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Rising Lumber Demand Coupled with Tighter Log Supplies in North America Should Allow for Record-Level U.S. Prices in 2017

New WOOD MARKETS five-year forecast calls for more volatility as North American and global lumber markets continue to recover and grow

Vancouver, BC - December 18, 2014

In **WOOD MARKETS'** new five-year forecast, the good news is that North American and global economies, as well as softwood lumber markets, are forecast to continue expanding in 2015 and even faster in 2016 and 2017. At the same time, there is a continued tightening of the economic wood supply available from North America's forests.

The bad news is that the key North American and Chinese markets have been growing at a slower rate than was previously expected and the rate of log and lumber production increases have caught up to the market's demand, creating some short-term weakness or concerns.

These details and further analysis of commodity lumber and panels was released today in the report, [WOOD MARKETS 2015 - The Solid Wood Products Outlook: 2015 to 2019](#) by International WOOD MARKETS Group, Vancouver BC.

The **supply-side dynamics** feature eroding sustainable timber harvests in key provinces in Canada. As a result of the mountain pine beetle outbreak in the B.C. Interior, the sawlog harvest will be lowered by about 20% by the end of the decade, as compared to the pre-beetle harvest. Even more dramatic is the decline in the allowable timber harvest in Quebec - it has already been lowered by about 35% since 2004. As a result, Canada's total lumber output will start to flatten out in the next few years with no further increases expected.

On the U.S. side, the U.S. West Coast region has seen higher timber harvests, but a large component of

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this is being exported as logs to China, tightening the wood supply for sawmills and plywood mills, and causing log prices to remain high. The U.S. South is forecast to be one of the fastest growing production regions as it contains incremental timber (the only major wood basket left in North America with ample, surplus timber). As demand increases, it is forecast that log prices will need to go higher to attract incremental wood supplies for sawmills to produce more lumber.

On the **demand-side** in the key U.S. market, steady growth has been occurring in the repair and remodeling and industrial sectors, but it is the trends in new residential housing construction market segment that will make or break the market. Since the housing market collapse in 2009, U.S. housing starts have come back halfway in five years towards "normal" levels of about 1.5 million units, or from 550,000 units to about one million in 2014. There is still a long way to go with huge upside. However, after an 18% increase (145,000 units) in U.S. housing starts in 2013 that helped to tighten up the market, 2014's result has slowed down to an 8% increase (75,000 units). WOOD MARKETS believes that a structural change has been occurring in the U.S. housing market that will take much of this decade before a "new normal" result emerges.

A potential and short-term "supply gap" in North America is forecast, as rising wood products demand will trigger record-high lumber prices so as to attract more log and/or lumber supply to the market - this includes European lumber exports to the U.S. market. European exports are expected to surge as U.S. lumber prices move higher as a result of tighter wood supplies starting about 2017 and they could reach 3 billion bf by the end of the decade - similar to their 2005 peak.

Published since 1996, the five-year forecasts in *WOOD MARKETS 2015* explore the evolving recovery of U.S. and Canadian lumber and wood panel markets, including international developments. Trends assessed in the report include:

- Lumber output in the B.C. Interior have remained relatively constant - near 11 billion bf between 2010 and 2014 - and production could grow only slightly to about 11.2 - 11.3 billion bf in 2015 and 2016, before permanent declines start about 2017, due to a lack of merchantable sawlogs.
- Eastern Canada (Ontario and Quebec) will see lumber production bounce back in the next few years from very low levels in 2009, but the upside will soon be reached, especially in Quebec.
- The U.S. West lumber output will also steadily increase, but the role of log exports to China continues to squeeze sawmill margins.
- In the U.S. South, lumber production will see the fastest growth rate in North America, but there are just a few new greenfield sawmills being planned despite ample timber and a strong lumber demand forecast.
- With China now importing steady volumes of logs and lumber from North America, there is still the possibility of disruptions in China's import raw material supply (i.e., Russia continues to face cost and logistical obstacles) coupled with eventual increases in Chinese demand - this can only further tighten the North American supply base.

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- Throughout the forecast period, the North American supply chain (from loggers to mill workers to truck drivers to retail stores) is expected to remain fragile, stretched or imbalanced at times, causing temporary shortages as well as volatility. Trying to find quality workers is becoming a major problem for many firms.
- With U.S. housing starts set to rebound towards the long-term level of 1.5 million starts by the end of the decade, and Chinese construction and European markets expected to grow further, steady increases in global log and lumber demand are expected with the prospects of higher lumber prices.
- Five-year forecasts of OSB and plywood also see a prolonged period of growth, but without the sustained price increases forecast for lumber. Market volatility will continue, especially for OSB as previously curtailed mills gradually re-enter the market - this sequence of restarts will have more impact on prices than demand.
- For the MDF and particleboard sector, volume and price growth will also occur, but more slowly and evenly as compared to structural panels - as has been the general trend since 2010.

These factors and others contribute to a tightening of the global softwood timber supply base, but it is mainly in North America where the impact will be felt. However, the often-discussed "super-cycle" thesis is still alive on the supply-side, but what has been missing is a steady to strong level of demand in the U.S. market, as well as stable to increasing demand in other global markets. Without improvements in overall global lumber demand, it is becoming more likely that the much anticipated super-cycle may end up more like a "super-spike".

Full details of the five-year outlook for the U.S. and Canada's lumber and panels consumption, imports, exports, production and price trends are available in [Wood Markets 2015 - The Solid Wood Products Outlook - 2015 to 2019](#). Visit <http://www.woodmarkets.com/five-year-forecast-calls-volatility/>

About International WOOD Markets

International WOOD MARKETS Group (www.woodmarkets.com) comprises wood products industry, market and business consulting services for the global industry. The firm maintains a global data-base and also offers numerous industry or market specific multi-client reports, including its landmark [WOOD Markets Monthly International Report](#). WOOD MARKETS has maintained an office in China since 2005 and also publishes the monthly [China Bulletin](#).

Strategic business assessments matching the timber resource to the global commodity and specialty wood products market, coupled with feasibility analyses of timber processing options, are trademark skills of the firm. Our ability to conduct in-the-field investigations coupled with our global network of contacts and comprehensive data-base delivers strategic results for clients looking to review or expand their domestic or global business and marketing or in evaluating investments.



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