North American Wood Products Markets

UNECE Forest Products Trends and Developments
18 October, 2016
Key Topics

• Consumption will grow steadily.
• Deep dive into end-use markets.
• Long run we are optimistic.
• Where will supply come from: timber supply
North American Wood Products Consumption by Product

Million Cubic Meters

Year:
- 00
- 02
- 04
- 06
- 08
- 10
- 12
- 14

Products:
- SW LBR
- HW LBR
- OSB
- PLY
- PB
- MDF
- IJT
- LVL

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Wood Products Consumption by End-Use Sector

New Residential Construction
Residential Improvements
Industrial Production
Nonresidential Construction
Real GDP Is Projected to Average 2.3% over the Next 5 Years
US Productivity Growth Is a Major Cause of Concern

5-Year Moving Average of Annual Growth in Output per Worker per Hour

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Despite the Weak Economy, New Residential Construction Will Grow
Job Growth Remains Robust

Change in Payroll Employment in Thousands

*First eight months of 2016 at annual rate
Housing Will Remain Affordable Despite Higher Mortgage Rates and Home Prices

A value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20% down payment.

*Assumes mortgage rate gradually increases to 5% by end of 2017, income growth averages 2.3%, and home prices increase at a 5% annual rate.
Home Inventory Overhang Has Long Since Been Worked Off

Existing Homes for Sale in Months at Current Sales Pace
New Single-Family Home Sales Sending a Strong Positive Signal

Thousands

00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16

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Recent Canadian Housing Starts Are Well Above Underlying Demand
Improvement Expenditures Will Build Toward Prerecession Trend

Billions of 2009 USD

1993-2002 Trend
Rapid Increase in Home Equity Should Boost Improvements

Owners’ Equity in Household Real Estate - Net Worth in $Bil.

Trend Since 1980
Long Run, We Are Very Optimistic: Pent-Up Demand and Demographics
Focus On The Products
Domestic Softwood Lumber Consumption Will Increase, But Net Exports Will Fall

MMCM

US Cons.  Canadian Cons.  Net Exports

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North American Lumber Exports Have Fallen And Will Continue To Decline
The US Will File Countervail and Anti-Dumping Cases in October

- A deal is unlikely to be reached.

- The sides are too far apart.
  - US wants 25% quota and/or high duties.
  - This is a non-starter for Canada.
  - Canada wants something similar to the SLA 2006.

- US thinks it will win an countervail/anti-dumping claim with USITC.
Sanctions are Likely to be Imposed, But Not Until February or March of 2017

- Lots of political pressure to protect US industries.
  - The rising US protectionist mood expressed in political terms by Donald J. Trump is strengthening the hand of a harder US line.
  - Hillary Rodham Clinton was among the Senators signing the 2001 letter exhorting the Commerce Department to defend US producers.

- In the 2001 CVD/AD case, the CVD took 4 months from filing to preliminary determination and the AD took 6 months.

- Duty would likely be 20%-30%
US Imposed Trade Sanctions Would Force More Serious Negotiations

• Likely outcome-something similar to the SLA 2006 but with some changes:
  
  • There would be higher trigger points.
  
  • There would be a "super-trigger" that is lower (e.g. $300) with a much higher tax (e.g. 30%).
  
  • Any export tax might be tied to exchange rate-an increase in the $CA/US rate would cause a decrease in the trigger points and vice-versa.
NA Structural Panel Demand Will Improve as End-Use Markets Strengthen
Offshore Plywood Imports Will Rebound as Demand Improves

Imports
Import Share of NA Ply Demand (R)
NA Structural Panel Demand Will Improve as End-Use Markets Strengthen
Even with Decent Rebound, Furniture Production Will Stay Well Below Its Previous Peak Throughout the 2020s

Source: Fed’s Furniture and Related Production Index
Take Home Points

• Domestic consumption will increase significantly over the next ½ decade.

• Net exports must fall to meet higher consumption.

• US and non-British Columbia/Quebec/Ontario production will increase significantly to meet higher domestic consumption.
Thank you!

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