

The Forest Industry: harvest, demand and foreign trade

Timber Measurements Society
Central Meeting
April 10, 2014
Coeur d'Alene, Idaho

Forest2Market

Data – Experience – Expertise

- Neutral-third party (independent in ownership and structure)
- Capture of transaction level data is the only way to achieve a true measure of market price. Transaction data is the foundation of all our products and services

Client relationships

- Timberland owners and log marketers, forest products manufacturing companies, pulp and paper, bio-energy industries

Market Intelligence

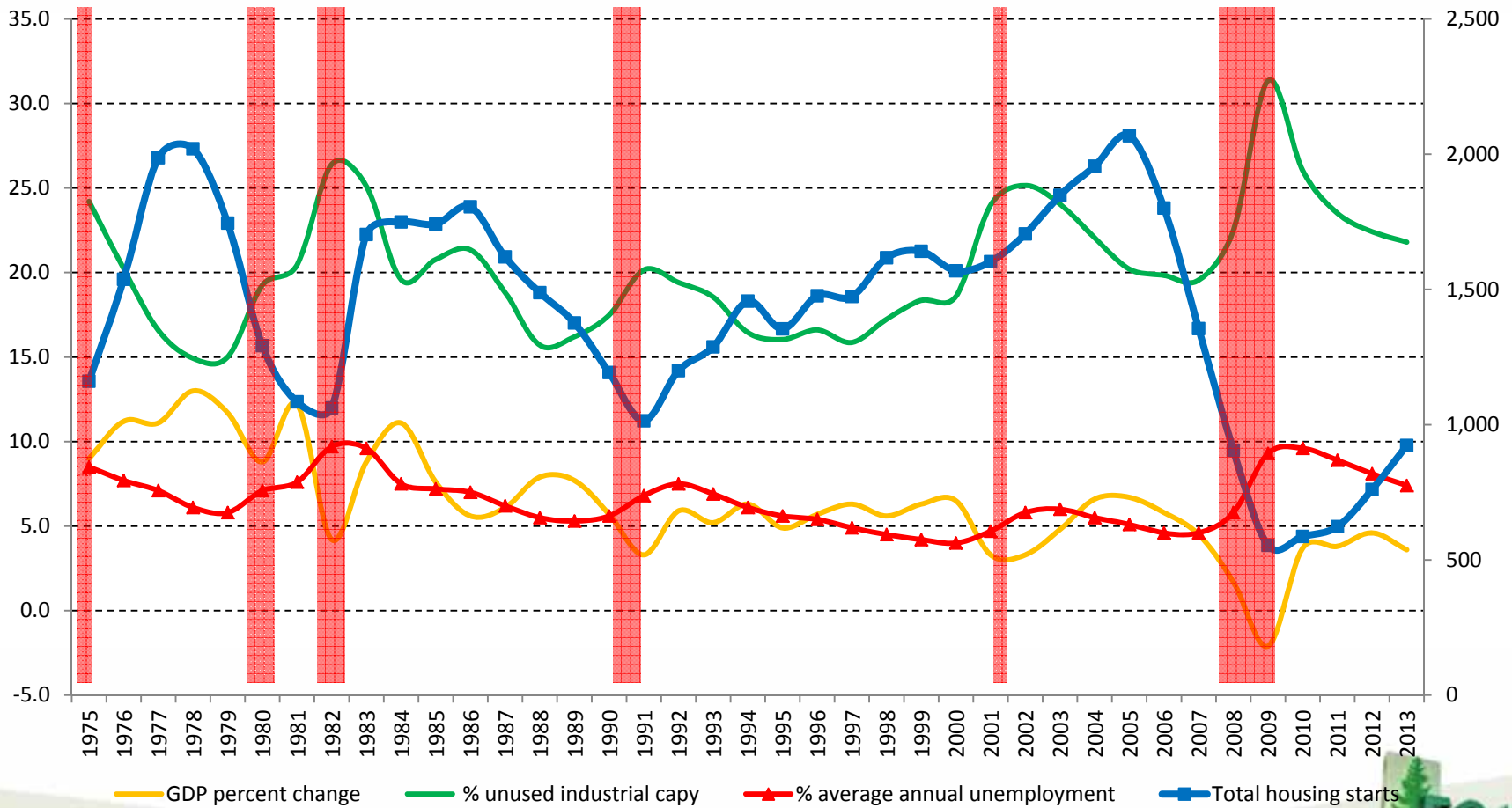
- Resource studies / Market research
- Timber price forecasts and economic analysis
- Proprietary transaction level sales and cost data
- Publications

Headquartered in Charlotte, NC; offices in Eugene, OR, Appleton, WI and Curitiba, Brazil

Agenda

- US housing and the forest industry
- Timber harvest & lumber production trends
- Competitive position of the PNW
- Asian demand for wood products
- The outlook for our industry

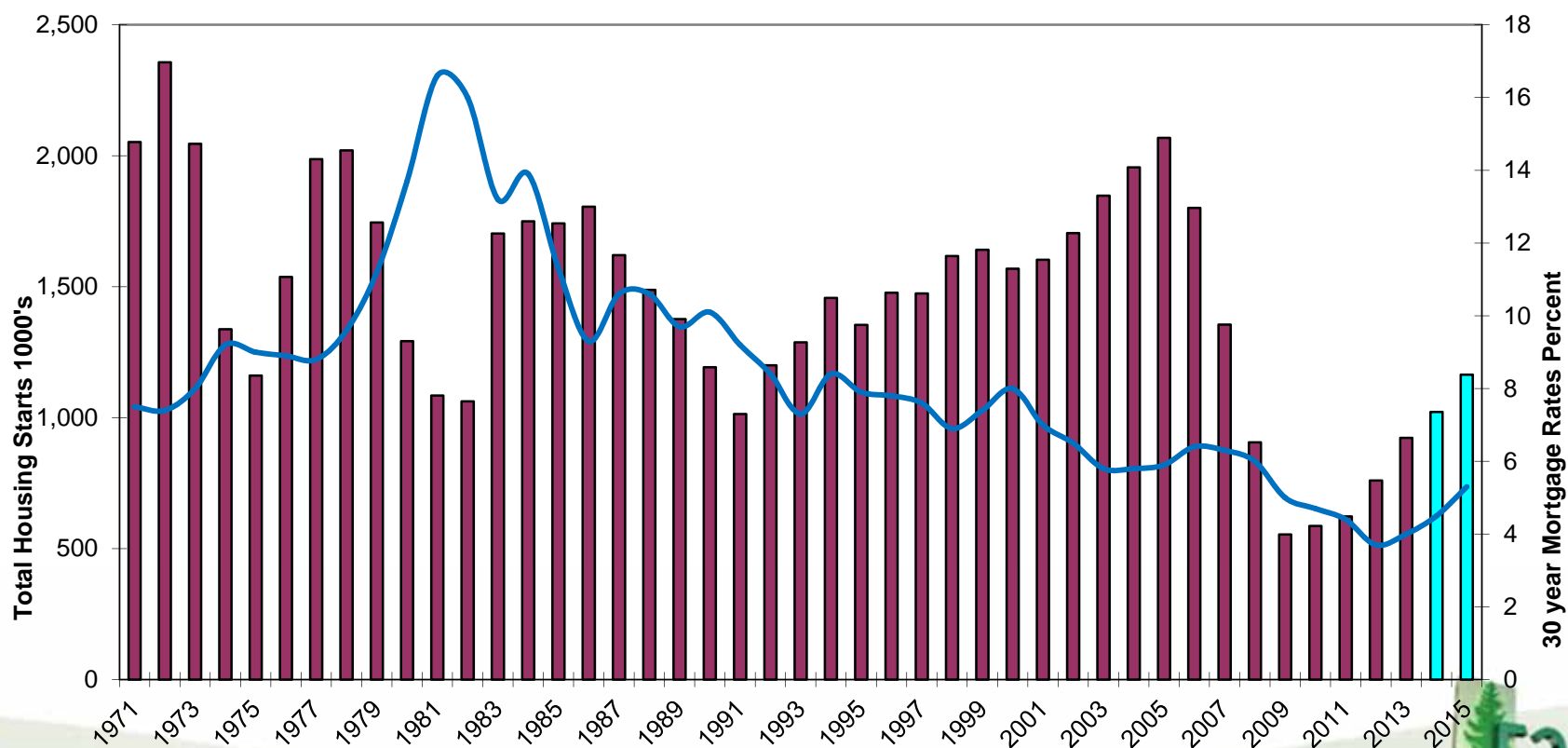
How does the recovery stack up?



Renewed Demand for Building Products



History: housing starts and mortgage rates



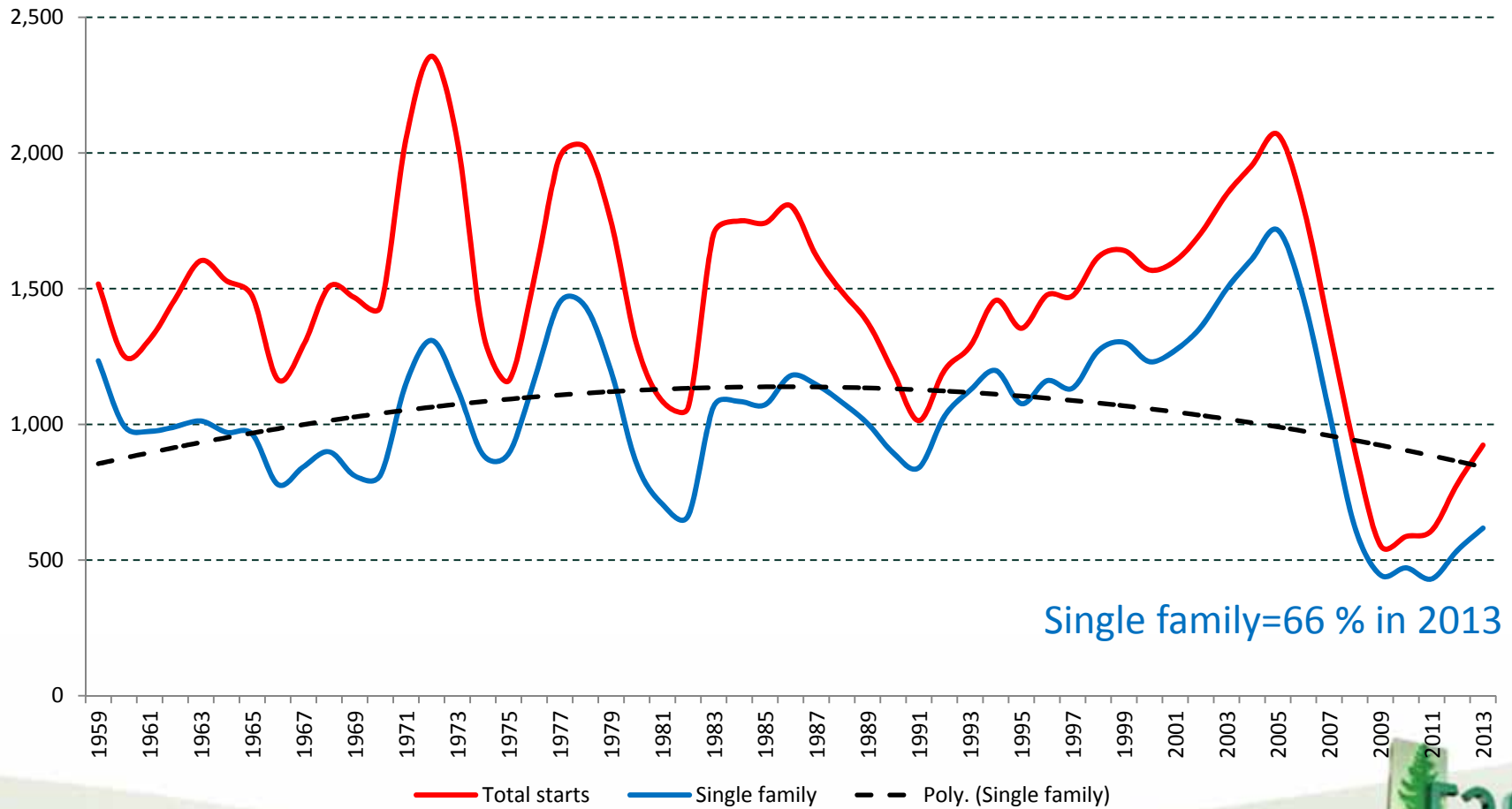
Note: Projected Values in Green

Source: US Census, Freddie Mac, F2M 4CAST

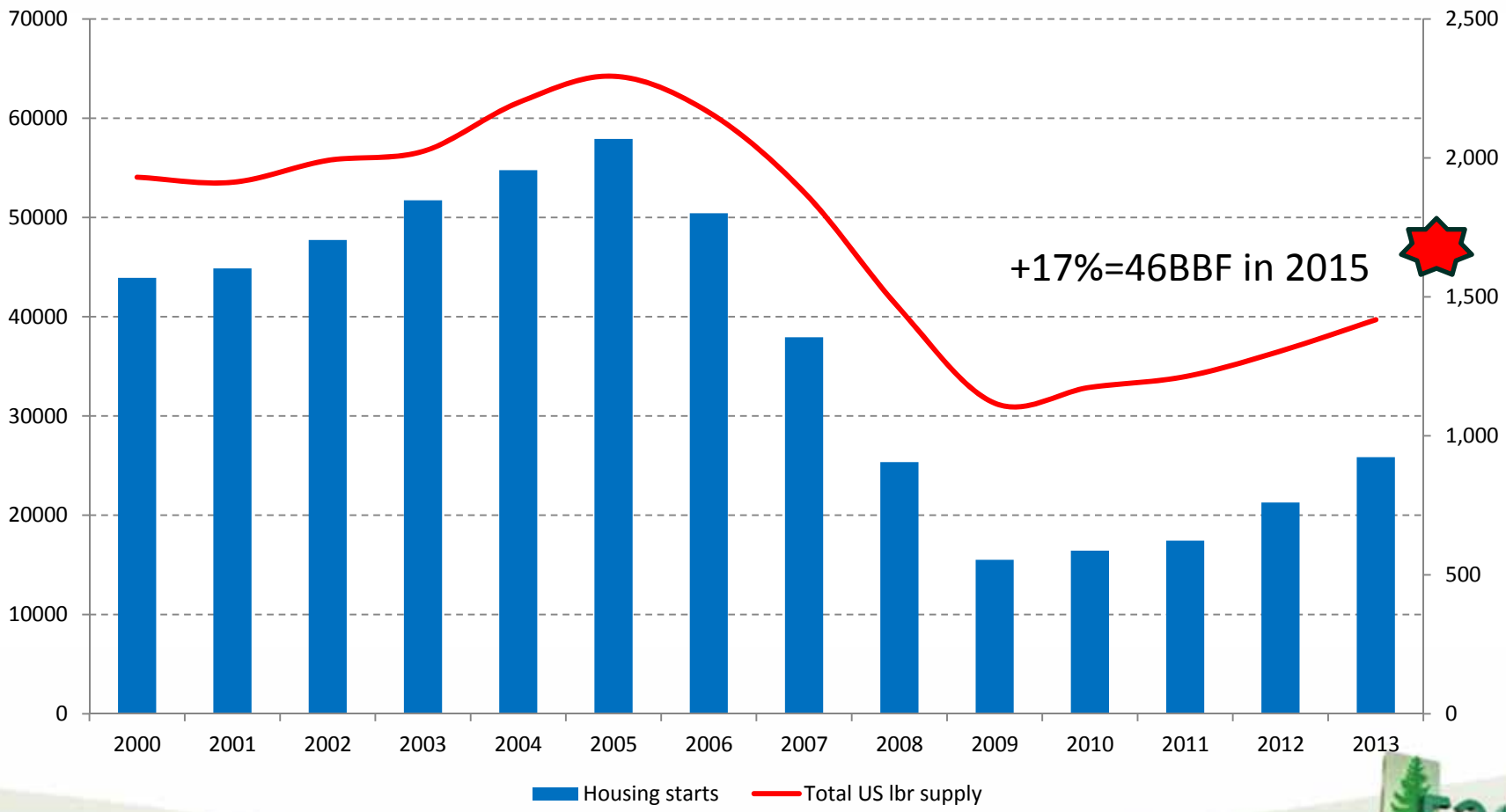
total starts 30 yr rates



Changing demographics of housing



Housing demand on US lumber supply



Sources: US Census and WWPA

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Housing supports better times for the Industry

- Housing starts will exceed 1 million in 2014
- Mortgage interest rates are still very low
- Housing backlog of foreclosures clearing in most areas
- Renewed demand from new buyers
- Smaller homes, more multi family and fewer residents per unit
- Problems for the next generation of homebuyers; debt burden and underemployment
- Improved housing demand will require more lumber
- 2014 and 2015 will be good years for lumber and panel prices

Competition for the wood supply



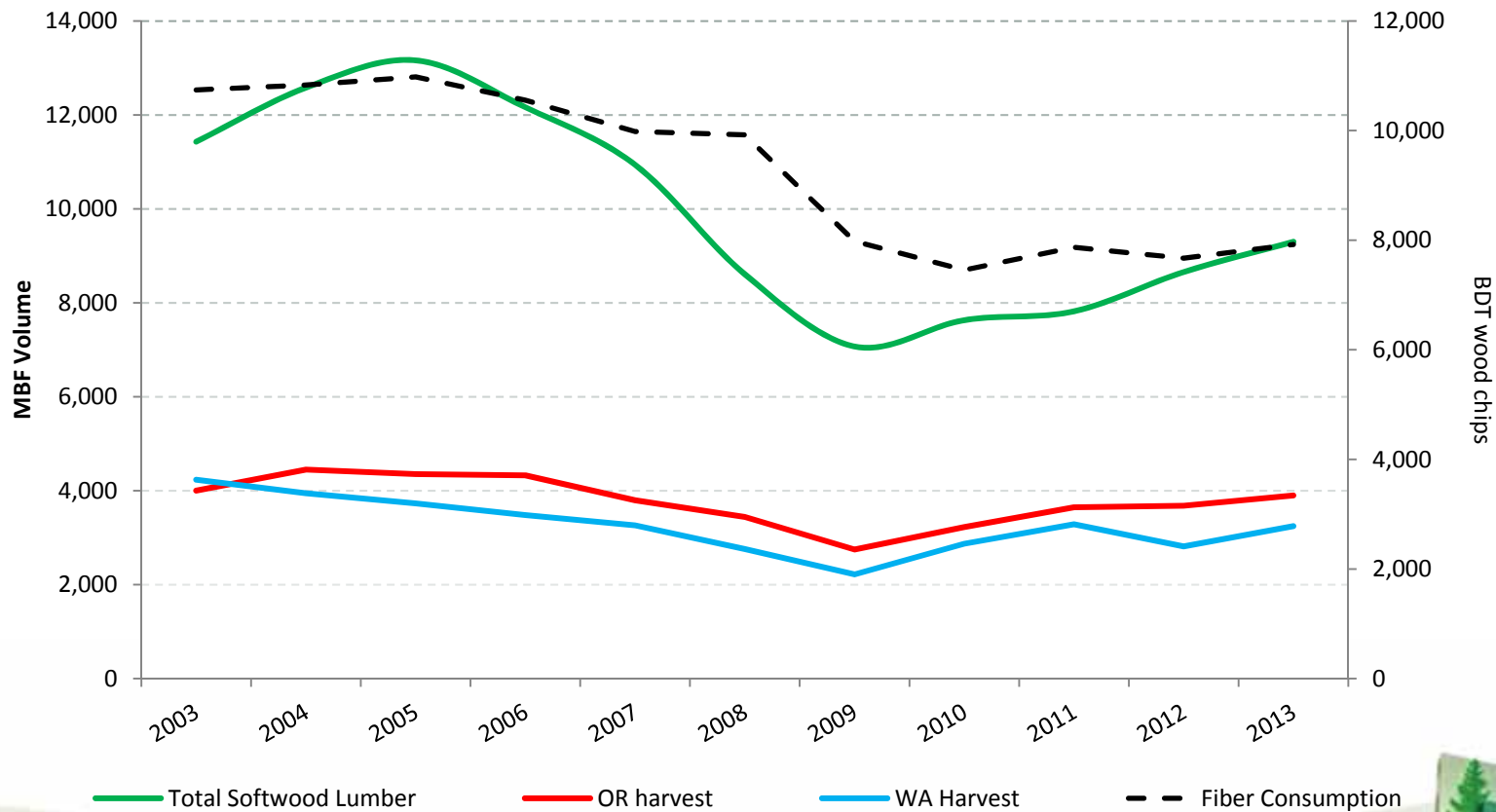
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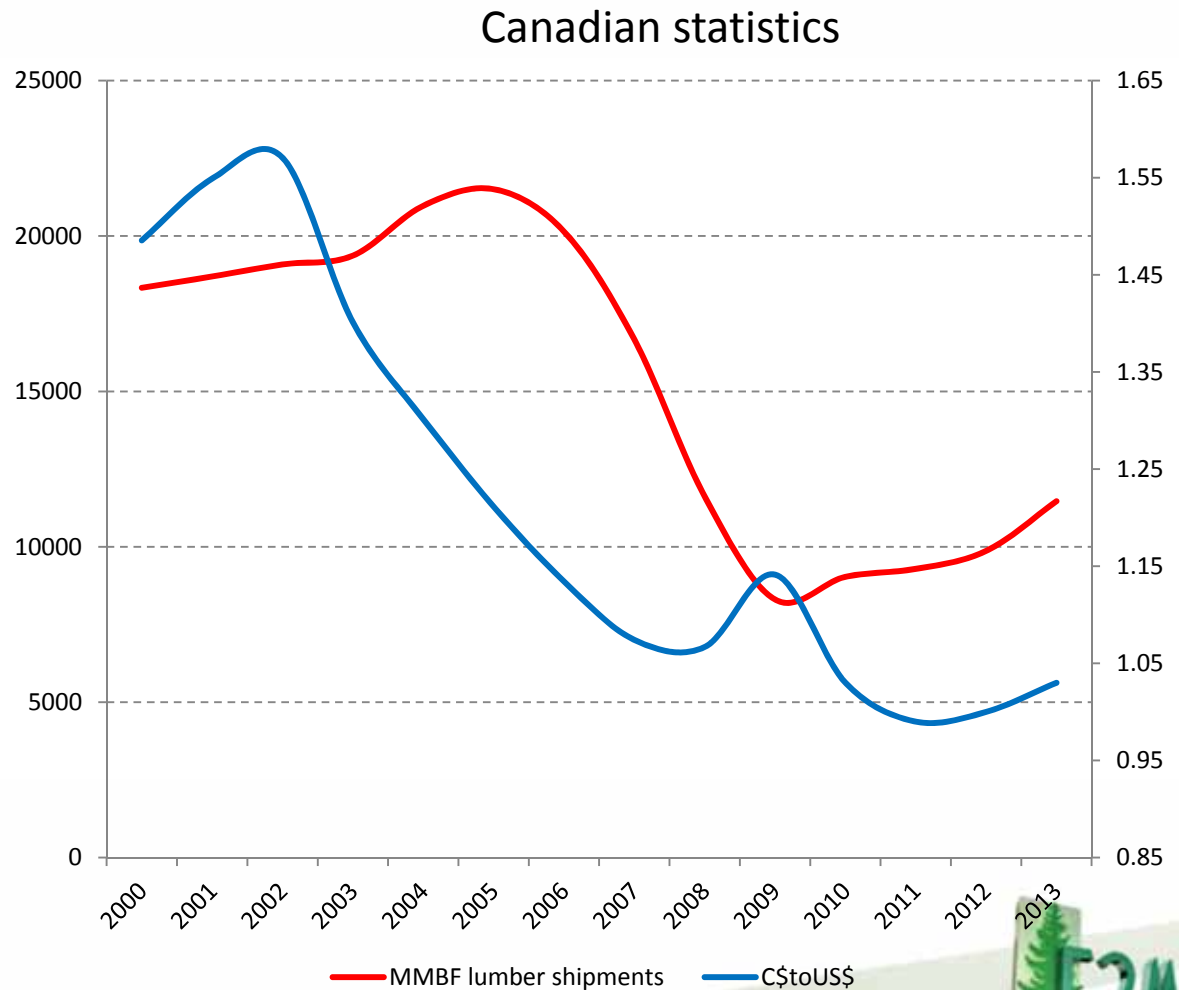
Harvest, lumber production & chip consumption

West Coast statistics



US softwood lumber imports from Canada

- Recession tough on Canadian mills
- BC develops export strategy for Chinese lumber
- Lumber shipments to US rising
- Softwood lumber agreement up for re-negotiation soon
- Mountain pine beetle infestation will reduce interior harvests
- Eastern Canada ASQ reductions
- Some production increase from Coastal BC and Prairie provinces
- Stronger US dollar is favorable for Canadian mills



Sources: WWPA and Bank of Canada

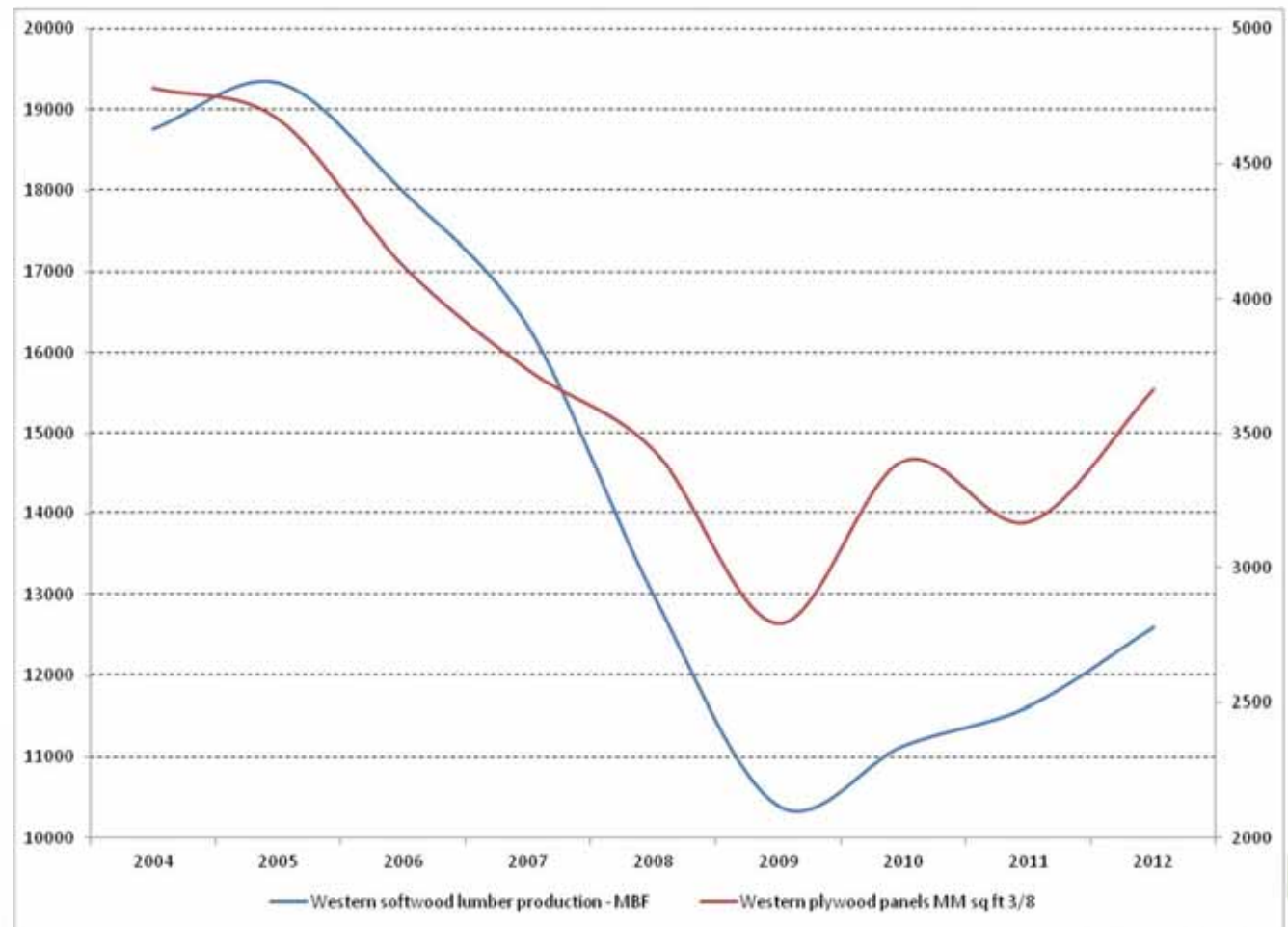
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Western lumber and panel production

- Product prices have improved
- 2013 western softwood lumber production is up 7.5% through November
- Western share of national lumber production is flat
- Southern pine share of lumber production will grow due to abundant low cost logs
- Western share of panel production has grown to 40% from 31% in 2006
- West Coast timber supply constrained



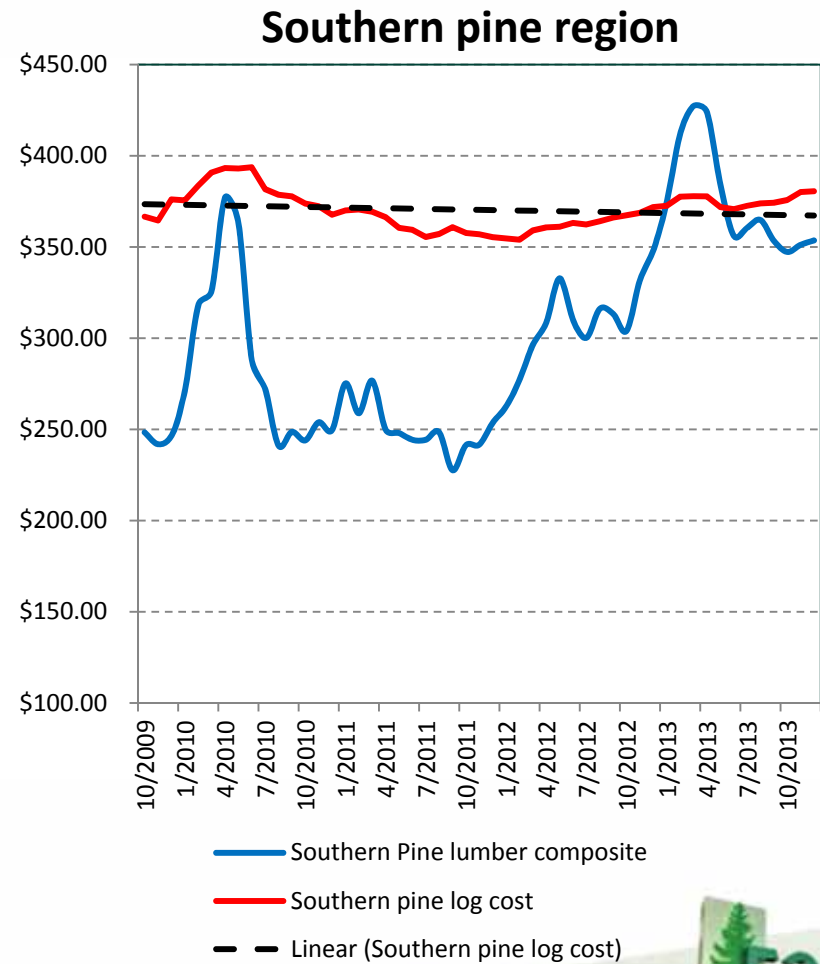
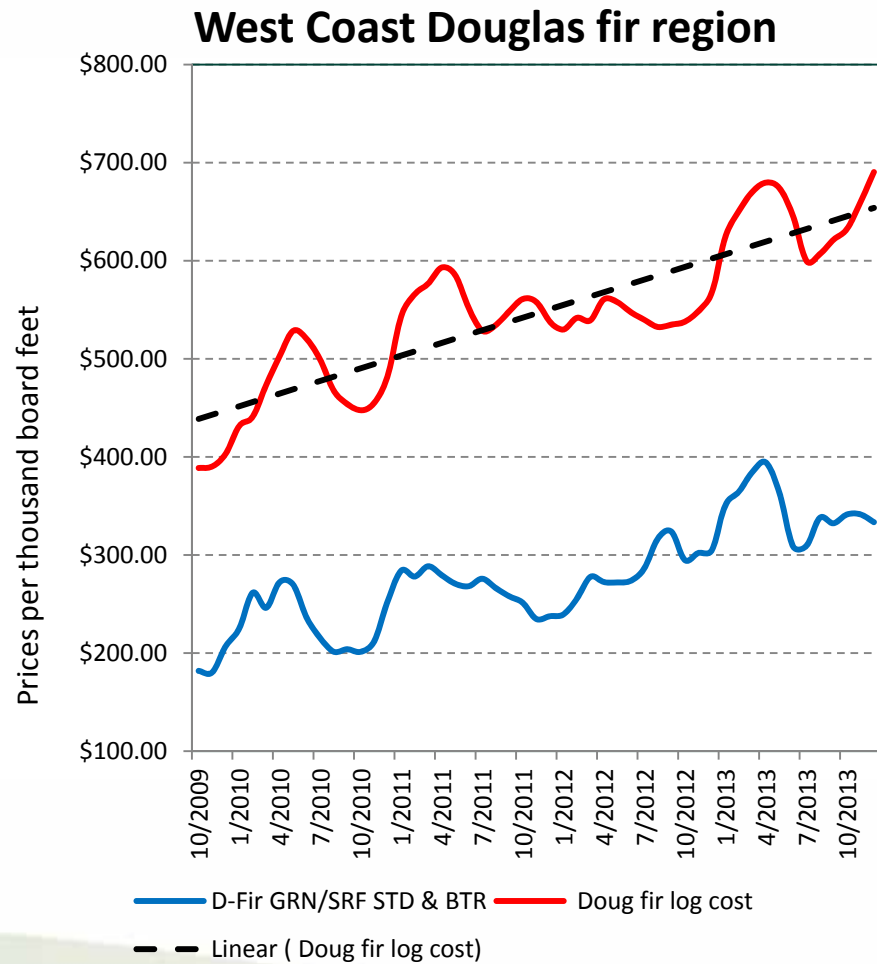
Source: WWPA and APA

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Southern sawmills benefit by lower log cost

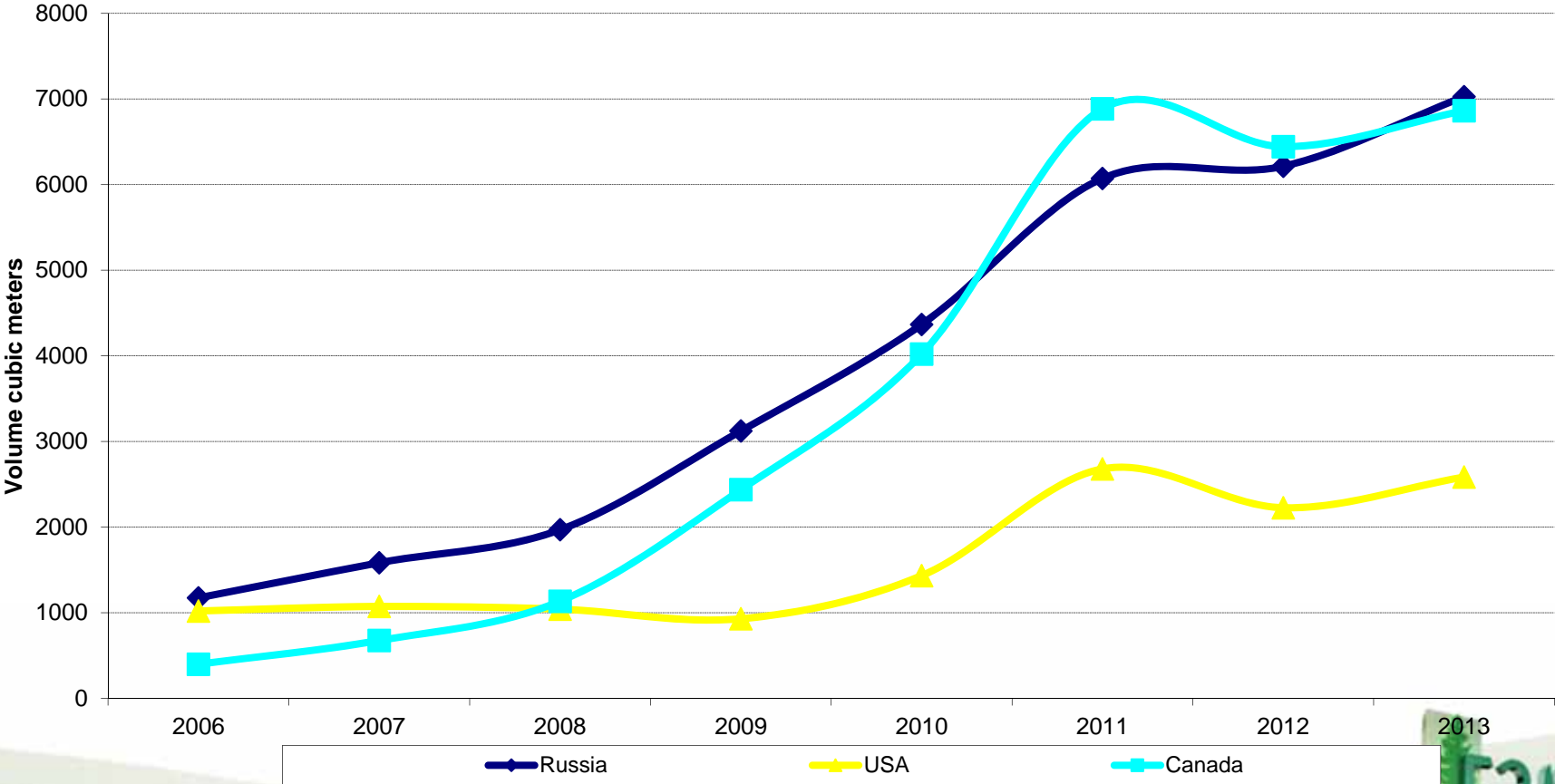


Asian Demand for Pacific Coast Forest Products



China's global forestry investment

China lumber imports by selected country

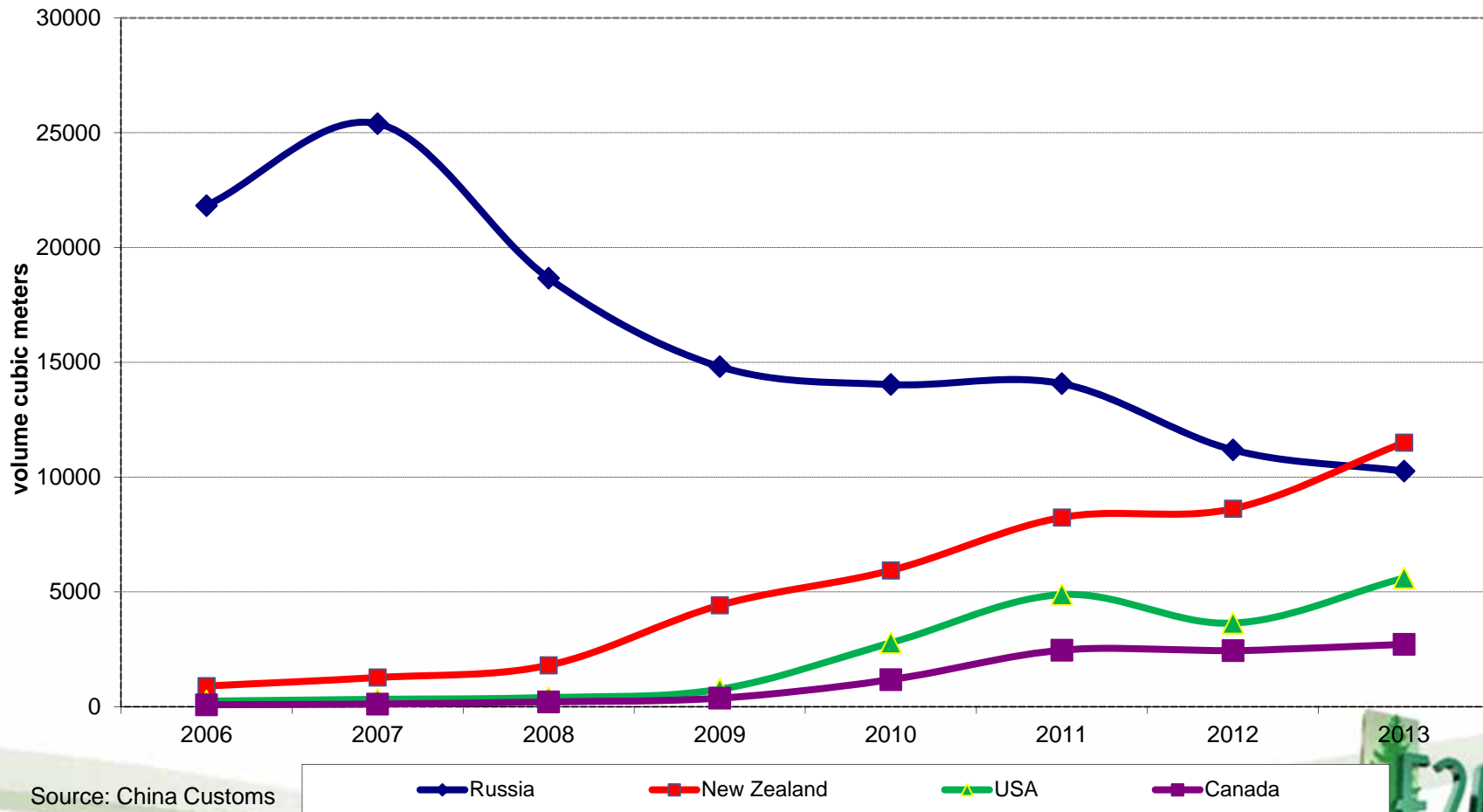


Source: China Customs



New Zealand; leading Chinese log supplier

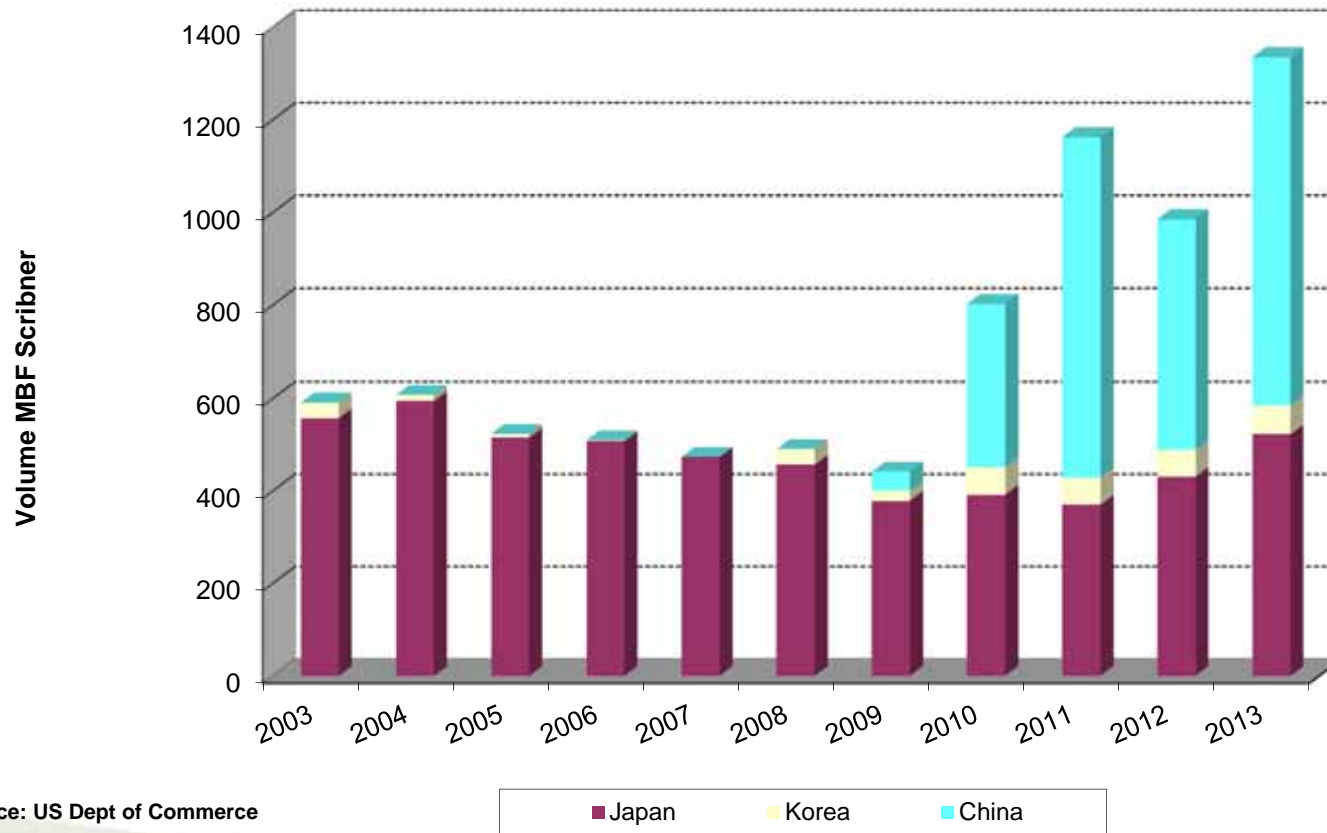
China log imports by selected country



Source: China Customs

US log exports to Asia up sharply in 2013

Northwest Log Exports to Asia - Breakbulk Volume

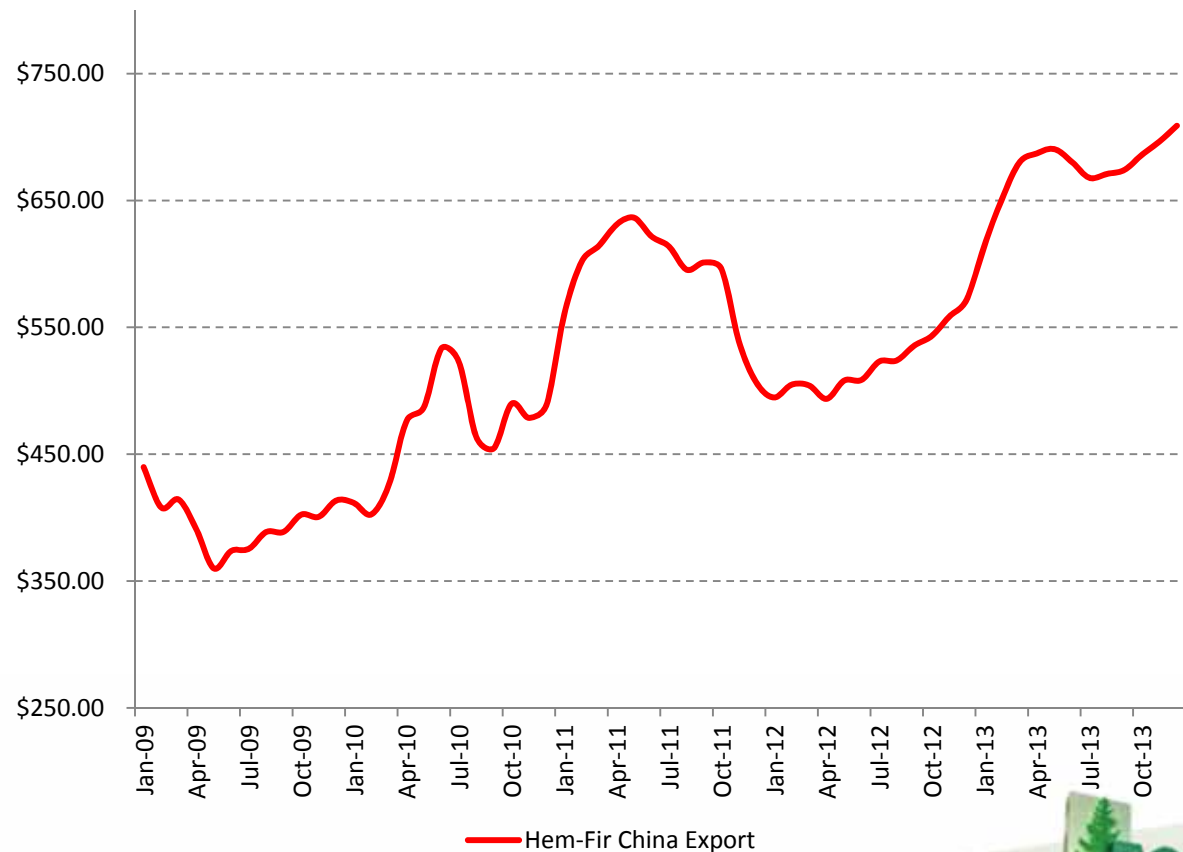


Source: US Dept of Commerce

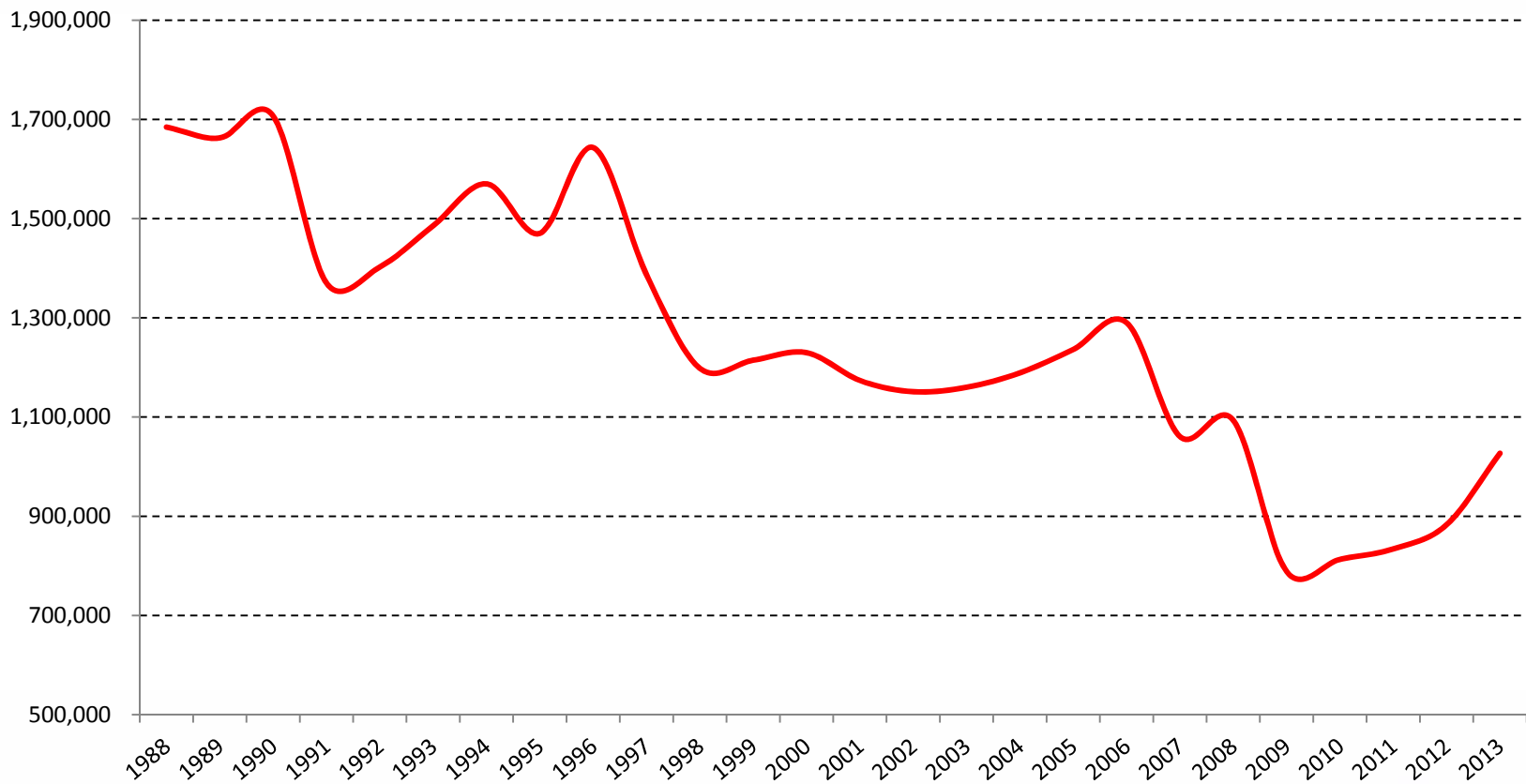
Hem-fir log exports to China

- Signs that China's economy is slowing
- China's log & lumber inventory rising
- New Zealand is now the leading supplier of softwood logs
- US logs are very expensive – watch for a correction!
- Risks to China's continued growth; credit as % of GDP is very high

Hem-Fir China Export



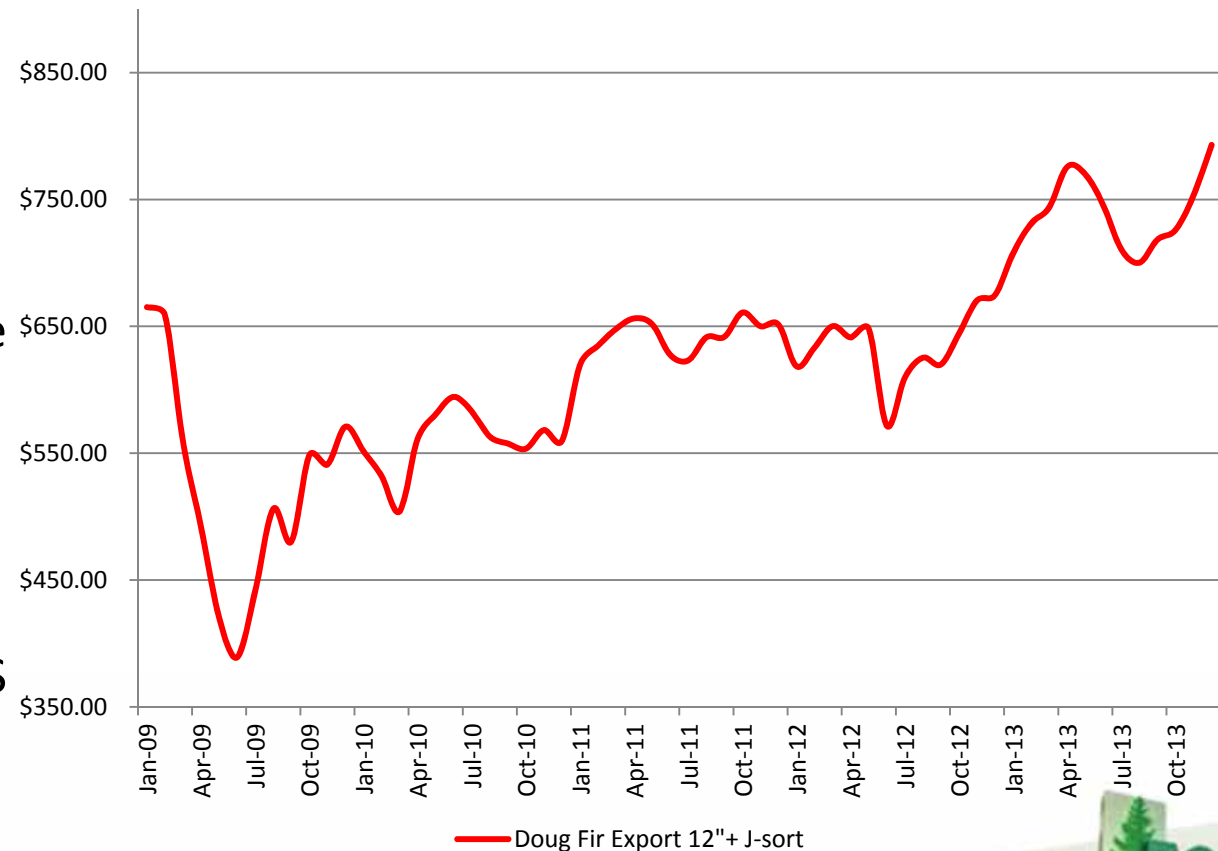
Japanese residential housing starts



Douglas fir log exports to Japan

- “Abenomics” reform, debt and new taxes
- Japan’s economy is growing slowly
- Tsunami rebuilding
- Near 1MM Japanese housing starts for 2013
- Douglas fir accepted as “local species”
- Competition from US cutting market drive log prices higher

Doug Fir Export 12"+ J-sort



The view for Asian wood exports

- China demand for wood products will continue, but Western US log volume and prices are maxed out
- Chinese global investment in forest products
- Chinese economic growth slowdown, 2014 won't meet government projections
- Factors such as less use of electricity signal slowdown in China
- Concerns about future Chinese credit, inflation and growth
- Market for US wood in Japan is better for now

What is the industry outlook?

- US housing demand will improve this year and next peaking at less than 1.2 million starts
- Our domestic lumber and plywood demand will be good
- Mountain pine beetle in B.C. and reduced ASQ in Quebec, Canadian lumber production will decline
- The U.S. west coast is near maximum for private timber harvest
- Federal forests will contribute little to the supply
- The Southern pine region will be major beneficiary of increased lumber demand and production
- China will invest in new resources to acquire more reasonably priced wood
- Asia will continue to be a market for forest product exports....be wary of potential Asian economic weakness
- 2015 will be the peak for this northwest forest industry cycle