North America Sawnwood Trends & Outlook

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Presentation Outline:
North America Sawnwood 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
2021 to mid-2022 Dominated by the Global Pandemic

• 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.
US housing starts:
• Below “normal” from 2007 to 2020.
• Huge under building to make up.
• Represents 30+% of US consumption

US repair & remodelling:
• Strong demand surge during COVID
• Steady growth over time.
• Represents 40% of US consumption
US & Canada Softwood Lumber Consumption Trends

- 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.
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

**U.S. SOUTH CAPACITY ADDITIONS**
2019-2022

- **5 MMm³**
- **3 BBF EXPECTED 2021-2022**

Source: Forisk

- New Sawmill Capacity Announced = 19
- New Sawmill Capacity Completed = 40
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.

Source: COFI, WWPA, RTG
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%
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.

Housing is a leading indicator into and out of a recession!
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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