North America: Housing, the Economy and Timber Harvest

Silva 2015
“The Value of Forests”
Wood and wood products markets
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Today’s Agenda

- US housing and the forest industry
- The future for building with wood
- Canadian lumber production
- US regional production trends
- “Softwood Lumber Agreement”
- Pulp and paper outlook
- North American forest product exports
Principal timber regions in North America
Building with wood
US housing drives NA production

Source: US Census & Forest2Market
Changing demographics of housing

1993 87% single

2015 61% single

Source: US Census
New horizons building with wood

_Framework_, a twelve story retail, office and housing project using cross-laminated timber and other engineered wood products to be constructed in Portland, Oregon
Canadian forest industry
Canadian softwood lumber imports to US

Source: WWPA & Bank of Canada
MPB leads to Canadian lumber decline

Source: WWPA

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Softwood lumber agreement

- Adopted in 2006; resulting from a disagreement over whether Canadian stumpage pricing process constituted an unfair subsidy that disadvantaged the US lumber industry
- SLA expired in October 2015
- What has changed? Mountain pine beetle infestation in BC, Canadian producers supply China’s demand for wood products, Canadian industry now owns a large stake in US lumber production
- Strong US $ makes Canadian lumber imports attractive
- As demand from China falls, US producers are concerned about a “wall of wood” from across the border
- Canadian producers see new trade restrictions as an unnecessary intrusion on free trade, an effort to prop up values of US private forests and fear further duties could be retro-active
- A “sticky wicket” as they say!
US industry outlook
US softwood lumber production

- Western share of national softwood lumber production is declining
- Major western sawmill closures in 2015
- West Coast timber supply constrained
- Southern pine share of lumber production (52%) is growing due to abundant low cost logs
- Canadian forest products companies investing heavily in southern sawmills
- New southern sawmill construction
- Consolidation of production capacity in all regions

Source: WWPA
US Pacific Northwest
Pacific Northwest industry margin

D-Fir GRN/SRF STD & BTR
DF logs cubic meter
Linear (DF logs cubic meter)
Western Federal forests are highly regulated: harvest is only a fraction of sustainable growth.

Western US forests: 147 million hectares

- Government forests: 31%
- Private forests: 69%

Eastern US forests: 156 million hectares

- Government forests: 17%
- Private forests: 83%
Oregon forest owners area and harvest

**Oregon Forest Ownership**
- US Government: 56%
- Forest Industry: 19%
- Small private: 18%
- State, local and tribal: 7%

**Oregon 2014 Timber Harvest**
- US Government: 14%
- Forest Industry: 64%
- Small private: 14%
- State, local and tribal: 8%

Source: Oregon Forestry Department
US Southern pine
Southern pine industry margin

![Graph showing Southern pine lumber, Southern pine logs cubic meter, and Linear (Southern pine logs cubic meter) prices from Oct-09 to Aug-15. The graph indicates fluctuations in prices over time.]
Canadian forest industry moves south

- The Southern US pine region has abundant, low cost timber from productive, well managed private forests
- Canfor, West Fraser and Interfor; leading Canadian forest products companies hedge their bets
- 35 pine sawmills in Texas, Arkansas, Louisiana, Mississippi, Alabama, Georgia, South Carolina, North Carolina and Florida are now owned by these three companies
- 11,000,000 cubic meters of production capacity
- 30% of Southern pine framing construction lumber production
US pulp and paper industry
US regional chip & pulpwood fiber usage

Fiber million green tons

- US South
- US PNW
- US Lake States / NE (est)
Regional US pulpwood pricing

US Dollars per green ton

South

PNW

Lake States/Northeast

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NA woodchip, fiber and paper outlook

- Linerboard and packaging industry healthy
- Newsprint, coated free sheet printing and writing paper segment is suffering
- Southern operators benefit from low cost fiber and efficient mills
- Fuel pellet producers have increased capacity and competition for fiber in the South and Northeast
- Revived interest in Northwest pulp & paper operations
- Northwest faces tighter chip supply and increasing fiber cost – less available pulpwood and residual chips
- Lake States and Northeast - very expensive fiber; older, less efficient mills with declining product line at risk
- Declining harvest and lumber production due to MPB will negatively influence British Columbia wood chip supply
Forest product exports to Asia
Strong $ benefits New Zealand loggers

China log imports by selected country

Source: China Customs

Russia
New Zealand
USA
Canada
Asian demand for US logs slowing

Northwest Log Exports to Asia - Breakbulk Volume

Source: US Dept of Commerce

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Canada no longer leading Chinese supplier

China lumber imports by selected country

Volume cubic meters

Source: China Customs
Concluding thoughts

• Soft recovery for US housing market
• Multi-level building with wood
• British Columbia production declining
• Growth for Southern US pine industry
• US linerboard, packaging business is strong
• Strong US $ influence on wood imports & exports
• China’s demand for wood products is slowing
• South American imports: productive plantations, modern pulp and panel mills, Asia and US $ ?
Forest2Market: The highest quality wood raw material analysis available

Gordon Culbertson
Director-International Business Development

(541) 285 3288
Gordon.culbertson@forest2market.com

Forest2Market®
15720 Brixham Hill Avenue, Suite 550
Charlotte, NC 28277

www.forest2market.com
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