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Global Lumber Outlook 2014

The outlook for global lumber markets hinge on demand forces in the key consuming regions of the world. More specifically, it will be the lumber demand trends in the U.S., China and Western Europe that will shape global markets in 2014 and beyond. The following analysis by International WOOD MARKETS Group is derived from its consultants' extensive travels and market investigations that, in turn, are the basis of six of its strategic outlook reports and analyses that were produced in the second half of 2013.

While the supply dynamics are becoming more constrained in some areas, the ability for sawmill capacity to ramp up production is an all too familiar dynamic that continues to over-shadow the global lumber market. However, if global demand can achieve a 4% (or higher) gain in 2014, the outlook should be very good for lumber and sawnwood prices. In the November issue of the WOOD MARKETS Monthly International Report, a 3.4% gain is forecast for 2014 by WOOD MARKETS which will result in favourable - but not spectacular - lumber prices.

The U.S. market outlook for 2014 (and beyond) was assessed in great detail in WOOD MARKETS 2014 - The Solid Wood Products Outlook: 2014 to 2018. While there will be a definite tightening in supply side dynamics in Canada, U.S. output is expected to drive lumber production over the coming five-year period. However, it is the pace of U.S. housing starts that will set the tone for the lumber (and panel) markets in 2014. After a strong gain in new U.S. housing starts of 28.5% in 2012 (an increase of 175,000 over 2011), 2013 will end up with a more lackluster gain of only 18.5% (+145,000 units) or about 925,000 new housing starts.

In 2013, the North American lumber supply chain became more balanced - starting in the second quarter 2013 - as production started to swamp overall demand. By fourth quarter 2013, a much better balance between supply and demand had developed, setting the stage for a good start to 2014. However, without strong gains in new residential housing starts increases of 20% or more (or 175,000 or more units), it is more likely to just be a "good" year overall, but still could feature some supply chain shocks during the year that could create price spikes both up and down.

WOOD MARKETS is predicting a steady growth in housing starts in 2014, but less than the 20% that is needed to support a very strong market. North American lumber production is expected to increase by almost 3 billion bf (+5.4%) in 2014 - an increase over 2013's estimated gain of 2.6 billion bf (+5.0%). The stud lumber segment is expected to see the most volatility when U.S. housing starts increase rapidly (i.e., more than 175,000 units per year) and/or as the supply chain tightens. From the detailed analysis covered in WOOD MARKETS' North American Stud Industry & Market - Outlook to 2017, North American stud lumber capacity has been essentially unchanged since 2009 as some mills have closed while others have restarted.

Canadian SPF represents over 50% of all stud lumber production but with Canada facing overall declines in its lumber output within about two years (declines in B.C. will not made up by the rest of Canada) future supply growth in SPF is unlikely. And there is almost no stud lumber production in southern yellow pine. As a result, studs could become a scarce commodity given the significant



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fibre supply constraints that will allow for only moderate production increases in Eastern Canada and essentially no net increases in Western Canada. Parts of the U.S. West are facing a tightening log supply and this could further constrain stud lumber production, especially if China bids up the price of log exports from the coast region.

Aside from the U.S. West, stud lumber mills are expected to be operating near full capacity in the next few years with limited incremental production available. This scenario will require increasing volumes of imported studs from Europe to meet some of the increased demand. However, to attract the necessary volumes of imported studs or further production in North America, higher and sustained lumber prices will be needed. Over the next five years, total North American stud demand is forecast to experience an annual compounded growth rate of almost 10% - much higher than dimension lumber. And the prospects of lumber "super-cycle" coupled with record high lumber prices are very possible by 2016 (perhaps as early as 2015 for studs).

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