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February Market Report: Downward Trends Ease as Freres Lumber Company Gets Ready to Launch A New Wood Product----- Mass Plywood Panel

February 20, 2017

Market Trends

Over the last few weeks, Freres Lumber Company has booked strong plywood sales volumes at gradually escalating prices. Wood products such as Douglas Fir veneer also turned the corner as rock-bottom prices for random width and fishtails gradually increased. Wide sheets and 27s soon followed and gained \$1.00 over previous weeks. There has not been upward momentum for veneer prices since last July, and if there is to be any sanity in veneer prices relative to our log cost, veneer should continue to climb.



Plywood Markets

RISI predicts the U.S. housing market will grow 11% this year to a Seasonally Adjusted Annual Rate of 1.30 million units, which is in line with the steady but moderate increases we have seen since the recession.

Unfortunately, plywood has not benefited from the housing market increase and posted demand decreases in both 2015 and 2016.

Current RISI projections show that North American plywood mills are still only operating at 75% capacity. OSB

currently controls 68% of the overall market for panels in North America, so they have been the primary beneficiaries of increased housing starts. Industrial users are still loyal customers for plywood, but industrial panel demand has declined over the last couple of years, which hasn't helped.

Imports have also weighed heavily on plywood panels as Brazilian imports increased 115% through November 2016 and Canadian imports increased 42% through the same period. There are virtually no OSB imports into North America so OSB producers have not encountered the same pressure.

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Positive Plywood Predictions

On a positive note, 2017 predictions for RISI plywood panel demand are extremely optimistic and indicate the first demand expansion in three years. A strengthening economy and a slightly weaker dollar can overcome many over-capacity issues that have plagued the industry in recent months.

The OMAK Forest Products shutdown at the end of January 2017 has recently come to pass and the markets seem to be improving from one less player. Swanson Group's rebuilt operation in Springfield is transitioning to high-grade industrial panel markets and trying to sell less commodity panels. It looks like the brutal market we have experienced in commodity products has taken its toll and domestic producers are looking for alternatives.



Mass Plywood Panel

We will remember February 2017 as an extremely important time for Freres Lumber Co., Inc. After months of planning, equipment purchasing, and process design, preliminary equipment installation for our new Mass Plywood Panel (MPP) production will be completed at Plant 6.

We will be taking initial production steps on a wide range of additional value-added products by the end of this month. Coupled with the newly installed automatic spreader line at Plant

3, we are aiming for structural products that require longer lengths and narrower rips. Freres Lumber will soon be able to produce rim board, stair strainers, long laminate panels, ripped width panels and a multitude of other panels based upon our traditional layouts.

In addition, our new cold-press test line will be **able to produce 4' wide by 17.5' long panels, potentially up to 10" thick. While this is an important milestone, we are keeping our eyes on the end goal: producing mass timber panels that will be up to 12' wide by 48.5' long and 24" thick.**

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An Exciting Year to Come

We are breaking new ground this year in wood products with Freres Lumber's Mass Plywood Panels, a revolutionary, advanced engineered wood product. We have hit bumps in the road, but nothing that has derailed the project and our upcoming new product. A special "thank you" to everyone who has helped make this project happen!



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