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SENT TO LSU AGCENTER/LOUISIANA FOREST PRODUCTS DEVELOPMENT CENTER - FOREST SECTOR / FORESTY PRODUCTS INTEREST GROUP



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International WOOD MARKETS Group Announces:

## Highest Global Sawmilling Earnings Achieved by U.S. South and Russian Mills

**2015 Global Cost Benchmarking Report on delivered softwood log and sawmilling costs in 32 countries and regions profiles huge changes in earnings, creating global winners and losers when currency exchange rates are factored in.**

Vancouver, BC - September 29, 2015

WOOD MARKETS' biennial global benchmarking survey has continued to place the U.S. South as the highest margin sawmill region in North America - a place it has held since 2008 - as well as the top global earner in 2014 and into the first part of 2015. However, the new dynamic that hit the global sawmilling industry in 2014, and has continued significantly in 2015, is the ongoing decline in foreign currency exchange rates of major producing and exporting regions against the U.S. dollar. While lower costs also created a massive erosion of lumber prices in many markets around the world, some countries saw their fortunes change dramatically.

With a 50% reduction in the ruble (2014 average vs. Q1/2015 average), Russian sawmills saw huge cost reductions as well as soaring lumber revenues in U.S. dollar terms. As a result, Russian sawmills shot to the top of the earnings ranking in the survey in 2014 and for Q1/2015 (and beyond). Out of 32 countries and/or regions surveyed, U.S. South and Russian mills accounted for 6 of the top 8 positions in terms of earnings (EBITDA) at top-quartile (or best) mills. The global EBITDA average in 2014 for top-quartile mills was double that of 2012 on the strength of improved lumber markets, stable global economic conditions and a slow strengthening of the U.S. dollar.

The ranking of earnings and operating results, including detailed pro-formas of delivered log and sawmill costs for both "average" and "top quartile" (or best) sawmills, are part of the comprehensive [Global Timber / Sawmill / Lumber-Sawnwood Cost Benchmarking Report-2014 & Q1/2015](#) (seventh edition). This biennial survey and report is researched and published by **International WOOD MARKETS Group** and was released this week. The report includes a "special analysis" - see the summary of this below.

### US Mills Rise to the Top

In North America, U.S. mills continue to outperform Canadian mills in overall earnings, which has been a familiar



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theme since 2008 where managed trade under the **Softwood Lumber Agreement (SLA)** appears to be a key factor. Sawmills in the U.S. West performed well in 2014, but earnings were lower than the U.S. South and were more similar to the earnings results achieved by Canadian mills. "However," explained Russell Taylor, President, WOOD MARKETS and the project leader, "the devaluation of the Canadian dollar against the U.S. dollar (from par in January 2013 to \$0.80 in Q1/2015 and to \$0.75 in September) and the non-renewal of the SLA starting on October 12, 2015, could improve the fortunes of the Canadian mills (despite very low prices currently)."

North America's sawmill earnings (12 regions in total) achieved very strong global results in 2014 at top-quartile mills. However, mill earnings in Q1/2015 eroded from weak demand, declining lumber prices, and excess production, and this scenario became much worse in Q2 as well as Q3 of 2015. However, the U.S. South seemed almost bullet-proof and earnings declined by just over 10% to remain the highest margin region in the world in Q1/2015.

### **Russian Mills Achieve Stellar Results**

While Russia's top-quartile mills have been improving in each global survey over the last four years, 2014 was a break-out year in terms of sawmill earnings at both average and top-quartile mills. Although these results were mainly currency driven, the rapid increase in Russian mills' fortunes caused chaos in markets, as buyers were able to quickly push Russian lumber prices lower in US-dollar terms, especially in China. Nevertheless, Russian mills achieved similar overall earnings results as U.S. mills in 2014 and Q1/2015. "With a huge windfall of cash, a number of Russian sawmill companies have embarked on capital spending programs to create higher production, lower cost mills, not to mention considerable investments in lower cost Scandinavian logging equipment." commented Russell Taylor.

### **European & Southern Hemisphere Mills Improve**

European mills were able to capitalize on a strong first half of 2014 before markets slowed steadily into fourth quarter as well as first quarter 2015. While earnings at European sawmills improved moderately over the disastrous results of 2012, they weakened through into Q1/2015 despite the rapid weakness in the euro relative to the U.S. dollar.

The Southern Hemisphere regions surveyed (Australia, New Zealand, Chile, Brazil and South Africa) also saw improved results in 2014 over 2012 earnings, but they slipped in Q1/2015. Two countries that have always been competing for the top global earnings spot in our survey since 2002 - South Africa and Australia - both fared well, but placed in the second quartile of earnings in the 2014 survey. Australia out-performed South Africa in 2014 and Q1/2015 at "top-quartile" mills to achieve the highest earnings of mills "down-under".

### **Special Cost Analysis - Competitor Review to the U.S. Gulf**

A "special cost analysis" was again conducted for "top-quartile" mills to assess how seven different regions (five in North America and two in Europe) compete on a delivered lumber cost basis to the U.S. Gulf region, based on Q1/2015 dimension lumber prices and log/sawmill costs. The analysis shows that margins on sales ranged from 12% (three regions) to over 40% (U.S. South). "What is most interesting," commented Russell Taylor, "is that net



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margin achieved by mills in Sweden (delivered to the U.S. Gulf region) was closest to the calculated margin from the B.C. Interior top-quartile mills, which was very good in Q1/2015" As the benchmarking analysis shows, there have been some substantial changes to the cost structures in many regions or countries and the competitiveness of suppliers in lumber export markets continue to change, especially when currency exchange rates remain volatile. The benchmarking analysis clearly shows that evolving country cost structures and currency exchange rates will not only further impact the market share of suppliers in export markets, it is also going to have a negative effect of keeping many global lumber prices lower, including the U.S. market.

The results for the same 32 countries/regions were compiled for both "average" and "top-quartile" sawmills for both 2014 and Q1/2015 and are compared to previous surveys. The best benchmark for the sawmilling industry is always "top-quartile" mills, as these mills are larger, have more economies of scale, are more export-oriented, and can therefore achieve higher revenues and earnings.

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