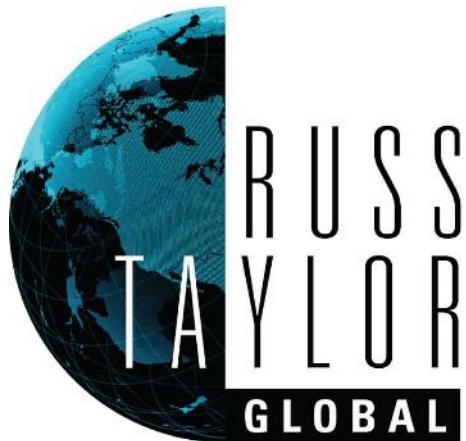




North America Softwood Lumber Industry, Market & Export/Import Trends

SPB International Forestry Forum
September 26, 2023



RUSS TAYLOR GLOBAL

MARKETS

INDUSTRY

SUPPLY-SIDE/TRADE

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GLOBAL TIMBER/LUMBER ASSESSMENTS & PRICE OUTLOOKS

SPECIALTY PROJECTS

**WOOD BUSINESS &
MARKET CONSULTING**

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Russ Taylor
RUSS TAYLOR GLOBAL
Vancouver, B.C., Canada



RUSS TAYLOR GLOBAL: Wood Business & Market Consulting

In the wood-based consulting business in Vancouver since 1988:

- **1988-1992** – Widman Management Consulting
- **1992-2017** – **R.E. Taylor & Associates Ltd. & International WOOD MARKETS Group Inc.**
- **2017-2020** – **WOOD MARKETS/FEA Canada**
- **2020-** – **RUSS TAYLOR GLOBAL**
- 45+ years experience in the wood products industry:
 - 4+ years with **Northwood Timber** – now Canfor (forester in Houston BC – 1970s).
 - 7+ years with **Interfor** (sales mngr, log custom cutting, reman, Vancouver – 1980s).
- 28 Years operating **International WOOD MARKETS Group**, including China office.
- Regular travel to international markets: Europe, Russia, Asia (China), So Hemisphere.

Join my mailing list for e-news by visiting my website!



Russ Taylor Background

- Consulting projects in Southern Hemisphere & Asia in 1990s.
- Consulting projects in Russia, Europe and China since 2000.
- **WOOD MARKETS**: Over 30 consulting assignments in the **Russia** timber and solid wood products industry.
 - The consultants made over 40 industry-related trips to Russia.
 - Six tours of the Russian industry were led by **WOOD MARKETS**.
- In **Europe**, regular travels to Scandinavia, Baltics, Western & Central Europe as well as Romania.
- Ongoing visits to 100+ European & Russian **sawmills** to assess log & sawmill costs for biennial *Global Cost Benchmarking Report*.
- Managed **China** office & regular travels (2x per year) through out China with many trips to the Russia-China border regions.



45 Multi-Client Reports since 1995: Analysis/Forecasts

Available June 30, 2013

Produced by International WOOD MARKETS Group Inc.

RUSSIA Forest Industry Competitiveness and Export Outlook

2013 Edition

FEATURING:

- Competitive assessment and business-case analysis of the Russian log and lumber sector
- Strategic look at expanding industry capability, technology and investment
- Benchmarking analysis of log and sawmill costs, including delivered costs to market
- Russia's export fit in key global markets, especially China and Europe
- Impact of new Russian log export fees
- Review of recent industry status
- Outlook on log and lumber exports
- Assessment of potential risks of rising biomass in Russia

A Strategic Assessment of the Russian Wood Industry & Global Implications

INCLUDING:
Summary of WOOD MARKETS' ongoing field research and consulting assignments in Russia and its latest insights into how Russia will impact global trade and markets.

LUMBER PANELBOARDS TIMBER ENGINEERED WOOD ECONOMICS MARKETS FORECASTS

From the publishers of WOOD MARKETS MONTHLY INTERNATIONAL REPORT, WOOD MARKETS' CHINA BULLETIN, and many other strategic industry reports

2015 EDITION WOOD MARKETS

THE SOLID WOOD PRODUCTS OUTLOOK • 2015 to 2019

A Detailed Analysis of the North American Wood Products Market

COVERING: Lumber, OSB, Plywood, MDF and Particleboard

FEATURING: A Five-Year Outlook for Supply, Demand and Prices, including Mill Operating Rates

WOOD MARKETS Prepared and published by International WOOD MARKETS Group Inc.

Global Timber/Sawmill/Lumber COST BENCHMARKING REPORT

2014 ANNUAL BASIS & Q1/2015

Seventh Edition

FEATURING

- A profile of the major wood-producing regions in North America, Europe, Russia and the Southern Hemisphere and China
- Benchmarking of delivered sawing and sawmilling costs, lumber, solid, veneer and by-product revenues, and margins for more than 25 key countries or regions
- Includes full-year costs/revenues for 2014, with a timely update on cost structures occurring in Q1/2015 (just before the release date)
- Assessment of transportation or delivered costs to the U.S. market by exporting country, with on-chargeable scenarios
- Cost scenarios and analysis based on information gathered directly from source mills
- Comparisons of each country or region categorized by cost and revenue in US\$, €/m³, and \$/m³ net per m³ and MWh

Available August 1, 2015

WOOD MARKETS MONTHLY INTERNATIONAL REPORT

VOLUME 11, NUMBER 1 • FEBRUARY 2006

Featuring Lumber, Panels and Wood Products Analysis

Global Competitiveness Low-Cost Labor Regions Winning

WOOD MARKETS' UPDATE
You will notice a new look this month! Since we are now starting our eleventh year of publishing WOOD MARKETS, we thought it was time for a makeover. At the same time, our company has been expanding, so we have also re-organized ourselves to reflect the growing recognition of our WOOD MARKETS monthly reports and other publications and conclusions.

The new graphic combined in newsletter material above will also be the logo for our new formal company name, International WOOD MARKETS Group. It will include all of our publications previously under the International Wood Markets Research Inc. name and also all the activities of our consulting services group previously conducted under the company name R.E. Taylor & Associates (USA). In addition, we are moving to larger offices across the street effective February 1, so please note our new mailing address at the bottom of page 12. All of our existing email addresses, as well as phone and fax numbers, remain unchanged.

In our next monthly issue of WOOD MARKETS, we will further profile the changes — in terms of ownership and expanded activities, along with some other new developments — that have occurred as our company continues to grow.

OPERATING LABOR COSTS: MONTHLY TRENDS

MARKETS • PRODUCTS • ANALYSIS • RESEARCH • FORECASTS

WOOD MARKETS CHINA BULLETIN

Featuring Industry Trends & Topics of Interest, Statistics & Prices

Since 2007

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WHAT'S INSIDE

Special Report:
Overview on China-EU Wood Products Trade

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. This 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) Glulam: EU glulam imports from China down 14% in 2012.
- 4) Wood Window: EU wooden window imports from China fall to negligible levels.
- 5) Plywood: China contributed 33% of EU plywood imports in 2012.

... MORE on page 4

China Market Synopsis

Log markets remain relatively stable with inventories balanced. Softwood lumber 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 months.

MONTHLY CHINA PRICE TRENDS

Prepared and published by International WOOD MARKETS Group Inc.
Phone: +1-604-891-5996 Fax: +1-604-891-5987 Email: info@woodmarkets.com
Mailing Address: Suite 803, 73 E. Cordova Street, Vancouver, BC Canada V6A 4G5

WOOD MARKETS THE CHINA BOOK

Produced by International WOOD MARKETS Group Inc.

Third Edition

Wood Products Industry and Market Review OUTLOOK TO 2017

Available July 2012

FEATURING:

- A comprehensive overview of China's expanding wood products industry and Chinese raw material supply
- Assessment of China's imported raw material supply and sources
- Overview of China's domestic plantation and timber harvesting
- Evolution of China's growing lumber and panel sectors
- Five-year outlook on China's wood products industry, exports and required imports
- Log, lumber and panel price trends and related forecasts

China Market Outlook to 2030

New report by RTG scheduled for January '24:

- Trends in logs and lumber imports by exporting country
- China demand – will it (or when?) rebound?
- Supply, demand, import & price forecasts to 2030



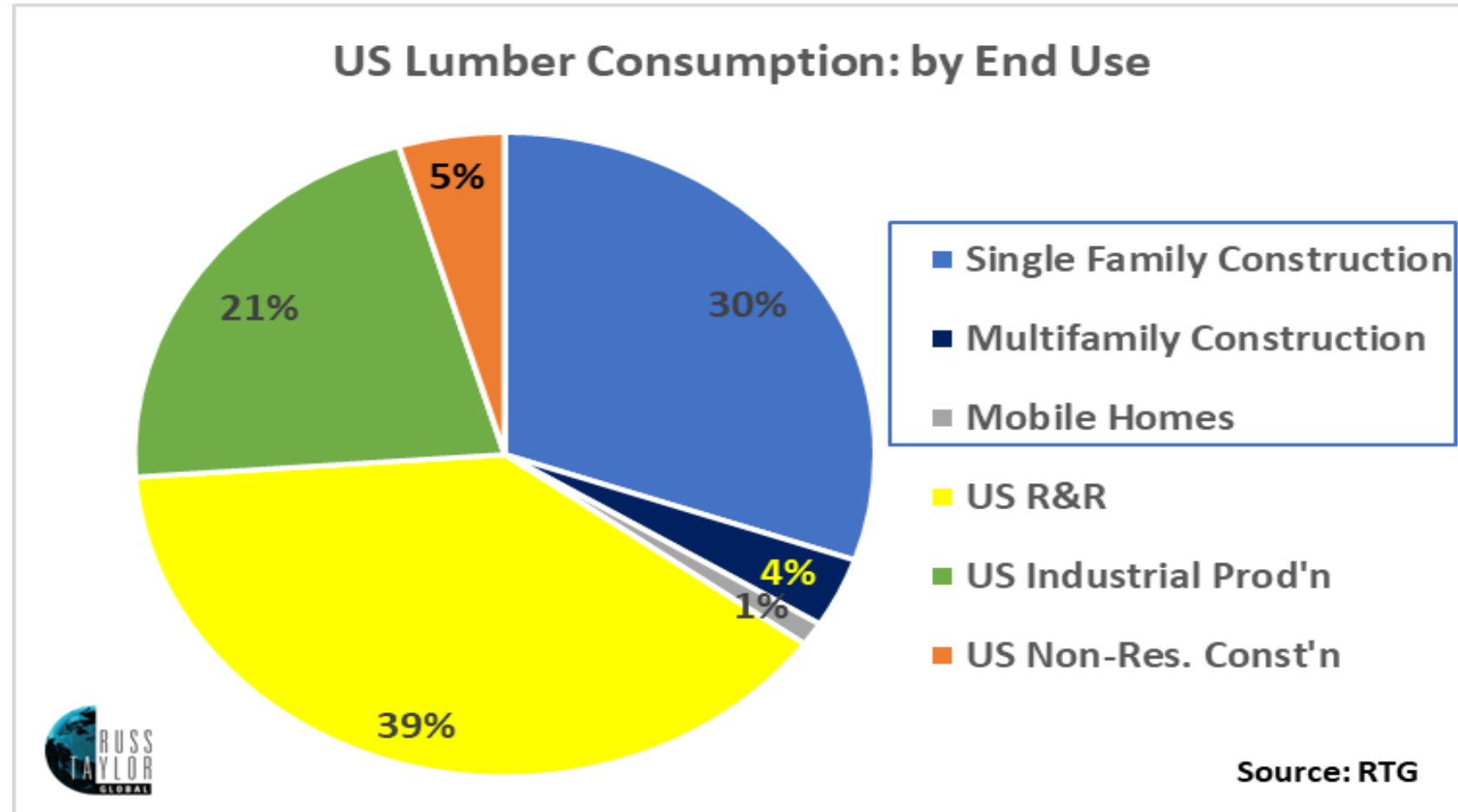
Presentation Outline: North America Lumber Trends & Outlook

- 1. US Lumber Demand**
- 2. US Lumber Imports**
- 3. European Fit in US Market**
- 4. Canada Lumber Exports**
- 5. North America Lumber Supply Dynamics**
- 6. Lumber Price Trends & Outlook**

1. North American Lumber Consumption: By End Use

Top End Uses:

- **DIY/Repair & Remodelling: 39%**
- **New Residential Housing (SF + MF + Mobile): 35%**
- **Industrial: 21%**
- **Non-Residential: 5%**
- **2022: US consumption = 85 million m3 (52 billion bf)**



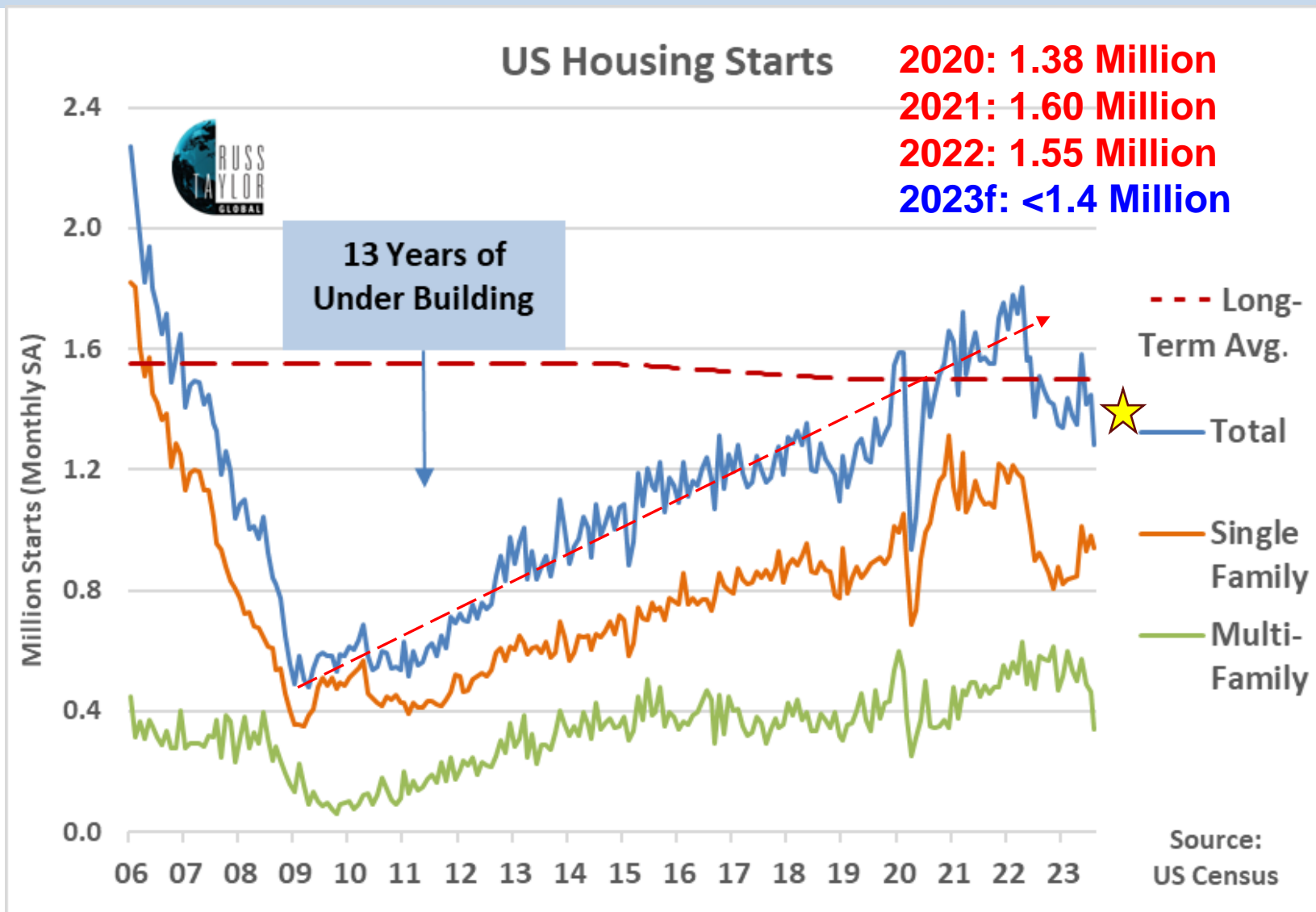


U.S. Total Monthly Housing Starts Seasonally Adjusted at Annual Rates (SAAR)

US housing starts:

- “normal” is considered to be 1.50-1.55 million units.
- **2007-2020:** Annual starts have been below 1.55 million.
- **2023:** High house prices.
 - Low housing inventory.
 - Rising mortgage rates.
 - Housing starts stall.
 - Home builder cancellations slowing.
 - Mortgage rates ~7%.
 - Housing starts slowing.

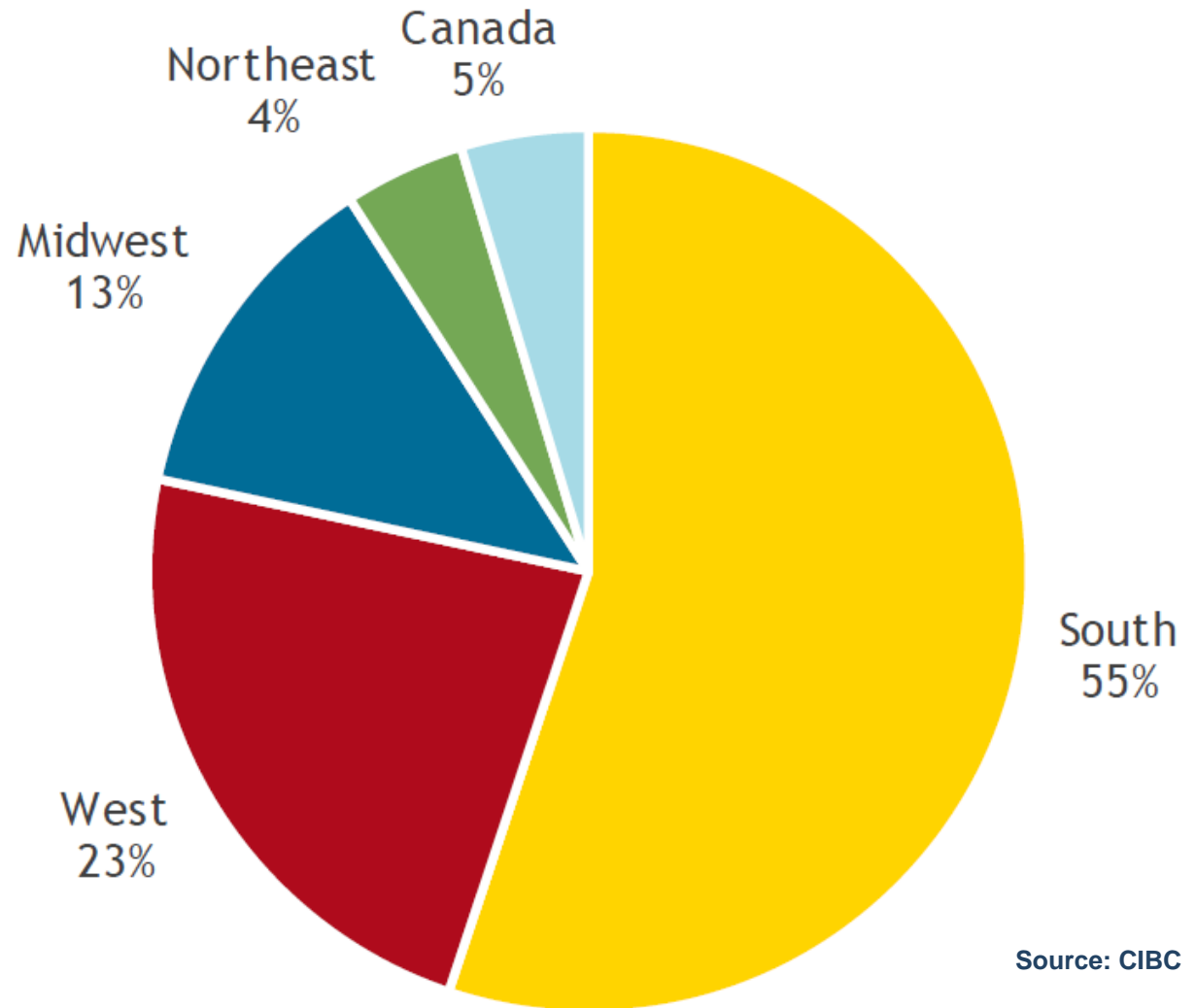
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US South dominates North America housing market (55%) and lumber output.

“Spruce” (**SPF**) is preferred over SYP sawnwood, but SYP used in treating/trusses.

Increased “spruce” imports from **Europe** to US still required (Canada’ SPF in decline)!

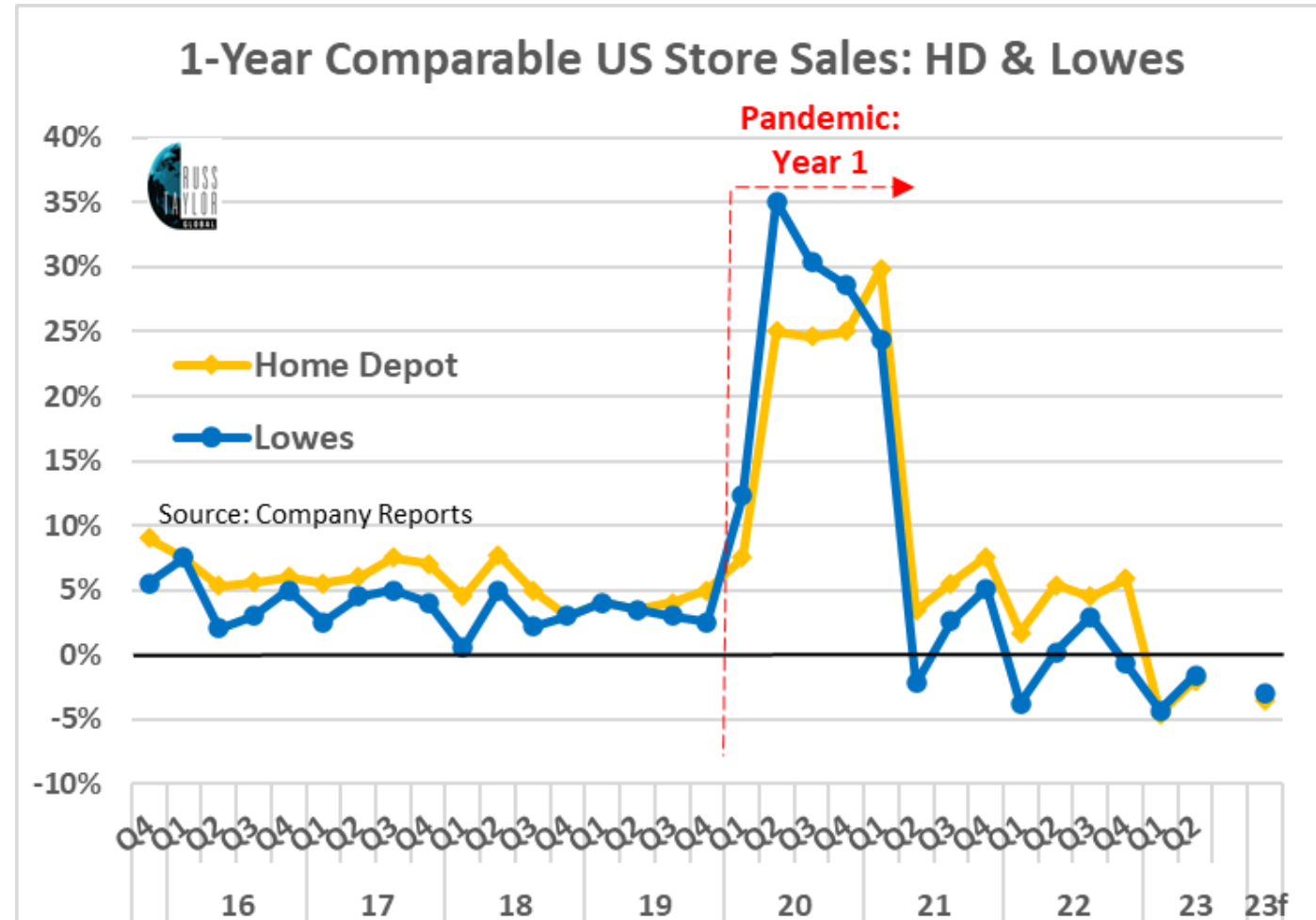


Source: CIBC

US Home Centres: Repair & Remodelling Comparable Store Sales still Increasing, but at a Lower Rate

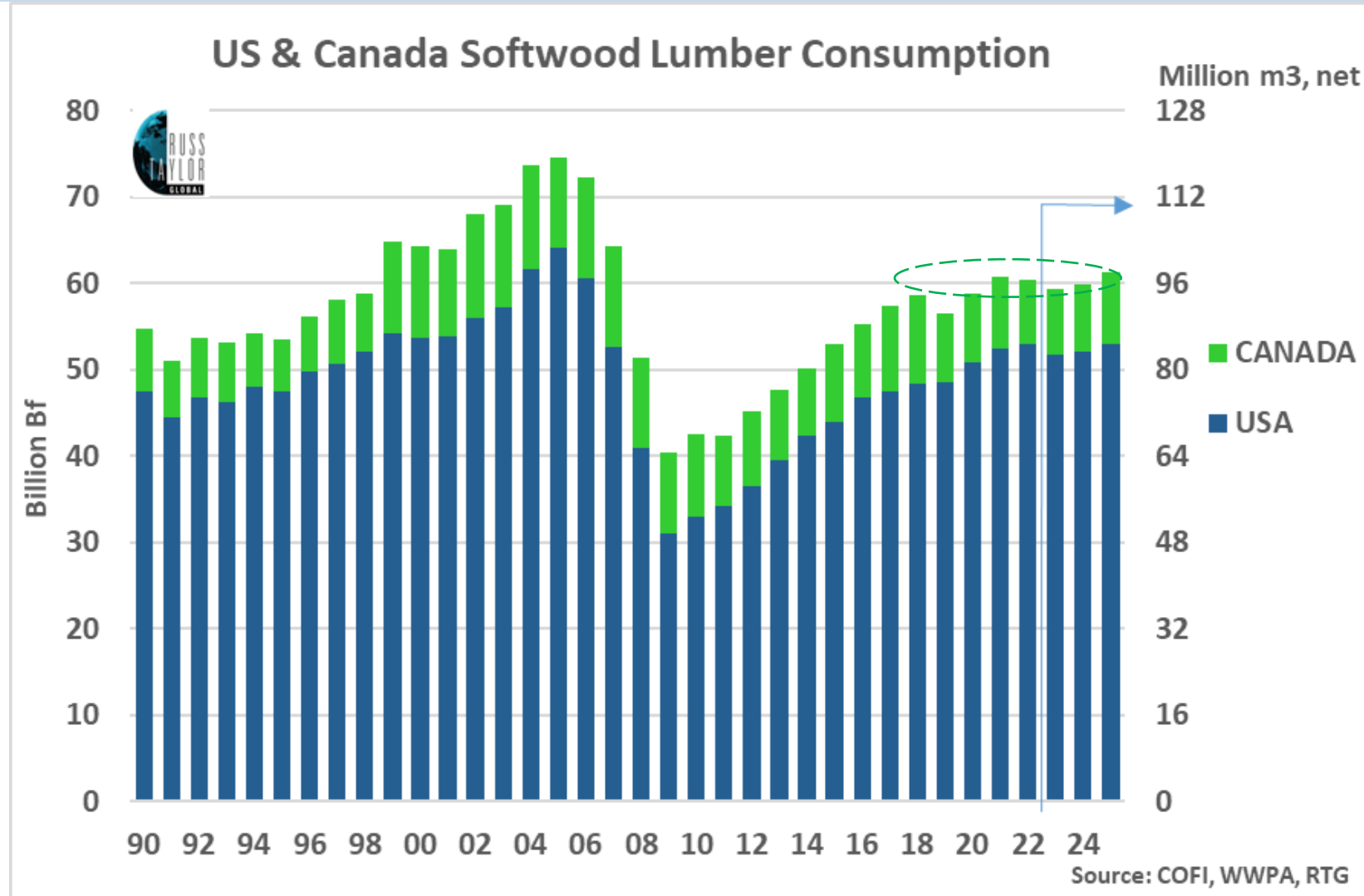
- From 2020-Q2 to 2021-Q1, Home Depot's & Lowes comparable Y-o-Y sales were 25-35%.
- Collapsed in May 2021 from record-high building material prices and as vaccinations kicked in.
- R&R demand growth rebounded in 2021-Q3 & Q4 but was relatively flat in 2022 but is negative for 2023.

Home Depot & Lowe's:
Quarterly Comparable Sales Growth (%)



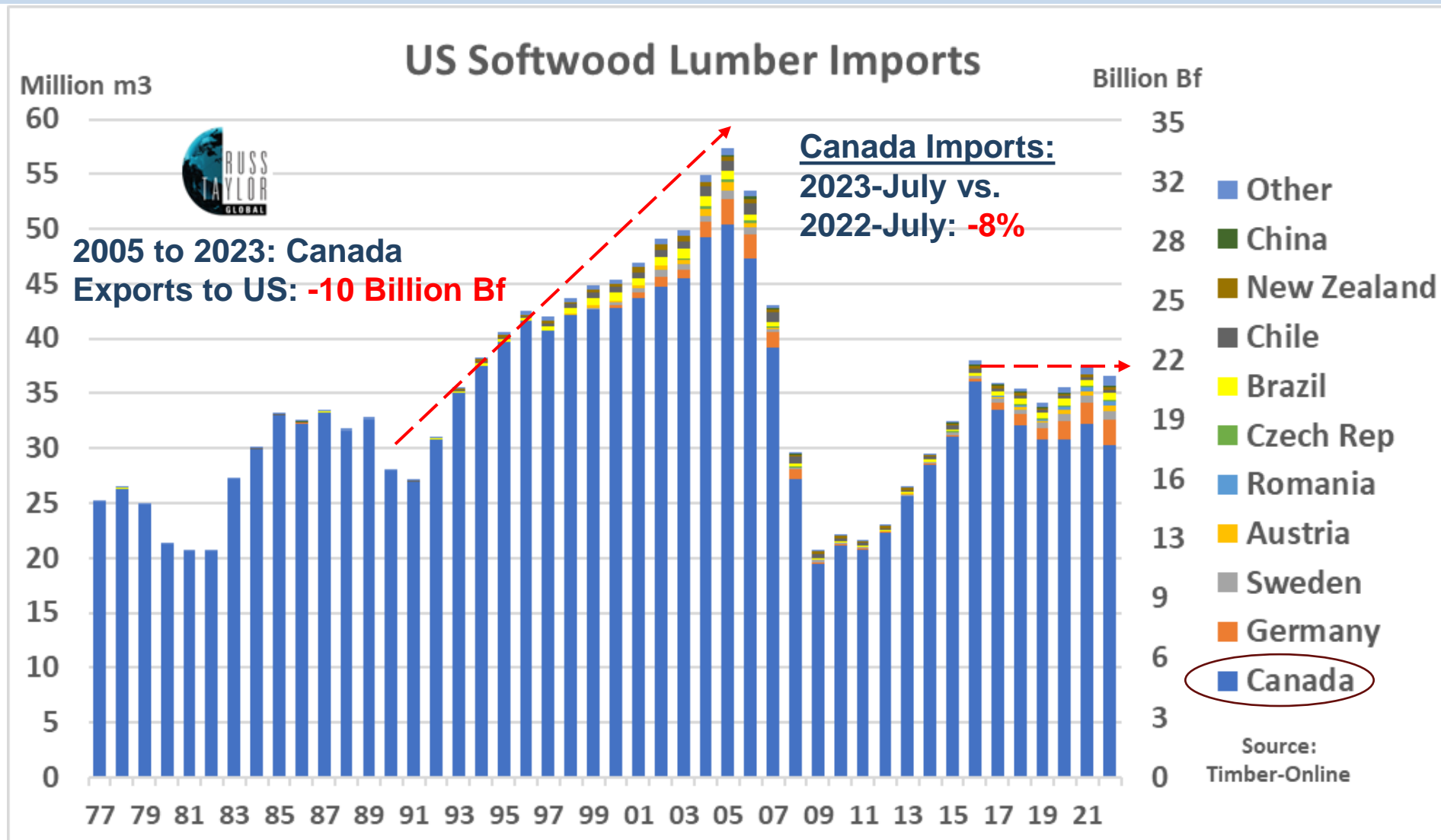
US & Canada Softwood Lumber Consumption Trends

- **US sawn softwood consumption growth has been flat to negative since 2021.**
- **2020 pandemic kick-started US R&R & new home starts.**
- **The rate of demand growth in 2022 and 2023 is slowing.**
- **Growth expected in 2024 and beyond.**



2. US Lumber Imports Flat since 2017

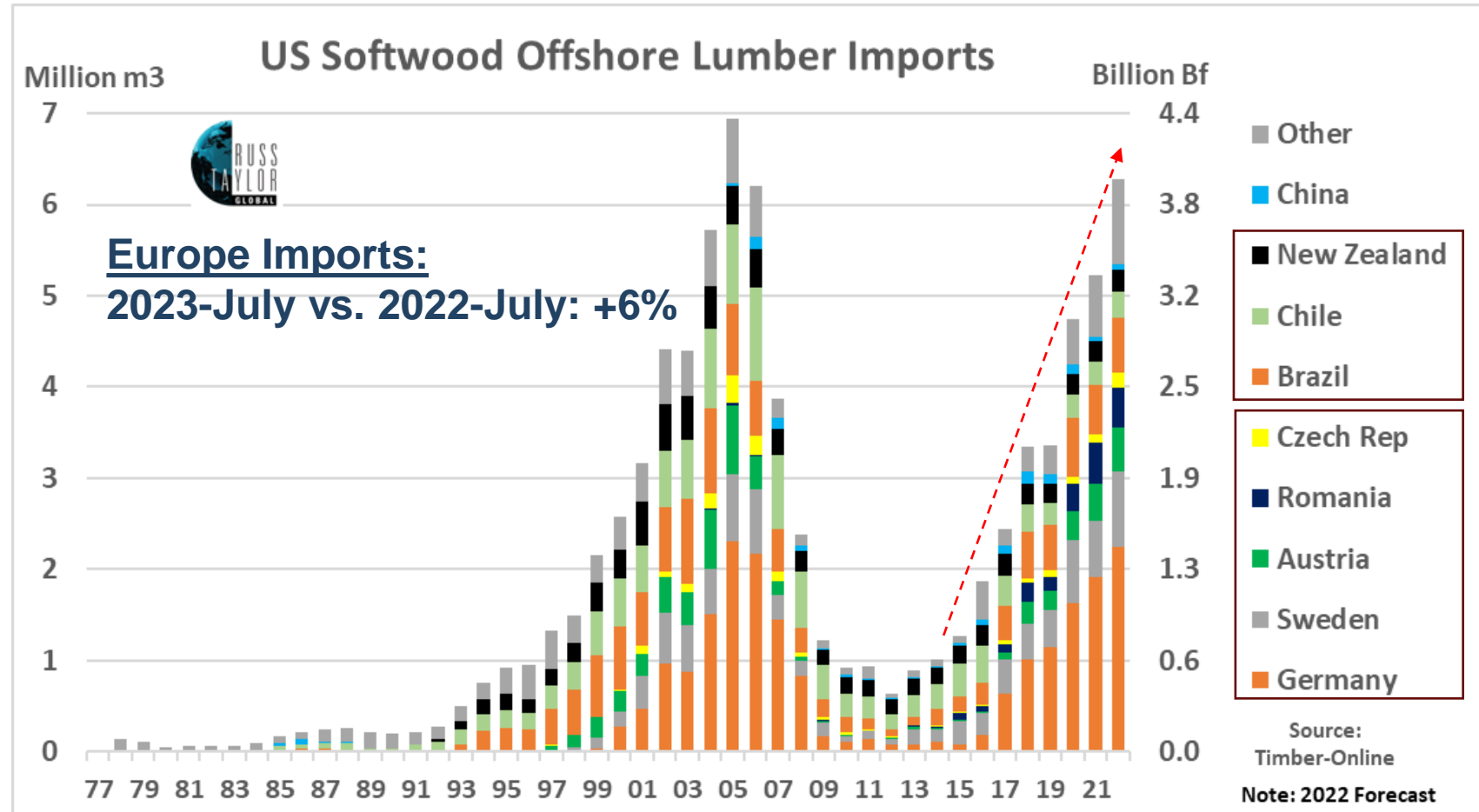
- **Canada** dominates US imports, but market share has dropped from 97% to 82% in 2023 YTD.
- **Europe** = 14% and rising



3. Europe's share of US Lumber Imports Increasing

- Europeans led by Central Europe (beetle logs) & Sweden.
- Brazil leads S. Hemisphere imports

- Canada = 82.0%
- Europe = 14.0%
 - Germany = 7.4%
 - Sweden = 3.2%
- S. Amer/NZ/Austr. = 3.0%
- Asia = 0.3%



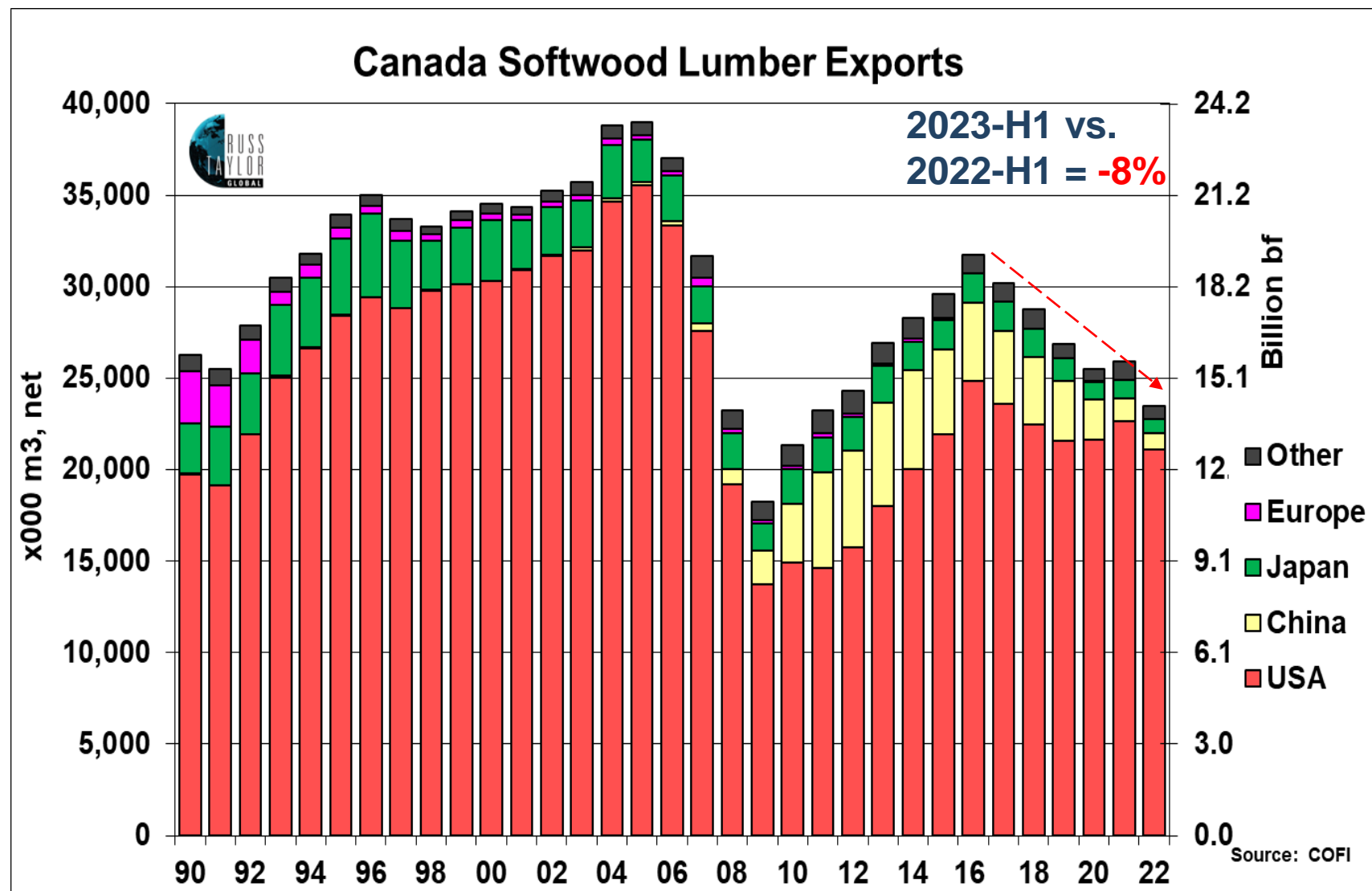
European Lumber's Fit in US Market

- European sawnwood is 'restricted' to a ~250-300 km strip along the US East Coast & Gulf
- US SYP sawnwood = expanding
- W. Canada SPF = shrinking
- E. Canada SPF & US West = more stable



4. Canada Softwood Lumber Exports Lower = More than 70% of production is exported

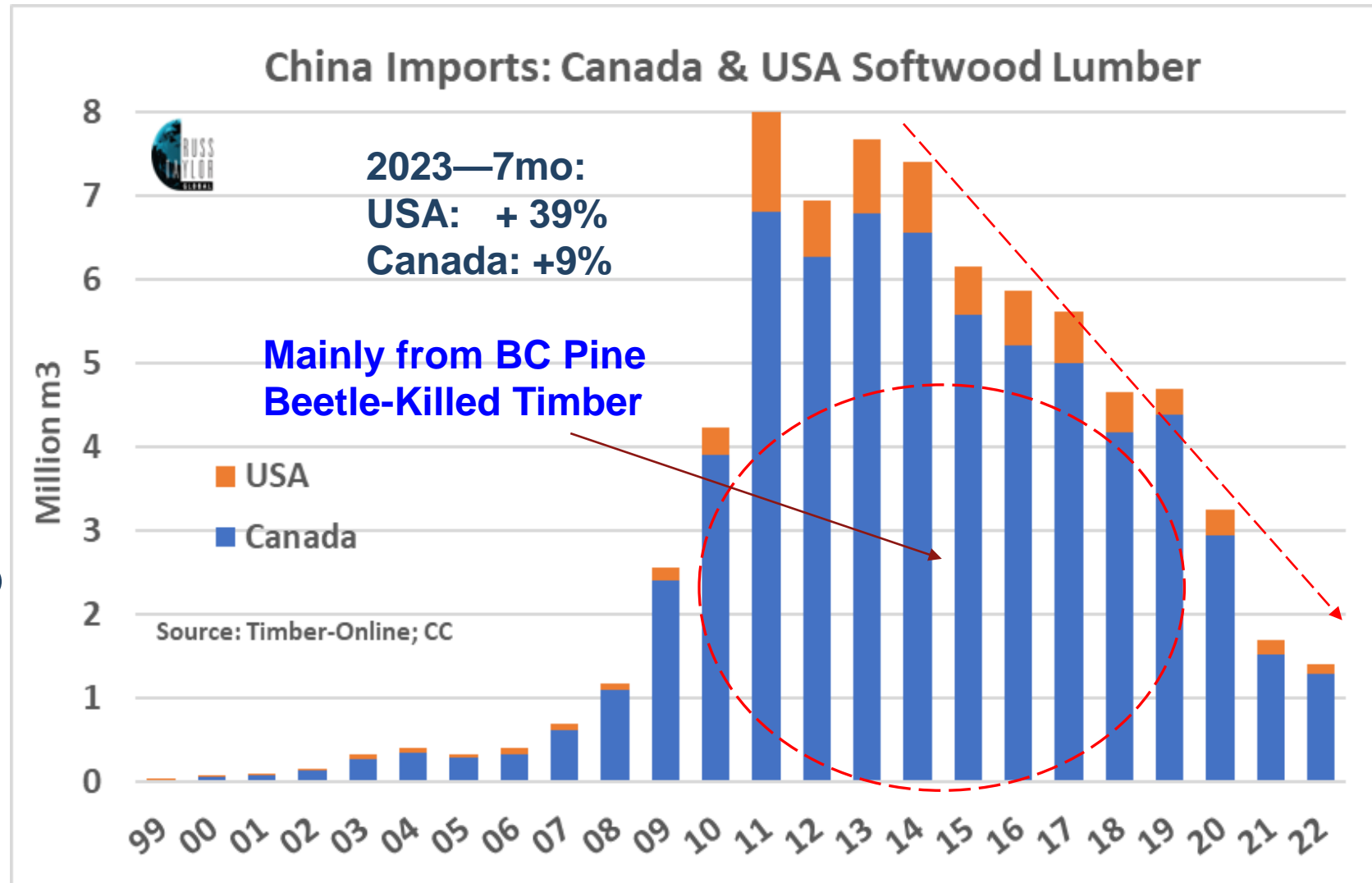
- Canada lumber prod'n & exports peaked in 2005.
- BC exports down!
- The **US** export volumes dominate.
- **China** is eroding: 6 million m3 in 2013 to <1 million in 2022
- **Japan** is lower but should be steady in 2024.



Canada & US Lumber Exports To China Slumping

China in 2022: **3.8%** of Canada Exports: **7.4%** of BC

- Canada (**BC**) lumber exports to China peaked in 2013 from low-grade exports of MPB wood
- Little beetle wood, so lower exports.
- **US** exports have also been steadily decreasing due to low prices.

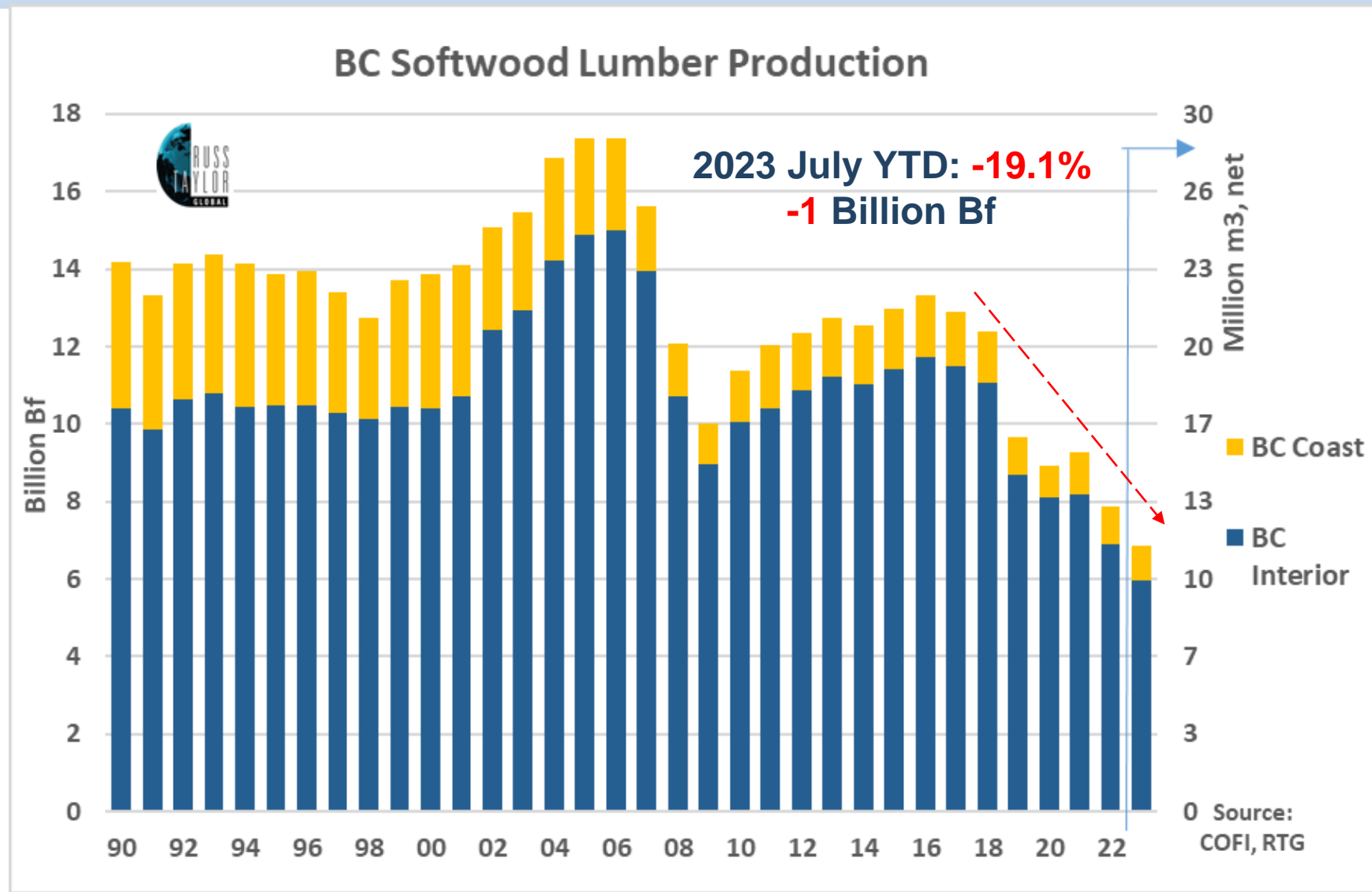


5. BC: Softwood Lumber Production

From peak in 1987 to 2022: BC Interior **42% decline**; BC Coast: **81% drop**

Many (gov't) timber supply issues:

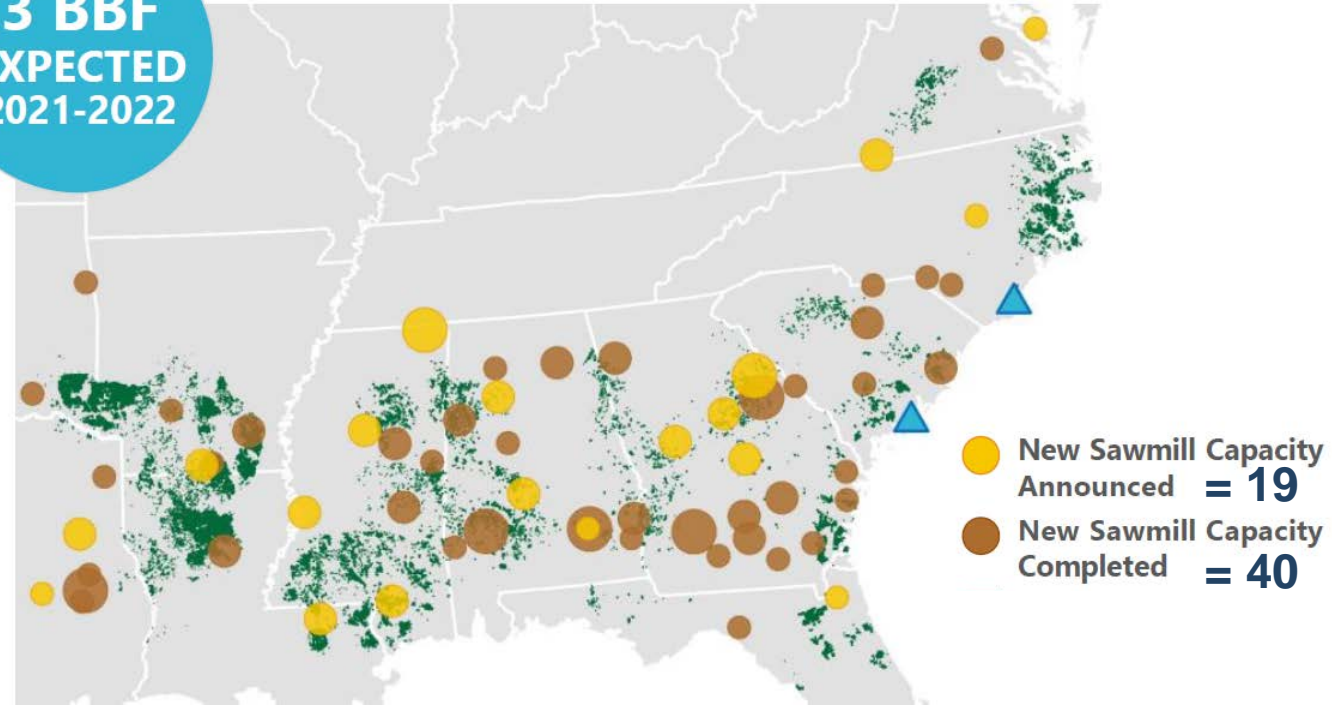
- old growth deferrals,
- caribou protection,
- spruce beetle,
- landscape planning,
- carbon capture,
- tenure transfers,
- wildfires.



- **US South: 2018-2022: ~ 13 million m3 (8 Billion Bf) of new capacity (60 Projects)**

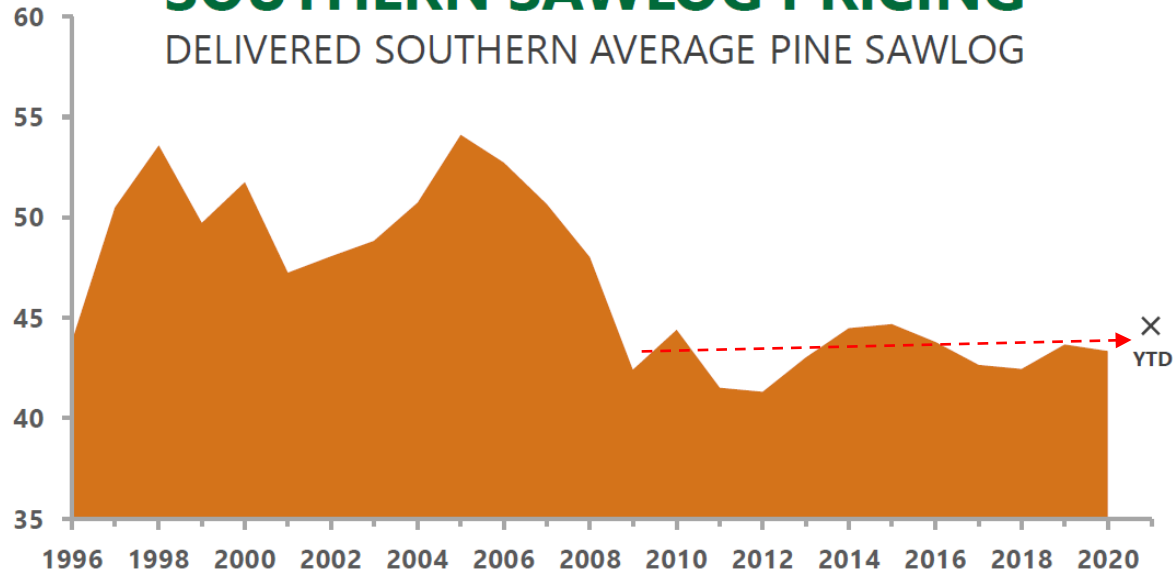
5 MMm3
3 BBF
EXPECTED
2021-2022

U.S. SOUTH CAPACITY ADDITIONS 2019-2022



Source: Forisk

SOUTHERN SAWLOG PRICING DELIVERED SOUTHERN AVERAGE PINE SAWLOG





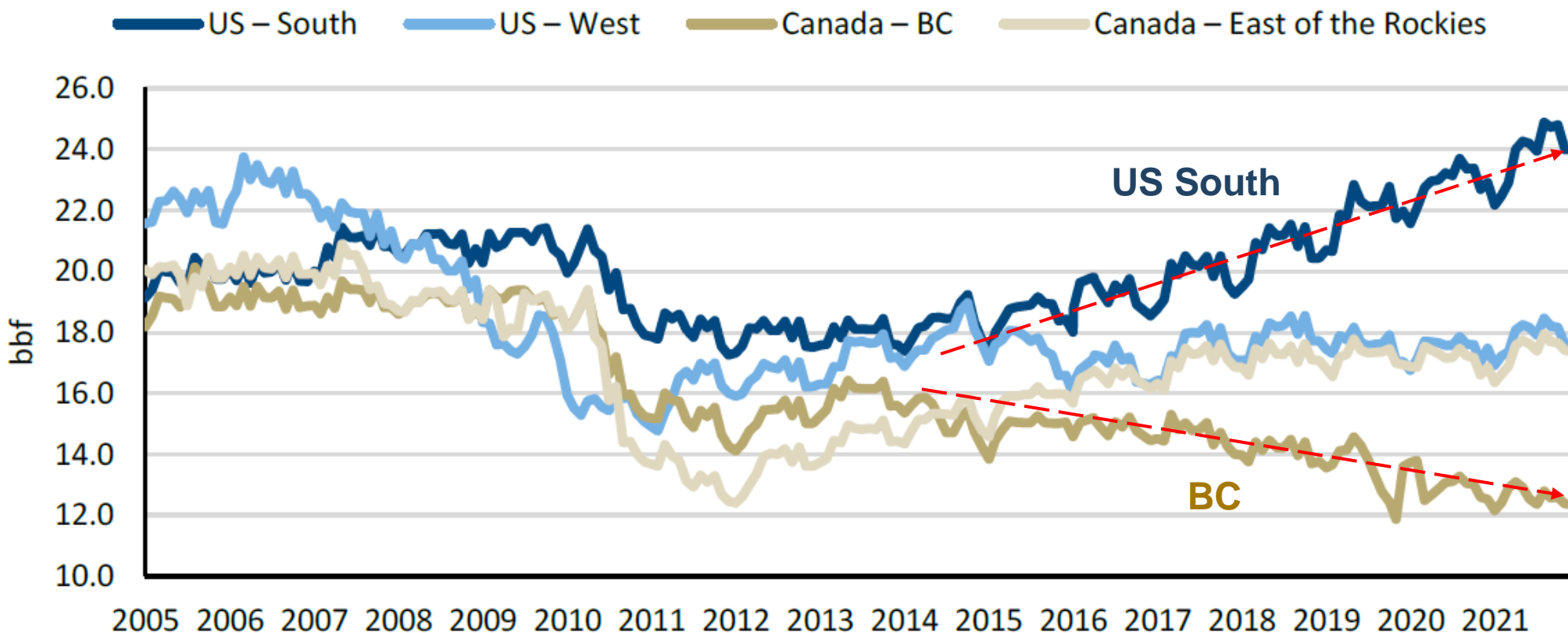
North America Softwood Lumber Capacity Trends

Since 2014: Only US South has grown – by 40%. Since 2018: capacity is +20% but lumber output is only up 11%: 3MMm3!

BC: down by 30% & falling.

US West/ Canada East: Flat.

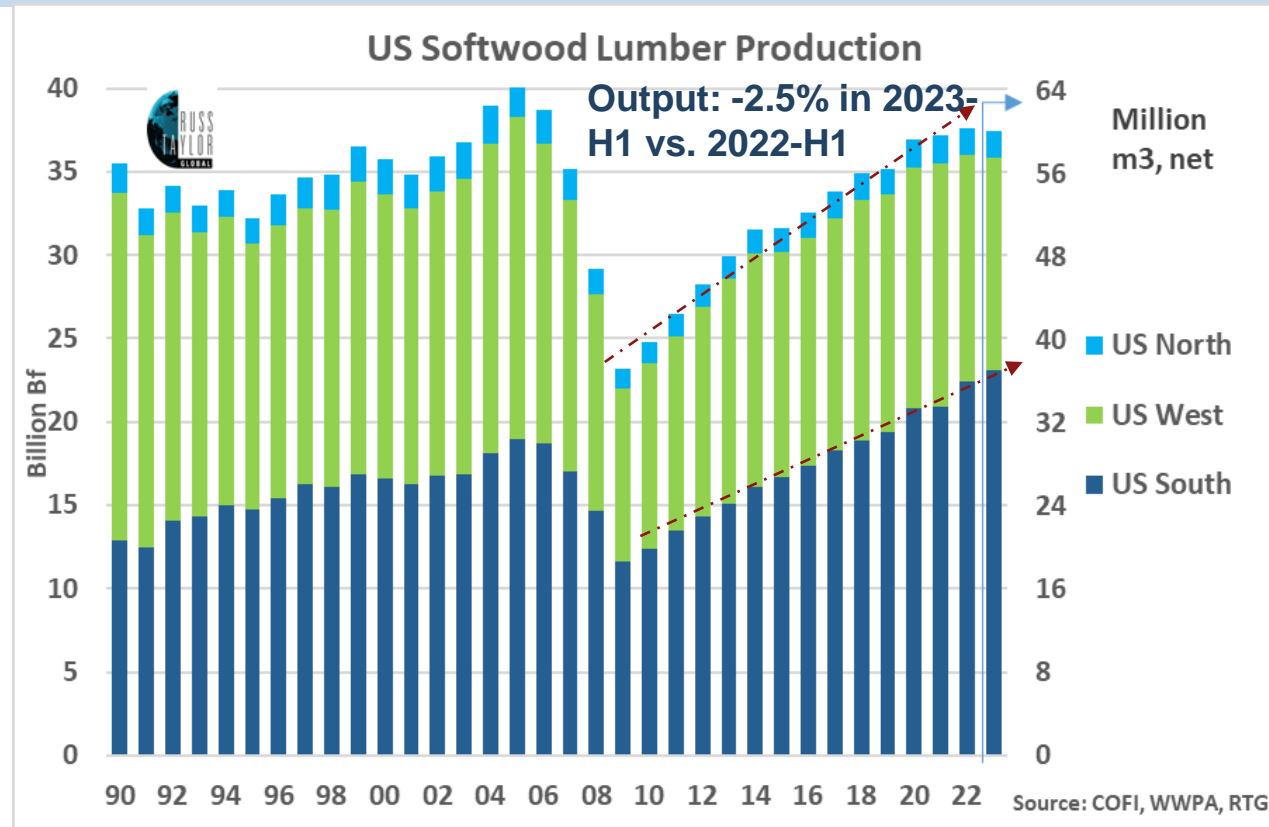
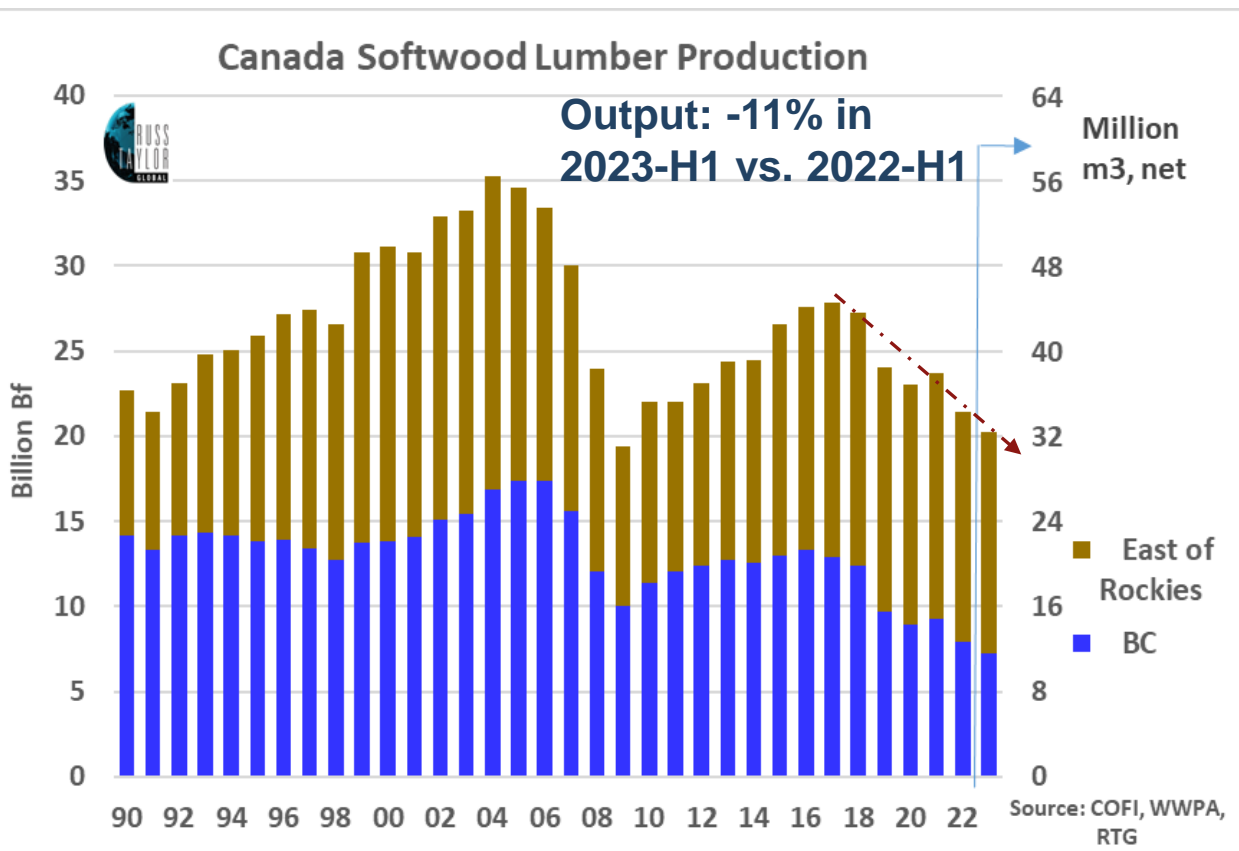
North American Softwood Lumber Production Capacity (Trailing 3-Month Average)



source: WWPA, RBC Capital Markets

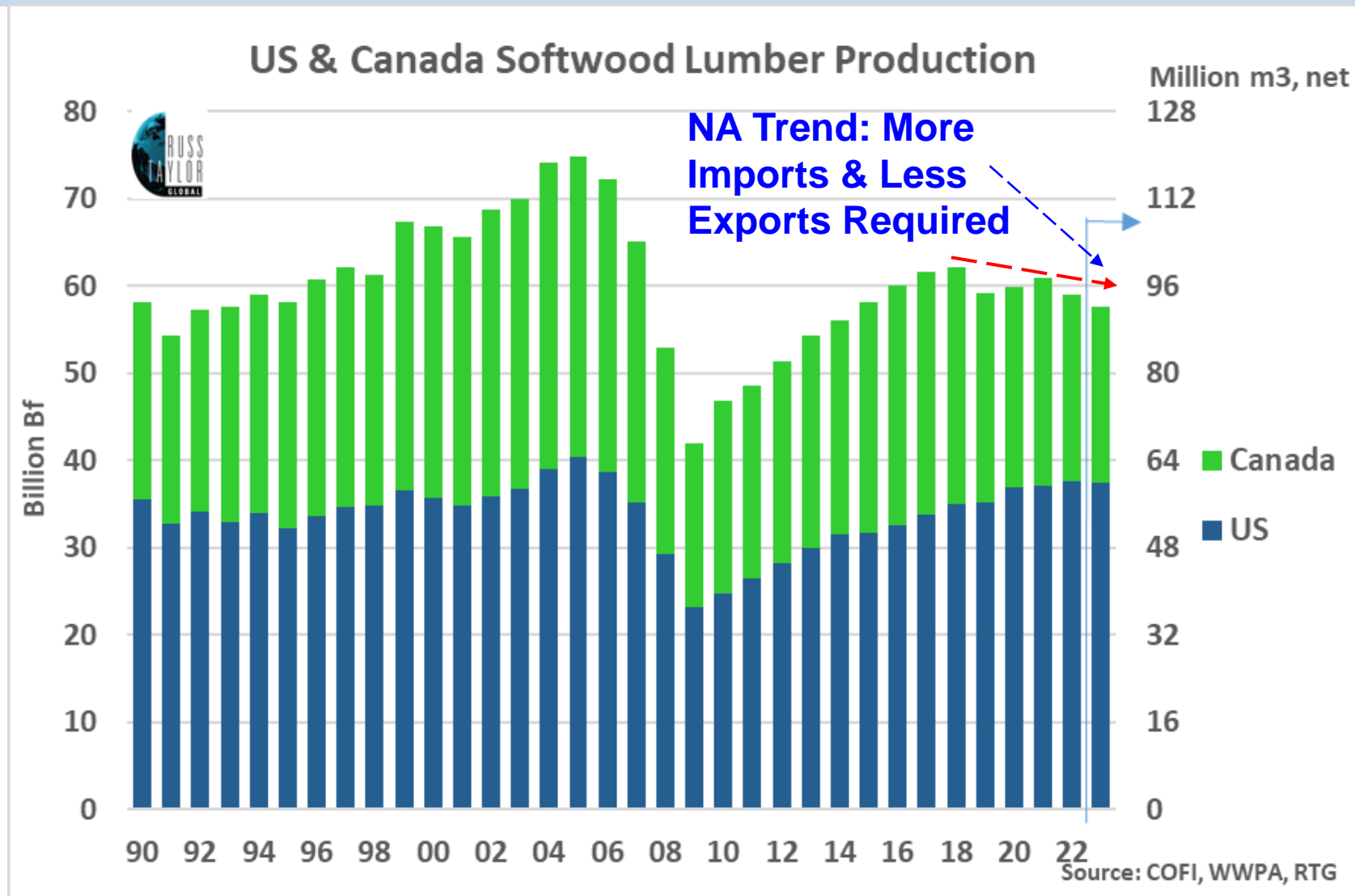
North American Softwood Lumber Production

- **US South: 2018-2022: ~ 11 million m3 (7 Billion Bf) of new capacity (60 Projects)**
- **Only 50% increase in output so far!**



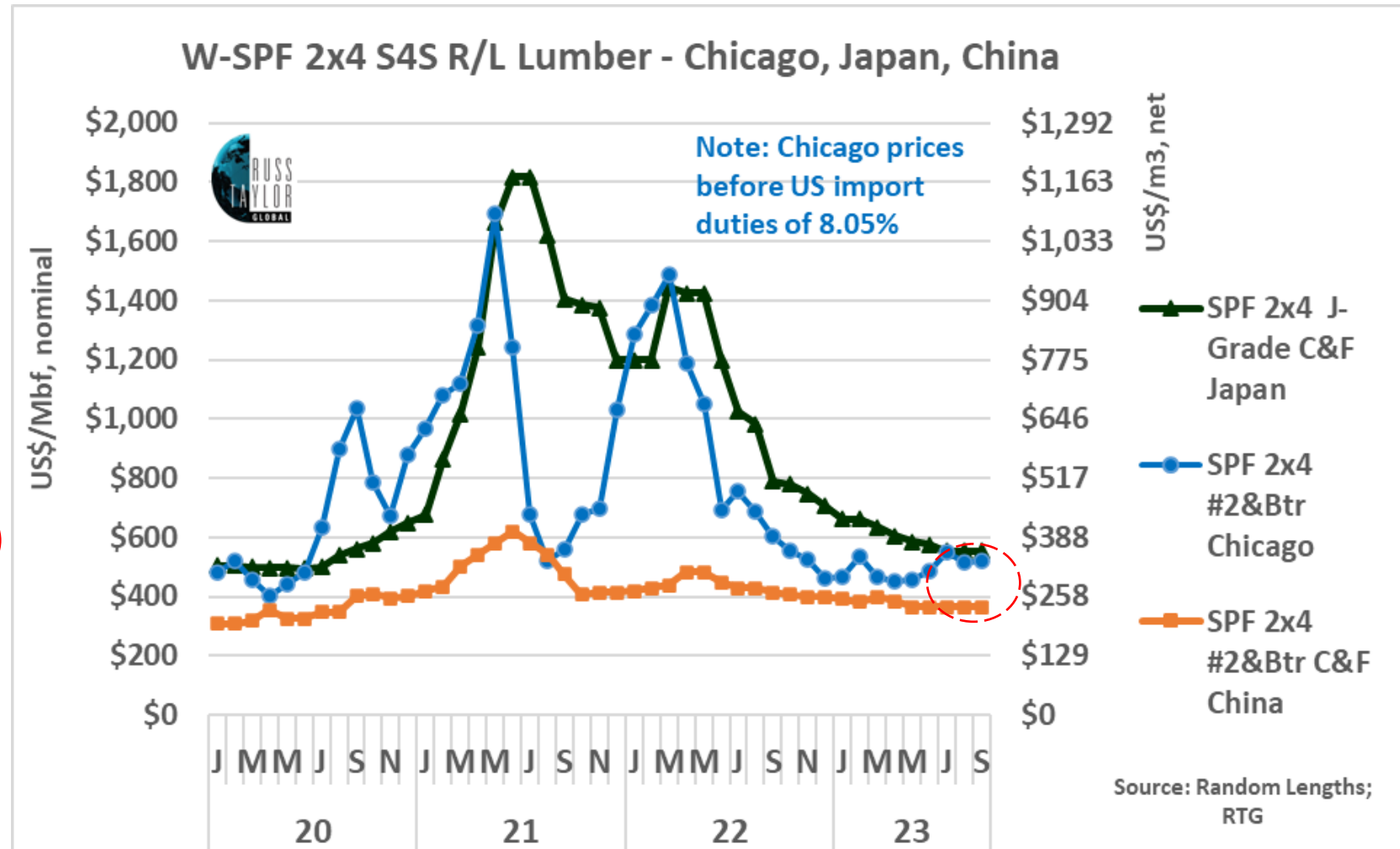
- **BC output peaked in 2005. Since then, 50+ sawmills have closed (mainly from the MPB) = ~50% drop in output to 2021.**

- BC output declines.
- Constrained output in rest of Canada & the US West.
- Only the US South can increase output.
- **Net: declining North America production.**
- Steady **imports** and reduced exports are required to balance supply with demand

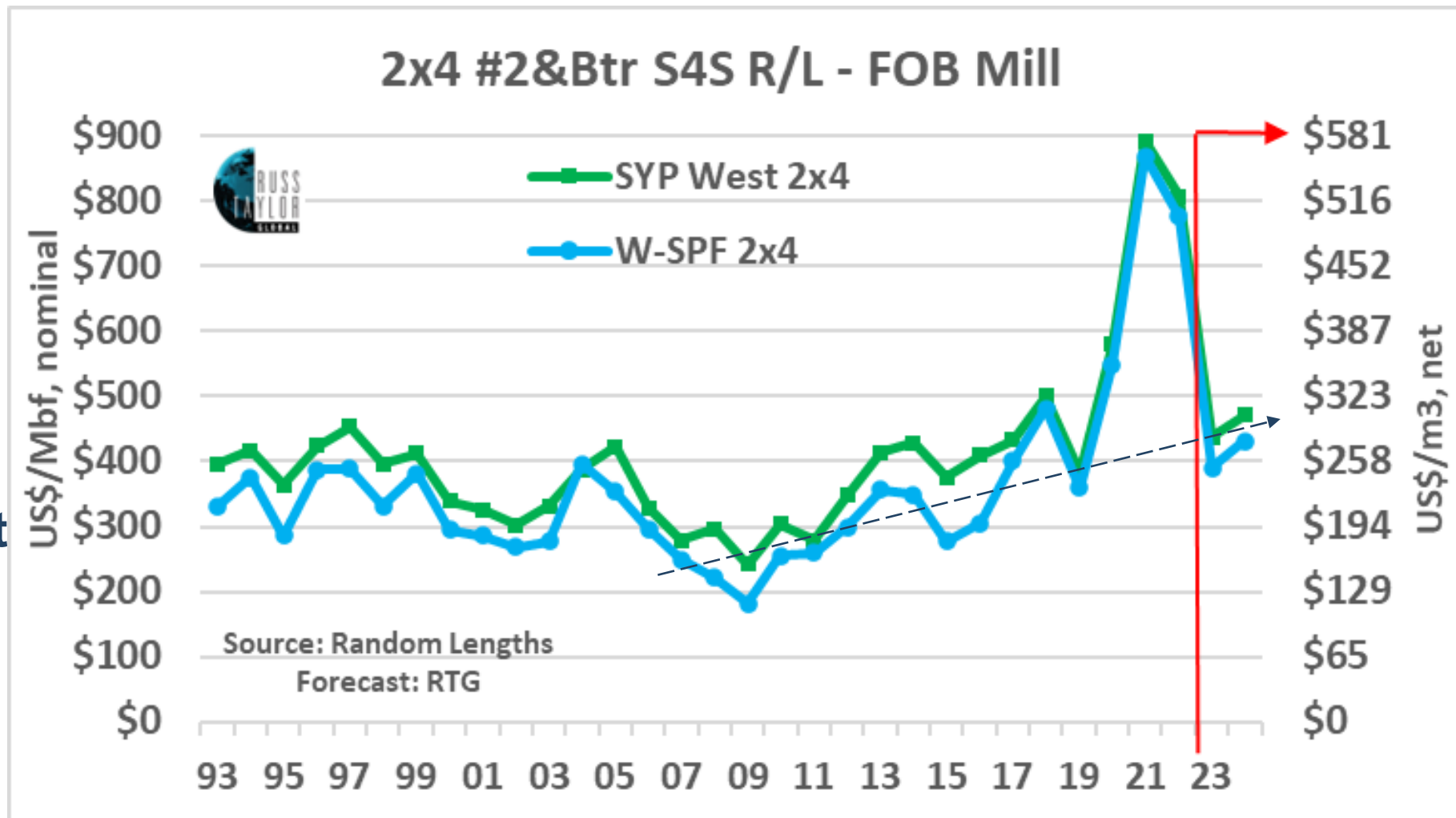


6. Delivered Lumber Prices: W-SPF to Chicago, Japan & China

- A significant discount between selling in Japan (J-Grade) & #2 in USA.
- 2022: SPF Chicago
AVG. 2022: US\$887
- **AVG. 2023: ~US\$510 (US\$330/m3)**
- Currently, W-SPF J-grade is trading close to Chicago #2&Better prices!



- **W-SPF (FOB Mill):**
2023: US\$390/Mbf
US\$250/m3
2024: US\$430/Mbf
US\$275/m3
- **SYP = +US\$35/Mbf**
- **Has been a difficult year for BC & some US West sawmills at 2023 prices!**
- **BC mills need ~\$425/Mbf to break-even, so prices need to move higher.**



What does this mean for Russian Lumber Exporters?

- North American lumber supply is technically tight; weak demand offsets this issue.
- **European imports** required to balance any US shortfall, so that should keep some of Europe in a better supply balance.
- If W-SPF #2&Btr prices in the US are above US\$400/Mbf (US\$260/m³, FOB mill), then China is generally too cheap.
- More Russian and European lumber exports to China will likely squeeze out Canadian and US exporters.
- Depending on Russian export volumes, China prices could have some upward pressure if other exporters start dropping out. However, demand is the more of the problem currently in China.
- **Watch: European lumber imports to the US & China!**



Questions

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