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The Forest Industry: *Harvest, Housing and Foreign Trade*

Timber Measurements Society, Central Meeting

April 10, 2013

Silver Reef Resort

Ferndale, Washington

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Data – Experience – Expertise

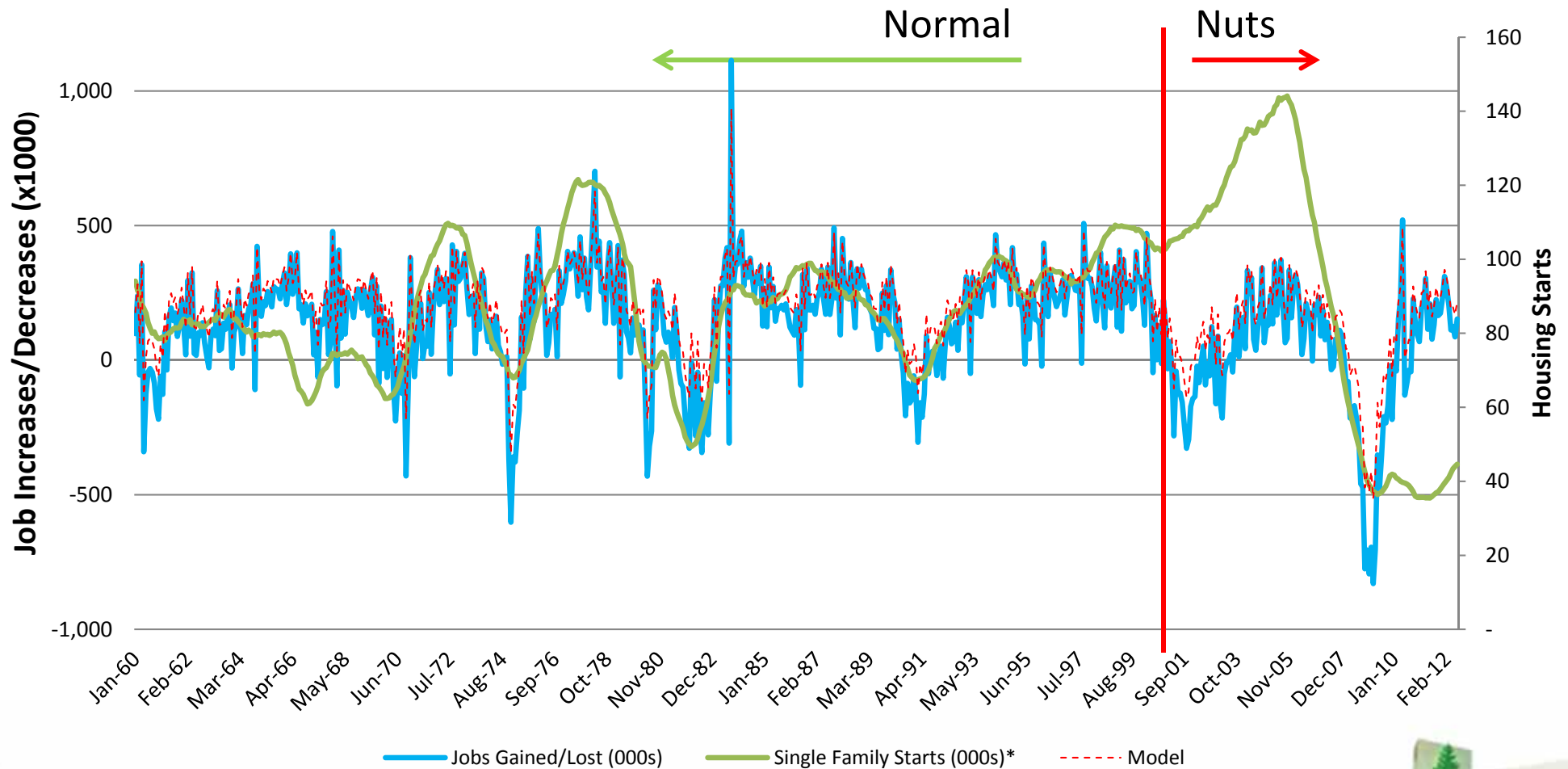
- Recognized and respected neutral-third party
- Only transaction level data is used to measure market price
- Benchmarks for logs, lumber and wood chips
 - ☐ TIMO, REIT and private timberland owners
 - ☐ Large and small sawmills and panel manufacturers
 - ☐ Pulp and paper and wood bio mass industries
- Resource studies, market research, forecasts and analysis
- Headquartered in Charlotte, NC; offices in Eugene, OR and Appleton WI

Today's Agenda

- Homebuilding outlook
- Timber harvest history
- Western lumber production
- British Columbia forest products
- Asian log and lumber exports
- Pulp and Paper industry
- How does the future look?

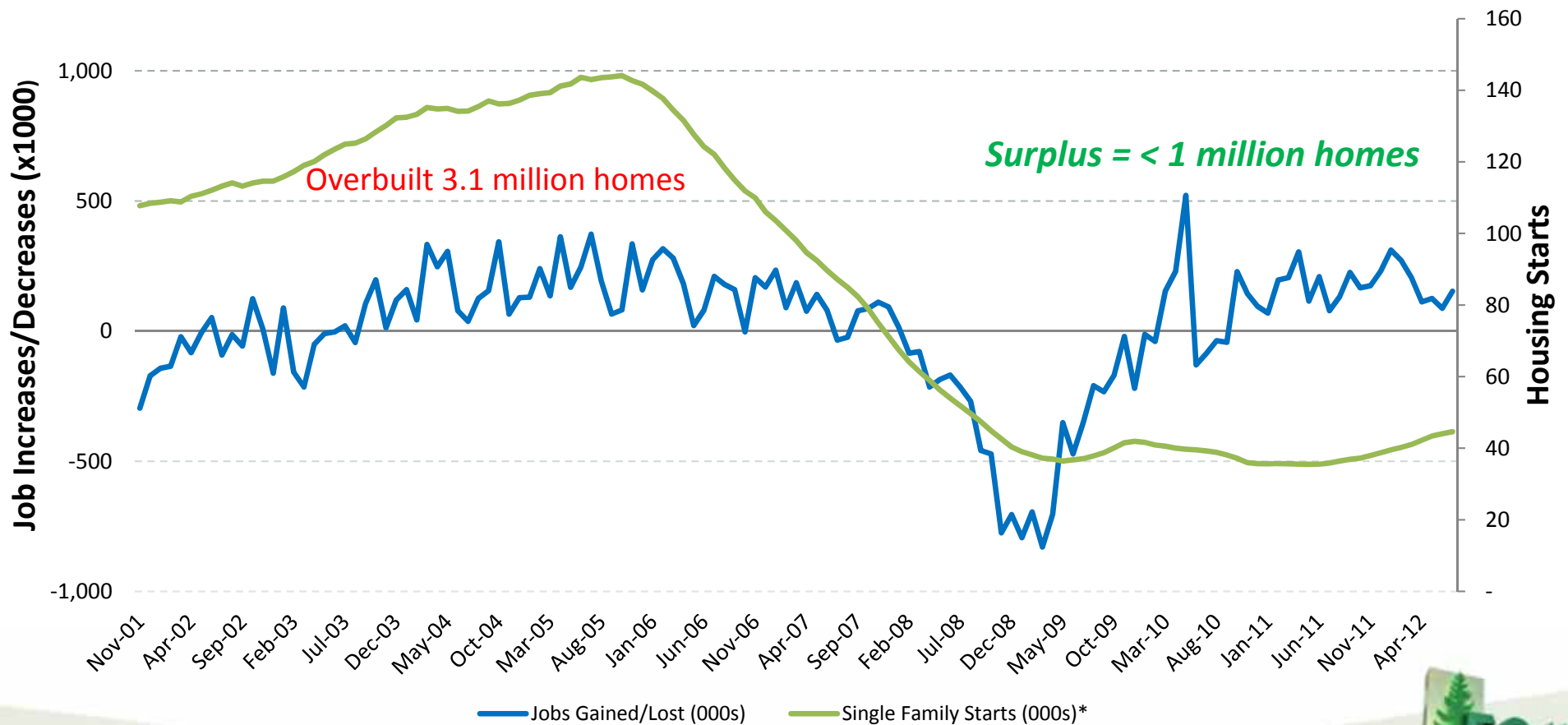
How Did We Get Here?

Job Growth and Housing Starts (000s)

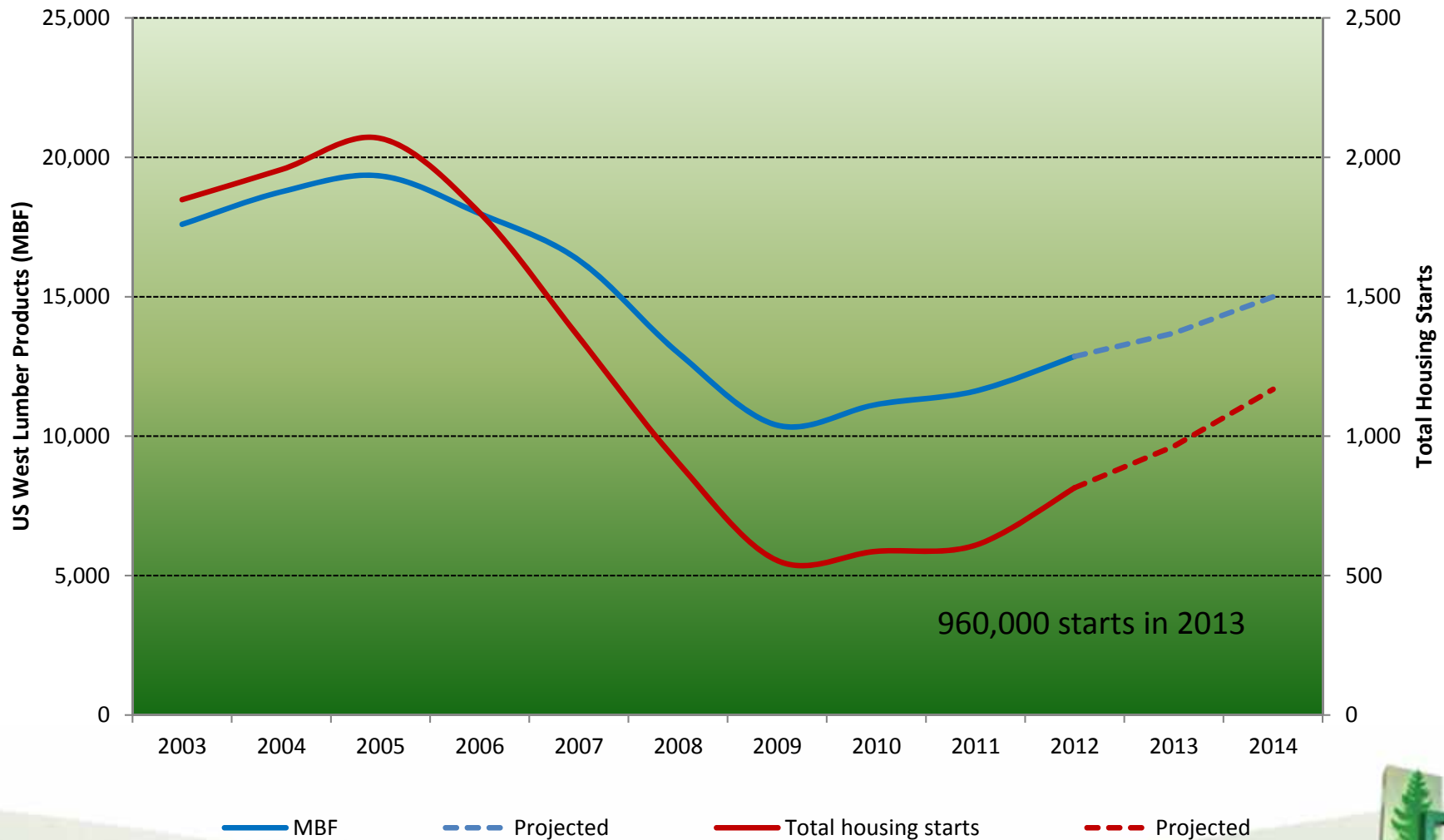


The Housing Backlog: *How Long Will it Last?*

Job Growth and Housing Starts (000s)

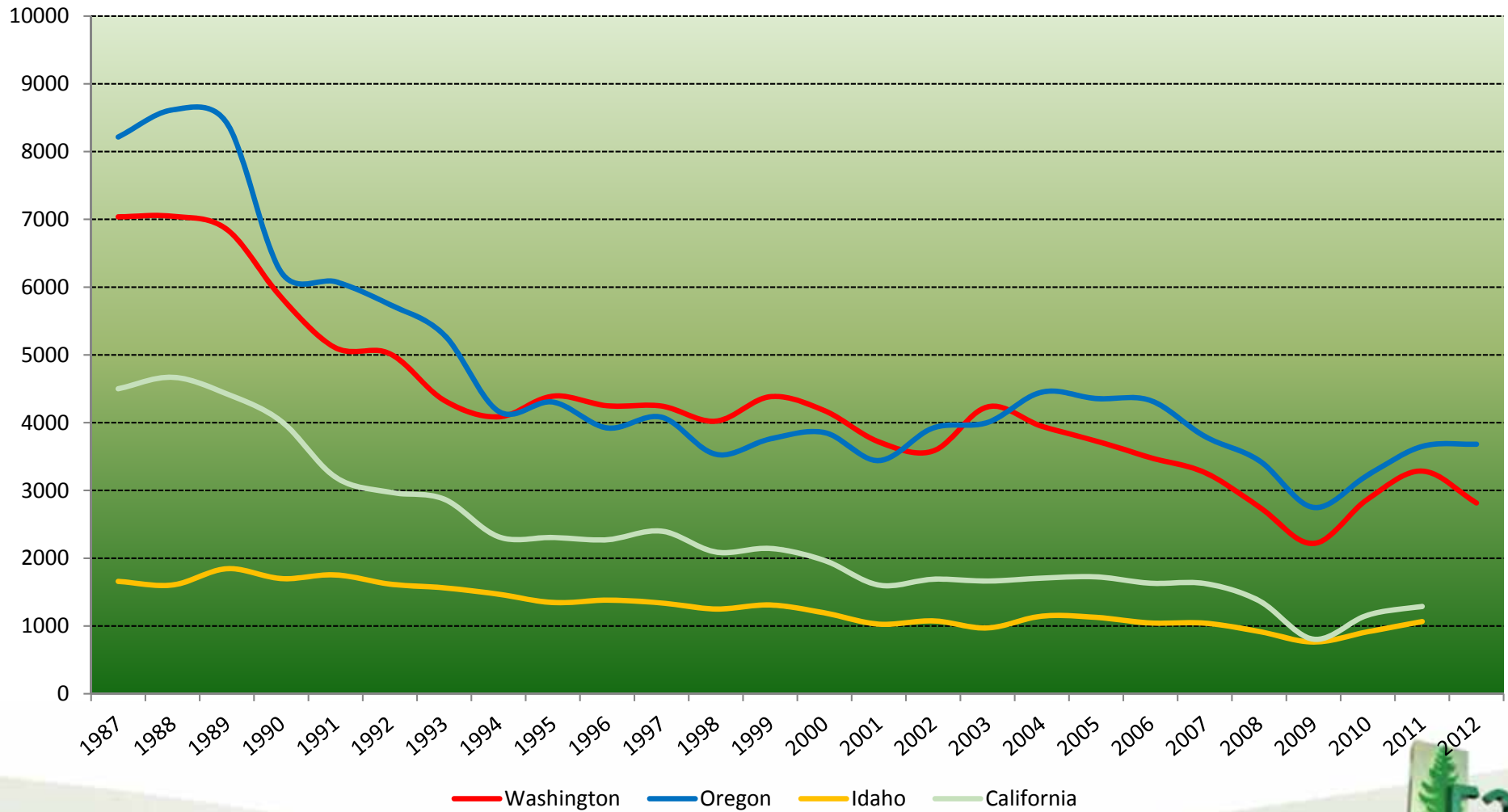


Don't Expect a Return to 2005 Levels Soon



Timber Harvests Up From Recession Levels

Northwest States Harvest History



Source: ODF, WA DNR, IDL and CA BOE

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Northwest Mills Dependant on Housing

- Look for over 1,000,000 starts in 2014
- Interest rates are still low
- Housing backlog of foreclosures clearing in many areas
- Pent-up demand for first time buyers
- Western lumber production recovering at 5-10% annually
- Lumber prices at 2005 levels, hem-fir dimension and studs are very strong
- Veneer and panels, \$ 60 CD veneer and \$ 460 sheathing, best prices since 2005-2006
- Intense competition for not only export, but between ply and sawmills for logs

Northwest Sawmill Log Supply

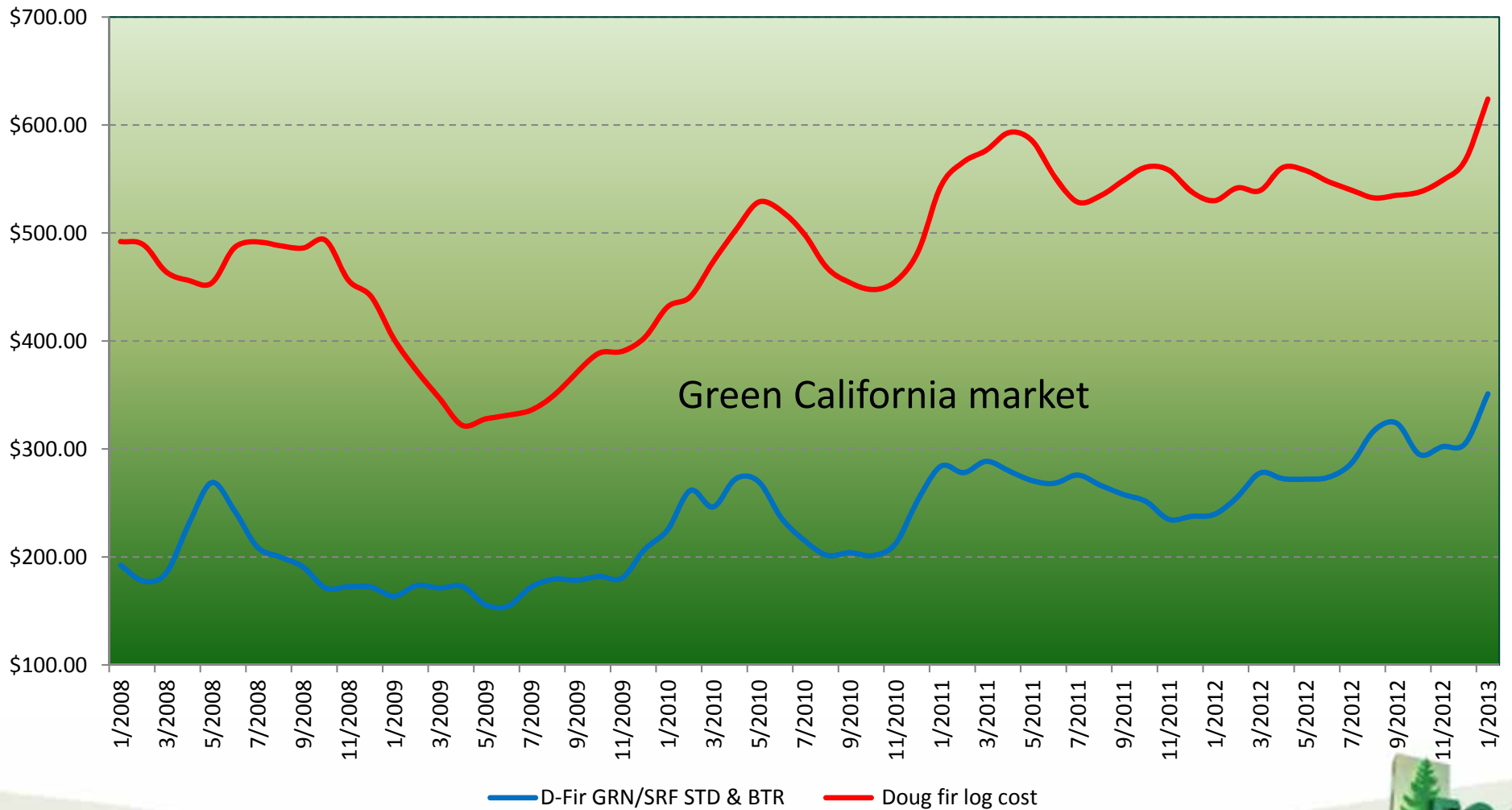


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Green Douglas fir

Doug fir Logs and Lumber per MBF



Source: Forest2Market and WWPA

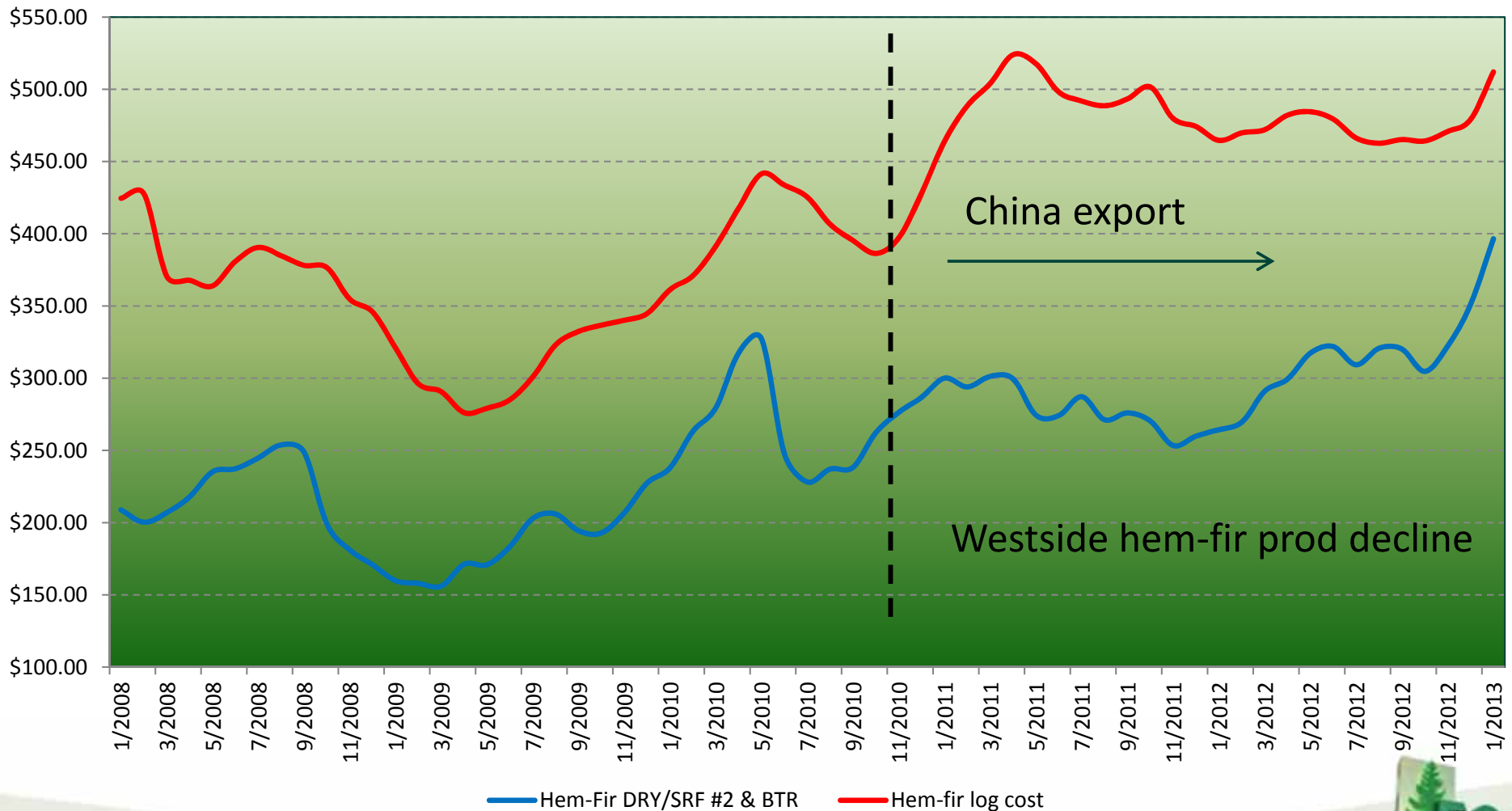
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West Coast KD Hem-fir

Hem-fir Logs and Lumber per MBF



Source: Forest2Market and WWPA

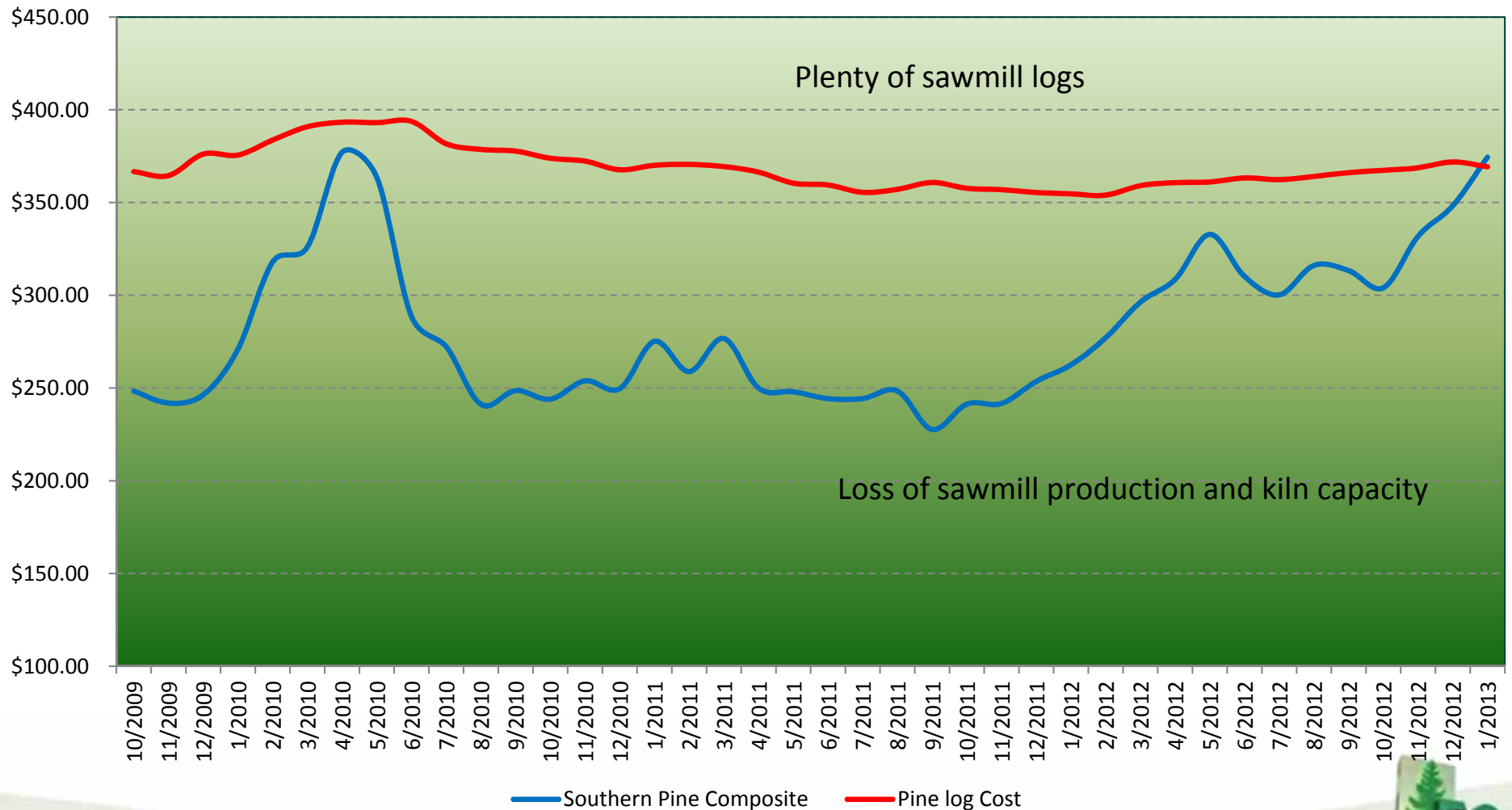
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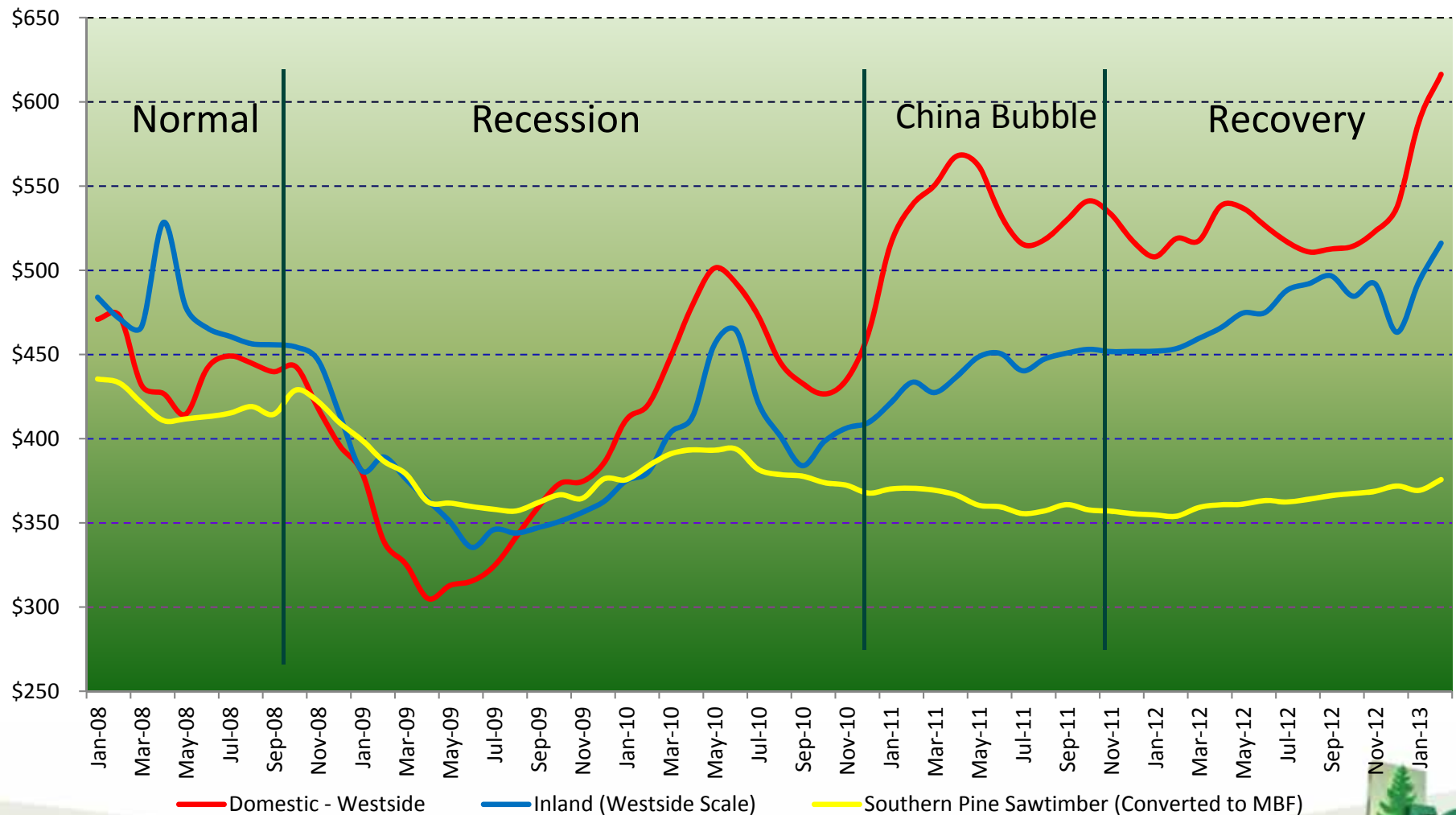
Southern Pine

Southern Pine Logs and Lumber per MBF



Coastal Northwest is the High Log Cost Region

Regional sawmill log prices (DF, Hem-fir and Pine) compared on MBF

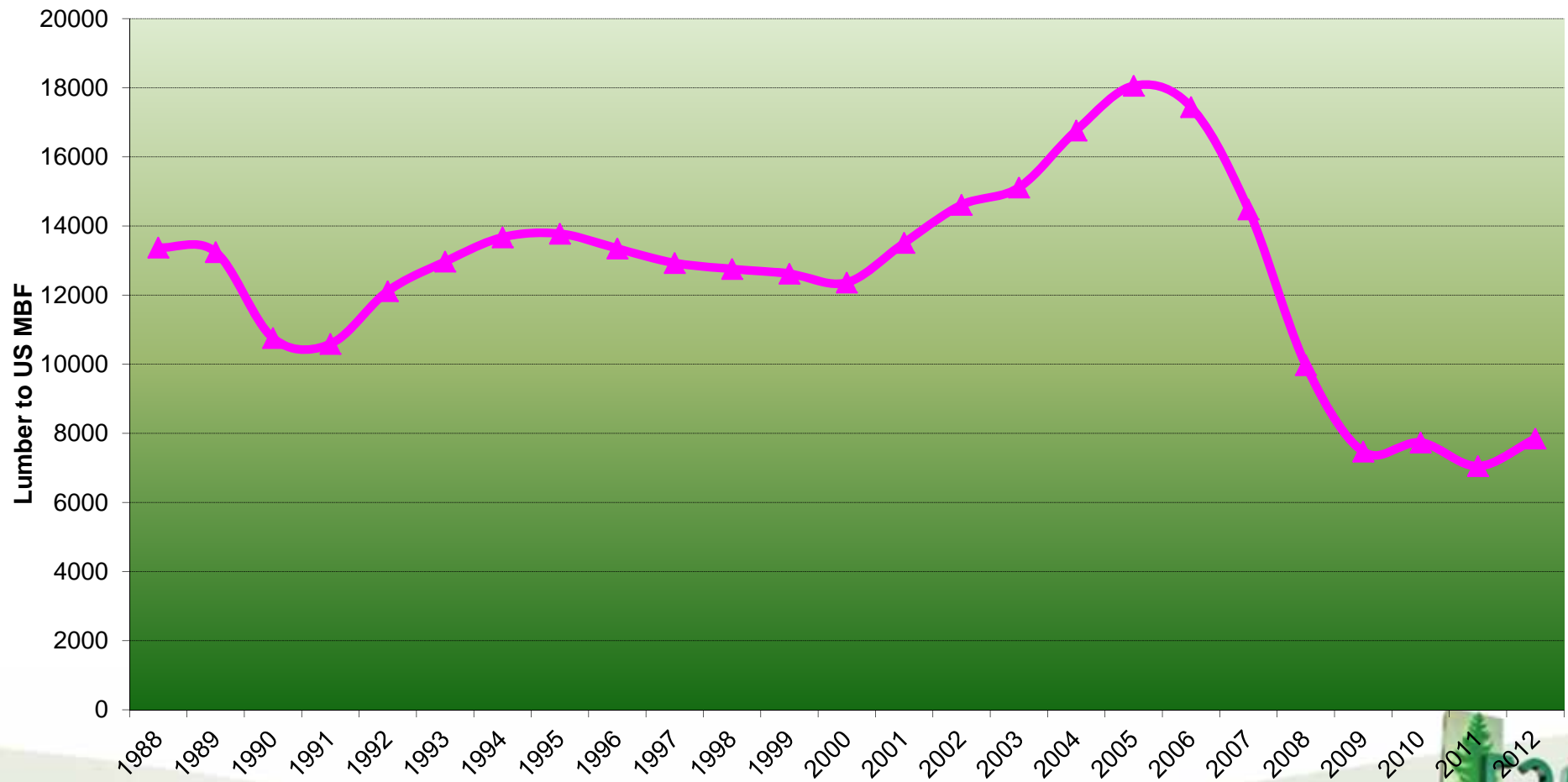


Canada: supplier, competitor and trading partner



The Housing Crash Left Canadian Lumber Homeless

BC lumber exports to US 1988-2012



Source: BC Stats

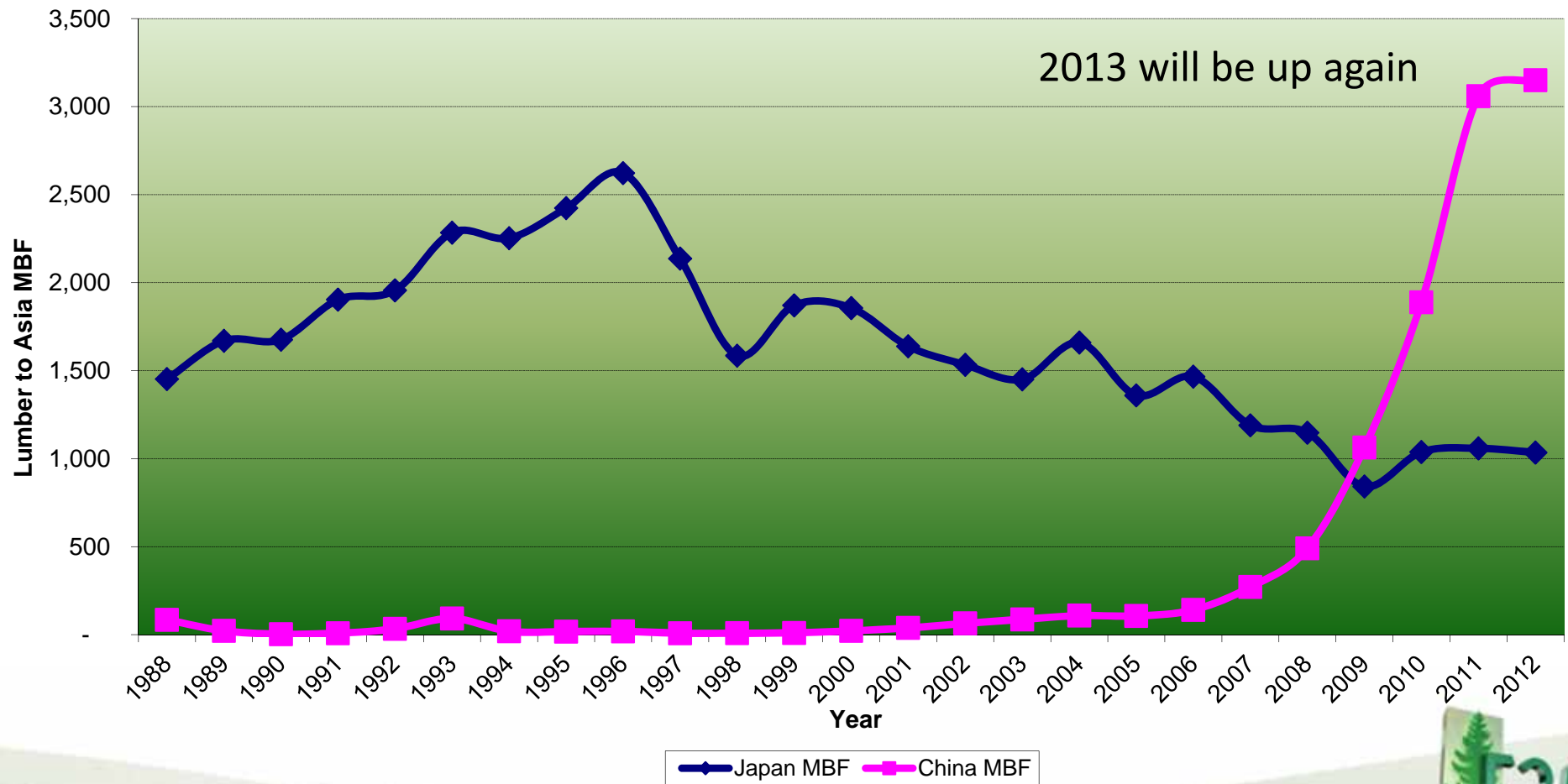
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British Columbia Lumber Exports

BC lumber exports to Asia 1988-2012



Source: BC Stats

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What is the Future of Canadian Lumber?

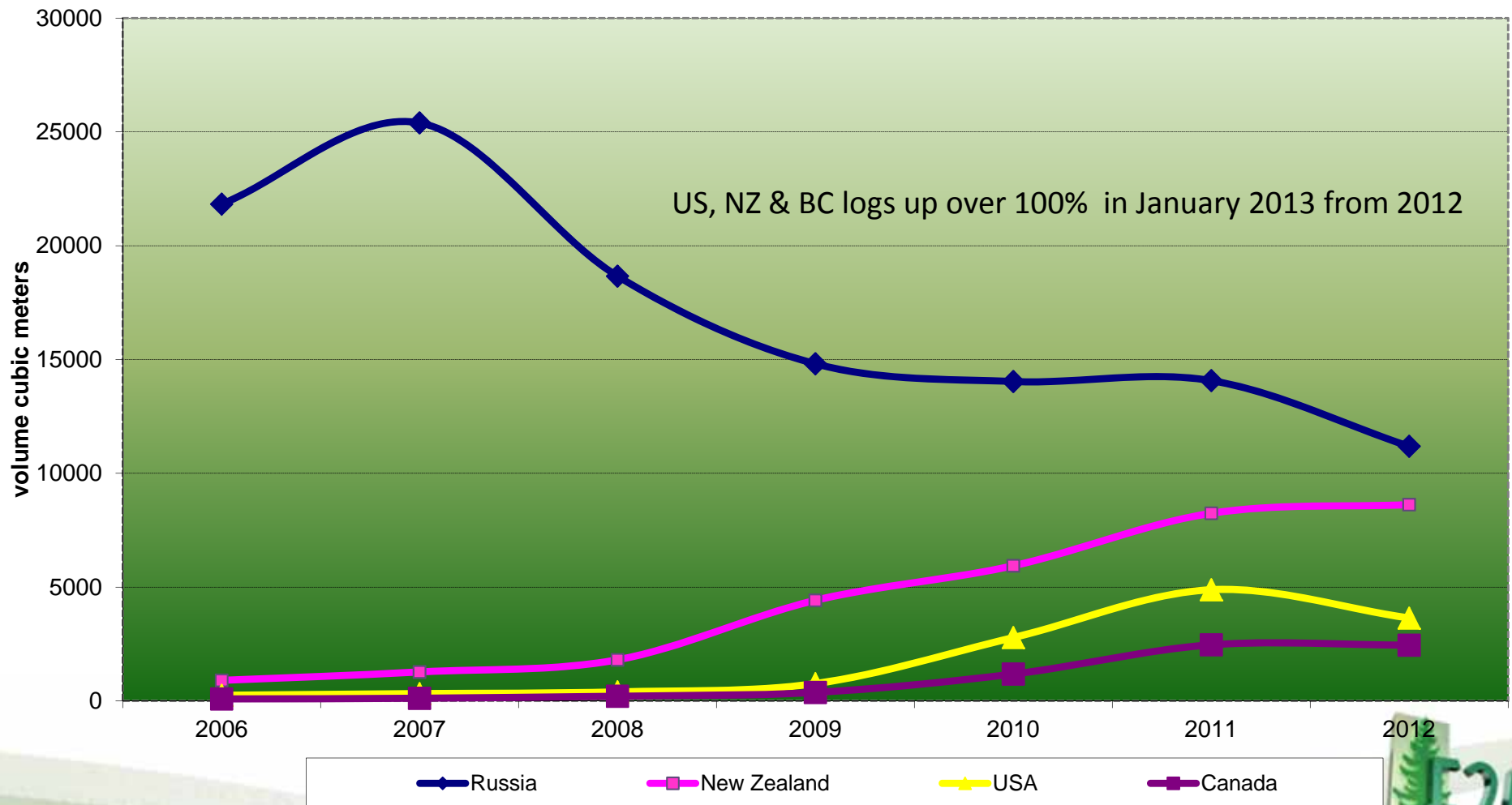
- BC mill operators were hit very hard by US housing slump
- Long-term Asian export strategy for lumber to meet growth in Asian lumber export demand
- Canadian mills still look to the US as an important customer
- During the mid 2000's Canadian mills had a currency exchange advantage, now \$ are at par
- Mountain pine beetle will decrease regional harvest
- Existing terms of the softwood lumber agreement will expire in 2015
- US markets are the preferred customer for Canadian lumber

Asian Demand for Northwest Forest Products



Major Chinese Log Suppliers

China log imports by selected country



Source: China Customs

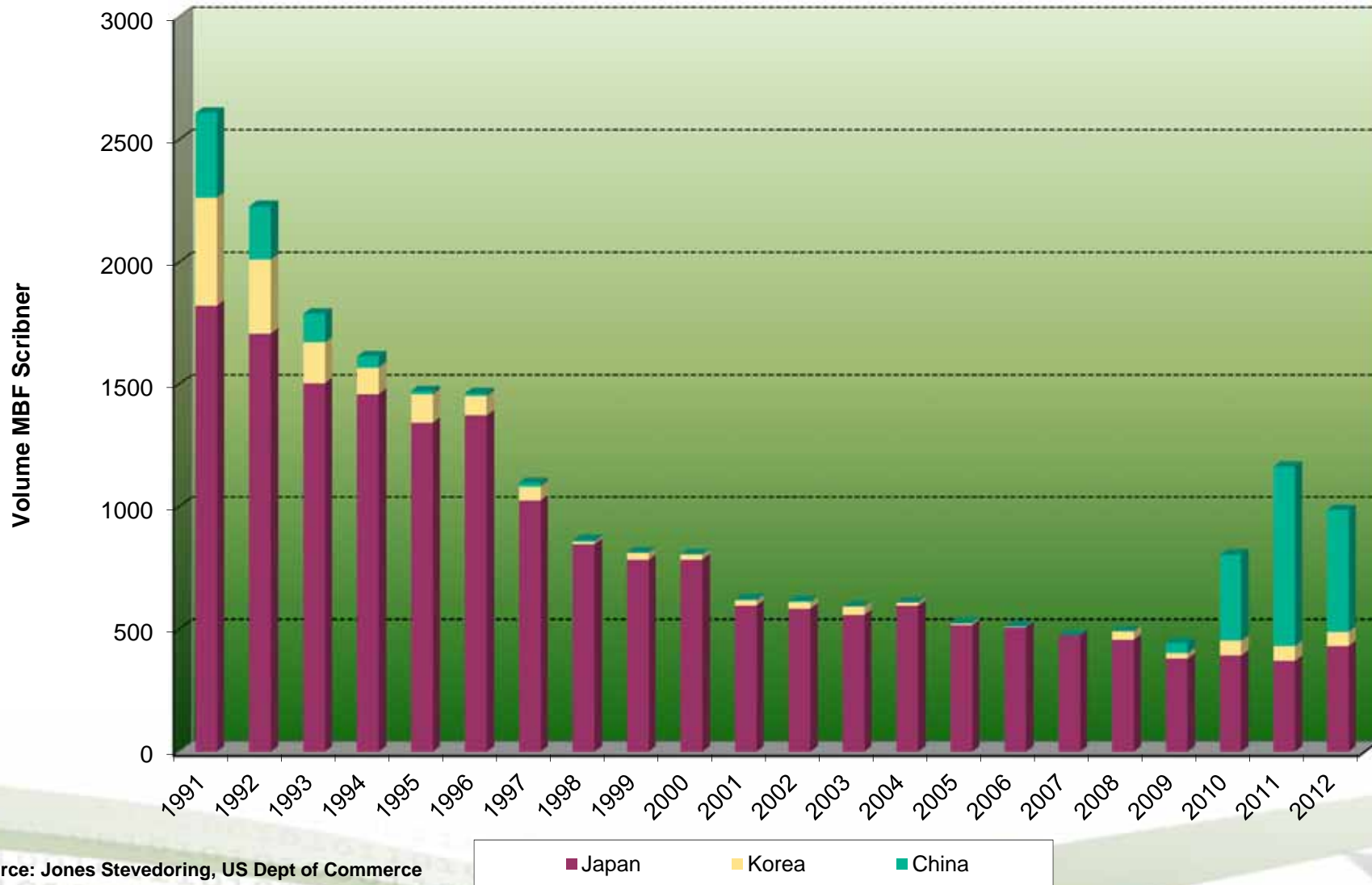
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US Log Exports to Asia

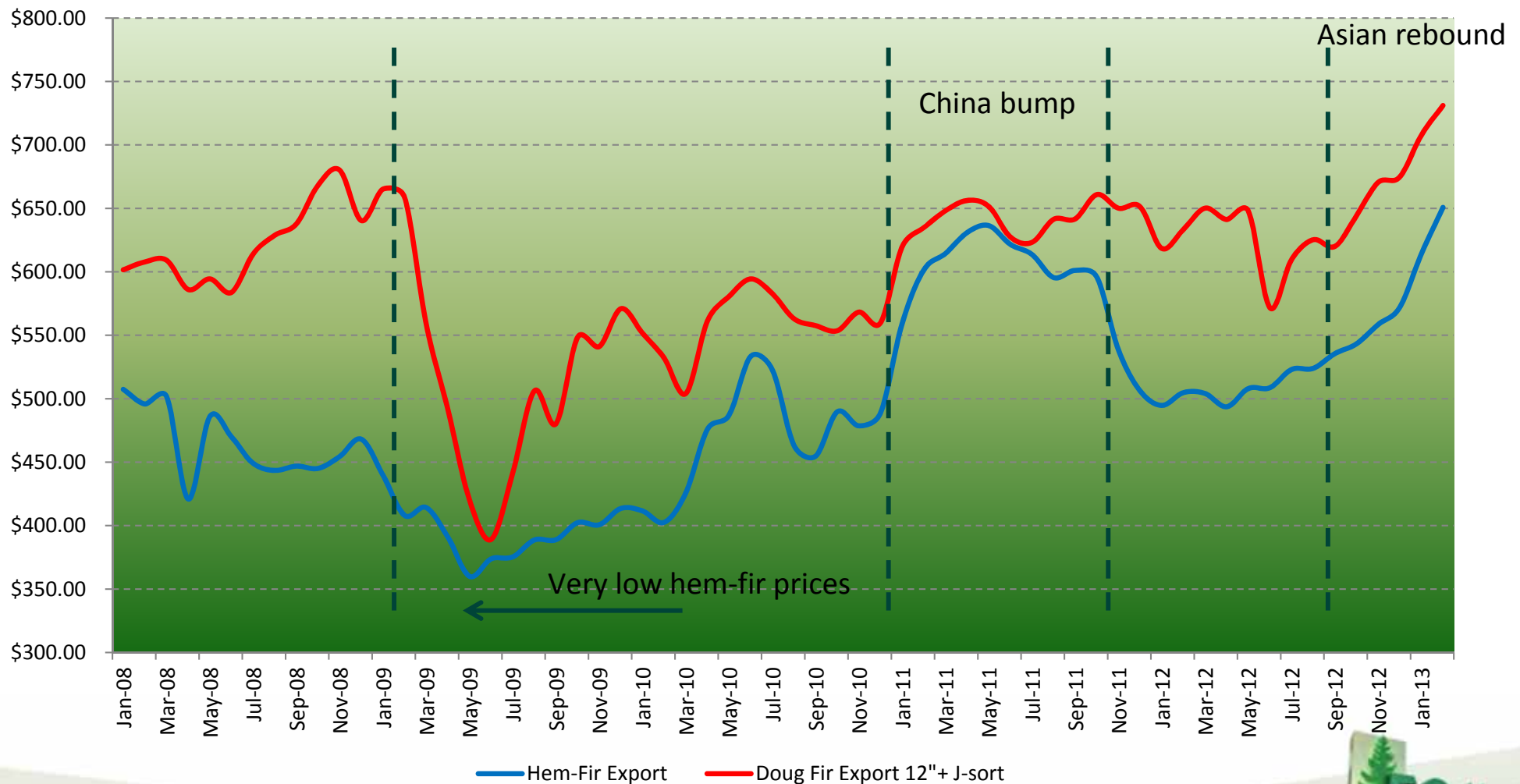
History of Pacific Northwest Log Exports to Asia – Breakbulk shipments



Source: Jones Stevedoring, US Dept of Commerce

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Northwest Log Export Prices



Source: Forest2Market benchmarks

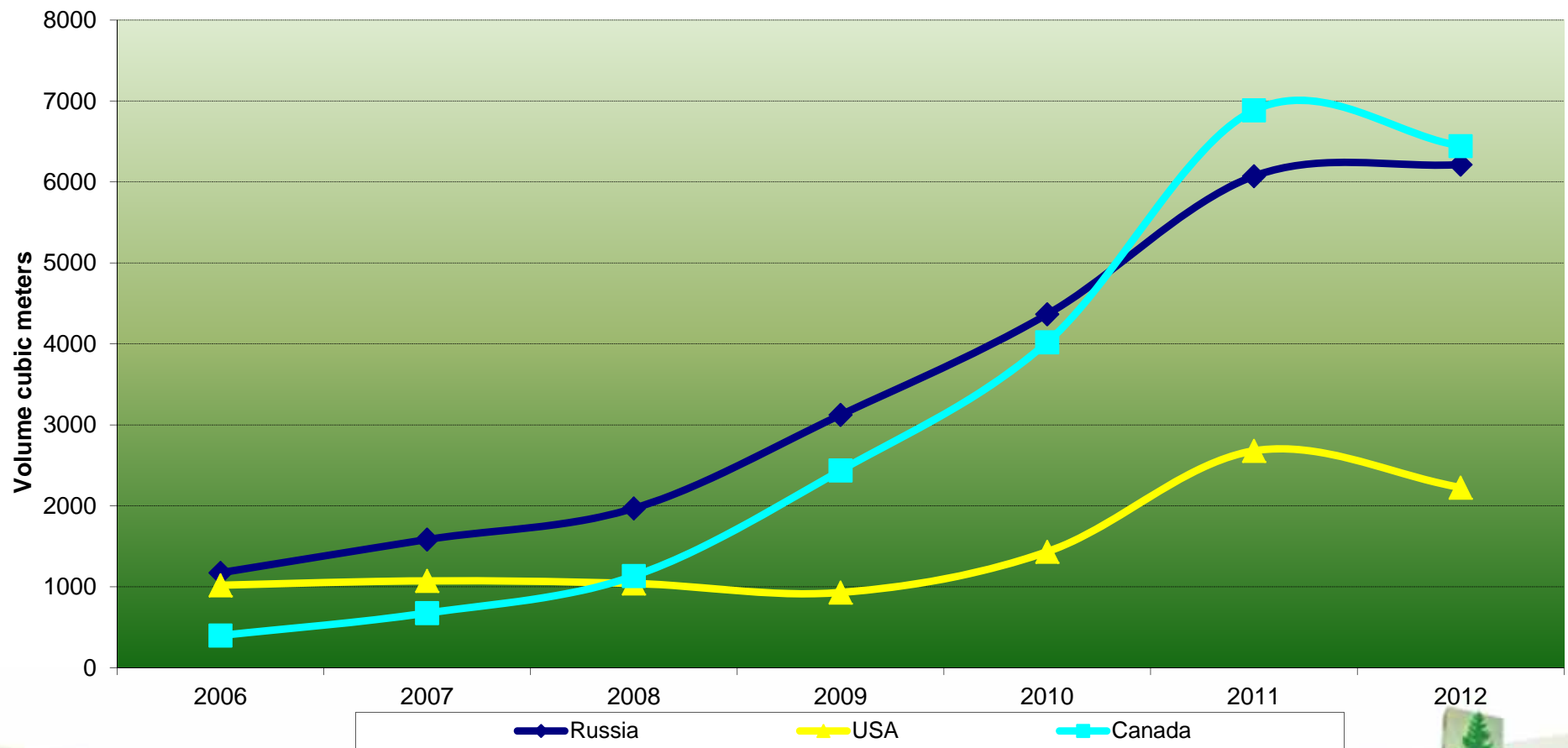
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Chinese Lumber Imports

China lumber imports by selected country



Source: China Customs

Chinese Demand for Northwest logs and lumber

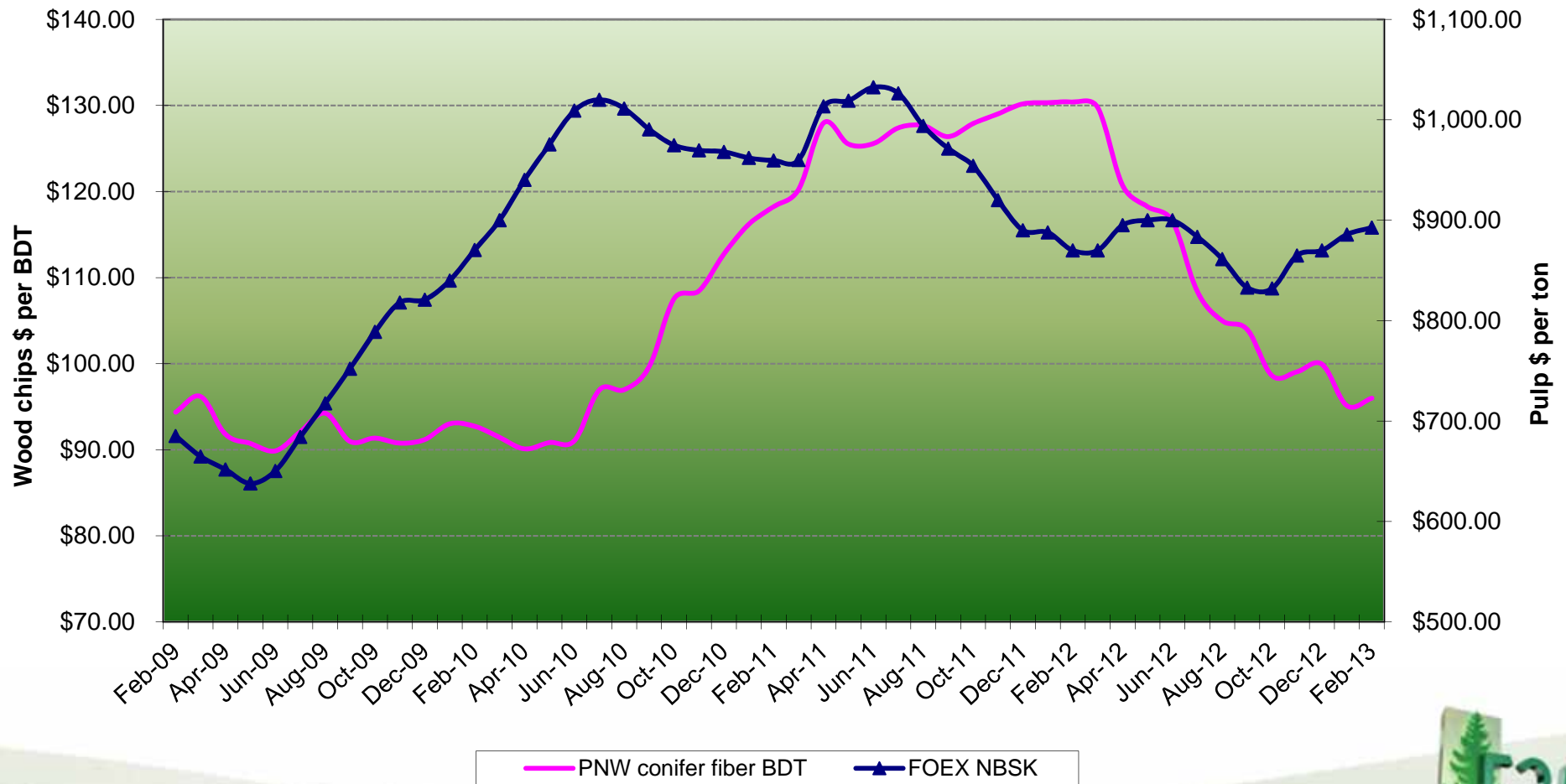
- China's 5 year plan still supports growth in housing and infrastructure
 - ☐ GDP target growth 7%
 - ☐ Urbanization – low cost housing units
 - ☐ Improve living conditions for average citizens
- Russian log production is still in decline
 - ☐ Remote forests and climate
 - ☐ Obsolete equipment and poor infrastructure
- Chinese lumber and log inventories under control
- BC committed as a major supplier of lumber
- US Northwest log prices and competition on the rise
- Buyers will be cautious not to repeat mistakes of 2011

Northwest Pulp and Paper



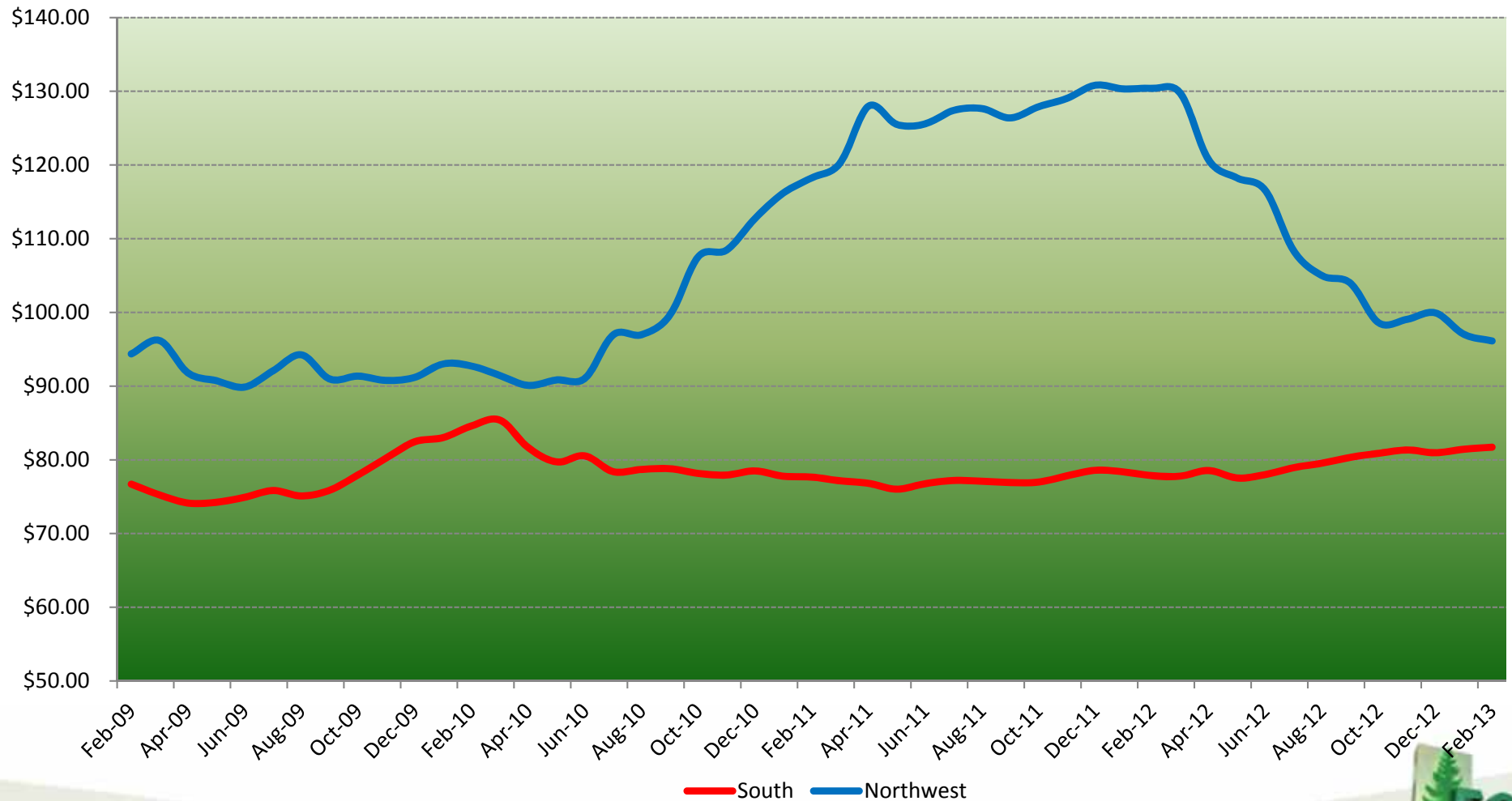
Northwest Chip Prices Decline

Pacific Northwest Conifer Chips Total Fiber



Southern Region has Low Cost Wood Chips

Softwood Wood Chip Cost Comparison on BDT



Northwest Wood Chips

- During the recession NW pulp mills have relied on up to 50% whole log chips, up from the traditional 15%
- Chip consumption down slightly in 2012
- Asian chip export demand is slack
- Improved harvests increase availability of pulpwood, consumption is still 40% whole log
- Increased sawmill residuals will displace more costly whole log chips - CNS
- Lower chip prices negatively impact sawmill profits
- Continued abundance of chips in 2013 will fulfill increased demand

Concluding Comments

- Recovery in US housing demand, one million starts on the horizon
- Improved prices and increase production for lumber and panels
- China will be long-term market for west coast logs and lumber
- Better demand for log exports to China and Japan in 2013
- Higher log prices for timber sellers, especially in the coastal region
- Westside timber harvests will increase in 2013, many private owners have harvested less than growth over recent years
- Inland US production will reach practical capacity without more National Forest timber
- Log prices will moderate somewhat from 1st quarter
- Loggers and truckers will be in short supply
- Increased production and mill residuals will hold wood chip prices down
- Pacific coastal region of the US: will log prices continue to be disproportionately higher?
- State forests are reliable and effective source of public stumpage
- Federal forest harvests will contribute little to the recovery; no resolution to national forest policy
- Canadian lumber will flow to US in allowable quantities
- US housing demand will take Chinese log exports head on
- Be wary of dark clouds: deficit and government spending, interest rates, European uncertainties, chronic under employment?
- Can China continue to meet it's projected level of growth; *a new leader: the same direction?*
- 2013 and 2014 will be much improved for our industry, but don't expect any quick return to the gravy times of the past

Forest2Market: The highest quality wood raw material analysis available

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Thank you

