



North America Sawnwood Trends & Outlook

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Presentation Outline: North America Sawntwood Trends & Outlook

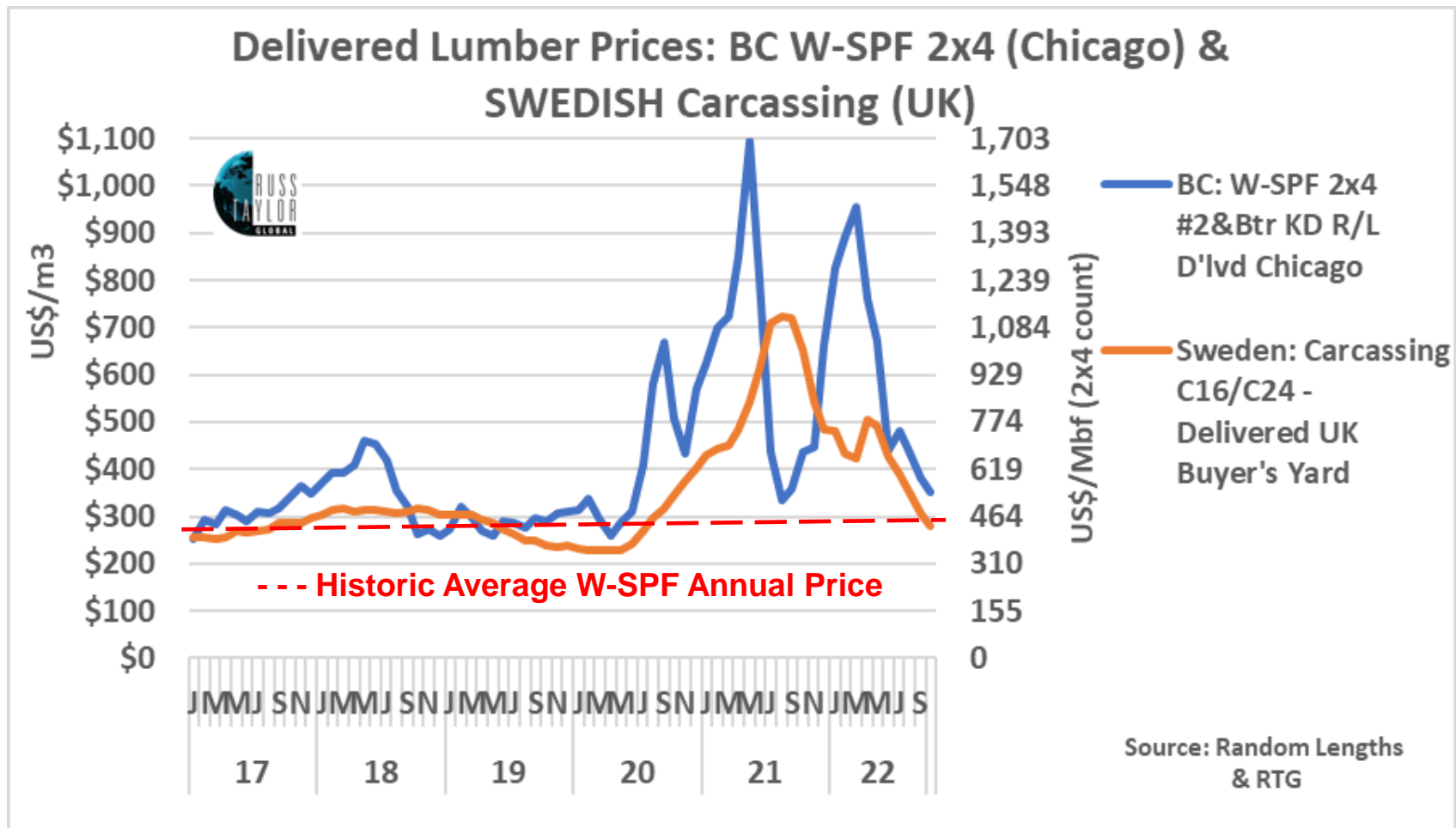
- 1. US Lumber Demand**
- 2. North America Supply Dynamics**
- 3. US Imports & Canada Exports**
- 4. North America Supply/Demand Outlook**
- 5. Lumber Price Trends & Outlook**
- 6. Summary**

- Unprecedented global demand spike for wood products from mid-2020 to mid-2022.
- Global supply chain disruptions.
- Sawmill production curtailments due to labour and COVID issues.
- World-wide: Too little supply for strong demand.
- Soaring and record commodity wood product prices.
- Record sawmill profits.
- **A once-in-a-lifetime market** – that is now trending towards normal (over-supplied) since mid-2022!



Delivered Lumber Prices: Canadian W-SPF to Chicago & Sweden Carcassing to UK

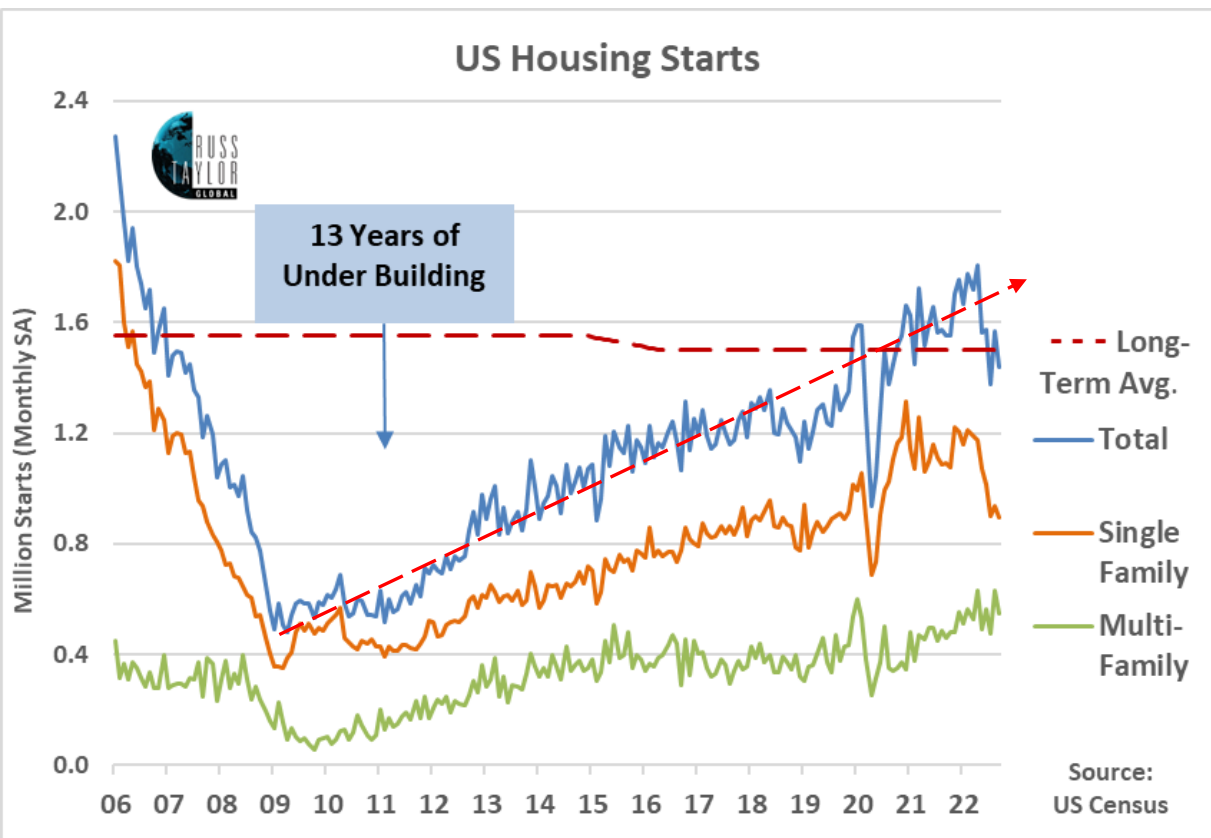
- Huge sawn softwood price increases in 2021 & 2022.
- The big gap gone for European exporters between selling in USA vs. Europe.



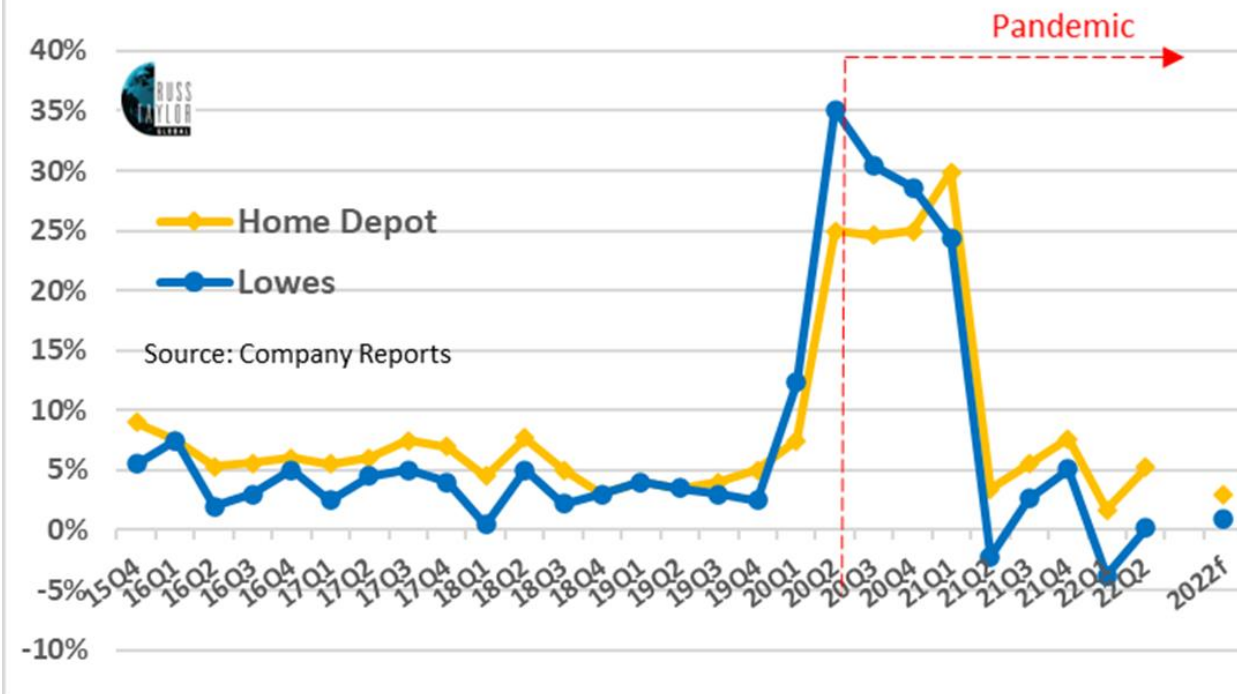
1. U.S. Total Monthly Housing Starts Seasonally Adjusted at Annual Rates (SAAR)

US housing starts:

- Below “normal” from 2007 to 2020.
- Huge under building to make up.
- Represents **30+%** of US consumption



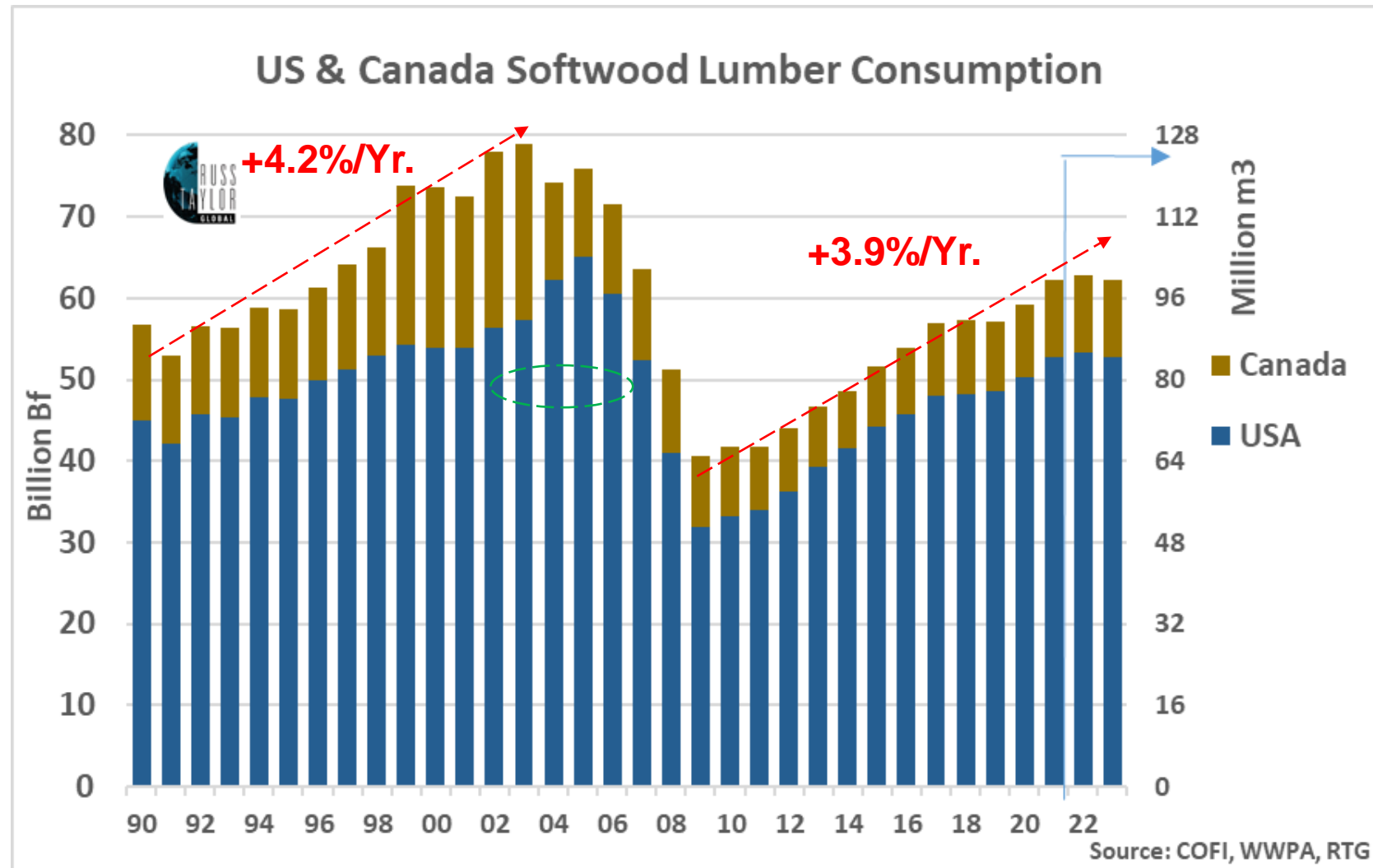
1-Year Comparable US Store Sales: HD & Lowes



US repair & remodelling:

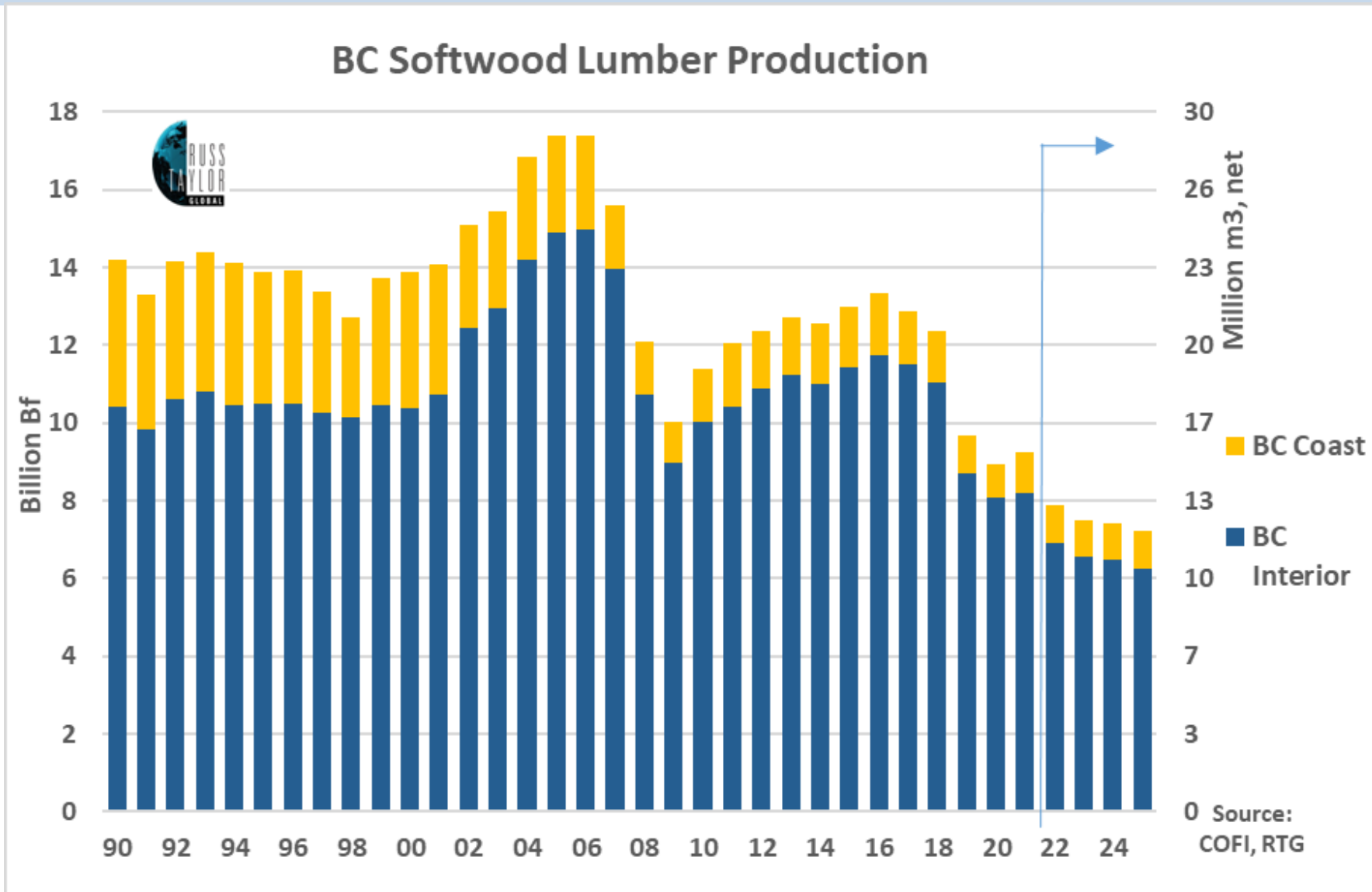
- Strong demand surge during COVID
- Steady growth over time.
- Represents **40%** of US consumption

- **US sawn softwood consumption growth has increased in 2020 & 2021.**
- **2020 pandemic kick-started US R&R & new home starts.**
- **The rate of demand growth in 2021 and much 2022-H1 was been high, but slowed in 2022-H2.**



BC: Long-term Softwood Lumber Production Forecast

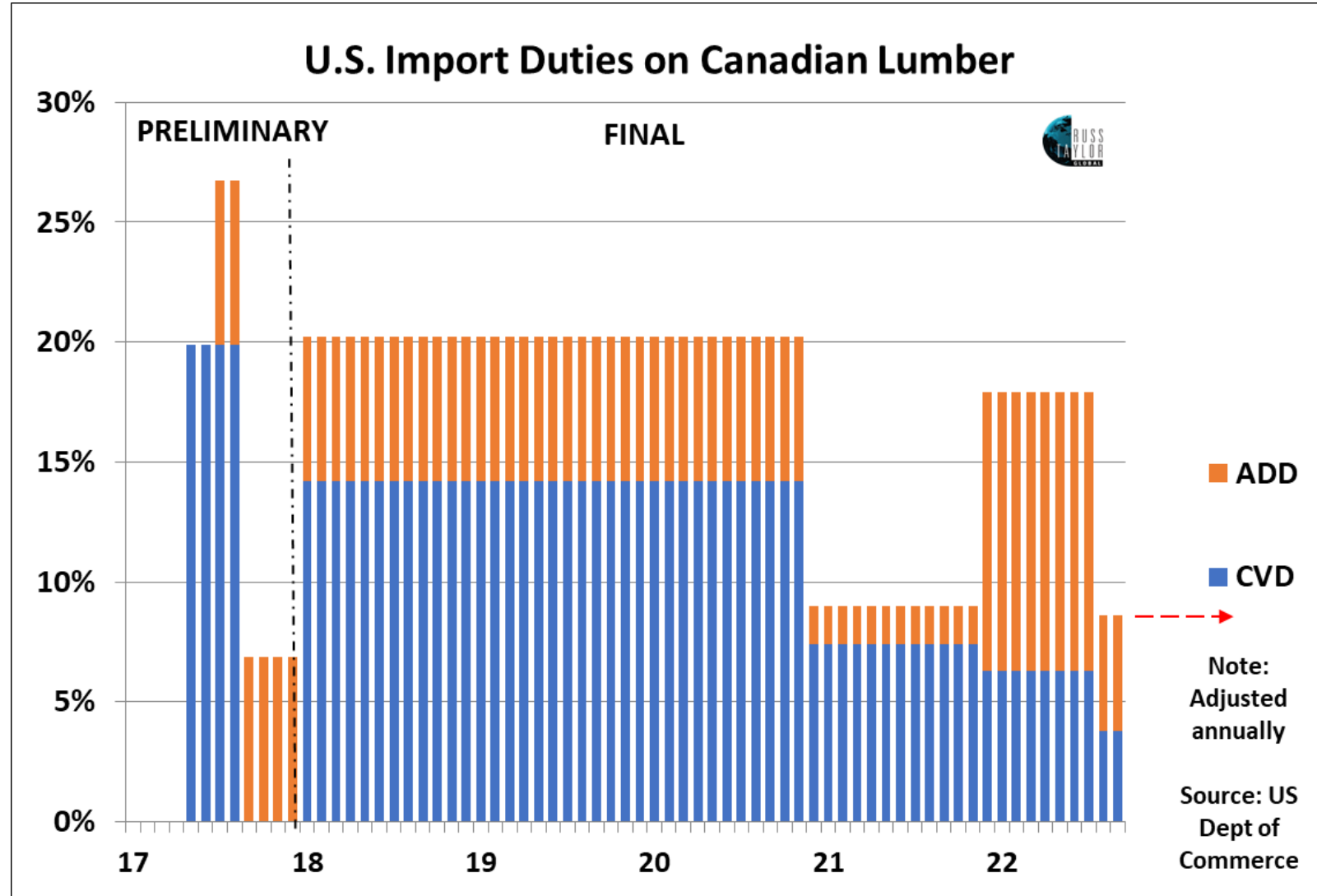
- pine beetle,
 - spruce beetle,
 - wildfires,
- Many (gov't) timber supply issues:
- old growth deferrals,
 - caribou protection,
 - landscape issues,
 - carbon capture,
 - tenure transfers.



US Import Duties on Canadian Lumber - reduced in August 2022

- US import duties are assessed annually as part of the review process.
- Duties moved lower to 9% at the end of 2020.
- They were increased at the end of 2021 to 18% and lowered to 8.6% in August 2022
- Lower prices and huge deposits (~CDN \$7.5 billion) should help get both sides to start a negotiation process in 2023.

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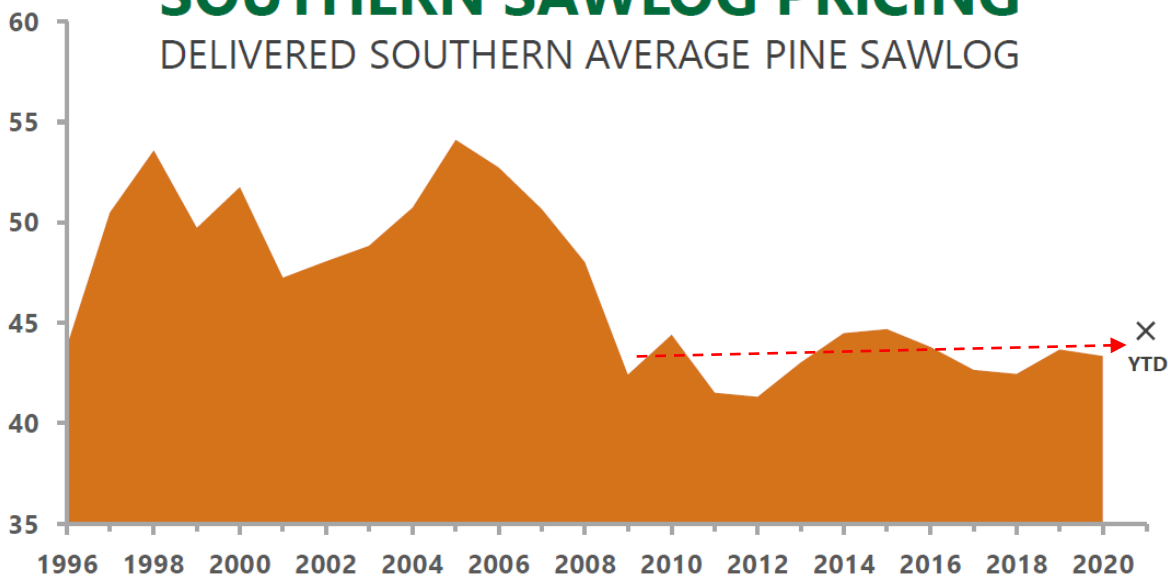


US South – Last (& Big) Wood Basket in North America

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

SOUTHERN SAWLOG PRICING

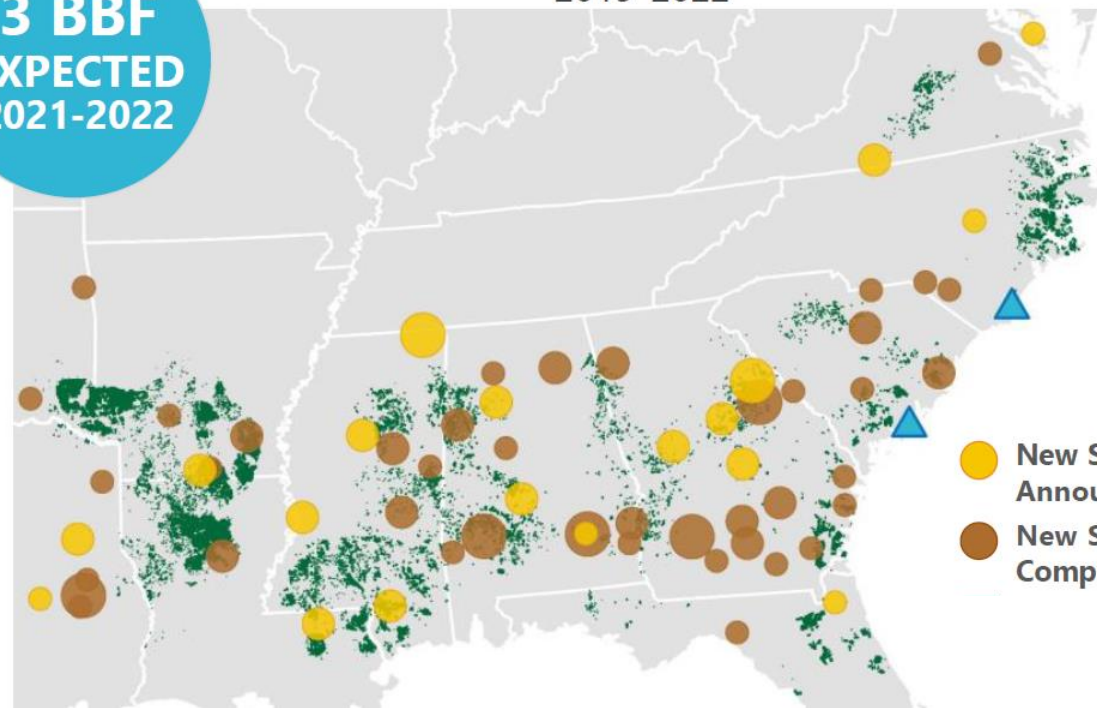
DELIVERED SOUTHERN AVERAGE PINE SAWLOG



5 MMm3 U.S. SOUTH CAPACITY ADDITIONS

2019-2022

**3 BBF
EXPECTED
2021-2022**

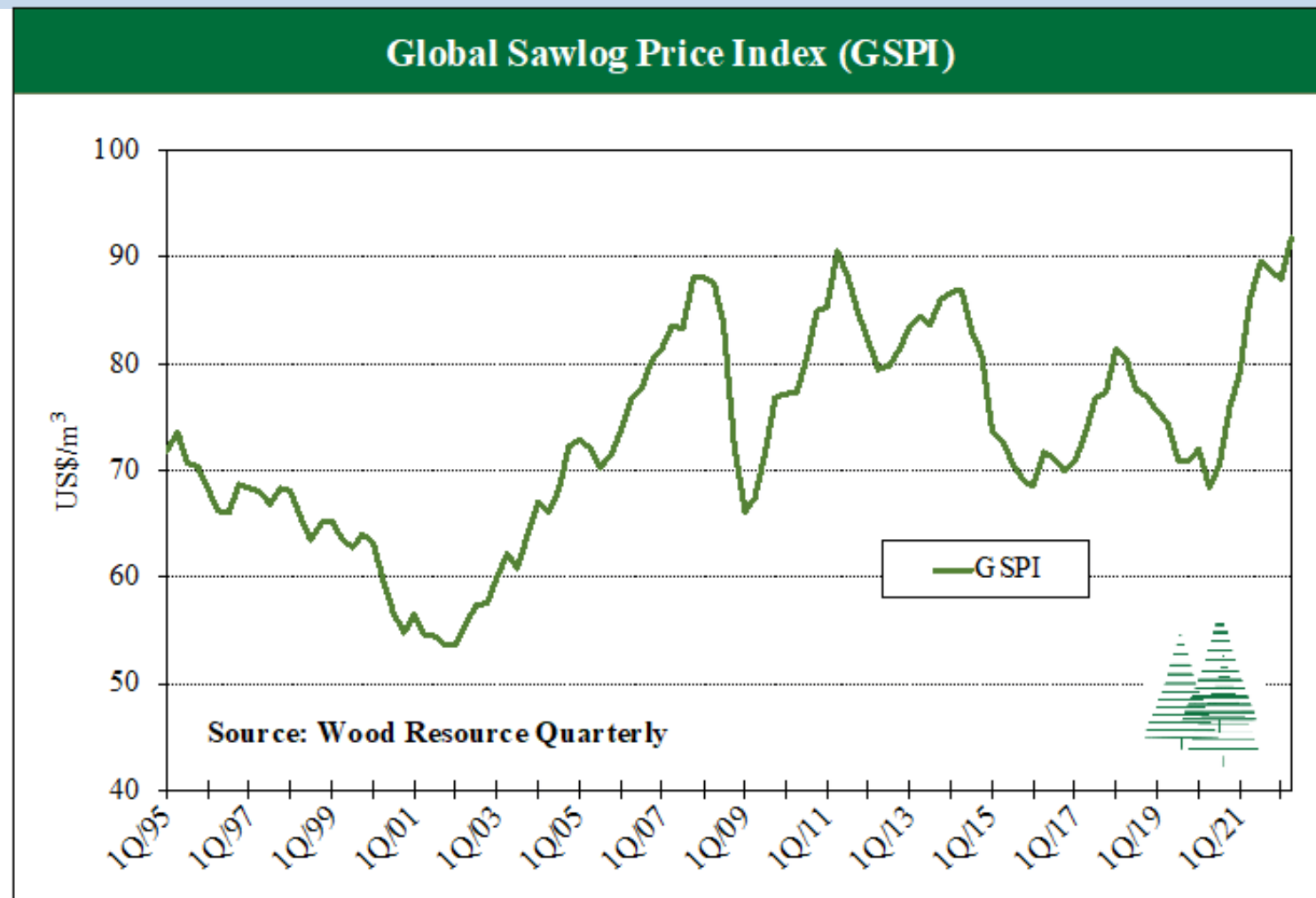


● New Sawmill Capacity Announced = **19**
● New Sawmill Capacity Completed = **40**

Source: Forisk

Global/North American Log Supply Price Trends

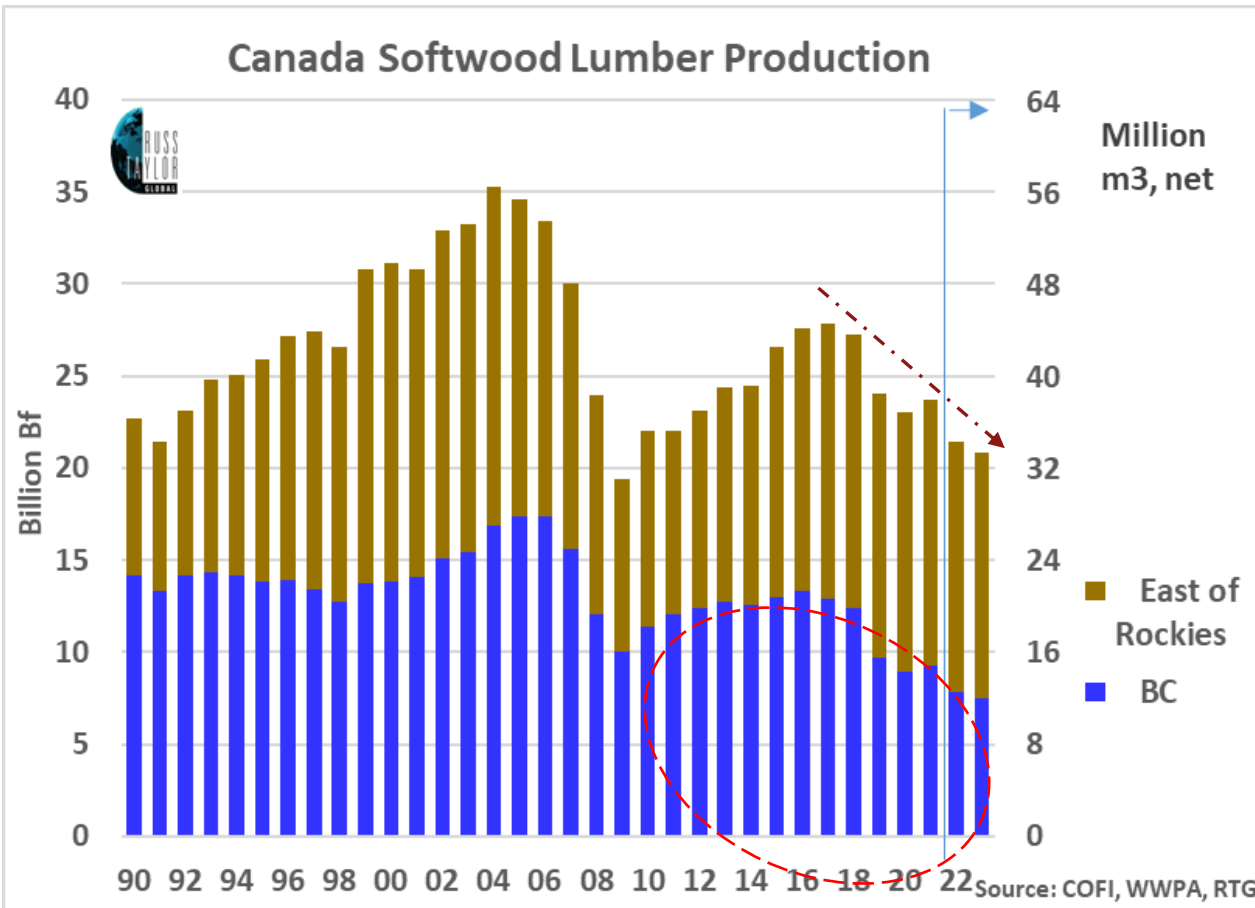
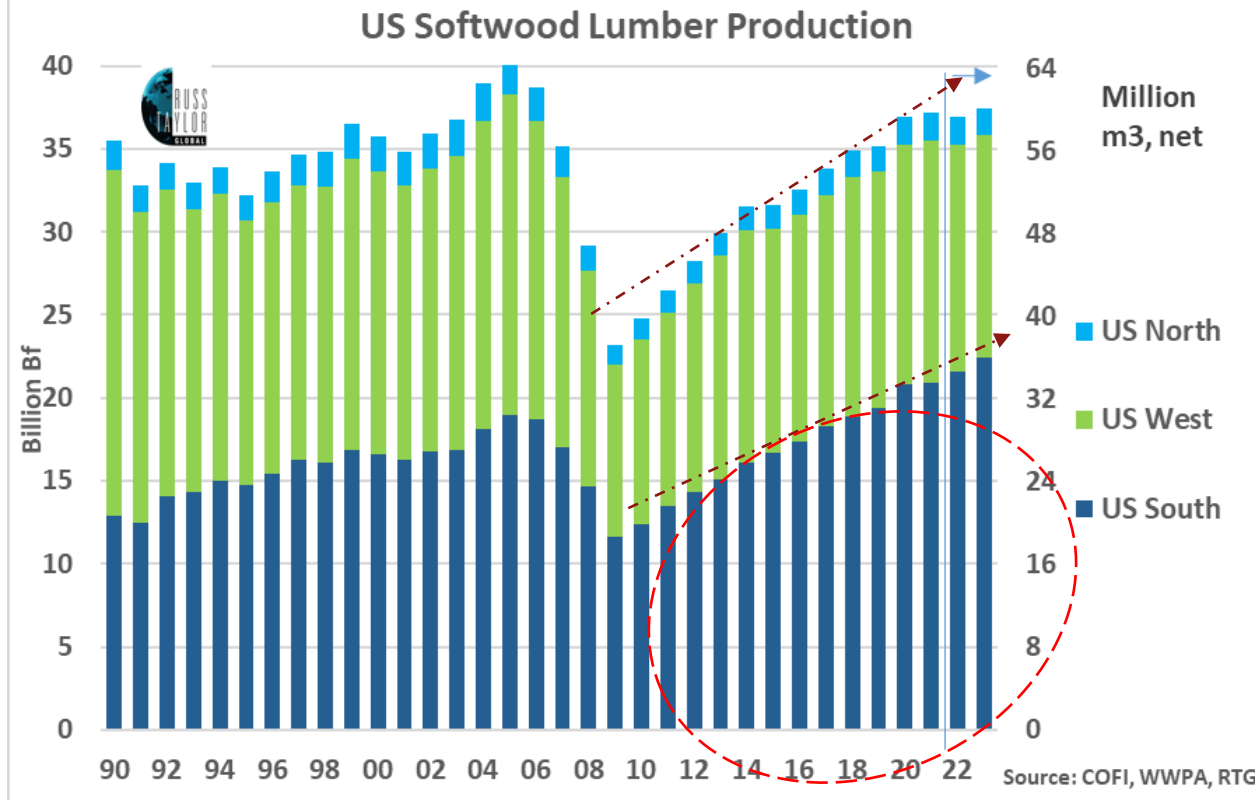
- Over the past two years, log prices have gone up the most in Central Europe (+82%), SE Baltic Sea (+58%), **North America (+33%)**, Latin America (+27%), and the Nordic countries (+20%).
- The **Global Sawlog Price Index** has risen from \$68/m³ in 2Q20 to **\$92/m³** in 2Q22.



However, **US South** sawlog prices flat; **BC Interior** log prices have soared; the **rest of North America** has trended upward and now downward with lumber prices.

North American Softwood Lumber Production

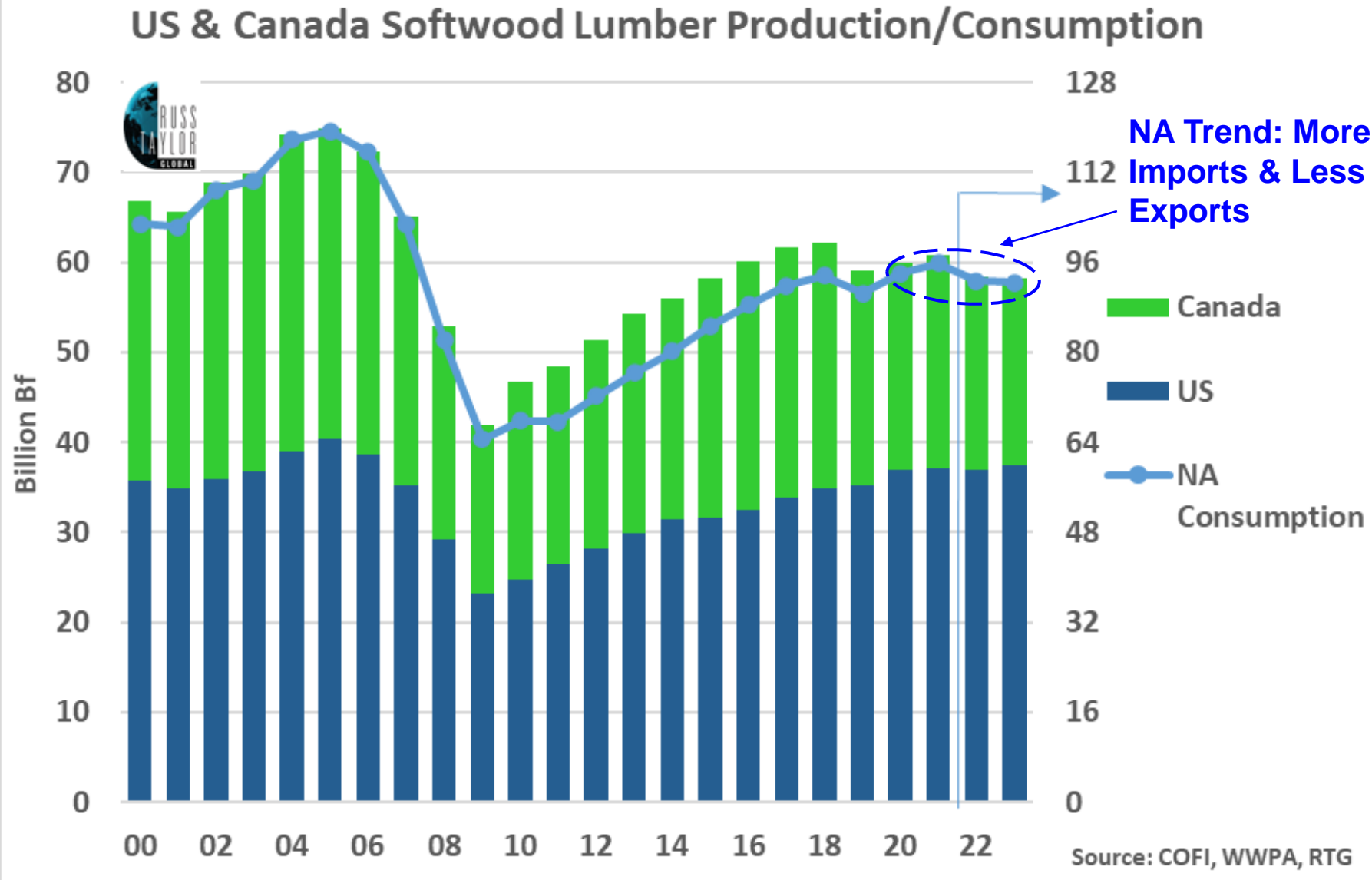
- US output steadily increasing – in US South.
- Canada = lower; BC much lower



- BC output peaked in 2005 – since then, 40+ sawmills have closed (mainly from the MPB) = ~50% drop in output to 2021.

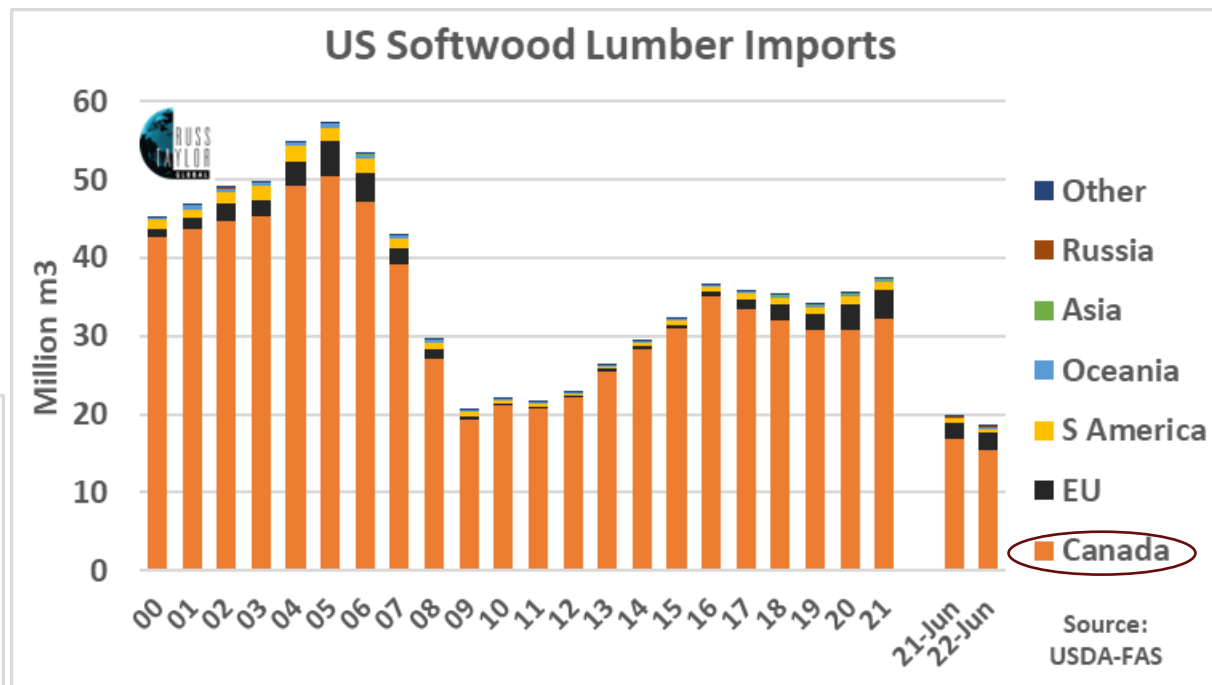
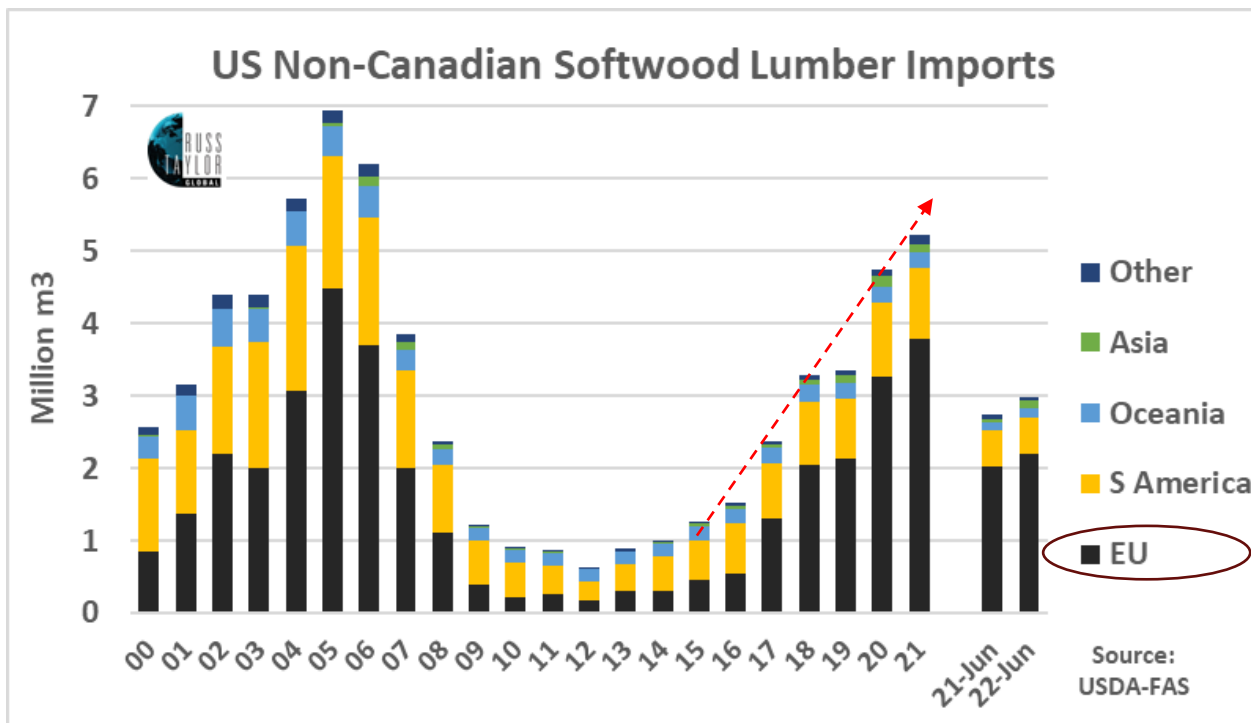
4. North America Supply & Demand – Slowing Growth

- From 2005 to 2019, North American output = **-23 million m3 (-15 billion bf)**.
- Canada/US have both lost sawmill capacity.
- No net surplus for exports & more imports needed.



Europe's share of US Lumber Imports Increasing

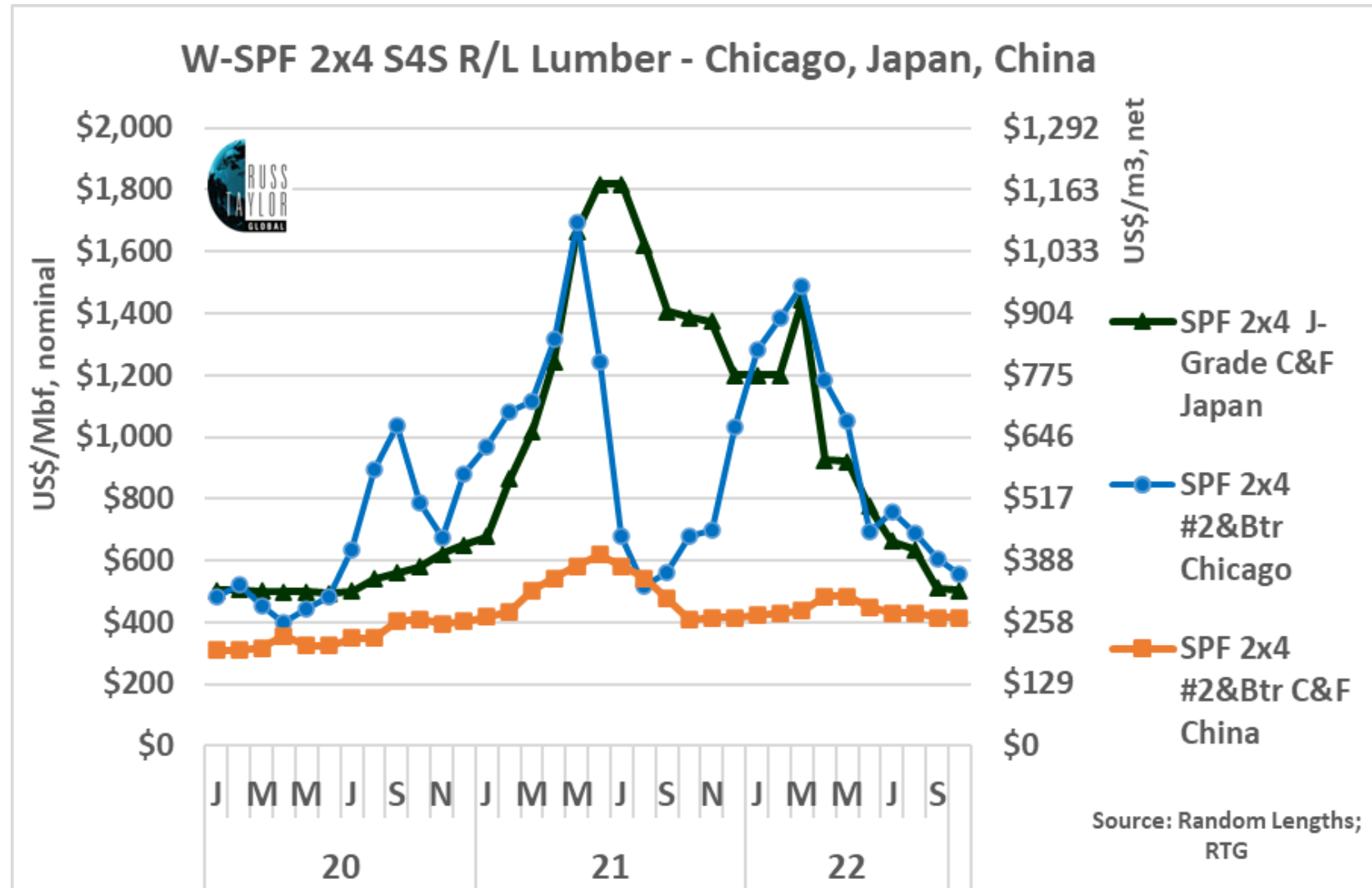
- **Canada dominates US imports but market share has dropped from 97% to 84% in 2022 YTD.**
- **Europe = 12% and rising**



- **Canada = 84.0%**
- **Europe = 12.0%**
 - **Germany = 5.5%**
 - **Sweden = 2.0%**
- **S. America/Oceania = 3.5%**
- **Asia = 0.3%**
- **Russia = 0.3%**

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

- **Still a discount between selling in Japan (J-Grade) & USA (#2) vs. China for #2.**
- **2021: SPF Chicago AVG. = US\$960/Mbf (\$620/m3).**
- **AVG. 2022e: US\$890 (\$575/m3).**
- **AVG. 2023f: US\$490 (\$315/m3).**





7. NORTH AMERICA: DEMAND Trends

DEMAND POSITIVES (On Hold for Most of 2023):

- 1.5 - 4.0 million-unit US housing shortage – needs to be built
- Millennials are reaching prime ages for home purchases
- US homeowners have huge equity in their homes
- Older US homes (avg. ~42 years) will encourage R&R
- Low unemployment supports mortgages/renovations
- Dealer retail inventories are low, so steady buying is needed

DEMAND NEGATIVES (Gaining in 2022-H2; increasing in 2023-H1):

- Soaring inflation and rising mortgage rates = unaffordability
- US housing starts headwinds, but building should be steady
- Home builder & consumer confidence are plummeting
- US existing house prices are high & unaffordable + high inventories.



NORTH AMERICA: **SUPPLY Trends**

SUPPLY POSITIVES (supporting higher prices):

- **BC government old-growth, caribou, FN, Value-Added policies to reduce BC timber harvest & lumber output**

SUPPLY NEGATIVES (supporting lower prices):

- **Cheap surplus logs in US South - more sawmills & increased output.**
- **Surplus lumber exports from Europe (spruce bark beetle) to USA.**
- **Limited opportunities for North America sawn softwood exports (China market flooded with cheap Russia lumber; other markets over-supplied).**



Questions

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