North America: Trends & Outlook in Sawn Softwood and Wood-Based Panels

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By: Russell Taylor, Managing Director, FEA Canada
Introduction to: WOOD MARKETS / FEA Canada

• We are wood products industry consultants & analysts and develop operational, marketing & business strategies.
• We are known as global market & industry experts/analysts on timber and lumber (panels) in the U.S. & global markets.
• We have had an office in China since 2005.
• We produce Multi-Client Reports: Global Lumber/Sawmill Benchmarking; WOOD Markets – North America 5-Year Outlook; WOOD Markets Monthly Report, China Bulletin; Russia – 5-Year Outlook; China 5-Year Outlook;
• Aug 2017: we are now part of Forest Economic Advisors LLC
1. Overview of US, Canada & Europe
2. US/Canada ‘Lumber War’ Summary
3. US Sawnwood Market & Supply Dynamics: Canada supply & exports; US supply; Offshore imports; Price trends
4. US Market: OSB, Plywood, MDF, Particleboard
5. Summary
## 1. Overview: Comparing US, Canada & Europe

### Sawn Softwood Market Developments in US & Canada vs. Europe

<table>
<thead>
<tr>
<th>Event/Topic</th>
<th>US</th>
<th>Canada</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bark Beetle/Mountain Pine Beetle</td>
<td>MT, SD</td>
<td>BC Interior</td>
<td>Scattered</td>
</tr>
<tr>
<td>Forest Fires: summer 2017</td>
<td>OR, WA, MT</td>
<td>BC Interior</td>
<td>Spain</td>
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<tr>
<td>Hurricanes (Sept 2017)</td>
<td>Houston Texas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US Import Duties on Canada Lumber: 2017</td>
<td></td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Canada Sawmill Ownership in US</td>
<td></td>
<td>45+ mills</td>
<td></td>
</tr>
<tr>
<td>Market Conditions: 2017</td>
<td>Best in 12 yrs.</td>
<td>Very good</td>
<td>Improving</td>
</tr>
<tr>
<td>US Prices: 1,674 products = 18% at records</td>
<td>Many records</td>
<td>Some records</td>
<td>Improving</td>
</tr>
<tr>
<td>Sawnwood Prices: 2017</td>
<td>SYP = 0%; DF = 36%</td>
<td>SPF = 37%</td>
<td>5%</td>
</tr>
<tr>
<td>Sawnwood Prices: change since Jan 2017</td>
<td>SYP = 45%; DF = 20%</td>
<td>SPF = 30%</td>
<td>Best = 10%</td>
</tr>
<tr>
<td>Sawmill Margins: &quot;TQ&quot; Q2-2017 (EBITDA)</td>
<td>SYP West = 50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plywood Prices: change since Jan 2017</td>
<td>NC 7/16&quot; = 60%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>OSB Prices: change since Jan 2017</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>MDF/PB Prices: change since Jan 2017</td>
<td>0%</td>
<td>0%</td>
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</tr>
</tbody>
</table>
2. U.S./Canada Lumber Wars

- Has been going on since 1982 & now we have “War #5”
- The root of the disagreement is that 90% of Canada’s timber harvest originate on crown (public) lands as compared to the U.S. that sold most of its timber long ago.
- The U.S. side claims that Canadian timber is priced too low and the government is therefore “subsidizing” its industry.
- In Lumber Wars 1 to 4, this could never be proven by the U.S.
- In Lumber #5, American interests seem determined to make U.S. Trade Laws work via import duties on Canadian lumber to raise the price of their timberlands and lumber. This outcome is exactly what has happened in 2017.
Canada/USA Softwood Lumber Trade Dispute

Countervailing Duty & Anti-Dumping Duty Timelines

**Subsidy (CVD) Case**

- Critical Circumstances
  - Retroactive
  - CVD to \(^1\)
  - ~Jan 28 '17

- DoC Preliminary CVD Determination \(^2\)
  - Apr 24
  - 19.88% Duty
  - Implemented
  - Apr 28

- DoC Final CVD
  - ~Sept 1-Jan 3

- ITC Final CVD

**ADD Case**

- Critical Circumstances
  - Retroactive
  - ADD Date \(^1\)
  - ~Mar 31 '17

- DoC Preliminary ADD Determination \(^2\)
  - June 23 (Announced June 24)

- Preliminary ADD
  - Discontinued
  - ~Dec 27

- ITC Final ADD

**Timeline**

- CVD Prelim Duties start Apr 28; Stop ~Aug 31; Final Duties start Jan 3 '18
- ADD Prelim Duties start ~July 1; Stop ~Dec 24; Final Duties start Jan 3 '18
U.S. Duties on Canadian Softwood Lumber

- **CVD Preliminary Import Duties**
  - Start: Apr 28;
  - Stop: Aug 25;
  - Final Duties: start Jan 3 ’18

- **ADD Preliminary Import Duties**
  - Start: Jun 29;
  - Stop: ~Dec 24;
  - Final Duties: start Jan 3 ’18

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**U.S. Import Duties on Canadian Lumber**

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<thead>
<tr>
<th></th>
<th>PRELIMINARY</th>
<th>FINAL</th>
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<tbody>
<tr>
<td>Jan</td>
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<tr>
<td>Feb</td>
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<td>Apr</td>
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<tr>
<td>May</td>
<td></td>
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<tr>
<td>Jun</td>
<td>ADD: ~5%</td>
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<tr>
<td>Jul</td>
<td>CVD: ~15%</td>
<td></td>
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<tr>
<td>Aug</td>
<td>ADD: 6.87%</td>
<td></td>
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<tr>
<td>Sep</td>
<td>CVD: 19.88%</td>
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<tr>
<td>Oct</td>
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<tr>
<td>Nov</td>
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*Estimated 2018
Potential Shifts of Sawnwood Exports

- **Import duties** on Canadian lumber shipments to the US have already had a big impact on all markets.
- A global shift of export and import volumes is happening:
  - **Less Canadian exports to the US** as a result of import duties and market risk.
  - **More European exports to the US** (from higher prices).
  - **Canadian exports to China could increase** if the net return to China is better than selling to the US market after import duties are deducted.
  - **Less US exports** and more focus on higher prices available in the domestic market.

• The U.S. market was phenomenal from 1991 to 2005 and has been growing slowly and steadily since 2012 following its low point in 2009.

• The U.S. market is growing again, especially since 2012 – although slowly and steadily.

• Tight log supplies and limited sawn softwood mill capacities are now creating record-level prices.

• The following U.S. & Canada highlights are taken from the Sawn Softwood Chapter and are based on: WOOD MARKETS 2017 North America Analysis: The 5-Year Outlook.
The U.S. housing starts are growing slowly but steadily higher!

Total U.S. lumber consumption is projected to rise steadily from increased new residential house starts & repair & remodelling.

Still way below housing in the 1990s & 2000s and to historical average of 1.5 million
• The Harvard Joint Center for Housing Studies’ Leading Indicator of Remodelling Activity (LIRA).

• The LIRA indices indicate a solid level of renovation activity through to Q2 2018.

• This bodes well for wood usage in renovations and wood products production by sawmills.
Total U.S. softwood lumber consumption has been increasing since 2009. Has been led by new residential construction & repair & remodelling.
BC/Quebec/Ontario: Lower Harvests

Fibre Supply: BC Interior, Ontario & Quebec

Forecast

Note: AAC = Annual Allowable Cut

Source: WOOD Markets

BC Interior Sawlog Harvest – 2000-2020 = -25%
Canada: Softwood Lumber Supply/Demand

- Canada’s timber harvest will be lower as a result of beetles & government reviews of the long-term sustainable harvest.
- Canadian sawn softwood output will be lower out to 2021 with limited upside due to constrained timber supplies in most provinces.
Canada Lumber Exports

- With import duties at ~20% in 2018 (was 27% but down to 7% now), Canadian exports to the U.S. are forecast to drop by 5-10% in 2018.
- Lumber exports to China could increase in ‘18-19.
- Canadian sawnwood exports should decline by 5% from 2017 to 2020-21.
Combined, US & Canada sawn softwood production to grow steadily to 2021 as U.S. demand rises. However, there is not likely to be enough North American logs & mill capacity to produce enough sawnwood vs. demand!
US Imports: Lower volumes from Canada

- US import duties: projected at 35%, on Canadian sawnwood but could be higher!
- Canada’s lumber exports to drop by ~1-2 billion bf (2 million m3) in next 2-3 years;
- The U.S. will need increasing imports, including from Europe = this means high prices!
US Sawn Softwood Prices

- Some prices are already near record levels – Europeans now in the USA.
- A tight North America supply will force prices higher in 2018 = +US$25 - $40/m3.
- This will allow European exporters to stay in the U.S. market
• 16 OSB mills were closed from 2007 to 2011 from the US housing collapse.

• Still 2-4 older curtailed mills that could start up + 2 new ones.
US Plywood & OSB Price Trends

- OSB prices are nearing record levels but will be lower in 2018.
- Plywood prices should improve as wet weather has impacted the market in 2017.
US Particleboard & MDF Price Trends

- Very flat prices in the last 5 years, but also at record levels
- High US-dollar prices are attracting more imports
4. North America Summary

• For the first time since about 2004-05, all UN-ECE regions are recording gains in consumption with almost all producing and exporting countries recording growth = North America led the way again in 2017.

• The US market is now driving global sawn softwood prices in conjunction with supply shortages in Canada and from import duties on Canadian shipments.

• OSB and plywood markets and prices in North America have been strong, but incremental OSB capacity installations will likely slow any price increases next year.

• MDF and particleboard remain stable with little change expected in the short term.
Thank You!

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