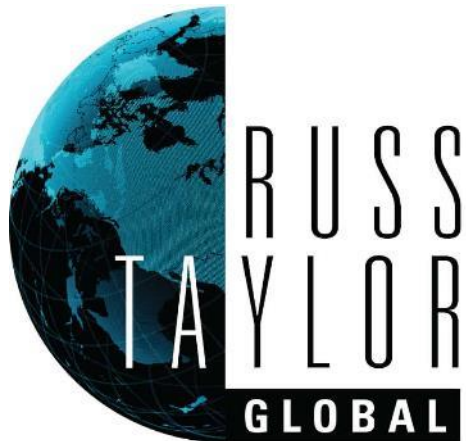




# North America Sawn Softwood: Trends & Outlook

**GD Holz - German Timber Trade  
Federation Annual General Meeting  
May 27 2021**



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MARKETS

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# RUSS TAYLOR GLOBAL: Wood Business & Market Consulting

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- **2017-2020** – **FEA Canada**
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With over 45 years experience in the solid wood products industry (including 10+ years in the industry with **Northwood Pulp & Timber & Interfor**), Russ Taylor Global has the skills and insight to assist clients' many needs and extra requirements within their business plans. From forests to mills to markets to customers, we can cover all aspects of the wood supply chain – including the use of our global network!



# Presentation Outline

- 1. US Sawnwood Demand Drivers**
- 2. North America Sawnwood Production**
- 3. US Sawnwood Imports & Europe's Fit**
- 4. US Lumber Prices & Margins**
- 5. Summary**

# 1. US Market Demand Situation

**Huge consumption of sawn softwood in US with an emphasis on structural end uses in residential construction & repair/remodeling, but also appearance end uses (mouldings, doors, windows, decking, etc.)**

**Main end uses of sawnwood in USA 2020:**

- **New residential construction: 33% (historically 40% & most volatile)**
- **Repair & remodeling: 37% (historically 30%)**
- **Non-residential construction: 10%**
- **Industrial & materials handling: 20%**

**2020 consumption: 82 million m<sup>3</sup>, net (peak in 2004: 107 million m<sup>3</sup>)**

**However, majority is PLANED sawnwood in US market!**

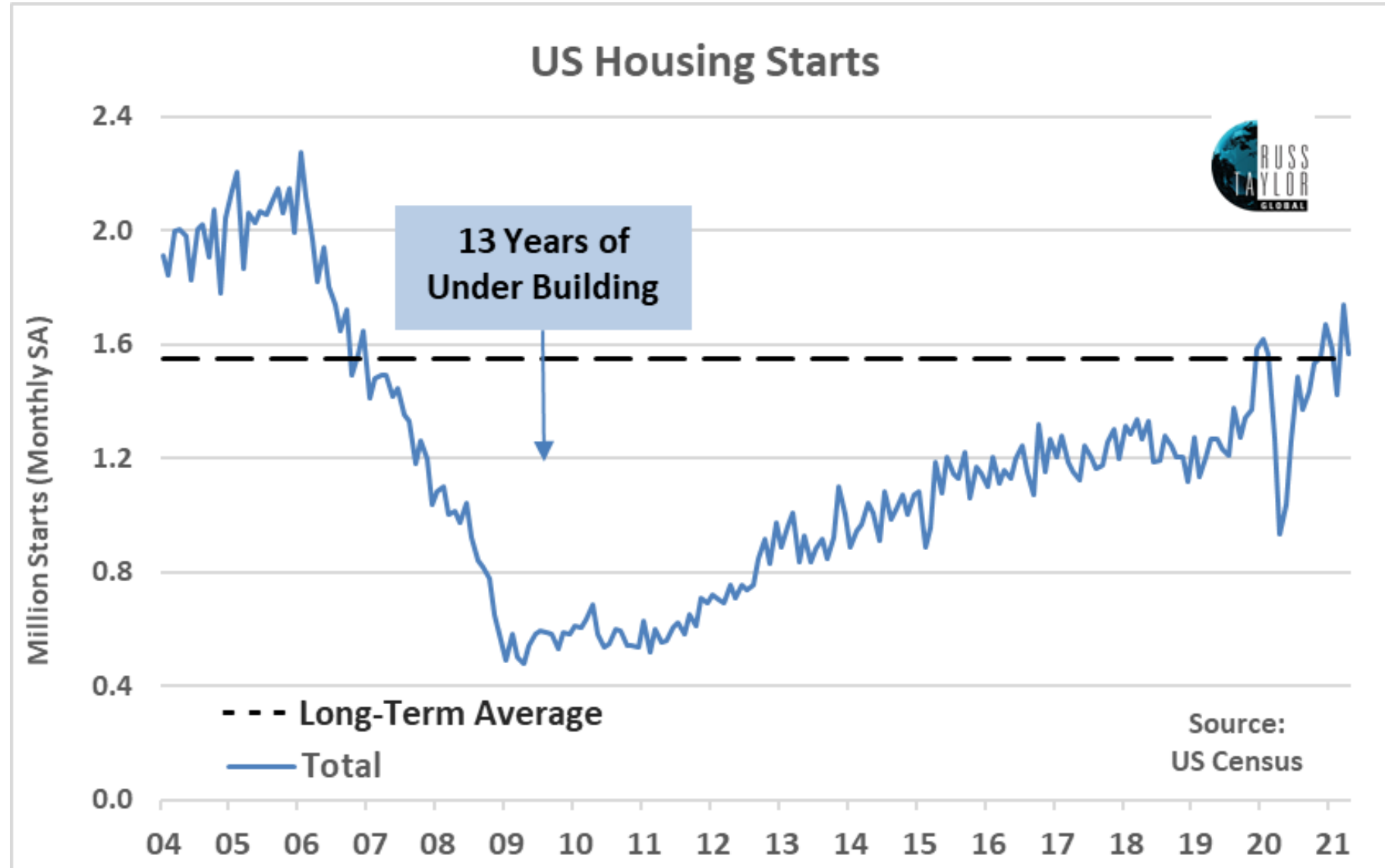


# U.S. Total Monthly Housing Starts Seasonally Adjusted at Annual Rates (SAAR)

## US housing starts:

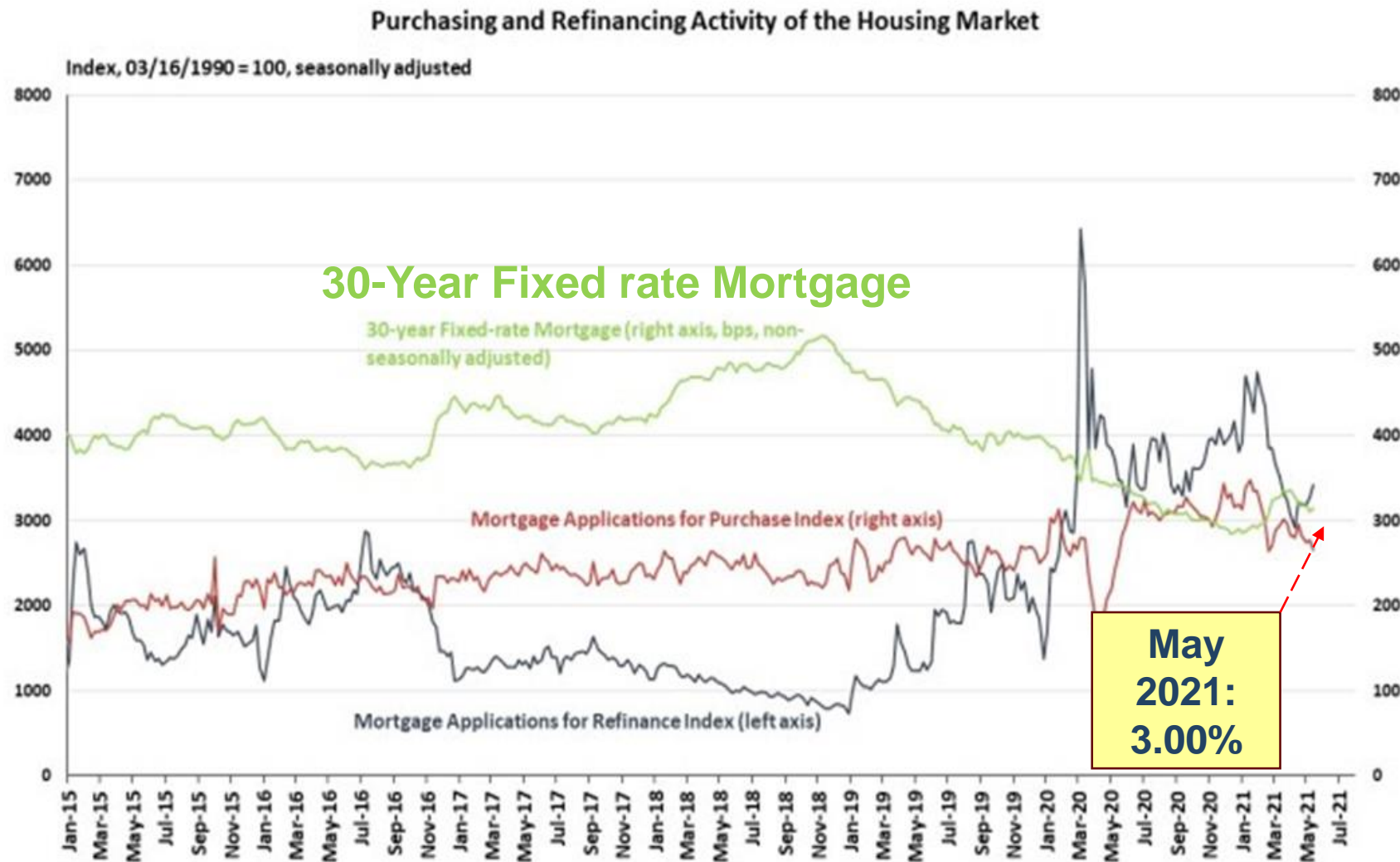
- “normal” is considered to be 1.5-1.6 million units
- Starts have been below 1.55 million since 2007
- The last 20 years have averaged only 1.25 million starts.
- A severe **under building** has occurred over last 13 years

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# US Mortgage Rates still very low ~3%

- Over the last month to mid-May, the Mortgage Bankers Association's tracked 30-year fixed-rate mortgage rate dipped below the elevated levels shown in April.



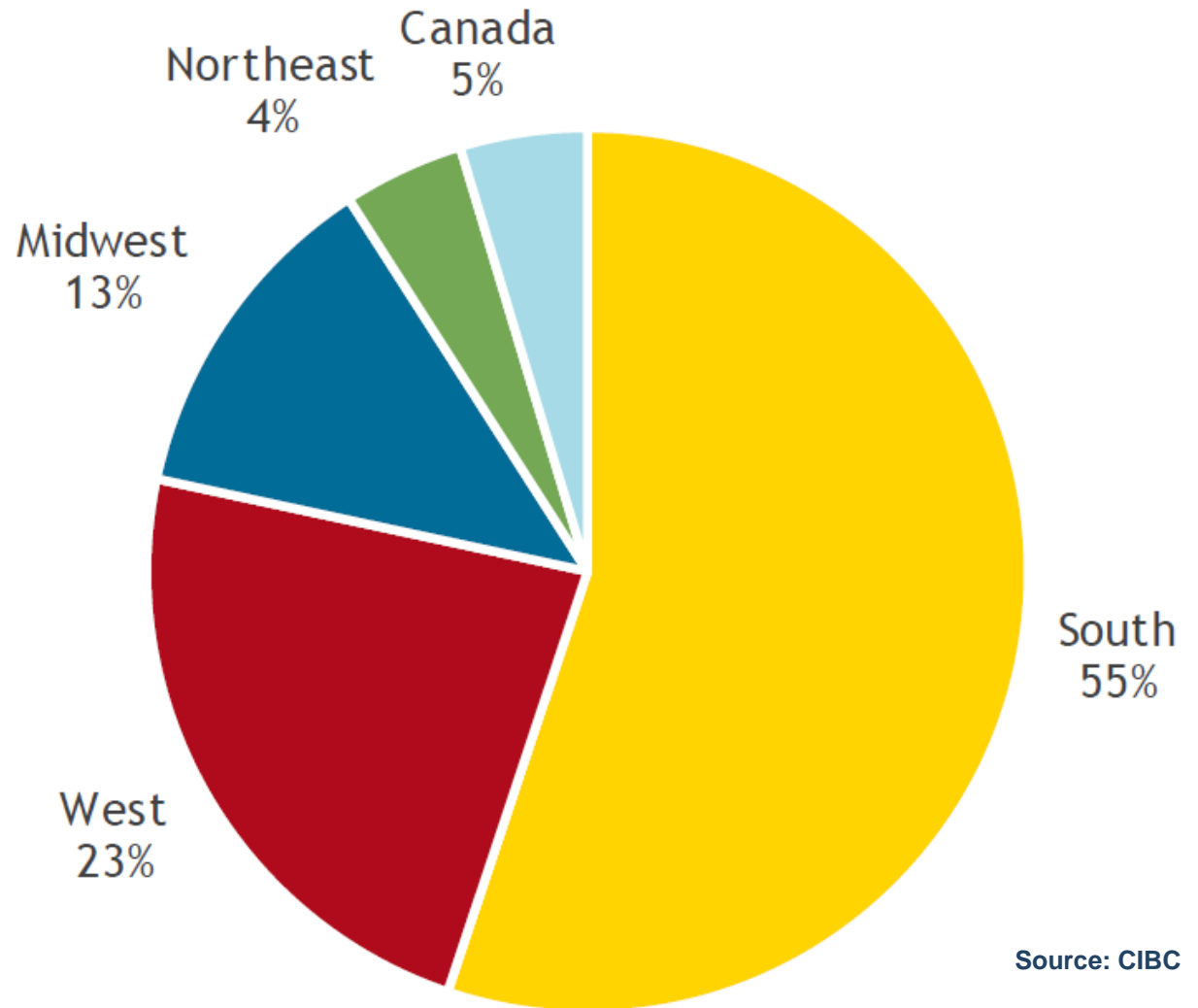


# North American Single-Family Starts By Region (2020)

**US South dominates North America housing market (and increased lumber output.**

**“Spruce” (SPF) is preferred over SYP sawnwood, but SYP used in treating/trusses.**

**Increased “spruce” imports from Europe to US still required (Canada’ SPF will not be the solution)!**



Source: CIBC



# US Repair & Remodelling - Largest Segment!

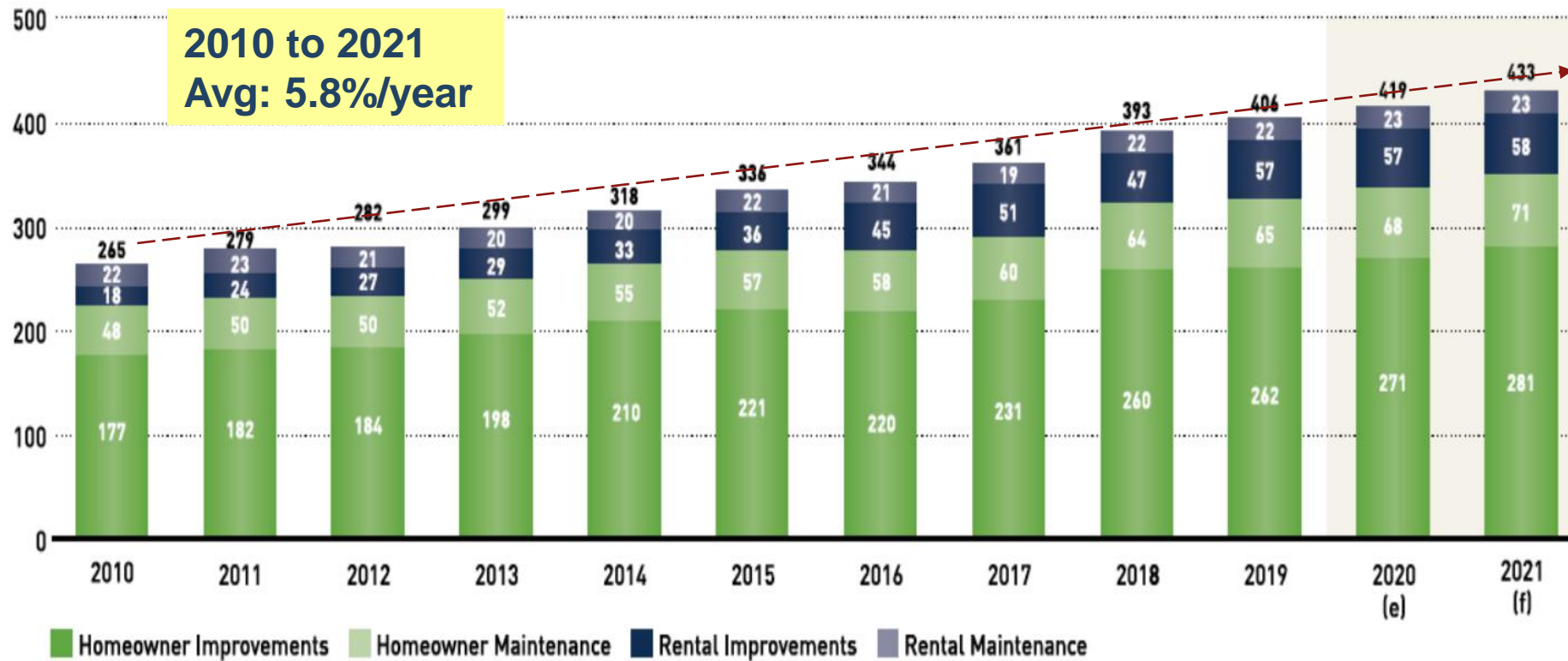
US R&R via Big Box stores consumes more sawnwood than new housing.

Steady growth has occurred, but a slowdown in 2021-Q2/Q3 is expected before rebounding.

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## The Home Remodeling Market Is Continuing Its Steady Expansion Despite the Pandemic

Market Spending (Billions of dollars)



Note: Estimated (e) and forecasted (f) values are modeled using the 2020:Q4 Leading Indicator of Remodeling Activity (LIRA).

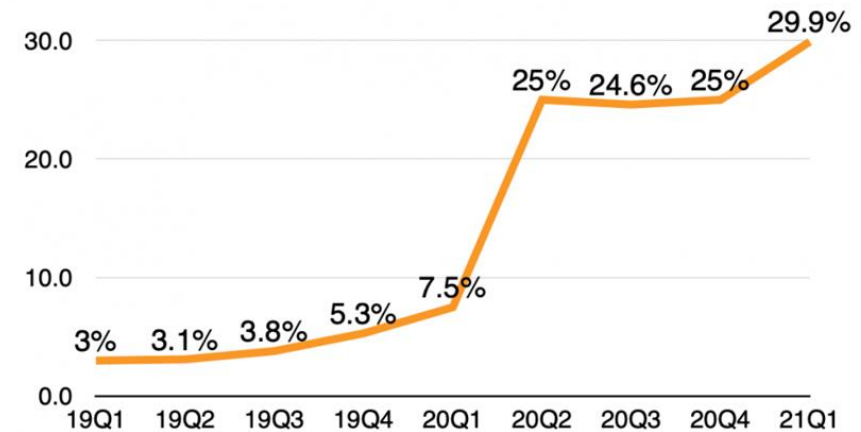
Source: JCHS analysis of US Department of Housing and Urban Development (HUD), American Housing Surveys; US Department of Commerce, Retail Sales of Building Materials; US Census Bureau, Surveys of Residential Alterations and Repairs (C-50); National Apartment Association (NAA), Surveys of Operating Income & Expenses; and LIRA.



# US Home Centre: Repair & Remodelling Sales still Surging

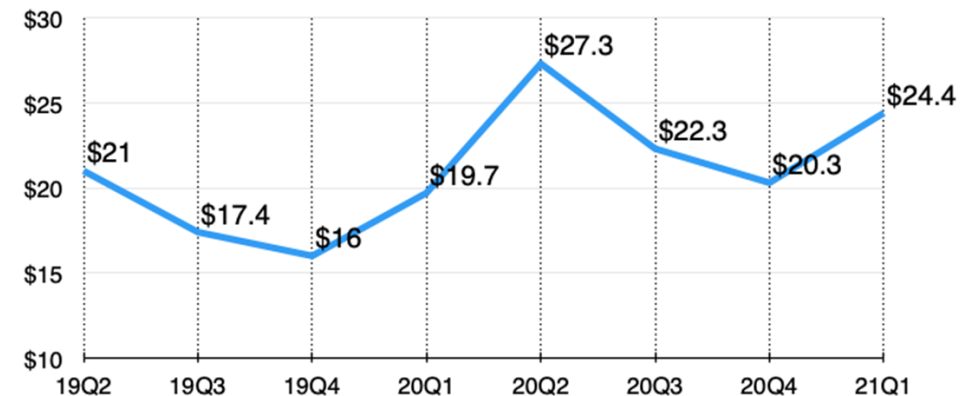
- For 2021-Q1, Home Depot's comparable sales were up 30%.
- Home Depot's Pro sales are slightly outpacing DIY.
- HD's DIY demand remains consistent from levels seen in the 2nd half of last year.
- Lowe's sales: up by 24% in Q1.
- Lowe's highlighted that its Pro comps were above 30% during the quarter.

### Home Depot U.S. comps



Source: Company reports

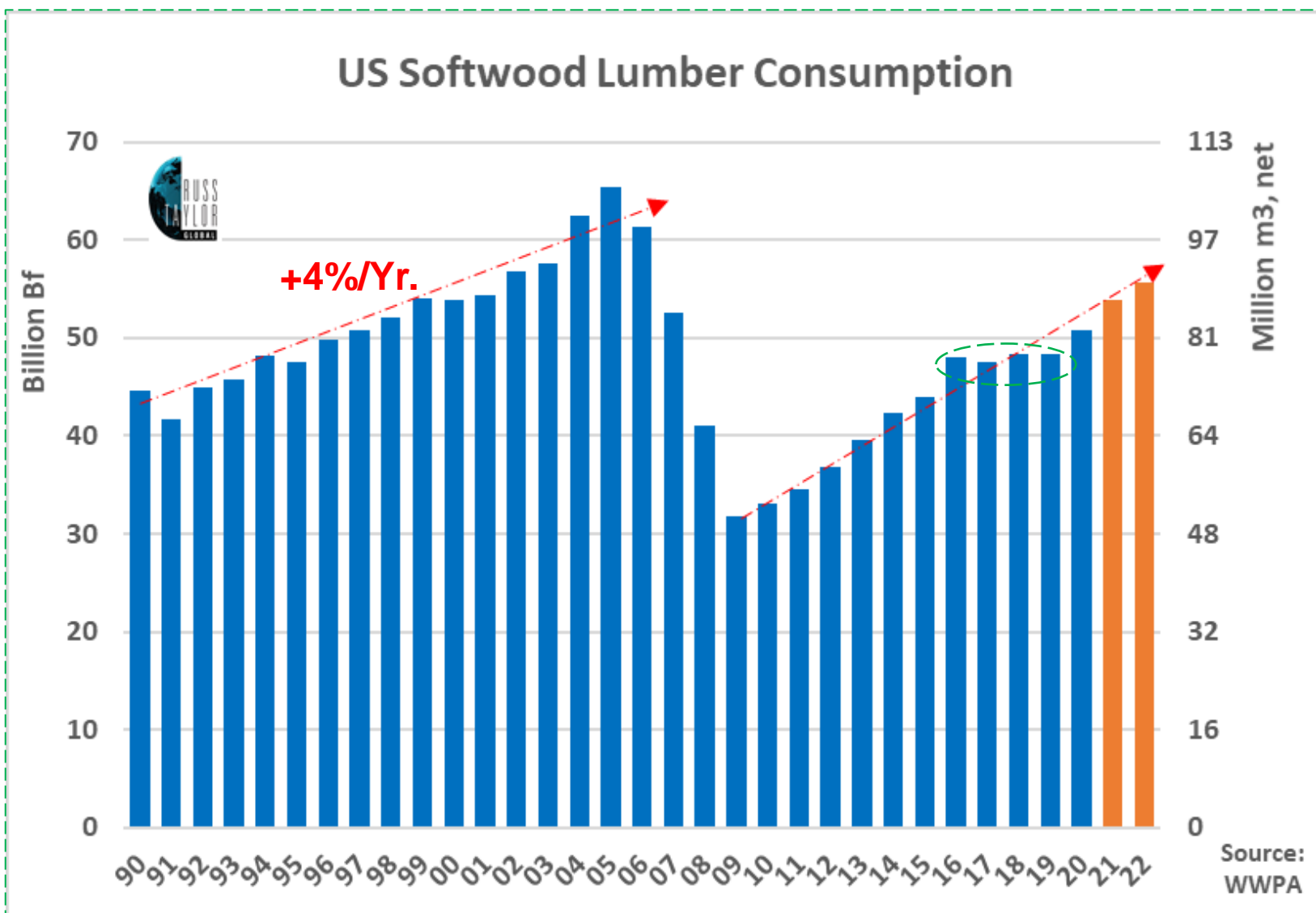
### Lowe's quarterly sales (In billions)



Source: Company reports

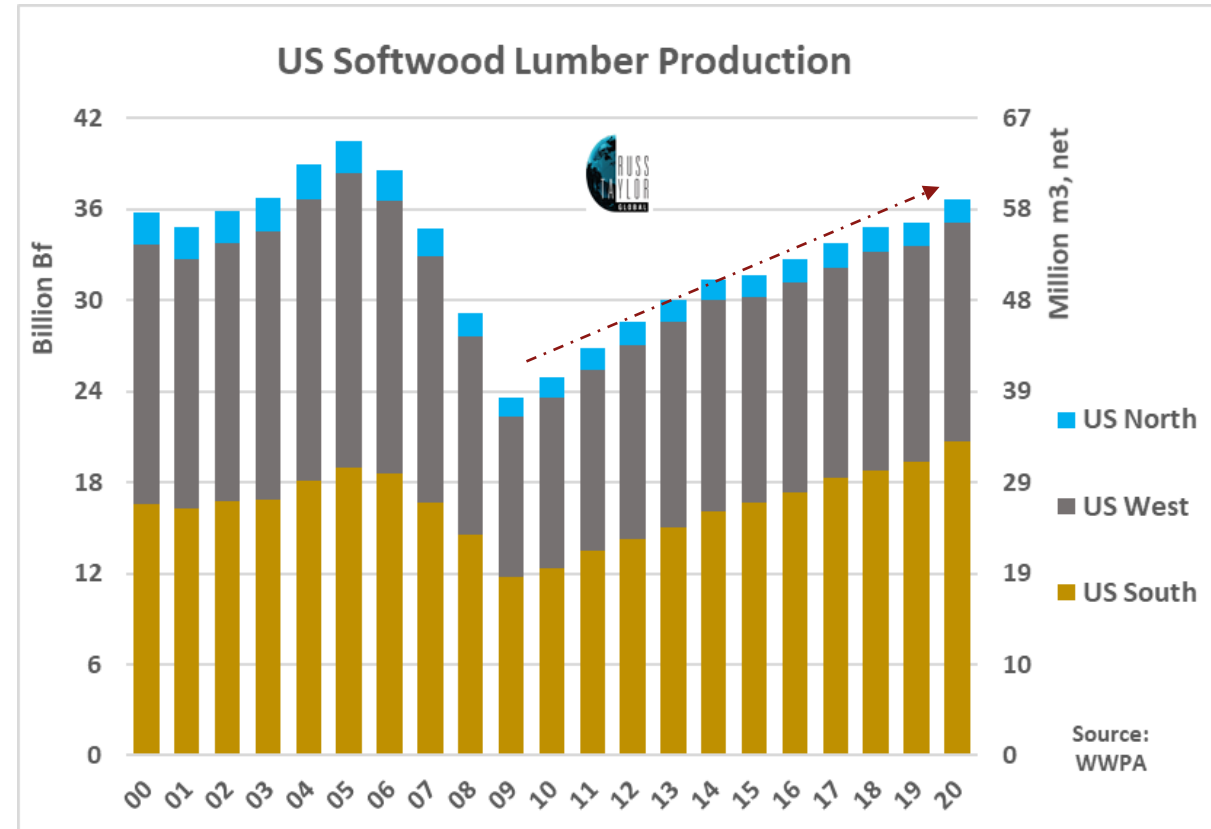
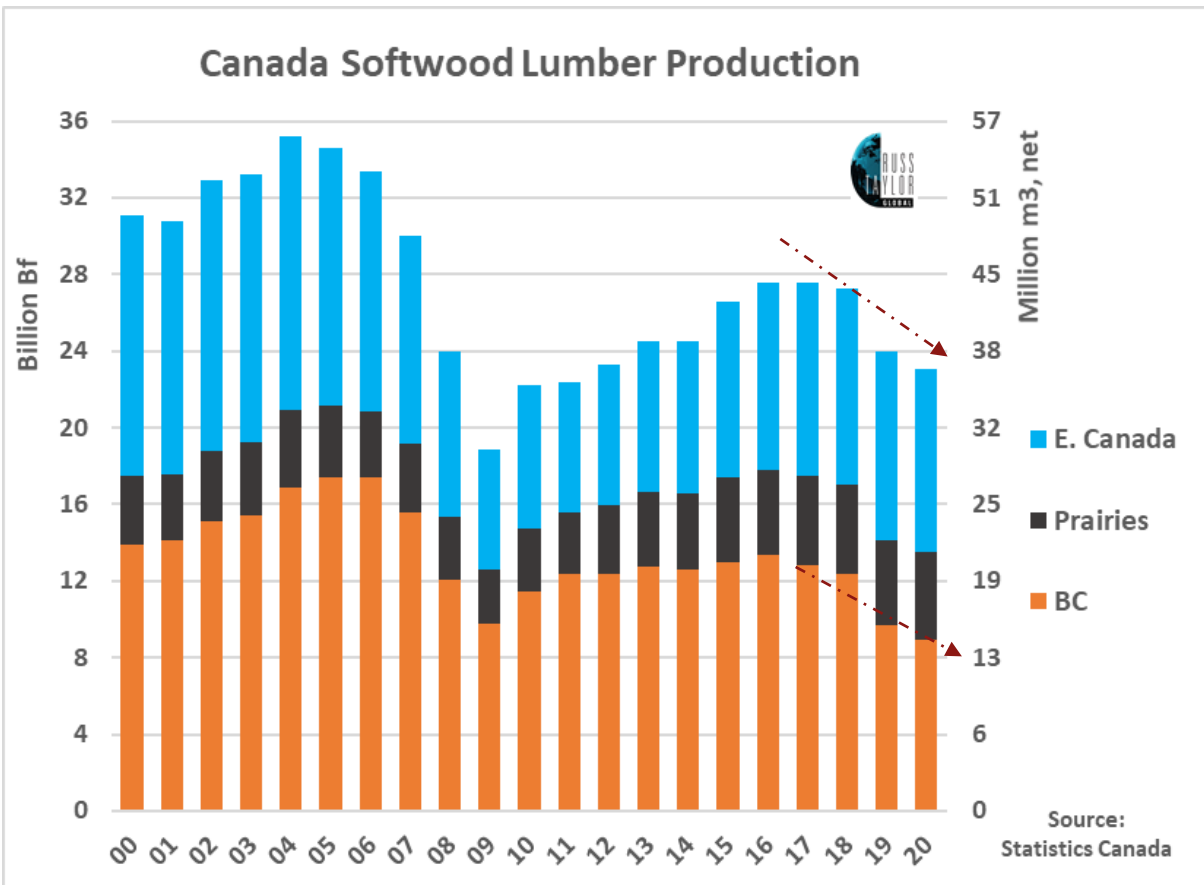
# US Softwood Lumber Consumption Trends

- US sawn softwood consumption growth has been flat between 2016 & 2019
- 2020 pandemic kick-started US R&R & new home starts
- The rate of demand growth in 2020 Q3/Q4 and so far in 2021 is huge – and should be to 2023!



# 2. North American Softwood Lumber Production

- **US output steadily increasing**  
– mainly in US South
- **Canada = flat; BC lower**



- **BC output peaked in 2005 – since then, 40 sawmills have closed due to mountain pine beetle (~40% drop in output)** <sup>11</sup>

# US (Announced) New Sawmill Capacity

- Since 2018, 6.8 Billion Bf (~11 million m3) of new capacity has been announced in the U.S.
- All but 3 of the 40+ US projects are located in the US South!
- **1-2 new projects in Canada**

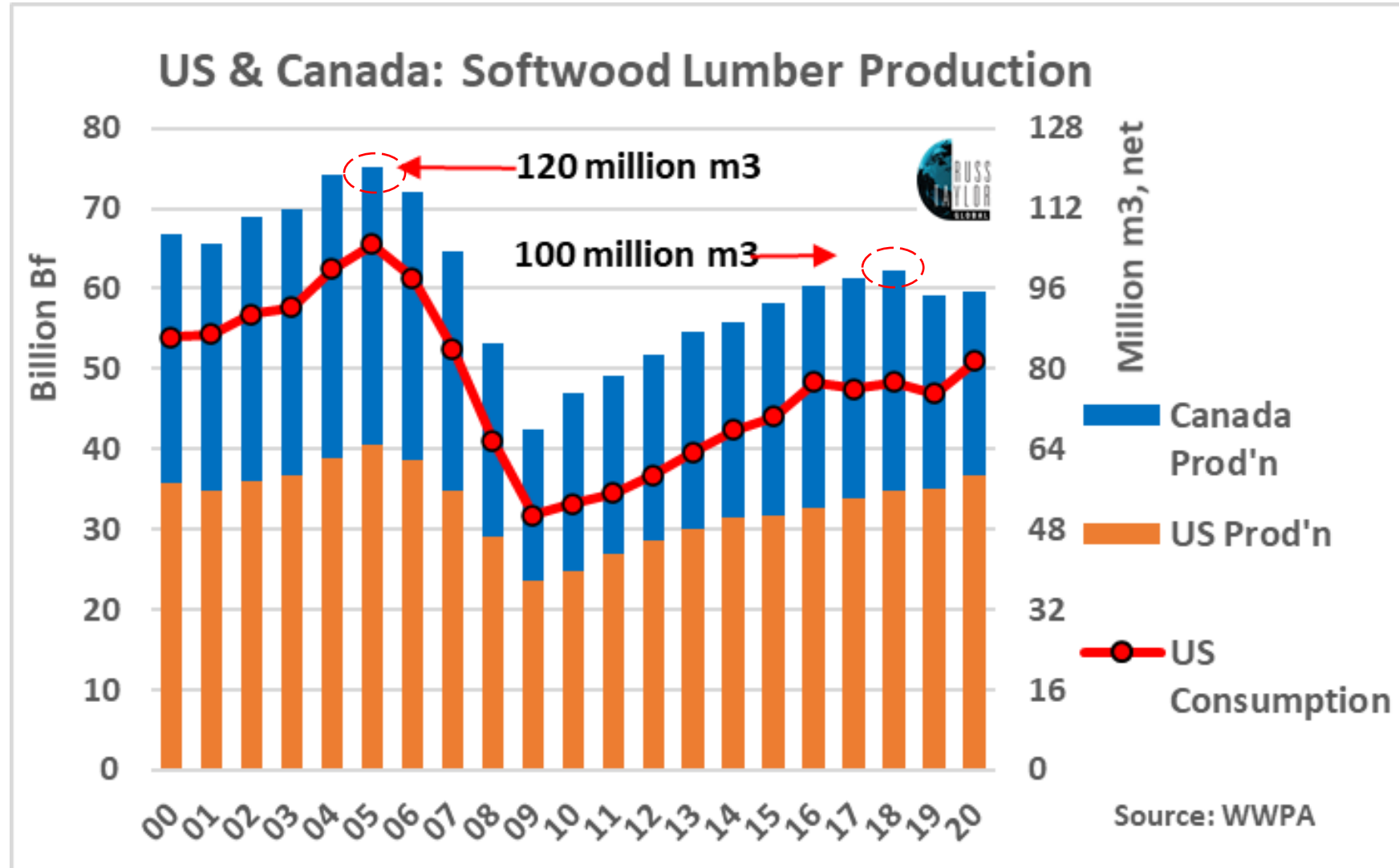
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## U.S. Lumber Capacity Expansions: 2018 – 2023E

Company	Location	Commercial Start-Up Date	Capacity (MMfbm/yr)	Type
<b>New US Capacity: 2018-2020</b>		<b>24 Projects</b>	<b>3,695</b>	
Binderholz	Live Oak, FL	Early 2021	200	Re-start
Resolute	El Dorado, AR	H1/21	180	Re-start
Teal-Jones	Martinsville, VA	2021	50	Expansion
Vicksburg FP	Vicksburg, MS	Summer 2021	105	Brownfield
West Fraser	Dudley, GA	Mid-2021	170	Replacement mill (net cap)
Interfor	Thomaston, GA	2021	120	Debottlenecking
Canfor	U.S. South	2021	150	Debottlenecking
Weyerhaeuser	Holden, LA	2021	100	Debottlenecking
Jasper / Tolko JV	Jasper, AL	H2/21	130	Debottlenecking
Binderholz	Enfield, NC	Late 2021	200	Re-start
Biewer	Winona, MS	2022	240	Greenfield
Interfor	Eatonton, GA	2022	120	Debottlenecking
NewLife FP	Flagstaff, AZ	2022	120	Greenfield
Mission FP	Corinth, MS	Q1/22	250	Greenfield
Idaho Forest Group	Lumberton, MS	mid-2022	200	Greenfield
Interfor	Summerville, NC	2022	100	Debottlenecking
Florida Parishes FP	St. Helena Parish, LA	2022	200	Greenfield
Tolko/SE FP	Ackerman, Miss	2022	100	Expansion
Weyerhaeuser	Dodson, LA	2023	100	Expansion
Canfor	Washington, GA	2023 (CIBCe)	275	Greenfield
<b>Total: 2021 -2023</b>		<b>18+ Projects</b>	<b>3,110</b>	<b>m3:</b>
<b>Total:</b>			<b>6,805</b>	<b>10,840</b>

Source: Company reports; CIBC World Markets Inc.; RTG

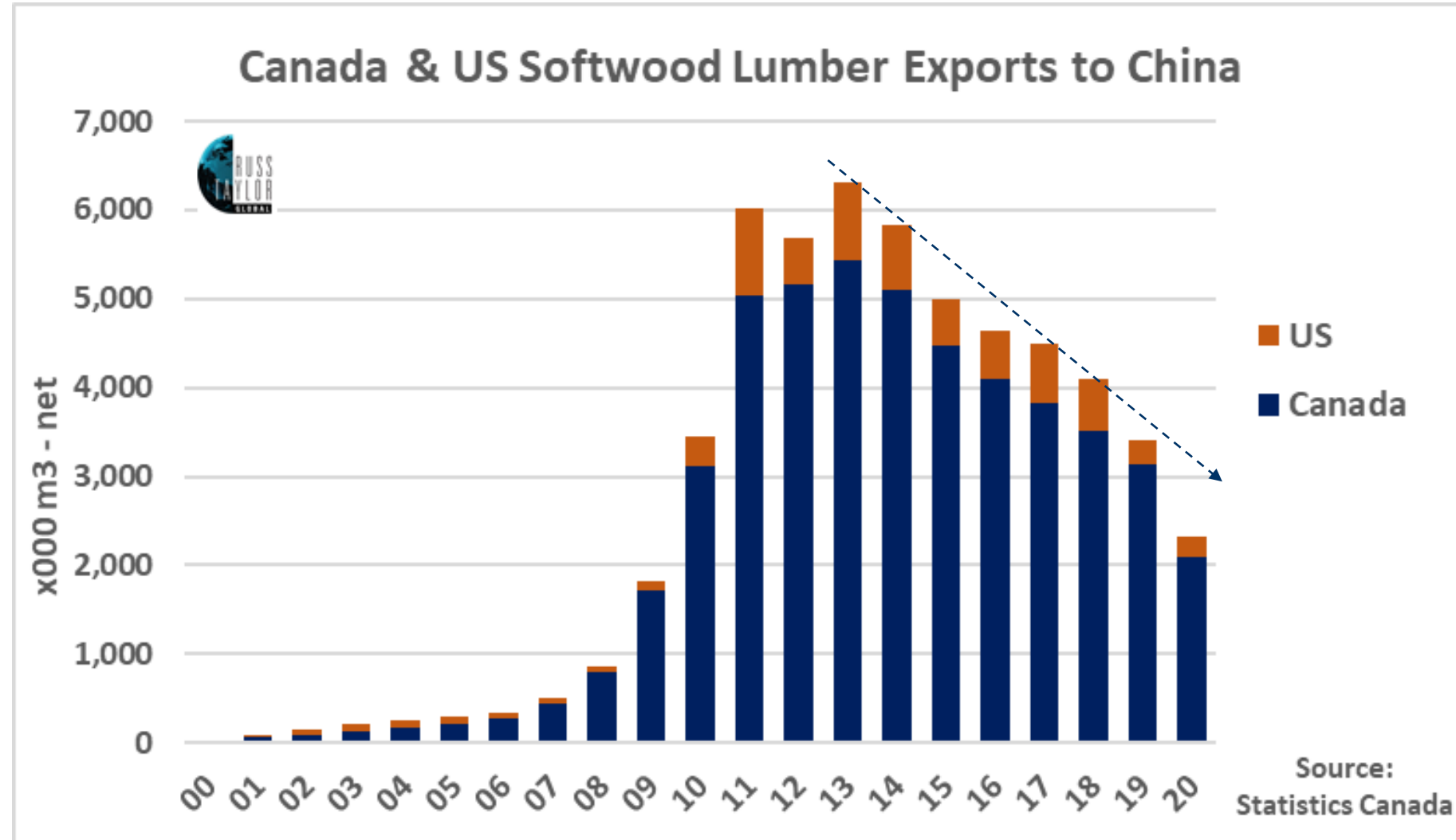
- From 2005 to 2019, North American output = **-23 million m3 (-15 billion bf)**.
- Canada/US have both lost sawmill capacity.
- More sawmills are being built, but only in the US South.



# Canada & US: Softwood Lumber Exports to China also Slowing

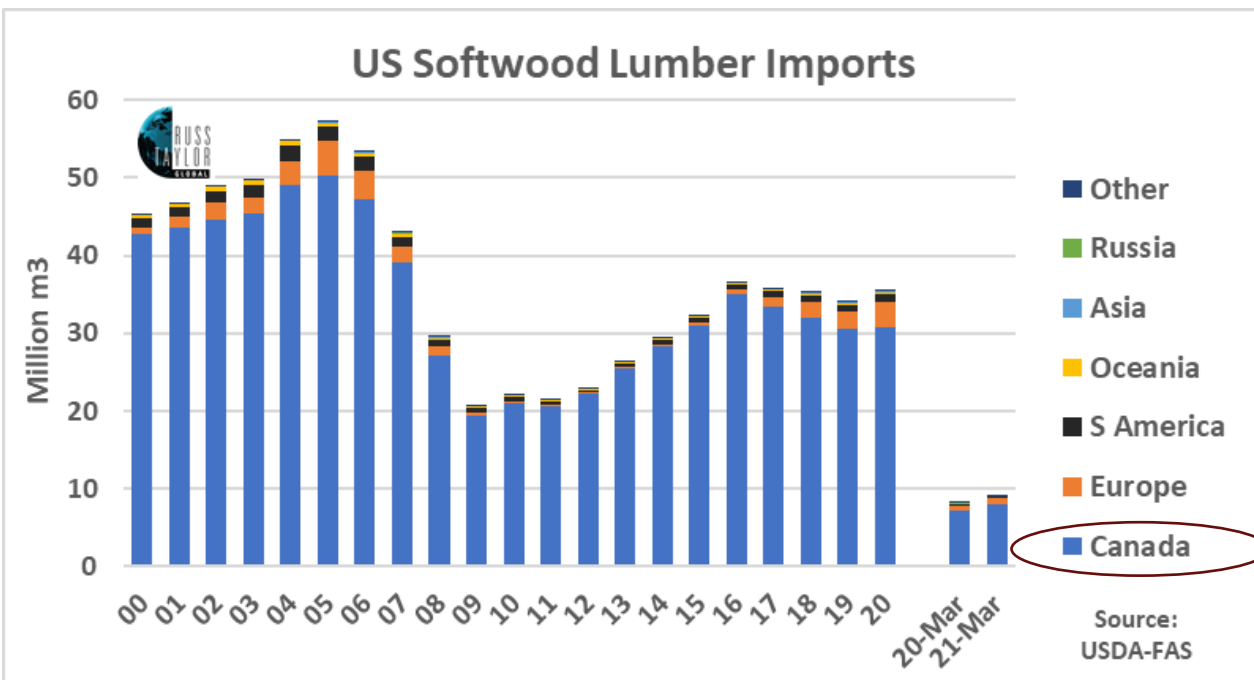
Canada & US are now smaller lumber players in China, mainly due to low prices.

Most of BC SPF has been low grade lumber (from MPB attack) – these volumes continue to drop.

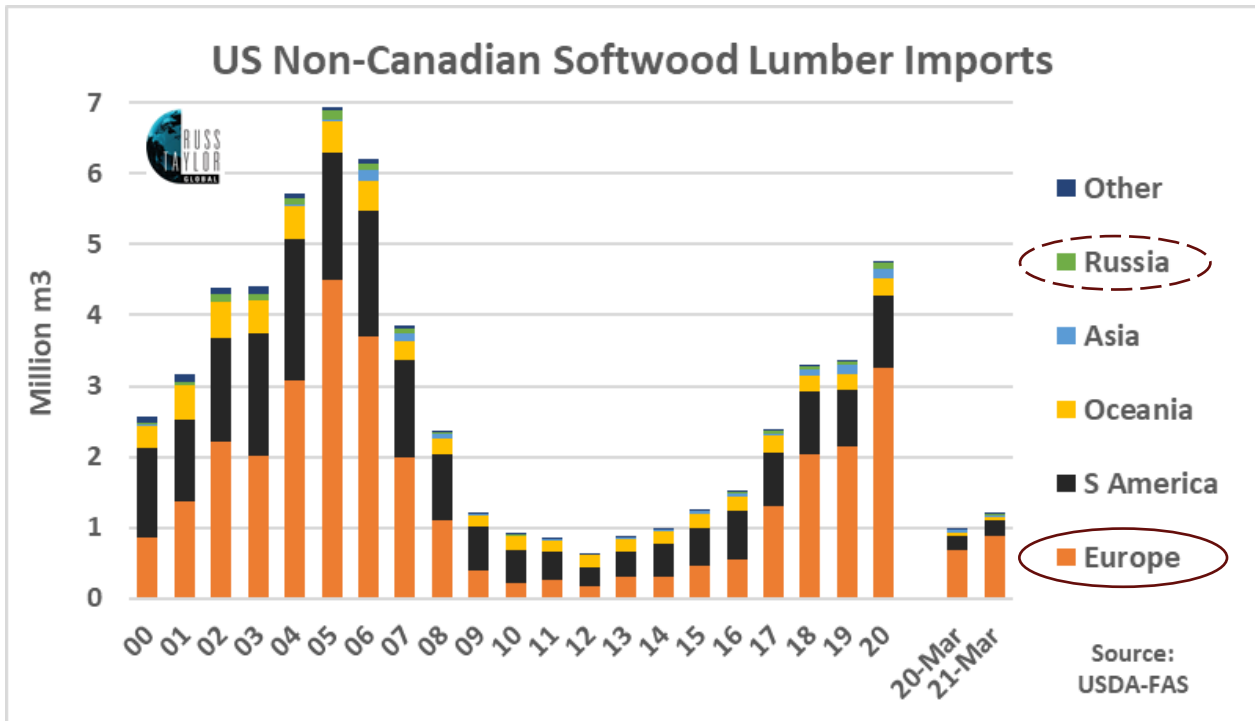


# 3. Europe's share of US Lumber Imports Increasing

- Canada dominates US imports but market share has dropped from 97% to 87%
- Europe = 8.5% and rising



- Canada = 87.4%
- Europe = 8.5%
- S. America/Oceania = 3.5%
- Asia = 0.5%
- Finland = 0.3%
- Russia = 0.2% <sup>15</sup>

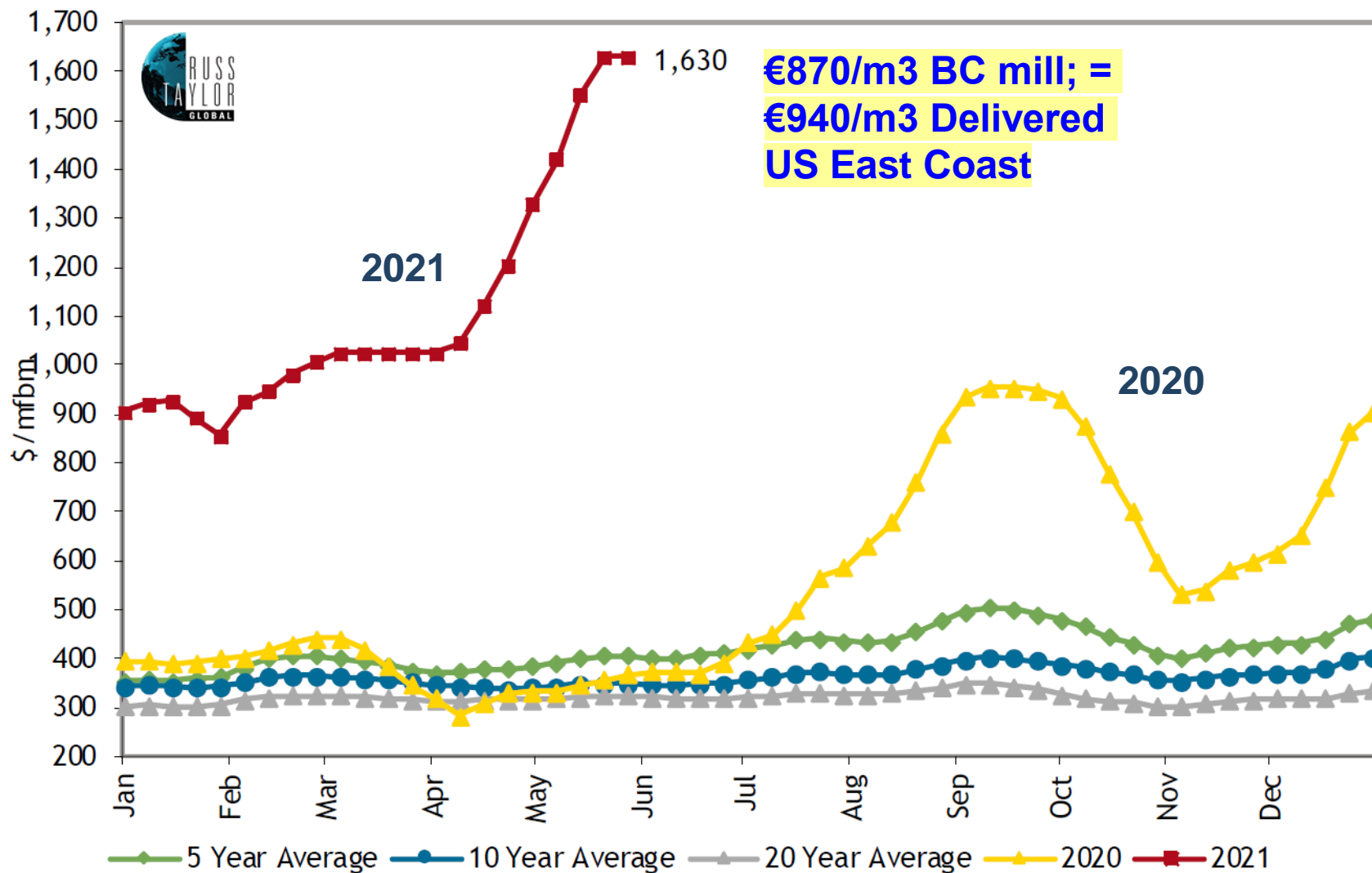




# US: Commodity Lumber Prices Still Rising: W-SPF 2x4 #2&Better R/L (FOB Mill)

W-SPF 2x4 #2&Btr R/L lumber prices are at all-time highs at **US\$1,630/Mbf** (FOB B.C. mill) May 21 (US\$1,050/m<sup>3</sup> or €870/m<sup>3</sup>).

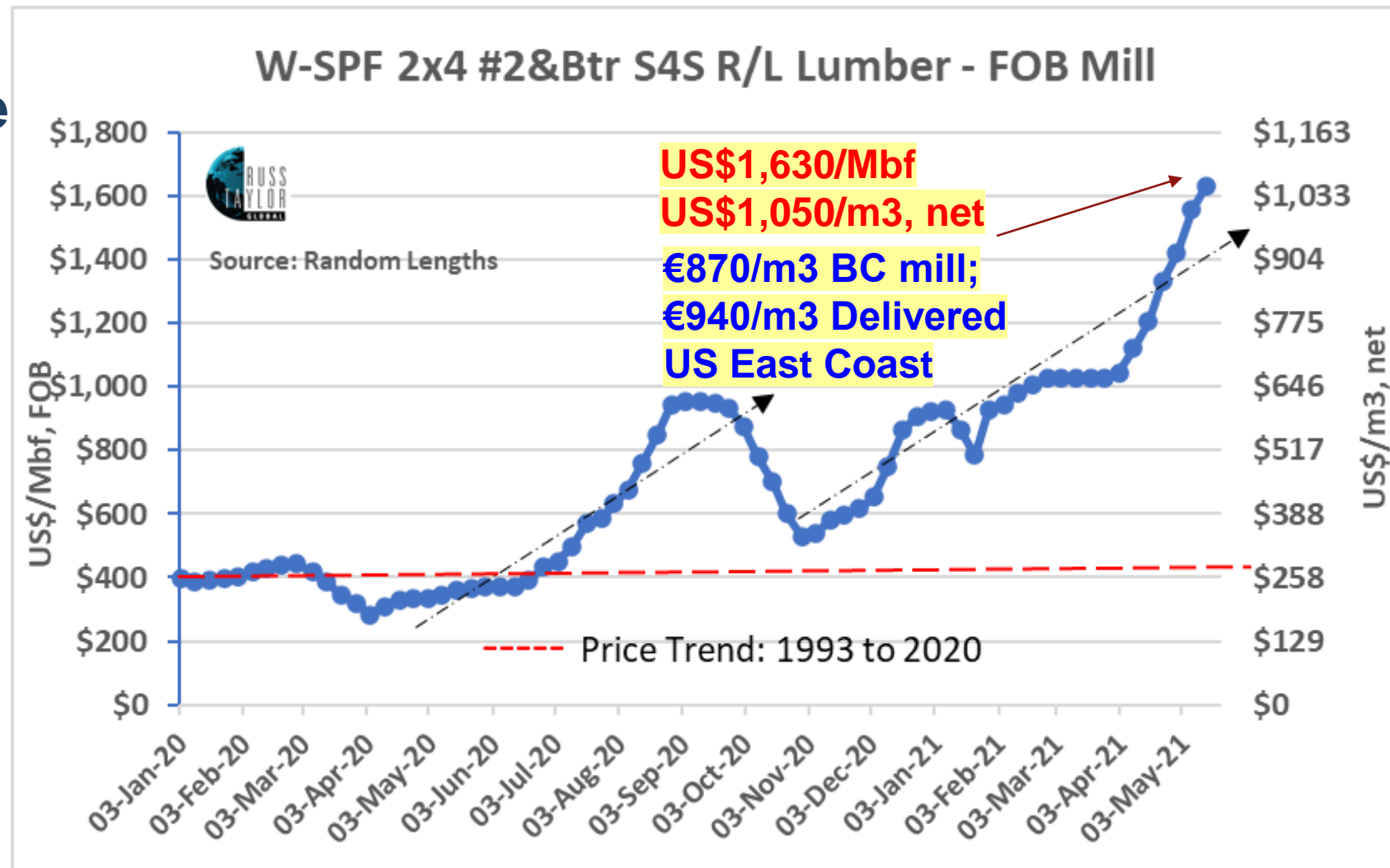
Most US lumber prices are sitting at, or are just off, record levels!





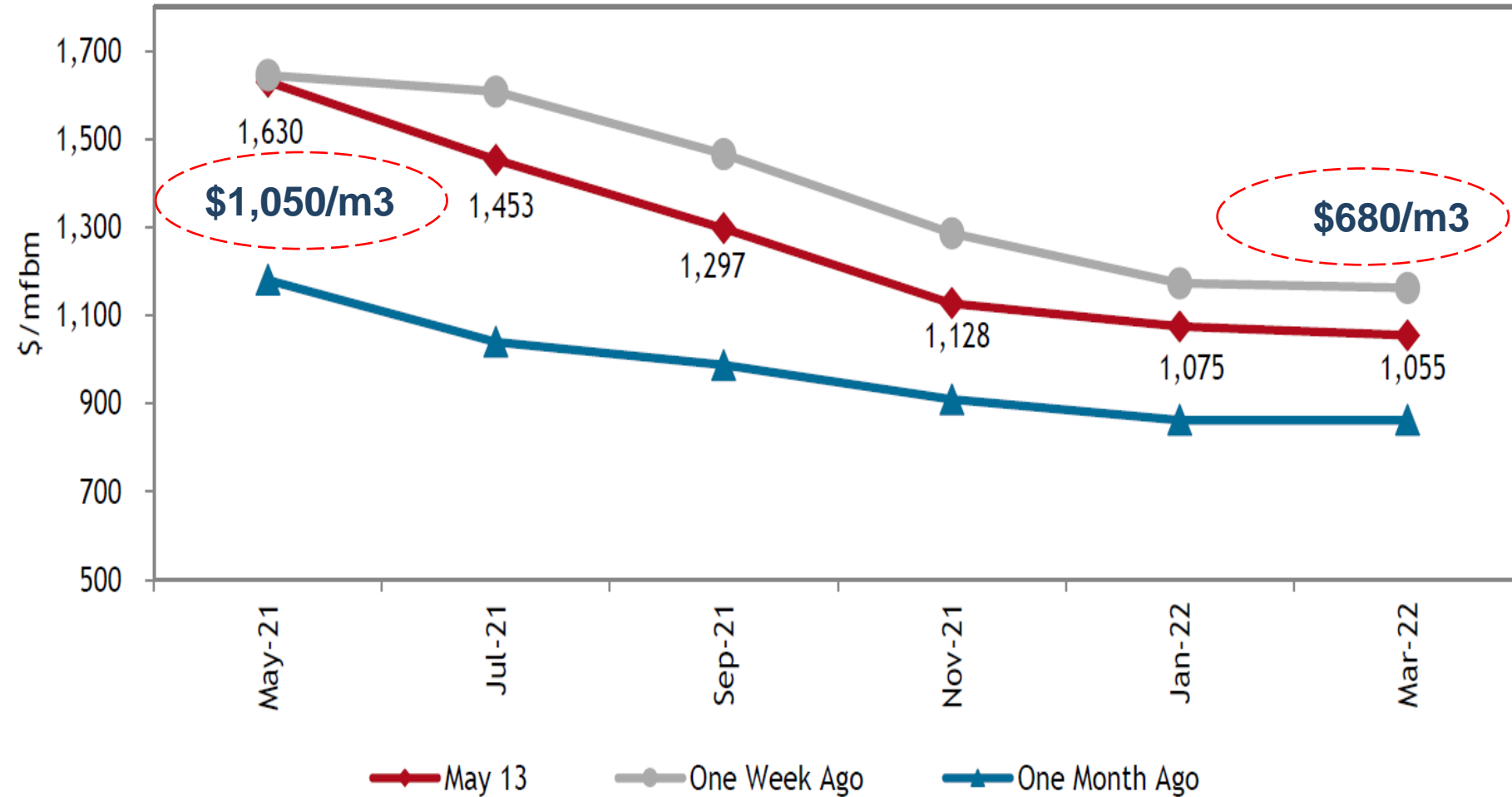
# 4. W-SPF 2x4 #2&Btr Sawnwood Prices

- W-SPF 2x4 #2&Btr R/L lumber prices are at all-time highs at **US\$1,630/Mbf** (FOB B.C. mill) on May 21 (US\$1,050/m<sup>3</sup> or €870/m<sup>3</sup>).
- All US lumber prices are at record levels!
- 18-Year Avg = **\$355/Mbf (€190/m<sup>3</sup>)**



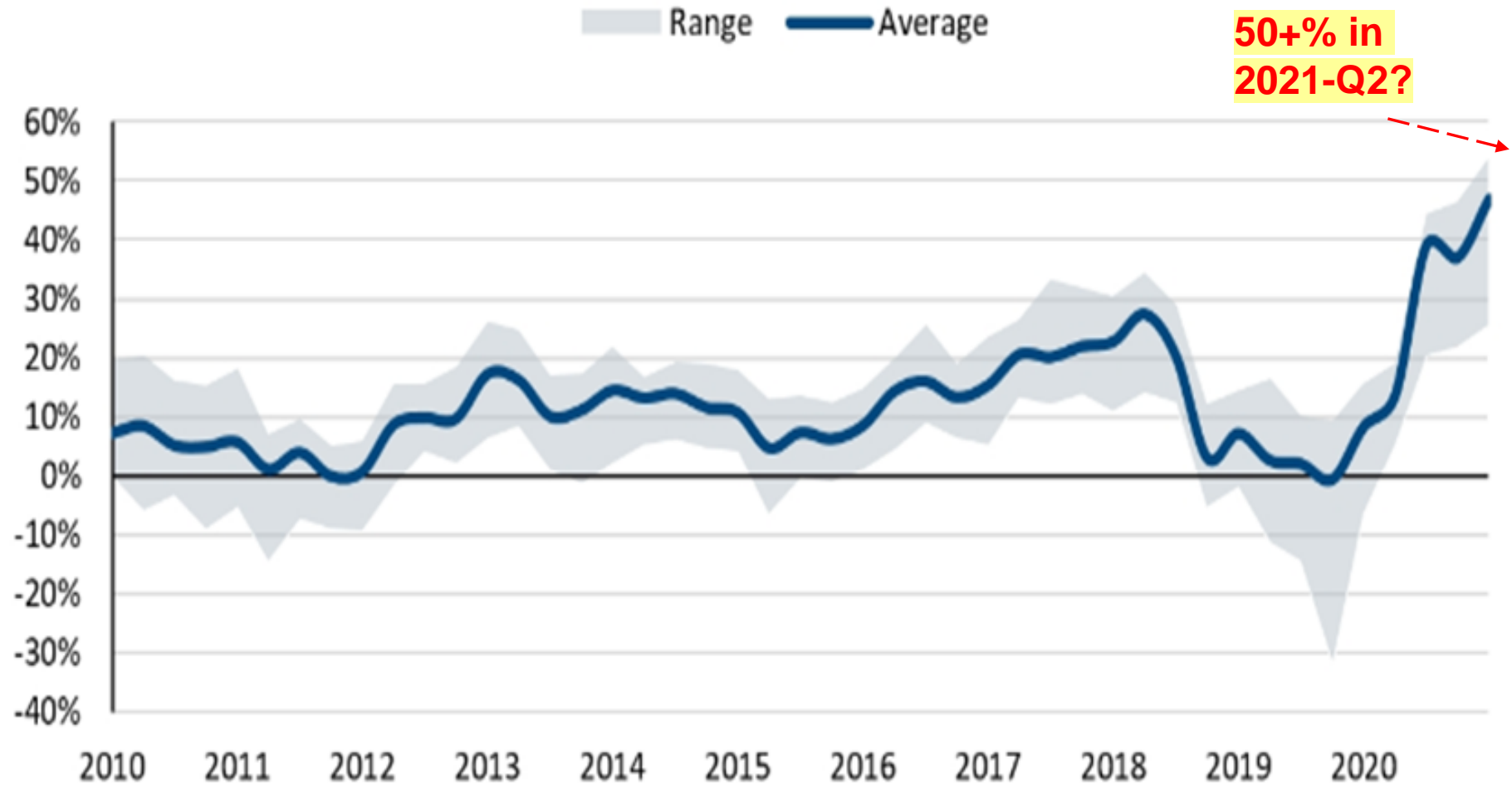
# W-SPF 2x4 Lumber Futures (CME – May14, 2021); FOB Chicago

- The Chicago Lumber Futures Market can be a loose guide to sawnwood price direction.
- These levels would represent incredible prices to March 2022!



# North America Lumber Companies: EBITDA Margins: 2010 to 2021-Q1

- US & Canada earnings = volatile each quarter.
- However, earnings have been stellar each quarter since 2020-Q2 & should be at record levels again in 2021-Q2
- Average margin: ~10% per quarter.



Source: FactSet; RBC Capital Markets



## 5. Negative Risk Factors: To Cause Lumber/OSB Prices to Decline Faster?

- Rising mortgage interest rates could eventually slow the housing market and demand.
- Escalating home prices are becoming unaffordable, especially for first time buyers.
- The typical summertime slowdown in consumption could weaken prices (summer heat).
- Inflation is starting to rise, especially in wood products.
- Mill production could increase as the impact of COVID-19 on the labor market recedes.
- Are DIY projects are done? Homeowners are itching to spend their money on other things.
- A lack of lumber (and OSB) in the distribution at record prices is delaying and even cancelling some new home construction projects, thereby putting downward pressure on real consumption.
- Some homebuilders are limiting the pre-sales of homes (due to high lumber/OSB prices).
- **We don't know what we don't know and things can happen that we cannot predict!**



# Positive Risk Factors: To Allow Lumber/OSB Prices to Decline Only Slowly?

“Is there anything that could support record prices and keep them elevated well above normal levels this year?”

- **Spring demand for building materials remains very strong with low field inventories.**
- **Transportation issues still hang over markets, slowing deliveries to job sites.**
- **Supply chains are still vulnerable.**
- **Wildfire season is approaching (possible mill disruptions)**
- **Vaccine role out could allow more home builders to get workers on job site.**
- **Global demand is very strong, so incremental US exports will require high prices.**
- **The most recent US government stimulus spending is a reason for homeowners to make further investments in their homes, perhaps above and beyond those made last year. Until this stimulus runs out, spending on R&R projects should be strong.**
- **Net answer: expect strong prices in 2021-Q2 with a slow erosion later in 2021-H2. For 2022, production starts to catch up with demand, but still fantastic average annual prices!**



# Summary

- Global markets in 2021 rebounding from many COVID-19 consequences.

## North America DEMAND:

- Through 2022/23, expect new US residential construction to be strong, while R&R may correct after COVID-19 vaccine before rebounding.
- US sawn softwood demand expected to gain **6+% in 2021, 4.0% in 2022** and remain favourable to 2023!

## North America SUPPLY:

- Canada is “supply constrained” (BC beetles, fires) = good opportunities to replace SPF with spruce (and pine) volume from Europe.
- Eventually there will be a glut of ‘less desirable’ Southern Yellow Pine.
- For US and Canada, lower offshore exports are expected.
- It is going to be uncertain times ahead with many uncontrollable factors and wild cards at play, **but a good time to be in the US market!**



# Thank You!

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