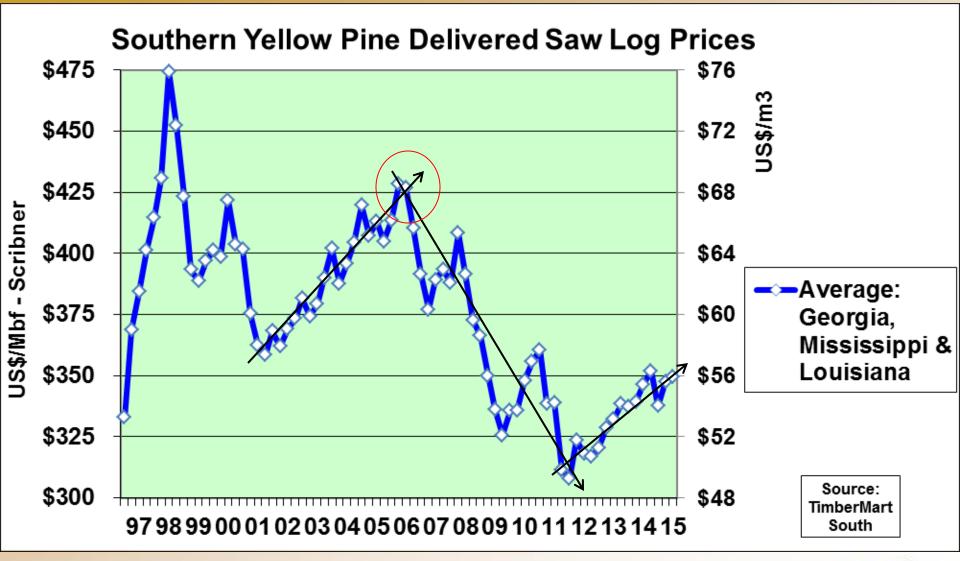


US West Coast Log Prices





US South Log Prices





BC MOUNTAIN PINE BEETLE:Evolving Impacts & Opportunities

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









Platte courtee of Parest Interestion Insultance (14) and BY Ministry of Funetic

Available April 2012

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



BC Interior: Mountain Pine Beetle Attack Report

Forecast: to 2031

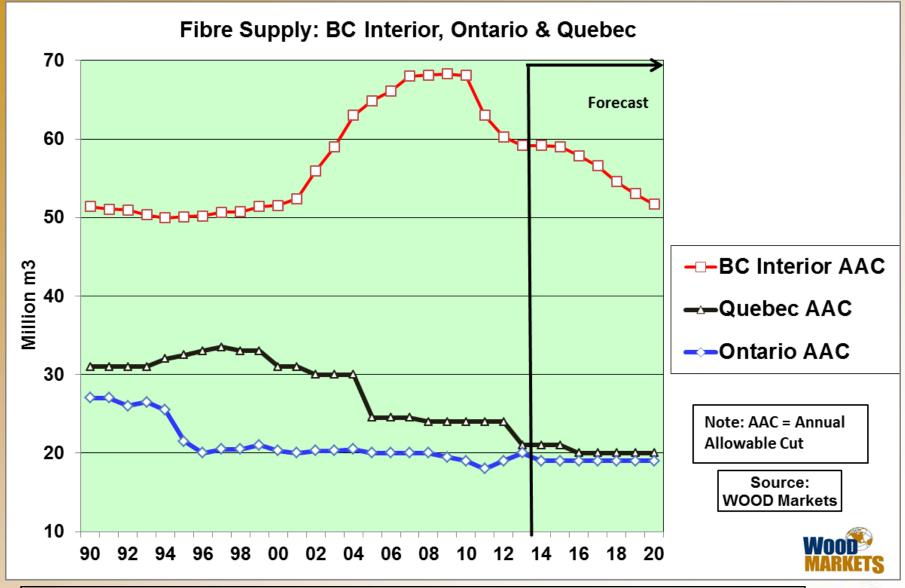
The future of BC's harvest and wood products production produced by:

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

Released: in May '12



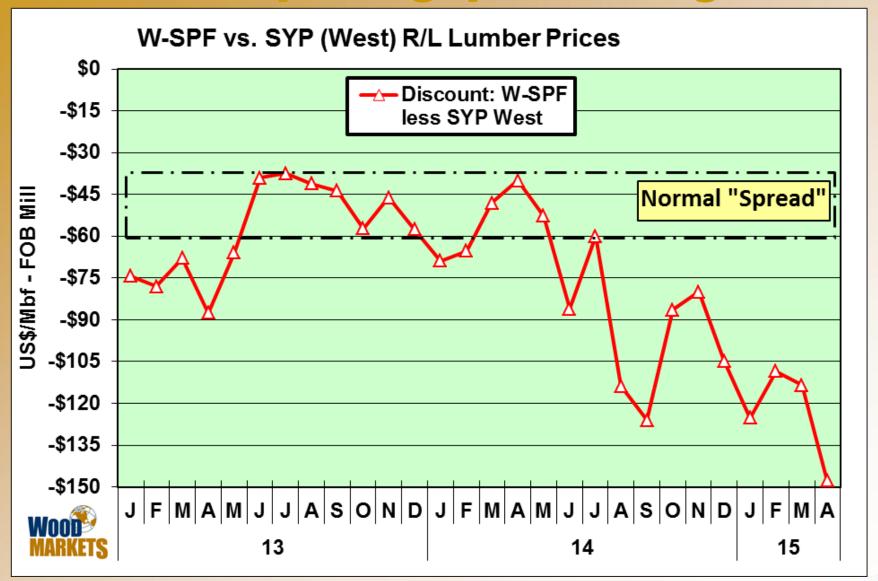
BC/Quebec/Ontario: Lower AACs



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



2x4 W-SPF price gap widening vs. 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 <u>China & USA</u> 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

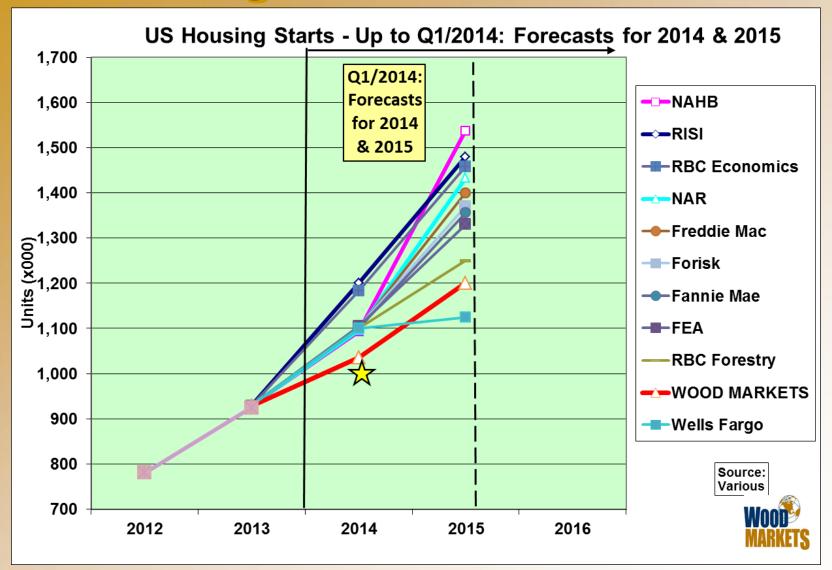
- Not considered: Stumpage prices stay low in Canada when sawmills lose money/break-even!
- US position: Canada's market share of the U.S. lumber market needs to be constrained.
- Not considered: Canada's harvest is declining.
- US position: Canadian mills can make "too much" money operating with Crown 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!



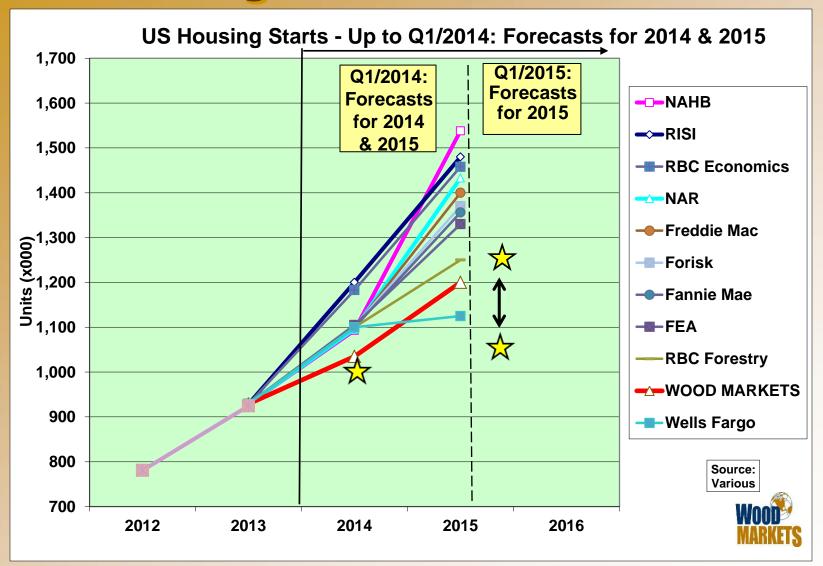
US Housing Starts Forecasts: Bullish!



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!



US Housing Starts Forecasts: Bullish!

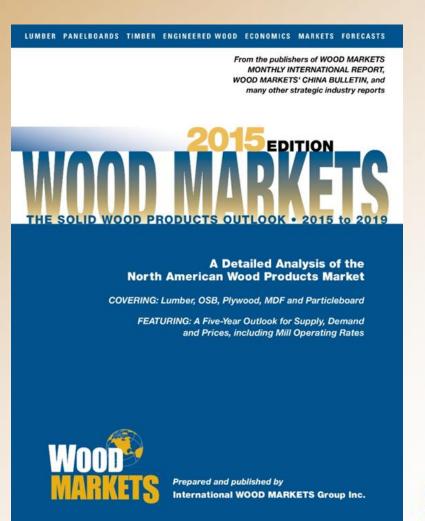


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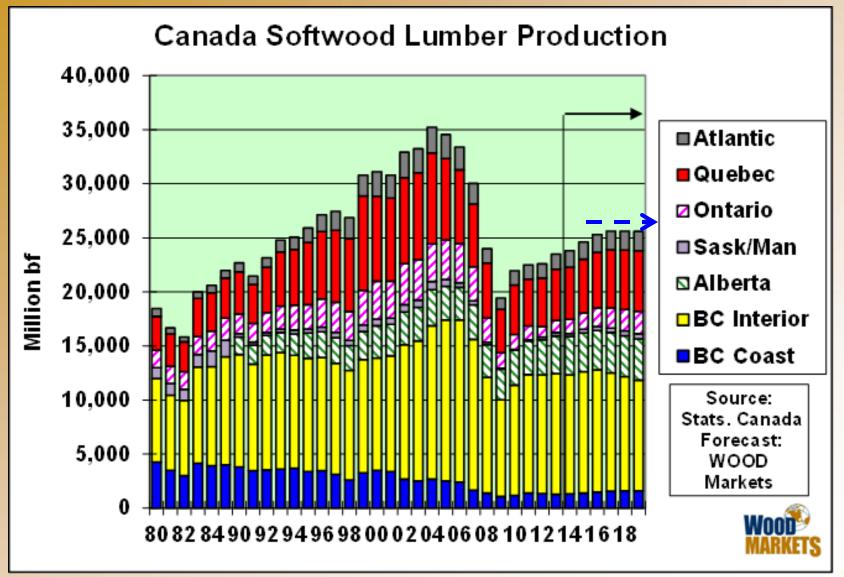
4C. Highlights of WOOD MARKETS 2015 Report: Outlook to 2019

Highlights of Canadian lumber trends & US outlook



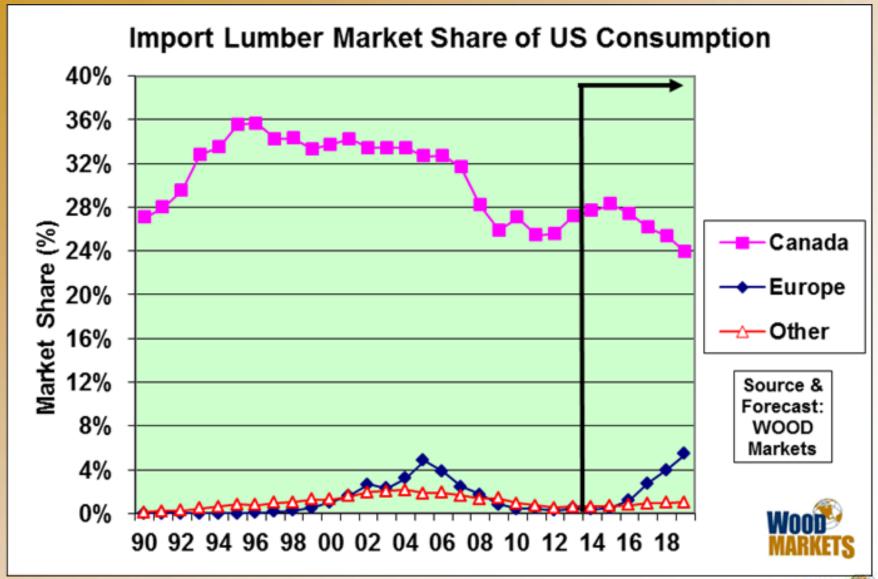


Canada: Flat Lumber Prod'n





Market Shares: Canada Down; Europe Up



WOOD

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 <u>higher prices</u> for incremental North American logs & lumber; <u>more imports</u> from Europe/ So. Hemisphere, EWP, substitutes, etc.; <u>Lower exports!</u>
- 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 Products1-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	1000
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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